

Agribusiness in Arizona-Sonora Region: Analysis and Recommendations for Development

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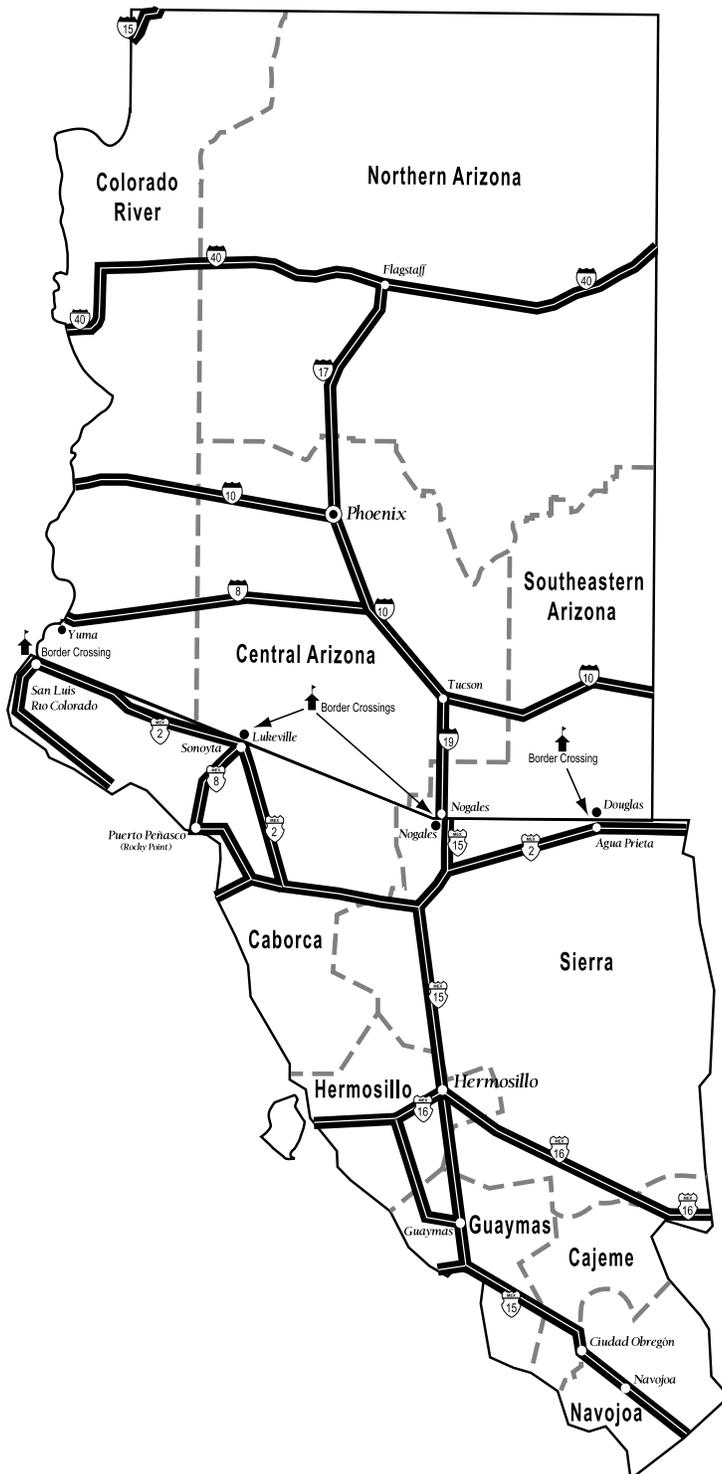
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Arizona-Sonora Road Map



Arizona-Sonora Agribusiness Study

Executive Summary

The general objectives of this component of Strategic Economics Development Vision for the Arizona-Sonora Region are to enhance the global competitive edge of the Agribusiness sectors in the Arizona-Sonora region by identifying the resource potential both states possess as one economically integrated region and to identify competitive advantages and complementarities in order to exploit the development of new trade opportunities. The specific objectives of this study were to:

- ◆ Describe the agribusiness sectors of Arizona and Sonora and review recent global trends affecting the functioning of the agribusiness.
- ◆ Evaluate trade patterns and linkages of the agribusiness sectors of Arizona and Sonora.
- ◆ Analyze the competitive position of the Arizona-Sonora agribusiness sector.
- ◆ Analyze the implications of NAFTA for the functioning and future perspectives of the region's agribusiness activity.
- ◆ Identify main impediments to the expansion of the region's agribusiness cluster.
- ◆ Recommend solutions to enhance development potentials and to overcome impediments identified for expanding the region's agribusiness industries.

This study used two main sources for obtaining data and information: primary data, and secondary data. Primary data has been collected by interviewing agribusiness individuals in both Arizona and Sonora using similar questionnaires. In Arizona, a total of 175 questionnaires were mailed (faxed in some cases) out to selected "agribusiness leaders" and individuals involved in agribusiness activities. Of the 175 questionnaires sent out, 93 were returned representing a 53% response rate for Arizona. In the Sonoran side, personal interviews were used to collect primary data from 95 individuals in various sectors of the agribusiness cluster. Thus, a total of 188 agribusiness individuals were interviewed in Arizona and Sonora for this study.

In addition to the primary data, secondary data has also been presented. Secondary data were gathered from federal and state sources concerning size, importance and comparative advan-

tages of the agribusiness sectors in Arizona. Main sources for secondary for Sonora were INEGI, BANCOMEXT, SAGAR, CNA, BANXICO and publications from organizations, commerce offices, and research reports. In addition, a Technical Advisory Committee (TAC) was established with members representing government agencies and private firms from the states of Arizona and Sonora. The TAC provided guidance in highlighting issues to address. The data thus obtained was used to carry out the analysis for the study.

Key Findings:

- ◆ Survey results indicate the Region's agribusiness sector is becoming more global and that enhanced opportunities for risk reduction exist by cross border expansion. The agribusiness sector of Arizona-Sonora strongly believes that trade will be more important to them in future. This overwhelmingly indicates that issues which promote Arizona-Sonora trade linkages should be brought to the forefront of any discussions related to agribusiness.
 - ◆ Transborder linkages within the Region's agribusiness sector indicate that production agents and marketing firms are perhaps the most developed of all economic sectors in the region. The level of integration comprises all components of an economic cluster.
 - ◆ Integration, complementarity, and regional specialization has allowed firms to become more competitive. Technical assistance and input trade for Arizona has increased with Sonora while it has declined some for the rest of Mexico.
 - ◆ Arizona and Sonora agribusinesses are reasonably well equipped in terms of the other language. Survey participants on both sides of the border are well aware of the other border state and display aptitude and interest in cross-border agribusiness activities. This is an encouraging sign and speaks well of the agribusiness sector in the Arizona-Sonora region. Both states recognize cultural differences as a bigger barrier to trading with each other than language.
 - ◆ About half of the Arizona-Sonora agribusiness respondents are equipped to take advantage of the Internet, one of the latest information tools. Subsequently, this tool may be a good way to disseminate information regarding trade regulations and opportunities. Because the sample is not random but, by design, includes more "agribusiness leaders" these numbers are high for the average of all agricultural producers from the Region.
 - ◆ 51 percent of Arizona participants agree that phytosanitary requirements at the border are more political than scientifically based with only 12 percent disagreeing (37 percent had no opinion). Thus among agribusiness individuals, there is a general consensus that phytosanitary conditions are political and should be put on a more scientific basis.
 - ◆ Little support was found for the notion that agribusinesses in Arizona believe that Sonora and the rest of Mexico are competitors for their business, except for crop producers. Sonoran agribusinesses do not view Arizona as a competitor, but crop and food processing individuals do view the rest of the US as a competitor. Both states strongly agree that each others states and countries have expanding markets for their business.
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- ◆ Streamlining border crossing formalities and minimizing delays at the border were ranked as the most important issue to be addressed for promoting regional agribusiness on both sides of the border. Crop and food processing individuals most strongly voiced this concern.
- ◆ Legal agreements that offer enforcement of contracts between Arizona and Sonora individuals are of utmost importance for capital to flow from Arizona to Sonora. A PACA-type legal agreement is essential for enhanced produce flow into Mexico. Understandably, cross-border legal issues are more important for Arizona agribusiness than Sonora's.
- ◆ Unified standards and grades were strongly suggested as a necessity for Sonoran agricultural products. Arizona participants also agree that a USDA type of certification is needed for US consumers to accept products from Mexico.
- ◆ Loan defaults and the inability of creditors to secure property in Sonora greatly restricts credit flows from Arizona to Sonora.
- ◆ Sonoran transportation and cooling infrastructure is lacking. As trade and regional joint ventures increase, inadequacy of Sonoran infrastructure will be a limiting factor in regional agribusiness development.
- ◆ Statistical information is unavailable to make equal comparisons with Arizona and Sonora. Statistical information about Sonoran agriculture and agribusiness is inadequate, inconsistent, and difficult to access. Lack of information and contacts was cited by Arizona survey participants as a reason for not doing business in Mexico.

Strategic Recommendations:

- ◆ **Delays and red-tape at the border** have been a costly item for agribusinesses moving perishable products and live cattle across the border. We recommend that border crossing formalities for products be streamlined, especially for custom procedures. This should be a top priority in any agenda for promoting Arizona-Sonora agribusiness. We recommend a speedy completion of the unified port management project which brings full modernization to border points of entry.
- ◆ **Legal issues** related to contract enforcement and property ownership rights in Sonora are important for Arizona and Sonora joint venture and investment activities. For the produce industry, a Perishable Agricultural Commodities Act (PACA) system in Sonora would alleviate many concerns and risks related to payments and dispute settlement. Efforts should be made to develop a legal system that offers enforcement of contracts between Arizona and Sonora individuals with appropriate financial consequences.

Similarly, a **Bilingual Regional Agency** (BRA) could offer a certified trading license for legal contracts made between Arizona and Sonora agribusinesses. A bond license would be required for individuals to attain a certified trading license. The program would be voluntary and should have at least three different levels of bond required, depending on the amount of their trade transaction(s). Individuals would lose their bond money and good standing with the BRA if they

did not fulfill all contracts and agreements made in accordance with BRA guidelines. All BRA members will have the right to know the history and current standing of past and current members. The BRA would provide compensation to the damaged party in a timely manner using bond moneys.

Loan default is a serious problem in Sonora. Legal arrangements need to be made so that rights of ownership and property liens can be settled in a fair and timely manner. Such protections are necessary for capital and products to flow easily from Arizona to Sonora.

- ◆ Efforts should be made to unify or mutually recognize **standards and grading**. This was rated as one of the most important issues by survey participants on both sides of the border. Grading issues currently limit Arizona beef product exports to Sonora and Mexico. Unified standards and grades was strongly suggested as a necessity for Sonoran agricultural products. Arizona participants also agreed that a USDA type of certification was needed for US consumers to accept products from Mexico. Unified Hazard Analysis Critical Control Point (HACCP) procedures will assure US consumers that products from Sonora are safe.
 - ◆ Complementarities between **Sonora's feeder industry and Arizona's feed-lots** should be enhanced by seeking APHIS approval for the "pilot project" of feeding intact heifers from Sonora. Procedures and language for the "in-bond" feeding program prior to NAFTA should be followed. Working together to impact federal legislation in Washington D.C. and Mexico City was favorably rated by over 70 percent of Arizona and Sonora respondents.
 - ◆ Capital investment for improving Sonoran transportation **infrastructure** and cooling facilities is necessary for the Arizona-Sonora agribusiness to grow in the long-run. An improvement in the Sonoran rail and road transportation infrastructure is essential for the Guaymas port to be a viable outlet for Arizona exports abroad.
 - ◆ Lack of information and contacts was cited by survey participants as one of the reasons for not doing business in Mexico. We recommend that a **directory** of producers, intermediaries, government trade and legal agencies, university faculty, financiers, brokers and sellers associated with agribusiness in Arizona and Sonora be published. Such a directory would be very helpful for agribusiness firms and policy makers on both sides of the border. The directory could be available on a World Wide Web site and/or published in print format.
 - ◆ Survey results indicate that long-standing relationships based on trust are essential for a strong business environment. The strong linkages that already exist between Arizona and Sonora can be considered Arizona's comparative advantage over other states in the rush to trade with Mexico. Building on these linkages, Arizona can use Sonora as a gateway to the rest of Mexico. To this end, we recommend that Arizona businesses make every effort to explore Sonora. Activities we recommend to improve relationships include: **small groups** of 3 to 5 individuals from both Sonora and Arizona with mutual interests to visit operations across the border; **commodity group delegations** with an identified production, trade, policy, or educational theme; and the **directory** men-
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tioned above. These tools will provide better opportunities for face to face interaction and an understanding of the business atmosphere for cross-border agribusiness activities. These steps and others that facilitate interaction, will improve Arizona's position for future involvement in Sonora and the rest of Mexico. The Arizona-Mexico Commission may be the best organization to help facilitate and coordinate these visits and the directory.

- ◆ Establish a **regional agribusiness council** aimed at implementing and assisting medium and long-term strategic actions for agribusiness in the Region. Activities the council may address are: i) propose language for unifying grades and standards (including chemical use and sanitation standards); ii) prioritize and coordinate research programs for the Region; iii) develop and coordinate activities to market jointly produced products; iv) identify inputs and services supplied from outside of the Region that have the potential to be supplied competitively from within the Region; v) design and evaluate strategies for increasing the competitiveness of the Region's agribusiness sector. The council should be integrated by representatives from producer organizations, government agencies, and university faculty.
 - ◆ We recommend better **communication and technology transfer** between universities and industry since companies that utilize university resources have higher rates of productivity than their counterparts. University faculty should be included as a part of the small group visits, commodity group delegations, and the directory mentioned above.
 - ◆ We recommend that a more coherent and consistent **statistical database for Arizona-Sonora** agriculture be developed. The WWW presents itself as an ideal method for disseminating statistical information to agribusiness leaders.
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