Proactive economic policy and logistics:
Quebec and continental supply chains.
A discussion

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Abstract

Eager to capitalize on the experience that proved so positive in the Netherlands, now the main hub in European logistics largely owing to a proactive governmental policy, the Québec government decided in 1995 to set up a policy to attract continental distribution centers (DCs) from European manufacturing firms in Montreal. This decision seemed logical inasmuch as the market trend was in favor of the consolidation of one or two continental DCs as against the former logistics trend to disseminate several regional DCs. Good geographical and economic advantages also hinted to a sound governmental endeavor. However, the implementation of this policy stumbled on conceptual problems as regards the new expectations from logistical chains from manufacturing firms.

Keywords: logistics, continental integration, distribution center, costs, competitiveness, location factor.
In industrial and consumer goods logistics, the era of several small distribution centers is gradually giving way to sets of continental distribution centers. The Netherlands, where a government policy fostered the implementation of numerous distribution centers with Europe-wide mandates, is a good example of this trend: manufacturers concentrated their distribution systems in one large center rather than managing several smaller centers. This rationalization does not equate with simplification, as continental distribution centers must handle high levels of orders, market adaptation and accurate delivery to a larger market. In fact, the complexity of the task stresses the need, for the manufacturer or the logistics service firm it may elect to subcontract, to carefully select the right location for the distribution center.

Trying to take advantage of this global trend, the Quebec Government, in partnership with the Canadian federal government and private sector firms, decided to promote the setting up of distribution centers from Europe in the Montreal area. The partners listed a whole series of advantage for firms to set up in Montreal, and discovered there also was a strong cost-advantage for this specific location. This seemed to fit well with common wisdom that circulated among the partners that cost was a paramount criterion for location decision. However, after five years of promoting Montreal as a choice location for distribution centers (DC), the government became disappointed since few firms had elected to establish their continental DC there. This discussion intends to show that rational and economically sound arguments do not make up a success in transportation policy, since other factors also interfere in the decision process.

I) History of the project

In 1995, the then Quebec Ministry of Trade, Industry, Science and Technology (MICST) undertook a study as to if and how Quebec could take advantage of this concentration trend in distribution centers. In 1997, a private and public-funded economic agency, Montreal International, dedicated to the promotion of Montreal abroad and to the attraction of foreign investment, joined efforts with the Ministry, then transformed into the MIC as it refocused on trade and industry. In February 1998, the Société Générale de Financement (General Financing Corporation, SGF), a Crown company responsible for the financial setting up of complex investment schemes, decided to take on the industrial logistics aspect of the promotion of Montreal as a logistics hub in North America.

In June 1998, following a decision by the Quebec government, the SGF agreed with the MIC and several other private and governmental organizations, to work on a long-term project to attract distribution centers in Montreal. Among the partners were Investissement Québec (Crown Corporation responsible for the guarantee of investment loans); ADM (Aéroports de Montréal, Montreal Airports privately managed); the private railway Canadian National (CN); the real-estate company Devencore; the Port of Montreal; the trucking company Robert Transport; the third-party logistics Metro Canada Logistics; and the federal ministry of Industry.

These partners, after sharing their views on the evolution of logistics and on their industry, agreed there was indeed a potential for growth in Quebec as far as international logistics was concerned. The success-story of the Holland International Distribution Council and

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1 Though of course this is debatable from a scientific point of view (this will be tackled with later), such was the dominant representation that circulated among partners, project managers and analysts involved with the Québec
Invest Holland was in all minds: these two government agencies had managed, in less than two decades, to transform the Netherlands into a powerful hub for distribution. By 1997, logistics was responsible for more than 8% of GDP and 20% of the workforce. In the Netherlands had gathered 57% of all American and Asian firms distribution centers located in Europe (Investissement Québec, 1999; Lasserre, 2000:7; Holland International Distribution Council, 2001:15-19).

This model proved it was possible to take advantage of a favorable geography (location, transportation networks) with a bold government policy aimed at satisfying company needs so as to attract their investments. The Quebec partners decided they could target European manufacturing companies in their process of implementing major distribution centers for the North American market, as this trend had been clearly identified.

II) Taking into account the real advantages of a Montreal-based distribution center

The partners had designed their promotional strategy on a few facts:

II.1) The geographical setting of Montreal

Because of its location, the Port of Montreal, accessible year-round thanks to the use of ice-breakers, is closer to northern Europe. Distance from Rotterdam, its main gate, to Montreal is 5817 km (3636 mi.), as opposed to 6287 km (3929 mi.) to New York and 6492 km (4058 mi.) to Norfolk.

Partly because of its favorable location, the Port of Montreal leads the competition on the North Atlantic market, seizing a 35% market share in 1999, before New York (31%) and Hampton Roads (9%), although New York handles a much larger traffic than Montreal. Container cargo moving through the port grew at an average of 6.7% per year from 1995 to 2000, with traffic reaching 1 million TEUs in 2000, making the Port of Montreal the third in container traffic along North America’s eastern seaboard, after New York and Hampton Roads. More than 50% of the containers unloaded in Montreal then go to the Midwest and the American Northeast: the market area of the Port was already covering a large share of the continent.
II.2) Intermodal connections with a continent-wide railway network

There are two railway companies in Canada. Canadian Pacific (CP) has an extend network in Canada and in the Eastern seaboard. Canadian National (CN) took over Illinois Central in 1998, giving it the long sought-after access to the “three seas” (Pacific, Atlantic, Gulf of Mexico), and signed a marketing alliance with Kansas City Southern Railway (KCSR). KCSR also owns Transportación Ferroviaria Mexicana (TFM), which gives access to Mexico. In July 2000, CN and Burlington Northern Santa Fe (BNSF) announced that they would strengthen the cooperation that has been established between the two companies, thus covering most of North America with their two extensive networks (see Fig. 1). It is possible for a container box to get

Fig. 1 : The North American Networks of CN and CP railways in 2000
Source : Investissement Québec, Research Department.
unloaded in Montreal and then move without transfer onto an other car to most of North America. Besides, Canadian National has won the *Outstanding Railroad Performance Award* for 2000 from UPS Autogistics.

**II.3) A competitive airport for cargo operations.**

In 1998, assessing its Montreal International Airport at Mirabel, the Institute of Transport Management based in London awarded it its *1998 Cargo Airport Excellence Award*, basing its judgment on several factors.

- Landing fees for all cargo flights are, on average, 75 to 85% less expensive in Montreal than in New York, Boston or Toronto.

- Space is readily available in Mirabel on the airport’s premises to build new storage and handling facilities

- Not suffering from congestion, Mirabel offers carriers scheduling flexibility in addition to efficient and modern installations at competitive rates.

- There is no curfew and the airport can handle traffic 24 hours a day.

- Mirabel is an all-weather airport: it never closed in recent years, even during snowstorms. It is New York’s winter contingency airport.

**II.4) New customs regulations**

In 1997, Canadian customs implemented a fully automated electronic system for customs clearance, through the use of electronic data exchange standards (EDI) in all entry points. The
law also provides for a bonded warehouse system, whereby goods transiting through a Canadian port onto their market in the United States do not have to be cleared through Canadian customs.

II.5) Affordable operation costs

II.5.a) Workforce

Econometric research have consistently shown that wages are lower in Québec than in Ontario and in the United States, an advantage compounded by the low value of the Canadian dollar.

<table>
<thead>
<tr>
<th>City</th>
<th>Stock Handler</th>
<th>Warehouse worker</th>
<th>Warehouse manager</th>
<th>Distribution Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montréal, QC</td>
<td>20 889</td>
<td>25 989</td>
<td>46 178</td>
<td>52 538</td>
</tr>
<tr>
<td>Toronto, ON</td>
<td>21 809</td>
<td>27 731</td>
<td>47 624</td>
<td>55 171</td>
</tr>
<tr>
<td>Hartford, CT</td>
<td>25 381</td>
<td>29 595</td>
<td>61 947</td>
<td>76 773</td>
</tr>
<tr>
<td>Newark, NJ</td>
<td>25 901</td>
<td>30 332</td>
<td>63 909</td>
<td>79 218</td>
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<tr>
<td>Boston, MA</td>
<td>25 500</td>
<td>30 032</td>
<td>62 822</td>
<td>84 842</td>
</tr>
<tr>
<td>Baltimore, MD</td>
<td>23 611</td>
<td>27 725</td>
<td>58 402</td>
<td>73 756</td>
</tr>
<tr>
<td>Columbus, OH</td>
<td>22 871</td>
<td>27 082</td>
<td>57 412</td>
<td>77 575</td>
</tr>
<tr>
<td>Chicago, IL</td>
<td>25 185</td>
<td>28 987</td>
<td>61 341</td>
<td>83 835</td>
</tr>
<tr>
<td>Detroit, MI</td>
<td>25 303</td>
<td>29 820</td>
<td>63 542</td>
<td>86 441</td>
</tr>
<tr>
<td>Minneapolis, MN</td>
<td>24 046</td>
<td>28 492</td>
<td>60 701</td>
<td>81 696</td>
</tr>
<tr>
<td>Memphis, TN</td>
<td>22 946</td>
<td>26 045</td>
<td>55 945</td>
<td>78 020</td>
</tr>
<tr>
<td>Atlanta, GA</td>
<td>22 389</td>
<td>26 498</td>
<td>56 562</td>
<td>78 073</td>
</tr>
</tbody>
</table>

II.5.b) Other costs

Table 2. Industrial Construction: Cost Index for a 14 000 m² building
Two-thirds of the area dedicated to production, one third for office space
Montréal = 100

<table>
<thead>
<tr>
<th>City</th>
<th>Montreal</th>
<th>Toronto</th>
<th>Atlanta</th>
<th>Chicago</th>
<th>Los Angeles</th>
<th>Boston</th>
<th>Philadelphia</th>
<th>New York</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montreal</td>
<td>100</td>
<td>103</td>
<td>137</td>
<td>147</td>
<td>158</td>
<td>158</td>
<td>167</td>
<td>204</td>
</tr>
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</table>


Studies undertaken by Investissement Québec, the SGF, the Port of Montreal, KPMG (KPMG, 1999), Colliers International (Colliers International, 1999) and Mercer Management Consulting in 1999 also confirmed Montreal had an advantage as regards other operation costs: power, real estate, construction were significantly more affordable than in other North American major urban centers. Besides, there is no shortage of a workforce that is often bilingual in Montreal.

Summing up all these advantages, efficient port, strong and cost-effective sea service, low construction and operation costs for a distribution center, good rail and highway network connecting Quebec to the rest of North America, the Quebec partners concluded that Montreal had real advantages as far as continental logistics was concerned, all the more so as the literature on logistics strongly emphasizes cost as the main location factor for a distribution center (Hamel and Sampler, 1998; Corriveau, 1999).²

II.6) The 1999 Mercer study

So as to assess their real business options, the Quebec partners mandated Mercer Management Consulting in 1999 to evaluate the real potential of Montreal as a continental distribution center potential location for European manufacturing companies (Mercer MC, 1999). Mercer set up several scenarios but worked with the hypothesis that the distribution center would operate for the whole of North America, with market distribution weighed according to population.

Mercer considered transportation operations from Europe to Montreal, the distribution center operation costs in Montreal, as well as distribution structures and costs from Montreal onward to the market. Mercer soon pointed to high efficiencies in shipping to Montreal and operating in Montreal, but also to higher redistribution costs and lower efficiency in LTL (less than truckload) trucking to the rest of North America, as opposed to cost-efficiency of rail transportation and FTL (full truckload).

Four case studies were considered by Mercer in its wide-scale study. The first tackled with the packaged chemicals sector, where shipments are often small and fit well into the LTL segment of trucking; therefore, small distribution centers (DC) are usually the norm in this industry. In this case, the advantages of Montreal (low transportation costs from Europe, low operation costs at the DC) cannot be taken advantage of because of the very small size of DCs.

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2 Among the 37 communications presented at the WCTR 2001 in Seoul about location factors for transportation facilities, 32 mentioned costs as the most important factor, or among the most important. 9th World Conference on Transport Research Proceedings, Seoul, Korea, 2001.

needed to operate a continental distribution; however, the large share of LTL shipments do have a very negative impact.

<table>
<thead>
<tr>
<th>Table 3. Cost of running DC, Packaged Chemicals Industry example, Mercer study (Small DC/High LTL)</th>
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<tbody>
<tr>
<td>In thousands of $</td>
</tr>
<tr>
<td>NY/NJ</td>
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<td>4 511</td>
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The second case study considered electric appliances, which usually need larger DCs and operate with a mix of LTL and FTL. The case did underline a strong advantage for Montreal, but with a thin margin with its other competitors, Toronto, Norfolk, and Columbus.

<table>
<thead>
<tr>
<th>Table 4. Cost of running DC, Electrical Appliances Industry example, Mercer study (Larger DC/Mostly TL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>In thousands of $</td>
</tr>
<tr>
<td>Montreal</td>
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<tr>
<td>-----------</td>
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<tr>
<td>7 579</td>
</tr>
</tbody>
</table>


The third case similarly focused on an industry where larger DCs are usually the norm, and where a mix of FTL and LTL is used so as to adjust to the just-in-time requirements of most car makers. The conclusion of this case study was similar to the case 2, but its conclusion must be modulated inasmuch as car makers increasingly tend to require fast and on time LTL shipments so as to fit them into just-in-time and zero-inventory production lines (Lasserre, 2001a).
Finally, the fourth case study considered an industry where DCs are huge and the volume of orders so large that most shipments are usually FTL to regional or even local sub-distributors, or even sometimes to important retail customers. In this case, the advantages of operating a large DC with a sizeable workforce and a considerable volume of containers coming by sea largely is not undermined by the need to operate a large share of LTL shipments.

Mercer concluded there definitely was a market niche for Montreal, industries that sent on a regular basis huge volumes of containerized goods by sea, operated large DCs where they could take advantage of the lower costs, and did not need to ship small shipments by LTL. Outside this niche, the strong disadvantages of location in Montreal, that increased the costs of trucking so as to ensure a continent-wide distribution network, especially for industries that had to service customers operating with just-in-time production methods, made DCs uncompetitive.
III) The promotion strategy : two approaches collide

Among the Government’s strategy was the unity of the marketing of the idea of setting up distribution centers in Montreal : officials wanted to avoid the dispersal of energies among several and at time competing agencies, be they private or government-owned. However, it soon appeared it would be extremely complex to promote at the same time the interests of the cargo airline industry, the main customers of Aéroports de Montréal, and those of the shipping, trucking and railway industries. Case studies were prompt in showing that few distribution centers would operate on a regular basis with both containerized goods shipped by sea, and fast delivery schemes operated by plane. However, the government’s desire to keep an integrated approach, on the one hand; and the reluctance of the administration, on the other hand, to let go parts of their mandate, explains why it took two years before a separate body for the promotion of air cargo was effectively created with Montreal’s Mirabel Airport International Trade Zone in 2000.

Two approaches soon emerged among the Quebec partners involved in this endeavor.

- The first tried to underline the very advantages of operating in Montreal: effective sea link between Montreal and Europe, the absence of congestion, and cost and fiscal-related advantages. That approach was advocated by mainly by Investissement Québec and the Mirabel Airport International Trade Zone, which sent project representatives in Europe so as to try and convince European managers of the competitive advantages of Quebec as far as logistics was concerned.
The other approach, which federated the SGF, the Port of Montreal, Devencore, Montréal International, focused on the need to build a logistical complex first, thus making a financial bet on the future expansion of distribution in the Montreal area but also providing for a ready-to-use infrastructure. Two favorable plots were located on Montreal Island and on the south shore of the St. Lawrence, where facilities could possibly be built so as to entice firms into setting up their distribution centers there.

**IV) Drawbacks in the Québec offer**

**IV.1) A location not central enough**

The Mercer study did highlight as well that the more redistribution there is to make onward to final markets, the farther afield these final markets are, the less Montreal remains competitive, despite advantageous operating costs, against more centrally located distribution locations inside the continent. The cumulating trucking costs from Montreal to cover North America tend to reduce profitability and competitiveness when compared with other locations.

Besides, in the aftermath of the September 11 events, security has been tightened severely along the logistical chain and border controls are more stringent, though the Canadian and American customs agencies are busy trying to work out procedures designed to achieve a high level of security without compromising the supply chains. This nevertheless means there is another perceived problem with a DC located in Montreal inasmuch as there is a potential for disruption because of border controls.
IV.2) The future of the Port of Montreal

Although there is still ongoing research in this field, the advent of megaships could threaten Montreal’s dominant position on the North Atlantic market. Container ships that call to Montreal carry 2,800 TEUs; they are limited to this amount because of the depth of the St. Lawrence navigation channels between Trois-Rivières and Montreal. If major shipping companies increasingly set up service operated by ships carrying up to 8,500 TEUs, Montreal will likely lose its hub position to become a secondary port served by transshipment operators. That would imply one more step in a logistical chain companies like to see as short as possible (Singapore Shipping Times, 2000; Slack, Comtois et al, 2001).

Moreover, a ongoing trend is observed in the St. Lawrence watershed: diminishing flows out of the Great Lakes are causing the level of the river to be much below average. In order to navigate inland beyond Quebec City, ships often have to leave containers in smaller ports, or to navigate the Montreal route with less than full capacity. It is not the first time the St. Lawrence levels are varying. But they did so very fast and are not showing any sign of recovery. Worse, now is a time when shippers need confidence over their routes. They are very risk-averse, as they customers press them for a zero delay service, and are uneasy with having to wait for the return of the normal flow.

IV.3) Inadequate training and research in logistics

The track chosen by Investissement Québec (IQ) also proved to be deceptive since project representatives were not given enough training in logistics so as to properly assess real
market opportunities in Europe and develop credible projects with potential customers. The efficiency of their promotional activities can be questioned, given the fact they are responsible for the promotion of the logistics sector as well as, quite often, other industrial sector such as multimedia, electronics, chemistry, automotive and so on, where industrial approach and project management are quite different.

IQ Project managers were not specialized in logistics and were thus trying to apply methods they had experienced with industrial or service sectors that were very different from logistics. This proved, as mentioned above, all the more prejudicial as European managers were not eager to hear about cost advantages, but rather about integrated logistical solutions. Worse, IQ failed to offer its salespeople the possibility to train adequately in this field – nor were most of them conscious of the need to do so. IQ also failed to establish a strong link between the Promotion Division and the Research Department, where warnings had been issued about the emphasis put of fiscal incentives. Relying heavily on fiscal and cost advantages, they often failed to come up to European managers with an integrated option for a Montreal-based distribution center, thus quickly losing the interest of their potential customers, as logistics is increasingly focusing on proper integration of all functions before costs are examined (Bovet, 1998; Davenport, 2000). In January 2002, logistics was abandoned as a promoted sector at IQ.
V) The Quebec logistics policy failure

V.1. Disappointing results in Québec

After nearly five years of efforts, the results seem disappointing inasmuch as no major distribution center from a European manufacturing company was set up. There is one success story that is partly due to governmental intervention: the agrifood sector. Two distribution centers have set up in Québec. The first in Mirabel, where an effective distribution center specialized in the handling of fresh produce (fruits and vegetables mainly), *Perisco Cargo*, was opened in 1998 at Mirabel International Airport. The center offers a number of benefits to agrifood stakeholders as it allows for the processing of perishables in a sheltered, controlled-temperature environment in an uncongested airport. It distributes products across the whole eastern half of North America, down to Florida! The other distribution center, *Congébec*, in Boucherville near Montreal, specializes in the shipping of pork meat products.

Apart from these two successful cases, other potential companies failed to present a sustained interest in Montreal, with the notable exception of Federal Express. The major integrator had considered opening an Atlantic hub for traffic incoming from Europe so as to alleviate congestion at its overcrowded Memphis hub. For both political (the Canadian government was eager to please the aircraft maker Bombardier and was thus reluctant to give the acreage FedEx wanted) and financial reasons, the deal was not concluded. From a Québec point of view, this really was a lost opportunity, for the presence of the air cargo company would have provided the logistics services that would have attracted several distribution centers around...
Mirabel. Now the all-cargo airport has to face a tough competition from Toronto, where large-scale cargo facilities have been built.

Several factors help explain why, so far, few continental distribution centers have set up in the Montréal area so as to take advantage of the Québec government offer, an, notably, no European manufacturer.

IV.2) A European perception centered on the United States

The endeavor of Québec state corporations, in their search for European manufacturing companies willing to set up a distribution center in Montreal, was hampered by a widespread image that since the main market was by far the United States, then the distribution center also had to be located in this very market. European corporate managers were really reluctant to consider if they could implement a DC in Canada so as to serve the American market. Here, it is neither the project nor the location that was faulty. This is really a deeply rooted image among many European managers, as the Québec project salespeople came to realize, although there is little rationale in it: NAFTA provides for a seamless flow for most goods and negotiations are proceeding so as to smooth procedures in the wake of September 11. In Europe, a large share of Japanese and American firms saw no problem in implementing their distribution centers in a small market, the Netherlands.

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3 Interviews with Investissement Québec representatives, April 5, 2002; with Ms Chantal Malo, Logistics Advisor, Société Générale de Financement, May 2nd, 2003.

IV.3) A high emphasis placed on fiscal tools to attract investments.

The Québec government likes to stress that taxes are usually lower on businesses in Québec than in most American States, as the corporate tax rate in the services industry is 37.2% in Québec and 40.2% in New York State, for instance:

<table>
<thead>
<tr>
<th></th>
<th>Québec</th>
<th>Ontario</th>
<th>New York</th>
<th>Illinois</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>35.16</td>
<td>38.62</td>
<td>40.2</td>
<td>39.75</td>
</tr>
<tr>
<td></td>
<td>41.18</td>
<td>40.85</td>
<td>45.72</td>
<td></td>
</tr>
<tr>
<td>Massachusetts</td>
<td></td>
<td>New Jersey</td>
<td>Pennsylvania</td>
<td>California</td>
</tr>
</tbody>
</table>

Similarly, the main tool the Québec government granted the International Trade Zone at Mirabel when it was set up in 2000, were tax grants and rebates on capital taxes. Officials like to stress these fiscal tools, but are at a loss to understand another logic developed by logistics firms: tax breaks are a marginal advantage, and will not trigger an investment decision if the expected market growth is not likely to be found.

For instance, Air France decided, in the spring of 2000, to close its main cargo facility in North America, which was in Montreal, and moved its logistics activities to Chicago. Even further tax cuts would not have the airline change its mind at the time. However, Air France was making profits in Montreal: the reasoning behind the decision to move was not an after tax result figure, but a better potential for growth. Traffic was growing from Europe to Montreal as Mirabel was acting like a redistribution platform, but growth for traffic from Montreal to Europe was very moderate. Air France now flies to Chicago and trucks back goods sent to the Eastern seaboard and Eastern Canada, and enjoys a larger growth. This illustrates the fact that tax rebates
are tie-breakers; they rarely constitute advantages that a company will be interested in when setting up a business plan.

From a broader perspective, one needs to underline the fact that stressing attractive fiscal advantages made sense in the promotion strategy given the hypothesis, reportedly demonstrated by several researchers, that cost is often the main factor in distribution center site selection: taxation being treated as a cost, it then seemed logical to stress this very real Quebec advantage.

The problem is that, as typified by the Air France case, and as I have already argued in other papers and reports (Lasserre, 2001a, 2001b), that cost is not the main factor, at least not the only one. It remains dominant at regional scales, but for global scale logistics, or for industries where just-in-time inventory management procedures tend to become dominant, reliability is by far more important than operation costs: it costs more to ship several small shipments on an LTL basis so as to keep a zero inventory, than to consolidate shipments so as to manage a FTL rate; however, an increasing number of manufacturing firms prefer paying this transportation additional cost so as to reduce inventory costs.

The cost-oriented approach, of course, failed to seduce European manufacturing firms that were trying to select a North American location where their logistics chain would be strongest, cost being a tie-breaker. On more than a hundred firms selected and contacted by Investissement Québec with the help of PricewaterhouseCoopers in the summer 2000, only three showed any interest.
V.3. The Canadian federal government cost recovery policy and shipping costs

Following a decision from the federal Treasury Board, in 1996 the Canadian Fisheries and Oceans Ministry, decided to implement a cost-recovery program for all the navigation services it provides to shippers: coast guard, ice-breaking, mandatory ship piloting in the St. Lawrence, buoys and identification devices. Shippers must pay a fee when entering the river waters. This new tax increased operation costs and had several manufacturers, shippers and forwarders bitterly complain that the fees severely affect the competitiveness of the St. Lawrence route (Conseils consultatifs maritimes régionaux, 2002), all the more so as no such fees are collected with ships calling at American ports, whether on the Eastern seaboard, or the Mississippi River system.4 This new policy is adding to the already tough competition with the Mississippi ports: during the last 30 years, total traffic in volume in the St. Lawrence decreased by 25%, whereas traffic on the Mississippi route witnessed an increase from 450 to 700 million metric tons (SODES, Communiqué, 2003).

However, forwarders are a player among others in the logistics chain. If manufacturers subcontract their logistics activities to a forwarder, a growing trend among the industry (Lasserre, 2001a), the latter’s point of view will be paramount. If the forwarder no longer wants to ship through the St. Lawrence, a DC is unlikely to be set up in Montreal. On the other hand, if the manufacturer retains the operational management of the logistics chain, increased shipping costs could be considered a factor among several others, thus not necessarily preventing the implementation of DCs in Quebec.

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4 St. Lawrence Economic Development Council (SODES), interview with Ms Geneviève Cloutier, Public Relations Department, May 1st, 2003.

VI) As a conclusion. Government-sponsored attraction of distribution centers: a doomed policy?

The discussion aimed at identifying the reasons of a failed policy despite favorable odds. Several analysts had concluded that the Quebec decision to try and attract European manufacturers DCs in the Montreal area made sense from an operational and economic point of view. However, the government’s hopes proved to be ill-placed, since, after five years, very few DCs have materialized.

The Dutch had a tremendous success in the endeavor to attract DCs in Europe, grabbing the lion’s share and entrenching their role as the focal point of European manufacturing logistics. It is because of deliberate and determined government actions that the Netherlands rose so fast to prominence among European distribution hubs. So it is not the principle of such a policy that is faulty. It cannot even be said that Quebec government officials were over-optimistic, since several important players in the private sector, as well as consulting groups, did recognize there was a case here for Quebec to become a logistics hub.

VI.1) Build it and they will come: the importance of the first player

However, the Dutch Government had adopted measures that the Québec promotion campaign is lacking – so far. First, and this is a very important point, there is the need to trigger a virtuous circle by promoting the construction of distribution facilities where one or two credible players will set up distribution centers. Had Federal Express finalized its option in Montreal and established its Eastern North American hub in Mirabel Airport, there would be no point in

writing this article. To convince manufacturing firms, it will probably be necessary for the Port of Montreal and the SGF to go ahead with their plans to build a new logistics hub in Montreal, hoping it will be the first step in the construction of a critical mass. Given the negative image a location in Canada has to overcome so as to remain the strategic option for a European firm, it definitely seems their track was the right one in the Quebec strategy. Let us hope for them it will prove successful.

VI.2) Costs are not necessarily the main factor

Second, the Dutch did not overemphasize on fiscal advantages, since these tell nothing about real operations to the firm’s managers and are very seldom the key to location decisions, but rather focused on the firm’s needs, especially as regards the reliability of the distribution chain.

Costs can be important, as testified by the impact on shipping activities of the new taxes decided by the federal government: shippers had to pass the increased costs onto their customers, and forwarders have tended to consider the St. Lawrence route to North America as expensive compared to other routes, in particular the Mississippi River route to the American market heartland.

However, an important element shown here in the Quebec strategy’s confrontation with market realities is that contrary to common market wisdom and part of the scientific literature, costs are by themselves not necessarily a decisive factor. The Mercer study did show that, for some DC, depending on the industry involved, Montreal had a great cost advantage, but that proved to be to no avail when trying to convince the European manufacturers. The Air France

case testifies to this important conclusion: costs, whether fiscal or direct, are not strong enough an incentive to trigger a location decision as far as continental DC are concerned.

VI.3) Decision-making is not necessarily rational, as often is

With no major player example to use as an example, Quebec salespeople faced the skepticism of marketing managers in European manufacturing firms when trying to convince them of the several advantages of a Montreal location for their DC. The managers had the American market in mind, not the Canadian, and, as opposed to the situation in Europe, did not conceive NAFTA as a unified market: there are still customs procedures at the border, although they have been simplified. Moreover, there was a paramount perception issue, inasmuch as managers found it hard to imagine operating a DC in Canada to serve the American market. This fact underlines the perception factor that affects all decision-making processes, in logistics as well as in other aspects of governance or business.
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