

TRADE REVIEW 2017

STAND UP FOR TRADE



FOREWORD



MEP BERND LANGE

Chairman of the Committee on International Trade (INTA)

The quality of European food and drink is world-renowned and European products are in high demand - this creates tremendous opportunities for trade. Among these high quality products, European spirits are emblematic of the successful combination of tradition, quality and offensive export strategies. The sector has been active in gaining market share abroad while generating benefits for European regions where these products are made since many years.

This also speaks for the excellent work of the European food and drink sector and its success in promoting the reputation of European producers around the world.

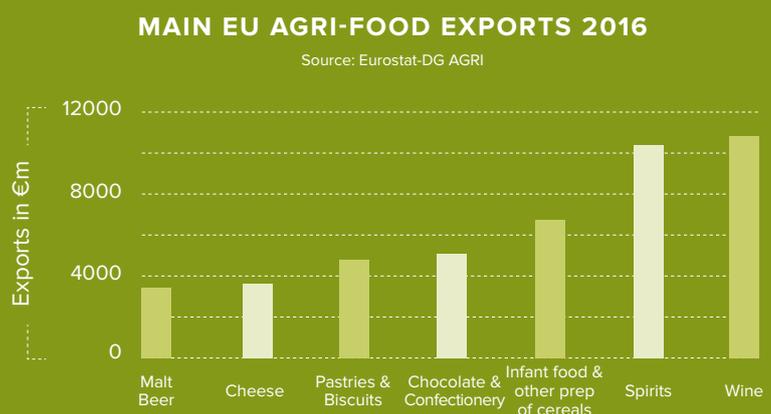
The European Parliament is highly committed to strengthen this sector further – at home and abroad. One of our key aims is to improve companies' access to foreign markets through the conclusion of free trade agreements. One example of this is the EU-Canada trade agreement, also known as CETA, which the European Parliament approved recently. CETA will remove a variety of trade barriers on important EU food and beverage exports to Canada. In the coming years, we will seek

to improve companies' access to other important foreign markets through similarly ambitious free trade agreements – for example through the agreements with Vietnam and Singapore, which have already been concluded, or the agreement with Japan, which is in its final negotiation stages.

In the Committee on International Trade we are also well aware of the importance of the European food and drink sector in the internal market. Of the 289,000 food and drink companies in the EU, nine out of ten are SMEs and 18,000 are exporting their products abroad. This generates economic growth, it creates jobs and it provides our own citizens with access to a wide variety of high-quality products. We contribute to this as well by supporting the inclusion of geographical indications in free trade agreements, which grants legal protection to the quality and reputation of specific regional specialities against foreign imitation and misuse.

Taken together, I am confident that our efforts will enable the European food and drink sector to serve European delicacies to an ever growing number of foreign consumers!

SPIRITS SECTOR REMAINS ONE OF THE MOST VALUABLE AGRI-FOOD EXPORTS



TRADE, VITAL DRIVER FOR GROWTH

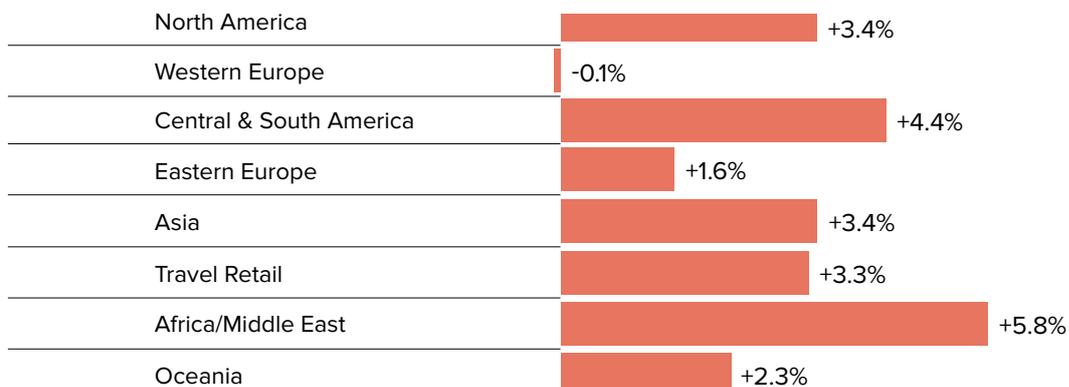
European exports surged ahead by 5% in 2016, an excellent result which confirms the rebound of 2015 and demonstrates that exports are driving the growth of our sector. The spirits sector generated a positive trade balance of €8.7bn. However, as some of those sales were generated in sterling, and that currency has devalued against the euro, overall exports expressed only in euros have decreased year on year.

EU SPIRITS EXPORTS AT A GLANCE



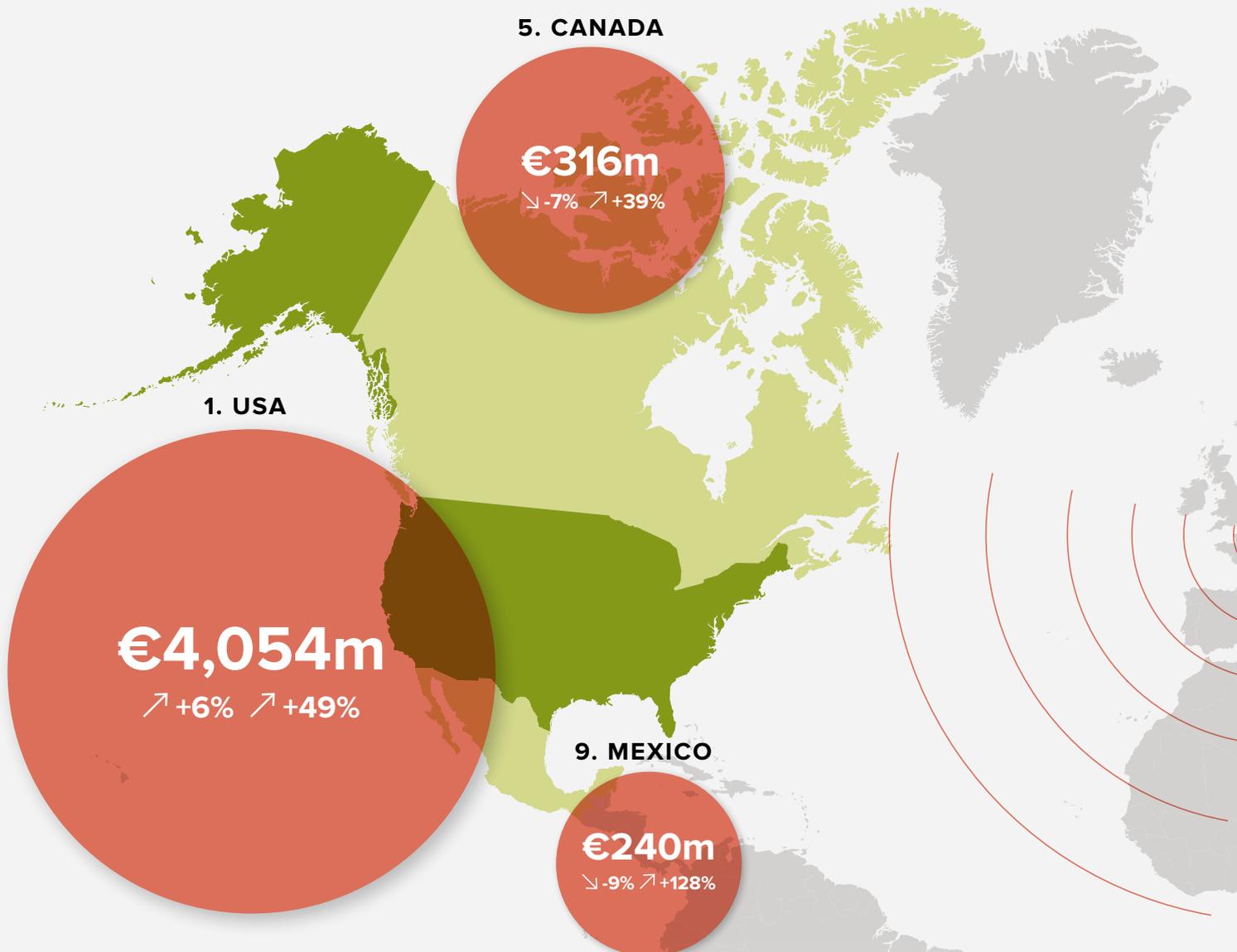
*Smartphone price average in 2017: €320

GLOBAL SPIRITS CONSUMPTION BY REGION, 2005-2015



Source: Pernod Ricard Annual Report 2015-2016

TOP TEN EXPORT MARKETS 2016



Overall exports sales in million

↗ 1 YR TREND (2015-2016) ↗ 10 YR TREND (2006-2016)

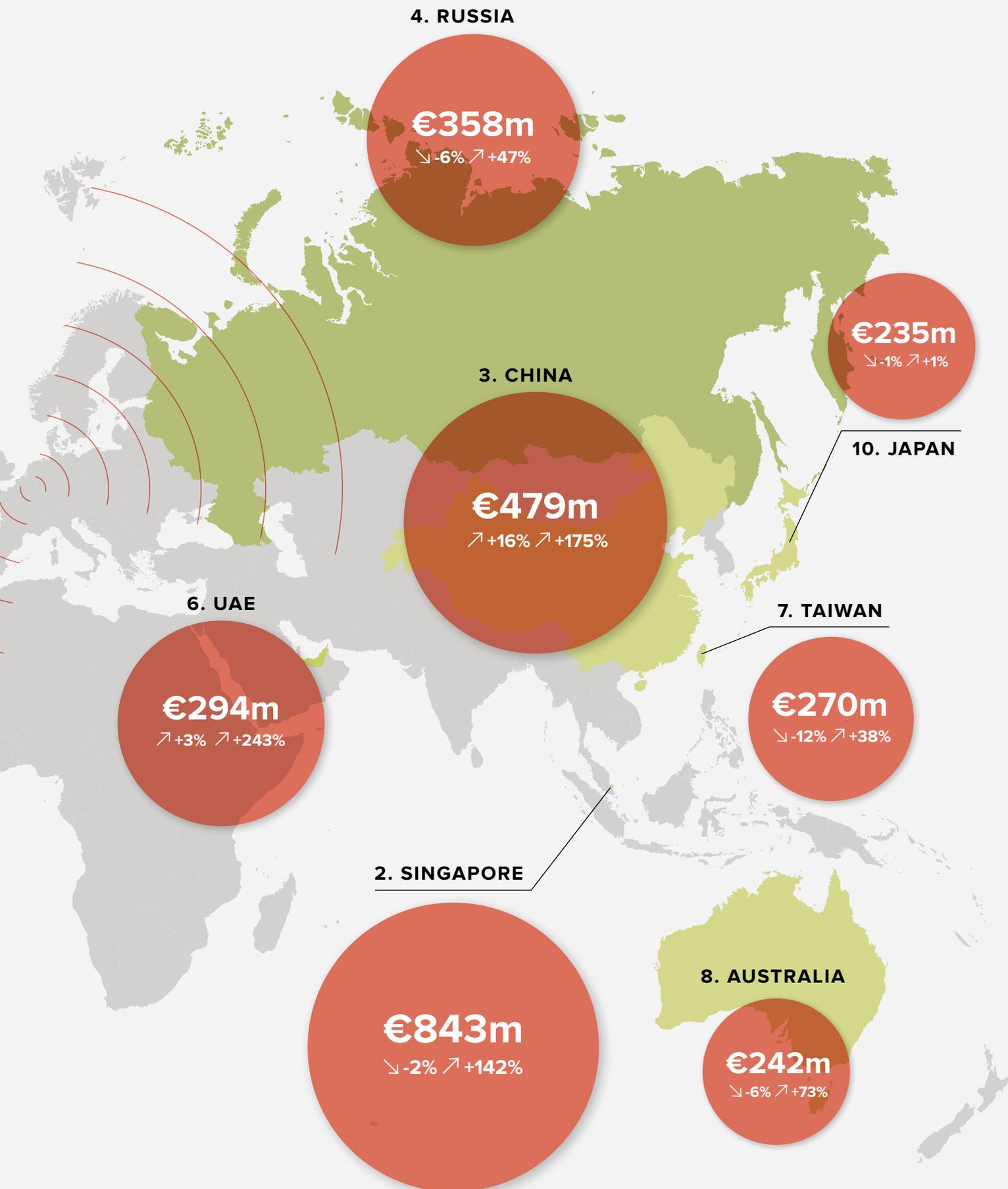
Source: Eurostat 2016



“Our ambition is to grow our business and to win new market share outside Europe. Our first objective is to spread to the US and thanks to the CETA agreement, we are also exploring how to get listed into retail monopolies in Canada”.

BLANDINE & ANNE-LAURE CONTE

Two young sisters who took over from their parents in 2011 at Conte et Filles Cognac & Pineau des Charentes



TRADE DEALS: TIME TO DELIVER

We support the Commission negotiating ambitious trade agreements and fighting for greater market access for our products.

CANADA

A PROMISING DEAL TO BOOST EXPORTS

Past approval, it is now time for CETA to deliver on its promises. It is one of the most advanced trade deals of our time and is expected to generate growth and jobs through increased exports whilst maintaining the EU's strict standards for products.

Canada is a challenging market for alcohol with powerful provincial liquor monopolies. Today, European spirits are under threat of losing market share while other categories benefit from greater access to consumers outside the monopoly retail channel. CETA means full elimination of all remaining import tariffs, abolition of trade barriers such as the obligation to blend bulk spirits imports with local contents, but it also means the reduction of unfair practices from the local monopolies and restrictions on new discriminatory private liquor stores.

EU SPIRITS EXPORTS TO CANADA



EU SPIRITS EXPORTS TO VIETNAM



VIETNAM

RATIFICATION OF THE DEAL IS ESSENTIAL

Vietnam is a strong potential market with a large and growing population. The negotiations have delivered a good outcome for the spirits sector, eliminating tariffs (45%) over 7 years and including commitments to remove restrictions on licensing. The FTA will also bring great improvements regarding intellectual property rights. Timing is even more important in the Vietnamese context where a change in the tax base for alcoholic beverages has disproportionately impacted our exporters. We fear that this tax reform is very likely to nullify the benefits of the tariff reductions negotiated under the FTA.



“The CETA agreement helps our businesses to expand by facilitating a political environment which seeks growth wherever it is - especially in G-7 countries. We need more agreements of this type in the future”

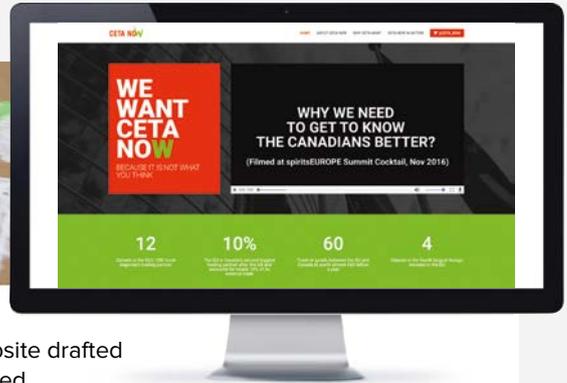
MEP FRANCK PROUST
(EPP)

CETA NOW is a campaign that aimed to raise awareness of the opportunities CETA offers. The campaign provided a platform for the silent supporters who wish to have a voice in the discussions and demonstrate why CETA is a win-win proposal for Europe.



25 AND 26 OCTOBER

- ✓ Logo agreed
- ✓ Twitter account launched
- ✓ Script of website drafted and implemented



27 OCTOBER

8h30 in Schuman, all was ready...



Video clips to engage with the #CETANOW supporters. Enjoy them on cetanow.eu

POLITICO
Brussels Playbook
 Ryan Heath's must-read briefing on what's driving the day in Brussels.

EU - CANADA AND TRADE ...
Meet a Mountie: spiritsEUROPE, of all organizations, is launching a campaign today called CETA NOW (adding the W to the anti-CETA signs around Brussels). Instead of Justin Trudeau, you'll be offered photos at Schuman this morning with a (potentially faux) mounted police officer.
 VIDEO: <http://cetanow.eu/>



SOME REACTIONS ON THE SPOT



"Europe needs #CETANOW #addtheW #CETA @eurocommerce"



"Selfie with pro-CETA «Mountie» outside the Commission. This is why I moved to Brussels, folks. #CETA"

VOTES IN EP COMMITTEES WITH FINAL VOTE IN PLENARY ON 15 FEBRUARY 2017

695 VOTES
 + 408
 - 254
 ○ 033

European Parliament @Europarl_EN
 ...And it's a yes! MEPs back #Ceta. Read more about the EU-Canada trade agreement here → bit.ly/2lVLHSX



"At last! Great CETA decision in the EP today. Bravo to all MEPs who voted in favour."



TRADE DEALS: TIME TO DELIVER



COLOMBIA

TRADE AFTER-CARE

EU action at WTO is key to ensure trade rules don't just exist on paper – they need to be respected in the marketplace.

Colombia is one of the largest markets for European spirits exports in Latin America. EU spirits exports to Colombia were valued at €43.7 million in 2016, representing 77% of total Colombian imports of spirits. In December 2016, Colombia approved an alcohol reform bill which addresses some of our key concerns.

The tax discrimination was removed but the overall tax burden on imported spirits, by introducing a value-based component to taxation, has increased significantly. Importantly, we expect concrete improvements to secure strict and full enforcement of the rules by the local authorities where market restrictions undermine our ability to compete fairly. This includes ensuring that all measures, including the exploitation rights levy, are applied to all players in the market, irrespectively of the origin of products.



ALLOCATION OF ADEQUATE STAFF TO THE TRADE AGENDA IS VITAL

Trade Commissioner Cecilia Malmström has set herself a clear goal delivering an assertive, ambitious EU trade strategy, opposing protectionism both within the EU and around the world. The task is huge including many bilateral negotiations, still trying to revive the multilateral agenda and very importantly making sure the deals are implemented. We are confronted on a daily basis with market access issues due to the lack of implementation of FTA or WTO rules. The Commission needs staff and experts to work on these cases. Negotiation

of good trading rules is worth nothing if the rules are not policed and enforced.

But how many people does the Commission have to negotiate these new agreements? How many to enforce them? How many to man EU delegations around the world to help our small and medium-sized enterprises make the most of those opened markets?

We want EU decision-makers to make this ambition a reality in the coming EU budget cycle by reallocating staff within the Commission to trade issues.

MARKET ACCESS STRATEGIES

In the current economic and political context, and considering the intense competition on world markets, it is vital to preserve an open and fair access to leading export markets.

USA



Totalling one third of our exports, the United States remains our biggest trading partner. It continues to grow for all players in the industry, including smaller and medium size companies. We have been able to build a strong footprint in the US where we enjoy a zero tariff and a relatively smooth access. The recent shift in the US approach on trade policy adds a wildcard into the mix. A tougher trade posture would significantly impact our trade relationship with the US. The introduction of a Border Adjustment Tax could put the brakes on the growth of our exports to the US which are mainly driven by leading geographical indications. It would also put the global trade system under huge pressure.



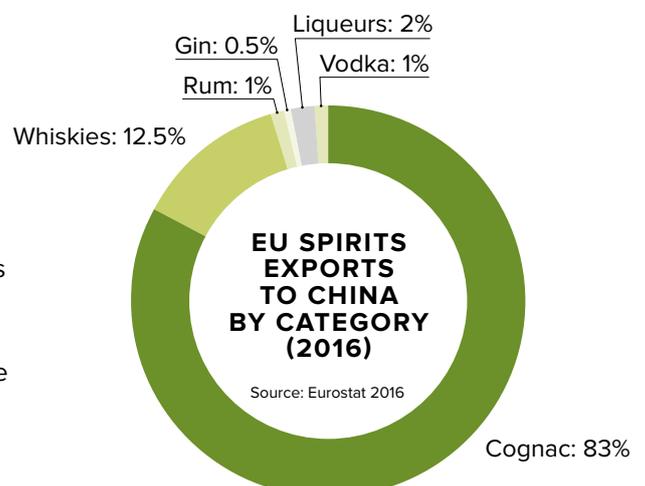
"I am a Scottish cooper. For the last 28 years, I have been making oak casks for Diageo's Scotch whisky business and training apprentices in the traditional craft of coopering. All our casks are made from American and European oak and it's great to think that after our whiskies have matured for years in the casks, they are then exported to Europe and the US, which are the two biggest Scotch markets in the world."

JOHN CARBERRY

Master Cooper at Diageo's Cambus Cooperage

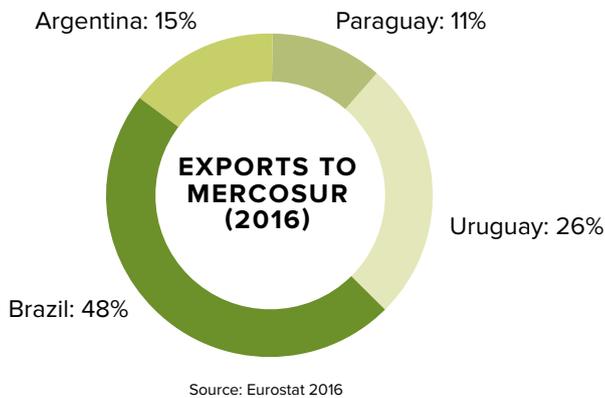
CHINA

In 15 years, China has become one of our largest export destinations with great potential for further trade and investment by European companies. Last year confirmed the recovery of the market after the Chinese government's crackdown on ostentatious gift-giving. Yet the country's economic slowdown and the regulatory hurdle can hurt sales of EU spirits. Keeping a constructive dialogue with China is essential to ensure a smooth implementation of the new import certificate from 1 October 2017; and that China's future rules setting the standards applicable to spirits in terms of production, labelling and taxation will not undermine our access to the market.



MARKET ACCESS STRATEGIES

Efforts should focus on the many untapped markets around the globe offering huge potential for EU exports.



EU SPIRITS EXPORTS TO MERCOSUR

€182,311,320

MERCOSUR

A DEAL FOR REAL?

We hope that EU and MERCOSUR will “walk the walk” and conclude an ambitious trade deal soon. MERCOSUR markets offer great potential for growth although their economic and political environments are challenging. Brazil is by far the largest market, but which is largely dominated by local spirits, mainly Cachaça.

We seek meaningful outcomes by eliminating import tariffs, tackling tax discrimination notably in Brazil where local spirits enjoy a lower tax rate since the reform of the IPI in late 2015, and improving intellectual property protection.

“The Distillery Hijos de Pablo Esparza located in Navarra (Spain) is a family business founded in 1872. 26 employees produce spirits & liqueurs, some protected by a GI such as the “Pacharán de Navarra”. Export activities have increased over the 5 generations. Today, about 10% of our turnover is made outside Europe in the USA, Latin America (Mexico, Panama, Chile, Peru, Ecuador) and in Asia (Taiwan, Japan, Australia). Simplifying customs procedures & cutting tariffs would significantly boost our exports.”

CRISTINA ESPARZA

CEO, Hijos de Pablo Esparza



Cristina, Pablo and Sagrario Esparza.

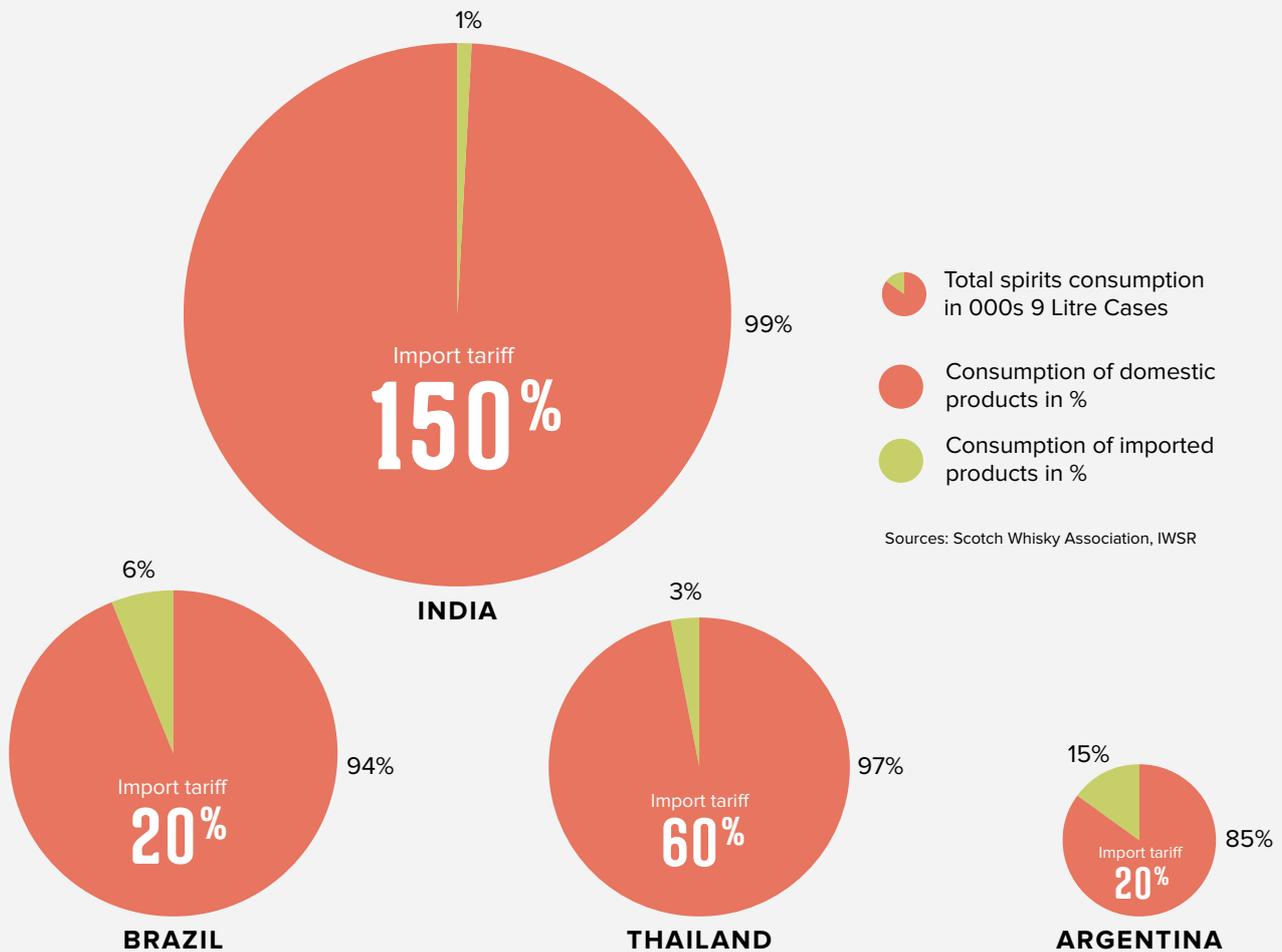
AUSTRALIA & NEW ZEALAND

HIGH EXPECTATIONS WITH THE LAUNCH OF FTA NEGOTIATIONS

These two countries are among the top 20 markets for EU spirits exports, yet are markets with which the EU does not currently have a trade agreement. Australia’s “nuisance” tariff of 5% places EU spirits at a disadvantage, given that key competitors such as the United States already have agreements in place. That said, both Australia and New Zealand

are EU strategic allies when it comes to tackling discriminatory practices in third countries. We hope that FTA negotiations with these markets will look at ways to strengthen the existing cooperation in tackling market access issues and to enforce of international trade agreements in third countries.

Untapped markets with huge potential



INDIA

WE NEED TO ELIMINATE THE 150% IMPORT TARIFF

The Indian spirits market is immense. Between 2005 and 2016, exports to India increased by more than 210% and yet consumption of imported spirits still represents only 1.2% of total consumption. In addition to the punitive 150% import tariff, India consists of 29 States where unexpected changes to regulations or taxation are frequent. European spirits growth in the market is constrained by increasing restrictions on sales, with a number of States moving towards prohibition. Bihar notably introduced a ban on all alcoholic drinks from April 2016.

AFRICA

THE ADVENTURE IS ONLY BEGINNING

The increasing wealth of the upper classes and the growing numbers of middle classes, young people and city-dwellers provides great opportunities for the spirits sector. South Africa is by far our largest market in Africa. Among the top ten African countries, Algeria, Nigeria, and Angola are the most promising countries. Yet the challenges are significant. The informal alcohol market in sub-saharan Africa is estimated to represent 50% of sales. We support the establishment of effective laws and enforcement mechanisms to deal with illicit alcohol – including anti-counterfeit laws, border control systems, market surveillance, licensing regimes.

ASEAN

SEIZING THE OPPORTUNITIES OF THE MOST DYNAMIC TRADING BLOCK

Over the past decade, ASEAN has been a key region to drive growth of European spirits exports and is likely to remain so. While European spirits still represent a small share of markets, our exporters see huge potential.

It is therefore essential for the EU to have an ambitious trade policy towards ASEAN countries, as we continue to face a combination of high tariffs, challenging tax and regulatory environments. We are still facing important tariff barriers in Malaysia, Indonesia, and in the Philippines where EU spirits are now much more challenged since the ASEAN-Australia-New Zealand Agreement allows a duty free entrance to Australian and New Zealand products. In addition, our sector remains hindered by discriminatory excise taxes, particularly in Thailand and Indonesia. Effective and efficient system to recognise and protect geographical indications is essential in ASEAN markets.



EU SPIRITS EXPORTS TO MALAYSIA



SHARE OF EU EXPORTS IN ASEAN MARKETS (export value 2016)

TREND 2006-2016

The Singapore hub is the cornerstone of our supply chain model. We welcome the Commission's efforts to ensure that rules of origin allow for the use of regional hubs that provide for economies of scale – while retaining the eligibility for the preferential tariff agreed in FTAs.



↗ +142%



↗ +146%



↗ +306%



↗ +1434%



↘ -27%



↗ +128%

Source: Eurostat 2016

PROMOTION OF EU FOOD & DRINK PRODUCTS

ENJOY
IT'S FROM
EUROPE



“ENJOY, IT’S FROM EUROPE” IS A CAMPAIGN LAUNCHED BY THE EUROPEAN UNION TO PROMOTE THE VALUE OF EUROPEAN AGRICULTURAL PRODUCTS AND FOODS OUTSIDE ITS BORDERS.

Very useful for the spirits sector are the market visits led by Commissioner Phil Hogan. Missions to Colombia, Mexico, Vietnam, Singapore, Indonesia and to Canada represent great opportunities to forge long-term cooperation between European and local companies in these markets; and also to address some of the barriers faced by the European exporters. An important part of the promotion effort by DG AGRI is on geographical indications.



Commissioner Phil Hogan & Paul Skehan during the trade mission to Canada in May 2017.

EU FOOD & DRINK PRODUCERS PROCESS ABOUT 70% OF THE EU’S AGRICULTURE OUTPUT



“Nearly 15% of the wheat grown in the southern parts of Sweden goes into producing Absolut Vodka, including a very large share of my own production. I am proud because Absolut Vodka is one of the biggest Swedish export products in the food & drink sector”.

TORGIL FOLGER

Owner of Skepparlövs Gård Farm. Torgil and his family are the third generation at the farm.

Swedish Vodka belongs to the list of the 200+ spirits GI protected by the EU.

“GIs account for 2/3 of EU spirits exports, generating growth & jobs back in the European regions.”

NON-TARIFF BARRIERS



Many markets, such as China, India, Russia or the East African Community are seeking to adopt or update regulatory spirits definition and standards. Even if these standards do not need to be identical to the EU standards, they need to be compatible in order to not become non-tariff barriers. The definitions should be complete and cover all types of beverage alcohol products; so there is clarity on what any spirits should be called when placed on the market, without ambiguity. In addition, product categories that are internationally recognised as geographical indications and whose identity and technical specifications are prescribed by their country of origin should be recognised in national standards.

“In 75% of cases concerning labelling requirements, compliance is difficult due to various procedural obstacles, such as time constraints, transparency issues, costs related to compliance and difficulties with translation”

“Almost half of companies exporting agri-food products report trade related problems other than tariffs”

Navigating non-tariff measures – Insights from a business survey in the European Union – International Trade Center and European Commission 2016.⁽¹⁾

⁽¹⁾ Doc n° MAR-16-66.E - http://trade.ec.europa.eu/doclib/docs/2016/december/tradoc_155181.pdf

BREXIT – A NEW CONSTRUCTIVE PARTNERSHIP NEEDED

The perspective of Brexit has certainly opened a new era for the European spirits sector. The UK produces iconic spirits such as Scotch Whisky, London Gin and others that are highly successful in Europe and around the world. We have shared interests, both human and corporate, based on positive, welcome integration over the last 44 years. The European Council and the British Prime Minister have emphasized the need for the EU-27 and UK to remain close partners in the future. We welcome these commitments to minimize disruption to the trade flows between us.



10 TAKEAWAYS TO STRENGTHEN SPIRITS EXPORTS

Seek ambitious trade agreements with emerging high-growth markets.

Ensure the implementation and effective enforcement of FTAs.

Minimise the Brexit impact on FTA's negotiations.

Complete ratification process of CETA.

Promote EU food & drink products in third countries.

Preserve the essential role of WTO.

Enhance the protection of intellectual property rights and promote geographical indications.

Tackle illicit trade by enhancing public and private sectors partnerships and conceive new approaches for effective policy strategies.

Devote additional staff resources to trade agenda within the Commission.

Recognise the strategic importance of small distilleries and promote their internationalisation.

€10 203 446 238

export sales outside the EU

€ 22 699 043 040

in excise duties & VAT for
exchequers in EU-28

1 000 000

EU JOBS IN PRODUCTION & SALES

402+

PREVENTION
PROGRAMMES

31

national
associations

8

MULTINATIONALS

1 *organisation*



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