

ECONOMIC AND COMMUNITY IMPLICATIONS OF NORTHERN BORDER SECURITY

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ECONOMIC AND COMMUNITY IMPLICATIONS OF NORTHERN BORDER SECURITY

WEDNESDAY, OCTOBER 10, 2007

UNITED STATES SENATE,
COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The Committee met, Pursuant to notice, at 10:50 a.m., at the Gateway Center, 84 Fyfe Street, Newport, Vermont, Hon. Patrick J. Leahy, Chairman of the Committee, presiding.

OPENING STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM THE STATE OF VERMONT

Chairman LEAHY. Please sit down. I think this may be the first time the Senate Judiciary Committee has met in Newport, Vermont. I'm delighted to do it.

I must admit that there are a number of Senators who told me that we could have done this on Monday. They wanted to be here. I think it has something to do with fall foliage time. I told them, when I was asked what I would do during these 2 days of break we have at the Senate, I said, at great personal sacrifice, I'm willing to be in Vermont at the height of the foliage season.

[Laughter].

Nobody seemed to feel badly about that.

But we're going to focus on the impact of the policies set by the Department of Homeland Security. I fear they will have severe implications for the social and economic ways of life in border communities all across our country—not just in Vermont, but all the way across the country. I am told by the U.S. Chamber of Commerce that some of these policies, if fully implemented, will cause between \$200 and \$300 billion a year in jobs in the United States.

I am pleased that a number of the business community leaders in Vermont are able to join us today. I would note that the importance of this hearing is that this will create a record for hearings we will then have with Condoleezza Rice, on a committee I chair, and Michael Chertoff.

We will also, within a short while, be having hearings in the Senate Judiciary Committee with the new nominee to be Attorney General of the United States. Some of the things that will come out of this hearing will form the basis of some of the questions that will be asked of the Attorney General nominee. I mention this, because Newport is going to play a pivotal part in that debate. Incidentally, all the testimony of everybody, the prepared statement—the whole prepared statement—will be part of the record.

Mayor Guyette, I wanted to thank you for letting us be here. The city looks great. I drove by the building that had been a hospital where my wife was born here in Newport and it all looks good. We have representatives from Senator Sanders's staff, Congressman Welch's staff: Jeff Munger and Mary Sprayregen. They have been great partners on this issue in Washington. Senator Sanders is holding other hearings. Congressman Welch is in session.

I also want to thank the citizens of Canada who have joined us here today, and the Canadian Consul General from Boston, Neale Blanc, is here. Bienvenue, Monsieur le Blanc.

In the wake of the September 11th terrorist attacks, a number of new border security measures have been put in place, from constructing border fences, to developing and deploying surveillance technologies and troops along our borders. They have all been done with the express goal of stopping another terrorist attack. We all agree that we have to protect our borders, but we have to do it sensibly and intelligently.

It is sometimes convenient to forget that most of the 9/11 hijackers entered the United States through legal visas. They would have been able to enter no matter what kind of barriers we had. Some were on a secret watch list, but unfortunately nobody was watching them. It has nothing to do with our border. 9/11 could have been prevented had the dots been connected. In fact, some of the hijackers received from the U.S. Government notices that it was time to renew their visas, and they received those notices months after the attack on 9/11 when they died.

So I'm afraid that the administration's current policies threaten to fray the social fabric of countless communities that straddle the border, here in Vermont, of course, our primary concern, but also the other border States. I've heard from many Vermonters who have encountered problems at U.S. border crossings, with long traffic backups, invasive searches, questioning, and inadequate communication with government authorities about new facilities and procedures.

That kind of top-down approach has not worked in interwoven communities. When you are used to walking across the street to talk with your neighbor, you don't think about the fact that the middle of the street may be an international border. You're thinking about the fact you want to go and talk with your neighbor. People cross daily for jobs, shopping, and other cultural things.

Some of the procedures may have snared some illicit drug shipments from criminals, but it hasn't done much in snaring a terrorist. Meanwhile, I think we've needlessly offended our neighbors and have sacrificed much of the traditional goodwill we've enjoyed and undermined our own economy and border communities like Newport and Derby, Richford, and Norton.

That's why I've worked hard to try to bring balance and I've tried to convey in Washington the fact that we have a special relationship with Canada. It's something that we sometimes forget because we take it for granted here in Vermont. We can go back and forth. We have a lot of relatives, we have friends, we have business associates, we have tourists in Canada. Many of us have members of our family who are Canadian. Canada has been an important trad-

ing partner and a friendly neighbor to Vermont and the United States for more than 200 years.

So it's in the best interests of both our countries to keep these relationships as positive and productive as possible. Post 9/11, people on both sides understand the need for security. I've talked with the intelligence authorities in Canada, as I have in our own country. I've talked about how you can have better cooperation between law enforcement in the United States and Canada, but you're not going to create better security by simply locking down the border.

We have heightened security around the U.S. Capitol where I work every day, in the White House. We built fences on the border near San Diego. But those procedures don't work.

So I'm troubled by the Western Hemisphere Travel Initiative. It's going to require individuals from the United States, Canada, Mexico, and the Caribbean to present passports or documents proving citizenship when they come to the United States. There's a dramatic change coming in the way border crossings will be processed in the western hemisphere.

There's a big difference since the Treaty of Paris on our international boundary. For those who weren't around at the time of the Treaty of Paris, that boundary, that was 1783. I'm the only one that was there at that time.

[Laughter].

The Departments of State and Homeland Security have been charged with implementing this law. They should be coordinating our efforts with their international neighbors to bring about a smooth transition.

But I've told Secretary Rice and Secretary Chertoff on several occasions there were serious problems in the way in which their agencies have pushed for implementation of this law and this new initiative. They've got to put necessary technologies in. You have Homeland Security and Department of State that have computers that can't talk to each other. This is a fiasco in the making.

If they go forward with it, we're going to see delays that are unconscionable and free traffic back and forth between two great countries is going to come to a screeching halt. We saw before what happened when they did this with air traffic when they said it was going to be done smoothly, and then they had to back off in just a matter of weeks. That's only about 10 percent of the traffic.

I don't know how many calls we get a week. Every time I walk in my Vermont office, somebody is calling about a passport. They can't get through. They've ordered an expedited passport—I see Mr. Hyde is shaking his head; he knows what that's like. He gets the same calls—the passport hasn't come through.

Now, I think it's time that we ignore the fiction that we can do this by the first of next year. Let's find out how we can make it happen smoothly. Let's find out how we can find a way. I know there are 2,000 different kinds of identification that you can look at and go through, but we can find a better way.

Two great nations are going to have to sit down and work that out, but that cannot be done if the United States says, this is the way it's going to be done, without realizing the tremendous cost to families, to businesses, and on relationships between our countries.

Our first witness, Mr. Bruce Hyde, is Vermont's Commissioner of Tourism. I might say that as a United States Senator I am an ambassador of the Vermont people to the rest of the world, but of course you are truly an ambassador to Vermont's beauty, especially to all those who are carrying these "loonies" that are worth a lot more than they used to be.

Through the work of the Vermont Chamber of Commerce, Lake Champlain Regional Chamber of Commerce, he's helped educate people. He's been down in Washington many times with the Business, Economic Security, Tourism and Trade Coalition. He offers us an interesting perspective as Commissioner of Tourism. He's a long-time owner of an inn in Mad River Valley. I can look at the Mad River Valley from my front steps in Middlesex, Vermont every time I'm home.

Normally we swear in witnesses. I'm not going to do that with this room. I know you all. I don't see the necessity.

Bruce, if you'd like to start, the floor is yours.

STATEMENT OF BRUCE HYDE, COMMISSIONER, VERMONT DEPARTMENT OF TOURISM AND MARKETING, MONTPELIER, VERMONT

Mr. HYDE. Thank you, Senator. Thank you for the opportunity to be here today. It's a very timely meeting that you've called here. It's peak foliage, as we look out the window. Plus it is Columbus Day weekend, probably the busiest weekend that we have in Vermont, and it coincides with Canadian Thanksgiving.

We certainly heard about some border backups over the last few days and over the last months, actually, but a lot of traffic is coming down. The Canadian dollar is certainly encouraging more visitors to come down from Canada, and I've got some statistics to show you today.

I also want to thank you for the leadership that you've taken on extending the passport requirement, to pass legislation that requires the administration to come up with a plan to make sure that all the technology is in place before they implement this requirement, and we appreciate that.

Certainly we need to educate folks. We receive calls all the time about the passport requirement: do we need a passport now? What kind of documentation do we need? Some people—a lot of people—think that they need a passport as of today, and that's misinformation that we continue to try to educate about.

I would go into my testimony. Canadian travel—

Chairman LEAHY. All of which will be part of the record.

Mr. HYDE. Excuse me?

Chairman LEAHY. I said, all of which will be part of the record.

Mr. HYDE. Okay. Thank you.

Canadian travel to Vermont is critical to the State's economy. It is extremely important that the border facilitates the movement of travelers, goods, and services as expeditiously as possible. While security is paramount for the country's well-being, it is also important to consider the economic impact if the border crossings limit this free flow of commerce. These issues are of critical importance to both the United States and to Canada.

In 2005, there were over 1.9 million Canadian day visitors to Vermont, spending an average of \$66 per day. Nearly \$350,000 per day is spent by these Canadian day visitors to Vermont. Canadian day visitors comprise over two-thirds of our out-of-state day traffic to Vermont. Day visitation from our neighboring States of New York, Massachusetts, and New Hampshire, combined, is only one-third of the total. Of all the research the Vermont Department of Tourism and Marketing has done recently, the most surprising finding, according to State economist Jeff Carr, is that most of our day visitors come from north of the border.

In 2005, Canadians accounted for 20 percent of our entire State visitation, with total Canadian visitors spending averaging more than \$644,000 a day. In 2006, overnight Canadian visitors spent an average of \$204 per trip, which was up 20 percent over 2005, due to longer stays and increased purchases of both goods and services. Vermont's tourism infrastructure has a lot of room for growth. Currently, Vermont has an occupancy rate of about 40 percent, and the Canadian visitation is an important and increasing sector of this tourism economy.

Web traffic and visitor inquiries continue to increase from Canada. Canadian requests for vacation information increased 17 percent in September over last year. This is clearly a result of the strong Canadian dollar and more aggressive marketing in Quebec by the Department of Tourism and Marketing and the private sector.

Visitor centers along our northern borders have experienced double-digit increases over the last few months. While Canadian visitation has increased significantly over the past few years, international visitation to the United States has declined 17 percent since 2001, resulting in the loss of billions of dollars in revenue and over 200,000 jobs nationwide.

During this same period, international travel increased over 20 percent worldwide. The United States has lost a great deal of opportunity in this very important, low-impact export industry. The potential for international visitors entering Vermont from Montreal and other Canadian entry points is enormous, but, unfortunately, very curtailed in today's environment.

Canadians utilize the Burlington International Airport due to its convenience and competitive prices. Over 30 percent of travelers flying out of Burlington are from north of the border. The number continues to increase, despite very little marketing in Canada. The Western Hemisphere Travel Initiative has already had a negative impact on potential travelers from Canada.

The Department of Tourism and Marketing and other Vermont organizations are constantly fielding questions from Canadians and tour operators about passport requirements. There's a great deal of confusion about documents required at the border. Less than 40 percent of Canadians have passports. It is a significant expense for many families, and most certainly is a deciding factor when Canadians plan a vacation or trip.

Many of our border communities and families are split by the international property line that you just mentioned. Families live on either side. School activities, sporting events, festivals, family gatherings take place on both sides of the border. Travel to and

from these activities should be easily accomplished. Commerce also needs to move as freely as possible.

While the enhanced driver's license will help Vermonters' identification requirements when returning to the United States, it really does nothing to assist with Canadian entry. I hope the United States and Canadian governments can work together to establish efficient border criteria so that both countries can continue the longstanding exchange of people, goods, and services.

I'd really highlight, over the years that I've been involved with WHTI, it's been very clear that there's been very little discussion between the U.S. Government and the Canadian Government as to how to resolve this issue. I think over the past few months there may be some more discussions going on, but we really need to make sure what works for us also works for the Canadians, 90 percent of which live within 100 miles of the U.S. border. It's imperative that we try to keep that border as free flowing as possible.

I'd like to just make one additional comment, which strays a little bit from today. Again, thank you for your leadership on the H2B visa program. It's a critical issue in Vermont. With unemployment some of the lowest in the country, we don't have enough workers in Vermont. We have not only the ski resorts, but places like Basin Harbor Club that could not exist without the H2B visa program. These are foreign workers that come in. They're paid well. They certainly do not displace any Vermonters from that work.

Every resort that I've talked to, whether it's Basin Harbor, Jay Peak, or Killington, they certainly try to find Vermont workers first. But it's a critical program that has a ceiling on it. I understand there were 33,000 openings just a couple weeks ago, and there were many, many times that that were applied for. I guess there was a lottery to pick who would get these H2B visas. Again, this is another critical item that we'd certainly like to keep on the record.

Thank you.

[The prepared statement of Mr. Hyde appears as a submission for the record.]

Chairman LEAHY. Thank you. It is something that members of the delegation are working on. They are working on that, and also the question of year-round cultural visas.

Bill Stenger is the president of Jay Peak Resort in Jay, Vermont. I almost feel like it's close to Newcastle, introducing you here in Newport. But Jay Peak has become one of the northern New England's most sought-out destinations. In fact, when I saw that as the plane came in here on Sunday and took a glide, I could see Jay Peak sticking up out of the clouds. But it's been Bill's business to have the creativity to develop a multi-season resort. I was congratulating Bill earlier on the golf course.

He's been a critical partner in the fight to protect our borders. He's been very active in the Vermont Ski Areas Association and the United States Ski Association. He has a unique perspective on the importance of a friendly and secure border between Quebec and the United States. I know that I have probably talked with Bill Stenger as much as any single person in Vermont about the relationship of going back and forth, with the possible exception of Marcel's relatives when they come across the border.

Bill, it's all yours.

**STATEMENT OF BILL STENGER, PRESIDENT, JAY PEAK
RESORT, JAY, VERMONT**

Mr. STENGER. Thank you, Senator. I want to, first, thank you for bringing this hearing to Newport. It clearly shows me, and all the members of our community, that you are fully engaged with the serious concerns we all feel with the impending Western Hemisphere Travel Initiative policies affecting the cross-border travel.

I also want to express my sincere appreciation to you and your very effective staff for the work that they do for us. They're always available to us, and I appreciate it. I know our business community, and all homeowners, do as well.

I'd like to share with you how the Western Hemisphere Travel Initiative policies can affect Jay Peak, Vermont and, indeed, our country. We're a company that has been operating since 1955. We have grown from a modest local recreation area to an international resort where 300,000 skiers visit in winter and, now with the widely acclaimed championship golf course, we are attracting record numbers of summer visitors.

Fifty percent of all of our guests to Jay Peak come from Canada. Of those, 75 percent come from the Province of Quebec and 25 percent from the Province of Ontario. Jay Peak employs 550 Vermonters in winter, and 150 in the summer. These numbers are on the increase because millions of dollars of investment is planned for Jay Peak in the next few years, due to our optimism in our product and our market's interest in it.

All of our work in developing business momentum at Jay Peak and the northern communities that surround Jay Peak in Orleans and Franklin Counties will be at very serious risk if the Western Hemisphere Travel Initiative is implemented as now planned.

Here are my concerns: guests from Canada are not compelled to come to Vermont for recreation. Quebec has a vibrant and healthy ski and golf industry. Canadians choose to come to Jay Peak because they love our product and our welcoming service attitude towards them. They feel like a guest and they look at Jay Peak as their own local area, a very special place for them.

This vibrancy can be lost in a short time if crossing into Vermont becomes an expensive, unpredictable, time-consuming, and unfriendly process. Skiers know the best experience in an area is the first few hours of each day. If they're blocked at the border with inefficient crossing restrictions and technology that is untested in winter, or any other environment, those Canadians will stay home where they know they can get swift access to their resort.

I became very alarmed this spring when the initial implementation of the Western Hemisphere Travel Initiative was rolled out for the cruise industry. The Department of Homeland Security and the State Department were totally unprepared for the volume of passports required and thousands of Americans' plans were disrupted, all because Federal authorities underestimated the impact.

Senator Leahy, I and my fellow Vermonters cannot afford the State Department and the Department of Homeland Security to misjudge the impending policy changes and what will be required to implement them. They, and we, are not going to get a second

chance. We will be fatally harmed economically if the new protocol is not right the first time.

In fact, it is questionable whether the Western Hemisphere Travel Initiative is a solution to any problem. I believe there are a few things that everyone should keep in mind before assuming that the Western Hemisphere Travel Initiative is a useful tool to make us safer.

Of all the illegal immigrants in the United States, Canadians comprise only 0.7 percent. In contrast, Mexicans constitute 68.7 of all illegal immigrants to the United States. That's from the Department of Homeland Yearbook in 2003.

As a practical matter, the Western Hemisphere Travel Initiatives target only Canadians. About 35.9 million cross our border with Canada annually without a passport. This is from the Detroit Chamber of Commerce. Except for Bermudans, all others who wish to enter the United States currently will need a passport. Non-Canadian citizens entering the U.S. from Canada currently require a passport. The Western Hemisphere Travel Initiative adds nothing new, except the burden on Canadians who are law-abiding.

At the conclusion of a conference I attended in Burlington sponsored by the Department of Homeland Security about 2 years ago when they were introducing the Western Hemisphere Travel Initiative to our community leaders, the senior representative of the U.S. Consulate in Montreal concluded off the record that "Congress just forgot about Canada when it enacted the Western Hemisphere Travel Initiative", referring to the impact on border crossings and trade.

About 35 percent of Canadians have passports. The cost is nearly \$90 for every member of a family who wants to ski or golf in the United States. It takes at least a month for a Canadian to obtain a passport. Spontaneous leisure travel typically happens within 7 days of the decision to come to the United States.

In addition to Canadians recreating in Vermont and throughout the United States, they enter the U.S. to obtain medical care, go to school, participate in or attend athletic competitions, and for many other reasons. How will the Western Hemisphere Travel Initiative affect the ability to be in the U.S.? What will the true loss to our economy be once the Western Hemisphere Travel Initiative is effective on our northern border?

In 2003, the American Truckers Association estimated that there are 11.5 million trucks, with more than 23 million crossings from Canada to the United States. These truckers will require a passport or new forms of travel documentation if the Western Hemisphere Travel Initiative is implemented at land port entries.

How will real-time inventory control for manufacturing be affected by longer delays at our border? The Western Hemisphere Travel Initiative will depend on the radio frequency identification technology imbedded in travel documents. DHS is touting this technology to Congress and to the American public, but DHS's own internal evaluation of the RFID technology concludes "we recommend that RFID be disfavored for identifying and tracking humans," DHS Emerging Applications and Technology Subcommittee. That's the source of that.

The opening estimate for the cost of implementing this technology is several billions of dollars. I fear we haven't tested the technology in winter conditions. They also haven't taken into consideration what Canadian Immigration must do to comply with our new plans. It is embarrassing how little communication has occurred with our neighbors to the north and how little evaluation of the importance of economic impact Canada has on our State and across the Nation.

DHS thinks exclusively about security, and I respect that. But someone needs to go beyond just security and recognize that the lives and livelihoods of tens of thousands of Americans will be sharply and negatively impact if the economic well-being of the border communities is not taken into consideration.

We cannot afford to miss getting this balance right the first time. This whole issue gives one pause to consider just what will be accomplished by this massively heavy, and bureaucratically heavy, process. Will hardened professional terrorists really be deterred from entering the United States? Won't the impending change simply create a high-technology underground document-forging business?

Last spring, 17 terrorists were arrested in Toronto for plotting to destroy landmarks in Toronto. Every one of them had, or was entitled to obtain, a valid Canadian passport. Every one of them could have legally passed into the United States.

Years ago, a man intent on detonating a bomb in Los Angeles International Airport was intercepted by an astute Immigration inspector as he entered the State of Washington. He was in possession of seven passports. What is really going to be accomplished here? We haven't thought this through correctly.

At the very least, the implementation should be delayed at least a year for testing to the standards in the Leahy-Stevens amendment. I urge you to seek implementation of the amendment that you sponsored and delay and defer the implementation of the Western Hemisphere Travel Initiative.

Senator, I sincerely thank you for the opportunity to share these thoughts with you.

[The prepared statement of Mr. Stenger appears as a submission for the record.]

Chairman LEAHY. Bill, I appreciate it. You know, it's interesting what the person from our consulate in Montreal has said because, of course, the Western Hemisphere Travel Initiative—which was actually an administration amendment that was slipped into another bill at their request, allows them to say they are following a congressional mandate.

What they want to ignore is the Leahy-Stevens amendment, which has passed, that says that you have to wait until you can work all these problems out that you've talked about. We know, based on the scientific research, they're not going to be able to work out many of the technical issues associated with WHTI.

You talked about what happens in the meantime in RFID, and all the others. These things are just not going to work. There is a better way. I do understand that there are 2,000 different kinds of identification, but there is an easier and a better way that requires respectful work between the two countries.

We were going to have Harry Hunt at Derby Line testify. He has had some health problems. We all hope he is going to be better, and we'll make sure that the reports from Derby Line will be part of the record.

But I also want to thank Tim Shea and Curtis Picard for being willing to help pick up some of that slack.

Tim Shea is vice president of the Lake Champlain Regional Chamber of Commerce and handles a large segment of the chamber's business and government relations. He has been an employee of the Lake Champlain Chamber of Commerce since 1994. He's one of our most respected authorities on travel, business, and tourism. Like Commissioner Hyde, he's been very active in the BESTT Coalition. He has worked with my office a great deal. We see each other in Washington and here in Vermont. It's nice to have you here, Tim. Thank you.

STATEMENT OF TIMOTHY P. SHEA, VICE PRESIDENT AND CONGRESSIONAL LIAISON, LAKE CHAMPLAIN REGIONAL CHAMBER OF COMMERCE, BURLINGTON, VERMONT

Mr. SHEA. Thank you, Senator. I want to echo the comments of the previous speakers and thank you for your leadership on this issue and the opportunity to share my comments here today.

The Lake Champlain Regional Chamber of Commerce has 2,500 members located throughout northern Vermont, many of whom are very dependent on the flow of commerce across the northern border.

Over the past 2 years, we've been an active member of the Business for Economic Security and Trade Coalition, the BEST Coalition, which represents 300,000 businesses. It's an international coalition of businesses and trade associations across the United States and Canada who share a common concern about the ramifications of the Western Hemisphere Travel Initiative. Together, we have been working to find a solution for WHTI and reverse the devastating effect it will have on the U.S. economy.

I want to expand upon the comments of those before me and provide a national perspective on the issue. Here are some figures: 90 percent of Canadians live within 100 miles of the border; daily trade between the U.S. and Canada is estimated at \$1.2 billion, and supports 5.2 million jobs; in 2005, there were 38 million trips by Canadians who visited the U.S.

Twenty-six percent of Americans have passports, while 35 percent of Canadians have passports. This, however, is not just a northern border State issue. Florida, California, and Nevada rank in the top four for Canadian spending in the States.

As part of my testimony today, I am submitting an analysis of the proposed WHTI rule recently prepared for the Tourism Industry Association of Canada. This report reviewed and assessed the economic analysis included in the Notice of Proposed Rulemaking related to the requirement for land and sea crossings within the western hemisphere.

Chairman LEAHY. And without objection, that will be made a part of the record.

Mr. SHEA. The report estimates that once land and sea passport requirements begin next year, the loss of expenditures from Cana-

dian travelers to the United States will be roughly \$820 million in the year 2008. This is a four-fold increase from the Department of Homeland Security's estimate of \$200 million. It was determined that the Department of Homeland Security report contained a number of calculation errors and used outdated tourism information. In addition, the DHS analysis does not consider the wider impacts of these regulations—these new regulations—would have on business and trade activity, which is what we're exploring here today.

As the report states, restrictions on trade, such as restrictions on the movement of people, have the potential to reduce the trade and harm the economies of both countries.

I am also submitting a graph that tracks Canada and U.S. border crossings and compares that to the value of the Canadian dollar.

Chairman LEAHY. The graph will be made part of the record.

Mr. SHEA. Thank you, Senator.

For over 20 years, the number of Canadians crossing our shared border mimic the rise and fall of the Canadian dollar: when the dollar was down, crossings were down; when the Canadian dollar rose against the U.S. dollars, crossings increased. Since 9/11, crossings have been nearly flat and at much lower levels than they were in 1991, the last time the Canadian dollar was close to parity. However, while the Canadian crossings have been flat, the Canadian dollar has increased from 63 percent to close to parity.

It is our belief that one of the reasons Canadians have not returned to the levels they once did is tied directly to the issues at the border when entering the U.S. and confusion as to the proper documentation needed to enter the U.S. We also feel that the requirement for citizens to have a passport to enter the U.S. will only decrease the number of Canadians that travel to the U.S., regardless of the value of the dollar compared to ours.

The bottom line is, the Western Hemisphere Travel Initiative, at best, will provide a false sense of security. While no one can debate the need for secure borders, the Western Hemisphere Travel Initiative is not the answer. Senator Leahy, I would again like to thank you for your leadership on this issue and encourage you to continue your efforts to delay implementation to no sooner than June 1, 1909 so that we have time to find the appropriate solution.

Thank you for the opportunity to testify.

[The prepared statement of Mr. Shea appears as a submission for the record.]

Chairman LEAHY. And we have to show some reality here. I recall once—I'm in Vermont almost every week, but once a year we drive it, during the summer break. We load up the car with all kinds of stuff that we have to have in our home in Vermont and we realize we don't need it and we load it all up and bring it back. But I was about 100 miles from the border, driving back, and got stopped at the border. I was driving a car with license plate 1 from Vermont. I think it says down at the bottom, "U.S. Senate". The person comes over and demands to see proof of citizenship. I thought at first it was a joke.

I said, what authority? He pointed to his gun. He said, "That's all the authority I need." I said, "Could I speak to your super-

visor?" He said, "Get out of the car." I said, "Let me speak to your supervisor." At that point, somebody with brass comes over and looks at the plate, looks at me and kind of groaned. I said, "You know, the Constitution required me to be a citizen." But I said, "I don't mind. I'd be happy to."

I go back and forth across the border. I show my ID when I go, even though a lot of times somebody will call me by name. I still show my ID, as I do at the airports. But a little courtesy. Most people are law-abiding. And showing a friendly face when they come here, goes a long way. I spent 8 years as a law enforcement and I know you have to be stern, but you also need to show a friendly face.

Curtis Picard is the vice president of the Vermont Chamber of Commerce. He leads the international trade efforts. He frequently works with our neighbors in Quebec and Canada to ensure that goods flow back and forth. The Vermont Chamber has been a critical ally since before the passport requirements are slated to take effect as a result of the Western Hemisphere Travel Initiative. Curtis, along with Lake Champlain Regional Chamber of Commerce and the State of Vermont, believe in the issue of raising awareness of this issue of going across the country.

So, Curtis, thank you for being here today. Please go ahead.

**STATEMENT OF CURTIS PICARD, VICE PRESIDENT, VERMONT
CHAMBER OF COMMERCE, MONTPELIER, VERMONT**

Mr. PICARD. Good morning, Senator. Thank you for the opportunity to testify this morning. Your remarks are taken to heart. One of the things I'm most proud of with this Western Hemisphere Travel Initiative is the work that the folks sitting here in the audience have done, which is really a model of leadership and cooperation, your leadership on this issue in Washington, as well continued support of the congressional delegation, Senator Sanders, Congressman Welch.

We've all been singing from the same song sheet. Governor Douglas, working with the State Governors Association, has produced resolutions and letters of support to the changes for the Western Hemisphere Travel Initiative, and Lieutenant Governor Dubie as well, with the Lieutenant Governors Association.

Chairman LEAHY. In fact, if I might, you stated something I was going to say. I want to congratulate both the governor and the lieutenant governor in their support of this. Please pass that word back to Jim Douglas and Brian Dubie. I think by doing this, we've demonstrated this is not a partisan or a political thing. We're locked at the hip on this issue.

Mr. PICARD. Correct.

Chairman LEAHY. Please go ahead.

Mr. PICARD. And I think all Vermonters understand the impact that this issue would have. Also, I want to recognize our Vermont House and Senate representatives as well, who both passed resolutions supporting changes to the Western Hemisphere Travel Initiative. From a State Chamber perspective, the work we've done with my colleague, Tim Shea from the Lake Champlain Regional Chamber of Commerce, as well as other Chambers throughout the U.S.,

the Federation of Chambers of Quebec have worked closely with us on this issue, and small local Chambers as well.

Through our work in spreading the word, we've been able to energize the trade groups to begin addressing this issue as well. The Vermont Farms Association to Promote Agritourism have a concern about this issue. The Vermont Association of Snow Travelers, the snowmobilers. For those of us in this room, snowmobiling is a huge economic engine for the State and often doesn't get recognized in the lower 48 as in the northern border winter sport States.

Chairman LEAHY. We have a vast trail that goes right through our property in Middlesex, Vermont. I appreciate how well they've maintained things; but I also appreciate the fact that this is an economic—a serious economic—issue.

Mr. PICARD. Correct. And I think it's even magnified in States like Maine as well, which has a much more extensive trail system for snowmobiles. What folks have told us, is they go across the border three or four times in a daily trip and not even realize it. I also want to thank Bill Stenger, representing Jay Peak, here. But there are a number of businesses that straddle the border as well.

Tivoly, of course, here in the Newport area. The factory literally sits on the border. Employees literally walk across the country as they walk across the room. As we all know, the Haskell Opera House straddles the border too. I want to relate a story. Last week, I was able to meet with Brian Harwood, I'm sure you know, with Radio Vermont, formerly with HMC, who was up at the Haskell Opera House in Derby and attended the Vermont Symphony Orchestra concert. He stated he parked on the wrong side of the border, and there was a border agent ready to greet him when he came out. And after a stern tongue-lashing, he realized the error of his ways.

But, you know, Brian's been a lifelong Vermonter, supporter of many things, including the Vermont Symphony, and it would be a shame if cultural institutions like the Vermont Symphony could no longer perform at the Haskell Opera House because of the implementation of the Western Hemisphere Travel Initiative.

Chairman LEAHY. I almost have this image of the strings section having to have their passports hanging on their bows.

[Laughter].

Anyway, I'm sorry. I digress.

Mr. PICARD. And I had an opportunity last Friday, not related to the Western Hemisphere Travel Initiative but the work we're doing with the Vermont Aerospace and Aviation Association, of which you are an honorary chair of that group, to meet with some gentlemen up at the Franklin County State Airport on some aviation issues and he agreed to take us up in his Cessna and fly around and kind of see the landscape. We were able to fly over Lake Champlain from the new Missisquoi Bay Bridge, almost all the way to Jay Peak.

I took some wonderful photographs, which I'm happy to submit as part of the record, that give you a different perspective of what the landscape really looks like from the air between Vermont and Canada, and there is absolutely no difference. So, any of those crossings, whether people want to cross through an official crossing or an unofficial crossing, it's near impossible to really understand

the impact of the entire border structure from Maine all the way to Washington State. And Vermont's a small State. Once we get out to the midwest, that unprotected border is, to me, unimaginable. But it was interesting to see it from the air in a different perspective from the usual crossings that we all understand.

Chairman LEAHY. The Senator from North Dakota showed me a border crossing. You probably have seen this in the northern parts of North Dakota. It has a border that goes almost the length of New England, and probably beyond that. And at the border, when whoever is assigned to this particular part has the day off, they put a cone in the middle of the road.

Mr. PICARD. The cross-border cooperation that I referenced before is important. I'm not sure if it's been mentioned, but since 2001 Canada has spent over \$10 billion on infrastructure and security improvements at the border as well, so they have been investigating this issue, as the United States has. I'm happy to report that the Province of Quebec Department of Motor Vehicles and the Vermont Department of Motor Vehicles are now talking about ways to come up with documentation that would be WHTI compliant.

Finally, my last humorous story that I want to relate, is two of my colleagues, formerly with the Vermont Chamber, now reside in Maine and are getting married this year in Quebec City on New Year's Eve. As they go through this wedding process, those of us that understand the issue are not worried about it. But I can assure you, their guest list is constantly calling them, wondering if they are going to need passports to be able to attend the wedding in Quebec City.

With technology these days, their wedding invitation and site is actually on the web and the link to the BESTT Coalition site to give people the latest on the passport information.

[Laughter].

But I've assured the bride that passports will not be needed by December 31st this year. She has made me swear that my work involved in this would try to make their wedding passport-free.

In conclusion, thank you again, Senator, for your leadership on this. As I said, the work that Vermont has done as a whole has been a model for other States and the rest of the country to get behind this issue and I sincerely appreciate your efforts.

Chairman LEAHY. Thank you.

My wife's mother was born in Quebec City and we go there often. I see an awful lot of Vermont cars there, just as I see an awful lot of Province of Quebec cars in Montpelier, Burlington, Newport, and elsewhere. I hope the wedding works out very well. Tell them to bring warm clothes, though.

Several years ago, I worked in funding to boost technical assistance for Vermont businesses looking at international markets, wearing a hat as a member of the Appropriations Committee. The Director of that program, Dana Eidsness, has evolved the Vermont Global Trade Partnership into one of the region's leading trade offices.

Her experience in trade offices along the northern border, including the Maine International Trade Center has shown her the importance of trade between the U.S. and Canada. Many Vermont businesses call her daily to talk about exporting. I suspect she

probably starts off with something like, let's start in Canada and see where we go from there. So I hope that can continue to be a sound piece of advice.

Dana, thank you for taking the time to come today. I look forward to your testimony.

STATEMENT OF DANA B. EIDSNESS, DIRECTOR OF INTERNATIONAL TRADE, VERMONT GLOBAL TRADE PARTNERSHIP, MONTPELIER, VERMONT

Ms. EIDSNESS. Thank you, Senator. Senator Leahy, I want to thank you for your leadership and I want to thank you for the opportunity to speak on this important issue. I'll begin this morning by sharing some background on my program for the record to set the foundation for statistics that I'll share later. I hope that my testimony this morning will demonstrate how crucial trade is to the Vermont economy as it relates to this issue.

The Vermont Global Trade Partnership, or as I'll call it moving forward the VGTP, is Vermont's center for international business assistance and provides international market research, trade technical assistance, as well as educational programs on topics important to Vermont businesses.

We partner with other organizations in the State to provide these services and expertise to companies throughout the State to help them do business internationally. Several of my partners are in the room today: the Vermont Chamber certainly is a partner, the U.S. Department of Commerce Commercial Service. We also work with regional development centers throughout the State. Basically, any business organization in the State that can provide some sort of international business development assistance to Vermont businesses, we want to work with.

So far in 2007, the Vermont Global Trade Partnership has completed over 350 international market research and technical assistance projects for Vermont businesses. We are able to serve so many companies largely owing to this Federal earmark that you just mentioned—which, among other things, I use to support our very successful internship program at Champlain College.

With this funding, the VGTP trains and supervises student interns in Vermont colleges and universities. These are paid internships, training future business leaders in Vermont. Through their work with us, we expose them to the State's most internationally active businesses and more than quadruple our research output capacity.

Since the inception of the VGTP in 2004, the funding you helped provide has enabled us to support over 1,400 Vermont business and organization contacts through research and technical assistance, educational programs, and trade missions.

Our services were responsible for \$23 million in exports last year for small- and medium-sized businesses in Vermont. I'd like to take this opportunity to thank you for supporting my program.

Increasingly, our technical assistance requests have centered on topics related to the logistics of doing business with Canada. We have inquiries regarding NAFTA compliance, shipping documentation, understanding Canadian goods and services tax and provincial sales tax, how to participate in Canada's non-resident importer

program, and now more often regarding confusion over border crossing regulations.

I was joking with one of my partners yesterday about how many of us it took to actually answer the question of what was needed to cross the land border from Vermont into Canada. It's sort of like, how many folks does it take to screw in a light bulb. The answer is actually three. It took three of us to put our heads together to remember what the current policy is.

The VGTP and its partners are seeing a greater volume of small and first-time exporters interested in the Canadian market. This, I think, is partially due to the parity of the Canadian dollar to the U.S. dollar, and it's most definitely attributable to increased Internet access and the global market exposure that a web presence affords these companies.

For instance, to give a local example, Al's Snowmobile is selling product to customers on nearly every continent in the world from right here in Newport. Marketing for this company is done almost exclusively over the Internet, and 60 percent of Al's Snowmobile orders are coming from Canada.

Chairman LEAHY. What percent?

Ms. EIDNESS. Sixty percent. Vermont businesses are retaining jobs and they're growing because of opportunities to sell products and services to the market next door. A free and open border for Vermont manufacturers, R&D, and retail businesses is more crucial than ever if our businesses and organizations are to remain globally competitive.

I have some statistics to help illustrate this. The United States and Canada enjoy the largest bilateral trading relationship in the world, with more than \$1.3 billion in goods and services crossing the border every day. More than 300,000 business people, tourists, and regular commuters travel between the U.S. and Canada daily.

Trade with the world, both exports and imports of goods and services, create jobs in Vermont. Today, trade supports over 77,000 jobs in our State. Vermont's export shipments of merchandise in 2006 totaled \$3.8 billion, and our exports increased 51 percent from 2002 to 2006.

Our businesses exported to 148 foreign destinations in 2006 and it's no surprise that the State's largest market by far was NAFTA member Canada, which received Vermont exports of \$1.7 billion, or 44 percent of Vermont's merchandise export total.

We had a total of 828 companies exporting goods from Vermont locations in 2005. These are the most current statistics I have. Of those, 86 percent were small- and medium-sized enterprises. For the rest of the U.S., that definition is for companies with under 500 employees. Here in Vermont, for the most part we're looking at companies with fewer than 50 employees, or in some cases fewer than 10.

Foreign-owned companies in Vermont, the majority of which are Canadian, employ more than 11,300 workers, which is nearly 4.3 percent of Vermont's private sector employment, and 17,500 Vermont jobs are supported by U.S.-Canada trade. That number does not include services, industries, or other non-manufacturing sectors.

In 2005, Vermont was Quebec's number-two export destination in the world behind New York, with over \$3 billion in exports to our State. We're perennially in the top 10 as an importer of Quebec's goods, sharing this top 10 ranking with the likes of the U.K., China, Germany, France, and New York.

Vermont and Canada have a longstanding, mutually beneficial trade relationship. The prospect of complicating this process, which is already overwhelming to many small and first-time exporters, many of whom cross the border to deliver shipments themselves, is worrisome.

The Western Hemisphere Travel Initiative requirements for air travel took effect on January 23, 2007. Since then, delays in processing passport applications under the WHTI air travel rules have resulted in considerable backlog of applications, which in turn has resulted in significant inconvenience and cost to thousands of Americans. Premature release of the land border rules will result in greater passport backlogs up here.

In the U.S. and Canada, citizens have come to rely on their driver's license as evidence of who they are. We have long relied on our license as being the only identity document needed, whether it's for opening a bank account or a quick trip across the nearest land border. The Western Hemisphere Travel Initiative is about to change that.

To date, very few studies have been conducted on what, if any, economic impact WHTI may have on U.S.- Canadian travel, tourism, or trade. My clients are concerned about the expense, the inconvenience of passport processing delays, delays crossing the border, and how these issues will impact their flow of business.

As you know, Governor Douglas and Secretary Michael Chertoff signed an agreement on September 26, 2007 that will allow Vermont to issue an enhanced driver's license and ID card, the EDL ID, to Vermont citizens for cross-border purposes. The State of Vermont plans to begin issuing the EDL ID in late 2008. It will securely denote identity and citizenship and will become an acceptable alternative to a passport for free entry into the U.S. at land and sea borders between the U.S., Canada, Mexico, Bermuda, and the Caribbean.

The State of Vermont believes that in order to preserve the economic gains of recent years and to allow for free and easy travel between Vermont and Quebec, it's equally important for the citizens of Quebec to have easy and affordable access to an enhanced driver's license.

Vermont's trade with Canada is tremendously important to our economy, and the Western Hemisphere Travel Initiative will have an impact on our businesses, the communities we serve, and the Vermont and American economies. I understand the importance of secure borders for our State and Nation, and I encourage measures to create an affordable, simple solution for businesses, tourists, and commuters to travel across our borders for the mutual benefit of our economies and for the continued growth of our cultural and economic ties.

Thank you again, Senator Leahy, for allowing me this opportunity to outline the importance of ensuring efficient border crossing for Vermont's people and commercial goods. I'd also like to ex-

tend a special thanks to you and your staff for the work you do to support Vermont businesses.

Thank you.

[The prepared statement of Ms. Eidsness appears as a submission for the record.]

Chairman LEAHY. Thank you very much. You mentioned these companies and government organizations. I see Connie and Stanley Lowe here, and we have Maureen Connolly, Bill Zuccareno from the Economic Development Corporation of Northern Vermont. Steve Patterson. I was talking with him the other day for the Regional Development Corporation. Rudy Chase, from MSA and the helmets that are made here. Susan Murray from the Department of Commerce Commercial Service, and others. There are so many people who are connected with this.

The businesses that are on both sides of the border—my father-in-law worked in one of those. I visited once, and went back and forth across several times. This was years ago, when I was growing up. My annual disclosure for the Senate, when you visit other countries and put down how many times, it said to count the number of times you went by and what the transportation was. On such and such a date, 10 trips to Canada. Transportation: I walked. I got a lot of very strange looks from the secretary of the Senate on that one.

But I also, in preparing for this hearing, was telling some of our grown children, I was born in Montpelier. When I was a little kid, I'd ride up with my parents for the day to Canada, usually Montreal. We'd just drive up for the day. Their comment was, being totally unimpressed, was, "Dad, did they have cars when you were a little boy?"

[Laughter].

I just want you to know that sometimes within your family they're not the least bit impressed with the title.

Patricia Sears, or many of us know her as Tricia, is the executive director of the Newport City Renaissance Corporation. She served as chair of the Northeast Kingdom Collaborative, so she has a great, unique perspective on this.

I have heard from Newport merchants that they would carry Canadian currency in their cash drawers and were fluently bilingual, and they depend upon those Quebec license plates for a large portion of their businesses. Tricia, it's good to see you. It's been, what, all of 2 weeks since I saw you last in Burlington?

Ms. SEARS. Yes.

Chairman LEAHY. Please go ahead.

**STATEMENT OF PATRICIA SEARS, EXECUTIVE DIRECTOR,
NEWPORT CITY RENAISSANCE CORPORATION, NEWPORT,
VERMONT**

Ms. SEARS. Good morning. Senator Leahy and distinguished members of the U.S. Senate Judiciary Committee, fellow panelists, and guests, I appreciate the opportunity to testify on behalf of the Newport City Renaissance Corporation, addressing the economic and community implications of northern border security.

First, I'd like to welcome you all to our fair city of Newport, gateway to Vermont's northeast kingdom, one of only two National Geographic geotourism destinations in the entire country.

If you look out the windows here and you look out to the north, you will see Canada and the border is not visible. The beautiful international Lake Memphramagog is a rich region whose culture spans two languages, two countries, one lake.

We enjoy a robust relationship with potential partnerships that would push and pull international trade and tourism. These partnerships are at risk, at risk of enduring a chilling effect because of border delays and hostility by border guards.

Momentum is building for Newport's renaissance of commercial and community development. We do not appreciate the timing of the unwarranted tension and high cost of crossing the border. The direct business impact on downtown merchants of Newport is illustrated by Main Street proprietors Steve Crevochet and Madeline Wingfield with this quote: "As a business in downtown Newport, we have been profoundly affected by the new difficulties encountered by our customers when crossing the border. Please remember, and let it be an indication of the historically high level of international mixing of populations, that many Americans live on the Canadian side of the border.

Many of them are our customers. They repeatedly confide to us that the frequency of their border crossing has been diminished quite a bit. One good customer now limits her trips to Vermont once every 2 weeks, and she is a U.S. citizen."

The implications are simple and easily understood: the tighter and farther-reaching of the border policies, the greater impact on the choices people make to come to our beautiful city as visitors. Why would someone planning a trip to Newport to shop, enjoy a meal, walk along Lake Memphramagog on the beautiful boardwalk, maybe even take a boat ride, all of which might last four to 5 hours, why would they do so if they had to, at the very least, endure an unwelcoming attitude and a long wait at the border, or at the worst, face outright hostility? And even if such long waits are infrequent, why would they want to take the risk that they might wait that long?

How do I, as a representative of the Newport City Downtown Renaissance Corporation, or any other Newport business owner, answer the tourist who has encountered situations like this and asks, why? Why do the crossings have to be so unfriendly? This could become a fact of daily operations here in Newport and, thus, dampening the enhancement, the expansion, or new location of businesses on main street.

With the U.S. dollar currently on par with the Canadian dollar, the potential for Canadian investment in property and co-locating businesses here should be huge. However, Frank Knowle, a private developer of Mt. Vernon Estates here in Newport, offers "any Newport company doing business with Canada will be affected by costly restrictions. Having invested a considerable amount in infrastructure and upscale residences for the Newport area, we are having potential buyers from Canada consider not having a second home here if border restrictions and delays increase. Everyone understands the need for security. There simply needs to be a stream-

lined entry procedure for Canadians having a second home in Vermont.”

Lately, we’ve been made aware that a decision made from a distance and in isolation from our daily lives here in the kingdom is aimed at implementing the Western Hemisphere Travel Initiative. This initiative has a requirement for passports, for land crossings between Canada and the U.S. It is scheduled for implementation January of 2008.

This initiative could further shut us off from visitors. Experience tells us we do not have the infrastructure in place to handle the demand for these passports. For this reason, we would support delaying its implementation to June of 2009 at the earliest. In this way, we allow time to develop a system that meets best practice standards for border protection and satisfies the needs of the traveler.

I’m going to leave you with a message from an Amish community regarding a recent event in their community about a year ago: hostility destroys community. Avoid being hostage to hostility.

I ask that the balance of my remarks be entered into the record, and I thank you, Senator.

Chairman LEAHY. Without objection, it will be.

[The prepared statement of Ms. Sears appears as a submission from the record.]

Chairman LEAHY. Thank you. I know the incident of which you speak. I also know what that community did for the family of the person who created so much tragedy. It should be a model to all of us in the way we should live our lives.

As you note, Representative Al Perry, of Richford is here. I see you back there. And Representative Mike Marcotte of Newport. I don’t know if we have other representatives here. Former representatives, and others.

We’re going to use your testimony and it’s going to be the basis of other hearings I’ll be holding, both in Appropriations and in Judiciary. If you had Secretary Rice and Secretary Chertoff sitting here, both with concerns about the security of this country—and I respect that, we all do. After all, I go to work every day in a building that was marked for destruction by the hijackers, and it is still a major target, from all the information we have. I am proud to go. I feel gratitude to Vermonters who have allowed me to go to work every day there.

But if you had them here and they said to you, okay, what would you do to have something that would have clear, definable, easily used identification, talking just about the northern border now, what would you recommend? Because they’re going to come up with something. What would you recommend that they work out with the Canadians?

Bruce, do you want to start with that one? And incidentally, as I always do in these, I keep the record open for a week, so after you’ve seen the transcript, if you want to add to it, of course you’re free to. I made the same offer to now former Attorney General—he resigned.

[Laughter].

Mr. HYDE. I’d better watch what I say here.

[Laughter].

Chairman LEAHY. I'm not suggesting that for any of you. No. You've all taken a great deal of time out of your schedule to be here, and I appreciate that.

But Bruce, what would you do?

Mr. HYDE. What I would do is ask them to take a look at the European Union and how there is free passage across borders in Europe of dissimilar cultures, warring communities that at this point have free passage. I would ask them to really look at working with Canadian intelligence much more closely to try to come up with a plan that would be much more intelligent, for one thing, but also be able to hopefully stop the bad people and allow the good people to pass through.

Chairman LEAHY. Bill?

Mr. STENGER. Well, Senator, in addition to Secretary Rice and Secretary Chertoff, I would ask you to invite the Secretary of Commerce to be in that room as well, because I think this is a perfect example of silo government action. We have the State Department that thinks only about its issues, Homeland Security that thinks only about its issues, and the economy of the northern border is not on either of their agendas.

So I think, unless they're made aware of the fact that their actions can seriously injure our economy, they're not going to take into consideration our feelings and our needs. There are thousands of businesses, and tens of thousands of Americans, who rely on this border for not just their security, but their livelihood.

It's a very real issue for those of us that live and work on the border throughout this northern tier. So, I think they need to be broadened in their horizon a bit to respect the economic impacts that are at risk, and I think they could benefit from that.

The other thing, I think from a tangible standpoint, of all the issues that we have come across with this problem, I think the one that perhaps has some promise is the enhanced license. We all have to renew our driver's license every few years. If we are able to find the right technology that can be implemented into the State driver's licenses and it's an optional thing, it may be a phaseable, affordable mechanism for some kind of border security.

It's worthless in this economic issue if the Provinces of Quebec and Ontario, in our region, are not included in it. There is a test program under way in Washington State, and the Province of British Columbia is a partner in that. So the enhanced license might be promising. It needs to be tested thoroughly before implementation. Obviously our neighbors or provinces to the north need to be included in that whole mix. Thank you.

Chairman LEAHY. Thank you.

Tim?

Mr. SHEA. I will echo Bill's statement, but first state that I suggest they take their foot off the gas pedal on this one here. We all want secure borders, but this is moving too fast to find a good solution here. So, one, we need more time.

Two, I think, as Bill said, the driver's license offers great potential, provided it works for our friends north of the border. Third, would be more formal discussions with the Canadian Government to find a solution that works for all of us. This is such a unique situation we have with the northern border when compared to

other borders. We need to have some more formal discussions to have the Canadian Government at the table to find an appropriate solution.

Chairman LEAHY. And, of course, we have to look at the fact that you have people who won't have a driver's license, either very young or very old.

Mr. SHEA. That will need to be addressed also.

Chairman LEAHY. Curtis? Incidentally, the president of the U.S. Chamber of Commerce came in to see me and was just beside himself at the projections of the hundreds of billions of dollars worth of jobs that will be lost if we don't do this right.

Curtis, what would you suggest?

Mr. PICARD. I would echo Commissioner Hyde as well. I think the European Union is an excellent model to look at. I keep going back to the very fundamental issue that, in 2007, it should be easier to go between the United States and Canada, not harder. Whatever the solution is, it needs to be simple, easy, and easily adoptable on both sides of the border.

The last point I'll make is, whether you go ahead and get a passport or an enhanced driver's license, it's the foundation documents that you go back to that establish your citizenship. For me, that is a single sheet of paper, typewritten back in the late 1960's that verifies that I was born in the United States.

Those foundation documents aren't going to change for most of us anytime soon. So, establishing citizenship—you know, basically they're saying we're assuming everybody's bad until you prove they're good. As we've said all along, who is this really going to catch? I think the people that wish to do harm to the United States or to Canada are going to find a way to get in legally.

Chairman LEAHY. And Dana? I agree with you.

Ms. EIDSNESS. I think I echo the comments of my partners here at the table. The EU is a great model. I would urge DHS to please consider the commercial considerations. I do think the enhanced license is promising, but I echo Curtis's remarks, in that it really does need to be a very simple solution. Maybe that's as simple as reducing the price of passports and making them more accessible to people. Obviously we'll need to staff up and ensure that there aren't tremendous backlogs because of that.

Chairman LEAHY. And that has to be done on the other side of the border, too, right?

Ms. EIDSNESS. Absolutely. That was my next comment, is that I would like to see negotiations for a reciprocal program in Canada. I think there needs to be more discourse about that.

Chairman LEAHY. Thank you.

Tricia?

Ms. SEARS. I would offer to Secretaries Chertoff and Rice that, even as the token flatlander in my family, I have come to fully appreciate the common sense approach of Vermonters, and I would offer that as a model. I would offer that as slowing down, figuring out what common sense will tell them as far as implementing something of such vast proportions, the unintended consequences that it would have on private businesses and individuals, and the value of partnerships, and especially partnerships with non-governmental folks, very much the business sector, but also the rest of us.

Chairman LEAHY. Well, you're going to hear many of these things quoted back in further hearings. Bill Stenger, the idea of the Secretary of Commerce—I'm going to call Secretary Gutierrez as soon as I get back from Washington. I may even call him from home this afternoon. I think that is a good idea.

Bruce, you mentioned the EU. Many of my mother's family—my grandparents—had emigrated. My maternal grandparents emigrated to Vermont from Italy, up in the northeast corner of Italy. Marcel and I have driven back and forth and you're crossing two or three borders, the Austrian border, the Italian border there.

When we've driven it, when I reach for my passport, suddenly I realize I've crossed the border because the signs, the languages changed. It is seamless. They go from France to neighboring countries. You see signs in French and then they're in a different language. These are things we should consider.

Tim, you're right in saying slow down. This is what Senator Stevens and I, in our legislation, are trying to do. We've tried to make sure that people understand that it's not a partisan issue. We've got conservatives, liberals, Republicans, and Democrats on it. The governor and I see eye to eye on this. We all do. We're trying to slow down before you create a fiasco.

Curtis, what you said, I absolutely agree with, the idea of a simple solution, whatever that might be. I think what we're getting to is far more complicated than what it's going to be, or needs to be. If I thought it enhanced our security, it would be one thing. I suggested to the—there's been talk about improved intelligence.

I suggested there's hundreds of billions of dollars of income we could lose in this country, and it would be a lot better if we spent a billion or so in improving the intelligence on both sides of the border because there are people who prove a threat to both Canada and the United States who want to come in. That's a fact of life. That's not going to change in my lifetime or your lifetime. But this is not the thing that will stop them. As Tricia said, most people are very good. We know that here in Vermont.

So I thank you all for doing this. You've taken a great deal of time out of your schedules.

I'm glad to have our Court Reporter who usually is with us in a very dark, windowless hearing room in Washington. Do you like this better? Is this better? I like it better. I wish I could hold all of my hearings in here. It is interesting, I should tell you, in late January.

[Laughter].

Everybody who lives here is nodding.

Mr. STENGER. Senator, one thing I'd like to ask for your help on. There's damage being done right now. The uncertainty in the marketplace—Curtis's comments about the wedding party that was going to Quebec. The communications out of the Department of Homeland Security have been inconsistent at best. We're heading into holiday periods. We've gone through a terrible summer.

This past weekend I was in Montreal. The radio stations give the sports scores, they give the weather report, and they give the waiting time at the border now. I was coming back to Vermont and the comments on the radio were, well, coming into Canada was a 15-

minute wait, but coming into the United States from Canada was a 2-hour wait.

When your family is in Stansted or north of Burlington and you're thinking of coming into the country and you're hearing that on the radio, a 2-hour delay, you're not going to come. I've seen over the last six or 8 months communiques from Homeland Security that have been inaccurate, amazingly so, that they would put out something that is legally or technically incorrect and they'd have to retract it.

So I know that you have great influence, and I hope that over the next few months, as we get closer to decision-making points, that people will think before they speak because the impact is profound. This Main Street of Newport is being harmed right now because of the uncertainty of what's out there in this issue. Frankly, I fear for my winter because of the uncertainty of what people are thinking about what will happen January 1, and when will it be implemented. So, you're a champion of ours, and I mean that.

Chairman LEAHY. Thank you.

Mr. STENGER. I thank you again for this opportunity.

Chairman LEAHY. Well, we're concerned about it. I mean, I obviously have a family and personal interest in Canada. But just looking at it objectively as a U.S. Senator, I think how fortunate we are to have a 5,000-mile unguarded frontier where, in today's world, we have a friend on the other side. I once said in a speech in Ottawa—in fact, the speech was 10 years ago and we were talking about land mines. I began my speech, in the first couple of paragraphs, in both French and English.

But I said, coming from the State of Vermont, I think of Canada as that giant to the north. But we are fortunate to have it. Do we ever have political differences with Canada? Of course we do. Do we have political differences among each other in Vermont? Of course we do. But we don't seal off the border. I will bring back these comments, having more perspective and clarity.

Curtis, I want to use your example with the wedding, because I suspect that could be replicated thousands of times in other things: it's a family reunion, it's the anniversary, it's the birthday party, it's the wedding, it's whatever it might be and how we do that.

One of Marcel's relatives died last year and we were driving up to Canada. We had others coming to join us. Her brother from Chicago had asked me, do I need to bring a passport? This is to go to a funeral 20 miles on the other side of the border.

So, thank you all very much.

[Whereupon, at 12:14 p.m. the hearing was adjourned.]

[Submissions for the record follow.]

SUBMISSIONS FOR THE RECORD

Senate Judiciary Committee
Immigration, Border Security, and Citizenship Subcommittee
Field Hearing Testimony
Dana B. Eidsness
Director of International Trade
State of Vermont/Vermont Global Trade Partnership
Newport, Vermont
October 10, 2007

Senator Leahy, for the record, my name is Dana Eidsness, and I am the Director of International Trade for the State of Vermont, as well as the Director of the Vermont Global Trade Partnership. I want to thank you for the opportunity to speak on these important issues.

The Vermont Global Trade Partnership (VGTP) is Vermont's center for international business assistance and provides international market research, trade technical assistance as well as educational programs on topics important to Vermont businesses.

So far in 2007, the VGTP has completed over 350 international market research and technical assistance projects for Vermont businesses. We are able to serve so many companies largely owing to a federal earmark you made possible for us which among other things, I use to support our very successful internship program at Champlain College. With this funding, the VGTP trains and supervises student interns from Vermont colleges and universities. These are paid internships, training the future business leaders of Vermont. Through their work with us, we expose them to the state's most internationally-active businesses and more than quadruple our research output capacity.

Since the inception of the VGTP in 2004, the funding you provided has helped us support over 1400 Vermont business and organization contacts through research and technical assistance, educational programs and trade missions. Our services were responsible for \$23 million dollars in exports last year for small and medium-sized businesses in Vermont. I want to take this opportunity to thank you for this and your continued support of my program.

Increasingly, our technical assistance requests have centered on topics related to the logistics of doing business with Canada—we have inquiries regarding NAFTA compliance, shipping documentation, understanding Canadian Goods & Services Tax and Provincial Sales Tax, how to participate in Canada's Non-Resident Importer Program, and of course, questions regarding confusion over border crossing regulations.

The VGTP and its partners are seeing a greater volume of small and first time exporters interested in the Canadian market. This may be partially due to the parity of the Canadian

dollar to the U.S. dollar; it is most definitely attributable to increased internet access and the global market exposure that a web presence affords these companies. For example, AI's snowmobile is selling product to customers on nearly every continent in the world from right here in Newport. Marketing for this company is done almost exclusively over the internet. 60% of AI's Snowmobile orders are coming from Canada.

Vermont businesses are retaining jobs and are growing because of opportunities to sell products and services to the market next door. A free and open border for Vermont manufacturers, R&D, and retail businesses is more crucial than ever if our businesses and organizations are to remain globally-competitive.

The United States and Canada enjoy the largest bilateral trading relationship in the world, with more than \$1.3 billion in goods and services crossing the border every day. More than 300,000 business people, tourists and regular commuters travel between the United States and Canada daily.

Trade with the world—both exports and imports of goods and services create jobs in Vermont. Today, trade supports over 77,000 jobs in our state. Vermont's export shipments of merchandise in 2006 totaled \$3.8 billion dollars—our exports increased 51 percent from 2002 to 2006.

Our businesses exported to 148 foreign destinations in 2006 and it's no surprise that the state's largest market by far was NAFTA member Canada, which received Vermont exports of \$1.7 billion dollars or 44 percent of Vermont's merchandise export total.

A total of 828 companies exported goods from Vermont locations in 2005. Of those, 86% were small and medium-sized enterprises (SMEs).

Foreign-owned companies in Vermont, the majority of which are Canadian, employ more than 11,300 workers, nearly 4.3 percent of Vermont's private sector employment.

17,500 Vermont jobs are supported by U.S.-Canada trade.

In 2005, Vermont was Quebec's number 2 export destination in the world (behind NY) with over \$3 billion in exports to our state. We are perennially in the top 10 as an importer of Quebec's goods, sharing in the top ten ranking with the likes of the UK, China, Germany, France and New York.

Vermont and Canada have a long-standing, mutually-beneficial trade relationship. The prospect of complicating a process which is already overwhelming to many small and first time exporters—many of whom cross the border to deliver shipments themselves is worrisome.

The Western Hemisphere Travel Initiative (WHTI) requirements for air travel took effect on January 23, 2007. Since then, delays in processing passport applications under the WHTI air travel rules have resulted in a considerable backlog of applications, which in

turn has resulted in significant inconvenience and costs to thousands of Americans. Premature release of the land-border rules will result in greater passport backlogs.

In the US and Canada citizens have come to rely on their drivers license as evidence of who they are. We have long relied on our license as being the only identity document needed, whether it is for opening a bank account or a quick trip across the nearest land border. The Western Hemisphere Travel Initiative (WHTI) is about to change that.

To date very few studies have been conducted on what, if any, economic impact WHTI may have on US Canadian travel, tourism or trade. My clients are concerned about the expense, the inconvenience of passport processing delays, delays crossing the border and how these issues will impact their flow of business.

Governor Douglas and Secretary Michael Chertoff (Department of Homeland Security) signed an agreement on September 26th 2007 that will allow Vermont to issue an Enhanced Driver License and ID card (EDL/ID) to Vermont citizens to use for cross border purposes.

The State of Vermont plans to begin issuing the EDL/ID in late 2008. The EDL/ID will securely denote identity and citizenship, and will become an acceptable alternative to a passport for re-entry into the U.S. at land and sea borders between the U.S., Canada, Mexico, Bermuda, and the Caribbean.

The State of Vermont believes that in order to preserve the economic gains of recent years, and to allow for free and easy travel between Vermont and Quebec it is equally important for the citizens of Quebec to have easy and affordable access to an Enhanced Drivers License. To date, there are no plans for a reciprocal arrangement.

Vermont's trade with Canada is tremendously important to our economy, and the Western Hemisphere Travel Initiative will have an impact on our businesses, the communities we serve and the Vermont and American economies. I understand the importance of secure borders for our State and Nation and I encourage measures to create an affordable, simple solution for businesses, tourists and commuters to travel across our borders for the mutual benefit of our economies and for the continued growth of our cultural and educational ties.

Thank you again Senator Leahy for allowing me this opportunity to outline the importance of ensuring efficient border crossing for Vermont's people and commercial goods; and a special thanks to you and your staff for the work you do to support Vermont businesses.

10/10/07 Commissioner Bruce Hyde, Vermont Department of Tourism & Marketing

Canadian travel to Vermont is critical to the state's economy. It is extremely important that the border facilitates the movement of travelers, goods and services as expeditiously as possible. While security is paramount for the country's well being, it is also important to consider the economic impact if border crossings limit this free flow of commerce. These issues are of critical importance to both the United States and Canada.

In 2005 there were 1.92 million Canadian day visitors to Vermont spending an average of \$66 per day. Nearly \$350,000 per day is spent by Canadian day visitors. Canadian day visitors comprise over two thirds of all out-of-state day visitor traffic to Vermont. Day visitation from our neighboring states of New York, Massachusetts and New Hampshire combined is only one third of the total. Of all the research the Vermont Department of Tourism and Marketing (VDTM) has done recently, this is the most "surprising finding" according to State Economist Jeffrey Carr.

In 2005, Canadians accounted for 20 percent of our entire out of state visitation. Total Canadian visitor spending averages more than \$644,000 per day. In 2006, overnight Canadian visitors spent an average of \$204 per trip, which was up 20 percent over 2005 estimates due to longer stays and increased purchases of both goods and services. Vermont's tourism infrastructure has a lot of room for growth. Currently, Vermont has an occupancy rate of around 40 percent and the Canadian visitation is an important and increasing sector of the tourism economy.

Web traffic and visitor inquiries continue to increase from Canada. Canadian requests for vacation information increased 17 percent in September over last year. This is clearly a result of the strong Canadian dollar and more aggressive marketing in Quebec by VDTM. Visitor Centers along our northern border have experienced double digit increases over the last few months.

While Canadian visitation has increased significantly over the past few years, international visitation to the United States has declined 17 percent since 2001 resulting in the loss of billions of dollars in revenue and 200,000 jobs nationwide. During the same period, international travel has increased over 20 percent worldwide. The United States has lost a great deal of opportunity in this very important, low-impact export industry. The potential for international visitors entering Vermont from Montreal and other Canadian entry points is enormous, but unfortunately very curtailed in today's environment.

Canadians utilize the Burlington International Airport due to its convenience and competitive prices. Over 30 percent of travelers flying out of Burlington are from north of the border. The number continues to increase, despite little marketing effort in Canada.

The Western Hemisphere Travel Initiative (WHTI) has already had a negative impact on potential travel from Canada. VDTM and other Vermont organizations are constantly fielding questions from Canadians and tour operators about the passport requirements. There is a great deal of confusion about the documents required at the border. Less than 40 percent of Canadians have passports. This is a significant expense for many families and most certainly is a deciding factor when Canadians plan a vacation or trip.

Many of our border communities and families are split by the international property line. Families live on either side. School activities, sporting events, festivals and family gatherings take place on both sides of the border. Travel to and from these activities should be easily accomplished. Commerce needs to move as freely as possible.

While the enhanced driver's license will help Vermonters' identification requirements when returning to the United States, it does nothing to assist with Canadian entry. I hope the United States and Canadian governments can work together to establish efficient border criteria so both countries can continue the long standing exchange of people, goods and services.

Re: Oct 10th Hearing

Senator Patrick Leahy

As I was unable to attend the Senate hearing which you held in Newport, Vermont recently I would like to submit my comment in writing. First, I want to thank you for coming to our area and holding the hearings locally.

I have lived in Derby Line all my life and the recent changes regarding passports and other border issues have caused tremendous turmoil in my community and in my own life personally. As an elected official who is required to cross the border for my job, (the Village of Derby Line shares a water and sewer system with Stanstead, Quebec) the most recent proposals are going to have a very negative impact on our small village of Derby Line, the larger Town of Derby, the County of Orleans and the State of Vermont as well.

It took an Act of Congress over a hundred years ago to form the International Water Company which we operate under today, now that same Congress wants to make it even more difficult for us to do business. Employees are going to be required to have passports to do their jobs to work on water lines that just happen to cross the border? What if there is a failure in the system and a contractor has to be hired? Do we have to wait and find one with a valid passport to make a repair? Every year new Trustees and a Water Commissioner are elected. They will have to have a passport now just to attend the International Water Company's meetings and to do regular business of the company.

Our local high school hockey team has used the Stanstead College arena for their ice hockey home games. Hundreds of families may now be prevented from going to games as the expense to get a passport for parents and all the children is prohibitive. The local fans who enjoy the games as well will not have that enjoyment or family outing any more. There are various other youth hockey leagues who are in this same situation. The revenue lost to the local businesses is not going to be easily replaced by these hockey teams who come and play several tournaments every year.

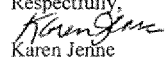
Another winter activity that sees many cross border interactions is snow mobilers. There are numerous trails that intersect our border region that will see fewer users if there is not some other form of identification that can be used to cross the border for all ages that is reasonable affordable and agreeable to both Canadian and American officials.

Just being able to cross the street and visit with your neighbor, your minister or your priest is now going to cause people to think twice due to the increased time it takes to cross the border and the treatment that is sometimes given by officials at both border crossings. The demeanor of some of the staff is not always pleasant or respectful. We understand they have a job to do, but a little common courtesy and common sense would go a long way.

This past summer there were traffic jams in downtown Derby Line due to increase security measures required at the Ports of Entry. My fear is any increased requirements in identification documents is more traffic tie ups in a small Village area. I witnessed an emergency vehicle try to get through this traffic. It was not a sight I want to see again.

What happens next time when traffic is backed up perhaps both ways and an emergency vehicle has to try and get through? Are we protecting the entire United States, but perhaps sacrificing a local resident who is suffering from a heart attack or his home is lost in a fire if the ambulance and fire trucks can not reach them in time as Homeland Security is trying to do their job. There needs to be some sort of

regional solution to the border issues not a one size fits all solution for the entire country. We should have other technology and man power to prevent terrorist from entering the United States by other means than are currently proposed. Do not stop commerce and local sports in Vermont. We need it to survive.

Respectfully,

Karen Jenne
PO Box 209
Derby Line VT 05830
802-873-3420

Clerk/ Treasurer Village of Derby Line
Derby Select Board Member*

* (note that this is my opinion and not necessarily that of the Derby Select Board)

P. O. Box 598
West Stewartstown, NH 03597
October 12, 2007

Jennifer Price
Hearing Clerk, U. S. Senate
Committee on the Judiciary
224 Dirksen Senate Office Building
Washington, D. C. 20510

Reference: October 10, 2007 Hearing on Economic and Community Implications of
Northern Border Security

Dear Ms. Price:

On July 20, 2007 while waiting in line for over 30 minutes at the Norton, Vermont port of entry into the United States, I had the opportunity to reflect on my 31 years as a federal employee. Many of those years were spent as an Immigration Inspector.

While waiting in line, I noted that the Customs and Border Protection Inspectors were performing the following functions.

- Entering every vehicle license plate number into a computer system.
- Checking photo identification for everyone in the vehicle and entering the information into the computer.
- Asking every driver to turn off their vehicle and give the keys to an Inspector.
- Opening the trunk of every vehicle.

The entire process took on average at least 3 minutes per vehicle. When asked why the above procedures were being followed for every vehicle, I was told that they were developed by personnel from Headquarters in Washington, DC and they were now official policy.

During my tenure as an instructor and manager at the Immigration Officer Academy at the Federal Law Enforcement Training Center in Glynco, GA, I was involved in the training of thousands of Immigration Inspectors. During the ten week training program, which costs over \$50,000 per trainee, Inspectors are encouraged to be professional, courteous and employ behavioral symptoms analysis techniques to differentiate between people entering the country legally and illegally.

While at the Academy in Georgia, emphasis was placed on interdicting individuals ineligible to enter the United States as well as facilitating the travel of people into the country. Statistics consistently indicate that over 98 percent of the people who enter the United States from Canada are legal; law abiding individuals who want to come here as

tourists, students or to do business. More than half of the people who enter are actually United States citizens or legal permanent residents who are returning home.

It appears as though the new procedures being implemented at our ports of entry do not take into consideration the fact that Inspectors are law enforcement officers who have been trained to recognize whether or not individuals applying for entry into the United States should be allowed to proceed. The facilitation of the inspection of individuals applying for entry no longer seems to be a priority and every person is now being treated as an illegal alien until the computer says otherwise.

Although interdicting individuals ineligible to enter the United States should remain a priority, Inspectors should be given discretion in determining whether or not to require photo identification for every individual or further search of a vehicle is needed. Instead of inspecting everyone applying for entry into the United States using a "cookie cutter" methodology, Inspectors should be allowed to use targeted enforcement techniques in determining whether or not an individual or vehicle needs more scrutiny.

Facilitating the travel of individuals into our country promotes tourism, encourages people to come here to do business, reduces carbon emissions of vehicles waiting in line and enhances our image as a friendly nation that welcomes people.



Leslie Klinefeiter

Statement of
The Honorable Patrick Leahy
United States Senator
Vermont

Statement of Senator Patrick Leahy,
Chairman, Senate Committee on the Judiciary
Field Hearing in Newport, Vermont
“Economic and Community Implications of Northern Border Security”
October 10, 2007

Today’s Judiciary Committee field hearing in Newport, Vermont, will focus on the impacts of policies set by the Department of Homeland Security that have had, are having and will have severe implications for the social and economic ways of life in border communities all across our country. I am pleased that a number of business and community leaders from Vermont are able to join us today to share their views and testimony with this committee and the people in Washington.

I will start by giving some brief opening remarks and then turn things over to our witnesses to hear their stories. Hopefully, I will then have time to ask the witnesses about their statements. Also, without objection, I ask that all written testimony for this hearing be entered at the appropriate place in the record.

Let me take a moment to thank our host today, Mayor Woody Guyette. It is always nice to return to Marcelle’s hometown – and the city looks great. I would also like to thank representatives from Senator Sanders’ staff, Jeff Munger, and Mary Sprayregan from Congressman Welch’s staff, for taking time to be with us today. Senator Sanders and Congressman Welch have been great partners in Washington on border issues. And, of course, a special thank you to the citizen’s of Canada who have joined us here today – especially the Canadian Consul General from Boston – Neil LeBlanc.

In the wake of the September 11 terrorist attacks, a number of new border security measures have been put in place – from constructing border fences, to developing and deploying surveillance technologies, to adding troops along our borders – all with the expressed goal of preventing another terrorist incident. We all agree that we must protect our borders, but we must do it sensibly and intelligently. It is convenient to forget that most of the 9/11 hijackers entered the United States with legal visas – and some were on secret watch lists, but not being watched.

I am afraid that this Administration’s current policies threaten to fray the social fabric of countless communities that straddle the border. I have heard from many Vermonters who have encountered problems at U.S. border crossings – from long traffic backups to invasive searches and questioning to inadequate communication from federal authorities about new facilities and procedures. Such a top-down approach does not work well in interwoven communities along the border, where people cross daily from one side to the

other for jobs, shopping, and cultural events.

Sure, these new procedures have snared some illicit drug shipments and snared a few criminals, but not many terrorists. Meanwhile, we have needlessly offended our neighbors, sacrificed much of the traditional good will we have enjoyed, and undermined our own economy in border communities like Newport, Derby, Richford, Highgate, and Norton. That is why I have worked hard to provide balance and needed resources along the Northern Border, and I have tried to convey in Washington something of the special relationship we have with our Canadian neighbors to the North.

Canada has been an important trading partner and friendly neighbor to Vermont and the United States for more than 200 years. It is in the best interests of both of our countries to keep those relations as positive and productive as possible. Post 9/11, everyone on both sides of the border recognizes that there are potential threats and security needs. We have hardened security around the U.S. Capitol and the White House and built fences near San Diego, but those procedures do not work on Canusa Avenue in Beebe Plain or at the Haskell Free Library and Opera House in Derby Line, Vt., and Stanstead, Que.

That is why I am so troubled by the so-called Western Hemisphere Travel Initiative, which will require individuals from the United States, Canada, Mexico, and the Caribbean to present passports or other documents proving citizenship before entering the United States. This is a dramatic change in the way that border crossings have been processed in the Western Hemisphere since the Treaty of Paris set up the international boundary with Canada in 1783.

The Departments of State and Homeland Security have been charged with implementing this law, and they should be coordinating their efforts with our international neighbors to ensure a smooth transition at our borders. Unfortunately, as I have detailed to Secretary Rice and Secretary Chertoff on several occasions, there are serious problems in the ways in which their agencies have pushed forward with implementation of this new initiative before the necessary technology installation, infrastructure upgrades, and training take place at our border stations. If these critical features of the deployment are not in place, we will see severe delays at our border and law-abiding citizens from the United States, Canada, Mexico, and the Caribbean will have great difficulty moving between our countries. Most importantly, a hasty implementation without assurances that the technology to be used is truly effective can result in a less secure border.

The Administration's record on implementing the air portion of the new passport program is clear, and it has been abysmal. Hundreds of Vermonters have called my office for assistance in salvaging their travel plans, and I know that Americans from other states have experienced similar problems, as well. The huge passport backlogs for air travel are just a taste of the chaos that is likely next summer when they want to start enforcing passport checks at our land and sea borders. Those land and sea border crossings account for 10 times more volume than crossings from air travel.

Since DHS and State keep saying that the Western Hemisphere Travel Initiative is a

“congressionally mandated” program, I believe they should stop opposing the bicameral and bipartisan legislation I authored that is now moving through Congress to shift the new passport requirement date to June 2009. They have been warned repeatedly that they are not ready. By maintaining the fiction that they will be ready to implement the largest phase of this program next January, they are recklessly risking the travel plans of millions of Americans and the economies of scores of states and communities.

Our borders present security challenges, but the Northern Border is more than just a security challenge. It’s also a great asset to the nation and to Vermont and other border states. The Northern Border is a powerful economic engine and focal point for scores of communities. There are clear problems and great risks ahead if our government chooses one-size-fits-all answers instead of thoughtful, commonsense solutions. This hearing will contribute Vermont’s perspectives to the border security decisions that lie ahead. I look forward to hearing from all of our witnesses today about the economic impacts they have seen and expect in the future. I thank them all for taking time from their busy schedules to be with us today. Everyone recognizes the critical importance of national security, but when we sacrifice our economic and social ways of life, Americans lose and the terrorists have taken from us what they cannot by force of arms.

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BURLINGTON INTERNATIONAL AIRPORT**October 10, 2007**

Testimony of Brian Searles, Director of Aviation, submitted to the U.S. Senate Judiciary Committee, Hon. Senator Patrick J. Leahy, Chair. concerning the impacts of crossing delays at the U.S. Canadian border.

On behalf of the Burlington International Airport, the airport commission and the city of Burlington, I want to thank Chairman Leahy and the Senate Judiciary Committee for focusing on the issue of border crossing delays.

The Burlington International Airport is a full-service airport with a "small hub" designation by the Federal Aviation Administration. We will serve 1.4 million passengers this year who fly to and from destinations all over the world. Our six major carriers serve thirteen cities with non-stop service and it is estimated that our facility has a \$350 million positive impact on the region.

Due to our proximity to the Canadian border the airport has always served travelers from Quebec. Historically, Canadians have represented a steady 20% of the business. Recently, that number has increased and is now estimated at 30-35% of business at our airport. There are a number of reasons for this including increased marketing, the favorable currency exchange rates, our French language web site and, of course, the low cost of airline tickets at Burlington when compared to Montreal.

However, a comment we hear constantly from our Canadian travelers concerns the ease of access to our facility and the hassle-free environment when they arrive. In other words, if you live in the suburbs south and east of the St. Lawrence River or in one of the Eastern Townships you can reach our airport in the same time or less than you can get to Trudeau Airport in Montreal. There is one wild card in all of this and that is the time it takes for Canadians to cross the border. If the driving time is 60 to 90 minutes to the airport but experience shows that 30 to 120 minutes is lost at the border, the advantage for us is severely diminished.

As a former law enforcement officer, I understand the need for security screening at our borders and would not suggest that those efforts be compromised. However, it is paramount that we consider the importance of commerce to the people who reside on both sides of the border and the reality that positive interaction between citizens of both countries is a security enhancement.

A system of border security which minimizes the risk of terrorism and maximizes the potential for the best possible commerce will greatly benefit the Burlington International Airport and all of the people who live and work in our service area, Canadian and American. Thank you for considering our view and feel free to contact me with any questions.

STATEMENT
THE NEWPORT CITY RENAISSANCE CORPORATION
Patricia M Sears, Executive Director
before the
Senate Judiciary Committee
United States Senate
October 10, 2007

Patricia M Sears, Newport City Renaissance Corporation
pmsears@gmail.com; 802 334.5136 / 802 744.6600
Page 1 of 4

Senator Leahy, and other distinguished members of the US Senate Judiciary Committee, I appreciate the opportunity to testify on behalf of the Newport City Renaissance Corporation addressing the Economic and Community Implications of Northern Border Security.

Welcome to our fair city of Newport; gateway to Vermont's Northeast Kingdom—one of only two National Geographic Geotourism destinations in the entire country. If you look out at the lake to the north you will see Canada. The border is not visible.

The beautiful international Lake Memphremagog is a rich region whose culture spans two languages, two countries, one lake. We enjoy a robust relationship with potential partnerships that would push and pull international trade and tourism. These partnerships are at risk of enduring a chilling effect because of border delays and hostility by border guards.

Momentum is building for Newport's renaissance of commercial and community development. We do not appreciate the timing of unwarranted tension and high cost of crossing the border.

The direct business impact on the downtown merchants of Newport is illustrated by Main Street proprietors Steve Crevoshay and Madeleine Winfield:

"As a business in downtown Newport, we have been profoundly affected by the new difficulties encountered by our customers when crossing the border. Please remember, and let it be an indication of the historically high level of international mixing of populations—that many Americans live on the Canadian side. Many of them are our customers. They repeatedly confide to us that the frequency of their border crossing has been diminished quite a bit. One good customer now limits her trips to Vermont to once every two weeks, and she's a U.S. citizen!"

The implications are simple and easily understood: the tighter and farther reaching the border policies, the greater the impact on the choices people make to come to our beautiful city as visitors.

Why would someone planning on a trip to Newport to shop, enjoy a meal, walk along Lake Memphremagog on the beautiful boardwalk and maybe take a boat ride—all of which might last 4 - 5 hours—do so if they had to at the very least endure an unwelcoming attitude and long wait at the border *or* at the worst face outright hostility? And even if such long waits are infrequent, why would they want to take the risk they might wait that long?

How do I, as the representative of the Newport City Downtown Renaissance Corporation, or any Newport businesses owner, answer the tourist who has encountered situations like this and asks *why* the crossing has to feel so unfriendly? This could become a fact of daily operations here in Newport and thus dampening enhancement, expansion or new location of businesses on Main Street.

Patricia M Sears, Newport City Renaissance Corporation
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Page 2 of 4

With the US dollar currently on par with the Canadian dollar the potential for Canadian investment in property and co-locating businesses should be huge.

However, Frank Knoll, a private developer of Mount Vernon Estates in Newport offers, "Any Newport company doing business with Canada will be affected by costly restrictions. Having invested a considerable amount in infrastructure and up-scale residences for Newport area, we are having potential buyers from Canada consider *not* having a second home here if border restrictions and delays increase. Everyone understands the need for security. There simply needs to be a streamlined entry procedure for Canadians having a second home in Vermont."

Lately we have been made aware that a decision made from a distance and in isolation of our daily lives here in the Kingdom is aimed at implementing the Western Hemisphere Travel Initiative. This initiative has a requirement for passports for land crossings between Canada and the U.S. It is scheduled for implementation in January of 2008.

This initiative could even further shut us off from visitors. Experience tells us we do not have the infrastructure in place to handle the demand for these passports. For this reason, we would propose delaying its implementation to June of 2009 at the earliest. In this way we allow the time to develop a system that meets best practices standards for border protection and satisfies the needs of the traveler.

I ask that the balance of my remarks be entered into the record. *Thank you.*

On a personal level, my family has altered trips north of the border to lay flowers at the grave of deceased loved ones in fear that the wait to return to the U.S. might prove to be uncomfortable for an elder family member.

From a broader perspective, and as the president of the Northeast Kingdom Collaborative for three years, I am constantly made aware of how disappointed companies are when potentially good business days are ruined due to delays at the border and how new businesses that might want to move to the area may well have serious second thoughts about doing so given the trend towards tighter less efficient border practices.

We know that there are some issues associated with this complex problem that will go a long ways towards creating a better border crossing. One is increasing the number of border patrol and customs agents on the Northern Border. This allows more people to do more things. It cuts down on the stress that makes otherwise friendly individuals act in a brisk and sometimes unfriendly manner due to stress and overwork. The added benefit is that the agents will probably be more able to react efficiently and appropriately.

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When we look at the current initiative, cost is an equally important consideration—especially for families that might want to take just an occasional day trip. The Northeast Kingdom has historically been a place where families shared common interests and culture freely. Yet the way the Western Hemisphere Travel Initiative is proposed might mean that children and frequent crossers have limited access to an alternative less expensive document than the passport. Any alternative deserves considerable planning in order to execute efficient implementation.

We have relationships and seek to leverage partnerships. It has been suggested that administrators work more closely with Derby Line businesses, officials and citizens to find a sensible solution to the street closure issue. This process has begun, but it has left many feeling like the decisions on how and when to make the closings have already been made. The dialogue appears intended to placate with a desire to dictate instead of exploring with a goal of informing.

Lastly, I would like to ask the august members of the Senate Judiciary Committee to work in a bi-partisan manner to ensuring funding for the I-91 / Derby Line point-of-entry construction. This includes making the investment required to conduct a good faith and sincere effort to facilitate the much-needed information exchanges between the Government Services Administration, Customs and Border Protection officials, and local citizens and elected officials.

Thank you for the opportunity to participate in this important discussion.

October 10, 2007

Good morning Senator Leahy and other members of the committee. For the record, my name is Tim Shea, Vice President and Congressional Liaison for the Lake Champlain Regional Chamber of Commerce. Senator Leahy, before I start, I want to thank you for your leadership on this issue and for the opportunity to share my comments today.

The Lake Champlain Regional Chamber of Commerce has 2,500 members located throughout northern Vermont, many of whom are very dependent on the flow of commerce across our northern border. Over the past two years, we have been an active member of the Business for Economic Security Tourism and Trade Coalition. The BESTT Coalition, which represents more than 300,000 businesses, is an international coalition of businesses and trade associations from across the United States and Canada who share a common concern about the ramifications of the Western Hemisphere Travel Initiative (WHTI). Together, we have been working to find a solution to the WHTI and reverse the devastating effect it will have on the U.S. economy.

I want to expand upon the comments of those before me and provide a national perspective on the issue. Here are some figures:

- 90% of Canadians live within 100 miles of the border
- Daily trade between the U.S and Canada is \$1.2 billion and supports 5.2 million jobs
- In 2005, there were 38 million trips, Canadian to U.S.
- 26% of Americans have passports
- 35% of Canadians have passports

This is not just a northern border state issue as Florida, California and Nevada rank in the top four of Canadian spending in US states.

As part of my testimony today, I am submitting an economic analysis of the proposed WHTI rule recently prepared for the Tourism Industry Association of Canada. This report reviewed and assessed the economic analysis included in the Notice of Proposed Rulemaking related to the requirements for land and sea crossings from within the western hemisphere.

The report estimates that once the land and sea passport requirements begin next year the loss of expenditures from Canadian travelers to the United States at roughly \$820 million in 2008. This is a fourfold increase over the Department of Homeland Security's estimate of \$200 million. It was determined that the DHS report contained a number of calculation errors and used outdated tourism information. In addition, the DHS analysis does not consider the wider impacts these new regulations would have on business and trade activity, which is what we are exploring today. As the report states, "restrictions on trade, such as restrictions on the movement of people, have the potential to reduce trade and harm the economies of both countries."

I also am submitting a graph that tracks all Canada –US border crossings and compares them to the value of the Canadian dollar. For over 20 years, the number of Canadians crossing our shared border mimicked the rise and fall of the Canadian Dollar. When the dollar was down, crossings were down, and when the Canadian dollar rose against the US Dollar, crossings increased.

Since 9-11, crossings have been nearly flat and at much lower levels than they were in 1991, the last time the Canadian Dollar was close to parity. However, while Canadian crossings have been flat, the Canadian dollar has increased from \$0.63 to parity. It is our belief that the one of the reasons Canadians have not returned at the levels they once did is tied directly to issues at the border when entering the US and confusion as to proper documentation needed to enter the US. We also feel that the requirement of Canadian citizens to have a passport to enter the US will only decrease the numbers of Canadians that travel to the US, regardless of the value of their dollar compared to ours.

Bottom line, WHTI, at best, will provide a false sense of security. While no one can debate the need for secure borders, WHTI is not the answer. Senator Leahy, I would again like to thank you for your leadership on this issue and encourage you to continue your efforts to delay the implementation of WHTI to no sooner than June 1, 2009 so that we have time to find the appropriate solution.

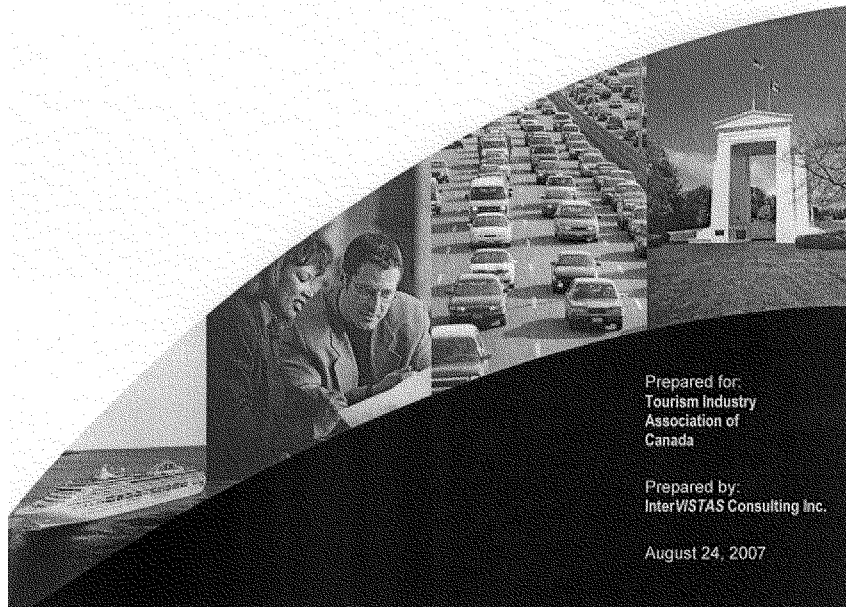
Thank you. •

Submitted by:
Timothy P. Shea
Vice President and Congressional Liaison
Lake Champlain Regional Chamber of Commerce

Review of the Economic
Analysis Contained in the
Notice of Proposed
Rulemaking Relating to
Travelers Departing From or
Arriving in the United States at
Sea and Land Ports-of-Entry
Dated June 26, 2007



strategic
transportation
& tourism
solutions



Prepared for:
Tourism Industry
Association of
Canada

Prepared by:
InterVISTAS Consulting Inc.

August 24, 2007

**Review of the Economic Analysis Contained in
the Notice of Proposed Rulemaking Relating to
Travelers Departing From or Arriving in the United
States at Sea and Land Ports-of-Entry
Dated June 26, 2007**

Prepared by:
InterVISTAS Consulting Inc.
August 24, 2007

This report was commissioned by the Tourism Industry Association of Canada with additional financial support from the BESTT Coalition, Clipper Navigation Inc., the Frontier Duty Free Association, and the British Columbia Ministry of Sport, Tourism and the Arts.

Executive Summary

The Tourism Industry Association of Canada commissioned InterVISTAS Consulting Inc. to review and assess the economic analysis included in the Notice of Proposed Rulemaking (NPRM) related to requirements for land and sea crossings from within the western hemisphere (Document USCBP-2007-0061).¹ This report provides a summary of the review and its main findings. In undertaking this review, a number of calculation errors and methodological shortcomings were revealed that seriously understate the economic impact of the regulations. These are summarised below.

The analysis of tourism expenditures contains calculation errors and outdated information which results in a serious understatement of the net tourism expenditure impact

The calculation of lost expenditures resulting from reduced travel to the U.S. by Canadian tourists is based on a report commissioned by the Canadian Tourism Commission (CTC). However, the results from the CTC report were incorrectly applied in the NPRM analysis, resulting in a substantial underestimation of the reduction in travel by Canadians. Furthermore, the CTC study was updated in August 2006 in a report commissioned by Industry Canada using more current information on the application of WHTI.

Correcting the error in calculation and utilising the updated information, the loss of expenditures from Canadian travellers to the U.S. was estimated to be roughly \$820 million in 2008, rather than \$200 million estimated in the NPRM analysis, a fourfold increase. Therefore, the net loss on the northern border (allowing for spending retained in the U.S. as a result of forgone trips to Canada) in 2008 is \$650 million, much greater than the estimate of \$30 million produced in the NPRM analysis. Even including the southern border expenditure impacts, there is an overall net loss to the U.S. economy of \$210 million, a very different result to the net gain of \$410 million estimated in the NPRM analysis.

Net gains at the southern border do not offset net losses at the northern border

The analysis in Table 4 of document USCBP-2007-0061 is misleading as it implies that the net loss of \$30 million in 2008 on the northern border (which, as already noted, is substantially underestimated and is more likely in the region of \$650 million) is offset by the net gain of \$440 million at the southern border. However, there is no reason to expect that U.S. travelers forgoing travel to Mexico will instead spend their money in communities along the northern border. In reality, northern communities will experience an overall loss of tourism expenditures, economic

¹ Part of the Western Hemisphere Travel Initiative (WHTI).

activity and employment, which will be in little way offset by any possible gains at the southern border. The NPRM report acknowledges as much in its later analysis of regional impacts.

The gain to the U.S. economy of forgone travel by U.S. travellers is overstated

The analysis of tourism expenditures estimates that, in 2008, \$440 million of expenditure is retained in the U.S. economy as result of forgone trips by American residents to Mexico and further \$170 million is retained due to forgone trips by Americans to Canada. It is assumed that these expenditures remain within the U.S. economy either in the form of travel within the U.S. or expenditures on goods and services. This ignores the fact that some of this expenditure will "leak" out of the economy in the form of expenditures on imports. Spending on goods from Canada, Mexico, China, etc., result in money leaving the U.S. economy in the same way as tourism expenditures in Canada and Mexico.

The analysis of regional impacts also contain errors which understate the economic impact at northern border communities

The analysis of regional impacts is based, in part, on the overall expenditure impacts and therefore is affected by the calculation error identified above. Correcting for this error, the loss of Canadian expenditures is estimated to be \$820 million in 2008, rather than \$200 million, over four times the original estimate. Applying this factor to the regional estimates, this suggests that, for example, the employment loss to Whatcom, WA would be in the region of 2.2%, rather 0.53% estimated in the NPRM, a loss of approximately 2,190 jobs. The revised employment loss in Washington County, ME is 5.8% (rather than 1.41%), representing a loss of approximately 1,350 jobs.

The analysis of tourism expenditures does not consider the impact of the cost of acquiring documentation on spend rates

As the NPRM report acknowledges, the analysis of expenditures does not consider whether the cost of acquiring documentation would reduce the spend rates of visitors. For example, some Canadian and Mexican travellers to the U.S. may reduce their spending as the result of some of their travel budget being consumed by the costs of acquiring documentation. It is also possible that U.S. travellers acquiring documentation will have less money available for other spending in the U.S. economy. While determining the spending behaviour of travellers in response to the documentation requirements would be a challenging task, sensitivity analysis could easily be undertaken to determine the potential scale of the impact.

Some of the analysis is based on surveys of traveller responses to the regulation which may not be accurate

The calculation of lost consumer surplus and the expenditures of U.S. travellers forgoing travel to Canada and Mexico is based, in part, on a Department of State survey which attempted to determine the proportion of travellers without appropriate documentation who would opt not to apply for documentation. However, these surveys did not provide much detail on the documentation requirements and options, nor did they provide any information on the likely costs of

acquiring documentation. Therefore, it is not clear that the responses given are reflective of likely decision-making by travellers when the regulations come into place.

The risk analysis does not address the possible risk reduction that will actually be achieved by regulations

A "breakeven" analysis was undertaken to examine the risk reduction (of a terrorist attack) required to offset the costs (the welfare loss and government spending) of the regulation. From this analysis, the estimated breakeven risk reduction ranged from 3.5% to 35%. However, the analysis does not consider what risk reduction the WHTI regulations could actually achieve.

The reduction of the risk of a terrorist attack in the breakeven analysis implies that WHTI will have a sizable impact to prevent future attacks on the U.S. homeland. Although there are clear benefits to reducing the variety of document types a U.S. Customs and Border Protection officer is expected to vet, it is a questionable to link improper documentation directly to a future terrorist attacks. In fact, most recent attacks and plots disrupted in the U.K., U.S. and Canada did not involve improperly documented individuals. Moreover, to achieve risk reduction within the range estimated in the NPRM analysis, WHTI would need to be combined with a series of other anti-terrorism, law enforcement and homeland security solutions.

The analysis does not consider the wider impacts on business and trade activity that may result from the proposed regulation

The analysis undertaken in the NPRM does not consider or quantify the potential impact on business and trade activity resulting from the proposed regulation. While this impact may be considered "indirect", it has the potential to be substantial. It is almost universally agreed among economists that trade between two nations can benefit the economies of both countries. Therefore, restrictions on trade, such as restrictions on the movement of people, have the potential to reduce trade and harm the economies of both countries.

For example, a firm in the U.S. that has to pay for documentation for its employees that regularly travel into Canada or Mexico will have to reduce spending on other activities, potentially reducing the overall output of the firm. Alternatively, the firm may choose to reduce the number of employees travelling across the border, potentially harming its ability to trade in Canada and Mexico. Another example: businesses in Canada and Mexico considering locations for conventions, meetings or incentive travel may be less willing to consider locations in the U.S. due to concerns that attendees will not have the correct documentation to enter the U.S.

1.0 Introduction

On June 26, 2007, the U.S. Department of Homeland Security issued a notice of proposed rulemaking (NPRM) regarding the document requirements for travellers to/from the U.S. arriving or departing at sea or land ports of entry, part of the Western Hemisphere Travel Initiative (WHTI). The Tourism Industry Association of Canada commissioned InterVISTAS Consulting Inc. to review and assess the economic analysis included in the NPRM. As part of this assessment, the following documents were reviewed:

- Department of Homeland Security, U.S. Customs and Border Protection, and Department of State: "Notice of Proposed Rulemaking - Documents Required for Travelers Departing From or Arriving in the United States at Sea and Land Ports-of-Entry from within the Western Hemisphere", Document USCBP-2007-0061.
- Industrial Economics Inc. for Department of Homeland Security, and U.S. Customs and Border Protection: "Regulatory Assessment for the Notice of Proposed Rulemaking - Documents Required for Travel within the Western Hemisphere - The Western Hemisphere Travel Initiative Implemented in the Land Environment" (June 2007), Document USCBP-2007-0061-0002.
- Rand Center for Terrorism Risk Management Policy for Industrial Economics Inc.: "Using Probabilistic Terrorism Risk Modeling For Regulatory Benefit-Cost Analysis: Application to the Western Hemisphere Travel Initiative Implemented in the Land Environment" (May 2007), Document USCBP-2007-0061-0003.
- Elena Ryan, U.S. Customs and Border Protection, Office of Regulations and Rulings: "Regulatory Assessment for the Proposed Rule - Documents Required for Travel within the Western Hemisphere - The Western Hemisphere Travel Initiative Implemented in the Sea Environment" (June 2007), Document USCBP-2007-0061-0004.

In undertaking this review of the economic analysis employed in the NPRM, a number of calculation errors and methodological shortcomings were revealed that seriously understate the economic impact of the regulations. These are outlined in the following chapter.

2.0 Economic Analysis Methodology

2.1 Outline of the Analysis

The Office of Management and Budget conducted an economic analysis of the proposed changes outlined in the NPRM, since the policy is considered to be an economically significant regulatory action (i.e., one that may result in the expenditure of over \$100 million in any one year). The analysis considered the following major economic impacts over the period from 2005 (announcement of WHTI plan) to 2014:

- the impact on consumer surplus;
- the impact on tourist expenditures within the U.S. (inflows and outflows);
- critical risk reduction of potential terrorist attacks.

The sections below briefly outline the methodology used to estimate these three economic impacts.

2.1.1 Loss of Consumer Surplus

The NPRM analysis assumes that there will be a social welfare loss – a loss of consumer surplus – associated with the proposed regulation. In this case, the calculation of lost consumer surplus is based on an opportunity cost approach – the regulation requires that certain travellers either purchase new documentation, which means they have fewer resources (money and time) for other purposes, or the traveller has to forgo their travel. This loss of consumer surplus to U.S. travellers was calculated as follows:

1. Estimate the number of U.S. travellers covered (i.e., those travelling to Canada and Mexico).
2. Estimate the number of these U.S. travellers that already hold acceptable documentation (i.e., passports).
3. Of those travellers without acceptable documentation, estimate the number that **will** opt to obtain passports or passport cards and estimate their lost "consumer surplus".
4. For those travellers without acceptable documentation, estimate the number that **will not** opt to obtain documentation and estimate their lost "consumer surplus".

The loss of consumer surplus was then calculated as the sum of the lost consumer surpluses estimated in steps 3 and 4 above.

Estimation of the number of travellers covered and those holding acceptable documentation (steps 1 and 2) was based on data and surveys collected at border crossings (points of entry). In order to determine expected acquisition levels for acceptable documentation a Department of State survey asked travelers the following question:

"The new Intelligence Reform and Terrorism Prevention Act will require all U.S. citizens to have a valid passport for travel to Canada, Mexico and countries in the Caribbean. Will you apply for a passport so that you can travel to those destinations?"

The loss of consumer surplus was based on the cost of acquiring a passport which included the application fee, the cost of photographs, and the opportunity cost of time spent applying.² The loss in consumer surplus to those travelers that decide to obtain acceptable documentation was calculated as the cost of obtaining a passport or passport card (including fee, photographs and time expended) multiplied by the number of those travelers opting to obtain a passport. The loss in consumer surplus to those travelers who decide not to obtain a passport is equal to one half of the cost of acquiring the passport multiplied by the number of travelers who decide to not obtain a passport.³

The loss of consumer surplus was totalised for each year in the study period (2005-2014) and discounted at 3% and 7% discount rates to produce a net present value (NPV) for the consumer surplus loss. The NPV of the loss of consumer surplus was estimated to be \$1.9 billion at the 3% discount rate and \$2.2 billion at the 7% rate.⁴ A Monte Carlo uncertainty analysis was undertaken to determine the sensitivity of the results to various assumptions. This analysis suggested a mean value for the loss of consumer surplus of \$2.1 billion and a standard deviation of \$0.5 billion. The range between the 5th percentile and 95th percentile was \$1.4 - \$3.1 billion.

The government capital and operating costs were added to the loss of consumer surplus on a similar opportunity cost basis as the consumer surplus analysis – government expenditures on the requirements for land and sea crossing under WHTI deprive other government programs of these resources. Including the discounted government costs of the program, the NPV of the total welfare loss is estimated to be \$2.8 billion at the 7% discount rate and \$3.3 billion at the 3% discount rate.⁵

² After reviewing an academic paper on the value of wait times, the study utilizes a formula that derives wait time as a percentage of gross income; a premium is assigned to business travel. A weighted average of time spent by business and leisure travelers is then used to measure the average cost per traveler.

³ The basis for this is that these travellers' willingness to pay for access to Mexico and Canada is less than the cost of application, otherwise they would apply for a passport. Therefore, each traveller's willingness to pay is somewhere between zero and slightly less than the cost of application. Assuming a uniform distribution along a linear demand curve, the average willingness to pay for all the travellers opting not to obtain the passport will be approximately half the cost of application.

⁴ Source: Industrial Economics Inc. for Department of Homeland Security, and U.S. Customs and Border Protection: "Regulatory Assessment for the Notice of Proposed Rulemaking Documents Required for Travel within the Western Hemisphere - The Western Hemisphere Travel Initiative Implemented in the Land Environment" (June 2007), Exhibit 5-31.

⁵ Source: Department of Homeland Security, U.S. Customs and Border Protection, and Department of State: "Notice of Proposed Rulemaking - Documents Required for Travelers Departing From or Arriving in the United States at Sea and Land Ports-of-Entry from within the Western Hemisphere", Table B.

2.1.2 Changes in Tourism Expenditures

The study attempts to predict the change in expenditures that will occur in the U.S. economy as a result of the proposed rulemaking. More precisely, the study makes estimates of the lost spending from reduced Canadian and Mexican National travelers, and increased spending from U.S. residents that make expenditures in the U.S. in lieu of traveling to Canada and Mexico.

U.S. Travellers

The changes in expenditures by U.S. travelers were calculated by estimating the number of crossings into Mexico and Canada by travelers who decide not to obtain acceptable documentation multiplied by the average spending per trip by U.S. travelers.

The number of U.S. travellers opting not to obtain acceptable documentation was based on Department of State surveys. The average expenditure per trip was based on various data sources from the U.S., Canada and Mexico. The total amount of expenditures by U.S. travellers who forgo travel was estimated to be \$610 million in 2008 (\$440 million for forgone trips to Mexico and \$170 million for forgone trips to Canada).

The study assumes that any expenditures that are diverted from travelers who would have traveled to Canada or Mexico will remain in the U.S. economy either in the form of travel within the U.S. (e.g., vacationing in the U.S. rather than Mexico or Canada) or through the consumption of other goods and services.

Canadian and Mexican Travellers

The study also estimated the loss of tourism expenditures from Canadian and Mexican travellers opting not to travel to the U.S. For Mexican travellers, it is assumed that there will be no loss of expenditures as these travelers are already required to use a passport or similar documentation so will automatically comply with the new WHTI regulations.

The loss of expenditures by Canadian travellers was estimated using data from a report commissioned by the Canadian Tourism Commission: *The Potential Impact of a Western Hemisphere Travel Initiative Passport Requirement on Canada's Tourism Industry*, Prepared by the Conference Board of Canada, July 2005. This report estimated the reduction in Canadian travelers to the U.S. after the WHTI implementation (for example, a decrease of 4.3% was estimated for 2008). This figure is then applied to the number of crossings made without acceptable documentation to determine the total reduction in Canadian travelers. The expenditure data was based on data collected by Statistic Canada, the statistical agency of the Canadian federal government. The expenditure figures were applied to the change in traffic in order to determine the total expenditure loss from the reduction in Canadian travelers.

Overall Net Expenditure Flows

The estimated changes to the inflows and outflows of tourism expenditures were presented as shown in the table below.

Net Expenditure Flows in North America (Undiscounted 2005\$, Millions)

	2008	Subsequent Years (Annual Impacts)
U.S. travelers who forgo travel to Mexico	+\$440	+\$310
Mexican travelers who forgo travel to the U.S.	\$0	\$0
U.S. travelers who forgo travel to Canada	+\$170	+\$120
Canadian travelers who forgo travel to the U.S.	-\$200	-\$200
Net Impact	+\$410	+\$230

Note that while the results show a net "gain" to the U.S. economy, the results are very different for the northern and southern borders. For example, on the northern border there is a net loss of \$30 million (\$170m minus \$200m) in 2008 and a loss of \$80 million in subsequent years (\$120m minus \$200m).

Distributional Effects

The U.S. study acknowledges that the impacts of the regulations will have different impacts on different regions of the U.S. In order to address this issue, the study examines eight case study regions, four near the southern border and four near the northern border. This involved estimating the net change in expenditures in each region, based on the previous analysis of overall tourism expenditures, and modelling the impact on regional economic activity and employment using the IMPLAN input-output model. The results, summarised below, show positive changes in southern border regions and negative changes in the northern border regions (both the positive and negative changes are characterised as "small" in the reports).

Case Study Region	% Change in Economic Output	% Changes in Employment
San Diego, CA	+0.03%	+0.03
Pima, Santa Cruz, AZ	+0.03%	+0.03
Hidalgo, Cameron, TX	+0.22%	+0.19
Presidio, TX	+0.55%	+0.62
Niagara, Erie, NY	-0.06%	-0.12
Washington, MN	-0.61%	-1.41
Macomb, Wayne, Oakland, MI	-0.01%	-0.01
Whatcom, WA	-0.21%	-0.53

2.1.3 Critical Risk Reduction of Potential Terrorist Attacks

As the benefits of homeland security (i.e., reduction of the risk of a terrorist attack) cannot be readily calculated, a "breakeven" analysis was undertaken to determine the reduction in risk required to offset the welfare costs (section 2.1.1) associated with the regulations.

The analysis used the Risk Management Solutions U.S. Terrorism Risk Model which generates a probabilistic estimate of the risk and costs associated with a number of types of potential attacks against thousands of potential targets in the U.S. The output of this model allowed calculations of the potential loss of property and casualties associated with the risk of terrorist attacks. Property damages included the cost of damaged buildings, loss of building contents, and cost of business interruption immediately following the attack. Valuations of casualties were based on cost of injury and value of statistical life estimates from various transport related studies. A range of probability values were estimated using different valuations and risk profiles. From this analysis, the estimated breakeven risk reduction ranged from 3.5% to 35%. The analysis does not capture all of the economic disruption resulting from a terrorist event, including the losses associated with government buildings and employees or the general fear and anxiety associated with the attack. These omissions may mean that the analysis overstates the necessary "breakeven" risk reduction.

2.2 Review of the Economic Analysis Methodology

In undertaking this review of the methodology employed in the NPRM, a number of calculation errors and methodological shortcomings were revealed that substantially understate the economic impact of the regulations. These are summarised below.

The analysis of tourism expenditures contains calculation errors and outdated information which results in a serious understatement of the net tourism expenditure impact

The calculation of lost expenditures by Canadian tourists is based on the July 2005 study commissioned by the Canadian Tourism Commission (CTC), which estimated that the total number of Canadian travellers to the U.S. would be reduced by 4.3% in 2008 as a result of the WHTI program. In the NPRM analysis, this 4.3% figure was applied to the estimated number of Canadian travellers without appropriate documentation. However, the figure in the CTC report is an estimate of the decline in *total* traffic, not just in travellers without appropriate documentation.⁶ In essence, the CTC figure is a weighted average of all travellers, both those with and those without documentation (as well as commercial drivers and under-16s, which were also excluded from the NPRM analysis). As those travellers already with documentation would not be expected to reduce their travel (as was assumed for the Mexican travellers), the CTC figure implies that the

⁶ This has been verified with the authors of the CTC report, the Conference Board of Canada.

decline in travel by travellers without documentation will be much greater than 4.3%.⁷ Furthermore, the CTC study was updated in August 2006 in a report commissioned by Industry Canada using more current information on the application of WHTI regulations. The updated analysis found that Canadian travel to the U.S. was estimated to decline by 5.9% in 2008.⁸

Correcting the error highlighted above and utilising the updated information, the loss of expenditures from Canadian travellers to the U.S. was estimated to be roughly \$820 million in 2008, rather than \$200 million estimated in the NPRM analysis (see **Appendix A** for more details on the corrected analysis). Therefore, the net loss on the northern border in 2008 is estimated at \$650 million, much greater than the estimate of \$30 million produced in the NPRM analysis. Even including the southern border expenditure impacts, there is an overall net loss to the U.S. economy of \$210 million, a very different result to the net gain of \$410 million estimated in the NPRM analysis.

Net gains at the southern border do not offset net losses at the northern border

The analysis in Table 4 of document USCBP-2007-0061 is misleading as it implies that the net loss of \$30 million in 2008 on the northern border (which, as already noted, is substantially underestimated and is more likely in the region of \$650 million) is offset by the net gain of \$440 million at the southern border. However, there is no reason to expect that U.S. travelers forgoing travel to Mexico will instead spend their money in communities along the northern border. In reality, northern communities will experience an overall loss of tourism expenditures, economic activity and employment, which will be in little way offset by any possible gains at the southern border. The report acknowledges as much in its later analysis of regional impacts.

The gain to the U.S. economy of forgone travel by U.S. travellers is overstated

The analysis of tourism expenditures estimates that, in 2008, \$440 million of expenditure is retained in the U.S. economy as result of forgone trips by American residents to Mexico and further \$170 million is retained due to forgone trips by Americans to Canada. It is assumed that these expenditures remain within the U.S. economy either in the form of travel within the U.S. or expenditures on goods and services. This ignores the fact that some of this expenditure will "leak" out of the economy in the form of expenditures on imports. Spending on goods from Canada, Mexico, China, etc., result in money leaving the U.S. economy in the same way as tourism expenditures in Canada and Mexico.

⁷ Approximately 41% of Canadian travellers to the U.S. do not have documentation. Therefore, the decline in visits by Canadian travellers without documentation is approximately: $4.3\% / 41\% = 10.6\%$.

⁸ *An Update on the Potential Impact of the Western Hemisphere Travel Initiative on Canada's Tourism Industry*, Prepared by the Conference Board of Canada for Industry Canada, August 2006. This report was completed before the announcement that WHTI implementation at land and sea crossings would be delayed to June 1, 2009. This study assumed that WHTI would be implemented at air and sea crossings on January 1, 2007, and at land crossings on January 1, 2008.

The analysis of regional impacts also contains errors which understate the economic impact at northern border communities

The analysis of regional impacts is based, in part, on the overall expenditure impacts and therefore is affected by the calculation error identified above. Correcting for this error, the loss of Canadian expenditures is estimated to be \$820 million in 2008, rather than \$200 million, over four times the original estimate. Applying this factor to the regional estimates, this suggests that, for example, the employment loss to Whatcom, WA would be in the region of 2.2%, rather 0.53% estimated in the NPRM, a loss of approximately 2,190 jobs. The revised employment loss in Washington County, ME is 5.8% (rather than 1.41%), representing a loss of approximately 1,350 jobs.

The analysis of tourism expenditures does not consider the impact of the cost of acquiring documentation on spend rates

As the NPRM report acknowledges, the analysis of expenditures does not consider whether the cost of acquiring documentation would reduce the spend rates of visitors. For example, some Canadian and Mexican travellers to the U.S. may reduce their spending as the result of some of their travel budget being consumed by the costs of acquiring documentation. It is also possible that U.S. travellers acquiring documentation will have less money available for other spending in the U.S. economy. While determining the spending behaviour of travellers in response to the documentation requirements would be a challenging task, sensitivity analysis could easily be undertaken to determine the potential scale of the impact.

Some of the analysis is based on surveys of traveller responses to the regulation which may not be accurate

The calculation of lost consumer surplus and the expenditures of U.S. travellers forgoing travel to Canada and Mexico is based, in part, on a Department of State survey which attempted to determine the proportion of travellers without appropriate documentation who would opt not to apply for documentation. However, these surveys did not provide much detail on the documentation requirements and options, nor did they provide any information on the likely costs of acquiring documentation. Therefore, it is not clear that the responses given are reflective of likely decision-making by travellers when the regulations come into place.

The risk analysis does not address the possible risk reduction that will actually be achieved by regulations

A "breakeven" analysis was undertaken to examine the risk reduction (of a terrorist attack) required to offset the costs (the welfare loss and government spending) of the regulation. From this analysis, the estimated breakeven risk reduction ranged from 3.5% to 35%. However, the analysis does not consider what risk reduction the WHTI regulations could actually achieve.

The reduction of the risk of a terrorist attack in the breakeven analysis implies that WHTI will have a sizable impact to prevent future attacks on the U.S. homeland. Although there are clear benefits to reducing the variety of document types a U.S. Customs and Border Protection officer is expected to vet, it is a questionable to link improper documentation directly to a future terrorist

attacks. In fact, most recent attacks and plots disrupted in the U.K., U.S. and Canada did not involve improperly documented individuals. Moreover, to achieve risk reduction within the range estimated in the NPRM analysis, WHTI would need to be combined with a series of other anti-terrorism, law enforcement and homeland security solutions.

The analysis does not consider the wider impacts on business and trade activity that may result from the proposed regulation

The analysis undertaken in the NPRM does not consider or quantify the potential impact on business and trade activity resulting from the proposed regulation. While this impact may be considered "indirect", it has the potential to be substantial. It is almost universally agreed among economists that trade between two nations can benefit the economies of both countries. Therefore, restrictions on trade, such as restrictions on the movement of people, have the potential to reduce trade and harm the economies of both countries.

For example, a firm in the U.S. that has to pay for documentation for its employees that regularly travel into Canada or Mexico will have to reduce spending on other activities, potentially reducing the overall output of the firm. Alternatively, the firm may choose to reduce the number of employees travelling across the border, potentially harming its ability to trade in Canada and Mexico. Another example: businesses in Canada and Mexico considering locations for conventions, meetings or incentive travel may be less willing to consider locations in the U.S. due to concerns that attendees will not have the correct documentation to enter the U.S.

Appendix A: Corrected Analysis of Lost Canadian Traveller Expenditures

In a July 2005 study commissioned by the Canadian Tourism Commission (CTC), the Conference Board of Canada estimated that the total number of Canadian travellers to the U.S. would be reduced by 4.3% in 2008 as a result of the WHTI program. This figure was subsequently misused in the NPRM economic analysis.

In the NPRM analysis, the total number of crossings by Canadians was estimated at approximately 42 million per annum using U.S. and Canadian data. This total was adjusted to exclude truck, bus and train driver crossings on the basis that these individuals are likely to obtain appropriate documentation in order to continue employment. The number of crossings by travellers without appropriate documentation was estimated using a report produced by the Ontario Ministry of Tourism and Recreation which stated that 54% of Canadians possess a valid passport. The total crossings by travellers without appropriate documentation was estimated at about 17 million. The 4.3% CTC estimate of the decline in travel was applied to this total, producing an estimate of 735,000 forgone trips. This total was then reduced by approximately 20%, bringing the total number of forgone trips to 597,000. Although not fully explained in the report on the analysis, this 20% reduction appears to be an adjustment for travelers under 16 years of age, who will not be required to possess new documentation.⁹ This analysis is summarised in **Table A1**.

A per traveller spend rate of \$330, taken from the Statistics Canada publication *International Travel 2003*, was applied to the estimate of lost Canadian travelers producing an estimate of lost expenditures of approximately \$200 million.

However, in the NPRM analysis the CTC figure is misinterpreted and is therefore misapplied. The CTC report estimated a decline of 4.3% in *total* traffic, not just in travellers without passports. In essence, it is a weighted average across travellers with passports, travellers without passports, commercial drivers, and under-16s. Therefore, the figure should be applied to the total trips to the U.S. of 42 million, as shown in **Table A2**. This correction produces a figure of approximate 1.8 million forgone trips, three times the NPRM estimate.

In addition, the CTC study was updated in August 2006 in a report commissioned by Industry Canada using more current information on the application of WHTI. The updated analysis found that Canadian travel to the U.S. was estimated to decline by 5.9% in 2008 (rather than 4.3%). As shown in **Table A2**, applying the 5.9% reduction in border crossings, the total reduction in the number of trips is estimated to be nearly 2.5 million. Applying the per traveller spend rate of \$330, the total amount of lost expenditures by Canadian travellers is estimated to be \$820 million, over four times the NPRM estimate.

⁹ The logic for this step appears suspect. The majority of under-16s crossing the border will likely be accompanied by a parent or guardian. Since some of these parents/guardians will opt not to obtain the required documentation, travel by under-16s would also be expected to decline.

Table A1: NPRM Estimate of Lost Canadian Travellers

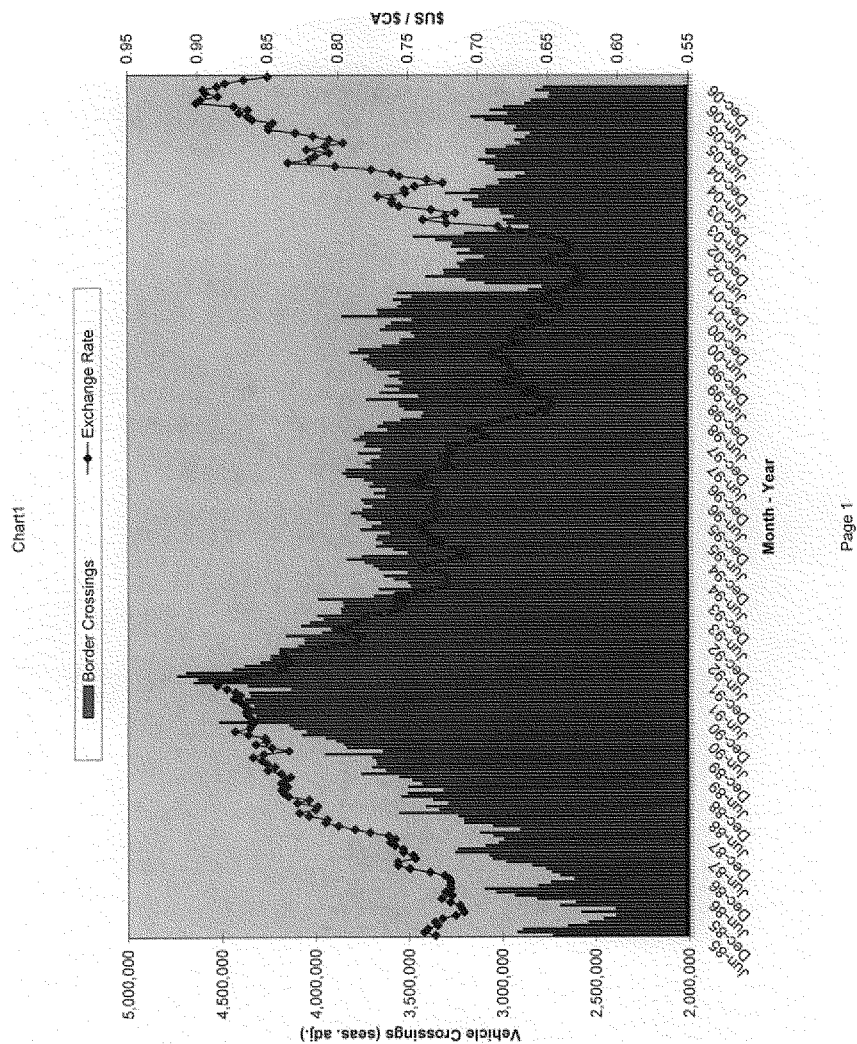
Entry Point	Total Crossings by Canadian Travellers	Total Crossings Excluding Drivers ¹	Crossings without a Passport ²	4.3% Reduction in Canadian Travellers	Final Reduction Used in Analysis
New York	15,410,000	13,993,000	6,437,000	277,000	225,000
Michigan	9,494,000	7,567,000	3,481,000	150,000	122,000
Washington	6,804,000	6,319,000	2,907,000	125,000	102,000
Maine	4,681,000	4,316,000	1,985,000	85,000	69,000
Minnesota	1,572,000	1,496,000	688,000	30,000	24,000
Vermont	1,634,000	1,398,000	643,000	28,000	23,000
North Dakota	1,113,000	873,000	401,000	17,000	14,000
Montana	856,000	738,000	340,000	15,000	12,000
Alaska	227,000	215,000	99,000	4,000	3,000
Idaho	250,000	215,000	99,000	4,000	3,000
Pleasure Boats	22,000	22,000	10,000	0	0
Total	42,063,000	37,152,000	17,089,000	735,000	597,000

1. Excludes truck, bus and train driver crossings.

2. Calculated as 46% of the total excluding drivers (41% of the total crossings).

Table A2: Revised Estimate of Canadian Traveller Reductions

Entry Point	Total Crossings by Canadian Travellers	4.3% Reduction in Canadian Travellers	5.9% Reduction in Canadian Travellers
New York	15,410,000	662,630	909,190
Michigan	9,494,000	408,242	560,146
Washington	6,804,000	292,572	401,436
Maine	4,681,000	201,283	276,179
Minnesota	1,572,000	67,596	92,748
Vermont	1,634,000	70,262	96,406
North Dakota	1,113,000	47,859	65,667
Montana	856,000	36,808	50,504
Alaska	227,000	9,761	13,393
Idaho	250,000	10,750	14,750
Pleasure Boats	22,000	946	1,298
Total	42,063,000	1,808,709	2,481,717



Testimony
United States Senate Committee on the Judiciary
Economic and Community Implications of Northern Border Security
October 10, 2007

Bill Stenger

Good morning Senator Leahy and other members of the Senate Judiciary Committee. I want to first thank you for bringing this hearing to Newport. It clearly shows me and all members of our community that you are fully engaged with the serious concerns we all feel with the impending WHTI policies effecting cross-border travel. I want to express my sincere appreciation to you and your very effective Staff for the work you are doing on our behalf.

I'd like to share with you how the WHTI policies can affect Jay Peak.

We are a company that has been operating since 1955. We have grown from a modest local recreation area to an International Resort where 300,000 skiers visit in winter and now with a widely acclaimed Championship Golf Course we are attracting record numbers of summer visitors.

Fifty percent of all guests to Jay Peak come from Canada. Seventy-five percent from the Province of Quebec and twenty-five percent from Ontario.

Jay Peak employs 550 Vermonters in winter and over 150 in summer. These numbers are on the increase because millions of dollars of investment is planned for Jay Peak in the next few years.

All of our work in developing business momentum at Jay Peak and the Northern communities that surround Jay Peak in Orleans and Franklin counties will be at serious risk if the WHTI is implemented as now planned.

Here are my concerns:

- Guests from Canada are not compelled to come to Vermont for recreation. Québec has a vibrant and healthy ski industry. Canadian skiers choose to come to Jay Peak because they love our product and our welcoming service attitude toward them. They feel like a guest and they look at Jay Peak as their own local Vermont area, a very special place for them.

This vibrancy can be lost in a very short time if crossing into Vermont becomes an unpredictable, time consuming and unfriendly experience. Skiers know the best experience at an area is in the first hours of each day. If they are blocked at the border with inefficient crossing restrictions and technology that is untested in winter environment, those Canadians will stay home where they know they can get swift access to their resorts.

- I became very alarmed this spring when the initial implementation of WHTI was

implemented for the cruise industry. The D.H.S. was totally unprepared for the volume of passports required and thousands of American's plans were disrupted and all because D.H.S. under-estimated the impact.

Senator Leahy, I and my fellow Vermonters can't afford D.H.S. to misjudge the impending policy changes and what will be required to implement them. They will not get a second chance. We will be fatally harmed economically if the new protocol is not right the first time.

I fear they haven't tested the technology in winter conditions. They also haven't taken into consideration what Canadian Immigration must do to comply to our new plans. It is embarrassing how little communication has occurred with our Neighbor to the North and how little evaluation of the importance the economic impact Canada has on our State and across the nation.

D.H.S. thinks exclusively about security and I respect that but someone needs to go beyond just security and recognize that the lives and livelihood of tens of thousands of Americans will be sharply and negatively impacted if the economic well-being of the border communities is not taken into consideration. We can't afford to miss getting this balance right the first time.

This whole issue gives one pause to consider just what will be accomplished by this massively expensive and bureaucratically heavy process. Will hardened professional terrorists really be deterred from entering the United States? Won't the impending change simply create a high tech underground document forging business?

Last spring 17 terrorists were arrested in Toronto for plotting to destroy landmark buildings in Toronto. Everyone of them had a valid Canadian passport. Everyone of them could have legally passed into the United States.

What really is going to be accomplished here? We haven't thought this through correctly and at the very least the implementation should be delayed until a year of testing is fully complete so border crossing is enhanced and not crippled. I urge you to seek finalization to the Leahy-Stevens Amendment delaying and deferring WHTI's detrimental implementation impact.

William J. Stenger
President
Jay Peak Resort
Jay, Vermont

Senate Judiciary Committee Field Hearing Testimony

Submitted by:

Bill Zuccareno
 Chief International Officer
 Economic Development Council of Northern Vermont
 Northern Vermont-Quebec Trade Coalition

I would like to start by thanking Senator Leahy and the Judiciary Committee for their inquiry into the subjects of regulatory change, subsequent border delays and their impact on near-border economies.

My name is Bill Zuccareno and I am the Chief International Officer at the Economic Development Council of Northern Vermont (EDCNV), an organization that represents the 6 northern counties of Vermont and the entire Vermont-Canada border region. Prior to starting at EDCNV, I received my Master's degree in East Asian Studies from the George Washington University, worked at the Australian and New Zealand Embassies in their international trade development departments (Austrade and Tradenz, respectively), worked at USAID's award winning Ecolinks program where we matched U.S. businesses with international opportunities and finally, I spent 4+ years working as the State of Vermont's first and only international trade specialist at the Vermont World Trade Office. While at the VWTO, I worked with some 600 Vermont exporters and over 1,000 importers in addition to conducting Vermont's first analysis on the financial impact of Vermont's export sector on the State's economy.

While EDCNV's International Trade Services program is designed to assist area businesses with trade related questions regardless of their international market, EDCNV has taken a leadership role in cross-border trade development with Canada through the development and implementation of the Northern Vermont-Quebec Trade Coalition (NVQTC). The Northern Vermont-Quebec Trade Coalition is North America's foremost regionally based trade alliance and represents the first sharing of trade development resources in the history of the U.S. and Canada. This cutting-edge venture addresses the development of cross-border business partnerships, partnership-to-profit development, policy and regulatory issues concerning cross-border commerce, and immediate trade success through the dissemination of critical trade information and technical assistance. NVQTC was established with the help of an Economic Development Administration grant in January 2006 and recently received its second EDA grant (September 2007) to conduct the State of Vermont's first international trade infrastructure analysis and trade corridor development project.

My reason for telling you all of this is that I feel that I have a unique and valuable perspective on the subject at hand and I would like to offer some "down in the trenches" type information that I hope your Committee will find useful.

I will focus my testimony on two critical areas of international trade policy: regulatory change and international trade infrastructure. Before discussing these areas, I believe it would be useful to provide a brief profile of the average Vermont exporter.

Vermont's exporting businesses are unlike any others in the United States. The Small Business Administration describes a small business as having less than 500 employees and/or net annual revenue of \$5 million dollars or less. Ninety-five percent of Vermont's exporting businesses have fewer than 20 employees and 77.2 percent have annual revenues ranging between \$100,000 to ten million dollars per year. Despite their small size and limited revenue, however, Vermont's exporters are extremely diverse and competitive in the global marketplace. At last count, Vermont had more than 40 industry sectors (as defined by unique HS code), which sold more than a \$1 million dollars in exported goods per year. Vermont's exports are not just microchips and maple syrup, but instead run the gambit from micro-gauge Teflon coated wiring used in the space shuttle to high-end optical lenses used in Hollywood's most technically demanding movies, from military technology designed to save the lives of our soldiers fighting in Iraq to high-end linens used in the most expensive hotels in the world. The products developed by these companies are sought after globally because of their innovation and attention to quality and service. In fact, over a twelve-year period, from 1992-2004, exports from Vermont's small and medium-sized exporters grew at an annual rate of between 12-15%, outpacing their nearest competitor, Texas, by some 45%, this is despite domestic and international economic downturns. Finally, and perhaps most importantly, Vermont's exporters are not selling products in lesser-developed markets, but instead are successfully exporting to the most competitive markets in the world. All of this from a working population of just over 300,000 (100,000 of which depend on either exports or imports for their livelihood).

Changes in Vermont's international trade environment have affected one of Vermont's most powerful economic engines.

Federal Regulatory Changes

Starting with the passage of NAFTA, Vermont's exporters, like other U.S. exporters, have had a steep learning curve with regard to the rapidly changing international trade regulatory regime. With the establishment of the WTO in 1995, the signing of bi-lateral trade agreements and the global increase or decrease in tariffs across entire market segments, many Vermont exporters have struggled to keep informed of the never-ending list of regulatory changes. As we all know, the events of September 11, 2001 changed the world forever. Global change had come to Vermont.

Post 9-11, Vermont's exporters have witnessed even more extensive regulatory changes, as security has been ratcheted-up. One example of this change can be seen at Vermont's border crossings. Vermont is fortunate to have 11 border crossings connecting it with Canada – the 6th largest economy in the world. Prior to 9-11, Vermont had three designated “commercial ports” of entry and the rest were “permit ports”, requiring a special permit in order to bring commercial goods across the border in either direction. Nine thousand permits had been issued to businesses in Vermont. Recently, due to a decision made far from Vermont's border, all nine thousand permits were voided and businesses were forced to reapply to an office located several hundred miles away with little or no knowledge of the businesses or their products. Businesses that had a permit and had strategically located only a mile from a rural border crossing are now being forced to drive as much as 70-80 miles out of their way, because their new permit requests have been denied. Starr Trucking is one such business. As the largest employer in the town of North Troy, Vermont, Starr Trucking makes some 800 trips per year over the border; delivering products (primarily parts to Bombardier) to Canadian businesses located some 20 miles away, as the crow flies. Unfortunately for Starr Trucking, they were not granted a permit to use the North Troy port because of the apparent security risk of their cargo (snowmobile and ATV parts). The company

is now forced to drive the extra 37 miles to the port of Derby Line, which has experienced wait times of up to 2.5 hours this year. This regulatory change has had enormous impact on Vermont's companies, for Starr trucking it has equaled a net loss of \$78,000 in one year. It has also meant that truckers who are paid by the number of loads that they haul in a day to experience a 33% cut in pay, as their number of loads has dropped from 3 down to 2 (and in some cases 1) per day. Instead of benefiting from having the most border crossings in the region, Vermont and its international trade related companies are in fact suffering. Some are suffering so badly that they have been forced to relocate to places such as Champlain, NY, which will have a state-of-the-art border facility, a multi-lane highway and the longest airstrip in North America by the end of 2008.

International Trade Infrastructure

It is no secret that the province of Quebec is Vermont's largest export market and the greater New England region is Quebec's largest export market, but how do all of these goods flow from one location to the other?

Vermont's infrastructure is the most direct route for Canadian goods traveling by truck or rail to the markets of Vermont, New Hampshire, Massachusetts, Connecticut and Rhode Island. As stated earlier, Vermont is fortunate to have so many border crossings as each provides a uniquely efficient route for Canadian businesses exporting to the south depending upon the location of their business. In a recent discussion with the Director of Commercial Affairs at the Port of Montreal, I was told that two-hundred-eighty-seven-thousand containers were delivered to the Port in 2006 destined for travel south through Vermont to the markets mentioned above. This number is projected to increase to 600,000 containers by the year 2015. This information is critical to the economic well being of Vermont because of the tax revenue generated by each container. A Maine Department of Transportation official stated at a conference recently in Saint John, New Brunswick that each container that passes over a particular state or province's highway or rail system is worth the equivalent of forty-four thousand dollars in taxes – either generated by the sale of the goods in the container to the local market or in taxes paid by the trucking companies, etc. Driving Vermont's roads you can see the impact that these trucks are having on our infrastructure as they find the most efficient route to their intended destinations. Unfortunately, international commerce is like water, it will always find the path of least resistance. So even though many more containers are targeted to travel to or through Vermont in the near future, many are being diverted to more efficient routes. Delays at our Derby Line Port have resulted in the United Parcel Service from closing a major distribution hub in Norton, Vermont in favor of Champlain, NY. Trucks waiting at Newport have also tried to find alternative routes south leading to the virtual destruction of route 114 out of Norton – I have heard reports of trucks losing bumpers and windows being smashed because the condition of the road had deteriorated so badly. I have personally witnessed an officer at the Highgate port of entry walk to front of the line of trucks waiting to go through the x-ray building and physically turn around the sign telling them to "Stop" in order to show them the spray-painted message of "Go" on the other side! Another long-standing issue with regard to Vermont's highway infrastructure is the fact that Vermont's highways are the only highways in the region that are restricted to loads above 88,000 pounds. This fact alone has been diverting critical international trade traffic away from Vermont and impacting Vermont exporter's competitiveness for years. Finally, Vermont's lack of a significant East-West highway has caused many towns that fall between Interstates 89 and 91 to be virtually left out of the economic development equation because of the prohibitive logistical costs of moving goods to market from these rural interior locations. Vermont's lack of adequate border and international trade infrastructure is not only

affecting the economy of Vermont, but it is acting as the primary bottleneck to a further increase in commerce between Quebec and the rest of New England as well.

Vermont's rail infrastructure is no better than our highways. Vermont has 6 rail crossings, which connect it to the extensive Canadian rail network. Unfortunately, Vermont's lack of investment in rail infrastructure over the years has caused many of these rail lines to fall into disrepair. Currently, Vermont has appropriated \$24 million dollars for rail investment in fiscal year 2008, with an additional \$12 million coming from Federal sources. It has been projected that Vermont would need as much as \$112 million to bring Vermont's rail lines up to 21st century standards. How does the condition of these lines affect Vermont's economy and cross border commerce? Fuel oil being transported by rail across Canada on Canadian Pacific Railway destined for Vermont and the greater New England market (6600 carloads per year) can only carry 80-85% of a full load in order to meet the reduced weight restrictions of Vermont's rail beds contributing directly to a substantial increase for every citizen. The environmental cost of this situation is also considerable. For every truck that carries a single container south from the Port of Montreal, one train could carry hundreds at a time, reducing the wear and tear on our highways and pollutants on our environment.

Addressing the Problems

1. The Economic Development Council of Northern Vermont will be conducting the State of Vermont's first international trade infrastructure assessment over the course of the next 12 months with a goal of determining the region's marketable assets and infrastructure needs.
2. We have developed a multi-pronged cross-border program that will utilize a Canadian product, which reduces phosphorous, to help us show Vermont municipalities the power of international trade by helping them to clean their environment, preserve their municipal waste facilities and dramatically reduce costs. In exchange for implementing the technology, these municipalities will agree to make international trade a priority in their future economic planning and assist EDCNV in obtaining the information necessary for the infrastructure assessment.
3. EDCNV has also begun to implement its North-Link project, bringing 400 miles of open-access fiber optic cable to 8 counties in Northern Vermont. The North-Link project will also connect with NH and NY as well as all of Vermont's border facilities – increasing security and reducing border wait times.
4. EDCNV has combined its international trade program initiatives and its North-Link project by winning a national bid for the Rural Telecon Congress 2008 national conference, entitled "Broadband: Local Gateway to Global Opportunity". This event, to be held at Smuggler's Notch in October of 2008, will draw people from all over the United States and Canada.

I would like to thank you for the opportunity to submit this testimony and offer any further assistance that I or the rest of the EDCNV staff may be able to provide.

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