

# INTERNATIONAL TRADE, PRODUCTION AND EXPORT OF MEXICAN BOTTLED TEQUILA

Veronika Hrdá<sup>1</sup>, Alexandra Filová<sup>2</sup>

Slovak University of Agriculture in Nitra<sup>1,2</sup>

Department of Management

Tr. A. Hlinku 2

Nitra, Slovak Republic

e-mail<sup>1,2</sup>: veronika.hrda@uniag.sk, alexandra.filova@uniag.sk

## Abstract

*The production of tequila is one of the most important economic areas in Mexico. It employs more than 25 000 people and there are more than 75 000 acres of agave. The cultivation of agave provides foreign currency as well as prestige in the field of liquors. The industry penetrates market all over the world, for example the United States, Canada and the European Union as well. It is important to monitor the existing international markets as well as try to penetrate emerging Asian markets like Japan, which might be potential consumer. The main objective of the paper is to describe production of tequila, the analysis of the world export of tequila and the paper explains opportunities which industry still has in the international trade. The paper also provides information about countries where consumption of tequila is rather attractive and has increased lately like France, Germany, Spain, Chile, Japan and of course the USA.*

**Keywords:** *production, tequila, international trade, export*

**JEL Classification:** *B17, Q17, Q27*

## 1 Introduction

Tequila is a national drink in Mexico and one the most famous drinks in the world. It has been present on international markets for years already. Production of tequila is managed under strict control of quality which makes the product more attractive. Well known Mexican tequila producers are Cuervo and Sauza who have more than 60% of control over international market. The biggest producer, however, is Jose Cuervo which has been exporting its original bottled Mexican tequila

for years. Since 1950s the state of Jalisco has produced around 98% of Mexican tequila. Tequila is being exported to more than 100 countries nowadays. A threat that export of tequila is facing is original bottling. 90% of exports are in bulk and only 10% of tequila is bottled originally in Mexico. For example, in countries like Japan, Greece or Spain an alcoholic drink called tequila is produced, however it is made of beet and honey not agave like original Mexican tequila. Mexican government and the Regional Chamber of Tequila Industry has however completed negotiations that only tequila originally and traditionally produced in Mexico can be marked with this name. Various programs like „Hecho en México“ are there to supplement import and propel domestic production as well as stimulate consumption. Unfortunately, The Regional Chamber of Tequila Industry controls only 70% of the tequila export and 30% remain uncontrolled, marked as tequila without registration, patents and brand.

## 1.1 Economic information about Mexico

According to the **International Monetary Fund (2017)** Mexico is the 14<sup>th</sup> biggest economy in the world and the 2<sup>nd</sup> strongest economy in Latin America. It has open market economy development of which is reassured by free trade agreement with 46 countries. The economy of Mexico is, thanks to NAFTA, significantly influenced by development of the US economy as up to 78,8% of Mexican export was aimed at the USA in the first half of 2014. The USA also has almost 50% share on foreign directs investments in Mexico. Decreasing of demand from their side has therefore huge influence on a decline of overall Mexican exports and rise in unemployment in the country. Other main factors that influence the Mexican economy are the development of oil price and world economy, current situation on foreign markets, uncertainty on international financial markets, weaker internal market, implementation of saving measures, structural reforms and worsening security situation. Recently, Mexico has enforced numerous significant structural and fiscal reforms focused on growth, improving economic competition, competitiveness and transparency in public finance.

### 1.1.1 Competitiveness

There is no exact, universal and generally acceptable definition of competitiveness of the expression competitiveness. This expression cannot be, therefore, exactly defined. According to **Chursin and Makarov (2015)** the word competitiveness has its basement in the word compete. Therefore, we might say that the word competitiveness means to be able to compete on a market. **Pavlík (2004)** on the

other hand proclaims, that being competitive means to be able to provide a customer with something different than other companies.

According to **Fifeková (2006)** a source of competitiveness from the economic point of view is the level of qualitative difficulty of the economy. This enables to identify a potential for economic development and its sustainability. These qualitative changes are represented by:

- growth of the share of activities focused on research and development,
- higher qualification and employment,
- higher production,
- growing export and added value.

**Gozora (2005)** states that increasing competitiveness of agricultural products can be gained only while applying competitive advantages. These advantages might be concentration of soil and other production factors, applying different forms of labour organization and modern company management. By the combination of the given intensifying factors together with supporting system of the European Union and higher prices, the agricultural companies can be viable.

## 1.2 International Trade of Mexico

In the table 1 we can see that in 2014 export of Mexico increases by 4,6 % and by the end of 2014 it reached 294,01 bn. USD. Export in 2013 reached 380,20 bn. USD, in 2012 370,63 bn. USD. Mexico recorded a rise in import by 4,1 % and reached 295,77 bn. USD. Import in 2013 was 381,21 bn. USD, in 2012 370,75 bn. USD. The trade balance reaches positive value of 1,76 bn. USD. As for the regional structure of Mexican international trade, the significant business partners are mostly the USA, the EU (especially Germany, Spain, Italy and the Netherlands), China, Japan, Canada and South America (especially Brazil and Colombia) states **the Ministry of Foreign and European Affairs of the Slovak Republic (2018)**.

Table 1 Trade balance of Mexico from 2009 to 2014 in bn. USD

in bn. USD	2009	2010	2011	2012	2013	2014
<b>Export</b>	229,6	298,1	350,0	370,9	380,2	294,0
<b>Import</b>	234,4	301,5	351,2	370,6	381,2	295,8
<b>Turnover</b>	464,0	599,6	701,2	741,5	761,4	589,8
<b>Balance</b>	-4,6	-3,3	-1,2	0,3	-1	-1,8

Source: Ministry of Foreign and European Affairs, 2018.

## 2 Data and methodology

A significant part of the literature and information was received from the vocational literature, books and magazines and web pages as well as from the bibliography of The National Bank of External Trade (BANCOMEXT). To fulfil the main objective of the paper we used methods like induction and deduction to find out obstacles that export of Mexican bottled tequila must face.

## 3 Results and discussion

### 3.1 Description of the product

Tequila is a drink gained from the distillation of agave. The process starts when the head or pine of agave is ripe enough to be harvested which takes from 6 to 7 or 10 years. Only the heart or pines of the agave plant is used to make tequila. These pines then undergo a process of cooking and pressure and penetration of vapour and chemical processes convert complex carbohydrates into sugars. The pines are consequently shredded and milled obtaining unfermented juice (aguamiel) – must. Then the juice is transformed to alcohol by fermentation which usually takes from 7 to 12 days. In the end the product is distilled to get tequila. The majority of tequilas are distilled twice, some of them three times. Even though there are around 135 types of agave, the only type of agave which can be used for tequila production is *Tequilana Weber Azul* which is grown exclusively in the region of Tequila, state of Jalisco. That means no other country can produce original tequila. Tequila is produced in four different varieties:

- **Blanco** – product similar to water ranking among alcoholic drinks because of its volume of alcohol
- **Joven** – similar to Blanco with addition of flavour and colour
- **Reposado** – left at least for two to twelve months in French or American oak barrel which was previously used to age bourbon, to age
- **Añejo** – left at least for a year to three years in French or American oak barrel which was previously used to age bourbon, to age
- **Extra Añejo** – aged over three years, the longer the tequila ages, the more color and tannins it has

The type of barrels, their age, previous usage and whether the interior had been burnt or toasted also affect the final taste of tequila.

### 3.2 National market with tequila

There are over 30 million of hectares of Agave called Tequila Weber Azul with a density of approximately up to 4 000 pieces of plants per hectare which makes it more than 120 million plants in different periods of riping.

Table 2 **Participation of municipalities of the Jalisco state in production of tequila**

Municipality	%
Tequila	59
Atotonilco	12
Guadalajara	7
Zapotlanejo	9
Tototlán	4
Others	9

Source: Regional Chamber of Tequila Industry, 2018.

One litre of 51% tequila is made of 3 kilos of agave's pines whereas 6 to 7 kilos of agave are needed for one litre of 100% tequila. Even though the production of original Mexican tequila is placed exclusively in the state of Jalisco, there are more places where original tequila is produced: Guanajuato, Michoacán, Nayarit and Tamaulipas. In the table 2 we can see the participation of individual municipalities of the Jalisco state in the process of original tequila production. From the table it is clear that the biggest volume of tequila is produced in the municipality Tequila, of the state of Jalisco.

The following table 3 shows volume of tequila production during the last 7 years, the national consumption and volume of export. As we can see from the table, the production, as well as consumption together with export has been significantly rising.

Table 3 **Volume of production, national consumption and export of original Mexican tequila in mil. litres**

Years	Production	Consumption	Export
2010	257,5	1 015,1	152,5
2011	261,1	998,4	163,9
2012	253,2	880,6	166,7
2013	226,5	756,9	172,0
2014	242,4	788,2	172,5

Years	Production	Consumption	Export
2015	228,5	788,9	182,9
2016	273,3	941,8	197,9
2017	271,4	956,1	213,3

Source: Tequila Regulatory Board, 2018.

### 3.3 International market

Within volume of export of the tequila we must count on a fact that most of the exported product is tequila in bulk which provokes the idea that it might contain a product that is bottled in another country, outside of Mexico. Only 10% of the export is original bottled Mexican tequila. Table 4 shows volume of export of tequila and 100% tequila from 2010 to 2017 in mil. litres.

Table 4 **Volume of export of tequila and 100% tequila from 2010 to 2017 in mil. litres**

	2010	2011	2012	2013	2014	2015	2016	2017
<b>Tequila</b>	107,7	105,8	138,9	127,5	138,9	119,1	128,9	120,6
<b>100% Tequila</b>	149,8	155,3	114,3	99,0	103,5	109,4	144,3	150,8
<b>Total</b>	152,5	163,9	166,7	172,0	172,5	182,9	197,9	213,3

Source: Tequila Regulatory Board, 2017.

As for tequila production it is important to mention that demand for this product is mostly out of Mexico which means that only approximately 30% of production is aimed at a domestic market and almost 70% is produced for export. The export of tequila has had a growing tendency lately because it is the most typical alcoholic drink right after beer. There are more than 100 countries where Mexico exports tequila with the USA leading the list with almost 70% of the exported volume. Other countries following the USA are Spain with 5,8%, Great Britain with 5,5%, the Netherlands 2,7%, France 2,4%, Chile 2,1%, Switzerland 1,9%, Germany 1,7%, Japan 1,6%, Belgium 1.1%, Brazil with only 1% and other countries.

Table 5 **Export of tequila to the world in mil. litres**

Country	Vol.	Country	Vol.	Country	Vol.	Country	Vol.
<b>USA</b>	171710464	<b>Peru</b>	352179	<b>Poland</b>	73071	<b>Belarus</b>	21233
<b>Spain</b>	5314371	<b>Bolivia</b>	331149	<b>Cyprus</b>	70320	<b>Portugal</b>	20836
<b>Germany</b>	4636013	<b>Ecuador</b>	312568	<b>Serbia</b>	69570	<b>Norway</b>	19858

Country	Vol.	Country	Vol.	Country	Vol.	Country	Vol.
France	3014047	Philippines	286036	Hungary	66936	Kenya	17046
Japan	2005669	Costa Rica	250926	Nicaragua	63127	Caiman Islands	15934
Latvia	1797570	New Zealand	227273	Nigeria	62244	Jamaica	15390
South Africa	1592116	Puerto Rico	209916	Denmark	61954	Finland	14723
Canada	1469272	Lithuania	188940	Hong Kong	60436	Mauritius	11456
UK	1444625	El Salvador	188762	Suriname	60243	British Virgin Islands	10318
Singapore	1287661	Guatemala	186522	Sweden	58125	Bermuda	9907
Colombia	1150056	Taiwan	175831	Estonia	54819	Croatia	9193
Italy	1071345	Paraguay	156449	Qatar	54485	Slovakia	9122
Mexico	1028409	Israel	141062	India	51239	Morocco	7003
Australia	1010748	Vietnam	140394	Bahamas	47750	Bahrein	5796
Brazil	855912	Cuba	136390	Austria	45836	Venezuela	5215
Turkey	696970	Argentina	130785	Aruba	45192	Sri Lanka	2178
China	681959	Honduras	125382	Luxembourg	40319	Barbados	1778
UAE	654637	Dominican Republic	120654	Ukraine	40066	Andorra	1552
Greece	638004	Switzerland	112307	Thailand	38802	Belize	391
Panama	589180	Uruguay	92127	Slovenia	33717	Maldives	29
Chile	532866	Georgia	86967	Malaysia	33511		
Belgium	510883	Czech	84308	Romania	31593		
Russia	507869	Bulgaria	83707	Indonesia	28233		
South Korea	418475	Ireland	79951	Trinidad & Tobago	22660		
Netherlands	374432	Lebanon	79582	Ghana	21361		

Source: Tequila Regulatory Board, 2017.

### 3.4 Opportunities of tequila export

As mentioned above, tequila is a national alcoholic drink, produced in the state of Jalisco, holds brand of origin and therefore cannot be produced anywhere else.

The brand of origin has been already accepted by numerous countries including the USA, Canada as well as the European Union which enables Mexico to control the national image of their traditional drink. It is thus very important to take advantage of the brand of origin of this Mexican product and penetrate European countries like Belgium, the Netherlands, Italy as well as many Asian countries like Japan, China as emerging markets, for example.

## 4 Conclusion

Production as well as export of Mexican tequila has had a growing tendency lately. Approximately 90% of the export is tequila in bulk and only approximately 10% is original bottled Mexican tequila. Fortunately, it is a national drink with a brand of origin and therefore is exclusively produced only in Mexico. Any other similar drink cannot hold the name tequila. On the other hand, in Mexico there is a problem to overcome, i.e. there are products that do not meet the conditions of quality. There are two basic types of acceptable tequila: “unnamed” tequila which should contain at least 51% of agave and 49% of other sugars and the 100% tequila made exclusively from agave. Of course, it is important to mention that Regional Chamber of Tequila Industry is doing its best to prevent the obstacle and supervises products from the plant to materials used. The process of control is complicated, though. The product of tequila must undergo series of laboratory tests to prove whether the product really comes from the exclusive part of the state of Jalisco where original Mexican tequila is produced and then they might be able to state whether the product contains agave but they can hardly assume the percentage of agave in it.

In the recent years the image of tequila and its consumption has been radically changing. In the 1970s tequila was mostly a drink for young rebelling people. Nowadays it is changing into a drink with high quality compared to cognac and should be consumed slowly, enjoying every sip, preferably without a lemon or a lime and salt.

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