

PRÉCIS

“Is Just-In-Case Replacing Just-In-Time? How Cross-Border Trading Behaviour Has Changed Since 9/11”¹

In June 2007, the Conference Board of Canada published a study on the economic impacts for Canada of the new reality in which Canadian companies must operate to export to the United States. This summary presents and analyzes the results of the study, attempting to situate them in a relatively broad context, and identifies certain key implications for government action associated with international trade.

Background

For Canada, whose prosperity is closely linked to international trade, the issue of an effective system for the movement of goods and people across borders is critically important. Today, strong international competition in the area of trade, stimulated by globalization (as evidenced by the growth of international trade), and a consensus surrounding significant needs in terms of border infrastructure and transportation makes this issue even more critical.²

Though access to Asia’s emerging markets is obviously very important for Canada, maintaining preferential access to the American market is just as crucial to its prosperity.³

Following the events of September 2001, a new context has developed around Canada-US trade, resulting from new multilateral (but also unilateral) measures taken by both countries, particularly in terms of security. This includes new requirements from the American authorities that pose a new challenge for Canadian exporters (for example, it is now necessary to inform customs of the contents of shipments *in advance*).

On the other hand, both governments have also taken steps to improve the efficiency of border crossings, such as new infrastructure work, additional customs staff and the implementation of new programs⁴. However, the full effectiveness of these new measures has not yet been achieved because of the limits the current inadequate

¹ Danielle Goldfarb, *Is Just-In-Case Replacing Just-In-Time? How Cross-Border Trading Behaviour Has Change Since 9/11*, The Conference Board of Canada, June 2007.

² See for instance: *Transport Canada, Asia-Pacific Gateway and Corridor Initiative*, 2006 (http://www.tc.gc.ca/majorissues/APGCI/document/APGC-PCAP_en.pdf); Tae Oum, “International Trade: To build a successful Pacific gateway, we must act now,” *The Globe and Mail*, p. B2, August 13, 2007; Laurier Cloutier, “Un corridor est sur les rails,” *La Presse*, Page Affaires1, July 31, 2007; Robert Gibbens, “Ottawa Boosts Great Lakes Freight Corridor,” *The Montreal Gazette*, P. B1, July 31, 2007.

³ See Danielle Goldfarb, *Reaching a Tipping Point? Effects of Post-9/11 Border Security on Canada’s Trade and Investment*, The Conference Board of Canada, June 2007.

⁴ An example is the binational program “FAST” (Free and Secure Trade) aimed at accelerating the movement of goods that have been pre-approved by the authorities.

infrastructure continues to impose, and lack of alignment of the two countries' international trade policies, legislation and programs.⁵

Summary

The Conference Board study examines the economic impact of this new “post-9/11” context for Canada.⁶ Two reports proceed from this study: one deals with global economic impacts⁷ and the other—the main purpose of this summary—focuses on certain *indirect costs* generated by the new security measures, more specifically, costs attributable to certain changes in the management and logistical practices of Canadian companies that export to the American market.⁸

Overall, the study demonstrates that in fact the new cross-border context does not appear *up to now* to have affected the flow or the volume of Canadian exports to the United States. However, it appears to have generated a climate of uncertainty with regard to the efficiency of the movement of goods at border crossings. This climate may prompt a number of Canadian companies to adopt new export practices that are “safer,” but unfortunately less efficient and more expensive.

For example, while current *just-in-time* management practices enable companies to keep inventory at a minimum and to send or receive goods very quickly following an order, some companies now keep more inventory on hand, “just in case” there are problems with the movement of goods across the border (significant delays, requirements not met, etc).

Some Canadian companies have even set up new warehouses on the American side, increasing their storage costs. Others pre-ship goods ahead of an order. Moreover, many trucking companies no longer cross the border (which forces exporters to deal with another carrier on the other side of the border) or charge a cross-border premium, a situation that has not been seen in many years. Last, under the new requirements, American customs must receive the cargo manifest at least one hour in advance, resulting in unnecessary waiting by truckers so they do not arrive at the border crossing too early.

Increases in export costs from Canada to the United States may result in more companies relocating to the American side. Moreover, today, producing a product often

⁵ Danielle Goldfarb, *Reaching a Tipping Point? Effects of Post-9/11 Border Security on Canada's Trade and Investment*, The Conference Board of Canada, June 2007; Michael Hart, “Security and Prosperity Partnership: Don't let the border get in trade's way”, *The Globe and Mail*, p. A19, August 23, 2007.

⁶ The results of the Conference Board study are based on statistical analyses and information drawn from 60 interviews conducted in 2006 with Canadian companies and associations involved in export or that frequently do business in the United States. The companies and associations selected were from various regions of the country and various sectors. Government officials whose work involves cross-border issues were also interviewed.

⁷ Danielle Goldfarb, *Reaching a Tipping Point? Effects of Post-9/11 Border Security on Canada's Trade and Investment*, The Conference Board of Canada, June 2007.

⁸ Danielle Goldfarb, *Is Just-In-Case Replacing Just-In-Time? How Cross-Border Trading Behaviour Has Change Since 9/11*, The Conference Board of Canada, June 2007.

requires that numerous parts cross the border, increasing the impact of higher export prices all along the production chain. Finally, many goods produced in Canada and exported to the United States are highly substitutable for goods produced in the United States.

In the longer term, if this uncertainty and the new costs (decrease in productivity) for companies associated with it persist, Canadian companies' ability to export to the United States⁹ and Canada's ability to attract foreign investment may be at stake.

In response to this problem, the authors recommend that Canada's federal and provincial governments continue to improve the infrastructure associated with movement across the border and transportation, and work with all of the stakeholders concerned to ensure that the rules and processes involved in the export and import of goods between the two countries is simpler, more harmonized and more predictable. Both federal governments should, among other things, ensure that the "FAST" program delivers the benefits it promises by harmonizing their respective requirements and eligibility criteria and improving the system of lanes reserved for FAST program participants. The governments should also work to help companies understand and comply with the new American requirements, thereby fully benefiting from the opportunities offered by these new programs.

From a more general perspective, the authors also recommend that the Government of Canada support exports to other potential key markets, in an effort to compensate for the effects of what appears to be an "erosion" of Canada's preferred access to the American market.

The authors recommend that companies take up the challenge posed by the new border environment and transform it into a comparative advantage in terms of competitors (for example, meeting all of the security requirements in order to take advantage of programs such as FAST).

Implications

The study obviously shows that the Canadian government's recent and announced investments aimed at increasing the efficiency of border infrastructure, such as some of the Infrastructure Canada (INFC) programs,¹⁰ are not only necessary, they are crucial. Moreover, as the authors point out, they have already begun to improve the flow of border traffic.

However, the study also reveals that beyond the improvement of infrastructure, more needs to be done in terms of harmonizing legislation, policies and programs involving trade with the United States to obtain *genuinely favourable* export conditions for Canadian companies; that is, a cross-border and transportation system that is *efficient*

⁹ Particularly for small- and medium-sized enterprises.

¹⁰ INFC has already committed \$600 million through the Border Infrastructure Fund (BIF) and \$2.1 billion is planned in the new "Building Canada" infrastructure plan for the Gateways and Border Crossings Fund (for the Atlantic gateway and the St. Lawrence corridor, which includes the Windsor border crossing), as well as an increase in funding for the Asia-Pacific Gateway and Corridor Initiative, which brings their total to about \$1 billion.

and predictable. In fact, one of the main lessons from the study is that the lack of predictability at the border crossings (actual or simply perceived by companies) and the less efficient export practices that result reduce the effectiveness of new investment in border infrastructure and transportation. In other words, these factors limit the increase in the flow of trade through investment in infrastructure alone.

These results underline the necessity of addressing the problem of efficiency of movement across borders as a whole, through an integrated and partnership approach (coordinating infrastructure projects and new technologies, legislation and multilateral agreements, special programs, etc.), to maximize the benefits from the efforts and investment of various levels of government, and the private sector, in this area. Consequently, this confirms the importance for the Government of Canada and its Canadian partners to complete the efforts recently undertaken (and announced) to articulate an overall approach supporting and facilitating trade between Canada and foreign markets.

Gateway and corridor approaches such as Transport Canada's Asia-Pacific Gateway and Corridor Initiative (APGCI), is clearly moving in that direction ¹¹. In fact, the APGCI is not only based on strategic public investment in the area of border infrastructure and transportation (and, in this regard, it already incorporates certain specific INFC funds), but also of the strengthening of partnerships and the review and harmonization of international trade policies, regulations and processes. In summary, it is intended to cover all of the factors that have an effect on the efficiency of the "system" that supports Canada's trade. ¹²

Moreover, the Canadian government recently developed a *National Policy Framework for Strategic Gateways and Trade Corridors* to achieve greater coordination of all activity involving the issue discussed throughout this document. ¹³ Obviously, the multilateral discussions during the recent summit on the Security and Prosperity Partnership of North America (SPP) also directly concern this issue.

In the final analysis, the maximization of the positive impacts of the new investment in border infrastructure and transportation depend on the success of Canada's overall (and partnership) approaches in the area of international trade to provide in the short, medium and long term, an environment (system) that is effective and predictable and conditions that are favourable to Canadian exporters.

¹¹ Recently, the federal government made announcements concerning a Canada-Ontario-Quebec initiative for the St. Lawrence trade corridor and announcements are expected concerning the Atlantic Gateway. For more information, see: <http://www.tc.gc.ca/GatewayConnects/index2.html>

¹² Transport Canada, *Asia-Pacific Gateway and Corridor Initiative*, 2006.
http://www.tc.gc.ca/majorissues/APGCI/document/APGC-PCAP_en.pdf

¹³ See: <http://www.tc.gc.ca/GatewayConnects/NationalPolicyFramework/nationalpolicy.html>