

Economic Impact of Border Fees in Three Target Sectors in Canada and the United States of America

EXECUTIVE SUMMARY

Prepared for:

The Department of Public Safety and Emergency
Preparedness and the United States Department of
Homeland Security

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Opinions and Recommendations

Unless otherwise indicated, the opinions herein are those of the author and do not necessarily reflect the views of Public Safety Canada, the Department of Homeland Security, the Government of Canada or the Government of the United States of America more broadly.

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Overview

This report has been commissioned in fulfilment of the Beyond the Border Action Plan (BTB) commitment to “commission a third party to conduct an economic impact assessment of [border fees], including their cumulative effect, on the competitive position of three economic sectors in Canada and the U.S. for which cross-border activity is important”. The industries selected for this assessment are: motor vehicle and motor vehicle parts manufacturing, plastic product manufacturing and vegetable and melon farming. These industries were selected based on two-way trade values.

The border fees analyzed in this report are the fees in the inventories that were released by the governments of the United States (U.S.) and Canada as part of the BTB commitment on border fees. These fees are mandatory, trade-related fees charged by either federal government on the movement of goods across the Canada-U.S. border. As the data contained in these inventories was for 2010, 2010 is the reference year for this study.

Results

Figure ES-1 on the following page provides a summary of the results of the modelling.

Figure ES-1: Modelled Impact of Border Fees on Three Target Sectors in Canada and the U.S.

	Change Canada (2010 \$CAD)			Change U.S. (2010 \$USD)		
	Motor Vehicle and Motor Vehicle Parts Manufacturing	Plastic Products Manufacturing	Vegetable and Melon Farming	Motor Vehicle and Motor Vehicle Parts Manufacturing	Plastic Products Manufacturing	Vegetable and Melon Farming
2010 Output (2010 million)	66,000	18,000	N/A	407,843	148,737	19,457
2010 Exports (2010 million)	50,746	6,264	344	42,890	5,439	1,520
Total Estimated Border Fees	0.0141%	0.0385%	1.0843%	0.0024%	0.0026%	0.0336%
Change Gross output (% change)	-0.0531%	-0.0147%	-0.0088%	-0.0005%	0.0001%	0.0023%
Change in Exports (% change)	-0.0591%	-0.0247%	-0.2827%	-0.0024%	-0.0019%	-0.0264%
Change Gross output (\$ million)	-35.0	-2.6	N/A	-2.0	0.1	0.4
Change in Exports (\$ million)	-30.0	-1.5	-1.0	-1.0	-0.1	-0.4

Source: CPCS Analysis

In Canada, the output in the motor vehicle and motor vehicle parts sector is modelled to be reduced by around 0.053% due to the application of border fees at the Canada-U.S. border, followed by a 0.015% reduction in the plastic products manufacturing sector and a 0.009% reduction in the vegetable and melon farming sector.

In the U.S., modelled impacts of border fees are negligible in most cases. The results of the modelling showed that gross outputs in the motor vehicle and motor vehicle parts sector reduced by 0.0005% due to the application of border fees, while the model actually estimates that gross output increases in the plastics products manufacturing sector (-0.0001%) and the vegetable and melon farming sector (-0.0023%) as a result of border fees.

Overall, the study's results indicate that the border fees in the inventories analyzed make up a small component of the overall cost of crossing the Canada-U.S. border for the private sector. Both in the literature review and in consultation with most stakeholders, it was noted that border fees do not make up a substantial portion of overall border costs.

Structurally, border fees applied by Canada and border fees applied by the U.S. differ. Border fees in Canada are specific to commodities in which additional inspections may occur, while in the U.S., the majority of border fee revenues come from general border fees that apply to all goods, and are assessed on a modal basis (i.e. ex amount per truck, vessel or rail car). These structural differences can lead to differences in the effects of fees. Overall, the results indicate that these fees have a greater impact on industries in Canada than in the U.S., as applicable fees faced by the targeted sectors in Canada are

relatively much larger than faced by the same sectors in the U.S. One factor that likely drives this result is that Canadian motor vehicle and motor vehicle parts sectors, and the plastic products manufacturing sectors, are more dependent on trade with the U.S. than is the case with the same sectors that are based in the U.S, so are therefore more susceptible to changes in trade costs or reductions in either input/output.

Methodology

This analysis was made using Computable General Equilibrium (CGE) modelling. This modelling was used to assess the impacts of costs of border fees on the three industries in Canada and the U.S. Input/output data, trade data and production data are used to create a CGE model of the three industries in the U.S. and Canada when the economy is in equilibrium. Current costs of border fees are then removed and the model is re-run to achieve equilibrium. Any differences in exports and output after the costs of border fees are removed are estimated to be the economic impact of border fees in the three sectors.

In order to estimate the total costs of border fees applicable to each of the industries, three components are analyzed:

1. The direct fees applicable to the three sectors;
2. The fees applicable to intermediate inputs that are used in the production of goods in the three sectors; and
3. The indirect costs to the three sectors associated with paying border fees such as time costs and administrative costs.

It is important to note that limited precise data is available on indirect costs exclusively associated with paying border fees. As such, these costs have been estimated based on the limited data available and considering several assumptions and scenarios.

Industry representatives were also consulted and previous studies of relevance reviewed as part of this analysis. Both these processes suggest that the border fees in the two inventories do not make up a substantial portion of overall border costs. These overall costs include the costs of complying with border programs as well as wait times at the border.

Border fees are estimated to range from a high of 1.0843% of Canadian exports to the U.S. in the Vegetable and Melon Farming sector to a low of 0.0024% for U.S. exports to Canada in the Motor Vehicle and Motor Vehicle Parts sector.