



At the Tipping Point?

Effects of the Post-9/11 Border Security Environment on Canada-U.S. Economic Interests

Preliminary Findings

Joint Project
International Trade and Investment Centre and
Centre for National Security

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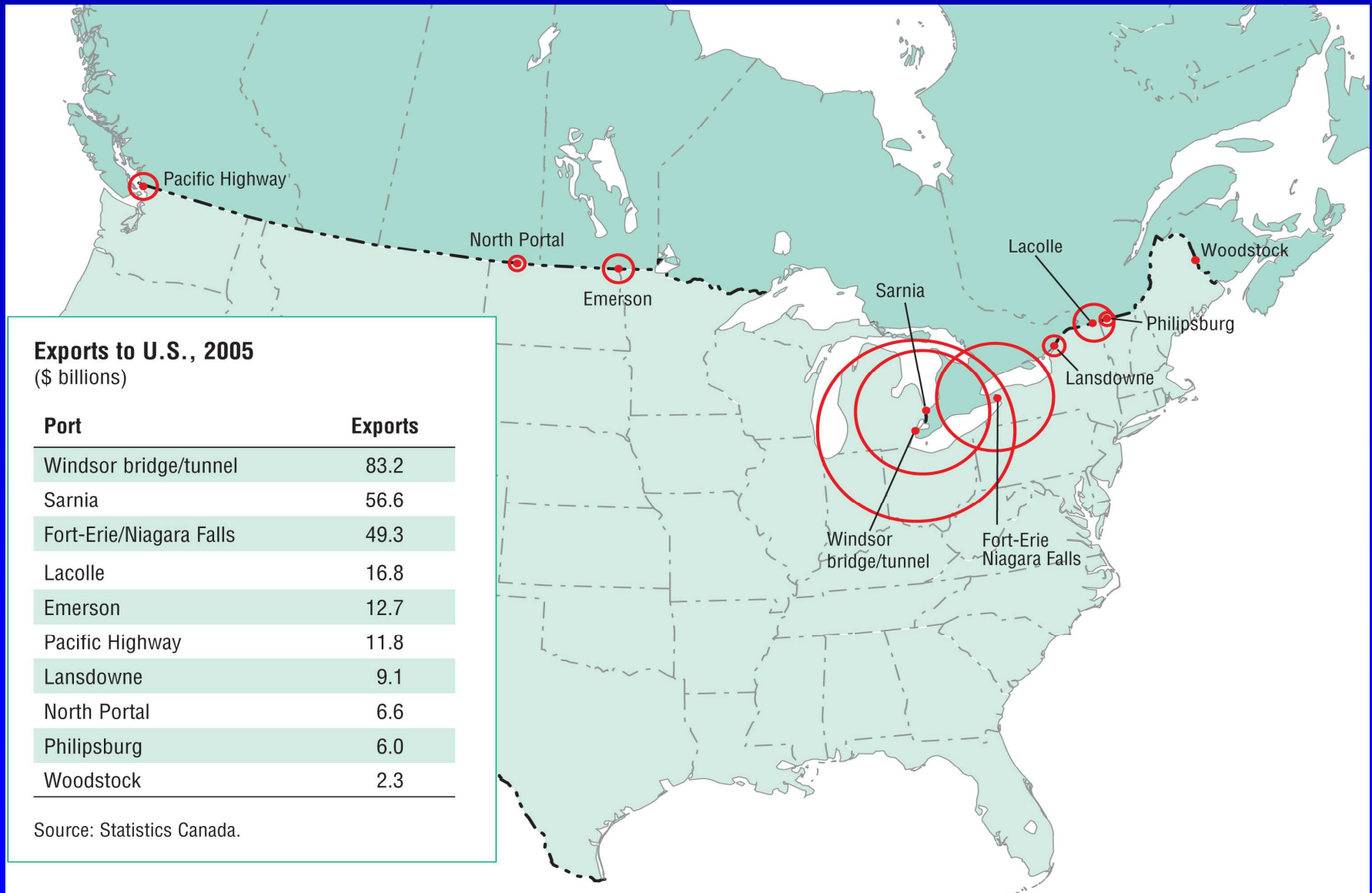
Key Canadian Objectives

- Secure access to the U.S. market
 - Contributes to Canadian prosperity
 - Necessary for highly integrated trade
- Physical security
 - End goal and pre-condition for trade

Global and Regional Pressures

- Heightened security post-9/11
- Intense global competition
- Small cost differences can have large effects
 - Goods cross repeatedly
 - Production can be easily substituted
 - Cost increases may dilute FTA gains
 - Border security approach matters

Most Trade Crosses At Few Crossings



Our Approach

- New border security policies post-9/11
- Heightened border scrutiny
- Separation of low-risk from unknown risk
- Advance notification policies

Our Approach

- General perception:
 - Trade diminished
 - Border delays increased
- What does the new environment mean for Canada's economic interests?

Unique Features

- Effects of post-9/11 border security
 - Distinct from pre-9/11 border problems
 - Most other studies do not distinguish
- Effects on:
 1. Canada's export volumes to US
 - At individual border crossings
 - For individual products
 2. Cost of trading across border
- Economic benchmark to weigh against security goals

Unique Features

- Most comprehensive analysis to date
- Detailed statistical analysis
- 60 interviews
 - Cross-section of sectors and regions
 - Industry associations
 - Select government officials
- Other evidence

Effect on Export Volumes

- Canada-US trade flat post-9/11
- Is post-9/11 border security responsible?
- Used detailed statistical analysis
 - Account for other factors
 - Factors specific to products and regions
 - Account for price fluctuations
 - Other study does not do this

No Effect on Export Volumes

- NO evidence that export volumes were lower due to 9/11 environment
 - Any changes due to other factors
 - Same for individual crossings
 - Same for individual products
 - including most border-sensitive
 - No temporary or permanent effect
- Can infer no import change
- Challenges common wisdom

No Need to Worry?

- Does this mean no post-9/11 harm to Canadian economic interests?
- But must get goods across
 - Especially time-sensitive products
- Should therefore expect no export change!
- But what happened to costs?

Effect on Costs

- No export volume change but cost increase
- Direct costs of policy compliance
- Indirect costs
 - E.g., efficiency losses from switching transit modes

Direct Compliance Costs

- Most reported increases
- Both one-time and on-going costs
- Layering of policy changes
- Costs internalized
- Companies assumed voluntary costs
 - In order to reap benefits or not lose advantage

Benefits

- Faster, predictable, secure market access
- Are we there?
- FAST is slow
- Harmonized policies not harmonized
- Not clear that benefits = costs
- Costs not aligned with risk
 - Same regardless of security risk posed by sector

Costs of Delays

- Delays:
 - Increase buffer times
 - Increase inventory
 - Are repeated
- Earlier studies found large post-9/11 delays
 - But delays common pre-9/11

Costs of Delays

- Interviewees said that delays were
 - Routine from 2001-2004
 - Much better in 2006
 - Problematic in some instances
- **Why fewer delays?**
 - Infrastructure improvements
 - More agents
 - New border policies
 - Diversions
 - Low volumes?

Costs of Changed Delivery Patterns

- Diverting to other crossings
- Shifting to other transit modes
- Moving to pre-FTA behaviours

Overall

- Exports have not changed
- Delays have gone down
- Most costs have gone up
- Behaviour has changed
- Those who needed to get their goods across did so but at increased cost

Reaching a tipping point?

- Have not achieved secure, efficient access
- Will costs discourage investment in Canada?
- Are benefits of access to the US diluted?
- Or could we tip the balance the other way?
- How might we seize the benefits of the post-9/11 environment?
- E.g., Can we fix FAST so benefits outweigh costs?

Looking Forward

- What is the most appropriate set of strategies to meet national goals?
 - Security at what cost?
 - Who should bear the costs?
 - What should business contribute?
 - Should we focus on reducing other costs?
 - Is continuity more important than harmonization?
 - Is flexibility possible?
 - How should we balance public interest objectives?

