



Oh Canada

Purolator continues to enjoy success in the Canadian-U.S. freight business.

BY JON ROSS

John Costanzo, president of New York-based freight forwarder Purolator International — the U.S. arm of the Canadian integrator — knows the company's extensive Canadian network is key to its success.

According to Costanzo, the company will see about a 20 percent increase in total volumes during 2014. That result mirrors what occurred in 2013, and he's fairly confident it is a trend that will keep repeating itself. The key, he said, is the growth of U.S. exports into Canada, and Purolator's dominance in the market.

This stature comes not only from being

a good forwarder, but from having a wide-ranging presence in Canada with plenty of room to grow. If Purolator's Canadian presence wasn't a factor, he said, "we'd just be another freight forwarder trying to persuade people that we're nicer people to deal with."

He noted that on the small package side, Purolator is a direct competitor with FedEx and UPS in the U.S. and Canadian markets. The two large integrators are the biggest competition on the less-than-truckload side too, but there are other players as well.

"We have a phenomenal network," he continued, "and that enables us to stand

toe-to-toe with two of the world's leading providers of global logistics in their home market." Costanzo added that even Purolator's competitors would recognize the superior position the company has in Canada.

Through October 2014, total U.S. exports to Canada topped \$4.2 billion, down slightly from 2013's 10-month total of \$4.6 billion, according to the U.S. Census Bureau. In fact, U.S. trade to Canada has seen a decline since the same period in 2011, when total exports came to \$5.2 billion.

Most of Purolator's exports into Canada consist of small package volumes, but Costanzo said the forwarding and less-than-truckload service requirements are growing. Also, Purolator recently unveiled a hybrid courier-and-mail service aimed at taking a chunk of the growing e-commerce market.

Purolator is looking to expand its intermodal offerings — Costanzo sees intermodal as the next significant growth opportunity in logistics — but this activity mostly deals with exports from Asia, Europe and Mexico into Canada. Once goods hit the country's ports, they are linked with Purolator's expanding LTL network. As far as U.S.-Canadian flows, it's mostly ground with occasional air.

"Most business from the states is focused on driving expedited air and ground services," he said. "We've got a lot of runway in terms of market share to gain, so we're going to stay focused on that for the next several years."

With so much groundwork, Costanzo said Purolator was affected by the weather issues that impacted carriers large and small in 2013 and early 2014. Employees in Canada and the United States worked during the last half of 2014 to prepare for whatever weather issues crop up this winter. Costanzo said the weather was a significant issue, but the fact that an e-commerce boom occurred right in the middle of it only made matters worse. To make sure it's prepared, Purolator has added Canadian drivers, examined how to better move products across its network, and looked at how to change schedules to avoid possible backups.

U.S. Exports to Canada

2010		2011		2012		2013		2014	
Quantity	FOB Value	Quantity	FOB Value	Quantity	FOB Value	Quantity	FOB Value	Quantity	FOB Value
31,468,791	4,360,749,696	27,147,107	5,201,246,394	27,399,547	5,145,788,898	24,765,022	4,640,864,856	24,200,824	4,225,044,688

Notes: Years are Jan. - Oct.

FOB value is in U.S. dollars.

Quantity is in metric tons.

Source: U.S. Census Bureau via Datamyne.

"But frankly, when you've got roads in northern Canada or the middle of the country, it's hard to do much about that," he said. "You've got to deal with what happens."

There's not really anything in the current market that concerns him or stands out as a major issue that would impact shippers, he said. One thing that Costanzo keeps on his radar, he said, is terrorism and the likelihood that another attack on the United States or Canada could shut down the borders.

There are really no major issues regarding regulatory impediments on either side of the border, he said. Both the United States and Canada are sending around \$300 billion in exports to the other country, he said, and neither government wants to jeopardize the free flow of goods.

"The U.S. and Canada do a very good job of not only harmonizing product codes but also regulatory regimes," he said. "They work very closely between Washington and Ottawa to make sure they're not slowing down the flow because we both depend on trade so much."

However Canada has recently sparred with the United States in the World Trade Organization over implementation of the U.S. country of origin labeling for beef and pork.

A WTO panel on Oct. 20 sided with Canada and Mexico in the dispute. The global trade body also ruled on June 29, 2012, that the United States' COOL unfairly discriminated against Canada and Mexico because it gave less favorable treatment to beef and pork imported from those countries than to U.S. meat; it said the United States had until May 23, 2013, to bring its COOL measure on livestock imports from Canada and Mexico into compliance with its WTO obligations. Canada and Mexico then challenged the revised U.S. COOL rules for livestock in the WTO.

However, the United States had the option to file an appeal with the WTO after the Oct. 20 panel decision, which it did on Nov. 28. The WTO Appellate Body has up to three months to conclude its report.

"The governments of Mexico and Canada, which brought the case to the WTO, would be authorized to retaliate against the U.S. by imposing tariffs on U.S. manufactured goods and agricultural products in the event of a final WTO adjudication on the matter, which is expected in the second half of 2015," a group of more than 100 trade association and companies, calling itself the COOL Reform Coalition, warned in a recent letter to U.S. lawmakers. Retaliatory tariffs against a range of U.S. exports to these two countries could reach as much as \$2 billion.

Costanzo noted the Beyond the Border Initiative and other regulatory programs remain important for the United States and Canada as far as the countries' "ability to compete with Asia and other markets that are fighting for manufacturing and business."

This isn't a major concern, he said, but exporters shipping goods into Canada should be cognizant of border infrastructure. Big border crossings in Michigan, Washington and New York always need to be watched because they are the hot border crossings, he said.

"If volume continues to grow, the main thing is that we keep up with the infrastructure at the border. The border crossings need to be able to handle that growth in volume," he said.

Also, new market players have to keep in mind that even though there aren't many regulatory barriers between the two countries, Canada does have its own laws and regulations.

"It isn't the 51st state; it's another country," he said. "As closely as our governments work together to make that border seamless, you still have to comply with the regulatory regime of a different country."

Costanzo is also keeping an eye on the driver-shortage issue, which is currently

tightening up labor and pricing. But he added Purolator is well positioned in Canada because of its regional network of own-asset trucks.

In the United States, Purolator contracts out trucking work, so he's seeing higher rates in the U.S. market than in Canada because of the lack of drivers. To make sure Purolator customers' goods are moved, he said the company makes sure it's a good partner with contracted trucking companies.

"We have to understand their problems, and try to work with them," he said. The U.S. Transportation Department's new hours-of-service regulations are squeezing carriers that contract with Purolator to move goods from the southern United States, for example.

Ultimately, Costanzo said, the driver shortage and other pressures will force companies to start thinking more regionally and shrink the scope of their supply chains. This will make companies not as dependent on long-haul drivers. This will be coupled, he said, with more use of intermodal and rail transportation.

"Beyond that, we're all probably going to be paying a little more for trucking services," he said. ■

