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The supply of blue agave (agave azul) cactus in Mexico has gone from one extreme to another during the past several years, with the severe shortages reported in 1999 and 2000 expected to turn into a major oversupply during the next two years. Production of blue agave cactus, the variety used in premium tequila, is projected at 46.4 million plants by 2006. This is nearly twice as large a crop as the 24.8 million plants produced in 2000. The Consejo Regulador del Tequila (CRT) says both extremes create problems for the tequila industry.

In 2000, a shortage of blue agave, along with a surge in exports, left tequila producers scrambling to meet demand (see SourceMex, 2000-06-14). Tequila consumption soared during the 1990s, largely because of increased demand in the US and Europe (see SourceMex, 1997-02-12).

As a result of the shortages and increased consumption, prices for agave soared by 1,600% by 2000 while tequila production was declining by about one-fourth because of the lack of supply. The lucrative price paid by distillers led growers to increase their plantings significantly in the late 1990s. Those new plantings, which have gone through the normal growth cycle of about seven years, are expected to be ready for the market by 2006 and 2007.

A large share of those new agave azul plants will be harvested in areas outside the regions in the states of Jalisco, Nayarit, Guanajuato, Michoacan, and Tamaulipas that have been certified by the CRT. "The uncontrolled planting has occurred both within and outside the designated regions," said CRT official Cristobal Mariscal, who is also the director of legal affairs for Mexico's giant tequila producer Jose Cuervo.

Bootleg tequila becomes a problem

In most cases, the "uncertified" agave plants are being used to produce a bootleg version of tequila, which competes on the domestic market with the original spirit. CRT officials say the availability of the bootleg tequila not only lowers the price for the original product but also fails to meet the standards of the tequila industry.

One of the greatest risks is that the bootleg product can contain a much higher alcohol level than certified tequila, creating a health risk for the consumer. This has prompted government health inspectors and tax agents to seize about 40,000 gallons of bootleg tequila and close down 135 liquor stores that were selling the illegal product.

Mariscal said an oversupply of agave is already evident in 2004, with estimated production of 578,000 MT expected to greatly surpass demand of only 512,000 MT. The problem will worsen by 2006, when estimated production of 1.21 million MT will overwhelm the projected demand of 593,000 MT. "If the current price is already at a very low level of 3 pesos (US$0.26) per kilogram, the projected surplus could cause the market to collapse," said Mariscal.

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In contrast, bottlers were paying as much as 18 pesos ($1.56) per kg between 1999 and 2001. CRT officials said small-scale producers would be hurt most by a weak market because they have invested almost all their capital into production. The Confederacion Nacional Campesina (CNC) estimates that more than 200,000 Mexicans are employed by the tequila industry, including those who dedicate their lives to growing agave. Several large tequila manufacturers like Cuervo, Sauza, and Herradura have pledged to help growers with four hectares or less by acquiring a total of 20,000 MT from them.

Tequila industry to expand product line

The tequila industry is also considering a proposal to diversify its products in overseas markets to meet the growing competition from vodka and other spirits. Roughly 60% of the tequila produced in Mexico is exported to 150 countries, resulting in profits of close to US$490 million per year. One proposal to increase sales in the US and Europe would be to allow overseas bottlers to add flavoring to the nonpremium tequila products. The products contain 51% pure blue agave and 49% cane liquor or other varieties of maguey cactus.

The Mexican regulations governing the quality of tequila would not allow the addition of flavors in Mexico. Many US distributors, however, are able to import tequila in bulk shipments and could conceivably combine the spirit with other products during the bottling process.

Earlier this year, the Mexican government removed uncertainty regarding the bulk imports by withdrawing a proposed restriction that would have limited tequila exports to products bottled in Mexico (see SourceMex, 2004-04-28). The decision to allow bulk shipments could boost Mexican tequila exports above last year's level of about 100,000 liters, the Secretaria de Economia (SE) estimates.

The proposal to allow flavoring to tequila products marketed in the US would represent a significant change for the industry, which has long resisted allowing the dilution of even its lower-quality products. The industry had unsuccessfully fought the marketing of products in the US such as a tequila-beer mixture sold under the name of Tequiza and a tequila-grapefruit mix sold in a can (see SourceMex, 1999-09-22).

Some of the larger Mexican tequila companies are looking into the possibility of entering the flavored-tequila market, perhaps through a US subsidiary. "We see this as a business opportunity," said Cuervo's Mariscal. He declined, however, to confirm whether Cuervo is working on a flavor line. US distributors predict that flavored tequilas would become a poplar product in the US market. "The only ones who don't like it are the Mexicans," said Dave McQueen, whose Nevada-based Tukys company plans to start selling five flavors of tequila watermelon, lime, coffee, strawberry, and orange in the US in November.

Some industry sources note, however, that Mexican consumption patterns have changed some since 1995 because of economic considerations. One trend has been the increase in consumption of nonpremium tequila, said Eduardo Miquel, vice president of Tequila Cazadores. Miquel said consumption of nonpremium tequila is expected to grow by 6% or 7% this year, while that of pure

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tequila is expected to hold steady. Some Mexicans have abandoned tequila altogether for other beverages such as beer.

A study conducted by the Comision para la Industria de Vinos y Licores (CIVYL) indicated that the trend could be attributed in part to the increasing price of tequila, particularly between 1994 and 2002. Tequila prices during the period increased by 574%, while those for beer rose by only 269%. Beer currently accounts for more than 71% of Mexico's market for alcoholic beverages, followed by brandy with 9.4% and tequila with 8.4%, said the CIVYL. Cuervo mixes tequila with tourism Still, tequila remains an important element of Mexican culture in more ways than one.

Some industry officials are attempting to tie the tequila tradition to the tourism industry, with the Cuervo company developing a visitor center in the town of Tequila, Jalisco state, to celebrate the history of the spirit. The center is about 30% complete and will feature a museum with interactive displays, restaurants, a crafts market, and souvenir shops.

The company also plans to create smaller versions of this center in popular Mexican tourist destinations such as Puerto Vallarta, Cancun, and Tijuana, as well as in selected cities in the US, Europe, and South America. "Just as we are able to export tequila as a drink, we would like to also export the Mexican experience to the rest of the world," said Juan Beckmann, Cuervo's president of the administrative council. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Oct. 20, reported at 11.47 pesos per US$1.00] (Sources: La Jornada, 04/05/04; La Cronica de Hoy, 03/01/04, 05/28/04; Milenio Diario, 01/13/04, 07/13/04; Notimex, 05/31/04, 10/09/04; El Universal, 09/16/04, 10/18/04; El Financiero, 10/18/04; The Herald-Mexico City, 08/30/04, 10/07/04, 10/14/04, 10/19/04)

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