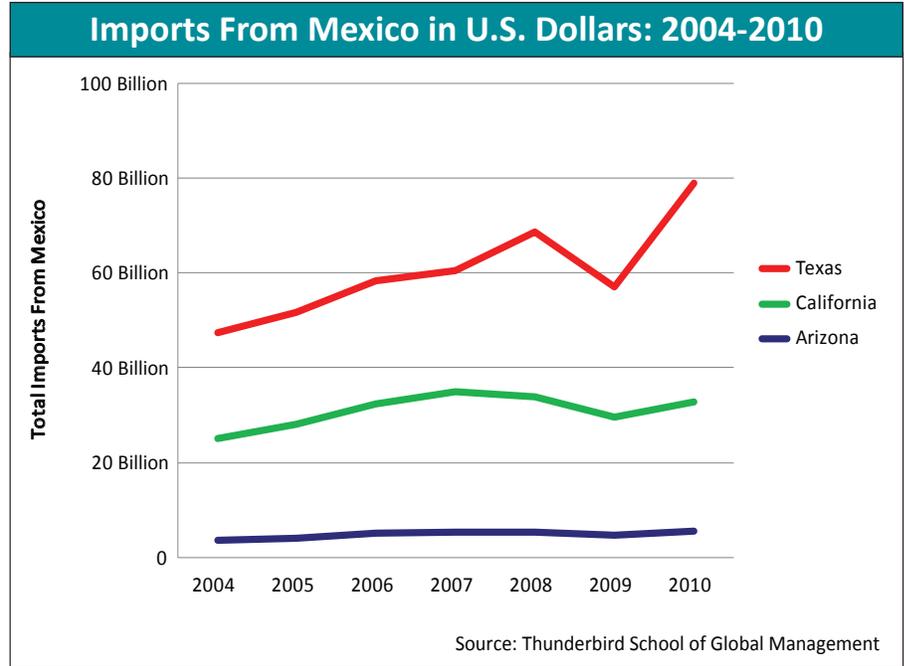


ARIZONA'S OPPORTUNITY: ENHANCE TRADE WITH MEXICO

Trade With Mexico

Mexico is Arizona's top trading partner. Our shared border is the gateway for \$26 billion worth of imports and exports and 44 million people (crossings) each year. Mexican visitors spend approximately \$7.3 million each day in Arizona, providing an annual impact of \$2.3 billion. In addition, there are tens of thousands of jobs in Arizona that rely on trade with Mexico.

Despite this wealth of opportunity, recent studies show that competing border states, such as Texas, are far outpacing Arizona when it comes to developing trade relations with Mexico. While Arizona exports to Mexico totaled about \$5.7 billion in 2011, in Texas the total was \$87 billion.



Reversing this trend is possible through a number of specific improvements, which include:

- Improving infrastructure at the Arizona ports of entry, including Nogales, Douglas and San Luis.
- Reducing commercial vehicle wait times and reducing the number of hours it takes to process rail cars through the border.
- Increasing U.S. Customs and Border Protection staffing.
- Seeking dedicated sources of funding.

(For specific needs, see back page.)

One Voice Arizona

Enhancing trade relations with Mexico and improving the flow of commerce into Arizona is the goal of a border resolution that received unprecedented support by the League of Arizona Cities and Towns and all of the Councils of Governments and Metropolitan Planning Organizations in Arizona. It is also the key objective behind state efforts involving the state's Transportation and Trade Corridor Alliance, led by the Arizona Department of Transportation in conjunction with the Arizona-Mexico Commission.



Infrastructure Improvements

While total trade between the U.S. and Mexico has expanded by more than 600 percent since 1990, ports of entry face significant challenges, including aging infrastructure. Businesses along the border say extensive wait times entering and leaving Mexico are impacting their bottom line.



Thomas Home Furnishings in Douglas, Arizona

“Sometimes during peak times you have wait times that are over an hour both coming and going, and the Mexican people that trade with us, they’re tired of it. They think, ‘I don’t want to wait in line going both ways just to come over to Walmart and fill my grocery cart and go back to Agua Prieta,’” says Bill Thomas, owner of Thomas Home Furnishings, a furniture, electronics and appliance store located 11 blocks from the border in Douglas. Thomas says his business has fallen 60 percent since security operations were implemented following 9/11—from \$4.5 million in annual sales in 2002 to under \$2 million today, forcing him to lay off workers.

“We’ve gone from 60 employees to about 12. In fact, I just recently laid off two more; both have been with me over 10 years. And it wasn’t because of lack of performance, it was because of a lack of business. It’s a pretty sad situation,” says Thomas, who says his business has always been immune to recessionary periods because it relies on Mexican trade. And while he used to cross the border weekly, he has not been across in four years due to the wait times.

Douglas Mayor Daniel Ortega is another businessman who also has seen a decline due to port of entry issues.

“The glory days, before 9/11, people crossed the border pretty freely,” states Mayor Ortega, who serves as vice president of Ortega Stores, Inc., which has four stores in Douglas. *“After 9/11/2001...they became more strict with crossing the border. Coming into the United States, traditionally a long line is anywhere from a half hour to an hour. Then, President Obama signed a treaty with the Mexican president where we would start to check southbound traffic. And our ports weren’t set up for that. So now there’s a delay for Mexican consumers to go back into Mexico, on weekends sometimes up to two hours. So the Mexican consumer no longer wants to come shop with us.”*

Mayor Ortega believes infrastructure improvements would help. *“We only have one southbound lane for all vehicles. It’s difficult to get the people in the secondary lane for inspection. If we had the infrastructure to expand to at least two, to maybe even three*

Aerial photo showing the long backup of vehicles at the Douglas Port of Entry.

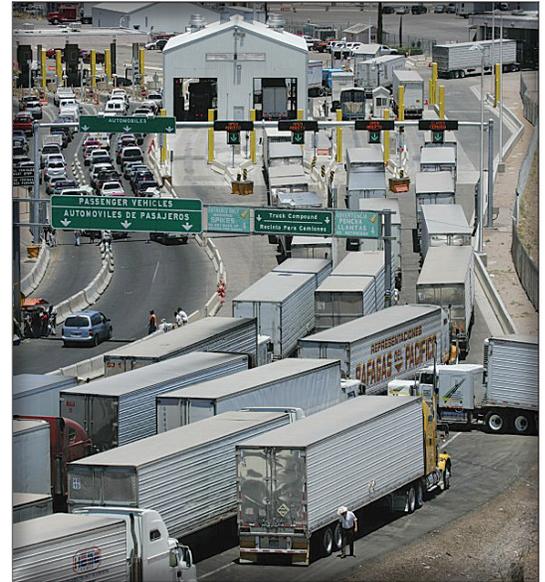


lanes, one for trucks and maybe two for vehicles, it would expedite traffic tremendously.” He also believes a commercial lane, or the addition of a Secure Electronic Network for Travelers Rapid Inspection (SENTRI) lane, which provides expedited crossings for preapproved, low-risk travelers, would help.

Such lanes have helped Juan Carlos Ruiz, chief operating officer of Corporativo Aduana Ruiz, a customs brokerage house in Nogales, Arizona.

“I have business on both sides of the border, so I actually cross every day several times a day during the day. We do the exportation for the produce. We have 20 percent of the market in produce exportations in Nogales. Also, we do a lot of the maquiladoras and focus on customers from all of Mexico. It was very hard before the SENTRI line, because before the SENTRI line, we spent an hour to an hour-and-a-half in the waiting line; right now we can cross in 10 minutes or less.”

The Mariposa Port of Entry at Nogales is one of the 10 busiest cargo ports along the U.S.-Mexico Border. The port is a full-service facility that inspects privately owned vehicles, commercial vehicles, and pedestrians. It is the main commercial processing location for Arizona and handles nearly half of all agricultural commodities entering the U.S. from Mexico. The Arizona-Mexico Commission estimates that 74 percent of all trucks entering Arizona from Mexico pass through the Mariposa Port—approximately 255,000 heavy trucks per year. The port also handles 23 million northbound visitor border crossings and 602 train crossings annually.



Mariposa Port of Entry in Nogales

The traffic moving through the Mariposa Port of Entry primarily uses Arizona State Route 189 (SR-189/Mariposa Road) to access Interstate 19. In addition to the port traffic, considerable amounts of local traffic use SR-189/Mariposa Road to access Nogales High School, motels, restaurants, churches, residential units, and many other business and employment centers. These local destinations are impacted by the large amount of commercial vehicles, leading to congestion and safety concerns.

The Arizona Department of Transportation and the City of Nogales have identified improvements to SR-189/Mariposa Road that would create a safe and efficient transportation corridor that would improve export competitiveness. The corridor improvements are estimated at \$65 million. Currently, there is no dedicated funding for this project.

“Efficient cross-border commerce is critical to the long-term success of businesses situated on or located near the Arizona-Mexico border,” says Kenneth Cecil, general manager of The Mall at Sierra Vista. *“The revenue generated from Mexican nationals who regularly cross the border to take advantage of the diverse commercial corridor through Cochise County helps support the local economy and drives interest from national retailers who may be considering opening up locations in the area. With new businesses come new jobs and opportunities for local residents. It is incumbent upon Southwest Arizona businesses and the federal, state and local governments to work closely together to devise safe, efficient ways to sustain and better facilitate cross-border commerce in the area. This includes developing strategic ways to improve traffic and wait times at border entry points.”*



The Mall at Sierra Vista



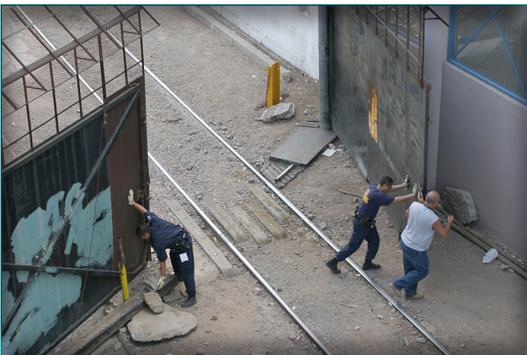
Arizona Snowbowl Ski Resort in Flagstaff, Arizona

Ironically, long entry lines can impact businesses throughout Arizona, not just at the border. *“We have many—hundreds—of Mexican nationals visit Snowbowl each day during holidays, especially Christmas,”* says J.R. Murray, general manager of the Arizona Snowbowl Ski Resort in Flagstaff. Although he does not have any direct statistical information, Murray says Mexican visitors are present in noticeable numbers. *“We have anecdotal claims that the non-skiers outnumber the skiers during the Christmas holiday, with most non-skiers from Mexico. They want a snow experience and are attracted to the mountain,”* says Murray. *“The spending from this category of customer is above average...I am sure if the border crossing was faster they would consider coming more often.”*

Required infrastructure improvements include a need for enhancements in technology, such as wait time readers, transponders and the development of electronic screening systems at Douglas and San Luis ports of entry, and modern technology for gate operations at the DeConcini Port of Entry in Nogales.

Staffing at Arizona’s Ports of Entry With Mexico

The ports of entry on the U.S.-Mexico border are severely understaffed. The port director for the San Luis crossing states that with attrition rates and reassignments, the port of entry is back to 2010 staffing levels. Since that time, a new port of entry has been opened (San Luis II), two new SENTRI lanes have been opened at San Luis I, and two new car lanes recently were inaugurated. Yet staffing levels have remained the same.



Despite the need for new officers, the federal 2012 budget provides for only 300 new customs and border protection officers nationally. Arizona estimates that the Arizona ports of entry need an additional 400 to 500 officers today to help alleviate the overtime situations and to prevent lanes from being shut down due to insufficient staffing. This is also a serious impact for rail operations at Nogales as staff members are pulled out of regular customs operations to help process the trains as they arrive.



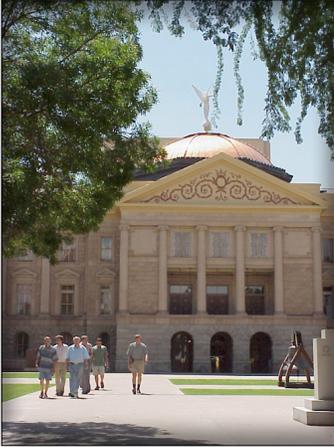
Photos courtesy of Chris Butts

While investments of \$200 million in expansion improvements to the Mariposa Port of Entry in Nogales are expected to help process double the current traffic, concerns remain that insufficient staffing will prevent Arizona from fully leveraging the investment in new infrastructure.

“If you want to improve the flow of commerce, then priority one must be for both Mexico and U.S. Customs to synchronize their hours of operation while being more flexible during the peak season,” states David Berry, vice president of Swift Transportation, the largest trucking company in the United States. Swift, headquartered in Phoenix, owns 100 percent of Trans-Mex, a carrier based in Nuevo Laredo, Mexico.

Workers manually open gates at the DeConcini Port of Entry in Nogales. Modern technology improvements are needed.

“We just need infrastructure help and in staffing. I believe there are ports that have opened that don’t have the staffing to open them enough hours,” states Mayor Ortega of Douglas. *“There are consumers and businessmen and workers that try to come over early in the morning to beat the traffic, yet only one lane is open because of staffing issues at the border.”*

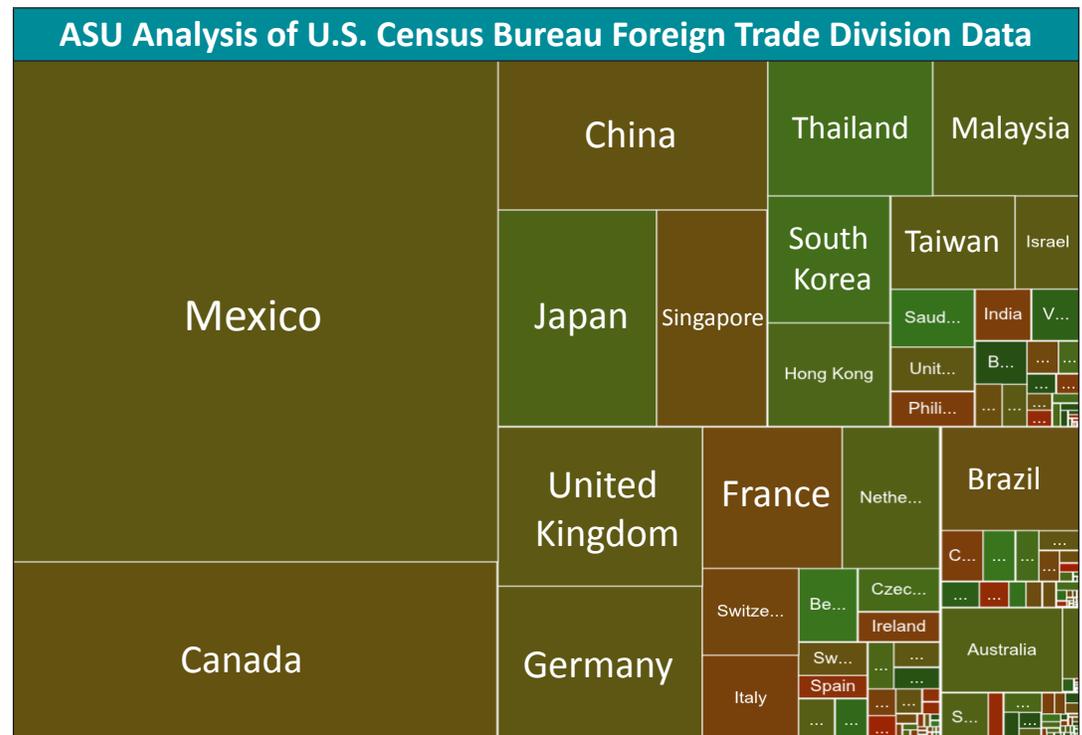


State & Federal Efforts

Since the passage of the North American Free Trade Agreement (NAFTA), bilateral trade has grown exponentially, reaching a record high of nearly \$400 billion in 2010. Mexico is now the third-ranked commercial partner of the U.S. and the second largest market for U.S. exports. Trade with Mexico supports six million jobs in the U.S. and tens of thousands jobs in Arizona.

Recently, Arizona Governor Jan Brewer announced the formation of the State Transportation and Trade Corridor Alliance to explore infrastructure improvements and economic opportunities at the border. This effort will be led by the Arizona Department of Transportation in conjunction with the Arizona-Mexico Commission.

The issue also is getting federal attention. In January, President Obama signed an Executive Order establishing Visa and Foreign Visitor Process Goals and the Task Force on Travel and Competitiveness. The order seeks to develop a national travel and tourism strategy with recommendations for initiatives to promote domestic and international travel opportunities. This followed his 2010 National Export Initiative, which sets the goal of doubling U.S. exports by the end of 2014 to support millions of jobs here at home.



The size of each box is proportionate to the dollar value of exports Arizona sent to the country in 2011, representing the entire \$17.8 billion Arizona export market. The color of each box represents the change in export value to that country between 2009 and 2011, with green representing growth and red representing contraction.

The chart shows that most countries have increased their imports of Arizona goods during the 2009-2011 timeframe. For example, Mexico, which purchased 33.5% of all Arizona exports in 2011, increased its amount of Arizona imports by 31% from 2009-2011. The number of countries that have reduced imports of Arizona goods is relatively small as a percentage of Arizona's total export market. These countries include Italy, Spain, Switzerland, Ireland, India and the Philippines.

Other Opportunities/Issues

With a population of 113 million, Mexico is the 13th largest economy in the world. In 2010, Mexico invested an unprecedented five percent of its Gross Domestic Product (GDP) in infrastructure. For every dollar Mexico makes exporting to the U.S., it in turn spends 50 cents on U.S. products or services. Mexico's share of Arizona exports increased from 25.6% to 33.5% between 2002 and 2011.



In 2011, the World Bank ranked Mexico the easiest place in Latin America to do business. Goldman Sachs research on emerging markets estimates that the Mexican economy will become the world's fifth largest economy by 2050.

Yet some policies are viewed with concern by border communities. Mayor Daniel Ortega says at the same time the southbound port of entry checks were implemented in Douglas, there was a simultaneous tightening of the visas that Mexican consumers need to come into the United States to shop.



Pedestrians wait to cross the border at the San Luis Port of Entry.

“They (the visas) are costly for the Mexican consumer—I believe it is around \$250 per person. So a family of four is spending \$1,000, plus the trip to go to Hermosillo, Sonora, or Nogales, Sonora, to get the visas, because they need to go to an American Consulate. And then they can be denied. From what our customers tell us, for whatever reason, the agent decides on whether to deny the visa, and they do not have to give a reason. For example, a Mexican resident can get a speeding ticket of any sort and get denied, and the entire family is denied....And that’s had a huge impact on us in the border towns.”

Ortega says bans on certain products such as chicken and beef crossing the border into Mexico have also impacted sales of a variety of products, and he would like to see such bans revisited.

Sources:

- Arizona-Mexico Commission
- Arizona State University North American Center for Transborder Studies
- *BizTucson 2012 Special Report*
- Maricopa Association of Governments
- Thunderbird School of Global Management

ONE VOICE ARIZONA



Arizona's Action Items

Improvements in Nogales, Arizona—State Route 189/Mariposa Road

- Improvements to State Route 189/Mariposa Road that connects to the Mariposa Port of Entry with Mexico to create a safe and efficient transportation corridor that would improve the competitiveness of the State of Arizona and the United States export industry. The corridor improvements are estimated at \$65 million.

Improvements to Arizona's Main Commercial Ports of Entry

- *Mariposa*
 - ◆ Currently undergoing renovation. Issues that need to be addressed are improvements to 189/Mariposa Road and sufficient staffing for new lanes.
- *DeConcini*
 - ◆ Pedestrian & vehicular overpasses of Union Pacific Railroad—\$65 million
- *San Luis I*
 - ◆ Phased modernization of port of entry—\$25-35 million
- *Douglas*
 - ◆ Improve southbound lane—add third lane for southbound traffic—\$2 million
 - ◆ Deployment of SENTRI lane
 - ◆ Develop a commercial port of entry to accommodate SENTRI lane

Technology at Arizona's Ports of Entry

- Border wait time readers and transponders at Douglas and San Luis ports of entry
- Advance the development of electronic screening systems at Douglas and San Luis ports of entry
- Modern technology for railroad gate operations at DeConcini Port of Entry in Nogales

MAP-21 Federal Transportation Legislation

- \$500 million is allocated for infrastructure improvements
 - Funding for improvements to State Route 189/Mariposa Road at Nogales (\$65 million estimated)
- Designation of Arizona Freight Corridors
 - ◆ Interstate 19
 - ◆ State Route 189/Mariposa Road (Project of Regional and National Significance)
 - ◆ Interstate 15 (Project of Regional and National Significance)
 - ◆ Interstate 8
 - ◆ Interstate 10
 - ◆ Interstate 17
 - ◆ Interstate 40
 - ◆ US-60
 - ◆ US-191 (Border Connection)
 - ◆ SR-80 (Bridge Improvements—Border Connection)
 - ◆ US-95

For more information:



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Staffing

- Estimated that the Arizona ports of entry need an additional 400-500 U.S. Customs and Border Protection (CBP) officers
- Dedicated CBP staff for railroad operations in Nogales