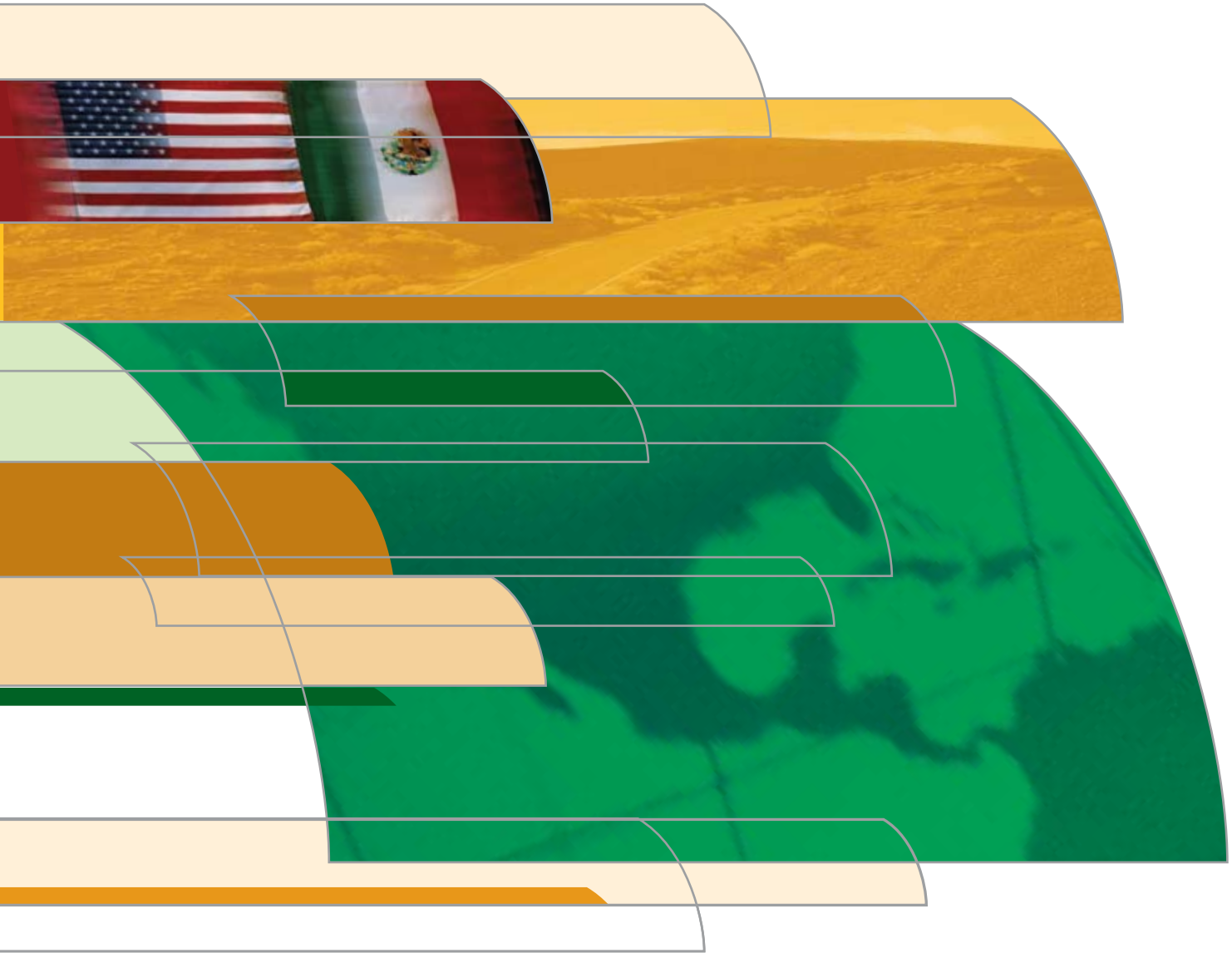




Base Rates for the
Mexican Marketplace



OVERVIEW

In the years following the inception of the North American Free Trade Agreement (NAFTA), many domestic trucking companies have expanded their reach beyond the U.S. borders to conduct business within Canada and Mexico. International truck traffic between the U.S. and Canada has been running smoothly for years, mostly due to governmental initiatives that have promoted commerce between the two countries. For many trucking companies and their shipper-customers, however, business conducted with Mexico has continued to be impacted by the legal and operational differences between the two countries.

These differences have historically prevented a true, seamless transfer of goods between the two countries. Even so, the Foreign Trade Division of the U.S. Census Bureau reported that from 1994 – 2005, trade between the U.S. and Mexico has nearly tripled. As of year-end 2005, U.S.-Mexico trade accounted for roughly \$290 billion annually, up from \$100 billion in 1994. (See figure 1.)

Currently, more than 85 percent of the cross-border traffic between the U.S. and Mexico is made up of motor carriers. The shipments these carriers haul are mostly in truckload quantities. Less-than-truckload (LTL) traffic is a growing sector of freight movement that is expected to increase as NAFTA eases the import/export process between the two countries.

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Much of the LTL freight that moves in and out of Mexico moves under interline agreements between U.S. and Mexican carriers. For example, goods coming into Mexico from the U.S. will be transported to a border point by a U.S. carrier and then transferred to a customs broker who will handle customs and carry the shipment across the border. Then, the broker will transfer the shipment to a Mexican carrier to be transported to the destination within Mexico.

THE VALUE OF BENCHMARK PRICING IN MEXICO

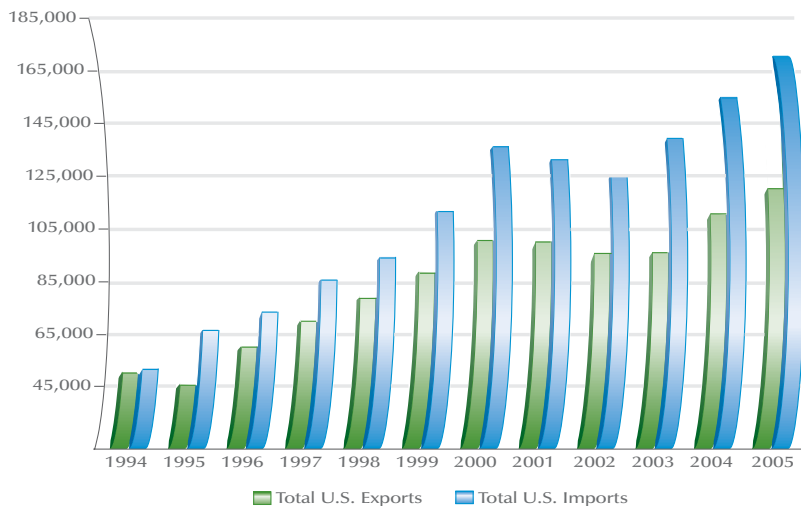
With no formal base rate system applied to U.S.-Mexico traffic and a border that extends approximately 2000 miles, U.S. shippers have found it difficult to determine the actual freight charges for LTL shipments to and from Mexico. Likewise, U.S. carriers have had to arrange individual pricing agreements with their Mexican partners, and often have had to maintain multiple rate scales based in large part on the location of delivery and the individual requirements of their Mexican partner.

SMC³ recognized this problem within the LTL community and responded by establishing a baseline of Mexican rates to be used in conjunction with its CzarLite[®] product. CzarLite, a sophisticated LTL pricing system, contains base rates that are already well established for shipments traveling throughout the U.S. and between the U.S. and Canada. Based on extensive market research, the required rates were constructed for pricing shipments between the U.S. and Mexico, as well as Canada and Mexico.

This system of standardized base pricing information for shipments to and from Mexico supports the macroeconomic issues of regional pricing without succumbing to the micro operating and marketing issues of any individual carrier, whether that carrier is based in the U.S., Canada or Mexico.

The uniform base rate allows shippers to conduct business predictably in Mexico, like they do within the U.S., because pricing is simplified for a better

Figure 1: U.S. Trade Balance with Mexico, 1994–2005, in millions of dollars. Data source: U.S. Census Bureau, Foreign Trade Division.



understanding of the actual transportation charges. Furthermore, these baseline rates allow those who purchase transportation services to standardize several critical areas of their business operations, including accounting functions, computer systems and purchasing agreements – offering truly competitive rates to their customers and creating economic value in terms of increased productivity and efficiency.

THE DEVELOPMENT OF CZARLITE RATES FOR MEXICO

SMC³ developed its "south of the border" CzarLite rates by adding Mexican rates to the standard CzarLite U.S. rates. That is, a shipment between any U.S. point and a Mexican border crossing point continues to move under the standard, established CzarLite rates, while the distance from the border crossing point to the Mexican destination determines an applicable rate for the Mexican portion of the move. The structural characteristics of these "Mexican" rates are identical to CzarLite's southern U.S. rates.

The CzarLite rate derived from the U.S. portion of the move is added to the distance-derived rate from the Mexican portion of the move. This combination (through) rate is then used to rate the shipment. The carrier applies their discount to the through rate, which allows one overall level of discount to apply to the U.S.-Mexico shipment.

While the pricing is actually developed in two segments, the shipper-customer only sees a "door-to-door" rate; when a shipment is rated, the shipper is presented the through base rate, less the applicable discount. This approach is typical of the CzarLite rating methodology and fulfills the requirements for a borderless baseline pricing system.

Trucking companies base their routing decisions on geographical relationships between manufacturing facilities, major highways and border entry points. There are 25 commercial entry points along the U.S.-Mexico border, but 91 percent of the shipments crossing the border move through just seven of those points. Based on traffic flow statistics and the junction points of the U.S. and Mexico highway systems, SMC³ identified the four

Figure 2: The border crossing point to be used from the different regions of the U.S. was developed by a study of distance and highway accessibility of each border crossing point from each U.S. region.

U S A			M E X I C O		
State	City	Zip	State	City	Postal Code
CA	San Ysidro	92101	BCN	Tijuana	22000
AZ	Nogales	85621	SON	Nogales	84000
TX	El Paso	77910	CHIH	Juarez	32000
TX	Laredo	78041	TAMPS	Nuevo Laredo	88000

U.S.-Mexico border crossing points with the highest amount of commercial traffic. (See figure 2.)

CzarLite rates in Canada and the U.S. are accessed via postal codes down to the five-digit level. Mexico's postal codes operate in a similar manner; however, due to the differences in the Mexican transportation system, Mexican rates are typically limited to the major population centers in Mexico and local transportation companies are the main providers of delivery service to smaller townships.

SMC³ provides rates to over 600 points within Mexico. The methodology used for rate development is based upon the point-to-point rate system used in Mexico today. This point-to-point rate system, coupled with U.S. CzarLite rates and presented as a through rate, provides a seamless rating system that is easy for both the U.S. and Mexican carrier to understand.

THE EASE OF IMPLEMENTATION

SMC³ has created four products that combine CzarLite rates with the new Mexican rates:

- MexicoLite™ – For shipments between the U.S. and Mexico.
- CzarLite International Mexico – For shipments within the U.S. and between the U.S. and Mexico.
- CzarLite International Plus – For shipments within the U.S., between the U.S. and Mexico, between the U.S. and Canada, and between Canada and Mexico.
- CzarLite International Canada-Mexico – For shipments between Canada and Mexico.

These baseline rates allow those who purchase transportation services to standardize several critical areas of their business operations, including accounting functions, computer systems and purchasing agreements

These pricing systems are configured to meet the needs of both English- and Spanish-speaking users, and include English and Spanish language versions that can be used interchangeably



Figure 3: This map of Canada, the U.S. and Mexico reflects possible shipping scenarios with SMC³'s CzarLite International Plus product. Each shipment moves into or out of Mexico through one of the four border crossing points, as determined by the shipment's origin and destination points. Shipments that are equidistant within Mexico (irrespective of origin or destination) will be rated equally. For example, a shipment from Salt Lake City to Durango and a shipment from Winnipeg to Durango will both enter Mexico through the El Paso/Juarez border crossing point and then share the same destination, making the rate for the Mexican portion of the shipment equal.

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These pricing systems are configured to meet the needs of both English- and Spanish-speaking users, and include English and Spanish language versions that can be used interchangeably. These systems also take the metric system into account, providing the ability to enter shipment weights in kilograms or pounds. Applicable

taxes and insurance rates can also be entered into the total charges.

CzarLite's ability to support all major technology platforms, as well as many popular transportation software applications, provides transportation professionals, shippers,

third party intermediaries and carriers with access to a single and uncomplicated baseline of rates from which to conduct business. Thus, it is a readily available and useful tool that can be utilized by the entire transportation community in negotiating carrier rates, motor carrier agreements and service locations.

S U M M A R Y

Over the last 20 years, CzarLite has become the basis for thousands of LTL contracts that annually account for over \$15 billion in managed transportation. CzarLite pricing products are licensed to hundreds of carriers, including all 50 of the largest national, multi-regional and regional LTL carriers. In addition, over 1200 shippers use CzarLite as their LTL negotiating base.

With the NAFTA agreement allowing U.S. carriers to move freight into Mexico and Mexican carriers to move freight into the U.S., coupled with the increasing traffic of U.S. carriers interchanging freight with Mexican carriers, there is a need for a common baseline of rates for shipments moving in and out of Mexico.

Carriers and shippers who use CzarLite today for their shipments within and between the U.S. and Canada will find that SMC³'s Mexican rates are a natural addition to their systems, creating true economic transparency in their North American shipping lanes.

A B O U T S M C ³

SMC³ provides data, technology and education as an integrated solution to the freight transportation community. We deliver our transportation pricing expertise through data services and technology tools that simplify processes and promote collaboration between shippers, carriers and logistics service providers. We also partner with leading transportation software developers for complete interoperability between our solutions and their technology systems.

SMC³'s involvement in LTL pricing centers on the establishment of base rates as a benchmark for carrier-shipper negotiations (e.g., the CzarLite[®] and SMC³ tariffs) and the dissemination of this data through modern information technology. Specialized research initiatives and feedback from industry interest groups, as well as SMC³'s internal pricing expertise, contribute to the company's ability to deliver superior data and technology tools to the marketplace.

In addition to our broad range of data services and technology offerings, we regularly offer educational programs that focus on key industry issues and advanced learning. These well-attended events are noted for their content, speakers and networking opportunities. For more information, go to www.smc3.com.

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