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Border Policy Research Institute

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The Economic Impact of WHTI in Washington State (Revisited)

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Introduction. Two years ago this month, the inaugural edition of the *Border Policy Brief* discussed the expected impact of the Western Hemisphere Travel Initiative (WHTI) upon the state of Washington.¹ New analyses and data have become available since then, so in this issue we revisit the topic. WHTI, commonly referred to as the “passport law,” imposes new documentation requirements that could affect the volume of cross-border travel. Because many businesses in Washington are patronized by Canadians, our main focus, in both this analysis and the last, is upon the economic impacts likely to be associated with changes in the number of Canadians who visit Washington by automobile. Judging from the coverage of that topic in mainstream media, Canadian visitation remains an issue of major concern. We also remark briefly about the impacts associated with trips by Washingtonians to Canada.

Background. WHTI is a small component of the Intelligence Reform and Terrorism Prevention Act (IRTPA), which was enacted by Congress in late 2004. Prior to WHTI, a documentation waiver was applicable to Canadian and U.S. citizens traveling to the U.S. from within part of the Western Hemisphere. Rather than being required to present a passport when seeking entry to the U.S., those travelers were allowed to present any of a variety of documents (e.g., driving license, birth certificate). WHTI eliminated that waiver and mandated that *all* travelers eventually carry either a passport or a document “deemed by the Secretary of Homeland Security to be sufficient to denote identity and citizenship.”²

IRTPA was developed in order to implement the recommendations of the 9/11 Commission. The Commission’s report identified weaknesses related to border-crossing documents and specifically recommended that no person entering the U.S. be exempt from the requirement to carry a biometric passport.³ IRTPA was enacted with little controversy, passing by wide margins in both the House and the Senate.

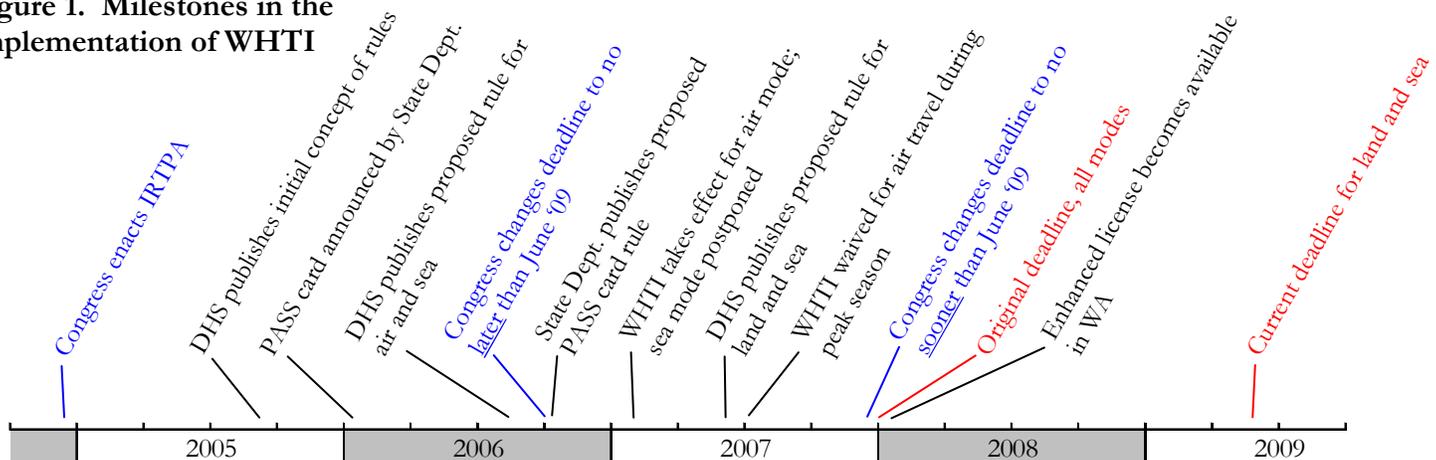
Much WHTI-related controversy has arisen, however, in the three years that have passed since IRTPA’s enactment. Opponents of WHTI fear that it will harm the economy and the social fabric of border communities, because the cost and inconvenience of compliance might reduce the number of persons choosing to cross the border. Meanwhile, supporters insist that it is quite reasonable to require an international traveler to carry a passport. The national debate regarding illegal immigration impinges upon the WHTI controversy, since a “passport law” seems logical to people advocating that the U.S. secure its borders.

IRTPA established a compliance deadline of January 1, 2008, but Congress, swayed by the controversy described above, has acted twice to delay the full effects of the law. While WHTI became effective a year ago for travelers arriving at airports, the deadline applicable to land and sea ports-of-entry was recently postponed to June 1, 2009.⁴ Major implementation milestones are shown in Figure 1.

Acceptable Documents. WHTI allows for alternate kinds of documents to be deemed acceptable by the Department of Homeland Security (DHS). At this point, DHS has indicated that in addition to the traditional “book style” passport, other documents will be accepted, including:

- A new low-cost “card style” passport called the PASS card, issuable to U.S. citizens by the Department of State and valid for travel through land and sea ports-of-entry.
- An “enhanced driver’s license” issuable by the State of Washington to qualifying residents of that state and valid for entry to the U.S. through land and sea ports.
- For Canadian or U.S. citizens under the age of 16 entering the U.S. from contiguous territory via a land or sea port, a certified birth certificate.
- A NEXUS card, issuable to participants in this trusted-traveler program jointly operated by Canada and the

Figure 1. Milestones in the Implementation of WHTI



U.S., valid for travel between the two nations by land, sea, and air (at certain airports equipped with NEXUS kiosks).

- A number of other documents issued to specific groups such as merchant mariners, tribal members (Native American and First Nations) with special treaty rights, groups of school children under the age of 19, etc.

Estimating Impacts. Estimating WHTI's impacts upon a region's economy is not an exact science. One must establish values for factors that are not normally measured (or are difficult to measure), such as: proportion of citizenry that engage in cross-border travel; citizens' inclinations to forgo travel in response to increased costs of documentation; trip destinations of cross-border travelers; magnitude of travelers' expenditures relative to the size of a local economy. To aid the estimation process, researchers draw direct and indirect conclusions from existing datasets (such as counts of cars crossing the border), conduct special-purpose surveys, and employ economic models. Following is a discussion regarding the methods and conclusions of two prominent analyses.

Conference Board of Canada. This widely-referenced study was developed in 2005 and was then revised in 2006.⁵ It uses a custom computer model to estimate the extent to which cross-border travel will be (and has been) affected by the enactment of WHTI. While the report presents greater detail regarding U.S. visitation to Canada, it also provides estimates of the impacts associated with a decline in visitation to the U.S. by Canadians. The analysis proceeds as follows:

- The baseline for the analysis is a travel forecast that the Conference Board of Canada routinely prepares for the Canadian Tourism Commission, identifying travel volumes that would pertain in the absence of WHTI. The Board's forecast identifies the type (e.g., business, pleasure, overnight, same-day) and the volume of anticipated cross-border travel, taking into account standard predictive factors such as economic vitality, currency exchange rate, etc.
- The proportion of travelers lacking passports is a key factor, as is the predicted rate at which travelers will procure passports. The Board conducted two surveys (one of U.S. residents and one of Canadians) in the spring of 2005 to determine how many people possess passports and how the possession rate varies depending upon type of traveler. The Board conducted a second survey of Canadians in March 2006 to support the update of its study. The Board also used the results of a 2006 Zogby survey that was designed to identify the degree to which Americans would make use of the PASS card, a lower-cost document.

- Based upon the survey data, the Board generated factors that were used to adjust the baseline travel data to account for trips that were likely *not* to occur because of the new document requirement. As an example, the Board estimated that 36 percent of Canadians who do not yet hold a passport would postpone getting one until forced to by an imminent trip, and of those "last minute" compliers, the Board estimated that business travelers would be twice as likely to obtain a passport as people traveling for leisure. Several such factors were applied to the computer model.

The top half of Table 1 contains the Board's prediction of the extent to which WHTI will affect (or already has affected) the volume of travel to the U.S. by Canadians. There are different ways to characterize the data. For instance, it is possible to say that "WHTI will result in 7.36 million fewer trips to the U.S. by Canadians, a 3-percent reduction," which is the difference between the 6-year sums shown in the table's right-most column. However, it is also possible to say that "despite WHTI, Canadian travel to the U.S. will generally increase from 2006 to 2010, except for a minor year-to-year downturn in 2008." This can be seen by comparing each year's WHTI forecast to the 2005 baseline value of 38,196,000. I.e., in *every* year from 2006 through 2010, the predicted number of trips to the U.S., assuming WHTI is in effect, is *larger* than 38,196,000, and 2008 is the only year in which the number of trips is significantly lower than in the prior year.

The Board's analysis implies that WHTI will not cause a downturn in the aggregate level of business for U.S. firms that are dependent upon Canadian visitation. Rather, it shows that those businesses would be enjoying a *more robust expansion* were WHTI not in existence. The situation is very different with regard to U.S. travel to Canada, as seen in the bottom of Table 1. There, with WHTI in effect, significant year-to-year declines are evident from 2005 through 2008, and predicted levels of travel are much lower in *every* year as compared to the 2005 baseline value.

A row of italicized data is included in the table, showing the percentage impact upon travel in each given year with WHTI in effect. The peak impact is evident in 2008, which is an artifact of the assumption that WHTI would take effect at the land border in January 2008. Now that Congress has delayed the deadline to June 2009, the period of maximum impact can be expected to occur in late 2009 and early 2010. Finally, please note the 5.9 percent impact upon Canadian travel predicted in 2008. This peak-year value becomes significant in the discussion below.

Table 1. Cross-Border Travel Volumes Forecast by the Conference Board of Canada (thousands of trips)

	2005	2006	2007	2008	2009	2010	6-year span
Canadian travel to U.S.							
Baseline forecast	38,196	40,284	40,742	41,170	41,354	41,860	243,606
Forecast w/ WHTI	37,918	39,631	39,552	38,726	39,751	40,668	236,246
<i>WHTI forecast relative to baseline</i>	<i>-0.7%</i>	<i>-1.6%</i>	<i>-2.9%</i>	<i>-5.9%</i>	<i>-3.9%</i>	<i>-2.8%</i>	<i>-3.0%</i>
U.S. travel to Canada							
Baseline forecast	32,009	31,458	31,812	32,241	32,706	33,262	193,488
Forecast w/ WHTI	31,692	30,721	30,063	27,725	29,081	30,100	179,382
<i>WHTI forecast relative to baseline</i>	<i>-1.0%</i>	<i>-2.3%</i>	<i>-5.5%</i>	<i>-14.0%</i>	<i>-11.1%</i>	<i>-9.5%</i>	<i>-7.3%</i>

DHS Regulatory Assessment. As part of its rule-making process, DHS commissioned an assessment of the economic impacts of WHTI, which was prepared by Industrial Economics, Inc. (IEI).⁶ IEI focused exclusively upon the economic impacts expected within the U.S. (i.e., no impacts to Canada were derived) and provided an analysis pertaining to both the Canadian and Mexican borders. Following is a summary of IEI's method for deriving the economic impact associated with a reduction in Canadian visitation to Washington.

- The total number of southbound travelers into Washington in 2004 (through all 15 ports-of-entry) is the starting point. Truck drivers are subtracted from the total in the belief that they must comply with WHTI to remain employed. 10,640,651 travelers remain in the pool of interest.
- The Canadian fraction of the total is derived by applying citizenship data that is routinely collected by the Canada Border Services Agency when examining travelers going north through the same ports-of-entry. In aggregate, for all Washington ports, 59 percent of trips are by Canadians. 6,319,000 Canadians remain in the pool of interest.
- The fraction of Canadians traveling without passports is derived by applying a passport-possession rate developed by the Ontario Ministry of Tourism. In a 2005 survey conducted in Montreal, Quebec City, Winnipeg, and Ontario as a whole, 54 percent of Canadian adults were found to possess passports. The pool of Canadian visitors without passports is therefore estimated at 2,907,000.
- The fraction of travelers that will forgo travel rather than get a passport is assumed to be 4.3 percent, resulting in a pool of 125,000 avoided visits. The value of 4.3 percent is taken from the first version of the Conference Board study previously discussed. Recall that in the newest version of its study the Board predicted a 5.9 percent peak-year reduction in the volume of Canadian travel to the U.S. The corresponding value as found in the original 2005 study is 4.3 percent, and IEI presumably used the old value because the new one was not yet available. Note that IEI multiplied *the pool of Canadian visitors lacking passports* by 4.3 percent, whereas the Board predicted a 4.3 percent reduction in the *total volume of travel to the U.S. by Canadians*, a quite different universe.
- Because DHS intends to allow the continued use of birth certificates by children under 16, the pool of avoided visits is adjusted down to 102,000, accounting for the ratio of children present within the traveler stream.
- Per-trip expenditure by Canadians in the U.S. is estimated at \$330, based upon data collected by Statistics Canada. Canadians' avoided visits therefore equate to an economic impact of \$33.66 million in Washington.
- IEI chose to look closely at Whatcom County, given its location astride the I-5 corridor. Of the total statewide impact associated with forgone Canadian visits, about 90 percent (\$30.2 million) is allocated to the four Whatcom County ports-of-entry, because those ports handle 90 percent of the Washington – Canada traffic. IEI offset the \$30.2 million of lost spending by \$6.6 million of new spending resulting from “substituted travel,” which is the intra-U.S. travel of Americans who, because of WHTI, forgo travel to Canada and instead spend their money at

home. A net spending loss of \$23.6 million remains, and that entire loss is allocated to Whatcom County.

- IEI uses the IMPLAN economic model to gauge the impact of the \$23.6 million spending loss upon the Whatcom County economy. IMPLAN accounts for both the direct and indirect effects of the loss, resulting in a total negative impact of \$31.1 million, which is characterized as equivalent to the loss of 535 jobs and to a decrease of 0.21 percent in the county's economic output.

There are several steps within the IEI analysis at which competing assumptions might be used, leading to drastically different outcomes. Following are examples:

- IEI relied upon an Ontario study to conclude that 54 percent of Canadian travelers hold passports, whereas three region-specific surveys indicate that between 71 and 92 percent of travelers entering the U.S. via Whatcom County hold passports.⁷ Based on an 83 percent possession rate by Canadians, as found by our Institute during a survey in July 2007, the economic impact in Whatcom County would be just 37 percent of that calculated by IEI (i.e., job loss of 198, drop in economic output of 0.08 percent).
- IEI assumed that the entire spending loss associated with forgone Canadian travel on I-5 would be felt in Whatcom County, even though many Canadians accessing the U.S. via I-5 are headed elsewhere. In our July 2007 survey, we found that 30 percent of Canadians entering the U.S. through Whatcom County are destined for points further south. Coupling this factor with the passport-holdership rate mentioned above, the economic impact in Whatcom County would be 26 percent of that calculated by IEI (i.e., job loss of 139, drop in economic output of 0.05 percent).
- IEI assumed that 4.3 percent of Canadians lacking passports would forgo travel, based upon the Conference Board study of 2005. However, the Board's new study bumps that rate up to 5.9 percent. In addition, the Board intended that these rates be applied to the entire pool of Canadian travelers, not just those lacking passports. An analysis produced by InterVISTAS Consulting on behalf of the Tourism Industry Association of Canada demonstrates that incorporation of these two changes leads to an economic impact in Whatcom County that is 410 percent of that calculated by IEI (i.e., job loss of 2,190, drop in economic output of 0.86 percent).⁸ Soon after the analysis was published, Whatcom County newspapers reported upon a potential crisis.
- With regard to this exact issue of the degree to which travelers will forgo travel as a result of WHTI, our July 2007 survey enables us to employ a direct measurement. We need not rely upon a surrogate factor, as the Conference Board and IEI were forced to do. We found that 4.9 percent of travelers lacking passports intend to stop crossing the border rather than procure necessary documentation. This rate is slightly larger than the 4.3 percent rate assumed by IEI. If coupled with both the travel-destination and passport-holdership factors noted above, the estimated economic impact in Whatcom County is 29 percent of that calculated by IEI (i.e., job loss of 158, drop in economic output of 0.06 percent).

Table 2. Economic Trends in Whatcom County and Washington State*

	2003	2004	2005	2006	2007 (est.)
No. of autos entering U.S. at Whatcom County ports	3,523,210	3,604,540	3,564,199	3,663,684	3,884,008
No. jobs in "Retail Trade" sector					
Washington State	305,900	309,400	316,100	321,600	326,800
Bellingham Metropolitan Statistical Area	9,500	9,900	10,200	10,300	10,600
No. jobs in "Leisure & Hospitality" sector					
Washington State	248,900	255,600	263,500	271,800	277,900
Bellingham Metropolitan Statistical Area	8,400	8,800	9,200	9,600	10,100
Taxable retail sales in Blaine, WA (\$ million)	\$79.9	\$80.1	\$97.9	\$119.6	

* Jobs data from U.S. Bureau of Labor Statistics; sales data from WA Dep't of Revenue; auto counts from U.S. Customs (ports of Blaine, Sumas and Lynden). 2007 values estimated based upon 11 months through November.

Best Estimate. We have shown that a single methodology can yield widely differing estimates of economic impact based upon the values of three key factors: presumed geographic area of impact, passport-holdership rates, and presumed rate at which travelers will forgo trips (rather than get a passport). At one extreme is the "loss" of 2,190 jobs; at the other, the "loss" of 139. We maintain that the use of robust region-specific data leads to the best estimate: the destinations of cross-border travelers along the I-5 corridor have been identified via major "origin/destination" studies; the rate of passport possession is demonstrably higher at Whatcom County ports than at others to the east; the rate at which border-crossers will forgo travel has been directly measured. We therefore judge that the economic impact of WHTI in Whatcom County will be on the order of one-third of IEP's estimate (i.e., a job impact of 158). Impacts elsewhere in Washington will be of a lesser magnitude because of the smaller proportion of Canadians (30 percent) that drive further south than Whatcom County.

We highlight the word "loss" as a reminder of the need to correctly interpret economic impact studies — i.e., the identified impacts occur against the backdrop of underlying economic trends. The Conference Board's forecast explicitly demonstrates this concept. Recall that despite WHTI, the Board forecasts an overall rise in Canadian visitation to the U.S., because the background trend of rising visitation outweighs the impact attributable to WHTI. In this vein, it is useful to look at the underlying economic trends in Washington.

Economic Backdrop. Table 2 presents recent trends for some metrics that are responsive to changes in the volume of Canadians visiting Washington. WHTI was enacted in late 2004 and took effect at airports in early 2007. Throughout the 2005—2007 time period, confusion has existed regarding the implementation deadline at the land ports, and analysts assert that this confusion has already resulted in economic impacts. All that being said, Table 2 shows steady growth within economic sectors that are dependent upon Canadian visitation, both for Washington as a whole and for communities such as Blaine and Bellingham that are located near the border. The "loss" of 159 jobs due to WHTI will occur at a time when, in the Bellingham metro area alone, about 700 jobs are being created each year in the retail and hospitality sectors combined.

Conclusion. Washingtonians have not forgotten the huge decline in Canadian visitation that occurred from 1993 through 2003, linked to nationwide economic trends. An anticipated

recovery in visitation has likely been hampered by various post-9/11 border security measures. We now report that WHTI, another such measure, is unlikely to cause a net drop in the existing number of Canadians who patronize businesses in Washington. WHTI arose at a time when underlying economic conditions favored an increase in Canadian visitation to the U.S. First, the Canadian economy has boomed in recent years, and second, the Canadian dollar appreciated steadily against the American dollar from 2003 through 2007, tempting Canadians to seek bargains south of the border. In Washington, these underlying trends are likely to offset the impact that might arise when WHTI is enforced at the land border.

WHTI's impacts will be (and have been) more significant elsewhere. Canada's strengthening dollar has caused Americans to curtail northbound trips, and WHTI's impact is *additive* to that trend, resulting in large economic impacts for our northern neighbors. And in borderlands to the east, the proportion of travelers lacking passports is larger, which will lead to a greater impact from WHTI within all border communities.

Endnotes.

1. The January 2006 edition of the *Border Policy Brief* may be retrieved from www.ac.wvu.edu/~bpri/resources.html
2. The text of the IRTPA can be retrieved from: <http://thomas.loc.gov/cgi-bin/query/z?c108:S.2845.ENR>: Section 7209 relates to WHTI.
3. See pp. 388-390 of the *9/11 Commission Report*, which can be retrieved from: <http://www.9-11commission.gov/report/911Report.pdf>
4. See section 545 of H.R. 2764, which was signed into law on 12/26/07. The bill's text can be retrieved from <http://thomas.loc.gov/cgi-bin/query/z?c110:H.R.2764>:
5. The 2006 revision is titled "An Update on the Potential Impact of the Western Hemisphere Travel Initiative on Canada's Tourism Industry" and can be retrieved at: http://strategis.ic.gc.ca/epic/site/dsib-tour.nsf/en/h_qq00117e.html
6. The document is titled "Regulatory Assessment for the Proposed Rulemaking: Documents Required for Travel within the Western Hemisphere" and can be retrieved at: <http://www.regulations.gov/fdmspublic/ContentViewer?objectId=090000648025988d&disposition=attachment&contentType=pdf>. We cite information found on pages 4-30, 6-24 through 6-27, and 7-47.
7. On behalf of the U.S. Dep't. of State, BearingPoint, Inc., identified a passport possession rate of 70.6 percent at Blaine in summer 2005, as seen on p. A-6 of the document cited in note (6). Also at Blaine, Canada Border Services Agency found rates of 80 to 92 percent in early 2007 and 77 to 79 percent in mid 2007, as noted in a CBSA email dated 11/8/07.
8. The document is titled "Review of the Economic Analysis Contained in the Notice of Proposed Rulemaking Relating to Travelers Departing From or Arriving in the U.S. at Sea and Land Ports-of-Entry" and can be retrieved at: http://www.bestcoalition.com/files/IVC_ReviewEconomicImpactofProposedChanges_Final_24Aug2007.pdf