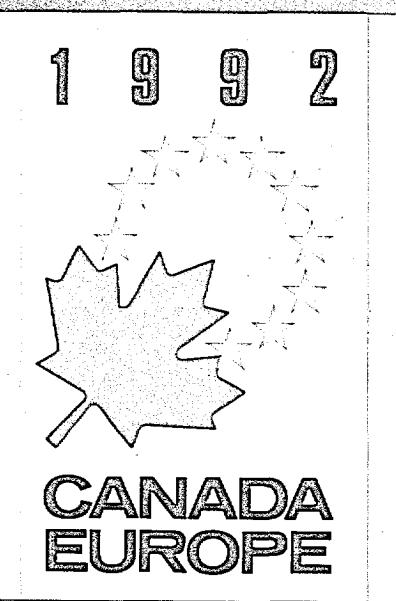


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# EUROPE 1992: IMPLICATIONS FOR CANADIAN FREIGHT FORWARDERS



Canada

External Affairs and  
International Trade Canada

**EUROPE 1992:  
IMPLICATIONS  
FOR CANADIAN  
FREIGHT FORWARDERS**

**September 1991**

**Dept. of External Affairs  
Min. des Affaires extérieures**

**NOV. 6 1991**

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External Affairs and International Trade Canada (EAITC) is pleased to offer the Canadian freight forwarding industry, as part of the Going Global trade strategy, this comprehensive study on market opportunities in the European Community resulting from the Europe 1992 initiative and the possible means by which Canadian firms can capitalize on them.

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## **ACKNOWLEDGEMENTS**

It has been an exciting challenge to work on this paper. The study has involved contact with many people in the freight forwarding and transportation industries in Canada and Europe. Without their cooperation, it would have been impossible to gain an understanding of the changing conditions affecting the freight forwarding industry in general and the particular implications of the Europe '92 program. I also needed assistance from members of the European Commission staff. Their help was indispensable in understanding quickly the scope and implications of the Europe '92 program.

I am, therefore, indebted to many people who gave their time, often showed me their company's facilities and arranged for meetings with others. I am pleased to acknowledge the persons interviewed in Appendix V.

However, I owe a special thanks to those who served on the CIFFA Steering Committee for the project. They are: Karl H. Legler, Starber International Inc., Chairman; Gilles Béchard, G. Béchard Ltd.; Patrick E. Cullen, Locher Evers International; C.J. Gillespie, Gillespie-Munro Inc.; H.J. Kuhn, Danzas; and H. Peter Merath, Panalpina. I would also like to acknowledge the special assistance provided by Allan Staruch of Industry Science and Technology Canada. Finally, I wish to thank Doug W. Pelkola of External Affairs and International Trade Canada, who not only guided the project but so often provided insights and helpful suggestions.

Of course, managing an international project and seeing it through to completion depends on having someone who can take care of the logistical details of an interview program and report preparation. My thanks to Teresa Cheung for her attention to detail and her patience throughout the project.

Notwithstanding the considerable assistance I have received, I take full responsibility for any errors and omissions in the report. I will be pleased to receive corrections and comments from readers.

Trevor D. Heaver

# CONTENTS

|  |           |
|--|-----------|
| <b>EXECUTIVE SUMMARY</b>   | <b>7</b>  |
| <b>I. INTRODUCTION</b>   | <b>12</b> |
| <b>II. THE FREIGHT FORWARDING INDUSTRY</b>   | <b>14</b> |
| 1. Contrasts of the Canadian and European Freight Forwarding Industries                        | 14        |
| i. Freight forwarders have a more prominent role in Europe                                     | 14        |
| ii. The distinction among service elements is less evident in Europe                           | 14        |
| iii. The existence of major European multinational freight forwarders                          | 15        |
| iv. The relationship between trucking and freight forwarding differs between Canada and Europe | 15        |
| 2. Similarities Between European and Canadian Freight Forwarding                               | 16        |
| i. The industry structure is similar   | 16        |
| ii. Freight forwarding involves similar network practices                                      | 17        |
| 3. Industry Characteristics and Response to Change   | 18        |
| <b>III. EUROPE 1992 — THE PROGRAM FOR A SINGLE EUROPEAN MARKET</b>                             | <b>19</b> |
| 1. Europe '92 — A Phase in a Process   | 19        |
| 2. The Internal Market Program — General Progress  | 19        |
| 3. The Internal Market Program — Specific Measures   | 20        |
| i. The removal of physical barriers  | 20        |
| ii. The removal of fiscal barriers   | 20        |
| iii. The removal of technical barriers   | 21        |
| <b>IV. EUROPE 1992 — TOWARDS A COMMON TRANSPORT POLICY</b>                                     | <b>22</b> |
| 1. Trucking  | 23        |
| 2. Railways  | 24        |
| 3. Air Transport   | 25        |
| 4. Marine Transport  | 26        |

|                   |   |           |
|-------------------|---|-----------|
| <b>V.</b>         | <b>THE EFFECTS OF THE SINGLE MARKET PROGRAM</b>     | <b>28</b> |
| 1.                | The General Effects                                 | 28        |
| 2.                | The Response of Manufacturing Firms                 | 29        |
| i.                | Mergers, acquisitions and joint ventures            | 29        |
| ii.               | Plant rationalization                               | 29        |
| iii.              | Logistics systems                                   | 30        |
| iv.               | Customer service                                    | 30        |
| 3.                | The Response of Carriers and Freight Forwarders     | 30        |
| i.                | Air freight carriers                                | 30        |
| ii.               | Shipping services                                   | 31        |
| iii.              | Freight forwarders                                  | 32        |
| 4.                | Conclusions   | 34        |
| i.                | Effects on trade                                    | 34        |
| ii.               | Expansion of integrated carriers                    | 34        |
| iii.              | The shift to Pan-European distribution              | 35        |
| iv.               | The reduction of costs                              | 35        |
| v.                | The development of more specialized services        | 35        |
| vi.               | Changes in the size structure of the industry       | 35        |
| <b>VI.</b>        | <b>IMPLICATIONS FOR CANADIAN FREIGHT FORWARDERS</b> | <b>36</b> |
| 1.                | The Need for Public and Private Sector Commitment   | 37        |
| 2.                | Freight Forwarders' Logistics Strategies            | 37        |
| i.                | The trend to logistics service activities           | 37        |
| ii.               | Forwarders' service strategies                      | 38        |
| 3.                | Size and Network Opportunities                      | 39        |
| i.                | Cooperation   | 39        |
| ii.               | Networking  | 39        |
| iii.              | Ownership and partnership arrangements              | 40        |
| iv.               | Diversification                                     | 41        |
| 4.                | Market Opportunities                                | 41        |
| i.                | General considerations                              | 41        |
| ii.               | Conditions in industrial sectors                    | 41        |
| 5.                | Strategy Synopsis                                   | 43        |
| <b>APPENDICES</b> |   | <b>44</b> |

# EXECUTIVE SUMMARY

## Purposes of the Report

This report has two main purposes:

- first, to provide information on the program to bring about a single European market, and on the responses of public and private organizations to it;
- second, to suggest possible strategies for Canadian freight forwarders in light of Europe '92.

## The Freight Forwarding Industry

Freight forwarding is a service industry that provides a wide range of advisory, administrative and physical services to shippers to facilitate the international movement of goods. In Canada, the industry — including firms with customs brokerage — is composed of about 250 firms and has some 15,000 employees. About 6,500 of these employees are engaged in traditional freight forwarding activities. The industry includes many small and few large firms. Over 40 percent of firms have fewer than ten employees; five percent of firms have over 300 employees and account for about half of the industry's employment. The range in company size and resources indicates that the firms serve different market segments and will respond to changing market conditions in different ways.

## General Changes Affecting Forwarding

The response of Canadian freight forwarders to Europe '92 must be considered in the context of other changes affecting the industry.

- *Logistics management.* Most important is the increased attention being paid by manufacturers and distributors to the integrated management of transportation and distribution-related activities. A corporate logistics function is becoming common.
- *Integrated carriers.* Vertical integration is occurring in transportation as carriers reorganize to provide intercontinental door-to-door service.
- *Logistics suppliers.* Warehousing and freight forwarding firms are becoming more comprehensive logistics suppliers. An increasing number of manufacturers in Europe and North America are now contracting out their logistics services.

## The Europe '92 Program

Europe '92 has accelerated the changes in logistics in Europe. It is part of a protracted program to eliminate the barriers that divide Europe which effectively started with the 1957 Treaty of Rome. The present program began in 1985 with a White Paper, *Completing the Internal Market*; this resulted in a program that is slated to end on December 31, 1992 and the objective of which is to establish a market without internal frontiers in which the free movement of goods, persons and capital is ensured.

The momentum to the single market is irreversible. The political will is reinforced — if not led — by corporate commitments. Europe '92 started as a European response to global conditions, but it has become a global force as firms position themselves to capitalize on the largest single market in the world.

The physical barriers in Europe, which contributed to the growth of the European freight forwarding industry in the nineteenth century, will be gone by 1993. Remaining documentation for tax and statistical purposes will be handled at the destination point so that there will be no border formalities. The removal of technical barriers to the single market is proceeding rapidly. The harmonization of technical standards, although involving numerous details, has moved to the management phase. Harmonized technical standards assist the rationalization of manufacturing. Government and public enterprise procurement policies are being opened up, creating new opportunities for trade in supplies for the water, telecommunications, transport and energy industries. The effects could result in new export opportunities for Canadian firms.

### European Transport Policy

To create a single transport market requires both harmonization and liberalization of national policies. While progress has been difficult and slow, important accomplishments have been made in the last two years. Most important are the changes in trucking, which accounts for 75 percent of intra-European Community tonne kilometres. An increasing number of Community licenses for international services and of cabotage licenses for trucks to carry freight in the domestic trade of another country have been granted. While restrictions may mean less than full cabotage by 1993, the disparities in freight rates across Europe will largely disappear. Delays at border crossings have, for the most part, already ended except for the problems caused by the transit policies of Switzerland and Austria. Switzerland restricts transit vehicles to 28 tonnes while Austria bans transit truck traffic between 10:30 p.m. and 7:30 a.m. Solutions to the truck transit problems lie in part in infrastructure investment in road and rail facilities. Unfortunately, the European Community (E.C.) has had little success in developing effective investment programs. The primary reason is budget; the European Commission lacks investment funds. A secondary reason is that a comprehensive infrastructure program must go beyond the E.C. members.

Effects of policy changes on freight in the other modes of transport will be relatively modest. All-cargo air services are already subject to limited regulation. Passenger service cabotage proposals will not be introduced until 1992. Internal barge traffic is already international. The restrictions to cabotage on coastal shipping will be of local significance only (in the Greek islands for example). Railway services will be improved but without a major effect on trade flows.

### European Gateways

The effects of Europe '92, and of port and airport investments, on the routing of international traffic are of interest to freight forwarders.

- *No major changes are expected.* No major shifts in traffic patterns are expected. Investments are being made at all major hubs to accommodate traffic growth. Major hubs will benefit from the shift to Pan-European rather than national production and distribution.
- *Growth of some secondary gateways.* Some secondary gateways will benefit from specific factors. First, gateways in low labour cost areas such as Spain and Portugal may benefit from accelerated economic growth. Second, national trucking costs may decline relative to international trucking costs. This may aid the expansion of services from Le Havre and Hamburg, for example.
- *Gateway procedures become more efficient.* The Europe '92 program is increasing competition between gateways to provide efficient gateway services. For examples, customs procedures in France and the U.K., which are less favourable to efficient forwarder services than those in the Netherlands, are under pressure to change. The same pressures will apply to Canadian services.

## **European Logistics**

Europe '92 is changing the spatial relationships in Europe. This is reflected in the restructuring of manufacturing and distribution activities. Merger, acquisition and plant rationalization are taking place to enable firms to reduce or hold down costs, and to provide better service levels to customers. Transportation and logistics service companies are at the forefront of change. An increased number of international transportation companies are providing integrated door-to-door service. European transportation companies and freight forwarders are increasing their ability to provide a range of logistics services.

The European forwarding industry is undergoing considerable change in response to the positive (growth) and negative (loss of border clearance activities) effects of Europe '92, as well as to global changes in trade and logistics services. Four trends are evident:

- Raise service quality through increased emphasis on personnel training.
- Develop extended service networks through mergers, acquisitions, partnerships and agency agreements.
- Offer a variety of time-related services by selling a range of delivery times instead of services defined by modes of transport used.
- Build new corporate strategies by focussing more precisely on corporate strengths and targeted market sectors. Forwarders are advertising the extent of controlled networks rather than the local nature of management control.

## **The Implications for Canadian Freight Forwarders**

Freight forwarders are at the fulcrum of change, affected by developments in international logistics management and in interregional trade flows. For Canadian firms to respond as fully and efficiently as possible will require Canadian public and private sector commitment similar to that found in the E.C. Various government functions, such as procurement and customs, may need to be examined to ensure that they facilitate dynamic and efficient forwarder services.

Canadian freight forwarders must seek proactive initiatives, not reactive responses, to Europe '92. Firms may consider their strategy in relation to an industry competitive map, in which the dimensions are the extent of customization of services and the range of services provided.

## **Competitive Map of Forwarders' Services**

|                    |             | Range of Services   |  |
|--------------------|-------------|---|--|
|                    |             | Low   | High   |
| Customi-<br>zation | High        | Forwarders concentrating on niche markets, e.g. specialized commodity and company needs | Commodity- or shipper-focussed international logistics services  |
|                    | Medium-High | Traditional forwarding with little specialization — a declining market                  | Forwarding with a range of associated consolidation, distribution and information services without customization |
|                    | Low         |   |  |

- *Low range, low customization.* The declining segment of the market is for firms offering a traditional and low range of services without customization. Customs brokerage may be an area where a focus on a narrow service range for a wide client base may be effective. However, over time it seems likely that information systems (which are the core of custom brokerage) and physical logistics systems will become integrated. Customs brokers will need to increase the range of services provided.
- *Low range, high customization.* A narrow range of services may be provided successfully on a highly customized basis. A small forwarder may provide highly "personalized" service to one or a few firms. Increasingly, however, such services will be oriented more to meeting logistical needs fulfilling transportation requirements.
- *High range, low customization.* Substantial resources are required of forwarding firms providing a wide range of services for many diversified customers, commodities and geographic areas. In practice, most firms have some areas of concentration whether defined by commodities, transportation modes or the distribution of their offices or agency networks.
- *High range, high customization.* The development of highly customized services, whether based on customs, product or geographic markets served with a wide range of services, is consistent with the trend to greater provision of logistics services. Firms with modest resources can provide a wide range of services in market niches.

The development of office and agency networks must be carefully linked with forwarders' strategies, especially as service specialization and customization become important. Mergers and acquisitions among European firms, accelerated by Europe '92, may cause Canadian firms to seek new arrangements. Partnerships and arrangements must be sought with forwarding firms not only with excellent management and service levels, but also with compatible business strategies, which may involve significant customization.

The importance of policy harmonization, as distinct from effective service integration, is raising new questions about the desirability of the ownership of, or partnership in, offices in Europe. Some Canadian firms already have such arrangements in place. For companies that do not have such arrangements, extreme care must be taken in moving to Europe at this time, whether by starting a new company or by acquiring interest in an existing company. The current loss of customs brokerage and the strategic responses of forwarders to Europe '92 make the industry particularly competitive and returns through 1993 uncertain.

Freight forwarders should also look for opportunities to cooperate while still competing "in the field." Cooperation may be beneficial in the development of EDI systems and in the negotiation of freight rates.

### **Market Opportunities and Europe '92**

Change on the scale of Europe '92 will result in a great diversity of challenges and opportunities. Industry sectors in which new export opportunities are expected include biotechnology products, telecommunication products, and automobile parts and accessory aftermarket products. Growth in trade may occur through established exporters and through Canadian firms entering European markets for the first time. Freight forwarders might be able to make a particular contribution to the NEXOS program — New Exporter to Overseas Markets — of External Affairs and International Trade Canada. However, one should not lose sight of current exporters who may be less successful than possible because of insufficient attention to and control of logistics arrangements.

Freight forwarders must pursue market opportunities consistent with resources and expertise. For some, this may involve Pan-European services; for others, particular geographic markets may be of interest. Some markets, while currently small, may have good growth opportunities. Spain is an example. Some markets, perhaps in countries not now members of the E.C. (for example Scandinavia and the countries of Eastern Europe) have longer-run potential.

Finally, forwarders must be alert to the fact that the market integration so evident in Europe will become more evident in North America. More challenges and opportunities are likely to arise as trade flows are consolidated to serve regions defined by transportation costs and related logistical conditions, rather than by national boundaries.

## I. INTRODUCTION

Firms in the Canadian freight forwarding industry are subject to many dynamic changes in their business environment. Prominent among these are the dramatic changes taking place in international affairs, which are helping reshape the international freight forwarding industry in Europe. The extraordinary rate at which barriers to trade are being removed among members of the European Community (E.C.) is exceeded only by the speed of events in Central and Eastern Europe. Political alliances and trading relationships are changing at an unbelievable rate.

However, the effects of political events must be considered in light of important changes taking place in international commerce. Three must be identified immediately.

- First, corporations in all business sectors are becoming more global in scope and outlook. This affects freight forwarders as the production and marketing strategies of their customers are worked out on a new global scale and as their competitors in the forwarding industry strengthen their global networks.
- Second, the attention of manufacturing and distribution industries to the management of transportation- and distribution-related activities as an integrated logistics function has intensified and is being applied rigorously to international as well as domestic business. Generally, firms in Europe have gone further than those in North America in using out-sourcing as a logistics management strategy.
- Third, transportation companies are responding to the changing conditions not only by modifying their core transportation services but also by placing greater emphasis on the integration of these services with other transportation and distribution services. More carriers are developing their capability to provide door-to-door international transportation and related logistics services. Integrated carrier services are important for sea and air freight.

The response of Canadian forwarders to events in Europe must be consonant with the changing structures and practices of their customers and competitors. The combination of interacting political and business changes raises an exceptional combination of threats and opportunities. To remain competitive firms — and societies — must adapt. They must respond to current events and anticipate future conditions. Changes in political relationships have immediate effects on business and they act as catalysts. The dynamic changes taking place in the international freight forwarding industry are evidence that many firms are positioning themselves today for conditions in the mid 1990s and beyond.

The conditions in Europe are of particular importance to Canadian forwarders. Business with the E.C. countries is more important to many freight forwarders than trade with the U.S. or the Far East and Asia. The latest data available are from a 1988 publication of Industry, Science and Technology Canada. They show that, in 1986, the major sources of freight forwarder revenue by trading partner were 31 percent E.C., 26 percent U.S. and 24 percent Far East, Asia and Australia. The E.C. remains the forwarders' largest market overall because of the important role of processed goods in exports and imports with Europe and the greater contribution of forwarder services in offshore trades. Europe is expected to be one of the fastest growing regional markets during the 1990s.

This report is designed to help Canadian international freight forwarders respond to developments in Europe. It has two purposes. The first is to provide information on changes in Europe relevant to the freight forwarding industry. This includes information on measures to bring about the single European market through the Europe '92 program, and the responses of public and private organizations to the changes. The second is to suggest possible strategies for Canadian freight forwarders in light of Europe '92.

The paper is organized in six sections. The second section describes the nature of the freight forwarding industry and draws contrasts between the industry in Canada and Europe. The general elements of the Europe '92 program are outlined in the third section

of the report. The fourth section deals specifically with the transport industry. The responses of public and private sector organizations, and of shippers, carriers and freight forwarders are described in the fifth section. Implications for Canadian freight forwarders are presented in the final section.

## II. THE FREIGHT FORWARDING INDUSTRY

Freight forwarding is a service industry. It exists because, for many shippers, specialists can arrange for the international movement of goods efficiently and profitably. Actual services provided have varied over time and among countries in response to the needs of shippers. It is not surprising, then, that the industry is heterogeneous within and among countries. Freight forwarders' services may include freight rate negotiation, transport or transport arrangements, transportation documentation, insurance, storage, packaging, handling, export credit and customs clearance. A listing of services is provided in Appendix I.

Formal definition of the industry is difficult. A few countries, for example Germany and the U.S., require the licensing of freight forwarders, which provides a legal definition. The approach of the International Federation of Freight Forwarders Associations (FIATA) is to define a freight forwarder in terms of the commercial services provided. The FIATA definition is provided in Appendix II.

Describing the industry is difficult because of the diversity of firms and the general absence of data, a condition which FIATA regrets. General characteristics of the industry can be described without numeric data. Fortunately, data are available on the size and some other aspects of freight forwarders in Canada and in Germany. These data help to highlight some of the similarities and differences between forwarding in Canada and in Europe. The conditions are important to the strategies appropriate to Canadian forwarders in serving trade with Europe.

### 1. Contrasts of the Canadian and European Freight Forwarding Industries

The differences in the industry among countries reflect many factors. The history of international trade requirements and the regulatory regimes affecting transportation appear to be the most important.

#### i. Freight forwarders have a more prominent role in Europe

The relatively small size of European countries understandably has made the handling of border clearance procedures more onerous in Europe than in Canada. The demand for specialized services to deal with the procedures was particularly strong in a land-locked trading country like Switzerland. It is no surprise, then, that many European freight forwarding companies were established in the nineteenth century: Danzas was founded in 1815, Schenker in 1872.

The use of freight forwarders by shippers, large and small, is more firmly established in Europe than in Canada. The Dutch association of forwarders (Federatie van Nederlandse Expediteurs organisaties — FENEX) suggests that carriers deal with freight forwarders, not shippers, in 50 percent of shipments by road transport. In the case of maritime transport, the percentage is 70 and in air freight more than 90. The tradition is reflected in the continued role of freight forwarders in handling freight movements even when freight rates have been negotiated directly by large shippers and carriers. The penetration into the market by integrated carriers has been slower in Europe than in North America, but it is proceeding.

#### ii. The distinction among service elements is less evident in Europe

Firms involved in freight forwarding provide a range of services. While, in practice, a clear distinction between functions is introduced only by the special requirements of customs regulations, it is convenient to place freight forwarding activities into categories.

- *"Traditional" freight forwarding.* Traditional freight forwarding involves the planning and administration of the freight flow and associated documentation, including financial documents.
- *Consolidation (called groupage in Europe) and distribution warehouse functions.* In keeping with the trend in warehousing generally, consolidation and distribution are

becoming more closely linked with a range of services such as processing, assembly, packing and labelling.

*Logistics administrative support.* As the focal point in the flow of information as well as product, freight forwarders are in an excellent position to provide various types of information support, for example on inventory control, product sales and logistics costs.

*Customs brokerage.* Because of the specialized nature of customs procedures and the requirement of sufferance and bonded warehouse facilities, customs clearance is a specialized part of freight forwarding. Some firms specialize in customs brokerage work, especially in Canada. Not all freight forwarders are customs brokers. In Canada, the activity is represented by a separate industry association, the Canadian Association of Customs Brokers. The closer association of customs brokerage and forwarding in Europe is reflected in the concern of the European Liaison Committee of Forwarders (Comité de liaison européen des commissionnaires et auxiliaires de transports — CLECAT) with the impact of eliminating customs procedures from intra-E.C. trade on forwarders' employees.

*Transportation.* Freight forwarders are not usually carriers. However, in Europe the major freight forwarders have assumed control of large truck fleets, mainly under contract. Also, in ocean transportation the retailing of container space by Non Vessel Owning Common Carriers (NVOCC) is making the distinction between freight forwarders and carriers less clear in many countries.

"Traditional" freight forwarding is the business of small firms. Larger firms may also perform other functions. They may serve as customs brokers, operate general bonded sufferance warehouses, and provide certain transportation services and logistics information services. European firms tend to differ from those in Canada in two respects with regard to

the range of functions. First, functions in Europe tend to be more integrated: a single freight forwarder would more frequently provide a package of services for a shipper than in Canada. Second, the distinction between trucking, warehousing and forwarding is less evident in Europe than in Canada.

A related feature of European logistics is the wider use by manufacturers of third party logistics suppliers and the concomitant existence of logistics services companies. Large European companies that formerly had their own freight forwarding and logistics services are now changing to the use of contract services. Phillips uses Nedlloyd, for example. Major "freight forwarders" advertise their logistics capabilities.

The greater integration of European freight forwarding activities has facilitated the transition of freight forwarders from that of an agent for international transportation arrangements to that of a provider of a range of related logistics services.

iii.      **The existence of major European multinational freight forwarders**

Freight forwarding companies have followed different growth strategies. Some European companies have concentrated more on providing services within Europe than others. Specific development strategies will be discussed later. Here, it is sufficient to note that the largest freight forwarders in Europe are also established in Canada. They have global networks and are among the largest in the country.

iv.      **The relationship between trucking and freight forwarding differs between Canada and Europe**

The relationship between the trucking industry and freight forwarding is very important in Europe because of the dominant role of trucking in freight transportation. In 1987, trucking accounted for 75 percent of the tonne kilometres of intra-E.C. freight transportation. The dominance of trucking reflects the generally limited lengths of haul, the high proportion of processed goods moved and the limited effectiveness of rail freight services, particularly in international services. Consequently, whereas in Canada consolidation by pool car operators has been

an important element in the development of freight forwarding activity, in Europe consolidation for trucking has been more important.

There are significant differences in the structure of the Canadian and European trucking industries. The regulatory practice in Canada, following the U.S. pattern, has resulted in the evolution of a variety of common carrier firms, including those specializing in the general freight and the less-than-truckload (LTL) business. The regulatory practice in Europe, on the other hand, has hindered such development.

Regulation has favoured the development of many very small family trucking businesses in France, Germany and Italy. These companies wholesale services to freight forwarders, rather than retail to shippers. The fragmentation of Europe into national markets has also inhibited the development of trucking and related terminal networks on a European scale.

The result has been a greater reliance in Europe on freight forwarders to provide consolidation services and to utilize truck fleets, primarily under contract, to perform haulage. Many contractors operate under the livery of a freight forwarder. Some large trucking companies have developed (the Dutch Frans Maas for example), but they do not dominate the trucking industry as do Canadian Motorways/Kingsway, CP Express and Transport in Canada and Consolidated Freightways, Yellow and Roadway in the U.S.

Because the large freight forwarders are more deeply involved in the European haulage industry, they participate more in corporate logistics services than do Canadian freight forwarders.

## 2. Similarities Between European and Canadian Freight Forwarding

In spite of the contrasts between European and Canadian freight forwarding, there are also important similarities.

### i. The industry structure is similar

The international freight forwarding industry is characterized by many firms that vary greatly in size. One-person establishments are not uncommon; often a former employee serves as a freight forwarding consultant to a former employer. Small firms with a single office are numerous. These firms are likely to specialize through some combination of mode of transportation, product(s), shipper(s) and region. Larger firms offer wider ranges of services by commodity and mode, and geographically. However, even the largest multinational companies that do not offer all services have uniform patterns of coverage.

The industry is centralized or monopolized only where government control over foreign trading exists. As a result of the collapse of the communist governments in Eastern Europe, larger forwarding companies are opening offices quickly. Elsewhere, there are many firms in the industry and entry for small firms is easy.

Table 1 summarizes data on the size of freight forwarding companies in Canada and the Federal Republic of Germany in 1989. In each country, there is a wide range in the size of companies, but the distribution of firms among the size categories differs significantly. The Canadian industry is dominated, in terms of employees, by firms with over 300 employees; they account for 50.8 percent of employees in Canada, but only 16 percent in Germany. At the other extreme, there are a particularly large number of small firms in Canada; 43.7 percent have fewer than ten employees — the average is only 3.5. Further comparative data on Canadian and German freight forwarding are in Appendix III.

**TABLE 1**  
**Size of Companies in the Canadian and German  
 Freight Forwarding Industry, 1989**

| No. of Employees<br>Per Company | % of Companies |         | % of Employees |         |
|---------------------------------|----------------|---------|----------------|---------|
|                                 | Canada         | Germany | Canada         | Germany |
| 10 and less                     | 43.7           | 30.7    | 2.5            | 4.6     |
| 11-51                           | 34.7           | 49.0    | 15.3           | 29.0    |
| 51-100                          | 9.0            | 11.5    | 10.3           | 20.1    |
| 101-300                         | 7.3            | 7.6     | 21.1           | 30.3    |
| over 300                        | 5.3            | 1.2     | 50.8           | 16.0    |

Sources: Bundesverband Spedition und Logistik e.V., *Strukturdaten aus Spedition und Logistik*, 1990, Tables 12 and 17.  
 Business Opportunities Sourcing System (BOSS) for Industry, Science and Technology Canada, *Directory of Canadian Customs Brokers and Freight Forwarders*, August 1989.

A further important feature of the Canadian industry is the importance of foreign-controlled companies. They are primarily European-controlled. While few data are available on these companies, data for 1984 indicate that they account for 24 percent of employment in the industry. An estimate for 1986 suggests that they earned 40 percent of the industry revenue.

Understandably, the implications of changes in Europe differ significantly for Canadian firms, depending on their size, ownership and customer base.

## ii. Freight forwarding involves similar network practices

Freight forwarders must have networks of offices to plan and manage widespread international transportation arrangements. Networks may be established in various ways. Small firms do it through agency agreements or, sometimes, through joint ventures with freight forwarders elsewhere; larger companies may own offices or work through agency agreements. These forms of networks may be used nationally or internationally.

There are no standards for agency agreements. They are usually open-ended arrangements with agreed revenue-sharing on originating and terminating traffic. As flexible arrangements, they provide opportunities for Canadian companies to select efficient and compatible offices with which to do business. They provide opportunities for change to ensure efficiency over time. However, the flexibility in the arrangement can also be a disadvantage. For example, once the business has grown, one of the companies may decide to end the agreement and open its own office. Sometimes, one freight forwarder may be bought out by a competitor of the other. The rate of mergers in Europe has resulted in the termination of agency arrangements for some Canadian forwarders who have then been forced to find new European companies with whom to associate.

Firms may form a closer relationship with another forwarder by entering into a joint venture or partnership. Such arrangements require a commitment of capital; profit- as well as revenue-sharing arrangements must be established. A partnership provides greater continuity than an agency agreement and an opportunity to plan more effectively. However, it is an option dependent on

sufficient capital resources. The establishment of wholly-owned subsidiary offices, whether by development or acquisition, requires more capital but yields greater control of management and planning.

Foreign multinational companies are an important element of the Canadian forwarding industry. Understandably, they have a particularly strong position in the network of foreign offices. A review of the industry, published by Science and Technology Canada in 1989, states that 90 percent of the foreign offices reported by firms in Canada were owned by multinational companies. However, both within Canada and elsewhere, multinational firms also make use of agency arrangements to provide services in those areas where they do not maintain offices.

### **3. Industry Characteristics and Response to Change**

The freight forwarding industry consists of firms with significantly different characteristics. It is to be expected, then, that the response to change will differ among firms. Existing assets, as well as capital and human resources, affect response to change. Small firms do not face the same threats or opportunities as larger firms.

There are also important differences in the conditions faced by firms in Europe and those in Canada. European offices are affected immediately by changes in trading requirements and levels among E.C. member states. European offices will lose from the elimination of internal customs brokerage but gain from the expected growth in trade. Canadian firms with European offices will share this experience. All Canadian firms need to understand the conditions affecting trade with Europe. They also need to be aware of the way changes in the European freight forwarding industry may affect the structure of the industry in Canada. Detailed consideration of the effects on Canadian firms will be made after the changes in Europe are described.

### **III. EUROPE 1992 — THE PROGRAM FOR A SINGLE EUROPEAN MARKET**

While the current drive to complete the single European market by December 31, 1992 was initiated in 1985, it is important to recognize that Europe '92 is a part of a longer, deeply-rooted process. The background to the program helps to explain the magnitude of change in the last five years and the certainty of successful completion.

#### **1. Europe '92 — A Phase in a Process**

While the first objective of the 1957 Treaty of Rome was to establish a customs union (accomplished successfully and ahead of schedule), the Treaty had a more ambitious objective. This was to ensure economic and social progress by eliminating "the barriers which divide Europe." Momentum to that end was lost during the 1970s, but regained in the mid-1980s, when growing concern about the global competitiveness of European industry coincided with the appointment of Mr. Jacques Delors as President of the Commission.

In 1985, the White Paper, *Completing the Internal Market*, was released. This sets out a detailed program for the removal of physical, technical and fiscal barriers. It gives special attention to transport which "represents more than seven percent of the Community's GDP, and ... development of a free market in this sector would have considerable economic consequences for industry and trade." The White Paper was followed by the passage of the *Single European Act* (SEA) which came into effect in 1987. The SEA sets down a program (slated to end on December 31, 1992) to establish the internal market, which "... shall comprise an area without internal frontiers in which the free movement of goods, persons and capital is ensured ..." The SEA also introduced important new procedures for the Council of Europe. (The Council is composed of the Member States' Heads of Government/State and must approve proposals brought to it by the Commission.) A qualified majority of Council votes is now sufficient for most proposals to become Community law. Unanimity is still required in some areas (tax measures for example). The change in

voting procedures has resulted in more rapid decision-making, often involving compromises among national positions. The need for compromise is understandable, considering the diversity of interests among the 12 member states: Belgium, France, Italy, Luxemburg, the Netherlands, Germany, Denmark, Ireland, U.K., Greece, Portugal and Spain, in order of historical membership.

The momentum towards a single market is irreversible. It has not been deflected by events in Eastern Europe. If anything, those events have strengthened the resolve to realize the benefits of Europe '92 so that the challenges and opportunities of Eastern Europe can be more fully and effectively addressed. Nor has the trend been adversely affected by German unification. In spite of some concerns about the potential behaviour and aspirations of a united Germany, the presence of a united Germany within the E.C. is seen as favourable.

The political will is reinforced — if not led — by corporate commitments. Europe '92 has effects on global — not just European — business strategy as firms position themselves to capitalize on the largest single market in the world.

#### **2. The Internal Market Program — General Progress**

All of the 282 proposals on which the establishment of the single market is based have been presented to the Council of Ministers by the European Commission. Well over half of the proposals have been adopted.

To be effective, the adopted Community legislation must be put into effect by Member States. The rate of compliance varies among the countries; it is highest in Denmark and the U.K., lowest in Italy and Portugal. It is apparent that the British Government's reluctance to proceed rapidly with broad social and economic legislation is not deterring it from actions required for timely completion of the single market. The compliance rate of Member States has been improving and, recently, was at 70 percent overall.

Progress on outstanding proposals is expected to be difficult, as a number of them require unanimity rather than a qualified majority. The wide political commitment to conclude the program successfully, the action and pressures from business, and the current momentum suggest that while all measures may not be achieved by the deadline, the substantive elements of the program will be complete and its effects will be realized.

The possibility of a "fortress Europe" mentality has been a concern in Canada and elsewhere. However, while it is necessary to monitor and provide input on particular measures and standards that would affect European imports, there is no reason to believe that barriers to trade will increase. The commitment in Europe to a competitive environment (agriculture excepted), exemplified by its banking policy, has alleviated many concerns. However, dealing with Europe as a single unit on trade matters will raise new issues, not least in air traffic rights.

### **3. The Internal Market Program — Specific Measures**

The Europe '92 program requires many detailed directives to remove the barriers to a single market. Here, it is appropriate to outline the general progress related to the removal of the physical, technical and fiscal barriers.

#### **i. The removal of physical barriers**

The elimination of physical controls at borders will reduce expenses and allow more efficient operations. Important steps have already been taken en route to eliminating border barriers completely by 1993.

Border customs and tax formalities have historically required extensive documentation for dispatch, transit and entry purposes. Work to develop a single administrative document (SAD) started in 1981 and was completed in 1987. SAD replaces some 200 documents among member countries — 36 in Denmark alone. The countries of the European Free Trade Agreement (EFTA) have also used SAD since January 1, 1988.

The document consists of eight copies to meet various administrative purposes. For intra-Community trade, it represents a step toward the

complete abolition of border formalities. However, a standard document to be known as the Document Unique Merchandise (DUM) will still be required after 1992 for extra-Community trade.

An important aspect of documentation procedures not directly related to the single market is the application of electronic data interchange (EDI). It has been facilitated by document standardization, but is separate from it. EDI is a major change in technology central to the freight forwarding industry, enabled by the setting of EDI standards such as the UN approved EDIFACT system (Electronic Data Interchange for Administration, Commerce and Transport). Initially seen as a technology available only to large firms, it is now becoming available at the cost of a PC system, with services specifically oriented to freight forwarders.

The decision on value-added taxes (VAT) affects the procedures to be followed in the documentation of inter-country trade. It is expected that VAT will be paid at destination and that documentation will serve both tax and statistical purposes. The forwarding industry must wait to find out exactly how its documentation procedures will be affected, but border procedures will be eliminated.

Progress to eliminate delays for product health control reasons was made during 1990. Border controls on the shipment of hazardous products and waste will be supported by general control measures on transport. Finally, the need for controls, under Article 115 of the Treaty, to restrict the trade in commodities from outside Europe under import quotas in some countries but not in others will disappear or be so diminished that border control will no longer be appropriate.

The final relevant border procedures are those imposed directly on trucking. They will be considered later.

#### **ii. The removal of fiscal barriers**

Indirect tax rates vary widely among E.C. countries. The Commission's current proposal is for VAT rates to be brought within the range of 14 to 20 percent. The Council is committed to making a decision on tax rates before the end of 1991.

### **iii. The removal of technical barriers**

Technical barriers take a variety of forms. They apply to capital movements as well as the free movement of people, technical standards, public procurement, business corporations and services.

Three of these areas warrant comment. First, the harmonization of technical standards, although involving numerous details, is the area in which the most progress has been made. The Commission is now able to move to the management phase of this program. Harmonized technical standards will assist the rationalization of industry. Second, opening up procurement policies of government and public enterprises may lead to substantial new opportunities for trade in supplies to the water, telecommunications, transport and energy industries. The immediate effects on intra-Community trade could well extend to external trade, creating an export opportunity for Canadian firms. Third, proposals seek to ensure that corporations have competitive access to markets and can operate efficiently in standardized network conditions. Some of these proposals deal with the transport sector.

## IV. EUROPE 1992 — TOWARDS A COMMON TRANSPORT POLICY

In spite of the prominence given to transport in the Treaty of Rome and the White Paper, progress towards a common transport policy has been very difficult. The lack of progress was the basis for the European Parliament's successful court case against the Council in 1983. Resistance to change in transport policy has been caused by conditions understood in Canada; the differences in national transport policies are rooted in contrasted geographic, economic and social conditions.

To create a single market in transport requires both the harmonization and the liberalization of national policies. Unfortunately, harmonizing national policies has proved more difficult than liberalizing them. However, pressures for change are considerable. Many manufacturers already consider the E.C. to be a single market and expect change to facilitate low-cost transport and the more efficient distribution of goods. Protective regulations are now being removed but policies affecting subsidies and government ownership are harder to harmonize.

The first successes were achieved after 1985 in addressing restrictive regulations affecting competition in particular modes. However, no proposals have been accepted for the development of a transport infrastructure on a Community scale, in spite of plans for bold infrastructure investments to serve the market growth expected.

The development of an adequate infrastructure goes beyond the E.C. members as the E.C. is only a part of Europe, and lacks geographic logic and cohesion. Therefore, the discussion of infrastructure takes place

not only on national and Community levels but also through the Europe-wide organizations, such as the Inland Transport Committee of the UN's Economic Commission for Europe and the Council of Ministers of the European Conference of Ministers of Transport (ECMT). While more attention is being paid to network issues, no progress through the Council has yet been achieved beyond the approval of minor support to selected projects of interest to the Community as a whole. Moreover, budget limitations are severe; in pressing for increases in the transport infrastructure budget from approximately US\$72 million, the Commissioner for Transport pointed out that the tobacco growing industry received ten to 15 times more Community funding than transport infrastructure.

In view of the continued failure of the Community to evolve a common transport policy, developments are described by mode. It is important to review briefly the role of the modes. The distribution of traffic among the modes of transport shown in Table 2 reflects the economic and geographic conditions of industry in Europe, and the institutional arrangements under which transport is provided. As a result, trucking is more important than it is in North America. In 1987, nearly 75 percent of freight tonne kilometres were provided by truck. Also, the amount of truck traffic has been growing faster than the economy, while rail and barge traffic have remained constant at best. The growth rate of international truck traffic has exceeded that of domestic traffic. This is consistent with the significant growth in intra-E.C. international trade and the greater freedom of pricing in international compared to domestic trucking.

TABLE 2

**Intra-Community Traffic by Mode 1984-1988\***  
**(Billion Tonne-Kilometres)**

|                            | Road  |       |                | Rail  |       |                | Inland Waterways |       |                |
|----------------------------|-------|-------|----------------|-------|-------|----------------|------------------|-------|----------------|
|                            | Dom.  | Int'l | Total<br>Intra | Dom.  | Int'l | Total<br>Intra | Dom.             | Int'l | Total<br>Intra |
| 1984 EUR-10                | 427   | 85    | 512            | 100.8 | 36.6  | 137.4          | 27.6             | 64.3  | 91.9           |
| 1985 EUR-10                | 435   | 88    | 522            | 104.4 | 37.4  | 141.8          | 25.5             | 61.9  | 87.4           |
| 1986 EUR-10                | 455   | 91    | 546            | 100.9 | 34.3  | 135.2          | 26.5             | 65.6  | 92.1           |
| 1986 EUR-12                | 538   | 114   | 651            | 110.8 | 36.9  | 147.7          | 26.5             | 65.6  | 92.1           |
| 1987 EUR-12                | 571   | 125   | 696            | 109.3 | 36.9  | 146.2          | 25.7             | 63.5  | 89.2           |
| 1988 EUR-12                | 605   | 141   | 746            |       |       |                |                  |       |                |
| <b>Annual Growth Rates</b> |       |       |                |       |       |                |                  |       |                |
| 1984-1987                  | +4.2% | +5.5% | +4.5%          | -0.4% | -2.2% | -0.9%          |                  |       |                |
| 1984-1988 (prov)           | +4.6% | +7.2% | +5.1%          |       |       |                | -2.4%            | -0.4% | -1.0%          |
| <b>Percent of Traffic</b>  |       |       |                |       |       |                |                  |       |                |
| 1987                       | 61.3  | 13.4  | 74.7           | 11.7  | 4.0   | 15.7           | 2.8              | 6.8   | 9.6            |

\* Extra-E.C. and through-E.C. movements are excluded. Including these movements, total rail and waterway figures were 167.8 and 96.3 billion tonne kilometres respectively in 1987. Comparable data are not available for road transport.

The intra-Community traffic is broken down into that within individual countries and that between countries. In 1987, 75.8 percent of traffic was domestic.

Source: European Communities, *Europe Transport, Analysis and Forecasts*, 1989, Tables 1.5, 1.6 and 1.7.

The immediate effect of the Europe '92 program is to remove more barriers affecting trucking than other modes. As a result, this mode should continue to grow.

### 1. Trucking

The efficiency of trucking in Europe has been impeded by various regulations: as much as one third of vehicle miles in the industry are empty and delays at borders have been considerable. However, changes already introduced and others expected in conjunction with Europe '92 will produce substantial efficiency gains. The changes are of various types.

First, simplifying documentation procedures at internal borders has already been successful in reducing border delays to only a few minutes for vehicles with documents in order, with the exception of transit through Switzerland and Austria. Unfortunately, transit through these countries remains a problem. Both countries consider that they bear undue road and environmental costs from the large volume of north-south transit traffic. Switzerland, therefore, has maintained a maximum vehicle size of 28 tonnes for the Alpine passes. The result has been a concentration of traffic in Austria which, in 1990, imposed a ban on transit truck traffic between the hours of 10:30 p.m. and 7:30 a.m. The results are heightened delays and congestion, and an

increased interest in rail traffic. Switzerland and Austria encourage the expansion of combined transport (intermodal) but this, as well as long-run improvements to road routes, will require significant investment. There is no satisfactory solution to the Alpine transit problem in sight, but it will undoubtedly involve more effective use of the rail system.

The second area of progress is in trucking regulation, which has differed greatly among the countries. Economic regulation has been most restrictive in France and Germany; it has been absent in Belgium and the U.K. The regulations have had significant effects. Specifically, most trucking operations in France and Germany are small family firms, their purely national hauls protected from the trucking of other countries. Bilateral negotiations have determined national shares of trans-border trucking. High rates resulted in those protected markets. France has already proceeded with trucking deregulation, which has resulted in rate reductions. In Germany, however, the policy has been linked with high truck user charges (much higher than those in neighbouring countries) and prescribed tariffs, which have limited the competition for freight faced by the Germany railways. Germany has argued that the deregulation of trucking should be linked with the harmonization of road user charges.

A breakthrough was achieved in 1989, when the Council agreed to accelerate the granting of Community licenses allowing vehicles to operate internationally within the E.C. Increasing the number of licenses weakens the control of bilateral negotiations on the nationality of vehicles in trans-border trading. Also, licenses giving cabotage rights — the right to carry freight in the domestic trade of another country — have been introduced. While the number of licenses for 1990 was very small (15,000), it was the beginning of a staged approach to achieving open competition by 1993. A German proposal to apply taxes to "equalize" the tax burden on German and foreign trucks operating in Germany was found to be against Community law. As a result, German taxes have been reduced. The cabotage arrangement is a major step to increasing competition in trucking. The Council is committed to the removal of all quantity restrictions by 1993.

Removal of border delays, fuller vehicle utilization through rationalized networks, and deregulation of entry and rates is expected to result in rate reductions estimated at between 15 and 30 percent. As rates are now higher on moves within some states than internationally, the most significant reductions will be in domestic markets.

The result will be continued growth of the trucking industry despite concerns about road congestion and the environmental impact of highway traffic. However, these conditions will heighten pressure for significant improvement to rail and intermodal services. Relative growth of medium and larger trucking companies is also expected; this will increase the number of such companies operating independently of the major freight forwarders.

## 2. Railways

The railways have been playing a declining role in freight transport in the E.C.; the rail share of international intra-Community traffic fell from 14 percent in 1975 to less than ten percent in 1987.

The development of international railway services has been adversely affected by the centralized ownership of railways by governments, which intervene significantly in management. This has resulted in limited innovation in freight services, especially in international services. The Commission is now faced with trying to get governments to "mend their ways."

In 1990, the Commission proposed that states should give railway management autonomy and fiscal responsibility, refinance the railways, use service contracts for unremunerative services that are to be retained, separate the management of infrastructure from that of train services and give international railway services access to the national infrastructure for a fee. These proposals are now blocked before the Council and seem unlikely to be implemented for 1993.

The need and opportunity to develop combined transport (intermodal services) is widely acknowledged. Services are much less developed than in North America. Two international organizations exist to facilitate development of the services. Intercontainer acts on behalf of the railways

in 25 countries to organize and market container services. It handled over one million TEUs (20-foot equivalent units) for the first time in 1989. The Commission may seek to ensure that Intercontainer does not have a monopoly position in the E.C. The second organization is the International Union of Combined Road-Rail Transport Companies (UIRR) which negotiates international piggyback rates with the national railway companies and facilitates cooperation among national piggyback companies. These companies retail piggyback services. UIRR companies carried just over one million vehicle units in 1988.

The Commission has acted to free UIRR services from trucking quotas and has encouraged investment in intermodal facilities. However, most progress in combined transport is beyond the Europe '92 program. In January 1990, the Brussels Joint Declaration of the railways, Intercontainer and UIRR announced a program of block trains with volume rates. A policy statement on combined transport by the Community of European Railways is expected by July 1991. The development of more combined transport business is expected to be led by trans-Alpine services. A study by A.T. Kearney forecasts that the volume of international combined transport traffic may triple over the next 15 years, compared with a doubling of freight transport demand. However, its growth remains contingent on a Council agreement on railway funding.

### 3. Air Transport

The European air transport industry has been dominated by large government-owned airlines, operating under regulated rates and bilateral market share agreements. Commission initiatives started only after 1974 when a European Court decision established that air services are subject to the competition provisions of the Treaty of Rome.

In practice, all-cargo services in Europe have been subject to limited regulation. Therefore, the formal liberalization of entry for community air carriers, to become effective in July 1992, will have limited effects. The main thrust of Commission activity has been to liberalize scheduled passenger services, which now have significant cargo capacity. The influence of capacity sharing agreements between airlines has been reduced and greater rate freedom

has been provided. However, proposals for free access to E.C. markets for Community airlines (airline cabotage) will be the subject of proposals to be introduced in 1992.

A pattern exists in air transport, as in many other industries: firms are getting larger and developing global alliances. The phased-in approach to airline liberalization allows a period during which the large airlines may enhance their market position. For example, Air France and Lufthansa concluded a cooperation agreement in 1989; British Airways and KLM Royal Dutch Airlines agreed to acquire a 20 percent stake in the Belgian carrier, Sabena. While deals are examined by the Competition Commissioner, it is unlikely that competition policy will prevent the major airlines from entrenching their market position prior to 1993.

The past and expected growth of air traffic is raising problems of air traffic congestion and airport capacity. The proportion of delayed flights is increasing as systems are reaching saturation at peak times.

The problems in air traffic control extend beyond the E.C., so the Council has passed a resolution calling for Member States to join Eurocontrol, the organization seen as best placed to ensure centralized traffic management. In April 1990, the transport ministers, meeting during the European Civil Aviation Conference, approved a plan to harmonize and gradually integrate air traffic control systems between now and the year 2000. Eurocontrol was given the responsibility for administering the plan. Nevertheless, it is expected that conditions will worsen before they get better.

The growth of air traffic has also placed pressure on airport capacity, but the Commission has been unsuccessful in achieving coordination of airport development. Commission policy does not directly affect airport development, which is often seen as part of competitive regional development strategy. However, airport capacity expansion will be important to the development of airline and freight forwarder services.

Substantial investments are being made at many airports in physical facilities and support services. For example, Frankfurt has a US\$4.3 billion

expansion program designed to meet the needs of the year 2000, including a forecast 1.7 million tonnes of freight. Schiphol Airport Authority has a US\$2 billion program: it looks to its Schiphol Area Development Company to facilitate substantial business expansion on its large undeveloped acreage. Brussels has an expansion program to serve and to take advantage of its central location and the presence of Commission offices. However, because the airport investments are occurring widely, they are unlikely to cause major shifts in traffic patterns. Only two changes will be noted here.

Appendix IV gives airport freight data over the 1980s. The four leading airport centres for air freight — Frankfurt, London, Paris and Amsterdam — account for about three quarters of the tonnage of the top 11 airports in Western Europe. Their relative importance has increased slightly over the last decade. However, in general all airports have shared in the rapid and sustained expansion of air freight. A notable feature is Frankfurt; the largest centre, it has also enjoyed one of the highest rates of growth. However, the opening of the new Munich airport in 1992 will provide an alternate site for future traffic growth. Also of note is the rapid growth in air freight at Madrid since 1987; this may continue for a few years because of the rapid industrial expansion in Spain and Portugal.

#### 4. Marine Transport

Marine transport is the mode least directly affected by the Europe '92 program. Common policies on shipping conferences and on competitive practices in international shipping were adopted in 1986. Inland shipping, however, has been given little attention by the Commission. Rhine traffic has been free to international access for many years. Completion of canals to link the Rhine with the Danube is scheduled for 1992.

Coastal shipping — like trucking — is subject to a wide range of national policies. Some countries allow the vessels of any country to participate in their coastal trade, others restrict coastal shipping to nationally-registered vessels. The Commission has been unsuccessful in resolving the cabotage issue fully. However, the limitation on access (in Greece for example) will not have a material effect on intra- or extra-Community freight flows.

The Commission has been unsuccessful in establishing a Community-wide policy on port development, notwithstanding the establishment of a port working group in 1974. As with airports, the development of facilities is a tool for regions competing for economic growth.

The growth of containerized trade and the prospect of accelerated growth in the future has stimulated a surge of investment and development activity in European ports. The result is that efficient terminal capacity will not likely be the source of dramatic shifts in the routing of traffic through ports. The relative importance of European ports to Canadian freight forwarders will not change dramatically.

The northern European ports will continue to maintain their dominant position in Community seaborne trade. There will not be a general shift in the hinterland boundaries between the northern European and the Mediterranean ports. The northern European ports enjoy a strategic location close to the economic core of the Community, and excellent transit times to their hinterlands. Also, as river and delta ports, they have suitable land available for port expansion — unlike the bay ports of the Mediterranean. Marseilles-Fos is an exception as a Mediterranean port with development land available; this has enabled considerable expansion of the petrochemical industry. Portuguese and Spanish ports should achieve high growth rates with the rapid expansion of the regional economy.

While Belgian and Dutch ports will continue to play a key role in Community trade because of their excellent location, facilities and services, some factors will aid greater relative growth at Le Havre and the German ports of Bremen and Hamburg. Europe '92 will reduce or eliminate the disparity between national and international trucking rates. This will remove one disadvantage of French and German ports in serving shippers located in their own countries. Le Havre may also benefit from the reduction of bureaucracy as French authorities (customs for example) respond to the need for services consistent with logistics efficiency and as highway access is improved. The German ports will benefit from access to their traditional hinterland in Eastern Europe. This could be important in a few years as the economies of the East European countries develop.

Uncertainty exists about the effects of the Channel Tunnel on overseas traffic flows. In spite of the hopes of some British ports that more container traffic will be discharged in the U.K. for transfer to the continent, it seems unlikely that this will be a major development.

An important feature of most current port initiatives is the attention being paid to developing more efficient and comprehensive logistics services. Ports are not only ensuring EDI services and transport infrastructure to enable the rapid transfer of goods, they are also promoting facilities and services consistent with value-added logistics activities. The response of private and public organizations to Europe '92 and other changes affecting logistics activities is one of the topics considered in the next section. The stimulus given to firms and to public organizations to develop new strategies appropriate for more competitive markets is a major consequence of the Europe '92 program.

## V. THE EFFECTS OF THE SINGLE MARKET PROGRAM

Completion of the single European market started as a European response to global conditions. It has become a major force in global change. It has stimulated firms and public organizations to develop new strategies appropriate for more competitive markets.

This section describes the response of private and public organizations of significance to the Canadian freight forwarding industry. The general nature of the macroeconomic effects are described first. The responses of manufacturing in general and of particular industry sectors are considered next. These sections are important to freight forwarders. Finally, the responses of transportation companies and of freight forwarders are examined.

### 1. The General Effects

The stimulus to economic growth in the Community provided by Europe '92 is derived from various sources. Those affecting freight forwarding most directly are:

- *Cost savings.* Important savings will be realized through reductions in the administration of border procedures by government departments and in the adherence of industry to the procedures. The savings from eliminating intra-E.C. customs procedures alone are estimated at about two percent of trans-border freight rates. However, the resulting labour redundancy and cash flow reductions are serious concerns for freight forwarders.
- *Efficiency gains from the rationalization of production facilities.* These will include gains from economies of scale. A 1989 survey of shippers found that 33 percent of respondents expect to rationalize their plant locations.
- *Efficiency in logistics systems from transport cost savings and rationalization of warehouse locations.*

A 1989 survey indicates that 80 percent of respondents expect major changes in warehousing locations.

- *Efficiency gains from the effects of heightened competition on innovation and on pricing.* The more aggressive search for competitive advantage is affecting the behaviour of industries and governments inside and outside the E.C.

Various estimates have been made of the magnitude of the economic E.C. gains likely to arise from Europe '92. In 1986, the Commission set up a research program on the "Cost of Non-Europe," under a Steering Committee chaired by Paolo Cecchini. The purpose of the report was to demonstrate the cost of barriers to a single market and the opportunities which the completion of that market would open up. The Cecchini report has been subject to subsequent assessment in the light of other analyses. Some of these have made lower, others higher, estimates of the macroeconomic effects of the program. The differences have depended on many factors, from assumptions about the completion of the program to differences in models used. In its first assessment of the program impact, the Commission argues that, generally, the macroeconomic assessment of the Cecchini report holds true. Overall it is expected that the E.C. Gross Domestic Product will increase between 3.2 and 5.7 percent and that consumer prices will drop between 4.5 and 7.7 percent. However, the effects will vary by region and by industry.

The countries which are expected to gain the most are Greece, Portugal and Spain — the weakest economies which have been most protected from competition. However, substantial restructuring is necessary for substantial investment to take place. The restructuring and development have been slowest in Greece. While the rates of growth will be high in these regions, the existing size of the economies — and the limited human and physical infrastructure — will not support absolute

developments of a size — nor witness the development of transportation hubs — to rival northern Europe.

Industry sectors most affected by the program include those influenced previously by public aid and procurement policies. These include telecommunications, electrical equipment, energy and railway equipment, and pharmaceutical products. Some sectors which will be affected by increased competition from non-E.C. countries include textiles, footwear, consumer electric products, toys, shipbuilding and the auto industry.

## 2. The Response of Manufacturing Firms

The response of manufacturing firms, whether within or outside Europe, must be viewed in the context of global trends as well as European conditions. These are synergistic. Large firms engaged in international trade are seeking efficient sources on a multinational basis consistent with spreading risks, including those derived from cost, currency and market conditions. Global sourcing is becoming a necessary part of business practice.

The global integration of production has been made possible by — and has stimulated further improvements in — logistics. Telecommunications, including EDI, warehousing and transportation performance, have all improved dramatically to enable more efficient levels of service in logistics systems. The emphasis on logistics services is of great importance to freight forwarders.

Change in logistics are at the core of the Europe '92 program. The removal of barriers is changing the optimal size and location of plants and the structure of logistics systems.

In the light of changing conditions, firms are adopting new strategies, four components of which are discussed here. They are: mergers, acquisitions and joint ventures; plant rationalization; logistics systems; and customer service.

### i. Mergers, acquisitions and joint ventures

Europe '92 has accelerated the rate of mergers, acquisitions and joint ventures as firms position themselves to take advantage of the economies of scale and to serve markets in which they were not formerly present. The Commission reports that the number of mergers or takeovers undertaken by the top 1,000 Community companies rose from 227 in 1985/86 to 492 in 1988/89. Mergers, acquisitions and joint ventures are taking place between European firms repositioning themselves within the E.C., and between overseas and E.C. firms seeking to strengthen themselves within the E.C. and internationally.

For small- and medium-sized companies, the advantage of transnational business linkages is widely recognized in Europe. Arrangements are supported by various local, national and Community programs. In the period June 1988 to June 1990, the Commission's Business Cooperation Network received requests for assistance from more than 22,000 small- and medium-sized companies seeking international partners, of which 29 percent dealt with distribution services and agreements. The Commission has also established the European Economic Interest Grouping, a legal formula which allows companies from more than one country to establish a joint business venture.

### ii. Plant rationalization

The shift from a national markets focus to a European one is leading to a rationalization of plants, with a concentration of production in the most efficient locations and a greater specialization of plants on particular products or product groups. Patterns vary by corporation and industry sector but already concentration of the chemical industry is increasing around northern European ports and Mediterranean ports such as Marseilles-Fos. The expansion of more labour intensive industries is notable in countries with relatively low labour costs, such as Spain and Portugal.

An advantage for new companies entering the European market is that they can site production capacity from scratch. While the level of foreign investment, particularly Japanese, is a matter of some concern within Europe, it is part of a general

globalization trend. The Commission notes in its first assessment that Community investment abroad, particularly in the U.S., exceeds foreign investment in the Community, "a clear sign of Community industry's desire to operate more internationally."

A survey by G.E. Information Services (GEIS) in 1989 found that 33 percent of shippers are expecting to rationalize their production facilities and to reduce the number of their European plants. Some 80 percent of respondents expect major changes in warehousing.

### iii. Logistics systems

The GEIS survey found that the views of shippers are matched by those of carriers that expect a "total transformation of the European logistics market place." A number of changes will be evident. Warehouse as well as plant locations will be rationalized to meet European — not national — needs. For example, Rank Xerox now serves Europe on a JIT system from a single warehouse in the Netherlands. The quality of logistics services will need to increase as inventories are controlled more tightly and small shipments become more frequent. Shippers will rely more on external companies for elements of logistics services or for full third-party logistics. Manufacturing companies (Philips U.K. for example) will sell off logistics assets. Shippers will reduce the number of logistics services companies with which they do business.

These logistics trends are not unique to Europe. They are a worldwide phenomena. The Europe '92 program is simply heightening their impact in Europe.

### iv. Customer service

It is both a worldwide and a European experience that heightened competition is leading to a greater emphasis on customer service. This means greater attention to quality in products and logistics services. However, it also means that firms must pay attention to the tastes and preferences of particular market segments. In Europe, this tempers the impact of a single market without barriers, as the single market will remain — for many years — one with strong submarkets defined by consumer preference. Company policies will have to reflect this market diversity.

## 3. The Response of Carriers and Freight Forwarders

The response of carriers and freight forwarders to Europe '92 must be considered in the context of important global changes. Two phenomena stand out. They are not new in kind, but they are new in intensity and scale.

First, during the 1980s, logistics has developed as a key factor in international industrial competitiveness. The integrated management of inventory and transportation to achieve efficient distribution has evolved into sophisticated management practices (just-in-time systems for example). Logistics has become an important corporate strategic tool. It has contributed to the demand by shippers for more integrated and higher-quality logistics services.

Second, containerization has encouraged vertical integration in transport and the provision of door-to-door services. Some carriers now specialize in integrated services on an intercontinental scale. At the same time, containers provided forwarders with the opportunity to consolidate less-than-container load cargo and to assume the role of shipper more frequently. With control of sufficient cargo some forwarders have been able to advertise shipping service as non-vessel operating common carriers (NVOCCs).

A result of the new conditions is a very dynamic and complex competitive boundary between carriers' and forwarders' services. This is a vital part of the competitive environment of freight forwarders.

### i. Air freight carriers

Two well-defined segments have developed in the international air freight industry over the last decade.

- Full service carriers, primarily concerned with passengers but with increased freight capacity in new generation aircraft.
- Integrated carriers, most specializing in package services.

### a) Full-service carriers

Full-service carriers are developing freight distribution hubs but are not investing in a network of logistics services. Air Canada has set up a trucking hub at Maastricht in the Netherlands (a hub location also chosen by Emery Worldwide and British Airways) and will utilize the large trucking company, Rutges, for road service. Canadian Airlines International Limited (CAIL) has a comparable system, using the distribution facility of Belhavia in Brussels, with contract trucking service provided by Janderyk.

While hub structures are essential for smaller firms, they are used by the large airlines also. The major carriers are centred at national airports: British Airways (BA) in London, Air France in Paris, KLM in Schiphol and Lufthansa (the world's largest cargo airline) in Frankfurt. These airlines have a variety of direct air cargo services from other European airports but they also have selected trucking hubs.

The large airlines have the capacity to sell direct to shippers. The increase in their door-to-door services is making this increasingly possible. However, it is unlikely that they would find it attractive to place substantial assets in a network of logistics services. Therefore, they expect to continue to place primary reliance on freight forwarders for their traffic.

However, there are some examples of the full-service airlines extending their interests in integrated cargo (small shipment) carriers. Recently, Lufthansa and Japan Air Lines announced that each would acquire an initial five percent shareholding in DHL International, the worldwide parcel carrier. This acquisition provides the airlines with exposure to a rapidly growing market segment. DHL has announced its intention to expand its heavyweight services.

### b) Integrated carriers

A major development in air cargo during the 1980s was the expansion of small package carriers internationally and as airline companies providing door-to-door service. Acquisitions have played a significant role in the global and European expansion of the services of many of the companies. The expansion of integrated carriers has increased

air freight capacity and competition significantly. It has also introduced competition for freight forwarders by developing a specialized small-shipment segment of the market. This specialized area has potential for growth into contract distribution, a feature of interest to a number of parcel carriers. Contract distribution is better established in Europe than it is in North America, especially in the U.K. Several British parcel companies (for example Lynx — a subsidiary of NFC, United Carriers International and Systemline — now owned by Federal Express) are expanding their contract distribution services internationally. TNT has a rapidly growing contract distribution division.

All cargo airlines have also been establishing linkages that allow them to provide international logistics services. However, they utilize the facilities of European logistics/freight forwarder firms. For example, U.S. Burlington Air Express has teamed up with Scansped International (itself a subsidiary of Bilspedition) to use its distribution centre in the Netherlands to provide European logistics service.

## ii. Shipping services

Shipping companies are adopting different assets management and competitive strategies.

### a) Shipping service focus

Some large companies (for example ACL, Hapag Lloyd and Maersk) and small companies (for example Holland Canada Line) are concentrating their assets in shipping; as a result, freight forwarders remain very important to them.

### b) Integrated shipping and logistics service

The strategy of companies such as Cast and Sea-Land in providing door-to-door service is now being pursued more aggressively in Europe. Sea-Land has expanded its feeder shipping service, established transport logistics service and entered into a joint venture with Frans Maas — the large Dutch trucking and distribution firm — to provide just-in-time service to automotive, electronic and machine manufacturers. Nedlloyd has positioned itself to complement its international shipping with a range of storage, distribution and transport services

on a European scale. In spite of the development of such services, the door-to-door services of the shipping lines are more competitive with forwarders in the container load than the less-than-container load business.

The relationship of shipping with freight forwarding is made more complex by the strategies of freight forwarders. Frequently, they now assume the role of shippers, rather than agents, and even that of NVOCCs in marine transportation.

### iii. Freight forwarders

European freight forwarders have particular reason to reappraise their business strategy. Not only are they affected by the global trends in logistics and by the general effects of Europe '92 on competition, many must also accommodate the loss of the very profitable intra-E.C. customs brokerage business. There is, therefore, wide recognition of the need for companies to reform and reorganize as part of deliberate company strategy. This section is structured around elements of strategies.

#### a) Raise quality

It is widely acknowledged in the freight forwarding industry that there is a need to raise "quality" in the industry. This has various ramifications. At the most general level, associations are concerned with raising the level of personnel training and of industry recognition. At the company level, it is evident in the interest shown in qualified personnel and in the priority given to quality customer service. One dimension is "getting it right the first time" as a means of improving service levels and holding down costs. The new emphasis on quality orientation is underscored by industry support of the British International Freight Association for freight forwarders to seek approval under the Lloyds Register Quality Assurance program, generally referred to as BS5750.

#### b) Develop extended networks

Perhaps the most obvious development in the European forwarding industry is that firms are extending their networks.

Large firms are increasing their global networks rapidly through acquisitions. Examples of European firms that have increased their presence in the U.S. are Danzas, which purchased Northern Air Freight, Lep which purchased Profit-Freight Systems, NFC which purchased Minute Man to become part of its Exel Logistics, and Thyssen which purchased Amerford International.

A few U.S. forwarders have increased their presence in Europe, but less aggressively than U.S. integrated carriers. Many are still actively building up their U.S. networks, for example the Tower Group of McGraw Hill and Itel Distribution. The Harper Group, however, has acquired six firms specializing in air freight forwarding, of which three were U.K.-based, including Livingston International Freight of Canada's Livingston Group. This initiative fits into Harper's International Logistics Pipeline Concept. U.S. companies are participating in merger activity; for example, Dean Worldwide of California is one of four companies (the others are based in Hong Kong, the U.K. and the Netherlands) to form Maxxim International in order to transform the companies from mid-sized to global players.

Within Europe, forwarders have been developing their networks in anticipation of Pan-European systems in the 1990s. For example, Lep — with a strong base in the U.K. — has expanded substantially through acquisitions in Europe. Even Danzas, a large international forwarder with a particularly strong presence in Europe, has had to make acquisitions and invest in new facilities to achieve a broad geographic presence throughout the E.C..

Few companies are able to compete on the same basis as the large multinational companies. However, the smaller European companies are also attempting to forge larger and more effective networks through agency agreements or "partnerships." These companies are hoping to provide more effective "one-stop shopping" through links with other forwarders and also to recoup earnings lost in customs brokerage with earnings from handling more European traffic.

In some cases, firms are coming together in networks designed to provide increased visibility. In Europe, for example, a group of 15 forwarders formed LogSped, a network in which members hold some

equity interest. Internationally, a group known as Force (Family of Related Cargo Experts) is trying to create a worldwide network of medium-sized companies in order to compete more effectively with large multinational forwarding companies.

While these firms are establishing a group image, the multinationals are seeking stronger identification of subsidiaries with the global network. Some companies have deliberately retained the original name of newly acquired firms to preserve the image of local participation and knowledge. But more multinationals are renaming local companies to provide a clear linkage to the global group.

**c) Increase value-added services**

Most freight forwarding companies are trying to enhance their competitive position by providing more value-added services. For some, this enhances their EDI capability, but this is fast becoming a competitive necessity rather than a competitive advantage. Other firms are working more closely with shippers in designing and managing systems that give rise to freight flows, rather than just dealing with the challenges that particular shipments create. Larger firms, in particular, are providing a fuller range and more specialized logistics services. A clear trend exists for large freight forwarders to provide integrated logistics services focussed either on particular product requirements (for example hanging garments) or on requirements of particular firms. The use of third-party logistics is more common in Europe than in North America.

Many of the value-added services require closer links and greater interdependence with shippers. Therefore, they serve to strengthen customer-supplier relationships. They also require additional resources — some modest, some substantial — so they need to be planned carefully.

**d) Offer time-related services**

Large European forwarders are thinking about their services in new ways. This is prompted, in particular, by the more sophisticated demands of the new logistics systems of shippers.

Forwarders argue that shippers have no interest in how a delivery is achieved, only that it be on time

consistently, safe and properly priced. The costs of distance are dollars and time, not mode of transport. Therefore, in their intra-European services, forwarders are shifting from offering modal services to offering a range of time-related service levels at defined rates. For example, fast delivery times and guaranteed times would be more expensive than longer and flexible times. Selling time reliability and cost is consistent with the emphasis found in surveys of shippers' service selection criteria. For example, the GEIS survey of European shippers and carriers found that both groups rated reliability and cost as the two most important attributes.

The development, management and marketing of time-related services is new for forwarders and raises many challenges. It requires a shift from a modal to a service organization, which is a market rather than a production orientation. It demands new employee skills and attitudes. It facilitates a simplification in service pricing through the use of standard rate sheets, but requires a higher degree of centralization in the management of freight forwarding services than has traditionally been the case.

**e) Build new corporate strategies**

The elements outlined so far are important considerations in the strategies developed by freight forwarders. However, individual companies have strategic programs consistent with their own assets and expertise — and their own perceptions of the way markets are evolving.

There is a common desire among the major European companies to strengthen their European networks while at the same time developing their global systems, especially by enhancing their position in the U.S. However, while a company such as Panalpina will focus on expanding its overseas traffic, a company such as Danzas, for which Europe is now more important, will continue its vigorous efforts not only to maintain its European market shares, but to expand them.

Many forwarding companies are reviewing their approach to service development. Understandably, they differ in their approaches and their priorities are still evolving. The diversity of the approaches may be captured by recognizing seven "categories" of service:

- Customs brokerage, necessarily in decline with Europe '92.
- "Traditional" forwarding, seen only as relevant for smaller forwarders, in decline in Europe with Europe '92.
- Time-guaranteed services, seen as a new, growing market segment within a system of time-related services.
- Traditional groupage (consolidation) service, often with a modal orientation and not time guaranteed.
- Logistics service: the provision of warehousing and distribution services, including EDI capability, to a wide range of users.
- Specialized services, most likely logistics service to a commodity grouping for similar customers — for example textiles, fruit and vegetables, pharmaceuticals, or a logistics service for a company. Some European forwarders have sufficient assets in transportation equipment that specialized services might have a modal service orientation like the rail/intermodal services of Danzas.
- International services which remain identified with overseas air or sea modes but are frequently linked with logistical services or even specialized into commodity or company logistics.

The way in which these service categories will evolve remains uncertain. Manufacturing patterns are undergoing change. The competition between forwarders and integrated carriers is increasing. Freight forwarders are engaged in new strategies to position themselves for 1993. It is not surprising that the executives of some forwarders' associations consider it too early to tell the final effects of Europe '92 on the forwarding industry. However, some general conclusions will be outlined in the next section before considering the implications for Canadian freight forwarders.

## 4. Conclusions

In spite of uncertainties, it is important to attempt to draw some conclusions about the effects of Europe '92 on trade and on forwarders. The current strategies of companies are the best guide to future conditions, although the experience with deregulation in North America can also be helpful.

### i. Effects on trade

The increased efficiency of the European industry will result in prosperity and economic growth. Even though there will be some sectors in which European producers will displace imports, the history of regional economic growth has been that trade is increased, not decreased. The world's major trade routes are between developed regions. They will experience growth with the expansion of the European economy. Canada can be expected to share in this growth.

The potential for growth in trade will be greater in some sectors than in others. A summary of the implications of Europe '92 for Canadian exporters by industry is included in Section VI. Industries previously protected by national procurement policies (telecommunications, for example) will likely provide new opportunities for Canadian exporters.

The response of Canadian freight forwarders must reflect the changes in logistics services as well as in trade. Five main trends are important. They are: the expansion of integrated carriers, the shift to Pan-European distribution, the reduction of costs, the development of more specialized services and changes in the size structure of the forwarding industry.

### ii. Expansion of integrated carriers

The freight forwarding industry is subject to increasing competition as carriers expand international integrated services. This comes from air and sea carriers — for example, the courier companies and shipping lines like Sea-Land. It also comes from North American domestic carriers like Consolidated Freightways, which are expanding the scope of their North American services into North American and European logistics services.

### **iii. The shift to Pan-European distribution**

The removal of barriers is already leading to a consolidation of manufacturing and warehouse sites in Europe. This trend will continue in spite of trucking deregulation, which will reduce national trucking costs more than those across borders. Distribution to customers will become more Pan-European and less constrained by national boundaries. Exporters to Europe will make less use of agents or distributors with national sales territories.

Pan-European distribution will have an effect on patterns of foreign trade. There will be more value associated with overseas consolidation and shipment to the European hub rather direct shipment to a national port. This may make the availability of consolidation service in Canada more important than in the past.

Many European forwarders are adjusting to Pan-European distribution opportunities by entering into mergers and acquisitions that give them greater geographical coverage. They are renaming the national enterprises they own to reflect single control and the integrated nature of their networks. In general, Canadian forwarders will find it increasingly beneficial to deal with forwarders with Pan-European networks. This will reduce the number of forwarders with which they will deal.

### **iv. The reduction of costs**

The removal of barriers will reduce carriers' costs in Europe as more efficient operations are made possible. Increased competition as forwarders expand their services and networks will likely result in the savings being passed on in lower rates. Indeed, in spite of the stimulus to growth associated with Europe '92, it seems likely that profit margins will be squeezed in transportation and forwarding as a result of increased competition. In view of the loss of customs brokerage revenue, profitability will be difficult in the European forwarding industry during 1993-1994.

### **v. The development of more specialized services**

More freight forwarder revenue will be derived from specialized services, which will include time-guaranteed services, third-party logistics and commodity specific logistics. This will lead to the recognition of firms as suppliers of logistics services; traditional freight forwarding will be part of the business.

### **vi. Changes in the size structure of the industry**

The average size of firms in forwarding will increase. It is widely acknowledged that the role of current multinationals in Europe will increase. However, in view of their current focus on Europe, this will not be such a significant development in extra-European forwarding, where an increase in the number of multinational companies will be significant.

However, these developments leave in doubt the "fate" of medium-sized and small forwarding companies. The most frequently expressed view is that the mid-sized companies will be the ones "squeezed." This is based on the premise that there are always highly specialized niche markets for small companies. While true, the number of such niches is important: it will become more limited. In Germany, the number of small companies has been declining. This seems to support the conclusion that the number of small companies will decline as some fail or merge to become mid-sized companies. The number of mid-sized companies may change little but the identity of companies will be subject to dramatic change as new firms are created through mergers, and as established firms are removed by acquisition or failure. It is, perhaps, the size of firm most likely to run into financial difficulties as a result of overzealous and poorly-planned expansion.

## VI. IMPLICATIONS FOR CANADIAN FREIGHT FORWARDERS

The Europe '92 program creates threats and opportunities for Canadian freight forwarders. Some threats are indirect, such as the creation of more efficient E.C. production which might displace Canadian exports. Others are direct, such as changes in the E.C. forwarding industry that may threaten the market share of Canadian firms. However, there are also opportunities. These include participation in the expansion of import and export trades, and the provision of more value-added services.

The effects of Europe '92 on Canadian trade with Europe will emerge over time as firms develop competitive strategies. The actions of freight forwarders are a part of the dynamic process. Forwarders can and should be proactive as well as reactive.

The nature of and opportunities for proactive strategies are influenced by the characteristics of trade and the behaviour of shippers. Canadian trade with Europe is imbalanced, with manufactured goods more important westbound than eastbound. Therefore, while market segments differ significantly, imports — with their custom brokerage and forwarding requirements — are often more important to forwarders than exports. Two aspects of shipper behaviour are also important. First, Canadian firms are widely recognized as making less use of forwarders than Europeans. To the extent that Canadian firms will find it advantageous to make more use of third-party logistics services, as are firms elsewhere, a potential for growth by efficient and aggressive forwarding firms may exist. Second, there is concern that Canadian importers and exporters have less control than warranted over international logistics arrangements. Canadian forwarders believe many small Canadian exporters lose market opportunities by not controlling the delivered cost and service conditions of their products. Canadian importers, on the other hand, see the results of international logistics arrangements. It is believed that Canadian importers control the transportation of more than half of imports. This should assist forwarders to influence arrangements for the high revenue import cargo, although the view is widely held among Canadian and European forwarders that

it is difficult for Canadian forwarders to be successful in strategic initiatives. More research into the terms of shipment and logistics in Canada's overseas trade in manufactured goods might be helpful to the development of more efficient logistics strategies.

The response of forwarders to the dynamic and uncertain circumstances surrounding European trade must be planned in the context of the general development outlined earlier. Of particular importance are the increased emphasis on logistics services by shippers and service suppliers, and the related development of integrated carriers.

Faced with these circumstances, freight forwarders are examining their strategies. Are there ways to reduce costs? How can the quality of existing services be improved? Can new value-added services be offered to shippers? Which particular market segment(s) should be served? Should markets be identified by products, regions, companies or some combination of these? What corporate alliances might be appropriate?

When developing corporate strategies, firms must assess their strengths and weaknesses and the resources available to them. In the Canadian industry, significantly different strategies may be appropriate for the small single-office firm, the larger Canadian-owned firm and the companies that are part of the large multinational firms.

Europe '92 provides clear evidence of the role of public policies in the efficiency of trade logistics. Therefore, the need for public policies to enable the efficient development of services is considered first. The strategic responses of freight forwarders are considered next, in two parts. Their potential responses to trends in the services provided by freight forwarders are considered separately from their responses to the geographic scope and structure of services. Finally, the implications for Canadian forwarders of likely developments in European industrial sectors are examined.

## **1. The Need for Public and Private Sector Commitment**

The increased competitiveness of E.C. industries is a source of pressure for the public and private sectors in other countries. They must examine whether their actions are consistent with an efficient use of resources and, therefore, with economic growth in the long run. A report by the U.S. National Association of Manufacturers has recognized the need for U.S. assessment of its own performance by government and private sector bodies. Canadian industry, also, requires public policies that support competitive performance. Two areas can be cited in which public policies appear to inhibit efficiency and adversely affect the efficient development of the forwarding industry.

The first is provincial procurement practices which may fragment import trade flows and may leave them under the control of provincial government agencies. The result is removal of opportunities for Canadian forwarders to provide innovative and integrated logistics services to these trades with possible extensions of services for U.S. customers. An example is the import of alcoholic beverages on a provincial basis. Europeans may well question why Canadian alcoholic beverages move to Europe through centralized distribution systems involving freight forwarders, while imports to Canada are fragmented through provincial boards. Opportunities for consolidation, and even distribution into the U.S., are lost as a result of the fragmentation of the Canadian importing process. This is just one example of the inefficiencies caused by provincial procurement policy which has received renewed attention but little action in 1990.

The second area of concern is customs. In Europe, the practices of customs in France and the U.K., for example, are being changed to allow an efficiency of trade comparable to that in the Netherlands. Canada Customs should also reexamine its policies to see if they are consistent with maximum efficiency in trade. This notwithstanding the considerable improvements in procedures that have been achieved in recent years. It is not clear that the basis on which sufferance warehouse licences are granted, or the manner in which user charges are applied, are consistent with the development of the most efficient

logistics services. The positive attitude of Canada Customs is favourable to ensuring that international logistics services can be designed and operated efficiently. The Netherlands' experience makes clear that in trade, as in many other areas, public policies are important to the efficiency achieved by the private sector — in this case, freight forwarders. Public agencies' policies will affect the strategies of Canadian freight forwarders and the success of those strategies.

## **2. Freight Forwarders' Logistics Strategies**

Faced with a highly competitive and changing environment, freight forwarders are exploring ways to enhance the value of their services while holding down costs. The dominant direction for change is for freight forwarders to provide services that add value in the context of shippers' logistics requirements.

### **i. The trend to logistics service activities**

Freight forwarders must see themselves as a part of a logistics service industry. There are various reasons for arguing that many freight forwarders should add logistics-related services. First, it is a strong trend in Europe — indeed, it is a global trend — so that competitors will increasingly be offering more services to shippers. Second, it is a means of increasing the value of service to enhance customer loyalty and increase the revenue base. Third, it is needed to compete effectively with integrated carriers and to avoid market penetration by U.S. firms.

The implications of the logistics service strategy must differ substantially among firms depending on their resources and their clients' needs. Consequently, the forwarding industry may become even more diverse. Small companies may be restricted to working more closely with firms in the design of integrated marketing and logistics strategies. A new opportunity may be to work with small companies entering Europe for the first time. Providing expertise on integrated marketing and logistics strategies will require a good knowledge of the commodity industry and a close working relationship with a forwarder/distribution service in Europe. Of course, such initiatives are not restricted to small forwarders. Freight forwarders might be

particularly able to make a significant contribution to the NEXOS program — New Exporters to Overseas Markets — of External Affairs and International Trade Canada.

Medium and large freight forwarders may consider opportunities to increase the number of value-added services they provide. All forwarders can expect to provide EDI capability, which will allow the provision of improved logistics information services. The manner and extent to which forwarders provide warehousing and a variety of consolidation and distribution services will vary with company size and strategy. A greater involvement in logistics raises a further strategic question: whether services will be highly customized or provided for a wide range of customers.

The provision of more logistics services is a strategy which applies equally to imports and exports. It demands that the location and operation of warehouse facilities be consistent with efficient logistics services. Warehouses may need to serve movements by sea, air and surface transport in domestic and international distribution.

## ii. Forwarders' service strategies

The characteristics of a logistics service strategy must differ considerably among firms depending on

their resources, and current and potential clients' needs. The diversity of strategies for forwarders can be considered in the context of a "competitive map" in which the two dimensions are the extent of customization of services and the range of services provided.

Firms offering a low range of services may provide only traditional organization and coordinating of forwarders' activities. Such companies have few assets and are usually small- or medium-sized. The services may be provided for a wide range of customers across industries and for wide areas, that is they have low customization. Such forwarders represent a declining segment of the market; they are unlikely to hold a large enough customer base to achieve low costs, and they do not offer high service levels. Custom brokerage may be an area where a focus on a narrow service range for a wide client base may be effective. However, it is an area where market growth is dependent on the overall growth of trade — and the retention of border procedures, as European forwarders have found. The plans of Revenue Canada to simplify border procedures and the prospects for paperless clearance procedures, such as those being tested in Sweden, suggest that the role of customs brokerage will change significantly over the next decade. Information and physical logistics systems will become integrated.

### Competitive Map of Forwarders' Services

|               |      | Range of Services   |  |
|---------------|------|---|--|
| Customization | High | Forwarders concentrating on niche markets, e.g. specialized commodity and company needs | Commodity- or shipper-focussed international logistics services  |
| Low           | Low  | Traditional forwarding with little specialization — a declining market                  | Forwarding with a range of associated consolidation, distribution and information services without customization |
|               | High |   |  |

A narrow range of services may be provided with a high level of customization or concentration to ensure a high level of service expertise. This may involve focus on the requirements of a single firm or a few firms; small forwarders may be able to provide "personalized" service. Customized services may serve the needs of a narrow range of commodities or concentrate on a modal service or on geographic regions. Freight forwarders specializing in national markets in Europe may be threatened by Europe '92 because of the trend to Pan-European distribution. However, it is true that cultural differences will remain among countries and not all commodities will be distributed on a Pan-European basis. Forwarders providing customized services with a low range of services will fill niche markets.

An important trend in forwarding is for the range of services to increase to include more logistics services related to information handling, and to consolidation and distribution activities. The provision of logistics services is more asset-based than traditional forwarding. The provision of logistics services by forwarders is usually focussed on warehouse facilities; carriers' logistics services tend to be transport asset-based. Services may have a low level of customization, relying on volume to achieve cost economies, or may be customized with a focus on company or commodity requirements.

Customized services may provide Canadian firms with the opportunity to act on behalf of U.S. customers as well as those from Canada. Customized logistics services can be effective in meeting the competition from integrated carriers.

Customized service strategies may be effective for Canadian-owned firms in competing with the multinational freight forwarders in the European trades, as they do not have the resources or asset base of the multinational companies to provide widely based and Pan-European services. While the geographic scope of services is the focus of the next section, it is necessary to note here that customized services with a low or a high range of services may have a geographic focus. Some markets and commodity types are more likely to have national or regional distribution patterns than others. Such opportunities may exist anywhere and their development depends on the particular expertise of Canadian firms and their European assets and

relationships. However, trade through major continental gateways are most likely to be Pan-European and dominated by multinational companies. Other gateways may provide stronger opportunities for specialized regionalized services.

### 3. Size and Network Opportunities

There will continue to be opportunities in freight forwarding for firms of all sizes. Niche markets can be highly profitable for small firms because such markets are not large enough to attract competition. However, there are not many such niches — and they are not publicized. For most firms pressures exist to increase size. This may be done in various ways and for various reasons.

#### i. Cooperation

There may be opportunities for forwarders in competition with one another "in the field" to cooperate to achieve cost savings — for example, in the negotiation of freight rates. An example in Europe is the North Sea Freight Forwarders Association which is a group of forwarders that control sufficient cargo to be able to negotiate conference rates westbound to Canada. A key factor is in the routing control that they have for cargo. The group is based in Hamburg, where Schenker has played a key role. The negotiations affect the rates over the range of North European ports. Forwarders may also find it advantageous to cooperate in the development of Canadian EDI capability to meet industry requirements.

#### ii. Networking

The heightened importance of reliability in transport, the general trend to Pan-European rather than national distribution, and the interest in EDI in general favour companies with well-established networks of offices. The easiest way to establish a network is through agency agreements.

Conditions in Europe are making it harder for Canadian firms to develop and maintain an effective European network through agency agreements. It is harder for three reasons. First, European forwarders may be taken over by firms in competition with the Canadian firms, thereby forcing the search for a new "partner." Second, a similar situation might result

from the merging of a Canadian and European manufacturer currently using different forwarders. Third, while there are many forwarders with whom to enter into an agency agreement, consolidation activities in Europe are reducing the number of well-established small- and mid-sized firms. The performance of the new firms must be researched carefully.

The trends for European distribution towards more centralization and towards links with a range of logistics services result in fewer advantages for European forwarders of sufficient size to manage regional or European — rather than national — services. However, such firms are in a highly competitive segment of the European industry in which many mergers and acquisitions have been taking place. Great care must be taken to consider the effectiveness of newly emerging firms, especially the quality of their various offices.

The type of European forwarder with which to enter into an agency agreement is less easily defined than in the past. Agency agreements should be between firms with compatible expertise and business strategies. As forwarders' strategies become more diversified, finding compatible firms becomes more difficult.

For Canadian forwarders dealing with shippers with regional requirements in Europe, there may be no need for a European network. If forwarders are seeking hubs in Europe that may gain from the Europe '92 program regionally, three are suggested: Iberia, which will enjoy rapid growth (although current trade is limited); northern France, which will gain from truck deregulation, from the Channel Tunnel and from reductions in French bureaucracy; and German hubs, which will benefit from trucking deregulation and, for those appropriately located, access to Eastern Europe.

### iii. Ownership and partnership arrangements

Some Canadian forwarders have one or two of their own offices or partnership offices in Europe. These provide an opportunity to harmonize Canadian and European strategies more effectively than through an agency agreement. Also, as forwarders become more involved in logistics services, they provide a

desirable opportunity to gain a more intimate knowledge of and control over conditions at origin and destination.

Should other Canadian firms with sufficient resources establish European offices and, if so, how? No general answer can be given, but the following should be considered:

- A need for upgraded service in Canadian offices will be required in any case — EDI, for example. Companies must consider whether they have the managerial resources to handle change at home and overseas.
- Adjustments to the changes in Europe are well under way; the price/risk ratio of acquisition is less attractive now than in the past.
- European firms with significant intra-European customs brokerage work are particularly high risk because of the forthcoming loss of this business.
- The current repositioning of European forwarders and the loss of customs brokerage revenue in 1993 will likely result in poor profit margins at that time. The North American experience with transport deregulation is relevant. Deregulation of transportation markets in North America has been associated not only with necessary rationalization but also instances of overly ambitious expansion by some firms. European forwarders acknowledge that conditions will be difficult while they are repositioning their assets and adjusting their services in response to Europe '92.

These conditions indicate that it would be unwise for a Canadian firm to enter the European market through acquisition, unless it was extremely well focussed.

Canadian firms might consider setting up their own offices, but in view of the competitive nature of the Community industry, this must be considered very carefully. There appear to be no major impediments to Canadians setting up firms, although conditions vary amongst the countries. The U.K., which is still

Canada's major European trading partner, has very easy entry conditions; requirements are governed purely by company law and anyone can set up as a forwarder or customs broker. An off-the-peg company can be purchased inexpensively. However, to be able to issue FIATA documents requires membership in the British International Freight Association. A company with less than ten employees and in existence for less than three years can obtain a probationary standing if two employees are professional members of the Institute — and the firm abides by the BIFA trading conditions and code of conduct and has the prescribed liability cover. If these conditions are not met, the firm must use its own (house) documents.

#### iv. Diversification

A final type of growth in the forwarding industry is for a firm with expertise in a particular segment to merge with another specializing in another segment. In this way, they would be better able to provide logistics advice and service involving a range of services. Such a strategy might be appropriate for some forwarders but not others. It suggests a low—not a high—customized approach. As usual, the merits of the strategy depend on the needs of current and potential clients.

### 4. Market Opportunities

Change with growth provides exciting and rewarding opportunities for innovative firms that assess prospective market conditions correctly. The previous sections have suggested some general strategies which are appropriate for firms to consider. The purpose of this section is to draw on information about trends in industry sectors which suggest likely sectoral growth opportunities. The information provided is drawn largely from studies of External Affairs and International Trade Canada on the implications of Europe '92 for Canadian industry.

#### i. General considerations

The prospects for increased trade depend on many conditions. The most important are:

- The competitiveness of Canadian firms compared with the E.C. and other countries' firms.

• Whether the Europe '92 program has changed E.C. industry conditions. New opportunities are likely to arise where significant changes are introduced.

• The effect on trade of Canadian firms constructing or acquiring plants in Europe and of European firms taking similar actions in Canada. Over time, the result may be the substitution of local production for trade. However, under global sourcing strategies, it is also possible that plants will specialize and two-way trade will result. The main effect of Europe '92 is to encourage the expansion of Canadian firms into Europe.

The participation of freight forwarders in overseas trade is influenced by the logistics expertise of the trading parties, the terms of shipment (which determines who controls the logistics arrangements) and that party's perception of the services provided by freight forwarders. Often, if trade is to a subsidiary company in another country, the exporter will control the logistics as the firm has local, knowledgeable people in the destination country. Such a company might use freight forwarders in markets where no company offices exist. This pattern of behaviour is changing as more companies, especially in Europe, are turning to logistics firms to meet their requirements. The development of so-called third-party logistics services is better developed in Europe than North America. However, a corollary of this is that the logistics suppliers are providing customized services.

#### ii. Conditions in industrial sectors

The potential effects of Europe '92 on Canadian industry varies among industrial sectors. Comments about trade prospects in six sectors follow. However, the experience of particular firms may well vary from industry experience depending on market niche and competitiveness. These comments are based on studies by External Affairs and International Trade Canada which focus on implications for exports.

**a) Chemicals: special chemicals, new materials, pharmaceuticals and biotechnology**

The E.C. has a large, efficient chemical industry dominated by multinational companies. The output of industrial chemicals exceeds that of Canada and the U.S. combined. Canadian firms now operating in Europe will enjoy the benefits of an administratively simplified operating environment but major changes in trade opportunities seem unlikely. Canadian producers have a better relative advantage in other markets.

Biotechnology is a sector in this industrial grouping in which Canada has a number of new, small, internationally-competitive firms. While these firms are competing with suppliers from the U.S. and Japan, expansion in Canadian exports is expected and may provide an opportunity for specialized forwarding services.

**b) Automotive industry**

National policies and corporate strategies have varied significantly among the E.C. Member States. In France and Italy, policies have focussed heavily on national market conditions. Also, quotas against imported vehicle have been more rigorous in the countries protecting domestically-oriented manufacturers. The result is that significant restructuring will be necessary in the industry, in a phased program that will extend beyond 1992. The relationship between (Japanese) "transplant" production from plants in Europe and imported vehicles has yet to be determined.

Nevertheless, the changes in the industry will create new opportunities for Canadian firms. The E.C. will be the largest single automobile market in the world in 1993. Niche opportunities will increase for Canadian firms in assembled vehicles, original equipment parts and in the parts aftermarket. However, the level and conduct of trade will be influenced by the development of subsidiary companies and joint ventures.

Minivans and sport/utility vehicles will continue to be the primary Canadian vehicle exports. Although Europe '92 will accelerate the trend to globalization of the motor vehicle industry, it is expected that

Canadian manufacturers of original equipment parts will gain a share of the E.C. market through a manufacturing presence in Europe. Therefore, it is primarily in the aftermarket for non-branded components and accessories that considerable expansion in trade is possible. Imports as well as exports may increase in the trade.

**c) Telecommunications and computers**

The telecommunications and computer sector is an important element of Europe '92. The removal of technical and procurement barriers is expected to lead to a more effective and competitive industry dominated by fewer firms. The growth of the economy and the expansion of the information technology sector will open up new opportunities for Canadian firms. However, it is expected that Canadian firms seeking to participate in the growth will take on a multinational character. The full implication of this will depend on the evolution of their global strategies.

**d) Agriculture and food products**

Primary products for human consumption are not directly affected by Europe '92; they come under the Common Agricultural Policy (CAP). The processing industry will be affected significantly; this in turn will make the industry more competitive and subject to new health standards.

Canadian firms are expecting difficulty in maintaining their market share. They are adopting new production technology to attain internationally competitive standards. The globalization of the industry is illustrated by the merging of Canada Packers and Maple Leaf Mills under the ownership of Hillsdown Holdings of the U.K.

Trade with E.C. countries is currently a small part of Canada's food product exports. New import and export niche opportunities may arise as a result of Europe '92, but food products are not expected to provide significant new trade opportunities with E.C. countries.

Europe '92 may provide new opportunities for exporters of fishery products. The introduction of common quality standards at a time of increasing deficit in fish production may aid the development of

new markets. However, this will be in the face of competition from the Scandinavian members of EFTA that have a tariff advantage.

e) **Forest products**

The E.C. is Canada's second largest market for forest products. The economic growth associated with Europe '92 will be favourable to the growth of exports. However, lumber and other wood products — and pulp and paper — tend to be sold overseas by large shippers who arrange for their own transportation. The tendency toward production of a greater variety of finished wood products may provide more opportunities for contributions from freight forwarders in product logistics.

f) **Minerals and metals**

Europe '92 is not expected to alter trade patterns in the minerals and metals sector. The possibility that the protection afforded to the iron and steel sectors may be removed ahead of the 2002 schedule of the Treaty of Paris may provide some opportunities for Canadian producers.

## 5. Strategy Synopsis

The major global development affecting the future of freight forwarders is the increased attention being paid to logistics management. Consequently, freight forwarders must see themselves as supplying logistics services. They must make strategic decisions about the number of services to provide, whether these services will be customized for particular shippers or commodities and what countries and regions to serve.

E.C. countries constitute the largest current market for Canadian freight forwarders. Europe '92 is expected to provide a basis for significant economic growth so that developments there are important to many forwarders. However, the opportunities and challenges of the E.C. must be compared with markets elsewhere.

The trends to logistics management and Pan-European distribution mean that major European markets will be dominated by large international logistics suppliers, whether freight forwarders or expanding integrated carriers. The large international freight forwarders will play important roles in serving Canadian importers and exporters with Pan-European requirements. They may be able to develop their roles as North American rather than just Canadian gateway services.

Forwarding firms operating primarily in Canada must select market niches and growth opportunities. Given the combination of limited human and financial resources, as well as limited and often imbalanced traffic, they must target geographical markets carefully — perhaps serving specialized regions in the E.C. or even other markets in Europe such as Scandinavia. Customization of logistics services will be the key to success. The precision with which services must be targeted and the links with customers' logistics requirements will create new challenges and opportunities.

An important issue affecting the market opportunities of Canadian freight forwarders and the competitiveness of Canadian exports is the extent of control of international logistics by Canadian exporters. Control can be important in achieving competitive delivered pricing in new markets. The opportunity to enhance the competitiveness of exports through international logistics services provided by forwarders should be explored. This might be particularly beneficial in industries facing enhanced trade opportunities because of Europe '92, such as telecommunications, biotechnology and the auto-parts aftermarket.

## Appendix I

### Freight Forwarding and Custom Brokerage Services

- |  |  |
|--|--|
| <ol style="list-style-type: none"><li>1. Arrange or provide shipment handling requirements for:<ul style="list-style-type: none"><li>• packing and crating</li><li>• marking</li><li>• inspection</li><li>• storage</li><li>• loading or unloading</li></ul></li><br/><li>2. Provide documentation services to:<ul style="list-style-type: none"><li>• prepare shipping and/or customs documents</li><li>• translate documents</li><li>• certify documents</li><li>• transmit documents</li><li>• obtain permits, licenses and certificates</li></ul></li><br/><li>3. Provide financial assistance services to:<ul style="list-style-type: none"><li>• negotiate letters of credit</li><li>• arrange collections</li><li>• place insurance</li><li>• file cargo insurance claims</li></ul></li><br/><li>4. Prepay and collect freight charges</li><br/><li>5. Provide, as customs brokers, services for:<ul style="list-style-type: none"><li>• clearance of goods through customs</li><li>• assistance for:<ul style="list-style-type: none"><li>• classifying goods for customs entries</li><li>• obtaining value-for-duty rulings</li><li>• obtaining class-on-kind rulings</li><li>• duty drawback</li><li>• duty remission</li><li>• prepaying duties and taxes</li></ul></li></ul></li></ol> | <ol style="list-style-type: none"><li>6. Provide consulting services for:<ul style="list-style-type: none"><li>• advisory services on —<ul style="list-style-type: none"><li>• foreign requirements</li><li>• transportation</li><li>• government regulations</li><li>• customs procedures</li></ul></li><li>• project management, including Canadian representation at foreign sites</li></ul></li><br/><li>7. Provide transportation services for:<ul style="list-style-type: none"><li>• selection of routings and carriers</li><li>• negotiation of rates</li><li>• bookings or reservations of transportation space</li><li>• securing charters</li><li>• freight consolidation and break-bulk services</li><li>• local or inland delivery of goods</li><li>• tracing</li><li>• leasing of equipment</li></ul></li></ol> <p>Services offered may be specialized as to:</p> <ul style="list-style-type: none"><li>• types of commodities handled</li><li>• geographic specializations and/or</li><li>• size of shipments</li></ul> |
|--|--|

Source: Government of Canada, Department of Regional Economic Expansion, *Sector Profile of the Canadian Freight Forwarding Industry*, February 1985, Annex C.

## Appendix II

### Definition of Freight Forwarder by the International Federation of Freight Forwarders Association

The freight forwarder is defined from a commercial point of view.

1. It is the function of the freight forwarder to organize for trade and industry the transportation of goods according to logistics principles thus minimizing transport costs and risks.
2. The freight forwarder advises the customer on all questions concerning transportation, helps with any preparation, procures transportation and takes all reasonable measures to ensure that the consignment arrives at its destination in an expedient and safe manner.
3. The worldwide network of branch offices and correspondents enables the freight forwarder to choose the most favourable routes and means of transport; it simplifies and speeds up the flow of information. If required, the freight forwarder assists the customer in procuring payment (money transfer, exchange regulations).

4. As transportation expert, the freight forwarder establishes new transport routes, both uni- and multimodal ones, and attends to all formalities/documentation. The freight forwarder rationalizes transport performance by producing better load factors for carriers.
5. The services of freight forwarders, their distribution function and their know-how in international and national transportation of cargo are indispensable for shippers and carriers in a world economy based on the division of labour.

Source: United Nations, Economic and Social Council, Economic Commission for Europe, Inland Transport Committee, *Concept of Transport Chains*, TRANS/WP5/R.13, July 11, 1989, p. 3.

## Appendix III

### Some Characteristics of Canadian and German Freight Forwarding

Difficulties in obtaining accurate data on the Canadian freight forwarding industry are underscored by the divergent population size for the industry among studies. However, the dominant characteristics of the industry are well known and revealed in Table IIIA. The data are for 1984 but they represent adequately current conditions in the industry.

Most firms in the industry are small; 64 percent of the firms have only one office and account for 19 percent of the employment. They average six employees per office. Firms with more than ten offices total four percent but have 41 percent of the employees. However, the average size of the offices varies little between small and large firms — six and nine respectively.

Foreign-controlled firms are important in the industry. While they represent only 11 percent of the firms, they have 18 percent of the offices and 24 percent of the employees. For firms with multiple offices, the average size of their offices is notably larger than the average size of domestic companies' offices. This may well reflect a stronger overseas orientation among the foreign-controlled firms. Their share of industry revenue exceeds their share of employment. It is estimated at 40 percent in 1986.

The 1989 *Directory of Canadian Customs Brokers and Freight Forwarders* published by Industry, Science and Technology Canada provides data on 245 companies with a total of 14,857 employees. There are 31 companies with over 100 employees and a total of 10,689 employees; there are 13 companies with over 300 employees and a total of 7,553 employees. The data are summarized in Table IIIB.

In the Federal Republic of Germany, the number of employees in freight forwarding firms is nearly 241,000. Many firms in the industry are small. Table IIIC shows that 12.7 percent of the firms employ fewer than five people; 54.4 percent employ fewer than 20 people. However, only 13.4 percent of employees are in firms with less than 20 people. The 8.8 percent of firms employing over 100 people account for 46.3 percent of all employees.

The concentration of employment in large firms has increased during the 1980s. Table IIID shows that the structure of the industry was quite stable between 1960 and 1980. It has changed significantly since that time because of the growth in the number of large firms. Only the number of small firms has suffered a notable decline.

**TABLE IIIA**  
**Structure of the Canadian Freight Forwarding Industry, 1984**

| Companies With                                   |               |                       |                     |             |
|--|---------------|-----------------------|---------------------|-------------|
|  | One<br>Office | Two to ten<br>Offices | 11 to 40<br>Offices | Total       |
| <b>1. # Companies</b>                            |               |                       |                     |             |
| Foreign-controlled                               | 20            | 25                    | 4                   | 49          |
| Domestic   | 255           | 111                   | 15                  | 381         |
| <b>TOTAL</b>                                     | <b>275</b>    | <b>136</b>            | <b>19</b>           | <b>430</b>  |
| <b>2. # Offices</b>                              |               |                       |                     |             |
| Foreign-controlled cos.                          | 20            | 126                   | 71                  | 217         |
| Domestic cos.                                    | 255           | 392                   | 330                 | 977         |
| <b>TOTAL</b>                                     | <b>275</b>    | <b>518</b>            | <b>401</b>          | <b>1194</b> |
| <b>3. # Employees</b>                            |               |                       |                     |             |
| Foreign-controlled cos.                          | 148           | 1227                  | 948                 | 2323        |
| Domestic cos.                                    | 1643          | 2617                  | 2974                | 7234        |
| <b>TOTAL</b>                                     | <b>1791</b>   | <b>3844</b>           | <b>3922</b>         | <b>9557</b> |
| <b>4. Percentages</b>                            |               |                       |                     |             |
| Companies  | 64            | 32                    | 4                   | 100         |
| Offices  | 23            | 43                    | 34                  | 100         |
| Employees  | 19            | 40                    | 41                  | 100         |
| <b>5. Average # of Employees<br/>Per Company</b> |               |                       |                     |             |
| Foreign-controlled cos.                          | 7             | 49                    | 237                 | 47          |
| Domestic cos.                                    | 6             | 24                    | 198                 | 19          |
| <b>TOTAL AVERAGE<br/>FOR INDUSTRY</b>            | <b>6</b>      | <b>28</b>             | <b>206</b>          | <b>22</b>   |
| <b>6. Average # of Employees<br/>Per Office</b>  |               |                       |                     |             |
| Foreign-controlled cos.                          | 7             | 9                     | 13                  | 11          |
| Domestic cos.                                    | 6             | 6                     | 9                   | 7           |
| <b>TOTAL AVERAGE<br/>FOR INDUSTRY</b>            | <b>6</b>      | <b>7</b>              | <b>9</b>            | <b>8</b>    |

Source: Government of Canada, Department of Regional Industrial Expansion, *Sector Profile of the Canadian Freight Forwarding Industry*, February 1985, Table 3.

TABLE III B

## Employment and Offices of Canadian Customs Brokers and Freight Forwarders, 1989

| # Employees per company | Companies  |              | Offices     |                        | Employees    |              |
|-------------------------|------------|--------------|-------------|------------------------|--------------|--------------|
|                         | #          | %            | #           | Average # of Employees | #            | %            |
| ten or less             | 107        | 43.7         | 187         | 2                      | 372          | 2.5          |
| 11 - 50                 | 85         | 34.7         | 257         | 9                      | 2273         | 15.3         |
| 51 - 100                | 22         | 9.0          | 138         | 11                     | 1523         | 10.3         |
| 101 - 300               | 18         | 7.3          | 180         | 17                     | 3136         | 21.1         |
| over 300                | 13         | 5.3          | 381         | 20                     | 7553         | 50.8         |
| <b>TOTAL</b>            | <b>245</b> | <b>100.0</b> | <b>1143</b> |                        | <b>14857</b> | <b>100.0</b> |

Source: Business Opportunities Sourcing System (BOSS) for Industry, Science and Technology Canada, *Directory of Canadian Customs Brokers and Freight Forwarders*, August 1989.

**TABLE IIIC**  
**Structure of the German Freight Forwarding Industry, 1989**

| # Employees<br>per Company | % of Companies | % of Single Offices | % of Employees |
|----------------------------|----------------|---------------------|----------------|
| five or less               | 12.7           | 20.6                | 1.1            |
| six to ten                 | 18.0           | 22.3                | 3.5            |
| 11 - 20                    | 23.7           | 27.4                | 8.8            |
| 21 - 30                    | 12.5           | 12.2                | 7.8            |
| 31 - 50                    | 12.8           | 9.9                 | 12.4           |
| 51 - 100                   | 11.5           | 5.3                 | 20.1           |
| 101 - 200                  | 1.6            | 1.9                 | 20.7           |
| 201 - 300                  | 1.6            | 0.2                 | 9.6            |
| over 300                   | 1.2            | 0.2                 | 16.0           |
|                            | <b>100.0</b>   | <b>100.0</b>        | <b>100.0</b>   |

Source: Bundesverband Spedition und Lagerei e.V., *Strukturdaten aus Spedition und Lagerei*, 1990, Tables 12 and 17.

**TABLE III D**  
**Changes in the Number of Companies by Size Category (1960 = 100)**

| Employees   | 1960 | 1980 | 1985 | 1989 |
|-------------|------|------|------|------|
| ten or less | 100  | 96   | 96   | 88   |
| 11 - 50     | 100  | 102  | 99   | 100  |
| 51 - 100    | 100  | 101  | 108  | 119  |
| over 100    | 100  | 103  | 114  | 142  |

Source: Bundesverband Spedition und Lagerei e.V., *Strukturdaten aus Spedition und Lagerei*, 1990, Table 13.

## Appendix IV

**TABLE IVA**

### Comparative Airport Freight Data 1980, 1985 and 1989

|                   | Number of tonnes of freight |               |                     |
|-------------------|-----------------------------|---------------|---------------------|
|                   | Freight (000 tonne)         |               |                     |
|                   | 1980                        | 1985          | 1989                |
| Frankfurt         | 605.2                       | 767.9         | 1079.3              |
| London 1)         | 593.3                       | 696.9         | 932.3               |
| Paris 2)          | 569.7                       | 693.1         | 832.8               |
| Amsterdam         | 318.1                       | 436.1         | 582.6               |
| Zurich            | 156.8                       | 210.7         | 258.4               |
| Rome 3)           | 150.3                       | 180.1         | 231.1               |
| Brussels          | 165.0                       | 167.8         | 210.2 <sup>A)</sup> |
| Madrid *)         | 144.1                       | 170.6         | 208.2               |
| Milan 4)          | 95.8                        | 106.1         | 144.0               |
| Copenhagen **)    | 139.6                       | 143.1         | 127.4               |
| Stockholm 5)      | 52.6                        | 57.8          | 80.8                |
| <b>TOTAL</b>      | <b>2990.5</b>               | <b>3630.2</b> | <b>4476.9</b>       |
| 1)Heathrow        | 468.5                       | 529.3         | 692.2               |
| Gatwick           | 120.2                       | 157.2         | 210.3               |
| Stansted          | 4.6                         | 10.4          | 29.8                |
| 2)Orly            | 167.4                       | 187.0         | 248.1               |
| Charles-de-Gaulle | 402.3                       | 506.1         | 584.7               |
| Le Bourget        | 0.0                         | 0.0           | ***)                |
| 3)Fiumicino       | 148.9                       | 178.9         | 227.1               |
| Ciampino          | 1.4                         | 1.2           | 4.0                 |
| 4)Linate          | 50.0                        | 60.1          | 68.7                |
| Malpensa          | 45.7                        | 46.0          | 75.3                |
| 5)Arlanda         | 46.5                        | 57.8          | 80.8                |
| Bromma            | 6.0                         | —             | —                   |

\*) Most of the growth in freight at Madrid has occurred since 1987 when the airport handled 159,900 tonnes of freight.

\*\*) Trucking figures included in the period 1980-1987.

\*\*\*) No longer in Paris' figures.

A) 1987 data.

Schiphol Airport Authority.

Brussels data taken from:

1) International Civil Aviation Organization, *Digest of Statistics*, No. 271, 1980.

2) ICAO Statistical Yearbook, *Civil Aviation Statistics of the World*, 1986 and 1988.

**TABLE IVB**  
**Compound Percentage Change in Tonnes of Freight Traffic**

|                   | 1980-1985   | 1985-1989   | 1980-1989   |
|-------------------|-------------|-------------|-------------|
| Frankfurt         | 4.88        | 8.68        | 6.64        |
| London 1)         | 3.27        | 7.55        | 5.15        |
| Paris 2)          | 4.00        | 4.70        | 4.31        |
| Amsterdam         | 6.51        | 7.51        | 6.95        |
| Zurich            | 6.09        | 5.23        | 5.71        |
| Rome 3)           | 3.68        | 6.43        | 4.90        |
| Madrid *)         | 3.43        | 5.11        | 4.17        |
| Milan 4)          | 2.06        | 7.93        | 4.63        |
| Copenhagen***)    | 0.50        | -2.86       | -1.01       |
| Stockholm 5)      | 1.90        | 8.74        | 4.89        |
| Brussels***       | 0.34        | 11.92       | 3.52        |
| <b>TOTAL</b>      | <b>3.95</b> | <b>6.64</b> | <b>5.25</b> |
| 1)Heathrow        | 2.47        | 6.94        | 4.43        |
| Gatwick           | 5.51        | 7.55        | 6.41        |
| Stansted          | 17.72       | 30.11       | 23.07       |
| 2)Orly            | 2.24        | 7.32        | 4.47        |
| Charles-de-Gaulle | 4.70        | 3.68        | 4.24        |
| Le Bourget        | 0           | —           | —           |
| 3)Fiumicino       | 3.74        | 6.15        | 4.80        |
| Ciampino          | -3.04       | 35.12       | 12.37       |
| 4)Linate          | 3.75        | 3.40        | 3.59        |
| Malpensa          | 0.13        | 13.11       | 5.71        |
| 5)Arlanda         | 4.45        | 8.74        | 6.33        |
| Bromma            | —           | —           | —           |

\*) The growth rate in freight 1987-1989 was 14.11 percent.

\*\*) Trucking figures included in the period 1980-1987.

\*\*\*) Brussels figures calculated for 1980-1985, 1985-1987 and 1980-1987.

Totals for 1985-1989 and 1980-1989 do not include Brussels figures.

Schiphol Airport Authority.

Brussels data taken from:

1) International Civil Aviation Organization, *Digest of Statistics*, No. 271, 1980.

2) ICAO Statistical Yearbook, *Civil Aviation Statistics of the World*, 1986 and 1988.

## Appendix V

### List of Persons Interviewed\*

#### CANADA

Air Canada, Montréal, Quebec

Geoff Bridges, Vice President, Air Cargo

Cast North America (1963) Inc., Montréal, Quebec  
Peter Keller, President & Chief Executive Officer

Danzas Worldwide Transportation, Toronto, Ontario  
H.J. Kuhn, President

Danzas Transport Mondial, Montréal, Quebec  
Michael J. Teixeira, Vice President

David Kirsch Forwarders Ltd., Montréal, Quebec  
Paul Lanno, General Manager, Import-Export

Dolbec International, Québec, Quebec  
Yvon Dolbec, Président du conseil d'administration,  
Chef de la direction

Expertrans International Freight Forwarders,  
Montréal, Quebec  
Hans U. Bruderer, President

G. Gechard Ltd., Montréal, Quebec  
Customs Brokers International Freight Forwarders  
G. Bechard, President

Gillespie-Munro Inc., Montréal, Quebec  
C.J. Gillespie, President

Kuehne & Nagel, Toronto, Ontario  
J.E. Nicolai, Manager, Export Manager, Oceanfreight

La Maison Hamelin-Whalen Inc., Montréal, Quebec  
Pierre Whalen, Vice President

Locher Evers International, Vancouver, B.C.  
Bruno R. Locher, President; Patrick E. Cullen, Vice  
President

Logtrans

International Logistics & Transportation Ltd.,  
Montréal, Quebec  
J.P. Gobeil, Vice President

Magnacargo, Montréal, Quebec  
Nigel Henderson, Director of Operations

Panalpina Inc., Toronto, Ontario  
H. Peter Merath, Senior Vice President;  
Michael A. de Ruyter, Manager of Air Freight  
Export/Warehouse

Starber International Inc. Montréal, Quebec  
Karl Legler, Vice President, Maritime  
Roger Gervais, Vice President/Freight Forwarding

#### EUROPE

Amsterdam Airport Schiphol, The Netherlands  
Frans W. Goudsmit, Director, Marketing Cargo

British International Freight Association  
Feltham, Middlesex, United Kingdom  
Jim White, Director General  
Colin Beaumont, Divisional Manager

Canadian Air Cargo, Canadian Airlines International,  
Schiphol Airport, Holland  
Onno Viersma, Manager Cargo Sales & Service,  
Benelux, France & Scandinavia

CN Rail, European Organization, Hamburg,  
Germany  
H. Junggebauer, Assistant Manager — Germany,  
Canadian National Railways

CP Shipping, London, U.K.  
Harvey Romoff, Manager, Europe

Canadian National Railways, London, U.K.  
Mr. John A. Edmonds, Marketing Manager —  
Europe

Commission des communautés européennes,  
Belgium, Bruxelles  
Luis Ortiz Blanco, Administrator, Competition  
Hélène Chraye, Administrator, Regulation  
Jean-Marie Gobeaux, Administrator, Customs Union  
& Indirect Taxation  
Balt Heldring, Maritime Transport & Safety  
John Hensler, Shipping  
Kirtikumar Mehta, Principal Administrator, Internal  
Market & Industrial Affairs  
Manuel Santhiago, Internal Market & Industrial  
Affairs  
Dirk Van Vreckem, Principal Administrator,  
Transport

Commission of Canada to the European  
Communities, Brussels  
P.G. Campbell

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\* Note: Most interviews were conducted in person; some  
were conducted by phone.

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