

TRADE REVIEW 2018

IN TRADE WE TRUST



 FOREWORD

**CÉCILIA MALMSTRÖM**

European Commissioner in charge of Trade

Europe is renowned over the world for the quality of its food and drink products, many of which are iconic. Demand for such products is high and growing. This presents huge opportunities for Europe's producers, including the spirits sector with its dynamic combination of traditional and innovative products. Its presence across the European Union means strong exports bring benefits in terms of jobs and growth to communities across our continent.

The industry's importance to Europe's economy is why when negotiating trade agreements with partners the EU is keen to dismantle tariffs and trade barriers to these quality goods. With over 90% of future global growth forecast to take place outside the EU, it is vital that Europe's producers can access expanding markets around the world.

At the same time, we need to ensure that traditional spirits that have been granted geographical indication status because of their special quality or features are protected from imitations in overseas markets. That is why

the EU also ensures that its trade agreements protect intellectual property rights such as geographical indications. And, of course, consumers benefit too because they can enjoy the genuine article.

In 2017, the EU's trade agreement with Canada, CETA, entered into force. In the same year, the EU concluded an Economic Partnership with Japan. With a combined population of 163m, these wealthy countries represent important export markets for European spirits producers. So far in 2018, we have reached a political agreement on a new trade agreement with Mexico, a growing market of 127m consumers, and our talks with the 286m strong South American trading bloc Mercosur and other partners are continuing apace.

Europe's food and drink products are emblematic of the importance we Europeans attach to high standards. Together, we can work to safeguard and create jobs in Europe while enabling consumers around the world to enjoy these quality products.

SPRITSEUROPE: OUR EU TRADE MANIFESTO

In trade we trust... more than ever!

As spiritsEUROPE, we support and promote an ambitious EU trade policy based on the values of fairness and sustainability. Looking back at 2017, we are proud to say that the European spirits sector has, once more, continued to export successfully across the world. Yet this is not the time to become complacent.

As this brochure shows, there are plenty of challenges but many opportunities as well!

We are proud to be an active voice on trade policy.

We believe in the value of a rules-based and predictable global trade environment. Today, this framework is experiencing pressure. We are certain neither consumers nor business can win trade wars.

Trade is no secret - our recipes might be! We want to explain the benefits of trade and how it creates jobs and growth in our sector. We welcome and support the EU's commitments to expand transparency and dialogue to shape the new generation of trade policies.

TO PRESERVE MARKET ACCESS AND SUPPORT OUR SECTOR IN REACHING OUT TO NEW TERRITORIES, WE CALL ON EU DECISION-MAKERS TO:

- ✓ Pursue the bilateral agenda and conclude ambitious trade deals with Mercosur, Indonesia, Australia and New-Zealand. The same ambition should apply for the trade deal with the UK.
- ✓ Ratify and implement the Free Trade Agreements with Vietnam, Japan and Singapore.
- ✓ Ensure bilateral agreements are fully implemented both in letter and spirit.
- ✓ Preserve the essential role of the World Trade Organisation, in particular the dispute settlement body.
- ✓ Strengthen tools and resources to address Intellectual Property Rights infringements.
- ✓ Invest further into economic diplomacy to promote EU food & drink products in third countries.
- ✓ Help businesses to seize opportunities in the growing African markets.
- ✓ Recognise the strategic importance of small distilleries in Europe and support their international growth.

CHALLENGES FACING THE INDUSTRY

EUROPE'S SPIRITS SECTOR: COMMITTED TO BUILDING STRONG BRANDS AND GREAT PRODUCTS KNOWN AND APPRECIATED ACROSS THE WORLD

"I strongly believe in free trade and fair competition. Ensuring that these principles are truly implemented internationally is critical to our sector's growth. 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 innovation. In that process, we need the full support of European leaders to lift the trade barriers we are facing across the world."

CHRISTIAN PORTA

Managing Director, Global Business Development of Pernod Ricard and President of spiritsEUROPE



EUROPEAN SPIRITS EXPORTS AT ALL-TIME HIGH

 **€10,7 billion**

COMPARED WITH 2016
+5%
in value

EVERY HOUR
€1.2
million

COMPARED WITH 2007
+4
billion

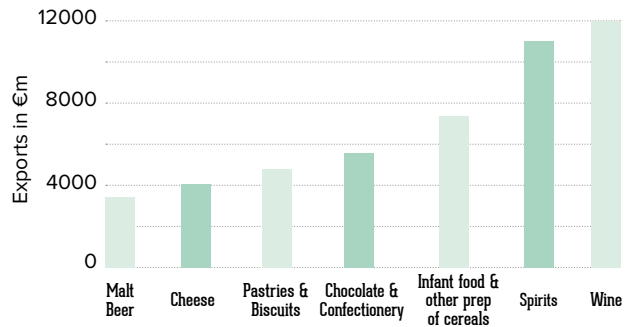
Source: Eurostat 2017

POSITIVE TRADE BALANCE FOR THE EU

€9bn

Export: **€10.7bn**  Import: **€1.6bn**

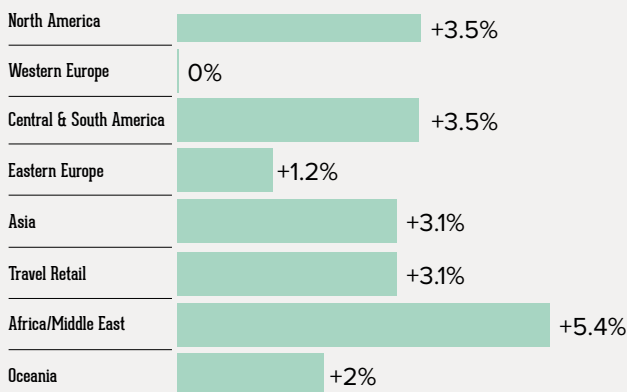
MAIN EU AGRI-FOOD EXPORTS 2017



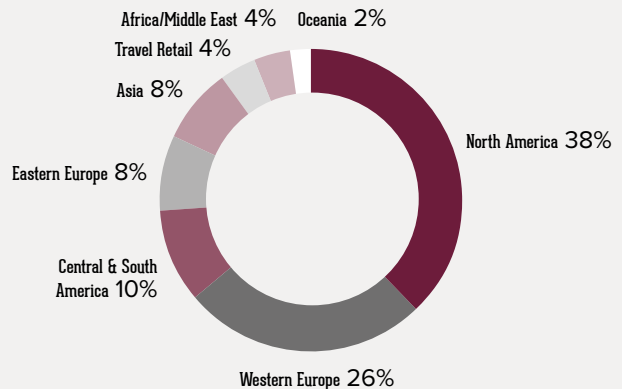
Source: Eurostat-DG AGRI

THE PERSPECTIVE FOR SPIRITS GROWTH IS CLEARLY OUTSIDE THE EU

EVOLUTION OF GLOBAL SPIRITS CONSUMPTION BY GEOGRAPHICAL REGION



BREAKDOWN OF GLOBAL SPIRITS CONSUMPTION BY GEOGRAPHICAL REGION



Source: Pernod Ricard Annual Report 2016-2017 - IWSR volume data - International Spirits

WHISKIES



With 39 bottles shipped overseas every second, whiskies are the world's n°1 traded spirit - a category driven by the worldwide success of **Scotch Whisky**. The 126 distilleries licensed to produce Scotch Whisky directly employ more than 10,000 people.

? **DID YOU KNOW?** In the UK, many consumers enjoy Scotch with a splash of water, whereas in Spain they tend to prefer cola. In Japan, Scotch is enjoyed with lots of water and ice, while in China it is often served with cold green tea.

Irish Whiskey has been distilled in Ireland since the 6th century. Production is now booming again with exports set to double over the next 3 years. In 2013, only 4 distilleries were left in Ireland. Today, there are 18 newly opened distilleries in operation and another 16 in planning. Ireland's Whiskey Renaissance is driven by international trade.

? **DID YOU KNOW?** Today, there are 12 distillery visitor centres in Ireland. Visitor numbers rose by 11% last year, to 814,000.

SPIRITS EXPORTS BY CATEGORIES IN 2017

WHISKIES
€4,512m

COGNAC
€3,199m

LIQUEURS
€1,051m

VODKA
€884m

GIN
€404m

RUM
€130m

OTHERS
€561m

COGNAC



Cognac is France's gift to the world. For the last 10 centuries, international trade has been a historical priority for the Cognac Region. Today, 98% of Cognac production is exported. With a continuous 3 years growth, exports have peaked in 2017 (+10.3%). 60,000 people work in the Cognac sector, including wine growers, merchants and professional distillers.

? **DID YOU KNOW?** A typical Cognac Master Distiller tastes up to 50 samples a day. It takes more than 10 years to master the art of tasting & selecting the right samples to achieve the same consistent quality product every year.

 THE BILLION EURO CATEGORIES – BUILDING GLOBAL REPUTATION



GIN

Gin is another booming category. Exports have doubled in value over the last decade. The UK is the world's n°1 gin exporter. Britain sends more gin around the world than beef. Last year, gin exports have increased 12% by value and 7% by volume. The UK mainly exports to the USA and much less to Asia or Oceania.

? DID YOU KNOW?
 Gin originated in Holland in 1550. Prof. med. Franciscus de la Boe was searching for a cure for stomach pain using the diuretic properties of juniper berries. He created the infusion that he named Genever, which soon became popular as an alcoholic drink.

LIQUEURS

What would the world be without liqueurs? From coffee to nut, fruit to mint, herbs to cream the range of flavours and usage seems sheer endless. Liqueurs can be found in cocktails or in gastronomy to enrich traditional food recipes! In the last decade the category grew by 36%. The n°1 exporter is Ireland with cream liqueur tailed by France (national production's exports: 53%) and Germany.

? DID YOU KNOW?
 Every 2 years there is the "Printemps des Liqueurs", organised by the French Liqueurs Trade Association. During that time, more than 30 distilleries across France open their doors for visitors. 80% of them are SMEs and they have more than 2,000 passionate employees.



VODKA

Vodka is a pure distilled spirit that is made from grain or potatoes and other agricultural products. In 2013, EU exports peaked at over €1bn, with half of them sent to the USA. Ever since, exports particularly in the USA, where Vodka seems to lose against Tequila and Whisky, have declined (20%). Poland is the n°1 nation in production while Sweden is the n°1 for exports.

? DID YOU KNOW?
 Vodka has its very own international platform: under the roof of the Global Vodka Alliance producers, experts, journalists and bartenders work together to inform and "educate" consumers on the depth and complexity within the vodka category.



**EU RULES ON SPIRITS DRINKS
SET HIGH QUALITY STANDARDS
THAT CONSUMERS CAN TRUST
AT HOME AND ABROAD**

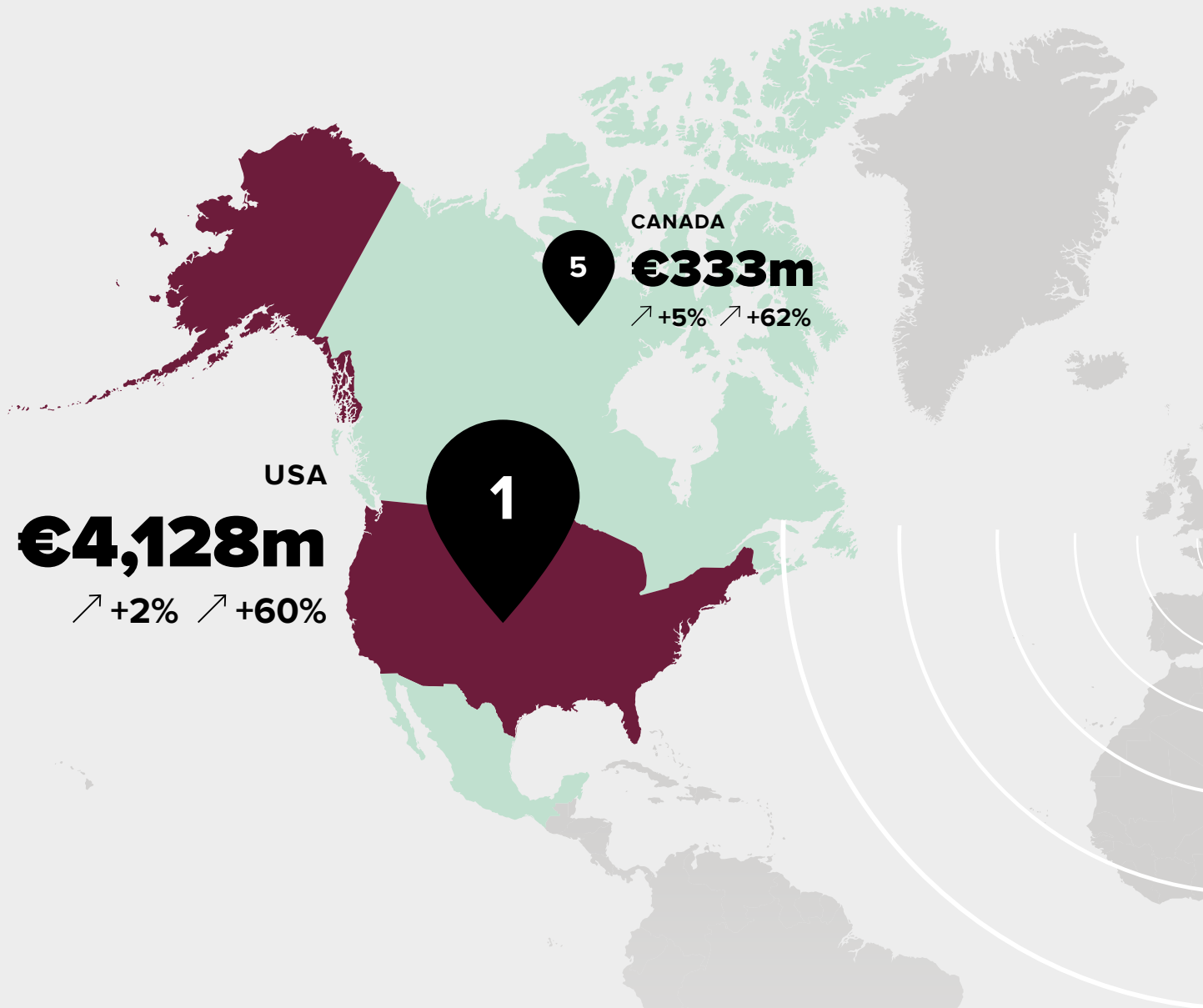
**ENJOY:
IT'S FROM
EUROPE**

EU spirit drinks have been defined and protected in EU law for over 30 years. These laws are of critical importance in protecting traditional production methods for the wide variety of spirits made in Europe and providing a strong legal framework for the many 'Geographical Indication' (GI) spirits with a reputation well beyond the EU's borders.

While the spirit drinks regulations have kept protection within the EU, they also have an important extra-territorial impact. The key element is that any spirits exported must also comply with EU requirements even if the rules are less strict in the importing country. The EU's renown for high quality spirits is global so producers strongly support the requirement that, irrespective of the market, consumers can be confident the drinks meet EU's standards, often the strictest in the world.

In addition, imported spirits must also comply with the EU's rules: thus, all whiskies sold in the EU need to be made from cereals and be matured for 3 years; liqueurs must have a minimum 100g/l sugar content; brandy must be made from wine spirit and be matured. This means EU consumers can also be certain the spirits they drink are all made to the same high standards.

TOP TEN EXPORT MARKETS 2017

**Overall direct exports sales**

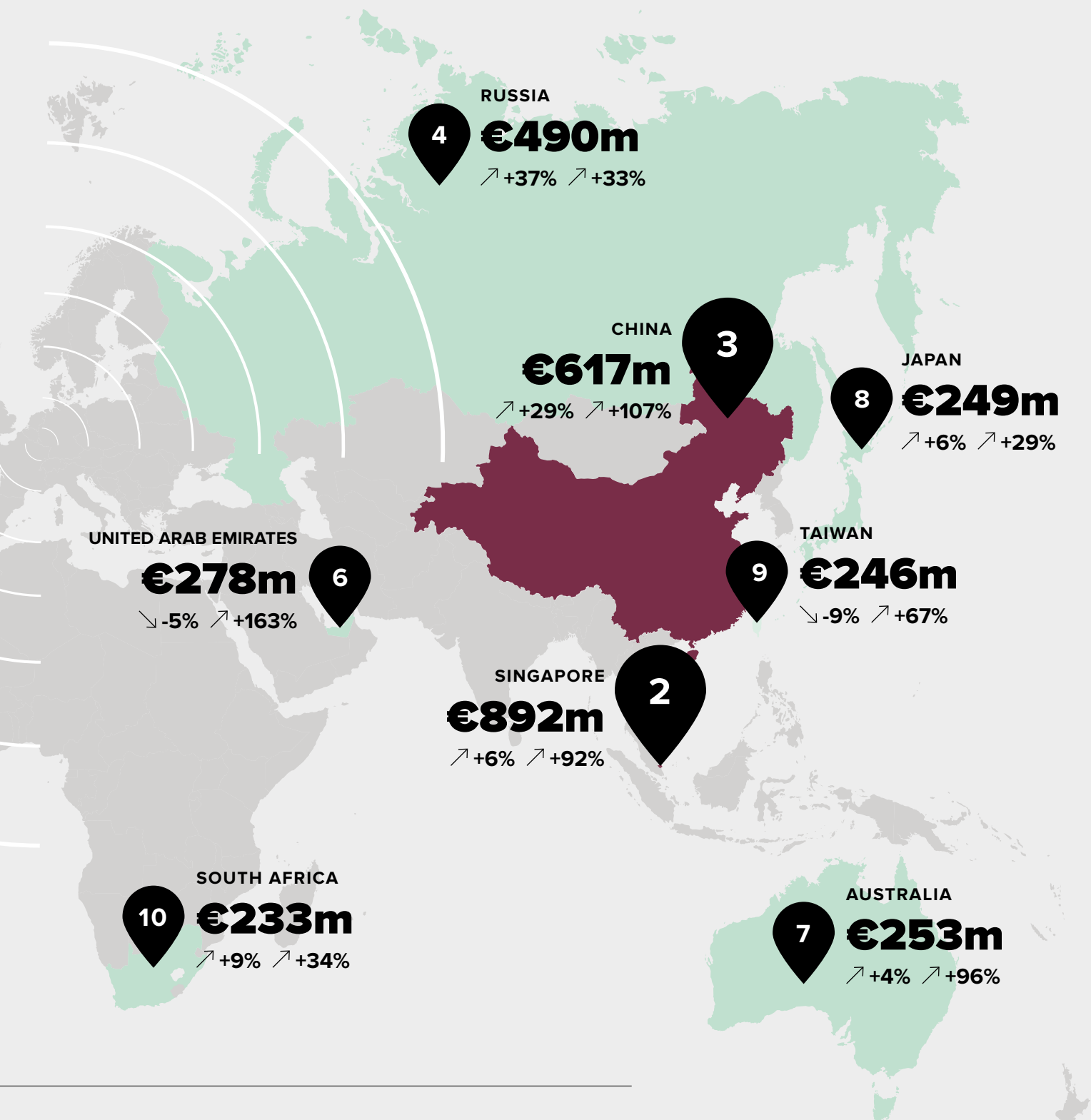
↗ 1 YR TREND (2016-2017) ↗ 10 YR TREND (2007-2017)

Source: Eurostat 2017



EUROPEAN SPIRIT DRINKS ARE FEEDING THE IMAGINATION OF MIXOLOGISTS AROUND THE WORLD AND HELP TO BOOST THE GLOBAL REPUTATION OF EUROPE

 GEOGRAPHICAL INDICATIONS ACCOUNT FOR 2/3 OF EU SPIRITS EXPORTS



“We always try to source new products that are not easily available and might be unique for many clients. I could not imagine working without the great variety of high quality spirits coming from Europe. It is fascinating to see such a wave of creativity in production but also in cocktail making”.

KEVIN DEMERS

owner of The Coldroom / El Pequeño bars in Montreal

 OUR TRADE SUCCESS IS DRIVING GROWTH AND JOBS FOR OUR SUPPLIERS


ADELINE FARRELLY

Secretary General of the European
Container Glass Federation (FEVE)

MESSAGE IN THE BOTTLE

“Spirits is one of our leading segments, representing 8% of total glass bottling packaging production in Europe. Thanks to the sustained trade success of spirits and wine producers worldwide, European glass packaging benefits significantly in terms of growth and jobs. We are proud that glass remains the reference packaging material for the spirits sector. We help our customers convey a message of premiumisation to consumers all over the world and product value in terms of aesthetics, taste and quality preservation. Glass ties in well with the cultural heritage of spirits, too.

In 2016, our industry produced some 80bn units in Europe, marking a yearly growth of 3%. The strong trade relationship with the spirits sector helps make the European glass packaging industry a vital industrial player in Europe’s competitiveness - contributing up to €9.5bn to EU GDP, maintaining up to 125,000 jobs directly and indirectly”.

 A TRADE POLICY FOR ALL: THE BENEFITS FOR CRAFT DISTILLERS

A NEW KID ON THE BLOCK WHO IS ALREADY LOOKING ABROAD

“Like many great ideas (and half of the Finnish population), the idea for Kyrö Distillery Company was conceived in a sauna by a group of friends with a shared love of rye whisky. We fired up the stills in 2014 and since then more products such as gin and liqueurs have enriched the family. Despite winning Awards in Europe & Asia, we are very much a craft operation with 20 employees, and over 12 000 visitors per year in the small town of Isokyrö.

Right from the start, the ambition of our young team was to grow abroad. This was made easy by the international rules governing our production and distribution. Today, our products are enjoyed by the descendants of the Finnish lumberjacks who emigrated to North America in the XVIII Century but also in Japan, Hong Kong, Taiwan, Singapore”.

MIIKA LIPIÄINEN

one of the founder and CEO of Kyrö Distillery



LET'S NOT TAKE SUCCESS FOR GRANTED: THE CHALLENGES AHEAD



Article III.2 of the GATT on National Treatment on Internal Taxation and Regulation

It clearly sets an obligation to apply “similar taxation to directly competitive or substitutable products”, so as not to afford protection to domestic production.



The role of EU FTAs is essential to secure the competitiveness of European business

If we embark in negotiations with countries where a discrimination exists, we need strong and clear language to remove it. Similarly, we need to provide for binding commitments that countries will not be tempted to increase taxes to compensate for any perceived ‘loss’ in the context of tariff liberalisation.

Despite good progress thanks to recent EU trade agreements, European spirits exporters still face **High Import Tariffs** in markets offering huge potential for more exports such as **India** (150%); **Thailand** (60%); and **Indonesia** (150%).

The **full tariff elimination upon entry into force of the Mercosur** agreement is the first priority of our sector. As spirits’ exports from Mercosur countries already benefit from a zero tariff when entering the European market, such a concession is essential if we want this agreement to represent a real economic opportunity for us. On a positive note, in late 2017 **China** halved its import tariff on some spirits from 10% to 5%.

Efficient Custom formalities

are key to minimise complexity and cost of trade. We need to ensure that trade agreements recognize the use of logistics hubs



TRADE FACILITATION
AGREEMENT

It is also essential to seek consistency and predictability in the valuation of imported goods.

Fighting **Tax Discrimination** is essential for our small and large companies to successfully build market share abroad.

The entry into force in January 2017 of the Alcohol Reform Bill in **Colombia** has created a more stable and predictable business environment for importers. Nevertheless, the remaining **exploitation charge** continues to discriminate against European spirits exporters.

Thailand continues to apply a discriminatory, favourable tax treatment to its locally produced spirits. Since 2015, **Brazil** grants a discriminatory, favourable tax treatment to its iconic “Cachaça” which represents 80% of the Brazilian spirits market.

In **Peru**, the excise tax applied to imported spirits is ten times higher than for domestic Pisco.

LET'S NOT TAKE SUCCESS FOR GRANTED: THE CHALLENGES AHEAD

A strong **protection of Intellectual Property Rights**, be it trademarks or GI, is essential to preserve these key assets for European spirits producers. Effective recognition and protection of GIs in FTA should therefore remain a priority.

How do you define a spirit drink? This is a valid question and **divergence of standards** for product definition and presentation can be a bigger barrier to market access than tariffs. Uniform and clear rules both help protecting consumers and developing the spirit sector in a given market. While not being identical, we call on partners to ensure these set of rules are compatible with current EU standards and do not generate barriers to trade. We are very attentive to recent development of standards in **India**, **China** as well as in **Eastern African** countries.

Unequal **labelling and packaging rules** can also restrict trade.



The proliferation of rules can make it very difficult for SMEs to diversify exports. In 2017, **South Africa** passed a legislation providing for companies to rotate 7 warning messages over 3 years. This is simply not feasible for most producers and impossible to enforce.



Regulatory convergence in trade deals

As part of the modernisation exercise of their trade relations, the EU and **Mexico** have agreed, for the first time, on a set of principles that apply to spirits in terms of labelling, presentation and certification. This is a great achievement to be replicated in other trade agreements.



Call for regulatory transparency

The role of the WTO committee structures is central to allow for notification of draft regulations. EU trade agreements create committees which provide the frame for discussing likely concerns on regulatory changes. For **Canada**, the CETA wine and spirits committee will first meet in July 2018!

THE SPIRITS SECTOR ATTRACTS INVESTMENTS IN EUROPE



“When the first whisky producers of Japan (Suntory) joins one of the first Bourbon producers in the US (Beam), you end-up with one of the world’s leading premium spirits company. Europe is strategically critical for the growth of our business. The sophistication and education of European consumers combined with the stable political and legislative predictable environment are the best arguments for Beam Suntory to invest in European distilleries, productions sites and distribution networks for our brands. We have 1,500 employees in Europe. Indirectly we generate even more if we count in the jobs along the supply chain, bars and shops.”

MANFRED JUS

Managing Director, Western Europe – Beam Suntory

We support proportionate, evidence-based public health measures that legitimately tackle issues related to harm reduction. As recognised in the WHO's Global Strategy, international trade rules allow governments ample "policy space" to issue effective, non-discriminatory regulations to protect public health. There is no correlation between trade liberalisation and an increase in alcohol misuse. On the contrary, with regards to spirits, we bring trusted, high quality products to markets in which illicit and informal products, which carry their own substantial health risks, tend to flourish.



BREXIT

The task ahead of us is to achieve the best possible Brexit solution for citizens and economy on both sides.

- We call for one set of changes, well prepared and understood by the end of the transition. We would hope that the transition will be extended in case of failing an agreement.
- No hard border in Ireland. The Irish whisky and spirits industry operates on an All-Island basis with seamless cross-border supply chains. It is hence curtail that these are protected from dividing rules or disruptive excise or tax requirements.

We need a deep EU-UK comprehensive trade agreement. This must be achieved quickly, securing tariff-free trade for spirits, fair competition and supporting consumer confidence in our products.

PROTECTION OF GEOGRAPHICAL INDICATIONS IS KEY FOR THE SPIRITS SECTOR AND NOT JUST IN EUROPE

"As representative of Tequila producers we share very much the same objectives and concerns as our colleagues at spiritsEUROPE. Tequila is a Geographical Indication similar to the 240+ GIs protected in Europe. Produced in 181 municipalities over 5 states in Mexico, Tequila consumption is booming all over the world and the production is a source of pride, growth and jobs for many Mexicans. We - like the Europeans - do our utmost to get our GI protected in international trade agreements and very often we work together in opening market access and fighting discrimination against imported products."

KARINA LEY PARRA

Director General of the National Chamber of the Tequila Industry (CNIT)



 FULL STEAM AHEAD ON ECONOMIC DIPLOMACY

SPIRITSEUROPE'S VISIT TO CHINA IN MAY 2018

For the 3rd year running, spiritsEUROPE joined a High-Level EU Businesses Delegation led by Agriculture Commissioner Phil Hogan to promote the "Taste of Europe" abroad. This year's destination was China. Beyond the economic value, the visit gave us the chance to recognise the chances and challenges that European spirits face in this huge market. The expected progress of the EU-China GI Agreement will be a major milestone. We also addressed the required dialogue between EU and China on setting standards of production and the rules applying to export of spirit drinks. In 2017, we greeted the decision of China to delay the introduction of the export certificate and we anticipate a satisfactory result for businesses and authorities.



China is a very attractive market which grew in value by 107% over the last decade. At the same time, China is the largest consumer of spirits worldwide. Local producers still lead the market with the Chinese favoured spirit baijiu (98% market share). With the sophistication of the Chinese consumers consumption and taste the largely untapped Chinese market has huge potential.



"I am confident that we can build on current success to achieve even more. New export markets are opening up, and more and more consumers are looking for high quality products. With smart promotion and the right support in term of regulation and trade, European spirit sales will continue to play a leading role in the creation of growth and jobs."

PHIL HOGAN

Commissioner in charge of Agriculture & Development

NATIONAL TRADE ASSOCIATIONS PROMOTING THE USE OF EU TRADE DEALS: CETA IS NOW

In February 2018, following the recent implementation of CETA, Walsh Whiskey joined the Irish Whiskey Association for a business trip to Canada to seal a new agreement with Woodman Wines & Spirits Inc of Toronto.



Bernard Walsh, Founder & Managing Director of Walsh Whiskey Distillery; Jan Westcott, President & CEO of Spirits Canada (Association of Canadian Distillers) and Russell Woodman, Chief Executive, Woodman Wines & Spirits.

"CETA gives us the scope and confidence to take our business with Canada to the next level by providing our partners with our entire portfolio to meet growing demand for premium Irish whiskey."

BERNARD WALSH

Founder & Managing Director of Walsh Whiskey Distillery

WHY TRADE MATTERS... ALSO TO YOU!

TRADE NOW



In November 2017, we launched **www.trade-now.eu**: a unique online tool to get people eager about trade, to mobilise support for trade, to drive engagement and to inform people why trade is good.

GETTING INVOLVED HAS NEVER BEEN EASIER: MAKE YOUR VOICE HEARD & CONTRIBUTE TO THE DEBATE!

Share your views on social media: #TradeNOW; take out a banner for your organisation; go to the website and share your trade stories or simply pick and choose 3 reasons why you support trade!

Up until NOW, the debate about trade has often been partial: one side has stolen all of the headlines and taken them to the corridors of the European Parliament. This led to a narrow and ill-informed debate, which has left many Europeans in the dark about how trade would improve their lives. Trade-NOW.eu is our unique support to rectify this imbalance, showing how trade can be a win-win.

NOW is the time for the silent advocates of trade to be heard. There are three key principles behind Trade NOW:

→ WE WANT TO PUT PEOPLE AT THE HEART OF TRADE.

Trade allows people to prosper: it means more choice, better quality and higher standards of living. Further, trade creates jobs and gives millions of people an income. Trade puts food on the table. Trade pays the bills. Without trade, these things would become a struggle for many.

→ WE NEED DOING BUSINESS, BETTER.

Trade and growth go hand in hand: trade creates unique opportunities for European businesses, notably for small to medium sized ones for which the rest of the world would else remain beyond horizon. When European businesses lead the way, they set the standards globally!

→ BUT IT TAKES TWO TO TRADE.

In a world that feels like it is becoming more divided and closed off, European citizens want to secure a Europe that is open. Trade builds bridges, strengthens our ties with our allies, and helps us forge new friendships all over the world.

www.trade-now.eu

 #TradeNOW



€10 741 390 355

export sales outside the EU

€ 22 415 756 939

in excise duties & VAT for
exchequers in EU-28

1 000 000

EU JOBS IN PRODUCTION & SALES

450+

PREVENTION
PROGRAMMES

31

national
associations

8

LEADING
INTERNATIONAL
COMPANIES

1 *Strong Common Voice!*



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WWW.SPIRITS.EU

