# AGRI INDUSTRIES

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The Prentice/Wilson paper provides an excellent overview of the current transportation environments in Canada, Mexico and the United States. Inconsistent policies between and within countries highlight the transportation discontinuities that must be overcome to provide a seamless transportation network for the North American Free Trade Agreement (NAFTA) trade flows. Clearly, the transportation industry is positioning itself to take advantage of potential traffic growth spawned by NAFTA. For example, the Canadian National Railway (CN) and Illinois Central (IC) recently announced an alliance with the Kansas City Southern Railroad (KCS). These three companies are trying to capture a portion of the 11 to 14 percent North-South freight growth which has been stimulated by NAFTA. Cross-border trade growth under NAFTA was also cited as a possible savior for the downtrodden barge industry and as a rationalization for the recently announced venture between American Commercial Lines (ACL) and the Vectura Group, Inc. (Mathews 1998).

Historically, the transportation industry has had trouble influencing policy-makers' decisions in favor of transportation. Past stigmas have haunted the transportation industry. Typically, truckers are associated with the Teamsters organizations, and railroads cannot seem to shake their monopolistic descriptions. For these reasons, lobbying efforts by the transportation industry are often viewed as self-serving and as an attempt to gain a competitive advantage relative to shippers and/or competing modes of transportation. Consequently, the transportation industry alone will have difficulty influencing the harmonization of policies governing cross border moves. To commercially put pressure on policymakers, carriers should attempt to enroll shippers to help push for a more seamless transportation network.

Agriculture is moving towards a systems approach for production where a system is defined as a vertically-coordinated supply chain from farm inputs to the retail end-user, either through ownership or contractual agreement. Evidence that systems are evolving include:

- Hormel, a well-known U.S. packer, accepting only P.A. III hogs (Smith 1998);
- Farmland, a large U.S. regional coop, not accepting livestock below their quality standards (Smith 1997)[1];

[1]Substandard does not necessarily imply poor quality in this case. Quality is defined by the end-user, and what would appear as poor quality to one may be high quality to another.

- DuPont, a large chemical company, working with Continental Grain Company, a large private grain company, to ship contractually-grown genetically-modified feed grains overseas (Johnson 1998).

While these activities are everyday practice in the manufacturing or service industry, this mentality is a fundamental change in the way agriculture has conducted business for the past 100 years. By not accepting farmer output or contracting for output, these groups are essentially choosing with whom they wish to do business, rather than hanging an "open for business" sign on the door and serving all who pass through.

Carriers able to tailor their programs to work closely with their shippers would become privy to better information related to scheduling and asset utilization. A systems approach to production and transportation should result in a greater percentage of traffic moving under longer—term contracts with volume requirements i.e., in terms of railroads, this means entering into more shuttle train and cycle trains contracts. This type of vertical coordination over a longer period of time has the effect of reducing the transactions costs associated with doing business. Arguably, all modes of transportation operate better in a scheduled environment, providing efficiencies to use as leverage in pressuring for standardization across and within country borders.

From a transportation supply perspective, what are the implications for non-system movements? The barge industry provides a good analogy. Currently, the majority of barges on the upper Mississippi River move under contract. The remaining few are not contracted and they trade in the corresponding spot market. Spot-market barges experience tremendous price volatility, depending on export demand. Like the barge industry, the truck market for transportation services should behave relatively the same way. As more and more trucks come under contract, the market for spot truck freight should become less stable, responding to demand pressures. Contracted truck freight, on the other hand, will remain stable. While the rail car market will not experience tremendous price volatility, due to the stickiness of rates, there will be a trade-off in terms of car supply. General tariff car supply will experience both greater and more numerous rail car shortages and surpluses. While spot truck freight and general tariff rail car markets will become more volatile, these spot markets should become a smaller and smaller portion of the total volume of freight. Unfortunately, most of the agricultural products which will have difficulty conforming to the systems approach will be those heading for export channels.

Issues that need to be addressed in the future are those regarding the importance of international grain trade between Canada, Mexico and the United States. In other words, are the issues local, regional or national in scope? For example, are the problems encountered similar to North and South Dakotas' anger with Canadian wheat imports depressing farmer prices? Or, is Canadian grain crossing the border to Minnesota for barge movement to the Gulf? The scope of the problem will play a large role in determining how much influence the transportation industry and its shippers can exert for the harmonization of border policies. To answer this question,

researchers need to identify the commodity volume being traded and the geographic areas affected by this movement. Once identified, estimates of the potential savings from unimpeded trade between Canada/Mexico/United States can be calculated. Next, researchers need to determine the price impacts on the receiving country, because support for leaving impedances in place will come from the receiving geography. Finally, researchers need to identify the changes required for freer trade and rank them by their respective values to the NAFTA countries involved. The question then becomes, "Who pays for the research? Canada? Mexico? The United States?"

Finally, researchers need to readdress the common carriage (service obligation) issue. Given the court cases on this issue over the past 10 years, what is a meaningful definition of common carriage? Recent deregulation of the transportation industry has placed common carriage in a new light. With carriers able to differentiate rates corresponding to service levels, the common carriage issue needs to be examined within service levels, rather than across service levels. This issue needs to be watched closely, as systems continue to evolve, in order to ensure fair treatment across shippers.

## REFERENCES

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## Section 4

# Institutional Factors Influencing Harmonization and Competitiveness

*The objective of this section is to identify institutional factors, including those related to preserving the environment, which may conflict with trade and policy harmonization initiatives.*