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Mexico

Agricultural Situation

Tequila Industry in Mexico

2008

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Report Highlights:

In recent years Mexican production of agave for the tequila industry - concentrated in the state of Jalisco - has varied dramatically. However, as the industry modernizes, efforts are underway to ensure consistent supply of agave. Mexico protects the name tequila, restricting its use to product produced from the blue agave in five Mexican states. Production of tequila is expanding. In the first half of 2007 the tequila industry in Mexico processed 788,000 MT of agave in 128 distilleries and produced over 242 million liters of tequila with exports - primarily to the United States - accounting for over one-half of production.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Mexico City ATO [MX2]
[MX]

PRODUCT DEFINITION

Tequila is a regional alcoholic beverage distilled, like mescal, from the extracted juice of the agave, in particular the blue agave (*Agave tequilana* or the Weber Blue variety.) Both amber and crystal clear varieties are produced, and are classified in Mexico as white (silver), young or gold (gold), reposado (aged), añejo (extra aged) and extra añejo (ultra aged).

According to the Mexican Government Quality Standard NOM-006-SCFI-2005 Alcoholic Beverages - Tequila Specifications, in order to be called tequila, the alcoholic beverage must be elaborated in Mexico and contain at least 51 percent of agave syrup, although the purest tequilas contain 100 percent agave syrup. The agave syrup can be mixed with syrup of sugar, corn or sugar cane.

The name tequila is a controlled origin denomination, which means that tequila is an original product of a specific region whose quality or characteristic is exclusive to the geographic area. Under Mexican regulations, the use of tequila is restricted to the liquor of agave elaborated in determined regions of Mexico including parts of five states of the Mexican Republic (Guanajuato, Michoacan, Tamaulipas, Nayarit and Jalisco.) Jalisco is the main producing state. Mexico has sought international protection for the use of the term tequila.

AGAVE PRODUCTION IN MEXICO

The term commonly used in Mexico for agave is maguey.

The maguey is a multipurpose plant of leaves in rosette, fleshy thicknesses and, standing on a short stem whose interior center does not exceed the level of the ground. Most of these plants belong to the genus *Agave* L., of which Mexico has more than 400 species.



Agave species cultivated in the coastal zone of the Gulf of Mexico and the Yucatan Peninsula are used to extract fibers, forages and foods. Agave has also traditionally been used to produce fermented drinks and distilled drinks, including the traditional pulque, as well as mescal and tequila. Mescal is produced primarily in the states of Michoacan, Chihuahua, Oaxaca, and Sonora.

Agave plants used in tequila production take 6-8 years to reach maturity, making it difficult to adjust to changes in market prices. A downturn in agave production in 1999 led to a shortage of tequila. From the years 2000 to 2004 when agave prices for tequila soared, planting of agave increased. However, as the crops planted in 2000 and 2001 reach their 6 to 8 years cycle for harvest, the agave market was oversupplied. Prices fell to less than \$4 per typical 90 pound plant, from a peak of \$70.

Agave production is rain fed and the majority of production is vegetatively propagated. Younger agave can be intercropped with beans, corn and squash. Agave are harvested year round and each field may be harvested over four years.

TEQUILA PRODUCTION

Distillers of tequila usually buy the heart of the agave from certified agave growers. The agave is then cut into two halves and placed in sterilizers and cooked under steam pressure. The cooked agave is passed through machinery that crumbles it in fibers. The fibers are passed through rollers, and applying water, the maximum juice from each fiber is removed. The juice collected during the milling is taken to bathtubs of must preparation, where the leavening is added to carry out the fermentation. The fermented must is taken to a still, for first distillation. A second distillation is needed to obtain the pure tequila, which is 55 percent alcohol. The pure tequila can be put in barrels for its maturing during a variable time, for its later sale, or for its dilution with other alcohol or distilled water. Source:

<http://www.tequileradearandas.com>

The tequila industry broke a production record in 2006 of 210 million liters, out of which 117 million were exported primarily to the United States and Europe. The increase of agave stock and the increasing popularity of tequila worldwide led to such healthy production. Furthermore, UNESCO named the tequila production region located in the west of Mexico as a world heritage site due to its beauty and the architectural richness of the old haciendas producing tequila.

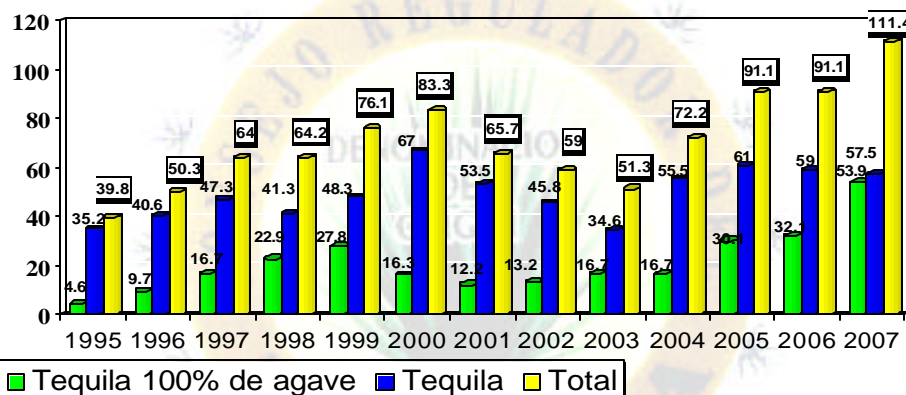
According to the Tequila Regulatory Council agave producers grew an estimated 200,000 tons in 2006, but only 70,000 tons were needed to produce tequila. As there were no incentives to keep producing and prices were going down, many growers stopped agave production and looked for more promising alternatives, such as corn. As a result tequila industry bodies such as the Tequila Regulatory Council and the Tequila Industry National Chamber are working to secure inventories of agave for future demand. On the other side, agave growers channeled the excess production into other products such as agave syrup, a type of natural sweetener in foods, to cash in on this overproduction. The work force that depends on agave farming is over 36 thousand families in the field, plus 5,000 workers, 3,000 employees and 1,000 technicians, and an endless number of indirect employments such as, traders, bottlers, publicists, label, cork, bottle, and cardboard box manufacturers.

Associations such as the Tequila Regulatory Council are also participating in agave production initiatives to help its members grow their tequila sales in Mexico and worldwide. These initiatives include improved forecasting based on future demand, weather conditions, potential plagues affecting agave availability, and development of better technology to decrease production costs.

Between January and June 2007 the tequila industry in Mexico processed 788,000 MT of agave in 128 distilleries and produced over 242 million liters of tequila, of which 140 million liters were exported to over 100 countries, including 106 million liters to the United States. Global demand for tequila and for higher quality tequila is expanding. In the past five years, the production of higher quality tequila from 100 percent agave juice has tripled.

Total Production Tequila and Tequila 100%

Volúmenes expresados en 40% alc.vol. millón de litros



Comparative Jan - May 2006-2007	
TEQUILA 100% de agave	67.91%
TEQUILA	- 2.54%
TOTAL	22.28%

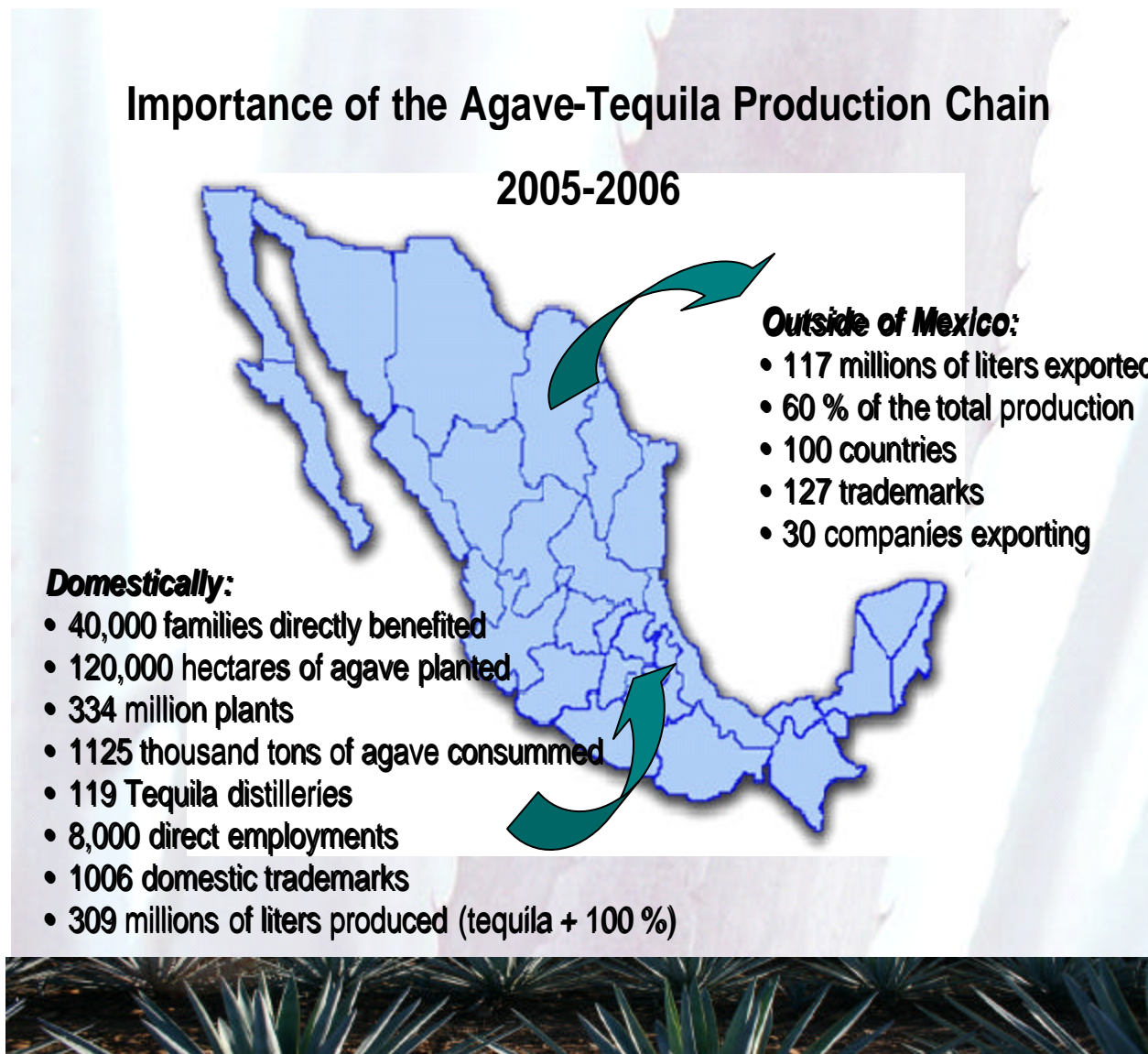
Source: Consejo Regulador del Tequila

PRODUCTION POLICY

In 1994 the Tequila Regulatory Council (CRT) was established to enforce Mexican rules of denomination of origin through monitoring, registration and certification of producers of *Agave tequilana* Weber Blue Variety. The Tequila Regulatory Council or CRT (Tequila Council) worked with the government to issue a Mexican Official Norm to protect the production of tequila against illegal producers. In March 2006, PROFECO, the federal consumer bureau, prohibited the sale of 65 brands falsely claiming to be tequila made from agave. Presently, the CRT represents 115 legal producers of tequila and actively supports the tequila industry

The Mexican government through the Tequila Regulatory Council now requires agave farmers to register their planting, and the tequila industry is monitoring crops with satellite photography. The tequila production area certified by the Tequila Regulatory Council protection act includes 125 municipalities from the State of Jalisco, 7 from Guanajuato, 30 from Michoacan, 8 from Nayarit and 11 from Tamaulipas with an estimated planted area of 125,000 hectares. Some 17,826 agave growers are registered.

AGAVE INVENTORIES REGISTERED AT THE CRT UP TO DEC 2006								
THOUSANDS OF PLANTS								
State	2000	2001	2002	2003	2004	2005	2006	Total
Guanajuato	239,685	360,675	1,898,943	1,498,108	307,287	131,982	354,169	4,790,849
Jalisco	52,461,763	64,125,329	72,924,876	52,012,561	20,128,639	10,309,317	18,445	271,980,930
Michoacan	151,342	712,389	2,675,317	3,435,732	1,721,804	297,855	90,763	9,095,3057
Nayarit	7,948,478	6,490,230	6,000,007	4,930,559	4,727,915	3,057,497	2,490,115	30,253,514
Tamaulipas	240,753	567,345	1,970,593	2,978,908	1,123,958	531,289	0	6,288,888
Total	56,052,087	1,784,938	13,490,409	11,311,673	7,022,131	4,473,561	2,953,492	415,735,180



Source: Consejo Regulador del Tequila

Mexican Domestic Sales of spirits. Total Volume 2001 – 2006						
'000 liters	2001	2002	2003	2004	2005	2006
-- Whisk(e)y	2,344.0	2,774.6	3,138.1	5,604.2	6,838.4	7,189.9
--- Blended Scotch whisky	2,209.0	2,607.6	2,949.2	5,249.5	6,293.3	6,564.6
--- Bourbon/other US whiskey	135.0	167.0	188.9	253.5	337.7	375.0
--- Canadian whisky	-	-	-	101.2	207.4	250.4

--- Brandy	48,582.7	48,395.7	45,976.0	43,989.8	43,857.6	41,673.1
--- Cognac	581.2	630.2	737.5	1,116.3	980.7	980.9
-- White spirits	7,781.5	8,894.0	9,880.9	10,192.4	11,386.1	12,323.7
--- Gin	118.2	92.6	93.8	98.0	96.4	95.0
--- Vodka	7,663.3	8,801.4	9,787.1	10,094.4	11,289.6	12,228.7
-- Rum	43,580.8	44,066.6	41,728.6	36,623.8	33,695.8	34,538.2
--- White rum	28,725.9	29,860.0	28,678.0	24,791.9	23,891.9	24,457.4
--- Dark rum	14,854.9	14,206.6	13,050.6	11,831.9	9,804.0	10,080.9
-- Tequila (and mezcal)	74,181.1	56,624.4	56,970.0	67,000.0	90,846.0	98,196.0
-- Liqueurs	4,982.6	5,168.7	5,530.5	6,120.2	5,935.5	6,216.8

Source: Official statistics, Trade associations, Euromonitor International estimates

POLICY

In 1974 the then Secretariat of Industry and Commerce published in the Diario Oficial (Official Gazette), the resolution to protect the tequila denomination of origin. Protection for the growth and harvest of the agave and the production of Tequila was granted to the territory that includes 125 municipalities from the State of Jalisco, 7 from Guanajuato, 30 from Michoacan, 8 from Nayarit and 11 from Tamaulipas for a total of 181 municipalities in 5 States.

In 1994 as an initiative of the tequila industry sector, the Tequila Regulatory Council (CRT) was established to secure the name of origin "Tequila". The Council has established as its main objectives to:

- Verify and certify the compliance with the Tequila quality standards
- Safeguard the appellation of origin in Mexico and outside the country.
- Guarantee the authenticity of Tequila to the consumer.
- Produce timely and truthful information to the productive chain agave-tequila.
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Today the Council along with agave growers, bottlers, traders, and Mexican Government authorities has secured the production of tequila having in stock 415 million agave plants ready to produce the next seven years.

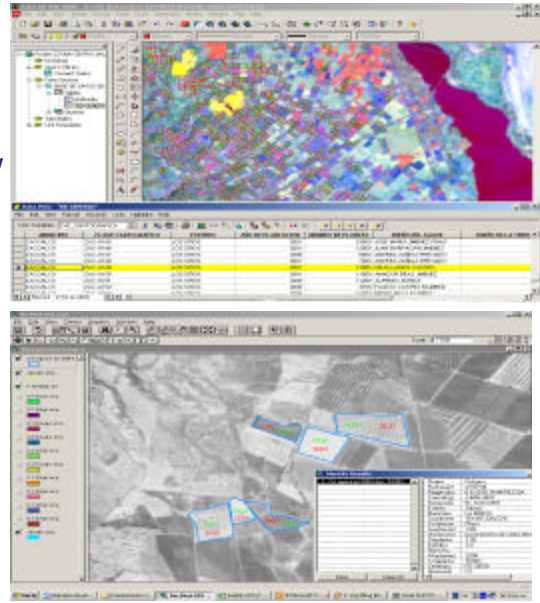
Due to the strong efforts of the Tequila Regulatory Council (CRT), along with government authorities, the sale of illegal tequila is expected to decrease in the next few years as tequila bottles are now required to carry an authenticity certification label.

Mexico is also seeking protection of the tequila denomination in third markets. Under a bilateral agreement with Mexico providing for mutual recognition of denominations of origin for alcoholic beverages, the European Union has extended appellation of origin protection to tequila.

TRACKING INVENTORIES.

To keep a reliable inventory of agave plants, the Tequila Regulatory Council receives applications from agave farmers interested in selling their product to distillers. After the application is approved, the agave farm is then recorded in a geo-reference map.

Georeferencing the Country Estates Containing Agave



Time for issuance:

- The hand over of registration and the CRTarjeta (CRTCard) will not take longer than 8 days from the day of receipt of the application.

Card Characteristics

Description:

- Size and shape of a conventional credit card.
- Made of plastic with a bar code inserted containing electronic data.



Use:

Restricted access to the information by assigning a PIN to each farmer so they are able to check their information online, through the CRT's web page.

THESE SERVICES ARE COMPLETELY FREE

Source: Consejo Regulador del Tequila

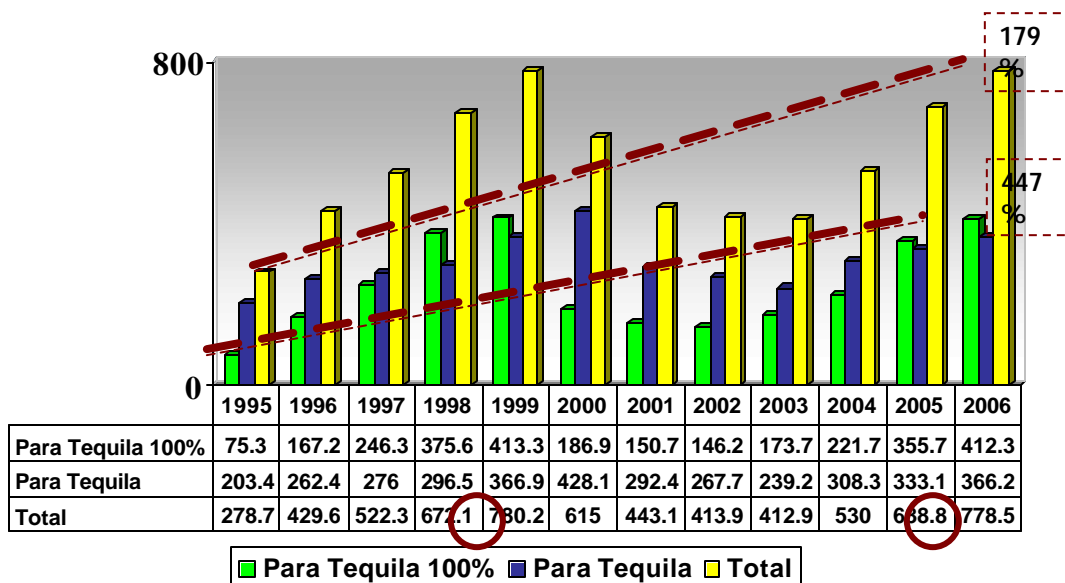
Quality Standards Applicable to Tequila

NOM-006-SCFI-2005 Alcoholic Beverages, Tequila Specifications. Establishes the requirements to comply with relating to the supply of agave, the manufacture, marketing, labeling information and commercial practices specific to Tequila.

NOM-142-SSA1-1995 Alcoholic Beverages, Sanitary Specifications, Sanitary and Commercial Labeling. The standard establishes the specifications and regulations of sanitary and commercial labeling of the spirits that are traded in the national territory.

MARKET SIZE

Agave consumption for Tequila and Tequila 100% de agave
(thousands of tons)

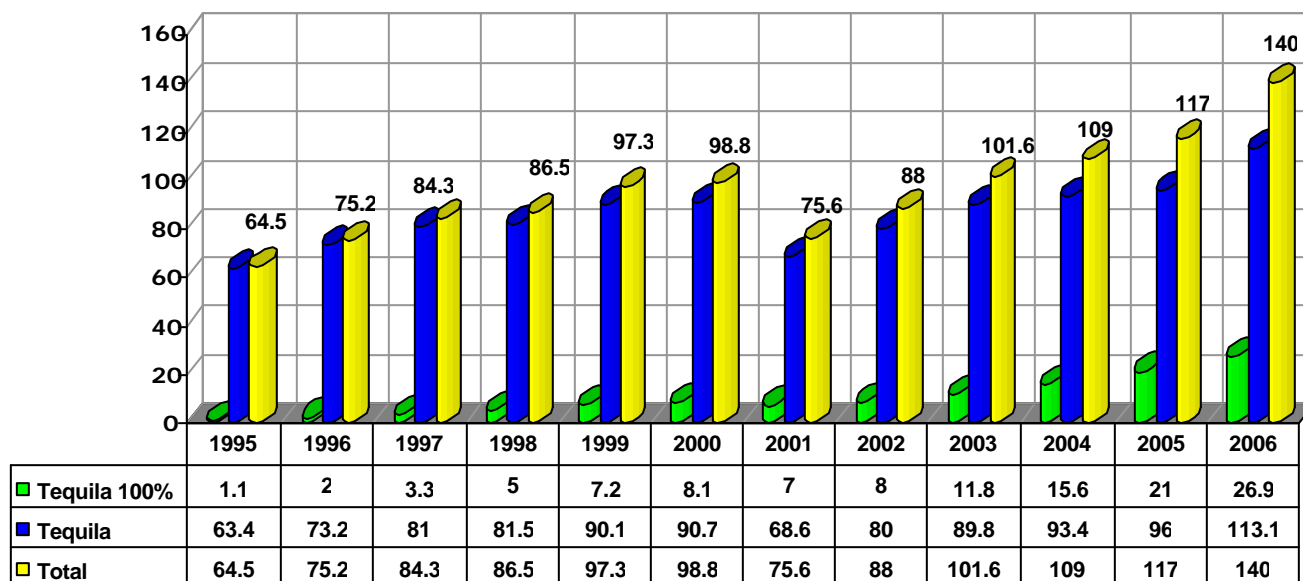


Comparative 2005 Vs. 2006 Tequila 100%: 15.91%
Tequila: 10.60%
Total: 13.02%

Source: Consejo Regulador del Tequila

EXPORTS BY CATEGORY TEQUILA AND TEQUILA 100% AGAVE

VOLUMES EXPRESSED AT 40% ALC BY VOL. MILLIONS OF LITERS



Source: Consejo Regulador del Tequila

Currently, the Council (CRT) and the tequila producing industry require support to enforce the compliance to the name of origin "Tequila". Some of their main concerns are:

- The illegal importation and distribution of alcoholic beverages called "tequila" and similar products named specialties.
- The non-regulated exportation of agave plants to the U.S.
- Alcoholic beverages labeled tequila are bottled in the U.S. without the CRT certification.
- Importation from South Africa of alcoholic beverages labeled tequila.

For More Information:

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Internet Connections

FAS Mexico Web Site: We are available at www.mexico-usato.com or visit our headquarters' home page at www.fas.usda.gov for a complete selection of FAS' worldwide agricultural reporting.

Useful Mexican Web Sites:

www.sagarpa.gob.mx Mexico's equivalent of the Department of Agriculture (SAGARPA)

www.economia.gob.mx. Mexico's equivalent of the Department of Commerce (SE)

www.tequileros.org Tequila Industry National Chamber.

www.crt.org.mx Tequila Regulatory Council.

These websites are mentioned for the readers' convenience but USDA does NOT in any way endorse, guarantee the accuracy of, or necessarily concur with the information contained on the mentioned sites.

Other Relevant Reports:

None