



## Mexico Shipments Made Simple

Third-party logistics providers help streamline  
the U.S. – Mexico cross-border process

## Introduction

With the cost of manufacturing rising in Asia, many companies are turning to Mexico as they re-think their supply chain strategies. Today's shippers are sending more freight across the Mexico border as they expand their operations and customer base in Mexico. Third-party logistics providers can help them navigate cross-border challenges.

## Contents

Mexico is the new land of opportunity / 3

3PLs help navigate cross-border challenges / 4

Finding the right service provider / 6

Managing the border crossing process / 7

# Mexico is the new land of opportunity

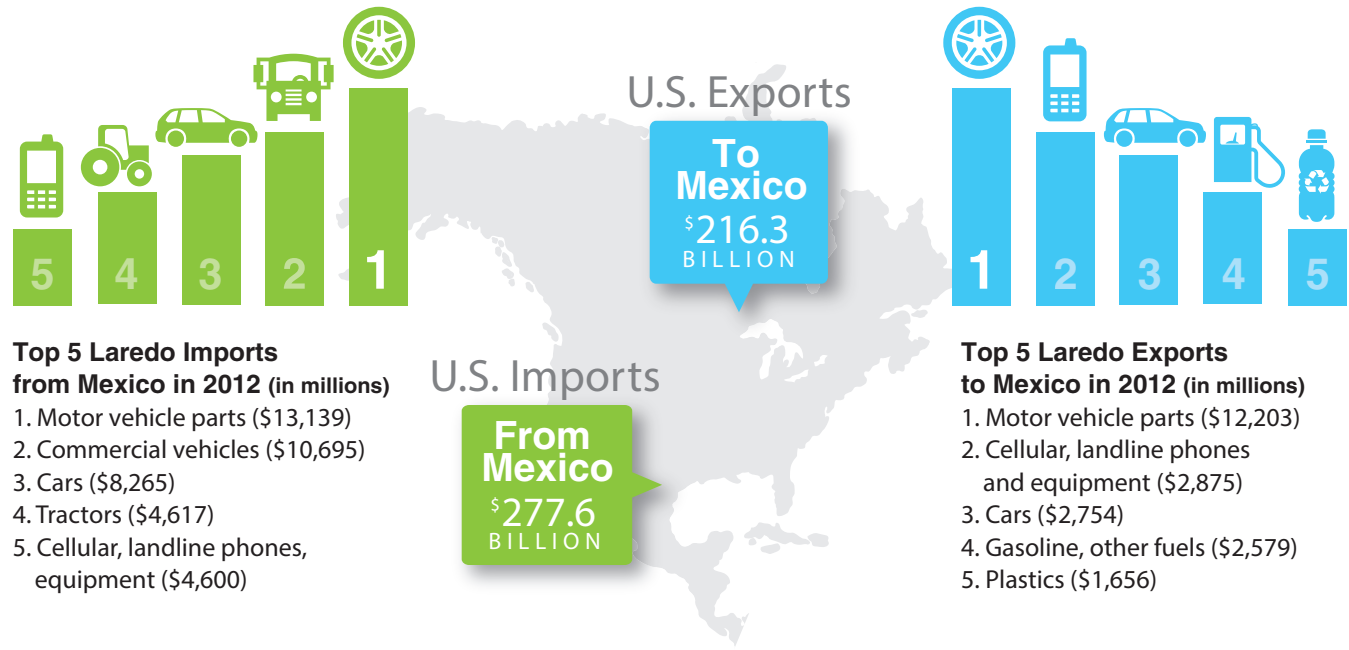
For more than a decade, Asia has been one of the world’s most cost-effective manufacturing regions. However, as the cost of production in Asia continues to rise, particularly in China, coupled with the long lead times associated with Transpacific ocean freight, businesses are setting their sights on Mexico as they rethink their global supply chain strategies. A growing number of U.S. firms are turning to near shoring — the shifting of production from Asia to Mexico — to reduce overall costs and improve supply chain responsiveness.

Mexico has become a viable manufacturing alternative as many of the financial benefits that were once exclusive to Asia, including cheap labor, tax incentives, currency stability and low inventory carrying costs, have started to disappear. For example, China’s labor costs have significantly increased in recent years, with minimum wage rates increasing 15 to 20 percent annually, and that trend is expected to continue.

With transportation making up a significant share of operating expenditures, more companies are carefully evaluating the total landed cost differential between sourcing from Asia or Mexico. The dramatically shorter length-of-haul combined with the volatility of fuel prices in recent years makes near shoring a compelling alternative to maintain — and even improve — operating margin.

And of course, shorter length-of-haul means shorter lead times. Reducing transit times from weeks down to days means that shippers can reduce safety stock levels, enjoy lower inventory handling costs and free up precious working capital. The near sourcing model gives shippers more robust options to respond to their customer demands and meet strict service requirements, without adding expensive network inventory.

These cost and time savings offset the higher cost of Mexico’s labor, which, unlike China, has remained stable. Due in large part to China’s double-digit wage increase in recent years, Mexico workers earned only 1.5 times as much as their Chinese counterparts in 2010, according to the Boston Consulting Group (BCG). The BCG estimates that by 2015, the fully loaded cost (including benefits, taxes and indirect costs) of hiring Chinese workers may be as much as 25 percent higher than hiring Mexico workers.



Other factors that impact costs include recent changes to China's Value Added Tax (VAT), which has increased the overall VAT burden on international air and sea transportation providers, who typically pass those costs on to their customers.

Mexico is stepping up efforts to accommodate recent business growth by heavily investing in its infrastructure to increase cross-border trade. In recent years, the country has launched a National Infrastructure Program that facilitated many improvements to its roadways, railways, airports and seaports, and its supply of modern warehousing facilities has improved dramatically, making it easier to conduct business south of the border.



**The result:** Mexico is poised to become a global economic leader over the next couple of decades, creating a need to better manage cross-border shipments more effectively and cost efficiently.

## Why Near Shore?

One of the benefits of near shoring is getting closer to the customer. That translates into significant transportation cost savings, among other advantages:

- **Faster speed to market** Reduces transit times and enables manufacturers to respond more rapidly to fluctuating consumer demand.
- **Flexibility** Gives manufacturers the ability to postpone final product configuration and bring the sales cycle

to a point closer to consumption.

- **Better communication** Similar time zones and holidays make it easier to communicate, and Mexico's proximity to the U.S. makes it faster and less costly to meet face-to-face with customers. Plus, many workers on both sides of the border speak English and Spanish, so there's less of a language barrier than with Asian manufacturers.
- **Fewer supply chain disruptions**

A shorter supply chain favorably impacts transportation and handling.

- **Less inventory** A shorter lead time reduces the amount of inventory held in storage.
- **Less environmental impact** Reducing transit distance creates a greener supply chain, and enables customers to know where their product is sourced for safety as well as environmental reasons.

## 3PLs help navigate cross-border challenges

Today's shippers are sending more freight across the border as they expand their operations and customer base in Mexico. There are many ways to get products to and from Mexico, whether by truck, rail, ocean or air, with about 80 percent of merchandise entering via truck. Working across borders is a challenge and shippers need to understand the risks involved.

Third-party logistics (3PL) providers can help manage those risks and greatly simplify the cross-border process, which is more complicated than domestic transport. Shipping freight to Mexico requires additional steps to ensure that the cargo is handled properly and delivered safely. A 3PL with expertise in this area can bring attention to detail, knowledge and experience to prevent errors, fees and unnecessary delays. For example, dealing with customs requirements can be a huge stumbling block — both the U.S. and Mexico Customs have strict requirements — so an experienced 3PL can help ensure that all of the proper documentation is included with a shipment, as well as help clear it through customs.

Third-party logistics providers can also help shippers manage the additional time and planning it takes to cross the border. Shipping involves multiple steps (see Managing the Border-Crossing Process chart, page 7) and weighing, load inspection and document review are time consuming. In addition, the surge of U.S.-Mexico trade is creating traffic delays at the border — wait times can take more than five hours during peak crossing time. These extended wait periods also make truck scheduling less predictable.

## The Port of Laredo Gateway to Mexico

For many shippers, the Port of Laredo serves as the point of entry to and from Mexico. Laredo is the largest inland port along the U.S.–Mexico border, crossing more than \$239 billion in imports and exports in 2012. Last year, Laredo handled more than 41 percent of U.S.–Mexico trade on the U.S. southern border. It was ranked fourth in U.S. dollar value both in global exports and imports processed amongst all U.S. ports of entry.

Source: Chamber of Commerce, Laredo, TX.



### Laredo by the numbers...



**\$239 billion**  
in imports and exports via truck and rail each year.



**15 miles**  
from the border sit most industrial parks and logistical centers.



**8,000+ trucks**  
(on average) cross the World Trade and Columbia Bridges daily.



**500,000+ rail car**  
crossings each year, hitting a new historic high in 2012.

One way to speed up the border crossing — as well as ensure cargo security — is to partner with a 3PL that is a member of Customs-Trade Partnership Against Terrorism (C-TPAT). C-TPAT is a voluntary initiative created by the U.S. Customs and Border Protection (CBP) designed to strengthen the security of U.S. borders, as well as the security of the overall supply chain.

Access to Free and Secure Trade (FAST) commercial vehicle lanes at the border is available if all of the parties involved in the shipment are C-TPAT-certified, including the Mexico shipper, carrier, drayage provider and U.S. importer. In addition, the Mexico driver must be FAST certified. The FAST program allows access to dedicated lanes for greater speed and efficiency in the processing of trans-border shipments, resulting in reduced delays at the border. FAST members may receive priority processing during CBP inspections.

Third-party logistics providers can also ensure that there is adequate liability insurance throughout the shipment's journey. U.S. cargo insurance is not valid in Mexico, even if the carrier selected has the authority to operate in both the U.S. and Mexico. To obtain cargo insurance in Mexico, it must be purchased from either the carrier (specifically for the Mexico line haul) or from a Mexico insurance company or broker.



**The take away:** Crossing the border is complicated. Working with a C-TPAT- certified 3PL that has a security procedure in place can streamline the process, eliminate costly errors and ensure the safety of the shipments.

## FTZ, Bonded Warehouses at the Border Crossing Offer Advantages

At the U.S.-Mexico border crossing, there is a huge demand for Foreign Trade Zones (FTZ) and bonded warehouses. These facilities enable companies to defer paying duties at the time goods are imported into the U.S.

Bonded warehouses are secure private, facilities that are under U.S. Customs supervision. Product can be stored duty free until it is withdrawn, at which time the requisite duties must be paid. This is a good option for companies that import products subject to a very high duty rate

as they could defer the total payment until they withdraw the product. However, product cannot undergo further manufacturing in a bonded warehouse.

FTZs are also private, secure facilities, but they are not considered part of the U.S. Customs territory. Shipments that go directly into an FTZ are not considered to be entered into the U.S. stream of commerce. Unlike a bonded warehouse, no Customs entry is filed. But similar to a bonded warehouse, no duties are paid until the goods are taken

out of the FTZ and entered into the U.S. for consumption.

FTZs provide companies with more flexibility in regard to the products stored in the zone. The goods can be used in manufacturing so companies can import components, pay no duty on them and then manufacture an end or subassembled product.

When withdrawn from the FTZ, the company can pay the duty rate applicable to the end product, with no duty applicable to the individual foreign components.

## Finding the right service provider

If you're shipping goods across the Mexico border, select a third-party logistics provider that has the skill, experience and knowledge to handle every aspect of the move.

### Here are tips for choosing the right partner:



#### Local representation

Look for 3PLs that have both U.S.- and Mexico-based operations and existing local partnerships that can streamline the border-crossing process. An experienced staff that speaks both English and Spanish keeps the communication flowing.



#### Warehouse services

Not all 3PLs have a warehouse at the border. A well located, secure warehouse offers many advantages for shippers.



#### FTZ and bonded warehouses

To defer paying duties at the time goods are imported into the U.S., look for a provider that offers a bonded warehouse and/or a Foreign Trade Zone (FTZ) within its facility that is proximate to an active border crossing.



#### Multi-modal capacity

Work with a 3PL that has flexible, multi-modal transportation options, including trucking, air, rail and ocean services, and experience with reliable carriers in the U.S. and Mexico. The best providers can leverage their network to ensure competitive rates and available capacity.



#### Insurance

Make sure the 3PL can help you obtain Mexico insurance as U.S. cargo insurance is not valid in Mexico.



#### Customs experience

Working with a 3PL that has an in-house U.S. and Mexico customs brokerage operation and strong communication with other established U.S. and Mexico brokers can dramatically speed up the cross-border process and ensure that all paperwork is filed correctly the first time — avoiding delays and fines.



#### International connectivity

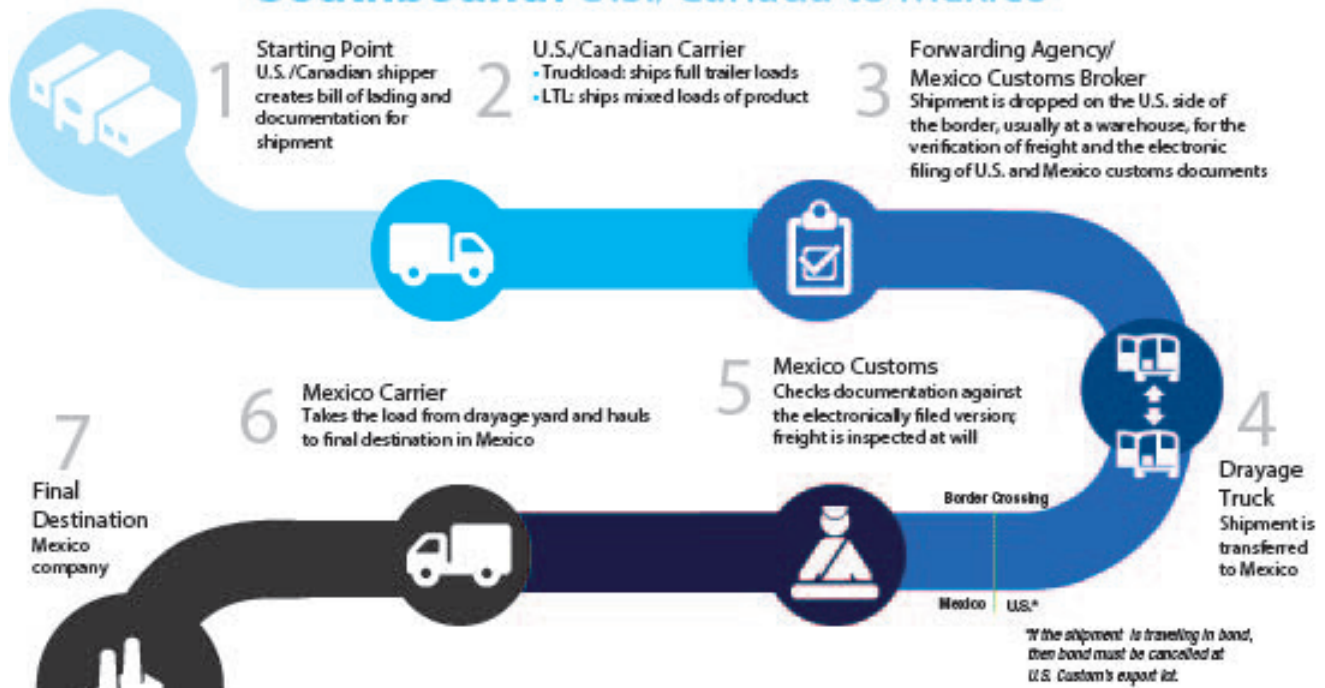
Many global manufacturers are importing parts from Europe and Asia to Mexico for assembly. Working with a 3PL with international global supply chain experience can improve supply chain visibility which can help to greatly reduce transport times and costs.



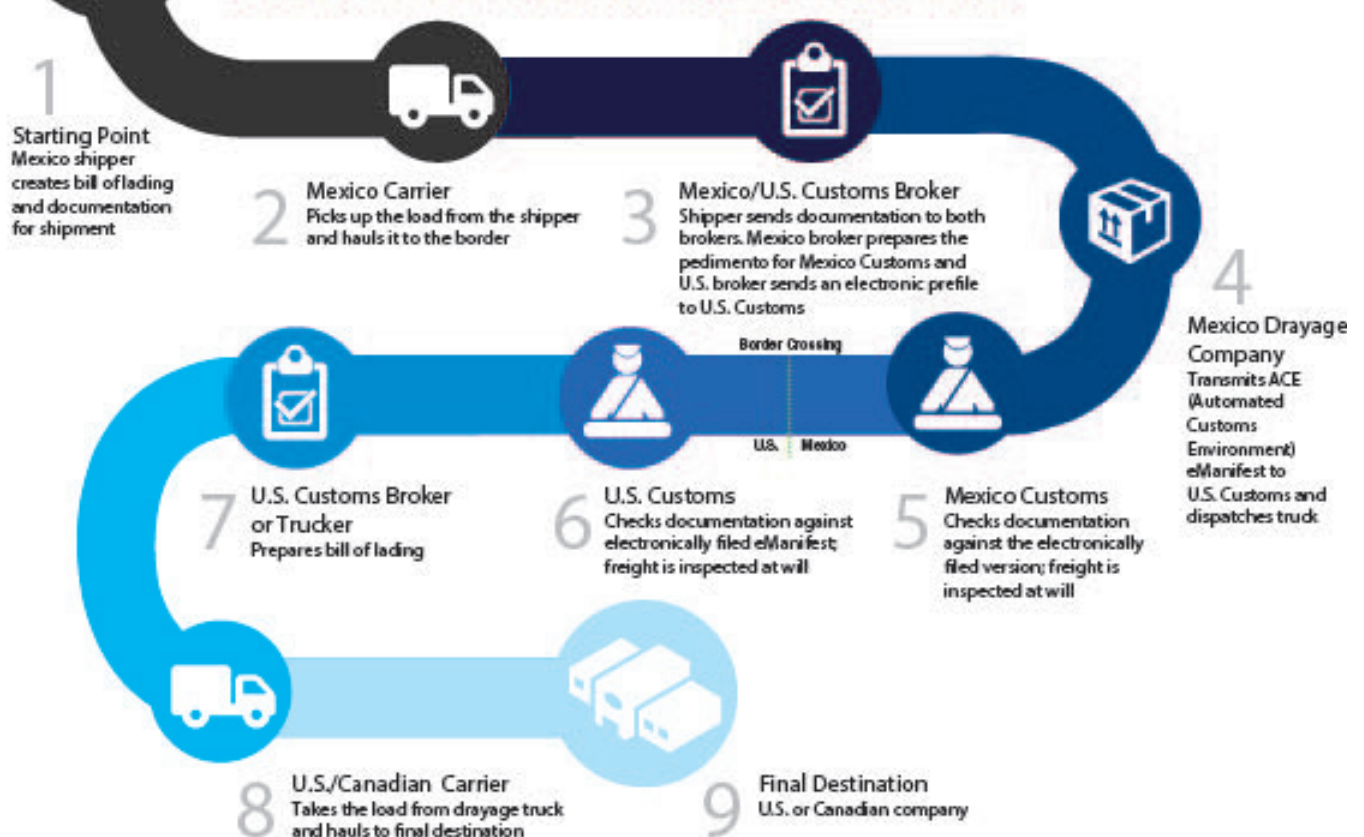
**The conclusion:** Evaluate and implement a cross-border strategy with a reputable 3PL provider to ensure continued success. Make sure they offer a fully-integrated suite of solutions that can be tailored to your specific requirements.

# Managing the OTR border-crossing process

## Southbound: U.S./Canada to Mexico



## Northbound: Mexico to U.S./Canada



## About Yusen Logistics

Yusen Logistics is a global logistics and transportation provider that delivers custom supply chain solutions through one of the largest air, ocean and land transportation networks.

We have over 440 offices in 38 countries, with more than 16,000 employees at your service. Combining our services give you greater control and visibility over your supply chain.

For information about our U.S.-Mexico Border Cargo Management services, e-mail us at [mexicopricing@us.yusen-logistics.com](mailto:mexicopricing@us.yusen-logistics.com) or visit our website at [www.us.yusen-logistics.com](http://www.us.yusen-logistics.com).

