

# The Business of Tequila



**Tequila queen**  
The woman unfazed by Mexican machismo

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**Best bar none**  
We sample some of the world's top tequila bars

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## Tequila takes a shot at the premium market

Connoisseurs drive growth at the expense of the headache-inducing low end, says *Jude Webber*

A heady caramel smell, syrupy and fragrant, pervades the air. What look like giant white pine cones, some twice the size of a human head, are deftly split, quartered and packed into ovens. What's cooking? One of the world's most popular drinks.

Despite rising global demand for spirits last year, vodka and brandy sales fell and the growth in whisky and gin was outstripped by tequila, Mexico's national drink. Overall sales rose by 4.2 per cent compared with 2014, according

to the IWSR, the London-based authority on the drinks trade. In the US, the world's biggest tequila market, sales surged 65 per cent between 2005 and 2015 – more than bourbon or vodka – and it “shows no sign of slowing down”, says the IWSR.

But just as the sweets you find at a supermarket checkout and a hand-crafted Belgian confection can both be sold as chocolate, tequila is a broad segment. At the bottom end, it is an industrialised, mass-market spirit powerfully associated with shots and hangovers; in



**Cutting:** at harvest time, Blue Weber agave plants are chopped down  
Alamy

the ultra-premium space, it has carved out a niche among connoisseurs, giving single malt whiskies and cognac a run for their money.

The connoisseurs are driving growth. While the standard spirit is knocked back or mixed into the 185,000 margaritas an hour sold in the US (according to one drinks company), the top end – tequilas for sipping or chic mixology – has become the highlight of Mexico's \$1.3bn tequila export sector. From January to August 2016, production of standard tequila fell 1.5 per cent, outstripped by more sophisticated ones, up 39 per cent, according to the Tequila Regulatory Council.

What is the difference? Tequila is protected by a denomination of origin: by law it can only call itself tequila if it is made in the western state of Jalisco or a handful of other parts of Mexico from a single variety of the long-leaved, spiky plant that carpets the hillsides – the Blue Weber agave. But while standard tequila needs only 51 per cent agave, with the rest made up of other sugars, usually cane, its higher-end sibling sports “100 per cent agave” on its labels.

“Twenty years ago, 98 per cent of tequila was standard or ‘mixto,’” says Pierre-Aymeric du Cray, head of tequila at Pernod Ricard, the world's second-biggest wine and spirits group, which makes the upscale Olmeca Altos and Avión brands. “Now it's 50-50 . . . Good tequilas aren't competition – they help us create the category.”

Fashionably vegan and gluten-free, traditional but also contemporary, tequila has taken off. “The [success of the] 100 per cent has taken the industry

Tequila has carved out a niche, giving single malt whiskies and cognac a run for their money

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## WE DIDN'T INVENT TEQUILA

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## The Business of Tequila

# A tequila by any other name?

**Regulation** New rules on what can be called tequila and mezcal are upsetting the spirits' traditional producers, says *Stephen Woodman*

For under 200 pesos (\$10), visitors to the picturesque Mexican town of Tequila can purchase a fitting souvenir from the hawker stalls lining the roads: a three-litre wooden barrel labelled as tequila. Yet the drink inside is not Mexico's national spirit, but an illicit concoction of distilled sugar cane and hangover-inducing additives.

Many aspects of the tequila trade are regulated to avoid such concoctions and raise tax, but the scene is complicated and pits large and small producers against each other. The government's latest proposed alcohol regulation — NOM 199 — is controversial because it defines all alcoholic drinks sold legally in Mexico and threatens to overturn centuries of tradition.

Tequila is already protected by its DO (denomination of origin) status, which dictates that it must contain at least 51 per cent Blue Weber agave and be distilled in the western state of Jalisco or parts of four other states.

The new rules take aim at the "agave distillates" industry led by the brand Rancho Escondido. This spirit — 28 per cent alcohol by volume — combines low quantities of agave with cane liquor, and retails for as little as 70 pesos a litre. In 2014, agave distillates were tequila's closest domestic rival for volume sales.

Advocates of the rules say they are a step towards protecting consumers and reducing counterfeit drinks. "We are trying to regulate the so-called agave distillates," says Hipócrates Nolasco, president of the Mezcal Regulatory Council. "They represent unfair competition because people confuse them with tequila and mezcal."

NOM 199 would require brands like Rancho Escondido to label their products "aguardiente de agave" (agave firewater). They would also have to raise their alcohol content to between 32 per cent and 55 per cent, a stipulation that will require more agave and greater costs.

Critics say the new rules may also threaten artisanal distillers of mezcal, the earthy agave spirit that has become Mexico's trendiest drink. The mezcal DO introduced in 1994 prepared the ground for the current boom in exports. Yet the regulations restricting production to nine states in Mexico marginalised many traditional makers; the smoky spirit is distilled in the majority of Mexican states and the word itself does not connote a region. "Mezcal is not a place, it is a generic name for an agave-based drink," says Pedro Jiménez Gurriá, the founder of Mezonte, a civil association that promotes sustainable mezcal production.

"Mezcal is a Mexican gastronomy, and Mexican gastronomy is complex," says Daniel Abdelmassih Jiménez, a geographer who has developed a map charting the differences between Mexico's mezcal-producing regions. "We have thousands of mezcals, but when they segregate areas of production we lose aromas and flavours." Mr Abdelmassih Jiménez believes that NOM 199 was designed to eliminate competition, rather than protect consumers. "When you say *aguardiente*, people think of poor-quality, sugarcane liquor," he says. "It is a pejorative term."

Another problem is that the regulations make little allowance for mezcal's complexities. While tequila is limited to Blue Weber agave, mezcal is made from more than



**Wheel of fortune:** a mezcal store in Oaxaca state sells the artisanal spirit

Omar Torres/AFP/Getty Images

40 species and production techniques vary massively across regions. Ana Valenzuela, a biologist who specialises in agave research, believes that each state should define its own variety of mezcal. "Certification should be managed locally," Ms Valenzuela says. "There should be norms for each state."

Jalisco-based artisanal distiller Miguel Ángel Partida lives outside of the DO and, under the new rules, is excluded from using the name mezcal, despite his family distilling it for generations. Mr Partida's drink is currently sold as "agave distillate", but everyone in the local area still calls it mezcal. Mr Partida believes the name "*aguardiente de agave*" will further hit sales. "The name of the drink is mezcal. Changing to another name threatens our identity and culture."

Some mezcal producers are reluctant to go legal as many small distillers cannot afford to pay several thousand dollars to become certified. "One of the structural problems in Mexico is that complex regulations make it difficult for companies," says Alfredo Coutiño, director for Latin America at Moody's Analytics.

Legal spirits are also subject to steep taxes. Currently, the Special Tax on Production and Services enacts a 53 per cent levy on high-proof alcohol in Mexico, including mezcal. "When you put up these kinds of obstacles, you create a black market," says David Suro Piñera, the president of the

Tequila Interchange Project, a consumer advocacy group based in Philadelphia, Pennsylvania.

Combating the sale of spirits by street hawkers is a valid aim for several reasons, some say. Ramón González Figueroa, the director of the Tequila Regulatory Council, warns that Mexico's vast counterfeit drinks industry poses a health risk to consumers. Such products also "generate a big problem for the formal economy because they do not contribute tax", he says. The market research firm Euromonitor International estimates that 43 per cent of distilled drinks sold in Mexico are illicit — costing the government 6.4bn pesos in unpaid taxes. Yet this counterfeit alcohol trade is only a branch of the vast informal economy, which generates 58 per cent of jobs and 24 per cent of GDP, according to Mexico's National Statistics Institute.

Multinationals are looking for other changes to regulation too. Diageo, the British alcohol conglomerate behind Don Julio, a high-end tequila brand, says that Mexico's current practice of calculating tax on the basis of value instead of volume penalises premium brands. Mr Piñera argues that an advantage of having companies like Diageo involved is they can may be able to exert a powerful influence on the Mexican government. But, he says, "any changes to the fiscal regime should be for small, domestic producers first."

**'The name of the drink is mezcal. Changing to another name threatens our identity and culture'**

## 'I almost had to grow a moustache to be accepted'

**Interview** *Bertha González* Despite machismo, a woman in tequila can triumph. By *Jude Webber*

Bertha González, the first woman to become a tequila master distiller, is a tough entrepreneur and co-founder of one of the chicest brands in a business rooted firmly in Mexican machismo. "I almost had to grow a moustache to be accepted," she remembers joking when she got her title.

Our interview takes place over the telephone — Ms González divides her time between her native Mexico and New York, while I am in a humming restaurant in the town of Arandas, in the heart of tequila country. Mariachi musicians are serenading tables; Mexico's national spirit is flowing; cowboy hats are everywhere.

Casa Dragones, Ms González's luxury, small-batch tequila may belong to an altogether more rarefied world, but it traces its roots to the same traditions so proudly on display in the restaurant. "It's a big love affair," is how Ms González sees it. "Tequila is part of the national social fabric."

Yet launching another tequila to add to the hundreds of brands already on offer was never her goal when she started Casa Dragones in 2008 with Bob Pittman, the creator of MTV and an entrepreneur.

As if tequila were not a singular enough spirit — by law it can only be made in a handful of parts of Mexico,

from only one of nearly 200 of types of agave — Ms González eschewed producing any of the traditional trio of white, rested and aged categories. Instead, Casa Dragones launched a single brand — a *joven*, or young tequila.

It is what the Casa Dragones chief executive calls an "overlooked" style, which blends a white tequila's citrus notes with the sweetness and spice of an extra-aged. "We thought the only way we could carve our own place was with a bold point of view — it's a very risky strategy, you might have no followers," she says. But "we're not in the business of styles. We are really in the business of taste and experience."

So instead of being poured at boisterous family lunches, Casa Dragones became the tequila paired with exquisite food at Michelin-starred restaurants — something she admits is "an unexpected place for the category".

Five years after Casa Dragones *Joven*'s US debut in 2009, the house launched Casa Dragones Blanco, a silver tequila. The company declines to give figures, saying sales have quadrupled in four years. But as much as Ms González is seeking to expand the boundaries for the spirit, this is not the start of a rush to diversify into, say, tequila's fashionable relative, mezcal. "I'm not saying never; right now we have our hands full."



Tequila queen: Bertha González developed her own premium brand

Casa Dragones employs just 25 people. About 45 per cent of sales come from Mexico and 51 per cent from the US, and it has recently opened distribution in Italy, France and Spain. China is on hold for now because of regulatory hurdles (see page 4).

Ms González's sharp eye for business — tequila in particular — was honed as a management consultant and a decade working as an executive for Jose Cuervo, Mexico's oldest tequila house, including as global director for innovation and new business development.

But "that feels like five million years ago," laughs the 46-year-old. "I have seen many brands come and go. The consumer has changed the most."

Ms González wants luxury tequila to be drunk by cognac- or whisky-lovers and believes it can gain 15 per cent of the luxury spirits segment worldwide. "People are looking to have a repertoire of spirits, not just a repertoire of single malts," Ms González says.

To help educate taste buds, Casa Dragones this month opened a six-seat tasting room in the picturesque town of San Miguel de Allende for craft cocktails made by international mixologists.

The tiny space is decked out in obsidian, a volcanic glass painstakingly sliced into 4,000 fragile tiles. "I wanted to bring the terroir into the tasting room," Ms González says. "It's a space to sit, sip, learn."

## Jose Cuervo's \$1bn float looks like recent record

**IPO** The world's largest tequila maker will pass out of family hands as it goes public, writes *Jude Webber*

Four years after the world's biggest spirits group, Diageo, gave up on plans to buy it, Jose Cuervo, the world's number-one tequila maker by volume, is planning to go public.

The company, which has been making tequila since 1758 when the Spanish still ruled Mexico, refused comment, but media reports of an initial public offering of up to \$1bn have whetted the appetites of investors who suggest it could be the largest in Mexico in two years.

In a drinks segment dominated by international conglomerates, Cuervo, run by the Beckmann family, is a rare independent for its size. Playing up its traditional heritage and rock-star associations — Cuervo claims to have fuelled the Rolling Stones' 1972 Tequila Sunrise tour — it has done more than most of its rivals to transform tequila from tippie to tourist experience.

"We are tequila. We are Mexico," says a promotional video shown to visitors on arrival at its La

**Tequila float:** Jose Cuervo will launch with its IPO

Rojeña distillery, the oldest working one in Latin America. Tourists can travel there on the Cuervo Express train, lodge in a hotel, eat at restaurants and use a convention centre owned by the group in the picturesque town of Tequila. What it bills as Cuervo World now attracts some 200,000 annual visitors, up from 13,000 in 2005, according to Sonia Espinola, director of the Cuervo Foundation.

When Cuervo intends to launch its offer remains unclear, and the company has kept its options open, saying it plans to use the proceeds to boost growth, either organically or through acquisitions. The company swapped the Don Julio ultra-premium tequila for Bushmills Irish whiskey in a deal with Diageo two years ago.

Cuervo has 27.4 per cent of the US tequila market and 32.6 per cent of the market in Mexico, it said in its filing. First-half sales were up by a third, to 12.2bn pesos (\$655m), and 2015 net profits doubled to 7.2bn pesos.

"This IPO is taking tequila to another level — it's very important for the category," says one industry figure who knows the company well. "We can write a long, long list of the incredible roles they have played [in the sector] and here they are doing it one more time."

Cuervo also has widespread social development and philanthropic ventures. "More than a drink, it is history, tequila is a legacy," says Ms Espinola. "We want to take things further than a shot or a margarita."





# Pricey mezcal, 'mother' of tequila, steals hipster crown

COLUMN

Chantal Martineau

There are those who cringe at the mention of tequila, their memories of poor choices and nasty hangovers still too raw. But more people than ever are forming fresh, enjoyable memories of it: in the past decade, tequila has reigned as one of the fastest-growing categories in the spirits world. Luxury brands have helped change the conversation surrounding Mexico's iconic export. No longer is it seen just as party fuel; instead, it is becoming associated with sophistication and cultural savvy.

In America, which drinks some 80 per cent of global exports, tequila supplier revenues rose 140 per cent from 2005 to 2015, according to the Distilled Spirits Council of the United States. Super-premium brands have enjoyed nearly 600 per cent growth over the same period. In other words, people are drinking more and better tequila, a trend that shows no signs of slowing.

The shift has helped pave the way for another agave spirit's popularity. To the chagrin of established tequila brands, mezcal seems to have captured the essence of hipster cool right out from under them.

Mezcal is often characterised as "tequila's smoky cousin", but more accurately it is tequila's mother. Centuries ago, before tequila was tequila, it was known as mezcal from the town of Tequila in the state of Jalisco. Unlike tequila, mezcal can be made not just from the blue agave plant but from a number of agave varieties that differ as much as

Cabernet does from Pinot Noir. The breadth of flavours and styles is the beginning of mezcal's appeal.

While the tequila industry has faced criticism from academics and consumer watchdog groups for abandoning traditional production methods in favour of cost-effective automation, mezcal is unapologetically rustic. It is made in remote indigenous villages, in makeshift distilleries with thatched roofs and no electricity. The agaves are cooked in underground pits, mashed using a stone mill or handheld mallet, then fermented and distilled in tiny batches.

**There is sophistication among its drinkers. Mezcal has no equivalent to tequila's salt-and-lime ritual**

Certain agave varieties are harvested from the wild (whereas blue agave is farmed) and can take 20 or 30 years to mature. Because varieties and production methods vary depending on the area or village, each mezcal is unique to its place.

In this era of increased demand for local food and obsession with artisanal production, consumers are drawn to the spirit's story. Often bottled at higher proofs than tequila, it is marketed as the unadulterated, authentic alternative.

According to the Mezcal Regulatory Council in Mexico, mezcal exports rose 128 per cent between 2011 and 2015.



Monster mash: a worker rotates agave to be made into mezcal — Richard Ellis/Alamy

But the industry's overall value, \$106.5m, is a fraction of the \$6.7bn global tequila market. Mezcal remains a niche product — unsurprising given that few bottles retail for less than \$40 and speciality bottlings can reach upwards of \$200. (Pechuga, for example, is a rare mezcal distilled with a chicken or turkey breast and wild seasonal fruits. How is that for artisanal?)

The emergence of mezcal may very well benefit tequila. It expands the category to include all Mexican agave spirits, which could strengthen visibility as a whole. Yet mezcal's rise has stirred unease among tequila brands. This year, in a reaction to mezcal's popularity, the first "smoked tequila" was released by Maestro Dobel, a super-premium brand owned by the Cuervo company.

Other tequila brands have taken cues from the mezcal industry to release higher-proof bottlings (the standard proof in the US is 80) or highlight specific aspects of terroir or tradition. For its new ultra-premium line, Tequila Corralejo is touting its agave sourced from the Bajío-Guanajuato region. Patrón launched the Roca line, made entirely from agave milled by a two-ton volcanic stone wheel.

The mezcal industry, for its part, is careful to avoid tequila's pitfalls. For decades, the tequila market was dominated by "mixto" brands like Cuervo Especial, made from as little as 51 per cent agave and up to 49 per cent "other sugars". During this time the category boomed, but came to be associated with hard partying and little

else. Mezcal's regulations allow for 20 per cent other sugars, but more than 90 per cent of all mezcal produced and 100 per cent of exports are pure agave, according to the MRC.

In addition, rather than investing in traditional advertising, many mezcal brands are opting for influencer outreach, targeting bartenders to promote the spirit and educate consumers. It may explain the level of sophistication among its drinkers. Mezcal has no equivalent to tequila's lewd salt-and-lime ritual.

Prohibitive price points and inefficient hyper-artisanal production methods make mezcal an unlikely contender for attaining tequila's volume, never mind the acquired taste.

The tequila industry has room to grow. Exports, until recently US-focused, are now easing into Asia and emerging markets in Latin America. But as it settles into the mainstream, tequila will have to forgo its status as the enfant terrible of the spirits world. That role has been usurped by a new kid on the block: as it happens, tequila's mother.

*The writer is author of 'How the Gringos Stole Tequila: The Modern Age of Mexico's Most Traditional Spirit'*

## Tequila takes a shot at the premium market

Continued from page 1

a bit by surprise," admits Luis Velasco, president of the National Tequila Industry Chamber.

Last year, 100 per cent agave tequilas made up 43 per cent of all tequila exports. From January to August this year, 100 per cent agave exports grew by more than 17 per cent while standard tequila exports fell nearly 4 per cent. Even within the luxury bracket, the ultra-premium category is growing the fastest, at nearly 50 per cent, according to the IWSR.

The industry cannot neglect either end, however. As Greg Cohen, vice-president for corporate communications at bestselling ultra-premium brand Patrón, puts it: "Tequila has to appeal to both the 'bros' and the 'knows'."

Mexico's lush tequila country — the valley around the Unesco-protected town of Tequila, and the red clay highlands of Jalisco — has spawned more than 150 distilleries and hundreds of brands. Many are now made by foreign conglomerates including the world's biggest spirits group, Diageo, which owns Smirnoff vodka and Johnnie Walker whisky as well as the most popular luxury tequila in Mexico, Don Julio. Jim Beam's parent Beam-Suntory owns Sauza; Brown-Forman, the owner of Jack Daniel's, produces Herradura; and Bacardi has a minority stake in Patrón. The odd one out — family-run Jose Cuervo, Mexico's biggest and oldest tequila maker — is about to go public.

Luxury 100 per cent tequilas distinguish themselves through tradition and craftsmanship: at least 60 hands are behind every Patrón bottle, notes strategic planning director Francisco Soltero. "It could be automated," he says, "but we want to ensure quality."

High-end producers cook the agave in small brick ovens, which takes three days, rather than 10 to 12 hours in stainless steel autoclaves that act like giant pressure cookers. Copper-pot stills are de rigeur. Only half a dozen producers, including Patrón and Pernod Ricard, still adhere to the 500-year-old tradition of crushing cooked agave (a succulent but not a cactus) in a pit with a

2-tonne hand-cut volcanic stone wheel, or *tahona*. Just about the only tradition now eschewed by everyone is that of relying on bats to pollinate the plants.

It takes five to eight years to grow the agave to maturity and about a week to chop, cook, mash, ferment and distil it into a *blanco* — white, or silver, tequila. The spirit can then be aged in bourbon or other oak barrels for up to a year to be called *reposado*, or rested; one to three years is *añejo*, or aged; and more than three years is extra-aged.

But there is innovation, like "crystalline" varieties that are aged then filtered to strip out the amber colour. "Some in the industry think we should differentiate tequilas that are made more traditionally. That could make for more interesting marketing," Mr Velasco says. Others want to honour terroir by dividing the appellation into zones.

Some top tequila producers are now turning their gaze to the drink's less refined but hipper relation, mezcal, whose sales volume in the US has grown 279 per cent in the last decade, according to the IWSR. (See page 2)

Ironically, while preserving authenticity has defined luxury tequila, the fledgling mezcal industry is now at risk of following tequila's industrialised footsteps. Exports offer small producers a way to escape onerous domestic taxes and deliver sales in dollars. But certification requirements based on tequila, not mezcal specifically, mean that "what's getting out is no longer so good," laments Silvia Phillon, co-founder of the

Don Julio González founded his eponymous luxury tequila brand, Mexico's most popular, in 1942



Mezcaloteca in Oaxaca which champions small-batch producers.

Now that tequila has raised its reputation, its challenge is to open markets outside the US and Mexico. "I see more opportunities than risks," says Mr du Cray. "The risk could be missing some opportunities."

## Festival brings Mexican cheer to autumnal London

The British, Europe's biggest tequila drinkers, even have a festival for it. Lucinda Elliott attends

On an overcast London weekend in mid-September, the Tequila & Mezcal Festival, showcasing premium agave spirits and all things Mexican, celebrated its third edition. Tucked among the gentrifying backstreets of east London's Brick Lane, 3,000 festival-goers were handed wristbands with tearable tokens, adorned with images of agave plants, to exchange for drinks in complimentary shot glasses.

In recent years tequila has cast aside its seedier associations to enjoy a sophisticated comeback. Instead of sombreros and shots, brand ambassadors in sharp suits pushed tequila's more delicate aspects. Out has gone the throat-burning glassful, sometimes with the trademark worm lurking at the bottom, and in have come sweeter versions aimed at millennial palates accustomed to longer, more sugary cocktails. Part of this trend, says Humphrey Serjeantson of alcoholic beverage research company IWSR, is the growth of independent cocktail bars. "Twenty years ago you'd be lucky to find a cocktail outside a hotel bar," says Mr Serjeantson. "Cocktails are even entering mainstream British pubs."

This year, Eduardo Gomez Resendiz, the founder of the festival, has made a concerted effort to bring over from Mexico small-batch producers who have been awarded "denomination of origin" status, which guarantees area-specific raw materials, manufacture and labelling. Some labels exhibiting produce only a couple of thousand litres a year, and others brought along lesser-known spirits such as bacanora, a fiery agave liquor crafted in the northern state of Sonora. But inside the venue it was the multinationals that took centre



Costume drama: a celebrant at the Tequila & Mezcal Festival in London

stage, assembling their own pop-up bars to overshadow simpler stands.

Tom Finnon from distributor Marussia Beverages, which imports Lunazul tequila into the UK, argues that provenance is key to the revival of these alcoholic drinks. "People are genuinely interested in how it is made, where it is from and the story behind the brand — something Lunazul, that dates back 250 years, is lucky to have," he says.

Patrón (Spanish for "good boss") is a Mexican company which controls roughly 70 per cent of tequila's luxury

**Tequila Fest's promotional efforts, in concert with a sustained industry push, are paying off**

segment and has been at the forefront of the spirit's image makeover. At the festival, it laid on a luminous bar, with neon alcoves cut out to make space for hand-blown glass bottles of its brands which can sell for up to £2,300. Its virtual reality headset took drinkers on a tour of its Hacienda headquarters in Mexico.

Tequila Fest's promotional efforts, in concert with a sustained industry push, are paying off. Tequila is now recognised as a premium and versatile "sipping" spirit, and volumes sold across Europe in 2015 increased 4 per cent, the fastest for half a decade, according to the IWSR Global Trends Report. Britain is the largest tequila market in Europe by retail value.

One notable trend is the repositioning of mezcal — once the rougher and more downmarket of the two spirits — as a premium drink. While tequila is made only from the blue agave, mezcal can be made from the heart of any agave plant, called the *piña*.

A newcomer at the London show was Xila, a lighter mezcal infusion pitched at a female client base. Consumer palates, says the company's owner, Hillhamm Salome from Mexico City, are evolving and Xila's sweeter taste is tapping into a younger, more affluent generation.

This year's festival in London, exhibitors say, was much busier than last year's satellite event in the northern city of Liverpool. Tequila's upmarket attack may yet find it difficult to thrive outside of the capital.

### TEQUILA

comes from the blue agave plant and is distilled to make the liquor. It specifically comes from the area surrounding the city of Tequila in the highlands (Los Altos) of the western Mexican state of Jalisco where more than 300 million blue agave plants are harvested yearly.



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## The Business of Tequila



**Bodega Taqueria y Tequila**  
(Miami, US)  
Miami's tequila gem, a two-storey bar hidden inside a former auto service building and behind a taco restaurant. Try the Smoked Horchata shot – mezcal blended with creamy rum liqueur and topped with grated cinnamon

### Tequila time: some of the world's top bars

FT graphic  
Source: FT research/Lucinda Elliott



**Café Pacifico**  
(London, UK)  
This cantina-style dancing den has been serving Londoners with tequila and tacos since 1982. Founded by Tomas Estes, Mexico's official tequila ambassador to the EU, the restaurant bar serves brands including Ocho, Mr Estes' own



**Barking Dog**  
(Copenhagen, Denmark)  
Established after a trip to Mexico, this cosy basement has a specially designed tasting menu to sip and compare. Labeled a "modern pub" by its owners, the emphasis is placed on good service and quality spirits



**Agave**  
(Central, Hong Kong)  
This Mexican restaurant has put together an impressive range of approximately 70 brands of 100 per cent agave tequila, blended into more than 100 different premium margarita cocktails



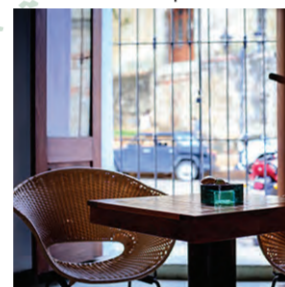
**La Capilla**  
(Tequila Town, Mexico)  
The bartender, grandson of the original owner, has been winning awards since the 1970s



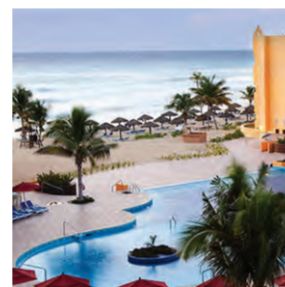
**Downtown Hotel**  
(Mexico City, Mexico)  
Housed in a meticulously renovated 19th-century palace, at this 11-room hotel you can sip a dragon fruit cocktail on its rooftop terrace



**Casa Oaxaca**  
(Oaxaca City, Mexico)  
Sit overlooking the baroque church of Santo Domingo from the terrace of this colourful bar and sample a smoky mezcal during the cooler hours. Later, enjoy a stroll in the tropical church gardens, past local vendors in the colonial square



**Canibal Royal**  
(Playa del Carmen, Mexico)  
This beach club has staked out a prime location near the north end of the oceanfront. Stone tile flooring identical to the one on Rio's Copacabana beach gives way to sand, perfect for hiding out under an umbrella, sipping tequila on the rocks



**Mesa Verde**  
(Melbourne, Australia)  
There is plenty of firepower in this bar on the sixth floor of Melbourne's Curtin House arts club, with one of Australia's largest collections



## Chinese liquor lovers are proving hard to please

**Exports** A push into China is not going as well as expected, write *Sherry Fei Ju and Jude Webber*

Tequila has a problem in China: consumers think it is cheap and nasty. Despite a vast Chinese market of liquor lovers, including affluent connoisseurs keen on luxury brands, hopes that the country would become the world's largest tequila market by 2020 have been thoroughly dashed.

Mexico currently exports less than half a million litres of tequila to China, compared with nearly 151m to the US last year, according to data from the Tequila Regulatory Council. Last year, China did not make the top 10 export destinations for Mexico's national drink. According to the IWSR, the London-based authority on the drinks trade, in 2015 there were 61,500 9-litre cases of tequila sold in China, compared with 2.3m of brandy/cognac and 1.2m of whisky.

"One of the major reasons that tequila is not popular among the Chinese is that Mexico is not an aspirational place for them," says Shaun Rein, managing director of China Market Research, a consultancy in Shanghai. "Chinese consumers are shifting away from beer, aiming for symbols of luxury like cognac, which reminds them of that French lifestyle, or Australian wines [that are] catching on as a symbol for the new world."

"On the other hand, Mexico has created... a negative image in the past years... Mexico has always left an impression of being cheap and bad-tasting in the [public] eyes of Chinese."

Mexico's President Enrique Peña Nieto has made boosting diplomatic and trade ties with China a goal, but relations were strained in 2014 when Mexico abruptly cancelled a \$3.6bn high-speed rail contract awarded to a Chinese-led consortium. It emerged that a

## Agave harvest's prices avoid spike

**Cultivation** Tequila brands are more self-reliant about the supply of raw material, says *Amy Guthrie*

Tequila's main ingredient, the Blue Weber agave plant (or *Agave tequilana*, its scientific name), is a hardy desert succulent with spiky leaves like sharp blades that jut out in all directions. It favours high altitudes, requires little water and sounds resilient – a plant the tequila industry can rely on. Government and nature, however, are restricting supplies and compelling tequila producers to take action.

Since the 1970s, the Mexican government has applied denomination of origin rules to tequila, to restrict its ingredients and origins. Blue agave can be used to make tequila only if it is grown in one of 181 Mexican municipalities, most of which are in the state of Jalisco.

Meanwhile, the plants take at least five years to mature. In that time, if left unattended, the agave can succumb to pests like weevils, fungi and bacteria or to natural disasters like brush fires. Since the plants are propagated not with seeds but with shoots – *hijuelos*, "little children" – some scientists worry that the blue agave is becoming inbred, and thus more prone to illness.

Agave prices have climbed steadily from 3 pesos per kilo (\$0.20) in early 2015 to 10 pesos (\$0.53; the currency is now stronger) today, according to growers. This is thanks to global demand for tequila, especially in the US, home to 80 per cent of Mexico's tequila exports. The Tequila Regulatory Council says Mexico is on track to export 190m litres of tequila this year, compared with 182m litres in 2015.

Therefore, to ensure supply, several large distillers have taken to planting their own agave. At least a third of the 340m agave plants in the region are owned by the tequila companies themselves, according to Luis Velasco, president of the National Tequila Industry Chamber. A decade ago, very little agave was produced by the dis-



Plants with a point: the Blue Weber agave; below: Luis Velasco — LightRocket via Getty Images

### Waste not, want not Agave's byproducts offer opportunities

Agave nectar has been (controversially) marketed as a diabetic-friendly sweetener. It ranks low on the glycaemic index, which measures foods according to how much they lift blood sugar, as it is high in fructose, a natural simple sugar.

Research suggests that chains of fructose molecules known as fructans, which occur in agave and vegetables such as artichokes, may stall the advance of osteoporosis. Agave products are also sold as prebiotics, promising to stimulate growth of beneficial gut bacteria.

The tequila-making process generates thousands of tons of leftover pulp, which distillers often repurpose as fuel for

boilers or compost for their agave plantations. But researchers have now found ways to convert this waste product into paper, timber, biofuels and even auto parts.

In July, the Ford Motor Company and Jose Cuervo, the tequila company, announced they were working together to develop a bioplastic that could be moulded into storage bins for vehicle interiors and potentially serve as wiring harnesses.

The project has a dual goal: to give leftover agave fibre, which is frequently discarded by distilleries, a second chance at usefulness; and to reduce the weight of cars and thus increase their fuel efficiency.

stillers. "You need to have your own supply," argues Mr Velasco, who runs Madrileña tequila, a brand launched by his grandfather in 1911. Madrileña began planting its own agave after the crisis of 2000, when a series of blights and a freak snowfall wiped out much of Mexico's blue agave crop.

In a matter of 18 months, Mr Velasco recalls, the price of agave increased 24-fold, from 70 Mexican cents per kilo to 17 pesos (which was about \$1.60 at the time). "It almost destroyed some companies, including ours," he says. "They

were harvesting anything they could to get that high price, even if it was too young or sick." Today Madrileña grows 35 per cent of its own agave, and by 2018 it hopes that this will rise to 65 per cent.

Distillers complain that farmers tend to plant when agave prices are high and abandon the pursuit when prices are low. This leads to peaks and troughs for agave supply. For greater control, large brands such as Herradura have opted to farm agave.

"Over the past couple of years, we have generally been harvesting our own agave or using tequila in our storage tanks to meet our Herradura bottling demands," says Gabriel Byrne, director of strategy and financial analytics for Herradura's owner, Brown-Forman.

Tequila brand Jose Cuervo, whose

brands account for a fifth of global tequila volume sales, according to drinks industry research firm IWSR, noted in September that it also supplies much of its own agave.

This trend irks small farmers like Francisco Javier Guzmán, president of the National Board of Blue Agave Growers. Large tequila companies producing their own agave is "high treason," he says by phone from his 20-hectare property in Atotonilco, Jalisco. "We should all be able to share in the richness that is tequila."

The 72-year-old has spent his life in the fields. Days start with milking and tending to his livestock, then he checks his crop of 50,000 agave plants. Mr Guzmán is among the small agave producers – larger-scale producers tend to

have 350,000 or more plants. "Everything depends on the care – how much you dote on them," he says.

The plants require some fertiliser now and then. But even in the wild, when left alone, he has seen agaves mature without nurturing in 14 years (this is considerably longer than those which have been nurtured). The plant's biggest threat, in Mr Guzmán's opinion, is the weeds that thrive up in the dry season and easily catch fire.

Small-scale agave growers like Mr Guzmán are a rare breed. He has seen numbers of his kind thin out to 5,000 compared with 18,000 as recently as six years ago, he says.

He argues that farmers would be more motivated to plant agave if they had purchase contracts from distillers. Only a third of the agave grown by independent producers is under contract, he calculates.

The rise in price over the past two years indicates agave supplies are getting tight. Part of this rise stems from a greater appreciation in export markets for tequila made entirely of blue agave. A spirit can sport the tequila label if it is 51 per cent agave and 49 per cent cane alcohol; a tequila made 100 per cent from agave, naturally, requires twice as many plants.

Exports of 100 per cent agave tequila rose 62 per cent between 2010 and 2015, to reach 77.9m litres, according to data from the Tequila Regulatory Council. Meanwhile, exports of standard tequila, with less agave, declined 3.8 per cent to 73.6m litres. Demand for blue agave is also on the rise for other uses, in particular agave syrup (see box).

But high prices might actually ensure a healthier agave stock. Agave is most vulnerable when prices are low because there is little incentive to harvest the plants, says Joaquín Qui, a plant researcher with the Centre for Research and Applied Technology in Jalisco. If left to rot in the fields, infections and pests take over. "The biggest risk for agave is a lack of planning," he says.

Agave prices would have to more than triple in US dollar terms to reach the desperate days of 2000. During that crisis, reports circulated of distillers sneaking in blue agave from other regions and of thieves cutting down agave plants in the dark of night.

The agave being harvested now is of good quality, which Mr Velasco says signals there is enough to go around. It is the small agave producers who could be the endangered species.

As Mexico tries to sell tequila to China, China is pushing baijiu through cocktails like these



Mexican company linked to one of the members of the bid group had paid for the president's wife's luxury mansion, sparking a major scandal.

Luis Velasco, president of the National Tequila Industry Chamber, admits that it will be difficult to make inroads. The Chinese "culturally just don't get tequila", he says. "They don't know how to drink it." Rather than a sophisticated drink like the cognacs and whiskies that Chinese consumers have come to love, "they think it's a bit weird... like a firewater from the third world". Educating consumers "is a task that's going to take years", he says.

In any case, China already has a firewater of its own – baijiu – which is distilled from grains and is very potent. The IWSR says 1.2bn 9-litre cases were sold in 2015 in China. Ironically, producers are looking to the success of tequila to try to expand baijiu's appeal abroad by, for example, devising cocktails.

But resistance to tequila is more than a cultural preference. The industry has also run into regulatory hurdles that have blocked exports of many aged tequilas because of rules on additives.

Even though China permits imports of whisky and cognac containing caramel colouring, tequila with the additive has not been allowed, Mr Velasco says. Caramel colouring is commonly added to even out the colour of a tequila batch after ageing. "Provided rested, aged or extra-aged tequilas do not contain caramel colouring, they have no problem entering China," he says. Progress has been made, but "it's taken years".

The Chinese government's crackdown on ostentatious gift-giving and the country's economic slowdown have also hurt sales of imported spirits. Casa Dragones, one of Mexico's most exclusive tequilas, had been set to start exports to China back in 2015, in bottles with special calligraphy, but had to put its plans on ice.

"I'm not discarding the possibility in the near future," says Bertha González, the group's chief executive. But for now, she is focusing on growth markets, chiefly the US and Mexico.

Hans Qu, a sommelier and lecturer on wine in China, urges Mexico's tequila industry to find "more patience", noting that whisky is now ubiquitous but "took 300 years to get to where it is today".

His advice? Put on your sombrero. "The key is to combine the liquor with Mexican culture, giving young Chinese exposure to the traditional Mexican hats." More than one Mexican product might benefit from such an export push.