

THE SEARCH FOR PARTNERS

The Mexican trucking industry is characterized by over-capacity and intense competition. Since the industry was deregulated in 1989, more than 1,000 new companies have entered the market, bringing the total number of licensed firms to 4,150. Another 600 illegal carriers contribute to the over-capacity problem. By some estimates, capacity utilization is only about 60 percent. As a consequence, freight prices fell by more than 20 percent between June 1992 and July 1993 and are expected to continue to fall until the over-supply is eliminated.

In their struggle to maintain market shares, many Mexican trucking companies have begun searching for joint venture partners in Canada and the U.S. Such arrangements allow them to expand services at lower cost. From the Canadian perspective, joint ventures will be the main method of entering the Mexican market, until 1996 when Canadian and U.S. trucks are allowed into Mexico.

Partners in the U.S. and Canada are particularly sought after for two reasons. First, many Mexican trucks do not meet the safety standards necessary to enter the United States. This will make it difficult for them to benefit from rising trade flows under the NAFTA, unless they form partnerships with companies that have trucks that meet the standards. The second reason is that Mexican companies want to improve their outdated technology and in turn their labour productivity.

More than 60 percent of tractors and trailers, and 75 percent of two-axle trucks, were more than 10 years old in 1989. This equipment tends to be general-purpose rather than specialized. There is a need to upgrade the fleet, however, high replacement costs hamper this effort.

The Mexican trucking industry is highly labour intensive. It moves

about 325 million tons of freight per year, just over twice the volume handled by truck in Canada, but in Mexico, it takes 800,000 employees to do the job — more than six times as many as in Canada. This reflects Mexico's low wage costs, and to some extent its history of aggressive government regulation. Nonetheless, more efficient operations will be needed for Mexico to be competitive in just-in-time trucking and other sophisticated services.

Canadian companies with advanced technology will be in demand as partners. Expertise and technology needed for just-in-time trucking, such as vehicle location systems, are especially needed.

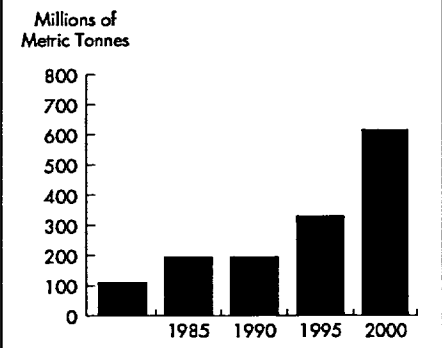
OVERVIEW OF THE MEXICAN TRUCKING INDUSTRY

The Mexican trucking industry is organized on a regional basis. Most firms service only one region, and the industry is concentrated in the industrial areas. The Mexico City region is home base for almost half of all trucking companies. Monterrey and Guadalajara are the second and third most important trucking centres. A few firms offer national service. They include *Empresass Nieto*, *Transportes Julian de Obregon* and *Transportes Castores de Baja California*.

The industry has undergone profound changes since it was deregulated in 1989. Before deregulation, the Mexican government handed out route concessions. Market entry was often difficult for new firms because permits were given mainly to the established trucking companies. Before 1989, about 90 percent of all freight was carried by only 20 percent of trucking companies. As of 1993, 47 percent of capacity was distributed among 600 firms.

Under the old regulated system, the *Secretaría de Comunicaciones y Transportes (SCT)* set prices that all

TRUCKING MARKET IN MEXICO, 1982-2000



trucking companies were obliged to follow. Shipments were routed through central terminals and re-shipped using randomly-chosen carriers. Thus, the customer had no control over the choice of carrier.

Any Mexican trucking company can now serve any route in the country and customers can select the carrier of their choice. The process of obtaining new trucking licences has also been streamlined, and market forces now determine prices and service levels. The resulting competition has slashed prices and transformed the industry.

Another effect of deregulation has been a trend towards specialization. Some trucking companies now limit their business to such specialties as furniture, perishable goods, automobiles and dangerous goods. A few firms are now offering less-than-truck-load services and just-in-time services. This is another growing market segment. Nonetheless, 85 percent of all trucking companies are still classified as "general cargo".

MARKETS

The Mexican trucking industry serves three broad markets:

- shipping within Mexico;
- shipping to Mexico from other countries; and

