



GROWTH DRIVER

TRADE

TRADE, TRADE



Foreword

Exports are critical to the success of the European spirits sector. The growth of our sector will depend on our ability to access global markets on a level-playing field. We have used this export strength to create jobs in many European regions, and sustain local economies.

Exports of European spirits have doubled over the last decade. As the trade data we have collected will show, the past year has been challenging for us – operating in a difficult economic context. However, spirits still count among the high added value products that bring revenues and value to Europe, and which give the EU comparative advantage in the globalised economy.

We believe that the EU's recovery and future prosperity will increasingly depend on success in world markets.

Numerous challenges facing the industry across the world clearly demonstrate why we need an offensive and ambitious EU trade agenda.

We welcome the opportunity to engage with the European Commission now in devising a new trade strategy that will help to ensure the long term viability of the European spirits sector.



“The European Union is more prosperous because of open markets in other countries. Over 30 million people in Europe have jobs thanks to our exports. That’s almost 14% of everyone working in Europe. It’s up from 18 million in 1995 and it will rise again in the future. Because 90% of world growth is predicted to come from outside Europe’s borders over the next 20 years.”



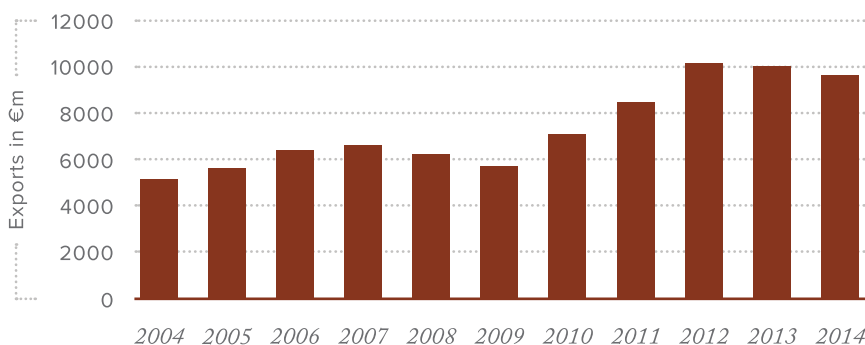
CECILIA MALMSTRÖM
European Commissioner for Trade

spiritsEUROPE ‘MANIFESTO’ FOR A RENEWED EU TRADE STRATEGY

- ◆ CONCLUDE comprehensive and ambitious trade agreements with key partners
- ◆ ENFORCE existing trade agreements and protection of intellectual property
 - ◆ DEEPEN the regulatory dialogue with trading partners
- ◆ REAFFIRM the role of the World Trade Organisation in championing free trade
 - ◆ REINVIGORATE the Market Access Partnership

Facts & Figures

DESPITE A DIP IN 2014, SPIRITS EXPORTS HAVE DOUBLED OVER THE LAST DECADE



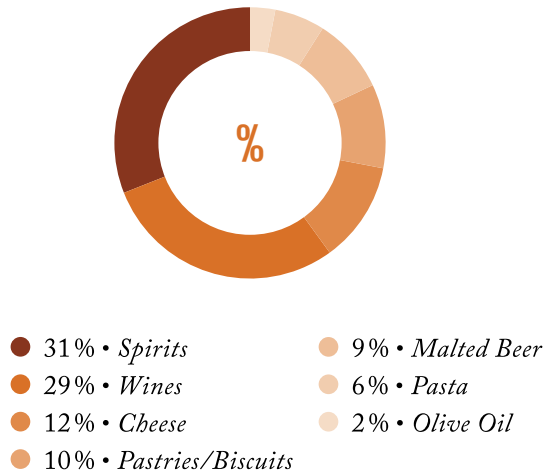
Source: Eurostat 2014

“Trade growth has been disappointing in recent years, due largely to prolonged sluggish growth in GDP following the financial crisis. Looking forward we expect trade to continue its slow recovery but with economic growth still fragile and continued geopolitical tensions, this trend could easily be undermined.”

ROBERTO AZÊVEDO
WTO General Director

SPIRIT DRINKS REMAIN ONE OF THE EU'S MOST VALUABLE AGRI FOOD EXPORTS

Selected food exports outside EU in 2014 (€m)



EU spirits exports by categories in 2014

Values in €m

4,295	2,347	993
WHISKIES	COGNAC	VODKA
967	315	135
LIQUEURS	GIN	RUM



Source: Eurostat 2014



“Over 95% of whiskey produced in Ireland is exported. The Irish whiskey sector is ambitious for its future with plans for the distillery base to grow from only a handful today to 30 by 2025, backed with over €1.2bn in private investment.”

BERNARD WALSH

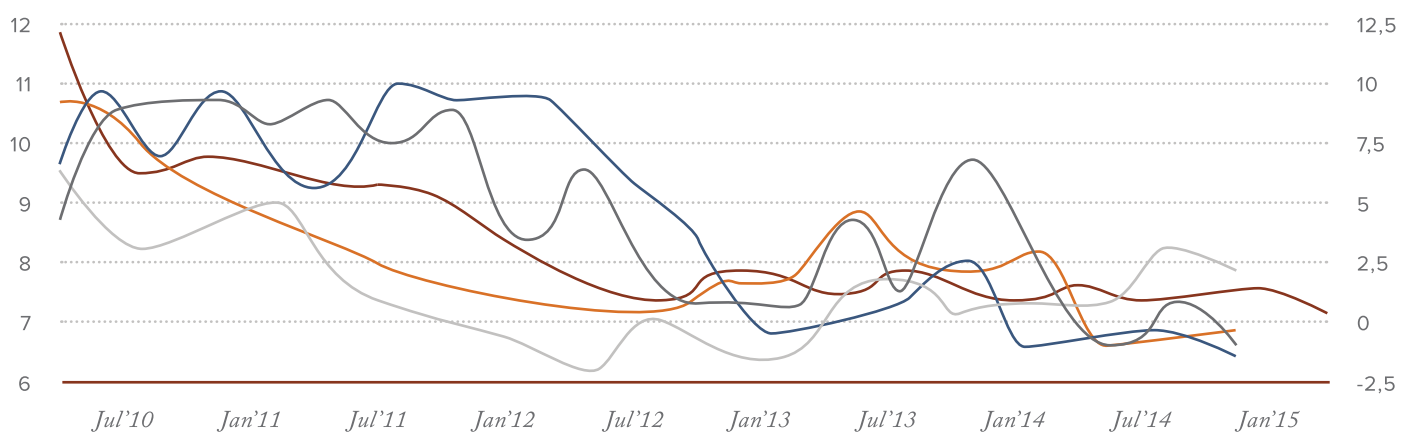
Chairman of the Irish Whiskey Association and Founder & CEO of Walsh Whiskey Distillery

Exports falling... unsurprising when considering slowing GDP growth in emerging economies

According to the WTO, several factors contributed to the sluggishness of trade and output in 2014 and at the start of 2015, including slowing GDP growth in emerging economies, an uneven recovery in developed countries, and rising geopolitical tensions.

GDP Annual Growth Rate

China Brazil Russia India South Africa



Source: IECONOMICS 2014



EU SPIRITS EXPORT IN 2014 = €9 623 000 000

“But 2015 could be a turning point. Disappointment at the slowing engine of trade may provide fertile ground for policy action.”

ANABEL GONZALEZ

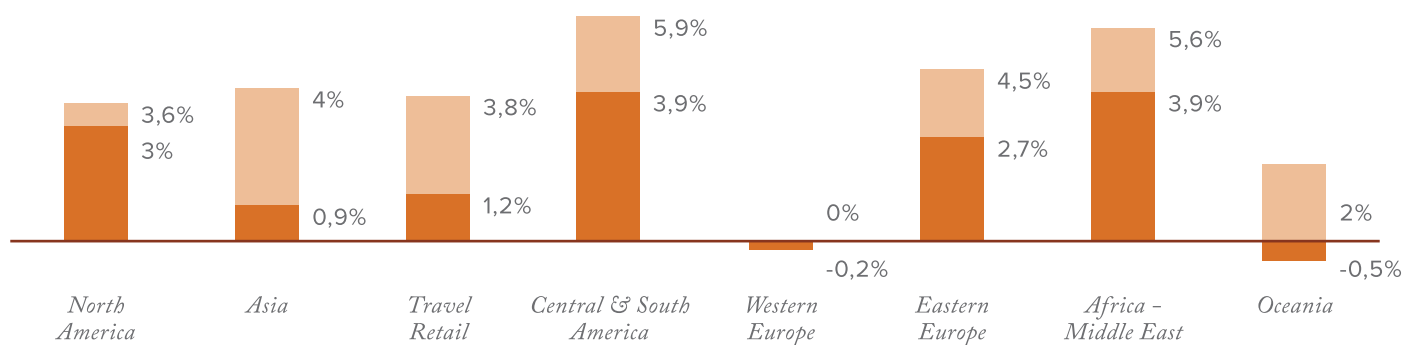
World Bank Group's Senior Director for Trade and Competitiveness

THE PERSPECTIVES FOR SPIRITS GROWTH ARE CLEARLY OUTSIDE THE EU

With declining consumption in the European Union, external trade represents a vital driver of growth for European distillers. In that context, an assertive EU trade policy is crucial for the future of the sector.

● 1 Yr Evolution in Volume (2012-2013)

● 10 Yr Average Annual Evolution (2003-2013)

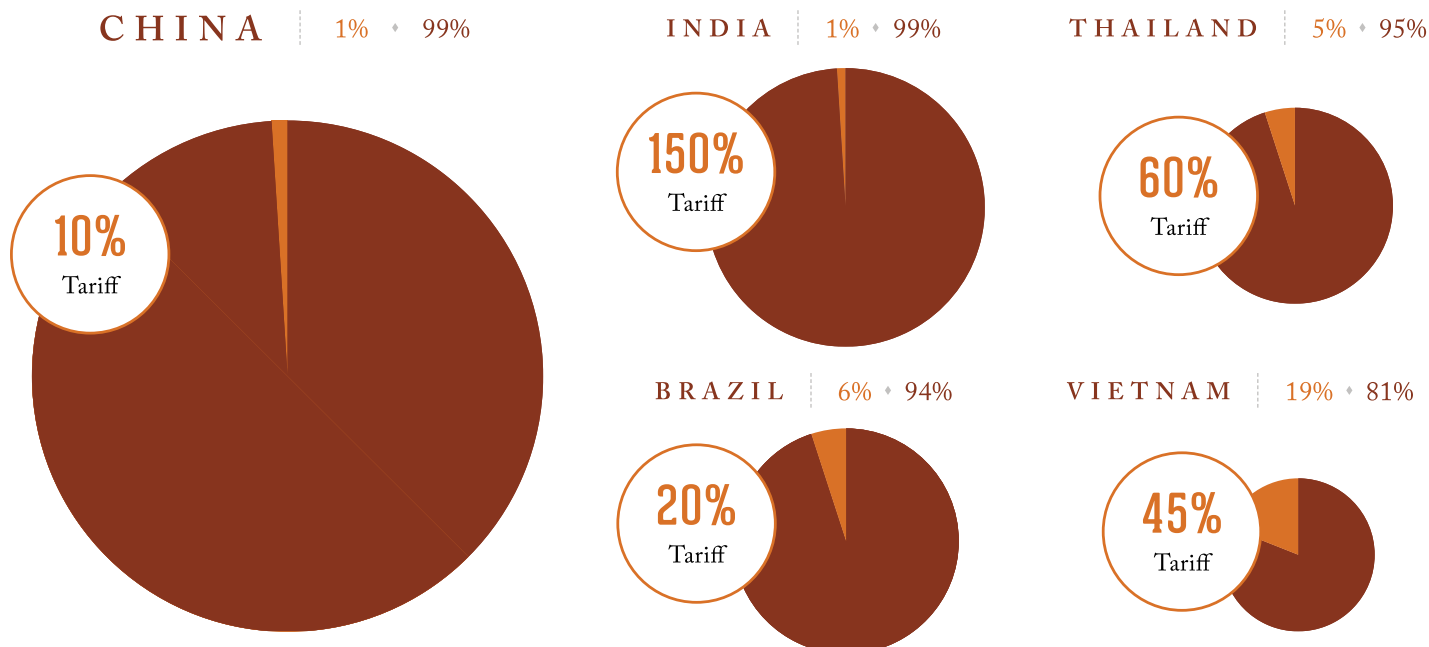


Source: IWSR, data at year-end 2013 (In Pernod Ricard annual report 2013/2014) • Latest data available

Untapped markets with huge potential

● Consumption of domestic products

● Consumption of imported products



Source: IWSR

BARRIERS TO BE LIFTED BY AN AMBITIOUS EU TRADE STRATEGY...



...THAT WOULD NOT ONLY BENEFIT LARGER ENTERPRISES, BUT ALSO CRAFT DISTILLERS

Every barrier to trade represents more significant barriers for craft distillers and SMEs than for larger firms. Craft distillers have to spread fixed costs of compliance over smaller revenues than those of larger firms.

Amongst the most important issues that SMEs are facing:

- ♦ Compliance with regulation and standards
- ♦ Customs procedures
- ♦ Restriction on the movement of people
- ♦ Access to distribution channels

The implementation of the WTO Trade Facilitation Agreement will represent a significant step to support exporting companies.

Expedited customs procedures and improving the technological and shipping capabilities of small businesses are key ways to eliminate red tape and help craft distillers engage in international trade - at reasonable cost.

According to the World Bank and World Economic Reform, bringing countries even halfway to 'best practices' in trade facilitation would add 4.7% to world GDP, with much of the growth enjoyed by small businesses.

"SMEs stand to benefit most when we reduce non-tariff barriers and cut red tape. We are working on that in the EU Single Market and here we can see why it is so important to do the same thing in the TTIP negotiations."

ELŻBIETA BIEŃKOWSKA

Commissioner for Internal Market, Industry, Entrepreneurship and SMEs

TOP TEN EXPORT MARKETS 2014

6

CANADA

€ 292 m

↗ +3% | ↗ +66%

1

USA

€ 3,289 m

↘ -2% | ↗ +86%

10

MEXICO

€ 221 m

↘ -7% | ↗ +134%

?

COUNTRY

Overall export sales

1 YR TREND
[2013-2014]

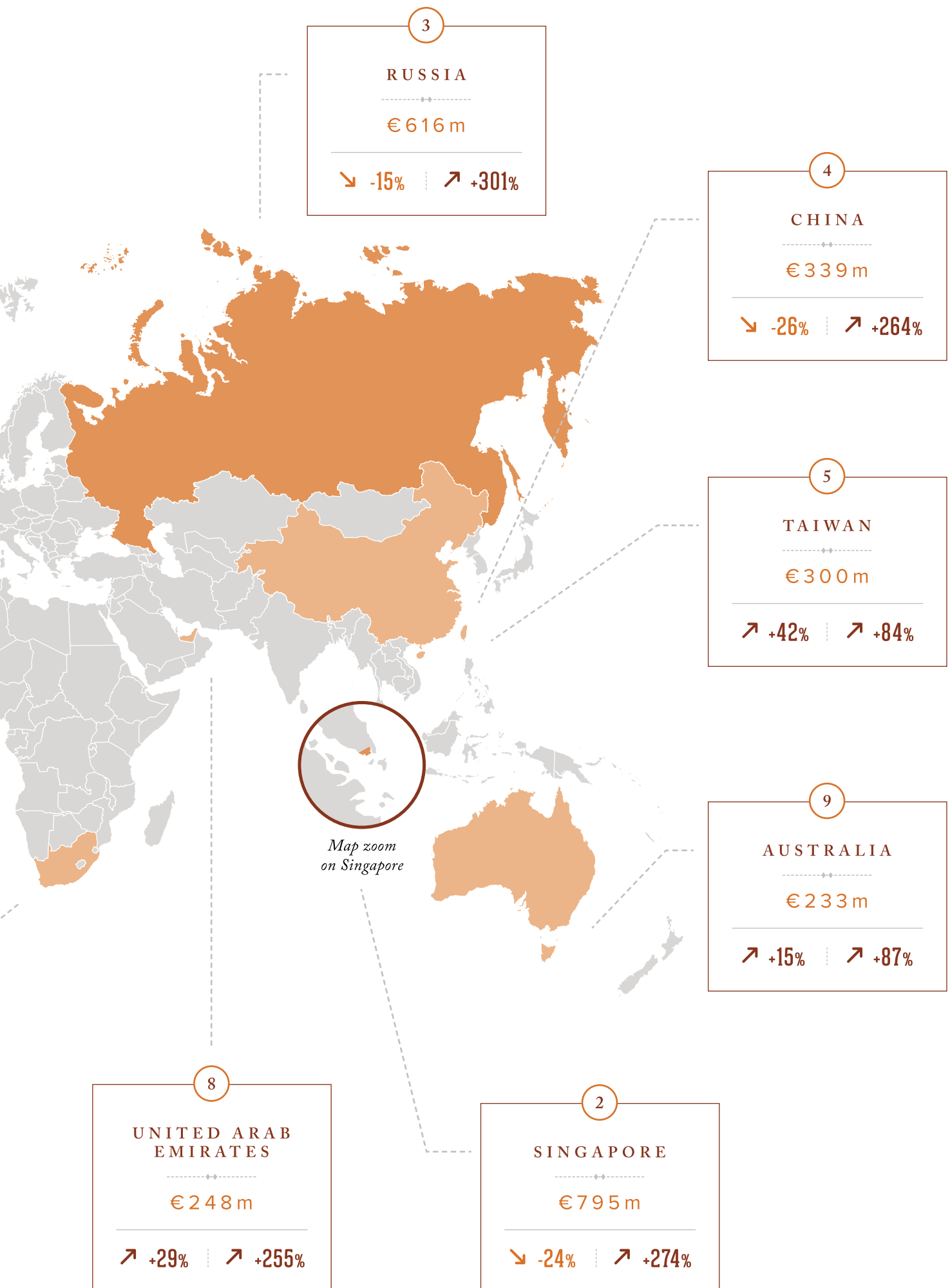
10 YR TREND
[2004-2014]

7

SOUTH AFRICA

€ 256 m

↘ -14% | ↗ +185%

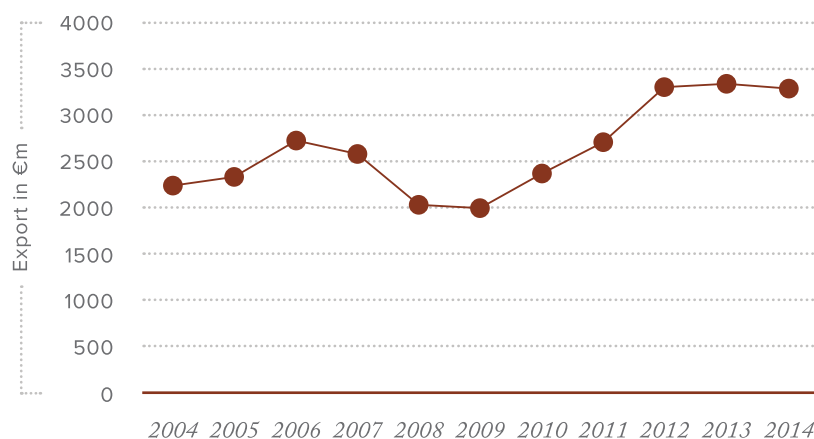


AMERICAS

THE US

DRIVING TRADE GROWTH WITH ONE-THIRD OF EU EXPORTS

The US remains the largest export market for European spirits. By reducing costs stemming from regulatory differences and promoting protection of EU spirits geographical indications (GIs), the trans-Atlantic trade deal will sustain our export growth.



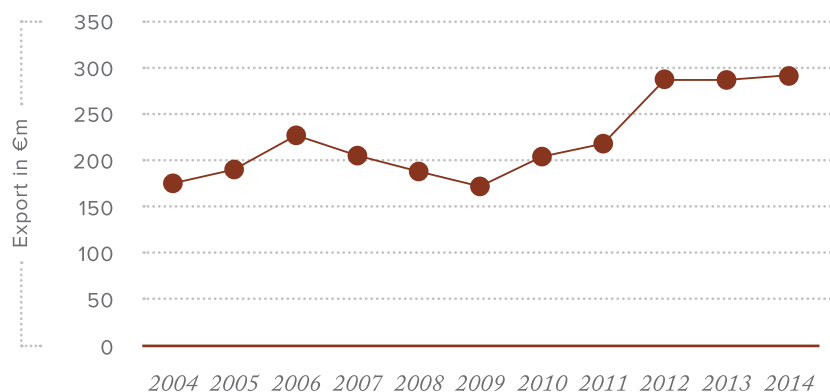
Source: Eurostat 2014

CANADA

CETA TO BOOST TRADE AND INVESTMENT

Canada is the 6th largest market for European spirits, and the CETA between the EU and Canada – signed off in 2013 – will further open the opportunity to increase our sales across the Atlantic.

Once implemented, this agreement will remove customs duties, end limitations in access to public contracts, open-up services' markets and offer predictable conditions for investors.



Source: Eurostat 2014

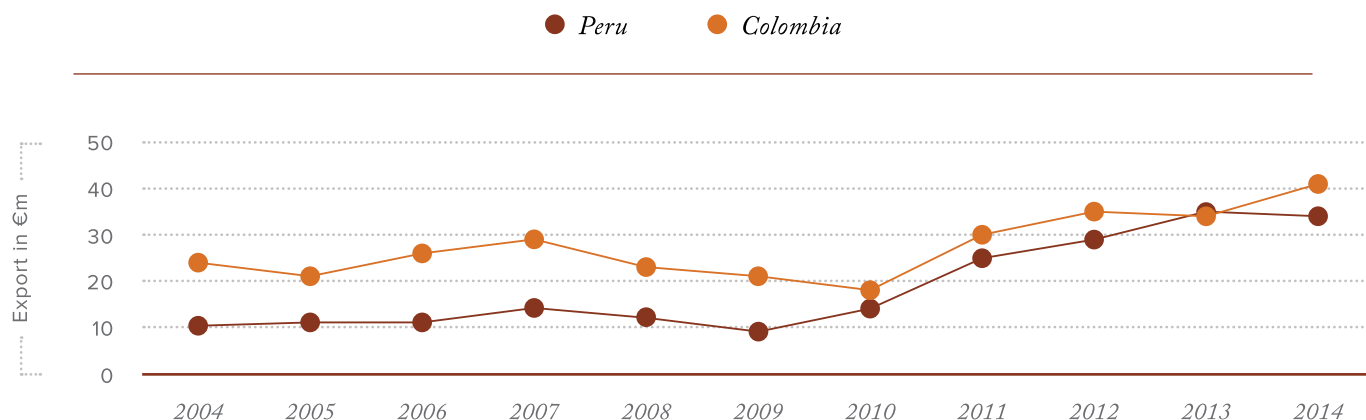


“Distillerie de Biercée, founded in 1946, is a Belgian craft distiller, exporting traditional Liqueurs, Eaux-de-vie, Gin and Genever to a dozen countries outside the EU. Simplifying custom procedures and cutting tariffs would significantly boost our exports.”

MARC TILLON

CEO at Distillerie de Biercée

SIGNIFICANT BENEFITS EXPECTED FROM THE FULL IMPLEMENTATION OF THE FTA BETWEEN THE EU, COLOMBIA AND PERU



Source: Eurostat 2014

Colombia is the largest market in the Andean Community for European spirits, valued at €41 million in 2014, followed by Peru valued at €35 million the same year. With imports representing only a very small part of the spirits market in each country, there is significant room for growth in both countries.

CHALLENGES FACING THE SECTOR

Discriminatory internal taxation has been a longstanding obstacle to European spirits producers doing business in some markets. Not only do they contravene GATT rules, they also stimulate non-commercial alcohol consumption when set at excessive levels.

COLOMBIA

Under the current excise tax system, products bottled at 35° or less (i.e. domestic products) are taxed at a lower rate than spirits bottled above 35° (i.e. mainly imported European spirits).

*When exporting our products, EU drinks operators face a number of barriers linked to the distribution and marketing of distilled spirits, including discriminatory practises of **monopolies**.*

CANADA

Most Canadian provinces restrict the sale of spirits through province-run liquor control boards. Market access barriers in those provinces deter exports of EU spirits to Canada. While waiting for CETA implementation, European distillers face such barriers including cost-of-service mark-ups, restrictions on listings, reference prices and labelling requirements.

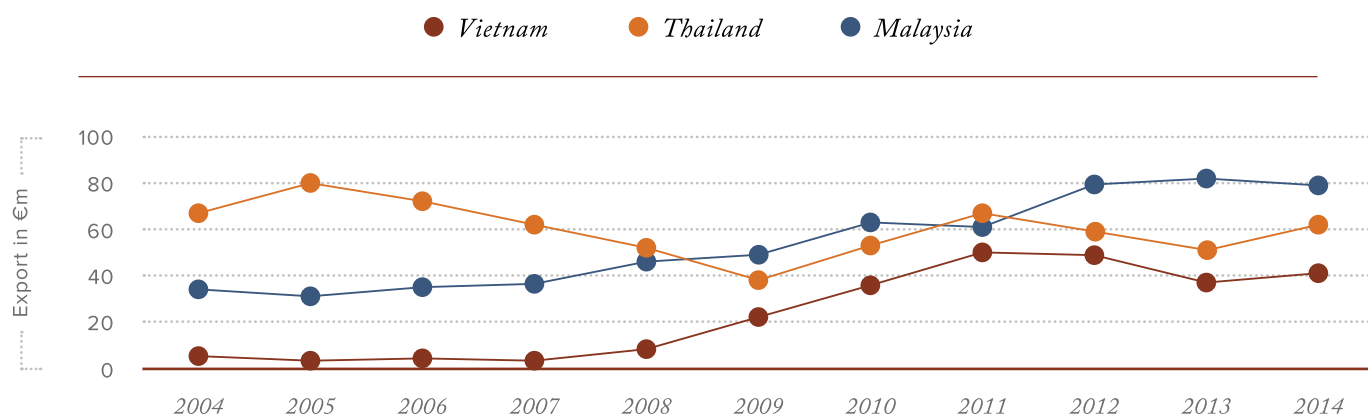
COLOMBIA

Maintains spirits monopolies in 16 states, called “departamentos”, which engage in market-distorting and anti-competitive practices in the distilled spirits market. Spirits monopolies are significant revenue generators for state governments. Some of the “departamentos” have established state-owned enterprises that produce spirits also known as “licoreras”. The “departamentos” often provide preferential access for the products produced by the “licoreras” within their territory compared to imported spirits.

ASIA

After 10 years of sustained growth, the Asian region has witnessed a slight slowdown, mainly impacted by the anti-ostentation policy in China and changing consumer behaviour. Nevertheless, Asia remains a strong trade partner with high potential for our sector. In the region, we continue to face a combination of high tariffs and challenging regulatory environments.

WHILE NEGOTIATIONS WITH ASEAN COLLAPSED, THE COMMISSION LAUNCHED BILATERAL TALKS WITH SEVERAL COUNTRIES OF THE REGION

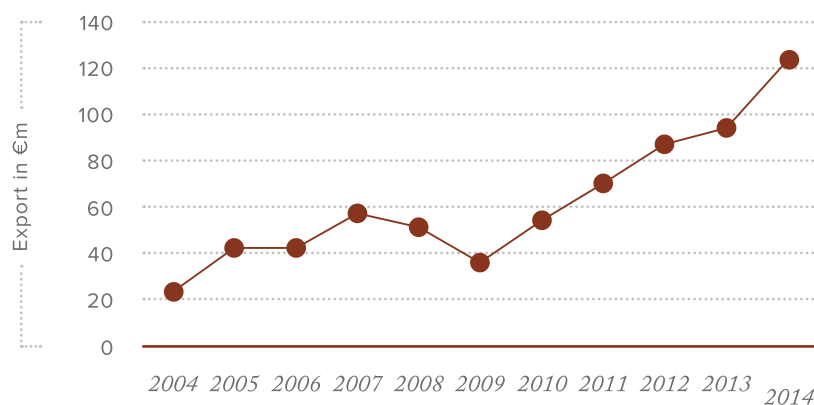


Source: Eurostat 2014

Exports to the South East Asia Region have shown a significant rise over the past 10 years. Increasing demand for quality spirit drinks underlines the need for better access to these markets.

INDIA

Despite being a complex and difficult market for our operators, India is a priority market for the spirits sector. With nearly 30 million new consumers per year, EU exports to India increased by 248% between 2009 and 2014. However, this percentage increase should not hide a reality: EU products represent only 1% of the Indian market. Significant progress can only be made with a reduction of the punitive imports tariffs (150%).



Source: Eurostat 2014

CHALLENGES FACING THE SECTOR

Import tariffs applied on spirit drinks remain high in many markets, especially in emerging economies that have large, highly concentrated domestic spirits industries. The fact that tariffs are also applied on the value of the goods (ad valorem) amplifies the adverse impact on high value EU spirits.

• TARIFFS •

150%	60%	45%
India	Thailand	Vietnam

SOUTH KOREA

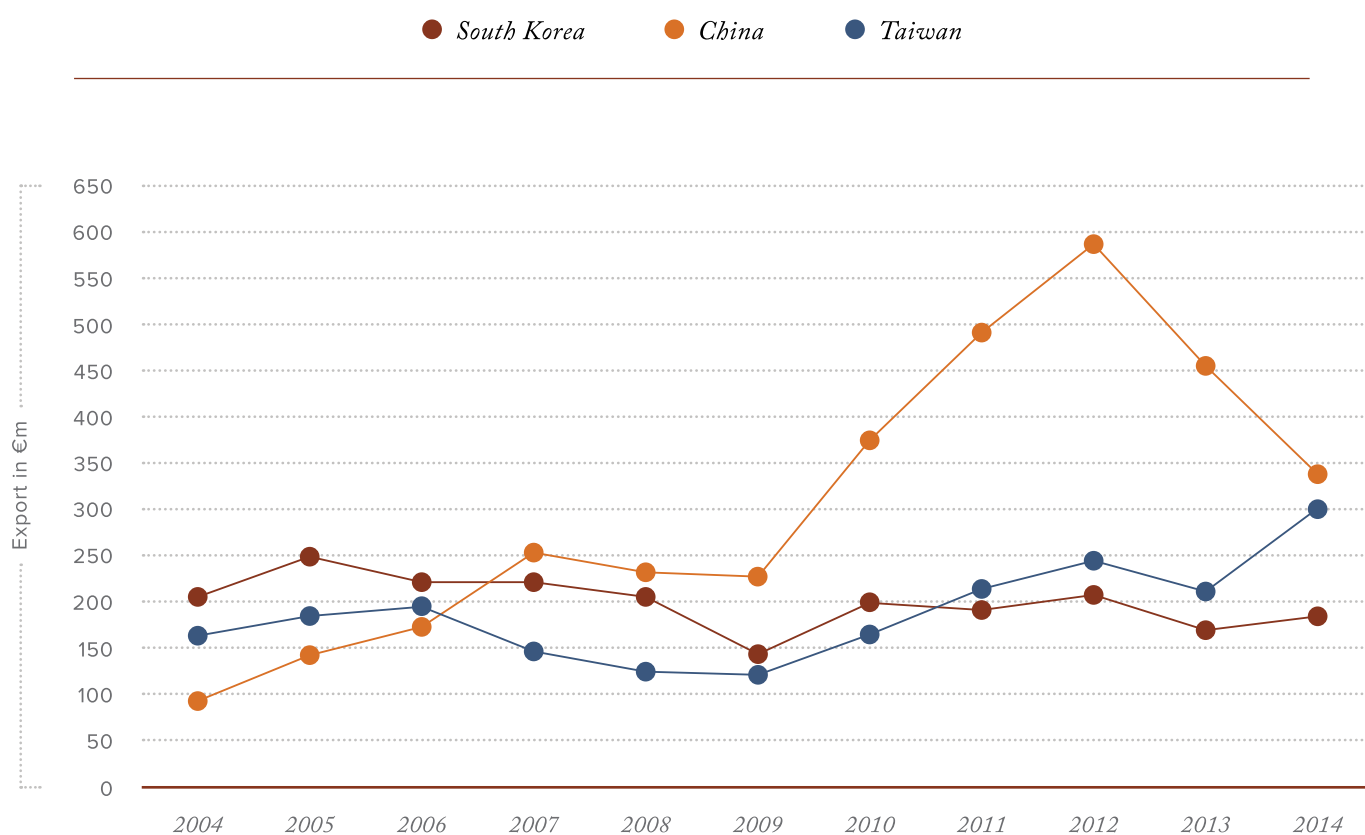
The EU-South Korea FTA entered into force in July 2011. It was the first of a new generation of FTAs which went further than any previous agreements in lifting trade barriers and it was also the EU's first trade deal with an Asian country.

CHINA

In China, the decline is above all due to a slowing economy, combined with government measures to discourage conspicuous gift-giving and consumption, mainly aimed of luxury goods. We now believe that the situation in China is stabilizing after an 18 month period of decline.

TAIWAN

Trade between the EU and Taiwan has increased more than 146% over the past 5 years. The Taiwanese market relies especially on whisky imports, this category of spirits representing €258m of EU spirits exports.



Source: Eurostat 2014

CHALLENGES FACING THE SECTOR

Standards-related and Sanitary and Phyto-Sanitary measures that are non-transparent and discriminatory can act as significant barriers to EU spirits exports.

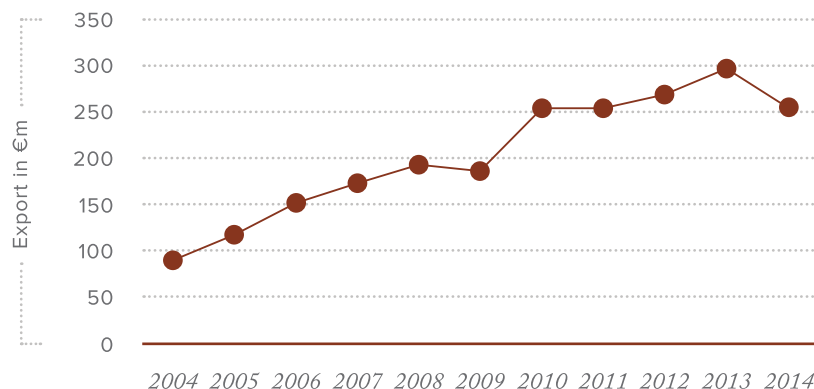
CHINA

Since 2013, Chinese authorities require laboratory test reports confirming that certain phthalates (plasticizers) do not exceed permitted levels in spirits. This measure was approved without any formal announcement or prior consultation of trading partners.

AFRICA

The spirits industry is confident in the long-term growth opportunities of African markets and the spirits sector will continue to invest to build our brands and routes to consumers for the future.

SOUTH AFRICA



Source: Eurostat 2014

CHALLENGES FACING THE SECTOR

Excessive labelling and packaging requirements are a source of additional costs, especially for SMEs. Problematic and often extreme labelling proposals were discussed during the WTO TBT Committee last year. While recognizing the right of every country to set an appropriate level of regulation, this should be based on sound science and should respect the principle of non-discrimination.

SOUTH AFRICA

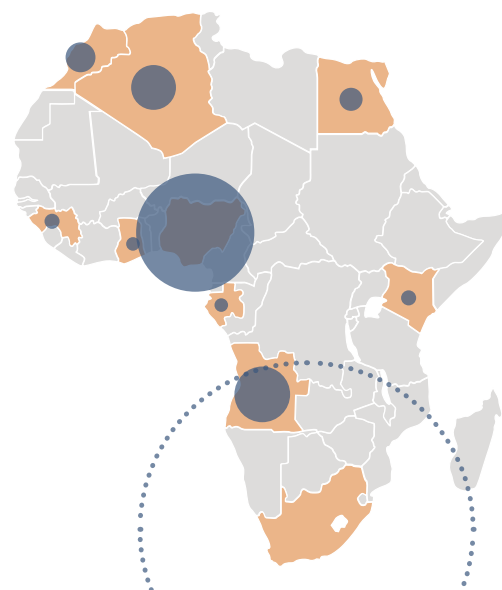
In January 2015, South Africa notified to the TBT Committee a draft regulation on mandatory health warnings for alcoholic beverages, asking in particular for a yearly rotation of 7 different health warning logos on labels - clearly disproportionate to the objective of reducing alcohol-related harm.

TOP TEN AFRICAN MARKETS - 2014

Scale: ● = 10 €m

- | | | | |
|-----------------------|-------------|------------|-------------|
| 1 South Africa | 2 Nigeria | 3 Angola | 4 Algeria |
| 5 Morocco | 6 Egypt | 7 Kenya | |
| 8 Equatorial Guinea | 9 Ghana | 10 Gabon | |

Source:
Eurostat 2014



The increasing wealth of the upper classes and the growing numbers of middle classes, young people and city-dwellers provide great opportunities for the spirits sector. The African adventure is only beginning but, in time, it will offer new opportunities to expand our customer base. Despite unfavourable geopolitical conditions, north African countries still represent regions that offer a wealth of opportunities.

CHALLENGES FACING THE SECTOR

Illicit trade in alcohol impacts:

- 1 ♦ Consumers by putting at risk their health;
- 2 ♦ Governments by reducing their revenues and deteriorating the rule of law;
- 3 ♦ Distillers and supply chain partners by putting at risk their economic sustainability and jobs.

OECD

OECD is charting illicit trade to better understand economic risks and societal harms related to illicit trade, and to analyse the effectiveness of policies aimed at deterrence or disruption of activities that generate revenues for a global illegal economy. Their report aims to facilitate a cross-cutting and holistic effort to improve data quality, enhance partnerships between the public and private sectors for data sharing, and conceive new approaches for effective policy strategies.

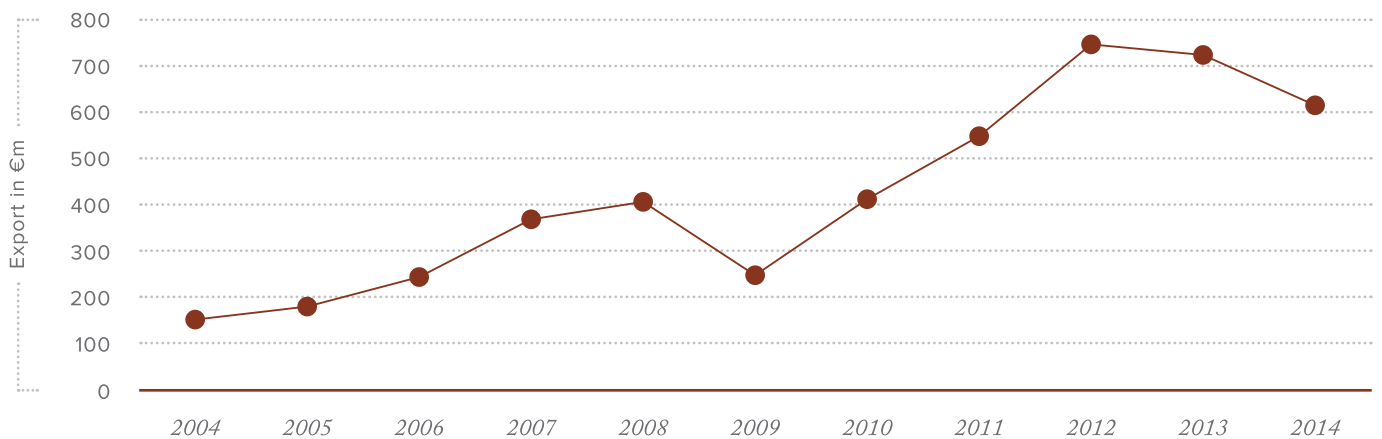
WIDER EUROPE

Changing habits, tougher regulations... Current changes in Europe are leading the spirit sector to take a pragmatic approach to adapt to new market needs. To meet this challenge, the sector continues to view premiumisation and innovation as important drivers.

RUSSIA

HIGH POTENTIAL
BUT UNPREDICTABLE

In Eastern Europe, the spirits market is returning to 'normal' levels of growth after several years of huge increases, mainly due to the slowdown in Russian GDP growth and the complex geo-political situation, which have had an adverse effect on consumption.



Source: Eurostat 2014



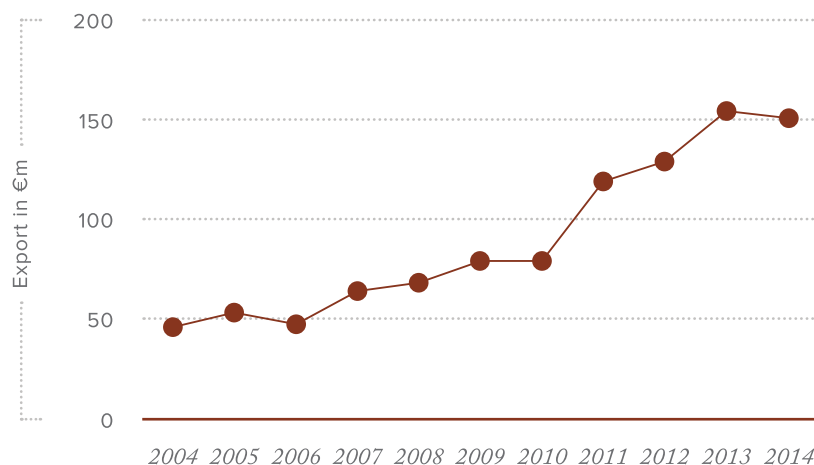
“Trade is the backbone of a jobs and growth strategy in the EU. Free Trade Agreements and Geographical Indications promote and protect traditional European spirits production. To reap the benefit to the European economy enforcement of these agreements is vital.”

DAVID MARTIN
MEP

TURKEY

CLOSING THE TAX GAP BETWEEN IMPORTED AND LOCAL PRODUCTS

Turkey represents a very significant market for the EU spirits - potentially. Although a Custom Union agreement was signed in 1995, our sector faces significant barriers preventing us from meaningful market access. Problems are often related to onerous administrative requirements and lack of predictability in the regulatory environment.



Source: Eurostat 2014

CHALLENGES FACING THE SECTOR

The European spirits sector has invested in building strong categories and brands which have gained a world-wide reputation for quality and taste. It is a major challenge for companies to protect their heritage and their innovations. In that process, it is vital to ensure effective enforcement and application of existing law by the relevant authorities.

Mixing a successful trade strategy cocktail

TRADE IS CRITICAL FOR THE EUROPEAN SPIRITS SECTOR GROWTH AND COMPETITIVENESS

The growth in our exports has created jobs in European regions, accelerated innovation and increased investment. As this report shows, spiritsEUROPE members have a wealth of trade experience and further opportunities lie ahead.

In the current economic context, and considering the competition that intensifies on world markets, it is even more vital to European spirits exporters to better access world markets and lower the cost of doing business across borders.

What the European spirits industry needs, therefore, is an engaged and ambitious EU trade policy that makes trade easier. Happily, the EU does not start from scratch: our sector has already benefited

hugely from past efforts by the EU to open foreign markets. It represents an excellent 'public-private partnership': the Commission, Parliament and Member States continue to prise new markets open, contributing to the impressive efforts the European spirits sector has made, and continues to make, in selling quality European spirits abroad.

Building on these achievements, we welcome the opportunity to discuss with the European Commission and European decision-makers as to what the 21st century trade policy should look like.

We offer some recommendations for the new trade strategy.

In this regard, we strongly suggest that the strategy should be based on the twin pillars of enforcing existing international and bilateral trade rules, and promoting further trade liberalisation both on a multilateral and bilateral level.



“I strongly believe in free trade and fair competition. Ensuring that these principles are truly implemented internationally is critical to our industry’s growth. It will bring benefit to all stakeholders, private and public sectors alike.”

ALEXANDRE RICARD
Chairman & CEO, Pernod Ricard

IN PARTICULAR, WE CALL FOR:

A BILATERAL TRADE AGENDA FOCUSING ON EMERGING HIGH-GROWTH MARKETS

While not losing sight of our traditional large export markets such as the US, the bilateral agenda should help to seize opportunities in markets where considerable potential remains untapped such as Asia, Latin America and Africa. Better access to these markets will drive growth and jobs in Europe.

ENFORCE EXISTING INTERNATIONAL AND BILATERAL TRADE RULES EFFECTIVELY

If not enforced, trade rules have no value. DG Trade needs the resources to ensure that agreements are respected and operate as the negotiators intended them to operate. Our sector supports an appropriate re-allocation of resources across DGs and within DG Trade to ensure sufficient monitoring of agreements and pursuit of non-compliant practices.

NEGOTIATE TRADE AGREEMENTS THAT SECURE AMBITIOUS MARKET ACCESS IMPROVEMENTS

Increasingly, the difference will be made in tackling non-tariff barriers effectively. Beyond tariff liberalisation, a new generation of trade agreements should cover a wide range of issues (certification procedures, customs cooperation, regulatory convergence, investment protection). This is more complex but will create the necessary level-playing field for EU exporters.

PRESERVE THE ESSENTIAL ROLE OF THE WTO

The DDA should be concluded as quickly as possible and the European Commission should help steer a way forward. The strategy should also reaffirm the importance of the day-to-day work of the WTO to develop and enforce the international trade rule book.

IN ADDITION, SOME ELEMENTS OF THE EU TRADE DIPLOMACY TOOLKIT ARE IMPORTANT TO CONSIDER:

DEVELOP A RENEWED MARKET ACCESS STRATEGY

After 8 years, it is timely to consider the achievements of the current strategy and move on to the next steps. The on-going FTA negotiations should not, however, discourage the Commission from pursuing alternative policy tools to resolve longstanding market access issues. These should be achieved through active engagement of Member States, business and European Commission services.

KEEP THE FOCUS ON ENHANCED PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

The European investment in brands and innovation should be protected. Whether in bilateral or multilateral form, we support the development and enforcement of strong IPR disciplines. European GIs protection must remain a firm objective for the EU.

DEVELOP REGULATORY DIALOGUES

The EU should promote its own internal standards, especially towards countries which do not yet deal with complex food safety or consumer protection matters.



€9 623 000 000

Export sales outside the EU

€21 400 000 000

Generated through
VAT and excise

1 000 000

EU JOBS IN PRODUCTION & SALES

140 +

PREVENTION
PROGRAMMES

32

National
associations

8

MULTINATIONALS

1 Organisation



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