10-1-2003

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U.S. Liquor Distributors Protest Mexico's New Tequila Export Regulations

by LADB Staff
Category/Department: Mexico
Published: 2003-10-01

The Mexican government has proposed a new set of regulations that severely restrict the origin of tequila and the manner in which it is exported. The proposal revises the Norma Oficial Mexicana (NOM) del Tequila, which was implemented in 1997 to create special protections for the Mexican tequila industry.

Under the proposed revisions, which will be published in October and could go into effect at the start of 2004, Mexican tequila producers would no longer be allowed to sell tequila to overseas buyers in vats or bulk containers. Instead, all tequila exports will have to be bottled at 180 approved locations in five states. The majority of these sites are in Jalisco state, Mexico's largest tequila-producing state. The other sites are located in Michoacan, Guanajuato, Nayarit, and Tamaulipas states.

The Consejo Regulador del Tequila (CRT) said the new regulations are intended to help the government maintain a stricter control over the quality of tequila, which is protected by intellectual-property laws through various trade agreements (see SourceMex, 1997-02-12 and 1997-10-29). "This decision will discourage fraudulent practices by those who did not respect the tequila norms," said CRT president Ramon Gonzalez Figueroa.

US council threatens to bring case to NAFTA

The proposed change, however, has angered some US liquor distributors who had traditionally relied on bulk shipments of tequila. In the first half of 2003, 73% of Mexico's tequila exports were shipped in bulk containers, with the remaining 27% in bottles, the CRT said. US industry sources said this is a slight drop from 2002, when 83% of tequila exports were shipped in bulk.

The new restrictions have prompted US bottlers to consider filing a complaint through the North American Free Trade Agreement (NAFTA). The Distilled Spirits Council of the United States, the national trade association of liquor producers, marketers and importers considers the new regulations a nontariff barrier. The council estimates that US tequila importers could lose as much as US$500 million a year, since plants in California, Missouri, Arkansas, and Kentucky would no longer be able to bottle tequila. "This proposal could have a grave effect on consumers worldwide through higher prices, fewer choices, and the significant potential for serious product shortages," said council president Peter Cressy.

The Mexican government is not concerned about the threats to bring the case before NAFTA, especially since tequila has received special international protections. "It's the right of Mexico to implement the standards of quality of the product," Hector Marquez, economic attache for the Mexican Embassy in Washington, said in an interview with The Washington Post. "We have to keep tequila as distinctive as possible."
US President George W. Bush's administration is studying the matter further before deciding whether to take any action. Allen Johnson, chief agriculture negotiator for the US Trade Representative's office (USTR), told a Senate hearing that the US government was still reviewing Mexico's proposed regulations and was working with US distillers to find a solution to the problem.

**Most Mexican tequila bottlers welcome new regulation**

As expected, the new tequila regulations were well received by the majority of the larger tequila bottlers. In an interview with the Mexico City daily newspaper Milenio Diario, tequila-industry executives Angel Gonzalez Aldana of Corporacion Asan and Jorge Torres Carlos of Destiladora San Nicolas said the new regulations were an important step to ensure the quality of Mexican tequila. Corporacion Asan is the bottler for the Honorable, Con Orgullo and Sublime brands, while Destiladora San Nicolas produces Espolon and several other popular brands.

The new regulations did not, however, gain universal acceptance among Mexican tequila bottlers. Juan Eduardo Nunez Eddins, director of Tequila El Viejito, said some smaller companies that had carved a niche in the export market through sales of bulk containers would be hurt by the new rule because they have limited bottling capacity. Some of these companies would have to invest in bottling operations, either by using their own capital or by forming joint ventures with foreign partners. Many foreign companies like Allied Domecq, Bacardi International, and Penrod Ricard are already major players in the Mexican tequila industry.

Nunez also noted that bulk exports provided some advantage for the tequila industry to offset the high costs of production, the result of the scarcity of the agave cactus (see SourceMex, 2000-06-14). "The reason why practically 80% of our tequila exports were shipped in bulk is because it allowed us to compete against other types of products that had lower processing costs because they use raw materials like grapes, sugar cane, and grains," said Nunez. The CRT said the new regulations would affect 36 companies that had been exporting tequila in bulk containers.

Still, with the continuing popularity of tequila in the US and Europe, the majority of these companies stand to lose very little of their international market share because they have also been involved in exporting the most popular bottled brands like Sauza, Jose Cuervo, Cazadores, and Herradura. "The US bottlers will be the most affected by this regulation because we will be able to sell more bottles, more product, and create more jobs at home," said Jesus Contreras, whose company produces the Casta brand of tequila.

**Tequila production down significantly this year**

Statistics from the US bottling industry indicate that the US consumed 86.4 million bottles of tequila in 2002, more than half of Mexico's total production. In recent years, 80% of Mexican tequila exports have been shipped to the US. The strong US consumption is a sharp contrast to trends in Mexico, where consumption of hard liquors and wines has declined over the past year because of reduced purchasing power of consumers.

The decline in domestic consumption, along with the limited availability of agave, has reduced tequila production to its lowest level in eight years. Output reached only 83.5 million liters in
January-August, 13.2 million liters below the same eight-month period in 2002. The low production for the first eight months of the year means that Mexico will not even come close to the 2002 total, which reached 141 million liters. Last year's production was the lowest since 1999, when 190.6 million liters of tequila were produced.

The CRT, meanwhile, is looking for ways to boost domestic consumption. The new regulations announced this year also allow authorized bottlers to begin adding flavors to tequila. "The decision to produce flavored tequila will allow our industry to attract a segment of consumers that prefers this type of liquor," said Gonzalez, who noted an increase in the popularity of flavored rum and vodka.

This move is ironic, however, since the tighter export restrictions implemented this year are partially intended to curb unauthorized variations to tequila, such as the tequila-beer mixtures marketed by some US bottlers. (Sources: La Cronica de Hoy, La Jornada, Dow Jones newswires, 08/06/03; Milenio Diario, 08/06/03, 08/07/03; Reforma, 08/20/03; Agencia de noticias Proceso, 09/17/03; The Herald, El Universal, 09/18/03; Associated Press, 09/24/03; The Washington Post, Reuters, 09/25/03; El Financiero, 09/29/03)

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