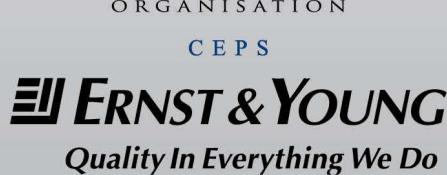


The contribution of the spirits industry to the EU economy

December 2010

EU & Member States Chapters



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Amsterdam, December 2010

A report commissioned by The European Spirits Companies Liaison Group in coordination with The European Spirits Organisation - CEPS and conducted by Ernst & Young Tax Advisors and Regioplan Policy Research.

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Key messages

In 2010 Ernst & Young and Regioplan Policy Research jointly conducted a study focusing on the economic impact of the production and sale of spirits drinks in the EU-27. Below we have listed the economic key messages from our study.

Key messages

In 2009 the spirits market in the EU27 represented:

- ▶ A total **production of 39 million hectolitres** (one hectolitre equals 100 litres) of spirit drinks
- ▶ **Domestic sales of 27 million hectolitres** of spirits (including spirits imported from outside the EU). These sales amount to **60 billion euros**
- ▶ An **export volume** (intra-EU27 and extra-EU27) of **25 million hectolitres of final product**, worth **10 billion euros**.
- ▶ Spirit drinks are the **EU's most exported foodstuff**. In 2009, the spirits industry exported **5.7 billion euros** worth of spirit drinks to countries outside the EU, generating a positive trade balance for the EU of 4.8 billion euros.

Because of the aforementioned characteristics the contribution of the spirits industry to the economy of the European Union is significant:

- ▶ **Approximately 935,000 jobs** are related directly or indirectly to the production and sale of spirit drinks.¹
- ▶ The European spirit drinks sector itself is responsible for **68,000** jobs across Europe. The other jobs generated by the production and sales of spirits are created in the supplying sectors (**118,000 jobs**), the hospitality (**661,000 jobs**) and off trade outlets (**88,000 jobs**). The most important supplying sectors are the agricultural sector, the bottling and the packaging industry.
- ▶ The total value-added attributed to the production and sales of spirits in Europe is estimated at approximately **28 billion euros**.
- ▶ **Total revenues** for the national governments are estimated as at least **32 billion euros**²

This study also demonstrates that the EU spirits industry generates these contributions to the European economy despite a fall in demand in its home market. This success is due primarily to a strong and steady growth in export markets and a long-term shift towards higher-priced spirits (premiumisation). However the sector operates in a dynamic environment and is dependent on many developments. For example changes in the regulatory environment and further economic developments may inhibit this contribution in the years ahead.

¹ This figure equals the combined total labour force of Malta and Estonia

² These revenues are about the same as the total income tax revenues of the Spanish government in 2009 and are also comparable to the total annual government expenditure in Slovakia (25 billion euros).



1 About the study

Purpose of the study

The study has been commissioned by the European Spirits Organisation – CEPS to quantify the economic impact of the spirit drinks sector in 27 European Union Member States.

Economic impact

Three different effects are distinguished to provide a complete picture of the economic impact of the spirits sector: the direct effects, indirect effects and induced effects.

The **direct impact** is defined straightforwardly as the effect generated directly by spirit-producing companies.

The **indirect impact** represents the impact of spirit drinks producers on their suppliers. A highly diverse range of goods and services needs to be purchased to be able to produce spirit drinks. To mention just a selection: water, agricultural products, e.g. grain and sugar and packaging materials such as bottles and cardboard. Spirit-producing companies also hire engineers, marketers, communications agencies and many more services. This study distinguishes six supplying sectors: suppliers of raw materials, utilities, packaging industry, transport, media and marketing and other services.

The **induced impact** is the economic contribution of firms in off trade outlets and the hospitality sectors arising from the sale of spirits. The sale of spirit drinks by off trade outlets and hospitality firms is an important source of economic benefits. The reported induced effects concern only the effects caused by sales of spirits. For example effects caused by the sales of other drinks in hospitality (like beer and wine) are not within the scope of the study and are thus not taken into account.

We measured the effects in three areas: **employment, value-added and government revenues**.

Data collection

Most of the reported outcomes are based on a reuse of existing data. We have derived this data from a variety of sources. In hierarchical order of importance these sources are:

- a data obtained from a questionnaire completed by national associations representing the spirits sector;
- b data collected directly from individual spirit drinks producers across Europe through a detailed questionnaire;
- c data from the European Commission and Eurostat;
- d statistics obtained from the International Wine and Spirits Record (IWSR);
- e data from additional (public) sources, such as national statistics agencies and the OECD.

The base year for the analysis is **2009**. If data was not available for that year, data was used for 2008 and in some exceptional cases, for 2007.



Some of the reported outcomes are estimated on the basis of a **model** constructed by Ernst & Young. For this reason these outcomes are not a direct representation and are dependent on decisions made by Ernst & Young. These decisions are elucidated in Annex III.



2 The EU spirits market

2.1 Highlights

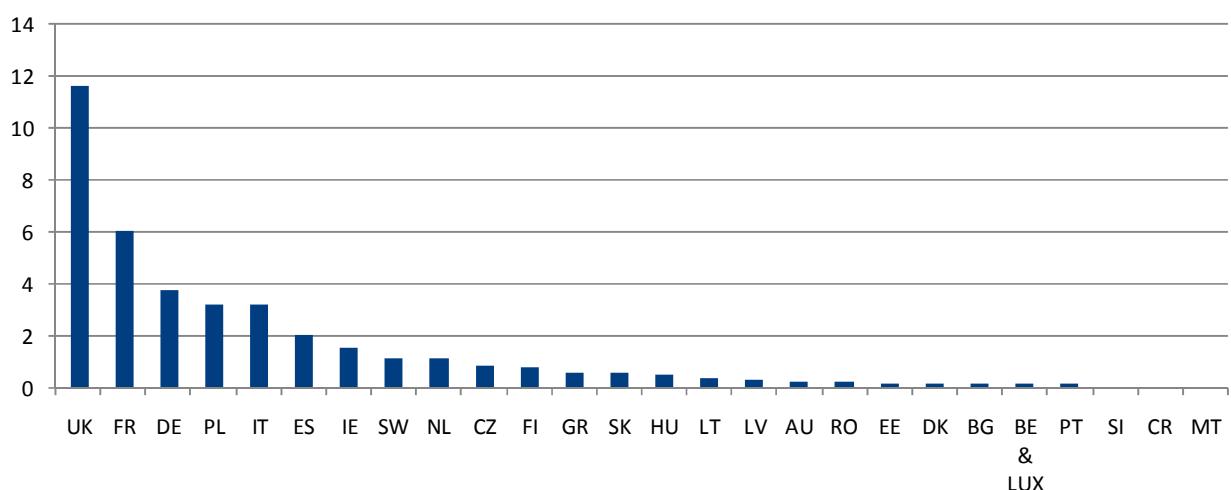
Highlights of the European spirits market

- ▶ European spirit drinks producers together produced **39 million hectolitres** of spirit drinks.
- ▶ Approximately two-thirds of that production (**25 million hectolitres**) is exported (both intra-EU27 and extra-EU27 trade).
- ▶ Together Europeans consumed about **27 million hectolitres** of spirits, with a value of **58 billion euros** (including VAT and excise taxes).
- ▶ With exports of 5.7 billion euros, external trade in spirit drinks generates a positive trade balance for EU27 Member States of **4.8 billion euros**.
- ▶ Approximately 27% of the sales volume is sold in the hospitality sector (bars, restaurants etc.). This amounts to 58% of the total value of spirit drinks sales.

2.2 Production

European Union countries play a major role on the world beverage market. Europe's spirit drinks industry is the largest in the world. In 2009 the European spirit drinks producers together produced 39 million hectolitres of spirit drinks. European spirit drinks such as French cognac, Scotch Whisky and Swedish vodka are sold approximately the world. The EU spirit drinks market is very varied, from large producers to smaller independent distilleries, producing a great variety of drinks, making it impossible to provide an exact production breakdown into the various types of spirits. The following graph illustrates the production of spirits by country.

Production million hl final product

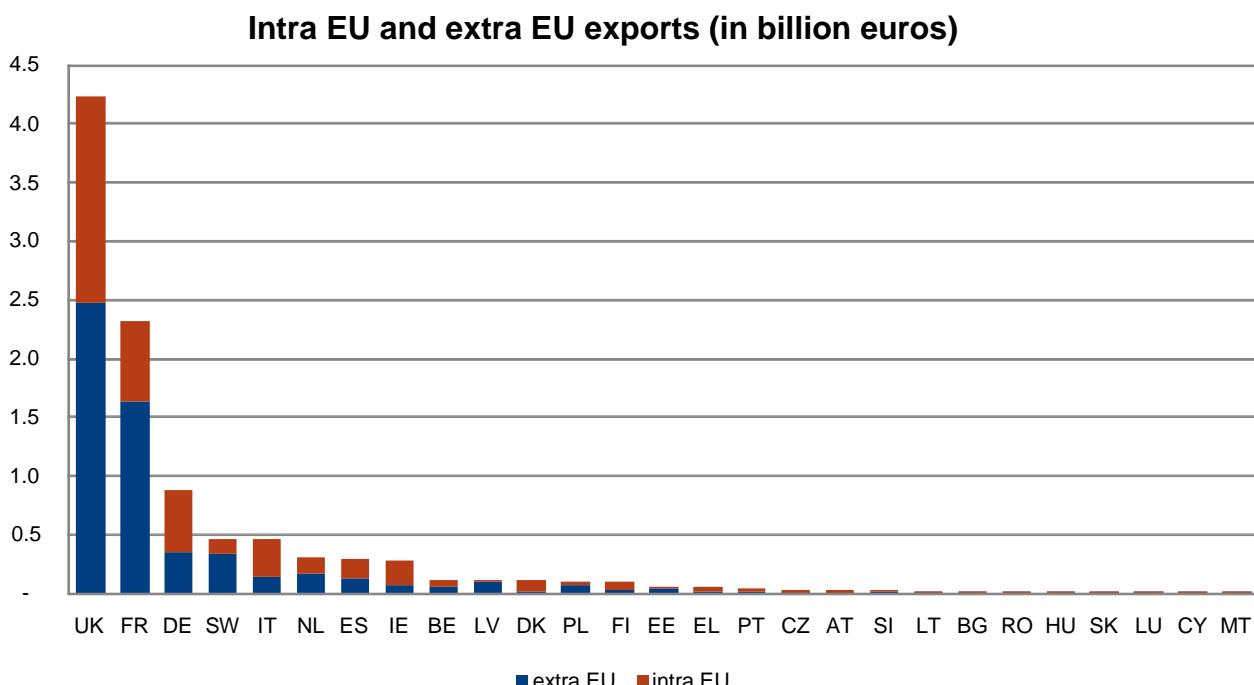


Source: E&Y calculations with excise duty tables from the European Commission, 2010



2.3 Exports and imports

Open global trade is important to the spirit drinks industry: almost two-thirds of EU spirit drinks production is exported outside national borders. Exports are especially important for countries such as the United Kingdom, France, Germany, Sweden and Italy. Their products – including whisky, cognac, vodka, gin and liqueurs – are consumed all over the world. The graph below illustrates the export between European countries and outside Europe. The total exported volume of spirits (intra-EU and extra-EU) amounts to 25 million hectolitres of final product while the total imported volume of spirits is 17 million hectolitres.



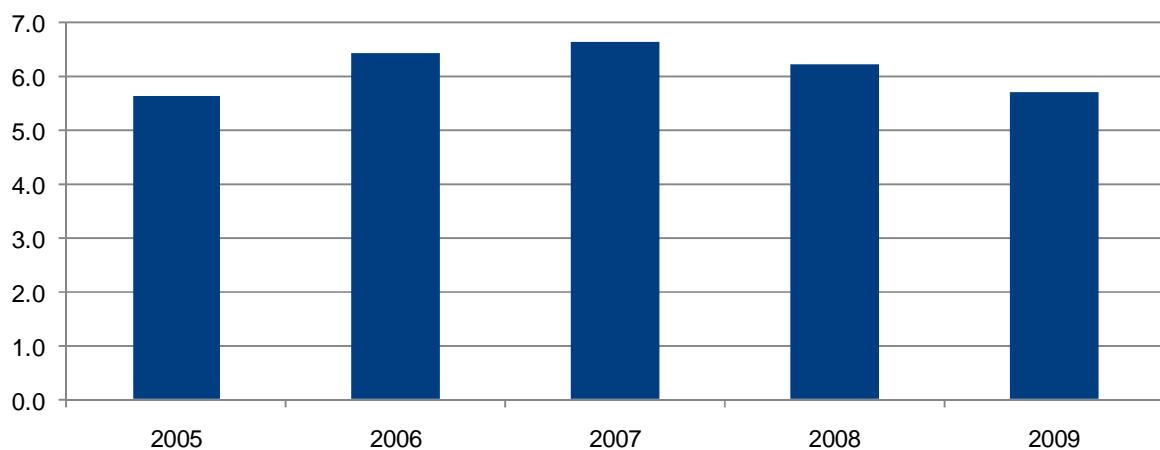
Source: Eurostat (2009)³

The total value of the exports of spirit drinks to countries outside the European Union amounted to 5.7 billion euros in 2009, while the value of spirits imported into the European Union was some 940 million euros. This leads to a combined positive trade balance for European countries of 4.8 billion euros arising from the external trade of spirits. It is especially the countries which export a much larger volume of spirits than they import, such as France, the United Kingdom and Sweden, which benefit substantially from this. The table below shows that the value of the extra-EU exports peaked at 6.3 billion euros in 2007 and has declined by 14 percent in the period 2007-2009 and is now at approximately the same level as in 2005. The United States is by far the most important export market, followed by exports of spirits through Singapore to the Far East. Russia, China and South Africa are also important export markets.

³ Transit goods are also included in these figures. Due to this it is possible that the export figures in a country are higher than the production figures. This is the case in Belgium for example, where a large proportion of the exports from this country consists of transit goods shipped in the Antwerp port.



EU27 Spirits exports to non-EU markets in billion euros



Source: Eurostat (2009)

Top 10 non-EU export markets	Million euros
USA	1,998
Singapore	489
Russia	247
China	227
South Africa	187
Canada	173
Japan	158
South Korea	143
Australia	136
Venezuela	136

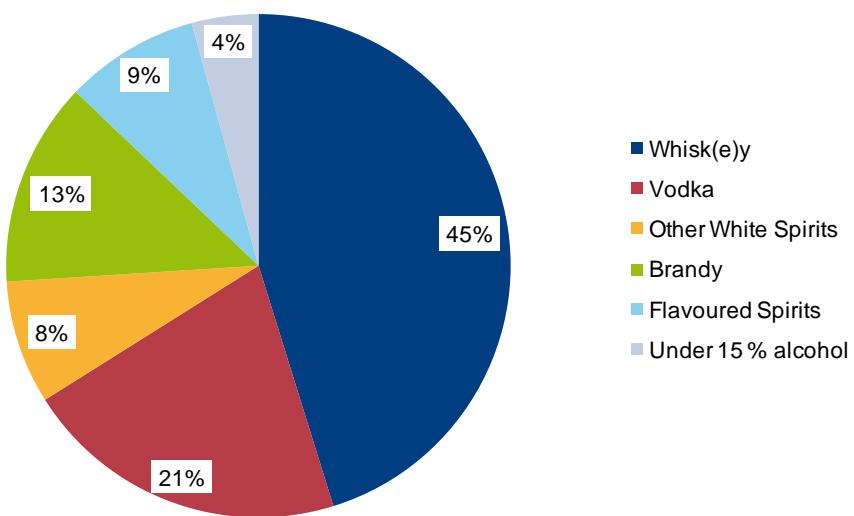
Source: Eurostat (2009)

In hectolitres of pure alcohol the volume of the exports to countries outside the European Union amounts to 4.6 million hectolitres. Of these exports 45 percent is whisk(e)y, while vodka and brandy account for 21 and 13 percent respectively. The export of 'other white spirits' amounts to 8 percent and consists mainly of gin and jenever.

In 2009 some 1.3 million hectolitres of spirits (in pure alcohol) were imported into the European Union. Of this figure, 47 percent consists of 'other white spirits' (mainly white rum). Imports of whisk(e)y and vodka are also substantial.

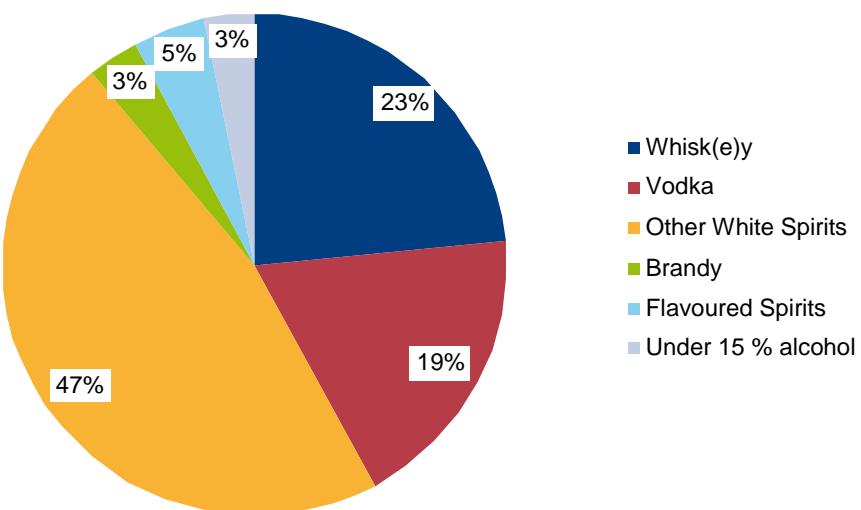


**Exports of spirit drinks to countries outside the EU27:
4.6 million hectolitres of pure alcohol**



Source: Ernst & Young calculations based on Eurostat 2009

**Imports of spirit drinks from countries outside the EU27:
1.3 million hectolitres of pure alcohol**



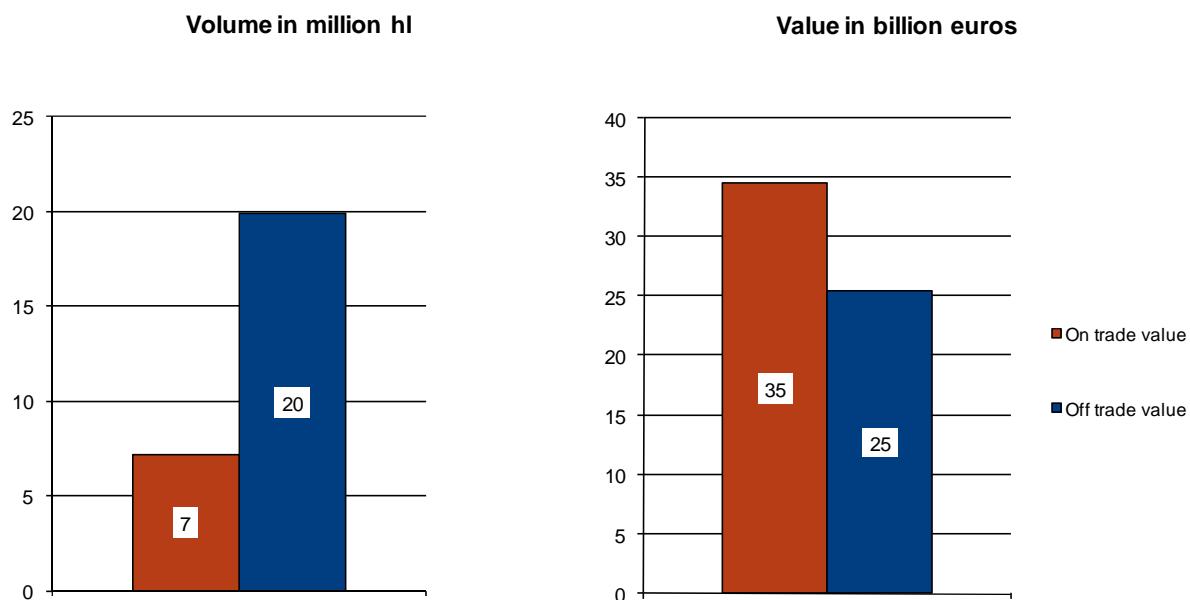
Source: Ernst & Young calculations based on Eurostat 2009



2.4 Sales

About 27 million hectolitres of spirit drinks were sold in the EU27 in 2009⁴. It is estimated that about 73% of this total volume was bought in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 27% was consumed in the hospitality sector (pubs, restaurants etc), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of European spirit drinks sales is estimated at approximately 60 billion euros (including VAT). Although the hospitality sector is responsible for only 27% of sales in volume, it is responsible for approximately 58% of sales in value.



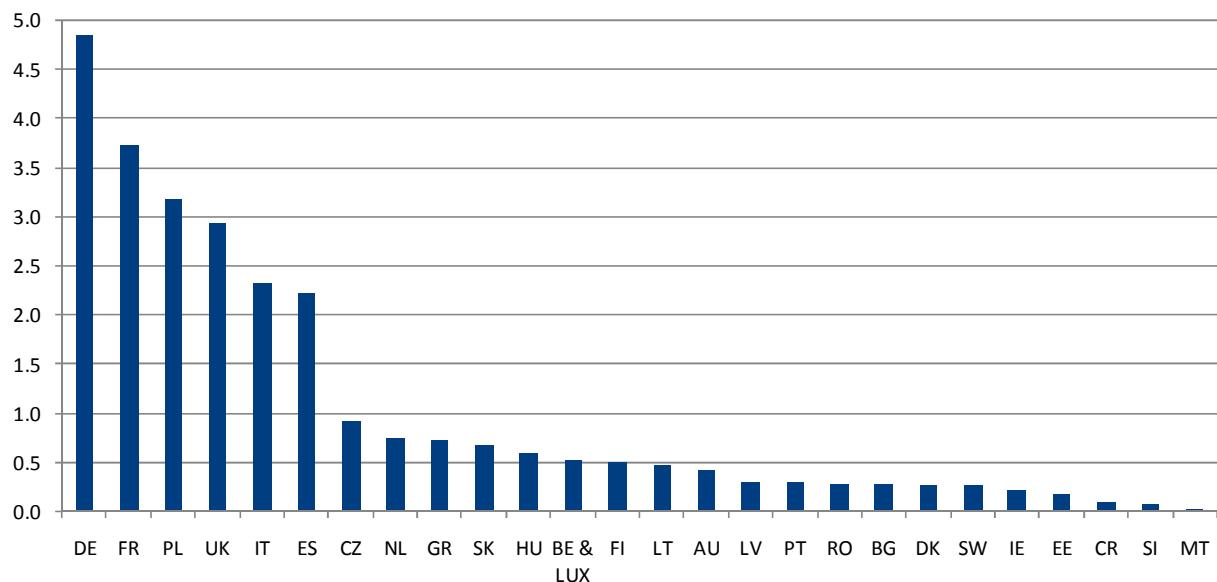
Source: Ernst & Young calculation based on input from the National Associations of Spirit Producers, IWSR and Eurostat.

The following graph illustrates the domestic sales of spirits by country in million hl final products.

⁴ The 27 million hectolitres of spirits drinks sold in Europe includes the sale of RTDs. RTDs are ready to drink pre-mixed spirits based beverages with a typical alcoholic strength of approximately 5%. Their composition is very different to full strength spirits drinks which can make data comparability misleading. They constitute only about 10% of the total volume of spirits sold (i.e less than 2% when measured in terms of pure alcohol) and as such do not impact the total EU figure significantly. However, at national level, for example in Finland and Estonia, their market share is far more significant. Furthermore, since the price per litre of final product for RTDs is significantly lower than for full strength spirit drinks, their inclusion in analysis, can also impact the average price data being used. For this reason, some countries, for example Ireland and Estonia, have not included RTDs in their data.



Sales in million hl final products

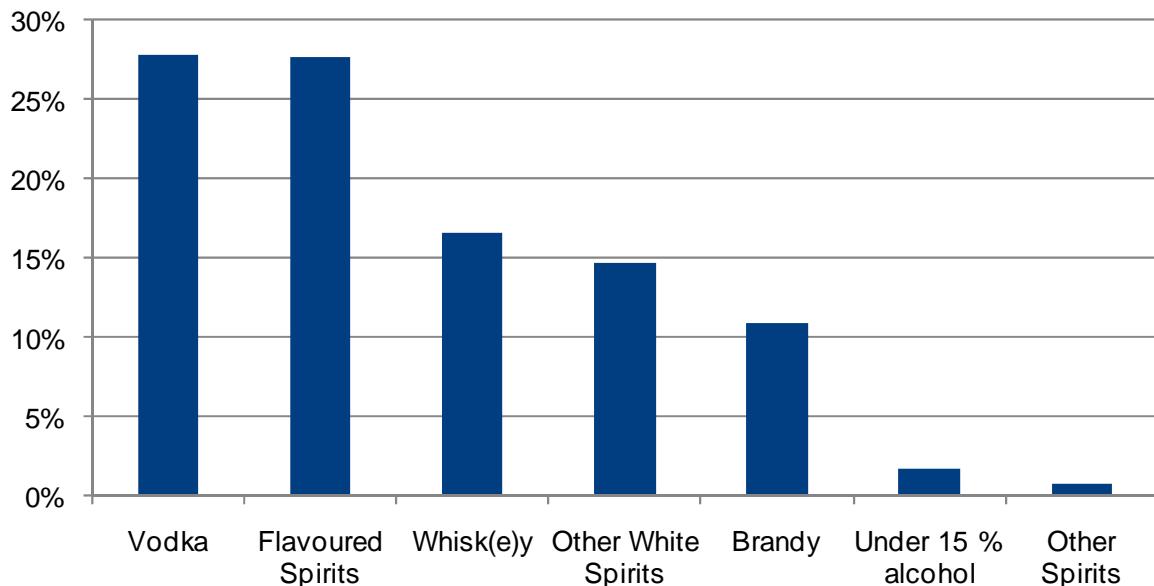


Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology).

As shown in the graph on the next page, vodka and flavoured spirits are the most consumed spirit drinks in Europe. This graph shows the market shares of six types of spirits, as a percentage of the total spirits sales in pure alcohol. Based on data from IWSR we estimate the market shares of vodka and flavoured spirits (liqueurs, bitters/aperitifs etc.) to be almost 28 percent each. Whisk(e)y accounts for almost 17 percent while the sales of white spirits (excluding vodka) and brandy account for approximately 15 and 11 percent of the total sales of spirits.



**Marketshare in Europe per type of spirit
(in litres pure alcohol)**



Sources: Ernst & Young calculation based on IWSR data 2009



3 Purchases made by spirit producers

3.1 Highlights

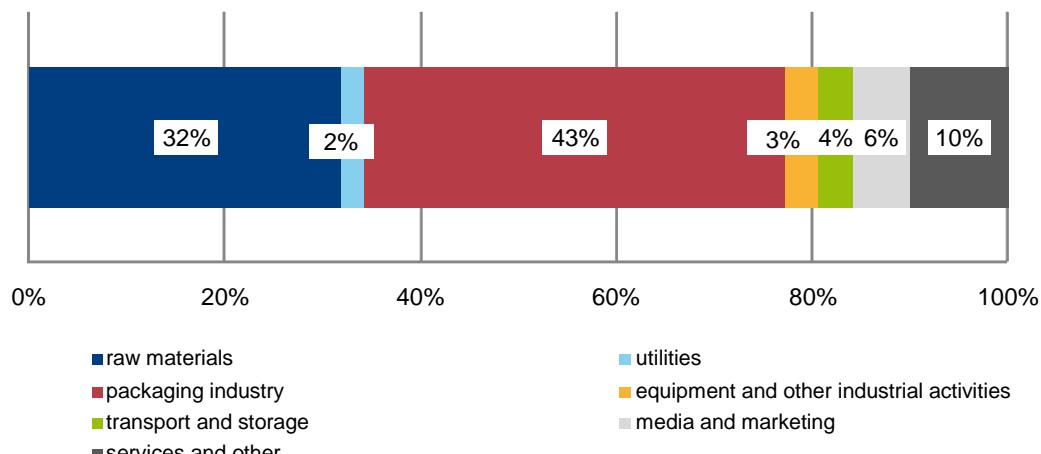
Highlights of purchases made by spirit producers

- ▶ European spirit-producing companies spend approximately **15 billion euros** on goods and services annually.
- ▶ Product packaging and bottling represents the largest expenditure.
- ▶ Spirit drinks producers purchase a large volume of agricultural products. For example, cognac producers spent **430 million euros on wine** annually. The volumes of **cereals** required for the annual production of vodka and Scotch Whisky are worth **105 million euros** and **240 million euros** respectively.

3.2 Purchases by sector

The EU spirit drinks industry spends approximately 15 billion euros on goods and services for the production and sale of spirit drinks. An estimated 80 percent of total expenditures are spent on domestically-produced goods and services. The other 20 percent is spent on imported goods and services outside a particular EU member state (into and outside Europe), the impact of which was not taken into account as the country of origin could not always be identified. It can be said that the economic impact of the spirits industry is greater than calculated in our study if the imported goods and services are also taken into account.

Purchases of goods and services



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology).



Based on the questionnaires received from 42 producers in 14 European Union Member States, we assume in general that spirit-producing companies (producers of the finished goods) spend most money on packaging and bottling materials (43% of the value of their total purchases), followed by raw materials (32%), services and other (10%), media and marketing (6%),⁵ transport and storage (4%), equipment and other industrial activities (3%) and utilities (2%).

3.3 Impact on the agricultural sector

The purchase of raw materials represents 32% of overall expenditure by the EU producers of spirits drinks. The main raw materials used by the EU spirit drinks industry are the agricultural products (cereals, potatoes, sugar cane, sugar beets⁶ and wine) used to make the different kinds of spirits. Wine for example is used to make brandy, cognac and grappa, while Whisk(e)y and most Vodka are grain-based. The spirits sector is therefore a major user of EU agricultural products. To give an idea of these effects we have estimated the total raw materials use of some of the major spirits drinks produced in Europe⁷:

- ▶ The annual production of **Vodka** amounts to approximately 3,275,000 hectolitres of pure alcohol. Approximately 85 percent of the Vodka produced is based on grain, while in some European countries (Czech Republic, Hungary, Slovakia, France and the United Kingdom) some is distilled from molasses. Furthermore, approximately 10 percent of Polish Vodkas are based on potatoes. Based on figures obtained, we estimate that European Vodka producers use 733,000 tonnes of grain, 64,000 tonnes of beet and 78,000 tonnes of potatoes.
- ▶ The industry spends an average of 105 million euros on these raw materials each year and the total area farmed to produce them is 210,000 hectares. Almost half of the expenditure on raw materials for the production of vodka takes place in Poland, while purchases in the Swedish and British agricultural sector are also substantial .
- ▶ For the production of **Scotch Whisky** we estimate annual expenditure on agricultural raw materials to be 240 million euros. Approximately 640,000 tonnes of barley and 642,000 tonnes of wheat and maize⁸ are produced each year from 187,000 hectares. Since the above mentioned figures only refer to the production of Whisky in Scotland, the total impact of the production of whisk(e)y in Europe will be even higher.
- ▶ For example, the Irish spirit drinks producers spent 18 million euros on cereals in 2009⁹. The vast majority of which was used for the production of **Irish whiskey**. However, most of the (value of) raw materials purchased by the Irish spirits industry consists of cream. 63 million euros was spent on milk products for the production of Irish cream liqueurs.
- ▶ For the production of **cognac**, French spirits producers annually purchase 6.24 million hectolitres of pure wine (10 percent abv) worth 430 million euros¹⁰. To make this quantity of wine 8.55 million tonnes of grapes are required, accounting for 74,000 hectares of vineyards. However, since cognac is not the only spirit distilled from wine (there is also brandy, grappa, armagnac etc.), the total volume of wine purchased for the production of spirit drinks in Europe will be much higher than the above mentioned figures. For example, **French brandy** producers spent 92 million euros on wine, accounting for 33,000 hectares of vineyards.
- ▶ European **gin** producers purchase approximately 79,000 tonnes of cereals worth 10 million euros every year, while producers of **korn**, **genever** and **aquavit** spend 8 million euros, 3 million euros and 1 million euros on cereals respectively.

⁵ We have obtained figures on purchase management by a questionnaire filled in by (small) independent spirit-drinks-producing companies as well as business units from multinationals. Since marketing is often the responsibility of the headquarters, not all business units were able to deliver us data on this. This might have resulted in an underestimation of the share of purchases spent in the media and marketing sector.

⁶ By processing sugar cane or sugar beets into sugar, molasses is a byproduct used in the spirits sector. Molasses can be used as the base material for fermentation into rum.

⁷ Some of the figures on raw material use were obtained directly by representatives of the spirit drinks sector. Other figures are calculated by dividing the production volume of a spirit in hectolitres of pure alcohol, by the volume of alcohol that can be distilled from one ton of raw material (hectoliter per ton). For example: The annual production volume of genever amounts to 76,545 hectolitres of pure alcohol. Since it takes 1 ton of cereals to produce 3.8 hectolitres of alcohol, the total amount of cereals necessary for the annual production of genever is 20,143 tonnes ($76,545 / 3.8 = 20.143$). With an average cereal price of 132 euros per ton, the total amount spent on cereals for the production of genever is 2.7 million euros.

⁸ Estimates based on figures by the Scotch Whiskey Association (SWA).

⁹ Source: Irish spirits Association

¹⁰ Source: Bureau National Interprofessionnel du Cognac (BNIC).



4 A positive employment effect

4.1 Highlights

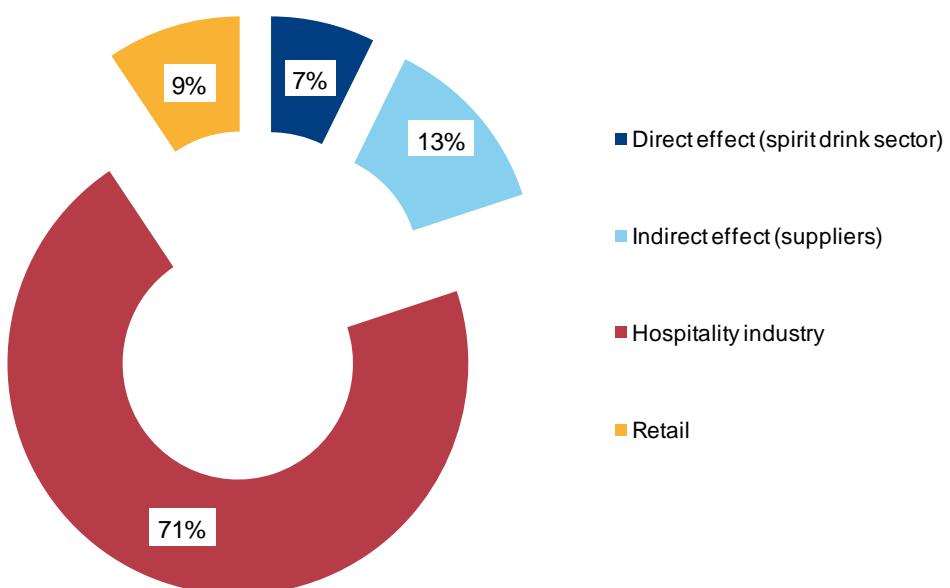
Highlights of the impact on employment

- ▶ **935,000 jobs** in Europe can be attributed to the production and sale of spirit drinks.
- ▶ The spirits sector is directly responsible for approximately **7.3% of the jobs**.
- ▶ For each job created in the European spirits sector, almost two jobs are generated in the supplying sector, more than one in the off trade outlets, and almost nine in the hospitality sector (on-trade).

4.2 Total employment

The preceding chapters pointed out that Europe has a strong spirits sector which spends considerable amounts of money on goods and services within Europe. The sales of spirits also generates large turnovers in the off trade and hospitality sectors. The production and sale of spirit drinks thus has a significant impact on employment. In 2009, about 935,000 jobs could be attributed to the production and sale of spirits. This is the equivalent to the total labour force of Malta and Estonia combined.

Total employment because of spirits in Europe: 935,000 jobs

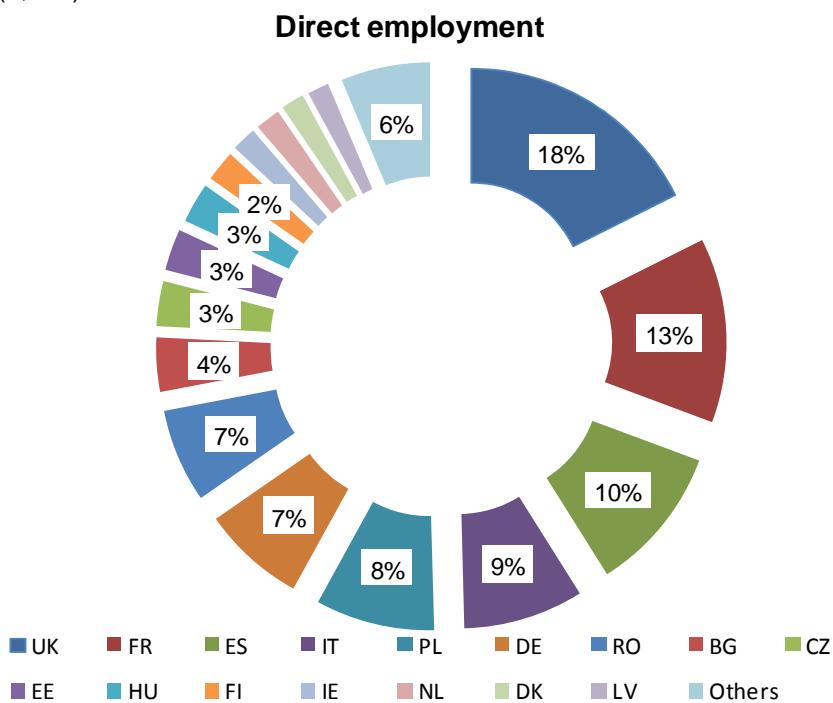


Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).



4.3 Direct employment

The European spirit drinks sector is directly responsible for 68,000 jobs across Europe. The United Kingdom has the largest number of employees (approximately 12,000) followed by France (8,900) and Spain (7,100).



Source: Ernst & Young calculation (2009) (see Annex III for an explanation of the methodology used).

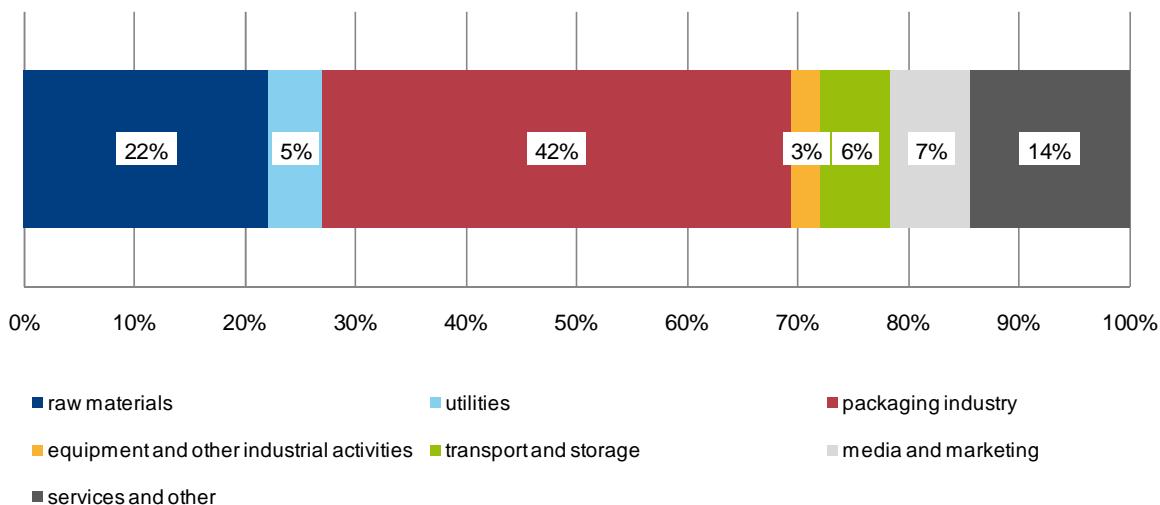
4.4 Indirect employment

The spirit drinks sector generates a considerable indirect employment effect. Each job in the spirit drinks sector generates two indirect jobs in the supplying sectors. Some 118,000 jobs in these supplying sectors can therefore be attributed to the production and sales of spirit drinks. Because data on the spirit drinks sector's expenditures cannot be broken down in all countries, the indirect employment contribution per sector cannot be identified exactly. However based on information on the expenditures of the spirits sector in 14 countries¹¹, it can be estimated that packaging and bottling material is the biggest cost item (42% of the total value of purchased goods and services by the sector), followed by raw materials (22%) and services and other (14%). The biggest expenditures, packaging and bottling and raw materials, are therefore the sectors where the spirit drinks industry generates the most employment. 65 percent of the indirect jobs created by the spirit drink sector are in these sectors.

¹¹ The spirit-producing companies in these countries that gave us information about the split of their expenditures represent 43 percent of the total European production of spirits. This breakdown into sectors is based on information on purchases provided by companies based in 14 out of 27 countries.



Indirect employment



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).¹²

There are some large international spirits producers who produce and distil their spirit beverages in countries outside EU Member States, but purchase supplies and raw materials from the European packaging and bottling industry or European farmers. The jobs these foreign spirits producers and distillers generate in Europe are not taken into account in our model.

4.5 Induced employment

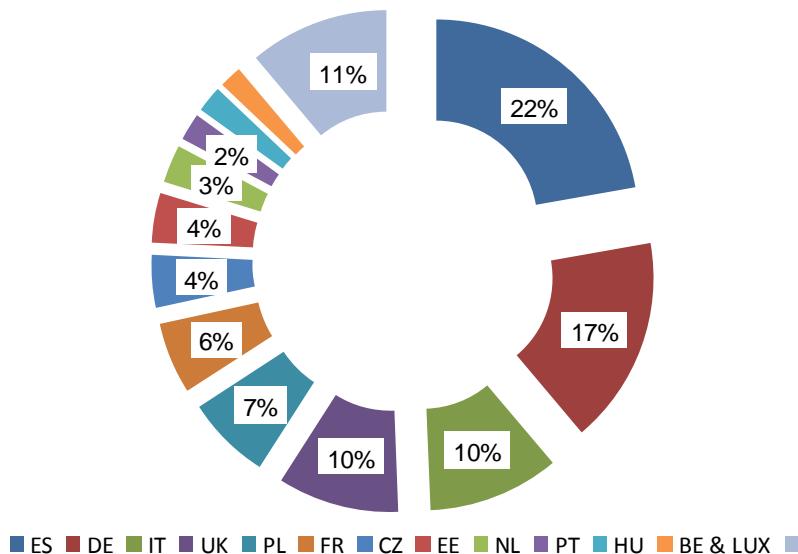
In addition to the direct and indirect employment contributions of the spirits sector, the number of jobs created by spirits sales in the hospitality (on-trade) and retail sectors (off-trade) demonstrates an even greater impact. Approximately 748,000 jobs can be attributed to the sales of spirits (on-trade and off-trade).

In countries where a relatively large share of spirits is sold to the hospitality sector, the contribution to employment is high. This is the case in Spain for instance, where 65% of the spirit drinks are sold on trade, Cyprus (56%), Portugal (56%) and Greece (40%). The share of induced employment in total employment is very high in these countries. In Spain, for example, 88% of the jobs which can be attributed to the production and sale of spirit drinks are jobs in the hospitality sector. At the European level, countries like Germany, Italy and the United Kingdom also provide significant employment in the hospitality sector due to the sales of spirits.

¹² As we have not received information on purchases divided by sector for all the Member States, the purchases in the graph above are calculated for the 13 countries which provided data on purchased goods and services used for the production and sales of spirit drinks.



Employment in the hospitality sector



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).



5 High value-added

5.1 Highlights

Highlights of value-added

- ▶ The total value-added created directly and indirectly by the production and sale of spirits in Europe is estimated at approximately **28 billion euros**.
- ▶ Of this value-added, 7.4 billion euros are generated in the spirit drinks sector, 5.4 billion million euros in the supplying sectors, 12.3 billion euros in the hospitality sector and 2.8 billion euros in the off trade sector.
- ▶ Compared to other sectors, employees of European spirit drinks producers have a relatively high productivity.

5.2 Value-added by sector

The economic contribution of the spirits industry is also measured in terms of value-added. Value-added can be defined as the difference between the costs of materials and outside services to produce the final products by the spirit-producing companies, and the sale prices of these final products. In economic terminology, value-added is also defined as the reward for all production factors (mainly labour, capital, entrepreneurship).

We estimate the total value-added related to the production and sale of spirits in the European economy at approximately 28 billion euros. The total value-added related to the production and sale of spirit drinks can be compared to the gross domestic product of a country such as Lithuania.

The value-added of 28 billion euros is generated by 935,000 employees who owe their jobs to the production and sale of spirit drinks. The average value-added per employee is 29,900¹³ euros a year. This is much lower than the average value-added per employee in the spirit drinks sector itself (108,800 euros). This means that there is a relatively high productivity of employees in this sector in comparison with other sectors. The table below compares the labour productivity of employees in the spirits sector to a number of other sectors.

Value-added per employee by sector	euros
Transport, storage and communication (NACE I ¹⁴)	56,280
Hospitality (NACE H)	20,480
Wholesale and retail trade (NACE G)	36,370
Manufacturing (NACE D)	52,490
Manufacture of food products and beverages (NACE DA15)	42,470
Spirit drinks producers (E&Y calculations)	108,800

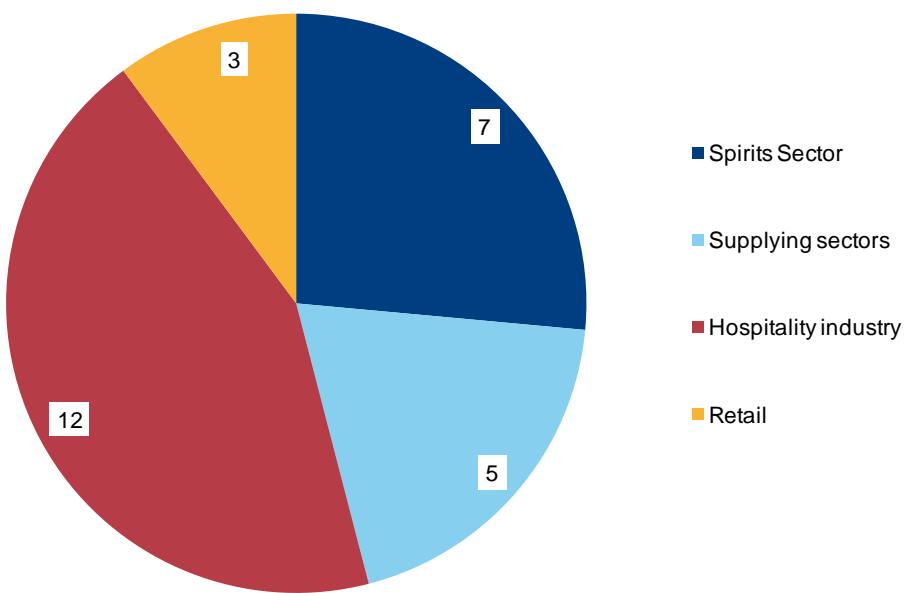
Source: Eurostat 2007

¹³ This is calculated as follows: 28 billion euros divided by 935,000 employees.

¹⁴ NACE (Nomenclature statistique des activités économiques dans la Communauté européenne) is a standard classification system for the European industry, which is used by Eurostat.



**Value added due to Spirits in Europe:
28 billion euros**



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).



6 Government revenues due to spirits

6.1 Highlights

Highlights of government revenues

- ▶ In 2009, the total government revenues arising from spirit drinks in terms of VAT, excise, income taxes, payroll taxes and social security contributions were estimated at approximately **32 billion euros¹⁵**.
- ▶ The largest source of European government revenues due to the production and sales of spirits is excise (**13.1 billion**), followed by VAT revenues (**9.6 billion**).
- ▶ Income-related taxes and social security contributions are estimated at **8.9 billion** euros

6.2 Government revenues

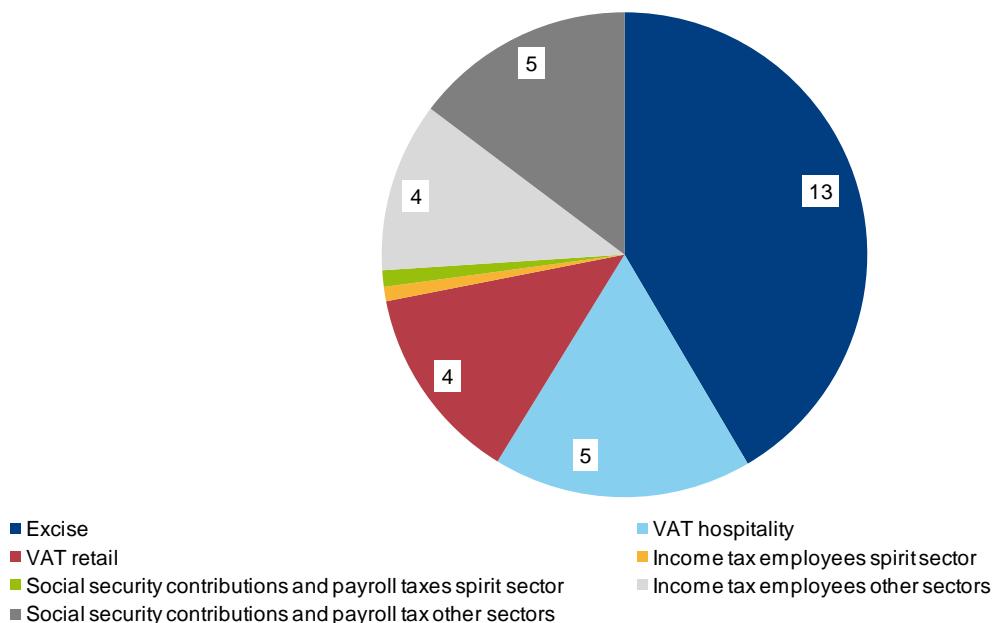
National governments benefit substantially from the production and sale of spirit drinks by receiving revenues. The total revenues for the governments in the 27 European Member States are approximately 32 billion euros per year. These revenues include only VAT, excises, income taxes, social security contributions and payroll taxes. These revenues are about the same amount as the total income tax revenues of the Spanish government in 2009¹⁶ and are also comparable to the total annual government expenditure of Slovakia (25.8 billion euros) and Bulgaria (27.9 billion euros)¹⁷.

¹⁵ Including VAT, excise, income taxes, payroll taxes and social security contributions.
¹⁶ <http://news.malaysia.msn.com/business/article.aspx?cp-documentid=4244381>

¹⁷ Source: Eurostat: total general government expenditures, 2009.



**Government revenues due to spirits in Europe:
32 billion euros**



Source: Ernst & Young calculation (2010).

Besides the aforementioned taxes, governments also benefit from other taxes such as corporate taxes, property taxes, community taxes, environmental taxes (e.g. climate change levy), vehicle excise duty and stamp duty land tax. These taxes are not included in this study. This means that, in reality, government revenues are more than 32 billion euros.

The most important sources of European government revenues are excises and Value-Added Taxes (VAT). Excise revenues contribute significantly to the national treasuries. These revenues are estimated at approximately 13.1 billion euros. European consumers pay an average of 20% VAT on spirits (varying from 15% in Cyprus to 25% in Denmark and Hungary). VAT revenues on spirits sales are estimated at 9.6 billion euros.

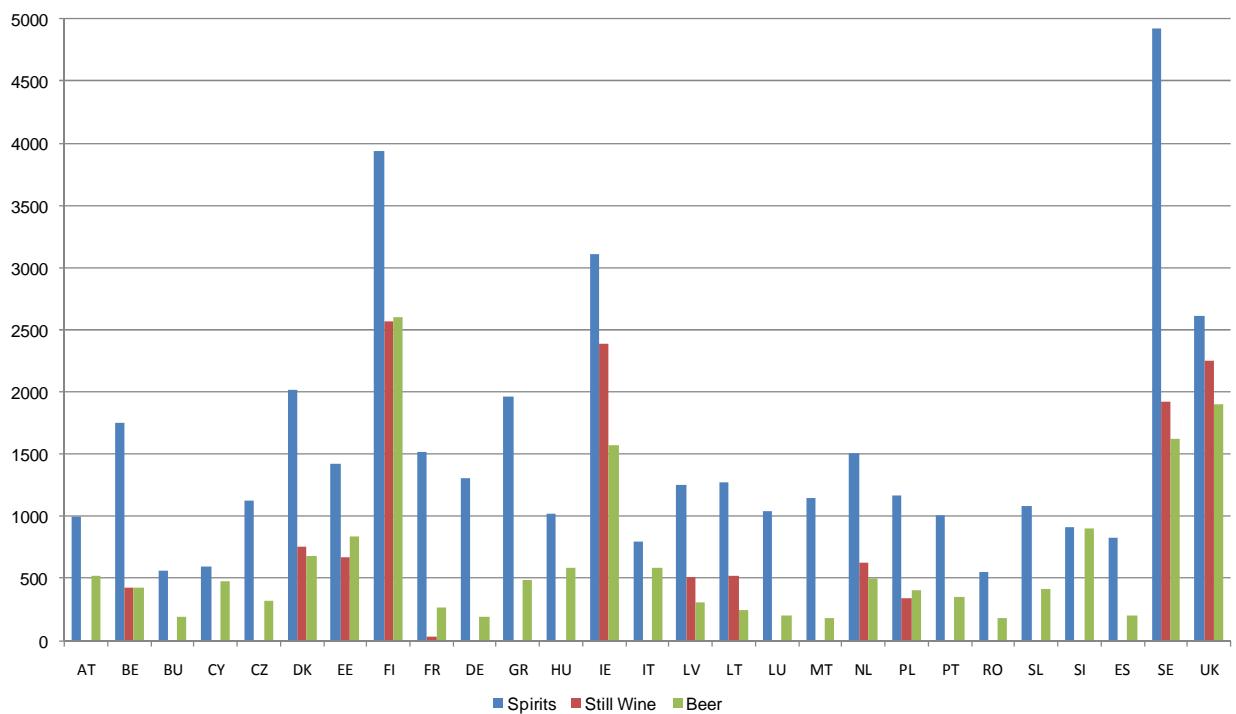
As Member States of the EU-27 have a certain degree of flexibility in setting the levels of spirits taxation, with a minimum rate of 550 euros per hectolitre, the excise rate varies between countries. Excise duties levied on wine and beer also differ from those on spirits in all EU Member States. The next figure summarises the situation as at 1 May 2010.¹⁸

Income and payroll taxes, as well as social security contributions paid by employers and employees, are another important source of government revenue. These taxes and contributions are paid by employers and employees in the distilleries sector, the supplying sectors, in off trade and in the hospitality sector where jobs can be attributed to the production and sale of spirits. These income-related taxes and contributions are estimated at 8.9 billion euros.

¹⁸ The excise revenues reported in this study refer to 2009 and are not calculated by us, but were obtained through a European Commission report, namely *Excise duty tables. Part I alcohol beverages. Ref1.030, January 2010*



**Alcohol excise duties levied on spirits, still wine and beer as of 1 May 2010
(Euro per Hectolitre Pure Alcohol - HLPA)**



Source: European Commission, 2010.



7 Economic and regulatory developments

According to the World Health Organisation (WHO), per capita consumption of spirits in the EU declined by more than 35% between 1980 and 2003. Industry figures suggest that consumption has been level since then. As this report demonstrates, the EU spirits industry makes a significant contribution to the European economy despite this fall in demand in its home market. This success is due primarily to two factors:

- ▶ Strong and steady growth in export markets.
- ▶ A long-term shift towards higher-priced spirits (premiumisation), which increases revenue per unit sold.

However, the spirit drinks sector operates in a complex and rapidly changing environment. Some developments, like changes in the international economic situation or the regulatory environment, influenced the contribution of spirits to the economy in recent years, and may also inhibit this contribution in the years ahead. In recent years, the spirit drinks sector has experienced negative consequences of the global economic downturn. Based on literature study and figures from the larger spirit-producing companies, it is possible to distinguish various effects and threats arising from this. The economic downturn not only caused a decline of spirit drinks sales and a shift in consumption patterns, but also gave rise to the threat of increasing excises and an upswing in fake products (counterfeiting).

Impact on sales by volume and value

The international economic crisis has had an inevitable impact on the European spirits industry. In 2009, sales declined in the EU, with early figures suggesting an overall drop of almost 13%, and significantly higher in some markets, with Spain, the UK, Ireland, Bulgaria and Romania being the hardest hit. The decline in volumes sold was exacerbated in value terms as a result of some consumers moving to cheaper brands and shifting from on-trade to cheaper off-trade consumption. Financial results from the major spirits companies are showing that EU spirits sales started to pick up again in the first half of 2010.

According to figures from the larger spirit-producing companies, the decline in sales witnessed in the EU in 2009 was less sharp elsewhere. Despite a fall of approximately 8% in EU spirits exports in 2009 in value terms, due primarily to a weak US market, exports started to recover again in the first half of 2010. Asia, in particular, showed continued demand growth for EU spirits and the important Russian market also returned to strong growth. According to company reports, the US market has also started to witness a slight demand recovery for European spirits in 2010, as well as signs of a return to on-trade consumption and stronger demand for super-premium brands.



Increased excise rates

The recent economic crisis has caused a sharp escalation of government deficits, which turned into a public debt crisis in several countries, most notably in Greece. Faced with the need to bring public debt under control, governments are forced to raise revenue and lower their expenditures. Drawing on past experience, increasing alcohol excise rates is often considered an easy target for raising revenues. Nine EU Member States have already increased their excise rates on spirits drinks in 2010 alone, the largest increase being in Greece, thereby further exacerbating the decline in sales in that market. The pressure on excise rates is expected to continue into 2011.

Protectionism

Economic uncertainty also tends to increase the temptation for national governments to protect their domestic spirits industry by introducing barriers to trade. As confirmed recently by the WTO, this has not yet happened at an international level to the extent some may have feared, and overall trade levels have in fact increased in 2010. Of concern, however, is that within the EU, Romania and Hungary both introduced measures in 2010 which clearly discriminate against spirit imports, including imports from other EU Member States.

Illicit spirits

Illicit spirits production – home-distilled, undeclared or counterfeit – has always been a threat to European spirit producers. With the growing popularity of European spirit brands in markets such as China, where counterfeiting is already significant, this threat is increasing. Illicit production is also pronounced in some EU markets, particularly the new Member States. For example, in Bulgaria illicit spirits are believed to constitute more than 50% of domestic spirit consumption. The attraction of counterfeit and illicit spirits inevitably increases when consumers' disposable income decreases. In addition, the more the excise rates on legitimate spirits increase, the more the price differential between legal and illicit products grows, further enhancing the appeal of the latter.

Regulatory environment

Spirits are a highly regulated sector in most markets worldwide and Europe is no exception. In addition to production standards, price and availability and advertising and marketing are the principal areas subject to regulation in Europe. Due to the wide diversity of drinking patterns between member states, many requirements are not harmonised at the EU level. Price and availability regulation is the prerogative of national governments; advertising and marketing are subject to EU legislation, but the Member States remain free to impose requirements over and beyond the common minimum EU rules.

The pre-eminence of national specificities, arising largely from different drinking patterns, as well as traditions and attitudes to alcohol, is reflected in the recent WHO Global Strategy to reduce the harmful use of alcohol, adopted by the World Health Assembly in May 2010, through Resolution WHA 63.13. While proposing common principles and a broad international policy framework, the Global Strategy does not make prescriptive recommendations, seeking instead to provide national governments with a menu of policy options. The intent is to enable Member States to develop national harm-reduction strategies adapted to their local contexts.



Advertising

- ▶ EU legislation¹⁹ on alcohol advertising focuses on the protection of minors. It bans the targeting of all audiovisual commercial communications for alcoholic beverages to minors, as well as any encouragement of immoderate consumption. These rules are detailed further in a 2001 Council Recommendation.²⁰ These EU restrictions on alcohol advertising and marketing are transposed into national legislation and are often implemented largely through the self-regulatory organisations for advertising present in most EU Member States. The EU's policy mix, based on the complementary roles of framework legislation and self-regulatory mechanisms, is also reflected in the recommendations of the WHO Global Strategy.
- ▶ In addition to these common rules, EU Member States are free to impose more stringent restrictions on alcohol advertising and marketing. For example, Ireland, Austria and France have legally banned spirits advertising on television and radio. In Portugal, advertising spirits is not allowed in cinemas and on billboards.²¹ In Sweden, Slovenia, Poland and Finland advertising of spirits is almost banned completely. These differences affect the European single market in spirits significantly, since companies operating in more than one Member State must adapt their marketing campaigns and materials to comply with different laws. As well as limiting companies' marketing opportunities in those markets that are most strictly regulated, this patchwork of regulations drives up marketing and compliance costs.

Price and availability

With a view to reducing alcohol misuse and under-age consumption, some governments have introduced or are considering legislation to increase the price of alcoholic beverages and/or limit their availability. Such practices are well established in some Scandinavian markets for example, and are also cited in the new WHO strategy as approaches to consider in the development of alcohol and health policies. While seeking to achieve legitimate public health goals, there is a risk that the wider introduction of such measures, based on the WHO Strategy or otherwise, could have unintended consequences. These can include fuelling the production of illicit spirit drinks, increasing cross-border shopping and illegal imports, disproportionately affecting responsible consumers economically and reducing the economic contribution of legitimate spirits producers.

International opportunities

Much of the international success of the EU spirits industry is the result of the strong quality reputation which European spirit drinks enjoy worldwide. This is partly a result of the strong international brands which EU producers have developed, but also of the strict rules on spirits definitions and Geographical Indications (GIs) guaranteed by EU legislation. This legislation was updated and strengthened in 2008, which should help to further enhance that international reputation. In the context of the agreement on Trade-Related Aspects of International Property Rights (TRIPS), it also is anticipated that international GI protection for wines and spirits will be extended further, boosting the international competitiveness of EU spirit brands.

¹⁹ Audiovisual Media Services Directive.

²⁰ Council Recommendation of 5 June 2001 on the drinking of alcohol by young people, in particular children and adolescents (2001/458/EC).

²¹ IAS Factsheet- Alcohol and advertising.



The EU is also pro-active in seeking to dismantle any outstanding barriers to trade, whether in the form of tariff or non-tariff barriers, which protect third country local spirit producers from EU competition. Ongoing opportunities to dismantle these barriers further include:

- ▶ Continuing WTO discussions with the Philippines: in the EU's opinion the taxation of spirit drinks in the Philippines discriminates against imports and contravenes WTO rules, with the tax on imported spirits being up to 50 times more than the tax on local brands. A WTO dispute settlement panel has been set up following failed WTO consultations. In the recent past, the EU has also challenged rules which it felt discriminated against imported EU spirit drinks against India (in 2005) and Thailand (in 2008) and, in both cases, the discrimination was removed.
- ▶ The recently-agreed Free Trade Agreement (FTA) between the EU and South Korea: expected to enter into force in 2011, among other things the FTA will eliminate import tariffs on spirits drinks progressively; require more proportionate labelling rules; improve trademark protection; secure an improved import regime; and reform the currently discriminatory taxation regime. It can be expected that EU spirits exports to South Korea will at least double in the years ahead as a result of the FTA.
- ▶ The EU is currently engaged in discussions with a number of countries worldwide, with a view to negotiating FTAs. These include Colombia and Peru, India, Canada, Ukraine, the Mercosur countries and the ASEAN countries. While bilateral negotiations with these countries are at different stages of maturity, all represent significant opportunities for the European spirits industry, with India by far the largest among them.



8 Austria: Economic impact of spirits

8.1 Highlights of the economic impact

Key figures²²	
Production (in hl final product)	245,900
Exports (in hl final product)	104,800
Imports (in hl final product)	271,000
Domestic sales (in hl final product)	412,100
Production value of spirit drinks sector	€ 116 million
Consumer spending on spirit drinks	€ 1.1 billion
Economic impact	
Employment due to the production and sale of spirit drinks	12,400 employees
Value-added due to the production and sale of spirit drinks	€ 394 million
Government revenues due to the production and sale of spirit drinks	€ 552 million

Sources key figures: estimates based on figures from Eurostat, IWSR and EC (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirit drinks sector on the Austrian economy is substantial:

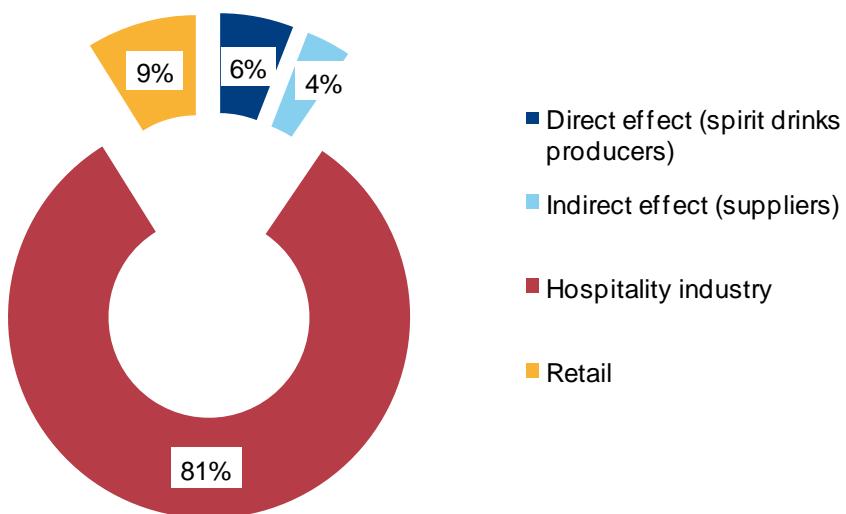
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 12,400 jobs, consisting of 700 jobs in the spirit drinks sector; 400 jobs in the supplying sectors; 10,100 jobs in the hospitality sector and 1,100 jobs in the retail sector
- ▶ Together these employees generate 394 million euros of value-added. Of this value-added, 39 million euros are generated in the spirit drinks sector, 33 million euros in the supplying sectors, 272 million euros in the hospitality sector and 50 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 552 million euros.
- ▶ In 2009, consumers spent 1.1 billion euros on spirit drinks. This spending generated considerable revenues for the government, namely 124 million euros in excise revenues and 186 million euros in VAT revenues.

²² Production, export, import and sales figures are based on data from Eurostat and the European Commission (Excise duty tables). To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.



The employment impact of the spirit drinks sector is presented in the figure below:

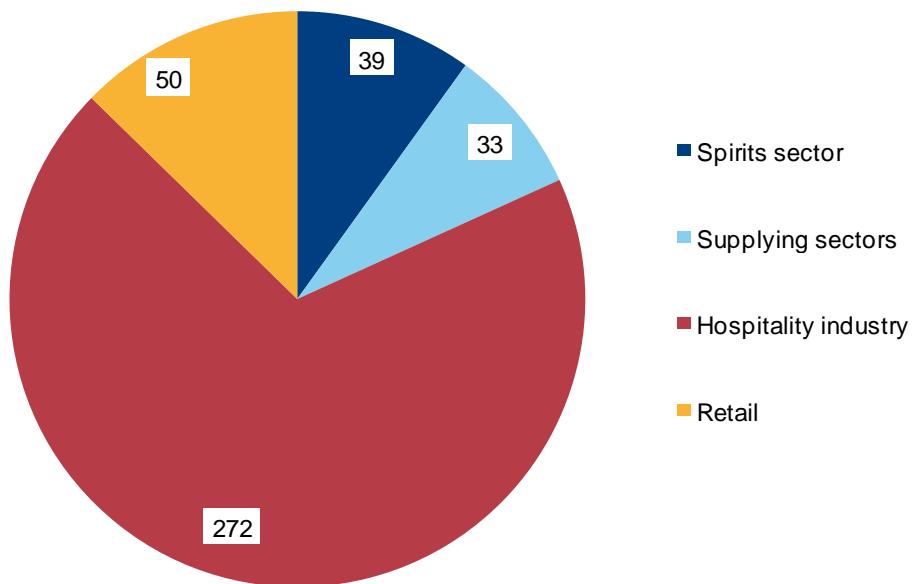
Total employment because of spirits: 12,400 jobs



Source: Ernst & Young calculation (2010) (See Annex III for an explanation of the methodology used).

The contribution of the spirit drinks sector to the Austrian economy can also be expressed in terms of value-added. The total value-added generated by these 12,400 jobs is estimated at 394 million euros.

Value added due to the production and sale of spirits: 394 million euros



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).



The share of the spirit drinks sector in the overall value-added due to the production and sale of spirits is 10%, which is higher than the share of the spirit drinks sector in total employment due to spirit drinks (6%). An important explanation for this is the high productivity of employees in the spirit drinks sector, compared against sectors such as retail and hospitality in terms of value-added.

8.2 Industry and market structure, trends and developments

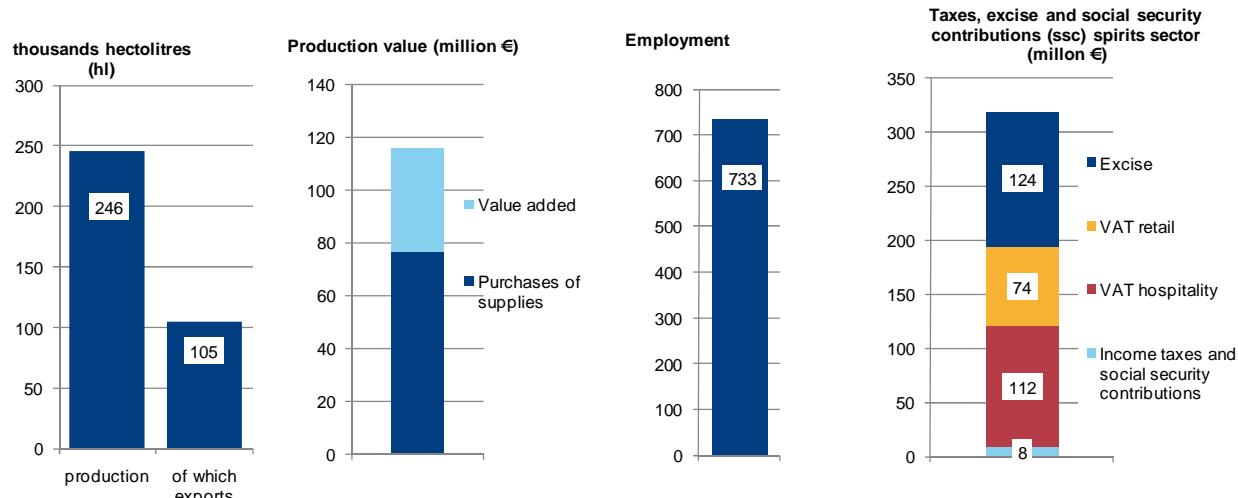
On the one hand in 2009 there was a gradually emerging trend towards lower consumption of alcohol products, in line with the overall current health and wellness trend, while at the same time flavoured alcoholic drinks, notably vodka, but also other spirits such as liqueurs or flavoured malt-based RTDs, saw increasing consumer demand, leading to increased sales²³. On average, Austrian people consume 5 litres of spirits per year.

The spirit drinks market in Austria is dominated by domestic companies holding their ground against multinational players. One of the domestic players is a manufacturer of strong spiced rum from Austria, known as Stroh. There are four Stroh variants, Stroh 40, Stroh 54, Stroh 60 and Stroh 80. Stroh is seldom drunk pure, but is used in various concoctions, for example in 'Jagertee'. Besides its use in mixtures, it is also an important ingredient in several Austrian pastries²⁴.

Over the past five years, there were no excise increases in Austria and the excise rate thus remained stable at 1,000 euros per hectolitre of pure alcohol.²⁵

8.3 Direct effect of the spirits sector

The direct economic impact of the spirit drinks sector covers approximately 700 employees who together produce spirit drinks representing a value of 116 million euros.



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).

Another substantial direct effect of the spirit drinks sector concerns taxes and excises paid by spirit producers and consumers. In 2008, excises reached 124 million euros and total VAT income for the Austrian government was estimated at 186 million euros. Income taxes and social security contributions paid by employees of the spirit drinks sector added up to another 8.4 million euros.

²³ Source: http://www.euromonitor.com/Alcoholic_Drinks_in_Austria.

²⁴ Source: www.stroh.co.uk and <http://en.wikipedia.org/wiki/Stroh>.

²⁵ International Wine and Spirits Record (IWSR) 2009.



The Austrian spirit drinks producers together achieved an estimated 116 million euros in production value. Approximately 34% of total production value stays within these firms as value-added (39.1 million euros). Value-added equals total reward for production factors used: labour costs, interest paid and profits made.

8.4 Economic impact of spirit producers on goods and services suppliers

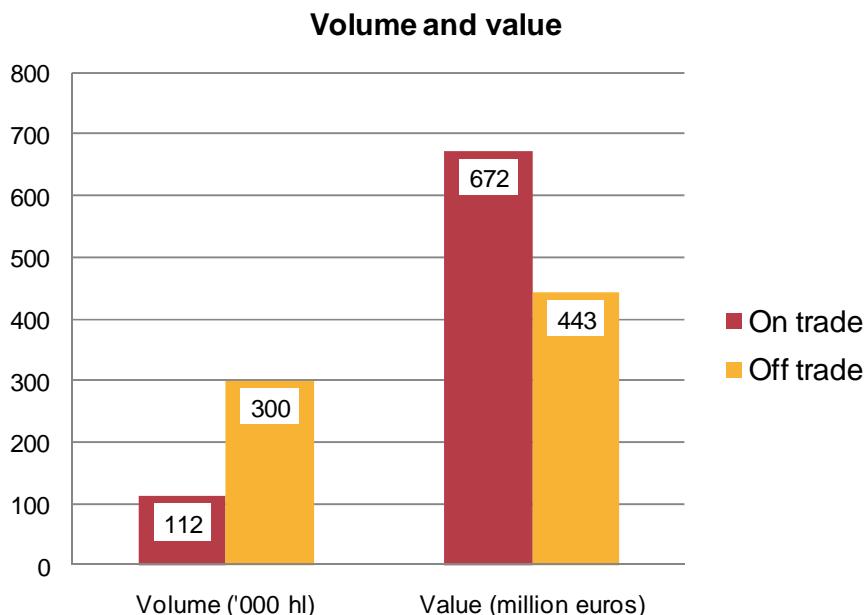
With 34% of the value of the output produced staying within the firm as value-added, the other 66% of the 116 million euros of total production value accrues to a number of suppliers. This stimulus of 76.4 million euros has a significant economic impact on sectors outside the spirit drinks sector.

As we have not received information on purchases per individual sector, we cannot estimate the indirect effect per supplying sector. However we can estimate the total indirect effect. Assuming that 80 percent of the stimulus of 76.4 million stays within the country, this means that approximately 54 million euros accrue to Austrian suppliers. Taking into account the average turnover per employee in the supplying sectors (€ 209,600), we can estimate the indirect employment effect at 400 jobs.

8.5 Retail and hospitality sectors

About 412,100 hectolitres of spirit drinks were consumed in Austria in 2009. It is estimated that about 73% of this total volume was purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 27% was consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of spirit drinks consumption in Austria is estimated at approximately 1.1 billion euros (including VAT and excises). Although the hospitality sector is responsible for only 27% of sales in volume, it is responsible for approximately 60% of the sales in value.



Source: Ernst & Young calculation (2010)



Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ Approximately 27% of all spirits consumed in Austria is sold by the hospitality sector (on-trade), which means 112,000 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in Austrian pubs and restaurants is 54.0 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 672 million euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 560 million euros (using a 20% VAT tariff).
- ▶ With an average hospitality turnover of 55,400 euros (excluding VAT) per person, this results in 10,100 hospitality sector jobs attributable to spirits sales.

Retail

The importance of spirits for retail can be similarly assessed:

- ▶ Approximately 73% of the total spirits consumption (300,000 hectolitres) in Austria is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 14.8 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 443 million euros. Total consumer spending excluding VAT is thus 369 million euros.
- ▶ With turnover per employee estimated at 334,500 euros (excluding VAT), this means 1,100 people owe their jobs to retail spirits sales.

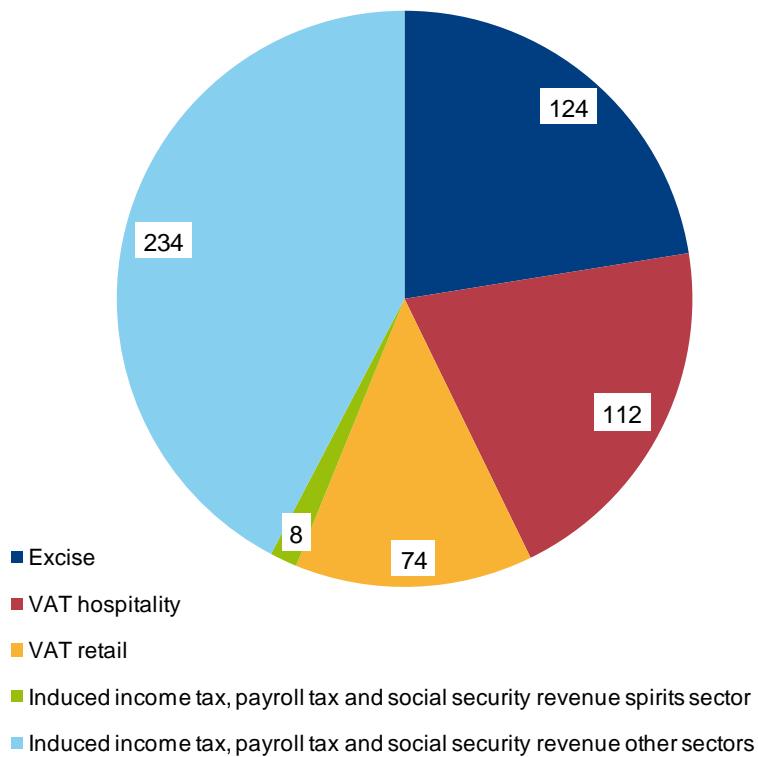
8.6 Government revenues

The revenues of excise, VAT and income-related contributions due to spirit drinks production and sales are estimated at 552 million euros:

- ▶ VAT revenues are estimated at 186 million euros. The main share of these VAT revenues is generated in the hospitality sector.
- ▶ The total of excise revenues on spirits is 124 million euros.
- ▶ Income-related revenues due to spirit production and sales are approximately 242 million euros. They consist of 71 million euros income tax, 65 million euros in social security contributions paid by employees and 106 million euros in social security taxes and payroll taxes paid by employers.



Government revenues due to the production and sale of spirits: 552 million euros



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).



9 Belgium & Luxembourg: Economic impact of spirits

9.1 Highlights of the economic impact

Key figures ²⁶	
Production (in hl final product)	154,300
Exports (in hl final product)	554,200
Imports (in hl final product)	925,600
Domestic sales (in hl final product)	523,900
Production value of spirit drinks sector	€ 123 million
Consumer spending on spirit drinks	€ 1,450 million
Economic impact	
Employment due to the production and sale of spirit drinks	13,600 employees
Value-added due to the production and sale of spirit drinks	€ 367 million
Government revenues due to the production and sale of spirit drinks	€ 801 million

Sources key figures: estimates based on figures from Eurostat, IWSR and European Commission (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirit drinks sector in Belgium and Luxembourg can be summarised as follows:

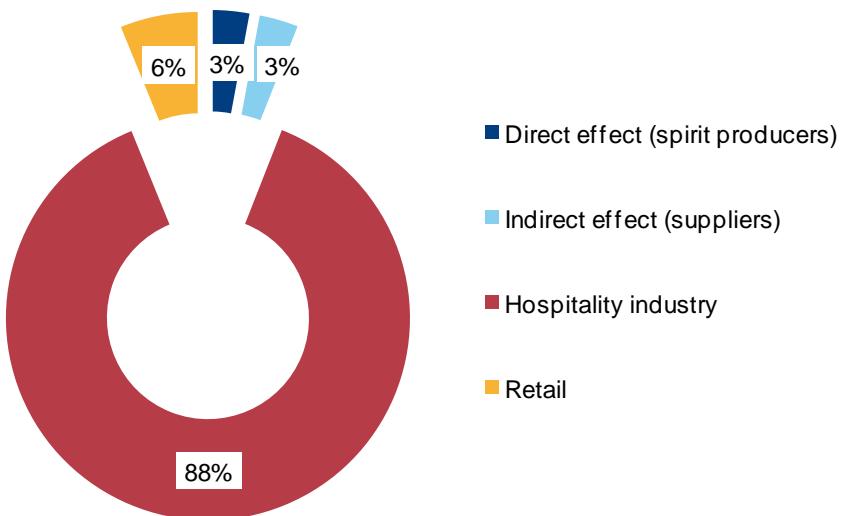
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 13,600 jobs, consisting of 400 jobs in the spirit drinks sector; 400 jobs in the supplying sectors; 12,000 jobs in the hospitality sector and 800 jobs in the retail sector.
- ▶ Together these employees generate 243 million euros of value-added. Of this value-added, 20 million euros are generated in the spirit drinks sector, 32 million euros in the supplying sectors, 133 million euros in the hospitality sector and 57 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 801 million euros.
- ▶ In 2009, consumers spent 1,450 million euros on spirit drinks. This spending generated considerable revenues for the government, namely 260 million euros in excise revenues and 249 million euros in VAT revenues.

²⁶ Production, export, import and sales figures are based on data from Eurostat and the European Commission (Excise duty tables). To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.



The employment impact of the spirits sector is presented in the figure below:

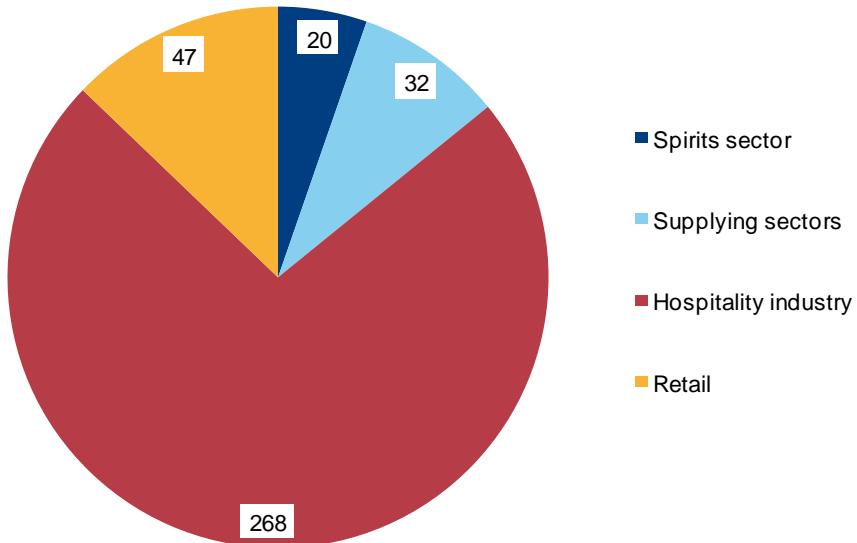
Total employment because of spirits: 13,600 jobs



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Belgian and Luxembourg economy can also be expressed in terms of value-added. The total value-added generated by these 13,600 jobs is estimated at 367 million euros. The share of the spirit drinks sector in the overall value-added due to the production and sale of spirits is 8% and the share of the spirit drinks sector in total employment due to spirit drinks is 3%.

**Value added due to the production and sale of spirits:
367 million euros**



Source: Ernst & Young calculation (2010)



9.2 Industry and market structure, trends and developments

Belgium and Luxembourg have a rich tradition of producing and consuming alcoholic drinks. Belgium is of course well known for its beers, which are exported all over the world, while beer is also popular in Luxembourg. Belgians and Luxembourgers, however, also appreciate spirit drinks and consume approximately 5 litres of spirits per capita each year.²⁷

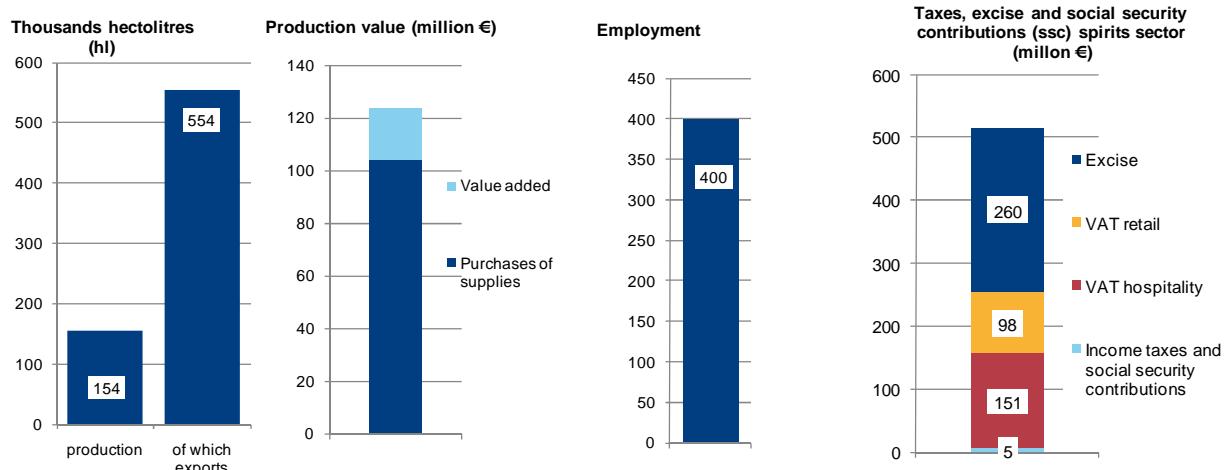
Just as in the Netherlands, 'jenever' can be regarded as part of Belgium's national heritage and the country has been producing it since the 16th century.²⁸ During the 20th century jenever acquired the image of a poor man's drink and gradually lost market share to imported drinks. But, since the 1980s, local products have become more popular again in Belgium and jenever is also making a comeback.

Nowadays, it is not only jenever made from grain which is popular, but cream jenevers and fruit jenevers are also very highly appreciated, especially by women and youngsters. In 2007, the European Union gave jenever a protected geographical status. From that time, this spirit may only be produced in Belgium, the Netherlands and parts of Germany and France.

As in Belgium, Luxembourg has a long-standing tradition of producing high-quality brandy and liqueurs. Not all spirits sales in Luxembourg are consumed by its citizens. Due to its fiscal situation (excise and VAT) and its location between Germany, Belgium and France, cross-border commerce is very important for the Luxembourg economy. For spirits sales, this is further strengthened by the fact that the excise rates on spirits in Luxembourg are lower than in the surrounding countries. There have been no excise increases in Luxembourg over the past five years, and the excise rate thus remained stable at 1,041.15 euros per hectolitre of pure alcohol. In Belgium the excise rate was raised by 5.5 percent in 2006. Since then, Belgian consumers have paid 1,752.24 euros in excise per litre of pure alcohol.

9.3 Direct effect of the spirits sector

The direct economic impact of the spirits sector involves 400 employees, who together produce spirits worth over 123 million euros.



Source: Ernst & Young calculation (2010)

²⁷ International Wine and Spirits Record (IWSR) 2009.

²⁸ Culiptips (2007) <http://users.telenet.be/culiptips/Productinfo/jenever.htm>
Euromonitor International 'Spirits in Belgium', 2009.



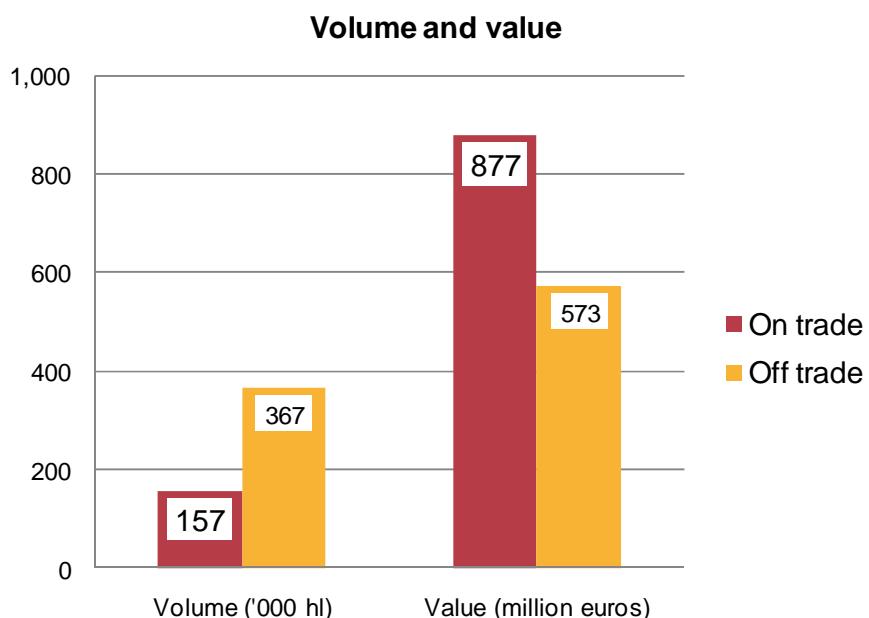
Another substantial direct effect of the spirits sector concerns taxes and excises paid by spirits producers and consumers. In 2009, excises reached 260 million euros (233 million euros in Belgium and 27 million euros in Luxembourg).²⁹ Total VAT income for the Belgian and Luxembourg government was estimated at 249 million euros. Direct income taxes paid by employees of the spirits sector added up to another 5 million euros.

9.4 Economic impact of spirits producers on goods and services suppliers

With 16% of the value of the output produced staying within the firm as value-added, the other 84% of 123 million euros in total turnover accrues to a number of suppliers. This stimulus of almost 104 million euros has a significant economic impact on sectors outside the spirits sector.

As we have not received information on purchases per individual sector, we cannot estimate the indirect effect per supplying sector. However we can estimate the total indirect effect. Assuming that 80 percent of the stimulus of 104 million euros stays within these two countries, this means that about 83 million euros accrue to Belgian and Luxembourgian suppliers. Taking into account the average turnover per employee in the supplying sectors (€ 306,900)³⁰, we can estimate the indirect employment effect at 400 jobs.

9.5 Retail and hospitality sectors



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ About 30% of all spirits consumed in Belgium and Luxembourg is sold by the hospitality sector (on-trade), which means about 157,000 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in pubs and restaurants in Belgium and Luxembourg is estimated at 55.8 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 877 million euros (including VAT).

²⁹ Source: European Commission (Excise duty tables, 2010).

³⁰ This is a weighted average for the two countries.



- ▶ Net consumer spending on spirit drinks is thus estimated at 727 million euros (using a 20.7% VAT tariff).
- ▶ With an average hospitality turnover of 60,900 euros (excluding VAT) per person, this results in 11,900 hospitality sector jobs attributable to spirits sales.

Retail

The importance of the spirits sector for retail can be similarly assessed:

- ▶ Approximately 70% of the total spirits consumption (367,000 hectolitres) in Belgium and Luxembourg is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 15.6 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 573 million euros. Total consumer spending excluding VAT is thus 473 million euros.
- ▶ With turnover per employee estimated at 564,700 euros (excluding VAT), this means 800 people owe their jobs to retail spirits sales.

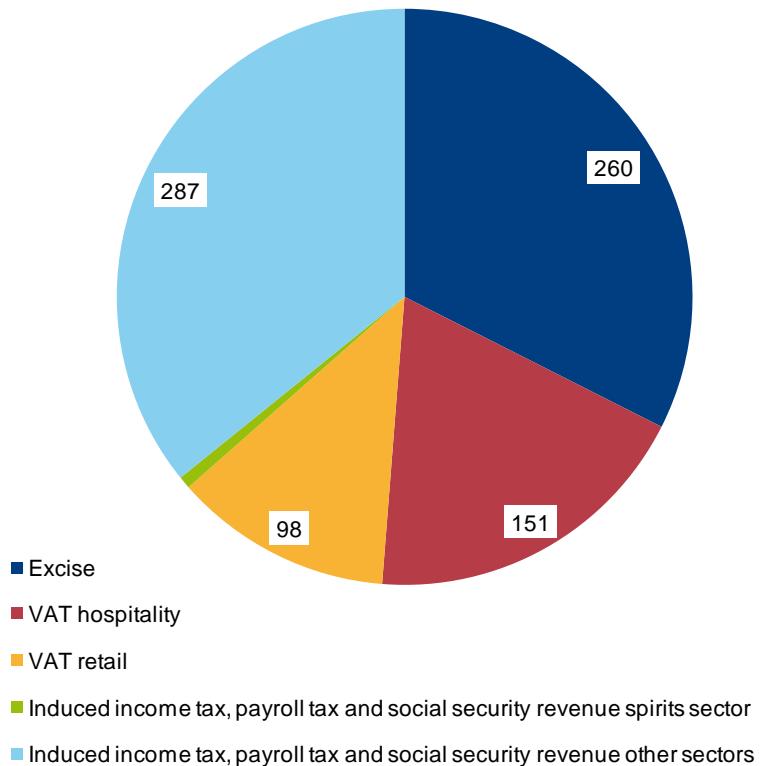
9.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 801 million euros:

- ▶ VAT revenues are estimated at 249 million euros. The main portion of these VAT revenues is generated in the hospitality sector.
- ▶ The total of excise revenues on spirits is 260 million euros (233 million euros in Belgium and 27 million euros in Luxembourg).
- ▶ Income-related revenues arising from spirits production and sales are approximately 293 million euros. They consist of 121 million euros income tax, 58 million euros in social security contributions paid by employees and 113 million euros in social security taxes and payroll taxes paid by employers.



Government revenues due to the production and sale of spirits: 801 million euros



Source: Ernst & Young calculation (2010)



10Bulgaria: Economic impact of spirits

10.1 Highlights of the economic impact

Key figures ^{31 32}	
Production (in hl final product)	165,000
Exports (in hl final product)	30,500
Imports (in hl final product)	150,900
Domestic sales (in hl final product)	285,400
Production value of spirit drinks sector	€ 48 million
Consumer spending on spirit drinks	€ 265 million
Economic impact	
Employment due to the production and sale of spirit drinks	14,500 employees
Value-added due to the production and sale of spirit drinks	€ 59 million
Government revenues due to the production and sale of spirit drinks	€ 108 million

Sources key figures: estimates based on figures from Eurostat, IWSR and European Commission (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirits sector on the Bulgarian economy is substantial:

- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 14,500 jobs, consisting of 2,600 jobs in the spirit drinks sector; 1,400 jobs in the supplying sectors; 9,000 jobs in the hospitality sector and 1,600 jobs in the retail sector
- ▶ Together these employees generate 59 million euros of value-added. Of this value-added, 7 million euros are generated in the spirit drinks sector, 12 million euros in the supplying sectors, 30 million euros in the hospitality sector and 10 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 108 million euros.
- ▶ In 2009, consumers spent 265.3 million euros on spirit drinks. This spending generated considerable revenues for the government, namely 48 million euros in excise revenues and 44.2 million euros in VAT revenues.

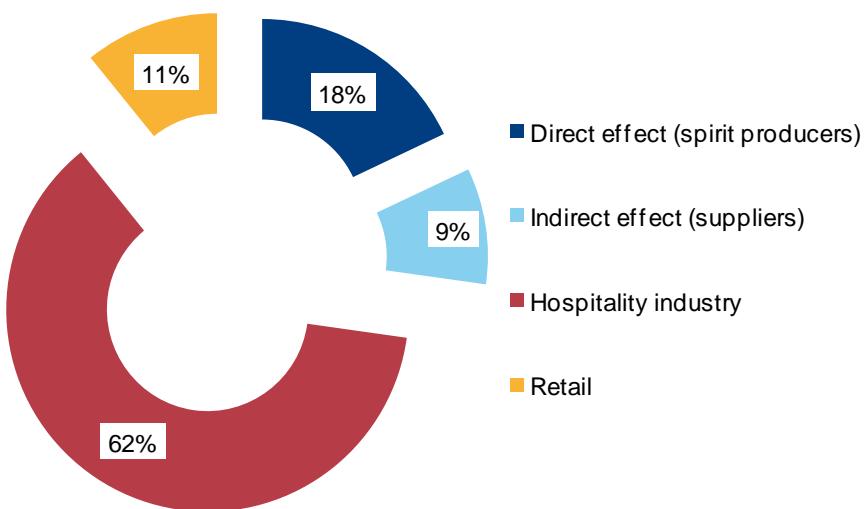
³¹ Production, export, import and sales figures are based on data from Eurostat and the European Commission (Excise duty tables). To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.

³² Because illegal alcohol trade and production are not included, the actual figures will probably be higher.



The employment impact of the spirits sector is presented in the figure below:

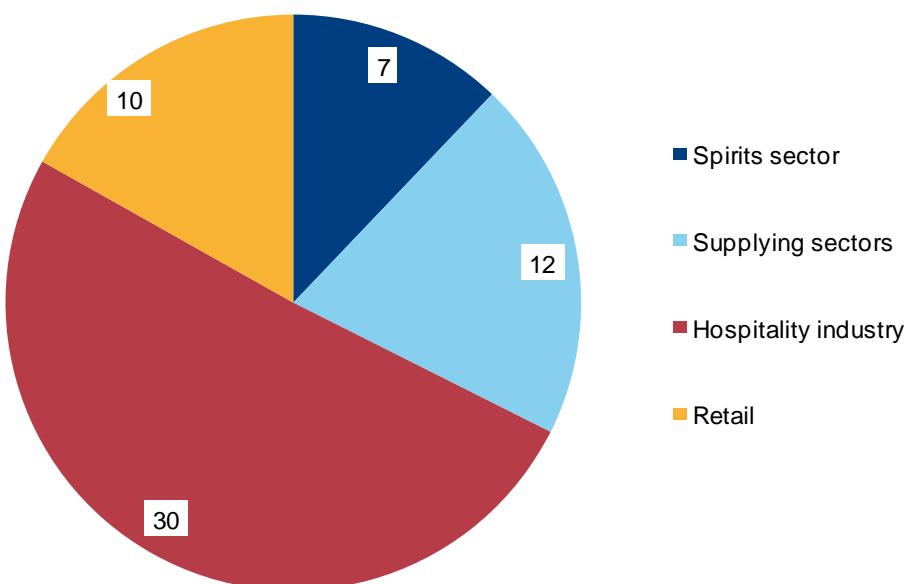
Total employment because of spirits: 14,500 jobs



Source: Ernst & Young calculation (2010). (See Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Bulgarian economy can also be expressed in terms of value-added. The total value-added generated by these 14,500 jobs is estimated at 59 million euros.

Value added due to the production and sale of spirits: 59 million euros



Source: Ernst & Young calculation (2010)



10.2 Industry and market structure, trends and developments

The economic crisis has led to a shift from on-trade to off-trade consumption in Bulgaria. The main drop was in restaurants, cafes, hotels and at events. People preferred to consume at home rather than going out. Client behaviour also changed and the customers who previously consumed more expensive products to demonstrate higher social status, were not sufficiently motivated to pay premium prices during the crisis, and chose the standard price segment. The crisis hit mainly the expensive products category (such as deluxe whisk(e)y, champagne, expensive wines, etc.), which are consumed mainly on-trade. The consumption of liqueurs, products which have no tradition in the Bulgarian market, has also been declining. On the whole it can be said that, over the past year, consumption in the on-trade segment (with a 30% drop in the spirits category) has been directed at the off-trade market.³³

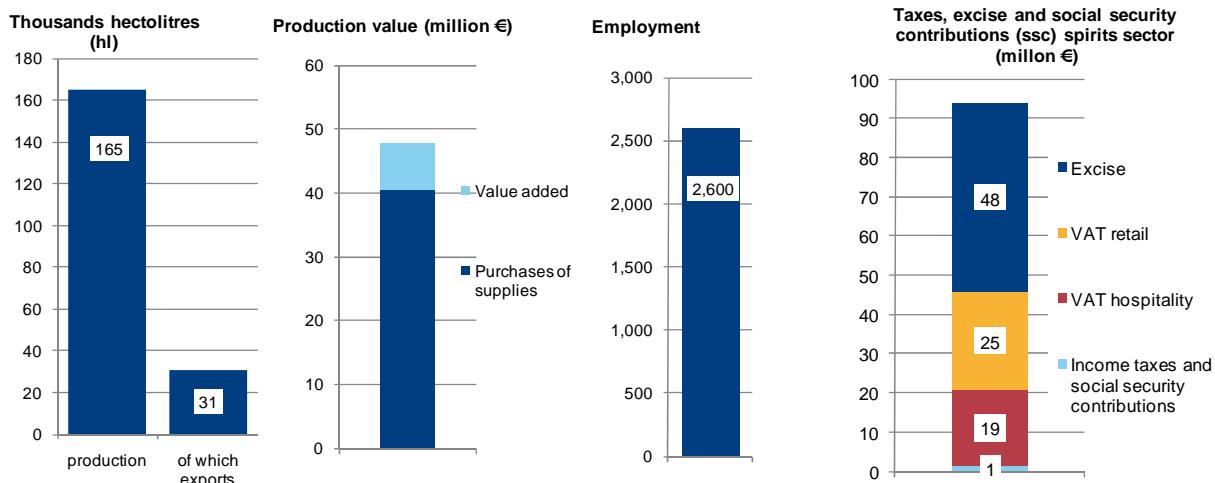
The economic downturn proved to be positive for the largest spirits companies in Bulgaria, as the leading companies increased or at least retained their respective shares. On the other hand, the challengers without strong brand names or price advantages found it hard to compete, and recorded share declines.³⁴

Beside the switch from the on-trade to the off-trade market, Bulgarians produce a substantial volume of spirits themselves. In Bulgaria, households are allowed to make up to 30 litres of rakiya a year which is tax exempt³⁵. There are however no exact figures available on this.

In Bulgaria, the excise rate was raised by 47 percent (from 750 to 1,100 BGN) in 2006. Since then, Bulgarian consumers have paid 562.43 euros per hectolitre of pure alcohol.

10.3 Direct effect of the spirits sector

The direct economic impact of the spirits sector covers about 2,600 employees who together produce spirit drinks representing a value of 48 million euros.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirit drinks sector concerns taxes and excises paid by spirit producers and consumers. In 2009, excises reached 48 million euros and total VAT income for the

³³ Source: <http://www.avendi-bg.com/en/news/65/>

³⁴ Source: http://www.euromonitor.com/Alcoholic_Drinks_in_Bulgaria

³⁵ Source: http://sofiaecho.com/2009/11/20/819018_bulgarian-mps-resurrect-proposal-to-raise-spirits-excise



Bulgarian government was estimated at 44 million euros. Income taxes and social security contributions paid by employees of the spirit drinks sector add up to another 1.5 million euros.

The Bulgarian spirit drinks producers together achieved an estimated 48 million euros in production value. Approximately 15% of total production value stays within these firms as value-added (7 million euros). Value-added equals total reward for production factors used: labour costs, interest paid and profits made.

10.4 Economic impact of spirits producers on goods and services suppliers

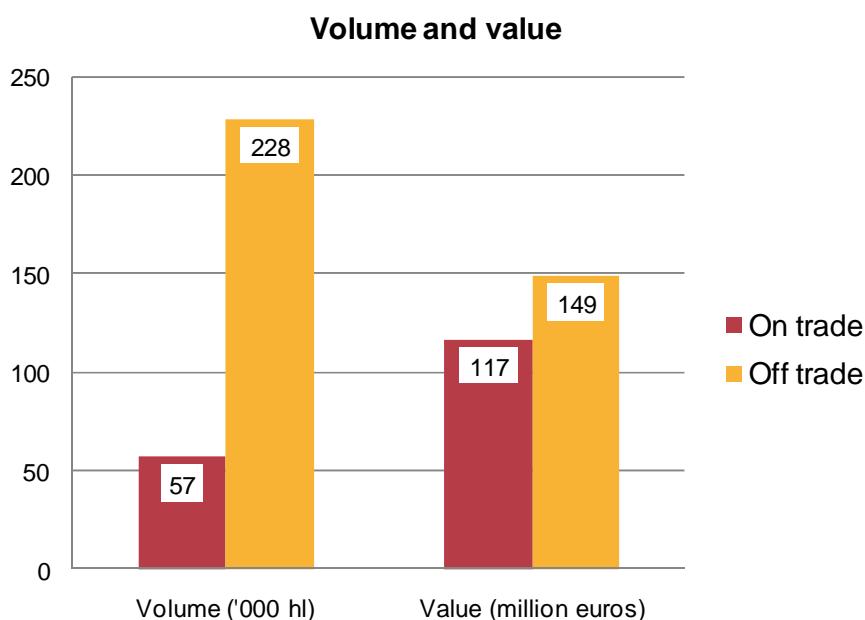
With 15% of the value of the output produced staying within the firm as value-added, the other 85% of the 48 million euros of total production value accrues to a number of suppliers. This stimulus of 41 million euros has a significant economic impact on sectors outside the spirit drinks sector.

As we have not received information on purchases per individual sector, we cannot estimate the indirect effect per supplying sector. However we can estimate the total indirect effect. Assuming that 80 percent of the stimulus of 41 million euros stays within the country this means that about 33 million euros accrue to Bulgarian suppliers. Taking into account the average turnover per employee in the supplying sectors (€ 37,000), we can estimate the indirect employment effect at 1,400 jobs.

10.5 Retail and hospitality sectors

About 285,400 hectolitres of spirit drinks were consumed in Bulgaria in 2009. It is estimated that about 80% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 20% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of Bulgarian spirit drinks consumption is estimated at approximately 265.3 million euros (including VAT and excises). Although the hospitality sector is responsible for only 20% of sales in volume, it is responsible for approximately 44% of the sales in value.



Source: Ernst & Young calculation (2010)



Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ About 20% of all spirits consumed in Bulgaria is sold by the hospitality sector (on-trade), which means almost 57,300 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in Bulgarian pubs and restaurants is estimated at 20.5 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 117 million euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 97.3 million euros (using a 20% VAT tariff).
- ▶ With an average hospitality turnover of 10,800 euros (excluding VAT) per person, this results in 9,000 hospitality sector jobs attributable to spirits sales.

Retail

The importance of the spirits sector for retail can be similarly assessed:

- ▶ Approximately 80% of total spirits consumption (228,300 hectolitres) in Bulgaria are sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 6.5 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 149 million euros. Total consumer spending excluding VAT is thus 123.8 million euros.
- ▶ With turnover per employee estimated at 79,000 euros (excluding VAT), this means 1,600 people owe their jobs to retail spirits sales.

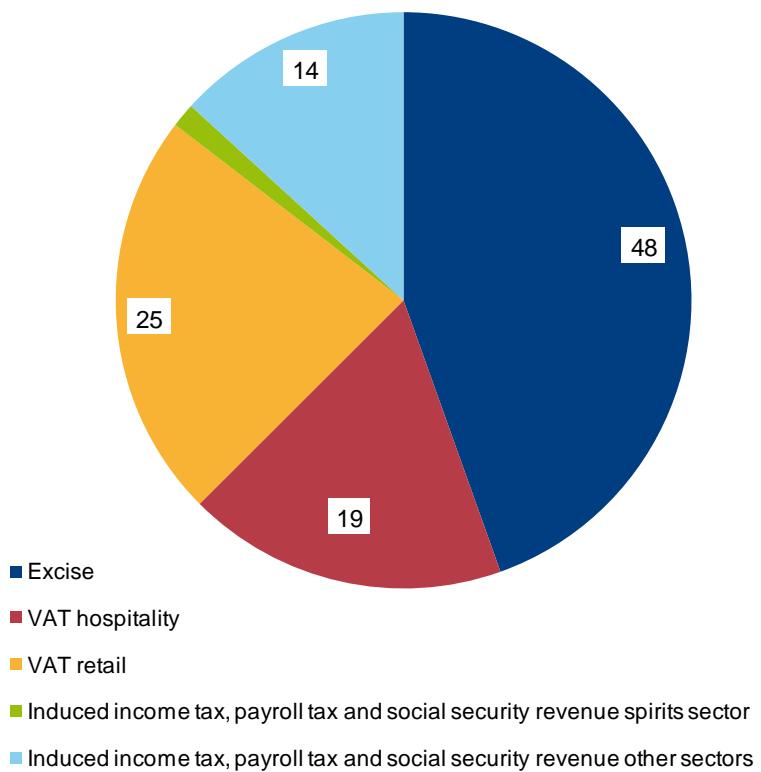


10.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 108 million euros:

- ▶ VAT revenues are estimated at 44 million euros. Almost half of these VAT revenues are generated in the retail sector.
- ▶ The total of excise revenues on spirits is 48 million euros.
- ▶ Income-related revenues arising from spirits production and sales are almost 16 million euros. They consist of 4 million euros income tax, 3 million euros in social security contributions paid by employees and 9 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 108 million euros



Source: Ernst & Young calculation (2010)



11 Cyprus: Economic impact of spirits

11.1 Highlights of the economic impact

Key figures ³⁶	
Production (in hl final product)	24,100
Exports (in hl final product)	2,700
Imports (in hl final product)	70,000
Domestic sales (in hl final product)	91,500
Production value of spirit drinks sector	€ 5.3 million
Consumer spending on spirit drinks	€ 339 million
Economic impact	
Employment due to the production and sale of spirit drinks	3,900 employees
Value-added due to the production and sale of spirit drinks	€ 140 million
Government revenues due to the production and sale of spirit drinks	€ 98 million

Sources key figures: estimates based on figures from Eurostat, IWSR and European Commission (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The most important characteristics of the Cypriot spirits sector are:

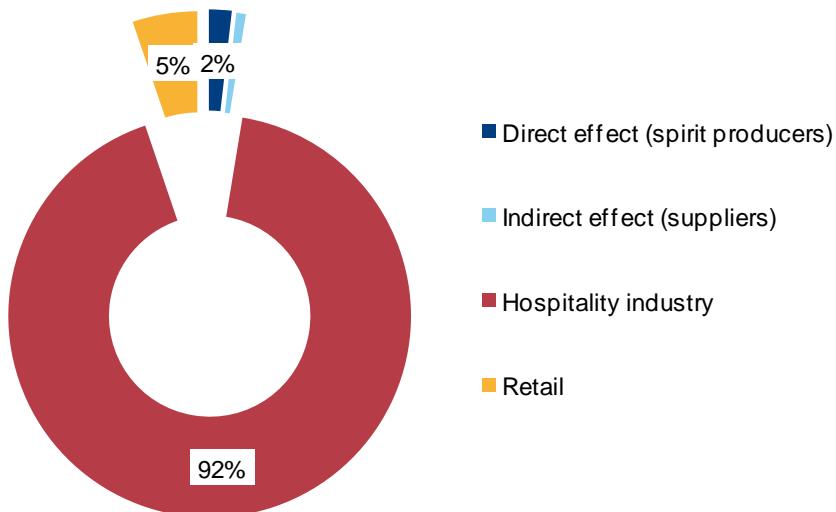
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 5,700 jobs, consisting of 100 jobs in the spirit drinks sector; 40 jobs in the supplying sectors; 5,200 jobs in the hospitality sector and 300 jobs in the retail sector
- ▶ Together these employees generate 140 million euros of value-added. Of this value-added, 2 million euros are generated in the spirit drinks sector, 2 million euros in the supplying sectors, 128 million euros in the hospitality sector and 9 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 98 million euros.
- ▶ In 2009, consumers spent 339 million euros on spirit drinks. This spending generated considerable revenues for the government, namely 16.4 million euros in excise revenues and 44.2 million euros in VAT revenues.

³⁶ Production, export, import and sales figures are based on data from Eurostat and the European Commission (Excise duty tables). To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.



The employment impact of the spirits sector is shown below:

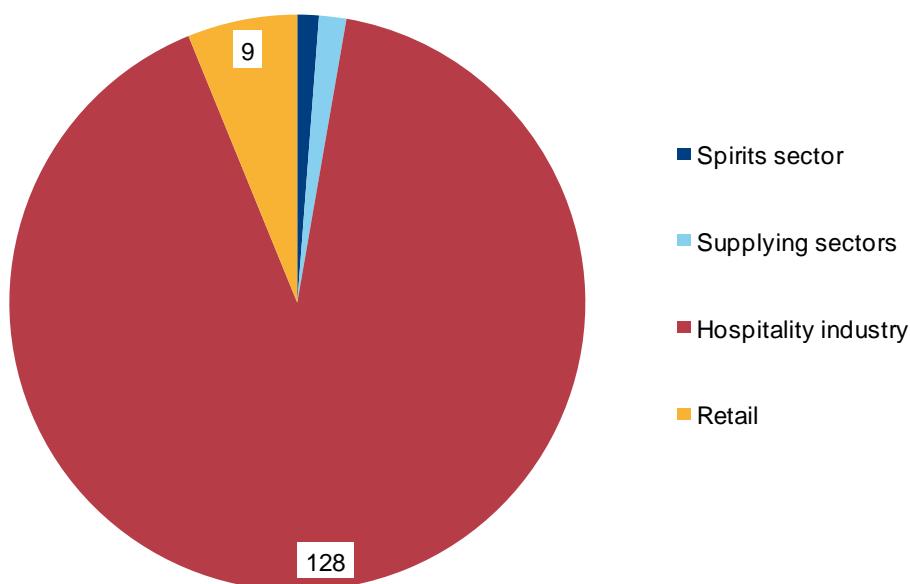
Total employment because of spirits: 5,700 jobs



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Cypriot economy can also be expressed in terms of value-added. The total value-added generated by these 5,700 jobs is estimated at 140 million euros.

**Value added due to the production and sale of spirits:
140 million euros**



Source: Ernst & Young calculation (2010)



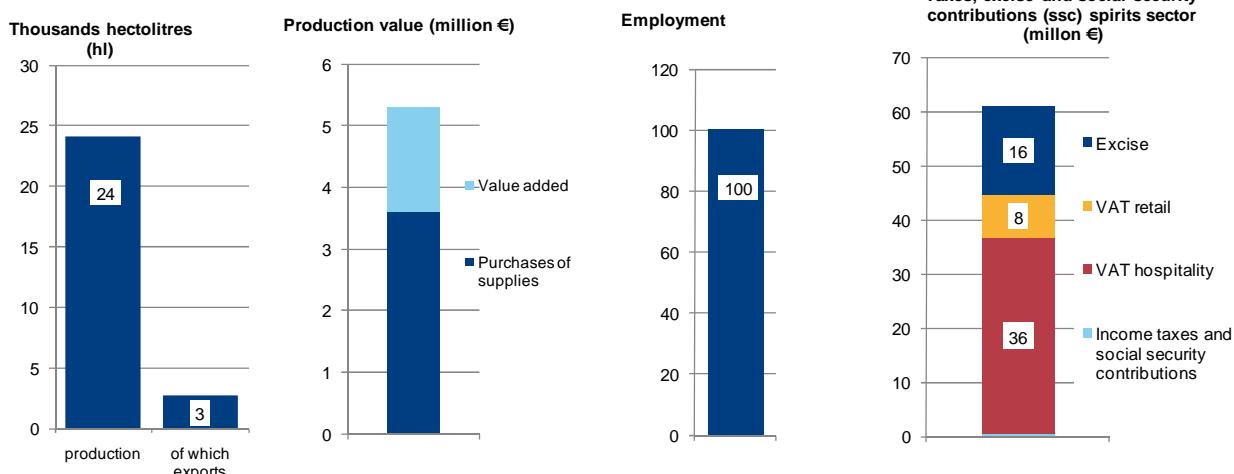
11.2 Industry and market structure, trends and developments

Tourism is the most important sector of the Cypriot economy. Tourists account for a major share of the total spirits consumption. In pure litres of alcohol, Cypriot people drink equal amounts of beer, wine and spirits per year. An example of a traditional Cypriot spirit is Zivania (also Zivana) (Greek: Ζιβανία). Zivania is a distillate produced on the island of Cyprus from pomace (or marc), the residue of grapes that were pressed during the winemaking process (including the stems and seeds), mixed with high-quality dry wines produced from the local Cypriot grape varieties. The pomace/wine mixture is then distilled in a special traditional distillation apparatus, producing Zivania. Zivania is characterised by its typical taste and aroma. The typical alcohol content is 45% by volume. It contains no sugars and has no acidity³⁷.

Since 2005, the excise rate on a hectolitre of pure alcohol has remained 598 euros. The VAT rate is relatively low compared to other European countries, namely 15 percent.

11.3 Direct effect of the spirits sector

The direct economic impact of the spirit drinks sector covers about 100 people (in 2007³⁸) who together produce spirits with a value representing 5.3 million euros.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirits sector concerns taxes and excises paid by spirit producers and consumers. In 2009, excises reached 16 million euros and total VAT income for the government of Cyprus was estimated at 44.2 million euros. Income-related taxes and contributions paid by employers and employees of the spirits sector are estimated at 400,000 euros.

³⁷ Source: <http://en.wikipedia.org/wiki/Zivania>

³⁸ Source: Eurostat.



11.4 Economic impact of spirit producers on goods and services suppliers

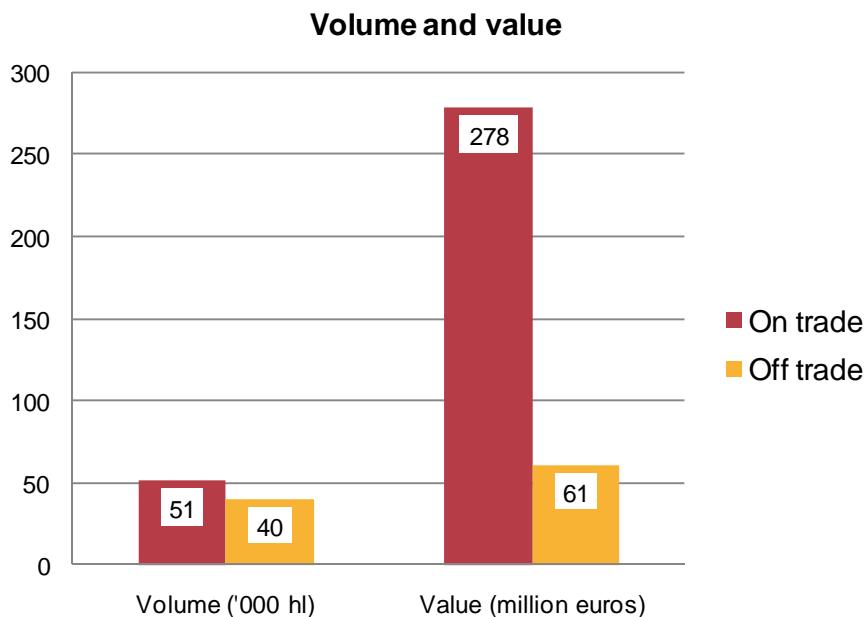
With 32% of the value of the output produced staying within the firm as value-added, the other 68% of the 5.3 million euros of total production value accrues to a number of suppliers. This stimulus of 3.6 million euros has a significant economic impact on sectors outside the spirit drinks sector.

As we have not received information on purchases per individual sector, we cannot estimate the indirect effect per supplying sector. However we can estimate the total indirect effect. Assuming that 80 percent of the stimulus of 3.6 million euros stays within the country this means that about 2.9 million euros accrue to Cypriot suppliers. Taking into account the average turnover per employee in the supplying sectors (€ 100,300), we can estimate the indirect employment effect at 40 jobs.

11.5 Retail and hospitality sectors

About 91,500 hectolitres of spirit drinks were consumed in Cyprus in 2009. It is estimated that about 44% of this total volume was purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 56% was consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of spirit drinks consumption in Cyprus is estimated at approximately 339.0 million euros (including VAT and excises). Although the hospitality sector is responsible for only 56% of sales in volume, it is responsible for approximately 82% of the sales in value.



Source: Ernst & Young calculation (2010)



Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ Approximately 56.0% (51,200 hectolitres) of all spirits consumed in Cyprus is sold by the hospitality sector.
- ▶ The average consumer price of spirits in Cypriot hospitality is approximately 54.3 euros per litre, so that total consumer spending on spirits in the hospitality sector is 278.0 million euros.
- ▶ Net consumer spending on spirits is thus estimated at 241.8 million euros (using a 15% VAT tariff).
- ▶ With an average hospitality turnover of 46,300 euros (excluding VAT) per person, total employment in the Cypriot hospitality sector due to spirits sales is estimated at 5,200 jobs.

Retail

The importance of spirits for the retail sector can be similarly assessed:

- ▶ Approximately 44.0% of Cypriot spirits consumption is sold by supermarkets and other retail companies.
- ▶ With an average consumer price of 15.1 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 60.9 million euros. Total consumer spending excluding VAT is thus 53.0 million euros.
- ▶ With turnover per employee estimated at 179,800 euros (excluding VAT), this means 300 people owe their jobs to retail spirits sales.

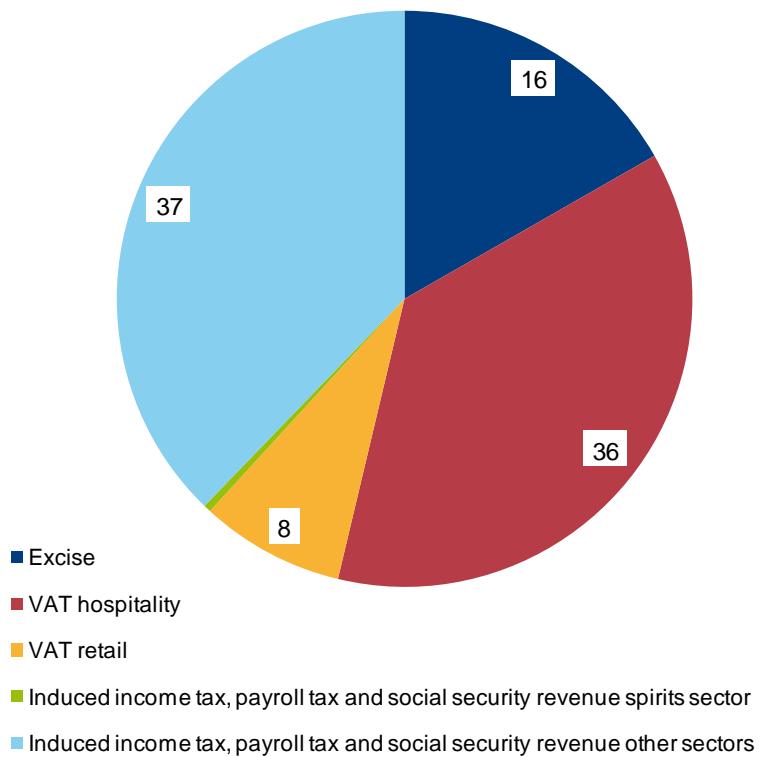
11.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirit drinks production and sales are estimated at 98 million euros:

- ▶ VAT revenues are estimated at 44.2 million euros. The main part is generated in the hospitality sector.
- ▶ The total excise revenue arising from the spirit producing industry is 16 million euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 37.4 million euros. They consist of 9.4 million euros income tax, 7.8 million euros in social security contributions paid by employees and 20.3 million euros in social security taxes and payroll taxes paid by employers.



Government revenues due to the production and sale of spirits: 98 million euros



Source: Ernst & Young calculation (2010)



12Czech Republic: Economic Impact of spirits

12.1 Highlights of the economic impact

Key figures	
Production (in hl final product)	835,200
Exports (in hl final product)	210,900
Imports (in hl final product)	291,800
Domestic sales (in hl final product)	916,100
Production value of spirit drinks sector	€ 243.1 million
Consumer spending on spirit drinks	€ 1.6 billion
Economic impact	
Employment due to the production and sale of spirit drinks	35,600 employees
Value-added due to the production and sale of spirit drinks	€ 401 million
Government revenues due to the production and sale of spirit drinks	€ 736 million

Sources key figures: estimates based on figures from Union of Czech Spirits Producers (UCSP), Eurostat and IWSR. Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

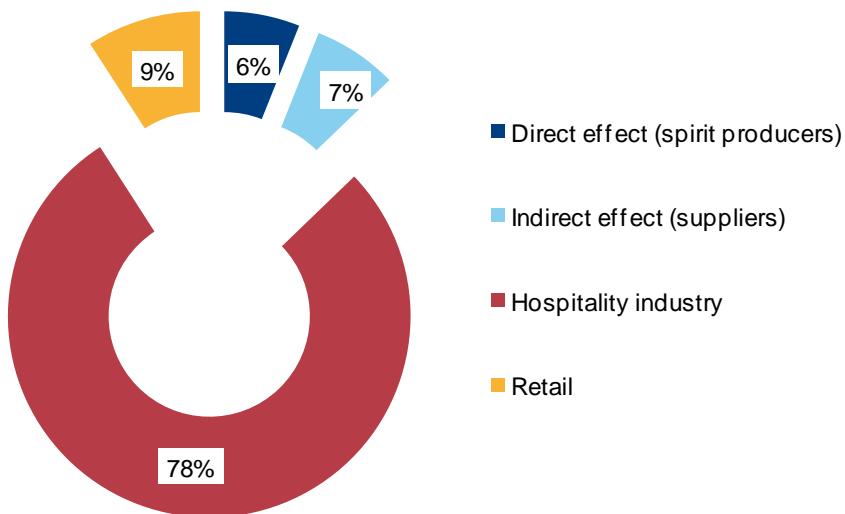
The most important characteristics of the Czech spirits market are:

- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 35,600 jobs, consisting of 2,200 jobs in the spirit drinks sector; 2,400 jobs in the supplying sectors; 27,800 jobs in the hospitality sector and 3,300 jobs in the retail sector
- ▶ Together these employees generate 409 million euros of value-added. Of this value-added, 66 million euros are generated in the spirit drinks sector, 53 million euros in the supplying sectors, 231 million euros in the hospitality sector and 60 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 736 million euros.
- ▶ In 2009, consumers spent 1.6 billion euros on spirit drinks. This spending generated considerable revenues for the government, namely 260 million euros in excise revenues and 250 million euros in VAT revenues.



The employment impact of the spirits sector is shown below:

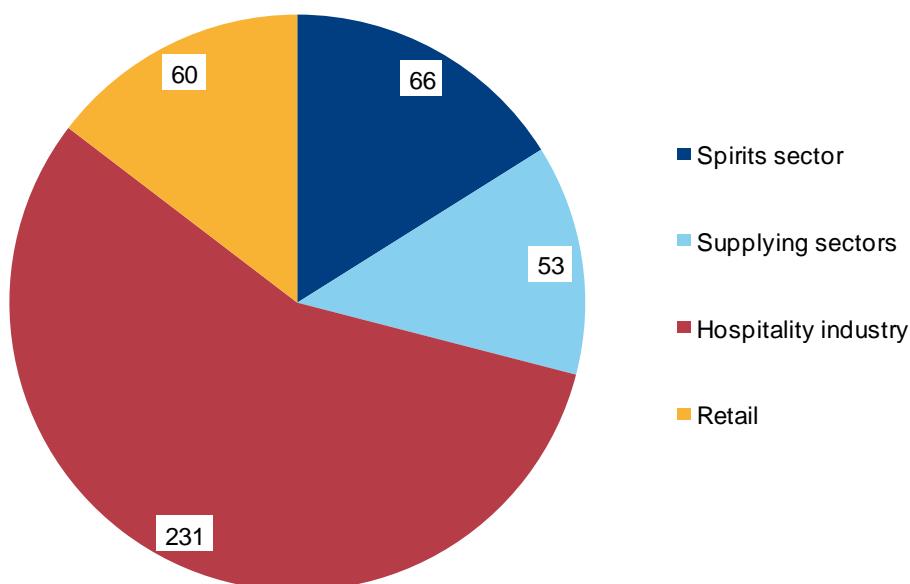
Total employment because of spirits: 35,600 jobs



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Czech economy can also be expressed in terms of value-added. The total value-added generated by these 35,600 jobs is estimated at 409 million euros.

**Value added due to the production and sale of spirits:
409 million euros**



Source: Ernst & Young calculation (2010)



The share of the spirit drinks sector in the overall value-added due to the production and sale of spirits is 16% and the share of the spirit drinks sector in total employment due to spirit drinks is 6%.

12.2 Industry and market structure, trends and developments

Although the Czech Republic is of course known primarily for its beers, there is also a substantial spirits industry in this country. Based on European Commission figures for excise revenues, imports and exports, we estimate that the annual production of spirits in the Czech Republic amounts to approximately 835,200 hectolitres of final product. On average, Czechs consume approximately 9 litres of spirits per year, while in most European countries the average consumption per capita is about 5 litres.

There are no figures on the exact breakdown of the production and consumption volumes into different categories of spirits for the Czech Republic as a whole. The reason is that there are multiple associations in the Czech Republic each representing a certain part of the Czech spirits sector. The largest association is the Union of Czech Spirits Producers (UCSP) which has 11 members. The most important importers of spirits in the Czech Republic are not members of the UCSP and have organised themselves under the umbrella of the Czech Association for Branded Products. There are also some 20 small spirit producers in the Czech Republic, with their own association. The table below shows the sales of the UCSP members in 2009. In contrast with the consumption figures in the other chapters of this report, these figures also include exports. The categories also differ slightly from those used in the rest of this report.

Sales by UCSP members in 2009 (including exports)	
Brandy & cognac	10,833 hl.
Whisk(e)y	21,705 hl.
Rum	6,273 hl.
Gin and Borovicka	12,191 hl.
Vodka	136,819 hl.
Liqueurs	165,433 hl.
Others (including bitters, tuzemak and fruit distillates)	345,685 hl.

Source: Union of Czech Spirits Producers (UCSP) (2010)

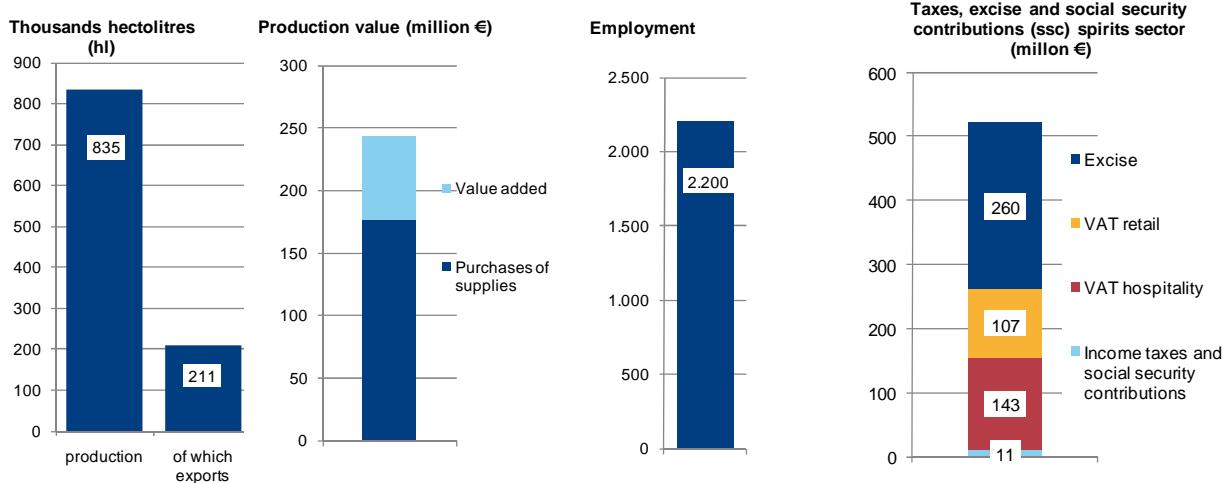
The market share of vodka is rather high in the Czech Republic, but there are also typical Czech spirits with a substantial market share. Examples are the herbal liqueur Becherovka, the herbal bitter Fernet Stock and Tuzemak, which is the Czech equivalent of rum. A popular drink in the Moravia region is Slivovitz. Most Slivovitz is produced by small distillers, to whom a reduced excise rate applies.

Over the past five years, the excise rate on spirits in the Czech Republic has been raised once. On 1 January 2010, the government increased the excise by about 8 percent, from 26,500 Koruna per hectolitre of pure alcohol to 28,500 Koruna (1,121.16 euros). According to UCSP, this led to high production and sales figures at the end of 2009. Especially in December, huge quantities of spirits were bought speculatively and the production of spirits rocketed. As a result, USCP expects a decrease in production and sales of about 15 to 20 percent in 2010.



12.3 Direct effect of the spirits sector

The direct employment of the Czech spirits sector consists of 2,200 jobs. Czech spirits producers together realise a production value of approximately 243 million euros, of which 177 million is spent on supplies. The value-added of the Czech spirits sector is thus 66 million.



Source: Ernst & Young calculation (2010)

The government also benefits from the production and sale of spirits. Excise and VAT revenues accounted for 260 million euros and 250 million euros respectively. Employees and employers in the spirits sector paid 11 million euros in income taxes, social security contributions and payroll taxes.

12.4 Economic impact of spirits producers on goods and services suppliers

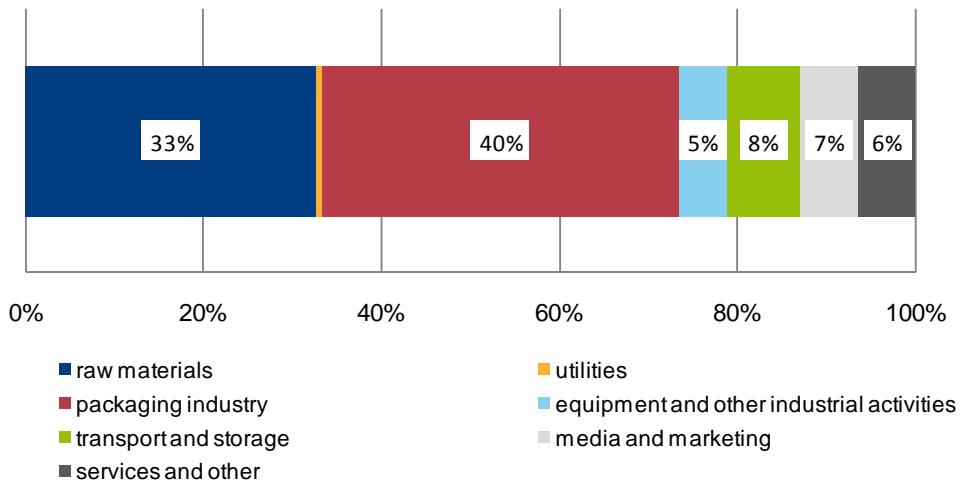
Czech spirits producers spent 177 million euros on purchasing goods and services, which means a substantial economic impulse in the supplying sectors. The largest proportion of supplies is purchased in the packaging industry, resulting in approximately 628 jobs in this sector (first round effect). The indirect employment in the suppliers of raw materials (511 jobs) and transport (128 jobs) is also substantial. As this primary effect can be estimated at about 65% of the total impact, the total impact in these sectors will even be higher.

Sectors	Stimulus (million €)	Stimulus for the Czech Republic		Turnover per employee (in €)	Number of employees
		%	(million €)		
Raw materials	53.64	90.1%	48.3	94,600	511
Utilities	3.53	100.0%	3.5	427,200	8
Packaging industry	86.52	68.7%	59.4	94,600	628
Equipment	8.56	91.9%	7.9	94,600	83
Transport	10.56	90.0%	9.5	74,200	128
Media, marketing	7.45	77.8%	5.8	55,600	104
Services	6.95	79.5%	5.5	55,600	99
Total	177.20	-	140.0	-	1,562
First-round impact as % of total impact					65%
Total indirect effect of spirits sector					2,403

Source: EY Questionnaire among spirits producers (2010); Eurostat (2006)



Indirect employment: 2,400 jobs

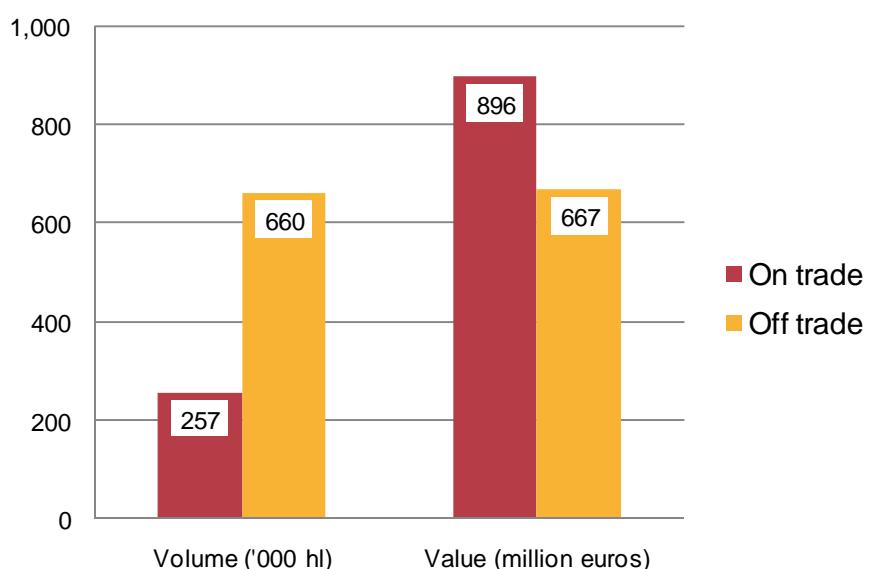


12.5 Retail and hospitality sectors

About 916,100 hectolitres of spirit drinks were consumed in the Czech Republic in 2009. It is estimated that about 72% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'.³⁹ The remaining 28% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of Czech spirit drinks consumption is estimated at approximately 1,564 million euros (including VAT and excises). The hospitality sector is responsible for 28% of sales in volume and 57% of the sales in value.

Volume and value



Source: Ernst & Young calculation (2010)

³⁹ The on-trade and off-trade percent is obtained by using IWSR data



Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ Approximately 28% of spirit consumption in the Czech Republic occurs in the hospitality sector.⁴⁰
- ▶ This means 257,000 hectolitres of spirits are consumed in Czech pubs, restaurants and other hospitality facilities.
- ▶ With a consumer price of 34.9 euros per litre (incl. 19% VAT⁴¹) this means consumers spent approximately 896 million euros (excl. VAT) on spirits in pubs and restaurants.
- ▶ Net consumer spending on spirits is estimated at 753 million euros.
- ▶ The average turnover per employee in the Czech hospitality industry is 27,100 euros a year.
- ▶ Employment in the Czech hospitality sector due to spirits sales is 27,800 jobs.

Retail

The importance of the spirits sector for retail can be similarly assessed:

- ▶ Of the total Czech spirits consumption, 72% is sold in supermarkets and other retail companies, i.e. 660,000 hectolitres.
- ▶ With an average consumer price of 10.1 euros (incl. 19% VAT) per litre, this means the total consumer spending on spirits in retail companies is 667 million euros.
- ▶ Consumer spending excluding VAT is estimated at 561 million euros.
- ▶ Employees in the retail sector realise an annual turnover of 172,400 euros each.
- ▶ Total employment in the Czech retail sector through spirits sales equals 3,300 employees.

⁴⁰ Source: International Wine and Spirits Record (IWSR).

⁴¹ The VAT rate refers to the year 2009. Since January 2010 the Czech VAT rate has been increased to 20 percent.

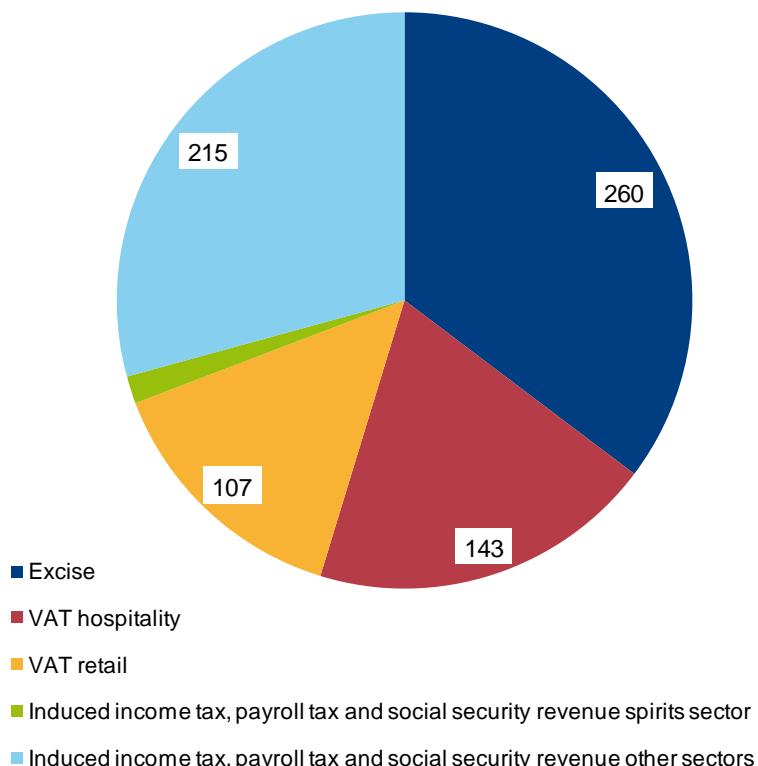


12.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 736 million euros:

- ▶ The VAT revenues are estimated at 250 million euros. The main share of these VAT revenues is generated in the hospitality sector. The figures in this chapter refer to the year 2009. The Czech VAT rate increased from 19 to 20 percent in 2010.
- ▶ The total of excise revenues on spirits is 260 million euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 226 million euros. They consist of 49 million euros income tax, 46 million euros in social security contributions paid by employees and 131 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 736 million euros



Source: Ernst & Young calculation (2010)



13Denmark: Economic impact of spirits

13.1 Highlights of the economic impact

Key figures ⁴²	
Production (in hl final product)	171,800
Exports (in hl final product)	339,500
Imports (in hl final product)	434,400
Domestic sales (in hl final product)	266,700
Production value of spirit drinks sector	€ 81.4 million
Consumer spending on spirit drinks	€ 970.1 million
Economic impact	
Employment due to the production and sale of spirit drinks	9,700 employees
Value-added due to the production and sale of spirit drinks	€ 271 million
Government revenues due to the production and sale of spirit drinks	€ 558 million

Sources key figures: estimates based on figures from the Association of Danish Spirits producers, Eurostat and IWSR. Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic contribution of the spirit drinks sector in Denmark is substantial:

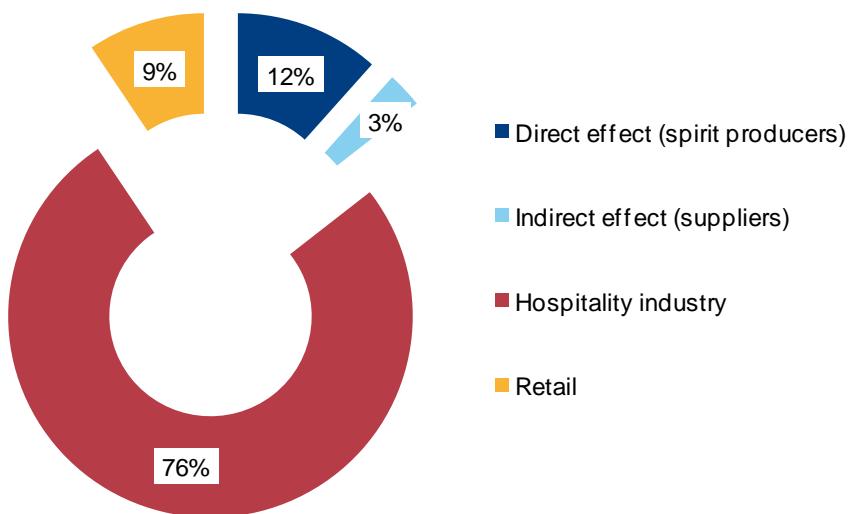
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 9,700 jobs, consisting of 1,100 jobs in the spirit drinks sector; 300 jobs in the supplying sectors; 7,400 jobs in the hospitality sector and 900 jobs in the retail sector.
- ▶ Together these employees generate 271 million euros of value-added. Of this value-added, 33 million euros are generated in the spirit drinks sector, 21 million euros in the supplying sectors, 171 million euros in the hospitality sector and 47 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 558 million euros.
- ▶ In 2009, consumers spent 970.1 million euros on spirit drinks. This spending generated considerable revenues for the government, namely 156 million euros in excise revenues and 194 million euros in VAT revenues.

⁴² Production, export, import and sales figures are based on data obtained from the Association of Danish Spirits Producers referring to the year 2008. To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.



The employment impact of the spirits sector is shown in the figure below:

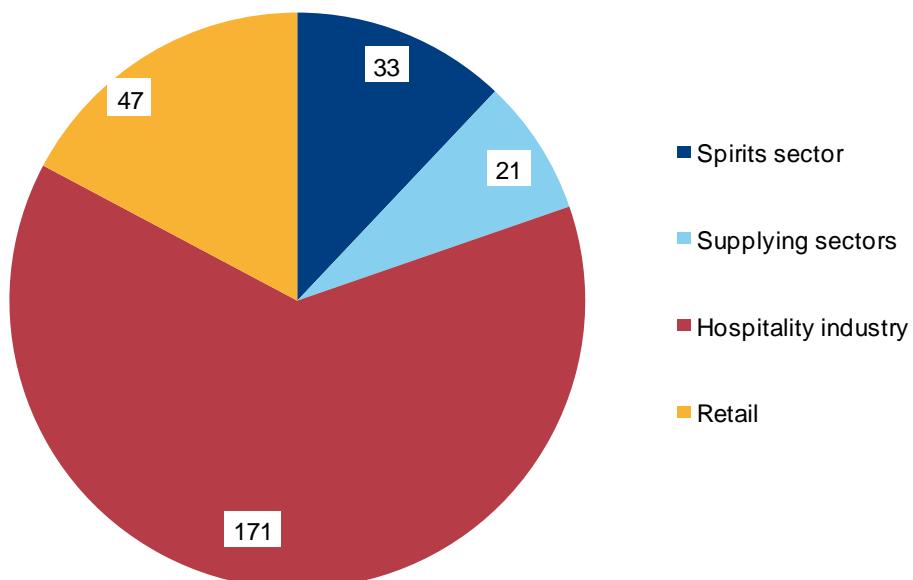
Total employment because of spirits: 9,700 jobs



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Danish economy can also be expressed in terms of value-added. The total value-added generated by these 9,700 jobs is estimated at 271 million euros.

Value added due to the production and sale of spirits: 271 million euros



Source: Ernst & Young calculation (2010)



The spirits sector's share in overall value-added arising from spirits production and sales is 12%, which is about the same as the spirits sector's share in total employment arising from spirits (11%).

13.2 Industry and market structure, trends and developments

The Danish consume on average 5 litres of spirits per year. A popular drink is Akvavit (or aquavit), which is a flavoured spirit produced in Scandinavia and typically contains 40% alcohol by volume. Its name comes from *aqua vitae*, the Latin for 'water of life'. The earliest known reference to akvavit is found in a 1531 letter from the Danish Lord of Bergenshus castle to the last Roman Catholic Archbishop of Norway.⁴³ The letter, accompanying a package, offers the archbishop "some water which is called Aqua Vite and is a help for all sort of illness which a man can have both internally and externally". While this claim for the medicinal properties of the drink may be rather inflated, it is a popular belief, in Scandinavia, that akvavit will ease the digestion of rich foods. In Denmark it is traditionally associated with Christmas lunch.⁴⁴

	Whisk(e)y	Vodka	Other white spirits	Brandy	Flavoured Spirits
Off-trade	79%	59%	85%	74%	90%
On-trade	21%	41%	15%	26%	10%

Source: Pernod Ricard Denmark

The table above shows the share of total sales sold off-trade and on-trade by various types of spirits. We estimate that 266,700 hectolitres of final spirits drinks are consumed in Denmark. However for Denmark this is considered as the volume of sales in Denmark, as many Danish people buy their spirits from neighbouring countries like Germany.

The global financial crisis had a negative impact on total alcoholic drink sales in Denmark during 2009⁴⁵. Spirits were particularly hard hit, with most categories in this area recording a major decline in demand. The biggest producer of spirits in Denmark sold 5% less in Denmark while its exports and imports increased. It should also be noted that the appreciation of the Danish krone against the Swedish krona has also had a negative impact on alcoholic drinks sales, resulting in a decline in the number of Swedish tourists visiting Denmark to profit from lower prices.

The economic downturn is expected to have a negative impact on total Danish alcoholic drink sales, with volume sales projected to decline over the coming years. But an exception to this trend is cider, where volume sales are expected to continue increasing due to rising demand for such products among Danish consumers. Cider sales increased rapidly in Denmark during 2008 and 2009 and it is becoming popular among RTD spirit consumers. A number of new cider brands were launched in 2009 and these products will help to fuel Danish sales in this area over the coming years.

It should also be noted that high excise duties also represent a potential threat to forecast period sales.⁴⁶ The excise duty per hectolitre was stable during 2005-2010 at 15,000 Danish krone. In Denmark there are additional duties on alcoholic beverages. According to the Association of Danish Spirits Producers, the change in age limit – going from 18 in on-trade and 16 in off-trade to 18 in on-trade and 18/16 in off-trade (above 16.5 ABV – 18, below 16.5 ABV – 16), the change in RTD and cider tax and the changes in definitions of alcoholic drinks are the three most important developments in the spirits sector.

⁴³ This section is based on information obtained by consulting [aquavit](#). (2010) in *Encyclopædia Britannica*. Retrieved July 26, 2010, from Encyclopædia Britannica Online: <http://www.britannica.com/EBchecked/topic/31128/aquavit> and Blue, Anthony Dias (2004). *The Complete Book of Spirits: A Guide to Their History, Production, and Enjoyment*. New York: HarperCollins Publishers. p. 42

⁴⁴ This paragraph is based on information obtained by consulting [aquavit](#). (2010) in *Encyclopædia Britannica*. Retrieved July 26, 2010, from Encyclopædia Britannica Online: <http://www.britannica.com/EBchecked/topic/31128/aquavit> and Blue, Anthony Dias (2004). *The Complete Book of Spirits: A Guide to Their History, Production, and Enjoyment*. New York: HarperCollins Publishers. p. 42

⁴⁵ Euromonitor, 2010.

⁴⁶ Euromonitor, 2010.

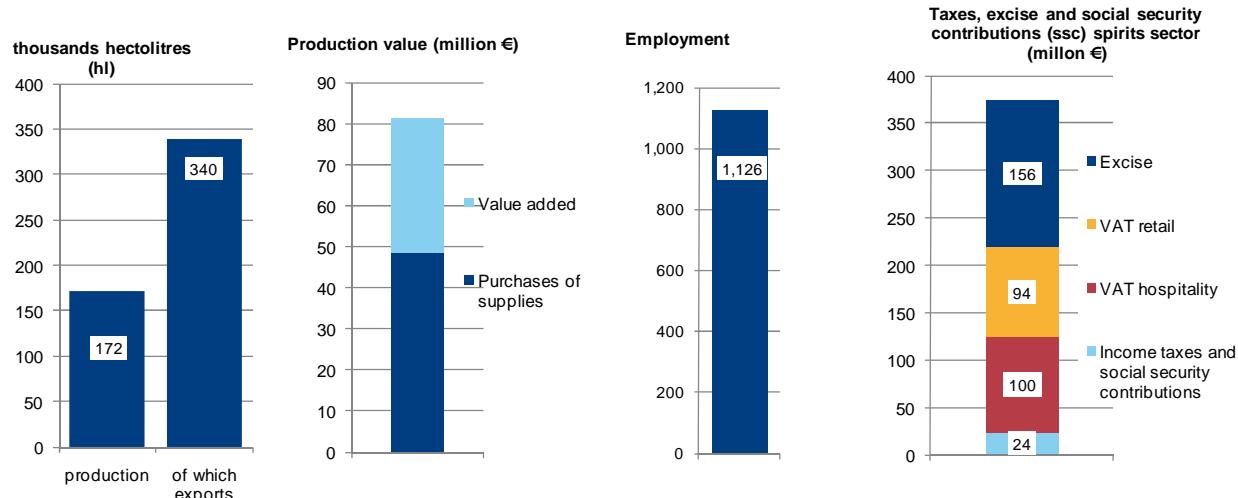


At the same time as the introduction of a supplemental duty on cider and fruit wine-based alcohol soft drinks, including cider, the supplemental duty on alcohol soft drinks will be raised. Fortified wine based spirits will be taxed as spirits.

In summary, the increasing popularity of cider, cross-border alcohol consumption, the age limit change and the changes to taxations and definitions of alcoholic drinks are important developments in the Danish spirits sector.

13.3 Direct effect of the spirits sector

The direct economic impact of the spirit drinks sector covers about 1,010 employees who together produce spirit drinks representing a value of 81.4 million euros. It can therefore be concluded that there is a significant direct economic benefit of the spirit drinks sector for the Danish economy.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirit drinks sector concerns taxes and excises paid by spirit producers and consumers. In 2009, excises reached 156 million euros and total VAT income for the Danish government was estimated at 194 million euros. Income taxes and social security contributions paid by employees of the spirit drinks sector add up to another 22 million euros.

The Danish spirit drinks producers together achieved an estimated 81.4 million euros in production value. Approximately 40% of total production value stays within these firms as value-added (32.7 million euros). Value-added equals total reward for production factors used: labour costs, interest paid and profits made.

13.4 Economic impact of distilleries on goods and services suppliers

With 40% of the value of the output produced staying within the firm as value-added, the other 60% of the 81.4 million euros of total production value accrues to a number of suppliers. This stimulus of 48.6 million euros has a significant economic impact on sectors outside the spirit drinks sector.

As we have not received information on purchases per individual sector, we cannot estimate the indirect effect per supplying sector. However we can estimate the total indirect effect. Assuming that 80 percent of the stimulus of 48.6 million euros stays within the country this means that about 38.9 million euros accrue to Danish suppliers. Taking into account the average turnover per employee in the supplying sectors (€ 216,900), we can estimate the indirect employment effect at 300 jobs. In the next table the percentage spent on purchases by a large producer of spirits in Denmark is illustrated.

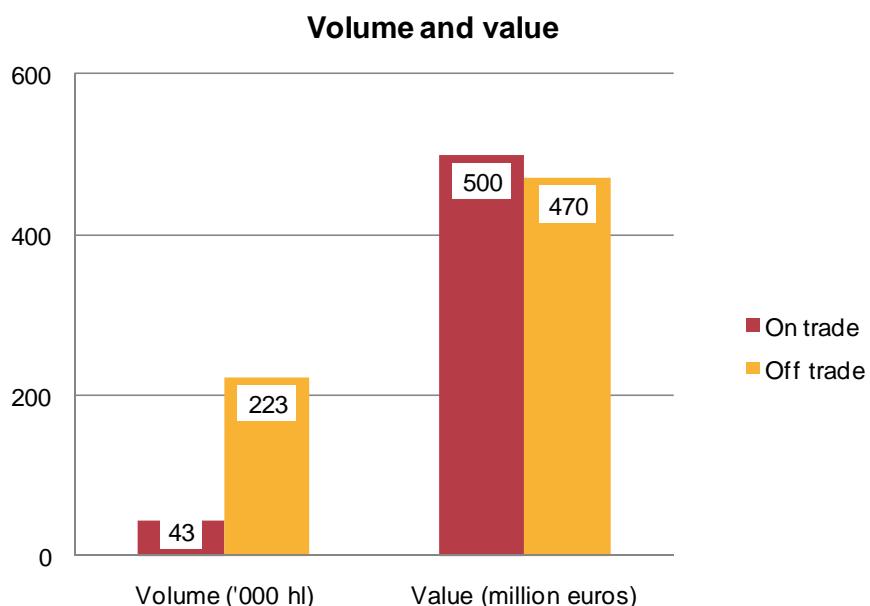


Sector	% spent in own country
Raw materials	95%
Utilities	100%
Packaging industry	Unknown
Equipment and others	10%
Transport and storage	70%
Media and marketing	80%
Services and other	80%

13.5 Retail and hospitality sectors

About 266,700 hectolitres of spirit drinks were consumed in Denmark in 2009. It is estimated that about 84% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 16% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of Danish spirit drinks consumption is estimated at approximately 970.1 million euros (including VAT and excises). Although the hospitality sector is responsible for only 16% of sales in volume, it is responsible for approximately 52% of the sales in value.



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ About 16.2% of all spirits consumed in Denmark is sold by the hospitality sector (on-trade), which means almost 43,200 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in Danish pubs and restaurants is estimated at 115.7 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 0.5 billion euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 0.4 billion euros (using a 25% VAT tariff).
- ▶ With an average hospitality turnover of 54,200 euros (excluding VAT) per person, this results in 7,400 hospitality sector jobs attributable to spirits sales.



Retail

The importance of the spirits sector for retail can be similarly assessed:

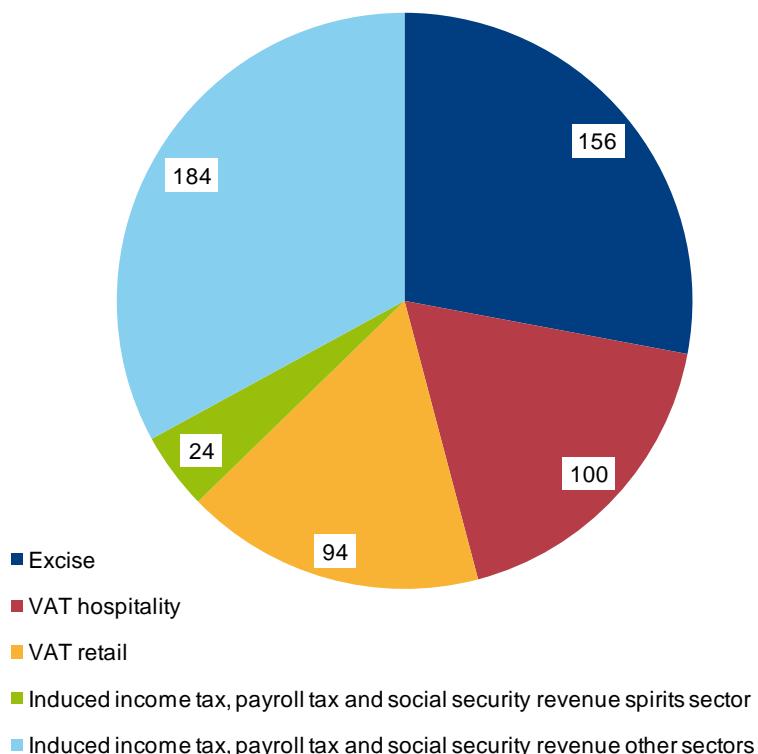
- ▶ Approximately 83.8% of total spirits consumption (223,000 hectolitres) in Denmark is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 21.0 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 470 million euros. Total consumer spending excluding VAT is thus 376 million euros.
- ▶ With turnover per employee estimated at 411,800 euros (excluding VAT), this means 900 people owe their jobs to retail spirits sales.

13.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 558 million euros:

- ▶ VAT revenues are estimated at 194 million euros.
- ▶ Total excise revenues on spirits are 156 million euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 207.9 million euros. They consist of 191 million euros in income tax, 11 million euros in social security contributions paid by employees and 6 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 558 million euros



Source: Ernst & Young calculation (2010)



14 Estonia: Economic impact of spirits

14.1 Highlights of the economic impact

Key figures ⁴⁷	
Production (in hl final product)	187,000
Exports (in hl final product) ⁴⁸	112,500
Imports (in hl final product)	226,700
Domestic sales (in hl final product) ⁴⁹	184,000
Production value of spirit drinks sector	€ 67 million
Consumer spending on spirit drinks	€ 164 million
Economic impact	
Employment due to the production and sale of spirit drinks	3,100 employees
Value-added due to the production and sale of spirit drinks	€ 53 million
Government revenues due to the production and sale of spirit drinks	€ 151 million

Sources key figures: estimates based on figures from Eesti Konjunkturiinstituut, Eurostat and IWSR. Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The most important characteristics of the Estonian spirits market are:

- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 3,100 jobs, consisting of 500 jobs in the spirit drinks sector; 900 jobs in the supplying sectors; 1,100 jobs in the hospitality sector and 600 jobs in the retail sector.
- ▶ Together these employees generate 53 million euros of value-added. Of this value-added, 13 million euros are generated in the spirit drinks sector, 18 million euros in the supplying sectors, 10 million euros in the hospitality sector and 12 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 151 million euros.
- ▶ In 2009, consumers spent 164 million euros on spirit drinks. This spending generated considerable revenues for the government, namely 112 million euros in excise revenues⁵⁰ and 25 million euros in VAT revenues.

⁴⁷ The figures on production, consumption, export and import volumes are based on figures by the *Eesti Konjunkturiinstituut*. Production, exports, imports and sales of (ready to drink) RTD's are not included. Because of this, induced effects generated by RTD sales in hospitality and retail are not taken into account. Since RTD's are not included in the Estonian figures we have used an average alcohol percentage of 40 % abv (instead of 30 % abv) to convert import and export figures from liters of pure alcohol into liters of final product.

⁴⁸ The export and import figures for Estonia also include transit to Russia.

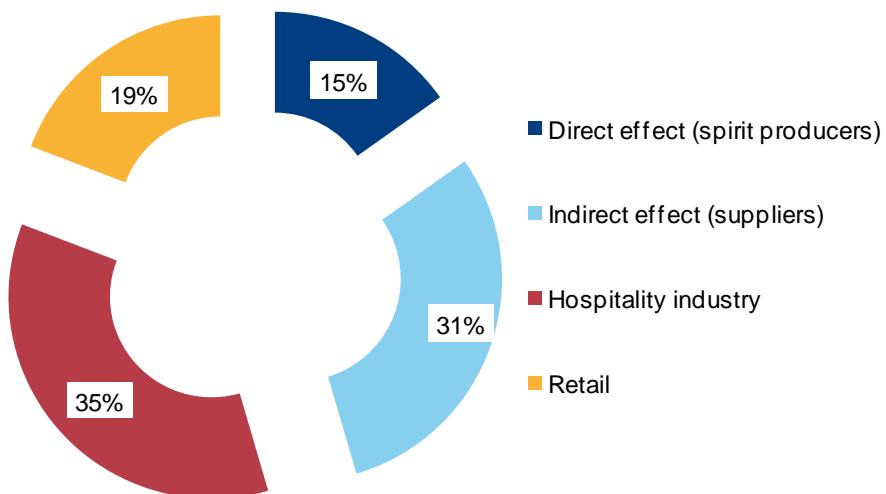
⁴⁹ This consumption figure also includes the sales of spirits to foreigners.

⁵⁰ This excise figure is directly obtained from a publication by the European Commission (Excise duty tables) and does include excise revenues generated by RTD sales. Consumer spending is calculated by E&Y and does not include RTD sales.



The employment impact of the spirits sector is shown below:

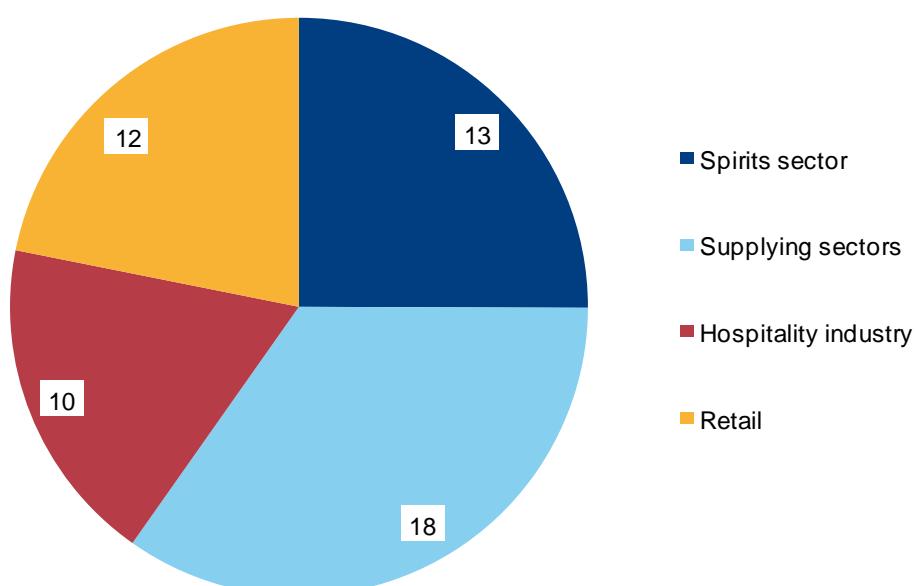
Total employment because of spirits: 3,100 jobs



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Estonian economy can also be expressed in terms of value-added. The total value-added generated by these 3,100 jobs is approximately 53 million euros.

**Value added due to the production and sale of spirits:
53 million euros**



Source: Ernst & Young calculation (2010) (See Annex III for an explanation of the methodology used).



The share of the spirits sector in overall value-added arising from the production and sale of spirits is estimated at 24%. This is far more than the share of direct employment connected to spirit-producing companies as a fraction of total employment arising from the production and sales of spirits (15%). An explanation for this is that productivity in terms of value-added per employee in the Estonian spirits sector is rather high compared to other sectors.

14.2 Industry and market structure, trends and developments

As in the rest of the Baltic States, the consumption level of spirit drinks is fairly high in Estonia. Although Estonia has only 1.3 million inhabitants, the annual consumption figure amounts over 184,000 hectolitres of final product per year. Vodka is especially popular in Estonia and it makes up approximately 75 to 80 percent of the total Estonian spirits production. Although a large share of the spirits sold in Estonia is imported from other countries, domestically-produced spirits also have a substantial market share. These domestically-produced spirits include a wide variety of drinks such as a large number of Estonian vodka blends and liqueurs.

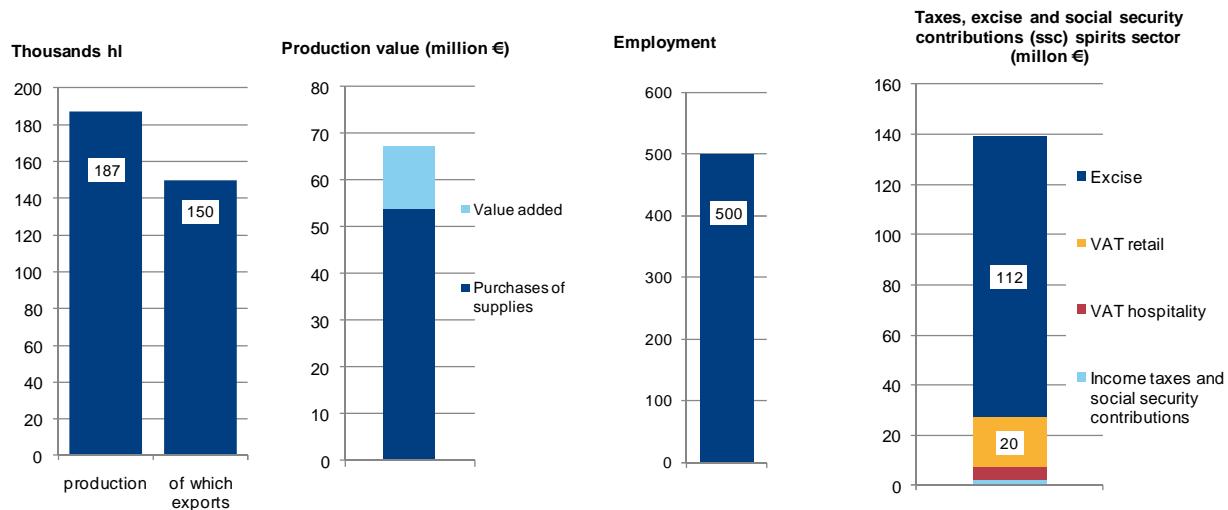
Excise rates on spirits have been raised three times by the Estonian government in recent years, leading to a total increase of 46.1 percent. Where in 2008 the excise duties amounted to 15,200 krooni per hectolitre of pure alcohol, in 2010 the excise rate on spirits amounts to 22,200 krooni (1,418.8 euros). There are signs that this has led to a decline in the Estonian spirit drinks market.⁵¹ Other developments that did not make matters easier for the Estonian spirits market are night-time sales restrictions imposed by the government in 2008 and the economic downturn that seriously affected the Estonian economy.

Although the excise rates and the price levels of spirits in Estonia increased significantly in recent years, they are still much lower than in neighbouring Finland, where excise rates are more than twice as high. Finland has very strict controls on alcohol and strong drinks can only be bought in state-controlled 'Alko shops', while in Estonia a wide range of (cheaper) spirits can be bought in the supermarket. Due to this plus the fact that many Finns visit Estonia for a variety of reasons, part of the spirits sales are not consumed by Estonians themselves but by inhabitants from neighbouring countries such as Finland.

14.3 Direct effect of the spirits sector

The Estonian spirit drinks sector employs 500 people who realise a value-added of some 13 million euros. The total production value of Estonian spirits producers is 67 million euros of which 80% is spent on purchasing goods and services. The government also benefits from spirits production. Excise and VAT revenues accounted for 110 million and 25 million euros respectively. Employees and employers in the spirits sector paid 2.2 million euros in income taxes, social security contributions and payroll taxes.

⁵¹ Euromonitor (2010) *Alcoholic Drinks in Estonia*, www.euromonitor.com.



Source: Ernst & Young calculation (2010) (See Annex III for an explanation of the methodology used).

14.4 Economic impact of spirits producers on goods and services suppliers

With 20% of the value of the output produced staying within the firm as value-added, the other 80% of the 67 million euros of total production value accrues to a number of suppliers. This stimulus of 54 million euros has a significant economic impact on sectors outside the spirit drinks sector.

As we have not received information on purchases per individual sector, we cannot estimate the indirect effect per supplying sector. However we can estimate the total indirect effect. Assuming that 80 percent of the stimulus of 54 million euros stays within the country this means that about 43 million euros accrue to Estonian suppliers. Taking into account the average turnover per employee in the supplying sectors (€ 71,100), we can estimate the indirect employment effect at 900 jobs.

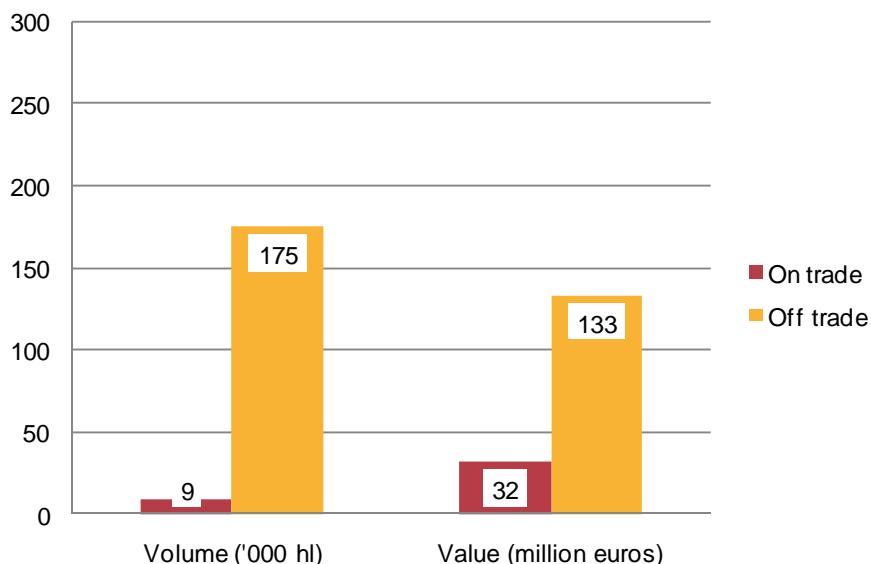
14.5 Retail and hospitality sectors

About 184,000 hectolitres of spirit drinks were consumed in Estonia in 2009. It is estimated that about 95% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 5% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of Estonian spirit drinks consumption is estimated at approximately 164 million euros (including VAT and excises). The hospitality sector is responsible for only 5% of sales in volume and 19% of the sales in value. The retail sector is the dominant outlet channel for spirits in Estonia.



Volume and value



Source: Ernst & Young calculation (2010)

Hospitality sector

Employment arising from spirits sales in the hospitality sector is estimated at 2,000 jobs:

- ▶ About 5% of spirits consumption in Estonia occurs in the hospitality sector.
- ▶ This means approximately 9,200 hectolitres are sold by Estonian pubs, restaurants and the like.
- ▶ The consumer price of spirits is about 34.5 euros per litre (incl. 18% VAT), so that consumers are estimated to spend 31.7 million euros (incl. VAT) on spirits in pubs and restaurants. Exclusive of VAT, the value of this consumption is 26.9 million euros.
- ▶ Turnover per employee in the Estonian hospitality sector is 24,800 euros a year.
- ▶ Total employment in the Estonian hospitality sector attributable to spirits is thus 1,100 jobs.

Retail

The importance of the spirits sector for retail in terms of jobs can be similarly assessed:

- ▶ 174,800 hectolitres of spirits are sold by supermarkets and other retail companies. This is 95%.
- ▶ With an average consumer price of 7.6 euros per litre (incl. 18% VAT), total consumer spending on retail spirits is estimated at 132.7 million euros. Total consumer spending excluding VAT is thus 112.4 million euros.
- ▶ Because turnover per employee is estimated at 190,800 euros, this means approximately 600 people owe their jobs to the sale of retail spirits.

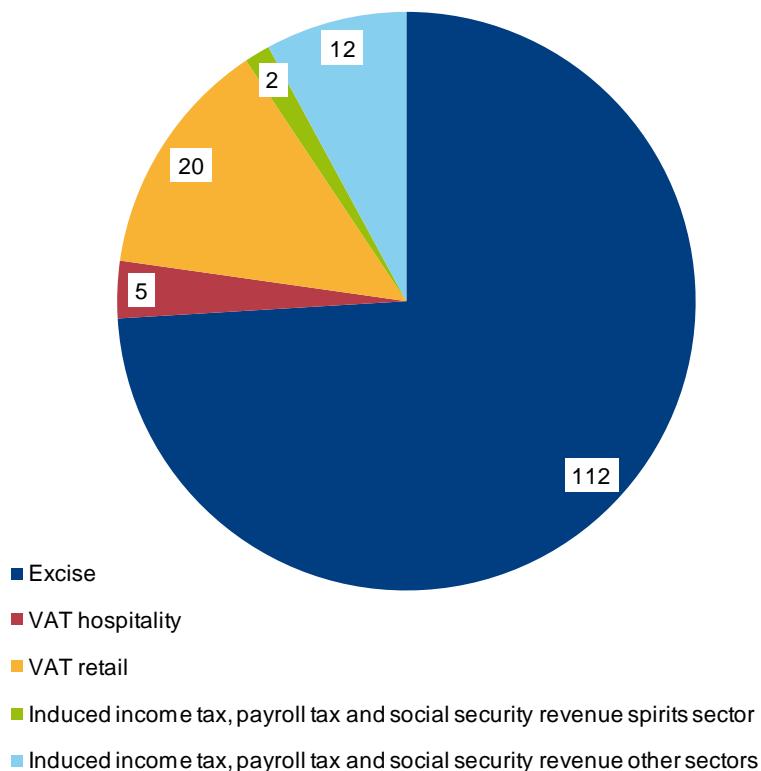


14.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 151 million euros:

- ▶ VAT revenues are estimated at 25 million euros. The main share of these VAT revenues is generated in the retail sector.
- ▶ The total of excise revenues on spirits is 112 million euros.⁵²
- ▶ Approximately 122 million euros in income-related taxes and contributions are paid due to spirits production and sales. They consist of 41 million euros in income tax, 1 million euros in social security contributions paid by employees and 79 million euros in social security contributions and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 151 million euros



Source: Ernst & Young calculation (2010) (See Annex III for an explanation of the methodology used).

⁵² Contrary to the rest of the figures in this chapter, the excise revenues figure does include revenues generated by RTD sales.



15Finland: Economic impact of spirits

15.1 Highlights of the economic impact

Key figures	
Production (in hl final product)	778,800
Exports (in hl final product)	410,100
Imports (in hl final product)	113,600
Domestic sales ⁵³ (in hl final product)	504,000
Production value of spirit drinks sector	€ 257 million
Consumer spending on spirit drinks	€ 774 million
Spirit distributing companies	209
Spirit producing companies	25
Economic impact	
Employment due to the production and sale of spirit drinks	5,700
Value-added due to the production and sale of spirit drinks	€ 256 million
Government revenues due to the production and sale of spirit drinks	€ 687 million

Sources key figures: estimates based on figures from Finnish Food and Drink Industries' Federation (ETL), Eurostat and IWSR. Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirit drinks sector on the Finnish economy is substantial:

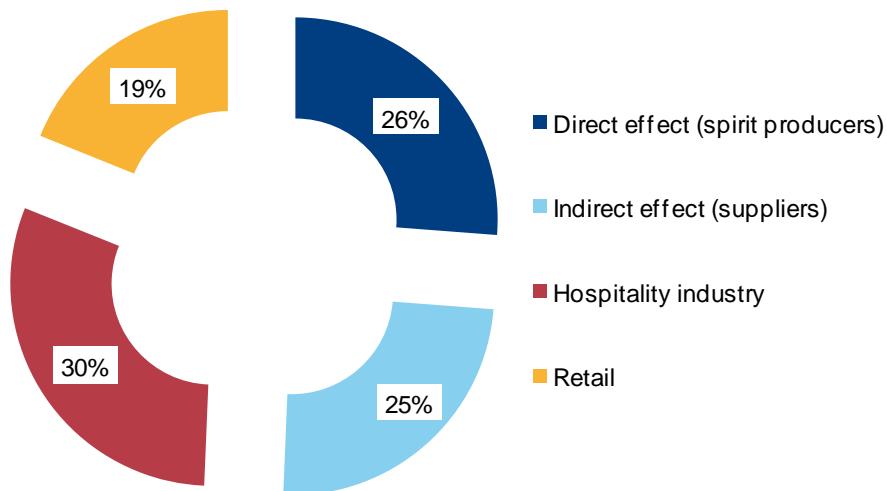
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 5,700 jobs, consisting of 1,500 jobs in the spirit drinks sector; 1,400 jobs in the supplying sectors; 1,700 jobs in the hospitality sector and 1,100 jobs in the retail sector.
- ▶ Together these employees generate 256 million euros of value-added. Of this value-added, 71 million euros are generated in the spirit drinks sector, 68 million euros in the supplying sectors, 60 million euros in the hospitality sector and 58 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 687 million euros.
- ▶ In 2009, consumers spent 774 million euros on spirit drinks. This spending generated considerable revenues for the government, namely 446 million euros in excise revenues and 139.6 million euros in VAT revenues.

⁵³ In Finland the consumption volume of spirits is probably higher than the volume of spirits sold due to cross border shopping from Estonia.



The employment impact of the spirits sector is shown in the figure below:

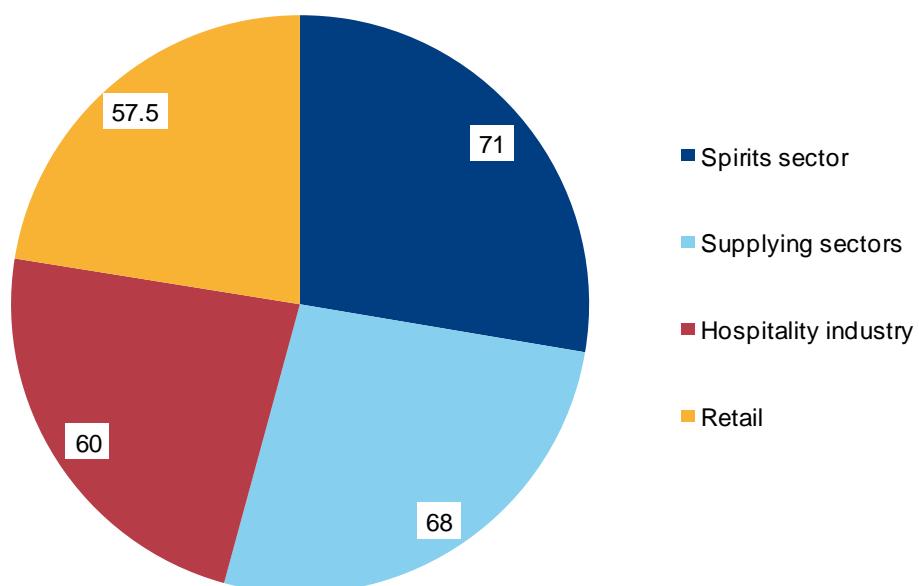
Total employment because of spirits: 5,700 jobs



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Finnish economy can also be expressed in terms of value-added. The total value added by these 5,700 jobs is estimated at 256 million euros.

**Value added due to the production and sale of spirits:
256 million euros**



Source: Ernst & Young calculation (2010)



The spirits sector share in overall value-added arising from the production and sale of spirits is 34%. This is higher than the share of direct employment in spirit-producing companies as a fraction of total employment due to spirit production and sales in Finland (26%). This means that productivity in the spirits sector, expressed in value-added per person employed is relatively high in comparison with other sectors.

15.2 Industry and market structure, trends and developments

In 2009, the Finnish producers of spirits produced approximately 778,800⁵⁴ hectolitres of spirits. The most popular type of spirit in Finland is a clear spirit drink like vodka with 38% alcohol, produced from Finnish barley. Initially this spirit drink was made from potatoes and grains by distillation, but nowadays the raw material is plain Finnish barley.

The consumption of spirits in Finland has grown from approximately 28 million litres in 2002 to nearly 35 million in 2007. Finns buy most of their spirit drinks off-trade. Affordability of alcohol increased by 50% or more in Finland and consumption rose⁵⁵ following reductions and lighter controls on the import of alcohol for personal use, and the opportunities for cross-border purchasing.⁵⁶ Official consumption of alcohol is currently declining. The relatively high taxes on alcohol in Finland might be an important cause for this. The following table shows the quantity of spirits produced, consumed, exported and imported.

Type of spirits	Production	Consumption	Exports	Imports
Whisk(e)y	2,539 hl	21,350 hl	1,595 hl	21,352 hl
Vodka	435,116 hl	178,332 hl	263,547 hl	9,594 hl
Other white spirits	63,940 hl	28,901 hl	50,413 hl	13,508 hl
Brandy	5,044 hl	31,741 hl	1,888 hl	31,407 hl
Flavoured spirits	31,023 hl	46,313 hl	7,937 hl	20,878 hl
Under 15% alcohol	228,946 hl	187,780 hl	83,086 hl	16,036 hl
Other spirits	12,198 hl	9,566 hl	1,645 hl	794 hl
Total spirits	778,797 hl	503,983 hl	410,111 hl	113,569 hl

We estimate that 504,000 hectolitres of final spirit drinks are consumed in Finland. However for Finland this is considered as the volume of sales in Finland, as many Finnish people buy their spirits from neighbouring countries like Estonia. In Finland there is also a black market for alcohol products from foreign countries.

The alcoholic drinks market in Finland is highly regulated. In 2008 and 2009, the taxes on alcohol beverages were raised. The excise duty per hectolitre increased from 2,825 euros in 2005 to 3,940 euros in 2010. This is a tax growth of nearly 40%. Excise in Finland is one of the highest in the European Union.

15.3 Direct effect of the spirits sector

The direct economic impact of the spirits sector covers approximately 1,500 employees who together produce spirits representing a value of 256.8 million euros. Another direct effect of the spirits sector concerns taxes and excises paid by spirits producers and consumers. In 2009, excises reached 446 million euros and the total value added tax (VAT) income for the Finnish government was estimated at 139.6 million euros. Income taxes and social security contributions paid by employees of the spirit drinks sector add up to another 19 million euros.

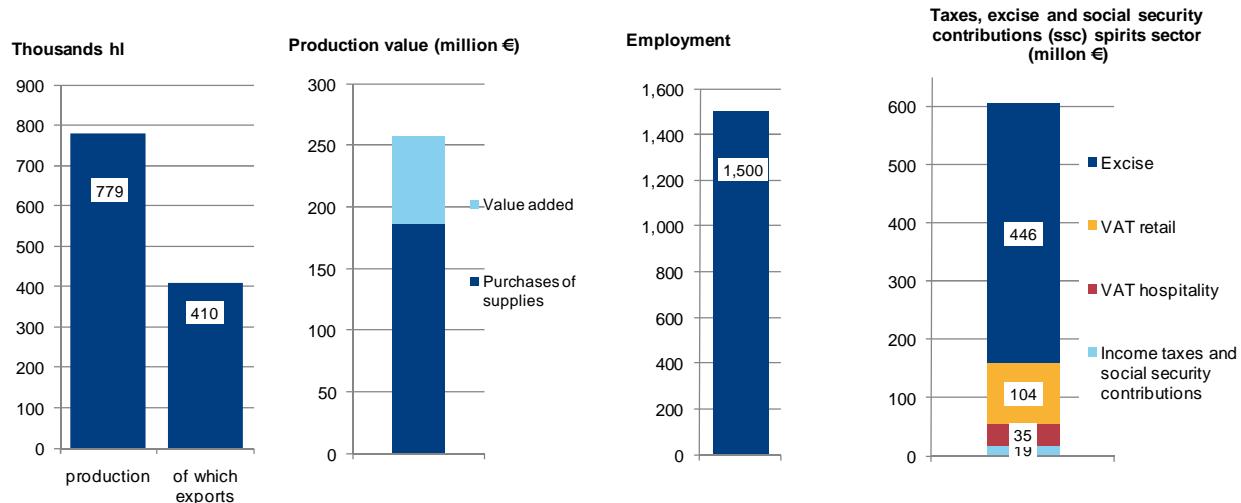
⁵⁴ Ernst & Young questionnaires 2010.

⁵⁵ Rabinovich, Brutscher, De Vries et.al. (2009). The affordability of alcohol beverages in the European Union. Understanding the link between alcohol affordability, consumption and harms.

⁵⁶ Rabinovich, Brutscher, De Vries et.al. (2009). The affordability of alcohol beverages in the European Union. Understanding the link between alcohol affordability, consumption and harms.



Approximately 28% of total production value (257 millions) stays within these firms as value-added (71 million euros). Value-added equals total reward for production factors used: labour costs, interest paid and profits made.



Source: Ernst & Young calculation (2010)

15.4 Economic impact of spirits producers on goods and services suppliers

With 28% of the value of the output produced staying within the firm as value-added, the other 72% of the 256.8 million euros of total production value accrues to a number of suppliers. This stimulus of 186 million euros has a significant economic impact on sectors outside the spirit drinks sector.

As we have not received information on purchases per individual sector, we cannot estimate the indirect effect per supplying sector. However we can estimate the total indirect effect. Assuming that 80 percent of the stimulus of 186 million stays within the country this means that about 149 million euros accrue to the Finnish suppliers. Taking into account the average turnover per employee in the supplying sectors (€ 263,000), we can estimate the indirect employment effect at 900 jobs. With additional info received from the Finnish Food and Drinks Industries Federation, we assume that the indirect effect is 1,400 jobs.

15.5 Retail and hospitality sectors

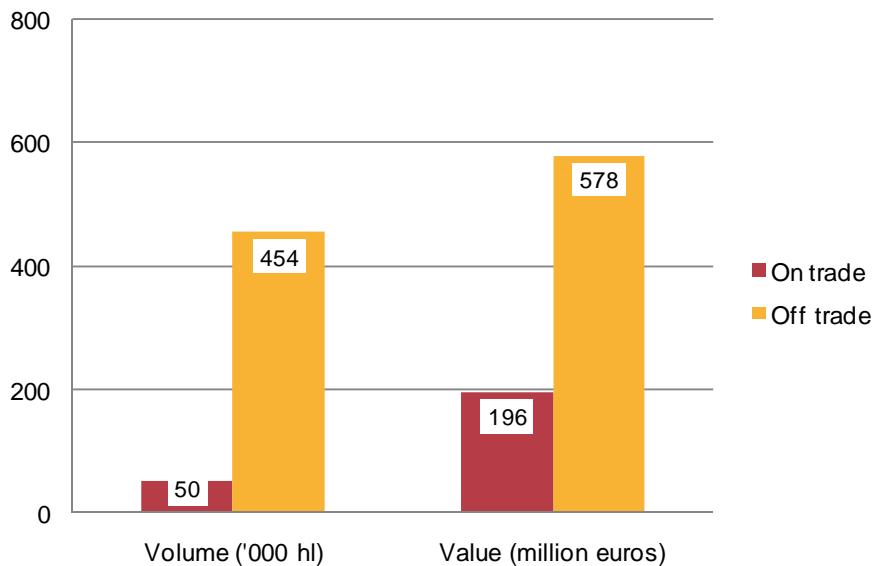
About 504,000 hectolitres of spirit drinks were consumed in Finland in 2009. It is estimated that about 90% of this total volume is purchased in Alko shops⁵⁷, referred to as the 'off-trade'. The remaining 10% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of Finnish spirit drinks consumption is estimated at approximately 774 million euros (including VAT and excises). Although the hospitality sector is responsible for only 10% of sales in volume, it is responsible for approximately 25% of the sales in value.

⁵⁷ Supermarkets with an alcoholic beverage retailing monopoly.



Volume and value



Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ About 10% of all spirits consumed in Finland is sold by the hospitality sector (on-trade), which means almost 50,400 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in Finnish pubs and restaurants is estimated at 38.8 euros⁵⁸ a litre (including 22% VAT), so that total consumer spending on spirits in the hospitality sector is 196 million euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 160.4 million euros (using a 22% VAT tariff).
- ▶ With an average hospitality turnover of 92,200 euros (excluding VAT) per person, this results in 1,700 hospitality sector jobs attributable to spirits sales.

Retail

The importance of spirits for retail can be similarly assessed:

- ▶ Approximately 90% of total spirits consumption (453,600 hectolitres) in Finland is sold by Alko shops (monopoly shops). Alcohol products, which are over 4.7% of alcohol, are sold only in Alko shops.
- ▶ With an average consumer price of 12.8 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 578 million euros. Total consumer spending excluding VAT is thus 474 million euros.
- ▶ With turnover per employee estimated at 410,500 euros (excluding VAT), this means 1,100 people owe their jobs to retail spirits sales.

⁵⁸ Because a relatively large part of the spirit drinks sales in Finland consist of RTD's, the average consumer prices per liter in Finnish hospitality and retail are relatively low compared to the other Scandinavian countries.

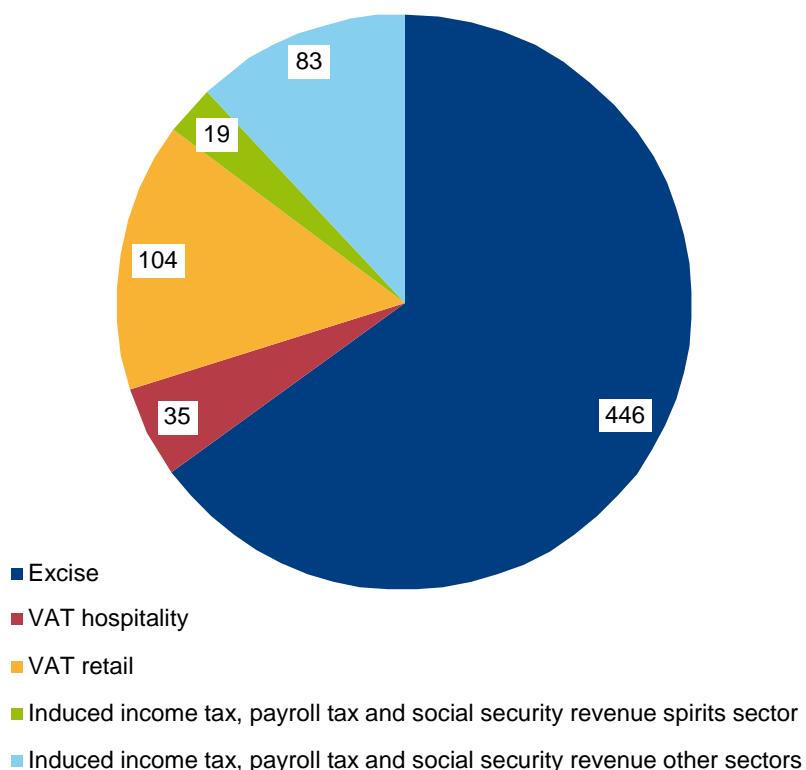


15.6 Government revenues

The revenues of excise, VAT and income-related contributions due to spirit production and sales are estimated at 687 million euros:

- ▶ VAT revenues are estimated at 140 million euros. The main share of these VAT revenues is generated in the retail sector.
- ▶ The total in excise revenues on spirits is 446 million euros.
- ▶ Income-related revenues due to spirit production and sales are approximately 101 million euros. They consist of 44 million euros in income tax, 12 million euros in social security contributions paid by employees and some 44 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 687 million euros



Source: Ernst & Young calculation (2010)



16France: Economic impact of spirits

16.1 Highlights of the economic impact

Key figures	
Production (in hl final product)	6,029,600
Exports (in hl final product)	3,812,300
Imports (in hl final product)	1,502,700
Domestic sales (in hl final product)	3,720,000
Production value of spirit drinks sector	€ 4.2 billion
Consumer spending on spirit drinks	€ 7.9 billion
Spirit distributing and producing companies	1,000
Economic impact	
Employment due to the production and sale of spirit drinks	74,000 employees
Value-added due to the production and sale of spirit drinks	€ 3.9 billion
Government revenues due to the production and sale of spirit drinks	€ 4.8 billion

Sources key figures: estimates based on figures from Fédération Française des Spiritueux (FFS), Eurostat and IWSR. Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

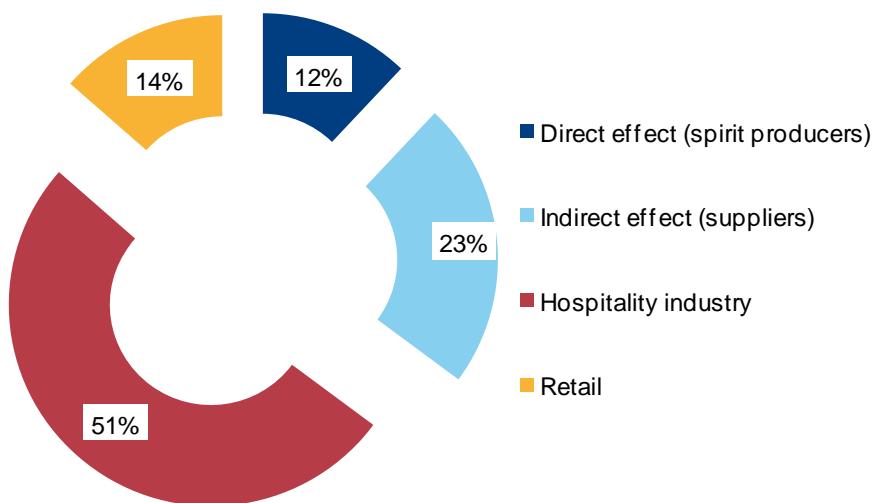
The most important characteristics of the French spirits market are:

- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 74,000 jobs, consisting of 8,900 jobs in the spirit drinks sector; 17,100 jobs in the supplying sectors; 38,000 jobs in the hospitality sector and 10,000 jobs in the retail sector
- ▶ Together these employees generate 3.9 billion euros of value-added. Of this value-added, 1.2 billion euros are generated in the spirit drinks sector, 1.1 billion euros in the supplying sectors, 1.2 billion euros in the hospitality sector and 477 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 4.8 billion euros.
- ▶ In 2009, consumers spent 7.9 billion euros on spirit drinks. This spending generated considerable revenues for the government, namely 2 billion euros in excise revenues and 1.3 billion euros in VAT revenues.



The employment impact of the spirits sector is shown in the figure below:

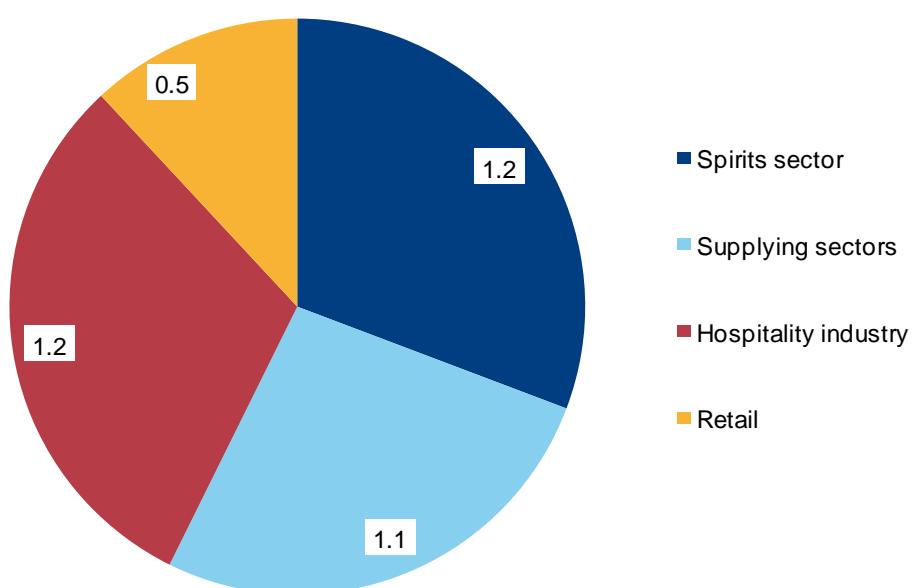
Total employment because of spirits: 74,000 jobs



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the French economy can also be expressed in terms of value-added. The total value-added generated by these 74,000 jobs is estimated at 3.9 billion euros.

**Value added due to the production and sale of spirits:
3.9 billion euros**



Source: Ernst & Young calculation (2009)



The share of the spirits sector in the overall value-added arising from the production and sale of spirits is 31%, which is more than the share of the spirits drinks sector in total employment due to spirits (12%). An important explanation for this is the high productivity of employees in the spirits sector.

16.2 Industry and market structure, trends and developments

France is traditionally a wine-drinking country. However the consumption of wine has been decreasing since 1963. The consumption of spirits has been fairly stable. The most popular type of spirit in terms of volume consumed is whisk(e)y. The other category spirits include Anisés, rum, bitters, Calvados, fruit spirits, fruit marc spirits, punches and cocktails.

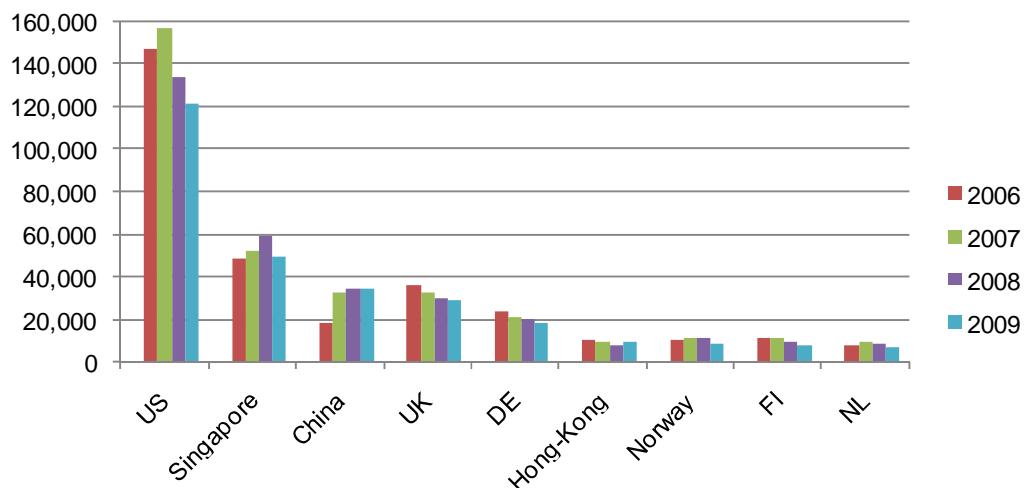
In terms of production cognac is the most important type of spirit in France. In 2009, cognac distillers in France produced 1.6 million hectolitres of Cognac. Of the total production volume of Cognac, Armagnac and other French brandies (2.6 million hectolitres), some 1.7 million hectolitres were exported. The table below shows the production and consumption of spirit drinks by category.

Type of spirits	Production	Consumption
Whisk(e)y	2,673 hl	1,415,000 hl
Vodka	640,635 hl	210,000 hl
Other white spirits	51,940 hl	240,000 hl
Brandy	2,564,984 hl	40,000 hl
Flavoured spirits	727,021 hl	375,000 hl
Other spirits	2,042,321 hl	1,440,000 hl
Total spirits	6,029,574 hl	3,720,000 hl

Source: Questionnaire among national associations of spirit producers, 2010.

The next graph shows the main importers of cognac from France. Most produced cognac is destined for export. The main cognac importers are the United States, Singapore and China.

Export of cognac in Hlpa by country



Source: Bureau National Interprofessionnel du Cognac (BNIC)

In France, legislation on advertising alcoholic drinks has had a significant impact on the market. The Evin law, which came into effect in January 1991, prohibited advertising alcohol of over 1.2% ABV on television, cinema, in books aimed at children etc. Non-creative advertising of alcohol is permitted in the press and on billboards, although with the stipulation that the advertisement must carry a message.



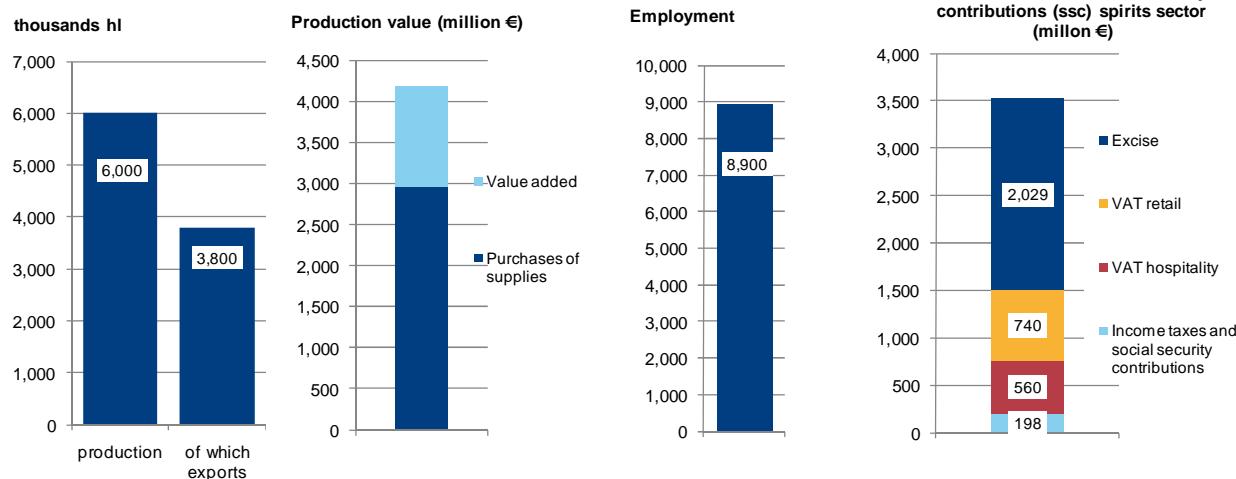
warning consumers of the dangers to health from alcohol abuse. The 'loi Evin' also prohibits sponsorship of events by alcohol producers as well as advertising on the radio when children are likely to be listening.

In France the excise on spirits is € 1,512.96 per hectolitre of alcohol. Since 2008, the excise rate has been linked to inflation. A special excise on RTDs has also been introduced in France. Other regulatory developments are a ban on open bars, a restriction on selling alcohol in petrol stations and the harmonisation of an age limit for every alcohol beverage at 18 years.

In France a kind of social security contribution or special tax is paid on spirits over 25 % vol. (0.16 €/dl pure alcohol). In 2009, this tax contribution brought in more than 486.7 million euros for the French government. This amount included the special tax levied on wine, fermented drinks and beer.

16.3 Direct effect of the spirits sector

The direct economic impact of spirits covers about 8,900 employees who together produce spirits worth over 4.2 billion euros; consequently there is a significant direct economic benefit from spirits for the French economy.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirits sector concerns taxes and excises paid by spirits producers and consumers. Excise revenues accounted for some 2 billion euros and total VAT income for the French government was estimated at 1.3 billion euros. Employees and employers in the spirits sector paid 198.3 million euros in income taxes, social security contributions and payroll taxes.



16.4 Economic impact of spirits producers on goods and services suppliers

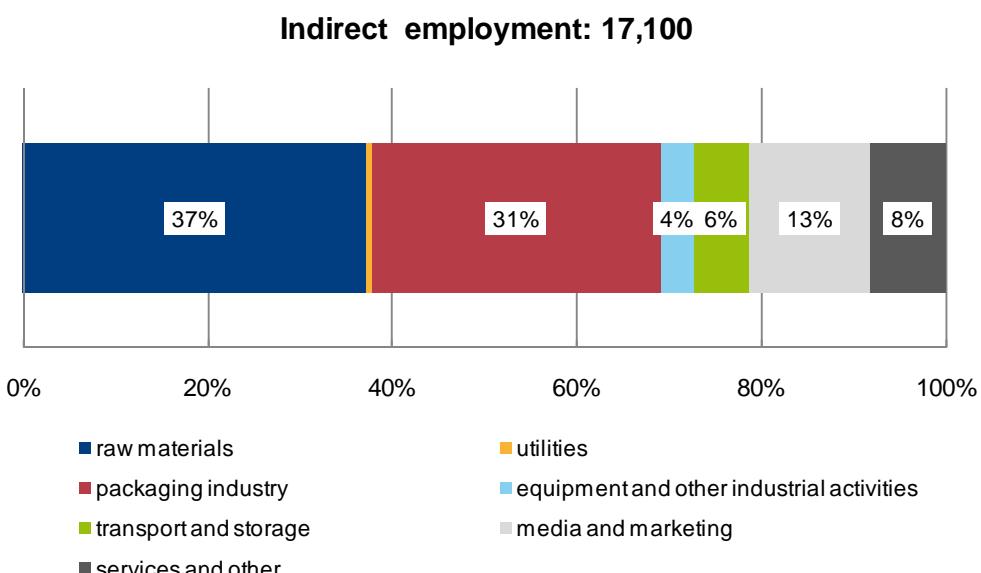
With 29% of the value of the output produced staying within the firms as value-added, the other 71% of 4.2 billion euros in total turnover accrues to a number of suppliers. This stimulus of 3.0 billion euros has a significant economic impact on sectors outside the spirits sector, most substantially on the services sector:

Sectors	Stimulus	Stimulus for France		Turnover per employee	Number of employees
	(million €)	%	(million €)	(in €)	
Raw materials	1,186	95	1,122	272,300	4,119
Utilities	34	99	34	493,200	69
Packaging industry	1,121	85	949	272,300	3,483
Equipment	115	97	111	272,300	409
Transport	105	95	99	150,500	659
Media, marketing	264	74	196	134,500	1,457
Services	131	95	124	134,500	921
Total	2,956	-	2,635	-	11,116
First-round impact as % of total impact					65%
Total indirect effect of spirits sector					17,102

Source: Ernst & Young Questionnaire among spirits producers (2010); Eurostat (2007)

A significant share of indirect employment generated by the French spirits sector occurs within the packaging industry and suppliers of raw materials. The total first-round employment effect of the spirits sector on supplying sectors is approximately 11,100 employees. As this primary effect can be estimated at about 65% of the total impact, the total impact will be about 17,100 jobs.

The indirect employment effects are illustrated in the graph below:



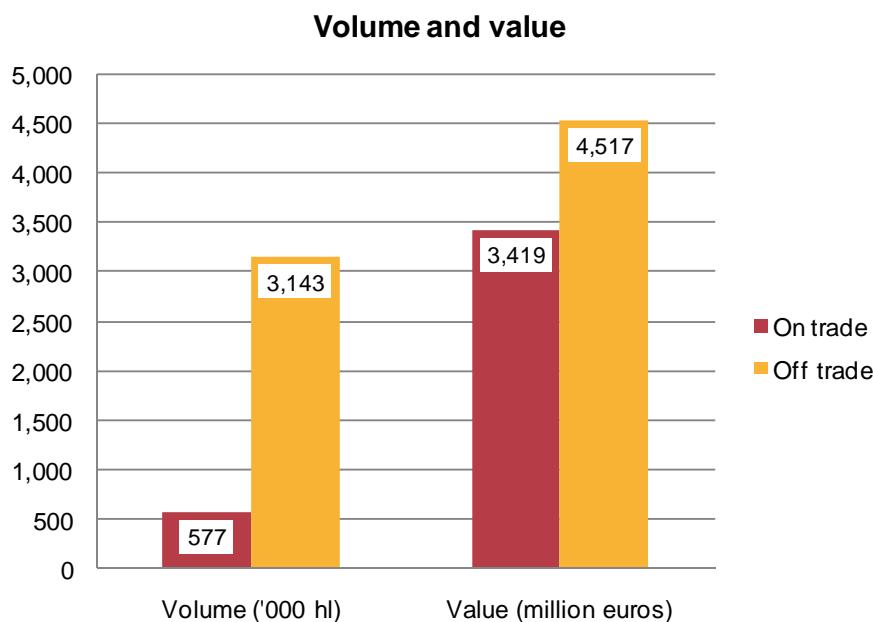
Source: Ernst & Young calculation (2010)



16.5 Retail and hospitality sectors

Approximately 3.7 million hectolitres of spirit drinks were consumed in France in 2009. It is estimated that about 15.5% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 84.5% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of spirit drinks consumption in France is estimated at approximately 7,936 million euros (including VAT and excises). Although the hospitality sector is responsible for only 15.5% of sales in volume, it is responsible for approximately 43% of the sales in value.



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ About 15.5% of all spirits consumed in France is sold by the hospitality sector (on-trade), which means almost 577,000 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in French pubs and restaurants is estimated at 59.30 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 3.4 billion euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 2.9 billion euros (using a 20% VAT tariff).
- ▶ With an average hospitality turnover of 75,300 euros (excluding VAT) per person, this results in 38,000 hospitality sector jobs attributable to spirits sales.



Retail

The importance of the spirits sector for retail can be similarly assessed:

- ▶ Approximately 84.5% of total spirits consumption (3.1 million hectolitres) in France is spirits sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 14.40 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 4.5 billion euros. Total consumer spending excluding VAT is thus 3.8 billion euros.
- ▶ With turnover per employee estimated at 376,200 euros (excluding VAT), this means 10,000 people owe their jobs to retail spirits sales.

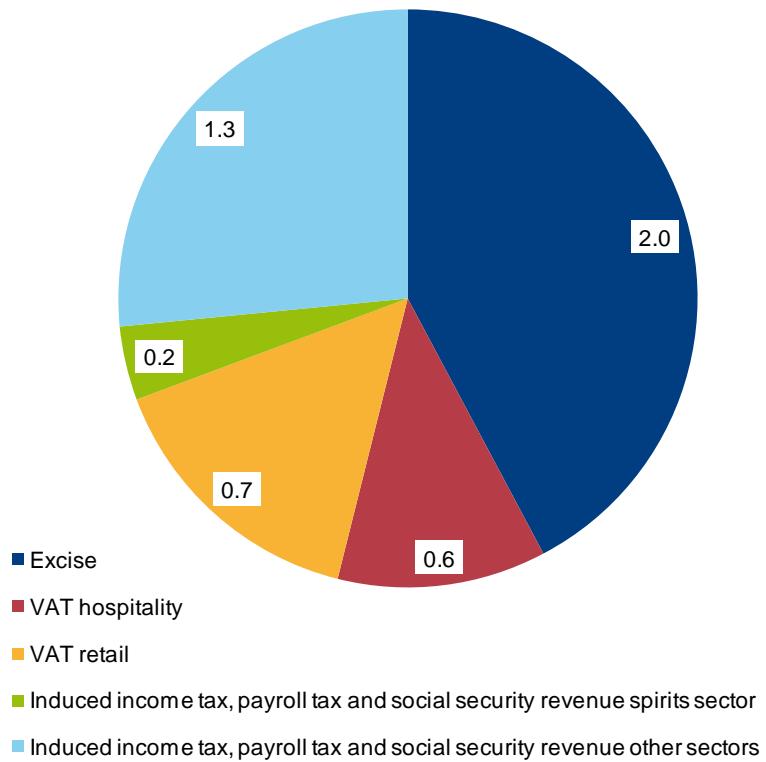
16.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 4.8 billion euros:

- ▶ VAT revenues are estimated at 1.3 billion euros.
- ▶ The total in excise revenues on spirits is 2 billion euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 1.5 billion euros. They consist of 360 million euros in income tax, 288 million euros in social security contributions paid by employees and 827 million euros in social security taxes and payroll taxes paid by employers.
- ▶ In France a type of social security contribution or special tax is paid on spirits over 25 % vol. (0.16 €/dl pure alcohol). In 2009, this tax contribution brought in more than 486.7 million euros for the French government. This amount included the special tax levied on wine, fermented drinks and beer. As the economic model for this study does not include all types of taxes, the amount of 486.7 million is not included in the following figure.



Government revenues due to the production and sale of spirits: 4.8 billion euros



Source: Ernst & Young calculation (2010)



17 Germany: Economic impact of spirits

17.1 Highlights of the economic impact

Key figures	
Production (in hl final product)	3,733,000
Exports (in hl final product)	1,487,000
Imports (in hl final product)	2,606,000
Domestic sales (in hl final product)	4,852,000
Production value of spirit drinks sector	€ 2.9 billion
Consumer spending on spirit drinks	€ 9.2 billion
Economic impact	
Employment due to the production and sale of spirit drinks	141,000 employees
Value-added due to the production and sale of spirit drinks	€ 3.9 billion
Government revenues due to the production and sale of spirit drinks	€ 6.2 billion

Sources key figures: estimates based on figures from German Federal Statistical Office; Eurostat and IWSR. Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

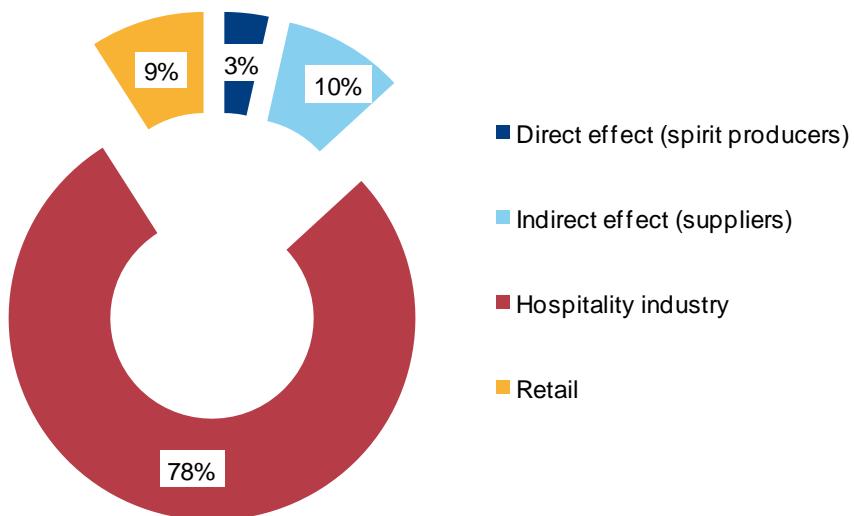
The most important characteristics of the German spirit market are:

- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 141,000 jobs, consisting of 5,000 jobs in the spirit drinks sector; 13,700 jobs in the supplying sectors; 110,000 jobs in the hospitality sector and 12,800 jobs in the retail sector
- ▶ Together these employees generate 3.9 billion euros of value-added. Of this value-added, 410 million euros are generated in the spirit drinks sector, 919 million euros in the supplying sectors, 2.0 billion euros in the hospitality sector and 563 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 6.2 billion euros.
- ▶ In 2009, consumers spent 9.2 billion euros on spirit drinks. This spending generated considerable revenues for the government, namely 2.1 billion euros in excise revenues and 1.5 billion euros in VAT revenues.



The employment impact of the spirits sector is shown below:

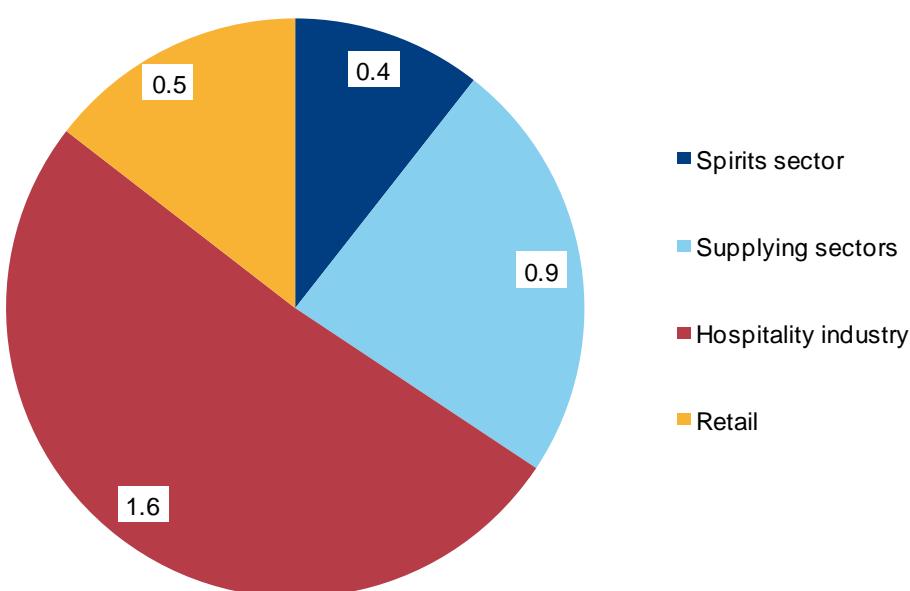
Total employment because of spirits: 141,000 jobs



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the German economy can also be expressed in terms of value-added. The total value-added generated by these 141,000 jobs is estimated at 3.9 billion euros.

**Value added due to the production and sale of spirits:
3.9 billion euros**



Source: Ernst & Young calculation (2010)



The spirits sector share in overall value-added arising from the production and sale of spirits is 11%, which is significantly higher than the spirits sector share in total employment arising from spirits (4%). A significant explanation for this is the high productivity of spirits sector employees.

17.2 Industry and market structure, trends and developments

In 2009, German spirit producers manufactured approximately 3,733,000 hectolitres of spirits. The most popular type of spirit in Germany is flavoured spirits (especially liqueurs). As shown in the table below, vodka, other white spirits (e.g. Korn/ Schnapps and rum) and brandy are also fairly popular in Germany.

Type of spirits	Production	Consumption per capita in litres	Exports	Imports
Whisk(e)y	63,000 hl	0.45 l	205,000 hl	512,000 hl
Vodka	511,000 hl	0.86 l	110,000 hl	300,000 hl
Other white spirits	1,018,000 hl	1.97 l	436,000 hl	1,025,000 hl
Brandy	414,000 hl	0.64 l	82,000 hl	189,000 hl
Flavoured spirits	1,497,000 hl	1.69 l	558,000 hl	441,000 hl
Under 15% alcohol	103,000 hl	- l	- hl	- hl
Other spirits	129,000 hl	0.21 l	96,000 hl	138,000 hl
Total spirits	3,733,000 hl	5.82 l	1,487,000 hl	2,605,000 hl

Source: German Federal Statistical Office

From 1992 there has been a decline in the total supply of spirits in Germany. At the beginning of the 21st century the market recovered slightly. However, in the period 2002-2009, the market decreased again (by 100 million bottles).⁵⁹ 68 percent of households buy spirits at least once a year. The export of spirits increased in the same period by the same amount as the total offer of spirits in Germany decreased: 100 million bottles.⁶⁰

The total number of companies and employees in Germany producing spirits has been declining for decades. In 2009, there were eleven percent fewer employees and seven percent fewer spirit-producing companies in Germany compared to the previous year. The financial crisis is mentioned as a possible explanation for the decline in spirits sales.

There have been no excise increases in Germany in the past five years. The excise rate has remained stable at 1,303 euros per hectolitre of pure alcohol. In 2007, the VAT rate was raised from 16 to 19 percent.

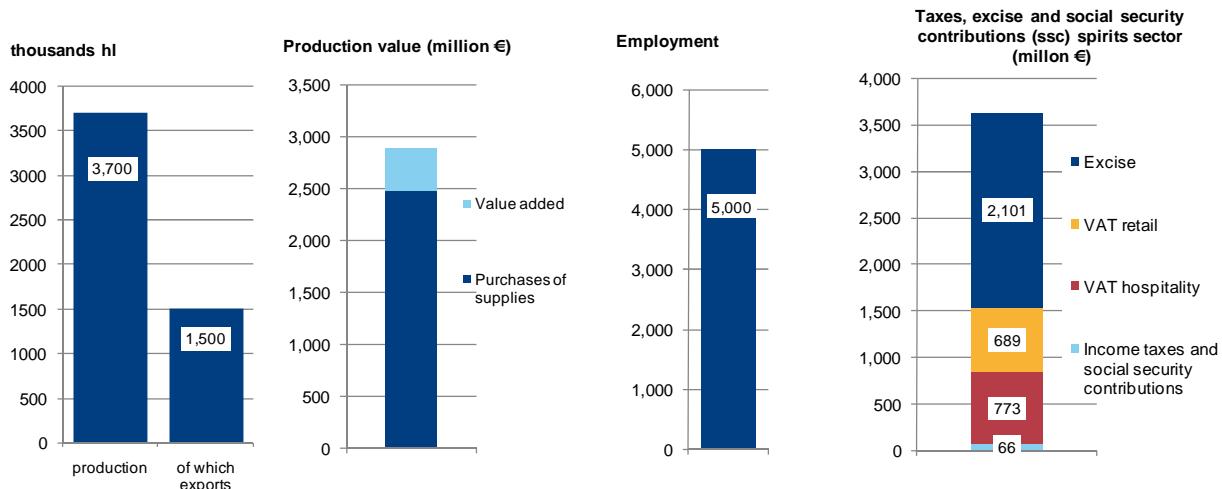
⁵⁹ Source: <http://www.bsi-bonn.de/> spirituosenbilanz.

⁶⁰ Source: <http://www.bsi-bonn.de/>.



17.3 Direct effect of the spirits sector

The direct economic impact of the spirit drinks sector covers about 5,000 employees⁶¹ who together produce spirit drinks representing a value of 2.9 billion euros.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirits sector concerns taxes and excises paid by spirit producers and consumers. Excises reached 2.1 billion euros and total VAT income for the German government was estimated at 1.5 billion euros. Personal income taxes and social security contributions paid by employees of the spirits sector amount to 66 million euros.

17.4 Economic impact of spirit producers on goods and services suppliers

With 14% of the value of the output produced staying within the firms as value-added, the other 86% of 2.9 billion euros in total turnover accrues to a number of suppliers. This stimulus of approximately 2.5 billion euros has a significant economic impact on sectors outside the spirits sector:

Sectors	Stimulus	Stimulus for Germany		Turnover per employee (in €)	Number of employees
	(million €)	%	(million €)		
Raw materials	386.37	54.63%	211.06	259,300	814
Utilities	69.66	100.00%	69.66	1,092,700	64
Packaging industry	1,926.57	100.00%	1,926.57	259,300	7,430
Equipment	58.76	100.00%	58.76	259,300	227
Transport	5.18	100.00%	5.18	155,000	33
Media, marketing	-	100.00%	-	94,900	0
Services	29.92	100.00%	29.92	94,900	315
Total	2,476.45	-	2301	-	8,833
First-round impact as % of total impact					65%
Total indirect effect of spirits sector					13,666

Source: Ernst & Young Questionnaire among spirit producers (2010); Eurostat (2007).

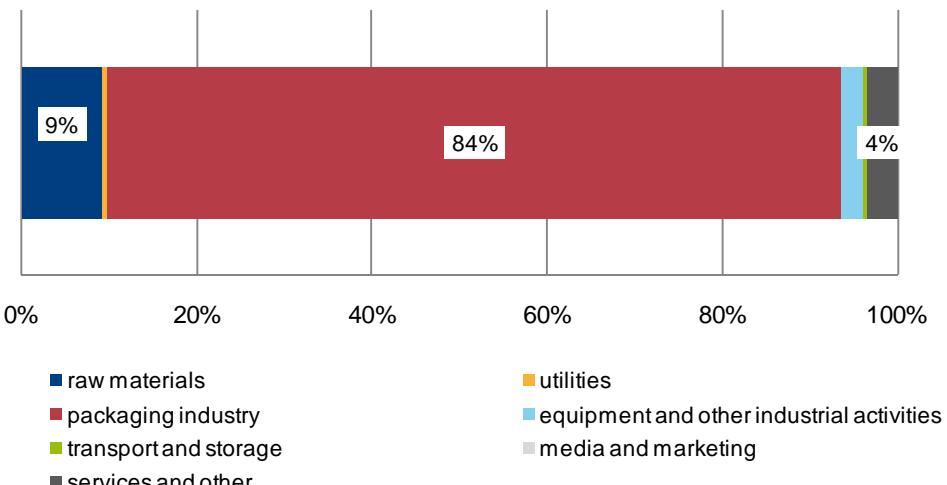
⁶¹ Source: Eurostat (2010).



Two-thirds of all the indirect employment generated by the spirits sector is created within the packaging sector. Other substantial effects can be observed in raw materials and the service sector. The total first-round employment effect of the spirits sector on supplying sectors is over 8,800 employees. As the suppliers of the sprits industry also purchase goods and services in other sectors themselves (second round effect), the total impact is even higher. Since the primary effect can be estimated at about 65% of the total impact, the total impact will be about 13,700 jobs.

Indirect employment effects are illustrated below:

Indirect employment: 13,700 jobs



Source: Ernst & Young calculation (2010)

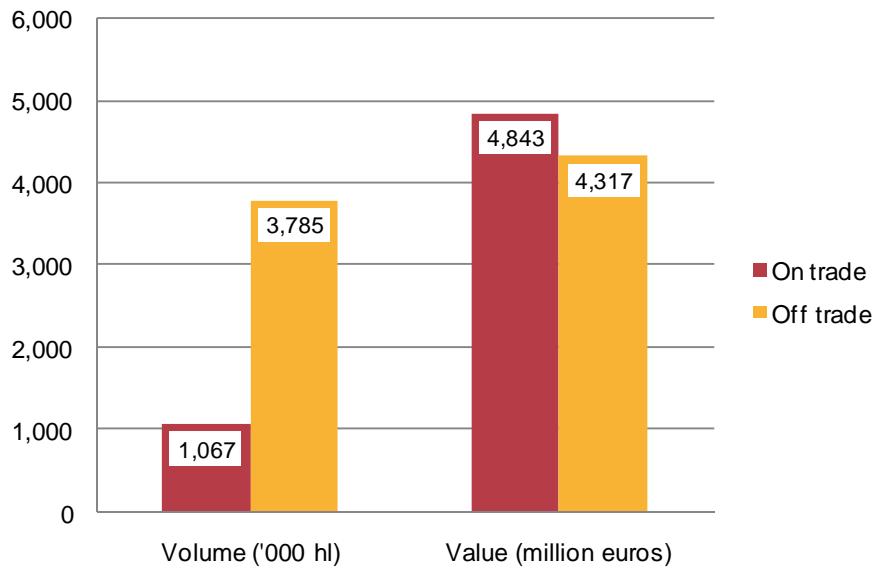
17.5 Retail and hospitality sectors

About 4.9 million hectolitres of spirit drinks were consumed in Germany in 2009. It is estimated that about 78% of this total volume was purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 22% was consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of spirit drinks consumption in Germany is estimated at approximately 9.1 billion euros (including VAT and excises). Although the hospitality sector is responsible for only 22% of sales in volume, it is responsible for approximately 47% of the sales in value.



Volume and value



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ About 22% of all spirits consumed in Germany is sold by the hospitality sector (on-trade), which means almost 1,067,000 hectolitres.
- ▶ The average consumer price of spirits in German pubs and restaurants is estimated at 45.4 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 4.8 billion euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 4.1 billion euros (using a 19% VAT tariff).
- ▶ With an average hospitality turnover of 37,000 euros (excluding VAT) per person, this results in 110,000 hospitality sector jobs attributable to spirits sales.

Retail

The importance of the spirits sector for retail can be similarly assessed:

- ▶ Approximately 78% of total spirits consumption (3.8 million hectolitres) in Germany is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 11.4 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 4.3 billion euros. Total consumer spending excluding VAT is thus 3.6 billion euros.
- ▶ With turnover per employee estimated at 283,000 euros (excluding VAT), this means 13,000 people owe their jobs to retail spirits sales.

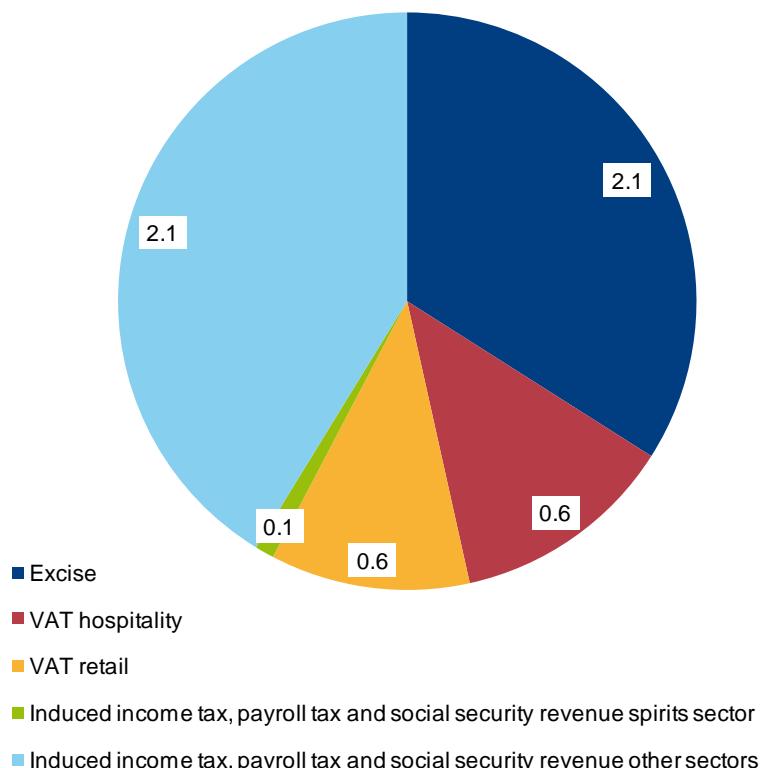


17.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 6.2 billion euros:

- ▶ VAT revenues are estimated at 1.5 billion euros. The main share of these VAT revenues is generated in the retail sector.
- ▶ Total excise revenues on spirits are 2.1 billion euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 2.6 billion euros. They consist of 871 million euros in income tax, 871 million euros in social security contributions paid by employees and 871 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 6.2 billion euros



Source: Ernst & Young calculation (2010)



18Greece: Economic impact of spirits

18.1 Highlights of the economic impact

Key figures ⁶²	
Production (in hl final product)	593,100
Exports (in hl final product)	392,800
Imports (in hl final product)	640,200
Domestic sales (in hl final product)	727,700
Production value of spirit drinks sector	€ 97.1 million
Consumer spending on spirit drinks	€ 1.7 billion
Spirits distributing companies	110 ⁶³
Spirits producing companies	280
Economic impact	
Employment due to the production and sale of spirit drinks	31,900 employees
Value-added due to the production and sale of spirit drinks	€ 476 million
Government revenues due to the production and sale of spirit drinks	€ 963 million

Sources key figures: estimates based on figures from Federation of Greek Distillates and Spirits (SEAOP), Eurostat and IWSR. Economic impact figures are based on E&Y calculations (See Annex III for an explanation of the methodology used).

The main characteristics of the Greek spirits market are:

- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 31,900 jobs, consisting of 2,000 jobs in the spirit drinks sector; 600 jobs in the supplying sectors; 26,100 jobs in the hospitality sector and 3,200 jobs in the retail sector
- ▶ Together these employees generate 476 million euros of value-added. Of this value-added, 36 million euros are generated in the spirit drinks sector, 23 million euros in the supplying sectors, 337 million euros in the hospitality sector and 80 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 963 million euros.
- ▶ In 2009, consumers spent 1.7 billion euros on spirit drinks. This spending included considerable revenues for the government, namely 289 million euros in excise revenues and 299.6 million euros in VAT revenues.

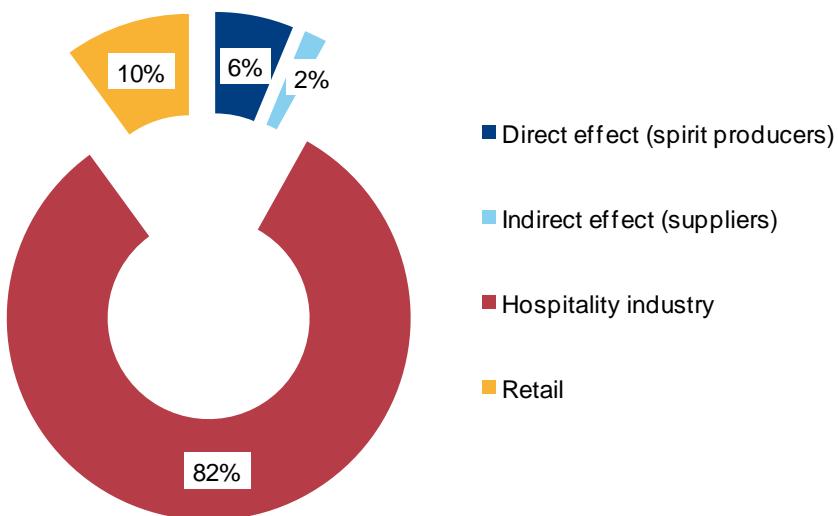
⁶² The key figures refer to the year 2009. At the moment of publication of this report (December 2010), there are no data available on the effects of the Greek debt crisis in the beginning of 2010 on the spirit drinks sector.

⁶³ 10 large companies and 100 small companies



The employment impact of the spirits sector is shown below:

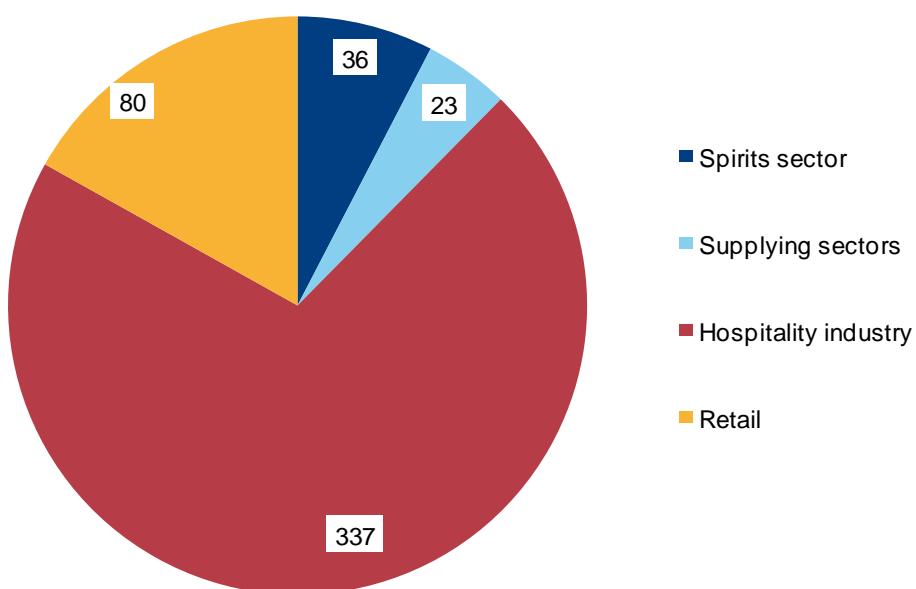
Total employment because of spirits: 31,900 jobs



Source: Ernst & Young calculation (2009) (see Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Greek economy can also be expressed in terms of value-added. The total value-added generated by these 31,900 jobs is estimated at 476 million euros.

**Value added due to the production and sale of spirits:
476 million euros**



Source: Ernst & Young calculation (2010)



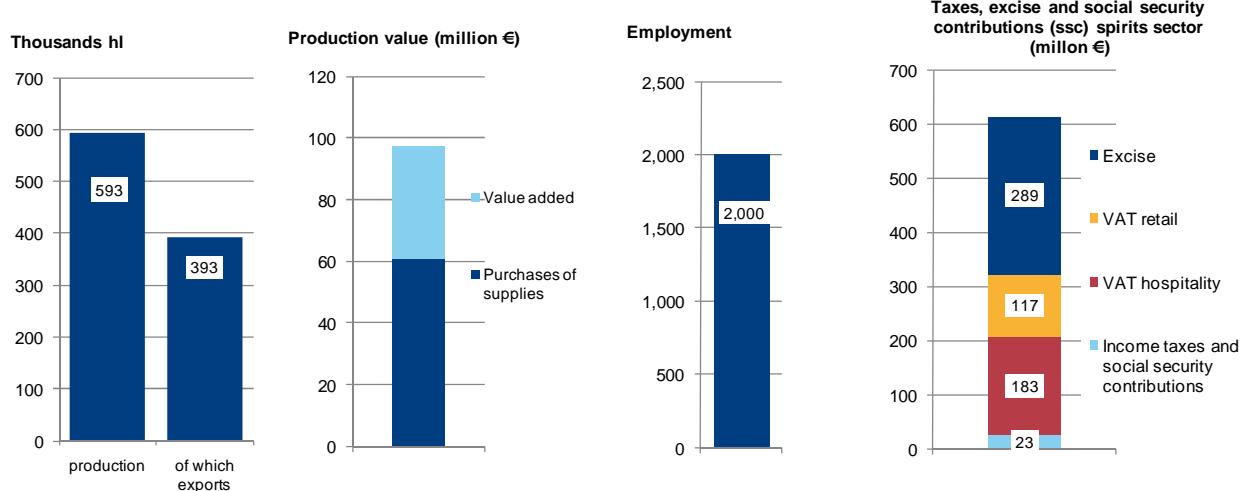
18.2 Industry and market structure, trends and developments

People in Greece drink approximately 6 litres of spirits per capita per year. Despite the economic downturn, the trend towards a higher market share of premium spirits seen in earlier years remained during 2009. Although the trend for premium whisk(e)y slowed down -premium whisk(e)y, still performed better than standard whisk(e)y-, premium and super-premium vodka, rum and gin displayed important growth. However, it is important to note that these figures refer to the 2009. In the beginning of 2010 it became clear that Greek government finances were even worse than appeared in 2009, resulting in the EU/ IMF bailout package and a major depression. At the moment there are no data available on the effects of this at the spirits industry.

Over the past five years, excise rates on spirits in Greece increased by 73 percent from 908 euros per hectolitre of pure alcohol to 1,570 euros per hectolitre of pure alcohol.

18.3 Direct effect of the spirits sector

The direct spirits sector economic impact covers more than 2,000 employees who together produce spirits worth 97 million euros.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirits sector concerns taxes and excises paid by spirits producers and consumers. Excises account for 289 million euros and total VAT income for the Greek government was estimated at 300 million euros. Direct taxes and social security contributions (SSC) paid by employees in the spirits sector are 23 million euros.

The Greek spirits producers together achieved an estimated 97 million euros in turnover. About 37% of total turnover stays within these firms as value-added (36 million euros). Value-added equals total reward for production factors used: labour costs, interest paid and profits made.

18.4 Economic impact of spirits producers on goods and services suppliers

With 37% of the value of the output produced staying within the firms as value-added, the other 63% of 97 million euros in total turnover accrues to a number of suppliers. This stimulus of 61 million euros has a significant economic impact on sectors outside the spirits sector, most substantially on raw materials and the packaging industry.

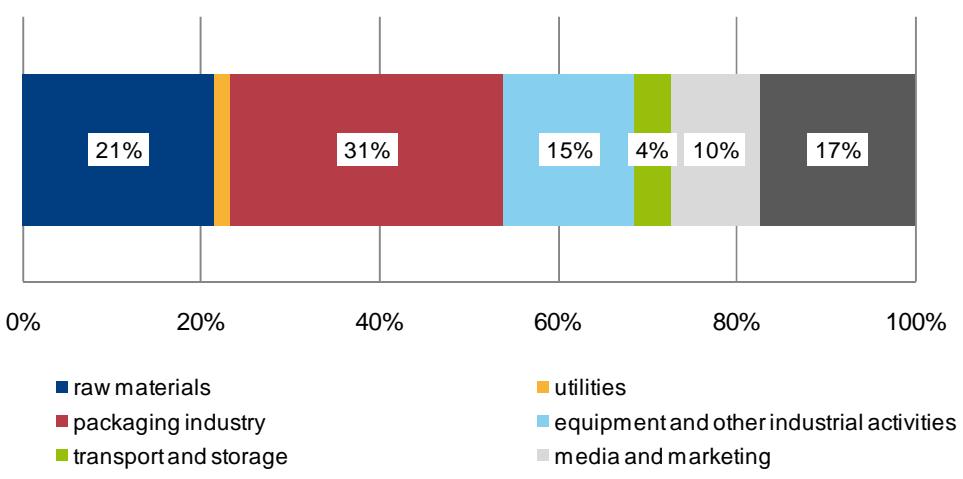


Sectors	Stimulus	Stimulus for Greece		Turnover per employee	Number of employees
	(million €)	%	(million €)	(in €)	
Raw materials	17.38	67.6	11.74	€ 146,000	80
Utilities	1.52	100.0	1.52	€ 240,000	6
Packaging industry	20.65	81.9	16.91	€ 146,000	116
Equipment	9.54	83.6	7.98	€ 146,000	55
Transport	1.60	94.0	1.51	€ 96,700	16
Media, marketing	2.48	100.0	2.48	€ 66,500	37
Services	7.73	56.4	4.36	€ 66,500	66
Total	60.90	-	46	-	376
First-round impact as % of total impact					65%
Total indirect effect of spirits sector					578

Source: Ernst & Young calculation, (2010); Eurostat (2007)

Other substantial effects can be observed for equipment, media and marketing and for transport and services. The total first-round employment effect of the spirits sector on supplying sectors is approximately 400 employees. As this primary effect can be estimated at about 65% of the total impact, the total impact will be about 600 jobs. Indirect employment effects are illustrated below:

Indirect employment: 600 jobs



Source: Ernst & Young calculation (2010)

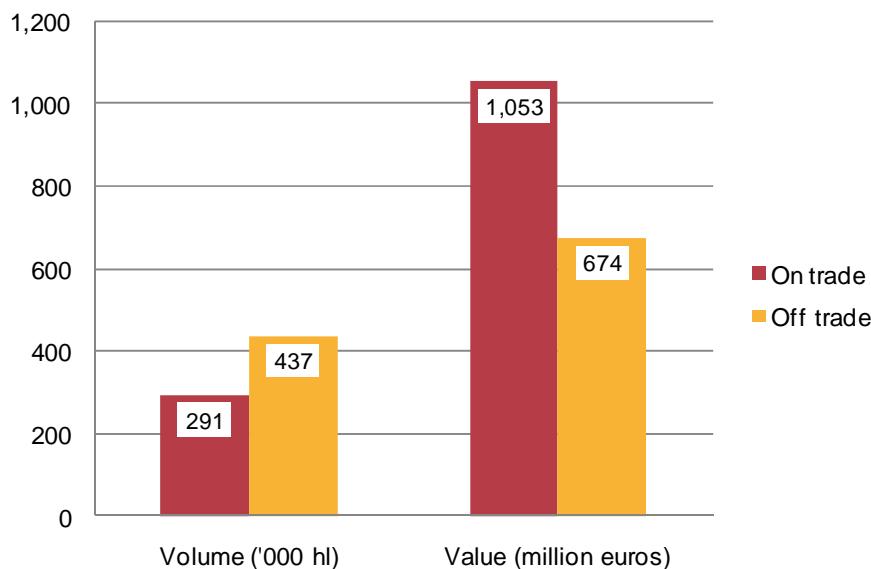


18.5 Retail and hospitality sectors

About 727,700 hectolitres of spirit drinks were consumed in Greece in 2009. It is estimated that about 40% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 60% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of Greek spirit drinks consumption is estimated at approximately 1,726 million euros (including VAT and excises). Although the hospitality sector is responsible for only 40% of sales in volume, it is responsible for approximately 61% of the sales in value.

Volume and value



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ About 40% of all spirits consumed in Greece is sold by the hospitality sector (on-trade), which means almost 291,000 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in Greek pubs and restaurants is estimated at 36.2 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 1.1 billion euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 0.9 billion euros (using a 21% VAT tariff).
- ▶ With an average hospitality turnover of 33,300 euros (excluding VAT) per person, this results in 26,100 hospitality sector jobs attributable to spirits sales.



Retail

The importance of the spirits sector for retail can be similarly assessed:

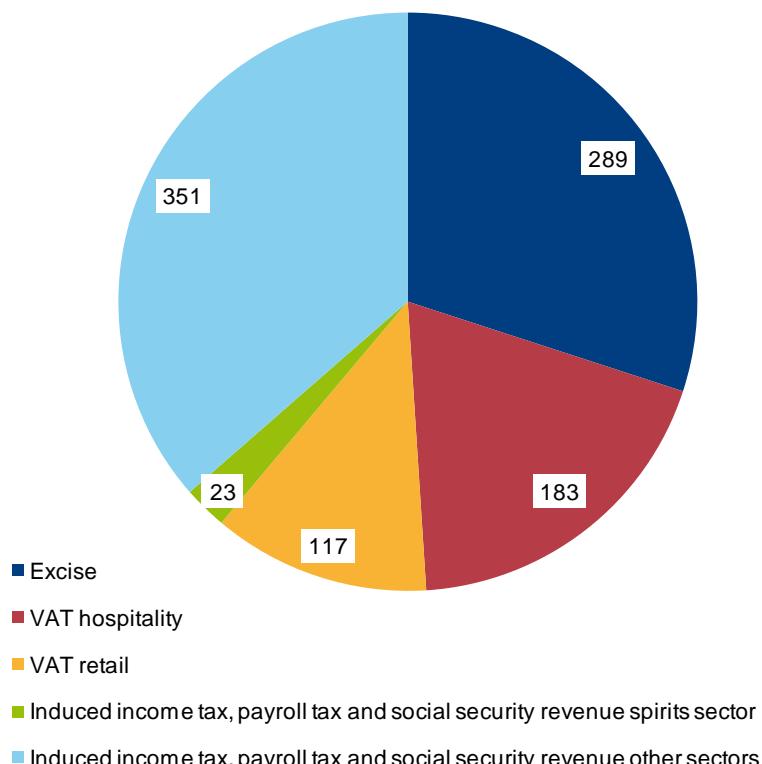
- ▶ Approximately 60% of total spirits consumption (437,000 hectolitres) in Greece is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 15.40 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 674 million euros. Total consumer spending excluding VAT is thus 557 million euros.
- ▶ With turnover per employee estimated at 173,900 euros (excluding VAT), this means 3,200 people owe their jobs to retail spirits sales.

18.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 931 million euros:

- ▶ VAT revenues are estimated at 300 million euros. The main share of these VAT revenues is generated in the hospitality sector.
- ▶ Total excise revenues on spirits is 289 million euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 374 million euros. They consist of 73 million euros in income tax, 137 million euros in social security contributions paid by employees and 165 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 963 million euros



Source: Ernst & Young calculation (2010)



19Hungary: Economic impact of spirits

19.1 Highlights of the economic impact

Key figures ⁶⁴	
Production (in hl final product)	493,800
Exports (in hl final product)	17,000
Imports (in hl final product)	106,700
Domestic sales (in hl final product)	583,400
Production value of spirit drinks sector	€ 269 million
Consumer spending on spirit drinks	€ 769 million
Spirits distributing companies	700
Spirits producing companies	500
Economic impact	
Employment due to the production and sale of spirit drinks	21,100 employees
Value-added due to the production and sale of spirit drinks	€ 251 million
Government revenues due to the production and sale of spirit drinks	€ 441 million

Sources key figures: estimates based on figures from Hungarian Spirits Association (Magyar Szeszipari Szövetség és Terméktanács, HSA), Eurostat, IWSR and EC (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirits sector can be expressed as follows:

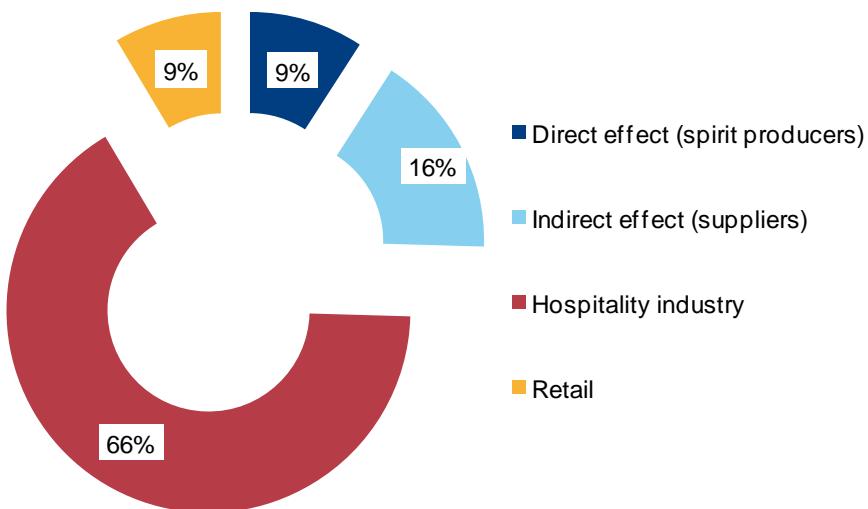
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 21,100 jobs, consisting of 1,900 jobs in the spirit drinks sector; 3,500 jobs in the supplying sectors; 13,900 jobs in the hospitality sector and 1,800 jobs in the retail sector
- ▶ Together these employees generate 251 million euros of value-added. Of this value-added, 76 million euros are generated in the spirit drinks sector, 55 million euros in the supplying sectors, 82 million euros in the hospitality sector and 28 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 441 million euros.
- ▶ In 2009, consumers spent 769 million euros on spirit drinks. This spending included considerable revenues for the government, namely 170 million euros in excise revenues and 154 million euros in VAT revenues.

⁶⁴ Production, export, import and sales figures are based on data from Eurostat and the Hungarian Spirits Association. To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.



The employment impact of the spirits sector is shown below:

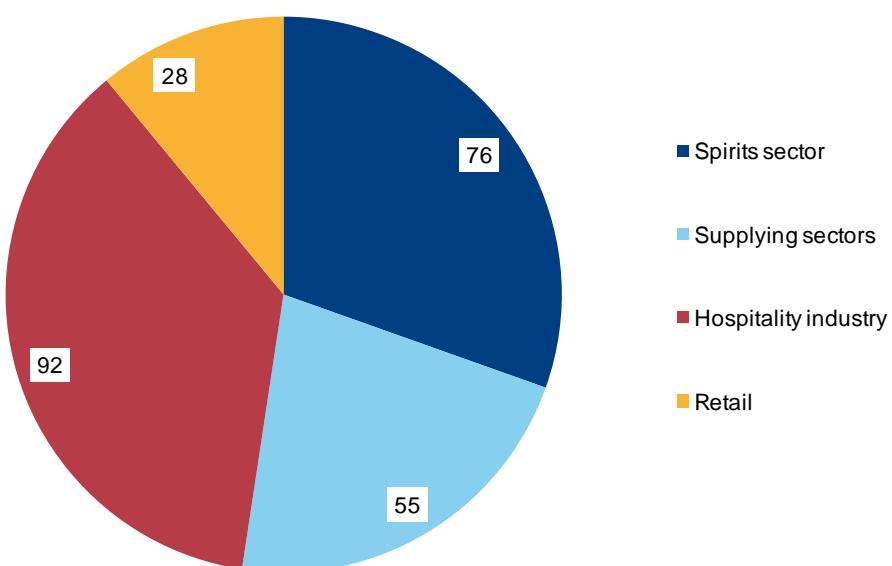
Total employment because of spirits: 21,100 jobs



Source: Ernst & Young calculation, 2010 (see Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Hungarian economy can also be expressed in terms of value-added. The total value-added generated by these 21,100 jobs is estimated at 251 million euros.

**Value added due to the production and sale of spirits:
251 million euros**



Source: Ernst & Young calculation (2010)



The spirits sector share in overall value-added arising from the production and sale of spirits is 30%, which is higher than the spirits sector share in total employment arising from spirits (9%). An explanation for this is the high productivity of spirits sector employees in comparison with the productivity in other sectors.

19.2 Industry and market structure, trends and developments

The consumption of spirits in Hungary is 175,017 hectolitres of pure alcohol a year. This is approximately 583,400 hectolitres of final products. The consumption of spirits was 6 litres per capita in 2009.⁶⁵ The consumption of spirits has been gradually declining over the past five years. 26% of the alcoholic drinks consumed in Hungary are spirits⁶⁶.

A popular spirit in Hungary is Pálinka. This is a traditional Hungarian fruit brandy. It is most often made from various kinds of fruit; the most common varieties are made from plums, pears or apricots. It may also be made from apples, cherries, mulberries or quince. The amount of fruit needed for one litre of pálinka depends on the type of fruit used. A litre of pálinka made from apricots, plums or grape marc will typically require approximately 9 to 10 kilograms of fruit, while up to 45 kilograms of sloe or dogwood berries might be needed to produce the same quantity. Pálinka contains 38 to 86 percent alcohol by volume. Most pálinkas on the market contain between 40 and 50 percent alcohol and are not served chilled. When pálinka is chilled it loses many of its subtle flavours.

The first mention of Hungarian spirits dates back to the fourteenth century, with 'Aqua Vitae Regiae Hungariae' referring to the aqua vitae of the wife of the King Charles I of Hungary. This spirit was probably a brandy blended with rosemary, and had medicinal uses, as both the king and the queen suffered from arthritis. The word *pálinka* derives from the Slavonic stem 'pálit', to burn. In Hungarian the word is most probably of Slovak origin, as 'Tótpálinka' (literally Slovak pálinka) was used in Hungary to refer to alcoholic drinks derived from wheat. The word pálinka became widespread in Hungary in the seventeenth century, but it still referred to distillates made from grain. Pálinka has an important role in traditional celebrations and social occasions. A traditional Hungarian greeting is "Pálinkás jó reggelt!" which means "Good morning with pálinka!".⁶⁷

Type of spirits	Consumption
Whisk(e)y	34,460 hl
Vodka	70,240 hl
Other white spirits	16,920 hl
Pálinka	200,410 hl
Flavoured spirits	144,675 hl
Other spirits	116,696 hl
Total spirits	583,400 hl

There are some 500 producers of spirits in Hungary. In 2005, the excise duty per hectolitre of pure alcohol was 779 euros. Due to subsequent increases this figure now amounts to 1,022 euros. This is an increase of 31% (in the national currency the excise rose by 44%). VAT increased by 5% from 1 July 2009, the excise tax increased by 6.3% from 1 July 2009 and because of the increase of taxes there was a decline in consumption (15-20%), according to the Hungarian Spirits Association.

⁶⁵ IWSR, 2009

⁶⁶ London Economics, 2010

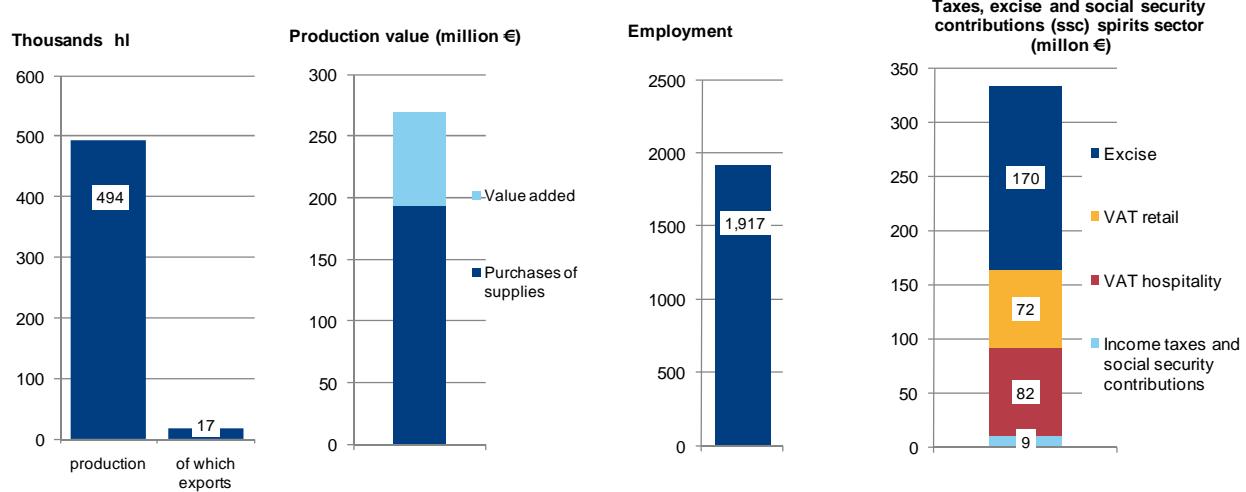
⁶⁷ This section is based on information obtained by consulting The Psychiatry Guide (<http://psychiatry.all-details.com/what-is-aqua-vitae>), Encyclopeadia ireference (<http://www.ireference.ca/search/palinka/>) and Spiritus Temporis (<http://www.spiritus-temporis.com/palinka/>) on 26 July 2010



Another development affecting the spirits sector in Hungary is the rise of the black market. It is now estimated at 20-30% and has intensified competition in the alcohol market.

19.3 Direct effect of the spirits sector

The direct economic impact of the spirit drinks sector covers about 1,900 employees who together produce spirit drinks representing a value of 269 million euros.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirit drinks sector concerns taxes and excises paid by spirits producers and consumers. In 2009, excises reached 170 million euros and total VAT income for the government was estimated at 154 million euros. Income taxes and social security contributions paid by employees in the spirit drinks sector add up to another 9.3 million euros.

The Hungarian spirit drinks producers together achieved an estimated 269 million euros in production value. Approximately 28% of total production value stays within these firms as value-added (76.3 million euros). Value-added equals total reward for production factors used: labour costs, interest paid and profits made.



19.4 Economic impact of spirits producers on goods and services suppliers

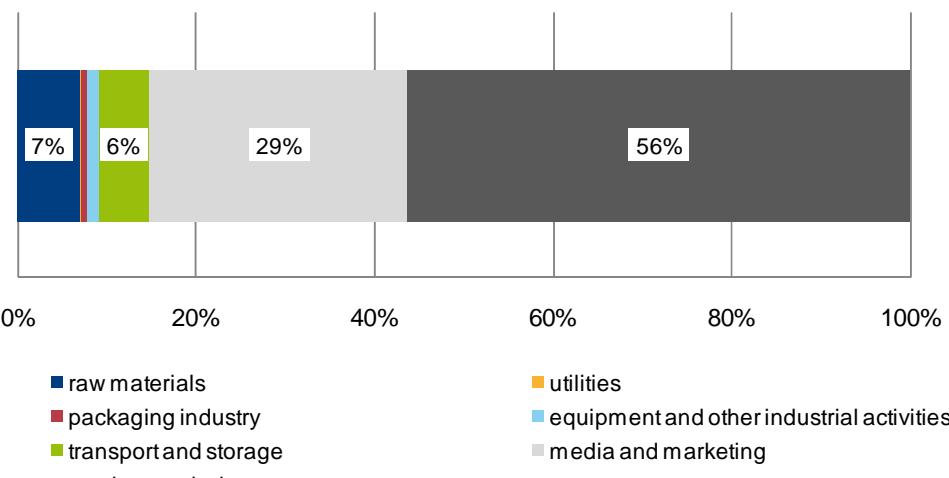
With 28% of the value of the output produced staying within the firms as value-added, the other 72% of 269 million euros in total turnover accrues to a number of suppliers. This stimulus of 193 million euros has a significant economic impact on sectors outside the spirits sector, most substantially on the services sector:

Sectors	Stimulus	Stimulus for Hungary		Turnover per employee	Number of employees
	(million €)	%	(million €)	(in €)	
Raw materials	23.2	80.0%	18.5	€121,100	153
Utilities	1.9	100.0%	1.9	€354,700	5
Packaging industry	17.4	10.0%	1.7	€121,100	14
Equipment	9.7	35.0%	3.4	€121,100	28
Transport	9.7	100.0%	9.7	€73,800	131
Media, marketing	32.8	100.0%	32.8	€50,600	648
Services	98.4	65.0%	64.0	€50,600	1,264
Total	192.9	-	131.4		2,243
First-round impact as % of total impact					65%
Total indirect effect of spirits sector					3,451

Source: Ernst & Young Questionnaire among spirits producers (2010); Eurostat (2007)

The indirect employment effects are illustrated in the graph below:

Indirect employment: 2,200 jobs



Source: Ernst & Young calculation (2010)

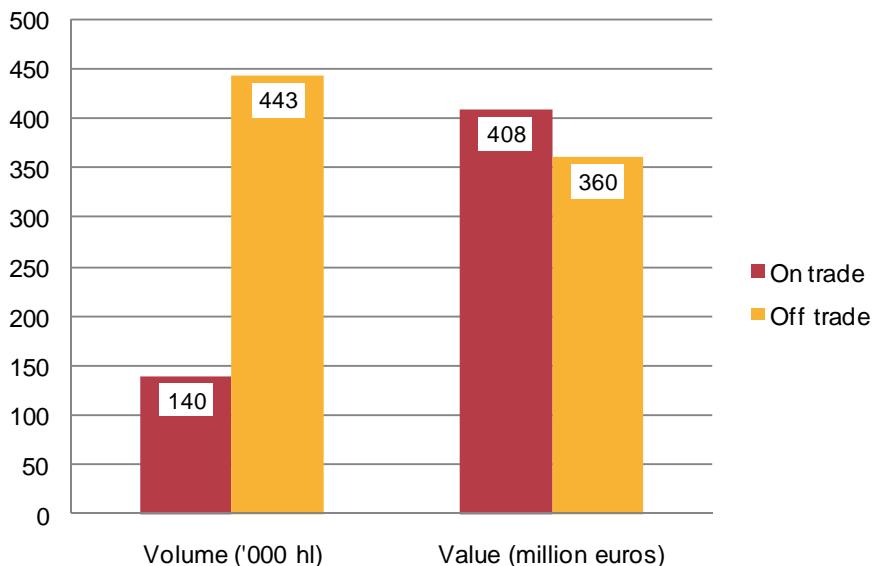
19.5 Retail and hospitality sectors

About 583,400 hectolitres of spirit drinks were consumed in Hungary in 2009. It is estimated that about 76% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 24% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.



In economic terms, the total value (paid by consumers) of Hungarian spirit drinks consumption is estimated at approximately 657 million euros (including VAT and excises). Although the hospitality sector is responsible for only 24% of sales in volume, it is responsible for approximately 53% of the sales in value.

Volume and value



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ About 24% of all spirits consumed in Hungary is sold by the hospitality sector (on-trade), which means almost 140,000 hectolitres.
- ▶ The average consumer price of spirits in Hungarian pubs and restaurants is estimated at 32.0 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 408 million euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 327 million euros (using a 25% VAT tariff).
- ▶ With an average hospitality turnover of 23,500 euros (excluding VAT) per person, this results in 13,900 hospitality sector jobs attributable to spirits sales.

Retail

The importance of the spirits sector for retail can be similarly assessed:

- ▶ Approximately 76% of total spirits consumption (443,000 hectolitres) in Hungary is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 8.1 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 361 million euros. Total consumer spending excluding VAT is thus 288 million euros.
- ▶ With turnover per employee estimated at 160,100 euros (excluding VAT), this means 1,800 people owe their jobs to retail spirits sales.

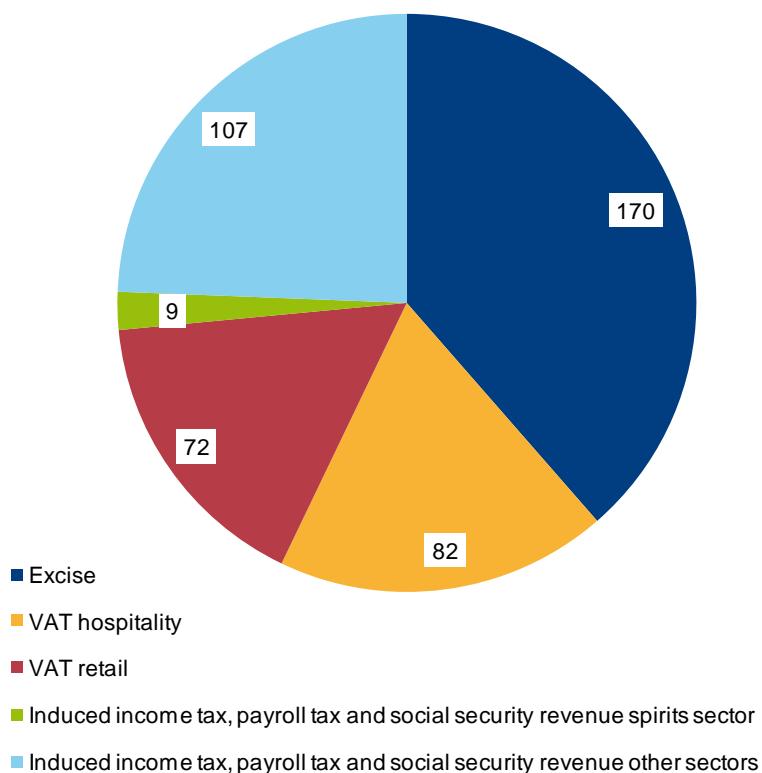


19.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 441 million euros:

- ▶ VAT revenues are estimated at 154 million euros. The main share of these VAT revenues is generated in the hospitality sector.
- ▶ The total in excise revenues on spirits is 170 million euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 116 million euros. They consist of 37 million euros in income tax, 20 million euros in social security contributions paid by employees and 60 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 441 million euros



Source: Ernst & Young calculation (2010)



20Ireland: Economic impact of spirits

20.1 Highlights of the economic impact

Key figures⁶⁸	
Production (in hl final product)	1,516,500
Exports (in hl final product)	1,337,800
Imports (in hl final product)	72,300
Domestic sales (in hl final product)	206,000
Production value of spirit drinks sector	€ 606 million
Consumer spending on spirit drinks	€ 1.2 billion
Spirits distributing companies	12
Spirits producing companies	13
Economic impact	
Employment due to the production and sale of spirit drinks	14,700 employees
Value-added due to the production and sale of spirit drinks	€ 568 million
Government revenues due to the production and sale of spirit drinks	€ 603.8 million

Sources key figures: estimates based on figures from Irish Spirits Association (ISA), Eurostat and IWSR. Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirit drinks sector on the Irish economy is substantial:

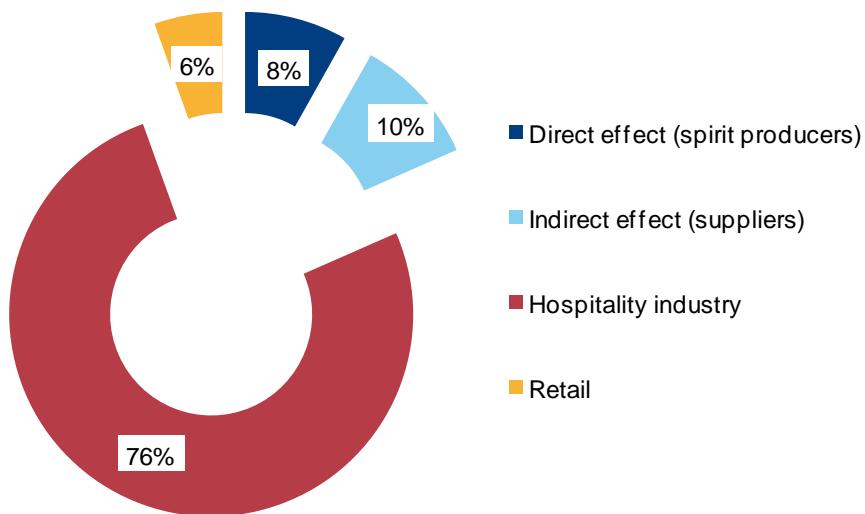
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 14,700 jobs, consisting of 1,200 jobs in the spirit drinks sector; 1,500 jobs in the supplying sectors; 11,200 jobs in the hospitality sector and 800 jobs in the retail sector
- ▶ Together these employees generate 568 million euros of value-added. Of this value-added, 102 million euros are generated in the spirit drinks sector, 154 million euros in the supplying sectors, 268 million euros in the hospitality sector and 44 million euros in the retail sector.
- ▶ Republic of Ireland government revenues arising from the production and sales of spirit drinks are estimated at 603.8 million euros.
- ▶ In 2009, consumers spent 1.2 billion euros on spirit drinks. This consumer spending includes considerable revenues for the government, namely 264.1 million euros in excise revenues and 204.3 million euros in VAT revenues.

⁶⁸ Key figures include manufacturing data for Northern Ireland. Data on RTD's are not included in the Irish chapter.



The employment impact of the spirits sector is shown in the figure below:

Total employment because of spirits: 14,700 jobs

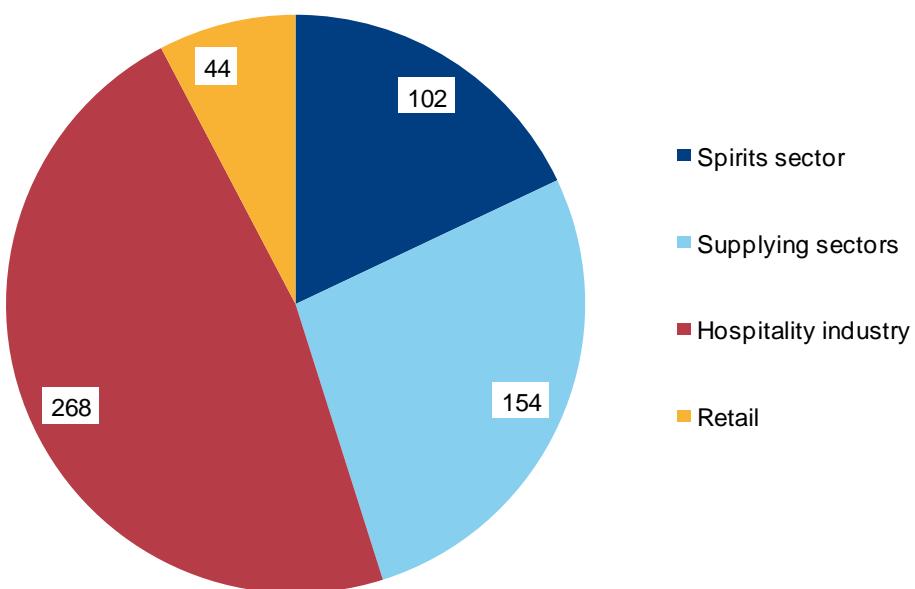


Source: Ernst & Young calculation, 2009 (see Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Irish economy can also be expressed in terms of value-added. Total value-added of the spirits sector in Ireland and value-added generated by firms in supplying sectors and in hospitality and retail sectors arising from the production and sale of spirits amounts to 568 million euros.



**Value added due to the production and sale of spirits:
568 million euros**



Source: Ernst & Young calculation (2010)

The share of the spirit drinks sector in the overall value-added due to the production and sale of spirits is 18%, which is higher than the share of the spirit drinks sector in total employment due to spirit drinks (8%). An explanation for this is the high productivity of employees in the spirit drinks sector, compared against sectors such as retail and hospitality in terms of value-added.

20.2 Industry and market structure, trends and developments

Most spirit drinks are consumed at home. Approximately 67% of total spirit drinks are sold off-trade, while 33% are on-trade sales. In recent years there has been a shift from on-trade to off-trade consumption.⁶⁹ In Ireland the per capita consumption is approximately 5 litres per person.

The production of the 12 spirits-producing companies in Ireland is estimated at approximately 1.5 million hectolitres.⁷⁰ Thirteen spirits-distributing companies are also active in Ireland. Together these spirits producers and distributors employ 1,200 people. Besides its whiskey, Ireland is known for its liqueurs, with both whiskey and liqueur being renowned export products. The main markets for Ireland's leading spirits are the United States, Great Britain, Spain, Global Duty Free and Germany.⁷¹ In 2009, about 1.3 hectolitres of final product were exported. Irish whiskeys and liqueurs are sold in over 100 countries.

The oldest spirit drink produced in Ireland is whiskey. The distillation of Irish whiskey has a long history and no-one knows for sure when it began.⁷² According to some sources distillation of whiskey began as early as the sixth century when travelling monks brought with them the knowledge of distillation on their return to Ireland. For centuries Irish whiskey was exported into the expanding British Empire and outsold Scotch Whisky in most markets because it was lighter in body. It is said that in the late 19th century over

⁶⁹ Rabinovich, De Vries, Clift, The affordability of alcoholic beverages in the European Union, RAND Europe, 2009.

⁷⁰ Irish Spirits Association. 2010.

⁷¹ Foley, The Drinks Industry and Tourism in Ireland, Dublin City University Business School, 2005.

⁷² <http://www.classicwhiskey.com/history.htm>



400 brands of Irish whiskey were being exported and sold in the United States. In the early 20th century the market began to change. The Irish spirits producers faced two threats, namely the rise of blended Scotch Whisky and the fall-out of the largest export market because of the National Prohibition in the United States. The Great Depression, trade embargoes between the newly independent Irish Republic and the United Kingdom, and World War II further worsened the conditions of the Irish spirit drinks markets. However since the nineties the whiskey market is improving again and increasing its market share.

The producers of spirits in Ireland spend 18.1 million euros on cereal and 63.1 million euros on cream in 2009. Irish Cream Liqueurs were created in 1974 in Dublin. The creative combination of fresh Irish dairy cream, spirits and Irish whiskey proved an instant hit among consumers and the category has gone on to achieve sustained success in markets right approximately the world. Irish Cream Liqueurs have contributed substantially to the global growth of the liqueur sector and they have grown into the world's most popular sector in that category. The product is enjoyed in over 130 countries across the world.

The drinks industry plays an important role in providing an attraction for tourists to visit.⁷³ Distilleries are major attractions in Ireland. Whiskey tourism is of huge importance to the Irish economy. Every year over 600,000 visitors, pass through the visitor centres in towns and cities where the distilleries are situated or where some famous brands originated. These visitors create a revenue stream of over 12 million and employ over 170 people in local communities.

The economic impact of the spirit drinks sector is influenced by the following regulatory trends:

- ▶ The New Intoxicating Liquor Act introduced in 2008 has restricted the opening hours of off-licences and nightclubs. The Act has clauses for controlling promotions and the separation of alcohol in mixed trading premises, but these have not yet been enacted.⁷⁴
- ▶ A 20% reduction in excise duty in 2009. The excise duty rate is now 3,113 euros per hectolitre of pure alcohol.⁷⁵

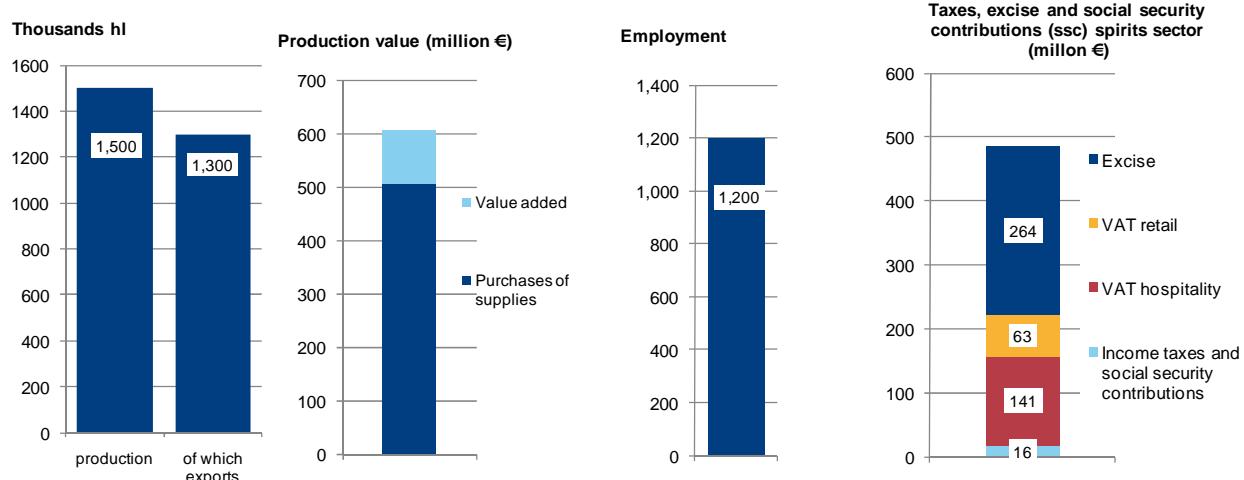
20.3 Direct effect of the spirits sector

The direct economic impact of the spirit drinks sector covers about 1,200 employees who together produce spirit drinks representing a value of 606.2 million euros of which 504.1 million is spent on supplies.

⁷³ Foley, The Drinks Industry and Tourism in Ireland, Dublin City University Business School, 2005.

⁷⁴ Irish Spirit Association, 2010 and <http://www.justice.ie/en/JELR/Pages/Publication%20of%20Intoxicating%20Liquor%20Bill%202008>.

⁷⁵ European Commission, Excise duty Tables, 2010.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirits sector concerns taxes and excises paid by spirits producers and consumers. In 2009, excises reached 264.1 million euros and total VAT income for the Irish government was estimated at 204.3 million euros. Income taxes and social security contributions paid by employees of the spirits sector add up to another 16 million euros.

20.4 Economic impact of spirits producers on goods and services suppliers

With approximately 17% of the value of the output produced staying within the firms as value-added, the other 83% of 606.2 million euros in total turnover accrues to a number of suppliers. This stimulus of 504.1 million euros has significant economic impact on sectors outside the spirits sector. The Irish spirits sector has a substantial economic impact on supplying sectors.

Sectors	Stimulus ⁷⁶ (million €)	Stimulus for Ireland		Turnover per employee ⁷⁷ (in €)	Number of employees
		%	(million €)		
Raw materials	102	86.5%	88	562,100	157
Utilities	13	100.0%	13	606,700	21
Packaging industry	151	47.5%	72	562,100	128
Equipment	17	58.3%	10	562,100	17
Transport	40	47.6%	19	250,300	76
Media, marketing	109	45.0%	49	178,000	277
Services	72	75.0%	54	178,000	303
Total	504		305		979
First-round impact as % of total impact					65%
Total indirect effect of spirits sector					1,506

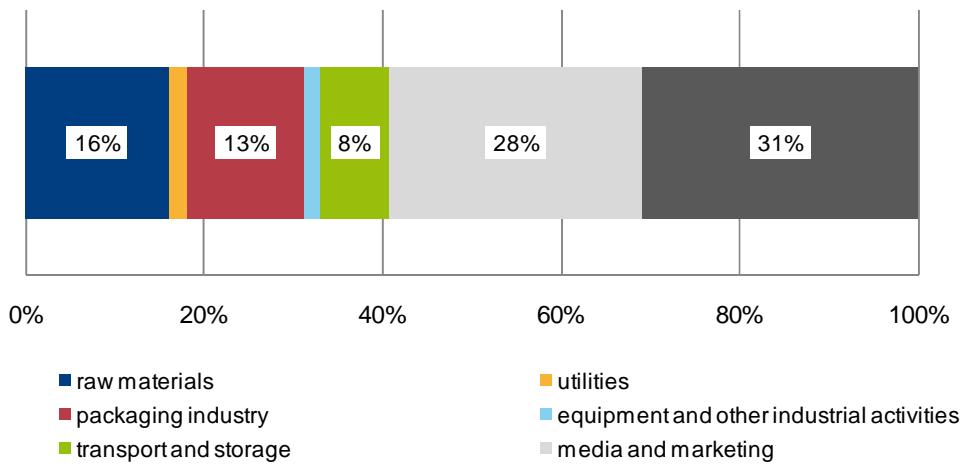
Source: Ernst & Young Questionnaire among spirits producers(2010) and Eurostat (2007).

⁷⁶ (Domestic) stimulus is calculated on basis of the questionnaire survey and Eurostat data.
⁷⁷ Turnover per employee is obtained from Eurostat.



The indirect employment effects are illustrated in the graph below:

Indirect employment: 1,500 jobs



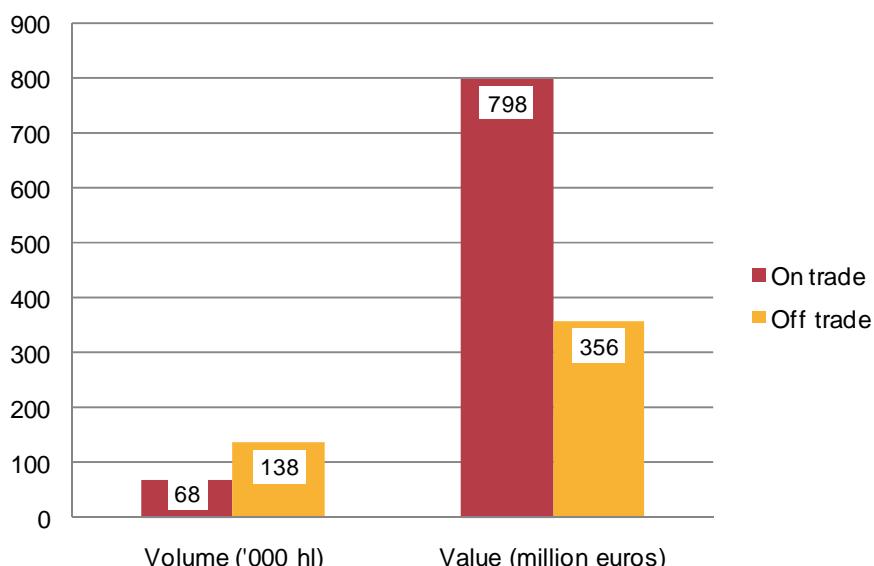
Source: Ernst & Young calculation (2010)

20.5 Retail and hospitality sectors

About 206,100 hectolitres of spirit drinks were consumed in Ireland in 2009. It is estimated that about 67% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 33% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of spirit drinks consumption in Ireland is estimated at approximately 1,155 million euros (including VAT and excises). Although the hospitality sector is responsible for only 33% of sales in volume, it is responsible for approximately 69% of the sales in value.

Volume and value



Source: Ernst & Young calculation (2010)



Hospitality sector

Employment arising from spirits sales in the hospitality sector is estimated at 11,200 jobs:

- ▶ Of the total spirits consumption in Ireland approximately 33% takes place in the hospitality sector.
- ▶ This means 68,000 hectolitres are sold by Irish pubs, restaurants and the like.
- ▶ With an average consumer price of spirits at 117.40 euros per litre (incl. 21.5% VAT) the total consumer spending on spirits is 798 million euros.
- ▶ Net consumer spending on spirits in pubs and restaurants is estimated at 657 million euros (excl. VAT).
- ▶ Turnover per employee in the Irish hospitality sector is 57,400 euros a year.
- ▶ 11,200 jobs in Irish pubs and restaurants can be attributed to spirits sales.

Retail

The employment effect of the spirits sector in the retail sector can be similarly assessed:

- ▶ The share of the retail sector in total spirits sales is about 67% (138,000 hectolitres).
- ▶ With an average consumer price of 25.80 euros per litre (including 21.5% VAT), total retail consumer spending on spirits is estimated at 356 million euros.
- ▶ Net consumer spending on spirits in retail is estimated at 293 million euros.
- ▶ Taking into account an average turnover per employee of 364,700 euros, this means 800 people working in the retail sector owe their jobs to the spirits sector.

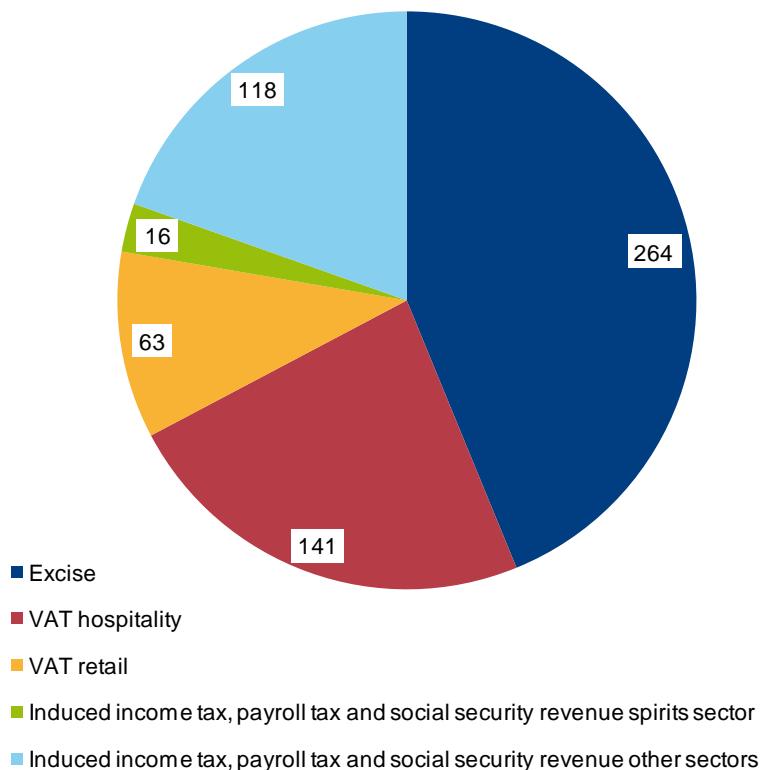
20.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 602.8 million euros:

- ▶ The main share of the VAT revenues is generated in the hospitality sector (141.3 million euros). Total VAT revenue is 204 million euros.
- ▶ The Irish excise duty rate on spirits is one of the highest in Europe (3,113 euros per hectolitre of pure alcohol). Total excise revenues arising from the spirits industry amount to 264 million euros.
- ▶ Approximately 134 million euros in income-related taxes and contributions are paid due to spirits production and sales. They consist of 75 million euros in income tax, 22 million euros in social security contributions paid by employees and 38 million euros in social security contributions and payroll taxes paid by employers.



Government revenues due to the production and sale of spirits: 603 million euros



Source: Ernst & Young calculation (2010)



21 Italy: Economic impact of spirits

21.1 Highlights of the economic impact

Key figures ⁷⁸	
Production (in hl final product)	3,179,400
Exports (in hl final product)	1,895,000
Imports (in hl final product)	1,034,200
Domestic sales (in hl final product)	2,318,600
Production value of spirit drinks sector	€ 2.3 billion
Consumer spending on spirit drinks	€ 6.2 billion
Economic impact	
Employment due to the production and sale of spirit drinks	92,300 employees
Value-added due to the production and sale of spirit drinks	€ 2.7 billion
Government revenues due to the production and sale of spirit drinks	€ 3.0 billion

Sources key figures: estimates based on figures from Eurostat, IWSR and European Commission (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The most important characteristics of the Italian spirits market are:

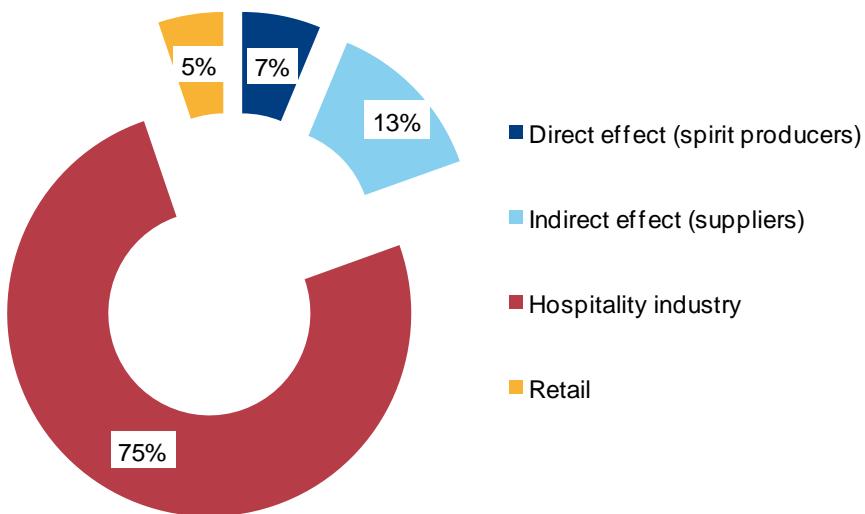
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 92,300 jobs, consisting of 5,800 jobs in the spirit drinks sector; 12,200 jobs in the supplying sectors; 69,000 jobs in the hospitality sector and 4,800 jobs in the retail sector
- ▶ Together these employees generate 2.7 billion euros of value-added. Of this value-added, 399 million euros are generated in the spirit drinks sector, 609 million euros in the supplying sectors, 1.5 billion euros in the hospitality sector and 166 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 3 billion euros.
- ▶ In 2009, consumers spent 6.2 billion euros on spirit drinks. This spending included considerable revenues for the government, namely 557 million euros in excise revenues and 1 billion euros in VAT revenues.

⁷⁸ Production, export, import and sales figures are based on data from Eurostat and the European Commission (Excise duty tables). To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.



The employment impact of the spirits sector is shown in the figure below:

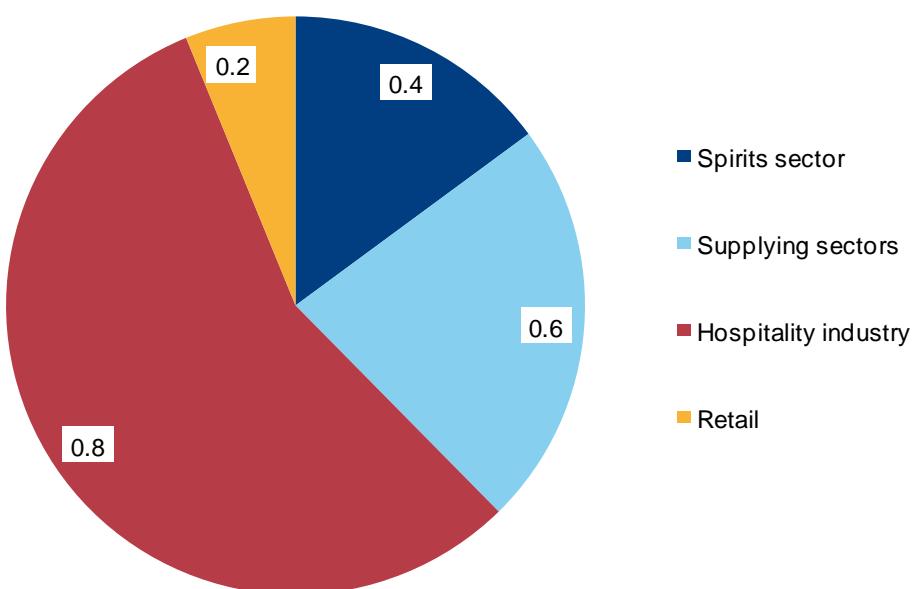
Total employment because of spirits: 92,300 jobs



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Italian economy can also be expressed in terms of value-added. The total value-added generated by these 92,300 employees is estimated at 2.7 billion euros.

**Value added due to the production and sale of spirits:
2.7 billion euros**



Source: Ernst & Young calculation (2010)



The share of the spirit drinks sector in the overall value-added due to the production and sale of spirits is 15%, which is higher than the share of the spirit drinks sector in total employment due to spirit drinks (7%). An important explanation for this is the high productivity of employees in the spirit drinks sector, compared against sectors such as retail and hospitality in terms of value-added.

21.2 Industry and market structure, trends and developments

The favourite Italian drink is still wine, although its popularity has been declining.⁷⁹ In 2009, the consumption of spirits per capita was 4 litres. Distilled spirits are occasionally drunk with friends at home or in bars, after meals. The most popular imported type of spirit is whisk(e)y followed by rum. In 2008, Italy imported about 74,045 hectolitres pure alcohol of whisk(e)y and 72,556 hectolitres pure alcohol of rum.⁸⁰

One of the most famous export products of Italian spirits producers is grappa. In 2008, Italy exported 30,078 litres pure alcohol of grappa. There are more than a hundred different grappa producers spread across Italy.⁸¹ Some of them produce only grappa, others make grappa as a lucrative sideline to their main business. The main ingredient of grappa is pomace, which consists of the grape skins, seeds and stalks left over from the winemaking process. Grappa is at least 1,500 years old and was developed by peasants in North Italy. At that time grappa was a poor man's drink. Recently it has acquired a status equivalent to that of Scotch Whisky or exquisite cognacs.

The excise rate on spirits in Italy is 800 euros per hectolitre of pure alcohol. This excise rate is among the lowest in Europe.

Other developments which influence the economic impact of the spirit drinks sector are:

- ▶ Changes in composition of the resident population in Italy: the number of inhabitants coming from foreign countries with a strong tradition of spirits consumption is growing. At the same time the ratio of elderly people is increasing due to the lowest birth ratio per capita.⁸²
- ▶ There are large differences in drinking behaviour between the various regions in Italy. In northern Italy more alcoholic drinks are consumed than in southern Italy.⁸³

⁷⁹ WHO, Global Status Report on Alcohol 2004, Country Report of Italy.

⁸⁰ Federvini, Assemblea 2009, whisky (74,045), of which bourbon (1,419) and Scotch (58,050). Scotch consists of Di malto (12,751) and Blended (44,221).

⁸¹ TED Case studies, Who owns Grappa?

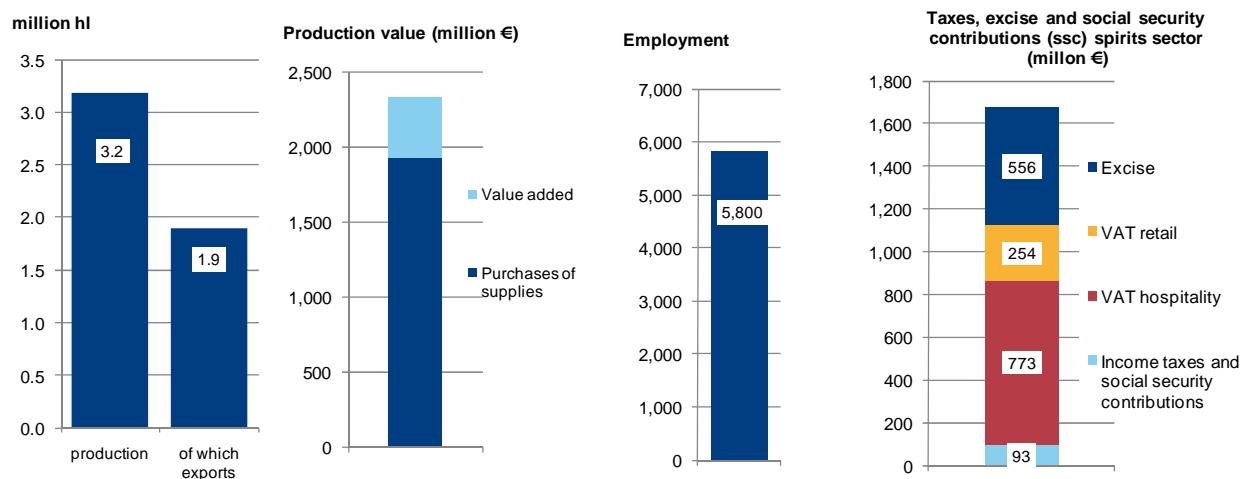
⁸² Ernst & Young, The Contribution made by Beer to the European Economy, 2009.

⁸³ Österberg E. and Karsson, T., Alcohol Policies in EU Member States and Norway, A Collection of Country Reports.



21.3 Direct effect of the spirits sector

The direct economic impact of the spirit drinks sector covers about 5,800 employees who together produce spirit drinks representing a value of 2.3 billion euros. It can therefore be concluded that there is a significant direct economic benefit from the spirit drinks sector for the Italian economy.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirit drinks sector concerns taxes and excises paid by spirits producers and consumers. In 2009, excises reached 556.5 million euros and total VAT income for the Italian government was estimated at 1.0 billion euros. Income taxes and social security contributions paid by employees in the spirit drinks sector add up to another 93.2 million euros.

The Italian spirit drinks producers together achieved an estimated 2.3 billion euros in production value. Approximately 17% of total production value stays within these firms as value-added (399.3 million euros). Value-added equals total reward for production factors used: labour costs, interest paid and profits made.

21.4 Economic impact of spirits producers on goods and services suppliers

With approximately 17% of the value of the output produced staying within the firms as value-added, the other 83% of 2.3 billion euros in total turnover accrues to a number of suppliers. This stimulus of approximately 1.9 billion euros has a significant economic impact on sectors outside the spirits sector. The suppliers of raw materials and the packaging industry profit most from purchases by spirits producers.

The impact of the production and sale of spirits on supplying sectors is quite high because of the large share of production value that is spent on purchases of goods and services due to spirits-producing companies sourcing most of their purchases of goods and services from their own country, Italy.

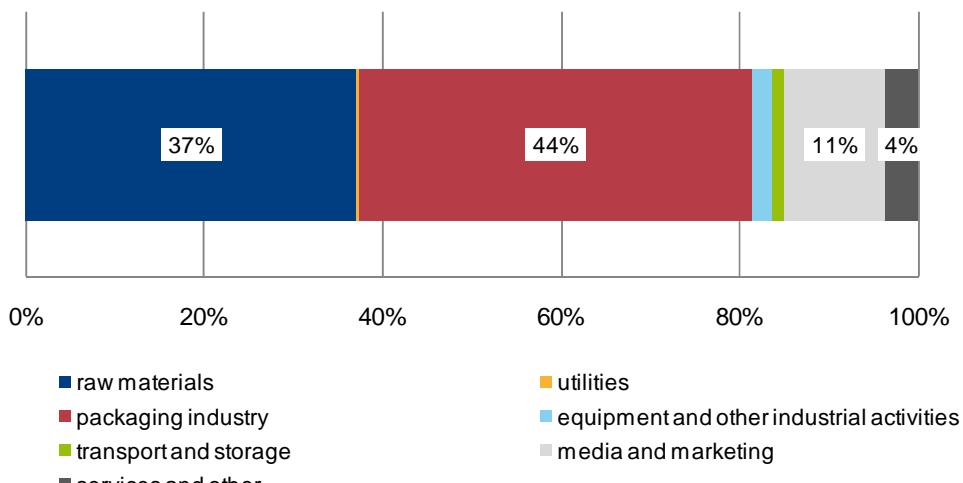


Sectors	Stimulus (million €)	Stimulus for Italy % (million €)	Turnover per employee (in €)	Number of employees
Raw materials	967.7	66.0%	217,500	2,936
Utilities	39.7	100.0%	1,121,800	35
Packaging industry	759.3	99.7%	217,500	3,479
Equipment	40.3	100.0%	217,500	185
Transport	17.8	99.7%	164,100	108
Media, marketing	78.3	100.0%	87,200	898
Services	26.2	100.0%	87,200	300
Total	1,929	-	1,598	-
First-round impact as % of total impact				65%
Total indirect effect of spirits sector				12,219

Source: EY Questionnaire among distilleries (2010) and Eurostat (2007).

The indirect employment effects are illustrated in the graph below:

Indirect employment: 12,200 jobs



Source: Ernst & Young calculation (2010)

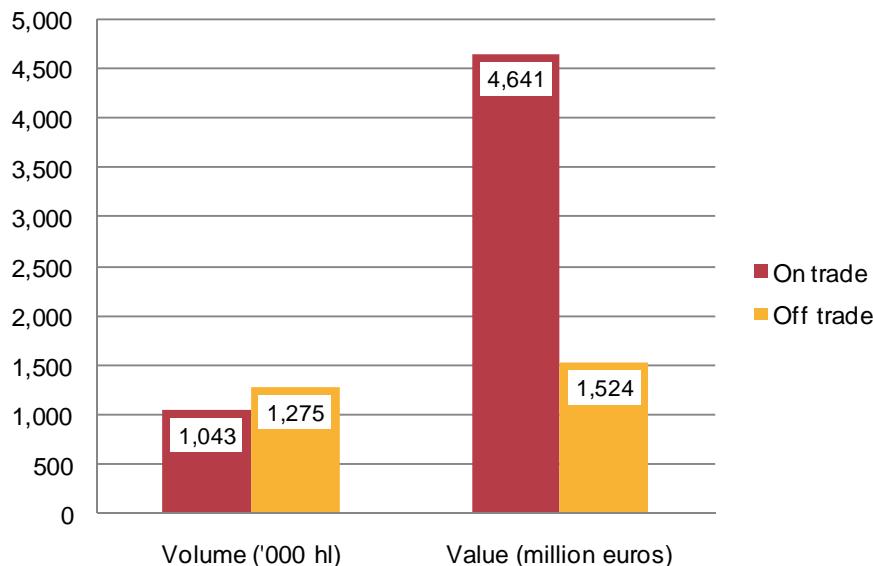
21.5 Retail and hospitality sectors

About 2.3 million hectolitres of spirit drinks were consumed in Italy in 2009. It is estimated that about 55% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 45% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of spirit drinks consumption in Italy is estimated at approximately 6.1 billion euros (including VAT and excises). Although the hospitality sector is responsible for only 45% of sales in volume, it is responsible for approximately 75% of the sales in value.



Volume and value



Source: Ernst & Young calculation (2010)

Hospitality sector

- ▶ The economic impact of spirits on the hospitality sector is assessed as follows:
- ▶ Approximately 45% of all spirits consumed in Italy is sold by the hospitality sector (on-trade), which means 1,043 million hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in Italian pubs and restaurants is 44.50 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 4,641 million (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 3,867 million euros (using a 20% VAT tariff).
- ▶ With an average hospitality turnover of 55,700 euros (excluding VAT) per person, this results in 69,400 hospitality sector jobs attributable to spirits sales.

Retail

- ▶ The importance of spirits for retail can be similarly assessed:
- ▶ Approximately 55% of total spirits consumption (1.3 million hectolitres) in Italy is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 12 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 1,524 million euros. Total consumer spending excluding VAT is thus 1,270 million euros.
- ▶ With turnover per employee estimated at 264,000 euros (excluding VAT), this means 4,800 people owe their jobs to retail spirits sales.

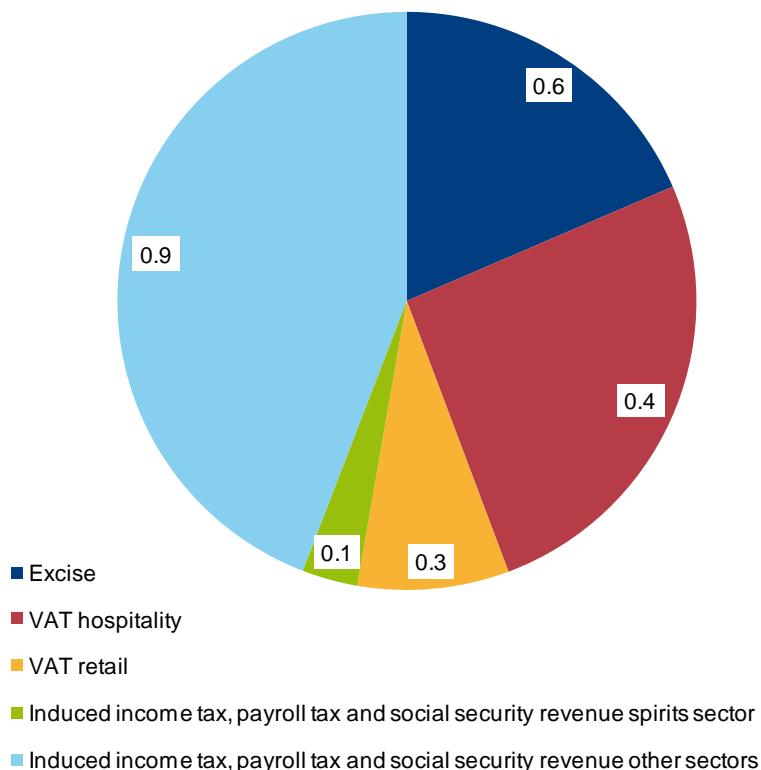


21.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 3.0 billion euros:

- ▶ VAT revenues are estimated at 1.0 billion euros. The main share of these VAT revenues is generated in the hospitality sector. But there is not much difference with the VAT collected from the retail sector.
- ▶ Total excise revenues due to the spirits industry are 556 million euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 1.4 billion euros. They consist of 419 million euros in income tax, 193 million euros in social security contributions paid by employees and 806 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 3.0 billion euros



Source: Ernst & Young calculation (2010)



22 Latvia: Economic impact of spirits

22.1 Highlights of the economic impact

Key figures ⁸⁴	
Production (in hl final product)	306,700
Exports (in hl final product)	548,600
Imports (in hl final product)	544,500
Domestic sales (in hl final product)	302,600
Production value of spirit drinks sector	€ 73 million
Consumer spending on spirit drinks	€ 645 million
Economic impact	
Employment due to the production and sale of spirit drinks	11,700 employees
Value-added due to the production and sale of spirit drinks	€ 136 million
Government revenues due to the production and sale of spirit drinks	€ 240 million

Sources key figures: estimates based on figures from Eurostat, IWSR and European Commission (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirits sector on the Latvian economy is substantial:

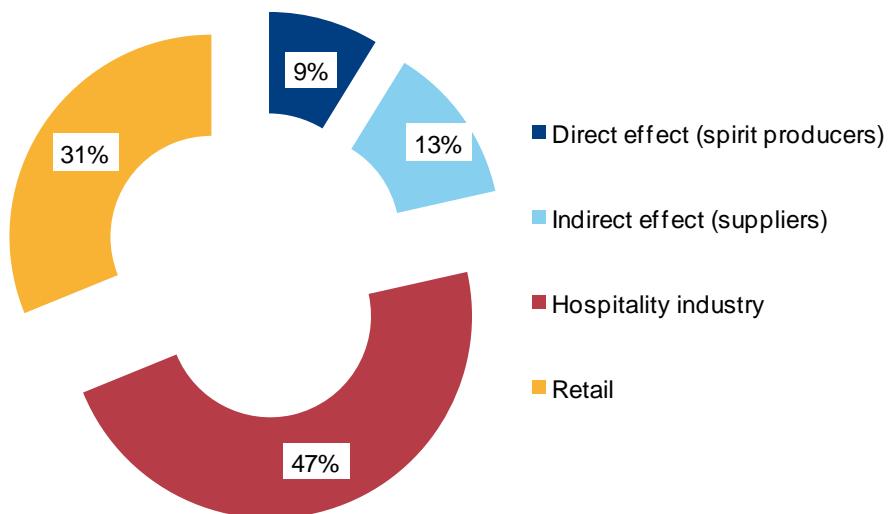
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 11,700 jobs, consisting of 1,000 jobs in the spirit drinks sector, 1,500 jobs in the supplying sectors, 5,500 jobs in the hospitality sector and 3,600 jobs in the retail sector.
- ▶ Together these employees generate 136 million euros of value-added. Of this value-added, 13 million euros are generated in the spirit drinks sector, 26 million euros in the supplying sectors, 43 million euros in the hospitality sector and 54 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 240 million euros.
- ▶ In 2009, consumers spent 645 million euros on spirit drinks. This spending included considerable revenues for the government, namely 106 million euros in excise revenues and 98 million euros in VAT revenues.

⁸⁴ Production, export, import and sales figures are based on data from Eurostat and the European Commission (Excise duty tables). To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.



The employment impact of the spirits sector is shown below:

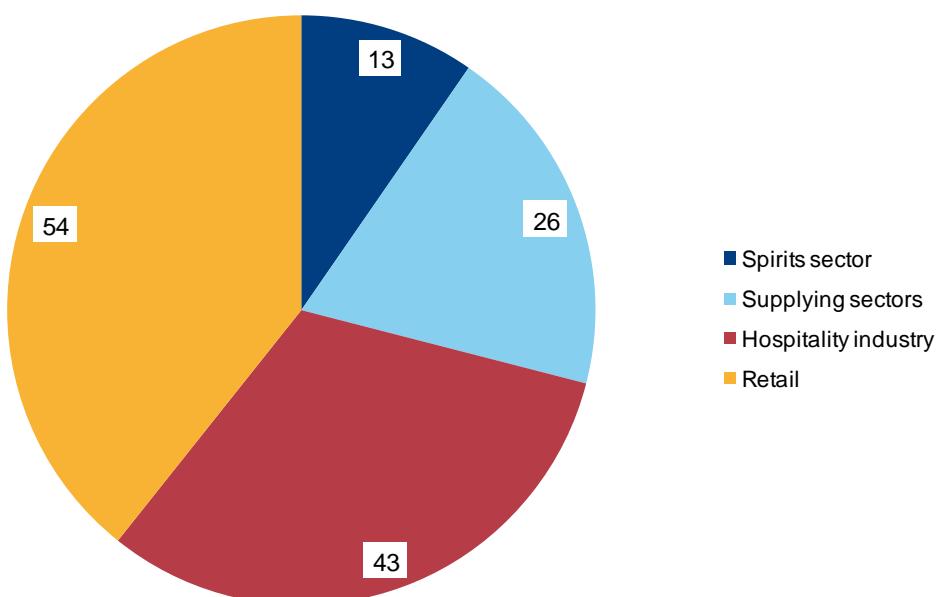
Total employment because of spirits: 11,700 jobs



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Latvian economy can also be expressed in terms of value-added. The total value-added generated by these 11,700 jobs is estimated at 136 million euros.

**Value added due to the production and sale of spirits:
136 million euros**



Source: Ernst & Young calculation (2010)



22.2 Industry and market structure, trends and developments

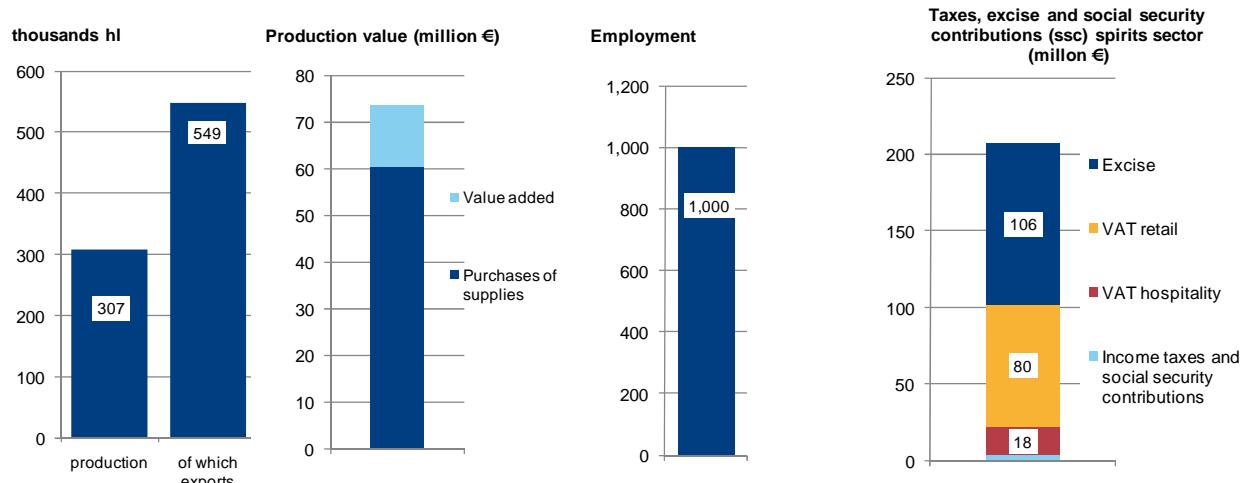
Latvia has 2.25 million citizens, who together consume 302,600 hectolitres of spirits per year (final product). Measured in pure litres of alcohol, spirits are the most popular type of alcoholic beverage. Approximately half of all alcohol consumed in Latvia consists of spirits, while beer accounts for 35 percent and 10 percent of the alcohol consumption is wine.⁸⁵

Based on European Commission figures on excise revenues, imports and exports, we estimate that the annual production of spirits in Latvia amounts to approximately 306,700 hectolitres of final product. As in the rest of the region, a large part of the production volume consists of vodka but Latvian spirits producers also make brandy, cognac, gin and liqueurs. A typical Latvian drink is Balsam, which is a liqueur containing 21 herbs and between 40 to 45 percent alcohol. Balsam is produced not only for the domestic market, but is also exported to many countries worldwide.

The excise rate on spirits has been raised twice over the past five years, resulting in a total increase of 62 percent. Where the payable amount of excise per hectolitre of pure alcohol was 550 lats in 2005, nowadays it is 890 lats (1,256.53 euros). Another development threatening the Latvian spirits industry is the fact that the economic downturn is causing Latvian consumers to switch to lower-priced products.

22.3 Direct effect of the spirits sector

The direct spirits sector economic impact covers more than 1,000 employees who together produce spirits worth about 73 million euros.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirits sector concerns taxes and excises paid by spirits producers and consumers. Excises account for 106 million euros and total VAT income for the Latvian government was estimated at 98 million euros. Personal direct income taxes paid by employees of the spirits sector are 3 million euros.

The Latvian spirits producers together achieved an estimated 73 million euros in turnover. About 18% of total turnover stays within these firms as value-added (13 million euros). Value-added equals total reward for production factors used: labour costs, interest paid and profits made.

⁸⁵ London Economics (2010) Study analysing possible changes in the minimum rates and structures of excise duties on alcoholic beverages.



22.4 Economic impact of spirits producers on goods and services suppliers

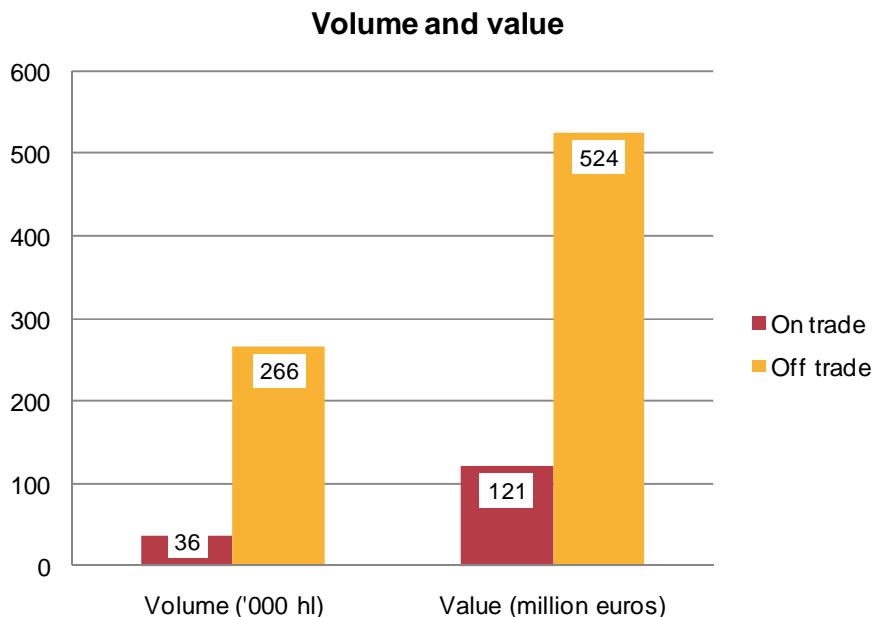
With 18% of the value of the output produced staying within the firms as value added, the other 82% of 73 million euros in total turnover accrues to a number of suppliers. This stimulus of 60 million euros has a significant economic impact on sectors outside the spirits sector.

As we have not received information on purchases per individual sector, we cannot estimate the indirect effect per supplying sector. However we can estimate the total indirect effect. Assuming that 80 percent of the stimulus of 60 million euros stays within the country this means that about 48 million euros accrues to Latvian suppliers. Taking into account the average turnover per employee in the supplying sectors (€ 49,800), we can estimate the indirect employment effect at 1,500 jobs.

22.5 Retail and hospitality sectors

About 302,600 hectolitres of spirit drinks were consumed in Latvia in 2009. It is estimated that about 88% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 12% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of Latvian spirit drinks consumption is estimated at approximately 645 million euros (including VAT and excises). Although the hospitality sector is responsible for only 12% of sales in volume, it is responsible for approximately 19% of the sales in value.



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ About 12% of all spirits consumed in Latvia is sold by the hospitality sector (on-trade), which means almost
- ▶ 36,300 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in Latvian pubs and restaurants is estimated at 33.3 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 121 million euros (including VAT).



- ▶ Net consumer spending on spirits is thus estimated at 102 million euros (using an 18% VAT tariff).
- ▶ With an average hospitality turnover of 5,500 euros (excluding VAT) per person, this results in 14,700 hospitality sector jobs attributable to spirits sales.

Retail

The importance of the spirits sector for retail can be similarly assessed:

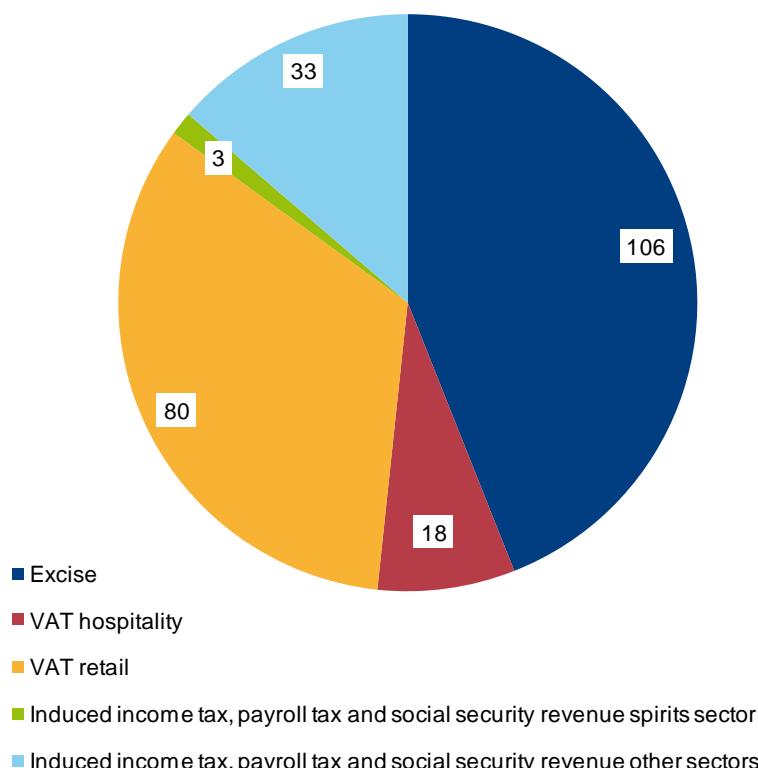
- ▶ Approximately 88% of total spirits consumption (266,000 hectolitres) in Latvia is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 19.7 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 524 million euros. Total consumer spending excluding VAT is thus 444 million euros.
- ▶ With turnover per employee estimated at 121,800 euros (excluding VAT), this means 3,600 people owe their jobs to retail spirits sales.

22.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 240 million euros.

- ▶ VAT revenues are estimated at 98 million euros. The main share of these VAT revenues is generated in the retail sector.
- ▶ Total excise revenues on spirits are 106 million euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 36 million euros. They consist of 15 million euros in income tax, 6 million euros in social security contributions paid by employees and 16 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 240 million euros



Source: Ernst & Young calculation (2010)



23 Lithuania: Economic impact of spirits

23.1 Highlights of the economic impact

Key figures ⁸⁶	
Production (in hl final product)	334,900
Exports (in hl final product)	57,600
Imports (in hl final product)	190,400
Domestic sales (in hl final product)	467,700
Production value of spirit drinks sector	€ 72 million
Consumer spending on spirit drinks	€ 406 million
Spirits producing companies	4
Economic impact	
Employment due to the production and sale of spirit drinks	8,400 employees
Value-added due to the production and sale of spirit drinks	€ 95 million
Government revenues due to the production and sale of spirit drinks	€ 268 million

Sources key figures: estimates based on figures from Eurostat, IWSR and European Commission (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirits sector can be expressed as follows.

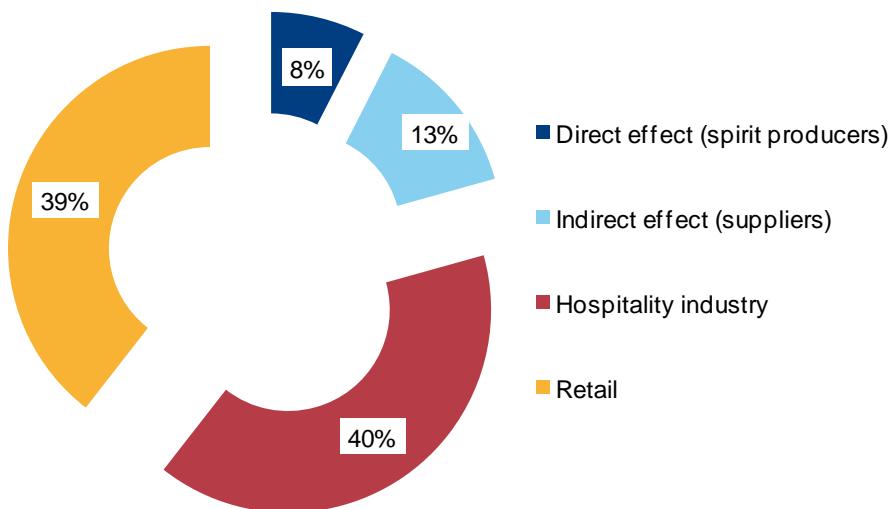
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 8,400 jobs, consisting of 600 jobs in the spirit drinks sector, 1,100 jobs in the supplying sectors, 3,300 jobs in the hospitality sector and 3,300 jobs in the retail sector.
- ▶ Together these employees generate 95 million euros of value-added. Of this value-added, 25 million euros are generated in the spirit drinks sector, 16 million euros in the supplying sectors, 17 million euros in the hospitality sector and 37 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 268 million euros.
- ▶ In 2009, consumers spent 405.9 million euros on spirit drinks. This spending included considerable revenues for the government, namely 173.5 million euros in excise revenues and 64.8 million euros in VAT revenues.

⁸⁶ Production, export, import and sales figures are based on data from Eurostat and the European Commission (Excise duty tables). To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.



The employment impact of the spirits sector is shown below:

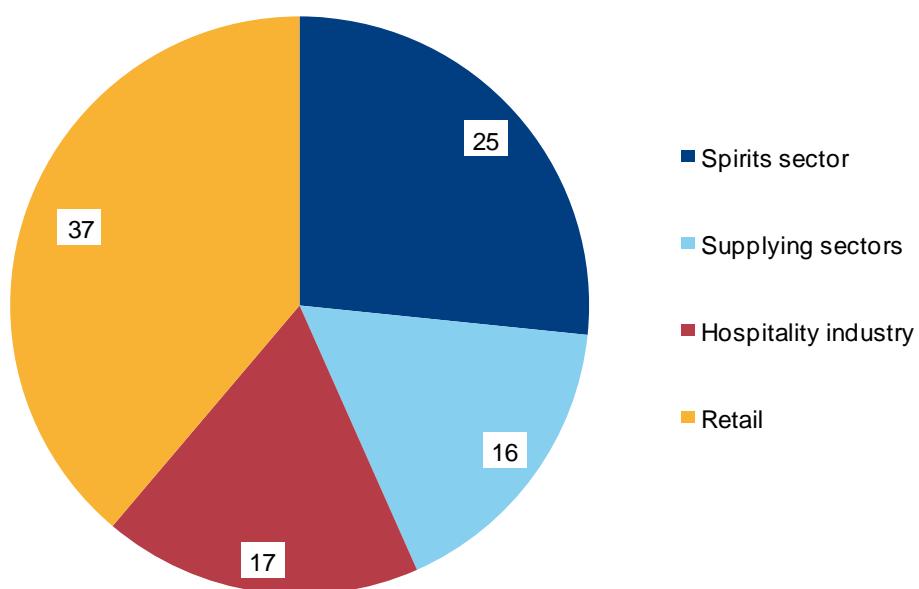
Total employment because of spirits: 8,400 jobs



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Lithuanian economy can also be expressed in terms of value-added. The total value-added generated by these 8,400 jobs is estimated at 95 million euros.

**Value added due to the production and sale of spirits:
95 million euros**



Source: Ernst & Young calculation (2010)



The spirits sector's share in overall value-added arising from the production and sale of spirits is 27%, which is much higher than the spirits sector's share in total employment arising from spirits (7%). A significant explanation for this is the high productivity of spirits sector employees.

23.2 Industry and market structure, trends and developments

Lithuanians consume a relatively large quantity of spirits per year. Although demographically Lithuania is a fairly small country with only 3.33 million inhabitants⁸⁷, they consume 467,700 hectolitres of spirits per year. This means that on average Lithuanians consume almost 14 litres of spirits per capita. The majority of this consumption is produced domestically. Based on European Commission figures on excise revenues, imports and exports, we estimate that the annual production of spirits in Lithuania amounts to approximately 334,900 hectolitres of final product. The sector is represented by Alkoholiniai gėrimai prekiaujančių įmonių asociacija (Association of Companies Trading in Alcoholic Beverages). This association encompasses all four Lithuanian spirits producers plus three distributors.

The Lithuanian government has raised the excise rate on spirits several times over the past five years, resulting in an overall increase of 38 percent in this period. Where the payable amount of excise per hectolitre of pure alcohol was 3,200 litas in 2005, nowadays it amounts to 4,416 litas (1,278.96 euros). Because the overall price level and the excise rates in surrounding countries that are not part of the European Union are much lower, quite a lot of smuggling takes place into Lithuania. The Association of Companies Trading in Alcoholic Beverages estimated that illegal production, smuggling and sales are about 30-40% of the entire spirits market. An example of this is the fact that a year after joining the European Union, Lithuanian custom officers discovered a 3-kilometre-long pipeline through which cheap vodka was illegally being transported from Belarus to Lithuania.

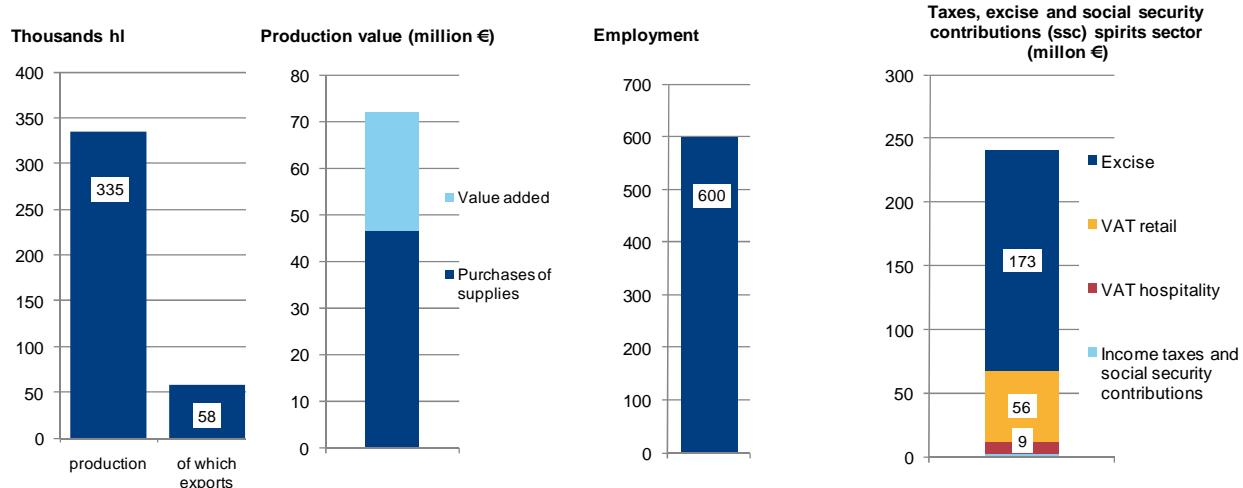
Lithuania is the southernmost of the three Baltic states. From the collapse of the Soviet Union in 1990, resulting in the independence of Lithuania, and especially in the past decade, the country has experienced spectacular economic growth. A landmark in this development is that Lithuania was allowed to join the European Union in 2004. But in 2008 this period of economic prosperity came to an abrupt end. Lithuania is one of the most-affected victims of the global economic crisis and its GDP shrank by almost 20 percent in 2009.⁸⁸ Private consumption expenditures and exports decreased significantly in this period. However part of this decrease is caused by the fact that smuggling and illegal trade of spirits gained market share in this period. The Association of Companies Trading in Alcoholic Beverages states that spirits sales dropped by 41 percent in the period 2008-2009. However they also believe that only ten percent of this is caused by the economic downturn. The rest of this decline arises from the increase in illegal sales and smuggling.

⁸⁷ Eurostat (2010) Population on 1 January by age and sex, <http://epp.eurostat.ec.europa.eu>
⁸⁸ Lituos Bankas (Bank of Lithuania) 2010, www.lb.lt.



23.3 Direct effect of the spirits sector

Lithuanian spirits companies produced 334,900 hectolitres of spirits in 2009. This production had a value of 72 million euros. Of this production value, 47 million euros was spent on purchases of goods and services needed for the production and sale of spirits. Lithuanian spirits producers provide 600 jobs.



Source: Ernst & Young calculation (2010)

The government also benefits from spirits production. Excise and VAT revenues accounted for 173 million and 65 million euros respectively. Employees and employers in the spirits sector paid 3 million euros in income taxes, social security contributions and payroll taxes.

23.4 Economic impact of spirits producers on goods and services suppliers

With 35% of the value of the output produced staying within the firm as value-added, the other 65% of the 72 million euros of total production value accrues to a number of suppliers. This stimulus of 47 million euros has a significant economic impact on sectors outside the spirit drinks sector.

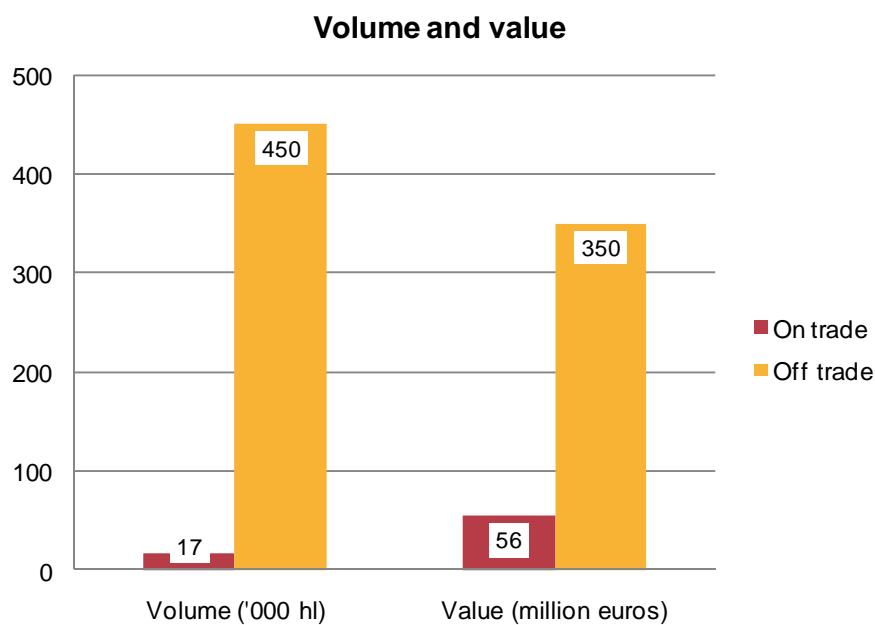
As we have not received information on purchases per individual sector, we cannot estimate the indirect effect per supplying sector. However we can estimate the total indirect effect. Assuming that 80 percent of the stimulus of 47 million euros stays within the country this means that about 37 million euros accrues to Lithuanian suppliers. Taking into account the average turnover per employee in the supplying sectors (€ 52,100), we can estimate the indirect employment effect at 1,100 jobs.



23.5 Retail and hospitality sectors

About 467,700 hectolitres of spirit drinks were consumed in Lithuania in 2009. It is estimated that about 96% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 4% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of Lithuanian spirit drinks consumption is estimated at approximately 405.9 million euros (including VAT and excises). The hospitality sector is responsible for only 4% of sales in volume and 16% of the sales in value



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ About 4% of all spirits consumed in Lithuania is sold by the hospitality sector (on-trade), which means almost 17,300 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in Lithuanian pubs and restaurants is estimated at 32.1 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 55.6 million euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 46.7 million euros (using a 19% VAT tariff).
- ▶ With an average hospitality turnover of 14,000 euros (excluding VAT) per person, this results in 3,300 hospitality sector jobs attributable to spirits sales.



Retail

The importance of the spirits sector for retail can be similarly assessed:

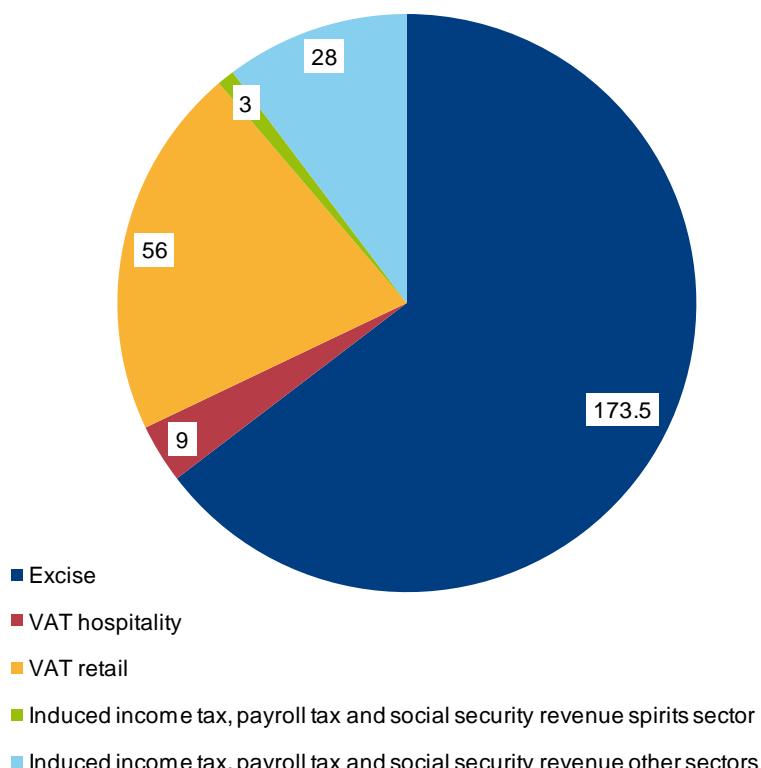
- ▶ Approximately 96% of total spirits consumption (450,400 hl) in Lithuania is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 7.8 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 350.3 million euros. Total consumer spending excluding VAT is thus 294.3 million euros.
- ▶ With turnover per employee estimated at 89,000 euros (excluding VAT), this means approximately 3,300 people owe their jobs to retail spirits sales.

23.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 268 million euros:

- ▶ VAT revenues are estimated at 65 million euros. The main share of these VAT revenues is generated in the hospitality sector.
- ▶ Total excise revenues on spirits are 173 million euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 30 million euros. They consist of 12 million euros in income tax, 2 million euros in social security contributions paid by employees and 16 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 268 million euros



Source: Ernst & Young calculation (2010)



24 Malta: Economic impact of spirits

24.1 Highlights of the economic impact

Key figures ⁸⁹	
Production (in hl final product)	Unknown
Exports (in hl final product)	400
Imports (in hl final product)	23,100
Domestic sales (in hl final product)	17,800
Production value of spirit drinks sector	Unknown
Consumer spending on spirit drinks	€ 75.8 million
Economic impact	
Employment due to the production and sale of spirit drinks	1,600 employees
Value-added due to the production and sale of spirit drinks	€ 26 million
Government revenues due to the production and sale of spirit drinks	€ 24 million

Sources key figures: estimates based on figures from Eurostat, IWSR and European Commission (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirit drinks sector on the Maltese economy is:

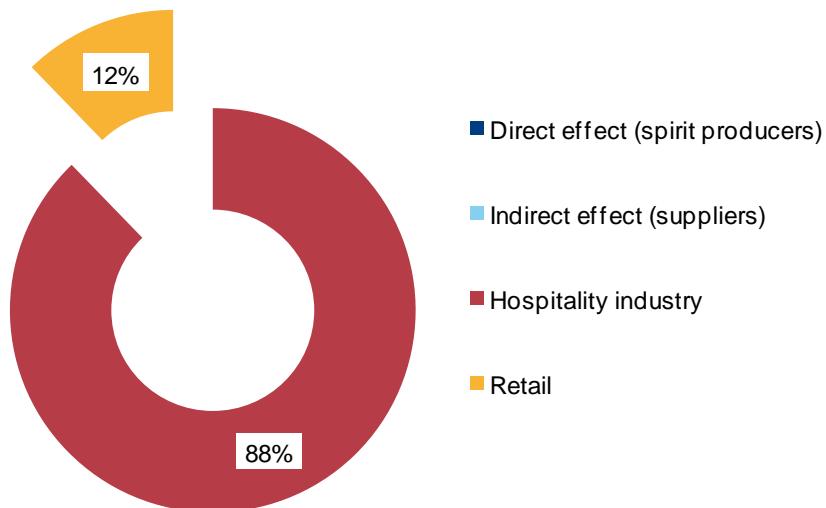
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 1,600 jobs, consisting of 1,400 jobs in the hospitality sector and 200 jobs in the retail sector
- ▶ Together these employees generate almost 26 million euros of value-added. Of this value-added, 22 million euros are in the hospitality sector and 4 million euros are in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 24 million euros.
- ▶ In 2009, consumers spent 75.8 million euros on spirit drinks. This spending included revenues for the government, namely 7.5 million euros in excise revenues and 11.6 million euros in VAT revenues.
- ▶ The data about the production and sales of spirits in Malta were not available or is too unreliable to be presented. So some categories are not applicable or missing.

⁸⁹ Export, import and sales figures are based on data from Eurostat and the European Commission (Excise duty tables). To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.



The employment impact of the spirit drinks sector is shown in the figure below:

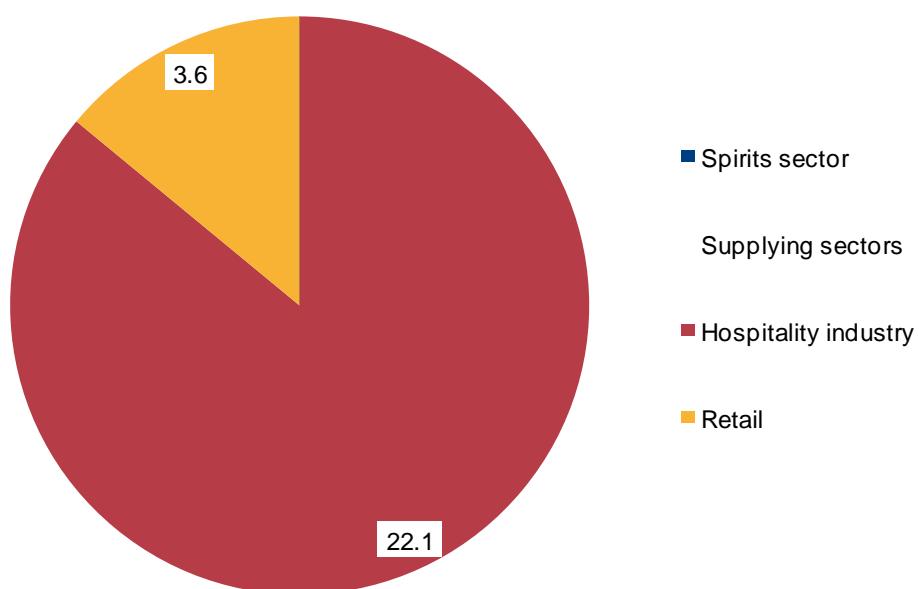
Total employment because of spirits: 1,600 jobs



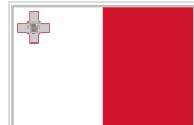
Source: Ernst & Young calculation (2010) (See Annex III for an explanation of the methodology used).

The contribution of the spirit drinks sector to Malta's economy can also be expressed in terms of value-added. The total value-added generated by these 1,600 jobs is estimated at 26 million euros.

**Value added due to the production and sale of spirits:
26 million euros**



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).

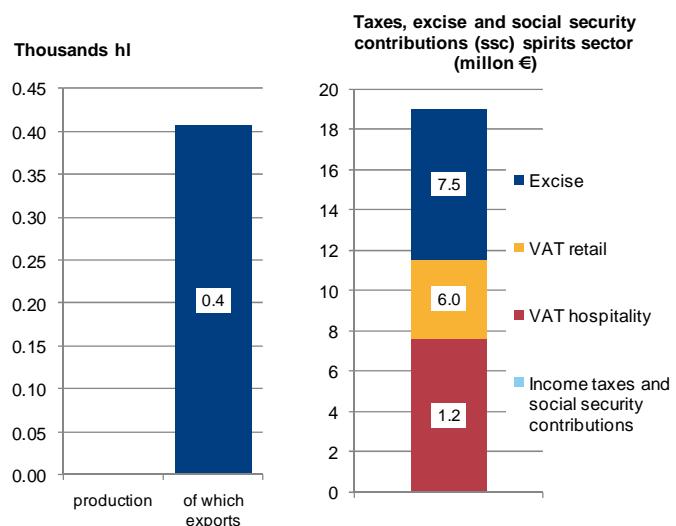


24.2 Industry and market structure, trends and developments

We estimate the sales of spirit drinks in Malta at 18,000 hectolitres annually. A large part of these sales is consumed by the numerous tourists who visit the island each year. Malta is well-known for Maltese liqueurs and liquors such as limuncell, anisette and bajtri. The liquors were introduced more recently. They are considered as innovative and unique products, contributing to the high standards of local craft. Limuncell is made exclusively from lemons grown on the island of Gozo and contains 26% alcohol.

24.3 Direct effect of the spirits sector

The direct economic impact of the spirit drinks sector could not be calculated due to a lack of data. The production value was also not available.



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).

A substantial direct effect of the spirit drinks sector concerns taxes and excises paid by spirits producers and consumers. In 2009, excises reached 7.5 million euros and total VAT income for the Maltese government was estimated at 7.2 million euros. Data on income taxes and social security contributions paid by employees in the spirit drinks sector was not available.

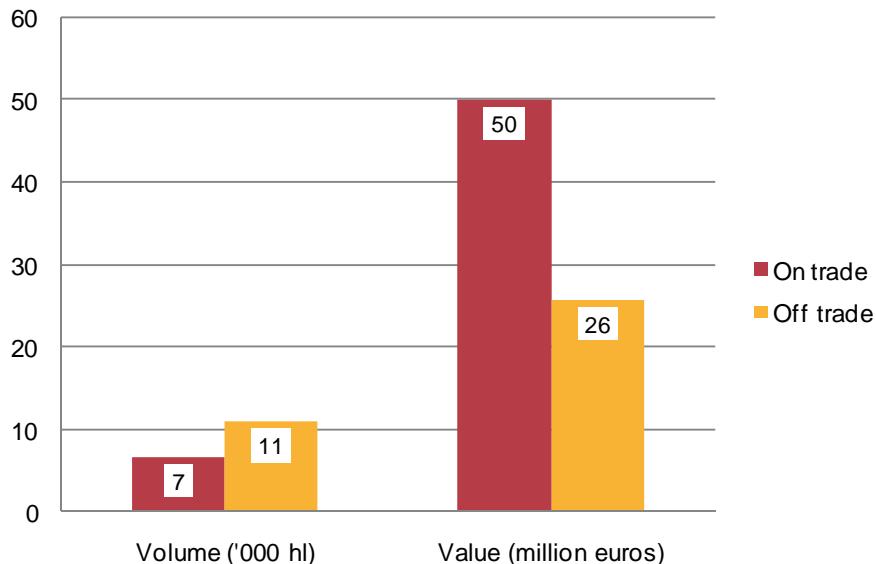
24.4 Retail and hospitality sectors

About 17,800 hectolitres of spirit drinks were consumed in Malta in 2009. It is estimated that about 62% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 38% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of Maltese spirit drinks consumption is estimated at approximately 75.8 million euros (including VAT and excises). Although the hospitality sector is responsible for only 38% of sales in volume, it is responsible for approximately 66% of the sales in value.



Volume and value



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ Approximately 38% of all spirits consumed in Malta is sold by the hospitality sector (on-trade), which means 6,800 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in Maltese pubs and restaurants is 74.10 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 50.0 million euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 42.4 million euros (using an 18% VAT tariff).
- ▶ With an average hospitality turnover of 30,300 euros (excluding VAT) per person, this results in 1,400 hospitality sector jobs attributable to spirits sales.

Retail

The importance of spirits for retail can be similarly assessed:

- ▶ Approximately 62% of total spirits consumption (11,000 hectolitres) in Malta is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 23.35 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 25.7 million euros. Total consumer spending excluding VAT is thus 21.8 million euros.
- ▶ With turnover per employee estimated at 111,400 euros (excluding VAT), this means 200 people owe their jobs to retail spirits sales.

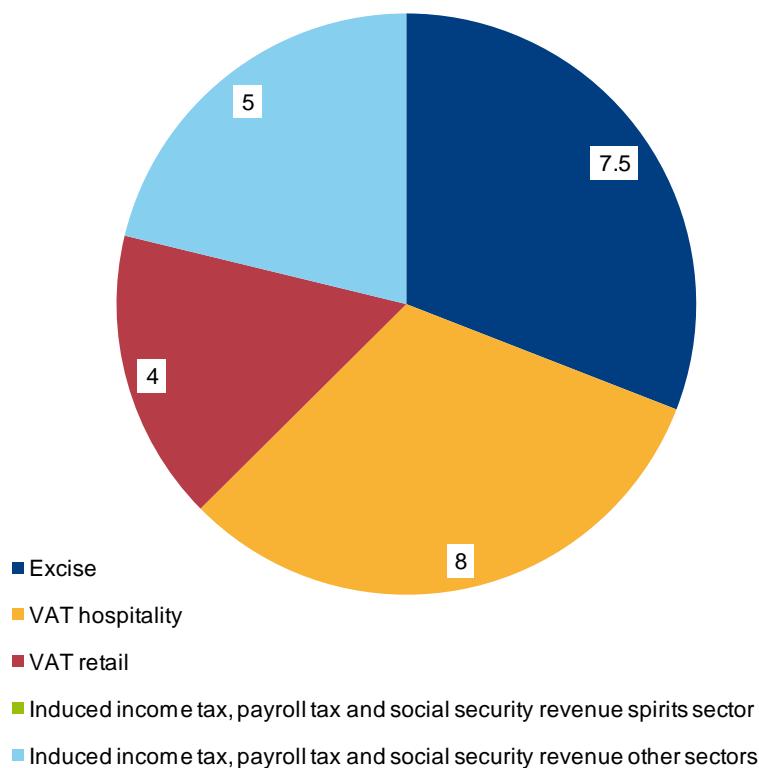


24.5 Government revenues

The revenues of excise, VAT and income-related contributions due to spirit drinks production and sales are estimated at 24 million euros:

- ▶ VAT revenues are estimated at 11.6 million euros. The main share of these VAT revenues is generated in the hospitality sector.
- ▶ Total excise revenues on spirits are 7.5 million euros.
- ▶ Income-related revenues due to the induced employment effect of spirits consumption are approximately 5.1 million euros. They consist of 2.0 million euros in income tax, approximately 1.5 million euros in social security contributions paid by employees and 1.5 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 24 million euros



Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).



25 The Netherlands: Economic impact of spirits

25.1 Highlights of the economic impact

Key figures	
Production (in hl final product)	1,103,000
Exports (in hl final product)	571,300
Imports (in hl final product)	275,900
Domestic sales (in hl final product)	744,200
Production value of spirit drinks sector	€ 301 million
Consumer spending on spirit drinks	€ 2 billion
Spirits distributing companies	436
Spirits producing companies	54
Economic impact	
Employment due to the production and sale of spirit drinks	23,900 employees
Value-added due to the production and sale of spirit drinks	€ 617 million
Government revenues due to the production and sale of spirit drinks	€ 1,061 million

*Sources key figures: estimates based on figures from Commissie Gedistilleerd (PD-CG), Eurostat and IWSR.
Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).*

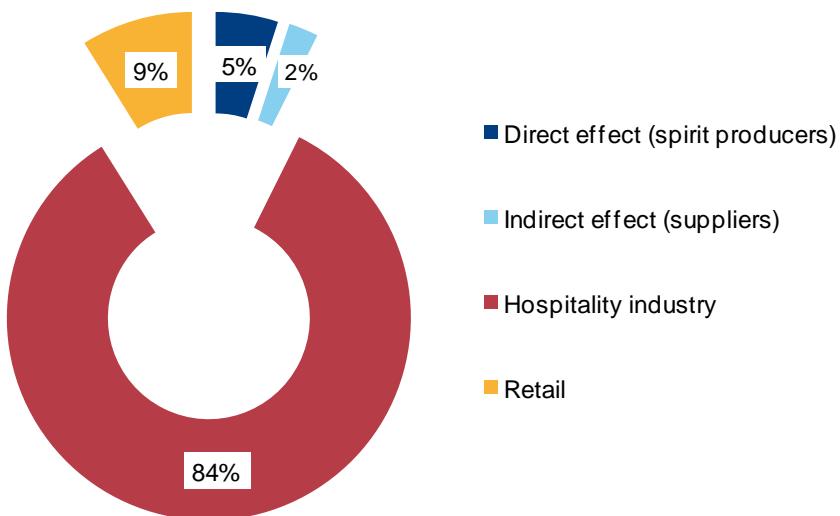
The economic impact of the spirits sector can be expressed as follows:

- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 23,900 jobs, consisting of 1,200 jobs in the spirit drinks sector, 600 jobs in the supplying sectors, 20,000 jobs in the hospitality sector and 2,100 jobs in the retail sector.
- ▶ Together these employees generate 617 million euros of value-added. Of this value-added, 94 million euros are generated in the spirit drinks sector, 40 million euros in the supplying sectors, 387 million euros in the hospitality sector and 97 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 1,061 million euros.
- ▶ In 2009, consumers spent 2 billion euros on spirit drinks. This spending included considerable revenues for the government, namely 306 million euros in excise revenues and 323 million euros in VAT revenues.



The employment impact of the spirits sector is shown below:

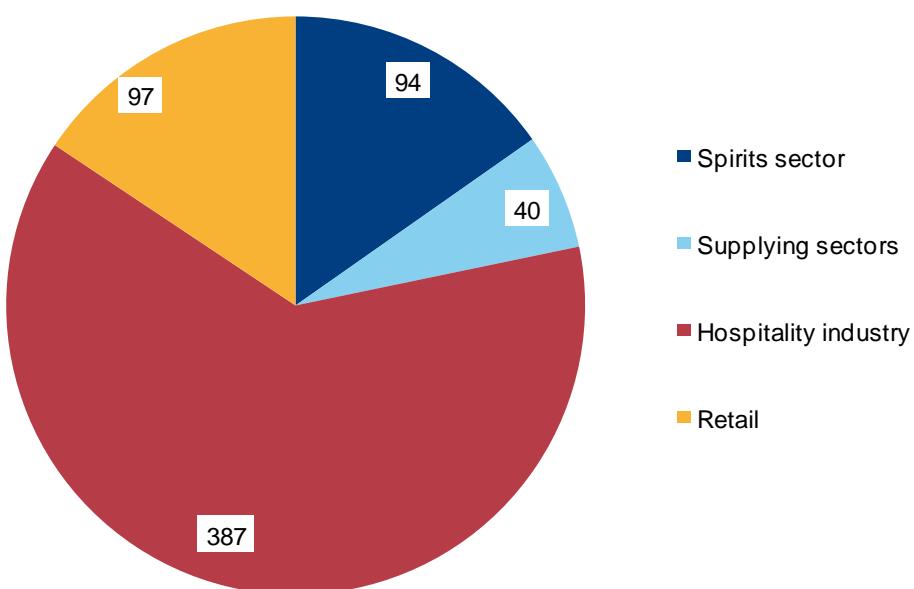
Total employment because of spirits: 23,900 jobs



Source: Ernst & Young calculation (2010) (See Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Dutch economy can also be expressed in terms of value-added. The total value-added generated by these 23,900 jobs is estimated at 617 million euros.

**Value added due to the production and sale of spirits:
617 million euros**



Source: Ernst & Young calculation (2010)



The spirits sector's share in overall value-added arising from spirits production and sales is 15%, which is far higher than the spirits sector's share in total employment arising from spirits, which is 5%. An explanation for this is the high productivity of employees in the Dutch spirits sector.

25.2 Industry and market structure, trends and developments

In 2009, Dutch spirits producers made approximately 1,103,000 hectolitres of spirits. The most popular type of spirit in the Netherlands is jenever (also referred to as genever or Dutch gin). Traditionally jenever is distilled from barley corn and rye and seasoned with the juice of juniper berries. Last year approximately 5,160 hectolitres of this traditional type of jenever (old jenever) were consumed in the Netherlands. However young jenever, a white spirit that contains more ethyl alcohol and less malt spirit and sugar than old jenever, is now more often consumed. The Dutch consumed up to 150,084 hectolitres of young jenever in 2009.

As shown in the table below, flavoured spirits (especially liqueurs) and whisk(e)y are also fairly popular in the Netherlands. Although jenever is still the most-consumed type of spirit drink in the Netherlands, there has been a continuous development since the 1980s where imported spirits are gaining market share at the expense of domestic spirits. In 2006, approximately 60 percent of spirits consumed were still domestic; in 2009 that market share rose to 67 percent. Another notable development in the Dutch spirits market is the steep decline in the consumption of premixes. In 2005 and 2006, the Dutch media devoted considerable attention to the negative aspects surrounding alcohol consumption among young people, especially targeting premixes as its cause. But the current consumption of premixes is only 90,000 hectolitres (final product), which is far lower than it was for example in 2003, when 300,000 hectolitres of premixes were consumed. The following table shows the production and consumption of various types of spirits in the Netherlands. The other white spirits category includes young jenever.

Type of spirits	Production	Consumption	Exports	Imports
Whisk(e)y	700 hl	89,000 hl	-	88,300 hl
Vodka	291,300 hl	35,000 hl	277,500 hl	22,800 hl
Other white spirits	164,000 hl	224,200 hl	-	61,200 hl
Brandy	43,900 hl	52,000 hl		8,100 hl
Flavoured spirits	434,900 hl	173,300 hl	261,800 hl	71,500 hl
Under 15% alcohol	133,200 hl	156,800 hl	-	23,600 hl
Other spirits	35,000 hl	12,900 hl	32,000 hl	400 hl
Total spirits	1,103,000 hl	744,200 hl	571,300 hl	275,900 hl

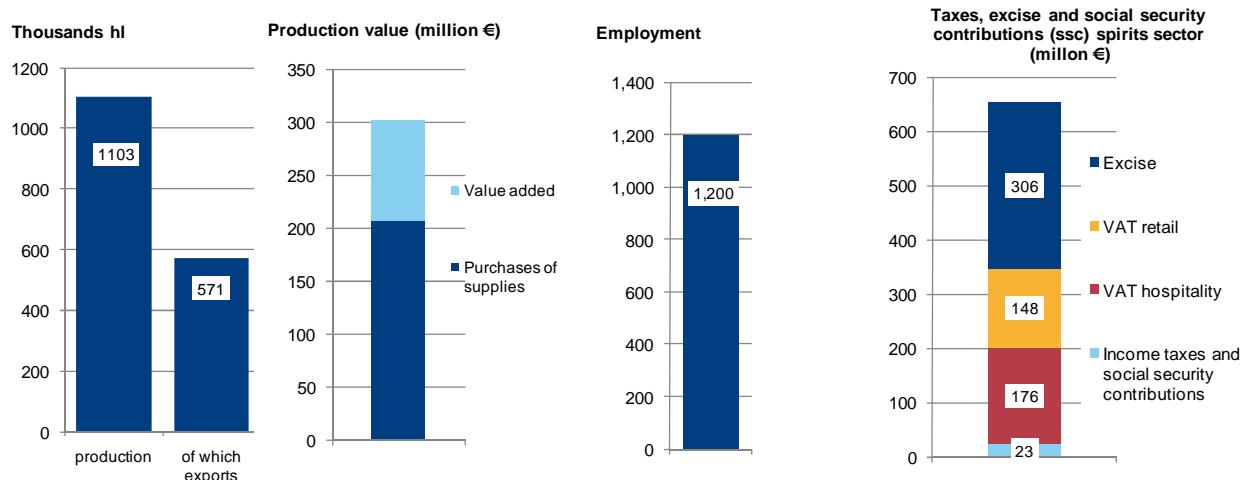
Source: Commissie gedistilleerd (2010)

There have been some changes to spirits taxation in recent years. In 2004, excise was increased from 1,504 euros to 1,775 euros per hectolitre of pure alcohol. After this increase, spirits sales dropped from 250,000 hectolitres of pure alcohol per year to 225,000 hectolitres. In 2006, the excise rate was restored to 1,504 euros per hectolitre of pure alcohol again, but this did not restore the consumption volume. Since 2006 the sales of spirits have remained stable at approximately 205,000 litres of pure alcohol. Beer consumption has declined over the same period, while wine is gaining share.



25.3 Direct effect of the spirits sector

Approximately 1,200 people are employed by Dutch spirits producers. Together they generate a production value of 301 million euros, of which approximately 31% (94 million euros) is value-added. The remainder (207 million euros) is spent on purchasing goods and services in supply sectors.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirits sector concerns taxes and excises paid by spirits producers and consumers. Total government revenue from excises and VAT are estimated at 306 and 324 million euros respectively. Personal direct taxes, social security contributions and payroll taxes paid by employees and employers in the spirits sector add up to another 23 million euros.

25.4 Economic impact of spirits producers on goods and services suppliers

Because only 31% of the production value of Dutch spirits producers stays within the firms as value-added, the other 69% (207 million euros) accrues to a number of suppliers. More than a third of all the indirect employment generated by the spirits sector is generated amongst suppliers of raw materials. Another sector which benefits substantially from the spirits sector is the services sector. As the primary employment effect can be estimated at about 65% of the total impact, the total impact will be about 600 jobs.⁹⁰

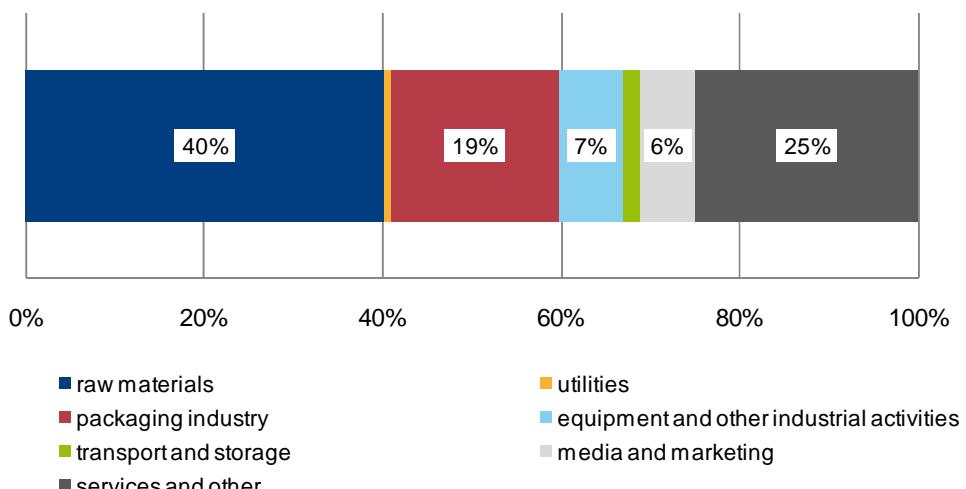
⁹⁰ The calculations of these figures are based on the purchase management from one spirits-producing company in the Netherlands. Since we have only received data from one producer, the figures in this section are not as reliable as the indirect employment figures for some of the other countries and should be considered as 'rough' estimates.



Sectors	Stimulus	Stimulus for the Netherlands		Turnover per employee (in €)	Number of employees
		(million €)	%		
Raw materials	107	53.0%	57	388,200	147
Utilities	4	100.0%	4	1,571,500	3
Packaging industry	72	37.0%	27	388,200	69
Equipment	10	100.0%	10	388,200	27
Transport	2	63.0%	1	200,400	6
Media, marketing	2	100.0%	2	90,500	23
Services	8	100.0%	8	90,500	91
Total	207	-	110	-	366
First-round impact as % of total impact					65%
Total indirect effect of spirits sector					536

Source: Ernst & Young Questionnaire among spirits producers (2010) Eurostat (2007)

Indirect employment: 600 jobs



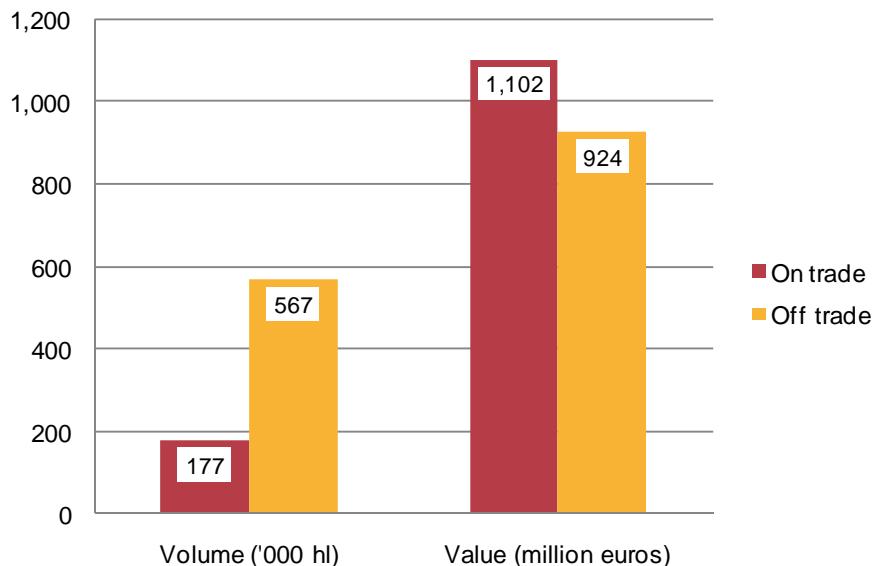
25.5 Retail and hospitality sectors

About 1.1 million hectolitres of spirit drinks were consumed in the Netherlands in 2009. It is estimated that about 76% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 24% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of Dutch spirit drinks consumption is estimated at approximately 750.9 million euros (including VAT and excises). Although the hospitality sector is responsible for only 24% of sales in volume, it is responsible for approximately 54% of the sales in value.



Volume and value



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ Approximately 24% (177,100 hl) of the total spirits consumption in the Netherlands is sold by the hospitality sector (on-trade).
- ▶ The average consumer price of spirits is 62.15 euros per litre, (incl. 19% VAT), so the total consumer spending on spirits in pubs and restaurants is approx. 1.1 billion euros
- ▶ Net consumer spending on spirits is 925.7 million euros (excl. VAT).
- ▶ The average turnover per person employed in the Dutch hospitality sector is 46,200 euros per year.
- ▶ It can be calculated that 20,000 jobs in the Dutch hospitality sector can be attributed to spirits sales.
- ▶

Retail

The importance of the spirits sector for retail can be similarly estimated:

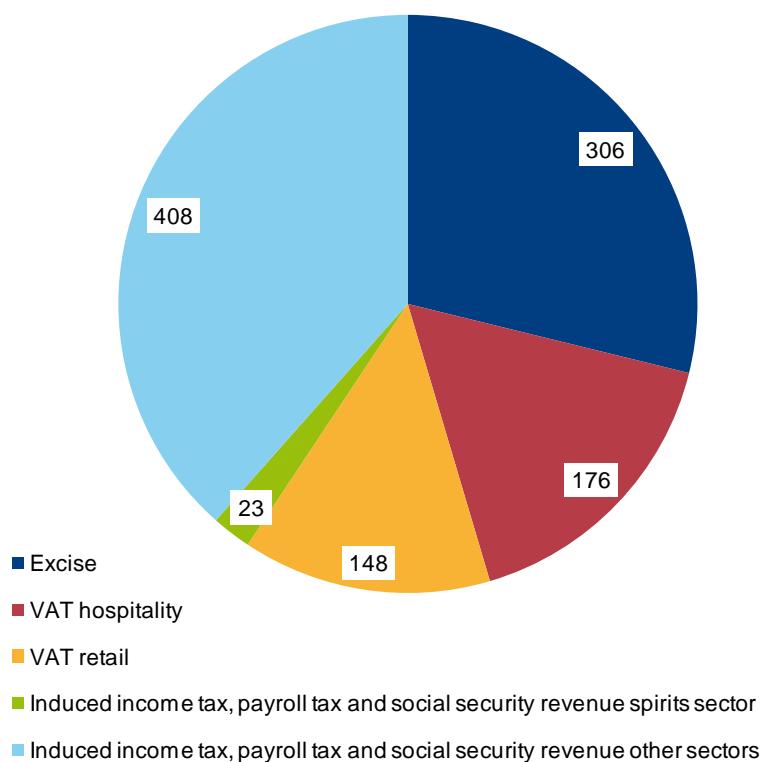
- ▶ About 76% of total spirits consumption (567,100 hl) in the Netherlands is sold by supermarkets and other retail companies.
- ▶ With an average consumer price of 16.3 euros per litre (incl. 19% VAT), total retail consumer spending on spirits is 923.9 million euros.
- ▶ Total consumer spending on retail spirits is estimated at 776.4 million euros (excl VAT).
- ▶ Because the annual turnover per employee in the retail sector is estimated at 364,900 euros, this means almost 2,100 people owe their jobs to retail spirits sales.



25.6 Government revenues

- ▶ The revenues of excise, VAT and income-related contributions due to spirit drinks production and sales are estimated at
- ▶ 1,061 million euros:
- ▶ The VAT revenues are estimated at 323 million euros. The main share of these VAT revenues is generated in the hospitality sector.
- ▶ Total excise revenues on spirits are 306 million euros.
- ▶ In total the Dutch government received approximately 432 million euros in income-related revenues due to spirits production and sales. This amount consists of 155 million euros in income tax, 159 million euros in social security contributions paid by employees and 118 million euros in social security contributions and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 1,061 million euros



Source: Ernst & Young calculation (2010)



26 Poland: Economic impact of spirits

26.1 Highlights of the economic impact

Key figures	
Production (in hl final product)	3,200,000
Exports (in hl final product)	400,000
Imports (in hl final product)	370,000
Domestic sales (in hl final product)	3,170,000
Production value of spirit drinks sector	€3.4 billion
Consumer spending on spirit drinks	€ 3.7 billion
Spirits distributing companies	265
Spirits producing companies	136
Economic impact	
Employment due to the production and sale of spirit drinks	93,200 employees
Value-added due to the production and sale of spirit drinks	€ 2.1 billion
Government revenues due to the production and sale of spirit drinks	€ 2.6 billion

Sources key figures: estimates based on figures from Polish Spirits Industry (PSI), Eurostat and IWSR. Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

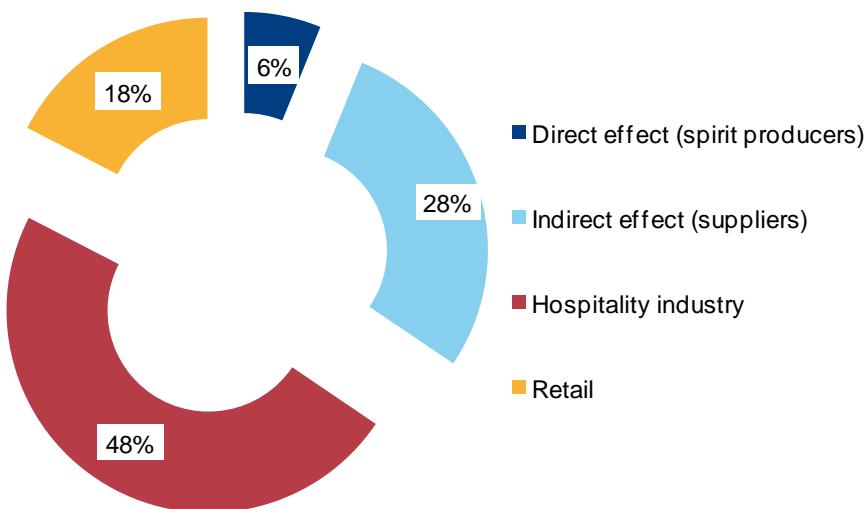
The economic impact of the spirits sector can be expressed as follows:

- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 93,200 jobs, consisting of 5,700 jobs in the spirit drinks sector; 26,400 jobs in the supplying sectors; 44,800 jobs in the hospitality sector and 16,300 jobs in the retail sector
- ▶ Together these employees generate 2.1 billion euros of value-added. Of this value-added, 860 million euros are generated in the spirit drinks sector, 645 million euros in the supplying sectors, 363 million euros in the hospitality sector and 239 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 2.6 billion euros.
- ▶ In 2009, consumers spent 3.7 billion euros on spirit drinks. This spending included considerable revenues for the government, namely 1.5 billion euros in excise revenues and 667 million euros in VAT revenues.



The employment impact of the spirits sector is shown below:

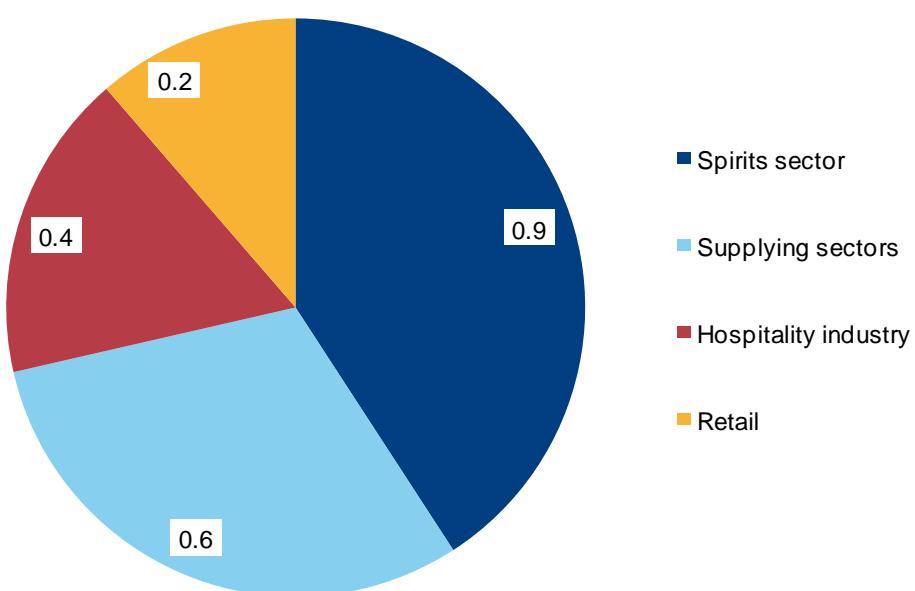
Total employment because of spirits: 93,200 jobs



Source: Ernst & Young calculation (2010) (See Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Polish economy can also be expressed in terms of value-added. Total value-added is 2.1 billion euros.

**Value added due to the production and sale of spirits:
2.1 billion euros**



Source: Ernst & Young calculation (2010)



The share of the spirits sector in overall value-added arising from the production and sale of spirits is estimated at 41%. This is more than the share of direct employment connected to spirits-producing companies as a fraction of total employment arising from the production and sale of spirits (6%). An important explanation is that productivity in terms of value-added per employee in the Polish spirits sector is relatively high compared to other sectors.

26.2 Industry and market structure, trends and developments

The annual production volume of spirits in Poland amounts to approximately 3,200,000 hectolitres of final product. This makes Poland one of the largest producers of spirits in Europe. The vast majority (approximately 85 percent) of the Polish spirits production in hectolitres of pure alcohol consists of vodka. The production of vodka has a long-standing tradition in Poland and goes back to the Middle Ages. Poland is the largest vodka producer in the EU. The first types of this spirit were largely used as a medicine to increase fertility and lust. Some of the well-known Polish products that are still on the market have a rich tradition and originated in the 16th and 17th centuries.

The spirit drinks consumption per capita is relatively high in Poland. While in most European countries the average consumption per capita is approximately 5 litres of spirits per year, in Poland this figure is 8.⁹¹ Besides these consumption figures, there is also a rather sizable black market. According to the representative body of the Polish Spirits Industry (PSI), the volume of these illegal sales increased slightly in recent years. In 2009, it was estimated that the share of the black market in the total consumption volume amounted to approximately 9 to 10 percent, while in 2008 this estimation was 5 to 7 percent. However, illegal sales of spirits are still much lower than in the period 2002 to 2005 when estimations of the share of these sales varied from 20 percent to 45 percent.

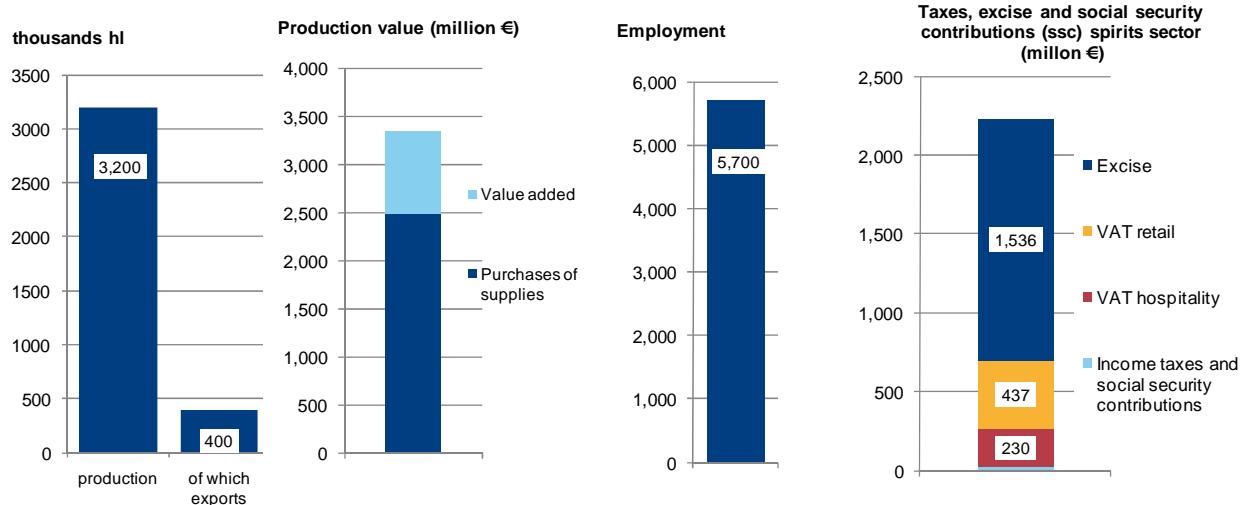
In 2008, the Polish government decided to increase the excise on spirits by 9 percent resulting in an excise rate of 4,960 zlotys (1,168.34 euros) per hectolitre of pure alcohol. The increase brought about a substantial consumption volume decline. Estimations of the extent of this decline vary from 6.5 percent to 12.5 percent. Prior to the excise rate increase of 2008, the government had already increased the excise rate in 2005 by 3.4 percent.

⁹¹ IWSR (2009) *The IWSR Yearbook 2009*.



26.3 Direct effect of the spirits sector

The production value of the Polish spirits sector is estimated at 3.35 billion euros. The industry employs approximately 5,700 workers. The sector generates 860 million euros of added-value. The direct revenues (excise, VAT and income-related revenues from employees of the spirits companies) which the Polish government receives amount to approximately 2.2 billion euros. Excise and VAT revenues accounted for 1.5 billion and 667 million euros respectively. Employees and employers in the spirits sector paid 29 million euros in income taxes, social security contributions and payroll taxes.



Source: Ernst & Young calculation (2010)

26.4 Economic impact of spirits producers on goods and services suppliers

Polish spirits producers spent a total of 2.5 billion euros on purchased goods and services. On average, 63% of each euro spent on goods and services is spent domestically. The indirect effect of the spirits sector on other sectors in the country is thus considerable.

Sectors	Stimulus	Stimulus for Poland	Turnover per employee	Number of employees
	(million €)	%	(million €)	(in €)
Raw materials	397.43	51.9%	206.12	85,800
Utilities	45.65	100.0%	45.65	20,000
Packaging industry	724.83	72.1%	522.31	85,800
Equipment	17.09	97.0%	16.57	85,800
Transport	124.25	99.0%	123.01	59,000
Media, marketing	226.40	2.0%	4.53	43,200
Services	954.20	18.0%	171.76	43,200
Total	2,489.85	-	1,089.95	-
First-round impact as % of total impact				65%
Total indirect effect of spirits sector				26,355

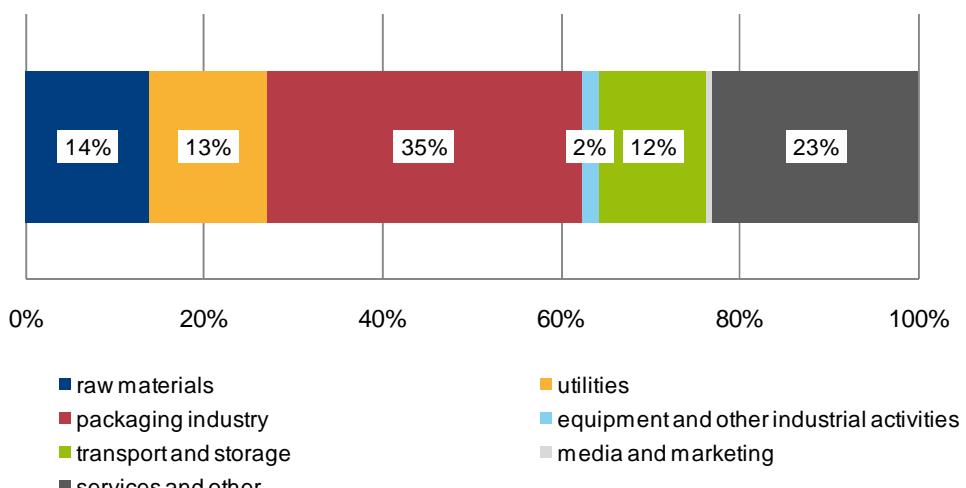
Source: Ernst & Young calculation (2010)



More than half of all the indirect employment due to the spirits sector is generated within the packaging industry. Other important effects are seen in raw materials, transport and storage, and services and other. The total first-round employment effect of the spirits sector on supplying sectors is over 17,100 employees. Because this primary effect can be estimated at about 65% of the total impact, the total impact will be about 26,400 jobs.

Indirect employment effects are illustrated below:

Indirect employment: 26,400 jobs



Source: Ernst & Young calculation (2010)

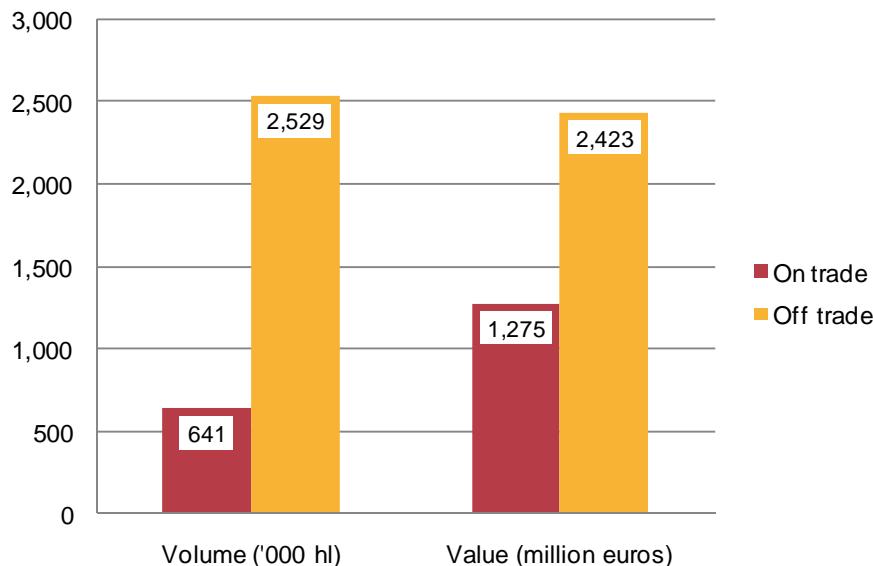
26.5 Retail and hospitality sectors

About 3.2 million hectolitres of spirit drinks were consumed in Poland in 2009. It is estimated that about 80% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 20% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of Polish spirit drinks consumption is estimated at approximately 3.7 billion euros (including VAT and excises). Although the hospitality sector is responsible for only 20% of sales in volume, it is responsible for approximately 34% of the sales in value.



Volume and value



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ About 20% of all spirits consumed in Poland is sold by the hospitality sector (on-trade), which means approximately 640,500 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in Polish pubs and restaurants is estimated at 19.90 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 1.3 billion euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 1 billion euros (using a 22% VAT tariff).
- ▶ With an average hospitality turnover of 23,300 euros (excluding VAT) per person, this results in 44,800 hospitality sector jobs attributable to spirits sales.

Retail

The importance of the spirits sector for retail can be similarly assessed:

- ▶ Approximately 80% of total spirits consumption (2.5 million hl) in Poland is sold by convenience shops, supermarkets and other retail outlets.
- ▶ With an average consumer price of 9.6 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 2.4 billion euros. Total consumer spending excluding VAT is thus 2.0 billion euros.
- ▶ With turnover per employee estimated at 122,200 euros (excluding VAT), this means 16,300 people owe their jobs to retail spirits sales.

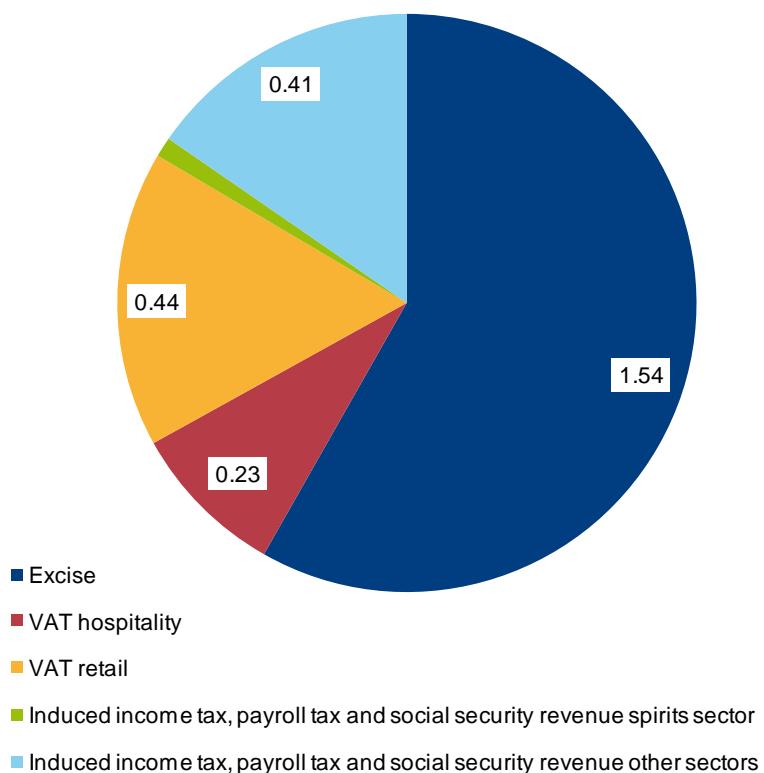


26.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 2.6 billion euros:

- ▶ VAT revenues are estimated at 667 million euros. The main share of these VAT revenues is generated in the retail sector.
- ▶ Total excise revenues on spirits are 1.5 billion euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 435 million euros. They consist of 99 million euros in income tax, 168 million euros in social security contributions paid by employees and 169 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 2.6 billion euros



Source: Ernst & Young calculation (2010)



27 Portugal: Economic impact of spirits

27.1 Highlights of the economic impact

Key figures ⁹²	
Production (in hl final product)	152,800
Exports (in hl final product)	Unknown
Imports (in hl final product)	Unknown
Domestic sales (in hl final product)	298,300
Production value of spirit drinks sector	€ 42.7 million
Consumer spending on spirit drinks	€ 771.8 million
Economic impact	
Employment due to the production and sale of spirit drinks	16,400 employees
Value-added due to the production and sale of spirit drinks	€ 216 million
Government revenues due to the production and sale of spirit drinks	€ 315 million

Sources key figures: estimates based on figures from Eurostat, IWSR and European Commission (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirits sector can be expressed as follows:

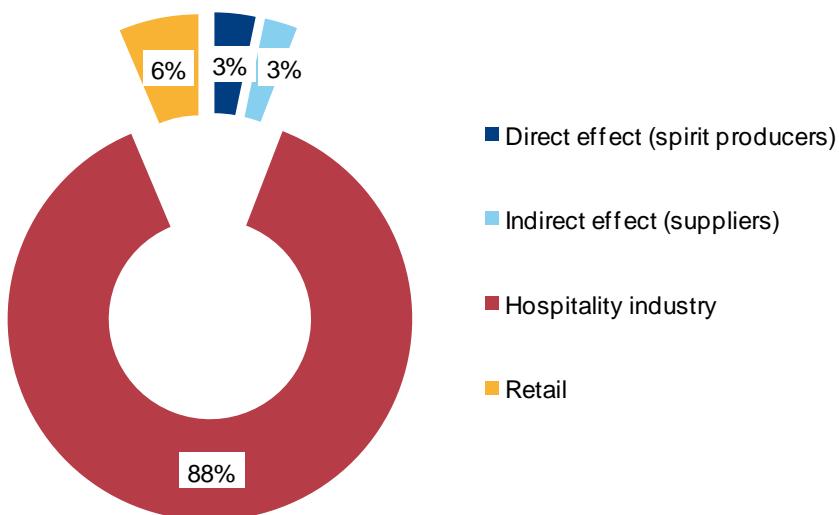
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 16,400 jobs, consisting of 500 jobs in the spirit drinks sector; 400 jobs in the supplying sectors; 14,400 jobs in the hospitality sector and 1,000 jobs in the retail sector.
- ▶ Together these employees generate 216 million euros of value-added. Of this value-added, 17 million euros are generated in the spirit drinks sector, 11 million euros in the supplying sectors, 168 million euros in the hospitality sector and 20 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 315 million euros.
- ▶ In 2009, consumers spent 771.8 million euros on spirit drinks. This spending included considerable revenues for the government, namely 90 million euros in excise revenues and 129 million euros in VAT revenues.

⁹² Production and sales figures are based on data from Eurostat and the European Commission (Excise duty tables). To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv. There are no (reliable) export and import figures available on Portugal from these sources.



The employment impact of the spirits sector is shown below:

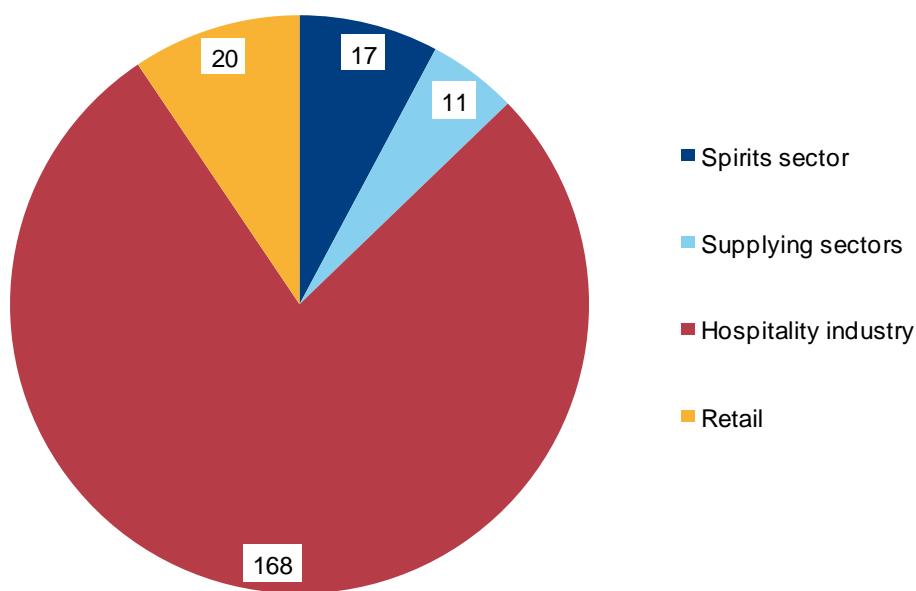
Total employment because of spirits: 16,400 jobs



Source: Ernst & Young calculation (2010) (See Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Portuguese economy can also be expressed in terms of value-added. The total value-added generated by these 16,400 jobs is estimated at 216 million euros.

**Value added due to the production and sale of spirits:
216 million euros**



Source: Ernst & Young calculation (2010)



The share of the spirit drinks sector in the overall value-added due to the production and sale of spirits is 8%, which is higher than the share of the spirit drinks sector in total employment due to spirit drinks (3%). An explanation for this is the high productivity of employees in the spirit drinks sector, compared against sectors such as retail and hospitality in terms of value-added.

27.2 Industry and market structure, trends and developments

Portugal is the home of a wide range of alcoholic products, wine being the most important.⁹³ The production of distilled spirits has remained at a low level and concerns mostly distilled spirits derived from grapes.

In 2009, the consumption of spirits per capita was 3 litres per person.⁹⁴ The consumption of distilled spirits has been fluctuating in recent years.⁹⁵ The Portuguese have shifted their attention from foreign products to Portuguese products and enjoying what is Portuguese-produced. This movement is most evident in wine, but also visible in more traditional drinks such as aguardente and liqueurs. Aguardente has several varieties. Some of them are distilled from wine, others are made of pomace as a way of preventing waste after the wine season. The most common way to drink it is added to espresso, in what is known as a café com cheirinho (coffee with scent). The level of consumption is undoubtedly influenced by the number of visitors to Portugal. In 2007, Portugal was visited by more than 12 million foreign tourists who spent a considerable amount of their money in bars and restaurants.⁹⁶

The excise rate on spirits is 1001.35 per hectolitre of pure alcohol.⁹⁷ A reduced rate is levied on spirits produced by small distilleries with a production of less than 10 hectolitres of alcohol. This rate is 50 percent of the standard rate. The excise rate is changed yearly according to the inflation.

Other relevant developments and factors are⁹⁸:

- ▶ On 1 January 2008 a smoking ban was introduced in Portuguese pubs and restaurants.
- ▶ Although average labour costs in Portugal have increased over recent years, they are still relatively low compared to other Western European countries.

27.3 Direct effect of the spirits sector

Portuguese spirits companies employ 500 people. The production value of Portuguese spirits in 2010 can be estimated at 42.7 million euros. Approximately 39% of production value stays within the spirits company as value-added, which means that 61% of total value produced is transferred to supplying firms in various sectors, approximately 25.9 million euros.

⁹³ Österberg E. and Karsson, T., Alcohol Policies in EU Member States and Norway, A Collection of Country Reports.

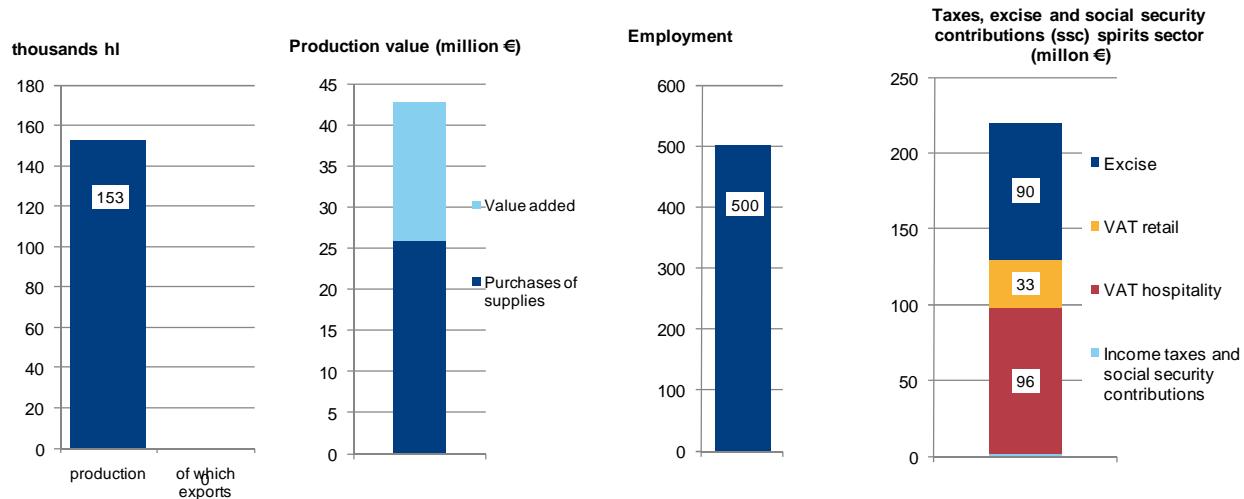
⁹⁴ IWSR, 2009

⁹⁵ Österberg E. and Karsson, T., Alcohol Policies in EU Member States and Norway, A Collection of Country Reports.

⁹⁶ Instituto Nacional de Estatística, Estatísticas do Turismo, 2007

⁹⁷ European Commission, excise tables 2005, 2006, 2007, 2008, 2009 and 2010.

⁹⁸ Ernst & Young, The Contribution made by Spirits to the European Economy, 2010.



Source: Ernst & Young calculation (2009)

The government also benefits from the production and sale of spirits. Excise and VAT revenues accounted for 90 million and 129 million euros respectively. Employees and employers in the spirits sector paid approximately 1 million euros in income taxes, social security contributions and payroll taxes.

27.4 Economic impact of spirits producers on goods and services suppliers

Because 61% of the total production value of Portuguese spirits producers is spent with suppliers, spirits producers exercise a direct economic impact on supplying sectors. More than 90% of supplies are bought domestically.

Sectors	Stimulus (million €)	Stimulus for Portugal		Turnover per employee ⁹⁹ (in €)	Number of employees
		%	(million €)		
Raw materials	4.87	100.0%	4.87	101,400	48
Utilities	0.52	100.0%	0.52	666,900	1
Packaging industry	8.04	100.0%	8.04	101,400	79
Equipment	1.25	91.9%	1.15	101,400	11
Transport	4.18	90.0%	3.76	148,000	25
Media, marketing	2.81	77.8%	2.19	48,600	45
Services	4.23	79.5%	3.37	48,600	69
Total	25.90	-	24.00	-	279
First-round impact as % of total impact					65%
Total indirect effect of spirits sector					429

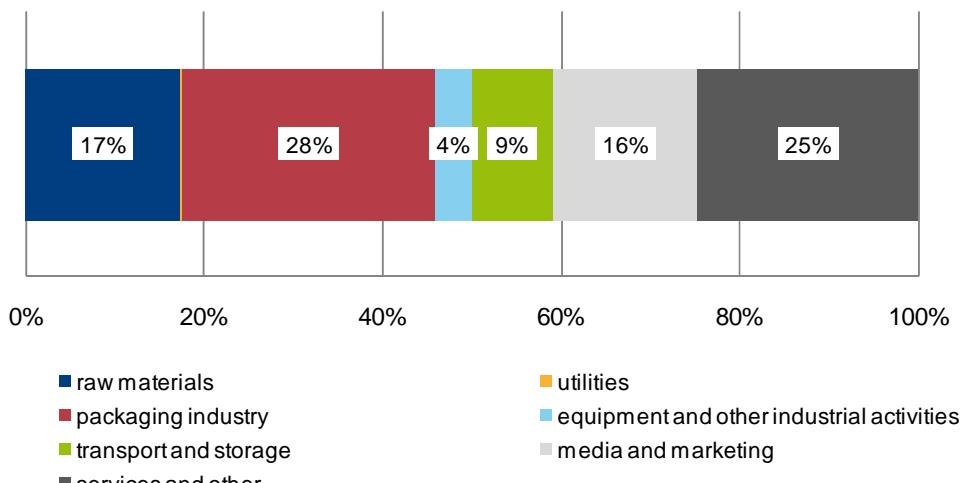
Source: Ernst & Young calculation (2010); Eurostat (2006)

The largest proportion of supplies is purchased from the services sector, while there is also significant spending on packaging, media and marketing and suppliers of raw materials. The total first-round employment effect of the spirits sector on supplying sectors is over 300 employees. As this primary effect can be estimated at approximately 65% of the total impact, the total impact will be approximately 400 jobs.

⁹⁹ Turnover per employee is obtained from Eurostat.



Indirect employment: 400 jobs

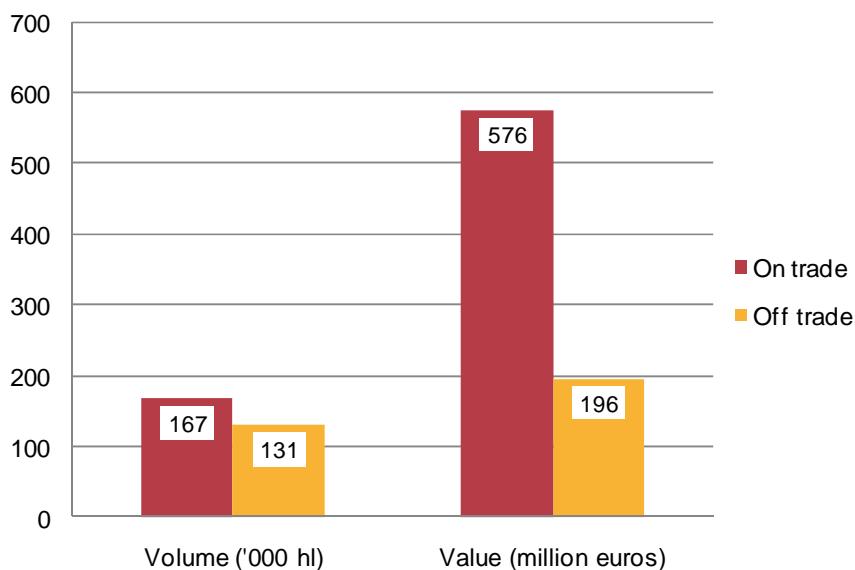


27.5 Retail and hospitality sectors

Approximately 298,300 hectolitres of spirit drinks were consumed in Portugal in 2009. It is estimated that approximately 44% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The other 56% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of spirit drinks consumption in Portugal is estimated at approximately 772 million euros (including VAT and excises). The hospitality sector is responsible for only 56% of sales in volume and 75% of the sales in value.

Volume and value



Source: Ernst & Young calculation (2010)



Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ Approximately 56% of all spirits consumed in Portugal is sold by the hospitality sector (on-trade), which means almost 167,000 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in Portuguese pubs and restaurants is estimated at 41.2 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 576 million euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 479 million euros (using a 20% VAT tariff).
- ▶ With an average hospitality turnover of 33,400 euros (excluding VAT) per person, this results in 14,400 hospitality sector jobs attributable to spirits sales.

Retail

The importance of the spirits sector for retail can be similarly assessed:

- ▶ Approximately 44% of total spirits consumption (131,000 hectolitres) in Portugal is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 15.0 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 196 million euros. Total consumer spending excluding VAT is thus 166 million euros.
- ▶ With turnover per employee estimated at 156,300 euros (excluding VAT), this means 1,000 people owe their jobs to retail spirits sales.

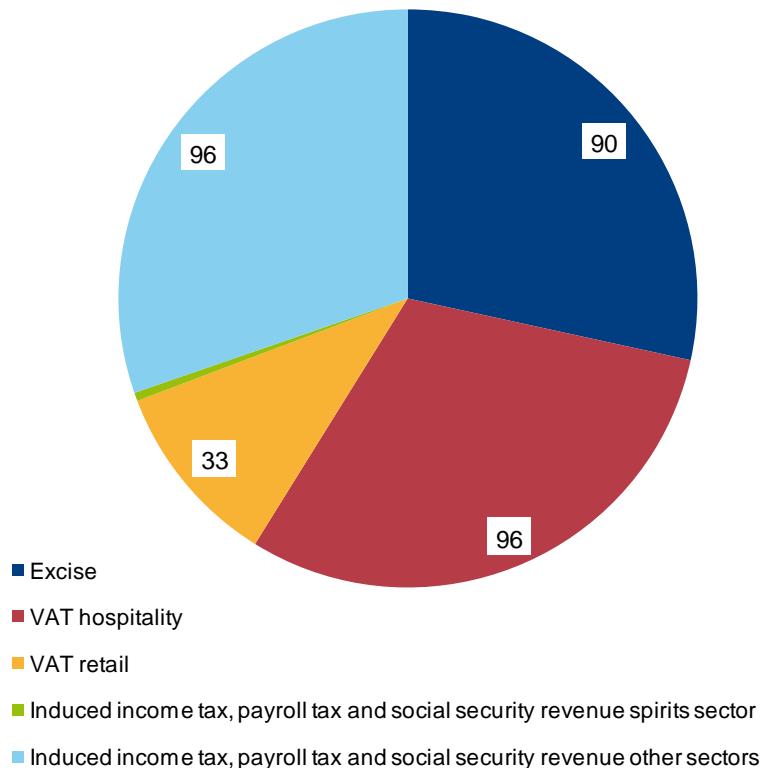
27.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 315 million euros:

- ▶ VAT revenues are estimated at 127 million euros. The main share of these VAT revenues is generated in the retail sector.
- ▶ Total excise revenues on spirits are 90 million euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 97 million euros. They consist of 22 million euros in income tax, 22 million euros in social security contributions paid by employees and 52 million euros in social security taxes and payroll taxes paid by employers.



Government revenues due to the production and sale of spirits: 315 million euros



Source: Ernst & Young calculation (2010)



28 Romania: Economic impact of spirits

28.1 Highlights of the economic impact

Key figures ¹⁰⁰	
Production (in hl final product)	201,000
Exports (in hl final product)	18,600
Imports (in hl final product)	105,300
Domestic sales (in hl final product)	287,700
Production value of spirit drinks sector	€ 270 million
Consumer spending on spirit drinks	€ 132 million
Economic impact	
Employment due to the production and sale of spirit drinks	14,600 employees
Value-added due to the production and sale of spirit drinks	€ 137 million
Government revenues due to the production and sale of spirit drinks	€ 116 million

Sources key figures: estimates based on figures from Eurostat, IWSR and European Commission (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirits sector can be expressed as follows:

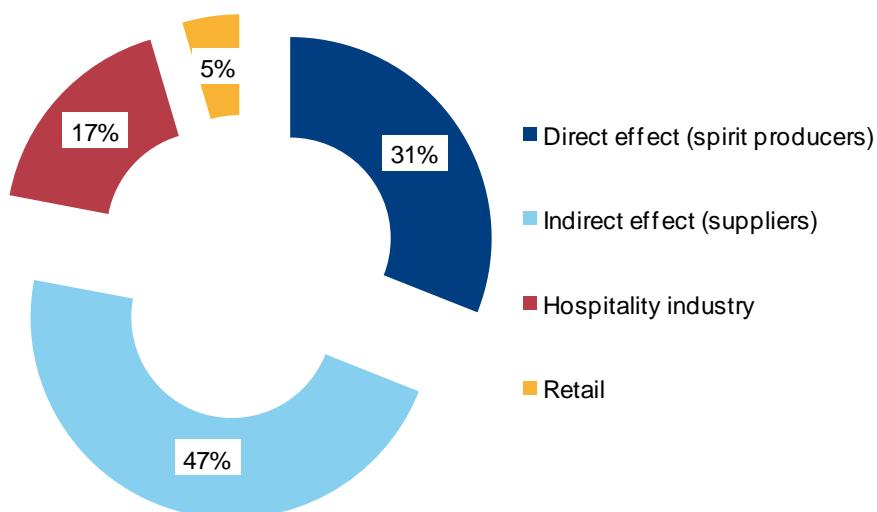
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 14,600 jobs, consisting of 4,500 jobs in the spirit drinks sector; 6,800 jobs in the supplying sectors; 2,500 jobs in the hospitality sector and 700 jobs in the retail sector
- ▶ Together these employees generate 137 million euros of value-added. Of this value-added, 42 million euros are generated in the spirit drinks sector, 75 million euros in the supplying sectors, 14 million euros in the hospitality sector and 6 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 116 million euros.
- ▶ In 2009, consumers spent 132 million euros on spirit drinks. This spending included revenues for the government, namely 65 million euros in excise revenues and 21 million euros in VAT revenues.

¹⁰⁰ Production, export, import and sales figures are based on data from Eurostat and the European Commission (Excise duty tables). To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.



The employment impact of the spirits sector is shown below:

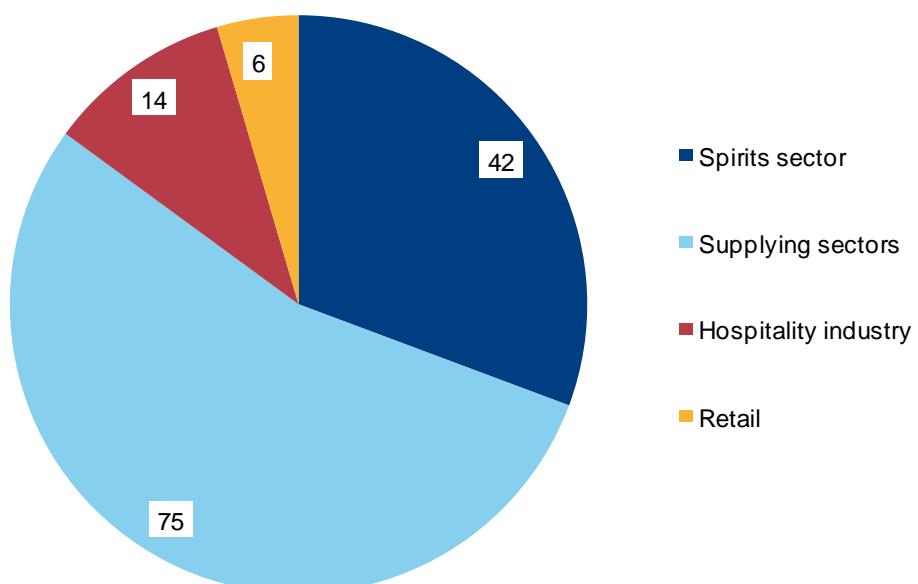
Total employment because of spirits: 14,600 jobs



Source: Ernst & Young calculation (2010) (See Annex III for an explanation of the methodology used).

The total value-added generated by spirits production and sales in Romania is estimated at 137 million euros.

**Value added due to the production and sale of spirits:
137 million euros**



Source: Ernst & Young calculation (2010)



The share of the spirit drinks sector in the overall value-added due to the production and sale of spirits is 31%, the same as the share of the spirit drinks sector in total employment due to spirit drinks (31%).

28.2 Industry and market structure, trends and developments

Compared to other European countries, Romanian people consume proportionally more spirits and less wine.¹⁰¹ Romanian people consume 9 litres of pure alcohol per capita per year.¹⁰² Tuică is one of the spirits Romanian people drink: a typical Romanian alcoholic beverage made from plums. It is normally only consumed before the meal (traditionally every meal). In most cases, only a shot is served as it is too strong to be sipped. The drink is also present at all traditional parties (*agape*) such as weddings, baptisms, hunting parties, harvest festivals, religious holidays, family reunions and wakes. In most of rural Romania, tuică is the usual drink to hold a toast, rather than wine, which is almost always consumed towards the end of the party.¹⁰³

The strong devaluation of the RON against the euro in the last months of 2008 and 2009 led to price rises for all alcoholic drinks, especially imported products. In this context, lower incomes and the economic downturn, coupled with the extensive rural population, led to a very high level of consumption of home-made wine and spirits, as well as uncontrolled sales of such items directly from production sites or from open markets located in the production areas.¹⁰⁴

Meanwhile there is a switch from premium brands to standard and economic brands.

Between 2005 and 2010 the excise rate increased from 280 euros per hectolitre pure alcohol to 750 euros per hectolitre pure alcohol.

28.3 Direct effect of the spirits sector

Romanian spirits companies employed approximately 4,500 people in 2007.¹⁰⁵ Together the spirits producers realised a production value of 270 million euros, of which 228 million is spent in supplying sectors. This means that the value-added of the Romanian spirits sector was 42 million euros.

Another substantial direct effect of the spirits sector concerns taxes and excises paid by spirits producers and consumers. Excises account for 65 million euros and total VAT income for the Romanian government was estimated at 21 million euros. Personal income taxes and social security contributions paid by employees of the spirits sector are 6 million euros.

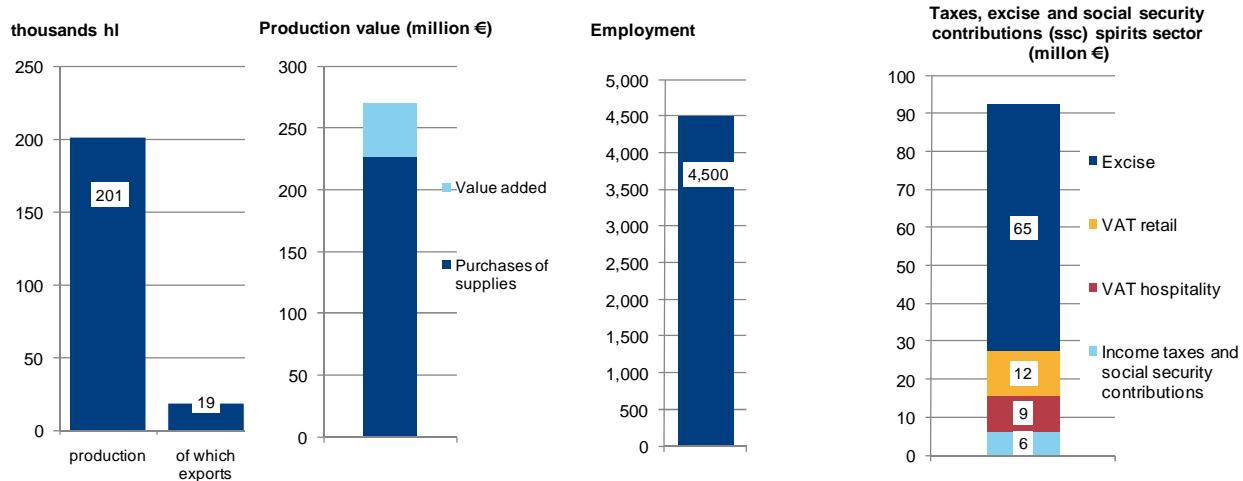
¹⁰¹ Source: London Economics

¹⁰² Source: IWSR

¹⁰³ Source: <http://en.wikipedia.org/wiki/%C5%A2uic%C4%83>

¹⁰⁴ Source: http://www.euromonitor.com/Alcoholic_Drinks_in_Romania

¹⁰⁵ Source: Eurostat



Source: Ernst & Young calculation (2010)

28.4 Economic impact of spirits producers on goods and services suppliers

Since 85% of the total production value of the Romanian spirits sector is spent on purchasing goods and services, spirits producers have an important economic impact on supplying sectors (228 million euros).

As we have not received information on purchases per individual sector, we cannot estimate the indirect effect per supplying sector. However we can estimate the total indirect effect. Assuming that 80 percent of the stimulus of 228 stays within the country this means that approximately 182 million euros accrues to Romanian suppliers. Taking into account the average turnover per employee in the supplying sectors (€ 32,600), we can estimate the indirect employment effect at 6,800 jobs.

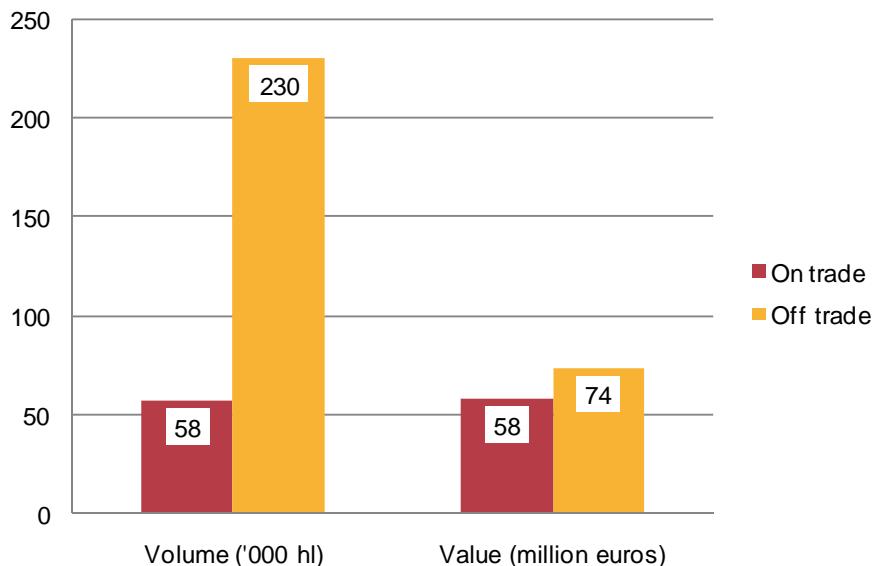
28.5 Retail and hospitality sectors

Approximately 287,700 hectolitres of spirit drinks were consumed in Romania in 2009. It is estimated that approximately 80% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 20% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of Romanian spirit drinks consumption is estimated at approximately 132 million euros (including VAT and excises). Although the hospitality sector is responsible for only 20% of sales in volume, it is responsible for approximately 44% of the sales in value.



Volume and value



Source: Ernst & Young calculation (2010)

Hospitality sector

Employment in hospitality arising from spirits sales is estimated at 4,700 jobs:

- ▶ Approximately 20% of Romanian spirits consumption takes place in the hospitality sector, which means 57,500 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits is approximately 10.2 euros per litre (including 19% VAT). This leads to an estimate of 58 million euros (VAT included) spent by consumers on spirits in the hospitality sector, or 49 million euros (VAT excluded)
- ▶ Turnover per employee in the Romanian hospitality sector is 19,300 euros a year. Total employment in the hospitality sector arising from spirits sales is thus 2,500 jobs.

Retail

The employment effect from spirits sales in retail consists of 1,200 jobs:

- ▶ Approximately 80% of the total spirits consumption in Romania is sold by supermarkets and other retail companies.
- ▶ This means that supermarkets and other retail companies sold 230,200 hectolitres.
- ▶ With an average consumer price of 3.2 euros (incl. 19% VAT) per litre, total consumer spending on spirits including VAT is 74 million euros.
- ▶ Net consumer spending on spirits in retail is estimated at 62 million euros (excl. VAT).
- ▶ Because the annual turnover per employee is estimated at 93,300 euros, this means that 700 people owe their jobs to retail spirits sales.

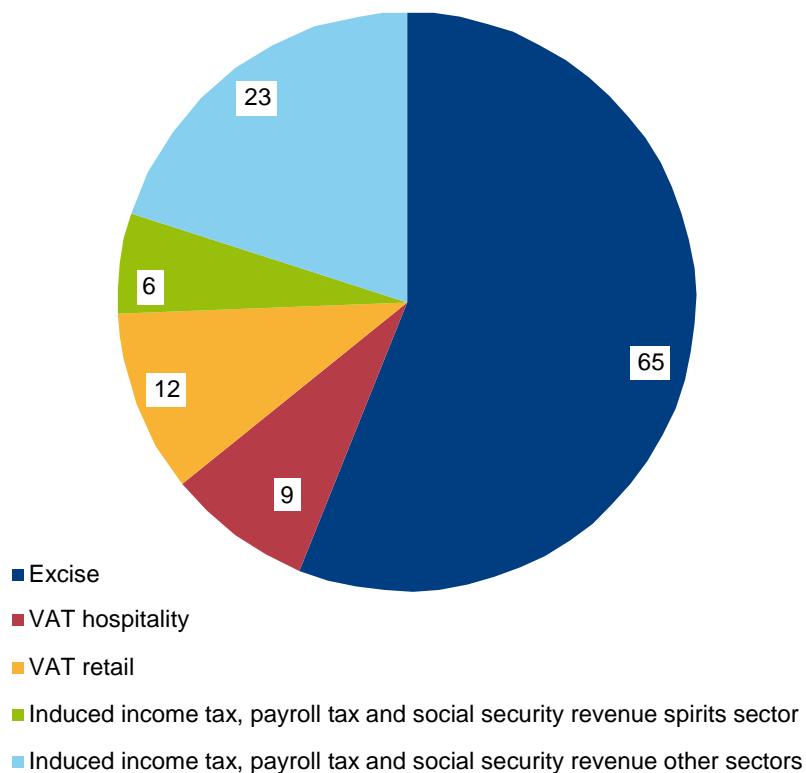


28.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 116 million euros:

- ▶ VAT revenues due to the sales of spirits are approximately 21 million euros. The main share is generated in the retail sector.
- ▶ The excise revenue due to spirits production and sales in 2009 amounted to 65 million euros.¹⁰⁶
- ▶ The total income-related government revenues due to spirits production and sales are approximately 30 million euros. Of this amount, 6 million euros consist of personal income tax, 8 million euros of social security contributions paid by employees and 16 million euros are income-related taxes and contributions paid by employers.

Government revenues due to the production and sale of spirits: 116 million euros



Source: Ernst & Young calculation (2010)

¹⁰⁶ Source: European commission 2010



29 Slovakia: Economic impact of spirits

29.1 Highlights of the economic impact

Key figures¹⁰⁷	
Production (in hl final product)	552,400
Exports (in hl final product)	800
Imports (in hl final product)	129,300
Domestic sales (in hl final product)	680,900
Production value of spirit drinks sector	€ 48 million
Consumer spending on spirit drinks	€ 844 million
Economic impact	
Employment due to the production and sale of spirit drinks	13,800 employees
Value-added due to the production and sale of spirit drinks	€ 285 million
Government revenues due to the production and sale of spirit drinks	€ 376 million

Sources key figures: estimates based on figures from Eurostat, IWSR and European Commission (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirits sector on the Slovak economy is substantial:

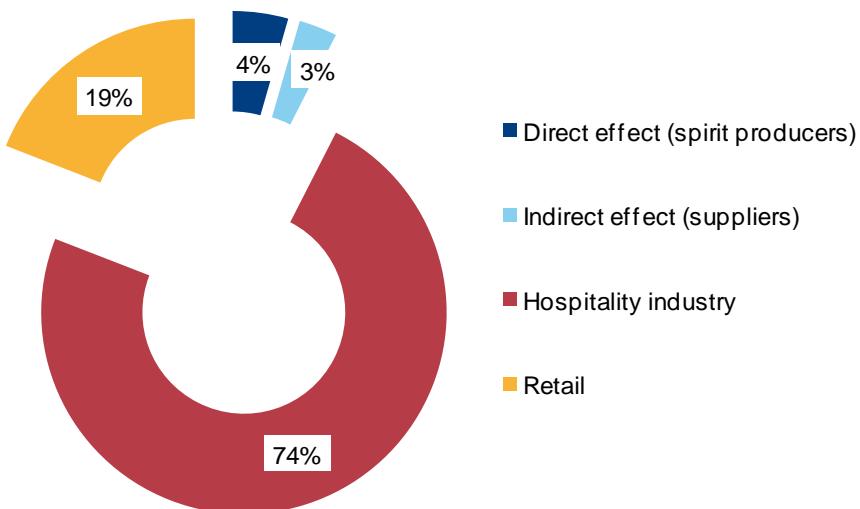
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 13,800 jobs, consisting of 600 jobs in the spirit drinks sector; 500 jobs in the supplying sectors; 10,100 jobs in the hospitality sector and 2,600 jobs in the retail sector.
- ▶ Together these employees generate 166 million euros of value-added. Of this value-added, 11 million euros are generated in the spirit drinks sector, 9 million euros in the supplying sectors, 227 million euros in the hospitality sector and 38 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 376 million euros.
- ▶ In 2009, consumers spent 1,128 million euros on spirit drinks. This spending included considerable revenues for the government, namely 192 million euros in excise revenues and 180.1 million euros in VAT revenues.

¹⁰⁷ Production, export, import and sales figures are based on data from Eurostat and the European Commission (Excise duty tables). To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.



The employment impact of the spirit drinks sector is shown in the figure below:

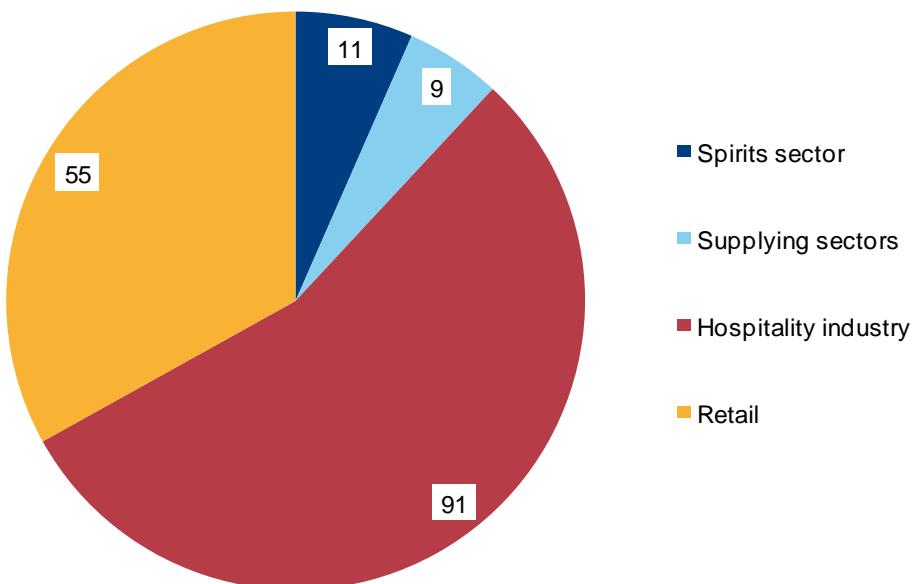
Total employment because of spirits: 13,800 jobs



Source: Ernst & Young calculation (2010) (See Annex III for an explanation of the methodology used).

The contribution of the spirit drinks sector to the Slovak economy can also be expressed in terms of value-added. The total value-added generated by these 13,800 jobs is estimated at 166 million euros. The hospitality sector accounts for approximately 55% of this total value-added.

**Value added due to the production and sale of spirits:
166 million euros**



Source: Ernst & Young calculation (2010)



29.2 Industry and market structure, trends and developments

The spirits consumption in Slovakia is 8 litres per person per year.¹⁰⁸ Among Slovak spirits, the most favourite is a plum brandy called *Slivovica*, aged for three years in oak barrels. Another leading brandy is a genuine juniper brandy called *Borovička* which has a taste similar to that of dry gin.

Despite the onset of the global economic crisis in 2008, Slovak consumption remained fairly strong.¹⁰⁹ However, in 2009 the alcoholic drinks market started to feel the first negative effects of the economic crisis. In Slovakia, the global economic crisis also resulted in a visible change in consumer lifestyles. Instead of drinking outside their homes, consumers chose the cheaper alternative of purchasing their alcoholic drinks in off-trade outlets and drinking them at home.¹¹⁰

Excise duty per hectolitre of pure alcohol has been increasing since 2005, from 623 euros in 2005 to 939 in 2010, a rise of 51%. Since 1 March 2010 the standard rate on spirit has been fixed at 1080 euros per hectolitre of pure alcohol. The reduced rate on spirits is fixed at 540 euros per hectolitre of pure alcohol. The reduced tax applies to spirits produced in fruit grower distilleries up to 43 litres per year of produced spirit per grower and by production under the conditions determined by the Slovak government¹¹¹.

Important trends in the Slovak spirits sector:

- ▶ Slovaks drink more at home. There are increasing off-trades sales of alcohol.
- ▶ Slovak producers continue to hold a dominant position in the spirits sector.
- ▶ Excise tax increases threaten future growth.
- ▶ Although there is a smoking ban in part of the Slovak hospitality sector, owners of facilities that only serve drinks are still allowed to choose whether smoking is prohibited or not.

¹⁰⁸ IWSR, 2009

¹⁰⁹ Euromonitor, 2010

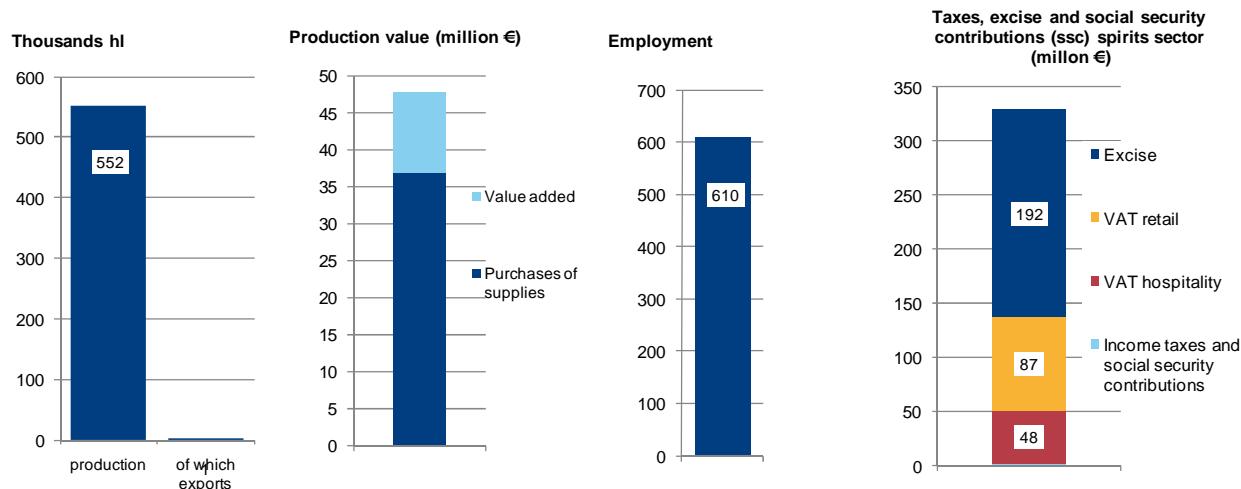
¹¹⁰ Euromonitor, 2010

¹¹¹ London Economics, 2010



29.3 Direct effect of the spirits sector

The direct employment at Slovak spirits-producing companies is estimated at 600 employees. These employees produce spirits with a value of approximately 47.6 million euros. The direct revenues (excise, VAT and income-related revenues from employees of the spirits companies) which the Slovak government receives amount to approximately 328 million euros. It can therefore be concluded that there is a significant direct economic benefit from the spirit drinks sector for the Slovak economy.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirit drinks sector concerns taxes and excises paid by spirits producers and consumers. In 2008, excises reached 135 million euros and total VAT income for the Slovak government was estimated at 180 million euros. Income taxes and social security contributions paid by employees in the spirit drinks sector add up to another 2 million euros.

The Slovak spirit drinks producers together achieved an estimated 47.6 million euros in production value. Approximately 23% of total production value stays within these firms as value-added (10.9 million euros). Value-added equals total reward for production factors used: labour costs, interest paid and profits made.



29.4 Economic impact of spirits producers on goods and services suppliers

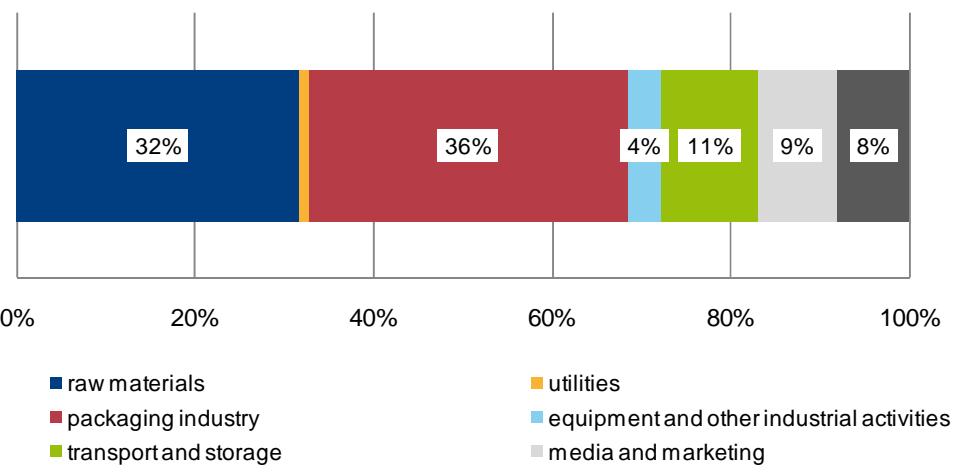
Almost half of all the indirect employment generated by the spirits sector is within the packaging industry. Other sectors which benefit substantially from the spirits sector are the suppliers of raw materials. As the primary employment effect can be estimated at approximately 65% of the total impact, the total impact will be about 400 jobs.

Sectors	Stimulus	Stimulus for Slovakia		Turnover per employee ¹¹²	Number of employees
	(million €)	%	(million €)	(in €)	
Raw materials	11.1	89.4%	10.0	114,300	87
Utilities	0.7	100.0%	0.7	236,900	3
Packaging industry	17.9	62.5%	11.3	114,300	99
Equipment	1.8	78.1%	1.2	114,300	11
Transport	2.2	88.7%	2	66,300	29
Media, marketing	1.5	82.1%	1.3	51,200	25
Services	1.4	78.8%	1.1	51,200	22
Total	36.7	-	28	-	276
First-round impact as % of total impact					65%
Total indirect effect of spirits sector					425

Source: Ernst & Young calculation (2010); Eurostat (2007)

Indirect employment effects are illustrated in the graph below:

Indirect employment: 400 jobs



Source: Ernst & Young calculation (2010)

29.5 Retail and hospitality sectors

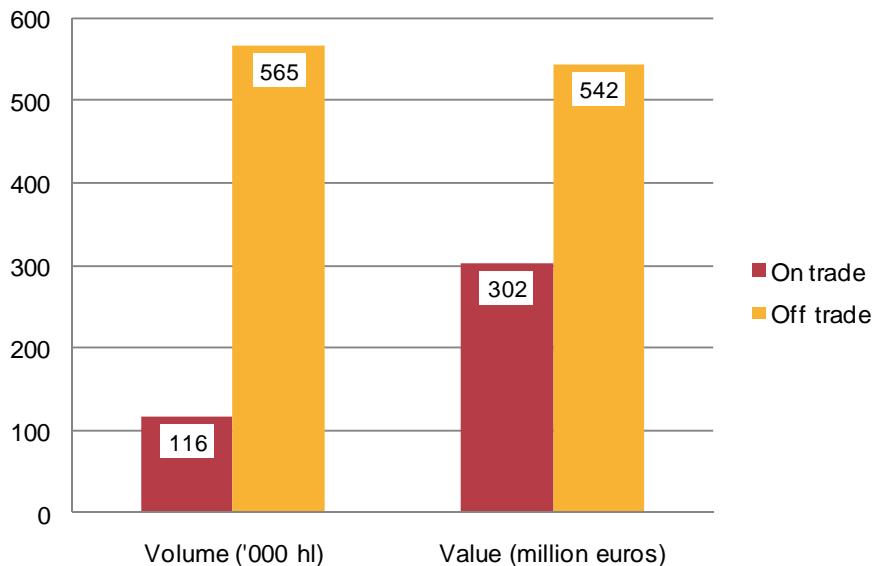
Approximately 680,900 hectolitres of spirit drinks were consumed in Slovakia in 2009. It is estimated that about 83% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 17% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as 'on-trade'.

¹¹² Turnover per employee is obtained from Eurostat.



In economic terms, the total value (paid by consumers) of Slovak spirit drinks consumption is estimated at approximately 1.13 billion euros (including VAT and excises). Although the hospitality sector is responsible for 17% of sales in volume, it is responsible for approximately 36% of the sales in value.

Volume and value



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ Approximately 17% of all spirits consumed in Slovakia is sold by the hospitality sector, which means 115,800 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in Slovak pubs and restaurants is estimated at 26.10 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 301.7 million euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 253 million euros (using a 19% VAT tariff).
- ▶ With an average hospitality turnover of 25,000 euros (excluding VAT) per person, this results in 10,100 hospitality sector jobs attributable to spirits sales.

Retail

The importance of the spirits sector for retail can be similarly assessed:

- ▶ Approximately 83% of total spirits consumption (565,200 hectolitres) in Slovakia is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 9.6 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 542 million euros. Total consumer spending excluding VAT is thus 456 million euros.
- ▶ With turnover per employee estimated at 173,600 euros (excluding VAT), this means 2,600 people owe their jobs to retail spirits sales.

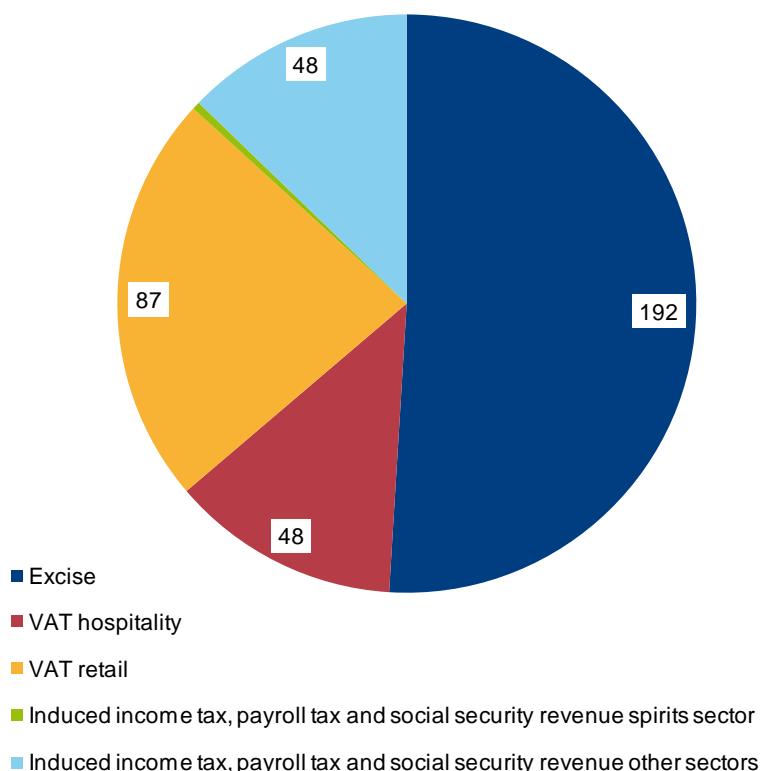


29.6 Government revenues

The revenues of excise, VAT and income-related contributions due to spirits production and sales are estimated at 376 million euros:

- ▶ VAT revenues are estimated at 135 million euros. The main share of these VAT revenues is generated in the hospitality sector.
- ▶ Total excise revenues on spirit are 192 million euros.
- ▶ Income-related revenues due to spirits production and sales are approximately 50 million euros. They consist of 10 million euros in income tax, 13 million euros in social security contributions paid by employees and 27 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 376 million euros



Source: Ernst & Young calculation (2010)



30 Slovenia: Economic impact of spirits

30.1 Highlights of the economic impact

Key figures ¹¹³	
Production (in hl final product)	52,900
Exports (in hl final product)	38,400
Imports (in hl final product)	68,400
Domestic sales (in hl final product)	82,900
Production value of spirit drinks sector	€ 7.7 million
Consumer spending on spirit drinks	€ 186 million
Economic impact	
Employment due to the production and sale of spirit drinks	2,600 employees
Value-added due to the production and sale of spirit drinks	€ 49 million
Government revenues due to the production and sale of spirit drinks	€ 71 million

Sources key figures: estimates based on figures from Eurostat, IWSR and European Commission (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirits sector on the Slovenian economy can be summarised as follows:

- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 2,600 jobs, consisting of 40 jobs in the spirit drinks sector¹¹⁴; 70 jobs in the supplying sectors; 2,300 jobs in the hospitality sector and 300 jobs in the retail sector
- ▶ Together these employees generate 49 million euros of value-added. Of this value-added, 1 million euros are generated in the spirit drinks sector, 2 million euros in the supplying sectors, 38 million euros in the hospitality sector and 8 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 71 million euros.
- ▶ In 2009, consumers spent 186 million euros on spirit drinks. This spending included considerable revenues for the government, namely 17 million euros in excise revenues and 31 million euros in VAT revenues.

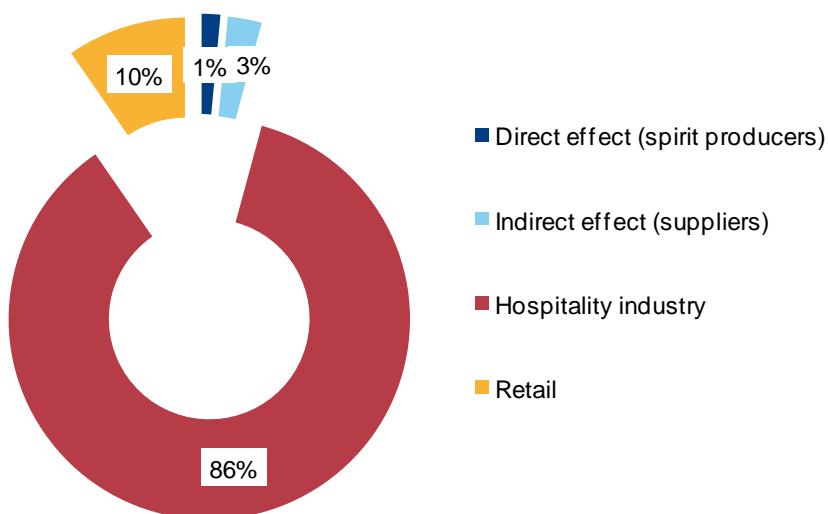
¹¹³ Production, export, import and sales figures are based on data from Eurostat and the European Commission (Excise duty tables). To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.

¹¹⁴ Source: Eurostat.



The employment impact of the spirits drinks sector is shown in the figure below:

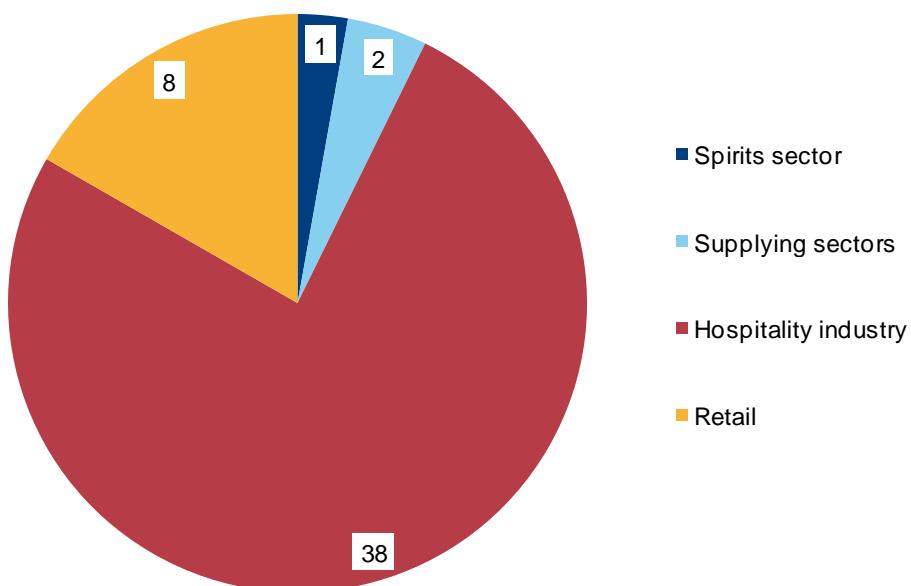
Total employment because of spirits: 2,600 jobs



Source: Ernst & Young calculation (2010) (See Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Slovenian economy can also be expressed in terms of value-added. The total value-added generated by these 2,600 jobs is estimated at 49 million euros.

**Value added due to the production and sale of spirits:
49 million euros**



Source: Ernst & Young calculation (2010)



30.2 Industry and market structure, trends and developments

Slovenia is one of the relatively smaller central European countries, but it has a historically high rate of alcohol consumption. Slovenia is a beer, wine and spirits producing country. Liquor is usually self-brewed and popular. Some favourites are slovivoce (plum gin) and zhganje (a kind of brandy). The consumption of spirits has been declining since 2002. Between 2005 and 2007 volume of spirits consumed was stable.¹¹⁵ We estimate that the total Slovak spirits consumption amounted to 82,900 hectolitres of final product in 2009, which is approximately 4 litres per capita.

The alcoholic drinks market was affected by the economic downturn that caused the average disposable household income to decrease (lower wages, increasing unemployment rate etc). The on-trade was affected more due to the fact that Slovenians chose to eat and drink at home to save money, together with the fact that the prices of spirits were subject to higher excise taxes as the government tried to mitigate the budget deficit. The alcoholic drinks that Slovenians bought were often cheap private label products, leading to increased volume sales and price promotions becoming more popular.¹¹⁶

The long tradition of some domestic companies in Slovenia put domestic brands in the number one spot in several sectors, including wine, spirit and RTD. In 2009, competition mainly took place at the point of sale as producers tried to attract consumers' attention. Few new product launches took place. Since the economic situation is expected to return to positive trends after reaching a low in 2009, alcoholic drinks consumption should also pick up again.¹¹⁷

Since the 1st of August 2007 smoking has been prohibited in all indoor public and work places. This smoking ban had unfavourable consequences, especially in the catering industry: bars with no outside seating areas have recorded less income.¹¹⁸

The excise duty per hectolitre alcohol increased by 31%, from 694 euros in 2005 to 911 euros in 2010. In the first half of the year 2009 the prices of spirits jumped by 10% because of the higher excise rate.¹¹⁹

30.3 Direct effect of the spirits sector

The direct economic impact of the spirit drinks sector covers approximately 39 employees who together produce 52,900 hectolitres spirit drinks representing a value 7.7 million euros.

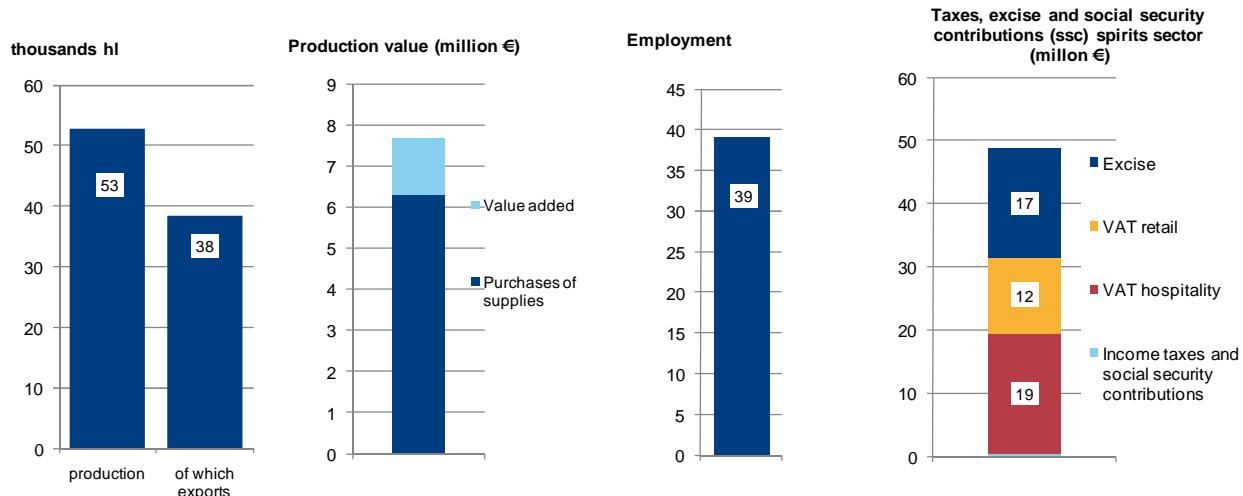
¹¹⁵ Statistical Office of the Republic of Slovenia, 2009

¹¹⁶ Euromonitor, 2010

¹¹⁷ Euromonitor, 2010

¹¹⁸ <http://www.slovenia.si/spotlights/200710/2007112110462449>

¹¹⁹ Statistical Office of the Republic of Slovenia, 2009: http://www.stat.si/eng/novica_prikazi.aspx?id=2461



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirits sector concerns taxes and excises paid by spirits producers and consumers. Last year excises reached 17 million euros and total VAT income for the Slovenian government was estimated at 31 million euros. Personal direct taxes, social security contributions and payroll taxes paid by employees and employers in the spirits sector add up to 340,000 euros.

30.4 Economic impact of distilleries on goods and services suppliers

With only 20% of the value of the output produced staying within the firm as value-added, the other 80% of the 7.7 million euros of total production value accrues to a number of suppliers. This stimulus of 6.3 million euros has a clear economic impact on sectors outside the spirit drinks sector.

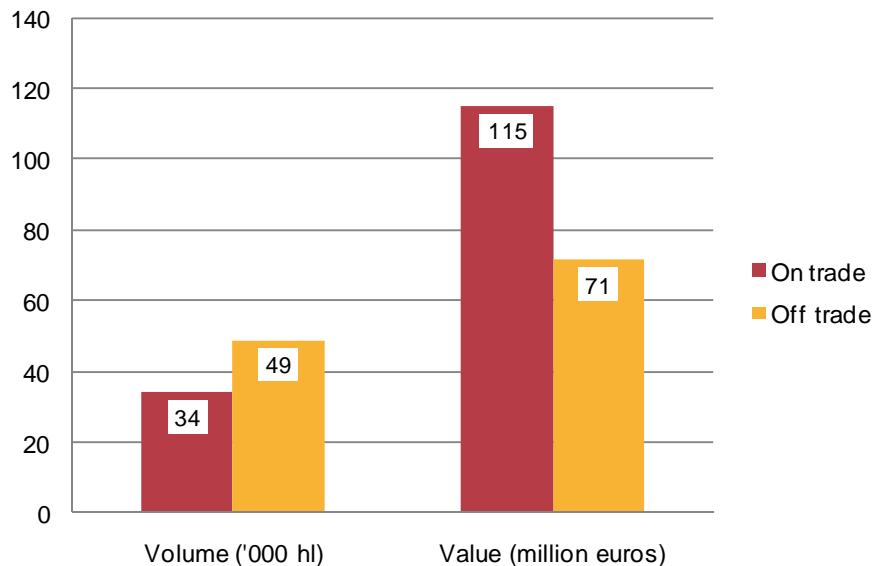
As we have not received information on purchases per individual sector, we cannot estimate the indirect effect per supplying sector. However we can estimate the total indirect effect. Assuming that 80 percent of the stimulus of 6.3 million euros stays within the country this means that approximately 5 million euros accrues to Slovenian suppliers. Taking into account the average turnover per employee in the supplying sectors (€ 30,700), we can estimate the indirect employment effect at 70 jobs.

30.5 Retail and hospitality sectors

Approximately 82,855 hectolitres of spirit drinks were consumed in Slovenia in 2009. It is estimated that about 59% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 41% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'. In economic terms, the total value (paid by consumers) of Slovenian spirit drinks consumption is estimated at approximately 186 million euros (including VAT and excises).



Volume and value



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ Approximately 41% of all spirits consumed in Slovenia is sold by the hospitality sector (on-trade), which means 34,000 hectolitres are sold on-trade.
- ▶ The average consumer price of spirits in Slovenian pubs and restaurants is estimated at 33.8 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is almost 115 million euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 96 million euros (using a 20% VAT tariff).
- ▶ With an average hospitality turnover of 42,100 euros (excluding VAT) per person, this results in 2,300 hospitality sector jobs attributable to spirits sales.

Retail

The importance of the spirits sector for retail can be similarly assessed:

- ▶ Approximately 59% of total spirits consumption (48,900 hectolitres) in Slovenia is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 14.6 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 71 million euros. Total consumer spending excluding VAT is thus 59 million euros.
- ▶ With turnover per employee estimated at 234,700 euros (excluding VAT), this means approximately 300 people owe their jobs to retail spirits sales.

30.6 Government revenues

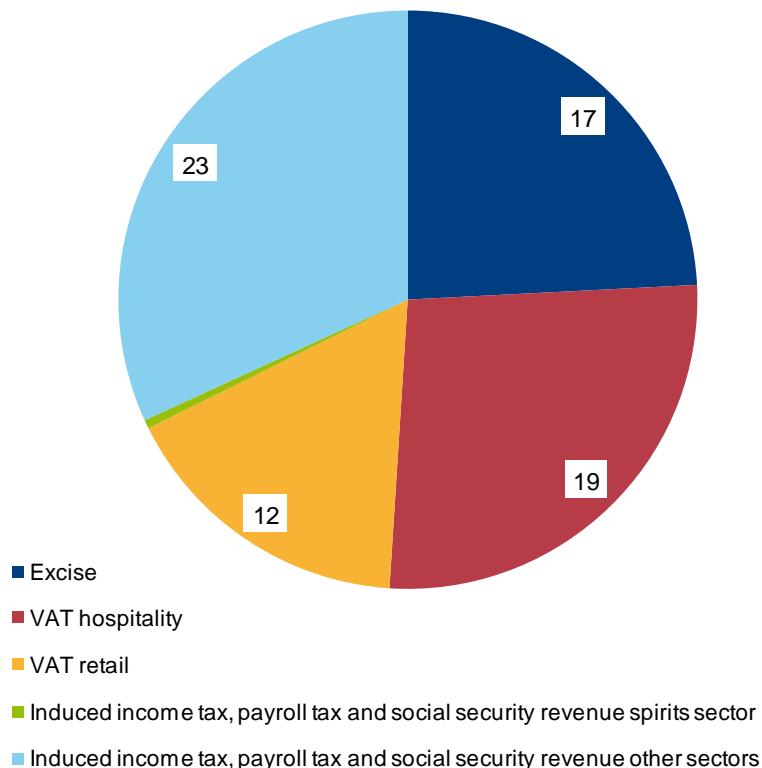
The revenues of excise, VAT and income-related contributions due to spirits production and sales are estimated at 71 million euros:

- ▶ VAT revenues are estimated at 31 million euros. The main share of these VAT revenues is generated in the hospitality sector.
- ▶ The total in excise revenues on spirit is 17 million euros.
- ▶ Income-related revenues due to spirits production and sales are approximately 23 million euros. They consist of approximately 6 million euros income tax, 9 million euros in social security



contributions paid by employees and 8 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 71 million euros



Source: Ernst & Young calculation (2010) (See Annex III for an explanation of the methodology used).



31 Spain: Economic impact of spirits

31.1 Highlights of the economic impact

Key figures¹²⁰	
Production (in hl final product)	2,010,400
Exports (in hl final product)	1,830,300
Imports (in hl final product)	3,319,600
Domestic sales (in hl final product)	2,210,000
Production value of spirit drinks sector	€ 1.6 billion
Consumer spending on spirit drinks	€ 9.3 billion
Spirit distributing and producing companies	130
Economic impact	
Employment due to the production and sale of spirit drinks	166,300 employees
Value-added due to the production and sale of spirit drinks	€ 4.1 billion
Government revenues due to the production and sale of spirit drinks	€ 3.6 billion

Sources key figures: estimates based on figures from Federación Española de Bebidas Espirituosas (FEBE), Eurostat, IWSR and EC (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The most important characteristics of the Spanish spirits market are:

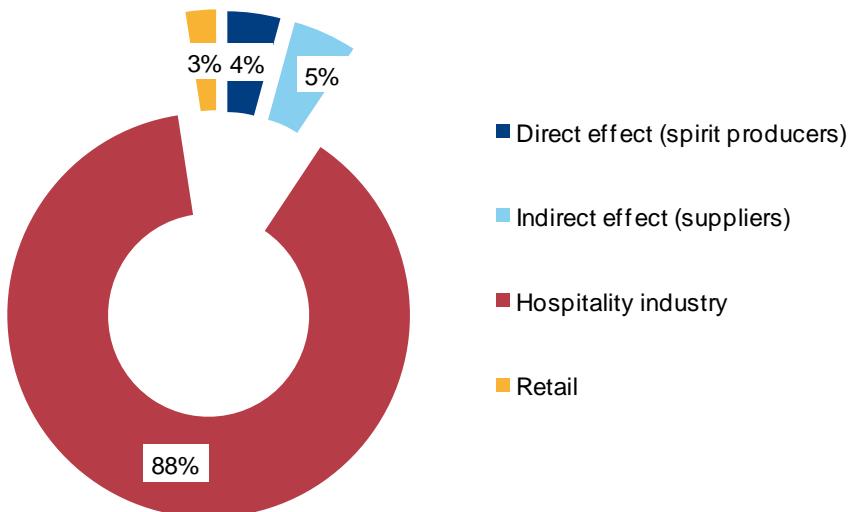
- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 166,300 jobs, consisting of 7,100 jobs in the spirit drinks sector; 8,500 jobs in the supplying sectors; 146,700 jobs in the hospitality sector and 4,000 jobs in the retail sector
- ▶ Together these employees generate 4.1 billion euros of value-added. Of this value-added, 489 million euros is generated in the spirit drinks sector, 437 million euros in the supplying sectors, 3.1 billion euros in the hospitality sector and 134 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 3.6 billion euros.
- ▶ In 2009, consumers spent 9.3 billion euros on spirit drinks. This spending included considerable revenues for the government, namely 872 million euros in excise revenues and 1.3 billion euros in VAT revenues.

¹²⁰ Production, export and import figures are based on data from Eurostat and the European Commission (Excise duty tables). To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.



The employment impact of the spirits sector is shown in the figure below:

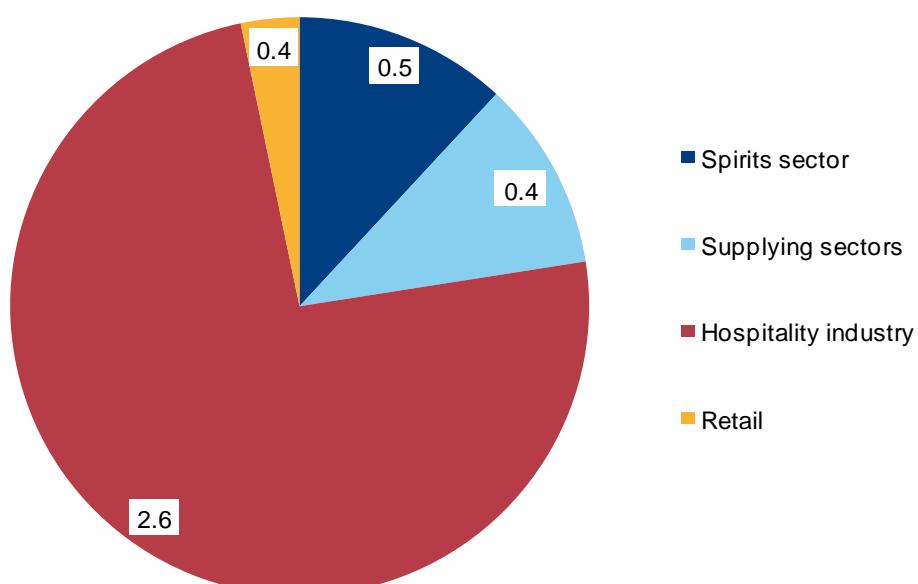
Total employment because of spirits: 166,300 jobs



Source: Ernst & Young calculation (2010) (See Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the Spanish economy can also be expressed in terms of value-added. The total value-added generated by these 166,300 jobs is estimated at 4.1 billion euros.

**Value added due to the production and sale of spirits:
4.1 billion euros**



Source: Ernst & Young calculation (2010)



The share of the spirit drinks sector in the overall value-added due to the production and sale of spirits is 12%, which is higher than the share of the spirit drinks sector in total employment due to spirit drinks (4%). An important explanation for this is the high productivity of employees in the spirit drinks sector, compared against sectors such as retail and hospitality in terms of value-added.

31.2 Industry and market structure, trends and developments

Spirits account for less than 30% of the total consumption of pure alcohol by Spanish consumers. The majority of alcohol consumed is through spirits and wine. The consumption of spirits has stagnated over the past decade, experiencing a slight decline.

In the first quarter of 2009 the sales of spirits decreased by 11%. The main causes of this decrease are the economic uncertainty, unemployment and the crashes in two sectors closely linked to spirits, namely catering and tourism. Tourists spend approximately 12.65 percent of their expenditure on alcoholic beverages. This is equal to 3,040 million euros¹²¹.

Whisk(e)y, rum, gin and brandy make up the majority of spirits sales in Spain. Most spirits consumed are imported. The following table shows the quantity of spirits consumed during 2008.

Type of spirits	Consumption
Whisk(e)y	516,700 hl
Rum	306,200 hl
Ginebra (gin)	207,700 hl
Brandy	256,100 hl
Anis	138,600 hl
Other spirits	898,100 hl
Total spirits	2,323,400 hl ¹²²

Source: Mercasa, 2009 and Ministry of Environment, Rural and Marine (MARM)

Spanish alcoholic drinks consumers are traditionally highly brand-sensitive, especially regarding spirits, with a demand for private-label brands and premium and imported products.¹²³ However this situation changed in 2008, with rising consumer price sensitivity as a result of the economic downturn resulting in increased demand for cheaper brands and a general shift from on-trade to off-trade sales. There is some fear for higher taxes in the sector. The last excise increase was five years ago, when taxes per hectolitre of pure alcohol increased by 10% from 754 euros in 2005 to 830.25 euros in 2006.

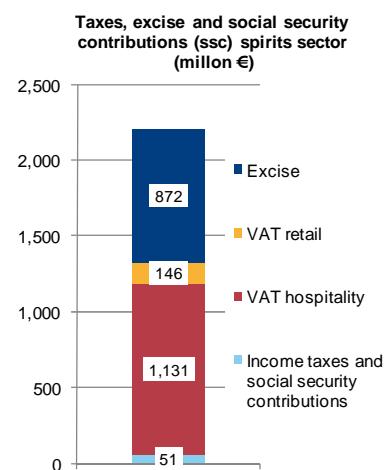
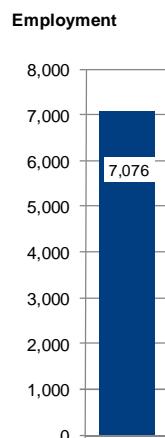
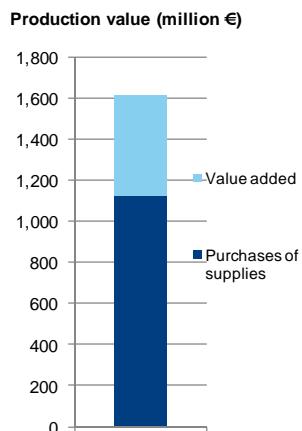
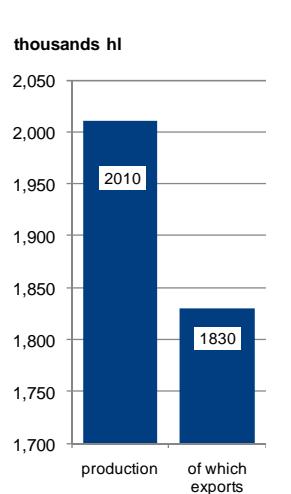
31.3 Direct effect of the spirits sector

The direct economic impact of the spirit drinks sector covers approximately 7,100 employees who together produce spirit drinks representing a value of 1.6 billion euros. About 30% of this production value stays within these firms as value-added.

¹²¹ Spanish Association of Spirits, <http://www.fefe.es/contenidos/bebidas/datos.asp>

¹²² The consumption figures in the table derives from a different source than the sales figure we have used as an input for our economic impact model. Because of this, the figure on total spirits consumption in the table differs slightly from the key figures on page 187.

¹²³ Euromonitor, 2010.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirits sector concerns taxes and excises paid by spirit drinks producers and consumers. Excises account for 872 million euros and total VAT income for the Spanish government was estimated at 1.3 billion euros. Personal income taxes and social security contributions paid by employees of the spirits sector are 51 million euros.



31.4 Economic impact of distilleries on goods and services suppliers

With 30% of the value of the output produced staying within the firms as value-added, the other 70% of 1.6 billion euros in total production value accrues to a number of suppliers. This stimulus of over 1.1 billion euros has a significant economic impact on sectors outside the spirits sector:

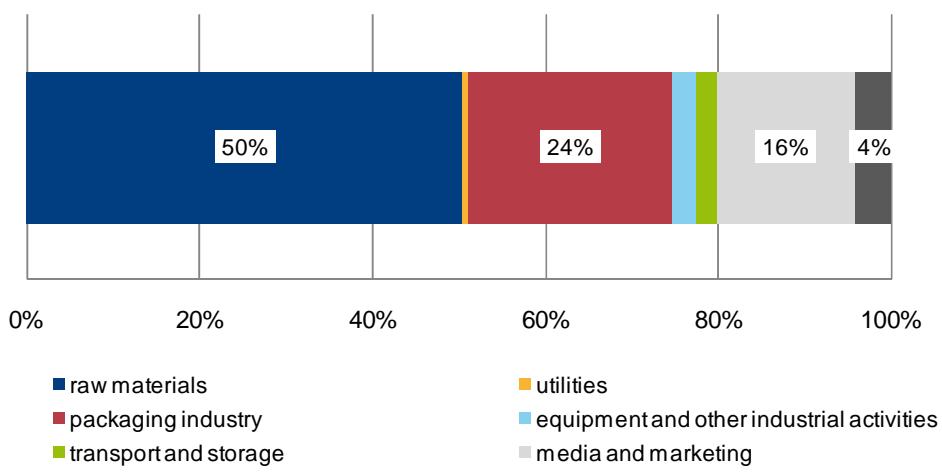
Sectors	Stimulus	Stimulus for Spain	Turnover per employee ¹²⁴	Number of employees
	(million €)	%	(million €)	(in €)
Raw Materials	624.9	99%	617.7	222,100
Utilities	22.7	100%	22.7	802,500
Packaging industry	329.1	88%	289.9	222,100
Equipment	34.0	100%	34.0	222,100
Transport	18.2	100%	18.2	146,900
Media, marketing	77.7	99%	77.6	87,700
Services	20.4	100%	20.4	87,700
Total	1,127.01	-	1,080.48	5,509
First-round impact as % of total impact				65%
Total indirect effect of spirits sector				8,475

Source: Ernst & Young Questionnaire among spirits producers (2010); Eurostat (2007)

Approximately 50 percent of the indirect employment is generated within the sector that provides the raw materials for the ingredients of spirits. The total first-round employment effect of the spirits sector on supplying sectors is 5,500 employees. As this primary effect can be estimated at about 65% of the total impact, the total impact will be approximately 8,500 jobs.

Indirect employment effects are illustrated in the graph below:

Indirect employment: 8,500 jobs



Source: Ernst & Young calculation (2010)

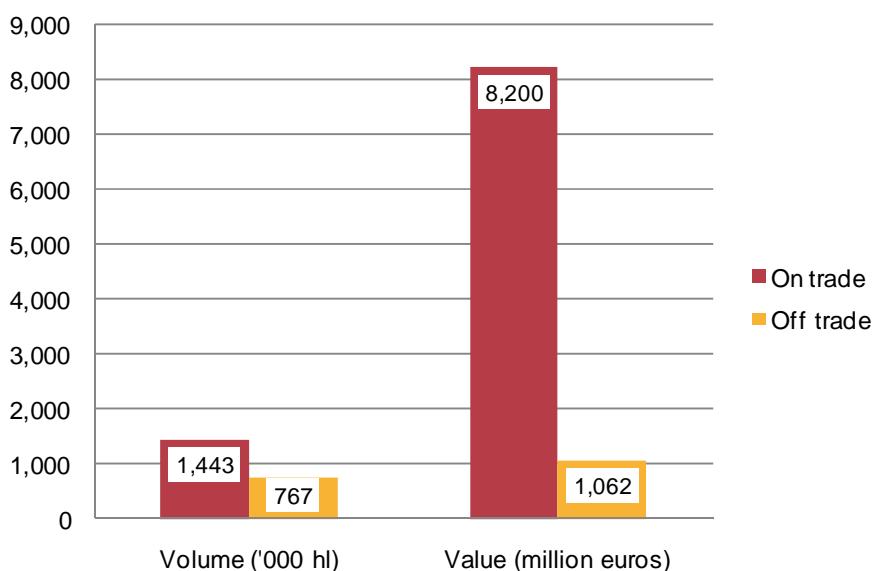
¹²⁴ Turnover per employee is obtained from Eurostat.



31.5 Retail and hospitality sectors

Approximately 2.2 million hectolitres of spirit drinks were consumed in Spain in 2009. It is estimated that about 35% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 65% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'. In economic terms, the total value (paid by consumers) of Spanish spirit drinks consumption is estimated at approximately 6.4 million euros (including VAT and excises).

Volume and value



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ Approximately 65 % of all spirits consumed in Spain is sold by the hospitality sector (on-trade), which means almost 1.4 million hectolitres is sold on-trade.
- ▶ The average consumer price of spirits in Spanish pubs and restaurants is estimated at 56.8 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 8.2 billion euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 7.1 billion euros (using a 16% VAT tariff).
- ▶ With an average hospitality turnover of 48,200 euros (excluding VAT) per person, this results in 146,700 hospitality sector jobs attributable to spirits sales.

Retail

The importance of the spirits sector for retail can be similarly assessed:

- ▶ Approximately 35% of total spirits consumption (766,900 hectolitres) in Spain is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 13.9 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 1.1 billion euros. Total consumer spending excluding VAT is thus 915.3 million euros.
- ▶ With turnover per employee estimated at 226,200 euros (excluding VAT), this means approximately 4,000 people owe their jobs to retail spirits sales.

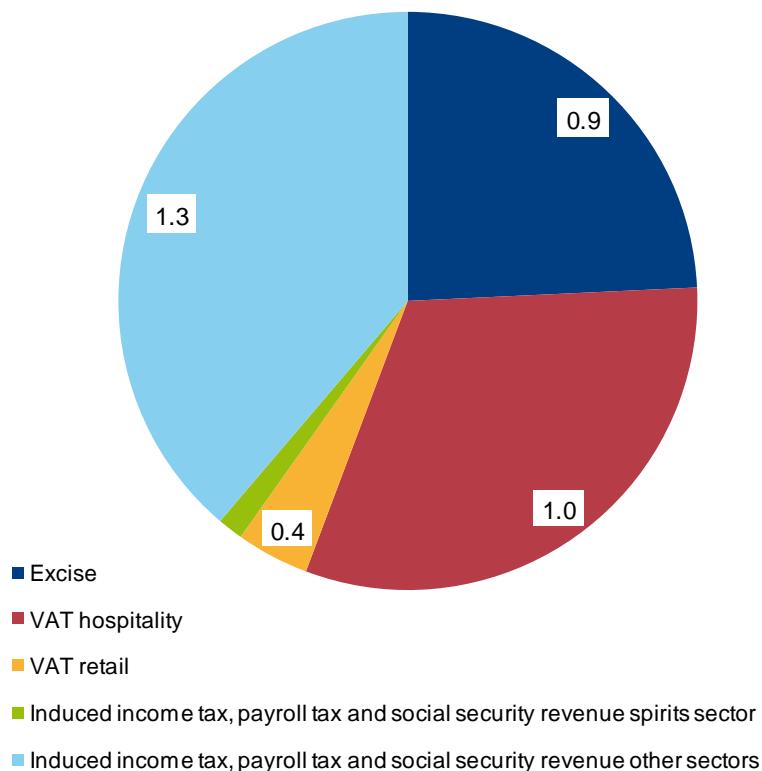


31.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 3.6 billion euros:

- ▶ VAT revenues are estimated at 1.4 billion euros. The main part of these VAT revenues is generated in the hospitality sector.
- ▶ Total excise revenues on spirits are 872 million euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 1.4 billion euros. They consist of 406 million euros in income tax, 181 million euros in social security contributions paid by employees and 858 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 3.6 billion euros



Source: Ernst & Young calculation (2010)



32 Sweden: Economic impact of spirits

32.1 Highlights of the economic impact

Key figures ¹²⁵	
Production (in hl final product)	1,153,500
Exports (in hl final product)	1,384,300
Imports (in hl final product)	495,300
Domestic sales (in hl final product)	264,600
Production value of spirit drinks sector	€ 687 million
Consumer spending on spirit drinks	€ 822 million
Spirits distributing companies	1,100 ¹²⁶
Spirits producing companies	6 ¹²⁷
Economic impact	
Employment due to the production and sale of spirit drinks	6,400 employees
Value-added due to the production and sale of spirit drinks	€613 million
Government revenues due to the production and sale of spirit drinks	€761 million

Sources key figures: estimates based on figures from Eurostat, E&Y questionnaire among spirits producing companies, IWSR and European Commission (Excise duty tables). Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirit drinks sector on the Swedish economy is assessed as follows:

- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 6,400 jobs, consisting of 800 jobs in the spirit drinks sector; 2,900 jobs in the supplying sectors; 2,600 jobs in the hospitality sector and 150 jobs in the retail sector.
- ▶ Together these employees generate 613 million euros of value-added. Of this value-added, 277 million euros is generated in the spirit drinks sector, 195 million euros in the supplying sectors, 72 million euros in the hospitality sector and 69 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 761 million euros.
- ▶ In 2009, consumers spent 822 million euros on spirit drinks. This spending included considerable revenues for the government, namely 409 million euros in excise revenues and 164 million euros in VAT revenues.

¹²⁵ Production, export, import and sales figures are based on data from Eurostat and the European Commission (Excise duty tables). To convert figures from liters of pure alcohol into liters of final product, we have used an average alcohol percentage of 30 % abv.

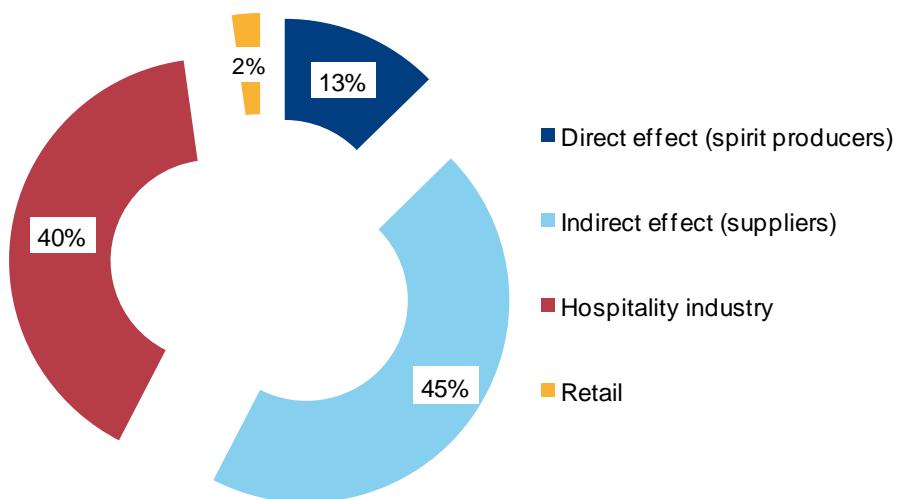
¹²⁶ Estimate by diagram 7 from *Alcohol Statistics 2009* from Statens Folkhälso Intitut

¹²⁷ Estimate by table 18 from *Alcohol Statistics 2009* from Statens Folkhälso Intitut



The employment impact of the spirits sector is shown below:

Total employment because of spirits: 6,400 jobs

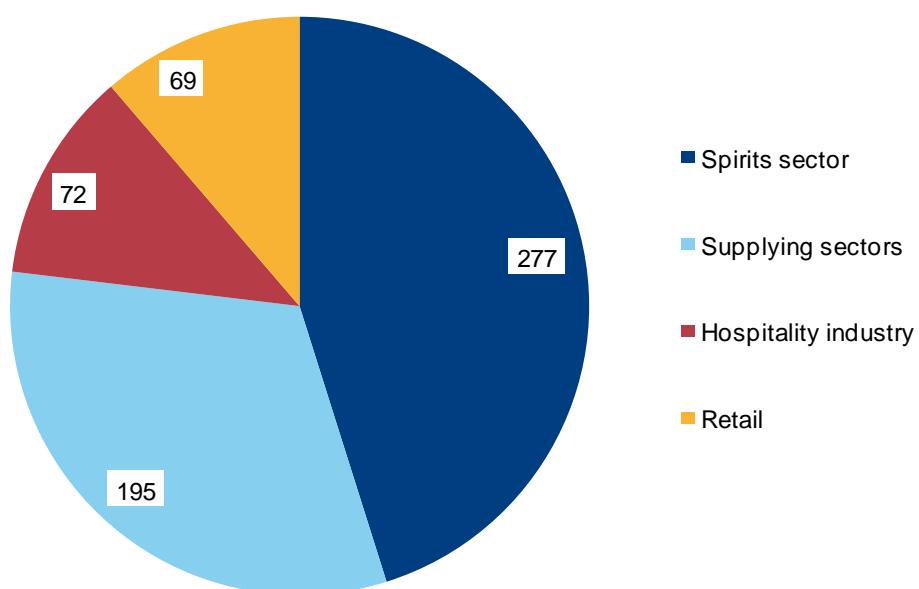


Source: Ernst & Young calculation (2010) (See Annex III for an explanation of the methodology used).

The Systembolaget employs 3,200 persons. A proportional division according to sales volumes of spirits gives 150 jobs. Since the Swedish off trade spirits market it is a monopoly, the employment in the retail sector is calculated by sales volumes instead of sales price and turnover by employee. The contribution of the spirits sector to the Swedish economy can also be expressed in terms of value-added. The total value-added generated by these 6,400 jobs is estimated at 613 million euros.



**Value added due to the production and sale of spirits:
613 million euros**



Source: Ernst & Young calculation (2010)

The share of the spirit drinks sector in the overall value-added due to the production and sale of spirits is 45%, which is higher than the share of the spirit drinks sector in total employment due to spirit drinks (11%). An important explanation for this is the high productivity of employees in the spirit drinks sector, compared to sectors such as retail and hospitality in terms of value-added.

32.2 Industry and market structure, trends and developments

The consumption of spirits in Sweden is approximately 3 litres per capita. At the end of the 18th century the consumption of spirits was much higher.¹²⁸ Total volume sales of alcoholic drinks in Sweden increased by 1% in 2009; a small improvement compared with the previous year. The economic crisis mainly had a negative impact on the on-trade channel. At the same time, the crisis in the economy benefited off-trade sales, as consumers bought their alcoholic drinks in Sweden rather than going to Germany. Many households cut down on private imports due to the weak Swedish currency and the high price of petrol.¹²⁹

Despite growth in domestic sales of alcoholic drinks in 2008 and 2009, the total consumption in terms of 100% pure alcohol is decreasing. Private imports and smuggling decreased because of a weaker currency. It is also the result of a slow shift from spirits, primarily towards still light grape wine.¹³⁰

We estimate that 264,600 hectolitres of final spirits drinks were consumed in Sweden. However for Sweden this is considered as the volume of sales in Sweden, as many Swedish people buy their spirits from neighbouring countries like Estonia. Cross border alcohol shopping is also a trend in Sweden.

¹²⁸ Laurie Thompson, Sweden and Alcohol, available at <http://www.swedishbookreview.com/article-2003-s-thompson.asp>

¹²⁹ Euromonitor, 2010

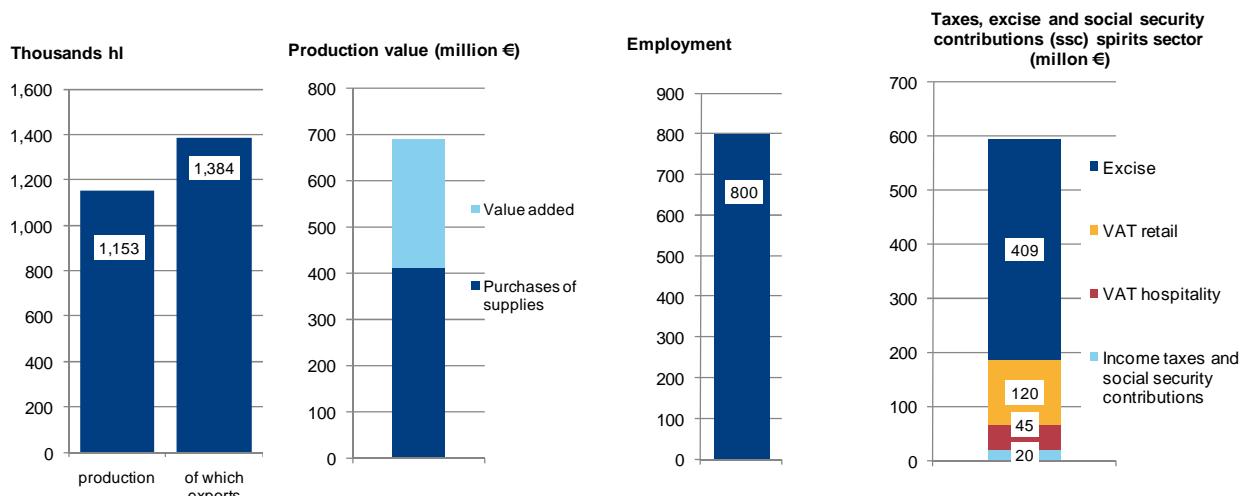
¹³⁰ Euromonitor, 2010



Sweden is a country with a very long tradition of having a distinct, strict alcohol policy. Throughout the 20th century it operated one of the strictest alcohol policies in Europe. This policy implied the creation of a production and wholesale monopoly as well as an off-trade retail monopoly, strict control of the physical availability of alcohol and increasing the price of alcohol through high taxes. After joining the EU in 1995, these arrangements had to be changed to comply with European rules. All the monopolies in the alcohol sector were abolished, with the exception of the state-owned Systembolaget's retail monopoly. By 2003 Sweden had to phase out allowances and follow the European practice of unlimited travellers' import of alcohol for personal use. However, opening the borders to the neighbouring lower-tax Germany and Denmark led to further pressures on the tax rates in Sweden.¹³¹ Sweden has a relatively high excise duty rate compared to the rest of the European Union.¹³² The excise rate in Sweden is 50,141 Swedish krona, which is approximately 5,553 euros.¹³³

32.3 Direct effect of the spirits sector

The direct economic impact of the spirits sector covers approximately 800 employees who together produce spirits representing a value of 687 million euros. It can be concluded that there is a significant direct economic benefit from the spirits sector for the Swedish economy.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirits sector concerns taxes and excises paid by distilleries and consumers. In 2009, excises reached 409 million euros and total VAT income for the Swedish government was estimated at 164 million euros. Direct income taxes paid by employees of the spirits sector add up to another 20 million euros (government revenues due to indirect employment are not included in this figure).

The Swedish distilleries together achieved a production value of approximately 687 million euros. Approximately 40% of total turnover stays within these firms as value-added (277 million euros). Value-added equals total reward for production factors used: labour costs, interest paid and profits made.

32.4 Economic impact of distilleries on goods and services suppliers

With approximately 40% of the value of the output produced staying within the firms as value-added, the other 60% of 687 million euros in total turnover accrues to a number of suppliers. This stimulus of 411

¹³¹ Rabinovich, Brutscher, De Vries et.al. (2009). The affordability of alcohol beverages in the European Union. Understanding the link between alcohol affordability, consumption and harms.

¹³² London Economics, 2010

¹³³ Excise duty tables European Commission, 2010 (http://ec.europa.eu/taxation_customs/index_en.htm)



million euros has a significant economic impact on sectors outside the spirits sector. The packaging industry profits most from the purchases by spirits producers, followed by the transport sector and the suppliers of raw materials.

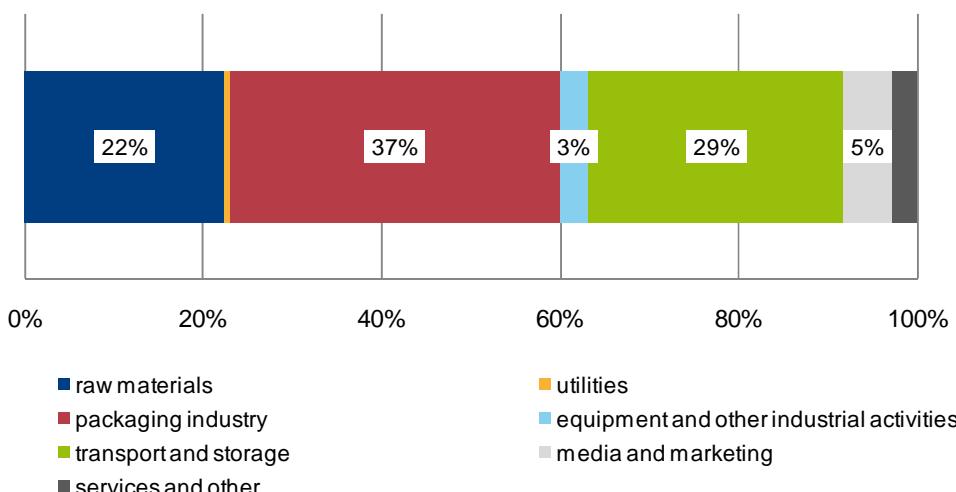
Sectors	Stimulus	Stimulus for Sweden		Turnover per employee ¹³⁴	Number of employees
	(million €)	%	(million €)	(in €)	
Raw Materials	110.1	95%	104.9	252,700	415
Utilities	8.2	100%	8.2	718,500	11
Packaging industry	217.5	80%	174	252,700	688
Equipment	19.8	78%	15.5	252,700	61
Transport	27.0	88%	23.9	44,800	532
Media, marketing	18.1	81%	14.7	146,300	100
Services	10.0	79%	7.9	146,300	54
Total	410.7	-	348.9	-	1,863
First-round impact as % of total impact					65%
Total indirect effect of spirits sector					2,866

Source: Ernst & Young calculation (2010); Eurostat (2007)

The packaging industry and agriculture sector benefit the most from purchases by the spirits industry. Based on the combination of data from Pernod Ricard and Eurostat, the indirect employment effect is approximately 2,900 employees in the supplying sectors.

Indirect employment effects are illustrated below:

Indirect employment: 2,900 jobs



Source: Ernst & Young calculation (2010)

¹³⁴ Turnover per employee is obtained from Eurostat.

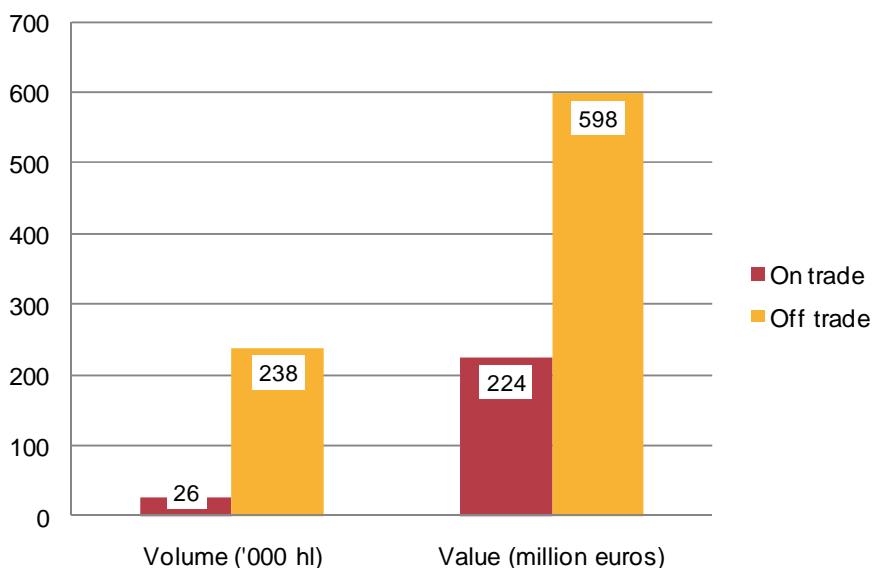


32.5 Retail and hospitality sectors

Approximately 264,600 hectolitres of spirit drinks were sold in Sweden in 2009. It is estimated that approximately 90% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 10% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

In economic terms, the total value (paid by consumers) of Swedish spirit drinks consumption is estimated at approximately 822 million euros (including VAT and excises). Although the hospitality sector is responsible for only 10% of sales in volume, it is responsible for approximately 28% of the sales in value.

Volume and value



Source: Ernst & Young calculation (2010)

Hospitality sector

The economic impact of spirits on the hospitality sector is assessed as follows:

- ▶ Approximately 10% of all spirits consumed in Sweden is sold by the hospitality sector (on-trade), which means 26,500 hectolitres is sold on-trade.
- ▶ The average consumer price of spirits in Swedish pubs and restaurants is estimated at 84.8 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 224 million euros (including VAT).
- ▶ Net consumer spending on spirits is thus estimated at 179 million euros (using a 25% VAT tariff).
- ▶ With an average hospitality turnover of 70,100 euros (excluding VAT) per person, this results in approximately 2,600 hospitality sector jobs attributable to spirits sales.

Retail

The importance of the spirits sector for retail can be similarly assessed:

- ▶ Approximately 90% of total spirits consumption (238,100 hectolitres) in Sweden is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 25.1 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 598 million euros. Total consumer spending excluding VAT is thus 478 million euros.
- ▶ With turnover per employee estimated at 349,300 euros (excluding VAT), this means 1,400 people owe their jobs to retail spirits sales.

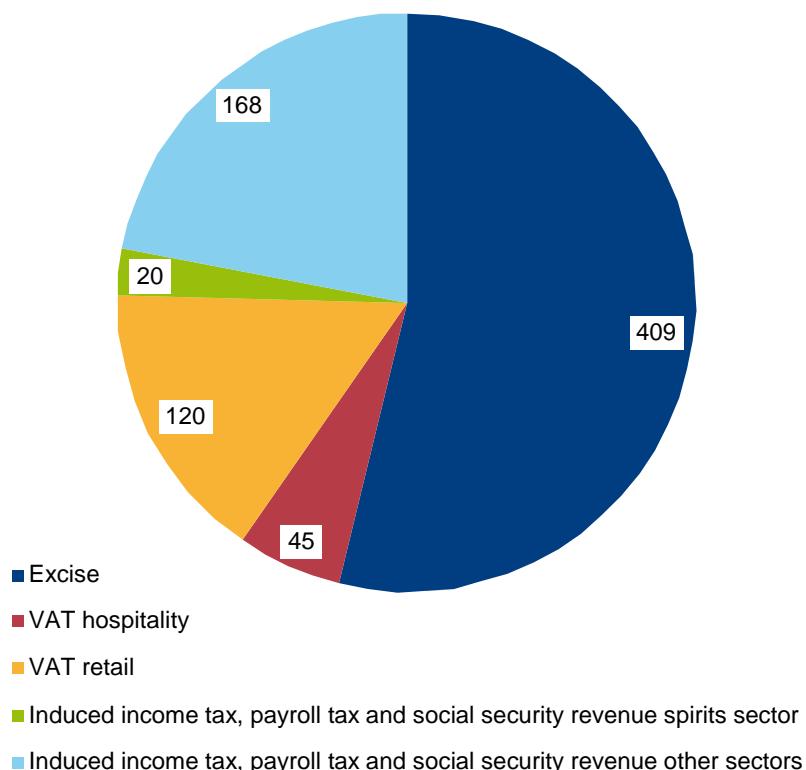


32.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 761 million euros:

- ▶ VAT revenues are estimated at 164 million euros. The main share of these VAT revenues is generated in the retail sector.
- ▶ Total excise revenues of spirits are 409 million euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 188 million euros. They consist of 74 million euros in income tax, 22 million euros in social security contributions paid by employees and 92 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 761 million euros



Source: Ernst & Young calculation (2010)



33United Kingdom: Economic impact of spirits

33.1 Highlights of the economic impact

Key figures	
Production (in hl final product)	11,579,700
Exports (in hl final product)	9,258,500
Imports (in hl final product)	2,762,800
Domestic sales (in hl final product)	2,934,400
Production value of spirit drinks sector	€ 5.5 billion
Consumer spending on spirit drinks	€ 7.5 billion
Economic impact	
Employment due to the production and sale of spirit drinks	100,000 employees
Value-added due to the production and sale of spirit drinks	€ 5.9 billion
Government revenues due to the production and sale of spirit drinks	€ 5.0 billion

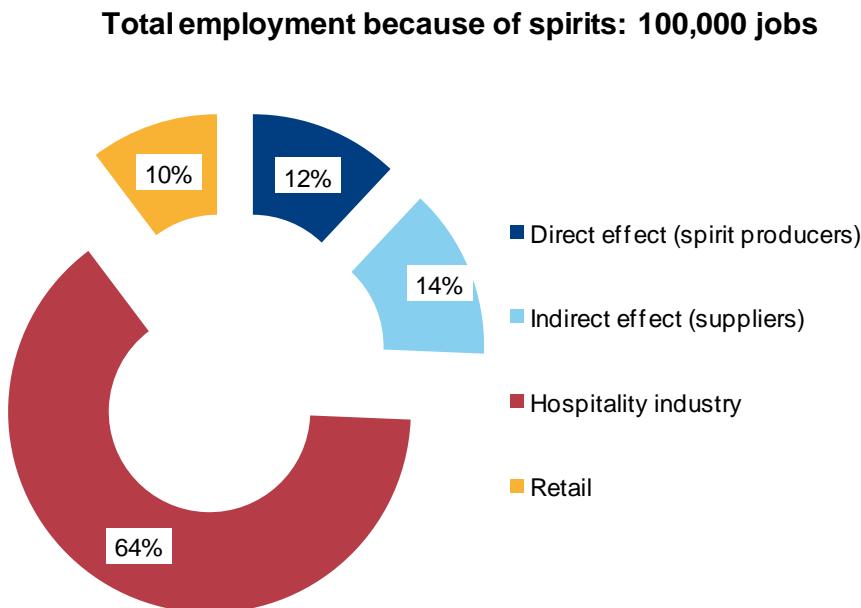
Sources key figures: estimates based on figures from the Gin and Vodka association (GVA), the Scotch Whisky Association (SWA), Eurostat and IWSR. Economic impact figures are based on E&Y calculations (see Annex III for an explanation of the methodology used).

The economic impact of the spirit drinks sector on the economy of the United Kingdom is substantial:

- ▶ Total employment related to the production and sale of spirit drinks is estimated at approximately 100,000 jobs, consisting of 12,000 jobs in the spirit drinks sector; 13,700 jobs in the supplying sectors; 64,100 jobs in the hospitality sector and 10,300 jobs in the retail sector
- ▶ Together these employees generate 5.9 billion euros of value-added. Of this value-added, 3.1 billion euros is generated in the spirit drinks sector, 1 billion euros in the supplying sectors, 1.4 billion euros in the hospitality sector and 469 million euros in the retail sector.
- ▶ Government revenues arising from the production and sales of spirit drinks are estimated at 5 billion euros.
- ▶ In 2009, consumers spent 7.5 billion euros on spirit drinks. This spending included considerable revenues for the government, namely 2.5 billion euros in excise revenues and 1.1 billion euros in VAT revenues.



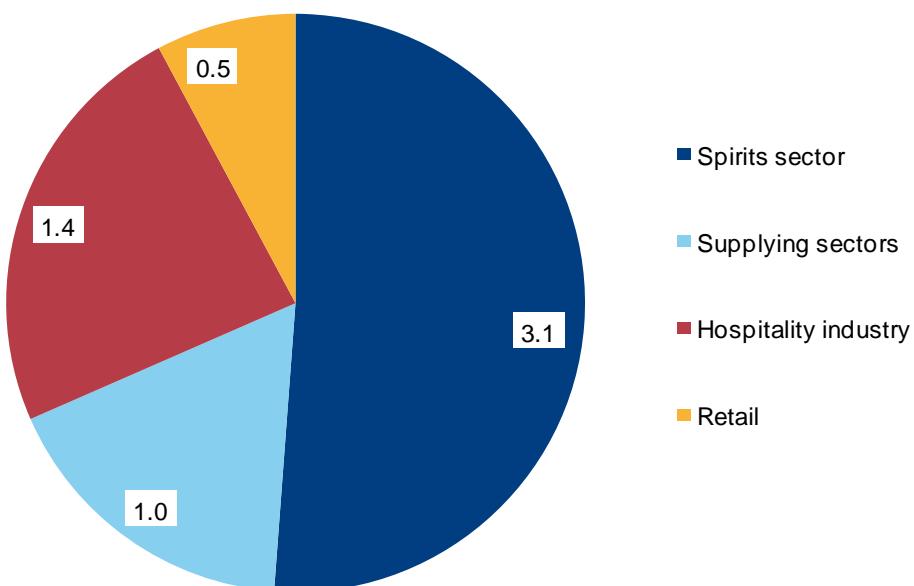
The employment impact of the spirits sector is shown in the figure below:



Source: Ernst & Young calculation (2010). (See Annex III for an explanation of the methodology used).

The contribution of the spirits sector to the economy of the United Kingdom can also be expressed in terms of value-added. The total value-added generated by these 100,000 employees is estimated at 5.9 billion euros.

**Value added due to the production and sale of spirits:
5.9 billion euros**



Source: Ernst & Young calculation (2010)



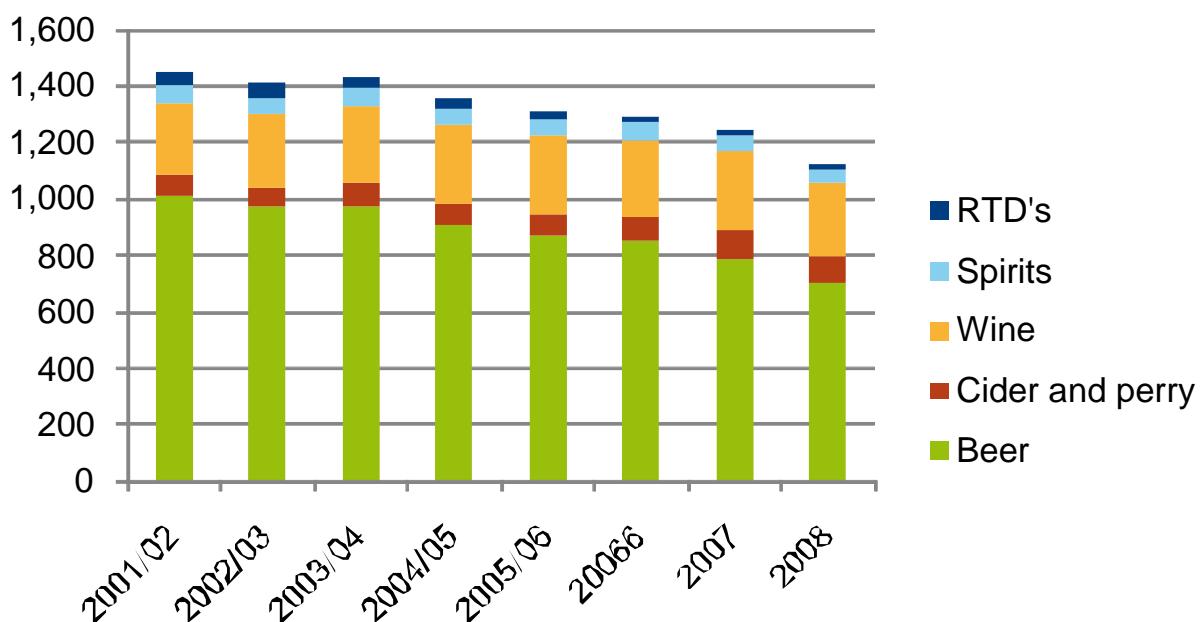
The spirits sector's share in overall value-added arising from the production and sale of spirits is 51%, which is much higher than the spirits sector's share in total employment arising from spirits (12%). A significant explanation for this is the higher productivity of employees in the spirits sector in comparison with the productivity of employees in other sectors.

33.2 Industry and market structure, trends and developments

In 2009, distillers in the United Kingdom produced 4.25 million hectolitres of pure alcohol. The most-produced product is whisky followed by gin and vodka. Scotch Whisky is an important export product and is consumed in some 200 countries approximately the world.¹³⁵

In the period 2001 – 2008 the per capita consumption of spirits (excluding RTDs) declined from 60 ml per person per week to 52 ml per person per week. The decline in the consumption of RTDs was even stronger, dropping from 52 ml per person per week to 14 ml per person per week. The consumption of other alcohol in general has also declined. The decline in overall alcohol consumption is mostly due to the decline in spirits consumption.

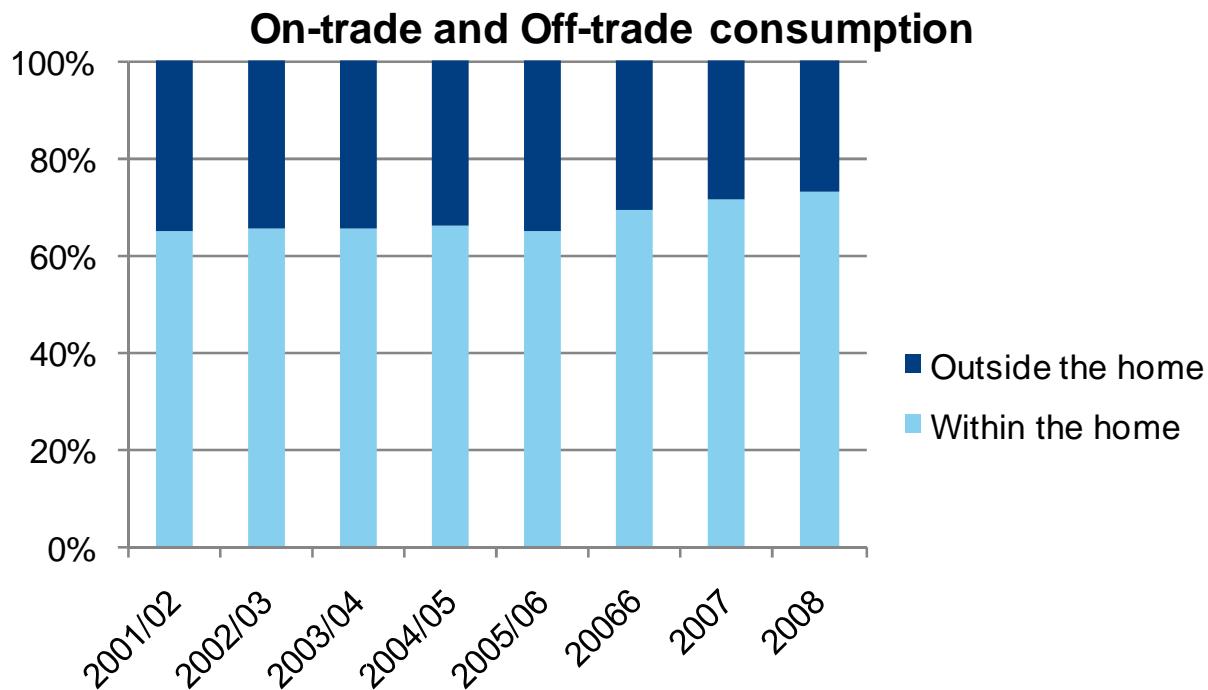
Consumption by type of drink (ml per person per week)



Source: Family Food Module of Living Costs and Food Survey (LCFS) 2008 (Defra/ONS)

Another development is the shift from on-trade to off-trade consumption. In 2001/2002, approximately 65 percent of spirits were consumed at home against 35 percent outside the home. In 2008, approximately 73 percent of spirits were consumed at the home. In 2009, some 81 percent of spirits was consumed at home.

¹³⁵ Scotch Whisky Association.



Source: Family Food Module of Living Costs and Food Survey (LCFS) 2008 (Defra/ONS)

In 2009, whisky was still by far the most-produced type of spirit in the United Kingdom. In terms of consumption, vodka and the various types of spirit drinks under 15 percent alcohol were the most popular type of spirits. In 2009, approximately 813,000 hectolitres of vodka were consumed. Whisky is also a popular spirit type; almost 232,000 hectolitres of pure alcohol were consumed. Assuming that the average alcohol percentage of whisky is 40, this means that approximately 579,000 hectolitres of whisky were consumed. Gin, vodka, rum and tequila are other popular drinks in the United Kingdom.

Type of spirits	Production	Consumption	Exports
Whisky	3,431,753 hlpa	231,571 hlpa	3,140,231 hlpa
Vodka	380,000 hlpa	813,283 hl	104,170 hl
Gin	440,000 hlpa	241,662 hl	290,000 hl
Other white spirits	-	208,095 hl	-
Brandy	-	200,203 hl	-
Under 15% alcohol	61,022 hlpa	892,249 hl	14,288 hl

Source: Gin and Vodka Association and Scotch Whisky Association, 2009.

Lately the sector has been under pressure because of several regulatory developments. The excise on ethyl alcohol has been increased to GBP 2,264 on first January 2010.¹³⁶ ¹³⁷ This is an increase of 15 percent. In 2011 VAT will be increased from 17.5 to 20 percent.

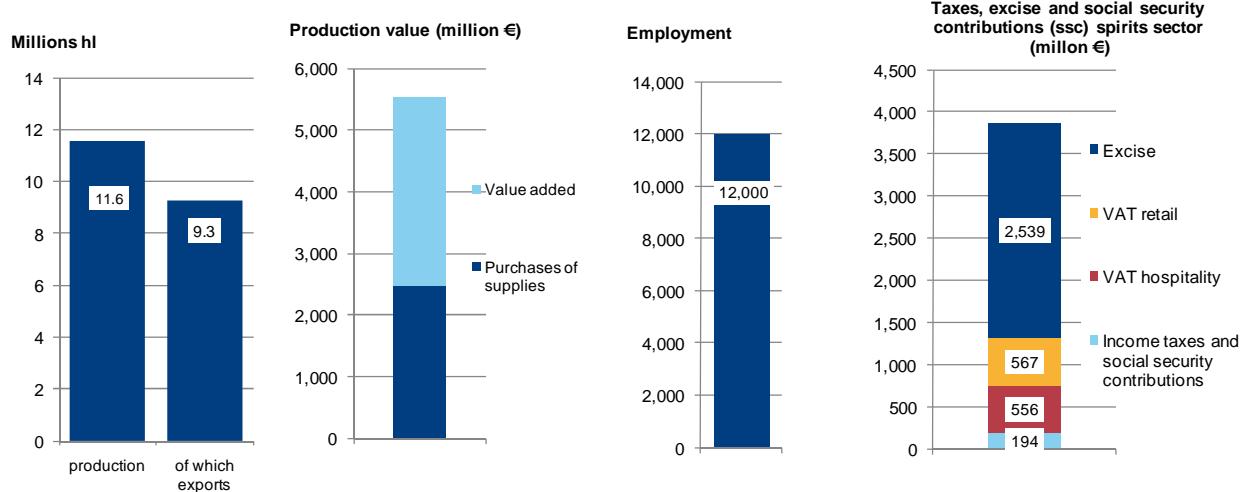
There is considerable uncertainty approximately the future because of the possible introduction of several regulatory developments. The Scottish Government is considering introducing minimum pricing per unit of alcohol. The UK Government has intentions of introducing a ban on low-cost selling.

¹³⁶ 2885.38 euros in 2007, 2803.38 euros in 2009 and 2485.59 euros in 2010. Source European Commission, excise tables 2007-2010
¹³⁷ European Commission, excise tables 2007, 2008, 2009 and 2010.



33.3 Direct effect of the spirits sector

The direct economic impact of the spirit drinks sector in the United Kingdom covers approximately 12,000 employees who together produce spirit drinks representing a value of 5.5 billion euros. It can therefore be concluded that there is a significant direct economic benefit from the spirit drinks sector for the economy of the United Kingdom.



Source: Ernst & Young calculation (2010)

Another substantial direct effect of the spirit drinks sector concerns taxes and excises paid by spirits producers and consumers. In 2009, excises reached 2.5 billion euros and total VAT income for the government was estimated at 1.1 billion euros. Income taxes and social security contributions paid by employees in the spirit drinks sector add up to another 194.2 million euros.

The distilleries and producers of spirits in the United Kingdom achieved an estimated 5.5 billion euros in production value. Approximately 55% of total production value stays within these firms as value-added (3.1 billion euros). Value-added equals total reward for production factors used: labour costs, interest paid and profits made.

33.4 Economic impact of spirits producers on goods and services suppliers

With approximately 55% of the value of the output produced staying within the firms as value-added, the other 45% of 5.5 billion euros in total turnover accrues to a number of suppliers. This stimulus of approximately 2.5 billion euros has a significant economic impact on sectors outside the spirits sector. The packaging industry profits most from the purchases by spirits producers, followed by the transport sector and the suppliers of raw materials.

The impact of the production and sale of spirits on supplying sectors is high because of the large stimuli for the United Kingdom itself due the fact that the spirits-producing companies obtained most of their purchases on goods and services within the country.



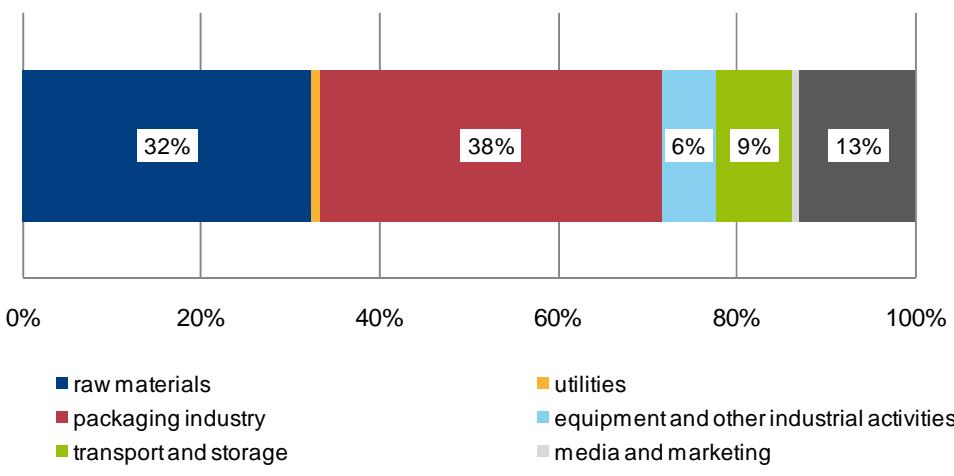
Sectors	Stimulus	Stimulus for the UK		Turnover per employee ¹³⁸	Number of employees
	(million €)	%	(million €)	(in €)	
Raw Materials	825	83.3%	687.6	239,900	2,866
Utilities	72.5	100.0%	72.5	753,300	96
Packaging industry	1,027.8	79.39%	814.6	239,900	3,4395
Equipment	136.9	96.4%	133.0	239,900	550
Transport	188.4	84.9%	159.9	209,600	763
Media, marketing	27.9	31.8%	8.9	118,500	75
Services	138.9	97.8%	135.9	118,500	1,147
Total	2,417.5	-	2,011.4	-	8,893
First-round impact as % of total impact					65%
Total indirect effect of spirits sector					13,681

Source: EY Questionnaire among distilleries (2010); Eurostat (2007)

The largest proportion of supplies is purchased from the packaging industry, with further significant spending on raw materials. Based on the combination of data from the spirits sector in the United Kingdom itself (the questionnaires) and on data from Eurostat, it is estimated that the indirect employment effect is approximately 13,700 employees in the supplying sectors.

The indirect employment effects are illustrated in the graph below:

Indirect employment: 13,700 jobs



33.5 Retail and hospitality sectors

Approximately 2.9 million hectolitres of spirit drinks were consumed in the United Kingdom in 2009. It is estimated that about 81% of this total volume is purchased in supermarkets and other retail outlets, referred to as the 'off-trade'. The remaining 19% is consumed in the hospitality sector (pubs, restaurants and hotels), which is referred to as the 'on-trade'.

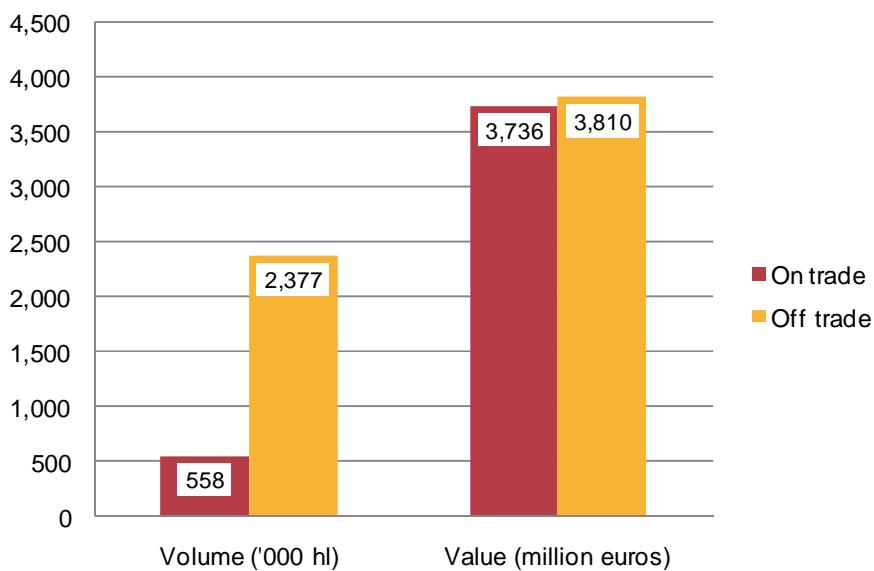
¹³⁸ Turnover per employee is obtained from Eurostat.



In economic terms, the total value (paid by consumers) of spirit drinks consumption in the UK is estimated at approximately 7,546 million euros (including VAT and excises). Although the hospitality sector is responsible for only 19% of sales in volume, it is responsible for approximately 50% of the sales in value.

As already mentioned the British spirits market is characterised by a shift from on-trade sales to off-trade sales. However, the major part of consumption is still consumed in the hospitality sector.

Volume and value



Source: Ernst & Young calculation (2010)

Hospitality sector

Many jobs in the British hospitality sector can be attributed to the sale of spirits:

Approximately 19% of all spirits consumed in the United Kingdom is sold by the hospitality sector (on-trade), which means 557,500 hectolitres is sold on-trade.

The average consumer price of spirits in pubs and restaurants is 54.0 euros a litre (including VAT), so that total consumer spending on spirits in the hospitality sector is 3.7 million euros (including VAT).

Net consumer spending on spirits is thus estimated at 3.2 billion euros (using a 17.5% VAT tariff).

With an average hospitality turnover of 55,400 euros (excluding VAT) per person, this results in 64,100 hospitality sector jobs attributable to spirits sales.

Retail

- ▶ The importance of the spirits for retail can be similarly assessed:
- ▶ Approximately 81% of total spirits consumption (2.4 million hectolitres) in the UK is sold by supermarkets and other retail outlets.
- ▶ With an average consumer price of 14.8 euros per litre (including VAT), total retail consumer spending on spirits is estimated at 3.8 billion euros. Total consumer spending excluding VAT is thus 3.2 billion euros.
- ▶ With turnover per employee estimated at 334,500 euros (excluding VAT), this means 10,300 people owe their jobs to retail spirits sales.

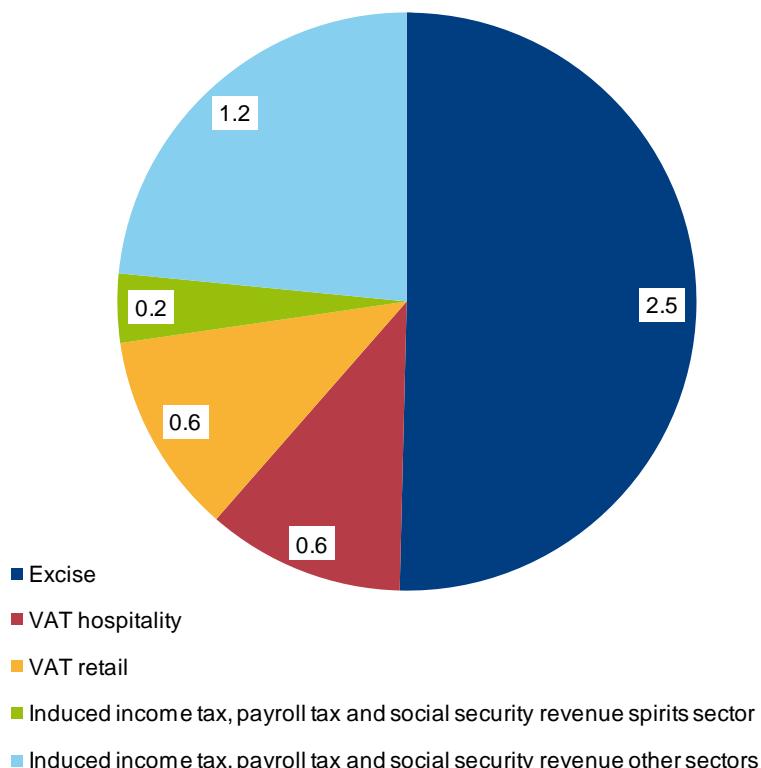


33.6 Government revenues

The revenues of excise, VAT and income-related contributions arising from spirits production and sales are estimated at 5.04 billion euros:

- ▶ VAT revenues are estimated at 1.1 billion euros. The VAT revenues are quite equally distributed among the hospitality (€ 556 million) and retail sector (€ 568 million).
- ▶ Total excise revenues on spirits are 2.5 billion euros.
- ▶ Income-related revenues arising from spirits production and sales are approximately 1.4 billion euros. They consist of 742 million euros in income tax, 265 million euros in social security contributions paid by employees and 371 million euros in social security taxes and payroll taxes paid by employers.

Government revenues due to the production and sale of spirits: 5 billion euros



Source: Ernst & Young calculation (2009)



Annex I: Methodology & scope

This study focuses on the economic impact of the spirits sector in the **27 European Union Member States**. Although the spirits sector is international in scope and many producers of spirit drinks are companies operating as multinationals, the analyses were carried out at country level. This enabled the impact on individual national economies to be measured.

The base year for the analysis is **2009**. If data was not available for that year, data for 2008 and, in some exceptional cases, data for 2007 was used.

Some of the reported outcomes are estimated on the basis of a **model** constructed by Ernst & Young. For this reason these outcomes are not a direct representation and are dependent on decisions made by Ernst & Young. These decisions are elucidated in Annex III.

To represent the economic impact of the spirits sector, three different effects can be distinguished:

- ▶ direct impact
- ▶ indirect impact
- ▶ induced impact

The **direct impact** is defined straightforwardly as the effect generated directly by spirits-producing companies.

The **indirect impact** represents the impact of spirit drinks producers on their suppliers. A highly diverse range of goods and services needs to be purchased to be able to produce spirit drinks. To mention just a selection: water, agricultural products, e.g. grain and sugar and packaging materials such as bottles and cardboard. Spirits-producing companies also hire engineers, marketers, communications agencies and many more services. This study distinguishes six supplying sectors: suppliers of raw materials, utilities, packaging industry, transport, media and marketing and other services.

The sale of spirit drinks by retail outlets and hospitality firms is an important source of economic benefits. The economic contribution of firms in the retail and hospitality sectors arising from the sale of spirits is labelled in this study as the spirits sector's **induced impact**.



The abovementioned effects have been measured in three areas (**employment, value-added and government revenues**). Together this results in nine dimensions:

	Direct impact	Indirect impact	Induced impact
Employment	Total number of jobs in the spirits sector	Total number of jobs in supplying sectors resulting from the production and sale of spirits	Total number of jobs in the hospitality and wholesale/retail sector resulting from the sale of spirits
Value-added	Value-added by spirits-producing companies	Value-added in supply sectors resulting from the production and sale of spirits	Value-added in the hospitality and wholesale/retail sector resulting from the sale of spirits
Government Revenues	Excise revenues resulting from the production and sale of spirits and income tax and social contributions from employers and employees in the spirits industry	Income tax and social contributions from employers and employees in supply sectors	VAT revenues, income tax and social contributions from employers and employees in the hospitality and wholesale/retail sector resulting from the sale of spirits



Annex II: Data sources

The results presented in this report derive from multiple data sources. In hierarchical order of importance these sources are:

- a data obtained from a questionnaire completed by national associations representing the spirits sector;
- b data collected directly from individual spirit drinks producers across Europe through a detailed questionnaire;
- c data from the European Commission and Eurostat;
- d statistics obtained from the International Wine and Spirits Record (IWSR);
- e data from additional (public) sources, such as national statistics agencies and the OECD.

Sub a

The **national associations** representing the producers of spirit drinks have been a major source of valuable data. Eleven associations completed a detailed questionnaire and another five associations furnished us with useful input by email, or by sending us reports with key figures on the spirits sector in their country. Important elements of the questionnaire were:

- ▶ production and consumption volume, imports and exports of the various types of spirits;
- ▶ number of spirits-producing companies, production plants and employees in the sector;
- ▶ consumer prices in the on-trade and off-trade sectors and distribution margins of production sold on-trade and off-trade.

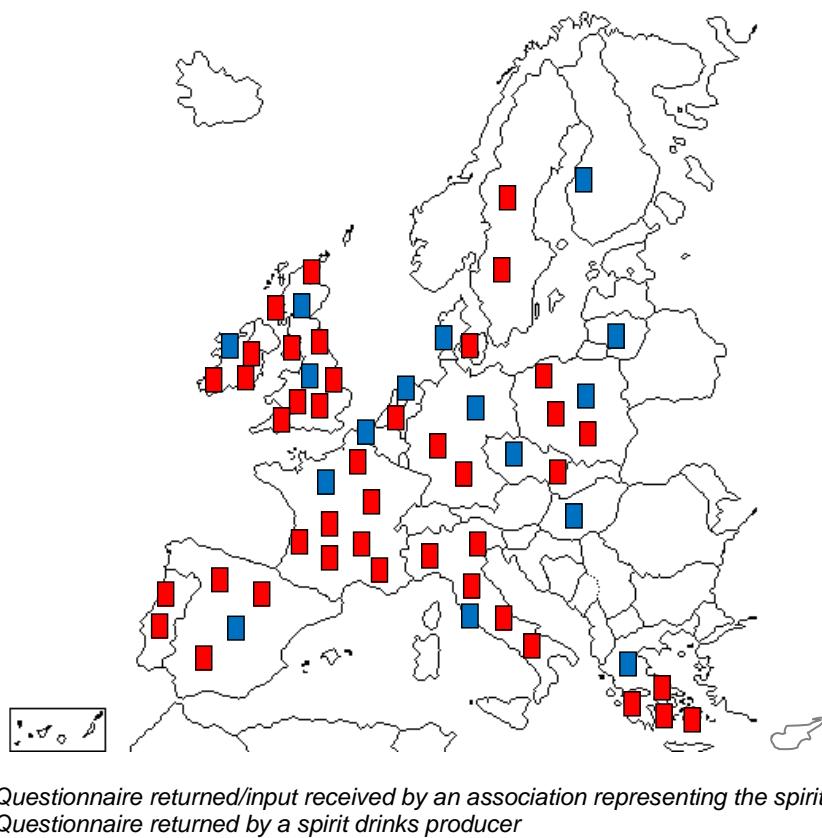
Another important role of the national associations was to validate the outcomes of the study. To strengthen the underlying database for this study, Ernst & Young has presented draft country reports on the economic impact of the spirits sector to all national associations representing the spirits sector. The validated reports provide necessary national checks on the European data series used.

Sub b

Some of the data on the spirits sector could not be provided by the national associations. In addition to the questionnaire that was sent to these sector organisations, a different questionnaire was completed directly by 42 **spirits-producing companies**. The response consisted of (small) independent spirit-drinks-producing companies as well as business units from spirits-producing multinationals situated throughout Europe. The questionnaire comprised questions about:

- ▶ procurement and purchase management (amounts of money spent on a variety of goods and services needed to produce spirit drinks, and the proportion of purchases made domestically);
- ▶ consumer prices on-trade and off-trade and a breakdown of consumer prices in distribution margins for the retail and hospitality sector, VAT and excise duties, value-added for the spirits sector and goods and services purchased by the spirits sector.
- ▶

Respondents were asked to differentiate this data over the various types of spirits. The data we received from spirits-producing companies and associations provided an equal distribution over the different European regions:



Questionnaire returned/input received by an association representing the spirit drinks sector
 Questionnaire returned by a spirit drinks producer

Sub c

Whereas specific data on the spirits sector was collected through questionnaires completed by spirits producers and national associations, more general data on individual European economies was obtained from **Eurostat**. Eurostat statistics have provided useful data on labour costs, turnover and value-added per employee generally covering all or most of the countries considered. Information on taxes (excise revenues on spirits and implicit tax rates on labour) was obtained from reports from the **European Commission**.

Sub d

In addition to the information from the questionnaires, statistics provided by the International Wine and Spirits Record (**IWSR**) have been used. These statistics consisted of information on consumer prices and the distribution margins of consumption sold on-trade in particular countries: data on production, consumption, direct employment in the spirits sector and information on the tax structure in the different countries of the European Union.

Sub e

If data could not be collected through the sources mentioned, **alternative sources** have been used. General data on national economies derives primarily from public sources such as national statistics agencies and OECD statistics. For more specific data, commercial reports on the spirits industry have been used.



Annex III: Variables and estimates

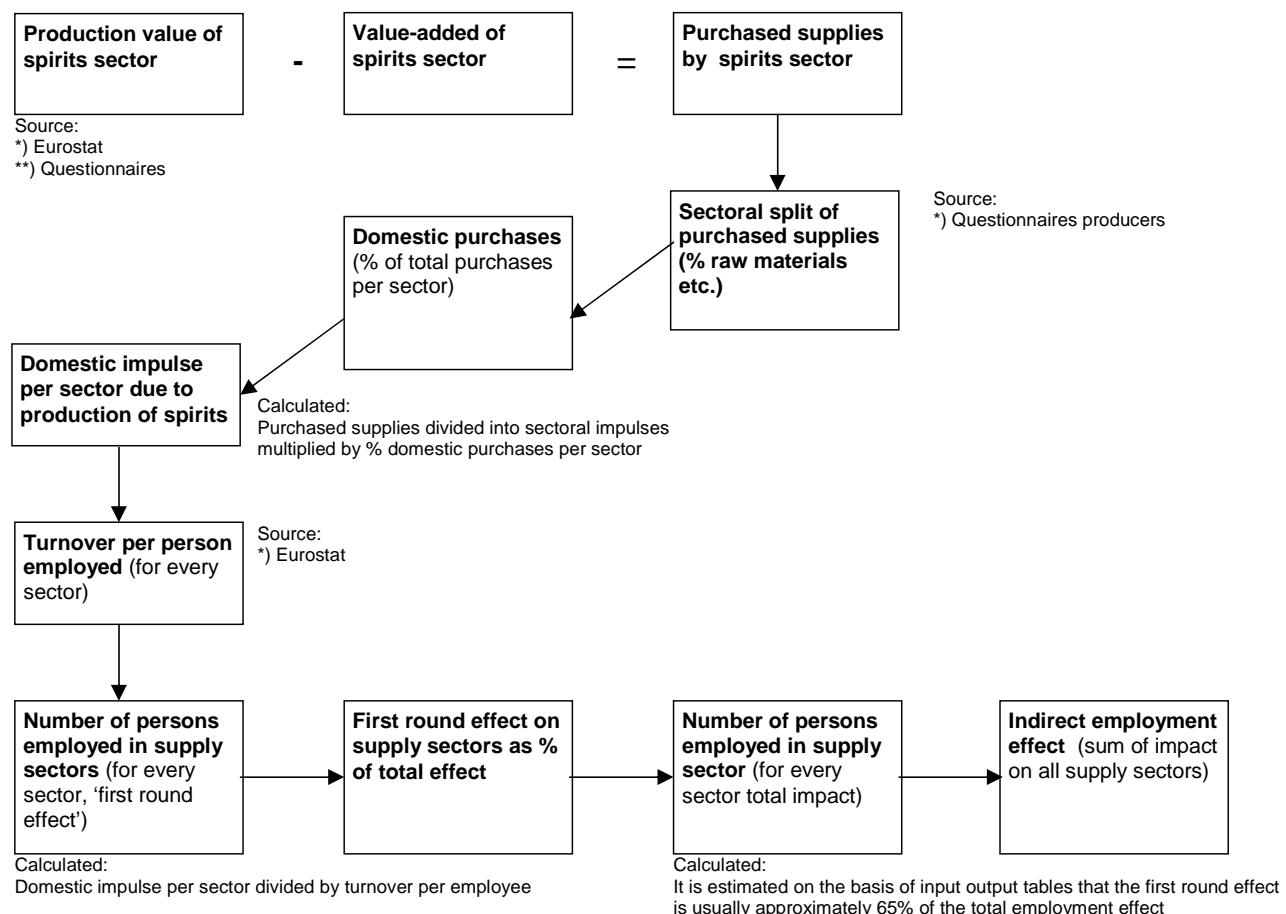
Some of the reported outcomes on the economic impact of the spirits sector are based on estimates. These estimates derived from a **model** constructed by Ernst & Young. We illustrate here how these variables have been estimated, focusing on:

- ▶ Employment effects
- ▶ Value-added due to the production and sale of spirits
- ▶ Government revenues due to the production and sale of spirits

Employment effects

The **direct employment** effect signifies the number of people employed in the spirits sector. The data on direct employment was obtained from the questionnaires among national associations. If these associations could not deliver figures on the number of people employed by the spirits-producing companies in their country, alternative sources (mainly Eurostat) have been used.

The **indirect employment** effect concerns the employment generated in supply sectors due to the production and sale of spirit drinks. The starting point of the estimates on indirect employment is the impulse in supply sectors resulting from purchases made by the spirits sector.



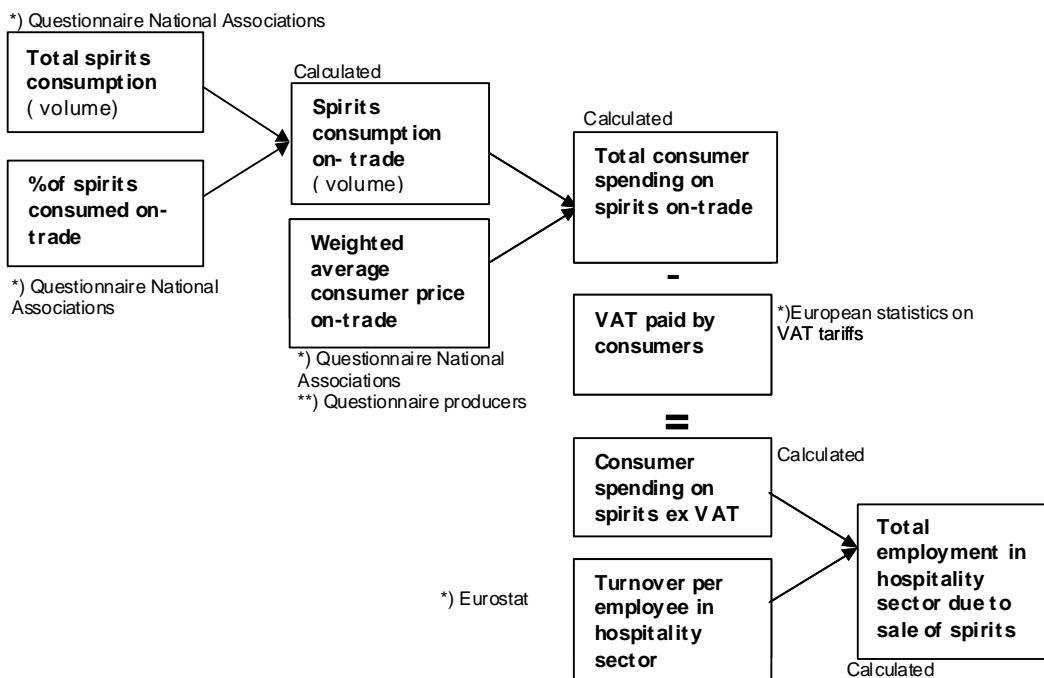


Within the data collection, differences in consumer prices between different types of spirits were taken into account. Furthermore, for each type of spirit three consumer price categories were distinguished, namely: lower, medium and higher segment. Six types of spirits were distinguished:

- ▶ Whisk(e)y
- ▶ Vodka
- ▶ Other white spirits (for example rum, gin and tequila)
- ▶ Brandy (including cognac)
- ▶ Flavoured spirits
- ▶ RTDs (ready-to-drink beverages: alcoholic drinks consisting of premixed spirits)
- ▶ For the data calculations we used weighted average prices in which differences between the various price categories, as well as the abovementioned six types of spirits, were taken into account.

Data on turnover and value-added per employee per sector was obtained from Eurostat. For sector data NACE codes (classification of economic activities by the European Union) have been used: for data on suppliers of raw material, packaging industry and equipment (C manufacturing); utilities (E electricity, gas, water supply); wholesale and retail¹³⁹ (G wholesale and retail trade; repair of motor vehicles and motorcycles); hospitality (H Hotels and restaurants); transport (I Transport storage and communication); marketing and services and other (K retail renting and business activities).

The **induced employment** effect, resulting in employment due to the sale of spirit drinks in the hospitality sector and in retail, is estimated as follows:



Depicted is the way the employment impact on the hospitality sector is estimated. The weighted average consumer price is estimated by taking into account the proportional relevance (shares in total consumption) of each component (average price of each price segment of each type of spirits). Estimates for retail are made in a similar way.

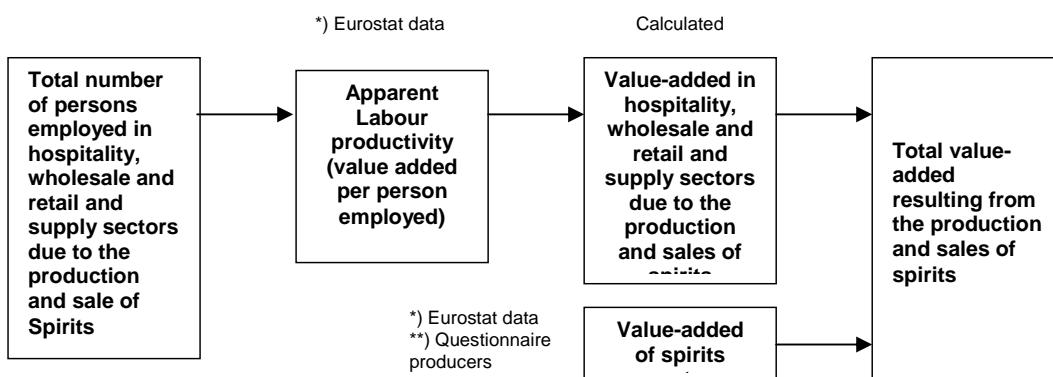
¹³⁹ The percentage of added-value on spirits in the wholesale and retail sector differs significantly from other products. For this reason NACE code G5225 (Retail sale of alcoholic and other beverages) has been used for the added-value per employee in wholesale and retail.



The figure above shows that the starting point of the calculations of the induced effects in hospitality and retail is the volume of spirits consumed in the country. In cases where we had not received information on the volume of spirits consumed in a particular country, the consumption volume was calculated based on the excise revenues (according to the European Commission). Since only the consumption figures in pure litres of alcohol can be deduced from these excise figures we had to make an estimation of the average alcohol percentage of spirits, to be able to calculate the consumption volume in litres of final product. For this we have used an average alcohol percentage of 30 percent.¹⁴⁰ Part of the figures on production, import and export volumes in this report are also calculated based on an average alcohol percentage of 30 percent.¹⁴¹

Value-added due to the production and sale of spirits

The **direct value-added** in the spirits sector is obtained through the questionnaires completed by spirits producers and spirit drinks associations and through Eurostat data. The value-added in other sectors resulting from the production and sale of spirits (**indirect and induced value-added**) is estimated on the basis of the employment effects. The value-added in a particular sector is estimated by multiplying the employment effect by the apparent labour productivity (Gross value added per person employed) in the sector. If no data on labour productivity for a particular country was available, estimates were made based on statistics from national statistics agencies or the OECD.



Government revenues due to the production and sale of spirits

The government revenues arising from the spirits industry consist of three segments:

- ▶ excise revenues
 - ▶ VAT revenues
 - ▶ income-related revenues

Data on **excise revenues** is obtained from the European Commission. **VAT revenues** resulting from the sale of spirit drinks are calculated by combining the total consumer spending on spirits (on-trade and off-trade) in a particular country with the VAT rate.

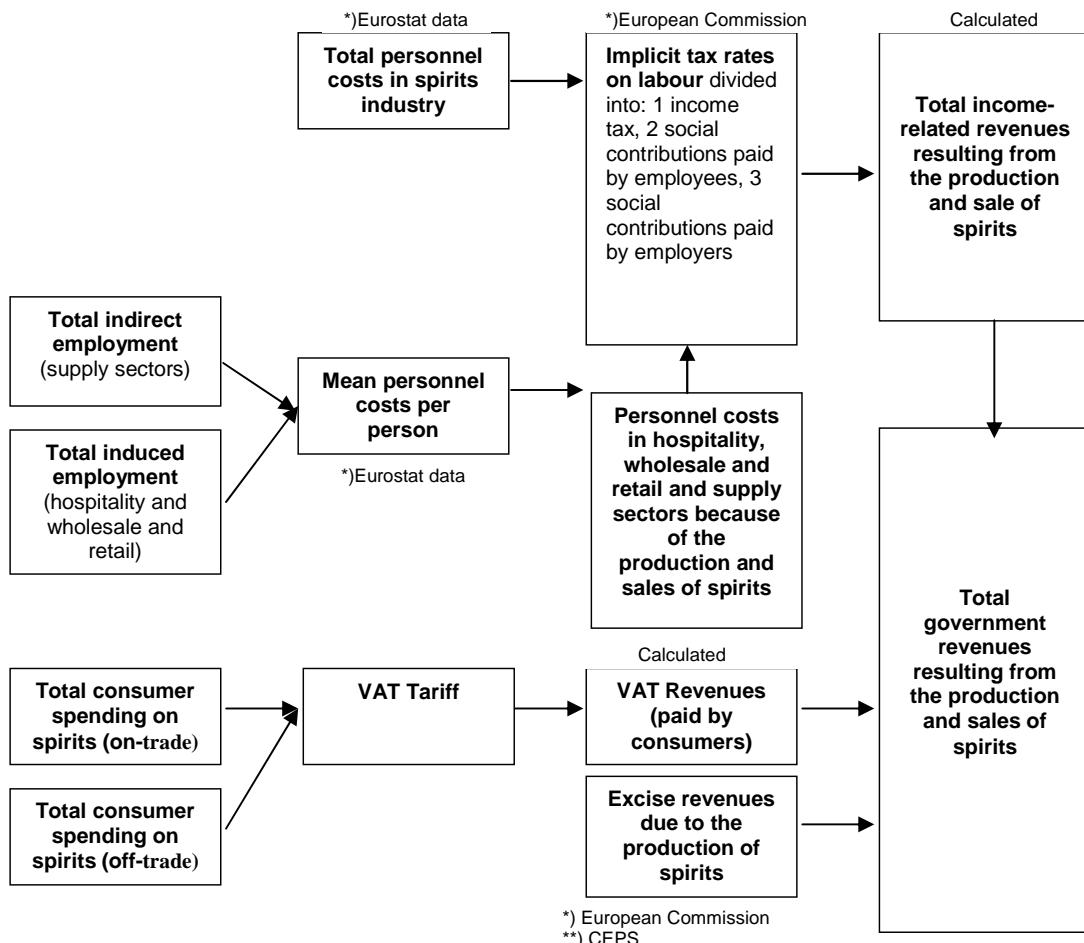
Income-related revenues have been estimated by multiplying personnel costs with implicit tax rates. The personnel costs in the spirits industry were obtained directly from Eurostat. Personnel costs in supply sectors, hospitality and wholesale and retail were calculated by multiplying indirect and induced employment by the mean personnel costs per person employed according to Eurostat.

¹⁴⁰ This figure is an estimate based on countries in which we had figures about the consumption in pure litres as well as in final product. Some of the figures on import and export volumes in this report are also calculated based on an average alcohol percentage of 30 percent.

¹⁴¹ on import and export volumes in this report are also calculated based on an average alcohol percentage of 30 percent. For some countries the national associations could not furnish us with production, import and export figures. For these countries we have used Eurostat data on external trade in pure litres of alcohol to make an estimate of this. The consumption value was then calculated as follows:
Production = consumption + exports - imports



Implicit tax rates on labour were obtained from statistics from the European Commission. The implicit tax rate is the percentage of personnel costs which consists of taxes and social contributions. It consists of three parts: mean ratio of 1) income tax, 2) social contributions paid by employees and 3) social contributions paid by employers. Using implicit tax rates made it possible to report separately on income tax revenues and social contributions.





Annex IV: Exchange rates

Since most data sources used for the study apply to the year 2009, the mean exchange rates of that year have been used for the majority of data calculations. For data that applied to an earlier period, mean exchange rates of 2008 were used.

Table 3: Exchange rates used in the report

Currency	Mean euro exchange rate in 2008	Mean euro exchange rate in 2009
Bulgarian Leva	1.9558	1.9558
Czech Koruny	24.946	26.435
Danish Krone	7.4560	7.4462
Estonian Krooni	15.6466	15.6466
Hungarian Forint	251.5121	280.3270
Latvia Lats	0.7027	0.7057
Lithuanian Litas	3.4528	3.4528
Polish Zlotych	3.5121	4.3276
Romanian Lei	3.6826	4.2399
Swedish Krone	9.6152	10.6191
UK Pound Sterling	0.79628	0.89094

Source: www.statistics.dnb.nl



Annex V: Glossary

Direct effects	Employment, value-added and tax revenues for governments generated directly by the spirits sector.
Europe	27 Member States of the European Union (Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom)
Excise	A taxation on the production volume, rather than the production value, of a certain good. In the case of spirits it is often related to the amount of alcohol released for consumption.
Exports	The annual volume of spirits sold and shipped to foreign countries. Both intra-European (within Europe) as well extra-European (to countries outside Europe) flows are included in this figure.
First round employment	The number of jobs that generated directly in supplying sectors by spirits sector purchases effect. The employment that is generated by purchases of these supplying sectors is not included.
FTEs	Full-time equivalents
Government revenues	Amount of money received by the government from outside the government entity. In this study they include excise revenues on spirits, VAT on spirits sold in hospitality and retail sectors and all labour-income-related revenues from jobs in the spirits sector and jobs in other sectors generated by spirits production and sales. These income-related revenues include personal income tax, social security contributions paid by employees and social security contributions and payroll taxes paid by employers.



Hectolitre (hl)	One hectolitre equals 100 litres.
Implicit tax rate on labour	Ratio of taxes and social security contributions on employed labour income to total compensation of employees. It is the sum of all direct and indirect taxes and employees' and employers' social contributions levied on employed labour income divided by the total compensation of employees working in the economic territory increased by taxes on wage bills and payroll.
Indirect effects	Impact of the spirits sector on supplying sectors in terms of employment or value-added. For example: producers of ethyl alcohol, marketing agencies or suppliers of bottles.
Induced effects	Employment at companies that distribute or sell spirits, mainly in the wholesale, retail and hospitality sectors. For example: bartenders, waitresses and shopkeepers. For this study the induced employment is confined to the retail and hospitality sectors.
Input output table	A detailed matrix containing data on how much one industry purchases from other industries. These tables were used to calculate the purchases of the spirits sector from supplying industries.
Imports	The annual volume of spirits bought and brought in from foreign countries. Both intra-European (within Europe) as well extra-European (from countries outside Europe) flows are included in this figure.
On-trade	Spirits sales through (licensed) pubs, clubs, bars, restaurants and the like.
Off-trade	Spirits sales through shops, supermarkets and other retail outlets.
Personal income tax	A tax levied on the personal income of people. In this study taxes on income out of labour generated by spirits production and sales are included in the figures.
Personnel costs	The total remuneration payable by an employer to an employee in return for work done by the latter during the reference period. Besides salary, personnel costs also include taxes and employees' social security contributions retained as well as the employer's social contributions.
Production Value	The amount actually produced by the unit, based on sales, including changes in stocks and the resale of goods and services. The production value is defined as turnover, plus or minus the changes in stocks of finished products, work in progress and goods and services purchased for resale, minus the purchases of goods and services for resale, plus capitalised production, plus other operating income (excluding subsidies). Income and expenditure classified as financial or extraordinary in company accounts is excluded from production value.



Purchases of goods	The value of all goods and services purchased during the goods and services accounting period for resale or consumption in the production process, excluding capital goods. It refers to externally-bought products and services.
RTDs	Abbreviation for ready-to-drink beverages: alcoholic drinks consisting of premixed spirits.
Social security contributions	Financial contributions paid by employees and their employers giving access to the social security system and entitlement to certain benefits in situations of unemployment, sickness, disability or old age
Spirits/spirit drinks	An alcoholic drink that is distilled rather than fermented.
Spirits company	A company which produces and/or sells spirits.
Spirits-producing plants	A plant where spirits are produced.
Spirits sector	All the spirits companies located within a certain geographical area. These companies may also be involved in activities other than producing spirits, such as the production of soft drinks and bottled mineral water. However these additional activities have not been taken into account in this study.
SSC	See: Social security contributions.
Value-added	Difference between the production value and the value of purchased inputs (goods and services). In economic terminology value-added is also defined as the reward for all production factors (mainly labour, capital, entrepreneurship).
VAT	Value Added Tax



Annex VI: Country abbreviations

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	Netherlands
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia
UK	United Kingdom
US	United States



Annex VII: Contact information

For more information about this study, please contact us.

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