



## A Snapshot of British Columbia's International Exports: Commodities (Still) Rule

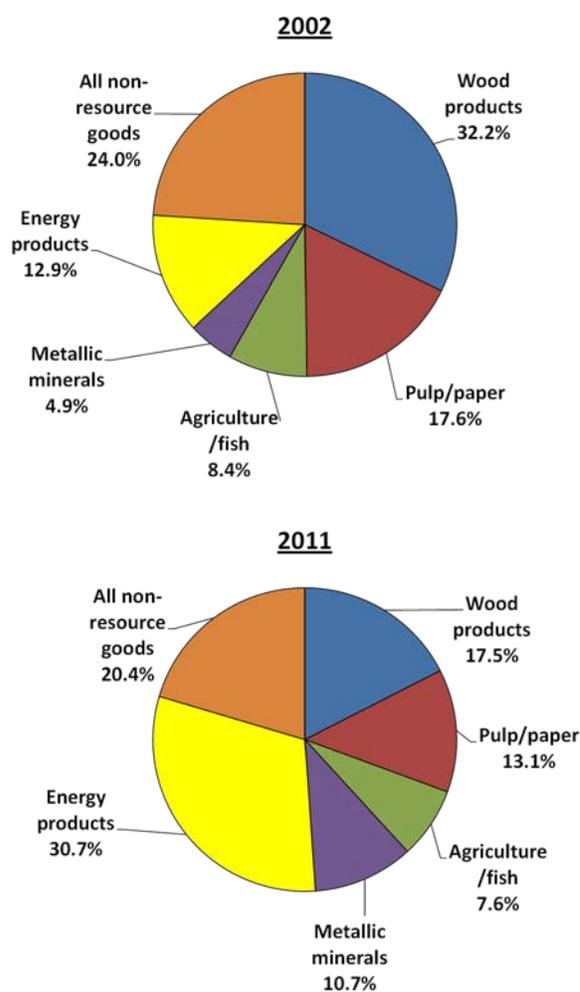
As a small open economy perched on the west coast of North America, British Columbia depends heavily on its export-oriented industries to drive growth and sustain prosperity. Traditionally, these industries have mainly been involved in the extraction and processing of natural resources. A decade or so ago, there was a belief that the province's export portfolio was diversifying away from a disproportionate reliance on commodities – and that this trend would persist. However, while the composition of the goods in BC's export basket has certainly changed over time, there has been no overall shift away from natural resource-based industries. To a surprising degree, commodities continue to dominate the province's exports.

### Resources Slightly More Important by 2011

Figure 1 to the right summarizes the composition of BC's merchandise exports in 2002 and 2011.<sup>1</sup> There have been some notable changes in the relative importance of different categories of export goods: wood products have declined markedly, metallic minerals have doubled their share of exports, and energy products have posted even bigger gains. However, taken as a whole, resource-based products actually loom a bit larger in the province's merchandise export mix today than they did ten years ago, making up almost 80% of the total in 2011, up from 76% in 2002.

<sup>1</sup> Most of the data cited in this report comes from the following source: BC Stats, Exports (BC Origin), 2002-2011, August 2012.

**Figure 1**  
**Composition of BC's International Exports**



In aggregate, the non-resource components of BC's merchandise exports – consisting of machinery and equipment, other advanced technology products, fabricated metals, plastics, chemical products, textiles/apparel, and a variety of other consumer and capital goods – amounted to 24% of all international exports in 2002; by 2011, their

collective share had dwindled to 20.4%. So there was no overall move away from natural resource-based products in the province's export portfolio during the first decade of the millennium.

### **Energy and Mining on the Rise**

Looking more closely at BC's resource-related exports, the most important story of the 2000s is the expanded role of energy and mining. By 2011, energy products made up more than 30% of the province's international exports, with metallic minerals supplying another 11%; in both cases, these figures are more than double their respective shares in 2002. Within the energy products grouping, the key trend has been soaring shipments of coal mined in BC. Coal now amounts to one-fifth of the province's merchandise exports, up from less than 5% in 2002. Most of this is metallurgical coal used in steel-making in Asia.<sup>2</sup>

Between 2002 and 2011 natural gas exports changed little as a share of BC's total exports – a fact that partly reflects the slump in North American prices due to the dramatic expansion of continental supply associated with the ongoing “shale gas revolution.”<sup>3</sup> In value terms, gas exports have plummeted since 2005-2007. By the

<sup>2</sup> In value terms, coal exports skyrocketed from \$1.4 billion in 2002 to a record \$7.1 billion in 2011.

<sup>3</sup> For a useful summary, see John Deutch, “The Good News About Gas,” *Foreign Affairs*, January-February 2011. For a more in-depth discussion, see Massachusetts Institute of Technology, “The Future of Natural Gas: An Interdisciplinary MIT Study,” 2011, accessed at: [http://mitei.mit.edu/system/files/NaturalGas\\_Report.pdf](http://mitei.mit.edu/system/files/NaturalGas_Report.pdf)

end of the decade, it is expected that natural gas will be playing a greater role in the province's export economy, as progress is made in building a liquefied natural gas industry (LNG) focused on moving BC natural gas to offshore markets. Finally, BC's electricity exports to foreign markets (the US) are modest, at less than \$500 million per year.<sup>4</sup>

At \$3.5 billion last year, equal to 10.7% of all foreign shipments, metallic minerals have also been making a bigger contribution to BC's exports. The value of metallic mineral exports climbed by almost 150% between 2002 and 2011. Copper accounts for most of this increase, and comprises about half of BC's metallic mineral exports. Other significant mineral exports are zinc, molybdenum, and unwrought aluminum.

	<b>2002</b>	<b>2007</b>	<b>2011</b>
Natural gas	1,886	2,682	1,914
Coal	1,373	2,485	7,133
Electricity	288	641	337
Other energy	165	388	682
All energy	3,713	6,196	10,066
Copper ores/ concentrates	349	1,159	1,783
Unwrought aluminum	452	766	396
Unwrought zinc	311	743	649
Molybdenum	87	436	276
Other metallic minerals	220	326	387
All metallic minerals	1,420	3,430	3,492

Table 1 (above) provides additional information on BC's energy and mining exports over the first decade of the 2000s.

<sup>4</sup> BC also exports electricity to Alberta.

### **Forestry Poised for a Comeback**

BC's forest industry has faced numerous challenges in recent years, notably the collapse of US housing markets linked to the financial crisis and recession of 2007-09, export taxes levied under the Canada-US Softwood Lumber Agreement, and the negative impact of the pine beetle infestation on lumber markets as well as on the availability of high quality domestic fibre. All of this contributed to a sharp fall in wood product exports, as the value of BC's international shipments slid from \$9.3 billion in 2002 to \$5.7 billion last year.<sup>5</sup> As a share of BC's merchandise exports, wood products declined from almost one-third in 2002 to a little over 17% by 2011. The good news is that with a US housing recovery now underway, North American lumber prices firming, and the industry's success in developing new offshore markets in China and elsewhere, wood products exports are set to rebound sharply in dollar terms – even though the pine beetle infestation will lead to a reduction in future timber harvesting in parts of the Interior.

Pulp and paper, the other segment of the forest sector, also occupies a prominent place in British Columbia's export mix. In 2011, the industry exported \$4.3 billion worth of pulp/paper products, down from \$5 billion in 2002, but still enough to provide more than 13% of BC's total export earnings. Table 2 contains more details on the export performance of BC's forest industry.

<sup>5</sup> For more information, see 'BC's Exports Moving Out of the Woods,' BC Stats, [Infoline Report](#), May 4, 2012.

	2002	2007	2011
Lumber	6,344	4,773	3,833
Plywood and veneer	405	290	138
Cedar shakes/shingles	299	270	133
Other panel products	541	554	368
Selected value added products	973	674	334
Logs	515	369	588
Other	207	235	309
All wood products	9,284	7,164	5,704
Pulp/paper products	5,069	5,118	4,279

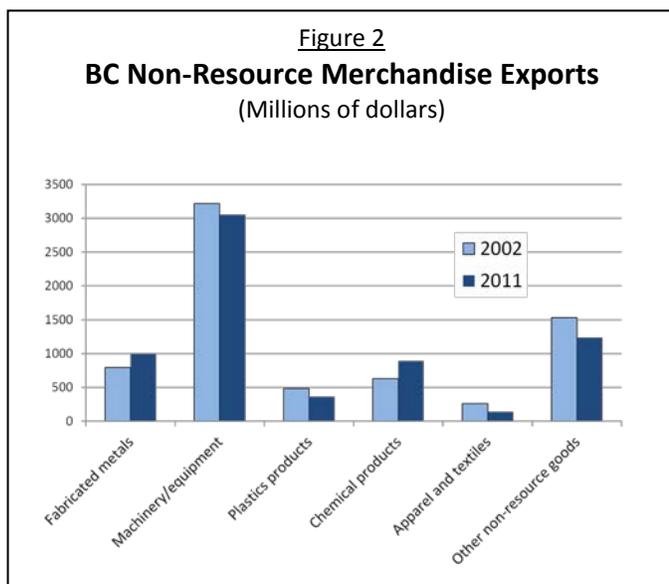
### **Fish and Agricultural Exports Generally Stable**

The remaining segment of BC's resource-based export economy is agri-food. Last year the province exported \$1.6 billion of agricultural products and another \$900 million of fish products. In both cases the value of exports has not changed appreciably since the early 2000s. Added together, agricultural and fish products currently comprise about 8% of the province's merchandise exports.

### **Non-Resource and Other Secondary Manufacturing**

Goods-producing industries not linked to BC's natural resource base are the final leg of the province's merchandise exports. This segment is highly diverse, consisting of a number of industries like motor vehicles and aerospace; electrical, electronic and communications-related products; scientific and technical equipment; plastics; fabricated metals; chemicals; textiles and apparel; and cement and concrete products. In 2011, these manufacturing-

oriented industries collectively generated export earnings of \$6.7 billion, which is a significant figure when juxtaposed against total merchandise exports of \$32.7 billion. However, the value of BC's non-resource-based merchandise exports has actually slipped a bit since 2002, when it stood at \$6.9 billion. Figure 2 provides further details.



### **Service Exports: Significant But Often Overlooked**

The discussion so far has focused exclusively on “goods” or “merchandise exports,” in part because there is excellent national and provincial data on this kind of trade, but also because goods make up a large majority of all trade flows. However, international commerce is about more than just the exchange of tangible products. In particular, services are becoming a more important element in global trade.

In some ways, the broadly defined services sector can be said to dominate British

Columbia’s economy. About 80% of our workforce is employed in industries whose outputs are classified as “services” rather than “goods.” In a typical year, services also represent three-quarters or more of the province’s gross domestic product.

Many services are consumed wholly or mainly in local markets and are not usually “traded” outside of a jurisdiction’s borders. Examples include most publicly-provided services, essentially all personal and household services, and the bulk of retail services. But some services do enter international markets. What the World Trade Organization classifies as “commercial services” of various kinds now amount to more than 18% of the value of world trade.<sup>6</sup> The principal internationally traded commercial services are:

- financial services (e.g., banking, insurance, securities),
- transportation services,
- software and other information and communications-related services,
- education,
- royalty income derived from intellectual property,
- scientific, technical and environmental services,
- engineering, and
- other professional services (legal, accounting, architecture, etc.)

<sup>6</sup> World Trade Organization, “World Trade in 2011,” accessed at [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/wtr12-1\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/wtr12-1_e.pdf). Note that the WTO does not count tourism as part of the commercial services sector.

Canada ranks among the top ten global service exporters. A recent paper published by the Business Council<sup>7</sup> explored British Columbia's exports of services and the scope to increase such exports over time. The province has strengths in several areas that support the development of globally competitive service industries – including an educated workforce, good post-secondary institutions, a multi-cultural population, well-established maritime and other transportation industries, and the presence of sophisticated financial, professional and scientific/technical services. We also have a large tourism sector (tourism is another significant traded service). Although there are significant limitations in the available data on services trade at the provincial level, published estimates suggest that services comprise 20-25% of BC's total international exports.<sup>8</sup>

### **Conclusion**

Looking ahead, there are opportunities for BC to expand exports in sectors like education, communications, financial services, professional services, and cultural products, as well as in the tourism sector. If services are included in the data on trade, the outsized role of resource-based industries in BC's export portfolio diminishes somewhat, with resources' share of total exports (goods plus services) dropping from 80% to approximately two-

thirds as of 2011. Still, even if we count services-related transactions, the reality is that resource-based products in aggregate continue to be the predominant source of export earnings for the province. And with the global economy's centre of gravity gradually shifting toward resource-hungry markets in Asia, there is good reason to believe that foreign demand for many of BC's resource-based products will continue to grow over time.

That British Columbia continues to have a strongly resource-oriented export economy has important implications for policy-makers and citizens. Maintaining a competitive environment for investment and economic development across our key resource sectors is critical to BC's future economic well-being – and to the government's capacity to generate revenues to pay for programs and services. Government decision-makers need to ensure that tax, regulatory and land use policies support long-term investment and sustainable growth across the resource-based industries that continue to underpin British Columbia's position as a prosperous trading jurisdiction.

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<sup>7</sup> Michael Goldberg, "Building the Economic Base: Tradable Services," paper prepared for the Business Council of British Columbia's Outlook 2020 project, October 2009 (available at [http://www.bccbc.com/content/555/2020\\_200910\\_Goldberg.pdf](http://www.bccbc.com/content/555/2020_200910_Goldberg.pdf))

<sup>8</sup> Ibid., p.11.