The Impact of Post-9/11 Security Measures on South Florida's International Business Community

October 2003
Business Advocacy Committee

Is a committee of the Global Business Center of the Greater Miami Chamber of Commerce.

Purpose and goal of this committee:

To analyze the impact of the USA Patriot Act and other Homeland Security initiatives on our local business community. To inform and educate the public and policy makers. To be Proactive, Strive for favorable results.

Together with Florida International University (FIU), the committee conducted a survey to assess the immediate impact these new initiatives have had on the business community and gain insights into their possible future consequences.

The Greater Miami Chamber of Commerce (GMCC)

The Greater Miami Chamber of Commerce (GMCC) is an association of businesses and professionals dedicated to progress in Miami-Dade County. To carry out this mission, the GMCC serves as the voice and conscience of business enterprise and involves the private sector in community leadership, enhancing the economic opportunities and quality of life in the area.

Comprised of more than 6,000 member volunteers, the GMCC is the only chamber in Miami-Dade County in existence since 1907. Most members of the Chamber are based in Miami-Dade, and an increasing number of members are joining from Broward and Palm Beach Counties to the North, and Monroe County to the South. Members of the Chamber employ more than one million people, giving the GMCC a strong presence in local, state and national levels of government. Funded by membership dues, the GMCC is allowed an independent presence in the community.

Florida International University

FIU’s College of Business Administration (CBA) is South Florida’s most important business education resource, known for its expertise in international business and in the strategic uses of information technology. It is the largest of Florida International University’s (FIU) professional schools, enrolling about 3,400 undergraduate and more than 1,100 graduate students each year. It also serves the multinational business community through executive and professional education programs. One of only 430 business schools worldwide accredited by the AACSB International—The Association to Advance Collegiate Schools of Business – the CBA’s Alvah H. Chapman, Jr., Graduate School was recently ranked by Hispanic Business as one the top five business schools for Hispanics in the United States.

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EXECUTIVE SUMMARY

In the two-plus years since September 11, 2001, Congress has passed a series of sweeping new laws aimed at protecting the nation from another terrorist attack. The U.S. State Department, meanwhile, has instituted stringent new procedures for international travelers seeking to visit the country, and the Department of Homeland Security (DHS) has stepped up inspections of passengers and their belongings at U.S. ports of entry. The DHS has also instituted new advance-notification rules for importers and exporters and subjected incoming cargo to more frequent and rigorous screenings, while the Food and Drug Administration (FDA) has issued new registration and reporting requirements for food manufactures and importers. Additional security rules for international passengers and cargo are on the horizon.

Given South Florida’s position as a key gateway for people and goods transiting the United States, the Greater Miami Chamber of Commerce’s Business Advocacy Committee and Florida International University’s College of Business Administration decided in January 2003 to undertake a study of these post-9/11 mandates with an eye to assessing their impact on South Florida’s international business community. The following report is the product of that collaboration.

Key Findings:

- South Florida’s international business community has found the post-9/11 regulatory environment a challenging maze to navigate. With respect to the federal government, many feel the traditional balance between security and trade facilitation has swung decidedly toward the former. There is also a general feeling that some of the new antiterrorism mandates have been issued for political expediency with insufficient input from the private sector and little account taken of their business costs.

- While these new regulations may not be of major economic consequence to companies in other regions of the country, they are a serious concern for South Florida businesses, given the international orientation of our economy and the importance of cross-border travel, trade and transactions. Moreover, since many South Florida businesses are small and medium-sized enterprises, the added operating expenses associated with these new measures are taxing their resources at a time when key markets in Latin America and the Caribbean are in decline.

- The South Florida economy is particularly vulnerable because of the uniquely high volume of in-transit cargo and passengers that fuel our economy. The new security measures impose higher costs, longer transit times and more complex procedures than those available at non-US ports that compete with us as the Latin American gateway for European, Asian and African carriers, traders and travelers.
There is widespread concern throughout the local business community that key industries could be seriously undermined by mandates that drive up business costs, disrupt global supply chains and deter foreigners from vacationing or conducting business here, while ultimately doing little to increase national security. It is therefore imperative that government officials work closely with the private sector to craft homeland security policies that are economically feasible and, to the extent possible, business friendly.

In this respect, recent programs, such as U.S. Customs and Border Protection’s One Face at the Border initiative, which will unify and integrate the activities of Customs, Immigration and Agriculture inspectors to help expedite the screening of people and goods entering the country, are encouraging and to be commended.

However, much remains to be done. The State Department’s August 2003 decision to require personal interviews for virtually all international travelers seeking US visas without significantly increasing staffing or resources for overseas consular offices is but one important example of a policy change that has already caused major hardship for local businesses. The FDA’s decision to impose far-reaching new mandates on food and beverage importers, while giving them a narrow window to communicate these new rules to overseas suppliers – many of whom do not speak English – could be another. In a word, federal authorities need to ensure that checkpoints do not become choke points.

10 Key Recommendations:

- Increase staffing at overseas consular offices to expedite processing of visas for foreign visitors and reduce waiting times for interviews.

- Reinstate immediately the International-to-International program suspended in August 2003 and reinstate the Transit Without Visa Program with strengthened security procedures.

- Increase the number of CBP inspectors at the Port of Miami and Port Everglades to accommodate the sharp increase in intensive inspections since 9/11 and provide the ports with additional VACIS (X-ray) machines to accommodate the increase in non-intrusive inspections.

- Delay enforcement of FDA rules implementing the Bioterrorism Act of 2002 until June 2004 to permit sufficient time to test and perfect new computer systems, train government personnel and the trade community and to allow food and beverage importers time to communicate the final rules (which will not be released until April 2004) to their overseas suppliers.

- Increase the number of FDA inspectors deployed at key South Florida ports of entry to accommodate the anticipated increase in inspections due to the
implementation of the Bioterrorism Act of 2002 and ensure that fresh fruit, flowers and vegetables do not end up spoiling on docks.

- Delay implementation of the new US VISIT tracking system until the DHS has a workable, fully funded plan that will minimize delays for international travelers arriving in and departing from the United States.

- Repeal or severely limit the searches required under 314A of the USA Patriot Act, which requires a financial institution to search, upon receiving a biweekly list of names from federal regulators, open and closed accounts and prior transactions.

- Refrain from extending the anti-money laundering provisions of the USA Patriot Act (Section 352) to persons involved in real estate closings and settlements.

- Clarify and appropriately limit the scope of the term “close associates” of senior foreign political figures for purposes of the USA Patriot Act’s minimum due diligence standards for private banking accounts.

- Provide greater certainty regarding the types of client relationships to which “customer identification” requirements contained in Section 326 of the USA Patriot Act apply, and limit to relationships posing legitimate money-laundering threats.
OVERVIEW

In the two-plus years since September 11, 2001, Congress has passed a series of laws aimed at protecting the nation from another terrorist attack, among them, the USA Patriot Act, the Aviation and Transportation Security Act, the Maritime Transportation Security Act, the Bioterrorism Act, the Enhanced Border Security and Visa Entry Reform Act, and the Homeland Security Act, which brought together 22 separate government agencies under the aegis of the Department of Homeland Security (DHS).

Additionally, the State Department has instituted stringent new rules and procedures for international travelers seeking to visit the United States. For instance, personal interviews with consular officers are now mandatory for virtually all non-immigrant visa applicants, whereas prior to 9/11 “low-risk” applicants were routinely allowed to apply through the mail or travel agencies. The State Department is also rejecting an increasing number of visa applications, and recently suspended two programs that allow foreign passengers to stop in the United States visa-free as long as they are meeting connecting flights scheduled to leave the country within a few hours and spend their layovers in secure airport lounges or under the close supervision of airport personnel.

Meanwhile, the DHS, taking its cue from Congress, has stepped up inspections of passengers and their belongings at U.S. airports, seaports and other border crossings, subjected incoming cargo to more rigorous screenings, and put forth new rules and programs for conducting international trade (i.e., advance-notification rules for imports and exports, the Container Security Initiative and the Customs-Trade Partnership Against Terrorism).

Additional efforts to tighten security rules for international passengers and cargo are in the works. Starting January 1, 2004, all foreign visitors arriving by air or sea will be fingerprinted and photographed as part of the U.S. Visitor and Immigration Status Indication Technology (US-VISIT) program. Moreover, by October 26, 2004, visitors

1 The policy shift was set forth in a May 2003 cable from Secretary of State Colin Powell to all U.S. embassies and consulates abroad. The cable directed them to implement the new procedures without the benefit of additional resources and stated that the State Department expects that consulates will face processing backlogs for the “indefinite future.”
2 In 2002, 2.6 million non-immigrant visa applicants worldwide were rejected – roughly 31 percent of the total applicant pool, and 10 percent more than in 1997. The figure for 2003 is expected to exceed last year’s by a considerable margin. Figures cited in “Tougher US Visa Checks Frustrate Latin Tourists,” Reuters, July 24, 2003.
3 The Transit Without Visa (TWOV) and International-to-International (ITI) programs were suspended on August 2, 2003, for at least 60 days to give the government time to decide how to make them more secure. At the end of the 60-day period, however, the DHS and State Department announced that more time would be needed to assess whether and how to reinstate these programs. “No Stamp of Approval for Transit Without Visa Program,” CQ Homeland Security, October 2, 2003.
4 This program, which analysts say could cost anywhere from $3 billion to $10 billion, aims to leverage new technologies to integrate the databases of various federal agencies to provide an accurate record of the arrival and departure of the more than 35 million international passengers entering the U.S. every year by air and sea. “U.S. Readies Program To Track Visas,” Washington Post, September 29, 2003.
from the 27 visa-waiver countries, including children and infants, must obtain machine-readable passports – three years ahead of the original timetable. And by the same date, all new passports issued by the visa-waiver countries must contain thumbprints, facial scans, or other biometric identifiers.

The cumulative effect of these measures, by and large, has been a significant decrease in the speed and ease with which people, goods and money transit the country.

Given our position as the gateway to Latin America and the Caribbean and a hub for international trade, banking, tourism and real estate, the Greater Miami Chamber of Commerce’s (GMCC) Business Advocacy Committee, co-chaired by Maria Masvidal Visser, CEO of Euro Am Business Group and Euro Am Realty, and Juan Garcia, Attorney for Concepcion, Rojas and Santos PA, and Florida International University’s (FIU) College of Business Administration, headed by Executive Dean Joyce Elam, decided in January 2003 to undertake a study of these new Homeland Security laws, regulations, and procedures.

The objective was threefold: 1) to gauge the immediate impact these antiterrorism measures have had on South Florida’s multinational business community, particularly in terms of added expenditures on security-related equipment and personnel and disruptions to international supply chains; 2) to assess what impact these initiatives might have for South Florida’s future business competitiveness; and 3) put forth suggestions for facilitating legitimate commerce, while maintaining a level of heightened security.

Methodology:

In order to obtain the relevant data, FIU developed a series of industry-specific surveys and mailed them in May and June to over 1,000 multinational businesses, banks, healthcare and educational institutions. University researchers also conducted telephone and in-person interviews with dozens of local entrepreneurs, executives and administrators between July and September 2003. In total, some 250 individuals participated in this study, representing a wide cross-section of South Florida’s

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5 In October 2001, Section 417 of the USA Patriot Act advanced the deadline for the implementation of the machine-readable passport requirement from October 1, 2007, to October 1, 2003. In late September 2003, however, the State Department, responding to pressure from the travel and hospitality industry, pushed back the implementation date by one year.

6 There has even been some discussion within the Bush administration about abolishing this 17-year-old Visa Waiver program, which is seen by some in law enforcement as a “security loophole.” However, such a move would have dire consequences for the US travel industry in general, and Florida’s travel industry in particular, as 15 percent of the 2.4 million visitors from visa waiver nations in 2001 listed Florida as their destination on immigration forms. See “U.S. Officials Debate Ending Visa Waiver Program,” Miami Herald, September 9, 2003.

7 Surveys were developed for the following four sectors: International Trade: Ocean and Air Cargo; International Banking; Education; and Healthcare. Only survey data pertaining to International Trade: Ocean and Air Cargo and International Banking are included in this report. Data on the other sectors is still being collected and will be presented in a companion report in Spring 2004.
international business community – from small, family-run businesses, to large multinational enterprises.  

**Key Sectoral Findings:**

**INTERNATIONAL TRADE: OCEAN AND AIR CARGO**

- The post-9/11 rules and procedures for screening containerized ocean cargo have caused bottlenecks at South Florida’s already congested seaports and raised operating costs for manufacturers, importers, carriers, and non-vessel operating common carriers (NVOCCs). More than one-half of the respondents report that it takes on average at least 1 to 2 days longer for their cargo to clear customs since September 11, 2001; nearly one-third said it takes on average as much as 3 to 6 days longer.  

- The delays are largely due to the sheer increase in the number of incoming containers being flagged for “intensive” inspections, as U.S. Customs and Border Protection (CBP) moves to increase its inspection rate from 2 percent prior to September 11, 2001, to upwards of 10 percent. Another factor contributing to the delays is competition between carriers for one of the Port of Miami’s two mobile Vehicle and Cargo Inspection Systems (VACIS) machines, which are used to conduct non-intrusive inspections on anywhere from one-quarter to one-third of all containers entering the port.  

- In addition to disrupting supply chains, the increase in inspections has meant additional stevedoring, trucking and storage expenses, missed deliveries, damaged goods, and, in some cases, rejected shipments. As a result, a significant number of companies surveyed (20 percent) report that they are considering moving their operations from Port of Miami or Port Everglades to an alternative domestic port such as Tampa, Jacksonville or Houston – a worrying figure given that the Port of Miami alone accounts for more than 45,000 jobs and $8 billion in economic activity.  

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8 Names of individuals and institutions have been kept confidential unless consent has been given to disclose them.  
9 These figures include those who did not respond to the question. Of those who did respond, more than 85 percent said that it takes at least 1-2 days longer for their shipments to clear customs since September 11, 2001.  
10 According to the Port of Miami Terminal Operating Company (POMTOC), one of three stevedores operating at the port, prior to September 11, most cargo pre-cleared and just 75 containers a month were manually inspected. As of September 2003, Customs was conducting “intensives” on 1,200 containers monthly.  
11 VACIS systems use Gamma ray technology to scan the contents of containers, vehicles, and railcars, without harming cargo. A real-time image shows system operators the contents of containers, verifying that cargo is consistent with a declared manifest and revealing voids, false walls and ceilings, and other secret compartments inside the container.  
12 CBP has reportedly requested two additional VACIS machines for the port, which could help alleviate some of these delays.  
13 Contracts between buyers and suppliers often contain provisions which permit buyers to refuse or receive discounts on late-arriving shipments.  
Another important finding is that a growing number of European and Asian exporters that have traditionally used Miami as a transshipment hub for goods destined for the Caribbean and Latin America, are rerouting their cargo through the Bahamas, Panama, the Dominican Republic and Jamaica to avoid the added costs, regulatory hurdles and delays associated with the new security mandates.\footnote{Swiss freight forwarder Panalpina, for example, announced in April 2003 that it would begin charging a $40 to $60 fee for every manifest it processes for US-bound cargo due to the 24-hour rule. “Panalpina Will Charge for Processing Manifests,” \textit{The Florida Shipper}, April 7, 2003.} Such a shift could have serious implications for South Florida’s economy given that one-quarter to one-third of the cargo volume at the Port of Miami and Port Everglades, and 40 percent of the cargo volume at Miami International Airport (MIA), involves merchandise held in-bond, or in-transit to third countries.\footnote{“For Ports and Carriers Transshipments Add Value,” \textit{The Florida Shipper}, April 22, 2002.}

A number of respondents also expressed concern about the impact of the new FDA regulations implementing the Bioterrorism Act of 2002.\footnote{These interim final rules, unveiled on October 10, 2003, require all domestic and foreign facilities that manufacture, process, pack, distribute, receive or hold foods for human or animal consumption to register with the FDA and provide between two and eight hours advance notice on inbound shipments. Importers must also supply the FDA with detailed information for all links in the supply chain, including lot and production codes from the farm or market where the product was grown or purchased, to the facilities where it was processed, packaged and shipped.} Among the main concerns is that fresh fruits, vegetables and other perishables are often harvested only hours before exportation, and thus, some shippers may not be able to comply with the advance-notification requirements without seriously compromising product quality. Moreover, since the contents of perishable shipments often change at the last minute depending on supplier inventories, providing detailed manifests even four hours before departure may be impossible. These are serious matters since nearly three quarters of the imports by volume at MIA are perishable products.\footnote{Miami International Airport handles 85 percent of all cut-flower imports, 65 percent of all fish imports, and 42 percent of all fruit and vegetable imports shipped by air to the US. “Miami-Dade County: Business and Aviation Center of the Americas.” Undated report published by the Beacon Council and Miami-Dade Aviation Department.}

Several respondents also expressed concern over the fact that no ports in the Caribbean or Latin America have yet been designated for the Container Security Initiative (CSI).\footnote{Under this program, US Customs officials are stationed in foreign ports and screen US-bound containers for Weapons of Mass Destruction.} This situation, if not rectified, could put the region’s exporters at a competitive disadvantage vis-a-vis those from countries in which U.S. Customs personnel are stationed, thereby diverting trade and possibly investment.

Another concern is the possible impact of regulations implementing the Maritime Transportation Security Act.\footnote{This law requires the nation’s 361 commercial seaports to conduct detailed risk assessments and submit proposals for security enhancements to the Coast Guard by January 1, 2004.} The Coast Guard estimates that capital investments mandated by this legislation could exceed $5 billion over a 10-year period. As of
August 2003, however, federal agencies had awarded grants totaling only $337 million – a fraction of the necessary funds. Consequently, there is wide expectation within the trade community that seaports will be forced to collect “user fees” from ocean carriers. A $15 per container tax, as has been proposed in some quarters, could significantly raise costs for South Florida’s more than three-dozen container lines, and divert cargo to foreign ports. About 70 percent of ocean cargo companies surveyed said they are concerned about how new user fees will affect their business.\(^{21}\)

- A further concern to the international business community is the additional costs that multinational enterprises in general and air couriers in particular will have to bear as a result of new advance-notification rules for goods arriving or leaving the country by air, land, sea or rail.\(^{22}\) One industry group estimates that the costs associated with implementing these procedural changes could add $4 to $6 to the cost of a typical international parcel delivery.\(^{23}\)

**INTERNATIONAL AND DOMESTIC BANKING**

- Another important finding of this study is that South Florida’s international banking and financial services industry – an industry that contributes roughly $3 billion to the local economy and employs some 5,000 South Floridians\(^{24}\) – has been adversely affected by the USA Patriot Act, which mandates stringent know your customer and enhanced due diligence rules for banks and non-bank financial institutions conducting international business.

- While the USA Patriot Act by itself is not responsible for the wave of downsizings, departures and relocations that have befallen the industry in recent years, many believe it has played a role or exacerbated the conditions that led to the recent decisions by several major foreign financial institutions, including Barclays and Dresdner Bank, to close or drastically downsize their Miami branches.\(^{25}\)

- Roughly 70 percent of the banks surveyed reported that they have invested in new anti-money laundering software or systems upgrades since the passage of the Patriot

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\(^{21}\) In the words of an executive for an ocean carrier operating out of Port Everglades: “Over the past two years we have spent tens of thousands of dollars on security-related personnel and equipment. We are also paying indirect port security charges through wharfage, dockage, dredging, and terminal lease fees, which are again being raised this year and which add significantly to our business costs. Additional user fees at this junction would be a heavy burden given the ocean cargo carrier industry’s slim operating margins.”

\(^{22}\) These rules, mandated by the Trade Act of 2002, were published in July 2003 and are expected to come into effect by the end of 2003.


\(^{24}\) *International Banking And Its Economic Impact For Florida*, study for the Florida International Bankers Association, prepared by Dr. E.N. Roussakis, Professor of Finance at Florida International University and Dr. D. Thomakis, Assistant Professor of Economics at Florida International University, May 23, 2000.

\(^{25}\) “Colombian Bank Expects To Open Miami Office This Year,” *Miami Today*, September 18, 2003.
Act, with several investing over $1 million. Some indicated that these costs will ultimately be passed on to customers in the form of higher rates on loans, lower yields on investment accounts, and/or increased service charges and fees.

- Some 40 percent of the banks surveyed also reported hiring additional compliance personnel to monitor accounts and process Suspicious Activity Reports (SARs), while 80 percent reported allocating additional staff time from existing personnel to comply with the new mandates. Beyond the sizable investments in software and personnel to comply with the Patriot Act, many of South Florida’s international banks have retained the services of lawyers, accountants and security consultants to help them understand and comply with the new mandates.

- Several banks offering wealth management services expressed concern that the “hassle factor” associated with implementing the new mandates could drive away clients to less-regulated offshore jurisdictions such as the Cayman Islands, the British Virgin Islands and Switzerland. Already, one foreign bank said it has noticed such a shift and estimated that it cost the bank’s Miami branch $20 million in foregone deposits during the past two years.

- Numerous banks reported that the stringent new “know your customer” regulations were having an adverse effect on customer relationships. Respondents said that foreign clients have objected strenuously to requests for tax returns and financial statements to open new savings, checking or money market accounts – especially those who have banked with their institutions for a long time and have very favorable credit histories, but have not been borrowers.

- Confidentiality is another issue of concern to the industry. In particular, banks and their foreign high net-worth clients are concerned that sensitive information about their financial assets could be shared with foreign governments and then passed on, intentionally or unintentionally, by government officials to criminal elements, thereby putting them and their family members at risk for extortion or kidnapping.

- Some also expressed concern that section 314A of the Patriot Act, which requires financial institutions to search open and closed accounts of individuals cited in a biweekly list of suspected terrorists issued by the U.S. Treasury Department, could be misused by law enforcement officials to conduct “searching expeditions” into the financial transactions of individuals suspected of ordinary crimes, thereby adding additional investigative costs.

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27 Shutts & Bowen LLP reports that virtually all of its existing financial institution clients (over 100 banks, securities firms and other financial services firms) have had Patriot Act questions and several new foreign financial institutions have come to the firm specifically for Patriot Act advice. Its professional fees generally range from the low-$200s to high-$300s per hour.
The September 11, 2001, terror attacks and the steep decline in air travel in its wake have dealt a heavy blow to the Greater Miami area’s $13.9 billion travel and hospitality industry. MIA, which receives more international travelers than any other US airport, reports that international passenger traffic continues to lag and will not likely return to pre-9/11 levels until 2006.

While the decline is partly due to recessions and financial turmoil in major South American markets, more restrictive visa policies, long waits at ticket counters and security checkpoints, and less-than-friendly treatment by immigration inspectors at MIA, have been cited by the local hospitality industry as contributing factors to the decline.

New visa procedures have had a particularly adverse effect on visitors from Brazil – South Florida’s fourth largest international market. Part of the problem is that Brazil has only three U.S. consular offices and one U.S. embassy serving a country with 170 million people, which is larger in size than the continental United States. The result is long delays for the now mandatory interviews and costly trips for many from the countryside to cities just to procure a visa. Not surprisingly, an increasing number of Brazilians are opting to visit European countries – many of which do not require visas – instead of the U.S.

This figure represents the direct expenditures of the 10.5 million overnight visitors to the Greater Miami area in 2001, according to the Greater Miami Convention & Visitors Bureau.

International passenger traffic at MIA declined by 6 percent in 2002 to 14.2 million, and fell about 3 percent more during the first seven months of 2003. The decline has been offset somewhat by an increase in domestic travelers. However, these travelers tend to stay for shorter durations and spend less money per visit than their international counterparts. According to the Miami-Dade Aviation Department, the average foreign leisure traveler visits the Greater Miami area for 10.1 days and spends an average of $1,950 per visit, whereas the average domestic leisure traveler visits for 5.2 days and spends an average of $600. Likewise, the average foreign business traveler visits for 5.5 days and spends an average of $1,730, whereas the average domestic business traveler visits for 3.1 days and spends an average of $980. Thus, the replacement of two foreign passengers (one business and one leisure) with two domestic passengers results in $2,100 less income for the local economy.

According to an August 2003 survey of the local hospitality industry by the Greater Miami Convention & Visitors Bureau, many establishments feel the post-9/11 security measures have already had a negative impact on their business and more than 90 percent feel their businesses will suffer in the future. Meanwhile, an informal survey of South Beach boutique hotels and restaurants conducted in October 2003 by the South Beach Hotel and Restaurant Association and FIU’s College of Business Administration found that numerous establishments had experienced a decline of 25 percent or more in international business since 9/11, and that visa restrictions were a major contributing factor to the decline.

The US Department of Commerce’s Office of Travel and Tourism Industries reports that the number of Brazilians traveling to the US fell by more than 25 percent between 2001 and 2002, and figures for 2003 are expected to show an even steeper decline.

Indeed, the Folha de Sao Paulo reports that the number of Brazilians traveling to Europe has risen by 30 percent over the previous year, while an increasing number of seats on US-bound flights are going empty. As cited in “U.S. Visa Restrictions Sending More Brazilians to Europe,” Associated Press, September 14, 2003. Moreover, the Travel Agents Association of the Interior of Sao Paulo is now recommending that vacationers avoid the US altogether, a move which may have prompted Walt Disney World to announce in
• The DHS’s recent decision to suspend the Transit Without Visa (TWOV) and International-to-International (ITI) programs has taken a further toll on Miami’s travel industry, as MIA handles more of these in-transit passengers than any other US airport. Spain’s Iberia Airlines, the sole foreign carrier with a passenger hub in the US, is reportedly considering moving its hemispheric hub to the Dominican Republic as a result of the program suspensions – a move that could result in the loss of 2,000 direct and indirect jobs and $157 million in annual business revenue.

• South Florida’s cruise ship industry has also suffered from the decline in international visitors, which account for roughly 15 percent of their business. These visitors often fly into MIA and spend a night at a local hotel prior to embarking on journeys from the Port of Miami and Port Everglades.

• A further looming threat to South Florida’s international travel and hospitality industry is the January 1, 2004, implementation date for the US VISIT program. A recent U.S. General Accounting Office (GAO) study indicates that the DHS is not prepared to capture biometric identifiers at airports and seaports in a way that will avoid major hassles and delays – a major problem given that the implementation date coincides with the height of South Florida’s winter tourism season.

RETAIL & WHOLESALE

• The decline in international passenger traffic at South Florida’s airports has hurt the concessions operators at MIA, which employ over 2,000 people, as well as other retail establishments that cater to international visitors. This has been a serious blow to local retailers since foreign visitors to South Florida spend an average of $230 a day on clothing, house wares, electronics and other merchandise, their absence has been a serious blow to local retailers.

• Premier retail outlets such as Bayside, Sawgrass Mills and Aventura Mall all report that they have seen drops in international visitor traffic since 9/11, and the

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33 American Airlines, the Miami area’s largest private employer with a workforce of nearly 10,000, carries approximately 700,000 ITI passengers and over 180,000 TWOV passengers annually into Miami, and therefore has much at stake. TSA White Paper, August 2003.


35 Carnival Corporation and Royal Caribbean Cruises Ltd. have reportedly had to discount prices significantly since the terrorist attacks to lure passengers. A typical Caribbean cruise of more than seven days on Carnival cost from about $128 to $186 a day in August 2001; the same trip in August 2003 could be bought for $115 a day. “Florida Tourism Industry Still Shaky Despite Increase in Visitors,” The Miami Herald, September 13, 2003.


decline has also had a negative impact on South Florida wholesalers that cater to foreign buyers, as well as the international trade shows and conventions that bring these groups together.

HEALTHCARE

- The post 9/11 travel policies have also impacted many of the area’s hospitals and health care institutions, which in recent years have established international divisions to cater to affluent Latin Americans. Lengthy delays in processing visas and outright denials – fairly rare occurrences prior to 2001 – have become endemic, resulting in fewer international patients.

- The loss of international patients is particularly costly to these institutions since these patients tend to come for expensive procedures or surgeries and pay cash for their treatment (as opposed to domestic patients, who often pay deeply discounted rates due to their membership in HMOs or Medicare). Moreover, foreign patients often bring one or two relatives with them on visits to South Florida, creating a multiplier effect for hotels, restaurants, rental car agencies, and the like.

- Several hospitals also report that the new visa policies have complicated their efforts to recruit foreign physicians and nurses. In some instances this has had an adverse impact on patient care, since a team of nurses may now have to attend to a larger number of patients than they would have if the institution were fully staffed.

EDUCATION

- A number of South Florida educational institutions report that the new visa policies, including higher rejection rates for the most popular student visa, the F-1, have had a negative impact on international student enrollment.

- Florida International University, which has more than 3,000 international students – the second highest number of any U.S. university – has experienced a sharp decline in international student enrollment in certain programs since 9/11. Since international

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38 According to a recent estimate, that 55 percent of all Latin American patients coming to the US for medical treatment come to Miami – up about 35 percent a decade ago. “Miami and the FTAA,” Latin CEO, August/September 2002.

39 While international business is still growing for many area hospitals and clinics, it is growing at a much slower pace than prior to 9/11. For example, one Miami hospital reports that its international business grew by between 15 and 25 percent per year for several years prior to the terrorist attacks. Since 2001, however, it has been growing by only 2 to 5 percent a year.

40 Through July of this fiscal year, the U.S. Department of State issued 27 percent fewer F-1 visas, or nearly 65,000 fewer than it did in the periods before the September 11 attacks. “Foreign Students Face New Hurdles On U.S. Visas,” Sun Sentinel, September 3, 2003.

41 International admissions to the hospitality school are down 25% since 9/11. “Hospitality Schools Make Adjustments During Tourism Slump,” Miami Today, August 7, 2003.
students attending public universities pay higher tuition fees than their in-state counterparts, and must by law carry a full load of classes, their expenditures greatly help defray education costs for Florida residents, and thus, the loss of these funds is particularly costly.

- There is also anecdotal evidence that the new visa procedures have fueled the perception that the United States is no longer a welcoming place for foreign students, thereby encouraging them to attend universities and colleges in Europe and Canada instead of the United States. This is cause for concern since the 600,000 international students that attend U.S. schools annually, contribute some $12 billion annually to the U.S. economy, in the form of tuition payments, apartment rentals, food, clothing and textbooks.

- Language and other professional schools have also been hard hit by the new visa policies. The Language School, an intensive English language program based in Fort Lauderdale, for instance, reports that its enrollment is down 40 percent since 9/11 and that a group of Siemens executives from Germany recently cancelled classes because their appointments for visa interviews were granted too late to accommodate their work schedules.

REAL ESTATE

- South Florida’s real estate industry has also been affected by post-9/11 security initiatives that have created obstacles and disincentives for foreigners seeking to buy residential or commercial property.

- Of particular concern to the real estate industry is a rule change proposed in April 2002 by the INS that would have reduced the minimum amount of time that foreigners are admitted to the U.S. on a tourist visa from six months to a period of time that is “fair and reasonable” (generally 30 days unless the visitor could convince the immigration inspector of the need for a longer stay).

- If implemented, this rule would likely have discouraged purchases by foreigners, who represent 10 to 15 percent of the South Florida market, or roughly $2 billion, thereby having had serious consequences for property developers, brokers, contractors and

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45 According to the law firm of Vernis & Bowling PA, U.S. real estate is attractive to foreign investors for four reasons: 1) It is a safe investment with relatively stable economic conditions; 2) There is a large supply of investment grade real estate; 3) There is a high turnover rate and an easy exit option; and 4) The U.S. does not restrict or scrutinize purchases of foreigners as do other countries. These factors help account for the sharp rise in direct foreign investment in US real estate between 1997 and 2001, from $38 to $42 billion.
46 The 30-day visa rule would also have reduced the maximum time visitors can stay in the United States from one year to six months.
others involved in this industry.\textsuperscript{47} Indeed, there is some evidence that the uncertainty surrounding the proposed rule change led to the cancellation of dozens of major transactions in late 2002 and early 2003.

- While the industry won a reprieve in March when the DHS shelved the 30-day proposal, it is not out of the woods. Brokers, appraisers, escrow agents, attorneys and title insurance company employees may all have to establish bank-like anti-money laundering systems in the near future, as part of section 352 of the USA Patriot Act. Travel agents, wholesale jewelers, automobile and boat dealers, and insurance companies may also have to establish such programs.

- According to industry experts, added administrative and compliance costs for brokers would inevitably be passed on to the consumer (buyer), making residential closings more costly, and thereby putting a brake on one of the few South Florida industries that has managed to escape the recent recession.

\textsuperscript{47} These figures are from Dabby Group Advisers in Coral Gables, as cited in “New INS Tourist Visa Rules Could Hurt Local Real Estate,” \textit{South Florida Business Journal}, May 3, 2002.
Appendix A

Testimonials

- A Miami-based footwear importer that sells mainly to Latin American and Caribbean retailers says its sales at a recent international footwear expo in Miami were down by about 50 percent over the previous year. It attributes the decline largely to more restrictive U.S. visa policies, which kept many buyers at home. As a result, it plans to send a sales representative to the region to meet personally with buyers, at a considerable cost to the company. It also plans to rent space for the first time at an upcoming trade show in Germany. Says the company’s owner: “We are accustomed to having buyers come to us in Miami. With the new travel policies, we will have to go to our customers and look for new markets outside the Americas. That’s not only bad for us – it’s bad for the local economy.”

- A Miami-based customs brokerage reports that one of its best customers – a wholesaler of ceramic tiles from Spain, Italy and Brazil – has had his shipments repeatedly flagged for intensive examinations at the Port of Miami since the 9/11 attacks. Although the company has been importing the same volume of containers (8 to 10 a month) from the same shippers for about five years and has never been cited for a violation, the inspections persist. The delays, which last from a few days to two weeks, have cost him several clients, who have told him they require more reliable suppliers. He is now considering trying his luck at ports in Tampa or Jacksonville, notwithstanding the additional trucking fees.

- An Ecuador-based ocean carrier which operates out of the Port of Miami says it has lost about half of its European customers (about $1 million in business) since the “24-hour rule” came on the books in late 2002. These customers, who used to ship their goods on the company’s vessels from Antwerp to Guayaquil (via New York and Miami), are now using carriers that call on Caribbean ports to avoid disrupting just-in-time inventory management systems.

- A Miami-based ocean carrier which provides service between Port Everglades and ports in the Caribbean and the north coast of South America reports that on more than one occasion Customs has flagged all of the roughly 175 (mostly empty) containers on incoming vessels for inspection. Each time this happens the company has to pay over $5,000 in stevedoring fees. “Don’t get me wrong,” says the company’s president, “we are all for security, but the costs of these types of inspections are starting to add up.”

- A major U.S.-based multinational company that imports clothing from Central America and the Caribbean reports that it recently had a container held up at the Port of Miami for more than two weeks during a routine inspection. While the goods were ultimately released by Customs, the buyer (a major US retailer), declined the shipment, causing the importer to lose an order worth tens of thousands of dollars, and more importantly, damage a critical customer.
relationship. Ironically, the importer was a member of the Customs-Trade Partnership Against Terrorism (C-TPAT), a public-private program designed to give members a fast-lane through customs. This company is now considering routing future shipments through Jacksonville or Houston.

- A prominent Miami immigration attorney says that the lengthy visa delays since 9/11 are definitely hurting her business, which is down about 30 percent since the terrorist attacks, and discouraging new investment in South Florida. “A foreign businessperson residing in the United States may have to wait up to nine months to find out if his petition for an L visa to establish a new company has been approved (or pay $1,000 for premium processing to expedite his petition). One residing outside the US must physically apply for the visa at the American consulate abroad. It can take many months for an appointment, and many more if there is a “hit” during a background check – a near certainty for anyone with a common Spanish surname like Gonzalez, Rodriguez or Perez.”

- A Miami real estate broker that caters to wealthy Latin American and Caribbean clients, reports that she had several foreign clients cancel multimillion-dollar transactions in early 2003 due to uncertainty over the proposed 30-day visa rule and that she continues to have prospective clients whose passports get stamped for 30 days only. “South Florida is a nice place to buy property but there are other nice places in Europe that right now are more hospitable,” she says. “Why would someone want to buy a second home or condo in a place where they are not sure they or their family members are welcome?”

- A South Beach-based boutique hotel that caters to European and Latin American tourists reports that its international business is down 25 percent since 9/11. The owner attributes the decline largely to more restrictive visa policies. “People feel bad about this – they are tourists coming here to spend money and they are treated as if they were criminals.”

- The international division of a Miami hospital reports that in addition to the increasing number of visa-related delays and denials, it is facing a new hurdle: US consular officials in Latin America and the Caribbean are increasingly asking them to certify that the medical treatment prospective patients are seeking in the United States is not available in their home country. This is problematic on two accounts. First, foreign patients often come to the United States to obtain medical care that is available in their home country, but of an inferior quality (and they are willing to pay a premium for world-class treatment). Second, it is difficult and time-consuming for US hospitals to certify what type of care is available in foreign countries. As a result, the hospital has chosen not to write such letters and the visas have been denied.

- A senior executive at another Miami hospital that treats approximately 10,000 international patients a year reports that its international business, which was growing by 20 to 25 percent a year prior to 9/11, has grown by less than 5 percent
since the terrorist attacks. The main reasons, he says, are the “hassle factor” associated with obtaining U.S. visas and fear of terrorism. “During the past decade Miami has taken significant market share in international health services away from other centers such as New York, Los Angeles and Houston. However, the new visa policies have contributed to the slow down in this lucrative segment and are causing prospective patients to consider alternative arrangements.”

- A senior vice president at the Miami branch of a foreign bank that specializes in private banking estimates that it has lost at least $20 million in deposits by wealthy Latin American and Caribbean nationals over the past two years due to the Patriot Act. These funds are going to jurisdictions with less stringent regulations, such as Switzerland and the Cayman islands. Had those assets come to Miami, he observes, his bank would have hired additional personnel to process checks, wire transfers and letters of credit. “It’s a lost opportunity for our bank – but also for Miami,” he says.

- One of South Florida’s largest independent commercial banks estimates that the new customer identification and verification procedures mandated by the Patriot Act require that it spend 30 additional minutes per customer to open new accounts. Since the bank opens 2,000 new accounts per month, these new provisions are costing it $180,000 per year. Meanwhile, it has hired two new employees since 9/11 specifically to deal with compliance-related issues and spent over $300,000 in additional staff time. As the bank’s senior vice president noted, “The security costs will be a drag on the economy for some time to come and, unfortunately, will not make financial institutions more productive or efficient – it’s strictly an overhead factor.”

- Another international banker noted that some of his bank’s clients have objected strenuously to requests for tax returns and financial statements to open new savings, checking or money market accounts, as mandated by the new know your customer and enhanced due diligence provisions of the Patriot Act. “Many of our customers have been banking with us for as many as 20 years and have very favorable credit histories. But now, if they want to open a new account, we must treat them the same as someone off the street.”

- The International Air Shipping Association, a small association of international trade and logistics executives, recently held its annual meeting on Miami Beach. Of the 65 members who planned to attend the five-day event, 10 were denied visas, including people from Europe, Asia and the Middle East. As a result, thousands of dollars in hotel rooms, meals, entertainment, tours and transportation were lost. According to one of the directors of the association who hosted the event: “Everyone was frustrated and angry about the visa denials. As a result, the group will not even consider holding another event in the United States.”
Appendix B

About the Author

David Wernick is the Research Director of the Knight Ridder Center for Excellence in Management at Florida International University and a Lecturer in the College of Business Administration. He has more than ten years of experience analyzing economic trends and political risks in Latin America and the Caribbean and their implications for multinational enterprises and governments. Previously, he worked as Foreign Affairs Specialist for the Office of International Affairs at the Florida Department of State. He has also been a Senior Analyst for Latin America and the Caribbean with The Ackerman Group, a Miami-based international security consultancy, and managing editor of the Latin America Advisor, a daily intelligence brief for business executives with activities in the region. He has published more than two dozen feature articles on regional affairs in America Economia, Latin Finance and LatinCEO, and worked as director of communications for The Council of the Americas and Americas Society, both headquartered in New York.