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Mexico Agrees to Export Tequila in Bulk to U.S. in Exchange for Quality Control

by LADB Staff

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The Mexican government has agreed to drop its restrictions on wholesale shipments of tequila to the US in exchange for a US promise to implement measures to protect the integrity of the product. The agreement, announced in mid-January, was signed in Washington by US Trade Representative Rob Portman and Mexico's Economy Minister Sergio Garcia de Alba.

The two countries had been involved in a dispute regarding tequila exports since 2003, when Mexican officials announced a plan to restrict what is labeled tequila and the manner in which it is exported. Mexican authorities proposed the change through a revision of the Norma Oficial (NOM) del Tequila, implemented in 1997 to create special protections for the Mexican tequila industry. Under the proposed changes, Mexico would have banned all wholesale shipments of the popular spirit to the US and other countries, thus ensuring greater protections for the integrity and quality of tequila (see SourceMex, 2003-10-01).

The Mexican plan drew strong protests from US liquor distributors, who were accustomed to importing tequila in bulk and bottling the spirit at plants in the US. The Distilled Spirits Council of the United States (DISCUS) said the new rules violated international trade rules and ran counter to practices in the liquor industry worldwide.

The protests from the US liquor industry prompted Mexican officials to scrap the changes to the NOM after only a few months (see SourceMex, 2004-04-28). At the same time, the Mexican government entered into negotiations with the US in an attempt to craft a solution acceptable both to Mexico's Consejo Regulador del Tequila (CRT) and DISCUS.

After more than two years of negotiation, the two sides reached an agreement by which Mexico dropped its proposal to ban wholesale exports of tequila. In exchange, the US agreed to create a special tequila-bottlers registry identifying approved bottlers and to more strictly regulate US bottlers.

One of the CRT's main complaints was that US bottlers were marketing tequila products that had less than 51% agave content. Prime tequila, bottled exclusively in Mexico, is produced from 100% blue agave. The wholesale shipments of tequila already were made up of 51% agave and 49% distilled sugar, so any further dilution affected the integrity of the product, the CRT had said. "[The registry] allows us to track a tequila shipment through its final point of sale," said Garcia de Alba.

Mexico did not want to lose sales to its top market

Conversely, the Mexican government's decision to agree to negotiations rather than stick to a hard line was based on economics. Nearly half of Mexico's tequila production is exported to the US,
mostly through wholesale purchases. In 2004, almost three-quarters of the US imports involved bulk shipments of the blend of agave and distilled-sugar product. US retail sales of tequila reached an estimated US$3.3 billion.

Furthermore, some US observers noted that Mexico's bottling capacity is not sufficient to meet the export demand in the US and other countries, and any disruptions in bulk exports would have led to lower sales for Mexico's tequila industry. "You don't want to kill the goose that laid the golden egg," said DISCUS spokesperson Frank Coleman. "You don't want to disrupt the market." The continued sales to its largest market are important to the Mexican tequila industry, which faced a crisis in 2004 because of an oversupply of blue agave cactus, which affected the overall price of tequila (see SourceMex, 2004-10-20).

In its most recent annual report, the CRT showed record production of 210 million liters in 2005, an increase of 19% from 2004. Mexico also managed to boost tequila exports by more than 7% last year to 117 million liters. "For us, the US market is the most important market in the world," said CRT spokesperson Ramon Gonzalez. "We want to guarantee consumers of this great country that, when they drink a glass of tequila, it has the authentic taste of Mexico." (Sources: El Economista, 01/11/06; Associated Press, Notimex, La Cronica de Hoy, Spanish news service EFE, 01/17/06; Los Angeles Times, Reforma, 01/18/06; Frontenet, 01/20/06)

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