

# Brewing Development? Analyzing Legislative Impacts on the Craft Beer Industry in Sonora, Mexico

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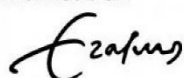
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# Chapter 1. Introduction

## 1.1 Introduction to the topic

In the contemporary global economy, the rise of the Cultural and Creative Industries (or The Orange Economy as it's defined in Latin America and the Caribbean region) marks a significant shift to revalue the activities that have human creativity at its core. This has also brought a change in consumer preferences towards products rooted in authenticity and local cultural heritage, beer being a great example. Craft beer, as a product of craftsmanship, amalgamates creativity, skills, and the preservation of cultural heritage. A noteworthy aspect that sets craft beer apart from many other industries associated with CCIs and the Orange Economy is its inherent connection to rural settings. Unlike the predominant focus on urban centers and cities within these economic models, craft beer production links rural areas through the supply chain value. This unique characteristic positions craft beer as a potential catalyst for development in regions that may be otherwise overlooked or neglected and makes it a relevant subject for research.

Within this global context, the Mexican craft beer industry is an interesting subject for research as the country has positioned itself as the 4th largest exporter of beer in the world. Further than looking at the industry at the national level, this thesis will focus on the border state of Sonora. Located in Northwestern Mexico, Sonora is the second largest state in the country and has a vital role in Mexico's economic landscape, contributing significantly through industries like manufacturing, mining, and agriculture.<sup>1</sup> Its geographical significance is profound, straddling a substantial section of the Mexican border with the United States, facilitating not only cross-border trade but also a rich cultural exchange. Adjacent to the state of Baja California, a key player in Mexico's craft beer scene, Sonora is at a cultural and economic crossroads. This region is also home to major beer corporations (Heineken and Constellation Brands) creating a unique market dynamic where craft breweries coexist and compete with established beer giants.

The state's unique geographical traits, characterized by hot and arid climates, add another layer to Sonora's craft beer narrative. These climatic conditions present both challenges and opportunities for local brewers, influencing everything from brewing techniques to consumer preferences. On the other hand, legislation is an appealing aspect to

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<sup>1</sup> INEGI, "Indicador Trimestral de la Actividad Económica Estatal Sonora Tercer Trimestre de 2022," 1, 2023, [https://www.inegi.org.mx/contenidos/saladeprensa/boletines/2023/itace/itace2023\\_01\\_Son.pdf](https://www.inegi.org.mx/contenidos/saladeprensa/boletines/2023/itace/itace2023_01_Son.pdf).

research as the business of alcoholic beverages has an intricate relationship with the law as a harmful substance for public health, as well as an instrument that territories use with diverse strategies. In this context, the craft beer industry in Sonora not only adds diversity to its economic tapestry but also stands as an intriguing case for examining the impact of tax and trade legislation since the apparition of the Mexican craft beer industry in the 1990s.

## **1.2 Research Question**

This research aims to delve into the multifaceted impact of varying levels of legislation on the craft beer sector in Sonora. The focus is to understand how these legal frameworks influence the industry's operational landscape, shaping its trajectory in the global market. Despite the craft beer industry's significant implications and a growing interest in the research topic, there exists a gap in comprehensive analysis regarding the legislative impacts, particularly in region-specific contexts like Sonora. This study aims to bridge this gap by providing a detailed exploration of these legislative influences with the following research questions:

### Main research question

*How do taxation and trade regulations influence the development and dynamics of the craft beer industry in Sonora, Mexico in the 21st century?*

### Sub-Questions

*How do tax policies at various governmental levels affect the financial stability and development of craft breweries in Sonora?*

*How do tax and trade legislation differentially impact craft breweries as opposed to larger, established beer companies in Sonora?*

*What past changes in tax and trade laws influenced the development of the craft beer industry in Sonora?*

*Have the market conditions posed by taxation and trade legislation fostered a culture of competition among craft breweries in Sonora?*

By examining the interplay between legislation and the craft beer industry, this study contributes to the understanding of how local cultural industries can thrive under various regulatory and competition environments, fostering economic development and cultural differentiation.

The increased popularity of the craft beer industry worldwide has spurred a corresponding growth in academic literature, yet significant gaps persist, particularly regarding legislative impacts in emerging markets like Mexico. This research aims to fill this void, shedding light on the industry's evolution under legislative frameworks within the Mexican context. Prior studies in Mexico have primarily been exploratory at a national level, with limited state or local focus, often centering on states like Baja California and Jalisco and emphasizing aspects like innovation, entrepreneurship, and collaboration. However, the detailed effects of regulation, taxation, and legislation on the craft beer industry remain underexplored.

This study innovates by focusing both on its unique angle and its chosen subject of study. The region of Sonora, despite its craft beer scene gaining recognition by national awards, has been overlooked in academic research. This study positions itself at the forefront, exploring uncharted territory within the field.

Selecting Sonora as the research focal point is a strategic decision. The state's unique geographical attributes connect it to crucial regions for market development. To fully understand the subject, a historical approach is necessary. Chapter 2 of the thesis will contextualize the history of beer in México and the State of Sonora, the trends of present-day craft beer proceed from a full history of the beverage that starts in colonial times; From Spanish royal decrees and Germans founding breweries to Multinationals owning the companies, the history of Mexican beer is a tale of entrepreneurship and monopolistic practices. The chapter will end with a recount of the description of the current state of the Craft Beer Industry in Sonora, to show the display of Sonoran Identity in the products resulting from this industry. With the latest, I hope to illustrate why craft beer is a distinct product that should not be classified or taxed the same way as commercial beer. In Chapter 3 the focus is on the Sonorenses brewer, analyzing the existing craft breweries, the mission of these companies, and the motivation behind starting an enterprise in this industry. Once established the history and current state of craft beer, Chapter 4 will explore the regulatory framework of beer in México and Sonora, how the lack of legal definition is creating some of the main problems for development that brewers have denounced, and the battles these craft brewers had ( and still are) fighting to change the framework into one that creates a fairer market for craft beer against the big beer companies. Finally, Chapter 5 will summarize the key findings of the study and give recommendations for future research.

The following research aims to answer the questions established before with a qualitative approach. For the realization of this document, a series of primary sources were utilized including current federal legislation of Mexico, the law on alcohol by the state of Sonora, diverse official publications made by the state, and minutes from both Federal and State congress, published interviews as well as one made by the author, available social media posts by breweries and videos of appearances by Mexico's Craft Brewers Association to the senate. As a disclaimer, the translation to English of legal passages appearing in both Chapter 3 and Chapter 4 of this document was realized with the help of Generative AI. The reason behind this decision lies in the search for a more objective and precise translation than one that this author could provide, as this can secure a better analysis of the texts. The research was also complemented by secondary sources such as academic publications, media coverage, and reports made by the National Institute of Statistics and Geography

The anticipated contributions of this research are twofold. Academically, it aims to introduce a novel perspective to discussions on the craft beer industry's legislative impacts, potentially setting a benchmark for future studies in analogous contexts. Practically, the findings are expected to offer critical insights for policymakers and industry stakeholders, enabling better-informed decisions that could bolster the industry's growth and sustainability. By exploring a region previously unexamined in this context, this study not only addresses a significant gap in academic literature but also provides a foundational analysis for future explorations into the interplay between legislation and industry dynamics in emerging markets.

## **1.2 Main Concepts**

In the broad literature on Creative and Cultural Industries (CCI), there is an ongoing debate about what activities are included or not inside this definition. However, the main framework that will be used in the thesis corresponds to the Orange Economy, provided by the InterAmerican Development Bank, which gives the definition a focus on the activity in the Latin American and Caribbean Region.<sup>2</sup> The main point is that the activities belonging to the category are valued according to their intellectual property and can be divided into Conventional Cultural Industries and Creative Supportive activities. Craft beer can be englobed inside their subdivision "Tourism and material and immaterial cultural heritage" as

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<sup>2</sup> Pedro Felipe Buitrago Restrepo and Iván Márquez, *"The Orange Economy: An Infinite Opportunity,"* 2013, <https://api.semanticscholar.org/CorpusID:154115771>

the activities that constitute it (and apply to craft beer) are: crafts, typical products, and gastronomy.

A similar phenomenon happens with the definition of craft beer, The American Brewers Association (ABA) gives an approach that other countries accept, for them the attributes that a craft brewery should possess are: being small, independent, and traditional.<sup>3</sup> Although there is no regulatory institution in México that dictates officially what is or is not a craft beer, the Union of Independent Brewers follows a similar line to the one proposed by the ABA to define what is a craft brewery and follow the rules of the German Purity Law for what constitutes a beer. More specifically, for a Mexican brewery to be considered a craft brewery it must have a production that does not exceed the amount 6 million barrels per year; it should not belong to an industrial brewery group, and less than 25% can be owned by a non-craft brewer. The ingredients for the craft beer being brewed there should be malted grains (i.e. fermentable cereals), hops, water, and yeast, although it should be noted that it can have innovative flavors that give local identity ( an example in Sonora´s case is the incorporation of Bacanora infused beer ), it should contain mainly the traditional ingredients.<sup>4</sup>

Lastly, we have the concept of cooptation. Described in the context of the craft beer industry, refers to the phenomenon where organizations (or in this case brewers or breweries) engage in both competition and cooperation. This is observed and particularly beneficial in emerging market categories, where firms often collaborate to build and legitimize their industry while simultaneously competing.<sup>5</sup> As a nascent sector in México, craft breweries had challenges establishing themselves as a legitimate industry and were the underdogs in the David vs. Goliath battle against the two main industrial beer companies in the country that had almost complete control of the beer market. It's a balance of cooperative relationships for shared gains and competitive tactics to maintain individual market positions, fostering both collective growth and individual success. This phenomenon has been documented in diverse cases in the craft beer environment, especially in the United States, and can be detected in the Mexican case.

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<sup>3</sup> Christian Garavaglia and Johan Swinnen, "Economics of the Craft Beer Revolution: A Comparative International Perspective," in *Economic Perspectives on Craft Beer: A Revolution in the Global Beer Industry*, ed. Christian Garavaglia and Johan Swinnen (Cham: Springer International Publishing, 2018), 3–51, [https://doi.org/10.1007/978-3-319-58235-1\\_1](https://doi.org/10.1007/978-3-319-58235-1_1).

<sup>4</sup> Irene Juana Guillén Mondragón, Araceli Rendón Trejo, and Andrés Morales Alquicira, "Un Acercamiento a La Competitividad Del Sector de Cerveza Artesanal Mexicana," *Repositorio de La Red Internacional de Investigadores En Competitividad* 10, no. 1 (February 26, 2018), <https://www.riico.net/index.php/riico/article/view/1326>.

<sup>5</sup> Blake D. Mathias et al., "An Identity Perspective on Cooptation in the Craft Beer Industry," *Strategic Management Journal* 39, no. 12 (December 1, 2018): 3086–3115, <https://doi.org/10.1002/smj.2734>.

## 1.4 Literature Review

The craft beer movement, which started in the 1970s in England and the United States, is now spreading globally, valued for its quality and unique gourmet flavors. With this, academia has also gained an interest in the craft beer phenomenon. The exploration of craft beer as a research area has rapidly gained momentum in recent years, marking a significant emergence within scholarly discourse. Durán-Sánchez et al. (2022) note that despite its relative novelty, the field has experienced exponential growth in interest and publications, particularly since 2015. Within a span of just nine years, from 2010 to 2019, the majority of scholarly output, approximately 90%, was produced between 2015 and 2019, indicating a concentrated surge in research activity. This trajectory underscores the increasing recognition of craft beer as a relevant and impactful subject of study among researchers worldwide.<sup>6</sup>

Further insights into the multifaceted dimensions of craft beer research are provided by Nave et al. (2022), who conducted a systematic literature review and outlined key thematic clusters within the field. Their analysis reveals four primary areas of focus: the craft beer industry and market dynamics, marketing strategies and branding practices, consumer behavior patterns, and sustainability initiatives within the craft beer sector. Notably, the review underscores the diversity of scholarly contributions, dispersed across various academic journals without a dominant publication outlet. Moreover, a shift towards quantitative methodologies is observed, with more than half of the publications employing quantitative approaches to investigate various aspects of craft beer. However, the authors also note that there are still unexplored aspects of craft beer research and there are gaps in the literature that should be explored in further research, including more case studies and research centered around tax revenues coming from the Craft Beer Industry.<sup>7</sup>

Expanding upon the global interest in craft beer, researchers have turned their attention to specific regions to examine the dynamics of the craft beer industry in greater detail. In Mexico, where the craft beer scene has been steadily growing, studies have shed light on various aspects of this burgeoning industry. These investigations provide valuable insights into the challenges and opportunities faced by craft brewers in navigating a complex

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<sup>6</sup> Durán-Sánchez, Amador, María de la Cruz del Río-Rama, José Álvarez-García, and Cristiana Oliveira. "Analysis of Worldwide Research on Craft Beer." *SAGE Open* 12, no. 2 (April 1, 2022): 21582440221108154. <https://doi.org/10.1177/21582440221108154>.

<sup>7</sup> Nave, Edgar, Paulo Duarte, Ricardo Gouveia Rodrigues, Arminda Paço, Helena Alves, and Tiago Oliveira. "Craft Beer – a Systematic Literature Review and Research Agenda." *International Journal of Wine Business Research* 34, no. 2 (January 1, 2022): 278–307. <https://doi.org/10.1108/IJWBR-05-2021-0029>.



market landscape. Through a synthesis of findings from multiple studies, a comprehensive understanding of Mexico's craft beer industry emerges, highlighting both its achievements and its ongoing struggles.

### 1.3.1 Research of Mexico's Craft Beer Industry

In 2017, Erick Calvillo, a leading partner in the Consumer Industry for Deloitte México, did a study of the Mexican craft beer industry. With the title "Craft Beer: A Multisensorial Experiences" the report aims to explain the main global and national trends in the Craft Beer industry in México, at the same time explores the reasons why consumers would prefer this product, getting to the conclusion that it's a multisensorial experience.<sup>8</sup> A similar conclusion is made by Guerra-Tamez et al. (2020) who studied the role of flow experience and perceived value in CB consumer loyalty, summarized the experience of flow through attention, concentration, and concept of time, and that quality, taste, and price influenced the perceived value of the craft beers.<sup>9</sup> Also, Gómez-Corona et al.(2016) highlighted that in México, the main motivations for the consumption of craft beer are authenticity, taste, and avoiding the mainstream.<sup>10</sup>

Going back to the findings by Deloitte, the exploration by Calvillo (2017) recounts that in México the craft beer market's growth has diversified the production chain, involved various organizations, and created a competitive institutional environment. There are approximately 531 economic units dedicated to artisanal and home brewing. The craft beer movement in Mexico has evolved since 1995, aiming at a mature, discerning consumer willing to pay for differentiated value. In 2015, the Mexican Craft Brewers Association (ACERMEX now called Unión de Cerveceros Independientes) was founded, which seeks to define and legitimize craft beer attributes. Although recognizing the upward trajectory of the industry since 2013, both Calvillo (2017) and Guillen et al. (2018) recognize the following five main struggles burdening the brewers:

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<sup>8</sup> Calvillo, Erick. "La Cerveza Artesanal Una Experiencia Multisensorial," 2017. <https://www2.deloitte.com/content/dam/Deloitte/mx/Documents/consumer-business/2017/Cerveza-Artesanal-Mexico-2017.pdf>.

<sup>9</sup> Guerra-Tamez, C.R., Davila-Aguirre, M.C., Codina, J.N.B. and Rodríguez, P.G. (2020), "Analysis of the elements of the theory of flow and perceived value and their influence in craft beer consumer loyalty", *Journal of International Food and Agribusiness Marketing*, pp. 1-31, doi: 10.1080/08974438.2020.1823929.

<sup>10</sup> Gómez-Corona, C., Escalona-Buendía, H., García, M., Chollet, S. and Valentin, D. (2016), "Craft vs industrial: habits, attitudes and motivations towards beer consumption in Mexico", *Appetite*, Vol. 96, pp. 358-367, doi: 10.1016/j.appet.2015.10.002.

Regarding taxation, the craft beer industry in Mexico is under significant financial pressure. For example, Acermex highlights that in the U.S., commercial breweries are taxed approximately 2.50 pesos per liter, and craft breweries around 1.24 pesos per liter. In stark contrast, Mexican commercial breweries are taxed about 3.5 pesos per liter, while craft breweries face a staggering 10 to 12 pesos per liter. This is due to the current IEPS law, which imposes a 26.5% tax on all beer based on its sale price.

When it comes to production costs, crafting beer is inherently more costly than mass production. The smaller scale of craft brewing means higher per-unit costs, reflected in the market price. A typical 355 ml bottle of commercial beer in Mexico is priced at 298 pesos, while its craft counterpart can cost as much as 700 pesos, nearly double.

Access to essential brewing ingredients like malt, yeast, and hops is another hurdle. These are often imported from countries like Germany, France, or the USA because local producers primarily cater to the industrial beer market. Import duties, such as those on European malt, further inflate costs for craft brewers.

The regulatory landscape is also challenging. Currently, Mexico's definition of craft beer is loosely based on the German Purity Law, but there's no official legislation specifically for craft beer. Plans are underway to establish a Regulatory Council to define craft beer standards and ensure quality and legal compliance.

Moreover, the craft beer market in Mexico, despite its growth, holds a market share of less than 2%. This is partly due to the historical market dominance of large breweries, which had exclusive contracts with bars and restaurants.<sup>11</sup>

On the note of brewing ingredients, the research on the value chain of the brewing industry in México by Vazquez Alfaro et al (2021) tells us the history of the improvements that the chain could do, and even if it was not the intention of the paper, it shows a narrative of inequality between big beer companies and craft breweries. As they recount, most of the value chain is attached to the system of either ABInBev or Heineken. As they recount, the acquisition of Grupo Modelo and Cuauhtémoc-Moctezuma (FEMSA) by transnational corporations AB InBev and Heineken revealed weaknesses in the chain, particularly concerning small-scale farmers. There are efforts to address these weaknesses, focusing on improving barley production through technology transfer, electronic systems for delivery, and

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<sup>11</sup> Guillén Mondragón, Irene Juana, Araceli Rendón Trejo, and Andrés Morales Alquicira. "Un Acercamiento a La Competitividad Del Sector de Cerveza Artesanal Mexicana." Repositorio de La Red Internacional de Investigadores En Competitividad 10, no. 1 (February 26, 2018). <https://www.riico.net/index.php/riico/article/view/1326>.

the development of resilient barley varieties. However, these are efforts made with the cooperation from the companies, therefore the craft brewers of the country are not in a position where they can get access to this supply chain. A study is yet to be made on how this value chain could change if it focused on artisanal breweries and their effect on environmental issues.<sup>12</sup>

In addition, understanding the craft beer market necessitates understanding beer consumption in Mexico. Martínez Sidón et al.(2023) did a study about economic and environmental factors that affect the demand for beer in the country. Among their discoveries, they note that the demand for beer in Mexico is influenced by a combination of economic and environmental factors, including climate, cultural preferences, and socio-economic trends. It highlights the significant role of beer consumption in Mexican society, surpassing sales of tobacco, pharmaceuticals, and the restaurant industry. Excessive beer consumption poses challenges, particularly in water-scarce regions where production requires significant water resources. The climate also plays a role in shaping beer demand, with regions experiencing higher temperatures tending to consume more beer. Taking that into account is essential to understand the place that beer has in the northwestern culture, its habit has become a part of the identity even if it's not rationally convenient for their water usage. Understanding these economic and environmental determinants is crucial for informing policy interventions aimed at promoting sustainable consumption patterns and addressing water scarcity issues. They note that policy efforts should focus on promoting responsible beer consumption, reducing water usage in production processes, and addressing socio-economic disparities in access to alcohol.<sup>13</sup>

### 1.3.2 Innovation and Cooperation

As the research on Mexico's craft beer industry unveils challenges and opportunities within the sector, it becomes imperative to explore avenues for innovation and cooperation among industry stakeholders. Building upon insights gleaned from regional studies, such as those

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<sup>12</sup> Vázquez Alfaro, Marisol, Jorge Aguilar Ávila, and María Isabel Palacios Rangel. "Cadena de Valor de La Industria Cervecera En México." *Nova Scientia* 13, no. 27 (2021): 27. <https://dialnet.unirioja.es/servlet/articulo?codigo=8987755>.

<sup>13</sup> Martínez Sidón, Gilberto , Eugenia González, Iliana Vázquez, and Salvador Corrales Corrales. "Factores Económicos Y Ambientales Que Determinan La Demanda de Cerveza En México." *Región Y Sociedad* 35, no. 35 (October 12, 2023): e1749–49.<https://doi.org/10.22198/rys2023/35/1749>

conducted in Baja California, this section delves into the entrepreneurial spirit and innovative strategies driving the growth of Mexico's craft beer scene.

Cabrera Flores et al (2019 ) look at the situation of craft beer in the state of Baja California from an angle of entrepreneurship and innovation. exploring the burgeoning craft beer scene in Baja California, particularly Ensenada, which has become a cultural hub alongside gastronomy and winemaking. While Ensenada's restaurants have earned UNESCO recognition and the region is celebrated as Mexico's "Wine Capital," it is the craft beer sector that stands out for its growth and quality. Mirroring global trends, influenced by the success of the state of California in the United States, the craft beer industry in Baja California has shown significant potential despite representing only 0.5% of the Mexican market. Regulatory changes since 2008 have spurred rapid expansion, although challenges persist, including limited financial support and navigating complex regulations.<sup>14</sup>

They point out that despite obstacles, innovation remains central to the industry's development, with producers focusing on creativity in brewing processes and branding strategies. This emphasis on innovation has led to notable advancements in product, process, and market strategies. However, organizational innovation remains a challenge. Nonetheless, the craft beer industry in Baja California continues to integrate into the local socio-economic fabric, contributing to the region's cultural identity. As the rest of México, what they discover is that the brewers in the state still face challenges. They recount that only a small percentage have received support from banks or the government, indicating a lack of engagement from these institutions. The industry is also subject to complex regulations at various governmental levels, affecting everything from production to marketing.

Almaraz (2022) makes a similar approach and discoveries in the paper “Small and Medium Enterprises in Mexico and the Craft Beer Sector in Baja California: Dynamic Capabilities, Culture, and Innovation” where she notes that Despite structural hurdles, SMEs in the craft beer sector have exhibited resilience, especially evident during the pandemic, where innovative approaches like "chevinars" and novel distribution networks helped sustain market presence and adapt to evolving circumstances.<sup>15</sup>

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<sup>14</sup> Cabrera-Flores, Mayer Rainiero, Alicia León-Pozo, and Eduardo A. Durazo-Watanabe. “Innovation and Collaboration in the DNA of a Cultural Industry: Craft Beer in Baja California.” In *Cultural and Creative Industries: A Path to Entrepreneurship and Innovation*, edited by Marta Peris-Ortiz, Mayer Rainiero Cabrera-Flores, and Arturo Serrano-Santoyo, 155–79. Cham: Springer International Publishing, 2019. [https://doi.org/10.1007/978-3-319-99590-8\\_9](https://doi.org/10.1007/978-3-319-99590-8_9).

<sup>15</sup> Almaraz, Araceli. “Small and Medium Enterprises in Mexico and the Craft Beer Sector in Baja California: Dynamic Capabilities, Culture, and Innovation.” *Journal of Evolutionary Studies in Business* 7, no. 1 (January 12, 2022): 166–203. <https://doi.org/10.1344/jesb2022.1.j102>.

Both Cabrera Flores et al (2019 )& Almaraz (2022) point to the importance of the cooperation between brewers regionally. By region, they do not only mean the state of Baja California, but the shared territory with Southern California where most of the initial influence of craft beer came from. Instead of being a competition, the breweries in this area learn from each other and know that they bring different flavors to the table. This cooperation is what has given resilience to the industry and what makes it so different from other sectors and even Industrial beer.<sup>1617</sup>

Even if it's enlightening, the research on innovation still lacks depth on how factors such as legislation and taxation play a role in the development of the industry.

### 1.3.3 Legislation and Taxes

In tandem with innovation and cooperation, the regulatory framework and taxation policies governing the craft beer industry play a pivotal role in shaping its trajectory. This section delves into the regulatory challenges faced by craft beer producers, both globally and within the Mexican context.

Regulation is a relevant topic in the research of alcoholic beverages, as in the context of addressing health issues stemming from excessive alcohol consumption, the state bears both the responsibility and capacity to intervene. The negative impacts of overindulgence in alcohol are widespread, affecting individual health, and family finances, increasing vulnerability to poverty, and undermining equality and equal opportunities. Thus, it is imperative for the state to implement measures to curb excessive alcohol consumption and address its regressive effects, including human rights diminution and family income deterioration.

The necessity of state intervention in markets is crucial, particularly due to distributional concerns, monopolistic or oligopolistic market structures, and the presence of asymmetric information. One effective approach to counter negative externalities is the implementation of specific taxes, such as Pigouvian taxes. To understand the market of craft beers it is imperative to understand the regulations behind it.

Malone, Staples & Chambers (2022) recognizing how regulatory burdens imposed on the beer industry can significantly impact entrepreneurial outcomes and business growth, studied the complex regulatory environment faced by beer producers in the United States,

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<sup>16</sup> Cabrera Flores et al, "Innovation and Collaboration"160-179

<sup>17</sup> Almaraz "Small and Medium Enterprises", 195-199

characterized by federal, state, and local regulations that vary widely across jurisdictions. They mapped the different regulations that brewers faced depending on the state of the country where they were located. Their study highlights how the extensive regulatory framework adds costs and complexities to beer production, particularly for small businesses and emerging industries. Vague regulations and inconsistent enforcement further exacerbate compliance challenges, hindering entrepreneurial activities and innovation within the industry. They note the importance of identifying opportunities for regulatory reform, as an adequate regulatory framework could foster job creation for SMEs in the beer industry and drive economic growth.<sup>18</sup>

There has been some literature written about the Mexican alcohol taxes and legislation in the last decade. To begin with, Rodríguez Quinto & Foncerrada Pascal (2022) did a study on the tax on alcoholic beverages in Mexico and posed the question of why the current system needs to be changed.<sup>19</sup> As they found, the current taxation system on alcoholic beverages in Mexico, particularly the Ad-Valorem system, fails to effectively curb excessive alcohol consumption and address its negative externalities. Rodríguez Quinto and Foncerrada Pascal propose shifting to an Ad-Quantum system, which taxes based on alcoholic content, as a more effective approach to reducing harmful consumption patterns. The transition to an Ad-Quantum system has several potential benefits, including increasing the final price of harmful alcoholic beverages, enhancing tax revenue, and ensuring the progressivity of the tax system. By targeting the alcohol content rather than the value of the drink, the proposed system aims to discourage the consumption of low-quality, high-alcohol beverages while mitigating the regressive effects of the current taxation structure.

Targeting more the case of the craft beer producers, Brown Yamamoto (2018) tackles in his research how Craft beer producers in Mexico face regulatory challenges stemming from the absence of specific legislation and fiscal incentives tailored for the industry. He highlights the need for differentiated treatment of craft and industrial beer producers in legal and fiscal terms to foster the growth of the craft beer sector. The lack of specific regulations for craft beer production in Mexico, coupled with identical tax treatment for artisanal and commercial producers, creates barriers to market entry and inhibits industry expansion. Craft beer producers contend with significant administrative burdens and high tax rates, limiting

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<sup>18</sup>. Staples, A.J., Chambers, D. and Malone, T. (2022), How many regulations does it take to get a beer? The geography of beer regulations. *Regulation & Governance*, 16: 1197-1210. <https://doi.org/10.1111/regg.12403>

<sup>19</sup> Rodríguez Quinto, Anel, and Luis Antonio Foncerrada Pascal. "The Mexican Tax on Alcoholic Beverages: Reasons to Change It." *Economía: Teoría Y Práctica* 57, no. 57 (December 1, 2022): 193–213. <https://doi.org/10.24275/etypuam/ne/572022/rodriguez>

their profitability and competitiveness in the market. Policy recommendations made by the author include implementing separate tax treatments for artisanal and commercial beer producers, promoting regional organic inputs and recycling, and economically benefiting the craft beer industry. By recognizing the distinct characteristics of craft beer production and addressing regulatory ambiguities, policymakers can create a more conducive environment for industry growth and innovation.<sup>20</sup>

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<sup>20</sup> Isaac Brown Yamamoto, “Producción de Cerveza Artesanal ”, *Repositorio institucional.uabc.mx*, 2018, <https://hdl.handle.net/20.500.12930/724>.

## Chapter 2. Brewing Through Time: Historical Journeys

At present, Mexico stands as a pivotal player in the global beer market. According to the data published by The National Institute of Statistics and Geography (INEGI) and the National Chamber of the Beer and Malt Industry (Cerveceros de México) on the 2020 document “*Conociendo la Industria de la cerveza*”, Mexico has maintained its position as the world's top exporter of beer since the year 2010, surpassing European powerhouses in the industry such as Belgium, the Netherlands, and Germany, all renowned for their deep-rooted beer traditions. Several key statistics underscore the importance of this sector to the national economy. Beer production is ranked among the top 19 manufacturing sectors, out of 288 distinct economic activities, based on production value. The number of beer businesses has been rising, thanks to the growth of micro, small, and medium-sized companies, which has significantly boosted the industry. Remarkably, for every peso that is earned from alcoholic beverages in the country, 65 cents come from beer, illustrating the sector's significance. From 2013 to 2019, beer production in Mexico saw an average annual growth rate of 6.7%. Sonora in particular, represents a significant contributor to this industry, being the 4th largest producer of beer in the country with a 9.6% share of production, trailing only behind Zacatecas, Coahuila, and Nuevo León.<sup>21</sup>

These statistics collectively tell a story of economic significance and global leadership. However, this dominance was not always the case. The journey to the top involved overcoming numerous challenges and capitalizing on unique opportunities. To understand the current landscape of this sector, it is essential to trace the historical evolution of beer in Mexico, from its colonial origins to its contemporary manifestation as a symbol of cultural identity and economic resilience. This chapter aims to provide a comprehensive historical context that highlights the significant milestones in Mexican beer history, the unique development of beer culture in Sonora, and the current state of the craft beer industry in the region. The narrative of Mexican beer is one of adaptation and growth, marked by periods of industrialization, monopoly, and globalization. The historical journey sets the stage for understanding the emergence of the craft beer movement as a response to the dominance of transnational beer corporations.

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<sup>21</sup> INEGI, “Conociendo La Industria de La Cerveza,” [www.inegi.org.mx](http://www.inegi.org.mx), 2020, [https://www.inegi.org.mx/tablerosestadisticos/industria\\_cerveza/#Informacion\\_general](https://www.inegi.org.mx/tablerosestadisticos/industria_cerveza/#Informacion_general).



## 2.1 The History of Beer in México

Beer, although as is going to be shown in this chapter has an interesting story, it is not a beverage that has a rooted connection with the natives of the country. By the 19th century, the population was just beginning to know it. When the first beers were brewed in Mexico, during colonial times, there were many alcoholic beverages to compete with. First, there was pulque, the popular drink of the time that it's extracted from the maguey plant and fermented in small barrels though it often suffered from adulteration, leading to a thick, yet unpleasant-tasting beverage. On the other hand, the wealthier classes composed mainly wine (a symbol of Spanish and Catholic tradition), as well as imported European liquors.<sup>22</sup>

Emperor Charles V, influenced in a way by his Flemish upbringing, granted Alfonso de Herrera permission to produce beer in New Spain in 1542, establishing the first brewery in Amecameca. Herrera's brewery marked the beginning of the story of beer production in the Americas, even though wine and pulque remained more popular among the settlers. After Herrera's death, beer production in New Spain remained inconsistent, keeping imported beer prices high. Attempts to brew locally often failed due to a lack of expertise and Spanish immigration restrictions. This case was the opposite in the United States, where beer was popularized before by the European settlers and therefore perfected their beer recipes and industrialization models with more anticipation than in the countries ruled by the Spanish conquest.<sup>23</sup>

In the 19th century, barley harvests were often poor due to thin soil, and the little produced was used to feed cattle. Despite these challenges, determined foreigners aimed to secure quality raw materials for brewing. The railway and maritime transport significantly aided the industry by improving the supply of raw materials. As breweries increased, the government regulated production to enhance quality and collect taxes. German capital predominantly funded these activities. Notable breweries were established by Santiago Graff in Toluca, Juan Oherner in Guadalajara, José Schneider in Monterrey, Cervecería Cruz Blanca in Mexico City, founded by Emil Dercher in 1869 (which produced the first lager),

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<sup>22</sup> Almaraz, "Small and Medium Enterprises", 185

<sup>23</sup> Maria del Carmen Reyna and Jean-Paul Krammer, *Apuntes Para La Historia de La Cerveza En México* (Instituto Nacional de Antropología E Historia, 2012), 37-53, <http://bdjc.ia.unam.mx/items/show/156#lg=1&slide=0>.

and the Cervecería Sonora, founded by George Gruning, Dr. Albert Hoeffler, and Jacob Schuele in 1896, among others.<sup>24</sup> <sup>25</sup>

After that, as told by Ramirez-Solis et al (2018), it has been a road from family businesses to multinationals. By the year of 1899, five companies dominated the Mexican market: Compañía Cervecera de Chihuahua, Compañía Cervecera de Toluca y México, Cervecería Cuauhtémoc, Cervecería Sonora, and Cervecería Moctezuma; they owned 74.61 percent of the Mexican market. Just one year later, in 1900, there were only 29 breweries in Mexico, when a few years before there were 72. <sup>26</sup>By the beginning of the 20th century, the breweries that were still standing were all owned by foreigners or at least they had an important role in the company, another important characteristic was that the breweries catered to the local market that they habited or the vicinity territory. As the railroad systems were just starting to develop the distribution was easier to make regionally rather than nationally, but also the connection with the United States facilitated the import of raw materials. By 1918, Mexico boasted 36 beer producers, but by the twentieth century, only two major players remained. The Prohibition era in the United States during the 1920s significantly boosted the Mexican beer industry as Americans crossed the border to drink, particularly in Tijuana. In 1924, Mexico's annual beer production was just over 52,000 liters. By 1925, despite the strong preference for traditional drinks like pulque and mezcal in central Mexico, production increased to over 53,750 liters. European immigrant brewers promoted beer as a modern, hygienic alternative to native drinks, claiming that pulque was produced under unsanitary conditions. This campaign was effective, leading to a decline in Pulque's popularity. By 1927, 30 breweries existed in Mexico, but five of them controlled 77% of the production, allowing the large companies to buy out the smaller ones until only two remained. That year, total beer production exceeded 71,500 liters. The Mexican beer industry became vertically integrated, with Cervecería Cuauhtémoc starting beer bottle production in 1899. Grupo Modelo followed, producing malt in 1929, beer bottles in 1935, and cardboard in 1954, later

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<sup>24</sup> Ramírez-Solis, Edgar Rogelio, Verónica Ilián, and Baños-Monroy. "From Family Firms to MultiMexicans in the Beer Industry: Grupo Modelo and Cuauhtémoc Moctezuma." Chapter. In *Mexican Multinationals: Building Multinationals in Emerging Markets*, edited by Alvaro Cuervo-Cazurra and Miguel A. Montoya, 213–216. Cambridge: Cambridge University Press, 2018, [https://www.cambridge.org/core/services/aop-cambridge-core/content/view/251DF889CC8BE7BDAE102D6F43038BF7/9781108480611c8\\_213-244.pdf/from-family-firms-to-multimexicans-in-the-beer-industry.pdf](https://www.cambridge.org/core/services/aop-cambridge-core/content/view/251DF889CC8BE7BDAE102D6F43038BF7/9781108480611c8_213-244.pdf/from-family-firms-to-multimexicans-in-the-beer-industry.pdf)

<sup>25</sup> Reyna and Krammer, "Apuntes", 113-116

<sup>26</sup> Ramirez-Solis et al, "From Family Firms to MultiMexicans", 216

establishing subsidiaries for cartons and bottles. Cervecería Moctezuma began producing malt in 1957 and integrated beer bottle and cardboard production by 1962.<sup>27</sup>

In the late 1950s, Cervecería Moctezuma expanded aggressively, taking over Cervecería del Norte in Monterrey in 1957. By the early 1970s, it built a brewery in Guadalajara, joining the other major companies in the country's second-largest city. As the big three (Cerveceria Modelo, Cerveceria Cuauhtemoc, and Cerveceria Moctezuma ) expanded their networks, smaller firms were gradually absorbed or disappeared. In 1985, Cervecería Cuauhtémoc's acquisition of Cervecería Moctezuma shifted the industry's landscape, leaving only two major players in the Mexican beer market: Cervecería Cuauhtémoc-Moctezuma and Grupo Modelo. Since then, both companies started a process of internationalization, establishing plants in the United States, buying other breweries in the rest of Latin America, and making alliances with other major global beer companies. The twenty-first century marked Mexico's peak in the internationalization of its beer industry. By 2003, Mexico had overtaken the Netherlands as the world's top beer exporter, selling 1.39 million tons primarily to the USA. Today, Grupo Modelo and Cervecería Cuauhtémoc Moctezuma export over 80% of their beer to the USA.<sup>28</sup> Nowadays their brands are renowned in the international market, Tecate being the signature beer of Cuauhtemoc-Moctezuma and Corona the one by Grupo Modelo.

Since June 2013, Grupo Modelo has been owned by AB InBev, following a \$20.1 billion acquisition, adding Corona as AB InBev's newest global brand. To address antitrust concerns in the USA, Grupo Modelo's brands are distributed by Constellation Brands in the USA and by AB InBev elsewhere.<sup>29</sup> This acquisition allowed Grupo Modelo to expand into new markets, significantly boosting AB InBev's production capacity to about 400 million hectoliters of beer annually. In 2010, Cuahtemoc-Moctezuma exchanged its beer operations for a 20% stake in the Heineken Group, further solidifying its global presence and therefore changing to Heineken Mexico, nowadays apart from the portfolio of Mexican beer that they produced before they added the Heineken beer.<sup>30</sup>

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<sup>27</sup> Ramirez -Solis et al, "From Family Firms to MultiMexicans", 216-221

<sup>28</sup> Ramirez- Solis etl al, "From Family Firms to MultiMexicans", 217-239

<sup>29</sup> El Financiero, "AB InBev Concluye Compra de Grupo Modelo," El Financiero, June 4, 2013, <https://www.elfinanciero.com.mx/empresas/ab-inbev-concluye-compra-de-grupo-modelo/>.

<sup>30</sup> Forbes Advertorial, "Forbes 100% Marcas Mexicanas | HEINEKEN, La Cervecera Mexicana Más Internacional," Forbes México, March 30, 2020, <https://www.forbes.com.mx/forbes-100-marcas-mexicanas-heineken-mexico-internacionalmente-mexicana/>.

That is how beer in Mexico, which started as an entrepreneurial adventure by foreigners, ended up being a world-renowned industry but one that is owned by multinationals. Even if the operation and raw materials are Mexican, one can argue that the Mexican essence has been erased, leaving customers with limited options for consumption in an oligopoly market. However, it is notable how the Mexican population has shifted in just a little over a century in their alcoholic beverage preferences, making beer their drink of choice and a source of identity.

## **2.2 Crafting Tradition: The Origins of Beer in Sonora**

The history of beer in Sonora is a tale of vision, perseverance, and adaptation, reflecting broader trends in the Mexican beer industry. In the late 19th century, the state saw the establishment of its first significant breweries, which played a pivotal role in the local economy and culture.

Before the late 19th century, the consumption of beer in Sonora was limited, with most of the supply being imported from the United States and Europe and the beverage consumed by only a few. The lack of infrastructure for transporting pulque, a traditional Mexican alcoholic beverage, meant that it often arrived in poor condition, making beer an attractive alternative. The influence of the United States, due to proximity and migration, also played a crucial role in increasing the demand for beer in the region.<sup>3132</sup>

One of the early pioneers was Joseph Mott, a German from Ravensburg, who established a brewery in Magdalena in 1881. His beer, called Sonora, was renowned for its quality, using pure, crystal-clear water and imported hops from Bohemia and Bavaria. Despite this early effort, it was the establishment of Cervecería de Sonora that truly marked the beginning of the beer industry in Sonora.<sup>33</sup>

In 1896, three Germans—Geo Grüning, Albert Hoeffler, and Jacob Schuehle—arrived in Hermosillo with the vision of founding a brewery. Grüning, the driving force behind the venture, being the one doing trips to the city of San Francisco in the United States to hire mechanics and architects for the building of the factory. Like many Germans, they traveled from the neighboring state of Arizona, established themselves in the state, and quickly

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<sup>31</sup> Gracida , Juan José Gracida Romo, “Empresarios Cerveceros En Sonora ,” in *Formación Empresarial, Fomento Industrial Y Compañías Agrícolas En El México Del Siglo XIX* (Mexico : CIESA, 2003),345

<sup>32</sup> Reyna and Krammer, “Apuntes”,113

<sup>33</sup> Reyna and Krammer, “Apuntes”, 116-11

integrated into the local elite by befriending influential politicians and businessmen, and as was the case with Gruning, marrying into a prominent family. These connections were crucial in securing the necessary support for the establishment of the factory, but also for the acceptance of the ampliation of their factory in 1898 and an exoneration of all municipal and state taxes for 10 years. Additionally, they were some of the founding members of the Bank of Sonora. The factory produced their first, and most famous beer, High Life. On September 22, 1897, the foundation of Cervecería de Sonora, S.A., was certified with a capital of 60,000 pesos. The brewery's construction began in 1898, located in the area now known as Plaza Bicentenario. The project was overseen by architect Plutarco Díaz and was completed in 1904. The brewery was equipped with the latest machinery, including mills, elevators, barley separators, and cooling pipes, making it a state-of-the-art facility. By 1905, the brewery had a unique building comparable to grand governmental and religious structures, reflecting its importance and success. During the celebration of the Centennial of Independence, the brewery introduced a dark Munich-type beer called Centenario, which was well-received, leading to the production of other varieties such as Reina Blanca, Munchener, Lager, and Águila.<sup>34</sup>

The brewery faced numerous challenges, including a shortage of wood, which threatened its operations. Gruning 's foresight led him to import coal, ensuring the continued operation of the boilers. The brewery's workforce included German experts and many local employees, providing significant employment opportunities in the region. The Mexican Revolution in the decade of the 1910s significantly impacted the brewery's operations, forcing it to close temporarily. However, by 1926, it had recovered and gained regional recognition for its beers, particularly High Life and Centenario. By this time, the brewery was presided over by Albert Hoeffler, who had acquired Gruning 's shares in 1910 shortly before the latter died. In the 1920s, the brewery employed over 150 workers during the summer and around 100 in the winter, with only two Germans among them—a master brewer and an engineer. This highlights the brewery's role as a major local employer. The brewery's distribution network expanded to cover all of Sonora, northern Sinaloa, and Baja California Sur.<sup>35</sup>

Despite its success, Cervecería de Sonora faced challenges, including a decree in 1915 by Governor Plutarco Elías Calles, which banned the import, sale, and manufacture of

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<sup>34</sup> Gracida, “Empresarios Cerveceros En Sonora”,346-350

<sup>35</sup> Gracida , “Empresarios Cerveceros En Sonora”,352-354

alcoholic beverages in Sonora. This led to a temporary halt in operations until 1922 when the brewery resumed its activities and entered a golden era that lasted until the mid-1930s. Throughout its history, the brewery also experienced several fires, the most serious in 1926, which destroyed its high dome. As mentioned in the previous section of the chapter, with better infrastructure came an expansion of the breweries, but a ruthless national competition developed, where the bigger players were making acquisitions of the smaller companies that could not keep up, and thus was the destiny of this brewery. In 1961, the Hoeffler family sold Cervecería de Sonora to Cervecería Cuauhtémoc. The brewery continued to operate until 1969 when it closed its facilities. The building was eventually demolished in 1980, and Plaza Bicentenario now occupies its site.<sup>36</sup>

Following the national trend, the plants that Grupo Modelo and Cuauhtémoc-Moctezuma established in the state turned into the hands of multinational companies at the beginning of the 2010s decade. In the present day, there's one Heineken plant in the city of Navojoa and a Constellation Brands (affiliate of ABInBev) in Ciudad Obregon. The story of the emergence of beer in the state of Sonora is filled with hurdles and passion for the original entrepreneurs to fulfill their mission of bringing their original tradition of beer to their new home in the so-called new world, however, it is also a tale of how political networking is necessary to gain this legitimization, an aspect that further in the thesis will be explored as essential in the alcoholic beverages business.

The brewery not only provided high-quality beer that gained national and international recognition but also played a crucial role in the economic and social fabric of Sonora. What started as a utopian dream became a reality, and in a deserts state, the population started to claim beer as their drink that would help them on harsh sunny days. However, the same sentiment of the national history of beer continues, there is no true Sonoran identity reflected in these products, its beer that is being produced in Sonora but not truly regional and with limited options. Beer in Sonora started with a few people who wanted to bring to the land a beverage with flavors that had not been experimented with before by the people of the state. Having this in mind, it's easy to see that with the same spirit of adventure and entrepreneurship, craft brewers are picking up the mission of bringing new flavors and a different experience to the population.

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<sup>36</sup> Guillermo Saucedo | El Sol de Hermosillo, "Cervecería de Sonora, Fábrica Que Revolucionó La Industria Local," El Sol de Hermosillo | Noticias Locales, Policías, sobre México, Sonora y el Mundo, February 18, 2021, <https://www.elsoldehermosillo.com.mx/local/-6377449.html>.

### 2.3 The Current Landscape of Craft Beer in Sonora

After reviewing the history of beer in Mexico during the last two sections, this is the moment to focus on the Craft Beer Industry in Sonora. The region entered the 21<sup>st</sup> century with a monopolistic market dominated by two giants: Modelo and Cuauhtémoc Moctezuma, who by acquisitions and mergers later came to the ownership of transnationals Heineken and AbInBev. This situation left the local beer scene saturated with generic, mass-produced beers, to which the regional community grew accustomed: especially, in Sonora the preferred beer became Tecate. However, a group of passionate beer enthusiasts sought to revolutionize this market by introducing new flavors and styles they had experienced in other regions, particularly in the United States. This movement, although late compared to states like Baja California, Mexico City, and Guadalajara, the movement in Sonora can see its roots in the early 2010s.

As the pioneer of this, we can find Cervecería Ocotillo, which started operations in 2011. According to their Facebook page, Cervecería Ocotillo aimed to bring back the tradition of enjoying locally crafted beer, emphasizing quality over quantity. They sourced their ingredients from Canada, the United States, and Europe to create beers that closely resembled traditional recipes.<sup>37</sup> This commitment to quality and tradition set a high standard for future craft breweries in the region.

Following Cervecería Ocotillo, several other breweries emerged, each bringing its unique style and identity to the craft beer scene in Sonora. These breweries often started as small-scale homebrewers before expanding into microbreweries, but a lot of them have disappeared after a brief period of time as the market (specially in the early days) is complicated due to legal hurdles, entry barriers, and an early niche market due to customer lack of knowledge of the different beer styles.

Efforts to map the craft beer landscape in Sonora have been challenging. As there is not a national definition of what constitutes a craft brewery or even craft beer, institutions like the National Institute of Geography and Statistics or Cerveceros de Mexico don't publish a list of these enterprises. An effort has been made to obtain data from the State commerce chambers, however my request was never answered. Nevertheless, through social media and interviews, a list of active breweries in 2024 has been compiled. The list was produced by the author after careful revision of the websites of state beer festivals and complemented by a list

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<sup>37</sup> Cervecería Ocotillo Facebook Page, "About Section," accessed April 23, 2024, [https://www.facebook.com/cerveza.ocotillo/about\\_details](https://www.facebook.com/cerveza.ocotillo/about_details).

provided by a member of a national brewer’s association. Given the nature of the micro and small breweries, and the primary sources available, this list could unintentionally exclude existing.

Nowadays, there are more than 30 craft breweries in Sonora; although most of them are still concentrated on the capital city of Hermosillo, there is presence on other parts of the state such as Nogales, San Luis Rio Colorado, Cocorit, Guaymas, Ciudad Obregon, Navojoa and Cananea.

**Table 1. Active Craft Breweries in Sonora.2024**

<b>Name of the Brewery</b>	<b>Location</b>
Cerro Colorado Cerveceria	Hermosillo
Punto de Unión	Cocorit
Mad Pixie Brewery	Hermosillo
La Hache Brewing Co	Hermosillo
Cervecería Yoreme	Navojoa
Cerveza Marvida	San Carlos Nuevo Guaymas
Cerveceria Alto Golfo	San Luis Rio Colorado
Cerveceria 308	Navojoa
Hacienda Mascareño	Hermosillo
Cerveceria BAJIPO	Cd. Obregon
Vicio Capital	Hermosillo
UA Brewing	Nogales
La Rueda Brewing Company	Cd. Obregon
Cerveceria Argova	Nogales
Cerveceria Tierra Media	Cd. Obregon
La Zurda Beer Co.	San Carlos Nuevo Guaymas
Desemboque	Hermosillo
Lucky Monkey Brewing	Hermosillo
Fabrica de Cerveza La Ruina	Hermosillo
Cerveceria Mercury	Hermosillo
Bándido	Hermosillo
BBG GUAYMAS BREWING	Guaymas



Bombardero	Hermosillo
Brewsenberg	Hermosillo
Buqui Buchi	Hermosillo
Gila	Hermosillo
La Cananea Brewing	Cananea
Noroeste	Hermosillo
Ojo de Venado	Caborca
Venado	Hermosillo
Yaquesita	Hermosillo
Cervecería Reino Alfa	San Luis Río Colorado

Source : made by the author with information gathered from primary sources.

The craft beer industry in Sonora is more than just a business; it is a cultural movement that celebrates local heritage, fosters community engagement, and has the potential to drive economic growth. Craft beer has significantly contributed to Sonora's local identity and economic development. Breweries often draw inspiration from local culture, history, and ingredients, creating beers that tell a story about the region. Further from the local jobs and tourism boost to the cities that the taprooms can provide, Craft beer has also become a symbol of local pride and identity. This is notable in the labels of the beers that utilize the images of state in their bottles and cans. The names of the breweries also denote a pride of the culture of the state. From the provided list we can see some examples. Yaquesita is a term known to the local people that refers to the indigenous group Yaqui from the south of the state, as well as the title of a song from early 2000s famous regional singer Valentin Elizalde. The names Gila, Ojo de Venado and Venado bring to focus the local fauna. La Hache Brewing Co. takes the name from the way local population kindly name the city of Hermosillo. And Buquibichi takes its name from two local terms: Buqui which means kid and Bichi which means naked; with this the name invoked the spirit of a naked kid who goes adventurous and carefree throughout life. <sup>38</sup>

Many brewers see their work as a way to preserve and promote Sonora's cultural heritage. The best example for this is BuquiBuchi Brewing Co., that is considered the most successful craft brewery in the state and has gained the love of the local costumers. Buqui Bichi Brewing Co., based in Hermosillo, Sonora, has made a significant mark in the craft

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<sup>38</sup> This analysis comes from the author's own knowledge of the culture from being native to the state

beer industry with its dedication to producing high-quality, innovative beers. Established with the vision of introducing unique beer styles to Mexico, Buqui Bichi has grown to include multiple taprooms across Mexico and recently expanded into the United States. The brewery's name, derived from a playful Sonoran expression, reflects its commitment to crafting beers that capture the essence of local culture and tradition. Their offerings range from traditional Mexican lagers to innovative brews like the pitaya-infused Kolsch and the locally sourced coffee stout, Talega. Buqui Bichi's reputation for excellence is underscored by its numerous awards. The brewery was named Mexico's best large brewery by Copa Cerveza for two consecutive years (2023 and 2024, but they previously won best medium craft brewery in other editions), an achievement that highlights their consistent quality and innovation. Additionally, Buqui Bichi has garnered international recognition, winning gold and silver medals at the World Beer Cup, a prestigious global competition that celebrates the finest brews from around the world. These accolades not only reflect the brewery's commitment to quality but also its ability to compete on an international stage.<sup>39 40 41 42</sup>

The future of craft beer in Sonora looks promising. The growing appreciation for locally produced high-quality beer among consumers provides a solid foundation for continued growth. Although the local consumers still prefer lager beers, due the refreshment and lightness that brings this style which is appreciated in a harsh arid climate of the region, many are adventuring in different styles as IPAS, Stouts, Porters etc. Brewers must continue to innovate and adapt to changing consumer preferences, experimenting with new flavors and brewing techniques to keep their offerings fresh and exciting. The entrepreneurial spirit that drives many craft brewers will be key to navigating these challenges and ensuring the long-term success of the industry.

## 2.4 Conclusion

Chapter 2 of this thesis has explored the historical development of beer in Mexico, focusing on its evolution from colonial times to the present day, with a specific emphasis on Sonora.

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<sup>39</sup> Buqui Bichi Brewing Co., "Home," accessed June 23, 2024, <https://en.buquibichi.com/home>.

<sup>40</sup> Sara Crocker, "Award-winning Mexican brewery Buqui Bichi is opening its first US location in Chandler," Phoenix New Times, accessed June 23, 2024, <https://www.phoenixnewtimes.com/restaurants/award-winning-mexican-brewery-buqui-bichi-is-opening-its-first-us-location-in-chandler-16145840>

<sup>41</sup> Buqui Bichi se lleva el premio a la mejor cervecería grande de México por segundo año consecutivo," Buqui Bichi Blog, accessed June 23, 2024, <https://tienda.buquibichi.com/blogs/news/buqui-bichi-se-lleva-el-premio-a-la-mejor-cerveceria-grande-de-mexico-por-segundo-ano-consecutivo>.

<sup>42</sup> "Mexico Wins Gold and Silver Medals at World Beer Cup," Mexico News Daily, accessed June 23, 2024, <https://mexiconewsdaily.com/food/mexico-gold-silver-world-beer-cup/>.

This analysis has highlighted the significant milestones in the Mexican beer industry, showcasing how the country has emerged as a global leader in beer production and exportation. Starting with the introduction of beer during the colonial period, where Emperor Charles V granted permission to Alfonso de Herrera in 1542 to produce beer in New Spain, the early attempts faced competition from traditional drinks like pulque and wine, deeply ingrained in the local culture. Despite these challenges, the 19th century brought significant advancements, with German immigrants establishing breweries that laid the foundation for industrial growth. This chapter demonstrates how the craft beer movement in Sonora represents a continuation of the region's entrepreneurial spirit, fostering local pride and contributing to economic development. The evolution from a handful of local breweries to the dominance of national giants like Modelo and Cuauhtémoc Moctezuma, and their eventual acquisition by multinational corporations, reflects a broader trend of consolidation and globalization in the industry. Pioneers like Joseph Mott in Magdalena in 1881 and the founders of Cervecería de Sonora in 1897 (Gruning, Hoeffler and Schuele) exemplified the entrepreneurial drive that propelled the industry forward, despite numerous obstacles, including political instability and economic fluctuations.

The journey has had its up and downs, resilience was needed in every step of this way; from bringing an unknown drink at the end of the 19<sup>th</sup> century until the local population gained a taste for it, to the challenge of bringing innovative styles of beer in the 21<sup>st</sup> century on a monopolistic market with a customer base that was accustomed to mainly only one type of beer. These transitions illustrate the dynamic nature of the beer industry in Sonora, where local initiatives continuously adapt to changing market conditions and consumer preferences.

The entrepreneurs and owners of this industry have also changed throughout the time; the journey started in Sonora with the German diaspora that was settling in the state, to later be owned by the national main industries later acquired by Dutch and Belgian multinationals, to finally an effort of local producers trying to bring authenticity and innovation to the beer scene. In Sonora, the rise of craft breweries represents a continuation of this entrepreneurial spirit, fostering local pride and contributing to economic development. The story of beer in Mexico and Sonora is not just about economic success; it is a testament to the enduring cultural significance of this beloved beverage.

Craft breweries in Sonora, such as Cervecería Ocotillo, which began operations in 2011 and the award winning BuquiBichi, have played a crucial role in revitalizing the local beer culture, emphasizing quality and tradition over mass production. As the craft beer

movement continues to evolve, it promises to further enrich the cultural and economic landscape of Sonora and beyond. However, although the local revolution of craft beer looks promising, it's not a journey that comes easily. Alcohol always comes with legal hurdles as it is a product considered to be harmful for society, and a fight for a market doesn't come only in the love of the costumers, it involves also regulatory measurement. In the next chapter we will explore the entrepreneurial and legal aspects that have accompanied the rise of the craft beer emergence to understand in a deeper level the journey.

## Chapter 3. Entrepreneurs on Tap: Perspectives and Strategies

This section of the chapter utilizes the information said in two published videos and one interview made by this author. In the following chapter, the information regarding the brewery of Buquibichi was gathered from the video “*Podcast Expreso - Episodio 1 – Buquibichi*” the interview with the founders was realized by Memo Romero for the podcast of the news outlet *Expreso* at the start of 2023.<sup>43</sup> The information of breweries Ocotillo, Argova, Guaymas Brewing, El Bandido and Punto de Union was gathered from the information displayed in the virtual panel “*Comunidad Cervecera de Hermosillo*” organized by Catadoras y Cerveceras de Mexico in 2021<sup>44</sup>. Finally, the information from this chapter provided by Osvelia Vargas was gathered from an interview realized by the author on May 29th of 2024.<sup>45</sup>

### 3.1 Motivations of a Craft Beer entrepreneur

In a market as dominated by a few players as is the one of beer, one must challenge what are the motivations behind each founder of a craft brewery. Sozen & Oneill in their work "An Exploration of the Motivations Driving New Business Start-up in the United States Craft Brewing Industry" identify five primary motivations for craft brewers: tax reduction and indirect benefits, a need for approval, personal development, welfare and community considerations, and a need for independence.<sup>46</sup> One of the results from this study was the importance of personal development, in which they included a subsection with the motivation “To make beers that align with my tastes”, which exemplify a motivation that is not only pursuing financial gain, but personal love for the drink.

The motivations behind starting a craft beer business are deeply rooted in personal passion, cultural heritage, and a desire to innovate. Craft brewers in Sonora are driven by a variety of factors, ranging from the love of brewing to the goal of creating unique products that reflect local flavors and traditions. To illustrate that, we are going to review the stories of the origin of 6 breweries in Sonora, told in the words of their founders in interviews.

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<sup>43</sup> Studio D Podcasts & Streaming. “Podcast Expreso - Episodio 1 - Buquibichi.” YouTube, January 24, 2023. <https://www.youtube.com/watch?v=urCeY6glaZo>.

<sup>44</sup> Catadoras y Cerveceras de México. “Lives 2021 - Comunidad Cervecera de Hermosillo.” YouTube, March 1, 2021. <https://www.youtube.com/watch?v=tw8lx9BGHmQ>.

<sup>45</sup> Osvelia Vargas, interview by author, Hermosillo, 2024

<sup>46</sup> Sozen, E., O’Neill, M. (2018). An Exploration of the Motivations Driving New Business Start-up in the United States Craft Brewing Industry. In: Slocum, S., Kline, C., Cavaliere, C. (eds) *Craft Beverages and Tourism*, Volume 2. Palgrave Macmillan, Cham. [https://doi.org/10.1007/978-3-319-57189-8\\_12](https://doi.org/10.1007/978-3-319-57189-8_12)

Luis Carlos Osuna and Ramón Osuna, founders of BuquiBichi Brewing, were inspired by their experiences in Colorado, where they were exposed to a vibrant craft beer scene. Their initial ventures into homebrewing began in 2013, driven by a passion for creating diverse beer styles that were not available at the moment in Hermosillo. Their journey was marked by numerous challenges, including navigating the legalities of brewing licenses in Sonora and securing investors to fund their business. Despite these obstacles, their dedication to quality and innovation led to the successful establishment of BuquiBichi Brewing in 2016. Their primary motivation was to bring the diverse beer styles they loved to their beloved hometown, contributing to the growth of craft beer knowledge and appreciation in the region.<sup>47</sup>

In the border city of Nogales, Cerveceria Argova began thanks to the exposure of its founders to the vibrant beer culture in the state of Baja California, Mexico. The idea of starting a brewery took root after its founders lived in the city of Mexicali, and they realized the feasibility of brewing beer in Nogales. They returned to Nogales to initiate their project, focusing on securing government funds and entrepreneur credits. Over five years, they navigated the challenges of setting up a brewery, eventually opening a taproom. Despite the pandemic, they saw an unexpected boost in the craft beer market in Sonora, which they believe accelerated the consumption of craft beer by a couple of years.<sup>48</sup>

Jorge Fernández, founder and head brewer of Guaymas Brewing, started his journey in Ensenada, where he worked for a software company and got involved with the local homebrewing community. He returned to Guaymas with the goal of establishing the first brewery in the port city. Initially, they aimed to open a taproom but shifted to bottling due to logistical challenges. They became one of the first breweries outside Hermosillo to bottle their beer, paving the way for other local breweries. Their distribution has expanded to cities like Navojoa, Obregón, Hermosillo, and San Carlos. Jorge's motivation stemmed from his love for homebrewing and the desire to introduce craft beer to his hometown.<sup>49</sup>

The founder of Cervecería El Bandido, was inspired during a trip to Tucson, Arizona (the border state of the United States with Sonora), where he encountered a wide variety of craft beers. This experience led him and his partner to experiment with homebrewing using a kit gifted by a friend. Their initial attempts were not successful, but the process intrigued them enough to learn more and improve their brewing techniques. They eventually joined the

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<sup>47</sup> Osuna, "Buquibichi" 2023

<sup>48</sup> Andres Vega, "Comunidad Cervecera de Hermosillo", 2021

<sup>49</sup> Fernandez, "Comunidad Cervecera de Hermosillo", 2021

local homebrewing club in Hermosillo, which further fueled their passion for craft beer. The name "El Bandido" was inspired by a personal story involving one of the partner's father, who had a run-in with a burglar. This anecdote became the foundation for their brand, symbolizing resilience, and a fighting spirit.<sup>50</sup>

José Luis Ávila, founder of Cerveza Ocotillo, was first introduced to craft beer at Beer Factory in Mexico City around 2003. The unique flavors and styles of craft beer intrigued him, leading him to experiment with homebrewing. Initially, the lack of brewing supplies in Mexico was a challenge, but the proximity to the United States allowed him to source the necessary ingredients. By 2014, he launched Cerveza Ocotillo commercially, driven by his desire to create a distinctly Sonoran beer. The name "Ocotillo" was chosen to reflect something representative of the local desert environment, symbolizing the rugged and resilient nature of the region.<sup>51</sup>

Hans Weiss, along with his brother Germán, started Punto de Unión inspired by craft beer experiences in the United States. After a trip to the U.S., they were motivated to try brewing their own beer due to the lack of craft beer availability in their hometown. Their initial attempts involved experimenting with diverse brewing methods and failing in several attempts, but their determination led them to study brewing techniques and improve their recipes. The name "Punto de Unión" was inspired by a photo of them fist-bumping, symbolizing camaraderie and the bonds formed over beer. Their brewery focuses on creating a variety of beer styles while maintaining a sense of community and connection among their patrons.<sup>52</sup>

Osvelia Vargas, current national president of the Mexican association of Catadoras y Cerveceras de Mexico and a key member of the brewer community in Hermosillo, notes that the primary drivers of a craft brewer in Sonora include a deep passion for the craft, a commitment to innovation, and a desire to celebrate and preserve Sonoran cultural heritage. Craft brewers see their work to contribute to their communities, create unique products, and provide an alternative to commercial beers.<sup>53</sup>

While the motivations behind starting a craft brewery are rooted in passion and a desire to innovate, the journey to create and develop a brewery is a rocky one. Each brewer faced significant hurdles, from sourcing quality ingredients and navigating regulatory

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<sup>50</sup> Romo, "Comunidad Cervecera de Hermosillo",2021

<sup>51</sup> Avila, "Comunidad Cervecera de Hermosillo",2021

<sup>52</sup> Weiss,"Comunidad Cervecera de Hermosillo",2021

<sup>53</sup> Osvelia Vargas, Interview

landscapes to securing funding and building a customer base. It is a journey that no brewer does alone, the resilience that made possible the creation of this industry is one filled with cooperation between its players; all the way from the learnings on how to brew beer to the fight to legitimize the sector, a story of a craft beer is a story of collaboration.

### **3.2 Collaboration and Competitive Dynamics Among Breweries in Sonora**

Diverse authors studying the craft beer industry have found that the community is not a cutthroat competition, on the other side, it is found a phenomenon of cooptation (an engagement of both cooperation and competition). This, in the case of Mexico, has been the characteristic of the most important craft beer states such as Baja California, where the cooptation even crosses borders.<sup>54 55</sup>

Cooperation was especially necessary for the establishment of the industry. When most of the entrepreneurs, in specific for Cervecería Ocotillo, Argova and Buquibichi who were the pioneers, started with the idea of transforming the hobby of homebrewing into a business, there was no permit that allowed them to do it. The legal hurdles were the main issue in the development of the dream.

As recounted by Osvelia Vargas, in the early days of the craft beer movement in Sonora, brewers faced significant challenges due to the lack of a clear legal framework. Craft brewers were often lumped together with large commercial breweries, leading to regulatory and operational hurdles that were particularly burdensome for small-scale producers. Without the knowledge, or legal definition of what craft beer was, the only available permits for brewing and distributing beer were the ones that were also applicable for commercial beer. With the dimension of productions being so different, the cost of the permits was impossible to pay for a small enterprise. Also, the effort it conveys, in Sonora, to establish there are a series of processes that need to be fulfilled before putting an alcoholic beverage enterprise, which include approval from the whole neighborhood and after that the approval of the local representative. The few entrepreneurs with the dream to recreate the success of craft beer in Sonora had the wisdom to recognize that the first milestone was clear: to gain a legal definition of craft beer in the state.

This was not an easy task, and it involved a lot of cooperation. First, council with the prominent and neighboring state of Baja California, that aided the community on how they

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<sup>54</sup> Almaraz, "Small and Medium Enterprises", 190-195

<sup>55</sup> Blake D. Mathias et al., "An Identity Perspective on Cooptation in the Craft Beer Industry," *Strategic Management Journal* 39, no. 12 (December 1, 2018): 3086–3115, <https://doi.org/10.1002/smj.2734>.



gained that battle themselves in their state. Next step, as told by Osvelia Vargas, was to make a collaboration with another alcoholic beverage industry: Bacanora. The spirit of Bacanora, although illegal until the 1990s, is a traditional Sonoran distilled spirit made from the agave plant, similar to tequila and mezcal but with its unique characteristics. It holds a significant place in Sonora's cultural and historical heritage, often produced by small, family-owned distilleries whose producers had a challenging journey to legitimize. To secure the collaboration, Cervecería Ocotillo did a Stout Beer that incorporated Bacanora in the blend. The strong, distinctive flavor of Bacanora posed a challenge in maintaining the balance and drinkability of the beer, but after careful experimentation this was achieved. The benefits of this were that the beer gained the legal status of a regional product but also the insights of the Bacanora Association for the legal battle.

The journey to gain legal recognition involved extensive advocacy and lobbying efforts. Osvelia and other members of the Sonora Brewers Association engaged in numerous meetings with government officials, regulatory bodies, and other stakeholders. They presented their case, emphasizing the economic, cultural, and social benefits of supporting the craft beer industry.

One of the key strategies was to showcase the success of craft beer industries in other regions, both within Mexico and internationally. They highlighted how legal recognition had helped these industries thrive, contributing to local economies, creating jobs, and promoting tourism. The association also organized beer festivals and public events to raise awareness and demonstrate the quality and diversity of craft beer in Sonora. They also collected endorsements from consumers, local businesses, and industry experts to strengthen their argument.

Another of the critical aspects was to define what constituted a craft brewery and the definition for craft brewery. The association proposed criteria that included the scale of production, the use of traditional brewing methods, and a commitment to quality ingredients. They argued that these criteria were essential for preserving the authenticity and integrity of craft beer. The association's efforts gradually gained traction. They received support from local politicians who recognized the potential economic benefits of a thriving craft beer industry. Media coverage also helped to raise public awareness and generate broader support for their cause. After many years, this battle was won. As my interviewee recalls, the changes that are now visible in the Law relating to alcohol in the state (*Ley que regula la operación y funcionamiento de los establecimientos destinados a la fabricación, envasamiento,*

*distribución, almacenamiento, transportación, venta y consumo de bebidas con contenido alcohólico en el estado de Sonora*) were made between the years of 2014 and 2015. Primary sources corroborate the statement, but a definite and certain date has not been able to place.

Consulting the minute of the ordinary session of the Honorable LXII Constitutional Legislature of the Free and Sovereign State of Sonora held on March 21<sup>st</sup> 2019, we can see a mention of the initiative being passed on the year 2014. The representative of Partido Verde Ecologista, Luis Mario Rivera Aguilar, stated the following:

*“On October 17, 2014, the initiative for a Decree that added various provisions to the Law Regulating the Operation and Functioning of Establishments Intended for the Manufacture, Bottling, Distribution, Storage, Transportation, Sale, and Consumption of Beverages with Alcoholic Content, as well as to the Revenue Law, both of the State of Sonora, was approved by the Congress of the State of Sonora. This included the establishment of the Craft Brewery category for the State of Sonora.”*<sup>56</sup>

A press note published by the official website of Sonora’s Congress on October 21<sup>st</sup>, 2014, communicated that an approval was given to establish a license for producing craft beer, following the report from the First and Second Finance Committees. This approval included a draft Decree that introduces several new provisions to the Law governing the operations of establishments involved in the manufacturing, bottling, distribution, storage, transportation, sale, and consumption of alcoholic beverages, as well as to the Revenue Law of the State of Sonora.<sup>57</sup> However, the note did not contain a document where the exact decree could be consulted. Confirmed by multiple primary sources, it can be established that the approval for the inclusion of the term Craft Beer in Sonora’s Law was made on the month of October of the year 2014. The first appearance of the exact term in government communications can be found in the changes proposed for the fiscal year 2016 by the, in that moment entering Governor, Claudia Pavlovich Arellano.<sup>58</sup> This document is dated for

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<sup>56</sup> Congreso de Sonora, “Version Estenografica de La Sesión Ordinaria Celebrada Por La Honorable LXII Legislatura Constitucional Del Estado Libre Y Soberano de Sonora, El Día 21 de Marzo de 2019,” [Congresoson.gob.mx](http://www.congresoson.gob.mx), 2019,

<http://www.congresoson.gob.mx/Content/Transparencia/62.MINUTAS/MIN.190321.docx>.

<sup>57</sup> “Congreso Del Estado de Sonora - Nota Emitirá El Congreso Del Estado Exhortos a Diversas Autoridades,” [www.congresoson.gob.mx](http://www.congresoson.gob.mx), October 21, 2014, <http://www.congresoson.gob.mx/Organizacion/Nota?id=2105>.

<sup>58</sup> Gobierno del Estado de Sonora, “Iniciativa de Ley Que Reforma, Deroga Y Adiciona Diversas Disposiciones Fiscales Del Gobierno Del Estado de Sonora Para El Ejercicio Fiscal,” November 13, 2015, <https://hacienda.sonora.gob.mx/media/1138/3leyhacienda.pdf>.

November 13<sup>th</sup> 2015. Therefore, although it can be stated that the approval came in 2014, it is safer to assume that the sedimentation of said decision came until the year 2015. This battle was won. This milestone permitted the brewers to start their business as formal enterprises and start the development of their brand.

After that, one key aspect for the community was to create diverse beer festivals, remarkably Desierto Fest, to promote the local beers and also to invite brewers from the rest of the country and some from the United States to display their beers and to try the flavors that Sonora had to offer. This kind of events help the community to grow, to engage with current costumers and gain new ones that attend the event. It's a celebration that the whole city can enjoy and share.<sup>59</sup> Most of the brewers in interviews tell that one fascinated aspect is the diversity of the costumers. As the founders of BuquiBichi recount, their initial business plan considered a very limited costumer base that rounded from the ages of 30- and 40-year-old. However, in the close relationship that the brewers can have in their taproom, they noticed that the customer base in reality is broader, not only in age but also in gender. Anecdotally and in consensus, they recall that the costumers that adventure with more beer styles are women.<sup>60</sup> As Osvelia Vargas tells, the original thought that women are not part of the brewer community is a stigma of the past, women are defying the assumption that beer is a male product and every day there are more female costumers, certified beer judges and brewers. It has been a slow process but one that hopefully will accelerate in the next years and will lead to a more diverse landscape of brewers and beers for the community. After that, the COVID-19 pandemic hit and changed the game. Surprisingly, as Osvelia Vargas and Jose Luis Avila tell, (owners of Cerveza Casera, a supply store for homebrewers) the craft movement accelerated during the lockdown. The reason: the restrictions posed by the government during this period.<sup>61</sup>

On March 28, 2020, the government announced limitations on the purchase and sale of alcoholic beverages. This measure aimed to reduce gatherings and potential virus transmission. As the pandemic progressed, beer shortages became a significant social concern, highlighting the population's dependency on alcohol as a coping mechanism. In early 2021, Sonora intensified its efforts to curb infections by prohibiting the sale of cold beer, intended to discourage social gatherings and parties, which were seen as hotspots for COVID-19 spread. The authorities believed that selling beer at room temperature would

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<sup>59</sup> Osvelia Vargas, interview

<sup>60</sup> Osuna, "Buquibichi"

<sup>61</sup> Osvelia Vargas, Interview

prevent immediate consumption, therefore reducing the likelihood of gatherings. This restriction faced backlash from the public but was considered a necessary step to control the pandemic. Throughout these periods, the state's measures fluctuated, adapting to the changing circumstances of the pandemic. These restrictions, plus the lockdown that complicated the personal in the transnational factories on the production, meant people could not buy the amount of beer that they desire and that led to a lot of people in the country to decide and experiment in their own homes with brewing. With the knowledge developed thanks to free time and the information available online, beer enthusiasts transformed themselves into brewers.<sup>62 63 64 65</sup>

However, the legal inclusion of craft beer also signified the change of circumstances of the community. According to the representative Luis Mario Rivera Aguilar, in his discourse to the congress of the state previously mentioned, even if the number of breweries had increased in the last 5 years since its legal status, only 5 breweries had gained the production license issued by the General Direction of Alcoholic Beverages of the State of Sonora.<sup>66</sup> This happens as the permits, although now possible as not nearly as complicated as the beginning, it is still expensive to obtain in an industry where financial stability and gains are not sure at the start. According to Osvelia, the real revenue does not come from bottling and selling the beer, as that comes with additional costs and licensing, although is a good addition from the brand. As well, the founders of BuquiBichi tell that the shelf at the commercial selling point is a beast hard to tame, as in a regular store you are not only competing with the other craft beers but also with the commercial ones: as a regional product in the state you can compete as the public might know the brand, but to compete in other states or countries can be excessively difficult. Having an own establishment or taproom is a

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<sup>62</sup> Osvelia Vargas, Interview

<sup>63</sup> "Sonora Restringe Compra Y Venta de Bebidas Alcohólicas Por COVID-19," El Informador :: Noticias de Jalisco, México, Deportes & Entretenimiento, March 28, 2020, <https://www.informador.mx/mexico/Sonora-restringe-compra-y-venta-de-bebidas-alcoholicas-por-COVID-19-20200328-0076.html>.

<sup>64</sup> Guillermo Saucedo | El Sol de Hermosillo, "Cerveza, Una de Las Prioridades de Los Sonorenses En La Pandemia," El Sol de Hermosillo | Noticias Locales, Policiacas, sobre México, Sonora y el Mundo, April 27, 2021, <https://www.elsoldehermosillo.com.mx/local/consumo-de-cerveza-se-ha-convertido-en-prioridad-social-en-sonora-desabasto-pandemia-6645559.html#>.

<sup>65</sup> Roberto Bahena | El Sol de Hermosillo, "Por Código Rojo, Prohiben Venta de Cerveza Fría O Con Hielo En Sonora," El Sol de Hermosillo | Noticias Locales, Policiacas, sobre México, Sonora y el Mundo, January 13, 2021, <https://www.elsoldehermosillo.com.mx/local/ley-seca-sonora-prohiben-venta-de-cerveza-fria-helada-hielo-expedios-tiendas-autoservicio-direccion-de-alcoholes-codigo-rojo-hermosillo-6238972.html#>.

<sup>66</sup> Congreso de Sonora, "Version Estonografica de La Sesión Ordinaria Celebrada Por La Honorable LXII Legislatura Constitucional Del Estado Libre Y Soberano de Sonora, El Día 21 de Marzo de 2019," [Congresoson.gob.mx](http://www.congresoson.gob.mx), 2019, <http://www.congresoson.gob.mx/Content/Transparencia/62.MINUTAS/MIN.190321.docx>.

good way of revenues, as the middleman is eliminated and, from a regional development point of view, it is also a better way to create jobs.<sup>67</sup>

One of the disadvantages of the lockdown produced by the COVID-19 is the cease of activities of Sonora's Brewers association. Once very close, when you analyze their website, an inactivity is palpable. This also comes from a community with different circumstances, one where there can come the disagreement of who is included and who isn't. As most brewers are non-licensed, their struggles are different from the ones that do possess a license, and it's debatable the legality of the first. Therefore, it's difficult to have a common fight as they did in the beginning. Since the legal inclusion from the craft beer term, some breweries have gone out of the formal sector and transform itself to constituted enterprises. This has been accompanied by the national and international success of Sonora's craft beer, remarkably in the case of BuquiBichi that has even opened taprooms in the United States. The story of the brewers exposed in the present chapter have inspired a new generation of brewers in the state, who are enthusiastic and eager to enter this industry and even if they are not legally constituted as an enterprise, can still participate in festivals and competitions across the country and showed the community the flavors that can be brew in Sonora.

### **3.3 Conclusion**

On this chapter, dives into the motivations, collaborative dynamics, and significant contributions of local breweries. Using insights from interviews and published sources, we get a clear picture of what drives this movement.

Although the motivations behind each brewery are diverse, some similarities can be found across all interviews. A common topic was the passion for brewing and the desire to create beers that stand out from the mass-produced options available in the market. All displayed a drive to innovate and take some risks with different brewing styles. Many brewers see their work as a way to connect with and celebrate their local culture and community; They take pride in using local ingredients, naming their beers after local landmarks, and creating a product that reflects the unique character of Sonora.

Collaboration has been a key factor in the success of Sonora's craft beer industry. Brewers often support each other by sharing knowledge and resources. This cooperative spirit was essential during the early days when there was no legal framework for craft beer. The

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<sup>67</sup> Osvelia Vargas Interview

fight for legal recognition required extensive advocacy and cooperation. Despite these successes, the craft beer industry in Sonora faces ongoing challenges. Legal recognition was a major milestone, but the regulatory environment remains complex. The costs and efforts required to obtain brewing licenses are still substantial barriers. Moreover, the market dynamics, with competition from established commercial brands, pose additional hurdles.

Similar to what was reported in research done in United States and Baja California, a phenomenon of cooptation (an engagement of both cooperation and competition) was also found in the case of Sonora. However, the legal definition brought a decreased in the trend of cooptation. With this, we can analyze that cooperation is organically produced in the beginning of an industry when the key participants are trying to legitimize their existence. In this case, the legal framework that lacked a feasible option for craft brewers to legitimate establish a business was the circumstance that fostered cooptation between the few players. On the other hand, once the legal framework had change, a spirit of cooptation is less palpable. The situation created a differentiate experience between licensed and unlicensed players. While aspiring or new brewers have the problematic of entry barriers to the market and trouble getting licenses, the established brewers have the issue of maintaining their prices competitive in a taxation system that affects unevenly the commercial vs the craft production. Although unlicensed brewers can still participate in festivals and somehow brew their products, the struggles that each one faces nowadays are different and complicates the creation of a unified front in a fight for better conditions, and therefore the fall in cooptation.

After the pandemic, no monumental changes have been made in Sonoran Law to support the sector and the few comments in congress since then have been to ask the state congress to exhort higher instance to make changes in the nation taxation law. As the craft beer landscape continues to expand, supportive legislation and a strong community will remain crucial. The next chapter will explore the legislative aspects that have shaped the industry, both in state level and at national level, providing a deeper understanding of the regulatory challenges and opportunities that lie ahead.

## **Chapter 4. Legislating the Brew: Navigating the Regulatory Framework**

The last couple of chapters have detailed the history of beer in Mexico and Sonora, from its colonial origins to its contemporary manifestations in craft beer. As the analysis of this journey is revised, one crucial theme emerges: the significant influence of regulatory frameworks. This chapter presents an analysis of the most important regulations that affect the craft beer industry in Sonora, including specific state-level regulations that govern the operation and licensing of breweries. By being part of a federal country, the federal laws also deeply affect the development of breweries in Sonora. Two significant battles that craft brewers are still fighting at a federal level will be addressed: monopolistic practices by the transnational companies and the policy of Special Tax on Production and Services (IEPS).

Through this exploration, the aim is to shed light on how regulatory frameworks can either hinder or support the entrepreneurial ventures of craft brewers, examining how state and federal laws interact and their impact on the industry. Understanding these dynamics is crucial for advocating policies that foster growth and sustainability in the craft beer sector. This chapter aims to provide a comprehensive overview of the legal landscape, highlighting the challenges and opportunities that Sonoran craft brewers face.

### **4.1 Defining Craft : Analyzing the Need for Clear Definitions and its Implication**

The legal inclusion of the terms craft beer and craft brewery signified a crucial steppingstone for the craft beer industry in Sonora to become what it is today. As pointed earlier, most published research in the topic of Mexican craft beer found that, between many other struggles, the lack of official legal definition or a regulatory council played an important role. This creates a problem as it implicates that small producer such as craft brewers need to follow the same taxation rules and licensing guidelines even if their production circumstances could not differ more.

It is also noticeable that the lack of definition comes from the nature of the legal system. The licensing of Alcohol is not a matter of definition by the federal institutions, even if they do follow similar guidelines, but it is the competence of the institution on a state level to collect and expedite these permits. Therefore, it is the congress of each state that needs to approve their own alcohol law. This can give us a reason to why there is no national definition of the terms craft beer or craft brewery.

The changes to the “*Law Regulating the Operation and Functioning of Establishments Intended for the Manufacture, Bottling, Distribution, Storage, Transportation, Sale and Consumption of Beverages with Alcoholic Content in the State of Sonora*” approved and applied during the period of 2014-2015 had two key additions to the law: the differentiation of commercial beer and craft beer, and the definition of a craft brewery. In the next passages the final up to date version will be analyzed as it is the one available for consulting.

For the definition of beer and craft beer, these are the one corresponding in Sonora’s Law :

*“ Article 2.- For the purposes of this Law, the following definitions shall apply:*

*VIII. Beer: A fermented beverage made with barley grains or other germinated and fermented cereals, malt, starch, hops, yeast, and water, provided that its alcohol content is less than 6 degrees Gay Lussac; and*

*VIII Bis. Craft Beer: A fermented beverage made primarily with barley malt, hops, yeast, and potable water, without the use of genetically modified products or chemical additives that alter its composition and natural development during the fermentation process, with an alcohol content, at a temperature of fifteen degrees Celsius, greater than two percent by volume but not exceeding twelve percent by volume.”*<sup>68</sup>

This definition is very clear and delimitates well the definition of what a craft beer should be. Not only indicates precisely the ingredients that the beverage should include. It is gratifying the exclusion of transgenics, as this product is normally use in commercial beers, this also assures the quality of the product for the consumer. It also delimitates the maximum level of alcohol volume it should have, considering the health of the consumer. However, one thing that the definition does not specifies is the producer of the product. The reason behind why this omission is not harmful is that the licensing for production is not given by the definition of the product, but rather of the nature of the factory. In that regard, the definition of craft brewery was added in Article 10 of the same law on the following way:

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<sup>68</sup> “Ley que Regula la Operación y Funcionamiento de los Establecimientos Destinados a la Fabricación, Envasamiento, Distribución, Almacenamiento, Transportación, Venta y Consumo de Bebidas con Contenido Alcohólico en el Estado de Sonora.” Accessed June 2, 2024. [https://stjsonora.gob.mx/acceso\\_informacion/marco\\_normativo/LeyRegulaOperacionYFuncionamientoBebidasAlcoholicoEdoSonora.pdf](https://stjsonora.gob.mx/acceso_informacion/marco_normativo/LeyRegulaOperacionYFuncionamientoBebidasAlcoholicoEdoSonora.pdf).



*“I Bis 1.- Craft Brewery: This refers to an independent establishment where craft beer, of its own production, is produced, bottled, and stored for distribution and sale. It may include a boutique or tasting room, authorized under the applicable regulations.*

*License holders are not permitted to associate in any way with other producers of alcoholic beverages who do not have a Craft Brewery license. Associations between craft beer producers are only allowed for the purposes of protection, promotion, and fostering of the craft, and under no circumstances may they share expenses or profits among themselves.”<sup>69</sup>*

This definition does not only clarify those establishments that can be considered a craft brewery, but also delimitates in a way that the establishment can interact with other establishments, a step other states or even other countries have not made in their laws. This definition does two things exceptionally well. Firstly, it assures that in no measurement a craft brewery can sell shares or be associated with a commercial beer company. This ensures that the phenomenon of transnationals acquiring craft breweries to benefit from their differentiate and cheaper licensing while adding their beers to their portfolio. Second, it delimitates the way craft brewers can collaborate with one another, avoiding the merge and later monopolistic practices in the craft beer industry.

On March 21<sup>st</sup> 2019, representative Luis Mario Rivera Aguilar, presented a initiative to include in the law a definition for establishments selling primarily regional products. This included: craft beer boutique, tasting room for the exclusive sale of craft beer and carrier of typical regional product and craft beer made in Sonora. This to ensure a preferential and lower price for selling licensing and therefore incentivize the craft beer industry of the state. The initiative was seen with keen opinions in the congress and was turned to the Finance Committee for its approval. A few changes were made on the writing, but the committee accepted and implemented the changes. The definitions were included, and the cost of distribution (not production) licenses were diminished. The definitions included on the Article 10 of the current law are the following:

*“III Bis. Craft Beer Boutique: A commercial establishment specialized in the retail sale of craft beer made in Mexico, in sealed containers, along with merchandise related to its external consumption.*

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<sup>69</sup> “Ley que Regula la Operación”, Accessed June 2, 2024.

*This type of establishment may complement the sale of alcoholic beverages with the sale of food products such as dairy, sausages, and canned seafood. It may also include an adjacent area furnished with chairs and tables where customers can be served and enjoy alcoholic beverages accompanied by the consumption of food products, as presented, purchased within the establishment.*”<sup>70</sup>

***“IV Bis 1. Tasting Room for the Exclusive Sale of Craft Beer: A commercial establishment whose sole activity is the sale of craft beer made in Mexico for consumption, with or without food.***

*It may be equipped with tables and chairs, and other ancillary services to promote healthy entertainment, recreation, and leisure for customers, such as live or ambient music, as well as music and video playback devices, provided they operate at a moderate sound volume that does not disturb the neighborhood and comply with the provisions established by applicable laws. Establishments referred to in this section are not permitted to have a dance floor.*”<sup>71</sup>

***XIII Bis. Carrier of Typical Regional Product and Craft Beer Made in Sonora: The natural or legal person dedicated to the transportation of alcoholic beverages manufactured in the State of Sonora by producers holding a valid license for Typical Regional Product Manufacturing and Craft Beer Manufacturing as contemplated in this Law.***”<sup>72</sup>

This finalizes the legislative changes that the state of Sonora has approved for the Alcohol Law of the territory. The congress did a precise job at defining and exhausting efforts to ensure a protection of craft beer produced in the state, this was made thanks to the constant guidance of the craft brewers in the community. The lobbying of the craft brewers were the key for this astonishing accomplishment, one made out of dedication and collaboration. Thanks to the legitimization and protection the law gave, the craft beer industry in Sonora was boosted and now is recognized with prestige in a national and international level. Sonora is an example of how important and impactful a legal definition can be for the industry, and why more states should follow the same path.

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<sup>70</sup>“Ley que Regula la Operación”, Accessed June 2, 2024.

<sup>71</sup> “Ley que Regula la Operación”, Accessed June 2, 2024.

<sup>72</sup> “Ley que Regula la Operación”, Accessed June 2, 2024.

## 4.2 The Brewers Fight Back: The 2013 COFECE Ruling

Turning the attention to the national level, as it has been explained, by the end of the 20<sup>th</sup> century the beer market has been dominated by two companies. Entering the 21<sup>st</sup> century, and with a more established craft beer industry in the country, craft brewers started to denounce monopolistic practices by these companies that broke the rules of fair competition. After years of insisting, the matter was finally turned to the Federal Commission of Economic Competition (previously CFC and currently named COFECE) at the start of the 2010s.

A resolution of the investigation was finally achieved in the year 2013 on the document CFC-08-2013.<sup>73</sup> The resolution, which used Article 10 of the Competition Law as a base for the decisions, found that Cuahtemoc Moctezuma and Grupo Modelo ( the acquisitions by Heineken and AbInBev were not finalized when this investigation started) had exclusivity contracts with distribution centers that were anti-competitive as they were overly widespread throughout the whole country.

In the document, it is stated that these companies' exclusive contracts with grocery stores and restaurants must be limited to a maximum of 25% of their total points of sale. Additionally, all exclusivity contracts must be in writing, transparent, and have a limited duration. They must also include clear rules for termination. Without a written contract, there can be no exclusivity obligation. Modelo and Cuauhtémoc are required to publicize these conditions in national newspapers and directly to their clients, ensuring that retailers are fully informed.

It also included that all craft beers will have unrestricted access to restaurants, bars, and cantinas throughout the country. The exclusive contracts between Modelo and Cuauhtémoc and these establishments cannot limit the sale of craft beers produced by small-scale brewers. This measure aims to support independent craft brewers and enhance consumer choice.

The document also stipulated penalties for the Cuahtemoc and Grupo Modelo if they didn't adhere with the conditions on the resolution. The resolution was passed by a 4-1 vote by the Plenary Commission, with Commissioners Eduardo Pérez Motta, Rodrigo Morales Elcoro, Luis Alberto Ibarra Pardo, and Cristina Massa Sánchez voting in favor. Commissioner Miguel Flores Bernés dissented, arguing that the commitments do not

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<sup>73</sup> Federal Competition Commission. "CFC Establishes Conditions for Brewing Companies to Open the Retail Beer Market." Press Release, July 11, 2013.

adequately address the suspension or correction of the reported practices and thus do not fully restore or protect the competitive process.<sup>74</sup>

This was a big win in the battle of the craft brewers to end the dominance of both companies in the Mexican Beer Market. However, even years after the resolution, there is a discussion if the companies complied completely with the measurements stipulated. However, the federal commission closed the investigation and the enforcement of the possible penalties<sup>75</sup>. However, this is not the only battle that craft brewers are trying to win in the pursuit of a more fair and competitive market.

### **4.3 Taxation: A Dive into the Special Tax on Production and Services (IEPS)**

The Special Tax on Production and Services (IEPS) in Mexico is a significant fiscal instrument with substantial implications for various sectors, particularly the alcoholic beverage industry. The IEPS was introduced on December 30, 1980, as part of a broader tax reform aimed at increasing government revenues and regulating the consumption of goods considered harmful or luxurious.<sup>76</sup> It is a Pigouvian tax. This type of tax, based on Arthur Pigou's ideas from his 1920 work "The Economics of Welfare," suggests taxing negative externalities to offset their societal costs.<sup>77</sup> The tax's role is not only as a revenue-generating mechanism but also as a tool for public policy.

For alcoholic beverages, the tax is ad valorem, meaning it is based on the value of the product. This system imposes a percentage rate on the sale price of the beverage, ensuring that higher-priced items contribute more to taxes but mainly that it will discourage the consumer from purchasing it and hopefully help in the fight against alcoholism in the country.

The IEPS has had a profound impact on the beer industry in Mexico, particularly for small and craft brewers. Larger companies, with their economies of scale, can more easily absorb the costs associated with the tax. In contrast, smaller producers often struggle with the financial burden, which can stifle innovation and limit their ability to compete in the market.

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<sup>74</sup> Federal Competition Commission , 2

<sup>75</sup> Redacción | La Prensa, "COFECE Da Carpetazo a Investigación Por Presuntos Monopolios de Empresas Cerveceras," La Prensa | Noticias policíacas, locales, nacionales, accessed may 24, 2024, <https://www.la-prensa.com.mx/finanzas/cofece-da-carpetazo-a-investigacion-por-presuntos-monopolios-de-empresas-cerveceras-6409902.html>.

<sup>76</sup> Gobierno de México, "DOF - Diario Oficial de La Federación," Dof.gob.mx, n.d., [https://dof.gob.mx/nota\\_detalle.php?codigo=4862905&fecha=30/12/1980](https://dof.gob.mx/nota_detalle.php?codigo=4862905&fecha=30/12/1980).

<sup>77</sup> Rodríguez Quinto, Anel, and Luis Antonio Foncerrada Pascal. "The Mexican Tax on Alcoholic Beverages: Reasons to Change It." *Economía: Teoría Y Práctica* 57, no. 57 (December 1, 2022): 193–213. <https://doi.org/10.24275/etypuam/ne/572022/rodriguez>

Ad-Quantum taxation is preferred for alcoholic beverages over Ad-Valorem taxation. The World Health Organization (WHO) and the International Monetary Fund (IMF) endorse Ad-Quantum systems for their effectiveness in addressing alcohol-related harms and simplifying tax determination processes. The Organization for Economic Cooperation and Development (OECD) notes that most of its member countries use Ad-Quantum or a combination of both systems, Mexico is one of just four countries in said group that still follows a strictly Ad Valorem system. In the European Union, a volumetric tax (Ad-Quantum) is applied uniformly to all alcoholic beverages. In Mexico, alcoholic beverages are taxed under the Special Tax on Production and Services (IEPS) and the Value Added Tax (VAT), both using Ad-Valorem systems. The IEPS rate depends on the alcohol content, and the VAT is calculated on the product's value plus the IEPS amount.<sup>78</sup>

Currently, in Mexico, for beverages with an alcohol content up to 14 degrees Gay-Lussac (° G.L.), the IEPS rate is 26.5%. Beverages with an alcohol content between 14° and 20° G.L. are taxed at a rate of 30.0%. The highest rate, 53.0%, applies to beverages with an alcohol content exceeding 20° G.L. These tiered tax rates reflect the increasing societal costs associated with higher alcohol content, aiming to mitigate the negative externalities of alcohol consumption.<sup>79</sup> The current taxation scheme penalizes alcohol consumption, but favors the selling of cheaper alcoholic beverages with low quality.

Craft brewers, in particular, face challenges due to the high tax rates. The ad valorem system, while ensuring higher contributions from more expensive products, does not differentiate between large-scale producers and small, artisanal brewers. This lack of differentiation places a disproportionate burden on smaller producers, who may have higher production costs and lower profit margins compared to their larger counterparts. Over the years, several proposals have aimed to reform the IEPS, making it more equitable and supportive of small producers. These proposals address the disproportionate impact of the tax on craft brewers and promote a more competitive market environment.

On October 4<sup>th</sup> 2018, Senators Gina Andrea Cruz Blackledge and Jorge Carlos Ramírez Marín, presented a initiative to the Law that dictates the IEPS. Their proposal was to, instead of taxing a percentage of the final value, producers will pay a fixed fee of \$4.25

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<sup>78</sup> Rodriguez Quinto, 196-198

<sup>79</sup> Rodriguez Quinto, 198

pesos per liter. The initiative had the resolution of turning it to the house of representatives, but no further action was taken.<sup>80</sup>

A note by the political party Morena in 2019 announced that one of its senators was looking to legislate a change in said tax. Senator Gerardo Novelo Osuna will try to legislate adjustments to IEPS with the objective of strengthen craft breweries. The legislator indicated that during the session period starting on September 1, legislative efforts that have been debated for months could be consolidated to reduce the IEPS from 25 to 5 percent for those who produce craft beer. This however was not accepted by the corresponding authorities.<sup>81</sup> The same representative tried to present an initiative in September 2021 where the tax was modernized, charging alcoholic beverages and beer the fixed quantity of \$1.40 pesos per Gay-Lussac degree per liter.<sup>82</sup> Also in September of 2021, Senator Gina Andrea Cruz, proposed a fixed quota of \$155<sup>83</sup> per liter of ethyl alcohol. As it happened before, the finance committee did not accept either proposal. Lastly, the representatives Gina Geraldina Campuzano Gonzalez proposed this year (2024) for a fixed fee of \$140 pesos per liter of alcohol content in the beverage.<sup>84</sup>

While these proposals have yet to gain traction, they highlight ongoing efforts to refine the tax system in a manner that balances revenue generation with industry support and public health objectives. The IEPS's intricate dynamics and its profound effects on the alcoholic beverage sector underscore the complexity of tax policy as a tool for societal benefit. As we move towards the conclusion of this chapter, it is clear that the future of the

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<sup>80</sup> Blackledge, Gina Andrea et al., “Iniciativa con Proyecto de Decreto que Adiciona una Fracción A) al Artículo 2º y Reforma Diversas Disposiciones de la Ley del Impuesto Especial sobre Producción y Servicios” 2018, [http://sil.gobernacion.gob.mx/Archivos/Documentos/2018/10/asun\\_3756354\\_20181016\\_1539711408.pdf](http://sil.gobernacion.gob.mx/Archivos/Documentos/2018/10/asun_3756354_20181016_1539711408.pdf).

<sup>81</sup> Morena Senadores, “Legisla Senador Gerardo Novelo a Favor de Los Cerveceros Artesanales,” Grupo Parlamentario Morena - Senado de la República, August 26, 2019, <https://morena.senado.gob.mx/legisla-senador-gerardo-novelo-a-favor-de-los-cerveceros-artesanales/>.

<sup>82</sup> Senado de la Republica, “Gerardo Novelo Osuna,” 2021, [https://infosen.senado.gob.mx/sgsp/gaceta/65/1/2021-09-09-1/assets/documentos/Ini\\_Morena\\_Sen\\_Novelo\\_Bebidas\\_Alcoholicas.pdf](https://infosen.senado.gob.mx/sgsp/gaceta/65/1/2021-09-09-1/assets/documentos/Ini_Morena_Sen_Novelo_Bebidas_Alcoholicas.pdf).

<sup>83</sup> Blackledge, Gina Andrea. “Iniciativa con Proyecto de Decreto por el que se Reforman Diversas Disposiciones de la Ley del Impuesto Especial Producción y Servicios, en Materia de Bebidas Alcohólicas y Vino de Mesa a Cuota Fija por Litro de Alcohol (AD-Quantum),” 2021. [https://infosen.senado.gob.mx/sgsp/gaceta/65/1/2021-10-05-1/assets/documentos/Inic\\_PAN\\_Sen\\_Blackledge\\_IEPS.pdf](https://infosen.senado.gob.mx/sgsp/gaceta/65/1/2021-10-05-1/assets/documentos/Inic_PAN_Sen_Blackledge_IEPS.pdf).

<sup>84</sup> Campuzano González, Gina Geraldina “Iniciativa que Reforma, Adiciona y Deroga Diversas Disposiciones de la Ley del Impuestos Especial Sobre Producción y Servicios, en Materia de Incremento al IEPS por Bebidas Alcohólicas, Suscrita por la Diputada Gina Geraldina Campuzano González y Legisladores Integrantes del Grupo Parlamentario del PAN,” 2024, [http://sil.gobernacion.gob.mx/Archivos/Documentos/2024/02/asun\\_4702562\\_20240214\\_1707869774.pdf](http://sil.gobernacion.gob.mx/Archivos/Documentos/2024/02/asun_4702562_20240214_1707869774.pdf).

IEPS will likely involve continued debate and potential reforms to address its current limitations and enhance its efficacy as both a fiscal and public policy instrument.

#### **4.4 Conclusion**

The journey through the legislative definitions provided in the Sonoran alcohol laws reveals the critical need for clear, precise terminology. The establishment of distinct categories for commercial and craft beer, along with the formal recognition of craft breweries, represents an essential advancement for the industry. These definitions not only help in safeguarding the identity and quality of craft beer but also ensure that small-scale producers are recognized and protected under the law. The involvement of craft brewers in lobbying for these changes highlights the importance of stakeholder engagement in the legislative process, demonstrating how concerted efforts can lead to significant regulatory reforms that benefit the industry as a whole.

On the federal level, the battle against monopolistic practices spearheaded by transnational companies like Grupo Modelo and Cuauhtémoc Moctezuma has been a critical focal point. The 2013 COFECE ruling marked a significant victory for craft brewers, setting limitations on exclusive contracts that stifled competition and granting craft beers unrestricted access to various sales venues. However, ongoing concerns about compliance and enforcement underscore the challenges in maintaining a fair competitive landscape.

The analysis of the Special Tax (IEPS) showed a taxation system in desperate need for a modernization. The ad valorem system currently in place imposes a significant financial burden on craft brewers, disproportionately affecting small and artisanal producers who lack the economies of scale enjoyed by larger companies. This has led to numerous proposals aimed at reforming the IEPS to create a more equitable tax structure, but thus far they have been unsuccessful. Interestingly, one could argue that craft beer, due to its higher cost, is not typically consumed by individuals with alcohol dependency, who tend to purchase cheaper, mass-produced beverages. This suggests that the logic behind Pigouvian taxes, as IEPS should, lead to relatively higher taxes on cheap, mass-produced beer rather than craft beer.

Conveniently, the only favorable changes in legislation towards craft beer have not been done in the national level, only in the individual states. One could imagine that this phenomenon could be recurrent due to pressures that the transnational beer companies put on the national government. The craft beer industry still has a short portion of the beer customer

base, so a change in the state law (taking into account that not all states have done this step) does not mark a threat for the big companies. However, a change in federal taxation affect directly (and negatively) the revenue of these companies and evens a little the playfield for the competitors, in this case the craft brewers. A monopolistic domain is hard to surrender, specially in the top exporter country in the field, and the decisions of the finance committee to not let go of an outdated ad valorem system prove that right.

As we move towards the final conclusions of this research, it is evident that the regulatory framework for craft beer in Sonora and Mexico is at a crossroads. The interplay of state and federal laws, the ongoing battle against monopolistic practices, and the complexities of the taxation system all underscore the need for continuous evaluation and reform. Craft brewers, policymakers, and industry stakeholders must remain vigilant and proactive in advocating for a regulatory environment that supports innovation, competition, and sustainability. The future of the craft beer industry in Sonora will depend on the ability to navigate these regulatory challenges and seize the opportunities presented by a dynamic and evolving legal landscape.



## **Chapter 5. Crafting a Future: Conclusions and Recommendations**

The culmination of this research on the legislative impacts on the craft beer industry in Sonora, Mexico, brings us to a multifaceted understanding of how regulatory frameworks shape this dynamic sector. By addressing each research question and sub-question, we can draw comprehensive conclusions from the preceding chapters, emphasizing the interplay between historical, entrepreneurial, and legislative perspectives.

Taxation and trade regulations have profoundly influenced the development and dynamics of the craft beer industry in Sonora. As detailed in Chapter 4, the Special Tax on Production and Services (IEPS) represents a significant fiscal challenge for small and craft breweries. This tax, based on the value of the product (*ad valorem*), disproportionately affects smaller producers who struggle with higher per-unit costs compared to their larger counterparts. Craft breweries, which typically produce in smaller volumes and at higher costs, find it harder to absorb these taxes, which impacts their financial stability and ability to innovate.

Moreover, the regulatory landscape, including the lack of clear legal definitions for craft beer and craft breweries, adds another layer of complexity. Without specific legislation differentiating craft from commercial beer, small producers must navigate the same stringent regulations and licensing requirements, which are often designed for large-scale operations. This creates a significant barrier to entry and affects the growth of the craft beer sector.

The financial stability and development of craft breweries in Sonora are significantly impacted by tax policies at both state and federal levels. As explored in Chapter 4, the *ad valorem* system under the IEPS imposes a considerable burden on craft breweries. Given their smaller production scale and higher costs, these breweries face a heavier financial strain compared to larger commercial producers. This disparity is exacerbated by the high cost of essential brewing ingredients, which are often imported due to limited local availability.

At the state level, the absence of a differentiated tax regime for craft breweries means that these smaller producers are subject to the same fiscal pressures as their industrial counterparts. The lack of fiscal incentives or reduced tax rates for craft breweries hinders their competitiveness and financial viability, making it challenging for them to sustain operations and invest in growth.

Tax and trade legislation differentially impact craft breweries and larger established beer companies by creating an uneven playing field. Larger companies, with their economies of scale and extensive resources, can more easily absorb the costs associated with the IEPS

and other regulatory requirements such as licensing. They benefit from lower per-unit costs and have greater negotiating power with suppliers, which allows them to maintain profitability even with high tax rates. In contrast, craft breweries operate with thinner margins and face higher production costs, making the same tax rates significantly more burdensome. The competitive advantage held by larger companies is further amplified by their ability to engage in monopolistic practices, such as exclusive contracts with distributors and retailers, which limit market access for smaller producers. This creates a challenging environment for craft breweries, which must not only compete on product quality and innovation but also navigate these regulatory and fiscal hurdles.

Past changes in tax and trade laws have played a crucial role in shaping the craft beer industry in Sonora. The introduction of the IEPS in 1980, as part of a broader tax reform, was aimed at regulating the consumption of goods considered harmful or luxurious, including alcoholic beverages. This tax, initially designed to curb excessive alcohol consumption, has had unintended consequences for the craft beer sector.

The 2013 ruling by the Federal Commission of Economic Competition (COFECE) against monopolistic practices by major beer companies marked a significant milestone for craft brewers. This ruling limited the ability of large companies to engage in exclusive contracts with distributors and retailers, thereby opening market access for craft breweries. While this legal victory was a step towards leveling the playing field, ongoing challenges with enforcement and compliance have limited its full impact.

In the state level, the victory of defining "craft beer" in Sonora's law marked an essential moment for the local industry, reflecting the culmination of years of hard work and advocacy by dedicated brewers. As detailed in Chapters 3 and 4, this legal recognition was not easily achieved. The journey began with early pioneers like Cervecería Ocotillo and BuquiBichi, who, along with others, faced significant regulatory hurdles that did not distinguish between small craft operations and large commercial breweries. These challenges included navigating the same complex and costly licensing requirements that were designed for much larger entities, which often proved prohibitive for smaller producers.

The craft beer community in Sonora, recognizing the need for clear legal definitions and supportive policies, banded together to lobby for change. This effort involved extensive collaboration among local brewers, who shared resources and knowledge to build a cohesive front. They also sought guidance from successful craft beer movements in other regions, such as Baja California, and forged alliances with other local industries, notably the Bacanora

producers, to bolster their case. Key figures in this movement engaged in numerous meetings with government officials and regulatory bodies. They emphasized the economic, cultural, and social benefits of a thriving craft beer industry. Public events, beer festivals, and media campaigns were organized to raise awareness and generate public support, showcasing the diversity and quality of craft beer produced in Sonora.

Their efforts culminated in the successful inclusion of "craft beer" and "craft brewery" definitions in the state's alcohol law in 2014-2015. This milestone provided the necessary legal framework to differentiate small craft operations from large commercial producers, enabling craft breweries to obtain appropriate licenses and operate more feasibly within the law. It also ensured that craft breweries could maintain their independence from large beer companies, preserving the integrity and authenticity of their products.

This victory was not just a regulatory change but a testament to the motivations driving Sonora's craft brewers. As explored in Chapter 3, these motivations are deeply rooted in personal passion for brewing, a desire to innovate, and a commitment to celebrating and preserving Sonoran cultural heritage. Craft brewers see their work as a way to connect with their community, create unique products, and offer an alternative to mass-produced beers. Their dedication to quality, tradition, and local identity has been the cornerstone of their success and the driving force behind their continued advocacy for a supportive regulatory environment. The market conditions created by taxation and trade legislation have indeed fostered a culture of cooptation among craft breweries in Sonora.

As detailed in Chapter 3, the early days of the craft beer movement were characterized by significant collaboration among brewers. Facing common regulatory and financial challenges, these brewers banded together to advocate for legal recognition and support. This cooperative spirit was essential in navigating the complex regulatory landscape and establishing the foundation for the craft beer industry in the state. However, as the industry has grown and individual breweries have become more established, the dynamics of cooptation have evolved. While collaboration remains a cornerstone of the craft beer community, competition has also intensified as breweries vie for market share and consumer loyalty. This balance of cooperation and competition, or "cooptation," continues to shape the industry's development, fostering both collective growth and individual success. Since then, we can observe a different relationship of cooptation; while new brewers might find an obstacle in licensing and establish their companies, they don't pay the fiscal burden as most of them are not commercially constituted and are part of the informal economy. By the other

hand, it's easier for established craft breweries to center their attention on the problems that affect them the most and that is taxation. In that way, legally constituted craft breweries of Sonora will likely join the national effort to change the conditions of the taxing system. Therefore, we can conclude that coopetition is a phenomenon that appears more organically between players that share struggles and are in even conditions.

As a final key finding, I want to shed some light on an analysis made in Chapter 4. One of the possible reasons why tax reforms have not been achieved so far is the direct affectation that transnational companies will suffer. Such dominant players will create pressure on the government and the production of a leading exporter cannot be damaged, not when these companies have a large presence in diverse states and an agro-industrial chain is dependent on it. Therefore, it is good to consider that the efforts for changes that benefit the craft beer industry should be focused at a state level, when lobbying should be easier. While the taxation laws follow a national law, each state is responsible for its collection, therefore some efforts could be fructuous in that instance. The challenges initially proposed by the laws in the state of Sonora were not ones created by the pressures of the larger companies, but rather from the lack of knowledge of the existence and possibilities of the craft beer movement. Once some politicians gained interest in the industry, the changes in legislation followed. This phenomenon could be replicated for further boosts to the industry, and hopefully the resilient case of the Sonora can show the way for other territories.

While this thesis provides a comprehensive exploration of the legislative impacts on the craft beer industry in Sonora, it is not without its limitations. One of the primary limitations is the scope of geographic focus. This research is centered on Sonora, a region with unique cultural, economic, and climatic conditions. As such, the findings may not be fully generalizable to other regions in Mexico or to other countries with different regulatory environments and market dynamics. Future studies should consider comparative analyses involving multiple regions to identify broader patterns and insights.

Another limitation is the reliance on qualitative data obtained through interviews and case studies. While these methods provide rich, detailed insights into the experiences and perspectives of craft brewers, they also introduce subjectivity and potential bias. The small sample size, limited to a few prominent breweries and key stakeholders, may not capture the full diversity of the industry. Future research could benefit from larger, more representative samples and the incorporation of quantitative methods, such as surveys or economic modeling, to provide a more comprehensive analysis. The limited quantitative data that,

understandably, is hard to obtain in a nascent industry with a lot of participants remaining in the informal sector made such an approach not feasible for this research but is the hope of this author that such circumstances will change in the future.

The evolving nature of the regulatory landscape presents another challenge. Legislative and policy changes are ongoing, and the full impact of recent reforms, such as the 2013 COFECE ruling and proposed adjustments to the IEPS, may not yet be fully realized or understood. Continuous monitoring and longitudinal studies are necessary to assess the long-term effects of these changes on the craft beer industry. Such studies would provide valuable insights into the effectiveness of current policies and inform future legislative efforts, although the data on the matter is limited now.

Additionally, this research primarily focuses on the regulatory aspects of the craft beer industry. While these are critical factors, other dimensions, such as environmental sustainability and social impact, also merit attention. Future research should explore how craft breweries address environmental concerns, such as water usage and waste management, and their contributions to social and community development. Understanding these aspects will provide a more holistic view of the industry's role in regional development.

Finally, the interplay between craft beer and tourism is an emerging area of interest that warrants further investigation. Craft breweries often serve as cultural and tourist attractions, contributing to local economies and promoting regional identities. Future studies could examine the potential of craft beer tourism and its synergistic effects with other sectors, such as hospitality and agriculture.

In conclusion, while this thesis sheds light on significant aspects of the craft beer industry in Sonora, there is ample opportunity for further research, especially on less explored regional markets. By addressing these limitations and expanding the scope of inquiry, future studies can build on this foundation, offering deeper insights and fostering a more robust understanding of how legislative frameworks can support and sustain vibrant, innovative local industries. This continued exploration holds the promise of not only advancing academic knowledge but also shaping policies that nurture the growth and resilience of craft beer communities around the world.

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