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AGRIBUSINESS MANAGEMENT

TRUCKING IN NORTH AMERICA UNDER AN EMERGING NAFTA: A COUNTRY PROFILE AND POTENTIAL PROSPECTS FOR PACIFIC NORTHWEST AGRIBUSINESS MANAGERS

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Introduction

Agribusiness activities continue as a vital industry in the Northwest. Likewise, transportation is vital to agribusiness activities. Transportation provides place and time utilities for your agribusiness firm, transporting fresh and processed foods and food products from you to your distant consumer efficiently and timely. Northwest agribusiness firms are working hard to find new markets for their processed and perishable foods in a competitive global environment. On January 1, 1994, the U.S., Canada, and Mexico entered a trilateral agreement known as the North American Free Trade Agreement (NAFTA). The enactment of NAFTA created the world's largest free trade market agreement, one that reduces, and in some instances, removes tariffs altogether. Opportunities and challenges for your agribusiness firm are an outcome of NAFTA.

Issues within NAFTA continue to emerge. Currently, surface cross-border transportation issues are receiving special attention. Cross-border issues focus on harmonizing (making compatible) transportation laws and regulations among the three NAFTA countries. On December 17, 1995, motor carriers transporting international commodities in NAFTA countries will have access to the states along the U.S.-Mexico border.

NAFTA will extend the open border access throughout all three countries January 1, 2000. This means that as a Pacific Northwest agribusiness manager, you can provide your own transport services for your commodities and products, whether importing or exporting raw material inputs or finished products, throughout North America -- from northern Canada to southern Mexico. Likewise, Canadian and Mexican motor carriers can transport international commodities to and from the Pacific Northwest, thus making more trucking capacity available to your firm and increasing the possibility of multi-commodity back hauls in many directions. Cross-border access has major implications for agribusiness industries and firms as competition for trade among the three countries continues to increase.

Motor carriers provide critical support for this trade. In 1993 alone, trade among the three countries exceeded $300 billion, where, by value, motor carriers trucked 68 percent of the trade between Canada and the U.S., 87 percent between the U.S. and Mexico, and 60 percent between Canada and Mexico. Although the recent Mexican peso devaluation has caused U.S. exports for 1995 to Mexico to decrease significantly while imports from Mexico increased, expectations are that exports to Mexico will increase during the next two years.

As agribusiness managers in the Pacific Northwest attempt competitive access to

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Canada and Mexico trade they utilize transportation alternatives that are safe, timely, and price efficient. For example, individual apple packing firms from Wenatchee and Yakima are using new emerging transportation alternatives into Mexico to help keep them competitive in the Mexican fresh apple market This discussion briefly profiles the motor carrier industry of each NAFTA country, examines truck size and weight standards, and identifies some day-to-day implications for agribusiness managers.

The Trucking Environment

Similarities and differences exist among the three NAFTA countries in their respective trucking industries. Knowing each country's similarities and differences is important as agribusiness managers export and import commodities to and from these countries. As an example, potato producers and processors who market potatoes in Canada or Mexico will want to evaluate the most effective and timely means to transport their product to the respective markets. By understanding the regulatory framework of each country, agribusiness managers can develop a marketing strategy that accounts for each country's regulations. An overview of the industry and the corresponding regulatory framework for each country is represented in Table 1.

Table 1: The Representative Industry Overview and Regulatory Framework for Canada, Mexico, and the United States.

	Canada	Mexico	United States
Industry Overview	• Deregulation 1987	• Deregulation 1989	• Deregulation in 1980 and 1994
	• Private carriers transport the bulk of the freight tons • For-hire carriers perform more long-haul and cross-border functions	• For-hire transport 82 percent of freight tonnage	• For-hire transports bulk of freight tons
	• 226,900 miles paved freeways and inter-city roads	• 55,056 miles paved roadway	• 2.3 million miles paved roads and highways are public and toll-free
	• Provinces construct and maintain principal roads	• New toll roads built by private developers with government financing	• States construct and maintain principal roads
Regulatory Framework	• Federal government regulates trucking safety, registration, permits, and taxes	• Federal government regulates driver and vehicle safety	• Federal and state government regulates environmental, health, and vehicle safety
	• Commercial driver's license required	• Commercial driver's license required	• Commercial driver's license required
	• Maintain driver's log book	• No requirements a driver's log book	• Maintain driver's log book
	• Motor carriers must obtain operating permits and register equipment	• For-hire must register equipment with federal government	• For-hire must register with Office of Motor Carriers to operate interstate
	• Oversize and overweight require permits	• Oversize and overweight require permits	• Oversize and overweight require permits

Source: North American Trucking Association

Truck Size and Weight Standards

This section addresses specific truck size and weight issues. It is evident that individual manager's logistics decisions gain from examining the different environment in each country.

Truck size and weight standards vary among all three countries. Pacific Northwest agribusiness managers are responsible for the quality assured and cost-effective delivery of their agricultural goods and products. In fact, as each manager makes decisions based on their operating environment, the manager might correctly decide to transport an oversized load and pay the appropriate fees and fines to achieve economic gains later in the delivery. This section reviews NAFTA's harmonization mandates regarding size and weight standardization and briefly looks at the common size and weight standards of each country.

Currently, size and weight standards among the three countries are under much pressure to establish harmonized size and weight standards for trucks operating in all three countries. Now, each country legislates its own truck size and weight standards. For instance, in the U.S., the legislation of size and weight standards is left to individual states to enact and enforce. In Canada, motor carriers must recognize certain national minimum limits although each province or territory legislates its own limits. Mexico's federal government on the other hand establishes size and weight standards for the entire country. With the implementation of NAFTA, and given each country's current truck size and weight standards, truck size, and weight standards have become a major issue to solve.

NAFTA mandates the Land Transport Standards Subcommittee (LTSS) working group on vehicle weights and dimensions to make compatible the relevant standards for freight transportation in the U.S., Canada, and Mexico. Their task is to develop compatible standards that account for five different truck configurations and five different axle options available throughout the three countries.

For instance, the common five-axle, tractor semi-trailer configurations used now look different in each country. Maximum overall length in Canada, Mexico and the U.S. (the U.S. has no Federal standard regarding overall length or weight, thus maximum limits vary by state) respectively is 75.5, 68.2, and 73.0 feet. Maximum gross vehicle weight is 87,082, 97,003, and 80,000 pounds respectively. The U.S. has the lowest maximum gross vehicle weight. Mexico has the shortest overall length.

The varying sizes and weights provide flexibility in transportation alternatives; however, as firms attempt to move freight in a seamless environment, complications emerge. Transporting bulky, low weight agricultural products would be difficult in a seamless environment to Mexico, for instance. A bulky load could perhaps easily utilize a 53-foot trailer and still be underweight. Nevertheless, because of restrictive overall length requirements in Mexico, the firm would be limited to a shorter trailer, resulting in a more costly movement.

During the fall of 1995, the LTSS group will provide a clearer vehicle definition on weights and dimensions. Target deadline for frill implementation of the compatible relevant standards is January 1997. Meanwhile, agricultural producers, processors, and shippers who participate in cross-border trade must adhere to each individual country's current regulations.

Prospects for Northwest Agribusiness Firms

NAFTA brings significant trade opportunities for agribusiness, particularly in Mexico. However, NAFTA will probably not present many new trade opportunities for agribusiness in Canada since significant changes occurred after the implementation of the U.S.-Canada Free Trade Agreement in

January 1989. Yet, transportation alternatives and rates will become more competitive for agribusiness managers who export to Canada and Mexico.

It is expected that the Mexican people will adapt to the changing economic conditions as the peso stabilizes. Michael Conlon, U.S. Agriculture Attaché in Mexico, feels Mexico's economy will rebound over the next two years, with private consumption increasing as employment and wages increase. Overall, demand for U.S. agricultural products will increase. Carlos Zertuche, Agriculture Specialist, Agriculture Trade Organization in Mexico, said Mexicans prefer "fine" fruits and processed foods from the U.S. Such "fine" fruits include apples, apricots, cherries, nectarines, pears, and table grapes. Northwest agribusiness firms have already made significant inroads in the apple and pear markets. Many other fresh and processed food markets are ripe for exploration by our Northwest agribusiness firms.

However, as agribusiness managers, you must commit to understand the Mexican marketing channels in the various markets. As described earlier, transportation is one aspect of the marketing channel that requires a significant understanding for effective use to take place. According to John Collins, Vice President of Government Affairs with the American Trucking Association, firms expanding trade to Mexico and intending to cross the border by truck will find that understanding and developing strong relationships with Mexican customs brokers and motor carrier firms extremely useful, maybe even critical.

Although the border states along the U.S.-Mexico border will be open for truck crossing on December 17, 1995, firms wanting to cross the border may face much resistance. Mexican customs brokers can be expected to use their political influence to protect their function at the border, thus making cross-border harmonization efforts difficult. Quite simply, the Mexican customs brokers control the trans-border movement of freight, and open border access would promptly create a highly competitive environment for their function, so it is in their own interest to maintain cross-border control.

U.S. firms will find it profitable, maybe even necessary, to form joint venture relationships with Mexican firms and brokers. Such joint ventures can facilitate the safe, quality assured, timely, and cost efficient transport of freight across the border and to the final Mexican destination. According to Milton Flores, Risk Manager, Liberty Mutual-Mexico, motor carrier driver safety is inadequate at times, language and cultural barriers do persist, and equipment loss due to theft and road damage is often substantial, thus forming a broad risk for U.S. motor carrier and drivers in Mexico. Joint ventures can allow the risk averse manager (one who avoids a high degree of risk) to avoid equipment deterioration and theft, language and cultural barriers, and gain trade opportunities in Mexico.

Summary,

Trade is expected to increase among the U.S., Canada, and Mexico, despite the peso devaluation. Agribusiness firms and shippers wanting to establish trade in Mexico will find a competitive transportation system for cross-border trade that will require strong relations and the establishment of joint ventures with Mexican customs brokers and motor carriers to ensure the safe, timely, and cost efficient movement of their goods in the short term However, agribusiness managers must also prepare for the long-term NAFTA impacts of open border access and market expansion opportunities in Canada and Mexico by continually updating themselves and incorporating NAFTA's emerging issues into their marketing plans and negotiations with their transport suppliers.

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