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Economic Costs of Border Wait Times on the U.S. Agricultural Sector

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Report Highlights:

This report summarizes recent media reports on the border crossing times. Mexico is the third largest trading partner of the United States, and trade between the two countries amounts to over \$1 billion U.S. dollars a day. However, due to border security measures and the congestion, many exporters run the risk of damaging their product with prolonged border wait times. Several measures to speed the flow of products between the two nations are possible, but often limited by security concerns.

Executive Summary:The border between the United States and Mexico is widely recognized as one of the busiest in the world. There are 43 points of entry (POE's) along the border, and counties and municipalities on both the U.S. and Mexican side of the border, with the exception of San Diego, have relatively higher rates of poverty than counties and municipalities not directly on the border. Issues such as poverty and drug trafficking make many of these border towns high security risks, and accordingly, regulations of border crossings are of the highest priority. Every day at least 800,000 people travel between the United States and Mexico, and within a year, more than 300 million of these two-way border crossings occur. Mexico is the third largest trading partner of the United States, and trade between the two countries amounts to over \$1 billion U.S. dollars (USD) a day. However, due to border security measures and the congestion that they create, a great deal of revenue can be lost, and many exporters run the risk of damaging their product with prolonged border wait times. Several measures to bolster the rate of flow between the two nations could be implemented, but are often limited by security concerns such as undocumented immigration and drug trafficking

General Information:

Traffic between the United States and Mexico

Since the implementation of the North American Free Trade Agreement (NAFTA) in 1994, bilateral trade between the United States and Mexico have climbed from just over \$100 billion USD in 1994 to over \$450 billion USD in 2011. According to the Office of the United States Trade Representative, between the three nations involved, the NAFTA has better connected over 450 million people who produce over \$17 trillion worth of goods and services. The signing of the NAFTA lifted trade restrictions and tariffs, and created the largest free trade zone in the world. However, the signing of the NAFTA did little to improve border crossing procedures. In order to limit undocumented immigration and maintain security against the sale of drugs, pre-NAFTA concepts of collecting import and export duties and regulating the flows of people and investment have continued to prevail. Following the 9/11 attacks on the New York World Trade Center, the security policies at the border of the United States and Mexico increased as did economic losses due to border wait times. Traffic has become increasingly congested since the signing of the NAFTA, with a greater amount of goods, services, and people flowing daily between the United States and Mexico without an efficient system to do so quickly.

In 2010, President Obama championed a National Export Initiative (NEI) with the goal of doubling U.S. exports within five years. This ambitious goal yielded an all time record of exports of the United States at \$2.2 trillion in 2012, and was responsible for 9.8 billion jobs. Trade between the United States and Mexico alone supports an estimated 31 million jobs in the United States according to the United States Chamber of Commerce. In a letter by the President and CEO of the U.S. Chamber of Commerce, Thomas Donohue, he stated that in 2011 Mexico purchased 13 percent of the total exports of the United States, and this number will continue to grow with the combined influence of the NEI and the NAFTA.

Economic Impacts of Border Wait Times

In a study conducted by the National Center for Risk and Economic Analysis of Terrorism Events at the University of Southern California, the specific impacts of border wait times was quantified through a detailed analysis of the economic impacts due to changes in Customs and Border Protection (CBP) staffing. The study measured the impacts of adding 1 and taking away 1 CBP staff (working an 8 hour workday, 153 days a year), at 17 major passenger land crossing POE's, 12 major freight crossing POE's, and 4 major passenger airport POE's. In total, this denotes a staffing change of 33 staff added or taken away. An added CBP officer alleviates a bottleneck to trade, where cars and trucks can often snake for miles waiting at the border. Through the study's very detailed analysis, they valued 33 staff added at +\$65.8 million in gross domestic product (GDP) (\$2 million per staff), +\$21.2 million per year in terms of opportunity cost (\$640,000 per staff), and an addition of 1,094 annual jobs (33 per staff). The action of adding staff releases a pressure point in the economy that could have

significantly beneficial effects to both the United States and Mexico. The study also calculated the impact of removing 33 staff, concluding that it accordingly increased border wait times and correlated to a loss in GDP, revenues, and jobs, but to a lesser magnitude than adding staff raised GDP, revenues, and jobs. The removal of staff has roughly half the magnitude as the addition of staff, due to the uncertainty over whether or not officers would be removed in the most congested hours. 33 removed staff led to a loss of \$32.9 million in GDP, a loss of \$10.6 million annually to opportunity costs, and a loss of 547 annual jobs. The impact of wait time on jobs is concluded because of the costs of wait times to commercial vehicles. With lower wait times and correspondingly lower costs, smaller businesses can more easily flourish and thrive.

It is important to note that this study just takes into account the economic impact of adding or removing 33 CBP officers to major POE's. According to Accenture Analytics, the 2008 cost of wait times at the Mexico-U.S. border was \$5.8 billion USD. By 2017, Accenture Analytics expects this cost to increase to \$12 billion USD a year, and cost 54,000 U.S. jobs. In a study by Cambridge Systematics, if the Mexico-U.S. border is not made more efficient, by 2035 the economic cost of border wait times is estimated to be \$54 billion USD per year and 850,000 jobs at the El Paso-Ciudad Juarez border alone.

The costs associated with wait times are primarily transportation costs. These include truck operating costs that consist of driver wages, fuel consumption, vehicle maintenance, and depreciation. Additional costs include customs broker fees, drayage costs (the associated cost of loading and unloading), and opportunity costs of time. A shorter wait time would also allow cross-border supply chains to reduce inventory holdings and costs of production in addition to their reduced transportation costs. All of these costs take away from a company's capacity for business development and hiring.

Additionally, companies take on a large investment for security to prevent theft at the border due to longer wait times. These costs translate to the consumer who ultimately has fewer and more expensive options, and purchasing is limited to the smaller population that can afford it.

Wait times are caused not only by heavy traffic flows across the border, but also by the length of time each vehicle takes at the inspection point. The average inspection time for commercial vehicles is 17.5 minutes across the border, with 75 percent of vehicles passing with non-intrusive inspection around 10 minutes, and 25 percent of vehicles passing with intrusive inspection lasting approximately 40 minutes. A greater number of staff performing these inspections could greatly reduce the length of time needed per car.

Specific Impact on Agricultural Sector

In 2012, the exports of U.S. food and agricultural products to Mexico amounted to approximately \$18.9 billion USD according to the U.S. Census Bureau.

Agriculture is a sector particularly fragile to border wait times because many goods are perishable and the costs of additional refrigeration for food, fruits, vegetables, and meat increase dramatically as the cargo sits at the border. With prolonged wait times and long distances to travel, an added risk is placed upon the exporter since wait time may cause a significant loss of product. Jaime Chamberlain, a produce importer at the Nogales POE, says that with increased wait times many of his products "rot in our trucks waiting to cross the line."

A 2008 analysis of losses due to border wait times commissioned by the Department of Commerce's International Trade Administration concluded that wait times yield a loss of \$1 billion USD in output, \$0.2 billion USD in wages, and 5,600 jobs per year in the agricultural and food sector alone. This is more than double the losses to the trade of manufactured goods between the two countries. While all industries suffer from losses in the form of transportation, opportunity, and storage costs due to wait times, agriculture and food is the most time-sensitive, and will experience losses to a greater magnitude than other industries if border wait times continue to increase.

If initiatives toward a more efficient border are not adopted, these wait times will inevitably increase with rapidly growing traffic and trade.

Prospects and Barriers to Shorter Wait Times

In April 2010, the GOM and the U.S. Government issued a Declaration of the 21st Century Border, dedicated to a joint collaboration between the two governments to share a common border that is both more efficient and secure. In order to make a border that is more efficient and secure, it is essential to invest in border security, facilitate trade through efficient supply-chain security, and invest in improving infrastructure. While this border initiative has made progress in the past three years, there is still much to be done.

The Merida Initiative is one such program that has addressed security along the border, investing \$1.6 billion USD annually to collaborate with the GOM to fight illegal activity along the border. In a Mesa de Seguridad de Ciudad Juarez report measuring homicide rate along the border from January 2010 to December 2012, homicide dropped from its all time high of 269 persons in January of 2011 to 26 persons in February of 2012. This number has stayed relatively constant up through December and into 2013. As drug trade continues to be a national security threat to both nations, investment against organized crime will continue to rise, providing a necessary barrier to the flow of trade between the two.

The private sector has helped facilitate the ease of trade despite organized crime by adopting, investing, and participating in Trusted Shipper Programs, such as the Customs Trade Partnership Against Terrorism (C-TPAT) and other programs which will allow trusted and registered exporters and importers to flow more easily through border security. Adding staff to POE's will help reduce wait times as well, but it will not change the border crossing procedures and infrastructure that cause the wait times in the first place. A great deal of investment is going towards improving infrastructure at many essential POE's, such as the \$250 million USD dedicated to adding lanes at the Mariposa POE.

Currently, a state bill is awaiting approval by the California State Assembly calling for advanced drivers licenses, eliminating the need for United States citizens to carry passports at the crossing point and facilitating a faster crossing process. Concerns for security due to the increased likelihood of fraud with fewer identification requirements stand in the way of this legislation.

Immigration concerns still present a great deal of debate within the United States as progress towards creating new pathways towards citizenship yield proposals for increased security measures and security. As a part of the package of immigration legislation, on Thursday, June 20, 2013 the Senate approved a proposal for 18,000 federal agents and hundreds of miles of new fencing along the border to control immigration and unwanted trade. While the new push for immigration reform could ease the struggles of immigrants and their families within the United States, it may further augment the issue of security at the border.

Government Sequestration and Budget Cuts

The 21st Century Border Initiative requires a great deal of investment, and these funds must be distributed between facilitating trade with infrastructure, registering vehicles, companies, and transported for faster crossing at the border, and hiring manpower for drug security, immigration control, and CBP officers at POE's. The United States Budget Control Act of 2011, which took effect in March of 2013, cut the budget to border development in some areas. While the Merida Initiative will continue to be a top-funded priority, this could mean fewer resources to the hiring of CBP officers at POE's.

The Mariposa POE at Nogales, Arizona, is the most transited POE for winter agricultural products such as tomatoes, cucumbers, and peppers, and facilitates the transport of up to 1,600 trucks filled with produce every

day. In an NPR 2013 report, Lance Klump, the Chief CBP officer at the Mariposa POE, notes that with these sequestration cuts in effect, port officials will have to reduce costs, and fear the possibility of losing hours and possibly closing on Sundays. This is new for the port that had previously been accessible 24 hours a day and seven days a week, and poses a particular threat to fruits and vegetables that must be picked and transported every day of the week. Colleen Kelley, the head of the union representing Customs and Border Protection Officers, confirms that employees may have to serve up to 14 unpaid furlough days between the start of the cuts in March up through September. While Mariposa POE is investing \$250 million into improved infrastructure, like many POE's along the border, the resulting cuts may result in a staff too small to man the new lanes. It will be essential, if wait times and economic losses are to be avoided, to distribute funds among the various priorities of border control in the most logical and effective way.

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