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The Road Sector**

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On the trade front, NAFTA has been a distinct success. Before NAFTA, Canada was already highly dependent on the US for trade (74.4 percent of Canada's 1990 trade was with the US) but Mexico was not a significant Canadian trade partner. Since implementation began, Canada-Mexico trade has more than tripled, and Canada's dependence on the US market has become even greater (87.2 percent in 2002). NAFTA also partially liberalized road transportation, and despite the obvious and central role played by trucking in trans-NAFTA commerce, this transformation has gained inadequate attention over the past decade. While the growth in trade created additional business for the trucking sector, all that was promised to the sector in terms of changed trading conditions did not materialize.

At the time of signing, NAFTA had already failed to deliver the completely liberalized environment for trade in transport services that some sought. Among the issues that remained:

- Immigration restrictions: personnel restrictions were expected to continue to be problematic, as NAFTA did not alter each country's immigration requirements for crews to change at or near the border.
- Vehicle weights and dimensions were not harmonized: standards applying to transport capital equipment were still set by each state or province for traffic passing through that jurisdiction.
- Rules of cabotage, the right to carry cargo between domestic points, remained: provisions preventing the free movement of transport entities carrying domestic cargo within each of the countries in the NAFTA geographic area were still in effect.
- Investment restrictions were not liberalized immediately: full liberalization of investment restrictions on NAFTA-based investors in transportation operations were phased in for the road sector.

On closer inspection, however, many of these were unrealistic goals and were, by and large, not expected outcomes of the negotiation of NAFTA. Instead, a more productive way to measure the impact of NAFTA on transportation is to identify the milestones that were actually negotiated, and to then evaluate whether they were fully achieved.

Prior to NAFTA, the playing field was not level. For example, corporate tax rates, fuel taxes and property taxes facing transport enterprises in Canada and the US differed significantly. In the area of corporate tax

rates alone, US trucking firms were able to expense items Canadian trucking firms had to depreciate. On the other hand, payroll taxes in Canada conferred an advantage to Canadian trucking companies.

Chow and McRae (1990) concluded, based on their examination of the transborder Canada-US trucking industry, that the disadvantages facing Canadian carriers depended upon the type of carrier and the geographical region in which it competed. They determined that the most severe effects would be felt by truckload carriers in long haul markets, predominantly as a result of immigration and equipment restrictions. As road is the primary mode for Canada's trade in NAFTA, with more than 60 percent of all 1990 trade by value between Canada and the other two NAFTA countries, the most important element of NAFTA for Canadian truckers became its promise of resolving non-tariff barriers to NAFTA markets and access to cargo.

By its eighth plenary held in October 2001, the Land Transportation Standards Subcommittee, a stepchild of the NAFTA negotiations, had made some progress on the issue of non-tariff barriers and the harmonization of standards. It had agreed on a common legal age for a vehicle operator in international commerce (21 years); common format and contents for North American driver logbooks; reciprocity of medical standards; drivers to have the language of jurisdiction; and substantial harmonization of regulations governing the transportation of hazardous materials. A North American Emergency Response Guidebook in the three NAFTA languages was also completed. Furthermore, a side-by-side comparison of truck weights and dimensions was undertaken so that the full extent of the harmonization problem is now clear to the three governments. Whether they will commit to full harmonization, however, seems less likely today than it did in the initial negotiations.

Trade and transport go hand-in-glove. While it is possible to separate the two, and they have different properties, the glove is dependent on the hand. Successful economic integration requires a good fit. Unfortunately, this did not happen. Domestic carriers in each of the three NAFTA countries retained the exclusive right to haul cargo within their own country and never intended that domestic traffic be available to foreign carriers under NAFTA. The United States maintained its moratorium on operating authorities for truck carriage of domestic cargo and for passenger service. As an entry barrier, the moratorium forced Canadian trucking companies to either buy access, by purchasing US operators, or by forming strategic alliances with them. The maintenance of cabotage for national companies was clear.

However, and much more important, the planned NAFTA agreement for a phase-in for international cargo access — a provision eagerly sought by Canada — is still not in place. Prior to NAFTA, if a Canadian company wanted to interline with a Mexican company, it was required to take place on the US side of the border. This meant that unless a Canadian-bound backhaul was readily available, there would be a long empty haul by virtue of US cabotage rules, or the Canadian company would be required to interline with a US operator to offer a service to the US South. This dilemma was quickly addressed in the first months of the agreement when Canada and Mexico signed a memorandum of understanding granting mutual recognition of commercial drivers' licenses, and facilitating the hand-off of trailers within the 20 km border zone. This meant that Canadian truckers could backhaul Mexican cargoes into the US and then seek a Canadian cargo to make the long haul back to Canada more than an empty return trip.

NAFTA also promised that by January 1, 2000, access to international cargo within NAFTA would be complete. The foundation for this was the US agreement that it would provide cross-border access to its entire territory to trucking firms from Mexico. Mexico, in return, agreed to provide the same treatment to Canadian and US trucking companies.

As the December 18, 1995 milestone approached, the three countries reached harmonization agreements on such matters as traffic signs and the issuing of licenses, leaving many legal experts with the opinion that safety concerns had been addressed. However, under intense pressure from the Teamsters Union, US Transportation Secretary Federico Peña announced that Mexican trucks would continue to have access only to commercial zones in the United States until safety and security concerns were addressed. The Mexicans, who had passed legislation to liberalize their foreign investment rules for the trucking industry to meet the same milestone, postponed implementing the legislation. Progress on both access and investment provisions was derailed and not restored in the 1990s.

In an attempt to push the US to open its border to Mexican trucks, Mexico initiated efforts through the dispute resolution process. On February 7, 2001, the binding arbitration panel of the North American Free Trade Commission issued a final ruling rejecting the US stance and clearing the way for Mexican trucks to operate in the US. In 2000, President George Bush had campaigned on lifting the ban on the wider operation of Mexican trucks in the US. After the Commission ruling, proposals went back and forth on the

safety standards to be met, with Mexico agreeing in October 2001 to exchange, as would Canada, driver and carrier safety records.

When President Bush finally lifted the ban on November 27, 2002, there were 130 applications for licenses by Mexican trucking operators within two days. However, the promise was not to be fulfilled. Environmentalists joined forces with the Teamsters Union to halt access by launching an appeal on the grounds that Mexican trucks would pollute the air. In January 2003, the 9th US Circuit Court of Appeals in San Francisco granted their petition that claimed the US Department of Transportation failed to perform a thorough environmental analysis.

Kimberley Clausing in 2001 found, from data at the commodity level, that while the FTA had substantial trade creation effects, there was little evidence of trade diversion. This confirms earlier conclusions by John Taylor and David Closs in 1993 that firms would be unlikely to fully integrate manufacturing operations within Canada and the US by trading off production efficiencies against larger logistics (primarily transport) costs until such time as transport regulations became more harmonized. From their exploration of manufacturers' responses to the Free Trade Agreement, they concluded that a "major element of the response is an integrated manufacturing and logistics strategy. In fact, many of the efficiencies being sought at both a macro and micro level will only result from realignments of current manufacturing and logistics systems."

Ten years later, in 2003, Taylor and colleagues attempted to quantify the cost of the border between Canada and the US and estimated the border cost to be 2.7 percent of total 2001 US-Canada trade in goods (US\$382.0 billion). They argued that an external perimeter could allow for most of the US\$10.3 billion in border costs to be saved. While it is true that border costs are problematic, issues about harmonization at the state level remain even if national borders are erased.

Today, there are still many discrepancies between countries, states and provinces with respect to who may drive where and what equipment may be used. These regulatory challenges will require further negotiation. While there has been slow progress under the umbrella of the Canada-US Smart Border Accord and the Land Transportation Standards Subcommittee, further deepening of economic integration on the trade side is less likely until such "infrastructure" issues are addressed. Furthermore, in transport, that which has been

motivated by the trade agenda is now driven by national security, and this additional fence makes the challenge of promoting deeper economic integration even more difficult.

Security issues aside, resolving the non-tariff barriers and cargo access is critical to the success of continued economic integration. According to John Dunning, the role of the state in developing commercial infrastructure grows ever more important to national prosperity as protectionism declines; national competitiveness relies on the state's ability to supply location-bound assets to attract or retain firm-specific mobile assets.

There is a danger of stalling the integration of the manufacturing sector if transport harmonization is further delayed. Rising security concerns post 9/11 have resulted in increased border delay, which has damaged the credibility of the just-in-time system. The result has been to boost buffer stocks, and force just-in-time supply chain managers to re-examine their sourcing options; it is of concern to Canada that many US companies will source domestically rather than within NAFTA due to border uncertainty. I would suggest one final sentence here that brings in domestic politics: George W. Bush's re-election bid leaning so heavily on his role as commander-in-chief in the war on terror; Paul Martin's attempts to repair the Canada-US relationship and his own electoral concerns in the context of scandal; and Fox's increasingly lame duck image as he battles a divided Congress. This way you can try to project outward to what "North American" integration agenda items may or may not be put on hold until at least November, when elections in both Canada and the United States have been concluded.

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