

TRADE REVIEW 2021

A SPIRIT OF RESILIENCE





FOREWORD

MEP ANNA-MICHELLE ASIMAKOPOULOU

Member of the European Parliament,
Vice-Chair of the INTA Committee (EPP Group, Greece)

The EU is a leading producer of high quality spirits drinks, a reflection of our diverse and rich heritage. In Greece alone, my own country, 15 geographical indications (GIs) are registered for spirits including Ouzo, Tsipouro, and Tsikoudia, to name but a few. These spirits drinks are a great symbol of European traditions and know-how, which they combine with high production standards and a long-standing commitment to sustainability.

The ability to export and reach out to consumers around the globe is vital for EU spirits producers. Many well-known spirits categories and GIs are indeed primarily consumed abroad: up to 99% of Swedish vodka and 98% of French Cognac are consumed outside of their home countries. This broad global appeal is also shared by Greek spirits, whose overall exports to third countries have grown by almost 37% over the last 10 years, reaching €22.7 million in 2020 – even when taking into account the Covid-19 crisis, which has had a detrimental effect on spirits' exports as a result of travel restrictions and hospitality closures. The sustained success of spirits exports helps the sector support jobs and growth across the Union, including in many rural areas.

Over the next decade, 85% of global growth is expected to come from outside of the EU: the openness of our economy will, therefore, be more

critical than ever. The role of EU trade policy is to ensure that European producers – large and small – can make the most of new opportunities for the benefit of the broader European economy. Continued support to multilateralism and the WTO, which guarantees fairness and predictability in global trade, is crucial. The EU also needs to intensify its efforts to remove trade barriers and ensure that commitments made by third countries translate into tangible improvements. It is equally vital that trade disputes with the United States, our first commercial partner and EU spirits' first global market, are swiftly resolved and that tariffs on unrelated products like spirits are lifted as a matter of urgency. Finally, we should not forget that, while fair trading rules and good market access conditions are essential, so are access to information and reputation: the EU therefore needs to continue investing in support and information tools such as Access2Market and in its promotion policy for agri-food products.

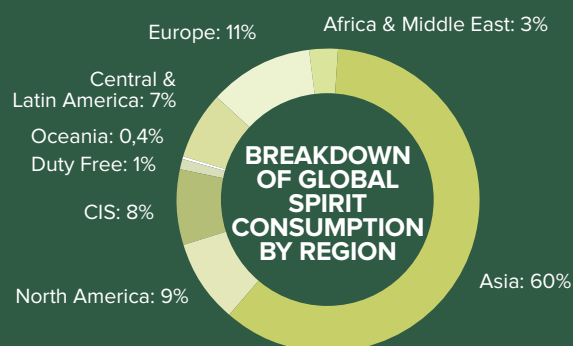
In the end, consumers will benefit from an open, fair, and sustainable trade policy, through increased product choices and by getting the assurance that what they purchase is authentic and respects strict quality standards – as is the case with our delightful European spirits.

EXTERNAL TRADE: A POWERHOUSE FOR THE SPIRITS SECTOR

International trade remains critical for European spirits: around 2/3 of EU spirits exports in value were destined for third countries in 2020. Many of these were protected by Geographical Indications (GIs). EU spirits exports still have substantial growth potential. By removing trade barriers & promoting the high quality of our products abroad we will be able to seize new market opportunities worldwide.



Source: Eurostat 2020



Source: SWA - IWSR Drinks Market Analysis 2019

TRADE, AN ENGINE FOR RECOVERY

2020 has been a challenging year for our sector as a result of hospitality closures and travel restrictions resulting from the COVID crisis. Spirits producers have also faced an increasing number of barriers and restrictions, particularly in retail channels. Last but not least, tariffs imposed on spirits as part of unrelated EU-US trade disputes have also hurt our performance in what remains our first export market.

EU SPIRITS EXPORTS AT A GLANCE



CHALLENGED BUT RESILIENT

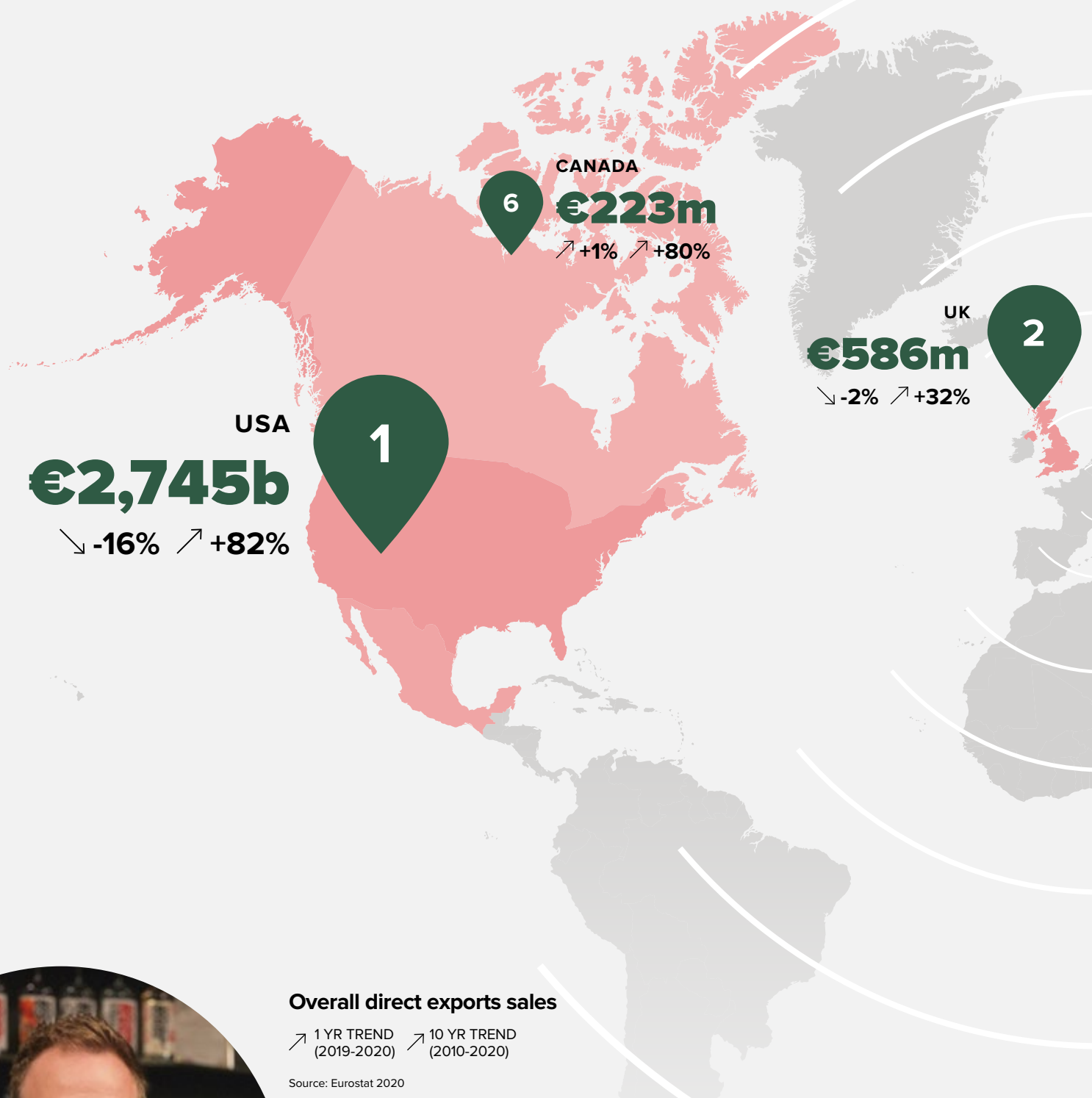
2020 has been a particularly challenging year for European spirits producers, as a result of the global pandemic. Our spirit of resilience has been tested, but we have risen to the challenge, contributing to the global effort against COVID-19 in the process. The crisis is not behind us yet, but it is clear that recovery will depend on our ability to keep exporting our products worldwide, and with them, European quality and traditions. More than ever, we count on European leaders' full support to defend open trade and fair competition & lift the trade barriers we are facing across the world.

CHRISTIAN PORTA

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



TOP 10 EXPORT MARKETS 2020

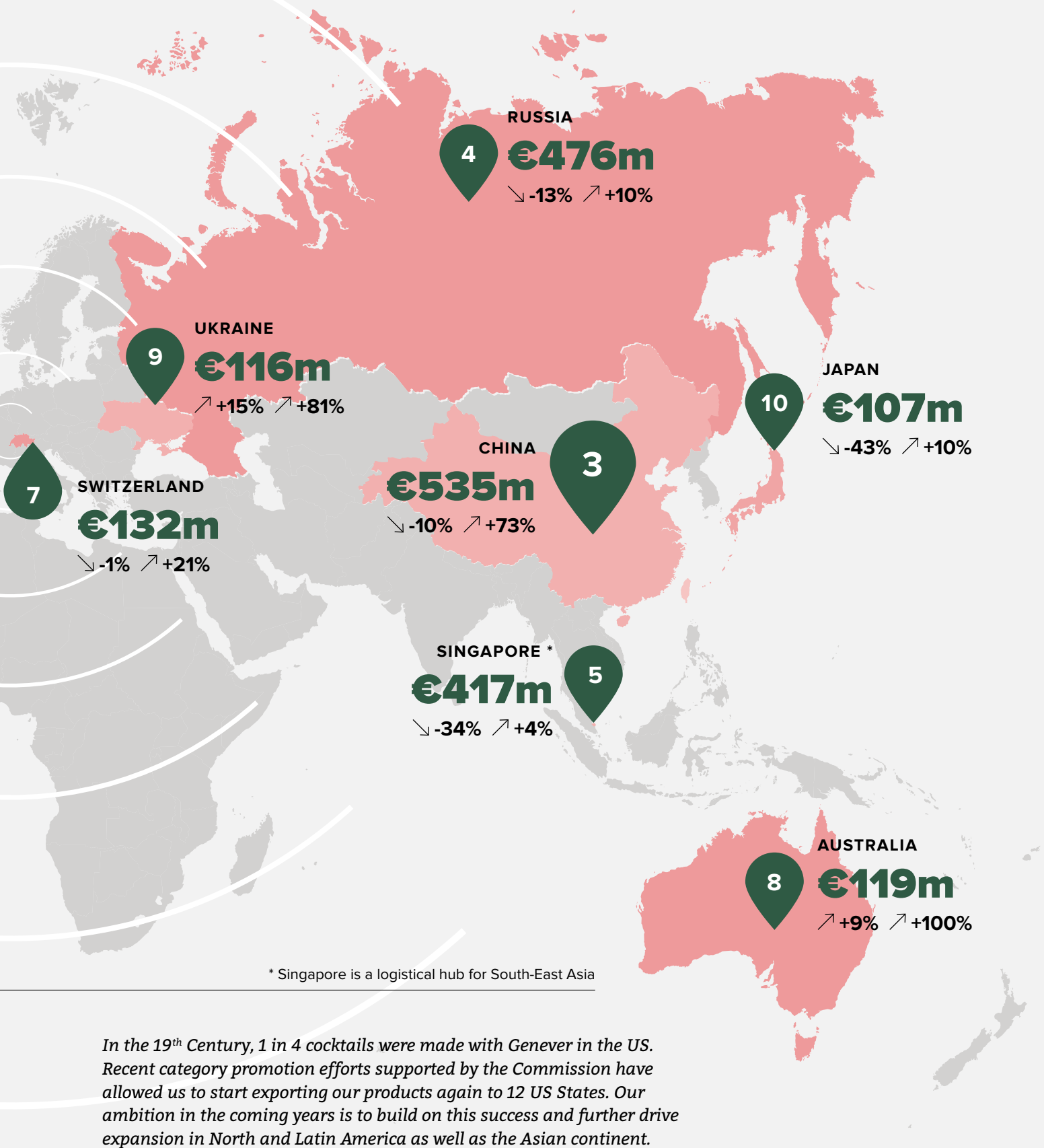


**ENJOY
IT'S FROM
EUROPE**



The EU formally recognised Genever as a geographical indication in 2008. In 2017, five Genever distilleries in the Netherlands and Belgium decided to join forces to promote the Genever category under the umbrella of the “Taste of Europe” programme, co-funded by the European Commission. As a result of these efforts, Genever is gradually regaining its historical iconic position in markets outside of Europe, building on its past successes.

2/3 OF OUR EU SPIRITS EXPORTS IN VALUE TOOK PLACE OUTSIDE OF THE EU IN 2020



SANDER MEIJERINK

Export Manager – Hooghoudt family Distillery since 1888 (NL)

A SPIRIT OF UNITY: REBUILDING OUR TRANSATLANTIC TIES

The US remains our biggest trading partner – by far. However, ongoing EU-US trade disputes and related tariffs have been particularly hurtful in 2020, amid the backdrop of the COVID crisis. We need to ensure that all tariffs affecting transatlantic spirits trade are removed for good. Let's return to the positive, mutually beneficial tariff-free situation we had enjoyed for almost 25 years!



US WHISKEY EXPORTS TO THE EU

+40% | **-37%**

↗ 2008-2018

↘ since 2018,
when EU tariffs were
first imposed
on US Whiskey

EU LIQUEURS & CORDIALS EXPORTS TO THE US

-28%

Oct 2019-Aug 2020
(compared to the
previous year)

GERMAN EXPORT TO THE US

**-€900
MILLION ANNUALLY**

since October 2019

Sources: Eurostat 2020 & Die Stiftung für Familienunternehmen in Deutschland und Europa

IN APRIL 2021, 88 ASSOCIATIONS OF UNRELATED, YET AFFECTED, SECTORS FROM THE EU & THE US HAVE SENT A JOINT PLEA TO PRESIDENTS VON DER LEYEN AND BIDEN TO REMOVE THE RETALIATORY TARIFFS WHICH HAVE AFFECTED TRANSATLANTIC TRADE FOR THE LAST 3 YEARS.



“Free trade is the backbone upon which the transatlantic spirits industry has thrived for decades. Sadly, for almost three years now, spirits producers in the EU and U.S. have been hit hard by retaliatory tariffs stemming from completely unrelated disputes. As a manufacturer and importer of distilled spirits on both sides of the Atlantic, Campari Group, like many others, had to carry this burden throughout the worst health and economic crisis in decades. Simply put, it is now the time to reset and build back”

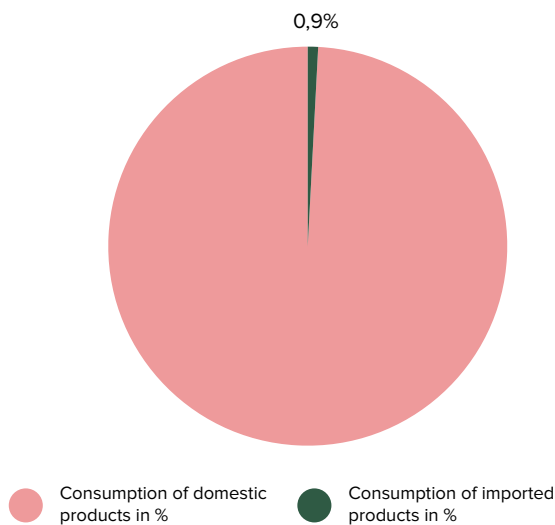
ALDO DAVOLI

Campari Group, Global Public Affairs & Sustainability Senior Director

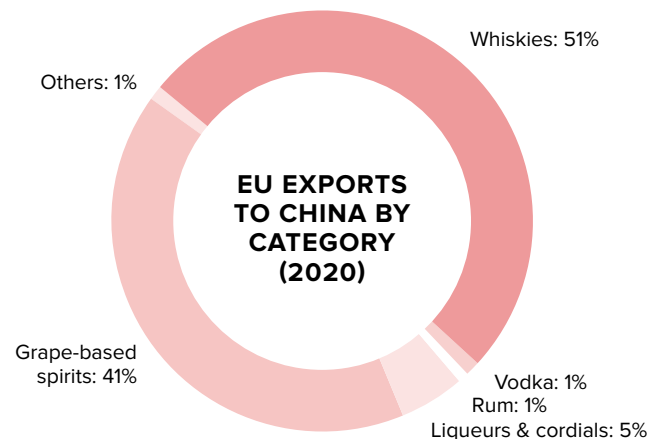
CHINA: A HUGE MARKET WITH GREAT POTENTIAL

China is the 3rd largest export market for EU spirits, after the US and the UK. Notwithstanding the COVID crisis, China has remained a stable export market for European spirits as a result of its openness. Maintaining a constructive dialogue and regulatory cooperation with China is essential, as is implementation of the EU-China GI agreement.

IMPORTED SPIRITS ONLY REPRESENT 0,9% OF OVERALL CONSUMPTION IN CHINA



Sources: SWA - IWSR Drinks Market Analysis 2019



Source: Eurostat 2020

REGULATORY CHALLENGES IN CHINA

The Chinese market is currently open for EU spirits. However, spirits producers may face the prospect of significant red tape and costs, as a number of new legislative rules affecting the registration of foreign food & drinks manufacturers are due to enter into

force in 2022. It will be important that these new rules are implemented carefully so that they do not create unnecessary red tape and costs for large producers and insurmountable trade barriers for small distillers.



“China is a key strategic market opportunity for Hennessy: Cognac is an iconic and aspirational drink for many Chinese consumers, who enjoy our premium products. Beyond the global pandemic, regulatory cooperation with Chinese authorities will remain essential to ensure sustainable commercial relations”

CÉCILE DUPREZ- NAUDY
Public Affairs Director, Moët Hennessy

MAKING THE MOST OF EXISTING EU FREE TRADE AGREEMENTS (FTAS)

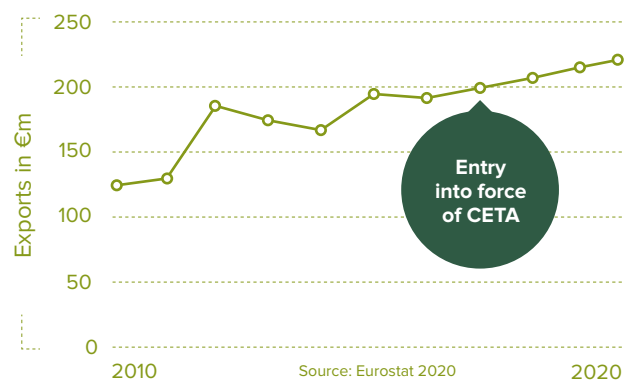
The EU's existing FTAs have considerably boosted the export performance of European spirits. Our sector remains deeply committed to using and promoting these agreements, which have cut down tariffs, improved GIs protection and have paved the way for significant market access improvements. Good enforcement – under the leadership of the EU's Chief Trade Enforcement Officer (CTEO) – is critical to ensure that partners deliver on their commitments and that unforeseen barriers, red tape or lack of information do not prevent companies – especially SMEs – from benefitting from the FTAs to the fullest possible extent.

#CETA – EU-CANADA FTA

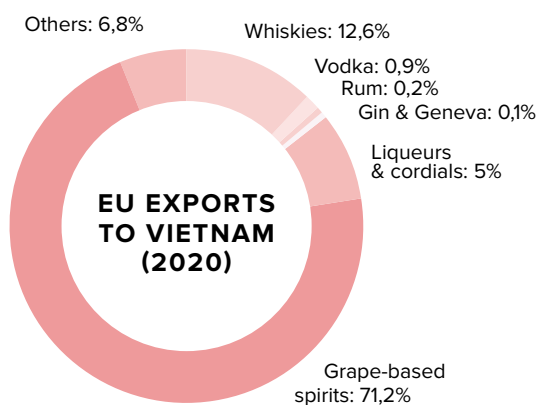
EU spirits have already benefited from CETA and some of the improvements it brought. Still, a number of discriminatory rules for imported spirits remain.

CETA should be ratified without delay by all EU Member States. Existing discriminations that unfairly favour in-province distillers in Canada must be tackled as a matter of priority, to ensure EU spirits producers can compete fairly, in line with CETA provisions.

EU SPIRITS EXPORTS TO CANADA



#EVFTA - EU-VIETNAM FTA



The recently adopted EU-Vietnam FTA, of which spiritsEUROPE was and continues to be a fervent supporter, supports our export to the country, as we recover from COVID crisis.

EU spirits exporters have faced a sharp increase in excise taxes following the conclusion of the EU-Vietnam FTA, which has cancelled out the reductions in import duties negotiated as part of the FTA. The overall tax burden should reduce, as import duties will be gradually eliminated in the coming years, but it will be important to follow closely any developments around local alcohol taxation, to ensure that the reductions in import duties are not levelled out by a further increase in domestic taxes.



"Jameson is the largest-selling brand of Irish whiskey across Canada. Sales of Jameson Irish Whiskey in Canada grew by +48% between early 2017 when CETA came into provisional effect and the end of 2019. While there are several factors that have contributed to this success, we believe that open trade between Ireland and Canada has greatly supported the success of Irish whiskey there in recent years."

SIMON FAY

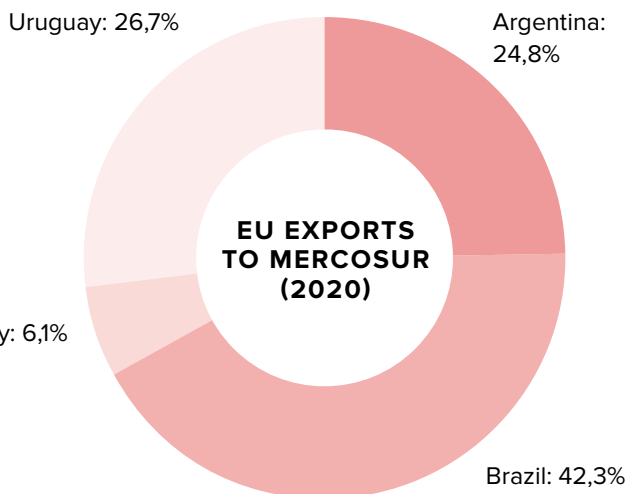
Business Acceleration Director, Irish Distillers (Pernod Ricard)

UNTAPPED MARKETS WITH GREAT POTENTIAL

EU trade policy efforts should focus on those countries that hold great potential in terms of market access improvement and trade barriers reduction, including for European spirits.

THE IMPORTANCE OF THE EU'S MARKET ACCESS STRATEGY

The EU's Market Access Strategy plays a crucial role in addressing barriers related to market restrictions, tax discrimination, regulatory barriers or poor trademarks & GIs protection. Coordination with industry & Member States needs to continue and joined-up work with EU Delegations and likeminded trade partners facing similar issues needs to be further reinforced under the leadership of the Chief Trade Enforcement Officer.



Source: Eurostat 2020

MERCOSUR

With a population of 266.5 million inhabitants, Mercosur countries offer great growth potential for our products. Once ratified, the FTA will bring down barriers on both sides and open the Mercosur market to EU high-quality spirits.



EU SPIRITS EXPORTS TO MERCOSUR

€28,805,701



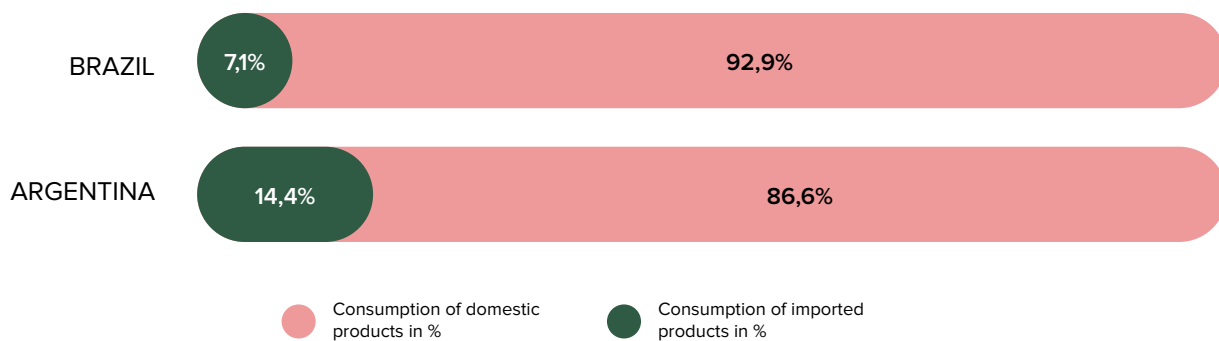
"Mercosur countries, and in particular Brazil and Argentina, are high growth potential countries for us. The ratification of the EU-Mercosur agreement would greatly facilitate our expansion on these growing markets, and with it, generate growth & new opportunities for our suppliers, including in the dairy industry."

FRANCESCA ADURNO

Head of Global Trade and Regulatory Affairs, Diageo

UNTAPPED MARKETS WITH GREAT POTENTIAL

TAX DISCRIMINATION & REGULATORY ISSUES: KEY BARRIERS TO BRAZIL & ARGENTINA



Sources: SWA - IWSR Drinks Market Analysis 2019

BENEFITS OF THE EU-MERCOSUR AGREEMENT

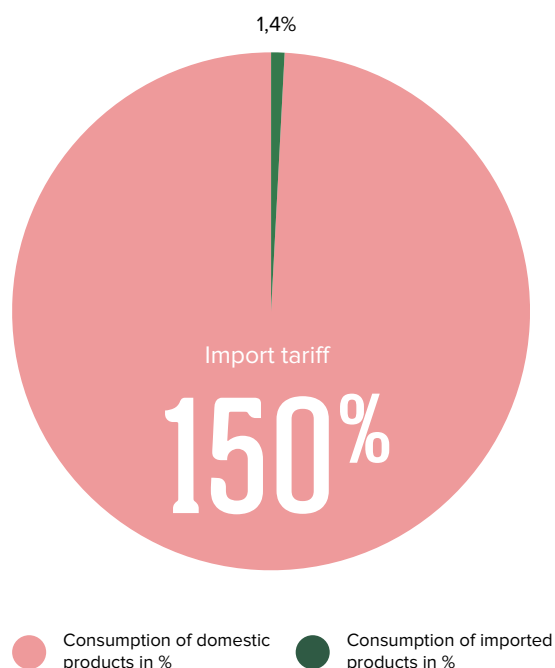
- ✓ Gradual tariff elimination over 4 years
- ✓ Greater protection against counterfeiting
- ✓ Trade facilitation measures (labelling provisions)
- ✓ Protection of spirits GIs
- ✓ Level-playing field with Mercosur spirits

INDIA

The import tariff rate of 150% ad valorem on alcoholic beverages in India is one of the highest rates in the world. We welcome the recent announcement about the restart of FTA talks with India and urge the Commission to treat these negotiations as a priority. Substantial tariffs reduction would unlock the potential of this market. As a matter of comparison, the value of EU spirits export to China in 2020 was €535.6 million, against €15.8 to India.

EU spirits also face substantial barriers in the form of:

- ➔ **Tax discrimination** at state level,
- ➔ **Regulatory issues**,
- ➔ **IP issues**, related to the inefficiencies in the trademark registration system,
- ➔ **Prohibition & restrictions** in certain states and a persistent sales ban imposed on imported beverages in military canteens.



Sources: SWA - IWSR Drinks Market Analysis 2019

ASEAN

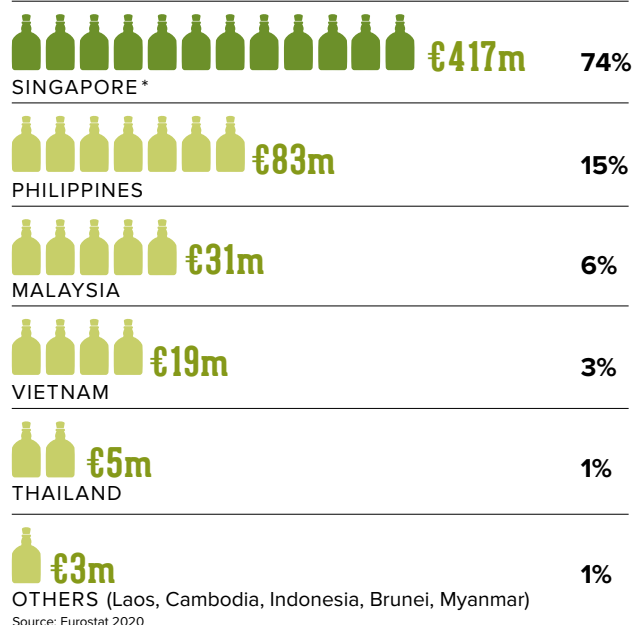
With a population of over 655.5 million inhabitants, the ASEAN Region is expected to become the world's 4th largest economy and the 3rd most populous by 2030. Over the next years, the confluence of favourable demographics and rising income levels will create significant opportunities in the region for EU spirits exporters.

The EU should have an ambitious trade policy in place towards ASEAN countries, as EU spirits exporters continue to face a combination of high tariffs (eg, 150% in Indonesia and 60% in Thailand) and particularly challenging local tax and regulatory environments. The EU should accelerate negotiations with Indonesia to reduce the high import duty rate and increase its overall engagement with the ASEAN block.

*** 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 the regional hubs that provide for economies of scale – while retaining the eligibility for the preferential tariff agreed in FTAs.**



SHARE OF EU EXPORTS IN ASEAN MARKETS (export value 2020)



SUB-SAHARAN AFRICA

Sub-Saharan Africa is a promising but largely untapped region. Key countries for EU spirits are South Africa as well as Nigeria and Kenya.

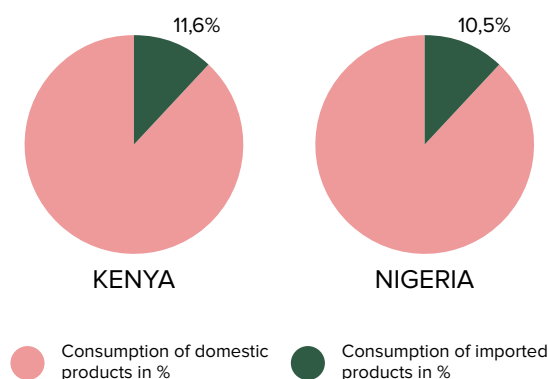


See our strategy

Improving the business climate in Sub-Saharan Africa could help increase the EU's investment in the region and support local growth and development. The inclusion of spirits in tariff liberalisation packages and the establishment of spirits committees in new

EPAs would be important steps to address market access challenges and regulatory barriers. To help fight the prevalence of illicit trade, the EU should maintain a close dialogue with Sub-Saharan countries and discuss how to overcome issues such as illicit trade. Read our detailed recommendations in our Sub-Saharan Africa strategy.

CONSUMPTION OF IMPORTED VS DOMESTIC SPIRITS (2019)



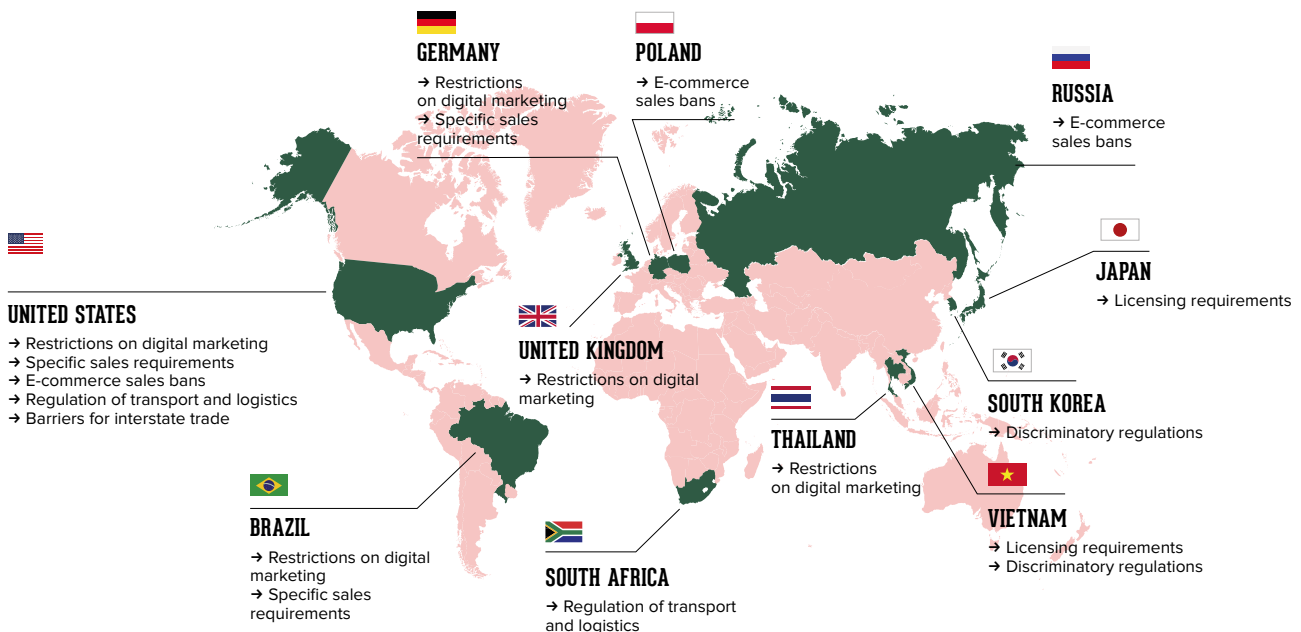
Sources: IWSR Drinks Market Analysis 2019

E-COMMERCE: A GROWING & PROMISING SALES CHANNEL

Spirits producers are increasingly investing in e-commerce sales channels to reach their consumers, a trend sharply accelerated by the COVID-19 crisis. In 2019, the value of the e-commerce market for alcoholic beverages was estimated at €19.6 billion (more than ½ coming from China). By 2024, the channel is set to double in size to €40.5 billion, thus outpacing the growth

of the total trade in alcoholic beverages over the next five years. Still, e-commerce for alcoholic beverages does not exist in every country, as shown by the map below, closing potential opportunities for the spirit sector at a time when digital sales channels are becoming more important than ever and depriving consumers of product choice and convenience.

A WORLD VIEW OF EXISTING REGULATORY BARRIERS



RESPONSIBLE E-COMMERCE



In January 2021 a ground-breaking partnership was created between the International Alliance for Responsible Drinking (IARD) and 13 leading online retailers, e-commerce and delivery platforms. The partnership aims to ensure the responsible sale and delivery of alcoholic beverages online. The coalition is committed to preventing the online sale and delivery of alcohol to minors, and reducing harmful drinking among adults.

The partnership has developed global standards of responsibility that:

- Enhance safeguards and security measures so minors are unable to buy alcoholic beverages online
- Put in place mechanisms to prevent that beer, wine, and spirits are being delivered to minors or to individuals showing visible signs of intoxication
- Support the development of national codes and practices for the online sale and delivery of alcoholic beverages

www.iard.org

A SPIRIT OF SUSTAINABILITY

Trade policy is one of the tools through which Europe can export best practices and support development and the establishment of a fairer and more responsible economy abroad. As a responsible and environmentally-conscious sector, we stand ready to continue and lead efforts to increase sustainable development around the world, in line with Sustainable Development Goals.



2/3 of EU spirits exports are protected by a Geographical Indications (GIs). GIs are not only instrumental in boosting EU exports: they are also a guarantee of local job and growth creation, particularly in rural areas. Continuing to promote and protect European GIs abroad should continue to be a priority for the EU.



EU map of the 240 spirits GIs

CASE STUDIES

PERNOD RICARD & DIAGEO INITIATIVES IN SUPPORT OF THE UN'S SDGS ACROSS AFRICA

In Mozambique, Pernod Ricard partners with consulting firm Gaia, focusing on energy, environment and sustainability, to help reduce plastic pollution from plastic straws. Pernod Ricard also works with local company Biothonga to reduce glass waste, turning empty bottles into glassware & reducing the amount of waste going into landfill.

Diageo also supports a number of initiatives in Africa to support water management and the provision of clean water, including the Water of Life programme, which has helped bring clean water to over 10 million people across Africa in the last 10 years.



SPIRITS: SUSTAINABLE & SUSTAINED BY NATURE

→ Working towards sustainably farmed raw materials



→ Reduction of overall water consumption & preservation programmes across Europe



→ Decrease overall energy consumption & switch to renewable energy sources



#Farm2Glass publication



→ Actively support the decarbonisation of the transport sector



→ Over 90% of spirits are sold in glass bottles, a save & sustainable choice



→ Casks sourced from responsible managed forests



→ Re-use by-products of distillation to feed animal farm

NEEDED: GLOBAL COOPERATION TO TACKLE GLOBAL CHALLENGES



Our contribution

The WTO is the protector of the rules-based multilateral trade order and has offered invaluable predictability and stability to European exporters, not least in the spirits sector. We are eager to see the WTO protected and reformed so that it may continue to support international trade. We issued a list of proposals to modernise and strengthen the existing structures of the WTO in 2018 and have been active ever since in the debate on how to turn the current crisis in the WTO into an opportunity.

The EU should take a leading role in the process of the WTO reform. The overall objective should be:

- to increase the efficiency & strength of the existing structures.
- improve cooperation with industry and other international agencies
- tackle new challenges, such as: e-commerce, barriers to services & investment, and illicit trade.

ILLICIT TRADE: A GROWING ISSUE OF CONCERN

Illicit trade is on the rise in many regions of the world. Engaging with partner countries, in particular developing countries, to address barriers which fuel the rise of illicit trade should be seen as a priority for the EU. Taxation which does not take into account local specificities is a significant driver

of illicit trade in spirits. The European Commission should support the case for proportionate levels of taxation appropriate to local markets – especially in the post COVID-19 context - to ensure that legitimate trade does not get replaced by illicit trade.



“The last months have generated several valuable lessons learned from COVID-19-related prohibition laws that were imposed — and then abandoned — in India, Thailand, South Africa, Mexico, and Colombia. In all cases, the laws facilitated increases in illicit trade (and the criminal activity that supports it), exposed consumers to health risks from toxic illicit alternatives, and rapidly drained government revenues dependent on excise tax collections”

JEFF HARDY

Director General of TRACIT (Transnational Alliance to Combat Illicit Trade)

1 | Resolve EU-US trade disputes & return to **tariff-free transatlantic spirits trade**

2 | Ensure that sectors in which the EU has a trade surplus are **NOT** brought into unrelated disputes

4 | Ensure effective implementation of existing FTAs

3 | Deepen the **constructive dialogue with China** on regulatory matters

5 | Create a **level-playing field between local & EU actors in 3rd countries**, by addressing protectionist measures

10 recommendations to strengthen the sustainable growth of EU spirits exports

6 | Pursue **ambitious trade negotiations with priority countries & ratify concluded agreements without delay** (e.g. Mercosur)

7 | **Strengthen the role & relevance of the WTO**

8 | **Prioritise multilateral solutions to common challenges & ensure WTO compliance of new policies**

9 | **Continue to promote and protect quality EU food & drink products and Geographical Indications (GIs) worldwide**

10 | **Tackle illicit trade and address common risk factors conducive to illicit trade**

€6 807 462 777

Export sales outside EU

€45.7 billion

Generated through VAT & Excise (€23.5bn)
+ Other taxes, e.g. employment, profits...
(€22.2 bn) in EU+*

1.2 million

EU JOBS IN PRODUCTION
AND SALES IN EU+*

29

NATIONAL
ASSOCIATIONS

10

LEADING INTERNATIONAL
COMPANIES

1 *Strong Common Network!*

* EU+ = UK, Norway and Switzerland



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