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Tequila-Cachaça Agreement part of Mexico’s and Brazil’s Effort to Expand Trade Relations

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The Mexican and Brazilian governments formalized an agreement in late July that protects the integrity of traditional spirits produced in the two countries. The tequila-cachaça agreement, which was signed in Mexico City by Mexico’s Economy Secretary Ildefonso Guajardo and Brazilian Foreign Minister José Serra, was the centerpiece of a broader accord committing the two countries to expand commercial and economic relations.

Among other things, the agreement on spirits codifies rules of origin for Mexican tequila and Brazilian cachaça. The agreement, originally concluded in February of 2016, prohibits the importation or marketing of adulterated versions of tequila and cachaça. Tequila is produced from a specialty cactus, the agave azul, while cachaça is made from fermented sugarcane juice. Cachaça, which is the second most popular drink in Brazil, is the main ingredient in the caipirinha cocktail, which also includes white sugar and lime juice.

Guajardo said the agreement ensures the protection of Mexico’s flagship spirit in the Brazilian market and shields the tequila industry from unfair competition. The same type of protection is provided for Brazilian cachaça sold in Mexico. “This means that anyone who commercializes, distributes, or produces any of the two drinks matches the requirements from both Brazil and Mexico,” Guajardo told the official news agency Notimex.

As part of the tequila-cachaça agreement, the two countries decided to form a working group to discuss issues including the misuse of the tequila and cachaça names.

According to the Instituto Brasileiro da Cachaça (IBRAC), Mexico is the third country in the Americas to recognize cachaça as a unique distillate of Brazil. The two other countries that have given the Brazilian spirit that designation are the US and Colombia.

“The agreement also contributes to the expansion of world recognition of cachaça and tequila,” said Tatiana Palermo, international relations secretary for Brazil’s agriculture ministry (Ministério da Agricultura).

The market for tequila is strong in Brazil, while cachaça is rapidly gaining popularity in Mexico. According to the Jalisco-based Consejo Regulador del Tequila (CRT), Mexico exported about 1.35 million liters of tequila to Brazil in 2015, valued at about US$8 million. Brazil exported about 40,000 liters of cachaça, valued at US$65,450, to Mexico in 2015, but Brazilian authorities expect exports to increase with the new agreement.

Brazil, Mexico seek to add items to tariff-reduction agreement

The tequila-cachaça agreement was signed in the context of ongoing discussions between Brazil and Mexico on expanding their economic cooperation agreement, known as the Acuerdo de Complementación Económica 53 (ACE 53). Mexico began the discussions with Armando Monteiro Neto, the former economy secretary who served under President Dilma Rousseff (2011-2016), but
was removed from office by the Brazilian legislature (NotiSur, April 29, 2016, and June 24, 2016). Rousseff’s successor, interim President Michel Temer, replaced Monteiro Neto with Serra.

The change in administration apparently did not derail the discussions on the ACE 53, with Serra, whose ministry also handles foreign-trade relations, picking up where his predecessor left off.

The ACE 53, which was negotiated in 2002 and implemented in 2003 (SourceMex, June 19, 2002), reduces tariffs on about 793 groups of products traded between the two countries, including Mexican tequila, beer, and avocados and Brazilian mate and animal feed.

While the two sides did not reach any decisions on expanding the ACE 53 during Serra’s visit to Mexico in July, the two countries identified more than 1,300 items where tariffs could be eventually eliminated.

“My visit reflects the priority that the new Brazilian administration has placed on its relation with Mexico,” Serra said at a press conference. “Now is the time to move the proper initiatives forward and expand the economic relationship between the two countries. The expansion of the ACE 53 is central to this process.”

At present, only 2% of the products traded between the two countries are incorporated into an accord,” Serra said, adding, “There is great potential for us to negotiate a modern, broad, and balanced agreement that includes products of interest to both markets.”

Recent trade tensions

While Serra and Guajardo spoke of the strong potential for the two countries, trade relations have not always been harmonious between the two largest economies in Latin America. Tensions erupted in 2012 around the Acuerdo de Complementación Económica 55 (ACE 55), which deals primarily in trade of motor vehicles and auto parts. That accord also incorporates Argentina and Uruguay, two of Brazil’s partners in the Southern Cone Common Market (MERCOSUR) (NotiSur, Sept. 9, 2016).

Faced with a growing trade deficit and a need to protect its manufacturing base, Brazil demanded in early 2012 that Mexico renegotiate the ACE 55 to reduce shipments of motor vehicles and auto parts. Mexico initially refused, and Brazil then threatened to impose tariffs on imports of those products (SourceMex, Feb. 15, 2012). After a series of consultations, Mexico finally agreed to limit automotive exports for a period of three years (SourceMex, March 21, 2012).

Argentina, which is also covered by the ACE 55, was facing a similar situation as Brazil. In July 2012, the Argentina government withdrew from the accord, citing a need to protect its auto industry. At that time, analysts said the Mexico-Brazil agreement left Argentina vulnerable (SourceMex, July 18, 2012). After months of negotiations, Mexico reached a settlement that allowed vehicles assembled in Mexico to continue entering the Argentine market duty free, but a smaller quota was established (SourceMex, Dec. 19, 2012).

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