

♦ TAX ♦
A BRAKE ON
European spirits growth



Foreword

*We now have a new Commission and a new Parliament
a time of great change, of great opportunity and of great expectations.*



Our sector shares those expectations. We support the renewed focus on jobs and growth; we look for a turnaround in the European economy. As a very consumer-centric business sector, we have endured these past years of austerity measure after austerity measure. We look forward to seeing the plans for rejuvenation that President Juncker will bring forward, and we look forward to playing our part in that economic recovery.

Indeed, the “era of austerity” has had multiple, interconnected, negative effects on our businesses. Not only has it knocked a hole in the pockets and wallets of our consumers, thereby dampening demand,

it has also left large deficiencies in many exchequers, deficiencies that Finance Ministers look to make up through increased taxation of our products. And squeezed wallets and inflated prices offer an open invitation to criminals selling counterfeit or illicit alcohol products. A perfect storm.

We support *fair* taxation, we understand its need. But the increases we have witnessed over the recent past cannot be considered fair. Excise increases up to 60% in recent years have a huge impact on our sector including a disproportionate effect on our SME distillers whose markets are more local, less international.

spiritsEUROPE KEY MESSAGES

- ◆ Excise tax on alcohol beverages should be fair and equitable
- ◆ Excessive taxes depress revenues, growth and employment and create an excessive burden on consumers
- ◆ Member States should reduce the economic incentives that allow informal markets to flourish
- ◆ In terms of health policy, tax is a blunt instrument that impacts on moderate drinkers without having meaningful impact on those with risky drinking behaviours

Heavy burden on consumers

MINIMUM RATES

To ensure the establishment and functioning of the internal market, the European Union created a common legal framework for VAT and excise tax.

The legislation defines the alcohol products that are subject to excise duty/VAT and specifies minimum rates per category. Revenues from excise and VAT taxation go to national governments.



€550 or €1000/hlpa¹

SPIRITS

€187/hlpa

BEER

€0/hlpa

WINE

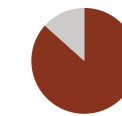
hlpa: hectolitres of pure alcohol

¹Once the spirits duty rate in a country is set above €1000/hlpa, it cannot fall below anymore.

MEMBER STATES HAVE THE FREEDOM
TO SET RATES AT LEVELS ABOVE
THE EU LEGAL MINIMUM RATES

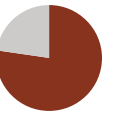
EXCISE RATES

Since January 2013, excise rates on spirits drinks have increased in 19 EU Member States, increasing sometimes more than once in the same year.



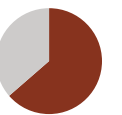
86% IS TAX IN FRANCE
€11 is tax for a bottle of spirits
sold at an average price of €13

77% IS TAX IN UK
€13 is tax for a bottle of
blended Scotch sold at €17



68% IS TAX IN POLAND
€5.4 is tax for a standard bottle
of Polish Vodka sold at €8

64% IS TAX IN ITALY
€9.5 is tax for a bottle of Limoncello
sold at an average price of €15



Sources: DG TAXUD and IWSR 2013

SPIRIT DRINKS ARE AMONG THE HIGHEST
TAXED CONSUMER GOODS IN EUROPE

CONCLUSION

On average, 2/3rd of the price paid by European consumers for a bottle of spirits is tax.

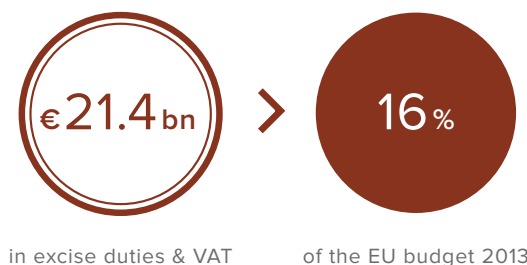
Large contribution to exchequers

€21 400 000 000

In 2013, the spirits sector generated €14.7 billion in excise duties and to €6.7 billion in VAT for the exchequers throughout Europe.

± the GDP of Latvia (€23.3bn in 2013)

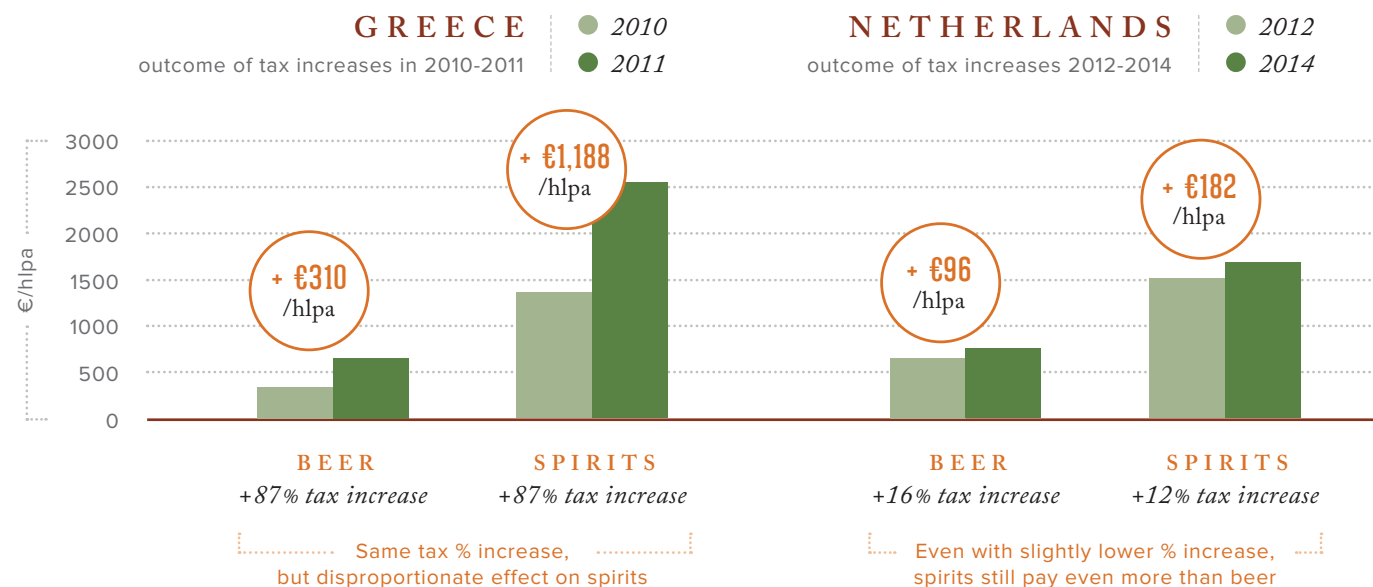
In 2013,
the spirits sector generated:



Sources: DG Taxud and IWSR 2013

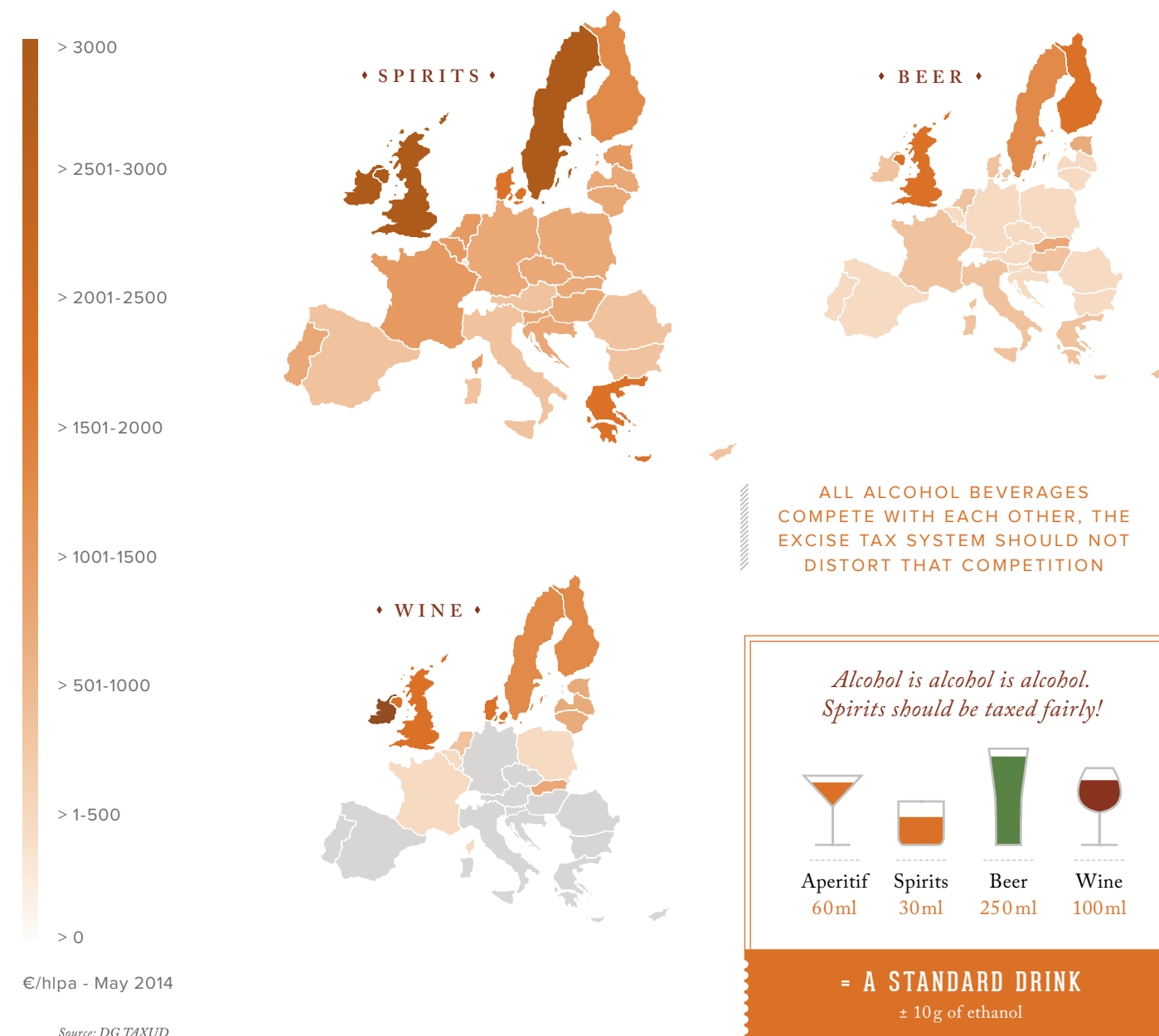
Towards a fair & equitable tax treatment

Today, the difference of tax treatment is such that although similar rates of increase might be applied, the overall effect on the real tax rate is considerably larger for spirits than for other lower-taxed products. Even a smaller % increase for spirits may result in much higher amount being taxed.

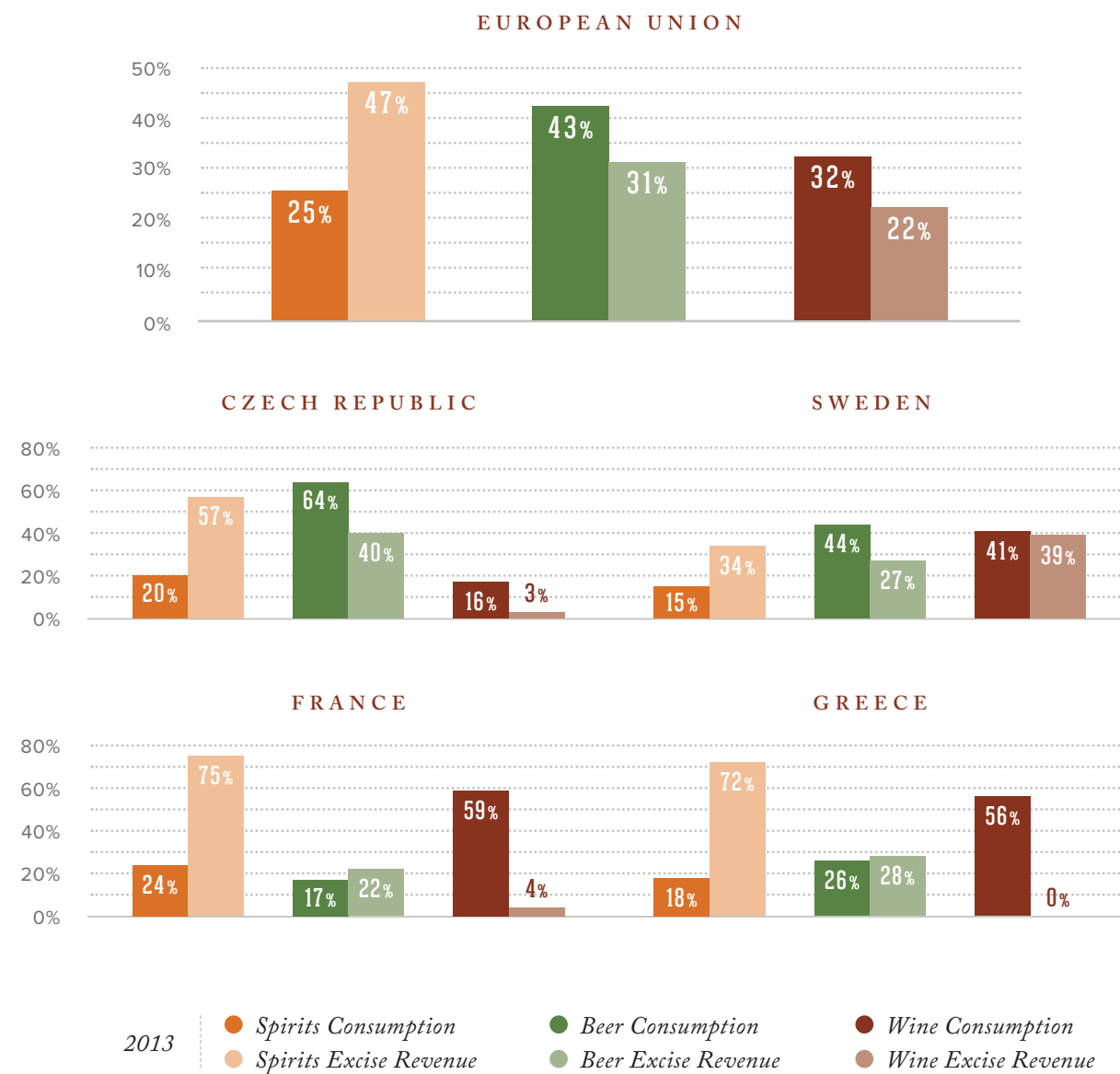


Source: DG TAXUD

WE SUPPORT FAIR TAXATION, BUT EXCISE TAXES SHOULD BE FAIR TO ALL BUSINESSES ENGAGED IN PRODUCING AND SELLING WINE, BEER AND SPIRITS.



Lower consumption, but higher tax



♦ Per capita consumption is in litres of pure alcohol, provided by IWSR 2013.
♦ Spirits, beer and wine are assumed to be 40%, 12%, and 5% ABV, respectively.

Sources: DG TAXUD & IWSR

Excessive tax rates: incentive for black markets

Illicit trade in alcohol cuts into the sector, thereby reducing its ability to grow, invest and employ; but also cuts into the tax revenues that national exchequers could normally expect to receive.

We believe that cost can be counted in billions. In addition, the consumption of illegal production (such as moonshine, counterfeit, smuggling, surrogate alcohol, etc) pose a serious health threat by providing consumers with inferior or even toxic products (e.g. over 45 people died and dozens more suffered serious illness in the Czech Republic, the Slovak

Republic and Poland after drinking illicit vodka or rum tainted with methanol in 2012).

Bulgaria increased excise rates on spirits by 46% between 2005 and 2006. Nowadays, 35% of the market is illicit (mainly home-made “rakia” and non declared spirits’ production) and €52m of tax revenues are lost annually.

We believe the scale of the illicit markets is directly linked to excessive increases in tax on legitimate products.

PER CAPITA SPIRITS EXCISE BURDEN IN RELATION TO DISPOSABLE INCOME IN EU-28



Tax Burden Index (EU average=100)



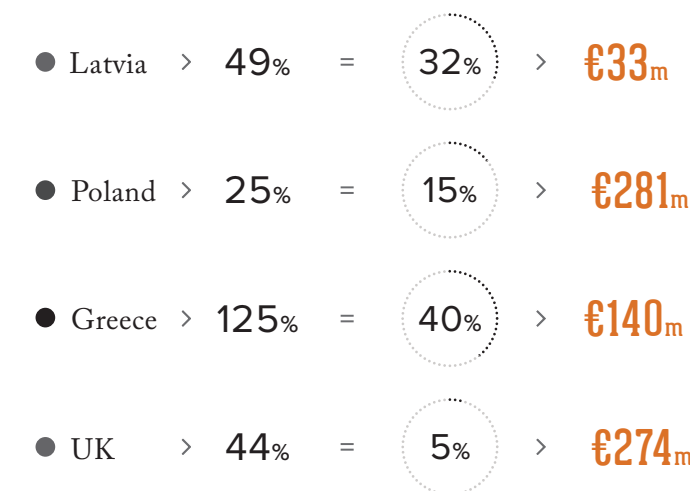
Sources: spiritsEUROPE based on EUROSTAT and DG TAXUD 2013 data. No data available for Croatia and Malta

From information available, it seems there is a correlation between the size of the illegal market and the level of tax/excise burden in relation to disposable income.

Increase in excise tax between 2008-2014

Average % of illicit alcohol

Tax revenues lost annually



Sources: Estimates based on national customs data and WHO 2014

CONCLUSION

Need for systematic and comparable research to measure the scale & value of illicit alcohol in Europe. Such research would benefit business, public administrations, customs services, police, and consumers' health.

Tax rates ≠ Revenues

Over the last two years, there have been a total of 32 individual spirits excise rises within the EU-28. However, higher taxes do not always generate higher revenues because consumers shift their demand to less expensive products or buy abroad (with VAT revenues decreasing). Increasingly, consumers also buy from the grey/black market paying no tax whatsoever. All these changes in consumers' purchasing decisions have

negative impact on spirits producers, but also on other parts of the economy, in particular the hospitality and tourism sectors. A number of Member States have reached the limit (the profit maximizing point) beyond which increasing tax rates will not generate further tax revenues but will instead lead to reductions.

♦ EXCISE DUTY RATES & REVENUES (SPIRITS AND ALL ALCOHOLIC BEVERAGES) ♦

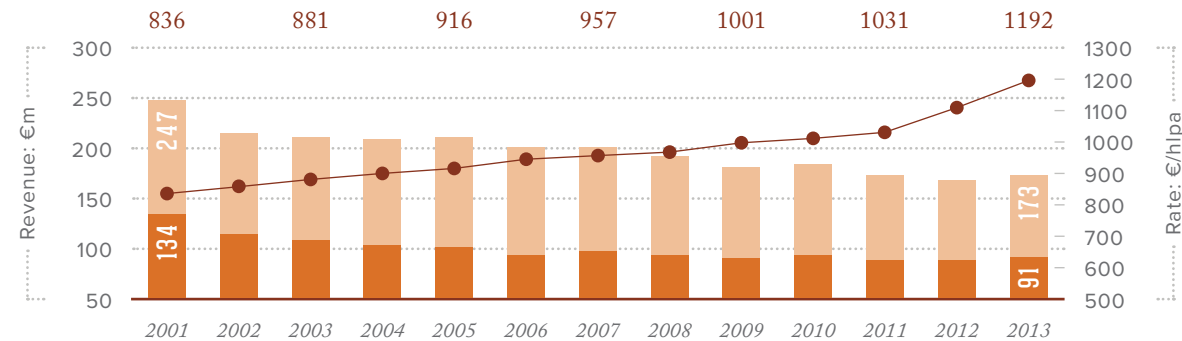
● Spirits Excise Revenues ● Total Alcohol Excise Revenues ● Spirits Excise Duty Rate

PORTUGAL

2001-2014

↗ +43%
Excise rate

↘ -32%
In revenues

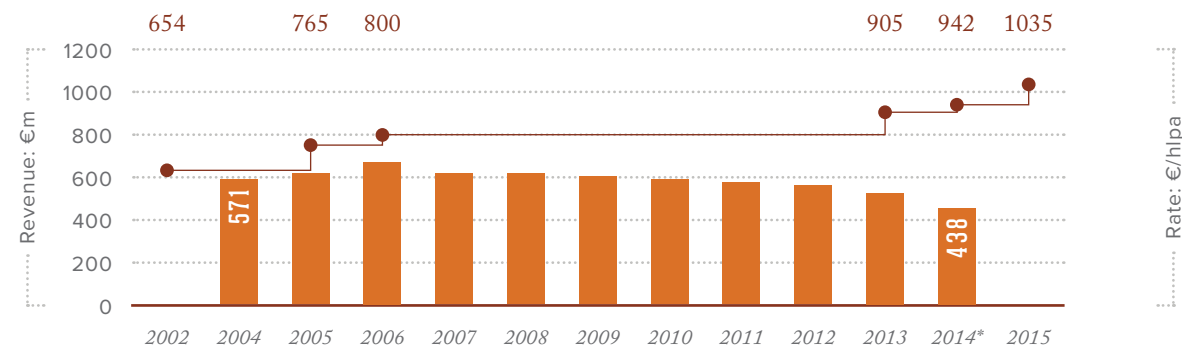


2006-2013
in Portugal

€1,602M
Expected revenues

€1,469M
Revenues collected

= €138M Shortfall
Yearly over-estimation of 8.5%
with a peak of 20% in 2012.



*(Jan/Nov)

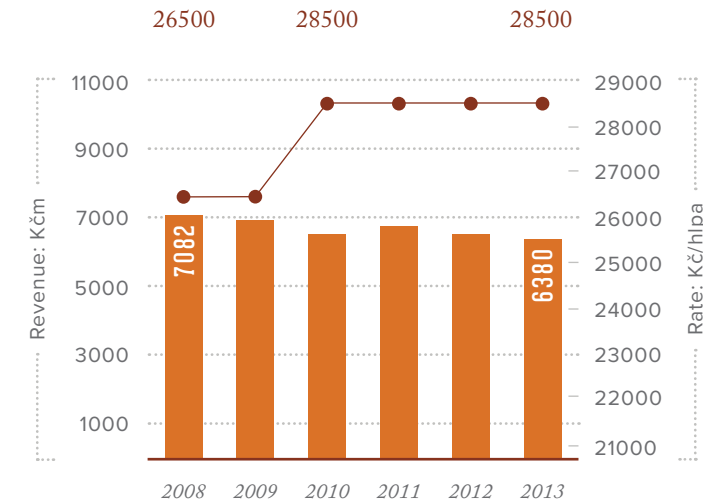
Portugal sources: DG TAXUD & spiritsEUROPE • Italy sources: DG TAXUD & Italian Ministry of Finance (Bulletin 153-January 2015)

CZECH REPUBLIC

2008
-
2013

↗ +8%
Excise rate

↘ -10%
In revenues

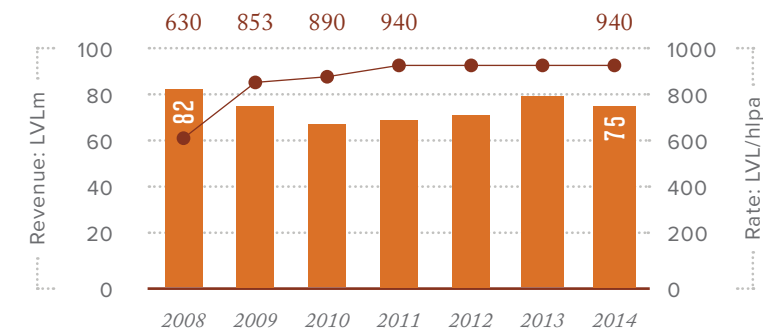


LATVIA

2008
-
2014

↗ +49%
Excise rate

↘ -8%
In revenues



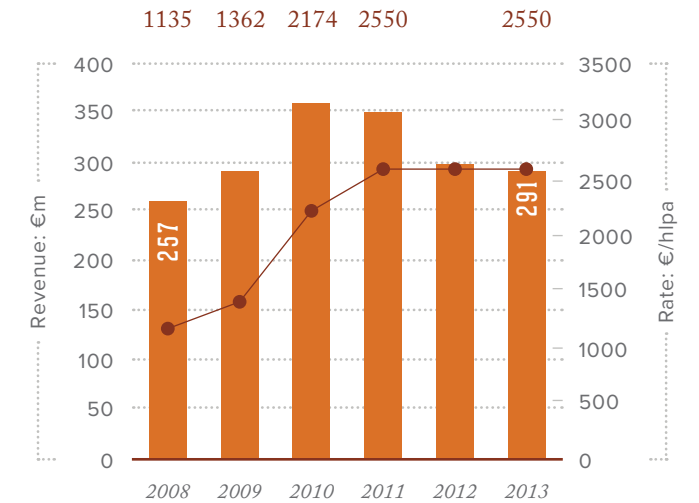
Sources: DG TAXUD and spiritsEUROPE

GREECE

2010
-
2013

↗ +125%
Excise rate

↗ +13%
In revenues



WE ARE CALLING ON TAX CUT
THAT WILL GENERATE GROWTH
& EMPLOYMENT



On 18 March 2015, the UK Government
decided to cut excise duty on spirits by 2%.

According to an independent analysis by EY,
such a cut will boost public finances by £1.5bn,
through increased investment across the industry,
greater tax income from corporation tax and
VAT and from more jobs created in pubs, bars,
restaurants, shops and the wider supply chain
due to increased confidence in the industry.

High taxes do not necessarily reduce harm

Tax cannot distinguish between abusive and responsible drinking patterns and is therefore ineffective in addressing alcohol misuse. Taxes have very little influence on alcohol misuse, yet high taxes carry unintended consequences, such as increased incentives for informal and unregulated markets to thrive.

TAX IS A FISCAL INSTRUMENT, NOT SOCIETAL

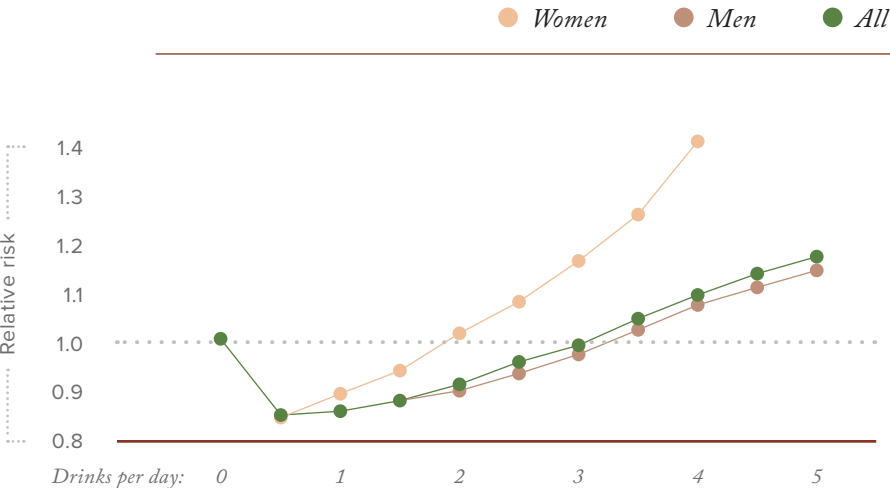
The heaviest drinkers/alcohol abusers are least responsive to price changes. Therefore, the heaviest drinkers tend to continue consuming alcoholic beverages even if they are more expensive.

The less well-off heavy drinkers try to maintain their alcohol intake by either switching to cheaper drinks of the same category - or to a different category - or turn to the unregulated market (illicit drinks that are potentially unsafe).

On the other hand, moderate drinkers are more responsive to price changes and therefore are likely to reduce their consumption after price increases, which, in turn, may lead to reduced health benefits.

Moderate drinkers are the vast majority and are impacted by tax increases while the minority of heavy drinkers responsible for alcohol related harm does not significantly change their behaviour.

RELATIVE ALL-CAUSE MORTALITY RISK: PEOPLE CONSUMING 1 TO 4 ALCOHOLIC DRINKS/DAY COMPARED WITH ABSTAINERS



**** Inserted by spiritsEUROPE • Source: Di Castelnuovo et al. 2006 (p.2442)

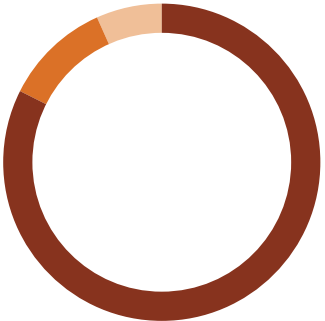
Moderate consumption can be associated with health benefits

Numerous scientific studies show that otherwise healthy adults who consume alcoholic beverages in moderation (regular moderate drinking compared to heavy episodic drinking) may face lower risk for a number of conditions, in particular age-related risks such as coronary heart diseases, ischemic stroke, diabetes and dementia.

Empirical evidence shows that countries with high excise duty rates on alcohol beverages such as UK, Ireland, Finland, Norway have relatively high level of heavy episode drinking among adults (see Eurobarometer below) and among 15/16 year olds (see www.espad.org), with the exception of Sweden. In comparison,

countries with lower rates such as Italy, Bulgaria and Luxembourg have also relatively low binge drinking rates for both adults and 15/16 year olds. Last but not least, tax decreases in some Nordic countries a couple of years ago did not lead to increases in alcohol-related harm, according to recent peer-reviewed papers.

EU-27: FOR DRINKERS AGED 15+(EUROBAROMETER 2009)



- 82.4% Proportion of people within weekly/daily drinking limits (moderate drinkers)
- 10.9% Proportion of people above weekly recommended guidelines but never 5+ drinks in the last 30 days
- 6.7% Proportion of people who consumed 5+ drinks at least once in the last 30 days

MINIMUM UNIT PRICING

Wealthy drinkers, whether moderate or heavy, are unlikely to be affected by MUP.

They have sufficient resources to buy alcoholic beverages, even for higher prices. Therefore, MUP will have little or no impact on better-off, heavy alcohol drinkers.

LOW-INCOME

drinkers, whether moderate or heavy, will be forced to take a decision facing price increases.

MODERATE

drinkers will reduce/stop drinking or switch from on-trade to off-trade consumption, losing social and health benefits.

HEAVY

drinkers in the low-income category will try to maintain their level of intake by switching from on-trade to off-trade, saving money on food to buy alcoholic beverages, or buying from the lowest-hand of the market, including illegal, surrogate products.

As a result, we believe alcohol-related harm is not likely to decline with MUP.

CONCLUSION

High excise rates appear to be unrelated to abusive drinking patterns and are not preventing necessarily heavy episodic drinking events.

€21 400 000 000

Generated through VAT and excise

€10 000 000 000

Export sales outside the EU

1 000 000

EU JOBS IN PRODUCTION & SALES

140+

PREVENTION
PROGRAMMES

32

National
associations

8

MULTINATIONALS

1 Organisation



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*The bibliography related to last chapter (p.10/11) is available at
<http://spirits.eu/files/24/bibliography-tax-brochure--april-2015.pdf>*