Transcript of Supply Chain Digest Editor Dan Gilmore's Interview on XM Radio Regarding Mexican Trucker Controversy

NAFTA, Near Shoring, and What is Real in the Perceived Driver Shortage

SCDigest Editorial Staff

SCDigest editor Dan Gilmore was recently a guest on Dave Nemo's radio show on XM Radio's "The Open Road Channel" (XM 171) that focused on issues of concern to truckers, regarding the Mexican driver controversy and more. A transcript of that interview is below.

Nemo: You guys have an article from yesterday or maybe the day before yesterday now, it is dated the Sept. 2, about the Mexican truck situation in general. The pilot program plays into this, NAFTA plays into this. What we see now is a new term that I haven't seen before until your publication – "near shoring" – we will talk about that in general terms, maybe even specific terms.

But there is a professor out in Arizona who has a grant, I guess from the federal government to help Mexican truck drivers better operate on U.S. highways. What kind of concerns does that bring up?

Now your article is pretty comprehensive and we are kind of going to go through the article area by area. But you ask some questions at the end which are really good questions and we will kind of get to those questions when we get through the article and bring them up as we go.

So why don't we start from the beginning – do we really have almost a literal Mexican stand off going here?

Gilmore: Well I think so and I think this has clearly been a very controversial issue from the beginning. If you look the cross border trucking provision was actually part of the original NAFTA agreement in 1994 - the free trade agreement between Mexico, Canada, and the United States - and even though many provisions of NAFTA were implemented shortly there after, here we are 13, 14 years later and this trucking provision never really happened.

Even though the pilot program was extended for a couple years a month or so ago, if you are either a Mexican or U.S. carrier are you going to invest much in being part of this pilot program with the court decision looming out there, possible change in administration, etc.?

And why is that? Well certainly it has been very controversial and I think one of the things that has occurred here is that this has become like other things have, it has become a poster child for the whole offshoring, outsourcing debate, the free trade debate, so it has kind of taken on a life of its own.

And now there are some pretty hard lines drawn between some in the current administration in the Department of Transportation who support this measure, and some outside of it as well. Certainly it has overall general business support. Some others on the Democratic side do not support it, as well as others on the more protectionist side. This has become a sort of wedge issue which will be one of those that defines this whole offshoring debate.

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Nemo: You are absolutely right in everything you have just said and of course we have our own version of the Mexican stand off which will be put into full play later this month when Congress gets back. Representative Oberstar and Mary Peters pretty much traded shots now in terms of the pilot program – one tried to preempt the other, then the other came back and preempted the other.

So it is really a mess and one thing that is sitting out there in left field is the 9th circuit court of appeals. They still have this case – didn't they get it in February?

Gilmore: Yes, I think it's been about that long. It's hard to say – I think the reality of it is I can't imagine much of anything is going to happen until after the November election because obviously whatever happens in the next couple months could be altered depending how it goes both at the congressional level, certainly in terms of if the Democrats happen to get a filibuster proof majority - I think that is unlikely to happen but it could - and obviously the presidential election.

At the same time, even though the pilot program was extended for a couple years a month or so ago, if you are either a Mexican or U.S. carrier are you going to invest much in being part of this pilot program with the court decision looming out there, possible change in administration, etc.?

I think everyone is going to sit back and wait and see what happens before much of any action occurs.

Nemo: Yes, the participation has been pretty low on both sides, there is no question. And I guess surprisingly low on the Mexican side, everyone was geared up for a real influx of trucks.

Gilmore: Well again, change always takes time and particularly process changes. If you have

been operating whether a U.S. or a Mexican company, if you have been operating your logistics flows in a certain way for a long period of time, just because the policy changes doesn't mean you are going to change immediately the way you move your freight.

Second I think even the Mexican companies as well are probably going to wait and see how the political winds blow. They are following what is happening down there as well, and are probably a little hesitant when it looked like this pilot program may have been cancelled and all the uproar that surrounded it, so I think they will take a sit back and wait and see.

I think the transportation department was hoping that extending it would relieve some of those anxieties but I don't think it's done a whole lot to ease the concerns about whether it is really going to go forward.

Nemo: Now our audience, of course as you know, is the professional truck driver, the owner/operator or the small fleet owner - the company driver is the major portion of our audience, although we have a number of trucking company executives that listen to the program on a regular basis, and we have government folks that listen to the program.

What I'm saying is anybody who is a stake holder in trucking is part of our audience, so in a sense we

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have to speak to each of those groups separately because they each have a different investment in this.

The truck driver and the small trucking owner/ operator I think rightfully so is very fearful about the American trucking sector going south, literally and figuratively. How does the program that would allow Mexican trucks full access to the entire North American continent, lets say, how does that play against keeping American truckers working?

Gilmore: Well it certainly could, I think there is no question about that. I mean certainly at the independent and small trucking firm level, already they are under tremendous pressure right now as it is. I forget the statistics but I think it was the first quarter that something like 1000 firms with five or more trucks go under.

Nemo: Yes, about 50,000 trucks, by now it could by 60-70,000.

Gilmore: Huge numbers. Clearly the fuel cost, and the independents are certainly the most hurt by that because they are simply not able to recover the fuel charges, I think unfairly frankly, the way that the larger firms can. And you see those record numbers.

Actually at our publication, we get frequent e-mails from independent truckers who see some of the stuff we have done and express their current situation and I think it is very real and very unfortunate. So you have this issue happening on top of other issues that are really putting a lot of pressure there. On the other hand, this is where we have this kind of disconnects, if you will, because there really are some shortages of drivers out there, maybe a little bit ameliorated now with the current economic climate and the reduction of freight movement, but nonetheless I think there is some pretty persuasive evidence that over the next decade or so that driver shortage is going to continue to get worse.

So I think it is not illogical for some to say hey is this an answer, whether it is allowing Mexican trucking firms in or ultimately even allowing Mexican drivers to operate for U.S. companies. Certainly I can understand why if you believe the numbers in terms of the driver shortage we are going to see which is estimated 125,000 or something like that over the next 10 years that maybe some people would be looking at this for an answer.

Nemo: That is one of the big misconceptions we try to iron out here on the program periodically in terms of the verbiage here you say driver shortage but then someone will call up and say "we are waiting for freight, there is no driver shortage."

But again, that is extrapolating numbers out 10 years with the growing economy, with the age and attrition rate of the current truck drivers, and the current median age of trucking school graduates is not in their 20s, they are actually in their late 30s. I think 38 is actually the median age of trucking school graduates right now.

So, we have an older population, older people are actually entering the industry. Are we looking 10 years down the line or even further?

Gilmore: I think that is a great point. If you look at the study, the one ATA commissioned from Global Insights, if you look at that study, the math

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looks impressive and they are good economists, but as always the math is dependent on the underlying assumptions, and are those underlying assumptions good? Well, that is probably a matter for debate.

I think another thing going on now, obviously in the slower economy we just don't have the freight moving that we did 3 years ago, and also the fact that the primary alternative career path, is the construction industry. And as we know, the construction industry, the home building industry in the U.S., is in tatters.

I am not surprised, given that, first of all the wage discrepancy between construction and trucking is probably declining, and second there are not a lot of construction jobs out there available today, so it is not at all surprising to me that a lot of those folks are looking at a career in trucking.

Nemo: One of the other things the article in Supply Chain Digest defines and kind of explains, this new term, and it's a new term to me, I hadn't seen it since your publication Dan, it's called "near shoring."

Near shoring – Dan, who made that word up? Did you make that word up?

Gilmore: No, I didn't it is certainly a term that you will find out there. You hear that offshoring has been the big thing and most of that has been movement of manufacturing operations in the U.S. and Europe to China and other parts of Asia.

Near-shoring means that I am still outsourcing the work, but rather than putting all that time and distance into my supply chain let's say to China, that I am going to be looking to do it closer to home.

And for the U.S., Mexico is certainly a primary site, and some of the Latin American countries

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as well can be considered there. But the idea is to get some of the benefits of traditional offshoring but to be able to operate a supply chain more close to a domestic model by leveraging opportunities in Mexico. And given to a lot of uncertainty about China and very rapidly rising wage rates there, I think you are going to start to see and already are starting to see a trend towards near shoring of more companies looking at Mexico as a production source.

Nemo: Who'd have thunk this? You know when you look at this scenario, it's not comical, but you couldn't make this up. Two years ago if you would have told that guy in China who is saving up for his first car in the history of the family that he was going to lose his job to a lower paid guy in Mexico. It's like, "Holy cow you again could almost not make this up."

Gilmore: Yea and think when you started to, your primary competitive advantage is your labor rate, you are certainly then hostage to it, and if inflation starts to take off, to losing your position. You already see a lot of companies doing what is called labor arbitrage, where they are moving from the eastern regions of China, Shanghai, etc., further inland in China chasing the lower labor rates as wages in the eastern part start to increase.

The natural evolution is eventually that doesn't make any sense and companies will try to move production some other place. Some industries like

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apparel are already looking at Vietnam and other countries in Asia that are still lower cost. Particularly for durable products, like automotives and televisions, they already have substantial presence in Mexico, but I think you will see other industries take a look there as well and if Mexico could ever get its infrastructure together, I think the movement could be very rapid.

Nemo: Now let's separate the business from transportation, because the business community has a stake in this because obviously they want more stuff cheaper, quicker, with less hassle. I think that is pretty much the operating principle there – have I filled in all those blanks pretty much?

Gilmore: I think so – there is just tremendous cost pressure on companies with globalization and whether we like it or not they are looking to squeeze out every penny they can.

Nemo: The cost of the handoff at the border is pretty astronomical if you look at it truck by truck. In your article you quote maybe $100-150 per load – that is a lot of money.

Gilmore: Yes, it certainly can add up, and any time you have a handoff in the supply chain regardless of where it is, straight movement from point A to point B is pretty predictable and not subject to variability. Anytime you have a handoff you add another element of variability in there so there is the cost element and the logistics complexity that is added there.

So from a pure supply chain perspective, would it be beneficial for one carrier to be able to move the stuff from a plant in Mexico to a distribution center in St. Louis? It sure should, that is just looking at it from a supply chain and logistics perspective, but I realize there are a whole bunch of other factors.

Nemo: If you take a look at this on paper, and

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you take a look at the theory behind the NAFTA super highway, a highway straight from the ports of Mexico straight to delivery points as far north as heck, even Alaska, theoretically. But certainly all through Canada and all through the United States – you've got the Canamex, the so-called Texas corridor, I-69 now is going to be completed in southern Indiana, and that is one of the links that will be part of the NAFTA super highway - the NAFTA super highway not being one stretch of road, one lane but a network and a grid. How far out of this game is the American truck driver?

Gilmore: Well I think it will be a long time. This process, there are other issues – obviously there are a lot of issues companies need to think about in moving to Mexico. There is a lot of corruption down there; their logistics infrastructure isn't very good, getting across the boarder is a big hassle.

But if they were smart, from a competitive perspective they would work on solving those problems. It is going to take a lot of time. I think if the percentage in terms of total freight moved I think within the country, even if we allowed all that to happen, I still think for many, many years would still be a pretty small percentage. Now the question is on the margin, what does that do to the supply-demand

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issue for American trucking firms and drivers? I don't know that anyone had looked into that in detail.

I do know, it always amazed me the disconnect between the fact that if you do believe the driver shortage numbers, in most markets when you have that kind of shortage, the demand side of things raises wages until you close the gap. And for whatever reason, the trucking industry seems particularly resistant to that sort of closing of the vacuum in terms of higher wages for drivers.

So anything that adds more supply to the market certainly is going to have a negative effect on drivers for sure and in some cases the demand for American based trucking firms. Generally, I wouldn't overestimate the impact in the short term, but I think over time certainly I think it could have a pretty significant impact if it looked out over the next decade.

Nemo: Trucking in this country – you've been in your area for a number of years and so have I, and I started my trucking radio career at the onset of the genre back in the early 70s, so I've seen trucking change quite a bit in terms of what it means to be a truck driver. Back in those days in the early 70s and maybe onto the mid 80s or so, we were still seeing the traditional truck driver out for weeks if not months at a time, well I don't want to go overboard but certainly it was weeks opposed to days.

One of the things we are seeing now, and this started happening in the early 80s, and correct me if you don't parallel this in your own observations - around the end of the 80s, early 90s we saw a change in tone among people coming into trucking and people who had been in there for a long time who said I just want to go home and want to be home more often. Most of your recruiters will promise some level of home time. Trucking in this country has become more and more regional, more and more hand off, more and more home time oriented. What I am trying to say is maybe that will be the saving grace for the American industry in that they won't be doing the long haul and they will have a different niche.

Gilmore: Certainly lifestyle issues are huge and as our country and economy continue to advance, it's no surprise obviously that workers in industry overall and trucking manifestly so are looking for a better quality of life.

Certainly a huge percentage of the long haul drivers, the truck load carrier drivers that are lost, they are not necessarily leaving the industry. They are going to the LTL industry because that typically offers a better lifestyle for them.

In some cases too you see some companies going to private or dedicated fleets because they can promise some of those same lifestyle improvements. So it is a tough job obviously, and from the days you talked about a couple decades ago to now, there are certainly some improvements, but still a long way to go. Most of us get to go home at night but obviously truckers don't in many cases. I think if you could solve that problem in a realistic way would a lot more people enter the field? I think absolutely and I think that is the challenge for the industry.

Nemo: It is, and maybe that is a challenge you and I could pick up on another day. I'd certainly love to have you back on the program in the near future Dan.