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Mexico's Federal Commission on Competition Approves Opening of Mexican Beer Market

Report Categories:

Beverages

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Report Highlights:

On July 11, 2013 the Comision Federal de Competencia, CFC, (i.e. the Federal Competition Commission) announced its decision that the two big multinational brewers, Grupo Modelo and Cuahutemoc Moctezuma, would have to limit their exclusivity contracts and established new conditions to existing exclusivity contracts to avoid monopolist practices in the market. The CFC released a statement that detailed the new conditions which will provide open access to craft brewers to sell their products in restaurants and bars.

Executive Summary:

In 2010, SAB Miller and two local microbrewers filed a complaint to the CFC against allegedly monopolistic practices from the two predominant beer companies, Cuauhtémoc Moctezuma and Grupo Modelo, with the purpose to endow the Mexican government with more powers to implement and enforce anti-monopoly laws.

Finally after three years, on Wednesday, July 11th, 2013 the CFC announced its decision to limit monopolistic practices and to limit exclusivity contracts that Grupo Modelo and Cervecería Cuauhtémoc have in bars, restaurants, and small grocery stores-convenience stores. The ruling committed the two companies to several standards meant to open access to the beer market. Please see our Gain Report MX3303 [The Mexican Craft Beer Market -A Market Assessment Mexico ATO Mexico 6-6-2013.pdf](#)

General Information:

The Mexican Beer Market

Despite the anti-monopoly laws that exist in Mexico, the beer sector has long been dominated by two main players, Grupo Modelo, owned by Ambev, a distributor of beer and soft drinks originally based in Brazil, and Cervecería Cuauhtémoc Moctezuma, which was recently purchased by Heineken. Grupo Modelo owns the common Mexican beer brands Corona, Modelo, Pacifico, and Victoria, which together dominate 57% of the beer industry in Mexico. Cervecería Cuauhtémoc Moctezuma, with Indio, Dos Equis, Tecate, and Sol, makes up 41% of the industry. The two companies do so by holding exclusivity agreements with a large number of restaurants and bars throughout Mexico, limiting the access of micro-brewed and other beers not distributed by the two countries. Since 2010, the Mexican Association of Microbrewers (ACERMEX) and SABMiller, the company that produces beers such as Miller light, have awaited the results of their case brought to the CFC against the monopolistic practices of Mexico's two dominant beer companies. On July 11th, 2013, the CFC announced a decision that these two companies would have to limit their exclusivity contracts to 25 percent of their points of sale in small grocery stores, restaurants, and bars, effective immediately. This number is to reduce to 20 percent by 2018.

The two dominant industries in the Mexican beer market maintain their power through exclusivity contracts signed with small mom-and-pop grocery stores, restaurants, and bars throughout Mexico. The Wall Street Journal notes that these contracts limit establishments to selling beers only from one of the two companies, in exchange for branded awnings, signs, refrigerators, discounts on beer purchases, credit, and even assistance with local permits. These contracts effectively limit microbrewers and beer brands not well-established in Mexico to small distribution channels including large chains such as 7/11 and Wal-Mart and large upscale restaurants.

The CFC Statement

The CFC released a statement where it describes in detail the new conditions where craft brewers will have of an open access in restaurants and bars to sell their products. The conditions include:

- All craft beers will enjoy open and unrestricted access to bars, restaurants and cantinas in the country

- Grupo Modelo and Cuauhtemoc will have to limit their exclusivity contracts in convenience stores, small mom and pops, and restaurants to a maximum of 25 percent of their total points of sale. This percentage will decrease gradually to a 20 percent in a 5 year period.
- Only written exclusivity contracts will have validity, they should have limited duration and clear rules for its termination. Companies should advertise these rules in printed media and in front of their clients.
- Companies who fail to comply with these conditions could be fined up to 8 percent of their domestic revenues.

On Thursday, July 12, the Wall Street Journal reported that Grupo Modelo officially announced their agreement with Mexico's anti-trust authority that it will allow craft beers to sell to restaurants in bars where exclusive pouring terms are currently locked in. Modelo also officially agrees to the 25 percent cap on their exclusivity contracts, and acknowledges the goal of reducing this to 20 percent by 2018.

Reception to the Decision

More progress needed towards opening the market

While this news does present progress towards limiting the monopolistic control of the two beer companies, SABMiller reported in the Wall Street Journal that they do not think this ruling went far enough.

Bloomberg.com reports that Armando Valenzuela, the head of SABMiller in Mexico, feels that, "Unfortunately, the competition commission considered it appropriate to keep allowing the existence of exclusivities and, surprisingly, allowed discrimination against Miller's brands to be maintained."

Additionally, the agreements made with the two beer monopolies excluded Oxxo convenience stores, which contribute to approximately 15% of the beer sales of Heineken (who owns Cervecería Cuauhtémoc) in Mexico, according to Banco Santander analyst Anthony Bucalo. The agreement also excludes stores owned by Grupo Modelo, such as Extra and Modelorama. These convenience stores can continue to have exclusivity agreements, continuing to limit the access of brands distributed by companies such as SABMiller.

The CFC announces that "all craft beers will enjoy open and unrestricted access to all restaurants, bars, and cantinas in the country." Jesus Briseno, founder of craft brewer Cerveceria Minerva in Guadalajara, provides some skepticism, claiming that "some bad faith situations could occur" in a Wall Street Journal report. Abigail Ordonez, who owns a small restaurant in Mexico City's Polanco neighborhood, currently exclusively sells Modelo beers in return for a Corona refrigerator. She fears that this could be taken away if she expands to a larger variety of beers.

Grupo Modelo and Cervecería Cuauhtémoc seem positive in the decision, however. Just-drinks.com reports that Cuauhtemoc is happy that "consumers will always have sufficient choice of a wide variety of good quality beers," and Modelo will "continue to welcome competition within the Mexican beer market."

If the beer market is now open there that will allow for an open competition among domestic producers and

will be a big opportunity for foreign ones.

Sources

- Newspaper El Universal- CFC Limits Exclusivity Contracts to Beer Companies
- El Financiero Newspaper- CFC to limit exclusivity contracts
- CNN Expansion- The CFC delimits Corona and Sol Beers
- CFC conditions brewers after antimonopoly investigation - Por la Cerveza Libre Movement - <http://porlacervezalibre.wordpress.com/>
- http://www.just-drinks.com/news/heineken-welcomes-anti-trust-resolution_id110875.aspx?utm_source=article-feed&utm_medium=rss-feed&utm_campaign=rss-feed
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