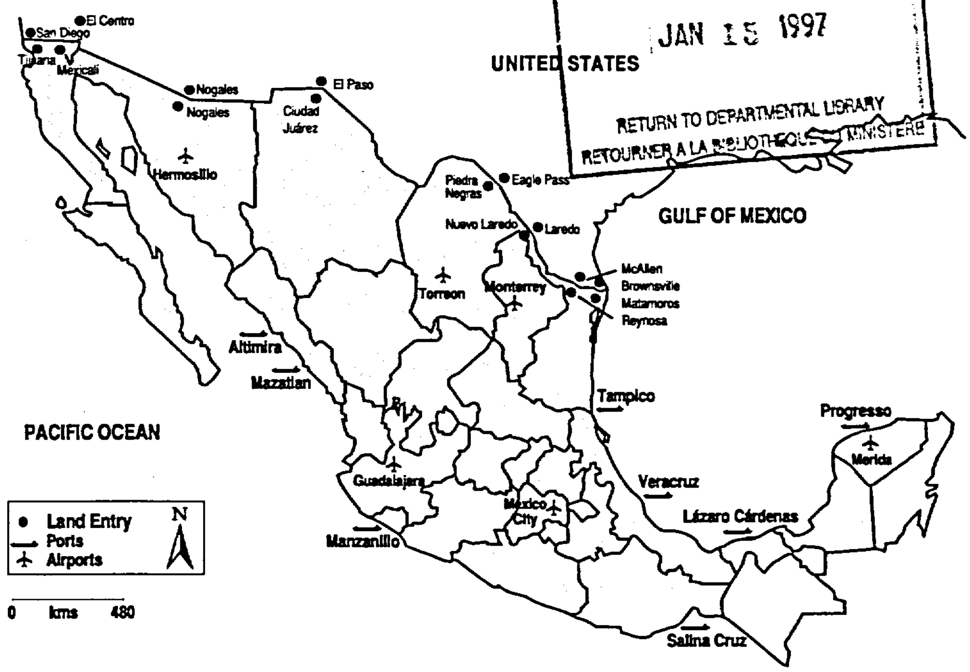
The Mexican Trucking Industry

THE OPPORTUNITY

Trucking is much more important in Mexico than it is in Canada. In 1992, about 60 percent of Mexican freight was transported by truck, compared with about 36 percent in Canada. According to projections by the *Secretaría de Comunicaciones y Transportes (SCT)*, the Mexican Secretariat of Communications and Transportation , highway freight traffic will nearly double by the end of the century and trucking will continue to dominate the transportation industry.

The increased freight movements brought about by the NAFTA will largely be transported by truck because of the proximity of major U.S. and Canadian centres, and the shorter delivery times involved. A shipper in Toronto, for example, is closer to Mexico City, than to Calgary. Marine shipments to Mexico from Eastern Canada average 8 days and rail shipments 15 days. Shipments to Mexico by truck can arrive in as few as 6 days.



New rail port and sea port facilities are expected to be established through concessions from the Mexican government. While these facilities will create some competition for trucking, they will also facilitate intermodal transportation, which can benefit Canadian trucking companies which are able to move quickly to take advantage of the new opportunities.

The NAFTA provisions, allowing Canadian trucks into Mexico for the first time, will not come into effect until December 1995. In the mean time, partnering with Mexican companies will be the primary method of market entry.

SUMMARY REPORT

The Department of Foreign Affairs and International Trade has prepared this summary report on the **Mexican Trucking Industry** sector. It has been produced and published by Prospectus Inc. under the Access North America Program, along with other sector profiles and summaries on business opportunities in Mexico. It is available from:

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HIGHLIGHTS

The demand for truck transportation is expected to grow rapidly over the next several years. This will create excellent long-run opportunities for Canadian trucking companies who expand into Mexico. The major factors behind this growth are:

- **sustained economic growth;**
- **a rising demand for "just-in-time" services;**
- **increased use of intermodal transportation services;**
- **expanding trade under the NAFTA; and**
- **the need for Mexican trucking companies to find international partners.**

The Search for Partners

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

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

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

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

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

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

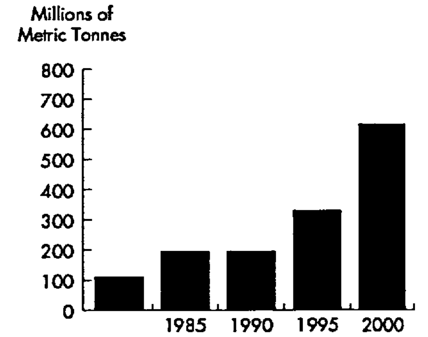
Overview of the Mexican Trucking Industry

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

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

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

Trucking Market in Mexico, 1982–2000



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

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

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

Markets

The Mexican trucking industry serves three broad markets:

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

- shipping Mexican goods to foreign destinations.

Under the NAFTA, Canadian companies will be allowed to carry freight in and out of Mexico, but this will be phased in over a 6-year period. In the first phase, beginning in December 1995, they will be restricted to the border states of Mexico, but they will be allowed to transport shipments between the U.S. and Mexico. In order to gain immediate access to the whole Mexican market, Canadian companies are entering into interchange agreements with Mexican carriers.

International trucking to and from Mexico presently accounts for about 15 percent of the total Mexican trucking market, but this is expected to rise to 20 percent over the next few years as trade increases under the NAFTA. In 1990, trucking accounted for almost 60 percent of Canadian imports from Mexico and 40 percent of Canadian shipments to Mexico.

The most important types of imported goods transported by truck are fresh produce as well as automotive parts and other components shipped to and from the in-bond *maquiladora* industry. A large proportion of this traffic is shipped for just-in-time delivery.

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COMPETITION

Mexican and U.S. trucking companies are the main competition for Canadian firms entering the Mexican market. Trucking also faces competition from other modes, including marine, rail and air transportation systems. The government-owned rail system, *Ferrocarriles Mexicanos*, is expanding. The organization has been developing "rail-ports" which allow truck-rail intermodal transportation. There are serious obstacles to this expansion, however. Only limited initiatives by private enterprise have been allowed, and the system is burdened with outdated infrastructure.

Marine transportation is also being modernized. The Mexican government has been granting concessions for privately-developed ports. An investment program totaling U.S. $100 million has been developed for the main Mexican ports of Manzanillo, Lázaro Cárdenas, Altamira and Veracruz. Nonetheless, marine transportation has long been hindered by the activities of trade unions, and the system is considered inefficient and unreliable.

CLEARING THE BORDER

A number of Canadian trucking companies are now serving Mexico through agreements with Mexican carriers. Their experience demonstrates the importance of careful advance preparation of customs documents.

Most Canadian truck shipments to Mexico cross the border at Laredo, or Brownsville, Texas. The usual arrangement is to consign the shipment to a Mexican customs broker retained by the importer. Mexican brokers maintain offices on the U.S. side of the border, where they take over responsibility for the shipment before it reaches customs.

Some Canadian companies offer lower rates for delivery to a bonded warehouse on the U.S. side where the cargo is transferred to a Mexican trucking company. That way the Canadian company does not have to deal with customs at all. But increasingly, Canadian trailers cross the border and are picked up by Mexican tractors operated by an affiliate of the Canadian transportation company. When the NAFTA changes are phased in, Canadian tractors and drivers will begin crossing the border as well.

The broker calculates the amount of duty and taxes payable and advises the importer. If the load contains Less-than-truckload (LTL) shipments, this may mean unloading the trailer. The importer transfers the necessary funds into a customs bank account. Ideally, payment will have been pre-arranged.

The Mexican broker prepares a *pedimento*, which is an authorization for the goods to enter Mexico. The broker also visits U.S. Customs to close the Transit and Exportation bond (T&E bond) that allowed the goods to cross the United States.

Although the duty payment can be transferred electronically, the customs documents are not processed by computer. Mexican customs provides the broker with a bar code sticker. The broker places this sticker on the documents, and gives them to the driver who will move the trailer across the border.

The usual procedure is for a Mexican drayage tractor to haul the load over the bridge into Mexico. The drayage tractor moves the trailer to the customs booth, where a dispatcher employed by the broker meets the driver and handles the customs clearance. Random inspections are made of about 10 percent of all trucks crossing the border, in which case the trailer must be unloaded.

Although agriculture inspections may cause unexpected delays, the time needed for clearing the border depends mainly on the quality of the documentation, rather than the contents of the shipment. Some trucking companies can clear the process in a few hours. Some report delays of two days or more. In general, same-day clearance depends on two factors: advance arrangements between the brokers and early morning arrival of the truck at Laredo.

Public Bonded Warehouses in Mexico

The increased use of truck shipments into Mexico is leading to the growth of the public bonded warehousing industry there. In particular, companies offering bonded refrigerated warehousing services have been expanding through partnerships with established U.S. firms.

Under Mexican law, when a shipment is consigned to a bonded warehouse, there is no duty payable or other taxes collectable until the goods are removed from the warehouse. This arrangement makes LTL shipments more feasible, and permits the shipper to maintain inventories in Mexico. Since the value of the shipment is set when the goods enter the warehouse, this also protects the shipper against changes in currency values.

Air cargo shipments have been declining, but they continue to offer a practical alternative to shippers of relatively high-value low-bulk products. Expansion programs are underway at the Mexico City and Toluca airports, but passenger transportation remains the focus of most carriers.

The Regulatory Environment

Under the NAFTA, Canadian and U.S. tractors, trailers and drivers will be allowed to operate in Mexico for the first time, but their operation will be limited to international shipments. They will not be allowed to move goods between two points in Mexico, even if they have a partial international load. An exception to this rule is that Canadian trucks will be allowed to distribute goods that arrive in Mexico by other modes of transportation.

Access will be phased in gradually over a 6-year period. Beginning in December 1995, Canadian and U.S. trucking companies will be allowed access to Mexico's northern border states. This will expand to include all 31 Mexican states, in the year 2000.

In the short term, the principal means of entering the market will be to enter into joint venture agreements with Mexican firms. In 1997 Canadian and U.S. ownership of up to 49 percent of the international operations of Mexican firms will be permitted. If the Mexican firm also handles domestic traffic, a separate division must be created. In 2000, 51 percent ownership of international operations will be allowed, rising to 100 percent in 2004.

Under the NAFTA, Mexico's customs clearance procedures will also be streamlined. Currently, Canadian and U.S. trailers are detached and moved across the border by drayage tractors, and must be handled by local tractors and drivers on the Mexican side. The delay can be as little as two or three hours, but it is sometimes a day or more. Many shipments are un-loaded and re-loaded into Mexican trailers, because their owners do not want their trucks to operate on Mexico's poor roads.

A set of agreements was signed in March 1994 between Canada and Mexico which will allow the sharing of trucking facilities, recognize commercial driver's licences from each country and increase technical cooperation and training. Most industry observers believe that these agreements will contribute substantially to improved access to Mexico by Canadian trucking companies.

Regulation of the Mexican trucking industry is the responsibility of the *Secretaría de Comunicaciones y Transportes (SCT)*. The regulations limit the length of trucks to 48 feet, and have recently been amended to include more rigorous rules for emissions and braking systems. Until recently, weight restrictions were not generally enforced. Truck frames were reinforced to permit loads of 150 percent or more of legal capacity. A new program has been implemented which will permit 80 percent of trucks to be weighed in the first year, rising to 100 percent in the third year. There is no regulation of driver working hours.

Operating Constraints

Foreign trucking companies operating in Mexico will face a number of operating constraints. These include the condition of the roads, the quality of diesel fuel, the legal system and the infrastructure.

In 1993, Mexico had 3,400 kilometres of high-specification freeways, mostly accessible by toll. Other highways are generally in very poor condition. Some estimates place the proportion of roads in poor condition as high as 60 percent. Maximum speeds on many of them are only 50 or 60 kilometres per hour. There are problems with low bridge clearances and tight curves on some highways. Twenty-four hour truck stops are rare, and security can be a problem in some parts of the country. Trucks often stop in groups at the sides of highways for security reasons.

Some Mexican diesel fuel is of poor quality. Some samples have tested at 300 percent of the allowable sulphur content allowed in the U.S. and 150 percent of the Mexican standard. Humidity is higher and octane lower than in Canadian and U.S. fuels. Some operators are concerned that this could damage truck engines. PEMEX, the state oil company, is developing a low-sulphur diesel fuel which will be available on some freeways beginning in the fall of 1994. Fuel prices are being gradually increased to approximate parity with Canada and the U.S.

Finally, drivers involved in accidents in Mexico can find themselves in serious trouble under the Mexican legal system. A driver may be held without charge during a 3-day investigation period. Bail may not be possible if serious charges are laid, and trials may proceed slowly.

WHERE TO GET HELP

The ***Department of Foreign Affairs and International Trade (DFAIT)*** is the Canadian federal government department most directly responsible for trade development. The InfoCentre is the first contact point for advice on how to start exporting; it provides information on export-related programs and services; helps find fast answers to export problems; acts as the entry point to DFAITs trade information network; and can provide companies with copies of specialized export publications.

InfoCentre
Tel: 1-800-267-8378
or (613) 944-4000
Fax: (613) 996-9709
FaxLink: (613) 944-4500

The ***Commercial Division of the Embassy of Canada*** in Mexico City promotes trade with Mexico. There are several trade commissioners at the Embassy, and there is a satellite office in Monterrey. Trade Commissioners can provide a range of services including introducing Canadian companies to potential customers in Mexico, advising on marketing channels, assisting those wishing to participate in trade fairs, helping identify suitable Mexican firms to act as agents, and compiling credit and business information on potential foreign customers.

Commercial Division
The Embassy of Canada in Mexico
Schiller No. 529
Col. Polanco
Apartado Postal 105-05
11560 México, D.F.
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Fax: 724-7982

Canadian Consulate
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Local 108A
Zaragoza y Constitucion
64000 Monterrey
México
Tel: 443-200
Fax: 443-048

Note*: To telephone México, D.F. dial: 011-52-5 before the number shown below. For contacts in other cities in Mexico, consult the international code listing at the front of your local telephone directory for the appropriate regional codes or contact the international operator.*

International Trade Centres have been established across the country as a first point of contact to support the exporting efforts of Canadian firms. Co-located with the regional offices of Industry Canada (IC), the centres operate under the guidance of DFAIT and all have resident Trade Commissioners. They help companies determine whether or not they are ready to export; assist firms with marketing research and market planning; provide access to government programs designed to promote exports; and arrange for assistance from the Trade Development Division in Ottawa and trade officers abroad. Contact the International Trade Centre nearest you.

The ***World Information Network for Exports (WIN Exports)*** is a computer-based information system designed by DFAIT to help Canada's trade development officers abroad match foreign needs to Canadian capabilities, experience and interests of more than 30,000 Canadian exporters. To be registered on WIN Exports, call: (613) 996-5701.

The ***Market Intelligence Service*** provides Canadian business with detailed market information on a product-specific basis. The service assists Canadian companies in the exploitation of domestic, export, technology transfer, and new manufacturing investment opportunities. The intelligence is used by Canadian business in decisions regarding manufacturing, product development, marketing, and market expansion. The information includes values, volume and unit price of imports, characteristics of specific imports (e.g. material, grade, price, range, etc.), names of importers, major countries of export, identification of foreign exporters to Canada, Canadian production, Canadian exports, and U.S. imports. Two-thirds of the clientele for this service are small businesses. Call: (613) 954-4970.

Transport Canada
Policy and Coordination
Motor Carrier Branch
Twr C, Place de Ville
330 Sparks Street
Ottawa, ON K1A ON5
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Fax: (613) 998-2686
Contact: Derek Sweet

Service Industries and Transportation Division
Department of Foreign Affairs and International Trade - TPS
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 996-0688
Contact: Dan White

The ***Embassy of Mexico***, Mexican Trade Commissioners in Canada, and Mexican consulates can provide assistance and guidance to Canadian companies in need of information about doing business in Mexico.

Embassy of Mexico
45 O'Connor Street, Suite 1500
Ottawa ON K1P 1A4
Tel: (613) 233-8988
Fax: (613) 235-9123

60984 81800

Affaires étrangères
et Commerce international

Additional Contacts in Canada

Business Associations

The Canadian Trucking Association
130 Slater Street
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Tel: (613) 236-9426
Fax: (613) 563-2701

Canadian Freight Forwarders Association (CIFFA)
Box 929
Streetsville, ON L5M 2C5
Tel: (905) 567-4633
Fax: (905) 542-2716

The Canadian Council for the Americas (CCA) is a non-profit organization formed in 1987 to promote business interests in Latin American and Caribbean countries. The CCA promotes events and programs targeted at expanding business and building networking contacts between Canada and the countries of the region. It also publishes a bimonthly newsletter.

The Canadian Council for the Americas (CCA)
Executive Offices, Third Floor
145 Richmond Street West
Toronto, ON M5H 2L2
Tel: (416) 367-4313
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Canadian Exporters' Association (CEA)
99 Bank Street, Suite 250
Ottawa, ON K1P 6B9
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Fax: (613) 563-9218

Canadian Manufacturers' Association (CMA)
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Tel: (416) 798-8000
Fax: (416) 798-8050

The Canadian Chamber of Commerce (CCC)
55 Metcalfe Street, Suite 1160
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Fax: (613) 238-7643

Forum for International Trade and Training (FITT)
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Fax: (613) 230-6808

Language Information Centre
240 Sparks Street, RPO
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