



# Proximity and Prosperity

## *Mapping the produce trade in the Rio Grande Valley*

By Cristina Adams

The Rio Grande Valley is a booming area and the epicenter of the Texas produce industry, a critical economic engine for the region. With 1.3 million residents and population growth of 2.5 percent per year, the region boasts a healthy job market. Perhaps more importantly, it is also one of the country's biggest gateways for fresh produce imports from Mexico.

### STARS OF THE SHOW

Eagerly embracing the boom times are the four counties—Hidalgo, Cameron, Starr, and Willacy—that make up the Rio Grande Valley, or simply 'the [more](#)





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Valley' as it is commonly known. Hidalgo County, with a population of about 816,000 living in 1,600 square miles, is the largest of the four. Hidalgo County's biggest city is McAllen, with a population of 140,717, but the county is also home to Pharr, well known for the Pharr-Reynosa International Bridge, one of the most important ports of entry along the U.S. Mexico border.

At 1,276 square miles, Cameron County is smaller in area as well as population, which was estimated to be 417,276 in 2013. Brownsville, both the county seat and its largest city, is one of the fastest-growing areas in the United

States, thanks in large part to international trade with Mexico. Indeed, when counted together with Matamoros, its sister city just across the border, greater Brownsville's population jumps to more than 1.1 million.

Considerably smaller in terms of residents (61,963) but with virtually the same area (1,229 square miles) is Starr County; last in size is Willacy County, with just 784 square miles and 21,921 people.

Despite their different sizes, these four counties share a few important characteristics. Their demographic is overwhelmingly Hispanic; in Hidalgo County, for example, Hispanics account for 90 percent of the

population. That's no surprise, given the Valley's proximity to Mexico and its long, comfortable history of commerce back and forth across the border.

Also key is their importance as both a region of produce growers and of produce importers. Nearly 40 percent of all fruits and vegetables consumed in the United States are imported from Mexico, and 50 percent of those imports come through Texas (the majority of the rest come through Nogales, AZ—for more information, see our spotlight article, "Nogales and the New Mariposa Port" in this edition).


### MARKET OPTIONS

Much of the fresh fruit and vegetables that make their way to retailers and consumers across the nation begins with terminal markets and cold storage near border crossings. One such place is the McAllen Produce Terminal Market. Comprised of 42 acres, this hub of activity operates within 294,000-square-foot of warehouse space, and is outfitted with state-of-the-art technology and vast cold storage capabilities. Also known as the *Central de Abastos*, it is home to 90 businesses that import and export fresh produce from the United States and Mexico.

What's more, it is conveniently located, just a short drive from both the Hidalgo International Bridge and the Anzalduas International Bridge, although commercial truck traffic won't be crossing the latter until later in 2015. Nevertheless, the choice of one and eventually two border crossings makes this terminal market an attractive proposition for everyone, from growers, shippers, and drivers to cold storage operators, brokers, and distributors.

### THE PHARR INTERNATIONAL BRIDGE

One of the most important U.S. ports of entry along the U.S.-Mexico border, the 3.2-mile-long Pharr International Bridge connects the U.S. city of Pharr to the booming Mexican city of Reynosa. It is the only full-service commercial bridge in the Rio Grande Valley region.

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for commercial traffic, six cold storage units, and plans for continued expansion. These plans call for, among other things, the addition of another six cold storage units by the end of 2015 as well as a push for changes to facilitate the flow of south-to-north commercial traffic by designating a dedicated 'certified' lane for empty tractor-trailers.

Indeed, many call it the 'Intelligent Bridge' because of its state-of-the-art facilities and technology, such as the use of gamma rays and radio-frequency identification to scan incoming commercial traffic. In addition, the bridge offers shippers Free and Secure Trade (FAST) lanes as well as expedited entry to members of the Customs-Trade Partnership Against Terrorism (CTPAT), whose loads are certified in advance and can bypass the often lengthy inspection process as a result.

Considering the vast amount of traffic, it's no surprise that efforts to facilitate better flow are in the works. According to Luis Bazán, industrial development manager at the Pharr International Bridge, nearly 4,000 trucks make the crossing every day, 2,000 going north and about 2,000 heading south.

In 2013, just over 100,000 trucks carrying produce crossed the border at Pharr. By 2020, according to a study by Texas A&M University's Center for North American Studies, that number could balloon to 360,000 produce trucks per year.

Pharr was recently awarded a \$1.2 million grant, funded in part by the U.S. Economic Development Administration, to develop and build an international trade center at the bridge. "We want to develop a trade center where we can allow for business operations, satellite offices, communications, and the exchange of information and ideas in case of natural disaster," Bazán says. "The idea is that it can be a command center adding on to what we have here already."

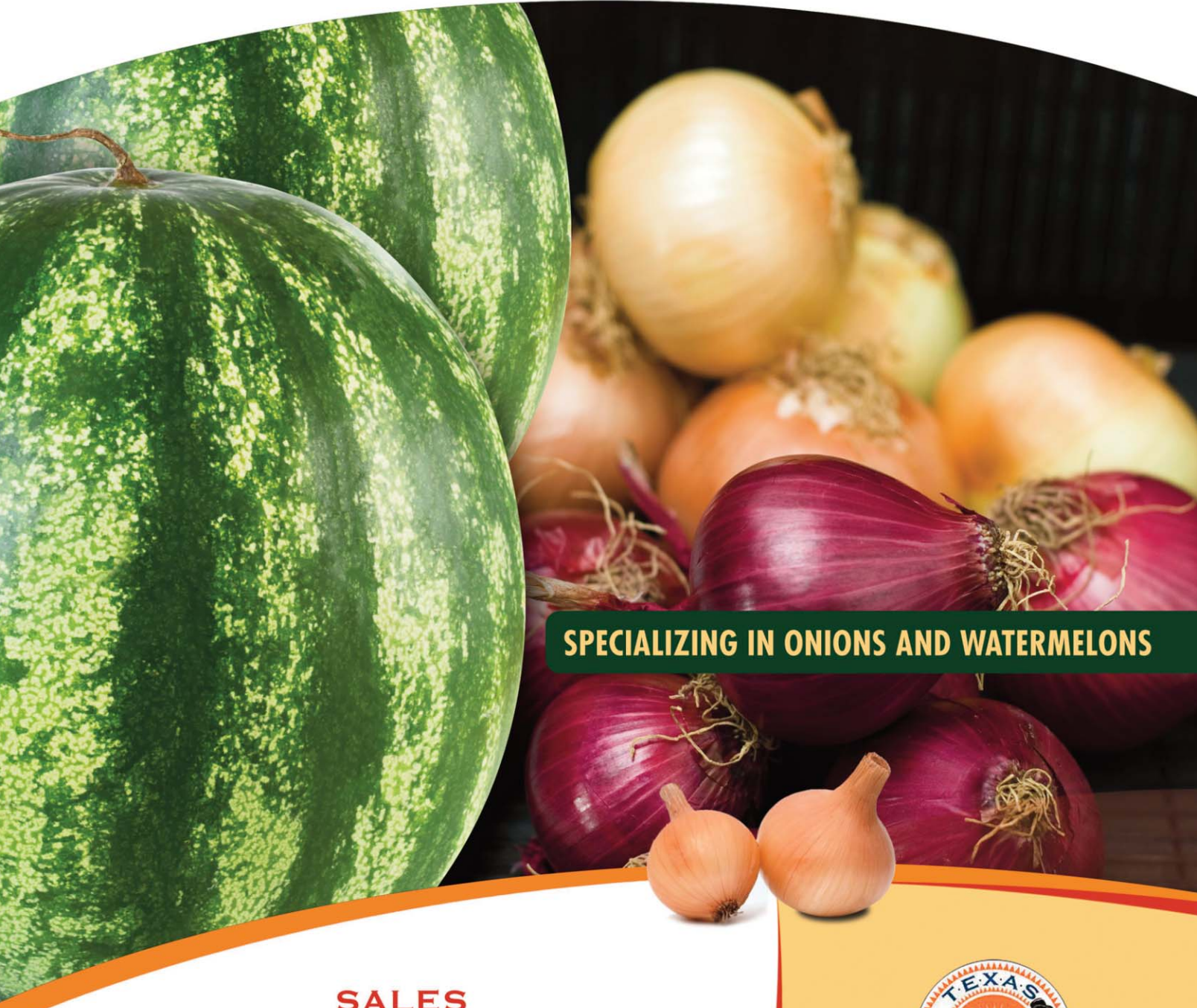
In addition to the command center, Pharr invested \$11 million to build a distribution center. The city broke ground in May 2013 on a 90-acre tract of land, which it subdivided into 31 two- and three-acre lots. Known as the Pharr Produce District, it is designed to offer growers and distributors amenities as well as convenience.



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“What we’re proposing is for Mexican growers to expand operations to our side and to have in-and-out service that’s close to the Pharr International Bridge,” explains Bazán. “Our idea has been that if you build it, they will come,” referencing the famous line from Phil Alden Robinson’s popular 1989 film, *Field of Dreams*.

While several lots are already under contract at the new Pharr Produce District, construction and commitment has been slow. Given the cost of building and maintaining a warehouse, it could be a hard sell to some in the sector. Pedro Camacho, general manager of McAllen-based Traveler Produce, LLC, likes the idea of a produce

park in general, and the location of this one in particular, but it’s also an investment of capital that could be spent in other areas of the business.

### A PRIME LOCATION

Fixed costs notwithstanding, most agree the Valley is a good—many would say great—place to do business. It is the center of the state’s citrus production, which has a local economic impact of \$150 million per year. While the region is known for oranges, watermelon, tangerines, tangelos, and Meyer Lemons, grapefruit, which accounts for more

than 70 percent of the area’s total citrus production, is the dominant crop.

The Valley is strategically situated along the border, making it a very convenient point of entry for produce imports from both Mexico and Central America. In other words, location is key. “For a company like ours that imports 98 percent of its product from Mexico, there couldn’t be a better location than the Valley,” observes Yasmani García, sales representative at Sweet Seasons LLC in Hidalgo.

“For everybody in the United States who buys product from Mexico, this is one of the main places you can buy it. Plus, we can easily serve both the East and West Coasts,” García says, adding, “There’s a big difference between buying and transporting all the way from San Diego to New York than from the Valley to New York.”

Bret Erickson, president of the Texas International Produce Association (TIPA), concurs, pointing out that when it comes to imports, the Valley is a prime location. But he’s also quick to note the benefits of growing within the region itself. “We’ve got great growing conditions and a great climate, which makes it conducive to growing a variety of products,” he explains. “We’re on the receiving end of the pipeline for getting product from the West Coast of Mexico to the United States, and we have a rapidly growing population demanding more fruits and vegetables. That’s good for growers in Mexico and the Valley.”

Jorge Vázquez, president of Houston-based Latin Specialties, Inc., wholeheartedly agrees with García and Erickson. “As a large port of entry into the United States, and thanks to the wide availability of produce, the Valley is an ideal place to load mixed produce trucks, buy shorts and/or shop for deals from multiple importers and growers.”

### GROWTH AND EXPANSION

Although unemployment in the region remains the highest in Texas, job growth has increased with the flow of traffic from south to north and with the flurry of activity in the energy sector.

Some, like Art Salinas, sales manager at Bonanza 2001 in Pharr, say the location is a huge boon for shipping, both in terms of convenience and cost. “People are [more](#)

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*Many cold storage warehouses fill up as quickly as they go up. "There's a facility here that has three floors, and the first and second floors are already sold out. It hasn't even been built yet."*


coming here to take advantage of the shipping. For a \$10 box of tomatoes, if your customer is in New York, it will cost you \$15 to deliver from Nogales and \$13 to deliver from Pharr," he says. "Because of where we are located, it gives us a freight advantage."

The Valley's growth in the past few years has resulted in more line carriers, which Camacho of Traveler Produce credits with bringing down the cost of freight. He also cites an increase in the number of cold storage facilities across the region as a benefit of the recent boom times. Not only has it made the market more competitive, it has also improved the quality of the facilities and extended the shelf life of produce.

In fact, according to Salinas, many cold storage warehouses fill up as quickly as they go up. Another interesting point: rather than renting cold storage, more growers are building their own warehouses, not only for their product but to lease to others in the industry. "There's a facility here that has three floors, and the first and second floors are already sold out," Salinas says. "It hasn't even been built yet."

Erickson confirms that new packing-houses and cold storage facilities proliferate. "A lot of the companies opening these facilities are Texas-based businesses expanding their operations, but some are Mexico-based companies expanding or opening here for the first time, which will also bring even more business to the area," he contends, citing the Texas A&M study's growth projections. Though he believes the numbers may be a bit high, "either way, the growth is going to be significant. We are already seeing the surge."

It's this impressive growth that gives the Valley an advantage over similar areas across the country. Richard Ruiz, founder and president of Ruiz Sales in Edinburg, believes that while the Valley has seen major growth, it is still an affordable place to both do business and live—which in turn makes it even more attractive for companies to expand their presence or relocate here.

The average salary or hourly wage might be lower than in other parts of the United States, but so are the costs. For example, a home selling for \$300,000 in California might sell for \$60,000 in the Valley. [more](#) 



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"There are new 'Help Wanted' signs every day, and as we keep expanding, so do the amount of jobs available," Ruiz says. "It means that as long as they're willing to work, people can afford to live comfortably. It's a very competitive place to do business, and it's a market that more and more people are trying to get into."

### THE MAZATLÁN-TO-MATAMOROS HIGHWAY

The *Supervía*, which stretches from Sinaloa through the mountains of Mexico to the U.S. border, has become a major pipeline for buyers and sellers of produce, bringing a major boost to the entire Valley in general, and to the Pharr International Bridge in particular.

"We've already seen an expansion of business in the Valley and more business bound for the most populous areas," notes Ruiz. "As Mexican companies and U.S. importers begin to take advantage of the savings to the East Coast, I can see this

region becoming the main import [hub] for any produce bound to the eastern United States."

The area is also home to an influx of customs brokers, according to Armando Flores of Ace Customs Brokers, Inc. in Hidalgo. "There are more U.S. customs brokers now in South Texas, and that's having a big impact on our business, because there's more competition. Importers from other ports are relocating and importing through Hidalgo and Pharr now."

And while there seems to be plenty of business to go around, Flores says, "The competition gets tougher every year, because more and more people are getting into the customs brokerage business. It comes down to a question of supply and demand. Everyone wants a piece of the pie."

The direct route to South Texas certainly makes good fiscal sense, reducing diesel costs and travel time. This also helps truckers in the current regulatory environment, especially with hours of service rules, though the latest federal budget passed in [more](#) ▶



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December included a rollback of two of the more restrictive provisions of the 34-hour restart rule.

## THE TROUBLE WITH DROUGHTS, LABOR, AND CONGRESS

While the future is promising, the Valley has a slate of issues to contend with in the present. Among the most pressing of these challenges is water—or the lack of it. Since 2010, much of Texas has been in various stages of drought, from moderate to historic. In 2012, the Lower Rio Grande Valley saw just nine inches of rain; the average annual

rainfall normally runs to more than 21 inches. But times aren't normal, and neither is the weather. As TIPA's Erickson wryly observes, "To say that the Valley is challenged with water is an understatement."

He points to ongoing water resource issues with Mexico—the watershed is on both sides of the Rio Grande River—as well as urbanization and overdevelopment, noting that these factors have also contributed to the water shortage and will continue to do so. And although the drought eased substantially in the winter and autumn of 2014, Erickson isn't celebrating just yet.

"There are farmers who left some ground fallow this year because they didn't have enough water to plant a crop," he says. "The long-term answer for us in Texas is to do a better job of working with irrigation districts, to be more mindful of how we use the water we have, and to improve the infrastructure of our water delivery systems."

Water has also been an issue for Chad Szutz at A-W Produce Company in Weslaco. The business, which grows in four different water districts, has had to deal with multiple allocation issues and restrictions. To combat the shortage, the company turned to drip irrigation on much of its acreage years ago; more recently, it began using drip irrigation for its







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## FRESH FORUM

**What innovations do you think will have a profound impact on the industry?**

**Armando Flores, Ace Customs Broker, Inc.**

I think it's probably how companies are working to break new ground. So avocados are avocados, and berries are berries, but people are also trying to come up with new varieties of produce. Whether this means creating a hybrid or not, they want to make it healthier, cleaner, and more presentable.

**Chad Szutz, A-W Produce Company**

Technology: it's already happening in other industries and now it is slowly moving into agriculture... Look at global positioning systems in tractors, for instance, and there are new programs coming out all the time. New technology is going to streamline our sector even more.

**Art Salinas, Bonanza 2001**

If anything is having an impact, it's the constantly changing level of food safety. There are so many hoops we have to jump through. Don't get me wrong, the hoops are good—but they cost us a lot of money. The problem is we have to add it into our costs, but the customer doesn't want to pay—they want it "bueno, bonito, barato" (good, pretty, inexpensive).

**Jorge Vázquez, Latin Specialties, Inc.**

Advances in automation will hopefully bring some relief to the shortage of labor. In addition, the use of genetically-modified crops and advances in biotechnology will hopefully deal with threats like water shortages and plant diseases, such as citrus greening.



onions and watermelons, two of its largest crops.

While Szutz remains circumspect about the challenge, he also admits it is probably the new normal. “I’m sure we’ll have better times,” he says. “But between the population growth and the demand for year-round produce, water will always be an issue in the future.”

For Vázquez of Latin Specialties, the lack of a stable and dependable workforce is one of the biggest problems across the industry. Over the past several years, employee turnover has increased dramatically. He points to immigration reform and labor issues—and the Congressional roadblocks to tackling the problems—as frustrating flies in the ointment.

“When it comes to immigration reform, other company owners second my concerns for finding a reliable workforce and express a complete disillusionment with the lack of action and leadership from the federal government,” he says. “As someone once said, ‘People don’t raise their children to be farmers, and farmers don’t raise their children to be farmers.’ Who will raise and handle our food in the future? I am not sure.”

While south Texas enjoys a steadier supply of labor than the rest of the state, the produce industry is seeing some of its able bodies exit for the oil fields, with the promise of higher pay. And even as some Mexican companies set up operations in the

Valley, Erikson sees many U.S. companies, spurred by the ongoing lack of immigration reform, increasingly moving their growing operations south.

García of Sweet Seasons agrees. During his regular trips to Mexico, he has noted an increase in the acres planted. “I know many U.S. companies now have permanent Mexico programs,” he says. “It used to be just seasonal, but honestly, it’s more cost-effective to grow down there and there’s plenty of labor.” Some labor problems may be remedied, however, if President Obama is successful in his plans for immigration reform.

Also related to the labor shortage is a steady decline in agricultural production

## Richard Ruiz, Ruiz Sales

As younger generations buy more and more produce, they demand more product traceability, food safety, and supplemental information. Generation Y is the first generation to grow up surrounded by technology, and this has led to constant access to information... The information on the Internet, however, isn’t always reliable. Rather than risk the possibility that people will learn the wrong things about produce, we should be providing the information ourselves.

## Yasmani García, Sweet Seasons LLC

We in the industry need a way to get our loads across the border more quickly. Our company brings in a lot of papaya, and for every load that crosses the border, it takes seven to ten days for the FDA to release [loads] because they test papaya for *Salmonella*. For a product like papaya, that’s too long—it needs to get through quickly to keep it as fresh as possible.

## Bret Erickson, Texas International Produce Association

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across the region. According to the Texas Department of Agriculture, the state is losing an average of 200 acres per day of agricultural production land, which also includes livestock. Industry leaders point to suburbanization and overdevelopment, labor challenges, invasive pests, and political gridlock as the causes.

### OTHER CHALLENGES

While the big issues generally get more attention, there are a number of other challenges plaguing the industry. Food safety, for one, is having a profound and costly impact as consumers, especially millennials, seek

better, healthier, safer produce on retail shelves and in produce bins.

In 2014 the Produce Traceability Initiative and food safety were front-and-center issues for Camacho. This year, he says, the U.S. Department of Agriculture (USDA) and the Food and Drug Administration (FDA) will push distributors like himself to help Mexican growers comply with regulations, which will cost money that eventually trickles down to the consumer.

For García, the biggest problem in 2014 was security on the roads. Even before a truckload of its signature guavas was hijacked in August 2014, the company had already looked into having cargo insurance for every load.

Since the guavas went missing, however, every load bound for Sweet Seasons carries insurance. "It takes a while to move a truck, so I would think you steal something high-value and easy to sell like avocados," he says. "I can't imagine what they ended up doing with a whole truckload of guavas."

Ongoing delays at border crossings are a problem for Salinas at Bonanza 2001. Even at the Pharr International Bridge, with its cutting-edge technology, the lines are long. If he has ten trucks coming in, only seven will get through because of backlogs, and the process repeats itself the following day. He'd like to see expansion: more lanes, more people scanning trucks, more efficient systems.

"If they're processing 1,000 trucks a day and 800 make it but 200 don't, then expand it," he declares. "Every time a truck crosses or doesn't cross, there's a cost involved."

### THE ECONOMIC ENGINE THAT COULD

Returning to Texas A&M's Center for North American Studies, fruit and vegetable imports from Mexico to Texas are predicted to grow an astonishing 73 percent between 2012 and 2020. During this period, jobs in Texas related to produce imports will likely grow from 3,000 to 7,000 and the Rio Grande Valley will be playing a crucial role as the destination of so many Mexican imports.

Ironically, the region that was once one of the country's produce-growing powerhouses will now benefit from its proximity to Mexico and the public's appetite for year-long fresh produce.

"Competition is good and you have to find your way," reflects Szutz, who says the enactment of the North American Free Trade Agreement back in 1994 "crippled the Texas produce industry" because growers were unable to compete with Mexico's lower costs. Now, however, Texas is gaining a substantial advantage from this low-cost, high-yield production.

For the future, Erickson says, "We need more capacity at our bridges, improved infrastructure, and more resources. Are we ready for that kind of growth? Not today, but when it gets here, we will be." **BP**

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