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Washington, D.C. 20548

Resources, Community, and  
Economic Development Division

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November 12, 1993

The Honorable Ernest F. Hollings  
Chairman, Committee on Commerce, Science,  
and Transportation  
United States Senate

Dear Mr. Chairman:

This letter responds to your August 20, 1993, request for information on the difference in wages received by U.S. and Mexican commercial vehicle operators. In your letter, you noted that this information could be helpful as the Congress considers the North American Free Trade Agreement (NAFTA). On October 22, 1993, we briefed your staff on the results of our data collection efforts.

In summary, official data on Mexican driver wages are very scarce. Mexico is only beginning to gather information on intercity motor vehicle operations that is at all comparable to the data collected by the Interstate Commerce Commission (ICC). Moreover, drawing comparisons between U.S. and Mexican driver wages is further complicated by the fact that truck drivers are compensated in several different ways. Some are paid an hourly wage, some are salaried, some are paid by the distance traveled, others are paid a percentage of the charges for hauling the shipment, and still others receive a flat rate per haul. Sometimes drivers are paid by a combination of these methods. Arriving at a common basis for comparison, therefore, is difficult. In addition, wages in Mexico vary geographically. Basically, there are three wage zones in Mexico, with wages being highest in the north near the U.S. border. Given the lack of hard data from reliable sources, we sought to develop a consensus view as to the likely order of magnitude of the wage differential by relying on a variety of data sources, including discussions with knowledgeable individuals on both sides of the border.

There have been allegations that Mexican truck drivers earn only \$7 per day or less than \$2,000 per year. By comparison, according to data reported to the ICC, annual wages for U.S. truck drivers in 1992 were about \$34,000 and owner-operators earned about \$38,000. While the data on Mexican driver wages are scanty, the information that is available suggests that Mexican trucking companies providing transborder service pay their drivers much more than the \$7 per day Mexican minimum wage, but that Mexican truck drivers in transborder service still only earn about one-half of what U.S. drivers earn. The lower costs enjoyed by Mexican trucking companies from lower wages is somewhat offset by higher capital and maintenance costs.

#### BACKGROUND

NAFTA, if approved by the Congress, will gradually remove the restrictions on transborder trucking operations. Currently, Mexican truckers when traveling into the United States are confined to a commercial zone adjacent to the U.S. border. U.S. truckers are not permitted to cross into Mexico but must exchange their trailers with a Mexican carrier at the border or transfer the freight onto a Mexican trailer. Neither nation's carriers are permitted to operate into the interiors of the other nation to pick up or deliver goods. Under current plans developed by the United States and Mexico, 3 years after NAFTA is signed, U.S. motor carriers will have access to the Mexican border states and Mexican motor carriers will have reciprocal access to the U.S. border states. Six years after NAFTA is ratified, each nation's motor carriers will have full access for international shipments.<sup>1</sup> Concerns have been raised that Mexican trucking companies will have a significant competitive advantage over U.S. motor carriers because they pay much lower wages.

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<sup>1</sup>Trucking companies will not have rights of cabotage; that is, Mexican truckers will not be permitted to pick up and deliver wholly within the United States nor will U.S. truckers have such opportunities in Mexico.

RECENT STUDIES AND SURVEYS BY U.S. INSTITUTIONS  
INDICATE A RANGE OF MEXICAN DRIVER WAGES

Some recent studies of transborder transportation issues have offered estimates of the wages earned by Mexican drivers. Most of these studies derived their estimates, at least in part, from a survey undertaken by the American Embassy in Mexico City in 1992. The Embassy survey found that the trucking industry in Mexico generally pays better wages than other industries. Because of Mexican regulations and agreements by the United States and Mexico on standards and licenses, only federally licensed Mexican drivers are allowed to drive commercial vehicles across the border and on U.S. highways. Therefore, a Mexican driver who can qualify for a federal license is considered a very valuable asset and, consequently, is paid a better wage, according to the American Embassy. The Embassy survey found that federally licensed Mexican truck drivers generally receive between 10 and 12 percent of the total value of the charges for transporting the cargo (or between \$700 and \$2,000 per month depending on the type of cargo and other factors). Drivers who are permanent employees also receive a guaranteed minimum salary based on seniority.

A recent analysis by the U.S. Department of Transportation (DOT) that relied on American Embassy-provided data reported estimates of Mexican driver wages ranging from \$30 per day for nonunion drivers--who generally do not possess a Mexican commercial driver's license--to \$80 or more per day for union drivers with a federal license doing cross-border hauling. If we assume a 240-day work year, then \$80 per day for a federally licensed Mexican truck driver in transborder operations would represent an annual wage of \$19,200.

A recent report by the Lyndon Baines Johnson School of Public Affairs at the University of Texas noted that the multiplicity of salary schemes coupled with a variance among different regional labor markets makes it difficult to determine Mexican driver wages precisely. However, the report concluded that Mexican drivers involved in international trade are paid well above the \$7 per day

minimum wage, even if their wages are probably less than their U.S. counterparts'.<sup>2</sup>

MEXICAN TRUCK OPERATORS CONFIRM  
THAT A WAGE DIFFERENTIAL EXISTS

Mexican trucking company executives we talked with confirmed that Mexican drivers were paid in a variety of ways--but generally either on a distance or a percentage of the transportation charge basis. The percentage generally varies between 10 and 18 percent depending on the type of shipment, whether or not the driver or the trucking company pays for gas, and other factors. The trucking company executives told us that trips across the border into the United States also command higher wages as the driver must have a federal license, a valid passport, and at least some command of English.

Some Mexican trucking company executives with whom we spoke provided estimates of Mexican driver wages and these ranged from about \$1,000 to \$2,000 per month. The estimates provided us by the Mexican trucking company executives and the estimates reported in the studies cited above suggest a wide range of wages for Mexican drivers in cross-border operations--between \$8,000 and \$24,000 annually. The midpoint of the estimate from the Mexican trucking company executives and the data from the U.S. Embassy survey indicate a wage for Mexican drivers of around \$16,000 to \$19,000 annually or around one-half of what the ICC reported was earned by U.S. drivers. All these earnings estimates are exclusive of fringe benefits, but information provided us by the Mexican trucking company officials and data collected in prior GAO studies suggest that Mexican workers receive fringe benefits at least comparable to those received by U.S. workers.<sup>3</sup> The available data suggest that Mexican driver wages, while lower than U.S. driver wages, are well above \$7 per day.

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<sup>2</sup>Texas-Mexico Multimodal Transportation--Policy Research Project Number 104, Lyndon Baines Johnson School of Public Affairs, University of Texas at Austin (1993).

<sup>3</sup>U.S.-Mexico Trade: Information on Wages, Fringe Benefits, and Workers' Rights (GAO/NSIAD-91-220, May 10, 1991).

LOWER WAGES ARE ONE FACTOR IN ASSESSING  
MEXICAN TRUCKING COMPANY ADVANTAGES

Lower wages for Mexican truck drivers could allow Mexican trucking companies to underbid U.S. firms for international movements. However, while Mexican truck driver wages are lower than those of U.S. drivers, wages in the United States are only about one-half of operating costs. Other cost factors offset somewhat the lower costs that Mexican trucking companies enjoy from lower wages. Such factors include:

- the substantially higher equipment costs in Mexico. Based on 1989 data, Mexican costs for vehicles averaged 16 cents per mile while U.S. costs averaged 12 cents per mile. Trucks are more expensive to purchase in Mexico and, until NAFTA goes into effect, leasing is prohibited by law.<sup>4</sup> Heavy protection afforded the Mexican automotive industry also raises the costs of tractors and spare parts to well above those in the United States. With import restrictions still in place, a rig that costs \$62,000 in the United States costs \$80,000 in Mexico. Tires cost 25 to 42 percent less in the United States, and spare parts are 38 percent cheaper;
- the fact that fewer financing options exist in Mexico. In Mexico, 85 percent of the cost of a new vehicle is paid in cash and only 15 percent is financed. In the United States, the proportions are nearly reversed. U.S. carriers have up to 60 months' financing at much lower interest rates than Mexican truckers; and
- the high maintenance costs in Mexico. Poor road conditions and high paraffin-content diesel fuel raise Mexican vehicle maintenance costs.

In the longer term, a combination of supply and demand factors will determine the market shares of the transborder traffic that will be captured by U.S. and Mexican trucking firms, if Congress ratifies NAFTA. The current cost advantages of both U.S. and Mexican trucking firms will be affected by NAFTA. Ultimately, shippers will consider

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<sup>4</sup>Ibid., p. 43, and American Embassy, Mexico City, cable to U.S. State Department, Aug. 24, 1992.

reliability and service quality, as well as cost, in selecting carriers.

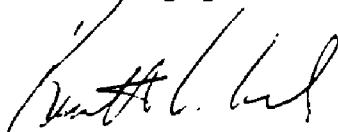
SCOPE AND METHODOLOGY

To address the wage differential issue, we reviewed available studies and reports from academic and government institutions. We interviewed individuals in the United States who have studied these issues, including academicians, Department of State and DOT officials, the American Trucking Associations, and the International Brotherhood of Teamsters. To gain additional information on Mexican driver wages, we attended a joint meeting of the American and Mexican Trucking Associations in Monterrey, Mexico, and met with about a dozen representatives of Mexican trucking firms and other knowledgeable individuals at the conference.

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We conducted this review between August and October 1993 in accordance with generally accepted government auditing standards. If you have any questions about this correspondence, please contact me at (202) 512-6001.

Sincerely yours,



Kenneth M. Mead  
Director, Transportation Issues

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