U.S.-Mexico Trade: How to win at cross-border logistics and aftermarket service
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With U.S.-Mexico trade booming and near-shoring becoming a reality, opportunities have never been better for U.S. manufacturers to streamline their cross-border and aftermarket strategies to improve overall supply chain operations.

2014 Cross-Border Roundtable: Building the future of hemispheric trade

Trade volumes between the U.S., Canada, and Mexico are massive and growing due in no small part to the fact that manufacturers now treat the continent as one seamless market for production and distribution. Our panelists offer insight into the bright outlook for hemispheric trade.

welcome

Cross-border logistics key to growth

As Logistics Management and Supply Chain Management Review have been covering over the past several years, the move to near-shore sourcing and manufacturing to Mexico has taken off due to the rising transportation costs and higher risk factors involved in managing more wide-spread, global supply chain operations.

In fact, a recent Peerless Research Group (PRG) survey reveals that the trend will most certainly continue, with trade between the U.S. and Mexico only heating up.

According to the findings, 46 percent of respondents have already engaged in near-shoring or have plans on the books within the next five years. Of those companies, 63 percent say Mexico is the No. 1 destination, citing lower freight costs and improved speed to market as the top advantages.

And while many U.S. supply chain professionals see Mexico as a terrific opportunity, moving freight across the border, and managing the aftermarket services post move, is not without its challenges. Over the next few pages, our editorial staff has compiled two articles designed to take the mystery out of the cross-border challenge and put U.S. companies on the road to faster growth.

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U.S.-Mexico Trade: How to win at cross-border logistics

With U.S.-Mexico trade booming and near-shoring becoming a reality, opportunities have never been better for U.S. manufacturers to streamline their cross-border and aftermarket strategies to improve overall supply chain operations.

By John D. Schulz, Contributing Editor

Since the signing of the North American Free Trade Agreement (NAFTA) 20 years ago, the amount of commerce traveling between the U.S. and Mexico has done nothing but increase. And while not all of NAFTA’s promised benefits have been achieved, enough has been accomplished to facilitate trade between the U.S. and Mexico to make manufacturers on both sides of the border take notice. In fact, experts estimate truck trade between the U.S. and Mexico could reach $463 billion by 2020—a 44 percent jump from 2012.

Today, the U.S. is Mexico’s largest trading partner, buying more than 77 percent of all Mexican exports. Moreover, Mexico exports more goods and services to the U.S. in just about a month than it does in an entire year to the 27 countries of the European Union combined.

And the momentum will only gain steam. Global trends such as near-shoring—the practice of manufacturing closer to one’s dominant market that’s being pushed along by higher wages in Far East countries such as China—all point to even more favorable conditions for trade growth between the U.S. and Mexico.

However, with all this northbound and southbound traffic, logistics logjams at the border arise on a consistent basis. So, what can logistics professionals do to stay ahead of the game and put out the fires before they disrupt their cross-border supply chain?

Over the next few pages we’ll examine some of the common challenges that plague new players in the U.S.-Mexico trade game and then take a look at how partnering with an experienced third-party logistics provider (3PL) can help improve your company’s trade experience south of the border.

Cross-border challenges defined

Navigating the Mexican market is not for the faint of heart. First, there are differences in language, laws, customs, and behavior. Mind you, none of these are deal-breakers for U.S. manufacturers; however, they must be handled skillfully.

Then there’s the question of Mexico’s security and the condition of its highway infrastructure. Major highways in Mexico are often the equivalent of the Interstate system in the U.S., but secondary roads are often in poor condition and often dangerous, according to industry veterans. “The infrastructure in Mexico is good, but not as good as it should be,” says Gene Sevilla, vice president of international supply chain solutions at Ryder.

Security is another major challenge for shippers of freight in and out of Mexico. “In terms of security, you have to remain vigilant,” says Frank Bateman, Ryder’s director of customer logistics for Mexico who leads a
cross-functional team of experts from across Ryder. “That’s one of the main considerations we take. We participate in voluntary security programs sponsored by the U.S. and Mexico to ensure safe transit and provide best practices that U.S. organizations take back to their own operations.”

Whether it’s through sophisticated security systems or simply ensuring that cargo is locked and observed at all times, Bateman says that Ryder is always looking for ways to prevent theft and smuggling. He adds that the network of intra-Mexico trucking partners that Ryder uses is very clear on the security point as well. “We have clear requirements that our trucking partners in Mexico utilize GPS and...
maintain real-time communication with drivers so that they always stay close to their trucks and we can track and trace,” Bateman says.

While security is one of the most important considerations, what about understanding the ever-shifting Customs compliance issues at the border? First, for southbound shippers, you need a Mexican customs broker for all freight imported into Mexico. Northbound, you need a U.S. broker, but you also need to master Mexico’s Customs for exportation.

“In the case of Mexico, they get you both ways—coming and going,” Bateman says. “The process can be frustrating for novice shippers trying to do it on their own. The key is getting a good broker that you can trust.”

A good broker simply knows the ropes in and out of Mexico. For instance, freight moving through Laredo often gets tied up at the long bridge leading out of town en route to the Mexican border. A sophisticated broker knows traffic patterns on the bridge and can schedule moves to coincide with the least amount of congestion.

For a while, truckers used to cross that bridge and head 10 miles into Mexico before they had their paperwork checked. Then this year, suddenly, Mexican officials changed the rules so that all drivers had to have trailer bonds checked at the border before being allowed to go into the interior.

Overall, experts say that change is probably a good thing, as it will ease congestion. However, it’s just one example of how suddenly things can change at the border—quickly and often without much advance notice.

Near-shoring’s role in increased cross-border flow

For nearly two decades, China has been an attractive sourcing location for many manufacturers in global trade. However, there are signs that China’s once attractive labor market is changing, resulting in higher wages for workers that’s further eroding the cost advantage—and tilting the overall manufacturing balance toward Western Hemisphere nations such as Mexico.

According to Ryder’s Sevilla, China has achieved “significant wage inflation,” and it’s likely that the cost of skilled labor in China will be similar to Mexico’s labor rate by 2017. That trend has caused many multinational manufacturers to ask: “Why should I have my goods manufactured in China when the cost advantage is not that significant?”

Enter Mexico. Mexico has similar cost advantages in labor and is just next door to the largest consumer market in the world. Other advantages are faster transportation times in and out of Mexico. A shipper can move freight from Mexico to the U.S. by ocean in 48 hours and by truck in 24 hours—compare that to the two weeks to six weeks it takes to reach the U.S. from Asia via pan-Pacific ocean container carrier routes.

“From what I see happening in Mexico, near-shoring is a real movement,” Sevilla says. “It’s not going crazy yet, but it’s definitely happening and will accelerate when wages in China catch up with wages in Mexico.”

So what are the transportation realities of the near-shoring trend for U.S. shippers? The first, not surprisingly, is cost of freight movement. With the aid of an experienced 3PL and its internal network of like-minded customers, this can be easily managed.

The flow of freight between the U.S. and Mexico is highly imbalanced. That’s easy to digest considering that the U.S. consumer market is currently much larger than Mexico’s. For every three trucks headed northbound from Mexico, one comes back loaded while the other two return empty. In intermodal rail,
5 keys to improving the cross-border logistics challenge

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ne way to create smooth freight flows in and out of Mexico is to create the most efficient transportation network of facilities to reach the entire country in an expeditious manner.

With decades of experience in the automotive and other sectors, Frank Bateman, Ryder’s Director of Customer Logistics for Mexico, says that Ryder does this by analyzing shipper freight flows to come up with best possible design to match service with cost. “We look at the entire network, whether it’s domestic or international, to streamline a network,” he says. “It’s a matter of ensuring the right product gets to the right place at the right time at the lowest possible cost.”

With that in mind, Ryder has developed five keys to overcoming the mounting U.S.-Mexico trade challenges:

1. Map out the flow of your materials. Take the time to step back and look at the big picture in this vital area. Consider creating a value stream map of your material flow from the point of origin to final destination. This might include identifying key milestones, such as when goods arrive at and depart the border.

Defining carrier transit times is vital to success. Going from Mexico to the U.S. on intermodal rail may take 7 days to 10 days, while that same load over the road might take 4 days to 5 days using a single driver—but as little as 3 days using team drivers. Your choice depends on how quickly you need the freight.

Equally as important in this areas is identifying buffer times at the border for customs inspection contingencies. You might need more product on hand than you think. “The cardinal rule is never shut down the plant,” Bateman says.

Keep in mind that if freight doesn’t cross the border by 8 p.m. it’s not crossing at all that day. The earliest will be 7:30 a.m. the next morning, assuming your customs broker has cleared the load. “We found coordination at the bridge between drayman, linehaul driver, and customs broker is key,” Bateman explains. “That’s a critical handoff. It can vary from three hours to three days. You have to build in that additional time.”

Understanding the amount of inbound material you have in the pipeline is vital. “If we’re supporting a plant with an international component, we know the border crossing can take anywhere from two hours to 24 hours, and that it can be completely random,” Sevilla says. “However, we’ve incorporated it with 99 percent confidence in our inbound material flow, something we’ve been doing for 20 years in Mexico.”

Adjusting internal inventories is equally important. “You’re going to find exceptions to every shipment,” Sevilla says. “You need to have them all under control so that you can deliver on time.”

Sevilla adds that it’s worth taking the time to define the roles of the U.S. and Mexican carriers. As you do, don’t forget to consider the border drayage piece of the puzzle. That short five-mile to 10-mile leg of the route can be the weakest link in your supply chain if you don’t monitor it appropriately.

2. Open the lines of communication. Maintain open and constant communications with every supply chain stakeholder. That means meeting regularly with your suppliers, carriers, customs brokers, distribution centers, and production control to define roles and critical handoffs.

Experts suggest exchanging contact information and defining escalation lists for issues, especially for after hours and urgent shipments. Make sure any 3PL partners you engage are knowledgeable, bilingual, and have experience in all three areas—the U.S., Mexico, and the border.

3. Avoid border delays. The biggest obstacle most importers/exporters face is with border crossings. Shippers need to be exacting when choosing customs brokers since they’ll represent you and your supply chain partners to U.S. and Mexico Customs officials. Be sure to work with your customs broker to ensure that the Mexican equivalent of a power of attorney is in place well before your network goes live. Also, make sure to train logistics staff on what documentation to provide and create a pre-established schedule to ensure that no paperwork is forgotten and trailers are never stuck at the border.

4. Use interchange agreements to eliminate border trans-loads. U.S. and Mexican transportation providers are accustomed to working together. Most already have a pre-existing network of interchange agreements in place. It’s important to take the time to validate carriers you’ll use on both sides of the border are authorized to haul each other’s trailers. This way, you can avoid the extra expense of trans-loading freight between Mexican and American trailers.

5. Be vigilant about security. Security remains a critical consideration when doing business with Mexico—particularly for border crossings. There are some steps you can take to prevent security issues from derailing your import/export business.

Bateman and the Ryder team urge shippers to participate in programs sponsored by U.S. and Mexican Customs organizations like Custom-Trade Partnership Against Terrorism (C-TPAT), Free and Secure Trade (FAST), and Nueva Esquema Empresa Certificada (NEEC).

—John D. Schulz, Contributing Editor
it’s even more imbalanced—creating a 10-to-1 north-to-south ratio.

Northbound freight rates are more expensive than southbound. Northbound trucking rates from Monterrey, Mexico, to Laredo, Texas, average $400 per truckload compared with perhaps around $160 southbound. “It really depends on origin and destination,” says Bateman. “Generally, if you can ship southbound, you can get a very competitive rate.”

Shippers must be aware of the costs associated with shipping northbound, which is a far more common scenario. More often than not, carriers will have to cover their deadhead miles southbound, so they’ll include that cost in their northbound-only rate.

According to Bateman, Ryder’s logistics team has the ability to combine northbound freight with loads with similar southbound capacity needs to create a more efficient round-trip, closed-loop of traffic. “We’re able to create backhauls,” he says. “If a customer doesn’t have an existing backhaul then they’re paying a round-trip rate. “When Ryder handles the transportation, we can leverage backhaul opportunities and better manage that expense.”

Importance of the aftermarket network
Once a product reaches the U.S., the logistics manager’s role is hardly over. Servicing the all-important aftermarket network is crucial to a well-run supply chain, according to Dick Jennings, Ryder senior vice president and general manager of supply chain solutions.

“Aftermarket service is not as glamorous as manufacturing, but from a returns perspective it’s extremely vital,” says Jennings. “It’s not as visible as manufacturing. It’s a grind-it-out, day-to-day thing, but if you need a part on Tuesday and it’s not available until Friday, then there is a cost to that.”

So what role do aftermarket services play once manufactured goods reach the U.S.? A vital one that’s often overlooked, experts say. According to Jennings, Ryder emphasizes planning, first and foremost. Manufacturers must have the proper amount of inventory in stock—and “proper” does not always mean “all.” The key is having good data on which parts have the highest value and are often most required by customers. To do that requires having the proper inventory in stock and good data on which parts have the highest value and are most often requested.

To achieve this, adds Jennings, takes much planning. The best way is to create a national aftermarket distribution network. With one such distribution center, it’s possible to reach 35 percent to 40 percent of the U.S. population within 24 hours. With two DCs, you can reach even more. If you get to five DCs you may be able to service 95 percent of customers that will be ordering parts within 24 hours.

Some important points to consider when setting up an aftermarket strategy:
• the closer to the customer, the better;
• cost must be neutral; and
• collaboration is a way to share fixed costs.

So what are the benefits of incorporating aftermarket services into a shipper’s Mexico import/export strategy?
With a significant increase in manufactured goods production projected for Mexico, that’s going to change the ways parts suppliers locate their facilities, experts say. There may be more movement of material moving from Mexico to U.S. in terms of spare parts coming back, or parts could be coming to and from Asia through the West Coast ports on Mexico.

“There is going to be growth of Tier I auto manufacturer suppliers in Mexico by one-third as a direct result of more manufacturing plants being built in Mexico,” Jennings says. “As a result of that growth, you will see more aftermarket activity as well.”

**Best practices in aftermarket strategy**

Collaboration is key in building an aftermarket strategy. Getting several companies involved in a collaboration effort allows them all to get closer to the customer, which is vital to servicing the aftermarket customer. Warehouses and networks developed between two or three companies that deliver similar products from the same vehicle saves time, money, and effort.

Especially in Mexico, where so much manufacturing growth is projected on the periphery of major cities where infrastructure may be less than ideal. “It makes no sense to run three trucks when you can run one in those situations,” Jennings says.

If that collaboration can be managed by a 3PL, then the cost becomes neutral. This collaborative strategy is a result of a new way of thinking in logistics, one that was borne out of the Great Recession of 2008-2009 when it became apparent that logistics organizations had to right-size or die.

“It cannot be disputed that people are interested in what can be done from a collaborative perspective. Twenty years ago, that was completely off the table. Then the recession hit and it was everyone’s goal to right-size their infrastructure and find a way to control fixed costs. One way to do that is through collaborative thinking and planning.”

In short, the idea that everybody has to pay for everything and do everything themselves is old thinking. Collaboration, adds Jennings, is the new normal. “It will be interesting to see how Mexico, with all that increased production coming, will be able to put the infrastructure in to accommodate the projected increase of one-third more manufacturing activity.”

And it’s not just physical infrastructure—the roads and trains. Rather, adds Jennings, it’s the capabilities within certain geographic regions that 3PLs can manage to everyone’s best advantage.

“Because of the size of the plants and the volume of manufacturing that is projected in Mexico, everyone doing this on their own will be paying a heck of a lot more than those who group together,” Jennings says. In short, he adds, those who can design and operate networks collaboratively for the collective good will be the winners. “And we’re on the cusp of doing exactly that.”

—John D. Schulz is a Contributing Editor to Logistics Management

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By Patrick Burnson, Executive Editor

While the U.S. has finally recognized its need to invest in more transportation infrastructure, our cross-border trading partners may be a step ahead of us. This is a good thing, say trade analysts, who note that hemispheric commerce will only become stronger in the coming years. At the same time, shippers will be tracking the progress being made with other trade agreements, especially the Trans-Pacific Partnership (TPP), and keeping an eye on the pending Panama Canal expansion.

Joining us in our annual update of the state of cross-border trade and the continued effectiveness of the North American Free Trade Agreement (NAFTA) are William Nelson, holder of the J. Fred Holly Chair of Excellence and professor of economics at the University of Tennessee’s College of Business Administration; Daniel Griswold, president of the National Association of Foreign-Trade Zones (NAFTZ); and Bryan Riley, a senior international trade policy analyst for the Heritage Foundation.

Logistics Management (LM): If the Trans-Pacific Partnership (TPP) agreement fails to gain approval this year, will U.S. shippers concentrate more of their efforts on near-shoring?

Daniel Griswold: TPP is unlikely to pass in 2014 given the sticky issues still outstanding. Whether it ultimately passes or not, North America will continue to be the center of gravity for U.S. trade. Our trade, energy, and investment ties to Canada and Mexico will remain strong due to proximity and the 20-year success NAFTA has had in integrating our supply chains and product markets.

Bryan Riley: TPP countries will continue to be important trading partners regardless of what happens with negotiations in the near term. In 2013, TPP countries accounted for 43 percent of U.S. goods exports and 38 percent of U.S. imports. Since the turn of the century, trade in goods between people in the U.S. and in our TPP trading partners increased by over 50 percent, and that trend is likely to continue. Even if the TPP agreement fails to gain approval this year, there is a good chance that a mutually beneficial agreement will eventually be reached.
William Nelson: It’s important to keep in mind that the key features of the proposed TPP are the lowering of traditional trade barriers and the standardizing of regulations across participating countries. At its most basic level, it will change the relative prices of goods and services across countries, reducing the relative prices of goods produced all or in part in member countries, and increasing the relative prices of goods produced elsewhere.

The partnership excludes China, and even though much of the attention is devoted to increased access to markets in Japan, another large impact of the partnership comes from raising relative prices of goods whose value chains run through China. For this reason, failure to approve the TPP this year is more likely to have an impact on shipping to and from China than on near-shoring.

LM: What changes in NAFTA pose the greatest opportunities for U.S. shippers?

Riley: One of the greatest opportunities for U.S. shippers is an improvement in rules of origin that allows companies to make better use of global supply chains. New trade agreements may also be open in nature, allowing other countries to join in and thereby greatly expanding shipping opportunities.

Griswold: I’ll add that major changes in NAFTA are unlikely given the success of the agreement in promoting a more robust North American market. The most recent change is that, after 20 years, the U.S. is finally fulfilling its obligations to allow cross-border trucking, which will make North American supply chains more efficient by eliminating unnecessary delays at the Mexican border.
**LM:** Should logistics managers be concerned about any major regulatory or compliance changes coming from Customs?

**Griswold:** I see more opportunity on the upside here as well. Canada and Mexico have both been moving toward lower tariffs on manufacturing inputs, which will make operations in those countries more competitive. In the U.S., new regulations have made the Foreign-Trade Zones program more useful than ever. At the urging of my association, NAFTZ, and others, U.S. Customs is closing in on completing the Automated Commercial Environment, which should eliminate paper transactions across the border in a couple of years. The WTO agreement last year on trade facilitation promises to streamline trade regulation around the world, especially in developing countries.

**LM:** Do U.S. manufacturers have an easier time of monitoring human rights and environmental abuses in NAFTA nations as compared to factories elsewhere in the world?

**Nelson:** Citizens of richer countries tend to demand more human rights protection and environmental protection than citizens of poorer countries. Because production tends to occur in the lower-wage country and consumption in the higher-wage one, consuming countries are more sensitive to issues of human rights and the environment than producing countries.

To protect both brand name and market share, importers must monitor and protect human rights and the environment along the value chain. NAFTA has increased the value of monitoring more than it has lowered the cost, and this leads to more monitoring of human rights and the environment throughout the trade region.

**Riley:** I agree with Bill. In general, expanding international commerce improves both human rights and environmental progress. Since NAFTA took effect, for example, real wages in Mexico have increased while poverty rates in Mexico have declined. According to Yale University’s Environmental Performance Index, which goes back to 2002, Mexico’s air and water quality have improved along with the country’s overall environmental performance.

**Griswold:** That’s correct gentlemen. One of the many benefits of NAFTA has been an upgrading of labor and environmental standards among the three partner nations, especially Mexico. As many of us who supported NAFTA predicted, the agreement has institutionalized reform in Mexico. Its economic policy is more stable, transparent, and business friendly, resulting in a more attractive environment for U.S. manufacturing investment. Since NAFTA was enacted, Mexico has achieved a stable macro-economy and a competitive, multi-party democracy.

**LM:** How does the transportation infrastructure in Canada and Mexico measure up to that of the U.S.? What aspects are better or more likely to improve?

**Riley:** In the original U.S.-Canada FTA and NAFTA negotiations, the U.S. refused to consider changes to the Jones Act, which restricts the use of foreign-built and foreign-owned vessels. Opening U.S. domestic maritime transportation to international competition would improve transportation options. The growth of U.S. domestic energy production may put new pressure on Congress to revisit Jones Act restrictions on maritime commerce.

**Nelson:** That’s a good point, Bryan. Meanwhile, Canada and Mexico are both making strategic investments in transportation infrastructure that will lead to improvements. Canada’s efforts are driven by two factors: a desire to increase access to energy and mineral resources, and a reliance on private/public partnerships to fund improvements. The latter tends to channel funds toward...
the highest-value use, increasing the impact beyond what normal political considerations would dictate.

Mexico has been building infrastructure to increase connectedness, both from ports to the interior and from the south to the north. These improvements have led to dramatic drops in transportation times and delays, making Mexican ports more competitive than they used to be. The U.S., in contrast, is struggling because of deficit issues coupled with a history of federal funding for transportation infrastructure.

**LM: With the Panama Canal expansion moving ahead on schedule, will new trade patterns emerge to threaten NAFTA?**

**Nelson:** Probably not. The Panama Canal expansion will clearly add value to the supply chain, but it has not yet been settled who will capture that added value. If the canal captures it through higher fees, no change in trade patterns will emerge. If they don't raise fees enough to capture all of the added value, then others have opportunities to adjust their charges to capture this value. The players include shippers, ports, inland transporters, and so on. After all price adjustments are made, little room will be left for new trading patterns.

**Griswold:** I agree with Bill, and I don't see any threat to NAFTA or the NAFTA countries from completion of the Panama Canal. In fact, the canal project has spurred investment in port infrastructure in North America, especially along the East and Gulf coasts. More traffic may be routed to the deepwater ports ready for the post-Panamax ships, but I don't see any fundamental change in the competitiveness of North American producers.

**Riley:** Certainly expansion of the Panama Canal will create new trade opportunities, but these opportunities are more likely to complement NAFTA than to threaten it. Canada, Mexico, and the U.S. will all benefit as trade barriers are reduced, whether they are physical trade barriers like canals and ports that are currently too small, or government trade barriers like tariffs and quotas. Other technological changes including the expansion of internet-based commerce will create additional opportunities for global trade.
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