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Canadians may be hard hit by U.S. budget cuts at border

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OTTAWA – Canadians should be bracing themselves for delays at the airport, snarls at the border and postponed business deliveries due to an impending suite of automatic spending cuts in the United States.

More than \$85 billion in budget cuts called "the sequester" will hit the U.S. economy on March 1, affecting everything from defence, food inspection, tourism, small business loans, airlines, borders, schools, disaster response and workplace safety inspectors.

The cuts are the residual effect of the 2012 fiscal-cliff showdown and were originally passed as a trade-off for the tax hikes the deal avoided.

While ground zero may be the United States, the budgetary blow threatens to reverberate north of the border.

"Washington has seemed to be lurching from one crisis to another, but this time the crisis has a ripple effect immediately to Canada," said Birgit Matthiesen, senior advisor for U.S. government relations at the Canadian Manufacturers and Exporters Association.

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Among the first Canadians to feel the effects of a shrinking U.S. budget may be those travelling south for the March break. Border security is expected to face cuts at \$581 million, while airport security will be hit by reductions of \$323 million. The result could be long delays at airports and land crossings for sun-starved or ski slope-seeking Canadian tourists.

Businesses dependent on cross-border shipments could also bear some of the brunt of the budget-induced border delays.

"It will primarily affect just-in-time inventory, perishable goods and also business travellers that are essential to our economy," Matthiesen predicted.

Other impacts could include delays to the F-35 fighter jet development due to defence cuts, higher food prices due to food inspection cuts, reduction in federal procurement, and slower service for immigrants thanks to cuts in that department.

But it's the big picture that Matthiesen said people should really concern themselves with as sequestration may knock 1.5 points off annual GDP growth and push the jobless rate back up to eight per cent.

"Given the integration, given how important the U.S. market place is for Canada, a downturn in the U.S. economy is not good news for Canadian companies," Matthiesen said.

Congress can still broker another deal in the next few days to avoid the tax cuts, but unless it is a substantial fix to the economic challenges faced by the U.S. it could just mean another deadline.

"We have seen 11th hour deals in the past here in Washington, but my question is if there is a deal to avert this latest cliff, what is the deal?," Matthiesen said. "Is it just another punt to avert a cliff and therefore status quo for the next three or four months? That's not what the North American economy needs right now either."

If a deal can't be reached, Matthiesen said Canadian businesses should keep in close contact with their U.S. brokers, shipping companies and border officials so they can make contingency plans.


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