



June 30, 2022

Honourable Senator Gwen Boniface,
Joint Chair, Special Joint Committee on the
Declaration of Emergency
Ottawa, Ontario
K1A 0A4

Rhéal Éloi Fortin, Joint Chair, Special Joint
Committee on the Declaration of Emergency
Ottawa, Ontario
K1A 0A6

Matthew Green, Joint Chair, Special Joint
Committee on the Declaration of Emergency
Ottawa, Ontario
K1A 0A6

Joint Chairs:

I am writing in response to the motion requesting security assessments and legal opinions adopted by the Special Joint Committee on the Declaration of Emergency on May 31, 2022.

Please find attached the document which the Department of Finance has identified that falls within the scope of the motion.

I wish to assure you that the Department of Finance recognizes the importance of the Committee's role and mandate, and we trust that this document will inform its work.

Michael Sabia
Deputy Minister, Department of Finance

Blockades – Recent Developments and Summary of Economic Disruptions

Key Points

- **Context:** “Freedom Convoy” protesters have set up three major border blockades: one in Coutts, Alberta, which started at the end of January, a critical one in Windsor at the Ambassador Bridge, Ontario, since February 7th, and one in Emerson, Manitoba, since February 10th. If blockades of critical transportation infrastructure persist and/or spread, they would lead to significant adverse impacts on the economy and jobs.
- **Economic Impacts:** The blockade of the critical Ambassador Bridge is causing a major disruption in trade, has already forced shutdowns at auto plants and could quickly have knock-on effects on the broader economy and consumer prices. About \$390 million in goods crosses the Bridge each day or about 30% of all road trade between Canada and the U.S. The Bridge is a vital corridor for the auto industries in both countries – about a quarter of the goods that flow via the Ambassador Bridge are related to the auto sector. The partial blockade in Coutts has delayed an additional \$44 million in goods that crosses each day, while the blockade in Emerson could delay about \$70 million in trading goods daily. About half of Canada’s exports to the U.S. travel by road.
- **Implications for Real GDP:** Up to now, the blockades had mainly delayed trade activities of goods (valued at around \$500 million per day including the new blockade in Emerson) and increased shipping costs. However, with businesses already suffering parts shortages, automakers have just announced cuts to shifts and shutdown of plants this week. The disruptions to economic activity can be expected to escalate the longer disruptions last or if other blockades emerge. Blockades at major border crossings may also have indirect effects on other sectors with linkages to affected businesses (e.g. customers or suppliers) as inventories get depleted, as well as broader macroeconomic effects driven by job losses, reduced incomes, and higher costs for businesses and consumers.
- The situation is fluid and could quickly deteriorate, presenting a downside risk to activity in the first quarter of 2022. A meaningful escalation of the crisis—especially prolonged and more widespread blockades affecting additional nearby crossings (and potentially other critical infrastructure)—would limit the ability to reroute traffic and clog supply chains, potentially forcing manufacturers to curtail production and creating shortages for some types of goods. With blockades and trade disruptions, media reports have even indicated U.S. lawmakers using the situation to argue for more Buy American-style policies and for less reliance on buying goods from Canada.

Background

- **Issue:** Following the protests that began two weeks ago in Ottawa over vaccine mandates for truckers, “Freedom Convoy” protesters have blocked three major border crossings: one in Coutts, Alberta, which started at the end of January, and, a critical one in Windsor at the Ambassador Bridge, Ontario, since February 7th, and one in Emerson, Manitoba, since February 10th. Demonstrators were also attempting to block a highway to another crossing, the Blue Water Bridge, two hours north of the Ambassador Bridge. Meanwhile, the Department of Homeland Security is warning that U.S. truckers are potentially planning to block roads in major U.S. metropolitan areas in protest of vaccine mandates.
 - The **Ambassador Bridge** to Detroit has been closed for a fourth consecutive day and is the busiest land crossing on the U.S.-Canada border and a vital corridor for the auto industries on both sides. It is estimated that about \$390 million in goods crosses the Bridge each day, or about 30% of all road trade between the two countries. About a quarter of the goods that flow via the Ambassador Bridge are related to the auto sector.
 - The closest border crossing that shippers can use as an alternative route is the **Blue Water Bridge, Sarnia**. With the Blue Water Bridge reporting about 1-3 hours of delay over the last few days, this has led to longer trips for commercial travel over the last few days.
 - In **Coutts**, where about \$44 million in goods crosses each day, protesters have so far allowed one lane traffic in each direction, limiting the impacts. The current delay for commercial vehicles to cross the border into the U.S. is 7 hours as of the morning of February 10th.
 - In **Emerson**, where about \$70 million in goods crosses each day, protesters have blocked the highway in both directions since February 10th, only allowing livestock and medical vehicles through.
- **Economic Impacts:** These blockades occur at a time when supply chains are already under significant stress from the pandemic, and are highly disruptive to Canada-U.S. trade flows. Currently, the impacts are mostly felt in industries most dependent on Canada-U.S. trade (e.g., automakers and other manufacturers). In the near-term, most manufacturers are likely to continue producing as they find alternative shipping routes and/or through inventory management (in anticipation of a resolution of the blockades). Still, the macro-economic impacts could quickly rise depending on how long the protests last and whether they spread further, with production eventually forced to slow. Media reports already indicated that production at some auto plants have started to be reduced.
 - **Border closures:** At present, the ongoing blockades at border crossings are significantly disrupting cross-border commercial flows. While some traffic can divert to other crossings (e.g., Sarnia), the blockades are resulting in congestion, delays of shipments, and higher transportation costs. While delayed shipments are affecting production in certain sectors, most businesses should continue to operate at close-to-normal levels by adjusting work shifts or relying on/building up inventories while they await shipments. Further, temporarily reduced production is likely to be made-up in the coming days and weeks once the shipments arrive. However, the impacts could grow substantially if the disruptions persist and/or spread.

- Of note, automakers are already reporting some major impacts on their operations, with Ford reducing capacity to 50% of usual activity at its Oakville assembly plant and shutting down engine plants around Windsor, while Stellantis cut shifts at its Windsor and Brampton plants earlier this week, though they were operating as of Thursday morning. Operations at Toyota are also impacted, with the automaker announcing on Thursday that its Cambridge plants would not assemble vehicle for the rest of the week, though the company signaled it did not expect employment impacts. The Automotive Parts Manufacturers' Association noted that other plants could feel impacts over the next few days, due to the industry's reliance on just-in-time inventory management, which means that plants typically only hold the equivalent of 1–2 days of inventory in parts. Automakers should be able to catch-up on production over the following weeks.
- **Occupations of downtown cores:** The occupations in certain cities (notably downtown Ottawa) is having important economic and social impacts on local residents and businesses. If the disruptions remain contained and end soon, it is unlikely to have a significant impact on the wider economy given the relatively small size of the impacted areas and likely diversion of activity to other parts of the cities.
- **Implications for Monitoring:** Up to now, the blockades had mainly delayed trade activities of goods (valued at around \$500 million per day) and increased shipping costs. This represents the value of goods being delayed and does not translate into direct permanent loss. If the disruptions were to end now, most losses could be recouped leaving little impact on economic activity in 2022Q1. However, a meaningful escalation of the crisis in the coming days and weeks could change our assessment. Importantly, an extension in the blockades could increase the economic impacts, particularly if there were further blockades at nearby border points where commercial traffic is currently rerouting. The most immediate risk is the potential for extended closures affecting additional border points (e.g., Sarnia, Windsor and Niagara Falls), which could limit the ability to reroute commercial traffic (Table 1). Many manufacturers would have to lower production and may not be able to recoup the hit to activity rapidly. At a time when supply chains are already strained, this may further translate in shortages for some types of goods and add to already-significant inflationary pressures.
- **Upcoming Data Releases:** With respect to upcoming data releases, the blockades may translate in weaker manufacturing sales and international merchandise trade in February, but higher activity in March would likely offset the losses. There could be a small impact on manufacturing employment in the February LFS (reference week of February 13–19) if the assembly plant shutdowns extend into next week. Despite this, we still expect to see a solid rebound in both real GDP and employment in February associated with the ongoing easing of Omicron-related restrictions and absenteeism.
- **Next Steps:** The situation is evolving and we will monitor it closely. We will also continue to engage with Transportation Canada and other departments to better understand the situation, identify at-risk transportation infrastructure and potential implications, including the impacts of cross-border trade flows and the potential disruption to affected businesses (e.g., automakers).

Table 1. Modal Exports as a Share of Total Merchandise Exports and GDP, 2018

	Road	Rail	Marines	Air	Pipeline and other modes	Total
Per cent of total merchandise exports	39	15	19	12	15	100
Per cent of GDP	10	4	5	3	4	26

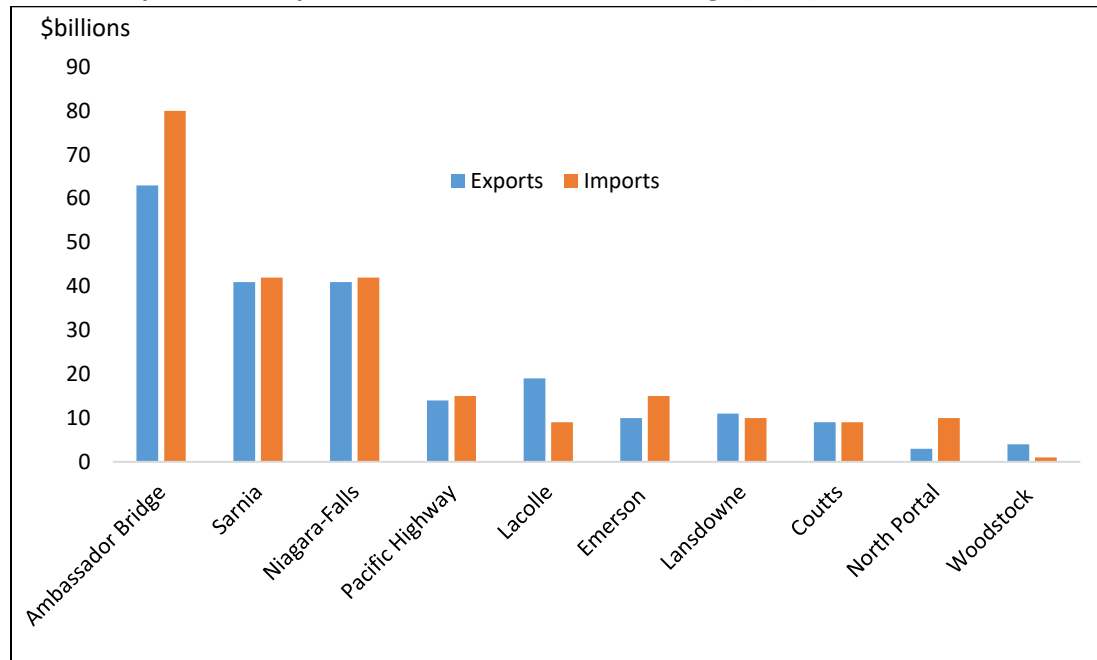
Annex: Commercial Flows at Border Crossings

The Ambassador Bridge accounted for 26% of our road exports in 2021 (\$63 billion) and 33% of road imports (\$80 billion). Trade flows passing via the bridge are roughly twice that of the second busiest commercial crossing in Sarnia in normal times (**Chart 1**). Moreover, about 2.7 million vehicles cross the bridge annually. Its importance for commercial flows owes primarily to its proximity to many of the major auto assembly plants in Southern Ontario.

About half of the goods that flow via the Ambassador Bridge are automotive, machinery and equipment, and electronics (**Table 1 and 2**). Food and pharmaceutical goods are also imported via the bridge (respectively \$4 billion and \$1.4 billion annually), but it is not the most critical artery for those types of goods.

Alternative routes can be used to move goods across the border, including rail. As a result, even a prolonged blockade would not bring the flow of all goods to a complete halt, but may cause delays and temporary shortages.

Chart 1: Exports and Imports at 10 Busiest Border Crossings (2021)



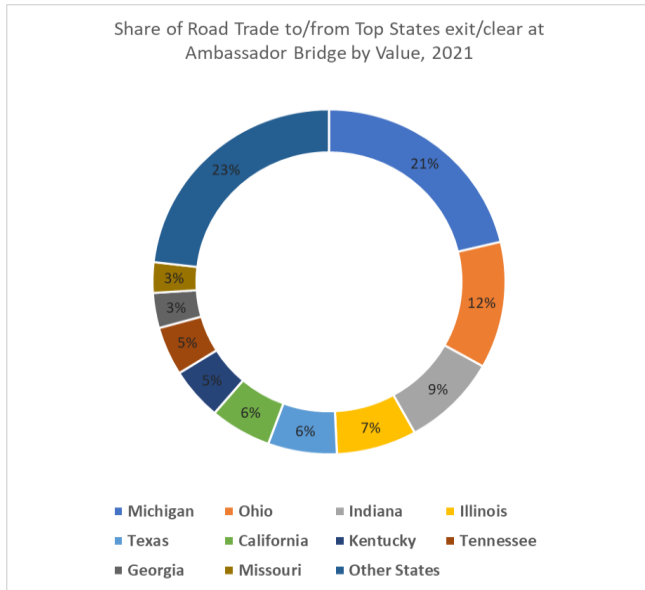
Source: Transport Canada

Table 1: Import Flows at the Ambassador Bridge

HS2 Commodity Type	2019		2020			2021		
	\$ value (B)	% share	\$ value	% share	y/y change	\$ value	% share	y/y change
Automotive	\$23.50	27.20%	\$17.70	23.10%	-24.70%	\$17.40	21.70%	-1.70%
Machinery	\$15.40	17.80%	\$13.50	17.60%	-11.90%	\$13.60	17.00%	0.70%
Electronics	\$9.20	10.60%	\$7.60	10.00%	-16.70%	\$7.40	9.30%	-3.00%
Pharmaceutical products	\$1.80	2.00%	\$1.90	2.50%	10.30%	\$4.00	5.00%	106.20%
Plastics	\$3.40	3.90%	\$3.40	4.40%	-0.60%	\$3.70	4.60%	8.90%
Medical or surgical equipment	\$2.40	2.80%	\$2.20	2.80%	-8.70%	\$2.40	2.90%	8.80%
Furniture	\$2.50	2.90%	\$2.20	2.90%	-11.50%	\$2.20	2.70%	-3.20%
Iron and Steel	\$2.10	2.40%	\$1.70	2.20%	-20.80%	\$2.10	2.60%	25.00%
Articles of iron or steel	\$2.00	2.30%	\$1.80	2.40%	-7.60%	\$2.10	2.60%	13.10%
Prepared food	\$1.30	1.50%	\$1.50	2.00%	16.30%	\$1.40	1.80%	-5.40%
All other commodities	\$22.90	26.50%	\$23.20	30.20%	1.00%	\$23.90	29.80%	3.20%
Total	\$86.40	100.00%	\$76.80	100.00%	-11.20%	\$80.10	100.00%	4.30%

Table 2: Export Flows at the Ambassador Bridge

HS2 Commodity Type	2019		2020			2021		
	\$ value (B)	% share	\$ value	% share	y/y change	\$ value	% share	y/y change
Automotive	\$18.10	27.70%	\$14.30	23.80%	-21.20%	\$13.30	21.10%	-6.50%
Machinery	\$10.40	15.90%	\$8.70	14.40%	-17.00%	\$8.50	13.50%	-1.20%
Plastics	\$2.90	4.50%	\$3.10	5.10%	4.20%	\$3.40	5.40%	11.50%
Electronics	\$2.80	4.30%	\$2.70	4.40%	-6.30%	\$2.90	4.60%	10.20%
Pharmaceutical products	\$2.40	3.60%	\$2.30	3.90%	-2.00%	\$2.40	3.70%	1.10%
Iron and steel	\$1.60	2.40%	\$1.50	2.40%	-5.50%	\$2.30	3.70%	58.30%
Prepared foods	\$1.80	2.80%	\$2.10	3.50%	12.70%	\$2.20	3.50%	6.40%
Furniture	\$2.30	3.50%	\$2.00	3.30%	-13.50%	\$2.00	3.10%	0.30%
Articles of iron or steel	\$1.50	2.30%	\$1.40	2.40%	-3.70%	\$2.00	3.10%	39.70%
Aluminum and articles thereof	\$1.20	1.90%	\$1.40	2.30%	12.10%	\$1.70	2.80%	28.20%
All other commodities	\$20.40	31.20%	\$20.70	34.50%	1.30%	\$22.40	35.40%	8.20%
Total	\$65.50	100.00%	\$59.90	100.00%	-8.40%	\$63.20	100.00%	5.40%



Source: Transport Canada

