Not so long ago, the Canadian-American border was routinely referred to as the "longest undefended border in the world." With the events of September 11, 2001, as Pierre Martin writes, "this perception came to an abrupt end." From the US side, security trumps trade, while Canada has worked with Washington on a number of initiatives to ensure a "smart" border. Still, longer wait times at the border have imposed extra shipping costs and created problems for just-in-time deliveries. In 2005, a Transport Canada survey found that "security induced delays increased the time spent at border crossings by an average of 32 minutes per shipment, costing Canadian exporters an estimated $290 million." Now the looming US deadline for secure I.D. cards may reduce tourism as well as slowing trade. “A 2005 Conference Board survey indicates that only 34 percent of adult US residents and 41 percent of adult Canadian residents hold a passport.” According to the same reports, there will be “an estimated net loss of $905 million in travel-related receipts to the Canadian economy.”

The Canada-US border was once known as the “longest undefended border in the world.” With the events of September 11, 2001, as Pierre Martin writes, “this perception came to an abrupt end.” From the US side, security trumps trade, while Canada has worked with Washington on a number of initiatives to ensure a “smart” border. Still, longer wait times at the border have imposed extra shipping costs and created problems for just-in-time deliveries. In 2005, a Transport Canada survey found that “security induced delays increased the time spent at border crossings by an average of 32 minutes per shipment, costing Canadian exporters an estimated $290 million.” Now the looming US deadline for secure I.D. cards may reduce tourism as well as slowing trade. “A 2005 Conference Board survey indicates that only 34 percent of adult US residents and 41 percent of adult Canadian residents hold a passport.” According to the same reports, there will be “an estimated net loss of $905 million in travel-related receipts to the Canadian economy.”

Not so long ago, the Canadian-American border was routinely referred to as the world’s longest undefended border. On September 11, 2001, this perception came to an abrupt end. In the last five years, it has become increasingly clear that security controls at the borders are — and will remain for the foreseeable future — an unavoidable fact of life in North America. In the immediate aftermath of the terrorist attacks on New York and Washington, US customs and immigration agencies increased the level of scrutiny and control for all merchandise and passenger traffic across the border.

Since 2001, several programs have been put in place to control the flow of merchandise trade between the two countries, and new measures will come into effect in the coming months, adding new constraints for individuals entering the United States from the western hemisphere.

Altogether, these measures entail considerable costs for the Canadian economy. How much? This remains an open question, but this article seeks to identify some of the major components of these costs, both as they relate to the impending passport requirement and with regards to the existing programs aimed at securing merchandise trade. This summary examination shows that, although the total costs are difficult to estimate with precision, they are significant and likely to become even higher.

Since September 2001, the tightening of security controls at the Canada-US border has already had enormous economic repercussions. Many of these costs have been borne by tax-
For both countries, particularly Canada, an important potential cost of enhanced security is unrealized cross-border trade or investment due to the perception of prohibitive border security requirements. Although such impacts are difficult to quantify, it is possible that the recent increase in security-related scrutiny at the US border might act as a deterrent to potential exporters to the United States or to investors seeking the best location to invest in a production facility. For the small prospective exporter, for example, uncertainties attributable to longer border delays — or to the perceived costs of compliance with border-risk management schemes — may contribute to preempt the initial investments needed to expand distribution into the US market. Similarly, in the era of “just-in-time” manufacturing, firms operating on a continental scale might be more reluctant to invest north of the border if they perceive a high likelihood of considerable delays in their supply chains. For the moment, however, available evidence does not allow us to quantify these effects.

Another important economic burden of border security is the increase in shipment costs directly attributable to security-induced waiting times at the border. Longer wait-times impose shipment costs that industry has to absorb. In 2004, 6.9 million trucks crossed the border from Canada into the United States. According to a 2005 Canadian trucking survey report commissioned by Transport Canada, security-induced delays increased the time spent at border crossings by an average of 32 minutes per shipment, costing Canadian exporters an estimated C$290 million.

The time and uncertainty associated with security-induced wait times or denial of access at the border can be mitigated for exporters by gaining accreditation in US risk-management programs, but this is expensive. To avoid costly waits or denial of entry, shippers must gain accreditation in the Free and Secure Trade (FAST) program, while exporters and their suppliers must pay for certification in the Customs-Trade Partnership Against Terrorism (C-TPAT) program. C-TPAT costs vary from approximately C$40,000 for smaller exporters to hundreds of thousands of dollars for the largest firms. As there are more than 40,000 exporting firms in Canada, the total potential costs are substantial.

Although they are large by any measure, the costs of security controls at the border must be compared to the global value of trade between the two countries. In 2005, Canadian merchandise exports to the US totalled C$369 billion, while imports totalled C$258 billion. Moreover, security is not the only source of costs associated with the border. For example, a study by published in the fall of 2004 in the Journal of Transportation, based on 2002 data, estimates the total cost of the existence of the border between Canada and the US to be in the vicinity of US$10 billion. This, however, is not the end of the story.

The second stage of introduction of new border security measures will involve the imposition of passports or some other type of secure travel document for hemispheric travel. In 2004, the US Congress passed the Western Hemisphere Travel Initiative (WHTI), as part of a sweeping anti-terrorism bill. From a Canadian perspective, the key provision of this initiative is the requirement that all individuals — including US citizens — present a passport or some other secure document when entering or re-entering the United States.

At present, US, Canadian, Bermudian and Mexican citizens do not need a passport for entry from the western hemisphere. Under the rules proposed by the WHTI, these exceptions are scheduled to be lifted on December 31, 2006, for air and sea travel, and one year later for land travel. Not only will everyone be required to show proper forms of identification when entering the US from anywhere in the world — including the friendly neighbour to the north — but standards governing the production and issuance of passports (or alternative forms of secure identification) will be even more stringent. The goal of the policy is to tighten the net at the border, identify and intercept any individual who may be considered a security risk.

The heart of the problem, makes the effects of the policy highly uncertain and potentially costly, is that a significant number of Canadians and Americans do not own valid passports, which are costly and difficult to obtain. Consequently, the new requirement could severely affect travel and business between the two countries, as well as between the US and other hemispheric destinations.
US residents made 31.6 million trips to Canada in 2005 (including 15.7 million same-day auto trips), bringing in C$9.1 billion. These numbers declined between 2004 and 2005, partly due to currency fluctuation, but also to the false perception that the passport requirement was already in place. For their part, according to Statistics Canada, Canadians made 37.8 million trips to the United States in 2005 (including 22.3 million same-day auto trips), spending a total of C$12.2 billion.

A 2005 Conference Board of Canada survey indicates that only 34 percent of adult US residents and 41 percent of adult Canadian residents hold a passport. However, these figures increase, respectively, to 44 percent and 60 percent among same-day cross-border travellers, 50 percent and 60 percent among overnight auto travellers, and 67 percent and 75 percent among overnight air travellers.

The same study estimated that US residents would make 12.3 percent fewer visits to Canada in 2008, mostly due to a reduction in same-day visits created by the passport requirement. This would result in an estimated net loss of $905 million in travel-related receipts to the Canadian economy. The corresponding drop in Canadian visits to the US in 2008 is put at 1.7 million, leading to a loss of C$319 million.

A different study commissioned by the Ontario Ministry of Tourism estimates the lost receipts for Ontario alone at $652 million in 2008 (3.2 million fewer US visits), or a net loss of 6,500 tourism jobs. The costs are not limited to Canada, as tourist destinations in the Caribbean and Mexico are likely to suffer from the additional constraints imposed upon American tourists, who will need a valid passport or some alternative secure document to re-enter their own country.

One of the problems that might arise from the implementation of WHTI with the current deadline is the difficulty, both in Canada and in the United States, of maintaining high standards of security verification while substantially increasing the number of passports issued. In Canada, demand is expected to double within the coming year, which puts the passport agency under considerable strain. In the United States, passport issuance also has risen sharply since 2001, and it is expected to increase significantly when the WHTI comes into effect.

Acquiring a US passport is expensive (about US$100) and cumbersome. Therefore, alternative solutions are currently being considered. First, the Department of Homeland Security (DHS) has proposed a less expensive I.D. card (dubbed “passport-lite”) that would meet WHTI requirements for about half the cost of a passport. However, most observers agree that relatively few people would obtain the new card, which might not justify the extra administrative costs of running a parallel program.

Business groups that have been active in this debate, such as the Business for Economic Security, Trade and Tourism (BESTT) Coalition, would prefer to set national standards for secure drivers’ licenses, along the lines of the US Real-I.D. Act of 2005, which seeks to force states to include enhanced...
biometrics and citizenship information on driver’s licenses. However, the law is facing strong opposition from civil-liberties groups. In its trenchant criticism of the Real-I.D. project, the American Civil Liberties Union calls this measure an unacceptable invasion of privacy, which opens the door to discrimination and to a “Big-Brother-like” centralized registry. Critics also contend that this new measure would in no way eliminate fraud and identity theft.

In a recent article on opposition to Real-I.D. in New Hampshire, the New York Times reported that opponents, conservatives and liberals alike, were prone to hyperbole, conjuring up images of Nazi Germany or Orwell’s 1984. The same report also notes that the cause of opposition to Real-I.D. was even embraced by evangelical Christians, who claim that a number for each citizen, according to the Book of Revelation, presages the Apocalypse.

More pragmatically, the Real-I.D. program would impose heavy costs on states, and most are actively resisting its implementation. For example, as reported in the same New York Times article, Virginia estimates the start up cost of its program alone would be $169 million, with ongoing annual costs of up to $63 million. Projecting from these figures and from a comparable evaluation for the state of Washington, critics of Real-I.D. have estimated the annual costs of implementing the program throughout the continental US at between $9.1 billion and $12.8 billion, which far exceeds the more modest estimates of the Congressional Budget Office (about $100 million). It is unlikely that more than a handful of states will implement its provisions by the statutory 2008 deadline.

In the spring of this year, there has been a great deal of mobilization in favour of at least a delay in the implementation of the WHTI passport requirements, but this issue has been caught in the congressional cross-fire over the much more politically salient and controversial issues of illegal immigration. On May 17, the US Senate passed an amendment to its immigration bill that would delay implementation of the passport requirement for land border crossings in the WHTI until June 1, 2009, although the June 2 terror arrests in Ontario have heightened concerns south of the border, there is no indication that the

Although the Canadian embassy in Washington has been active in lobbying Congress on behalf of Canadian and border-state interests, and provincial premiers have mobilized the support of US border-state governors, Conservative Prime Minister Stephen Harper has not made this issue a priority in his direct contacts with the US administration. At the Cancun summit with Presidents Bush and Fox in March, Harper plainly stated that Canadians should get used to the fact that they will need passports to cross the border, seemingly accepting with resignation President Bush’s admission that nothing could be done at that stage to change the law.

Meanwhile, Canadian officials and politicians have taken very different stances on this issue. Although the Canadian embassy in Washington has been active in lobbying Congress on behalf of Canadian and border-state interests, and provincial premiers have mobilized the support of US border-state governors, Conservative Prime Minister Stephen Harper has not made this issue a priority in his direct contacts with the US administration. At the Cancun summit with Presidents Bush and Fox in March, Harper plainly stated that Canadians should get used to the fact that they will need passports to cross the border, seemingly accepting with resignation President Bush’s admission that nothing could be done at that stage to change the law.

Tightened border controls have increased rates of interception for illegal drugs, smuggled goods and wanted criminals. However, there has not been alleged plotters intended to attack targets outside Canada.

Whether the imposition of passports or some other complex form of identification at the Canada-US border will make a difference commensurate with its costs is impossible to assess, but cost-benefit considerations matter little for American legislators who feel compelled, in the current context, to do — or appear to be doing — everything they can to shut the borders tight to terrorism, regardless of the economic fallout. What is certain is that these measures will have negative implications for the process of North American economic integration and, perhaps, for the sentiment of community between the two countries.