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The Resurrection of Oaxacan Spirits

Modernizing the mescal industry in southern Mexico

OAXACA, Oaxaca

August 31, 1996

By William F. Foote

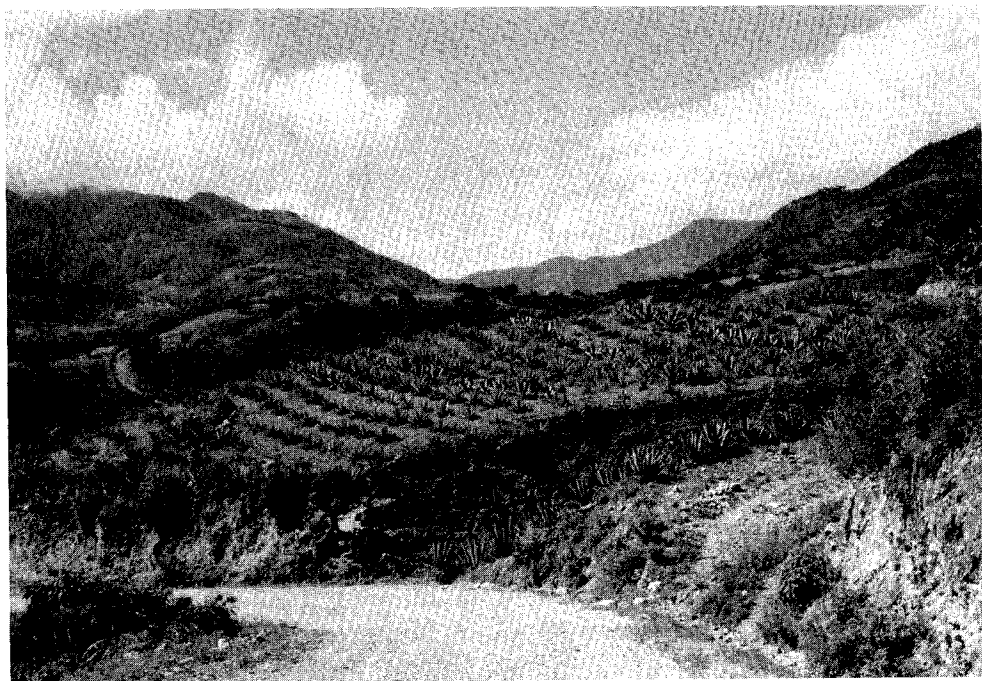
Past the tumbledown church and cobblestone square, just beyond the riverside cemetery on the edge of town, the spirits are rising again. Half buried in the earth, two dozen clay pots hold their worldly remains — chopped by machete, crushed by cudgel. Today, as the mangled cactus plants ferment, their juices gurgle back to life in bubbly resurrection.

Resting in the shade, Amado Cisneros Castellano, 70, surveys his ceramic still. As at every summer's end, his sons and he have been working overtime to make enough booze for their town's upcoming *fiesta*. A community of some 950 people, Jayacatlán lies two hours north of Oaxaca City by four-wheeler; up mountains, over



Don Amado stands beside fermenting maguey in his old-style palenque.

*Maguey patches lining
a dirt road into the
Valley of Jayacatlán*



clouds, down into this verdant river valley.

Each day, Don Amado oversees the transformation of the locally-grown agave plant (or maguey) into mescal, a strong drink taken neat and often in Mexico's poor South. Clustered nearby, the old man's apprentices hang on his every word — as they should. For Don Amado is the town *tata*, the chief mescal maker, a family trade passed down from father to son over four generations.

"Someday soon," says the *maestro* plaintively, "one of my boys will be *tata*."

His technique is the same used for ages. First, they extract the agave heart, called the *piña*, which takes seven to 10 years to grow and is transported from the mountainside by mule or wooden cart. The *piñas*, which weigh up to 175 pounds, are then chopped into pieces and roasted for three days in an oak-burning kiln. Next, they mash the cooked hearts with heavy wooden clubs (other *tatas* use horse-drawn grinding wheels). Lastly, the juice is deposited into clay vessels to ferment and is then refined in a traditional ceramic and bamboo distillery.

"Only two weeks remain," said the sweaty *mezcalero*, drying his brow under a thatch hut sheltering the 16th-century technology. September 8th marks the beginning of the annual celebration in this dirt-poor hamlet of *La Virgen de la Natividad*, its patron saint. For a brief moment, Don Amado will make spirits rise. "There'll be prayer, music and lots of mescal, as it has always been," says the *tata*.

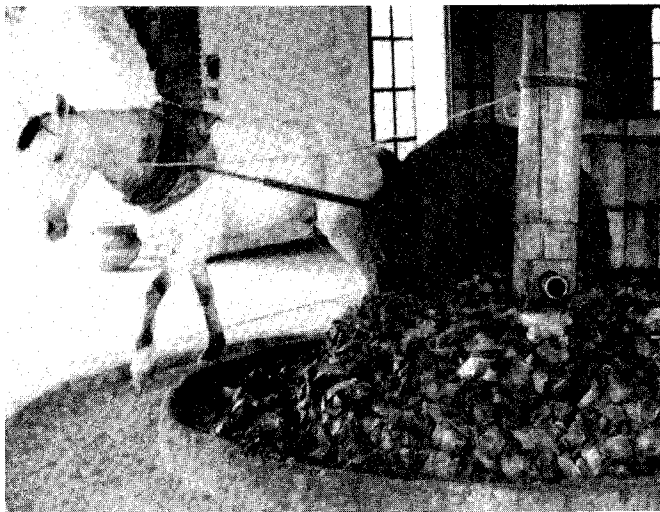
OLD WAYS, NEW MARKETS

Today, Oaxaca has some 300 old-style distilleries, called *palenques*, not unlike the one described. Across the state, approximately 20,000 families, mostly impoverished farmers, participate in some way in the mescal industry (e.g., maguey production, *palenque* labor, bot-



Hearts of agave, or piñas, ready for roasting

1. Mescal is produced in smaller quantities in four other Mexican states: Guerrero, Zacatecas, Durango, San Luis Potosi.



A horse-drawn grinding wheel mashes roasted piñas

tling activities). Together they account for 70 percent of total mescal production in Mexico.¹ Significantly, much of that output — about 3.1 million gallons in 1995 — remains linked to local consumption. *Tatas* and timeless traditions still dominate the trade. But winds of change are blowing.

Almost four centuries after it took root following the arrival of hard-drinking Spaniards in the New World, Oaxaca's hand-crafted mescal industry has taken on an air of uncertainty. Some of the wooden bludgeons and beast-drawn millstones have disappeared, replaced by more efficient machine grinders. Ceramic stills have given way to copper ones, and copper is giving way to glass and stainless steel.

Some observers consider even these changes futile. The old-style distilleries, they argue, are simply obsolete — with or without improvements. Advocating a whole-scale modernization of the industry, they would replace the hundreds of *palenques* with a few high-tech factories.

What's driving this process? New export markets. The world, it seems, no longer considers mescal a rotgut variation of tequila, and nothing more than a guaranteed headache. Last year, mescal began selling abroad as a luxury item, reportedly fetching as much as 150 U.S. dollars per bottle in Asia. In China, the smoky-flavored liquor is being marketed as a rival to *Chivas Regal* scotch. Some restaurants in San Francisco sell a single shot for seven dollars.²

"Oaxaca's mescal exports approached two million dollars last year," boasts Diego Rule of the state government's Commercial Modernization and Export Promotion Office (SEDIC). This sales increase is attributable to

new promotion strategies that play up the rustic distillation methods of the *palenques*. "Two years ago, our exports were close to nil," explains the official. "But with mescal's new image, we hope to reach 15 million dollars annually by 1998."

That's good news. On one hand, the push for new markets abroad shows how, even at the smallest level, Mexican companies are beginning to think in terms of outside markets. On the other, in Mexico's conglomerate-dominated economy, small-scale producers who penetrate markets abroad are a rarity. Indeed, given the country's ongoing recession and the labor-intensive nature of *palenque* production, Oaxacan *mezcaleros* should be overjoyed.

Yet few are. In fact, the pressures of global marketing and related demands for modernization are unleashing turmoil in this tradition-bound state. *Tatas* like Don Amado feel anxious. Thrust from village nooks into global niche-markets, they bristle at rumors of plans that might alter their time-honored ways.

"*Palenques* are outmoded, they were just a phase," says Porfirio Chagoya of Agroindustrial Products of Oaxaca (PAOSA). Like other mescal-bottling executives, Chagoya admires the industrialization process that turned tequila, a similar agave-based alcohol, into Mexico's most famous export.³ Unlike home-brewed



2. *The Dallas Morning News*, May 9, 1996.

3. Actually, tequila is a specific name applied to a variant of mescal. It derives its name from one of the towns in which it is manufactured, Tequila, in Jalisco state.

mescal, tequila is manufactured in modern plants in the central state of Jalisco, where oldfangled *palenques* vanished nearly a century ago. Chagoya laments how far Oaxaca has fallen behind.

"Mescal exports last year represented less than one percent of those of tequila. Evidently, we need — the market demands — superior technology," says the businessman, adding that "we just can't rely on *palenques*."

Don't try telling that to Don Amado. "I will stick to the old way," insists the *tata*, wooden cudgel in hand. "No matter what."

Thus emerges Oaxaca's ongoing identity crisis. Mexico's economic battle cry, *la modernidad*, betrays a national love affair with tradition. In this light, the struggle for the future of Oaxaca's mescal industry can be seen as an allegory for the changes now roiling Mexican industry in general. By opening up the economy to foreign competition, deregulating domestic industries and privatizing public assets, Mexico has placed a premium on industrial efficiency. As a result, big businesses have grown even bigger. Meanwhile thousands of small tradesmen — cobblers, tailors, toy makers — have gone under, unable to swim against the modernist tide.

But what about the *mezcaleros*? Their case is unique: the push toward modernization is being fueled by an export boom whose very success stems from the effective marketing of those old-fashioned *palenques*. Put another way, the global markets, with all their cyberspace efficiencies, seem to be craving products that hark back to simpler, bygone days.

Hence mescal has become fashionably rustic. The question is, can Oaxaca's small-scale producers satisfy that worldwide whim without breaking their time capsule? Can they balance modernity with tradition? Or will clay and bamboo stilleries be forever stilled by fancy factories as *tatas* join the other spirits rising above Mexico's crowded cemetery of small-scale producers?

THE RISE AND FALL OF MESCAL: 1600-1994

The spirits of maguey rose long before the Spanish conquest. Around the time of Christ, the great Indian civilizations of the central highlands of current-day Mexico began making a mild alcoholic beverage from the sap of the maguey. Called *pulque*, the clear and colorless drink served as a ritual intoxicant. Heightening ceremonial drama and easing the departure of sacrificial victims, *pulque* became the stuff of myths, legends and cults.

Then came the *conquistadores*. Unlike the na-

tive Indians, they were heavy drinkers. Months after arriving, their liquor supply exhausted, the Spaniards had primitive stills ready for operation. Noting the *pulque* tradition, they chose maguey as primary material. Thus mescal was born. *Palenques* soon proliferated. High-proof alcohol spilled across the New World, a development often cited as a significant factor in, as one academic wrote, "the rapid decay and demoralization of the highly civilized native population."⁴

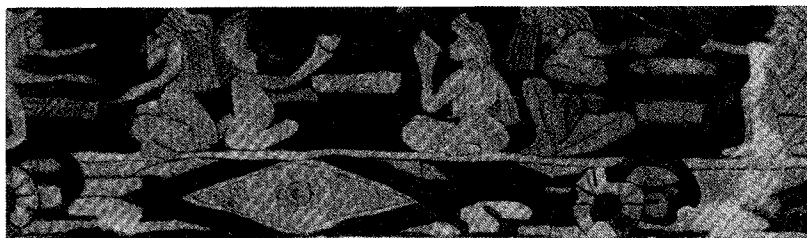
The centuries passed. By the late 1800s, mescal had become a drink of distinction, the choice of the Mexican aristocracy. Tequila, already the most popular of mescals, had penetrated the parlors of pre-revolutionary high society. Interestingly, the so-called *tequileros* had secured their fortunes by formally cultivating the agave cactus, which had hitherto grown only in the wild. Noting their success, one other region followed suit: Oaxaca.



Tata of Jayacatlán holding heavy wooden club used to grind maguey

4. Virginia B. de Barros, *A Guide to Tequila, Mescal and Pulque*, Editorial Minutiae Mexicana, (1991), p.20.

"In the 1890s," said Porfirio Chagoya, "my grandfather established Oaxaca's first agave nursery." Standing in the verdant Valley of Tlacolula, located about 30 miles east of Oaxaca City, the modern heir gestured across the outlying maguey fields. "Today," he declared, "these central valleys produce 70 percent of Mexico's mescal, thanks to the efforts of my forefather one century ago."



Pre-Columbian priests drinking pulque during a religious ceremony

Chagoya, whose family has dominated the local mescal industry ever since, stood amid the dark-green shrubs, man-high and undulating in the sun, stretching toward the outlying mountains, their spiked arms twisted about the landscape. No ordinary maguey patch, these cacti had 20-foot-high trunks sprouting from their prickly laps. Overhead, thousand of *magueyitos* (baby agaves) hung from stubby, leafless branches.

"We're planting the babies now," said Chagoya. "Before September, that is, when the rains stop and the valley dries up like a bone."

Despite grandfather Chagoya's legacy, Oaxaca's mescal industry never boomed like Tequila's. Rather it survived with cactus-like stamina. In the 1930s, the producers weathered prohibition and depression. During Mexico's post-World War II recovery, the federal government levied alcohol taxes amounting to 300 percent of the price of mescal. The industry persevered. By the mid-1970s, Oaxaca had over 13,000 hectares of maguey planted and some 1,200 *palenques* in operation.

From the beginning, however, the *tatas* were at a disadvantage. With few roads and even scarcer transport, isolated producers had to sell to powerful intermediaries who manipulated the trade. Often paying below-cost prices for both maguey and mescal, these middlemen reaped handsome profits in the national marketplace. Capitalized and well connected, they built bottling facilities and so-called homogenization plants for mescal quality control. By the mid-1970s, three concerns had come to dominate the industry: from inside Oaxaca, the Chagoya family; from Mexico City, *Mezcal Gusano Rojo* and *Mezcal Monte Albán*.

In 1978, a new chapter opened in the annals of mescal as bottlers tried to export. Targeting U.S. consumers, *Mezcal Monte Albán* adroitly promoted a decidedly "bad boy" image. With a trademark worm in each bottle, *Monte Albán's* product made it onto the pages of *Playboy* and the screens of tough-guy westerns. Across the country, Americans watched Clint Eastwood prepare for shoot-outs with a shot of mescal and a *gusano* (worm). Mescal attracted the American *macho*. Never mind that its price and quality reflected the low-class image *Monte*



Porfirio Chagoya tours his family's maguey nursery located in the Valley of Tlacolula, Oaxaca.



The sign in this 1930s period photo says: "This is Oaxaca, Land of Real Mezcal"

Albán had created. They had secured markets abroad. Indeed, even as the Mexican economy entered the darkness of debt crisis in the early 1980s, the industry's future seemed bright.

But clouds soon gathered before a downpour of troubles. Ten years later, when the storm finally broke, Oaxaca's mescal industry had been nearly washed out. By the early 1990s, the surface area of planted maguey had shrunk by over 50 percent. Over 1,000 *palenques* had disappeared. Worse yet, what little mescal was still being produced had plunged to the category of rotgut at best, poison at worst.

What happened? First, a run on Oaxacan maguey drove its price beyond the reach of local mescal producers. Interestingly, the buyers came from Jalisco. Starting in 1985, *tequileros* drove south to buy agave *en masse* in response to a severe shortage at home. As a result, maguey prices — historically suppressed by the aforementioned middlemen — suddenly leveled with those of the Tequila region. From January to August, 1985, agave leapt from 5,000 to 100,000 pesos per ton.

Unable to pay, yet reliant on mescal sales, many

tatas turned to cheaper raw materials. By the late 1980s, they were surreptitiously adding low-grade sugarcane alcohol to boost volume. Unfortunately, as producer quality sank, consumer hangovers soared. With no regulatory controls, mescal became synonymous throughout Mexico with a next-day headache, known as *la cruda*. Meanwhile, American tourists began taking adulterated bottles back home, transporting *la cruda* northward.

In 1994, troubles turned to tragedy. Late that year, 66 people died in the central state of Morelos after allegedly ingesting methane-tainted mescal at a village festival.⁵ While other spirits were reportedly consumed in the rural town of Chichihualco — including *Bacardi* rum and *Chivas Regal* scotch — local television newscasters conspicuously blamed mescal.

"It was scandalous," said Chagoya, as we exited the maguey patch. "Televisa [Mexico's largest T.V. company] purposefully protected *Bacardi* and other well-known liquor companies who are some of their biggest clients."

As president of the National Chamber of Commerce

for Mescal, Chagoya drafted a fuming press release in 1995, as summarized below:

We are very disturbed by the distorted news coverage in Morelos. The facts were misrepresented regarding fraudulent bottlers who falsified numerous alcoholic beverages which included, among various others, mescal. The press erroneously reported that only mescal had been consumed. This fallacy has served to dash what little progress we have achieved in developing our fledgling industry, fomenting public mistrust and significantly reducing the consumption of our product.

Unfortunately, few people read his statement. Panicked consumers virtually boycotted the drink. The industry seemed doomed. Even the government began anti-mescal campaigns. In the southern state of Guerrero, the Health Ministry allegedly paid for highway billboards warning citizens to, "Drink Mescal At Your Own Risk." The Oaxacan spirits, it seemed, had finally fallen.

THE RESURRECTION — GIDDY FOR GUSANOS

Setting down the flask of Asian love potion, Hugo Reyes scooped up dozens of dead worms from a glass jar inside the bottling plant. Called maguey *gusanos*, these insects plague the agave cactus during Oaxaca's rainy season between June and late September. With eyebrows raised playfully, Reyes flipped several of them into his mouth to the abhorrence of his French client's girlfriend. "Eeeew!" squealed the *mademoiselle*.

"The Chinese are crazy about *gusanos*," said the grinning engineer, chewing away. "They think they're aphrodisiacs. Hence we put not one but *four* worms in each bottle we export — three medium-sized and one jumbo for the Chinese boss."

We had just arrived at Matatlán, a town known as the Cradle of Oaxacan Mescal. Days before, I had heard that a group of local producers had begun exporting the drink to places as far away as Spain, France, Taiwan and China. Logically, I wanted to visit the global village. Yet as our pickup rumbled into town, past barefoot Zapotec women and donkey-pulled carts, I reckoned someone had made a wrong turn.

"Nope, this is it," Reyes assured me, pointing out the driver's window toward the smoke rising above unbroken tracts of ragtag houses. "Smell the sweetness? It comes from the 100 *palenques* in town, one in nearly every house. They're roasting maguey."

We parked before a modern bottling plant. The sign above the entrance read: *Asociación de Magueyeros de Oaxaca* (AMO), a cooperative of some 50 local maguey and mescal producers. Inside, stainless steel tanks towered above the factory floor, where shiny nozzles spit liquor



Hugo Reyes with handful of mezcal worms inside the AMO bottling plant

into bottles rattling along a conveyer belt. Standing nearby, three dark-skinned women dressed in smart uniforms slapped on the AMO trademark, *Mezcal Benevá*.

"The market of the future is Asia," said Jorge Quiros, *Benevá's* bearded business manager. He wasn't kidding. Last year, AMO signed a contract with a Taiwanese distributor for the export of 115 20-foot-equivalent ocean containers over the next three years. As Quiros explained the deal, he dragged a cardboard box from the shelf and reached inside. "Behold!" he said dramatically, brandishing a bottle of booze. "This is *Maya*, our newest mescal creation." Black and pyramid shaped, the glass glittered with gold letters and pre-Columbian symbols. "Believe it or not," he added, "one of these bottles sells for 150 U.S. dollars in Taiwan."

Hold on. Weren't the *mezcaleros* on the verge of collapse? "Yes, but not anymore," said Diego Rule of the state government's Commercial Modernization and Export Promotion Office (SEDIC) in Oaxaca City. In charge of SEDIC's mescal program, Rule painted a glowing picture of industrial rebirth spawned by new promotional concepts that target global niche-markets. "We're out to

rescue mescal's image," said Rule, "across the world."

SEDIC's strategy is three-fold. First, promote mescal as a premium, 100 percent agave liquor that honors a 16th-century production tradition native only to the state of Oaxaca. Second, establish new distribution channels in foreign countries. Third, design unique packaging and promotional strategies based on the specific tastes of consumers abroad. "With the right execution," concluded Rule, "the deep-pocketed buyers out there will swarm."

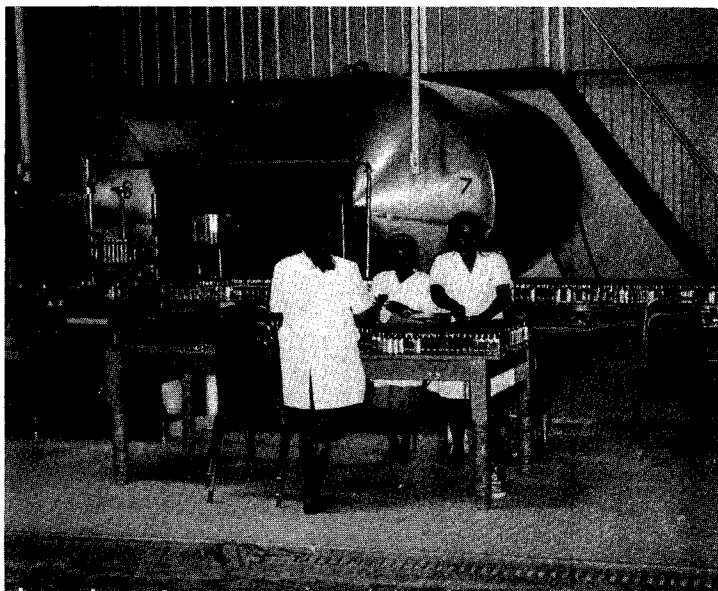
To kick off the marketing campaign, the state agency helped finance the making of a promotional video. Paying homage to the *tata*, the camera exalts Oaxaca's old-fashioned *palenque* production: *campesinos* hack spiked magueys with machetes; agave-laden mules descend the sierras; diced piñas roast; horses pull limestone grinding wheels. After 15 minutes, the viewer gets the message — namely, that Oaxaca is mescal and vice-versa.

With video in hand, and financial support from Bancomext (Mexico's import-export bank), companies like Benevá made a major move into international trade shows. Looking back, Quiros admitted his initial aversion toward accepting changes that foreigners wanted to impose on mescal's traditional presentation. After signing AMO's first export deal, however, he realized the rewards of accommodation. "Mexicans don't like new ideas," said the business manager, gripping their gaudy *Maya* product. "This four-worms-per-bottle concept, for example, it wasn't ours. The Taiwanese suggested it."

In 1995, at a trade show in Madrid, Quiros met a future client named Marcel Ruiz, a French liquor distributor from Marseilles. The day I visited Benevá's bottling plant, Ruiz had just arrived to survey the facility and discuss the progress of their joint mescal product, called *Machos*. Targeting European youth, Ruiz's company designed the *Machos* label with a brightly-colored band framing the bust of a mustachioed, Mexican revolutionary.

"Tex Mex is all the rage in Paris now," remarked Ruiz, donning an enormous *sombrero* for a group photo beside oak barrels of aging mescal. "The Zapata image will attract would-be French rebels of the upper-middle class. It's a tough-guy appeal combined with premium quality. We're charging 40 U.S. dollars per bottle."

What about Americans? Unfortunately, mescal still suffers from a rotgut reputation in the U.S. Not surprisingly, most exporters are shunning their northern neighbor in favor of Asia and Europe. Moreover, in an oft-repeated complaint, Quiros lamented that the U.S.



Zapotec women applying Benevá labels beside stainless steel tanks filled with mescal

offers either huge distributors who impose unfavorable trade conditions, or small companies that cannot afford to promote their product. "Fortunately," he concluded, "the world has shrunk so much that you're not limited to exporting to America."

Yet the U.S. market is shifting. In a recent interview, a spokesman for the Distilled Spirits Council in Washington D.C. affirmed that "premium liquors have become very popular and are pricing in the clouds." He suggested that "Americans will embrace mescal."⁶

Banking on that prospect, Napa Valley wine producer Carl Doumani began importing the Oaxacan spirit to California in the spring of 1995. Directed by state authorities, Doumani established a partnership with the Association of Collective Rural Interests for Mescal (ARIC), a government-backed producer organization formed in 1989. Today his label, *Encantado* (Enchanted), sells as a "super premium" drink in a dozen states for about 35 dollars a bottle.

"Our experience has been very similar to that of Benevá," said ARIC President Valeriano Martinez as we toured their high-tech bottling plant located on the northern fringe of Oaxaca City. Yet of trade shows he knew little, of foreign market trends less. Indeed, as a lifelong union activist, Martinez seemed uneasy discussing ARIC's new links to the global village. In contrast to Quiroz's slick-willy sales pitch, he offered union rhetoric about the gains ARIC has made for their 2,500 associated producers.

"This is the fruit of our struggle," he proclaimed, referring to the plane-hangar-sized warehouse above our heads. Constructed in the early 1990s, the modern facil-

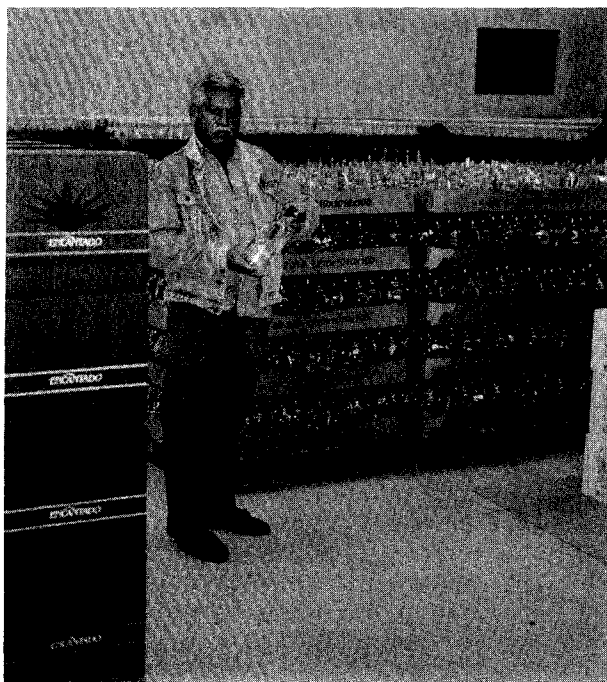
6. *The Dallas Morning News*, May 9, 1996.

ity was financed entirely by public funding, a reflection of the close ties ARIC has enjoyed to Oaxaca's PRI (Mexico's official party) governors. The benefits of that cozy relationship — bottling plant, repeated capital injections, tacit guarantees — must have helped convince the Californian to ally himself with ARIC.

Leaving the bottling plant, we passed the next shipment destined for Napa Valley. Workers were loading the red-painted boxes with maguey decals into crates. Standing beside a glass wall of bottles, I noticed that the colorless mescal inside had no *gusanos*. *Maya* has four worms, *Encantado* has none — why is that? Martinez threw his arms up and said: "Who knows? Your markets are *locos*."

CALLING THEIR BLUFF

Forcing a smile, Porfirio Chagoya waved to the German tour group heading toward the animal-powered agave grinder. We had just arrived at his family's mescal-tourism center located on the road to Matatlán. From the front porch, I could see the tethered stallion pulling a millstone over roasted maguey inside the *palenque* museum. When cameras began flashing, Porfirio had stopped grinning. "This premium export boom you mention," he said, sharply. "It's a sham."



ARIC President Valeriano Martinez displays a bottle of *Encantado* beside boxes destined for Napa Valley.



French clients pose for a group photo with Benevá partners next to aging barrels of Oaxacan spirits.

"I agree," said his brother Victor, a stocky man in charge of the family's agave production activities. "The companies you spoke to are bluffing. They just want press coverage."

The numbers suggest as much. In 1995, AMO exported 6,000 boxes (12 bottles per box) of mescal and ARIC exported only 3,000. Meanwhile, the Mexico City bottlers, *Mezcal Monte Albán* and *Mezcal Gusano Rojo*, exported 100,000 and 50,000 cartons, respectively. Finishing third, the Chagoyas sold 25,000 boxes abroad. All told, the industry's top three bottlers accounted for 70 percent of global market share.

"Their high-premium niche market is like a mirage," said Porfirio. "At 40 or 100 dollars a bottle, it's not going to materialize."

In addition, the Chagoyas contended that, despite aggressive pricing abroad, the luxury exporters are reaping poverty at home. In effect, they suggested that ARIC and AMO had been shanghaied by the Chinese and the *gringos*. "It's simple," said Porfirio. "*Maquilas* [special export contracts] are a terrible business."

What's a *maquila*? In broad terms, it is an export arrangement that affords certain tax incentives to foreign partners who establish operations in Mexico. Better known along the U.S.-Mexico border, *maquila* contracts were signed for both the *Maya* and *Encantado* labels in Oaxaca. Here's how they work:

Foreign partners send primary packaging materials

into Mexico on a three-month import permit. During that period, all those inputs — bottles, corks, labels, boxes — must be assembled and exported. In that process, the Oaxacan partner supplies the liquor and labor. For non-Mexican businesses, the advantages of *maquila* deals include: tax exemption on value added, assuming the finished product leaves Mexico on time; and, reduced production costs since mescal and manpower — the only negotiable items in the contract — are dirt cheap in Mexico.

What's in it for the Mexican partner? Many emphasize the benefits of direct access to foreign markets. Put another way, *maquilas* have helped cut out local intermediaries whose trade terms were even worse. At the same time, ARIC and AMO see the international expo-

sure provided by *maquila* contracts as a necessary first step toward an eventual penetration of global markets on their own merits.

Yet the current shortcomings of *maquilas* remain evident. Martinez at ARIC said they would obviously have preferred introducing their own label and supplying their own inputs. The reality, however, is that producer associations lack the resources and contacts necessary for effective marketing abroad. Be that as it may, Martinez much prefers today's *maquilas* to yesterday's middlemen. "After all," he said, "we're not being swindled anymore by our next-door neighbors."

Quiros takes the *maquila*-bashing in stride. As AMO's business manager sees it, the old bosses are just angry

A White Elephant's Tale

Some people bristle at the mention of ARIC. Founded with state support in 1989, the association of maguey and mescal producers was created as a vehicle for social investment in Oaxaca. For that purpose, ex-Governor Heladio Ramirez Lopez tapped funds from the National Solidarity Program, the federal anti-poverty scheme of former President Carlos Salinas de Gortari. And the money came rolling in: 1.1 million dollars for the mescal business; 8.6 million dollars for maguey production. After reviewing those investments, however, it is hard to escape the conclusion that the ARIC story is a white-elephant tale.

1989 — ARIC establishes its own label, *Mezcal Mixtlan*, and receives its first order: 2,000 boxes (24,000 bottles) to be bottled by Mexico City bottler, *Monte Albán*. To finance the project, the state invests 200,000 pesos (57,000 dollars) and Banrural (rural development bank) provides a credit of 18,000 pesos (5,000 dollars). Yet complications arise and it takes ARIC *five years* to complete the order, most of which is consumed at state functions, according to Porfirio Chagoya. Today, ARIC's mescal producers, who supplied the original alcohol but were only paid for half its value at delivery, have yet to receive the other half. Banrural's credit remains outstanding.

1992 — The state invests 2.1 million pesos (600,000 dollars) of Solidarity funds to build ARIC's modern bottling plant. Said Chagoya of the project: "We constructed a similar facility in 1989. To build our warehouse and buy bottling equipment, we spent less than 1 million pesos (290,000 dollars). In contrast, ARIC spent 2.1 million on their warehouse alone. Where, I ask you, did all the money go?"

1993 — FOCIR, a federal venture capital fund, invests

800,000 pesos (230,000 dollars) in ARIC for the purchase of bottling machinery. Soon after, a representative of ARIC's newly-formed Oaxacan Mescal Export Association (SEMO) buys that equipment in Mexico City and Cordoba using checks without funds. Legal suits are ongoing.

1993 — State authorities allocate 200,000 pesos (57,000 dollars) for an international marketing campaign to promote *Mezcal Mixtlan* in the U.S., Europe and Japan. Subsequently, a Bancomext (Mexico's export bank) report allegedly criticizes the profligate nature of that campaign. Recalled Chagoya: "I saw the ARIC representatives at a trade show in Japan. It was incredible. They had no price lists, no samples, no presentations. They were on a luxury tour to buy electronic goods."

1993 — The state government allocates 30 million pesos (8.6 million dollars) in Solidarity funds to ARIC for the establishment of maguey nurseries throughout Oaxaca. According to Chagoya — who sold baby magueys to ARIC at the time — the nurseries were planted in November, right around election time. Yet because maguey must take root during the summer rainy season, much of the investment was lost. In late 1993, when the governorship changed hands, the mescal industry lost its priority status. The majority of agave nurseries were abandoned.

1994 — Empresas en Solidaridad, the Social Ministry's microcredit lending arm, invests another 600,000 pesos (171,400 dollars) in ARIC.

1995 — ARIC begins exporting mescal under the *Encantado* label, which belongs to Napa Valley wine distributor, Carl Doumani. The previous year, Oaxacan state authorities lobbied hard to convince him to join trunks with ARIC, the white elephant they had raised.



Over a bottle of Machos, Jorge Quiros (right) and a French client (left) claim their *maquila* contract has reaped profits not poverty.

over new competition. Contrary to their claims, Quiros assured me that the *Machos* and *Maya* products are in fact profitable. The proof, he said, is reflected in rising prices paid to the *mezcaleros*. Before 1994, the market rate per liter of mescal had held steady at just 2 to 3 pesos (26 to 39 cents) for nearly 20 years. Since *Benevá* dispatched its first container to Asia, prices have climbed to between 5 and 7 pesos per liter.

"The truth is," Quiros continued, "we, the producer associations, have achieved a degree of autonomy by developing first-class products, identifying our own niche markets abroad and finding our own distributors. So we don't need them [middlemen] anymore. Some folks don't like that."

Thus the conflict emerges. On one side, the new exporters have wagered their future on continued access to global niche-markets. As explained, their strategy is to promote mescal's hand-crafted tradition, old-style *palenques*, timeless *tatas*. Yet that implies quality over quantity, and profits without volume depend on selling high. In order to charge top dollar, the new exporters must establish and protect mescal's super-premium status. Translated into regulatory demands, that means mescal must be both 100 percent agave (*i.e.*, no cheap sugarcane additives), as well as bottled exclusively in Oaxaca.

On the other side, the traditional industry leaders have long relied on volume and competitive pricing abroad. Since penetrating the U.S. market with "bad

boy" products in the late 1970s, *Monte Albán* and *Gusano Rojo* have exported mescals that fall in the medium range of the distilled-spirits market. Logically, they defend more flexible controls — namely, freedom to use sugars other than maguey to reduce costs and increase volume. Given the location of the Mexico City concerns, they predictably oppose any restrictions on bottlers with operations outside of Oaxaca.

So the two sides disagree. But there must be room for dialogue. Indeed, that is why the National Chamber of Commerce for Mescal exists: to establish communication, to unify and promote the industry. Porfirio Chagoya (an ally of the Mexico City bottlers) founded it last year. Today, as the chamber's first president, he represents some 40 bottling concerns spread across Mexico's five mescal-producing states — virtually everyone, that is, except ARIC and AMO.

Why have they not joined? "Because they're *prima donnas*," scoffed Chagoya.

Yet Quiros defended *Benevá's* non-participation. "Look," he said. "It's an industry-wide chamber that includes only the bottlers. Need I say more?"

It seems that neither maguey nor mescal producers were asked to join the chamber, let alone vote for its representatives. But that's all right, according to Quiros. If premium mescal exports keep rising, then the future benefits of *maquilas* will materialize. And if that happens, then the muzzling of *mezcaleros*, the cham-

bers of special interests and the manipulation of market prices will be relegated to memoirs and mescal museums.

"We're not bluffing," Quiros concluded. "We're just trying to create an industry that responds to *tatas*, not tyrants."

BALANCING TRADITION WITH TECHNOLOGY

As Don Amado blew on the bamboo straw, mescal gurgled inside the gourd cup. Grandkids gathered round the table. Motioning for quiet, the old man studied the spume judiciously. Like all *tatas*, he measures alcohol content by the number and size of those bubbles, called *perlas* (pearls). How hot, everyone wondered, would his firewater be?

"It's 50 percent," Don Amado proclaimed, smiling as he tossed back the sample. "Ahhh," he sighed, filling our gourds at 10:30 a.m.

Surprisingly, the margin of error for such measurements is believed to be only two to three percent. That's impressive, but not good enough for some. Indeed, many observers believe that the whole *palenque* process — a series of informal measurements and estimations — must be documented, systematized and modernized.

"If Oaxaca is bound by tradition," said Oscar Contreras, a local engineer familiar with the *tatas'* technology, "our mescal industry is roped, shackled and chained by it."

Contreras, who specializes in small-scale industrial modernization, thinks the best *tatas* do in fact produce quality mescal on a consistent basis. But what about the mediocre ones? And what happens when *maestros* like Don Amado die? What if junior just doesn't want to be a *tata*? What if he emigrates to the U.S.? Under these conditions, could the mescal industry survive?

That question underscores the current debate over the need for *mezcaleros* to move with the times. From the poorest *palenque* to the poshest bottling plant, at most everyone agrees that change is necessary. After all, the number of old-style distilleries in the state has dropped by 80 percent since the mid-1980s. Moreover, those that remain *do* have problems: horses defecate next to roasted maguey; an estimated 30 percent of production is lost to inefficient milling and leaky distillation; uncontrolled fermentation can produce lethal methanol; copper stills leach heavy metals into the alcohol. These problems are widely recognized. The question is how to deal with them?

The people with answers are divided. Aligned on one side of the issue are the defenders of the *palenque*, its traditions, its labor-intensive process (in a country with huge unemployment). Not surprisingly, these include premium mescal exporters like ARIC and AMO. On the other side are traditional bottlers, like the Chagoyas, Monte Albán and Gusano Rojo. They espouse modernization along the lines of the Tequila region, with its factories, economies of scale and specialized work force.

Curiously, this debate traces its roots to a controversial book published in the late 1980s. The product of a state-funded research project, *Oaxaca: Land of Maguey* was written by Dr. Alfonzo Sanchez Lopez, who currently represents the National Council on Science and Technology (CONASYT) in Oaxaca. During a recent interview in his downtown office, the Ph.D. in agro-industrial development explained why his findings caused such a stir.

The study began in 1983. Like most observers at the time, Sanchez Lopez fully expected to recommend a

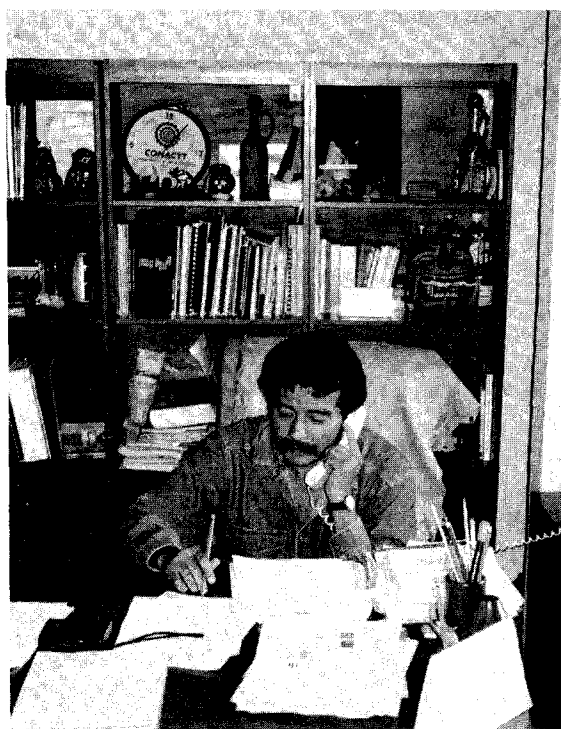


Blowing on a bamboo straw, Don Amado practices the old-fashioned way of measuring alcohol content.

modernization of the mescal industry based on the experience of the Tequila region. Traveling the country, he visited *palenques* throughout Oaxaca and the four other mescal-producing states. Then he toured the modern tequila plants of Jalisco. As he analyzed their profitable methods, however, he began to have doubts.

"I kept asking myself," the professor recalled, "What would happen to the 20,000 Oaxacan families linked to the *palenque* system?" At the same time, having tasted mescal across the country, he noted that the quality of the drink produced in modern plants was considerably inferior. "Industrialized spirits just didn't taste as good as those from *palenques*."

In the final analysis, Sanchez Lopez concluded that the high-tech development model adopted decades ago in Jalisco was inappropriate for Oaxaca. In fact, he argued that any significant modification to the old-fashioned system would be anathema to the industry because, as he put it, "mescal would cease to be mescal."



Controversial author Alfonso Sanchez Lopez inside his CONASYT office in downtown Oaxaca City

The book blindsided local industry leaders. "Terrible, terrible, terrible," stated Porfirio Chagoya when asked his opinion of the CONASYT study. "To this day," he added, "I cannot understand how a federal technology institute could have someone so backward-minded in charge of a regional office. His book virtually prohibits progressive change. It's outrageous." Actually, Sanchez Lopez does advocate modernization, but only of the *palenques* themselves. Today, perhaps reflecting the macroeconomic policies that have transformed Mexico since 1983, most people involved in upscaling *palenques* hail

from the private sector. Consider Oscar Contreras. A chemical engineer and entrepreneur from Oaxaca City, he has helped identify most of the trouble spots that plague the old-style distilleries. While designing alternative and affordable technologies, he came up with the idea of founding a *palenque* school. Once his showcase system is finished, a team of professionals will offer instruction to any *mezcaleros* interested in modernizing their production technique. Contreras has no illusions, however: tinkering with *tata* tradition won't be easy.

"Any type of fancy equipment spooks the *maestros*," he said. "I've never met a *tata* who trusts change." Hence Contreras plans to target their sons and grandsons (yes, it's a sexist industry). He reckons that the younger generation, people who went to school, who may be familiar with a calculator, will embrace his ideas. "Especially," avowed the engineer, "when they see results at our *palenque* school."

Aware of Contreras's project, the Chagoya brothers halfheartedly agreed that *palenques* should be modernized. "Sure, sure," said Porfirio. "They can try to improve the *palenques*, but that's only a half-baked solution. It would be foolish to stop there."

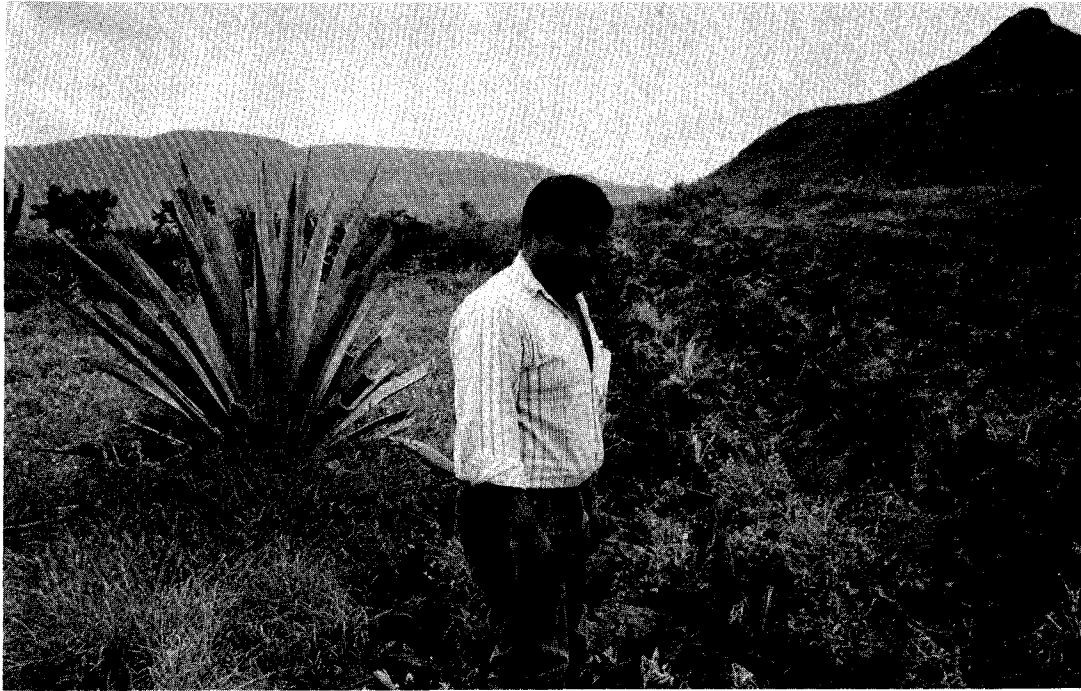
We had been discussing the issue *en route* from their mescal-tourism center to the outlying agave fields of Tlacolula Valley. Turning off the one-lane highway, Victor Chagoya stopped his truck momentarily to observe the vast tract of land before us: jagged rows of volcanic earth stretching toward the mountains; hundreds of spiked magueys erupting through the crust of the dusty river basin.

"We inherited these fields from my grandfather," Porfirio explained as we rumbled onward into the heart of their 250 hectares. Parking the car to survey the property by foot, we approached a team of day laborers planting *magueyitos* (baby agaves). Teenage Zapotec boys mostly, they quickened their pace as the bosses approached.

Victor knew every one by name. In charge of the family's agave production efforts, the heavyset farmer spends most of most Augusts out here to make sure his workers finish planting before the rains end. This summer has been especially hectic, thanks to what he described as the "special project."

For the first time in Oaxacan history, the Chagoyas are introducing high-density maguey production into the state. Normally agave growers plant 1,000 seedlings per hectare. Borrowing techniques from the Tequila region, Victor expects to sow 3,500 *magueyitos* in the same surface area this year. By maximizing in this way the productive output of their fields, he hopes to secure the industry's future supply of raw material, which is precariously low at present.

Can the *tatas* really absorb such a jump in maguey



Victor Chagoya overseeing high-density maguey production in fields inherited from his grandfather

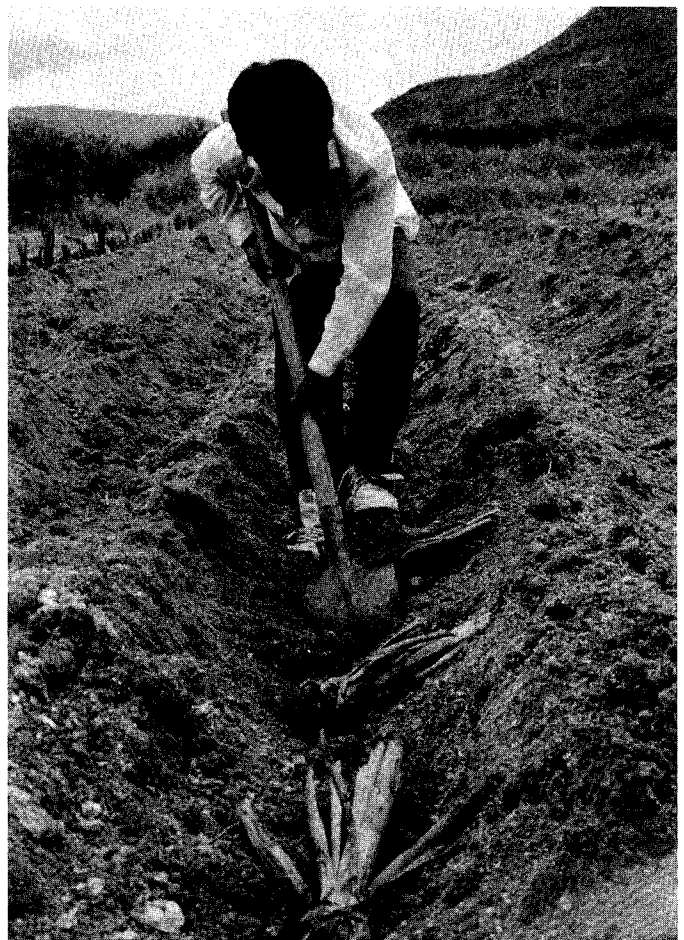
output? I asked the brothers this question, remembering that the number of *palenques* in Oaxaca has plummeted from 1,200 to 250 since the mid-1980s. "That's irrelevant," Porfirio replied. "These crops aren't for the *palenques*, they're for our special project: a modern mescal factory."

And so it goes. At long last, it seems, the industry's time capsule will be broken. Once again, Mexico's economic battlecry, *la modernidad*, targets tradesmen and tradition. And the Chagoyas are not alone. Both of the Mexico City bottlers, *Monte Albán* and *Gusano Rojo*, have drawn up plans for Tequila-style plants in Oaxaca, the latter having begun construction already last spring.

"Modernity is inevitable," said Porfirio as we returned to his roadside tourism center. "The global markets demand quality, volume and price — things that the outmoded distilleries simply cannot deliver." Having said that, he stressed that the *palenques* will always have a place in the industry's future. Where, I asked? "Why in our mescal museum, or course."

I thanked him for the tour and drove back to Oaxaca City. On the way, I passed a billboard advertising: "Matatlán, Cradle of Oaxacan Mezcal." Recalling my trip there to the *Benevá* bottling plant, I wondered whether the *mezcaleros* in town would soon disappear. Would the sweetness of their maguey roasting sour to smokestack smog?

Speeding onward through the land of maguey, I pondered its history: ritual intoxicant of the Aztecs,



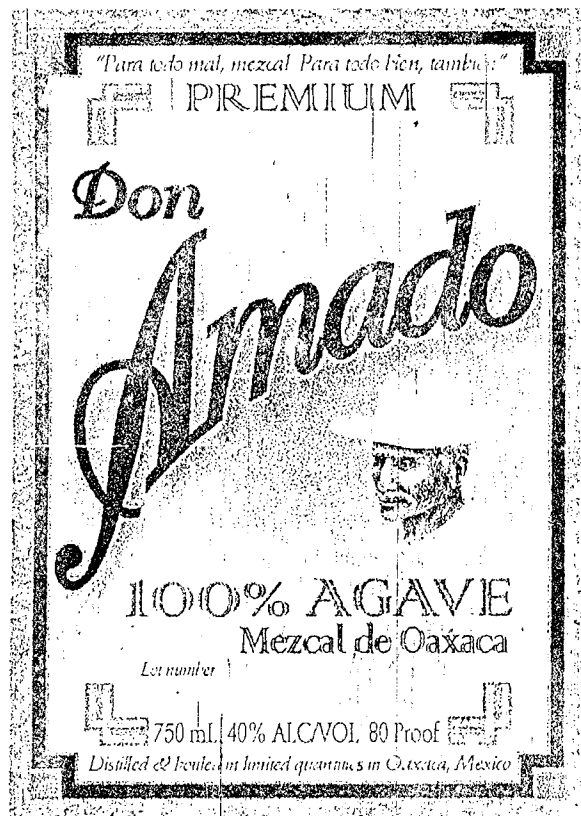
Teenage laborer sows magueyitos for the Chagoyas in the Valley of Tlacolula.

cocktail of *conquistadores*, toast of 19th-century parlors, spirit of the Mexican Revolution. And now the inevitable nightcap arrives after so many centuries of so little change. *Palenques* petering out to be replaced by *tata* tourism and mescal museums. Is this, as Porfirio suggests, inevitable?

In hindsight, the answer is no. At least, not if people like Carl Doumani can help it. Just two weeks ago, the Napa Valley distributor sent a representative all the way to Oaxaca to visit, not Chagoya at the Chamber of Commerce, but rather Don Amado in Jaya-catlán. Apparently, Doumani wants to expand his U.S. market for premium mescal. In order to obtain even finer spirits, while preserving the ancient traditions so heavily marketed abroad, the Americans want to buy directly from the *palenques*. Don Amado, it turns out, was the first *tata* chosen.

"Here's what the *gringo* left us," said his son, Cedestino, emerging from the shadows of their two-room log cabin. We gathered round the table, by the bamboo straws and empty drinking gourds. Reaching into a crumpled envelope, Cedestino pulled out a photocopy of a U.S.-registered trademark. It read as follows: "*Don Amado, 100% Agave Mezcal from Oaxaca.*"

I congratulated the old *tata*. He squinted at his likeness etched upon the label. Chuckling silently, he shook his head in amusement and turned slowly away. His grandsons followed him across the yard. "Where are you going?" asked Cedestino. "Where do you think," Don Amado replied. "Our holy day — need I remind you — is two weeks away." Cedestino nodded and excused himself, joining his dad in their thatch-roofed *palenque* beside the half-buried pots where the spirits rise. □



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Institute Fellows and their Activities

Adam Smith Albion A former research associate at the Institute for EastWest Studies at Prague in the Czech Republic, Adam is spending two years studying and writing about Turkey and Central Asia, and their importance as actors the Middle East and the former Soviet bloc. A Harvard graduate (1988; History), Adam has completed the first year of a two-year M. Litt degree in Russian/East European history and languages at Oxford University [EUROPE/RUSSIA]

Christopher P. Ball. An economist, Chris Ball holds a B.A. from the University of Alabama in Huntsville and attended the 1992 International Summer School at the London School of Economics. He studied Hungarian for two years in Budapest while serving as Project Director for the Hungarian Atlantic Council. As an Institute Fellow, he is studying and writing about Hungarian minorities in the former Soviet-bloc nations of East and Central Europe [EUROPE/RUSSIA]

William F. Foote Formerly a financial analyst with Lehman Brothers' Emerging Markets Group, Willy Foote is examining the economic substructure of Mexico and the impact of free-market reforms on Mexico's people, society and politics. Willy holds a Bachelor's degree from Yale University (history), a Master's from the London School of Economics (Development Economics; Latin America) and studied Basque history in San Sebastian, Spain. He carried out intensive Spanish-language studies in Guatemala in 1990 and then worked as a copy edi-

tor and Reporter for the *Buenos Aires Herald* from 1990 to 1992 [THE AMERICAS]

Sharon Griffin. A feature writer and contributing columnist on African affairs at the *San Diego Union-Tribune*, Sharon is spending two years in southern Africa studying Zulu and the KwaZulu kingdom and writing about the role of nongovernmental organizations as fulfillment centers for national needs in developing countries where governments are still feeling their way toward effective administration. [sub-SAHARA]

John Harris A would-be lawyer with an undergraduate degree in History from the University of Chicago, John reverted to international studies after a year of internship in the product-liability department of a Chicago law firm and took two years of postgraduate Russian at the University of Washington in Seattle. Based in Moscow during his fellowship, John is studying and writing about Russia's nascent political parties as they begin the difficult transition from identities based on the personalities of their leaders to positions based on national and international issues [EUROPE/RUSSIA]

Pramila Jayapal Born in India, Pramila left when she was four and went through primary and secondary education in Indonesia. She graduated from Georgetown University in 1986 and won an M.B.A. from the Kellogg School of Management in Evanston, Illinois in 1990. She has worked as a corporate analyst for PaineWebber and an accounts

manager for the world's leading producer of cardiac defibrillators, but most recently managed a \$7 million developing-country revolving-loan fund for the Program for Appropriate Technology in Health (PATH) in Seattle. Pramila is spending two years in India tracing her roots and studying social issues involving religion, the status of women, population and AIDS [SOUTH ASIA]

John B. Robinson. A 1991 Harvard graduate with a certificate of proficiency from the Institute of Kiswahili in Zanzibar, John spent two years as an English teacher in Tanzania. He received a Master's degree in Creative Writing from Brown University in 1995. He and his wife Delphine, a French oceanographer, are spending two years in Madagascar with their two young sons, Nicolas and Rowland, where he will be writing about varied aspects of the island-nation's struggle to survive industrial and natural-resource exploitation and the effects of a rapidly swelling population [sub-SAHARA]

Teresa C. Yates A former member of the American Civil Liberties Union's national task force on the workplace, Teresa is spending two years in South Africa observing and reporting on the efforts of the Mandela government to reform the national land-tenure system. A Vassar graduate with a *juris doctor* from the University of Cincinnati College of Law, Teresa had an internship at the Centre for Applied Legal Studies in Johannesburg in 1991 and 1992, studying the feasibility of including social and economic rights in the new South African constitution. [sub-SAHARA]

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