EU SPIRITS, SUSTAINABLE GROWTH, AND SUB-SAHARAN AFRICA

spiritsEUROPE Africa Strategy

(*June 2020*)

EXECUTIVE SUMMARY

- spiritsEUROPE warmly welcomes the EU Commission's renewed strategic approach to Africa which envisages a comprehensive and mature partnership between Europe and Africa and explicitly recognises the role the private sector plays in supporting sustainable economic growth.
- Irrespective of the impact of the Covid-19 pandemic, Sub-Saharan Africa is a region with significant growth potential for the EU spirits sector. However, to harness the potential and opportunities Sub-Saharan Africa offers, significant improvements to the business environment and investment climate are required.
- Illicit trade in alcoholic beverages, high tariff and tax burdens, lengthy and unclear customs procedures, discriminatory treatment of imported spirits, non-recognition of product specifications of some EU spirit drinks geographical indications (GIs), and excessive alcohol policies are key barriers to trade when exporting to Sub-Saharan Africa.
- spiritsEUROPE's key asks regarding the harnessing of the benefits of a renewed EU-Africa relationship revolve around
  - Market access and trade liberalisation, including e-commerce opportunities;
  - Representation of sector interests in new EU-Africa trade agreements or extensions of existing EPAs;
  - WTO compliance and/or enforcement of WTO rules;
  - EU support for African partners as regards good governance, in particular concerning the fight against illicit trade;
  - Promote regulatory cooperation to encourage the development of high quality products with high standards of food safety and traceability.
  - Public-private consultation and dialogue with the EU spirits industry.
- With a view to measures taken to combat the Covid-19 pandemic we would urge the Commission to resist any protectionist attempts to discriminate against EU spirits when African governments ease Covid-19 restrictions. Instead, the Commission should advocate the adoption of non-discriminatory, evidence-based tax and regulatory measures and lobby in support of the industry where protectionist measures are introduced.
- spiritsEUROPE welcomes the establishment of an AU-EU Agrifood Platform to unlock the potential of the agri-food industries. Our member companies are willing and keen to engage and contribute to the work of the Platform.

INTRODUCTION

spiritsEUROPE is the representative body of the European spirits sector. Its members comprise 31 national associations and 10 global spirits companies. We are proud to represent leading producers and exporters of spirits worldwide.

EU spirit drinks are enjoyed by consumers around the world. **With exports worth €12.4 billion in 2019, representing 44% of overall export value, spirit drinks are the EU's most valuable agri-food export**. Last year, with an export value of €536.2 million, Sub-Saharan Africa accounted for 4.3% of all EU spirits exports worldwide. Compared to other world regions its share is small. However, it is worth noting that the value of EU spirits exports to Sub-Saharan Africa has more than tripled over the last 15 years, from €173.3 million in 2004 to €536.2 million in 2019.

Before the outbreak of the **Covid-19 pandemic** this trend was expected to continue, however, the outlook is much more uncertain now. It remains to be seen how and to what extent the health crisis will impact African economies in the short and medium term. Regardless of the pandemic's likely heavy economic toll the EU spirits industry remains committed to investing in Sub-Saharan Africa.

On the basis of the export performance in recent years **the EU spirits industry**, parts of which have been trading with Africa since the late 1800s, **has identified Sub-Saharan Africa as a region with significant growth potential** over the next decade and beyond. We therefore attach great importance to the strengthening of the partnership between the EU and the African Union (AU) as well as with individual African countries and developing new mutually beneficial trade relations.

2020 is a pivotal year for EU-Africa relations with the new Partnership Agreement between the EU and the ACP Group of States expected to be concluded and the next EU-AU Summit to take place in October. **spiritsEUROPE welcomes the EU's recent Communication on a more ambitious partnership with Africa which will serve as a basis for a new strategy between the two continents.**[1]

We support the proposed new strategic approach which envisages a comprehensive and mature partnership between Europe and Africa and **explicitly recognises the role the private sector plays in supporting sustainable economic growth**.

SUB-SAHARAN AFRICA – A REGION WITH SIGNIFICANT GROWTH POTENTIAL AND PARTICULAR CHALLENGES

It is expected that, by 2050, every fourth person in the world will be African. The continent is home to the world's largest free trade area and a 1.2 billion-person market. **Across Africa economies have been growing**, albeit often from a small base and with unequal distribution of wealth. The opportunities Sub-Saharan Africa offers are vast, but the challenges the continent faces are grave and persistent.

According to the World Bank four of the fastest growing economies in the world in 2019 were in Africa: Cote d'Ivoire, Ethiopia, Ghana, and Rwanda. At the same time, recovery in Nigeria, Angola, and South Africa - the region's three largest economies - has remained fragile. Excluding Nigeria, South Africa and Angola, growth in the rest of the subcontinent was expected to remain robust, however, at present it is yet uncertain how deeply the economic fallout of the Covid-19 pandemic in 2020 will impact countries in Sub-Saharan Africa.

[1] "Towards a comprehensive Strategy with Africa" (9 March 2020)

Amongst the EU spirits industry's key destinations on the African continent are South Africa, which is by far the largest export market and accounted for €255 million in 2019, **Nigeria** (€92 million), **Kenya** (€19 million), and **Ghana** (€17 million).[2]

Exports of EU spirits to Nigeria have recorded rapid growth in recent years. Spirits exports to Nigeria were worth €92 million in 2019 and thus far exceed the value of €70 million reached in 2018, a 31% increase in just one year. The volume of sales of Irish whiskey in Sub-Saharan Africa increased by 34% between 2014 and 2019, and shipments of Cognac to Sub-Saharan Africa by 36.7%, rising from around 10,700 hlpa to over 14,600 hlpa.[3]

The increasing demand for EU spirits across Sub-Saharan Africa is evidence of the rise of a more affluent and aspirational consumer base in many African markets. Economic growth leads to growing prosperity and a growing middle class. **An increasingly urbanised, educated, and economically empowered young population is developing a taste for luxury products and international quality spirits.**

However, in order to harness the potential and opportunities that Sub-Saharan Africa offers, **significant improvements to the business environment and investment climate** are required to help European exporters overcome the serious market access and regulatory challenges that are prevalent in many African markets. Sub-Saharan Africa remains a region with many challenges for international traders.

These obstacles to trade range from **high tariff and tax burdens, which fuel the illicit trade,** to **lengthy and unclear customs clearance procedures, discriminatory treatment of imported spirits, non-recognition of product specifications of some EU spirit drinks geographical indications (GIs),** and **excessive alcohol policies**. Widespread corruption, currency fluctuations or lack of currency reserves, poor infrastructure, intermittent energy supply (or lack thereof), as well as an often volatile political climate aggravate trading conditions for EU businesses operating in Africa.

In addition, there are **significant external risks** that Sub-Saharan Africa, and the wider world, are exposed to - as the **Covid-19 pandemic** illustrates - and which have the potential to undermine the future economic development in the region.

Covid-19 and the EU spirits industry in Africa

- *The African continent is particularly vulnerable to the public health and concomitant economic crisis generated by COVID-19. As local employers, customers, producers in African markets some of spiritsEUROPE member companies are deeply invested in helping address the crisis and have responded quickly to the immediate needs.*
- *The initial focus has been on immediately actionable areas like the provision of hand sanitiser and encouragement around health and safety protocols, by e.g. using social media channels to spread hygiene messages or printing and distributing hand washing and other government approved advice posters/leaflets through companies' supply network/sales.*
- *Since the emergence and spread of coronavirus the regulatory landscape has been moving quickly in many African countries, including major limitations on transport and wider movement, the closure of the 'on-trade' (bars and restaurants) and limited off-trade (shop) sale, or even alcohol prohibition, as well as curfews.*
- *Many companies have a localised model in Africa with supply chains that extend to the 100,000s through the many smallholder farmers who produce their grains, the outlets which sell their*

[2] See Table in Annex 1 for the TOP10 export markets for EU spirits in Sub-Saharan Africa in 2019.
[3] See Chart in Annex 2 for EU spirits exports to TOP10 Sub-Saharan export markets by spirits category in 2019.

brands, and the suppliers and partners they work with in manufacture, distribution and sale. These supply chains are vast and deeply embedded. Long-term lockdowns and restrictions therefore go far beyond simply not supplying alcohol and the shutdown of production sites.

- *Supporting employment in Africa is an imperative during the current crisis and impending economic downturn. Keeping distilleries and other production facilities operational contributes to employment and the economy, as does ensuring employment for hospitality sector workers. It is thus critically important that businesses are in a position to rapidly ramp-up capacity and support a swift economic recovery as the health crisis eases. Maintenance of the entire supply chain is required, as failure of any single component will stall all other, interlinked economic activities.*
- *Business in Africa is to a very large extent driven by the on-trade. This means that one of the most alarming impacts of COVID-19-related alcohol bans and restrictions has been the exponential growth of the illicit trade. Restrictive policies, when there is an absence of other legitimate channels to purchase alcohol, drive consumers towards illicit channels. According to the WHO, about a quarter of all alcohol consumed around the world is unrecorded. In Africa, unrecorded alcohol makes up 32% of all consumption and over 60% of all alcohol is illicit in the East African countries of Malawi, Mozambique and Uganda. This number is expected to exponentially grow during the COVID crisis and in its aftermath. Besides the alarming public health impact, a growth in the illicit market prevent governments from collecting revenue at a time when they need it the most.*
- *The Covid-19 situation across the continent remains fluid, and spiritsEUROPE continues to monitor and assess developments. Despite the likely heavy economic toll of the pandemic the EU spirits industry remains committed to investing in Sub-Saharan Africa.*

EU Commission President Ursula von der Leyen acknowledged both **Africa's potential and its challenges** during her visit to Addis Ababa in December 2019: "*For my first visit, I have chosen the continent hosting the world's fastest growing economies. A continent with immense ambition and aspirations, but also with immense needs*", stressing "**Together we can find and build solutions that work for Africa and for Europe alike**".[4]

THE EU'S AFRICA POLICY FROM AN EU SPIRITS INDUSTRY PERSPECTIVE

Since the early 2000s the EU has been negotiating Economic Partnership Agreements (EPAs) with countries in five African regions. Although negotiations have since concluded, the majority of these agreements is still pending application or have failed to be implemented properly. Except for the EPA with SADC, which covers wines and spirits and integrates a bilateral FTA with South Africa, as well as historical sectoral agreements, and for the EPA with Eastern and Southern Africa, which includes tariff removal for most alcoholic beverages, all other negotiated EPAs do not contain any tariff liberalisation for European wines and spirits.

Moreover, where intra-regional agreements do exist, there is often a gap between the ambitious commitments made and the actual implementation at domestic level.[5]

It remains to be seen whether the same scenario will apply to obligations and tariff reduction stemming from EPAs, or if there will be growing realisation amongst African governments that efforts

[4] Remarks by President von der Leyen at the joint press statement with Moussa Faki, Chairperson of the African Union Commission, 7 December 2019.

[5] There is extensive literature about the subject, such as the PERIA project led by European Centre for Development Policy Management (ECDPM) "Drivers and constraints to regional integration in Africa".

and resources should also be allocated to enforcement. As a consequence, the effectiveness of EPAs is questionable and they should not be seen as setting the permanent basis for trade with African partner countries, at least not in their current form. Until recently, therefore, the EU's Africa policy was of limited benefit for the European spirits industry.

Case Study: Mozambique - Difficulties to benefit from tariff reductions under the EU-SADC EPA

Not only was the EU-SADC EPA the first regional agreement to be fully operational, but it was also one of the rare EPAs including wine and spirits tariff liberalisation. Yet, its implementation did not go as smoothly as expected for some of spiritsEUROPE's members.

In February 2018, Mozambique joined the EU-SADC EPA and started applying it. While the gradual tariff liberalisation for alcoholic beverages included under the agreement was officially announced to start in January 2019 (from 20% to 15% in the 1st year), it came with serious hurdles for some companies. Indeed, the tariff preference was originally attributed only to companies with a specific regime of warehouse, excluding those which use a system of "bonded warehouse" although such differentiation was not established under the EPA.

It took months of dialogue with Mozambique's customs authorities before they finally agreed to the EPA interpretation that all products of EU origin intended for sale on the Mozambican market shall benefit from the preferential treatment prescribed in the agreement. Almost one year later, the tariff reduction was accorded. It is as yet unclear how those months where our companies did not benefit from the reduction will be accounted for.

From the private sector point of view this demonstrates the need to have trade concerns properly addressed through the implementation dialogues under trade agreements.

Indeed, in addition of the delayed application of the tariff liberalisation, our industry continues to face other constraints in Mozambique such as discriminatory and burdensome strip stamp requirement, an issue which is yet to be resolved.

Our sector welcomes the EU's Communication "Towards a comprehensive Strategy with Africa", underlining the shift from an aid to a partnership mindset that is currently taking place and the formation of a new relationship based on mutual interests and responsibilities. Indeed, it is in our common interest to improve the business environment and investment climate, create decent jobs and value addition through sustainable investments, maximize the benefits of regional economic integration and trade, and ensure food security to name only a few areas where cooperation is essential.

spiritsEUROPE fully supports the five partnership pillars and 10 actions proposed in the Communication under these pillars and takes the opportunity to provide feedback on those that are the most relevant for our sector.

Pillar 1 – Partners for green transition and energy access

Our member companies are committed to fulfilling the UN's Sustainable Development Goals (SDGs) in their sustainability and responsibility policies. The aim is to identify and take appropriate action to protect the natural and business environment through various means.

To achieve those goals and play our role in facilitating the adoption of innovative, sustainable business models while also supporting opportunities for sustainable food systems in the region, we need to partner with Africa. It is only through openness to trade that we will create, together, a virtuous cycle where continuous regulatory improvements, made in consultation with businesses, will foster further investment and will create positive incentives for a green transition.

Case Studies: Pernod Ricard and Diageo initiatives in support of the UN's Sustainable Development Goals across Africa

In Mozambique, spiritsEUROPE member Pernod Ricard partners with consulting firm Gaia focusing on energy, environment and sustainability, such as:

- ***Reduction of plastic pollution*** *from plastic straws by using reed straws from the Inhambane province in Mozambique to be used at events held or sponsored by Pernod Ricard;*
- ***Reduction of glass waste*** *through a partnership with a local company Biothonga, which does eco-designed homeware and artwork. Through this project, empty bottles are turned into glassware, reducing the waste going into landfill (in a country where there is no sanitary landfill but only open dumping of waste). Pernod Ricard has substituted single-use plastic branding materials with these objects made of recycled glass and wood. For each product made, Biothonga commits to planting a tree in the Inhambane province.*

These initiatives contribute to SDG 8 (by promoting sustainable economic growth), SDG 12 (by reducing waste through prevention, reduction, recycling and reuse) and SDG 15 (by promoting the sustainable use of resources and halt and reverse land degradation).

Across Africa spiritsEUROPE member Diageo works on campaigns which support the UN's SDGs, most notably focusing on the provision of clean and safe water.

- ***The Water of Life programme*** *provides a pan-regional and effective water management programme on a community and commercial basis. Over the past ten years the programme has helped bring clean water to over 10 million people across Africa. Diageo has partnered with WaterAid to provide clean and safe water on a sustainable basis to communities which in itself creates opportunities for those communities to thrive.*
- ***The Water Blueprint*** *aligns with the UN global sustainability goals on water stewardship. It focuses not only on water stewardship but also access to safe sanitation and hygiene facilities across Africa.*
- ***Diageo's water replenishment plans*** *extend beyond WASH projects to reforestation and water treatment.*

Some concrete examples: Diageo's WASH project has enabled 15,000 people to access clean water in Cameroun in 2019. Reforestation across Africa is vital in supporting water systems: Diageo employees have planted over 104,000 trees across Kenya, Uganda and Ethiopia in 2019. Lake Victoria in East Africa provides clean water essential in sustaining the communities and ecosystems nearby. Diageo's new water treatment plant in Kampala allows the water that is returned to the Lake Victoria area to be of higher quality than the one that was extracted.

Pillar 2 - Partners for digital transformation

E-governance as a powerful tool against corruption

Complex, time-consuming and expensive import procedures constitute a significant market entry barrier. The World Bank Report "Doing Business 2020: Region Profile Sub-Saharan Africa" illustrates the challenges economic operators face in the region. With a view to **ease of trading across borders**, time and cost required for border and documentary compliance by importers in many African countries are exorbitant compared to importing into the EU. For instance, according to the World Bank the average time taken for border compliance (customs clearance and inspections) in Sub-Saharan

Africa is 126 hours and costs USD 690.6, by comparison, in the EU it takes 1.7 hours at a cost of USD 29.2.[6]

We share the Commission's view that digital transformation can improve access to quality services, increase public revenue and make the public sector more transparent and accountable. **E-governance will protect consumers and support the fight against corruption.** A good example of this is the digitalisation of customs.

Case study: Ghana – The introduction of the "single window system"

Ghana is an example where we have witnessed significant improvements in fighting corruption through introducing new technological solutions in the area of customs clearance. It also reduced the cost of customs clearance.

Since 2017 the government has been introducing new technologies into customs clearance, and the clearing process from arrival to examination is now largely paperless (about 80%). Our companies operating on the ground have experienced a reduction in customs clearance time as well as the elimination of payment of demurrage charges. The Government has confirmed a decrease in corruption at ports and, as press reports indicate, an increase in revenue since its implementation of single window.[7]

The Government's effort has been augmented recently by the new terminal 3 of the Tema Harbour, equipped with world class facilities, significantly reducing human intervention. Upon appointment, it only takes about 4 minutes from the harbour gate to the container location for pick-up through automated checkpoints (this could take days previously).

According to the Transparency International index ranking of 180 countries by their perceived levels of public sector corruption, Sub-Saharan Africa is the lowest scoring region with 32 points (out of 100).[8] While there are some better performing countries, like Seychelles, Botswana, Cabo Verde, and Rwanda, this is, regrettably, not the case for the key export markets for European spirits in the region.

Taking these statistics into consideration, it becomes clear that **further digitalisation of customs should be considered a high priority.** spiritsEUROPE supports the Commission's proposed Action 2 "Partner with Africa to boost the continent's digital transformation".

We would encourage the European Commission to cooperate with countries in Sub-Saharan Africa on trade facilitation projects and to create platforms where European businesses could be involved to share their experience and to work together on promoting best practices and regulatory reforms that would improve the situation on the ground. For example, customs clearance practices in Kenya remain highly problematic, and we would welcome the dialogue with the Commission on projects that could lead to improvements in customs clearance there.

[6] For more examples see Annex 3.
[7] https://citinewsroom.com/2018/08/single-window-system-increases-port-revenue-by-13-2/
[8] "CPI 2019: Global Highlights"

E-commerce as a tool to boost Africa's economic integration

E-commerce is a growing sales channel around the world. As regards the Sub-Saharan region in particular it offers new opportunities for European companies to introduce their products to African consumers.

Particularly in countries where it can prove difficult to find reliable partners for the distribution of our products, **e-commerce represents an alternative way to reach consumers**.

In the context of the COVID-19 crisis and the introduction of lockdown measures restricting consumers' access to our products, e-commerce has allowed companies to maintain the relationship with their consumers and to save a part of their business.

Though Africa may not (yet) be a region of laptops or tablets, smart phones and twitter are prevalent. The emergence of e-commerce is the next logical step and something Covid is expediting. **Doing business online also helps to strengthen tax-paid trade and tackle illicit.**

In light of the above, it is essential that this channel remains open to the sale of alcoholic beverages in SSA markets in the future. In parallel, our industry reaffirms its commitment to promote responsible consumption on e-commerce platforms.

Pillar 3: Partners for sustainable growth and jobs

The EU spirits industry contributes to sustainable economic growth in Sub-Saharan Africa in various ways. With further integration and cooperation between the EU and Africa leading to a better business climate this contribution will increase further.

a. Sustainable investment

Trade has the potential to facilitate industrialisation and value chain participation. This happens as a result of countries opening up their borders to investors in processing and manufacturing, and through the organic growth of domestic industries, boosted by competition from quality products. **Our sector's engagement with domestic industries in Africa extends to joint product development and marketing ventures with local businesses in African countries.**

A number of European companies operating in the region have complemented their international portfolio with products manufactured locally and through joint ventures with local companies.

Some EU spirit drinks can be and are exported in bulk and bottled in market, supporting jobs in bottling plants, labelling plants, printing and glass manufacture. Those which are exported as 'finished goods' support jobs in imports, logistics and distribution, as well as advertising and marketing. Indirectly, our industry facilitates jobs in the HoReCa sector and the vital tourism industry in many African countries.

The business and investment climate in many Sub-Saharan African countries is volatile and often unpredictable which limits and restricts foreign investors' engagement. As a growing sector in the region, European companies are ready to engage and invest more - provided that the business climate is appropriate. **spiritsEUROPE would encourage the Commission to communicate information about EU financial instruments that may be available to European investors as widely as possible.**

b. Regional and continental cooperation

We welcome the EU's and the African Union's willingness to enhance the observance of WTO and WCO law which will contribute to foster an investment-friendly and predictable business environment, allowing foreign and domestic businesses to feel secure in countries which follow international trade rules.

A stable, rules-based multilateral trading system centred on the World Trade Organisation is at the core of our members' businesses as it provides equal treatment of domestic and international spirit drinks to signal openness and fairness to all investors and allow competition on a level playing field.

> ***Case study: Angola - Excise tax discrimination***
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> *In Angola EU spirits were facing a very high excise tax (70%) whereas domestic products were taxed at only 30%.*
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> *Thanks to Angola's willingness to be compliant with its WTO commitments and the EU Commission's engagement and support through its market access strategy, in 2018 the tax rate on imported spirits was reduced to 30% to mirror the domestic spirits rate, and the trade barrier was therefore resolved. In a welcome move, in 2019 excise tax for all spirits was reduced even further to 25%.*

spiritsEUROPE also agrees that moving economic integration forward at regional and continental levels is an essential component of a coherent, sustainable economic strategy. Regional trade regimes (RTAs) in Sub-Saharan Africa create further opportunities for European businesses in terms of expanding trade and deepening investments. There are now 30 RTAs or trade blocks, many of which are part of deeper regional integration schemes. These RTAs are necessary to reduce tariffs at regional level, remove non-tariff barriers, and achieve more integrated markets overall.

With a view to improved trade relations between the EU and African countries our sector is looking for symmetrical and reliably enforced trade agreements to place trading partners on an equal footing in negotiations, economic integration, the avoidance of protectionist policies and "trade wars", and harmonised regulations compatible with international food standards, so consumers around the world are guaranteed to be in receipt of goods of high minimum safety and quality standards.

> ***Case study: Angola's accession to the EU-SADC EPA***
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> *At the occasion of the latest EU-SADC Trade and Development Committee in February 2020, Angola's formal request to accede to the EPA was received. As negotiations should start, our sector asked the EU to include in its negotiations' asks the tariff liberalisation for alcoholic beverages.*
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> *Many international companies stopped downsized their operations on the Angolan market after the economic crisis that severely hit the economy in 2016. A small but significant change such as the elimination of tariffs (60% on spirits) can be a decisive step to encourage companies to re-invest and grow their business in Angola.*
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> *In addition, when the tax burden is too high, certain business will be tempted to avoid it by turning to illicit activities (smuggling). Reducing the high tariff burden is expected to contribute to a virtuous circle where operators will find more added value to formalize themselves (access to official distribution networks for example) than maintaining illicit activities.*

In addition, our sector hopes that further regional integration across Africa and, ultimately, the African Continental Free Trade Area (AfCFTA), the world's largest regional trade agreement, will enhance trade and investment opportunities and economic growth across the continent. If implemented properly, the AfCFTA will improve economic integration and infrastructure, facilitate investment and enhance competitiveness across the continent and in the global market, eventually creating one single African market. The agreement also contemplates reforms on competition policy, investment, and intellectual property rights.

We fully support the ambition "to boost regional and continental economic integration, particularly through the African Continental Free Trade Agreement", set out in the Proposed Action 3 of the EU Commission's Communication.

We thank the EU Commission for the opportunity given to EU business associations to play an important role in the renewal of the EU's relationship with the African continent. The focus on partnerships, cooperation and dialogue opens opportunities to improve the business and investment environment for EU companies exporting to Sub-Saharan Africa.

We welcome the establishment of an AU-EU Agrifood Platform to unlock the potential of the agri-food industries to create job opportunities in African rural areas with the support of the private sector. The private sector holds the largest potential for generating jobs and growth and it is therefore essential to boost responsible private – domestic and foreign – investments in Africa. **Our member companies are willing and keen to engage and contribute to the work of the Agri-Food Platform.**

c. Business environment and investment climate

spiritsEUROPE supports the Proposed Action 4 in the EU Commission's Communication, in particular the promotion of policy reform and standards and trade facilitation.[9] **Regulatory reforms are essential to create a level playing field for business.** While we appreciate acknowledgment of the fight against corruption, fraud, illicit financial flows, money laundering, and terrorism financing as essential elements of the policy reforms needed in Sub-Saharan Africa, we believe it **is crucial to also include the fight against illicit trade more broadly** as a key area.

The dominance of the illicit trade in alcoholic beverages, which includes smuggled, counterfeit, and unregulated domestic products, **is the key concern for EU spirits producers exporting to Sub-Saharan Africa.** Illicit alcohol is a major public health concern and represents a lose-lose situation for all legitimate actors in the market. According to Euromonitor studies on the subject (Oct 2018), Africa is the continent with the highest percentage of illegal alcohol in the world (40% of total alcohol consumption). African governments are estimated to lose more than USD1.825 million in taxes due to illicit alcohol.

There are **many elements fuelling the illicit trade** of alcoholic beverages, including lack of controls at the borders, high import tariffs and taxes, which are not appropriate for local context and often discriminatory against imported spirits, corruption, but also excessive alcohol policies, in short, the trade barriers identified above which are commonly encountered in Sub-Saharan Africa. Lacking any form of quality control, illicit alcohol constitutes a **serious risk for consumer health**.

Importantly, illicit trade undermines the fulfilment of the Sustainable Development Goals promoted by the United Nations. The negative impact of illicit trade on the SDG is evidenced in the Transnational Alliance to Combat Illicit Trade (TRACIT)'s report "Mapping the impact of illicit trade on the sustainable development goals".[10]

While we understand taxation in third countries is not an area where the Commission has significant reach and flexibility, we would like to reiterate that a business and investment-friendly climate cannot be achieved without appropriate taxation in domestic markets. **A level of taxation that adequately**

[9] "Proposed Action 4 – Partner with Africa to attract investors by supporting African states in adopting policies and regulatory reforms that improve the business environment and investment climate, including a level-playing field for business"

[10] See Annex 4 for further detail how illicit alcohol undermines the sustainable development goals.

reflects the local context will bring unrecorded alcohol into the tax fold, thereby increasing government revenues and targeting the cost-appeal of illicit goods.

EU spirits producers contribute significantly to government revenues around the world. They are some of the most consistent taxpayers both in their home countries and abroad. Our industry collaborates with governments and customs authorities across Africa to improve their revenue collection capacity and expand the tax base.

Case Study: Cote d'Ivoire – High Level of Taxation

On average 58% of the total alcohol consumption in Côte d'Ivoire concerns illicit products. It consists of counterfeit, smuggled products that are introduced into the market via free trade zones (e.g. Port of Lomé in Togo) or by truck from Togo and Benin through the long and porous Ghanaian border avoiding paying any taxes, and of unregulated artisanal alcohol, e.g. palm wine. Due to the high rate of illicit alcoholic products consumed in Côte d'Ivoire, the negative consequences are numerous:

- *For the Government – It represents a major loss of revenue given (1) the share of products consumed on which no taxes are paid (the estimated revenue loss for the Côte d'Ivoire Government, based on a scale of 58% illicit alcohol products, amounts to almost XOF 9 billion for 2018); (2) the cost for combating organised crime and controlling the border, (3) the loss of other taxes like corporate tax or social security contributions.*
- *For consumers - It will be impossible to ensure the safety and authenticity of the products which can be found on the market, and counterfeit or substitute alcohol may clearly have fatal consequences to consumers' health. Moreover, cross-border trade weakens public health initiatives to curb alcohol consumption by making cheaper products available in an unregulated environment.*
- *For legal operators – They are not able to compete on a level-playing field with illicit traders who do not pay any taxes but sell their products at the same price as legal operators, which allows them to increase their margins and profits (. Legitimate manufacturers and suppliers of alcoholic beverages are impacted as, in addition to lost income, illicit trade distorts competition in the market, undermining investment in production facilities, innovation, distribution, brand equity and employment, all of which again infect potential government revenues and the economic development of the country in the long term.*

With a view to measures taken to combat the Covid-19 pandemic we would urge the Commission to resist any protectionist attempts to discriminate against EU spirits when African governments ease Covid-19 restrictions. Instead, the Commission should advocate the adoption of non-discriminatory, evidence-based tax and regulatory measures and lobby in support of the industry where protectionist measures are introduced.

d. Education, skills, research, innovation, health, and social rights

- Education

Our member companies engage in a vast number of individual alcohol-related education and awareness programmes around the world, targeting consumers directly to encourage moderation and combat alcohol misuse. This adds to our strict internal responsible marketing and advertising codes.

spiritsEUROPE members inform and educate consumers of good practice in the purchase and safe consumption of quality alcoholic beverages across Africa. Decades of experience in good practice qualify us to participate in discussions with regulators on the advertising and marketing of alcoholic beverages in host countries.

> ***Case Study: South Africa – Industry Code of Commercial Communication***
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> *The new Code of Commercial Communication was launched by the South African Association for Alcohol Responsibility and Education (aware.org.za) in February 2020.*
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> *The purpose of the Code is to reinforce high standards of responsibility and ethical conduct in all commercial communication activities of AWARE members and importantly to protect minors from being exposed to alcohol marketing. The Code incorporates mechanisms to deal with transgressions, in order to ensure an effective self-regulated environment and culture within the South African alcohol industry.*
> *In parallel, AWARE runs strong prevention campaigns, such as "THE POWER OF RE-THINK", an innovative don't drink and drive/don't drink and walk initiative aiming at driving behaviours change towards alcohol by giving an alternative message. This campaign, activated during festive and celebratory seasons, has delivered tangible results (more than 3,7 million impressions for the Easter 2019 activation and 2,5 million reach over December and January).*

- Skills

Licit as well as illicit domestic consumption of alcoholic beverages is already mature in Africa. spiritsEUROPE's members respond to a growing demand for international beverages by importing quality produce made in accordance with strict regulatory standards in their home countries. Irish Whiskey, for example, is produced in accordance with Irish and UK legislation, supported by the EU Commission, which has accepted a 'Technical File' explaining what defines Irish Whiskey. Stringent national quality requirements mean we are well-placed to advise on best practice on regulatory matters in order to reduce the spread of potentially harmful products where these exist.

We believe that public-private cooperation should be reinforced and promoted as a key element of the EU's Africa policy, in particular as regards sharing experience and expertise about the benefits of Geographical Indications (GIs). GIs are widely recognised as a very efficient tool for rural and territorial development, creating value and employment in often remote areas.

The EU has famous examples of geographical indications to showcase, for foodstuffs, wines, and spirit drinks, such as Cognac and Irish Whiskey. According to the most recent study on the economic value of EU quality schemes, GIs represent a sales value of €75 billion. The total sales of GI spirit drinks were estimated to amount to EUR 10.35 billion in 2017, in increase of 26% since 2010.[11]

Our sector is happy **to share experience and expertise regarding GIs** and the protection the GI status affords with partners in Africa who may consider the benefits of creating their own geographical indications.

We encourage the EU **to further strengthen regulatory cooperation** with African partners. Our sector is also willing to support these efforts. Promoting EU standards, their understanding can help to build common views at international level. European regulations on spirits are at the heart of our competitiveness abroad as they have encouraged the development of high quality products with high

[11] Study on economic value of EU quality schemes, geographical indications (GIs) and traditional specialities guaranteed (TSGs), published 8 April 2020. In 2017, three EU Member States gathered 90% of total spirit sales value: the UK with "Scotch Whisky", France with "Cognac", and Ireland with "Irish Whiskey".

standards of food safety and traceability. As many of the Africa partners are developing their own standards for our products, this dialogue and cooperation can help to deliver meaningful market access improvements, increased exports and economic growth.

- Health

As producers of spirit drinks, spiritsEUROPE members take their role in society seriously – making great efforts to reduce alcohol-related harm by **encouraging consumers to drink responsibly**.

Diageo, for example, drives a number of initiatives across Africa markets, including the DRINKiQ programme and "Smashed", their global underage drinking programme, which they have expanded in Nigeria & Cameroon to reach 114,000 students, while kicking off the Red Card and #coolkidsdontdrink campaigns in Uganda. In Ghana Diageo partners with the national Driver&Vehicle Licensing Authority to include drink driving e-module in the national theory test ensuring 50,000 new drivers are equipped with the information they need to consume responsibly. And in South Africa "Drive Dry" garnered 134,000 pledges to never drink and drive by signing up to #JoinThePact.

In addition, companies are involved through local trade associations such as Aware.org.za in **South Africa,** a major funder of the Foundation of Alcohol Related Research (FARR). The program targets those areas in the country that have high incidence of foetal alcohol related cases and in some cases have reduced this number significantly. In **Ghana**, the industry association Association of Alcohol Manufacturers and Importers (AAMI) has been running Anti-Underage Alcohol Drinking campaigns in selected Senior High Schools. This initiative is implemented by a private health agency with authorisation from the Ghana Education Service.

CONCLUSION

As the EU and the African Union develop and deepen their partnership, the economic and investment opportunities between Europe and Africa continue to grow. **As a partner for sustainable growth and jobs we hope the EU will continue to promote trade and tariff liberalisation, improved market access, and adequate and enabling regulatory frameworks**. We encourage the EU Commission to use her dialogue with the African Union and with individual African countries to intensify cooperation between the two continents and between individuals, in particular key actors such as businesses and the private sector.

We appreciate the EU's supportive stance as regards Africa's regional and continental economic integration and **welcome the fact that the role of EU business associations** in the context of upcoming EU-AU summit **is explicitly acknowledged**.

Naturally, **spiritsEUROPE stands ready to work with the EU Commission to identify opportunities where our sector can support and add value to EU initiatives and projects with her African partners** or share best practice and first-hand experience in the field of e.g. tariffs and taxation, GI promotion, innovation, education campaigns, and/or the business environment more broadly.

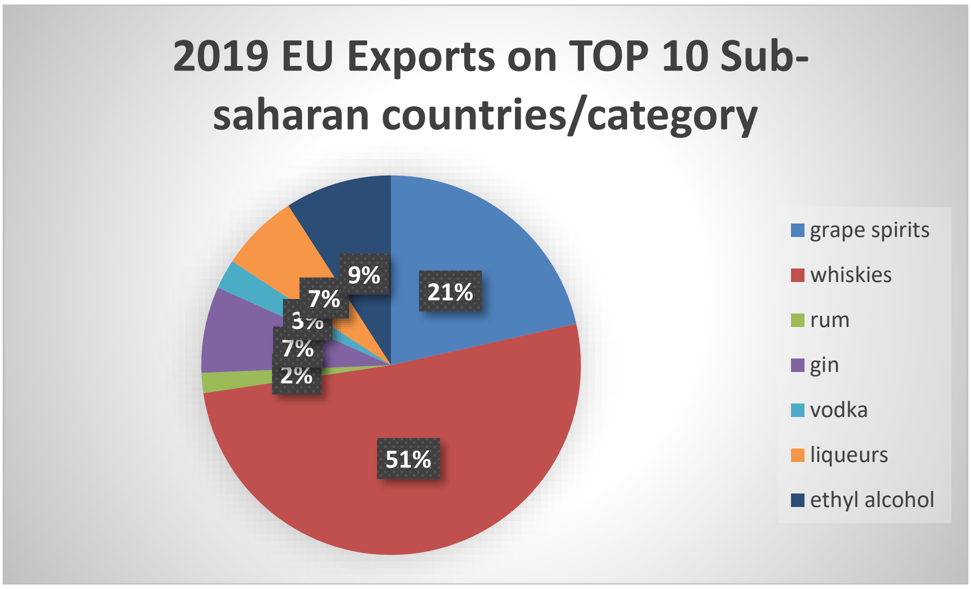
As the European Union and the African Union work together towards agreeing on a common way forward to tackle joint priorities, the European spirits sector is prepared to contribute to and support these efforts wherever possible.

ANNEX 1: TOP 10 EXPORT MARKETS FOR EU SPIRITS IN SUB-SAHARAN AFRICA IN 2019

EU exports - Top 10 Sub-Saharan Countries	South Africa	Angola	Togo	Democratic republic of Congo	Ethiopia	Côte D'Ivoire	Equatorial Guinea	Ghana	Kenya	Nigeria
2019 (€ million)	255,537,517	10,435,200	13,649,967	16,940,450	17,280,040	13,507,250	9,820,974	17,280,040	19,721,178	92,217,698
Evolution 2009/2019	+36.8%	-36.8%	+154.1%	+814.5%	+263%	+491.9%	+34,6%	+232.4%	+599.4%	+322.6%

Source: Eurostat

ANNEX 2: EU SPIRITS EXPORTS TO TOP10 SUB-SAHARAN EXPORT MARKETS BY SPIRITS CATEGORY IN 2019



Source: Eurostat

ANNEX 3: WORLD BANK REPORT "DOING BUSINESS 2020: REGION PROFILE SUB-SAHARAN AFRICA" (EXTRACT)

Time and Cost of Border Compliance in Sub-Saharan Africa (SSA), the EU, and key SSA export markets (Customs clearance and inspections by other agencies)		
	Time (hours)	Cost (US Dollar)
Regional AverageSSA	126	690.6
European Union	1.7	29.2
Angola	72	1,030
Cote d'Ivoire	125	456
DR Congo	336	3,039
Ethiopia	72	120
Equatorial Guinea	240	985
Ghana	80	553
Kenya	194	833
Nigeria	242	1,077
South Africa	87	676
Togo	168	612
Documentary Compliance in Sub-Saharan Africa (SSA), the EU, and key SSA export markets (Obtaining, preparing and submitting documents during transport, clearance, inspections and port or border handling in origin economy and required by destination economy and any transit economies)		
	Time (hours)	Cost (US Dollar)
Regional AverageSSA	96.1	287.2
European Union	0.6	4.5
Angola	96	460
Cote d'Ivoire	89	267
DR Congo	174	765
Ethiopia	194	750
Equatorial Guinea	240	70
Ghana	36	474
Kenya	60	115
Nigeria	120	564
South Africa	36	73
Togo	180	252

Source: World Bank

ANNEX 4: HOW ILLICIT ALCOHOL UNDERMINES THE SUSTAINABLE DEVELOPMENT GOALS, IN PARTICULAR SDGs 3, 8, 9, 16 and 17.

- SGD 3 - Good Health and Well-Being, as it prevents governments from controlling compliance of illicit alcoholic beverages with sanitary, quality, and safety regulations. This leads to the placing on the market of end-products which contain unsafe levels of ethanol or substitute chemicals such as cleaning fluids or nail polish removers, as well as methanol and isopropanol. Illicit trade in alcohol thus undermines Target 3.9 of SDG 3, which aims to reduce the number of deaths and illness from hazardous chemicals and the mortality rate attributed to unintentional poisoning. In addition, the presence of cheap illicit alcohol on the market undermines government policies aimed at reducing the harmful consumption of alcohol. Readily available and lower-priced illegal alternatives drive consumption of lower quality alcohol products, contributing to higher rates of chronic and irregular heavy drinking.
- SGD 8 - Decent Work and Economic Growth, as it diverts income from legitimate businesses and undermines their ability to create jobs and pay taxes. For governments, lost corporate, income and excise tax rob them of income intended for public investment and job creation programs.
- SDG 9 - Industry, Innovation, and Infrastructure, as it disincentives legitimate alcohol companies investments in developing products and protecting their intellectual property through patents, copyrights, design rights and trademarks, consequently undermining industrialization and sustainable economic development.
- SDG 16 - Peace, Justice, and Strong Institutions, as it provides a significant and steady source of revenue that perpetuates the viability of organized crime groups, subsidises further criminal activity, and drives corruption in public institutions and social unrest in local communities.
- SDG 17 - Partnerships for the Goals, as it has a debilitating effect on efforts to improve domestic resource mobilization by denying the government a significant source of potential tax income.
