

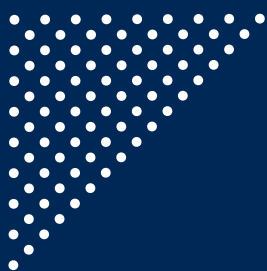


#SPIRITOFEUROPE

THE FACES & PLACES OF A VIBRANT SECTOR

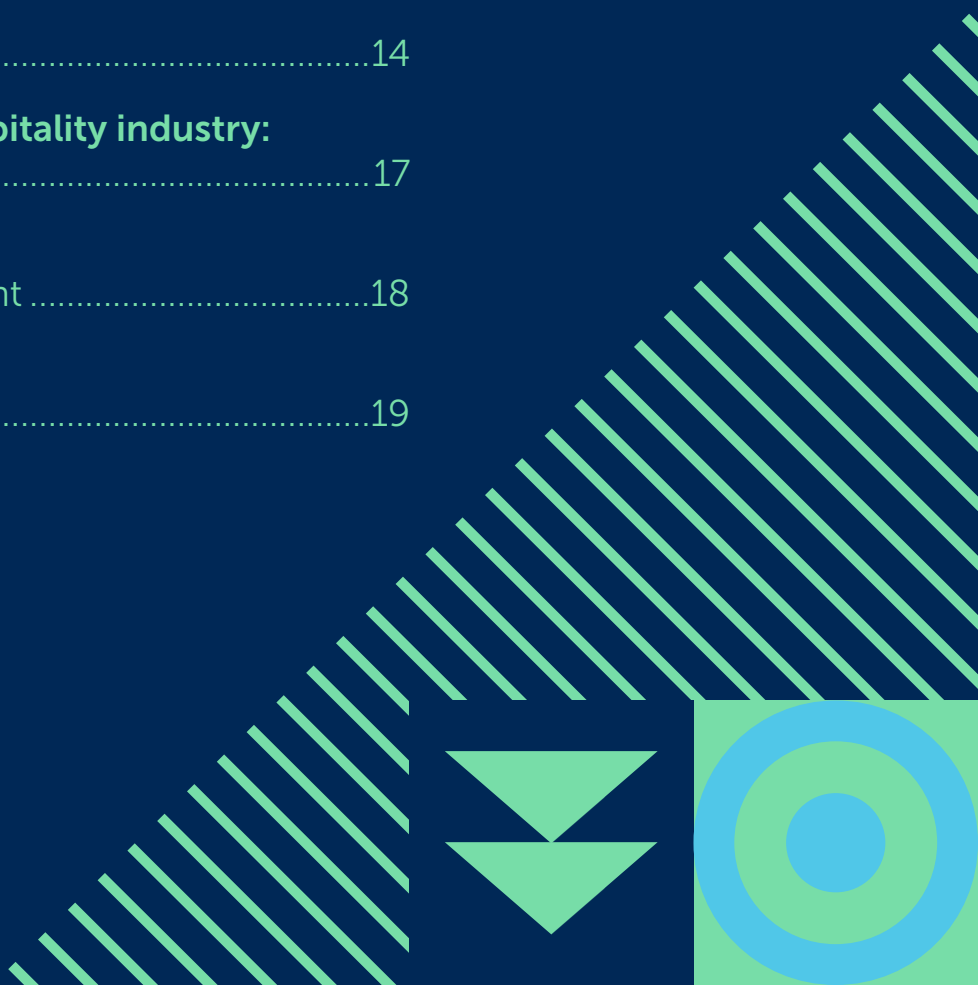


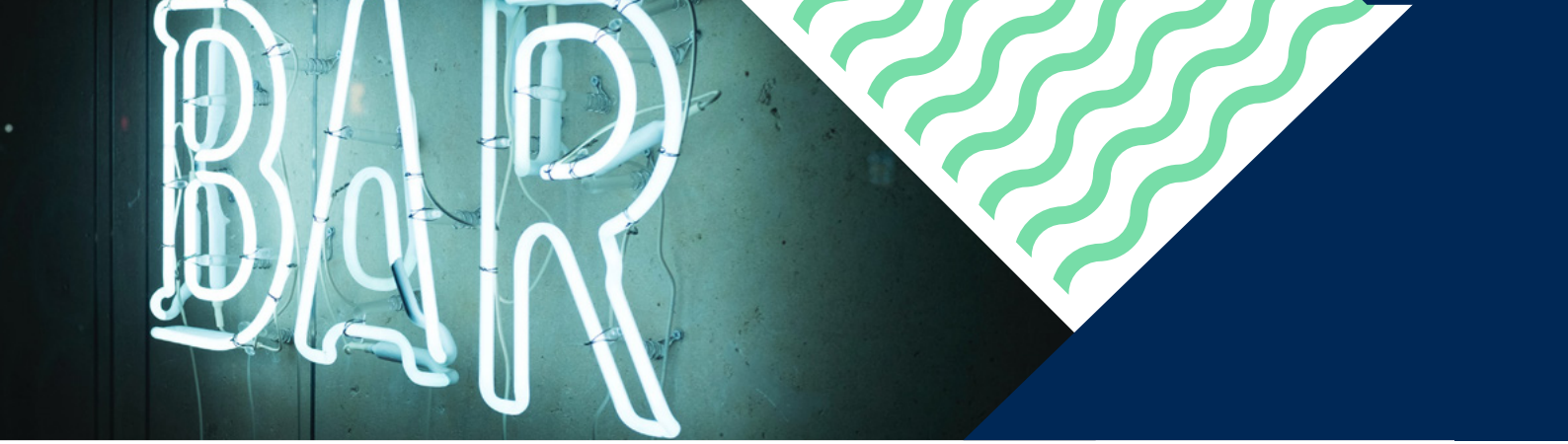




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Introduction

Europe is the most-visited tourist destination in the world. It has attained this status not simply through the undeniable grandeur of its scenery or the welcoming nature of its people. It also attracts visitors interested in experiencing first-hand its long-standing history, its culture and its culinary traditions. People from around the world are attracted by this heritage and the sense of connection to the past it brings, particularly those of high-quality food and drink.

Yet this commitment to history and tradition does not mean Europe is a historical theme park, living in the past. Quite the opposite; it is one of the world's most innovative and competitive industrial regions. The EU is leading the world in the shift to a greener, cleaner world, while many European industries are at the cutting edge of their sectors. Yet at the same time, Europe knows how to retain the essential elements of quality and tradition that make its products unique and world famous.

A long-standing - and growing - area of interest is Europe's legacy of producing artisan spirits, encompassing skills and methods believed to date back almost 1000 years in some places. Many European spirits - not just its whiskies and brandies, but also the range of vodkas, gins and fruit liqueurs - are rightly renowned throughout the world. They are lauded for their unique qualities and the knowledge and skills required to sustain their deserved reputations. Indeed, many of Europe's finest food and drink products enjoy geographical protection to ensure standards are properly preserved.

This booklet will provide you with some of the key - and remarkable - facts about Europe's highly dynamic spirits sector. It will demonstrate the pivotal contribution that spirits make to Europe's economy - directly and indirectly - and to its global reputation. It will also help explain the spirit industry's vital role in ensuring the short-, medium- and long-term future recovery of Europe's economy and its role in building the greener, sustainable Europe that the EU seeks.

Above all, this booklet will introduce you to some of the fascinating, dedicated individuals and personalities who work in this sector. People who understand the importance of tradition and heritage, and of preserving production methods that celebrate on local produce. These are the people who make Europe's spirits sector so special and unique.



Manu Giró
President

Foreword



Ulrich Adam
Director General

No one should be in any doubt of the value of the spirit sector to EU Member State economies. In the most recent Eurostat figures available - from 2019 - there were more than 7,400 businesses in (what was then) the EU-28 involved in distilling, rectifying and blending spirits. The total turnover of the sector in 2019 - pre-tax - was €26.5 billion, of which more than €12.5 billion was in export sales.

In addition, of course, the sector is a major source of tax revenues - around €25.4 billion over the same period in excise duty and VAT alone. Add in income, profit and other taxes on general economic activity along the value-added chains, this amount nearly doubles. That is equivalent to nearly a quarter of the EU's overall budget. The sector provides jobs too, with direct and indirect employment reaching around 1.2 million jobs - higher than the total in six of the EU's Member States.

A new report, entitled "The economic and ecological footprint of the spirits sector in the EU, the UK, Norway and Switzerland" was commissioned by spiritsEUROPE from the Institute of Advanced Studies in Vienna. This shines a fresh light on the true value of the spirits sector in all the areas of finance and employment that it influences.

Yet these bare numbers alone reveal little about the wider positive impact and influence of the spirits sector across Europe. It is much, much more than simply being an employer and a contributor to government coffers. It makes a significant contribution to the hospitality sector, to agriculture and to rural development. Indeed, the spirits sector increasingly offers diverse, locally-sourced premium and craft spirits drinks to meet the myriad demands and desires of more than 335 million consumers in the EU+. In addition, it is now playing a significant - and growing - role in Europe's tourism. Therefore, as well as 'conventional' contributions, spiritsEUROPE wanted to capture the wider influence of our sector.

Inside, you will meet people whose lives and work - directly and indirectly - depend on the sector. You will discover the contribution they make to so many parts of Europe's economy and our sector's key role in maintaining Europe's social coherence. In addition, we look at Europe's tourist industry and hospitality sector and the increasing popularity of food and drink tourism.

Finally, as Europe embraces a greener future - through the Green Deal, Farm2Fork and NextGenerationEU funds - we look at how we are embracing this challenge and how our sector is making itself part of the solution to the challenge of climate change.

Spirits in Europe

Key numbers at a glance¹

Economic contribution in 2019



€26.5 billion

Spirits sector
turnover



€12.5 billion

Spirits sector
exports



€60.0 billion

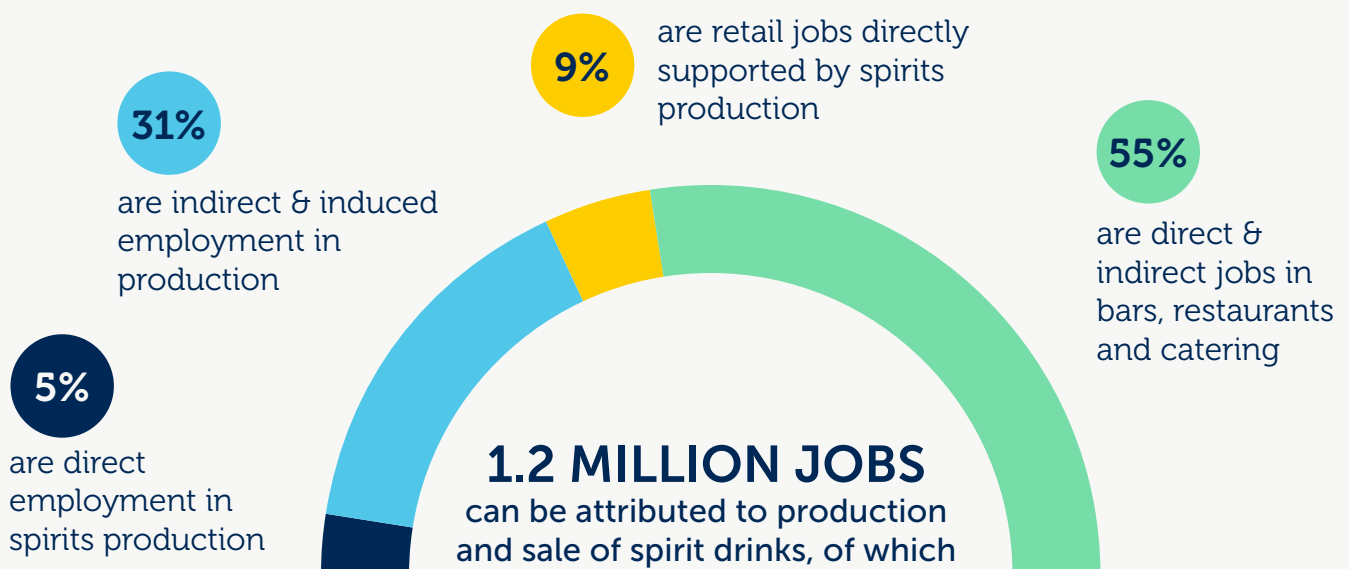
Spirits sector Gross
Value Added (GVA)



€25.4 billion

Spirits sector - generated
excise & VAT

Employment contribution



FOR 1 JOB
created in the
spirits sector



11 JOBS
are created in the
hospitality sector



2 JOBS
are created in
the retail sector



6 JOBS
are indirect &
induced from spirits
production

Spirits tourism: distillery visits



Scotland
2,161,000

Ireland
1,020,000

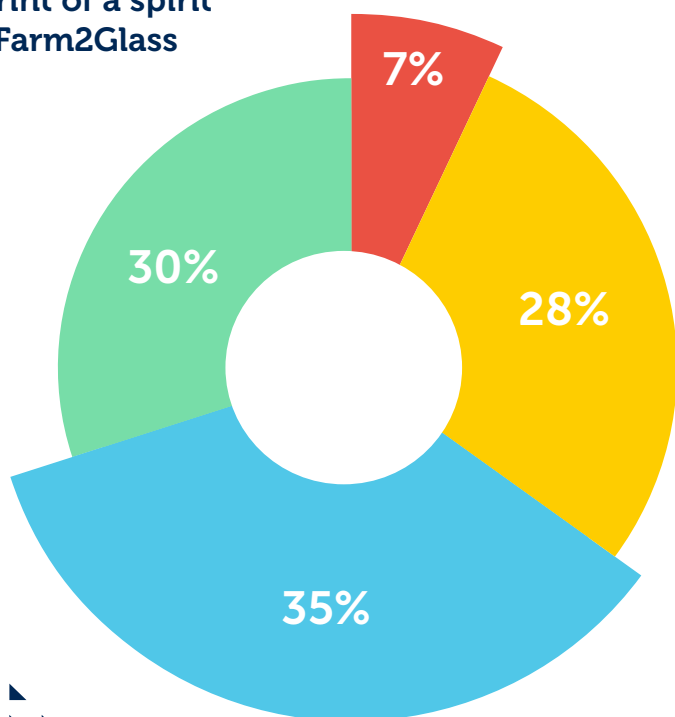
Cognac Region
350,000

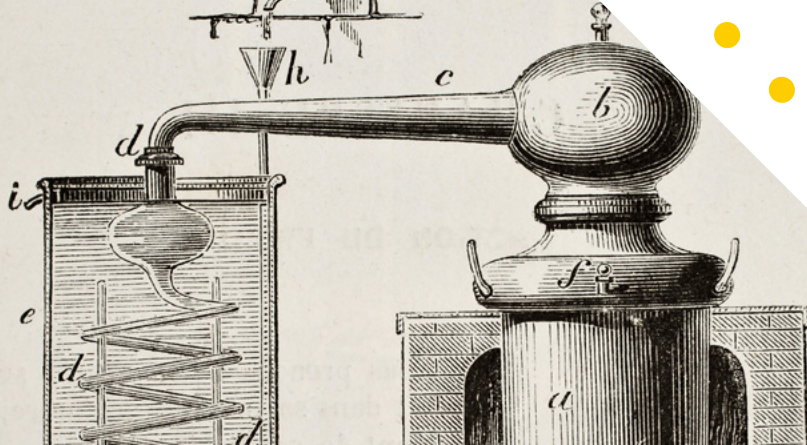
Brandy de Jerez Region
284,000



Environmental impact

Carbon footprint of a spirit
drink, from #Farm2Glass





The spirit of history

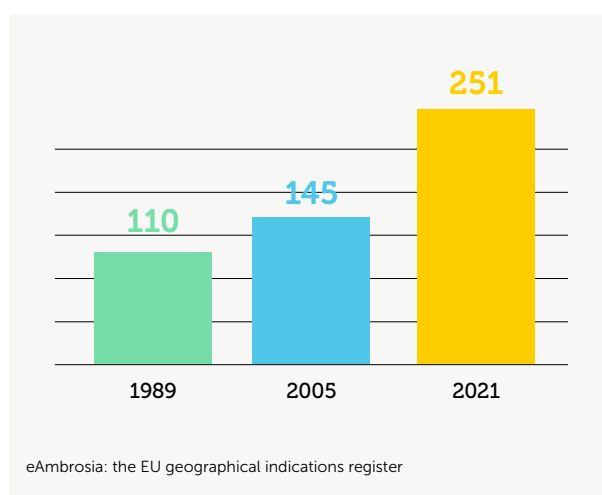
A centuries-old process

The application of distillation techniques for producing beverages dates back more than 1000 years. It represented a hugely significant development in culture. Although the fermentation of fruits and grains could and had happened spontaneously through airborne yeasts, distillation requires the application of scientific techniques - such as controlled heating and cooling - to the ales and wines that provide the source material for whiskies and brandies, in order to separate and concentrate their essence.

It was the Arabs who pioneered the science of spirit distillation. They perfected the early stills and brought the skill to various European countries from the 8th century onwards.² By the 12th century, Irish whiskey, German brandy and Cognac were already being produced. Meanwhile, references to gin production in Bruges can be found as long ago as the 13th century.³ In the 15th century, Irish monks brought their distilling techniques to Scotland, establishing that country's world-famous whisky industry.

Every country in Europe produces spirit drinks and their success is based on a huge degree on tradition and innovation, know-how and secret recipes handed down through generations of passionate men and women. The existing 44 spirit categories, such as rum, whisky and vodka, as well as the 250+ geographical indications (GIs) registered in Europe - such as Scandinavian vodkas in the North to the grappas of Italy in the South; the aguardientes of Portugal to the West to the pálinkas of Hungary and Romania to the East - are clear signs of a sector rooted in culture and tradition.

Increasing numbers of spirits GIs





**Spirit drinks
protected by GIs
are produced
in almost every
country in Europe**

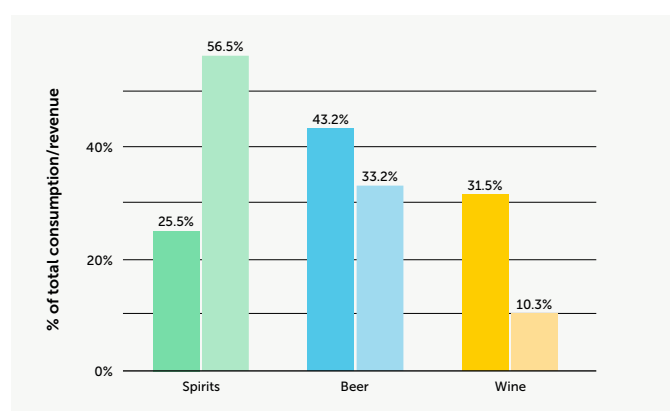
Number of GIs by country

Austria	9	Italy	34
Belgium	10	Lithuania	7
Bulgaria	12	Netherlands	5
Croatia	6	Norway	2
Cyprus	2	Poland	2
Estonia	1	Portugal	11
Finland	2	Romania	9
France	51	Slovakia	1
Germany	34	Slovenia	4
Greece	15	Spain	19
Hungary	8	Sweden	3
Ireland	3	UK	2

Taxing the spirit

A call for a fairer, better and non-discriminatory approach

Alcoholic beverages - in particular those in the spirits sector - has been a leading source of revenue for European governments for centuries. Indeed, it is the oldest form of regular institutional revenue source; until the 20th century, it provided the bulk of government revenues for many states.⁴ Even now, it is still a massive contributor to EU Member State coffers, raising some €25.4 billion in excise duties and VAT in 2019.



Despite being consumed less than beer and wine, spirits contribute much more in taxes. In part, this is due to the fact that - in more than half of all EU+ countries - the tax burden is more than half that of the off-trade price, while wine is not subject to duty.

All commercial craft drink producers need to enjoy equitable access to excise relief schemes. The current structure creates a huge discrepancy between small distillers and small brewers/cider makers: the latter can produce up to 1,000 times more pure alcohol than start-up distillers before full excise rates apply. SMEs in the spirits sector clearly deserve to benefit from structurally similar rules as their counterparts in cider and beer producers. It is crucial to close this discriminatory gap in reduced excise duty rates.

CRAFT BREWERS



Craft brewers can generate €15,000,000 in revenue before full excise rates apply.



1,000,000 litres of pure alcohol can be produced before full excise rates

50% tax breaks
for low alcohol beers (2.8% ABV)

CRAFT DISTILLERS



Craft distillers can only generate €30,000 before full excise rates apply.



1,000 litres of pure alcohol can be produced before full excise rates

0% tax breaks
for low alcohol spirit-based drinks

Vs

Spirits excise duties are an important source of income for Exchequers across Europe. However, a number of Member States have reached the limit of this, where further increases to tax rates will not generate greater tax revenues but instead lead to reductions. While cross-border shopping has significantly impacted state revenues in Belgium and Baltics countries, illicit trade reduced these in both Greece and Romania.

There are other risks; high taxation leads to illicit consumption, with potentially dangerous consequences. In Lithuania in 2021, the death of at least 16 people has been attributed to drinking 'homemade' alcohol.⁵ Meanwhile in Ireland, in 2014, two men died from drinking what a coroner described as 'potentially lethal "underground" alcohol'.⁶

HIGHER AFFORDABILITY OF ILLICIT ALCOHOL*

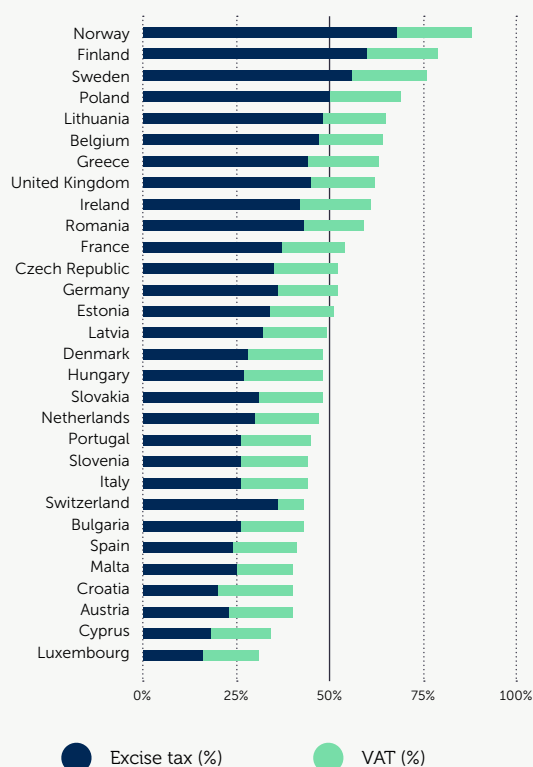
Key takeaway: Prices are the main driver of illicit alcohol demand, so initiatives that increase licit alcohol prices may unintentionally stimulate demand for illicit products.

Recommendations:

- Avoid excessive and discriminatory taxation and regulation to the licit players because they can have unintended consequences
- Reduce price gap between licit and illicit alcohol markets (governments and licit industry players have a shared responsibility)

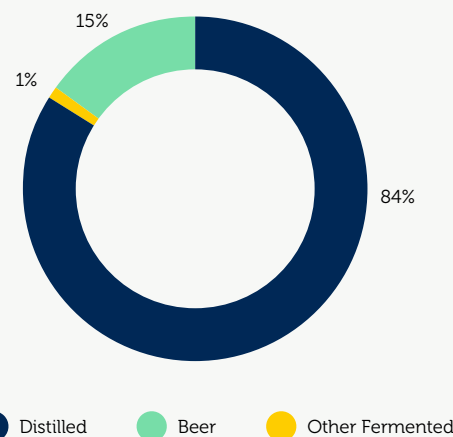
There are also the knock-on consequences for other industries, both upstream and downstream of distillation. For certain sectors that make up Europe's social fabric - hospitality in particular - taxation poses an existential challenge; one that the recent pandemic has thrown into sharp relief (as we explore in detail later in this publication).

Shares of VAT and excise (for 1 litre of spirits, 40% vol.)



Source: IHS

Global illicit alcohol consumption by drink type (HL LAE, Last Year)*



*EUROMONITOR INTERNATIONAL 'Size and Shape of the Global Illicit Alcohol Market'

5. www.euronews.com/2021/08/19/homemade-alcohol-poisoning-kills-16-people-in-lithuania
6. Coroner highlights lethal 'poitin' concern; <https://www.donegallive.ie/news/donegal-news/42609/Coroner-highlights-lethal--poitin-.html>



Spirits Tourism

On the trail of history

Europe is the world's most popular destination for tourism, attracted by spectacular scenery, heritage and - increasingly - high-quality food and drink experiences. Europe's heritage of regional produce, much of which is protected by 'Geographical Indications' (GIs) that help maintain standards and traditional production measures. Many of Europe's most important and well-known Geographical Indications are those associated with spirits production, such as Scotch whisky, Irish whiskey and Cognac, Armagnac or Calvados from France. In the EU alone there are more than 250 such GIs.

The growing interest in seeing production taking place first-hand has seen the emergence of distillery visitor centres. The first of these were established in Scotland in the 1960s, at the Glenlivet, Glenfarclas and Glenfiddich distilleries. Originally a bolt-on to what were basically manufacturing sites - often staff had to interrupt production to show visitors around - they are now seen as integral to both the distillery business model and to the brand. Scotland, which has been a pioneer in spirit-related tourism, saw visitor centres within whisky distilleries attract more than 2 million people in 2019, some two-thirds of whom originated from outside the UK.

Meanwhile in Ireland, almost half of all Ireland's distilleries now offer a visitor experience, with numbers increasing by more than 50 percent between 2015-19, topping 1 million for the first time.^{8,9} In France, there are around 120 distilleries open to the public; in the Cognac region alone, an estimated 175,000 of the visitors each year are 'spirits tourists'.¹⁰ In addition, the Syndicat Français des Liqueurs organises tours of the various liqueur distilleries every two years (there are more than 800 types). While the COVID-19 pandemic saw the near-closure of global tourism, spirits tourism in France is expected to soon bounce back to earlier levels of 2 million visitors.¹¹



Visitors to the Liviko distillery in Tallinn, Estonia

"What we have seen is that the public are increasingly interested in the distillation process. They want to see and understand each step of the process for themselves. Opening up our distillery to visitors has been good for us - it has helped us better understand what the customer wants and has encouraged us to develop even greater pride and knowledge in what we do."

Jane Kalvi
CEO, LIVIKO AS (Estonia)

7. www.wipo.int/geo_indications/en/

8. Institute for Advanced Studies; "The economic and ecological footprint of the spirits sector in the EU, the UK, Norway and Switzerland"

9. *ibid*

10. *ibid*

11. www.spiritourisme.com/



The new Johnnie Walker Visitor Centre in Edinburgh, Scotland



Other countries have also seen the benefit of attracting visitors directly to the distillery in creating a closer bond with customers.

The downstream value of spirits tourism is considerable. The average daily expenditure per inbound tourist in France was more than €160 in 2019, in Scotland it was €151 per 'whisky day', while in Ireland it was €141. In Spain - albeit with a smaller spirit tourism sector - it was more than €170. In addition, the fact that so many spirits producers are based in rural areas makes them ideally placed to meet the growing demand for agri-tourism.

New distilleries are now designing visitor facilities in from the outset,¹² while the new Macallan distillery is aiming to attract 50,000 visitors per year. Johnnie Walker has invested €175 million in upgrading its whisky visitor centres in Scotland. Meanwhile in the Cognac region¹³, spirits and wine are bringing a range of tourism activities under a single roof.

12. <https://scotchwhisky.com/magazine/in-depth/19431/how-whisky-tourism-is-transforming-scotland>
13. Explore Cognac www.explore-cognac.fr



Maturing preferences

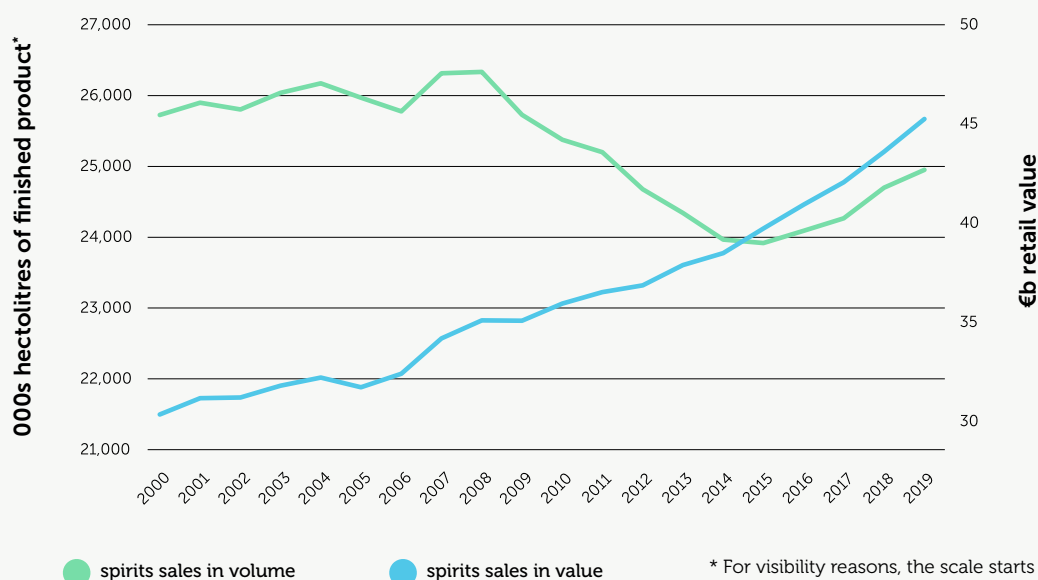
The pursuit of quality

With an increasing awareness of health and wellbeing, people have become adapted to the importance of drinking in moderation. As a result, alcohol consumption in the EU as a whole is falling. For spirits, the volume sold in the EU has fallen from a peak of over 26,000 hectolitres (around 3.7 million bottles) in 2008 to below 25,000 hectolitres in 2019 - a drop of more than 5%. Over the same period, the value rose by 29%.

“Unrivalled commitment to high-quality products of global acclaim”

Less volume and more value over recent decades

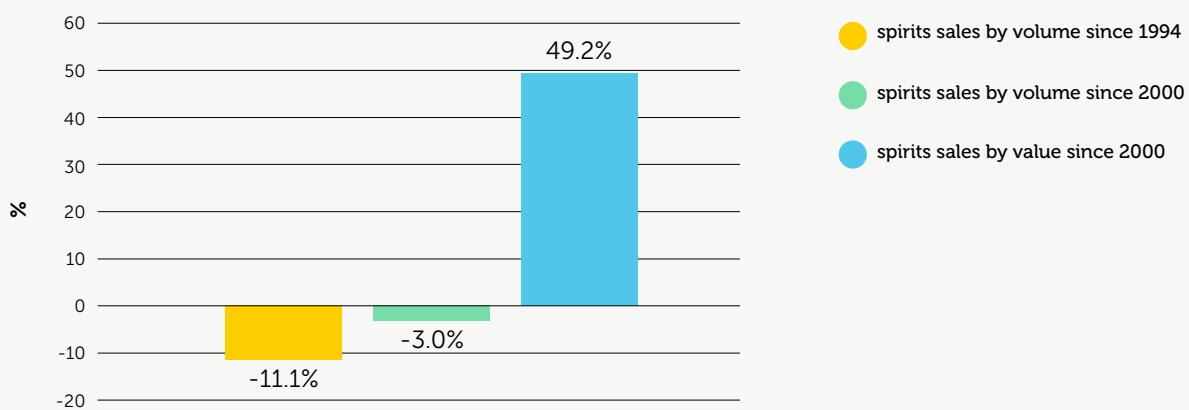
(EU+ including Norway, Switzerland and UK - ISWR)



The shift to 'premiumisation' incentivises producers to keep innovating

Percentage change in spirits sales by volume and value since 2000

(EU+, including Norway, Switzerland & UK – IWSR)



Importantly, however, there is a distinct trend in this drop in volume. The so-called lower-priced 'value segment' has fallen by 18 percent, more than double the overall volume drop for spirits for the last ten years. At the same time, however, the value of spirits sales overall has continued to rise steadily since 2000. This phenomenon is the result of consumers preferring to 'trade up' in quality. Increasingly, there is a growing interest in exploring the distiller's art, such as wood-aged vintage brandies and whiskies, often with unique finishes. Such products can be expensive - they are frequently hand-crafted and stored undisturbed for long periods (tying up the manufacturers' capital in so doing), however, but their popularity continues to grow.

This can be seen as a positive development - people favouring premium products are less likely to adopt risky drinking behaviours and encounter the associated health issues. Favouring premium products tends to lead to more moderate and responsible drinking - a trend that spiritsEUROPE fully supports.

This shift to 'premiumisation' also brings an additional benefit; it provides incentives and encouragement for producers to continue to innovate; showcasing their work among the best of Europe's produce. Indeed, a great deal of these premium spirits are sold in airport stores, providing a global platform for their artisan capabilities to an international audience.



Another development has been the emergence of specialist spirit shops and bars. These give the enthusiast the opportunity to discuss, sample and enjoy the best that Europe can offer encouraging people to explore the skills of the master distillers. It also supports innovation alongside tradition within the industry. This process of 'premiumisation' is likely to continue, as people recognise that quality spirit production is geared towards greener, more eco-friendly lifestyles.



The new city frontiers

In spite of the struggles of the smaller bars to remain viable, new opportunities are emerging. As many city planners look to a car-free, pedestrian friendly future, so city centres are being reclaimed for tourists and visitors. Increasing numbers of major cities now boast increasing numbers of upmarket (and budget) hotels. Furthermore, many of these are building on the increasing demand for premiumisation by specialising in artisanal whiskies, brandies or even gins. This allows consumers to sample various expressions of the distiller's art, without necessarily having to invest in several bottles.

"When we opened more than 20 years ago, we felt we were catering to a market of spirits enthusiasts, interested in the minutiae of methods of production and finishing. In recent years, the interest - and the customer base - has grown substantially; so much so we moved to larger premises in 2017. This allows us more space and time to discuss products with our increasingly knowledgeable customers, who are. We now offer more than 3000 whiskies in the store, 500 types of gin and 600 hundred different rums."

Angelo Jacobs, Manager at TastToe, Boortmeerbeek, Belgium

"People don't come simply to drink any more in the way that they used to. Nowadays, many are deeply interested in the products and their provenance, on techniques, on what's new. They're better informed, too; we now need our staff to have excellent product knowledge to meet expectations."

Nelson Matos, Royal Cocktail Club, Porto, Portugal



The water of life for the hospitality industry

A social service

“Drinking is essentially a social act, performed in a recognizable social context.”¹⁴

Dame Mary Douglas, DBE FBA, Professor of Social Anthropology

Hotels, bars and restaurants have long been part of the tapestry of Europe’s social, intellectual and business culture. They provide welcoming spaces for people to meet and talk, and to share experiences and successes. Sean’s Bar in Athlone, Ireland, dates back to 900AD; Al Brindisi, founded in 1435 in Ferrara, Italy, boasted both Galileo and Copernicus as customers.¹⁵

Yet the existence of many bars and restaurants is increasingly under threat. The decline of city centres, initiated by the growth of out-of-town (and online) shopping reduced the customer base. This decline was dramatically accelerated by the lockdown measures of COVID-19. For many businesses in the HoReCa sector (hotels, restaurants and catering), this would prove the final straw. Even now, as lockdown relaxes, bars and restaurants face severe pressure; social distancing measures means fewer clients are permitted, making it difficult for many establishments to remain viable.

As many already operate on the thinnest of margins, the profit from the sales of alcoholic beverages can mean the difference between closure and survival for many. Spirits - which can provide twice the profit of those on beers and wines - are key to their continued viability; that is, as long as spirits remain affordable. However, with the duty on beers and wines a fraction of those on spirits, this is a concern. When governments seek to increase their tax take, the reflex is to look to spirits. The increased cost has to be passed onto the customer in the form of higher prices - a process that is ultimately unsustainable. The sector needs protection to survive the crisis; increasing the cost of a primary source of their revenue is not a solution.



“Our bar has been part of our local community since we opened. We’re not simply a bar; we’re a hub for local people to get together, catering for local businesses and passing trade in the day, residents at night.”

“It wasn’t our aim to be a hugely profitable business, but it’s become difficult to simply survive. Lockdown has accelerated this problem; social distancing means we’re allowed fewer customers than before. Therefore we need to maximise our profits; our viable margins come from spirits.”

Tania Shamshur, Edgar’s Flavors Cocktail Bar, Brussels, Belgium

14. [20] Mary Douglas, Introduction, M. Douglas (ed.), ‘Constructive Drinking: Perspectives on Drink from Anthropology 4 (1987).

15. www.oldest.org/entertainment/bars



© Marton Gerard

Green spirit

In touch with the environment

The EU's COP 21 commitments mean that Europe is experiencing a paradigm shift in environmental attitudes, fuelled by initiatives such as the Green Deal and the Farm2Fork Strategy.

As an agricultural activity relying on locally grown and produced vegetables, fruits and grains, maximising resources and minimising waste has always been a reflex for distillers. They have an incentive to source locally and to maintain the environment. This feel and respect for the terroir allows them to make their fine spirits in partnership with nature.

Sustainable packaging and transport also contribute to a circular economy. Spirits are almost exclusively sold in glass bottles, a permanent material that can be endlessly recycled without any loss of its properties - assuming it is separately collected. spiritsEUROPE has joined with FEVE (Fédération Européenne du Verre d'Emballage) as a founding and board member of the "Close the Glass Loop" Platform, committed to increasing glass recycling from 76% now to 90% by 2030.

A traditional sector with modern environmental approaches

Of all the production steps, the distillation process is the most energy intensive. Therefore distilleries look to use by-products for generating renewable energy.

In Poland, the Belvedere distillery has pursued green and renewable energy for years, reducing CO2 emissions by 42% between 2012-17 by changing fuel sources. It has now inaugurated a new biomass capture facility to produce 100% renewable energy.

In Finland, the Koskenkorva distillery has also taken radical steps to reduce its environmental footprint.

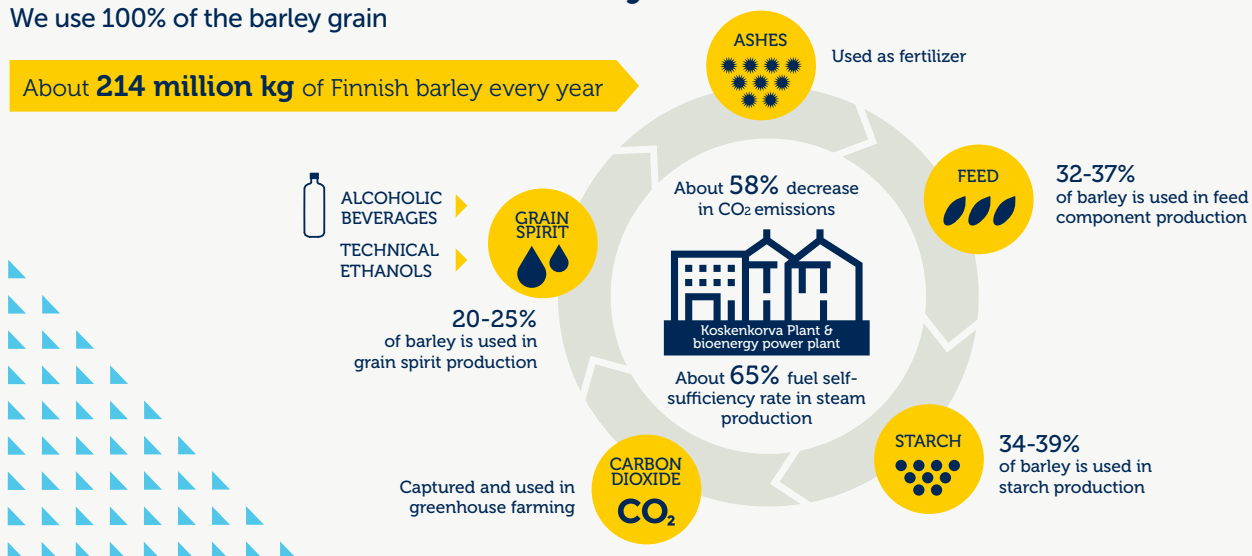
"We have built our own bioenergy plant, incinerating the husks from the barley used for grain spirit. This helps generate some 65% of the plant's steam requirements for distillation, while the ashes from the incinerator are used as fertiliser. Our biopower plant has decreased our carbon emissions by 58% at the Anora distillery."

Petra Gräsbeck, Sustainability Director, Anora, Finland

Koskenkorva Circular Economy

We use 100% of the barley grain

About **214 million kg** of Finnish barley every year



A responsible sector #SpiritOfSustainability

As well as its economic and employment contributions, Europe's spirits sector provides citizens with a range of more intangible benefits. Enjoyed in moderation and in convivial settings, alcoholic beverages can make a valuable social and cultural contribution.

However, spirits EUROPE recognises that it is vitally important that alcoholic beverages should only be enjoyed in moderation, as part of a balanced lifestyle and by those adults who choose to drink.

The sector fully supports such an approach, which is why we have the Responsible Drinking Portal (responsibledrinking.eu), which is dedicated to providing practical advice to consumers on how to approach drinking in a measured and sensible way. spiritsEUROPE recognises that, through its own actions and that of its members - which are accessible through www.drinksinitiatives.eu - it has an important and influential role to play in encouraging responsible drinking patterns among European citizens. We will continue to support initiatives that support and encourage drinking in moderation.



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