Box A

The Impact of Higher Commodity Prices on Canada's Trade Balance

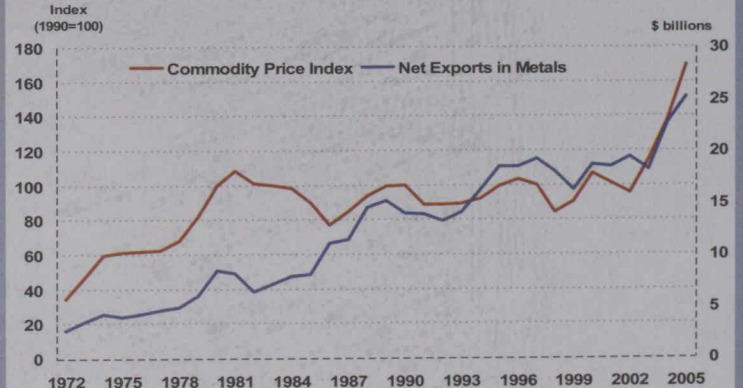
Energy

In all three scenarios, natural gas is the largest contributor to the trade surplus, adding as much as $50.5 billion by 2010 in the high price scenario. Close proximity to the largest energy consumer, the U.S., combined with an existing extensive network of pipelines makes Canada the ideal place from which Americans get their natural gas. Despite the large increase in the value of natural gas exports, which was pushed up by natural gas prices, the volume of exports was up only marginally, by 1.3 per cent. Crude oil, to a lesser degree, will also continue to contribute to the trade surplus, ranging from $7.4 billion to $11.1 billion in the low and high scenarios respectively. The impact of higher oil prices on Canada's trade balance is somewhat offset by imports of crude oil for domestic consumption (namely the Atlantic Provinces, Quebec and Ontario). Canadian coal export prices and quantities increased by 72 per cent and 8 per cent, respectively, pushing net export levels up by $1.3 billion to $2.3 billion in 2005. If coal prices were to increase further, as in the case of the high prices scenario, coal will add $3.8 billion to the surplus by 2010. Thus, the energy sector overall will contribute between $43.6 and $65.4 billion as shown in the Table A2.

Industrial Metals

Growth in the volume of exports in the metal sector during 2005 was mixed. Aluminium, copper, gold, silver and iron had positive growth (see Table A3), while the volume of zinc (-13 per cent) and of nickel (-8.7 per cent) fell despite the increase in their prices. The quantity of aluminium exports grew by 12 per cent while recording $7.7 billion in net exports in 2005. Aluminium was by far the largest contributor to the trade surplus in the industrial metal sector. Gold and silver prices boosted growth in precious metal net exports as their prices increased by 8.7 per cent and 9.7 per cent, respectively. These price developments pushed net exports in precious metals up by 12.8 per cent to $5.6 billion in 2005. Metal demand continues to grow, pushed even higher by global economic expansion, particularly in China. The extent to which the metal sector will contribute to the trade surplus will primarily depend on price levels. More recent price forecasts are mixed amongst metals. For instance, gold prices are on the upswing while aluminium prices have subsided as global supply increases. However, the overall impact will continue be positive in all three scenarios.

Figure A3
Commodity Price Index and Net Exports in Metals (Aluminium, Copper, Nickel, Zinc, Precious Metals and Iron Ores), 1972-2005



Source: Statistics Canada

Table A3: Quantity of Metal Exports

Millions of units	HS Code	2002	2003	2004	2005	% Change 2005/2004
Aluminium (KGM)	7601	2,133	2,233	1,999	2,240	12.0%
Copper (KGM)	7403	244	221	283	300	6.1%
Nickel (KGM)	7502	102	95	125	114	-8.7%
Zinc (KGM)	79	652	626	666	579	-13.0%
Gold (GRM)	7108	172	162	199	237	19.2%
Silver (GRM)	7106	1,854	1,772	1,489	1,549	4.0%
Iron and Steel (KGM)	7208	853	754	713	980	37.5%

Source: Statistics Canada