



SPIRITS: A EUROPEAN POWER HOUSE FOR TRADE





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Against an international backdrop of great change and uncertainty, export sales from the European spirits sector have again exceeded €10bn in 2013. This 'steady-as-she-goes' result represents an excellent performance by the sector, given the challenging situation in many key export markets. These exports have almost doubled within the last decade. The whiskies category remains the strongest export performer, and the US remains the largest market for European spirits drinks.

With limited imports of spirits into Europe, these sales represent a net gain in European wealth of almost €9bn. Sales of spirits drinks represent, once again, the most valuable agri-food exports out of the EU.

This result positions the sector well in those markets open to international trade, where increasing consumer demand for premium European products drives sales, jobs and growth. That said, much remains to be achieved in opening access to new markets, and ensuring previously agreed trading rights are upheld and honoured.

spiritsEUROPE
External Trade
MANIFESTO
for the
European Union

- **CONCLUDE** bilateral trade negotiations with main trading partners
- **REINFORCE** the Union's Market Access Strategy through increased resources in the Market Access Unit, Dispute Settlement Unit and thematic / geographical units
- **ENFORCE** protection of intellectual property rights
- **DEEPEN** the regulatory dialogue with trading partners
- **REAFFIRM** the role of the World Trade Organisation in securing free trade
- **PROMOTE** evidence-based policy: trade liberalisation does not correlate with alcohol misuse

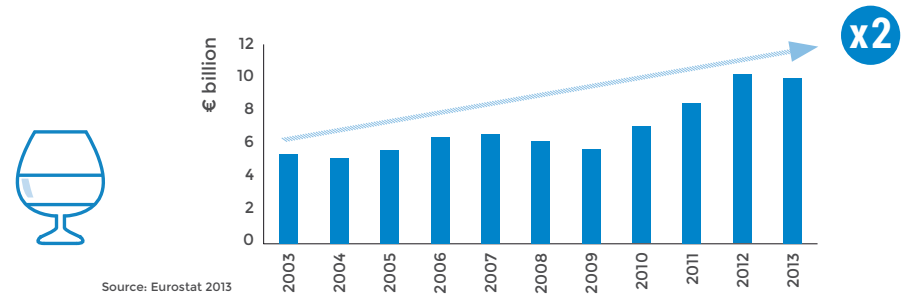
FACTS AND FIGURES

EXCELLENT PERFORMANCE FOR
EU SPIRITS EXPORTS IN 2013

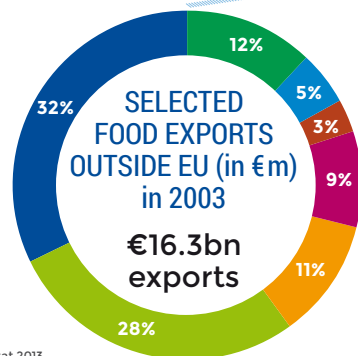
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TOTAL SPIRITS EXPORTS TO NON-EU MARKETS

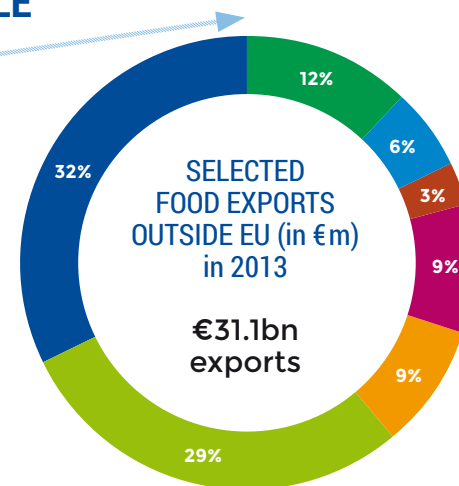


SPIRIT DRINKS REMAIN THE EU'S MOST VALUABLE
AGRI FOOD EXPORT

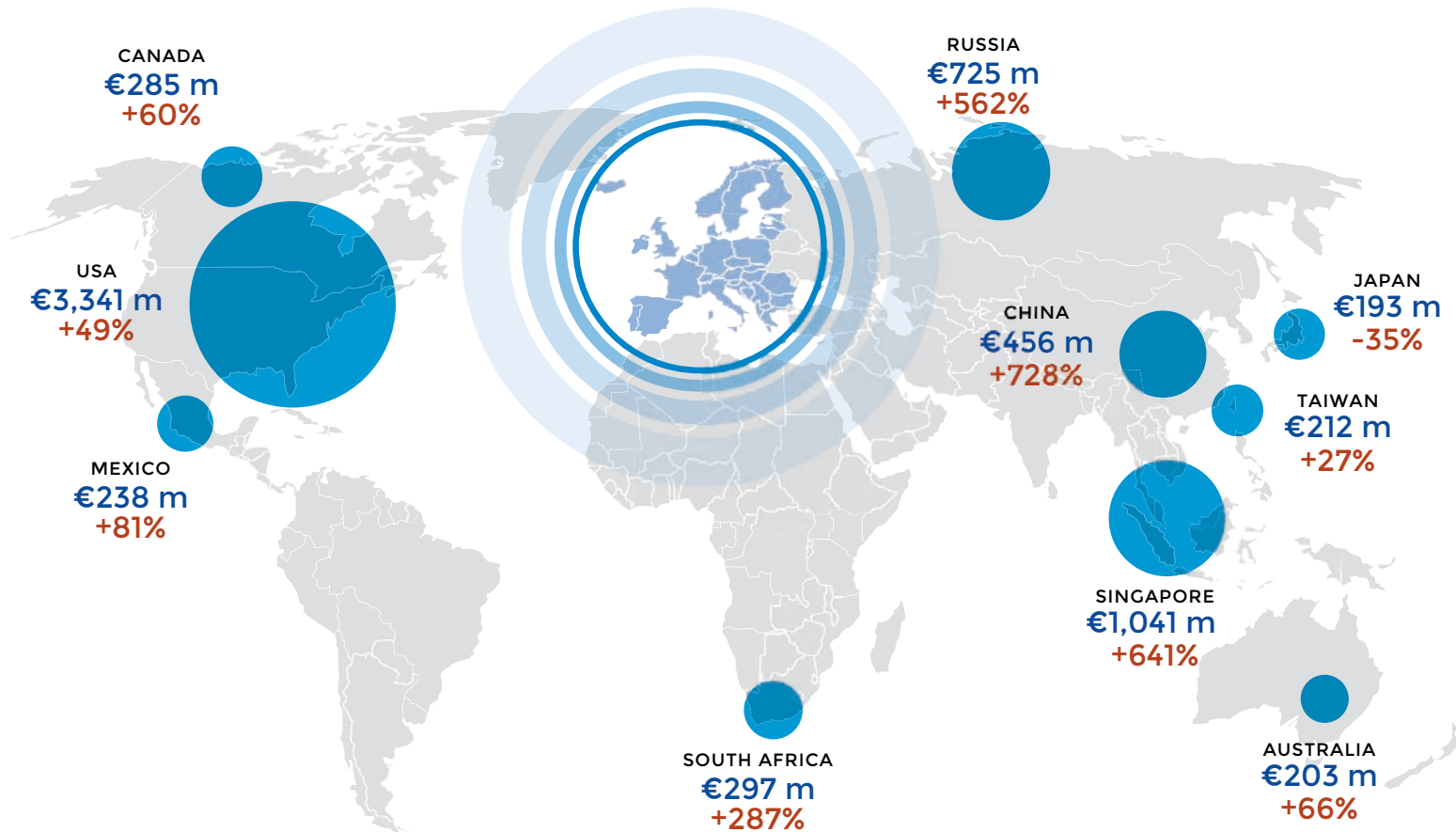


Source: Eurostat 2013

- CHEESE
- OLIVE OIL
- PASTA
- PASTRIES OR BISCUITS
- MALTED BEER
- WINES
- SPIRITS



TOP TEN EXPORT MARKETS



■ OVERALL EXPORT SALES IN 2013
■ PERCENTAGE INCREASE BETWEEN 2003 & 2013

Source: Eurostat 2013

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“2/3 of spirit exports are built on Geographical Indications”

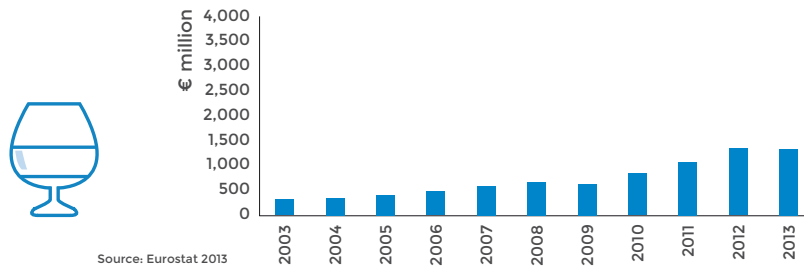
The US: driving export growth

EU SPIRITS EXPORTS TO USA



Southeast Asia: A 300% increase over 10 years

EU SPIRITS EXPORTS TO SOUTHEAST ASIA COUNTRIES



The US is the first export market for European spirits, witnessing consecutive increases over five years. The other **NAFTA countries** – Canada and Mexico – are also performing well. Canada is already the 5th largest market for European spirit drinks, and the Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada – signed off in 2013 – will further open the opportunity to increase our sales across the Atlantic.

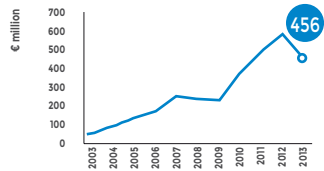


Daniel Redondo, CEO Licor Beirao: “About 1/3 of the turnover of my family-owned company is in exports to more than 70 countries around the world. This is why any improvement in market access achieved by public authorities is key because as an SME, we do not have the means to defend our issues alone.”

The continuous rise in exports (+300%) to the **Southeast Asia region** over the last 10 years is explained by a growing demand in most of the markets of that region for premium spirits beverages, mainly serviced by the logistic hub based in Singapore.

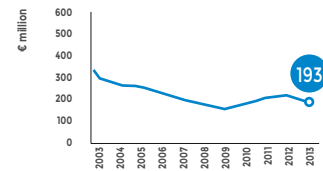
The Far East: Promising but Challenging

China



Source: Eurostat 2013

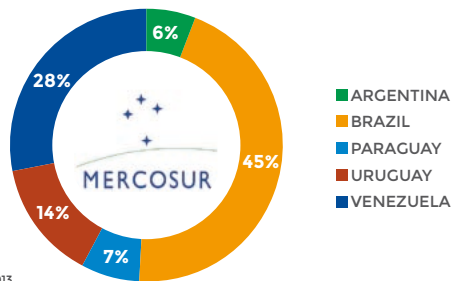
Japan



Source: Eurostat 2013

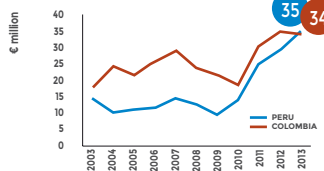
Latin America: Brazil is the prize

EU SPIRITS EXPORTS TO THE MERCOSUR – 2013



Source: Eurostat 2013

Peru and Colombia



Source: Eurostat 2013

Last year, exports to **China** decreased, largely due to the Government decision to restrict gift-giving by officials. However, with more than 700% growth over the past decade, China remains our 4th largest market. Until 2013, exports had risen sharply especially after WTO accession in 2001, which brought a significant reduction of tariffs and better market access.

EU spirits exports to **Japan** and **South Korea** have experienced a decline for the last decade with a negative growth of respectively -35% in Japan and -42% in South Korea. Nevertheless, Japan remains a top export market for EU spirits. The prospect for a trade deal between the EU and Japan could boost EU exports in the future.

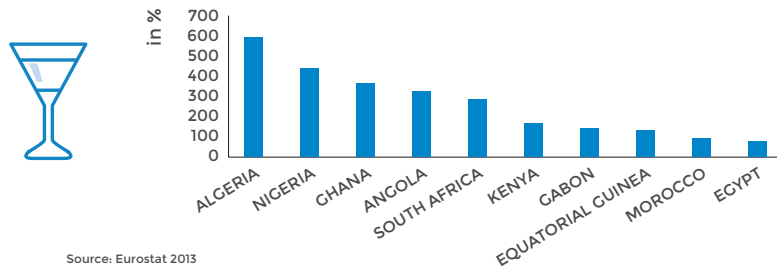


Although exports to the **MERCOSUR** region decreased by 14% between 2012 and 2013, the overall trend is positive with an increase of more than 80% over the last decade. **Brazil** shows a steady increase (with an exception in 2012) while **Venezuela** remains hard to predict with a widely fluctuating market over the last 10 years. EU exporters continue to face a challenging economic and political environment, with a range of trade barriers impeding market access and preventing exports reaching their full potential.

With the EU-**Colombia** and EU-**Peru** FTAs in place for less than a year, we expect to gain significant benefits on both side of the Atlantic – both for our European producers and for our Colombian and Peruvian customers.

Africa: The new Asia?

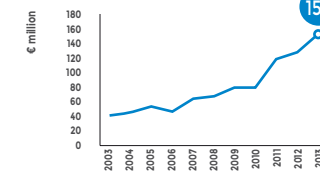
GROWTH IN THE TOP TEN AFRICAN MARKETS 2003-2013



Source: Eurostat 2013

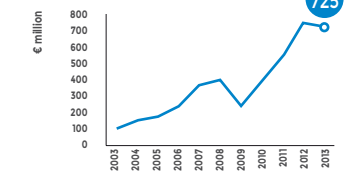
Neighbouring countries: unpredictable markets

Turkey



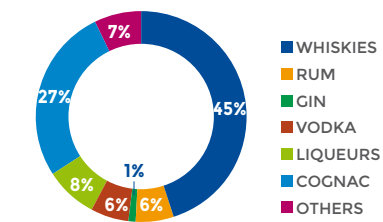
Source: Eurostat 2013

Russia



Source: Eurostat 2013

SPIRITS CATEGORIES EXPORTED TO RUSSIA – 2013



Source: Eurostat 2013

With nearly €300m of export value in 2013, South Africa is by far our largest export market in **Africa**. However, the continent as a whole has huge potential as evidenced by the considerable growth our top ten African export countries have experienced over the last decade.

Thanks to the adoption of an action plan for the removal of tax discrimination and the abolition of import certificates three years ago, exports to **Turkey** have made good progress. However, market access for imported spirits remains complicated and the future outlook is unsettled.

Despite the economic GDP growth slowdown in 2013 (1.4% compared to 3.4% in 2012), **Russia** remains our second largest market. EU imported spirits have performed well over the past years despite a complex and unpredictable regulatory situation. Local vodka dominates (82%), with imported spirits accounting for no more than 6% of consumption volume. Whiskies and cognacs dominate exports to Russia.

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Ivan Menezes, CEO Diageo:

“Exports are critical to the success of the European spirits industry. The continued growth of our sector depends on ensuring a level playing field worldwide. We need the European Commission to continue to focus on increasing access globally, and in particular in the emerging markets of India, Southeast Asia, Africa and Latin America.”

THE TRADE AGENDA IN THE

CHALLENGES FACING THE INDUSTRY

High import tariffs

While most duties on spirit drinks among developed nations are liberalised or relatively low, some countries continue to apply very high duties on imported spirits drinks. Tariffs imposed on imported spirits can be either levied on a “specific” (X amount per unit of alcohol) or “ad valorem” (% of the price) basis. The latter has a greater impact on imports of EU quality spirits.

- ▶ **INDIA** is the 3rd largest spirits market in the world (**170 million cases**) and growing at the fastest rate amongst emerging economies. The potential for exports of EU spirits is great. Unfortunately, with a tariff of 150% on all our products, EU imported spirits still only represent a tiny portion (less than 1%) of this dynamic market. The exceptionally high tariff is by far the greatest impediment to market access facing our industry.

Discriminatory taxes

Tax policy in some markets discriminates against European spirits by significantly raising their retail prices relative to domestically-produced spirits. Many pretexts are put forward, but in reality, it boils down to protectionism.

When taxes are set at excessive levels, consumers tend to shift demand to no tax or low tax categories of alcohol beverages or to illicit alcohol, synonymous with additional enforcement costs and health risks.

European spirits frequently confront national excise tax systems that favour domestically-produced spirits in

COMING YEARS

contravention of GATT Article III. The WTO dispute settlement body has reviewed four excise tax systems for spirits (Japan, Korea, Chile and the Philippines) and found that each of the excise regimes applied a lower tax to domestically produced spirits than to imported spirits, thereby affording protection to the domestic industry contrary to GATT rules.

- ▶ **THE PHILIPPINES** is an exemplary case. In 2011, the conclusion of the WTO Panel confirmed that the Philippines had maintained a discriminatory excise tax regime on distilled spirits that favoured local production for some years, and that this taxation regime should be ended promptly. Conversely, **THAILAND** shows a steep decline due to the introduction of discriminatory tax treatment for imported spirits.

Barriers linked to the distribution of products

When exporting our products worldwide, EU spirit drinks operators face a number of restrictions on services associated with the marketing of distilled spirits, including restrictions on firms engaged in importation, distribution or retailing, and discriminatory limitations on advertising of imported spirits. There are examples across the world where the conditions and systems put in place to obtain trading licenses have a damaging and discriminatory effects on foreign producers. Import licensing should be simple, transparent and predictable so as not to become an obstacle to trade.

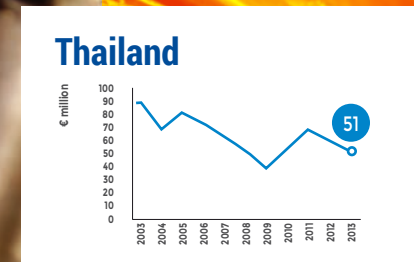
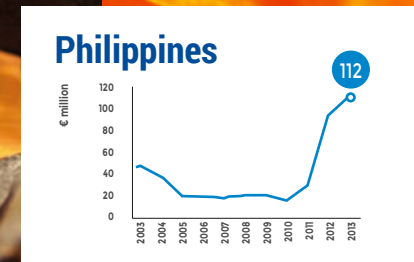
Insufficient protection of intellectual property

European companies have made significant investments in building brands and categories, creating strong international reputations based on unique qualities and characteristics. Unfortunately, because of their success, many European spirits are the object of imitations and knock-offs that attempt to capitalise on the reputations built over time, and that compete unfairly with legitimate products.

The exact scale of the problem is always difficult to evaluate, given its clandestine, criminal nature, but in some markets we estimate that illegal alcohol can account for up to 50% of sales. The consequences:

- A growing loss of government & corporate revenues.
- Consumer deception and damage to brand reputation.
- Public health risks, as many such products are unfit for human consumption.

- ▶ In the **LATAM region** (Colombia, Ecuador, El Salvador, Honduras, Panama, Peru), the illegal market represents on average 21% of the total alcoholic market. Colombia, Ecuador and Peru account for more than 94% of the total illegal market.



Source: Eurostat 2013

Source: Eurostat 2013

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**Myriam Hendrickx, Algemeen
Directeur, Distilleerderij Rutte & Zn:**

“Rutte Distillery has been distilling jenever and liqueurs since 1872. Rutte has a long and rich history, and over the years the recipes have been handed down faithfully from one generation to the next, to become the custodian of old recipes and traditional craftsmanship.”

Complex custom procedures

When exporting to third countries, spirits exporters often face complex and lengthy customs procedures, excessive certification and documentation requirements, high levels of fees and charges and poor regulatory transparency. Non transparent and complex customs procedures increase the transaction costs for doing business internationally. In some markets, valuation procedures are not followed according to the WTO Customs Valuation Agreement, leading to impose undue additional duties and taxes. Exporting companies should benefit from the transparency and predictability provided in the WTO agreement.

Discriminatory technical legislation

Divergence of standards can, in some cases, be a bigger impediment to market access than tariffs.

Typical concerns regard product definitions and technical requirements. While countries are free to determine their internal regulations, in some instances, rules prevent or limit the import of products which may be sold perfectly legally in the European Union and elsewhere.

Excessive labelling schemes are often an impediment to trade, most notably for SMEs. Concerns related to labelling include questionable lists of information to be provided, and overly prescriptive requirements on the placement and size of the label.

- ▶ For many years, EU importers have faced continuous difficulties in entering the **RUSSIAN** market, largely due to the introduction of a number of burdensome legislative requirements initiatives, unrealistic deadlines for implementation of changing procedures and delays in clarifying the practical and legal implementation of new requirements.

Spurious use of health arguments

While the international trading rules helps to prevent the imposition of discriminatory measures on imports, there is concern on the use of other arguments to justify indirect discrimination against imports. Increasingly, some countries attempt to discriminate against imported spirits by citing health measures.

However, to the extent that alcohol production and/or consumption are frequently allowed locally, there is no credible health or religious justification in denying equal market access to EU spirits vis-à-vis domestic competitors.



SEVEN PROPOSALS TO PROTECT EUROPEAN JOBS, FIRMS AND REGIONS

Trade is fundamental to our economic wellbeing. EU prosperity increasingly depends on the export of **high value added** products and services to rapidly growing emerging markets. Clearly, **improving market access** for EU products and services is a sine qua non condition of this process. EU trade policy must be based on the twin pillars of **promoting further trade liberalisation both on a multilateral level and bilaterally** and **enforcing current rules**.

spiritsEUROPE fully supports the EU trade agenda. We call on the European Commission and incoming European Parliament to continue their engagement in trade: negotiating, approving and then enforcing new agreements with key markets around the world.

1. Conclude FTA negotiations with main trading partners

After successful negotiations with Korea, Colombia/Peru and Central America, spiritsEUROPE looks forward to continuing implementation of the **FTA strategy**:

- The implementation of the deal with Canada.
- The conclusion of the remaining deals in Asia – particularly India, Vietnam and Thailand – as well as the re-launch of the talks with MERCOSUR. These countries have **significant commercial potential** for the EU spirits sector, but also pose major difficulties in terms of market access.
- Given their scale and scope, the negotiations with the United States and Japan will also bolster prospects for further growth in these markets.

2. Reinforce the market access strategy

The **Market Access Strategy** is of crucial importance to support the EU trade liberalisation agenda. Beyond the bilateral and multilateral negotiations, it is there to ensure that trade continues to flow. spiritsEUROPE remains an active supporter of the strategy, the focus of which should be on tackling commercially important barriers.

The EU should continue to develop its **toolkit** of bilateral, regional and multilateral agreements and mechanisms in order to dismantle unjustifiable barriers and strengthen the rules-based trading system, of particular importance to **SMEs**.

3. Police existing agreements: partners must live up to obligations

While the EU spends considerable time and effort in negotiating ambitious trade rules in WTO or through bilateral agreements, mechanisms to secure their **effective application** are equally important.

The successful defence of the Union's rights requires that the EU has a capacity to use **all enforcement** tools to make trading partners respect negotiated trade rules, from trade diplomacy to dispute settlement and beyond. With an increasing number of FTAs in negotiation, and consequent work load for the Commission,

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Angelika Wiesgen-Pick, MD of the German Spirits Industry Association (BSI):

“At about 700 million bottles, the German spirits market is the biggest in Europe. In 2013, exports of liqueurs, clear and brown spirits rose to about 275 million bottles of which 34% was exported outside the EU for a value of €115m.”

we call for **increased resources** to ensure the EU’s capacity to police export growth.

4. Enhance protection of IPR and promote of geographical indications

A clear and predictable legal framework for IPR protection is essential to sustain access to third countries. spiritsEUROPE supports the inclusion of **robust IPR disciplines**, including enforcement, in multilateral and bilateral trade arrangements. In addition, more indirect means can contribute to the armoury of fighting counterfeit, such as persuading third countries to lift product standards / food safety regulations to the EU’s level.

The **protection of European Geographical Indications** should remain a firm objective for the EU in its multilateral and bilateral trade negotiations. We support an active EU agenda to defend against fraudulent use of GIs. A number of our trading partners understand the interests of developing and protecting GIs.

5. Develop regulatory dialogues

Well drafted international standards should themselves still allow national regulators scope for policy choices that reflect their particular circumstances. While EU trade policy should focus on challenging governments that do not adopt international standards where these exist, there are areas where **international standards** do not exist, and with little hope to see them developed in the near future.

In that case, the EU clearly has a role to play to promote its own internal standards, especially towards countries which do not yet deal with complex food safety or consumer protection matters. As an example, the EU operates state-of-the-art **food traceability systems** and spirits’ definitions

regulations, which could be extended to other countries as they pursue similar levels of economic development.

6. Reaffirm the role of WTO

The **Bali outcome** offers a good deal on **trade facilitation** while underlining the importance of the WTO system. spiritsEUROPE hopes that liberalisation and elimination of procedural and regulatory obstacles to the movement of spirits in international trade will take place on the basis of the agreement.

We urge the WTO and Member States to use the **momentum** generated in Bali to make progress regarding **greater market access** – notably on reducing tariff peaks and enhanced protection for Geographic Indications – and to reaffirm the wider role WTO plays:

- Discussions under the **TBT and SPS Agreements** to prevent unnecessary trade obstacles.
- The **Trade Policy Review** affords another opportunity for constructive discussions with third countries, going beyond mere tariff issues.
- The **WTO Dispute Settlement Understanding** is an important tool in the EU’s fight against unfair trade practices around the world.

7. Ensure evidence-based policy in trade

spiritsEUROPE supports proportionate, **evidence-based public health measures** that legitimately tackle issues related to alcohol-related harm. As acknowledged in the WHO global strategy, international trade rules allow governments ample ‘policy space’ to issue effective, non-discriminatory regulations to protect public health (see GATT Article XX). There is no correlation between trade liberalisation and an increase in alcohol misuse. There is no justification for excluding alcohol from international trade agreements. On the contrary, illicit and informal markets, which carry their own public health risks, tend to flourish in markets that are unnecessarily or unreasonably restricted.

THE BILLION EURO CATEGORIES: CHALLENGES AND OPPORTUNITIES

The main exporting categories are whiskies (44% of total, with €4.3bn exports in 2013), wine based spirits such as cognac and brandies (25%, €2.5bn), vodkas (11%, €1.1bn) and liqueurs (10%, €1bn). More generally, consumers have more and more interest in premium spirits. Between 2003 and 2013, the average value of each bottle exported increased by 37%, driven particularly by demand in emerging markets.

Whiskies

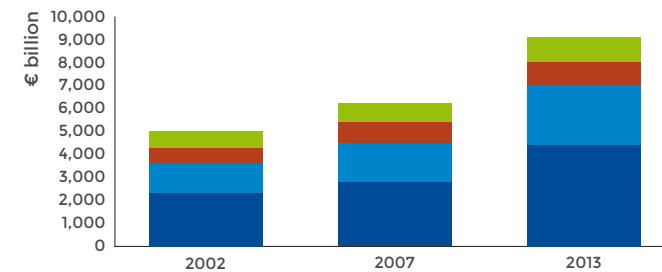
In 2013, the value of **Scotch whisky** exports outside EU remained steady and volume was up 3% on 2012 to the equivalent of 1.3 billion bottles. Scotch exports delivered £135 a second to the UK balance of trade. As a result, 35,000 jobs have been created and maintained and many rural and urban communities supported economically.

The USA and France remain the two largest markets, but great growth is expected from countries across South America, Asia and Africa.



David Frost, Scotch Whisky Association Chief Executive: "Scotch Whisky is iconic throughout the world. It is worth in excess £4 billion for the UK balance of trade and reaches around 200 markets. It is vital to the Scottish and UK economies and underpins many communities."

THE BILLION EURO SPIRITS CATEGORIES



Source: Eurostat 2013

Some £2 billion of investment by the industry in Scotland has been committed over the next two years. There are at least 20 new distilleries being built and much related investment in new bottling plants – which will benefit other sectors such as glass manufacturers and packagers.

Irish whiskey has grown by 220% since 2003, with exceptional growth in 2010 and 2011 of over 35% per annum. The industry has committed €1.1bn in investment over the next ten years. Last year, Irish companies exported 6.2 million 9-litre cases worldwide. Irish spirits companies contribute over €1bn to the Irish Exchequer every year, supporting the employment of 14,700 people across production and sales.

Cognacs

5,000 winegrowers and 270 merchants work on a daily basis to develop and diversify Cognac, distilled from wine produced in the Cognac area, a unique terroir consisting of 6 crus.

Almost 98% of all Cognac is exported to more than 160 countries. The 2013 export figures in volume and value remained high compared to previous years: 161 million bottles (13.45 million cases) generating a turnover of €2.5 billion. Exports increased by 91.4% in value over the last decade.

The worldwide market for Cognac is evenly spread across the main geographical regions and the three age categories remain balanced: VS (44.8%), VSOP (41.2%) and XO (14%).

Cognac remains extremely rooted to its region, playing a major role in the regional economy. Long ageing requirements are an integral part of Cognac rarity, supported by 17,000 direct employees. In addition, another 50,000 jobs can be attributed to the production of Cognac in the region, in tourism, building infrastructure and transport.



Catherine Le Page, Director of the Bureau National Interprofessionnel du Cognac (BNIC): “To cope with increasing demand, Cognac producers continue to invest in R&D, particularly in vineyard management and distillation and storage.”





MEP Jarosław Kalinowski, (EPP Group): "Polish spirits are a part of our centuries-old heritage and tradition. It is a crucial sector of our economy which adds 93,000 jobs and €2.3bn revenues in taxes but we should export more. The role of the European Parliament is to protect such geographically-specific products and help producers to develop their presence on non-EU markets."



Edith Giffard, Associate CEO of the Giffard company (France): "Over four generations, we have developed a range of 120 liqueurs, the most famous being 'la liqueur Menthe-Pastille'. The Giffard company is showing 8-10% growth each year and €17 million of turnover of which 40% is exported. We plan to expand to the USA and Asia in the course of 2014."



Vodkas

EU exports of vodka have grown 33% over the last five years and now exceed €1bn. Value growth in the category comes primarily from premiumisation and innovation in flavours.

The major traditional markets for vodka are found in Northern and Eastern Europe. Russia is the world's largest single market. The highest value vodka market is the US, which receives roughly half of all EU vodka exports. Other important markets are Canada, Mexico, Brazil, India and China.

Poland is the number 1 vodka producing country in the EU, with 20% of **Polish vodka** production exported - mainly to the US and European markets.

Swedish vodka is the world's largest vodka exporter with exports of well over 100m litres annually, representing 99% of Swedish production. It is produced from wheat or other traditional Nordic grains or potatoes, and is Sweden's largest value food export. Exporters include well-established global brands as well as small boutique brands.

Other important vodka exporting countries include **Finland, Lithuania** and **Latvia**. **France** and **the Netherlands** are also notable exporters, where production of vodka has grown in recent decades.

Liqueurs

Due to an export value of €1 billion during the past two years, liqueurs have qualified to join the big four. Despite a drop in liqueur sales following the 2008 crisis, the sector has managed to bounce back during the past 4 years. The US remains by far the strongest market for EU liqueur exports, accounting for no less than half of the total EU liqueurs exported (€502 million in 2013).



€21 000 000 000 generated through VAT and excise
€10 000 000 000 export sales outside the EU
1 000 000 jobs in production & sales
140+ prevention programmes
32 national associations
8 multinationals
1 organisation

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