

The contribution of the spirits industry to the EU economy

December 2010



EU Chapters



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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

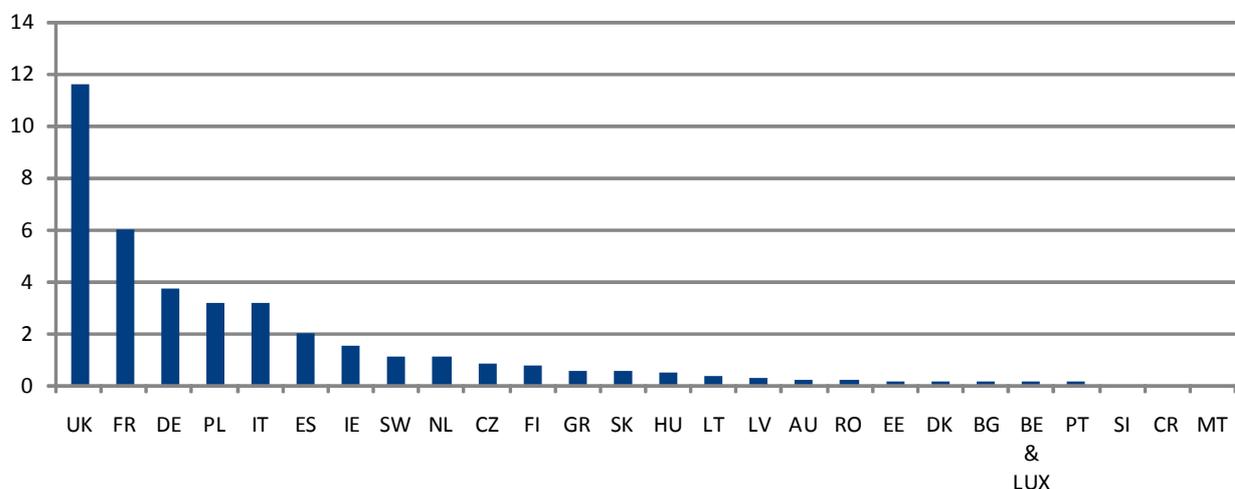
Highlights of the European spirits market

- ▶ 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



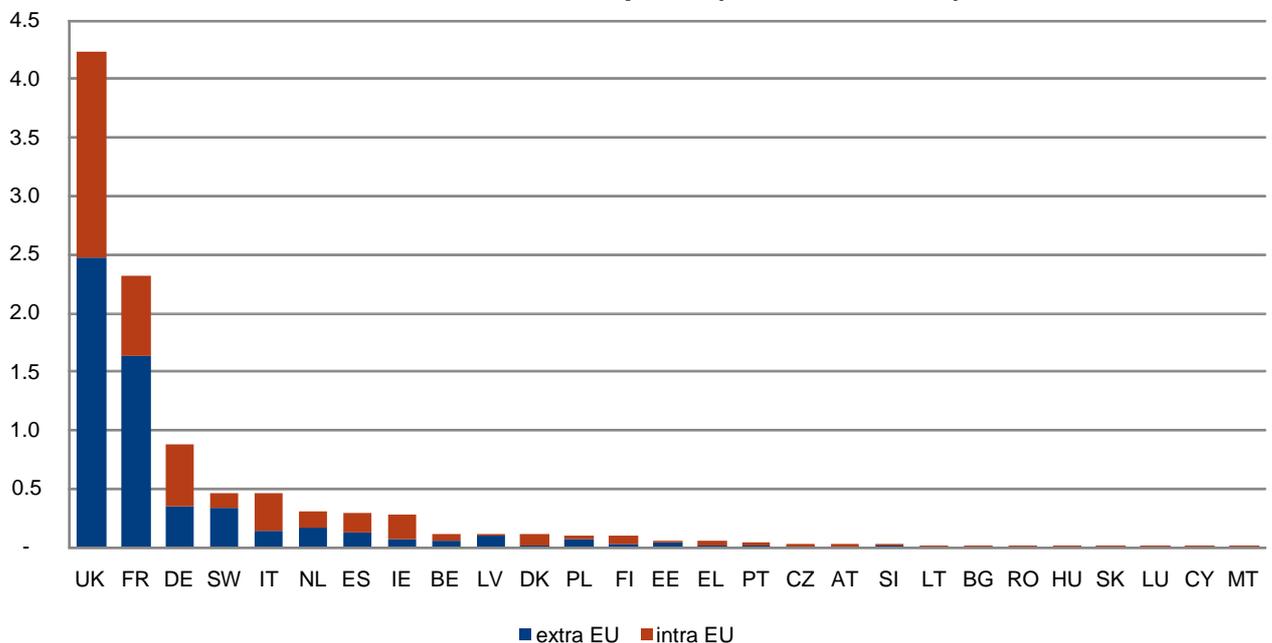
Source: E&Y calculations with excise duty tables from the European Commission, 2010



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.

Intra EU and extra EU exports (in billion euros)



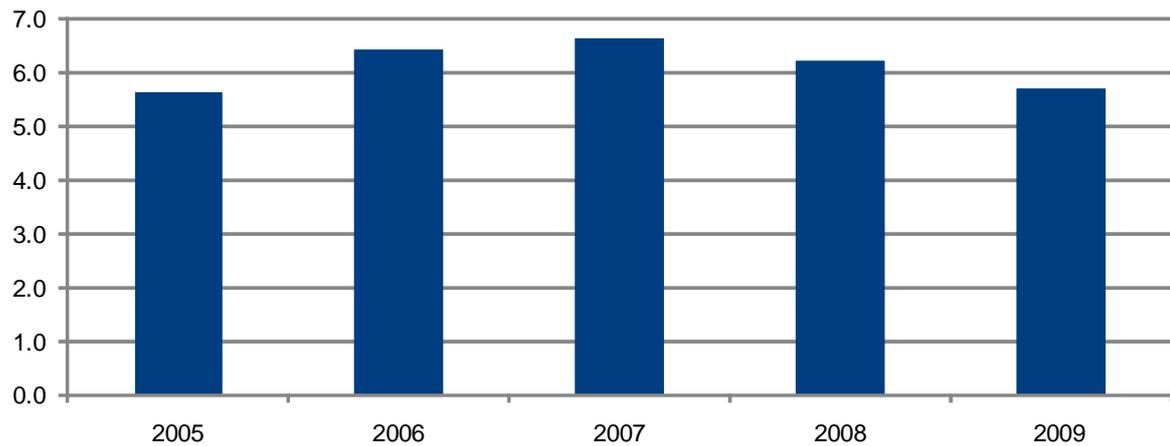
Source: Eurostat (2009)³

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

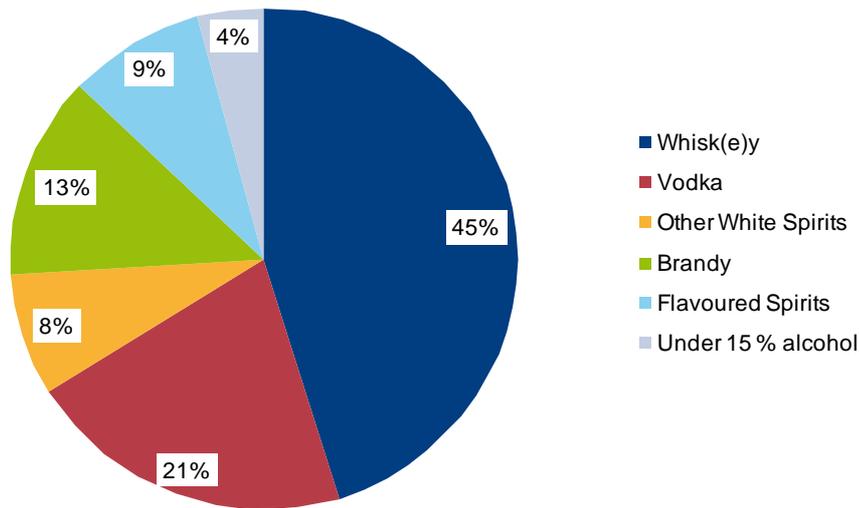
Source: Eurostat (2009)

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.

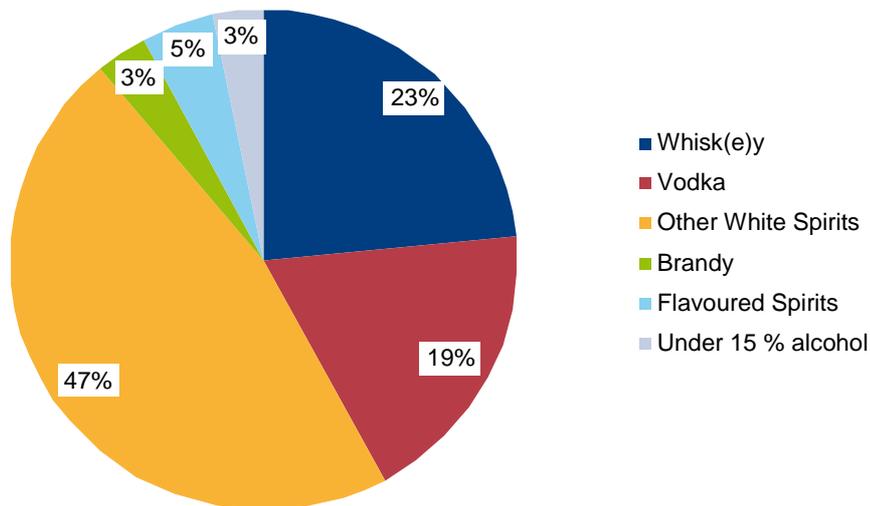


**Exports of spirit drinks to countries outside the EU27:
4.6 million hectolitres of pure alcohol**



Source: Ernst & Young calculations based on Eurostat 2009

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



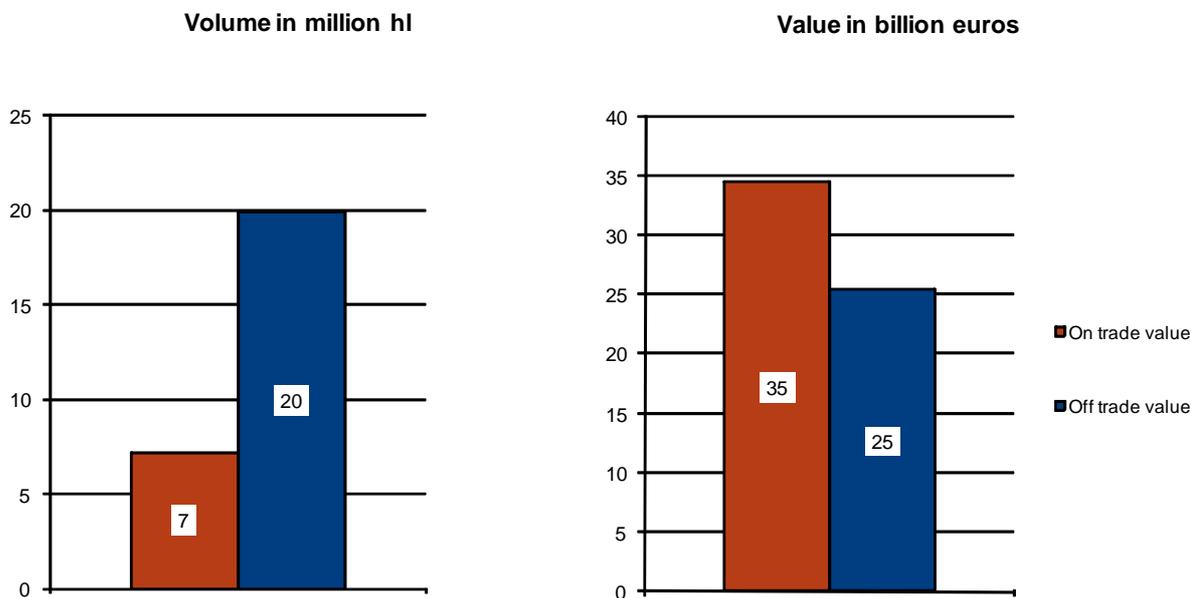
Source: Ernst & Young calculations based on Eurostat 2009



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.



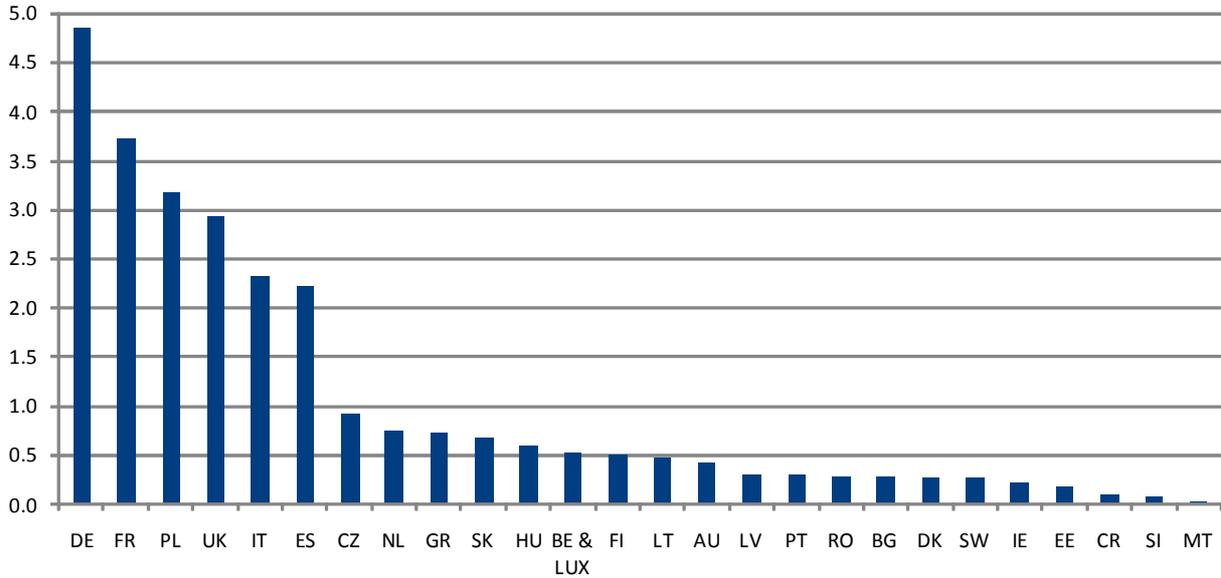
Source: Ernst & Young calculation based on input from the National Associations of Spirit Producers, IWSR and Eurostat.

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

⁴ The 27 million hectoliters of spirits drinks sold in Europe includes the sale of RTDs. RTDs are ready to drink pre-mixed sprits based beverages with a typical alcoholic strength of approximately 5%. Their composition is very different to full strength sprits drinks which can make data comparability misleading. They constitute only about 10% of the total volume of sprits 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 sprits 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

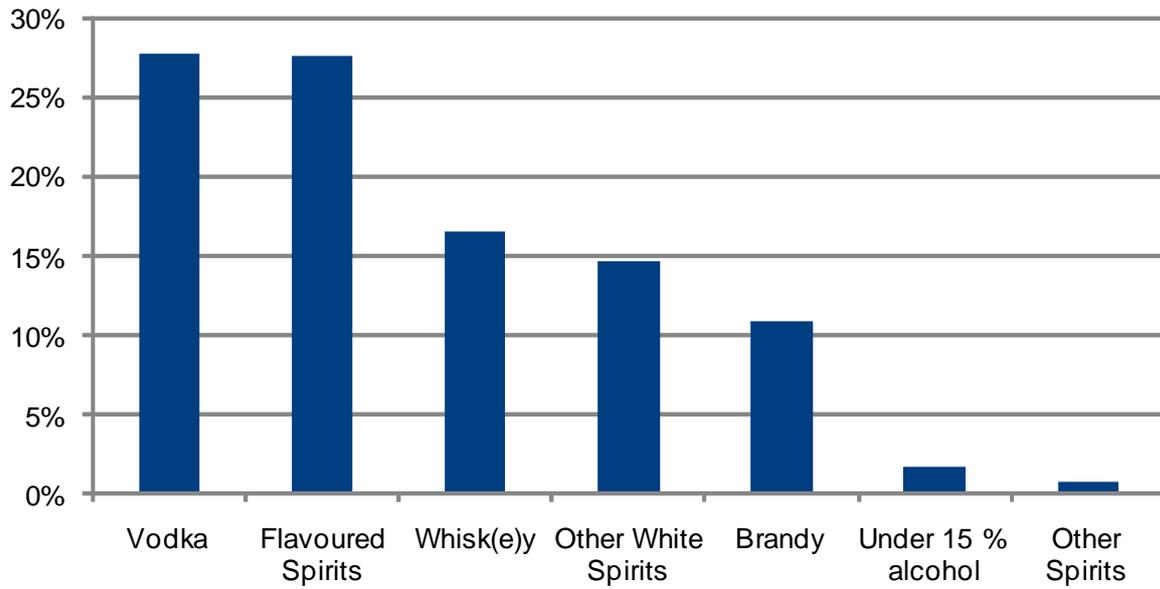


Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology).

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

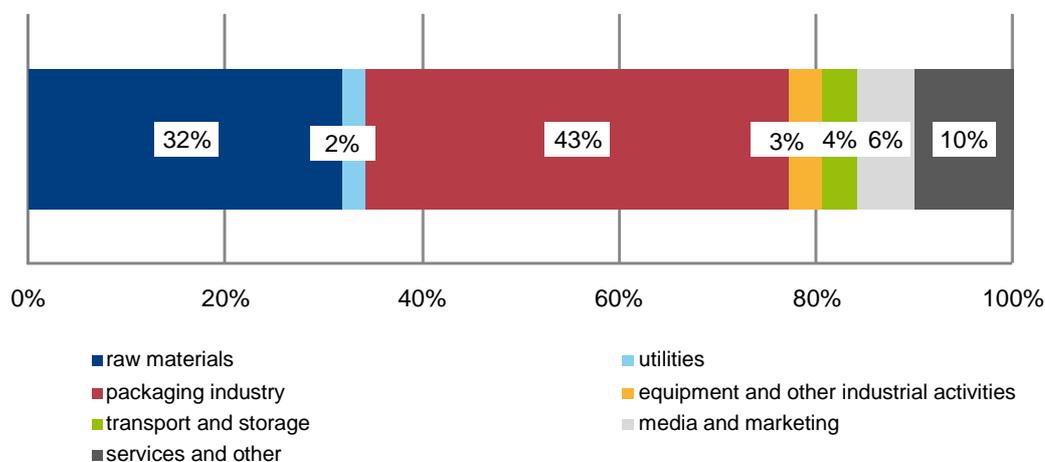
Highlights of purchases made by spirit producers

- ▶ 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 spend 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

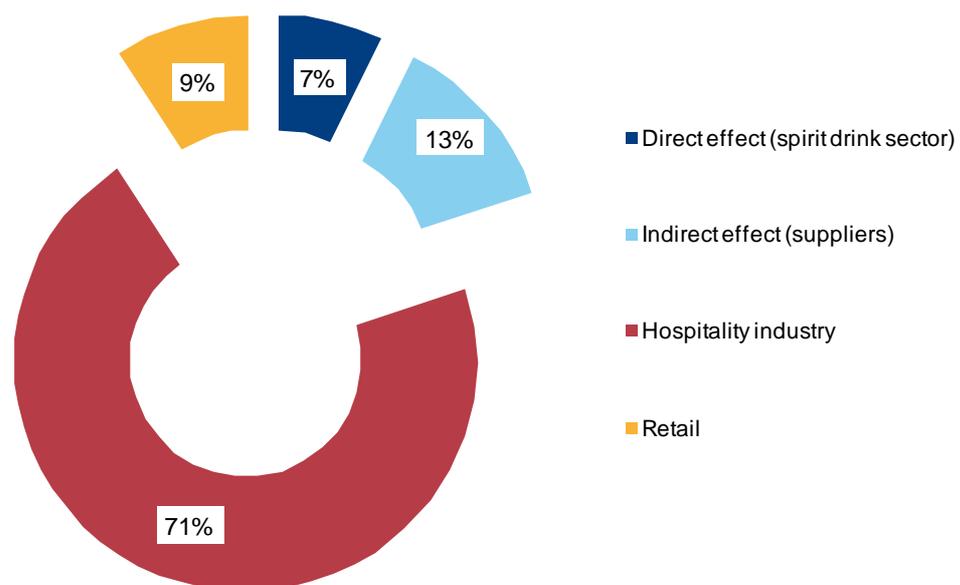
4.1 Highlights

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

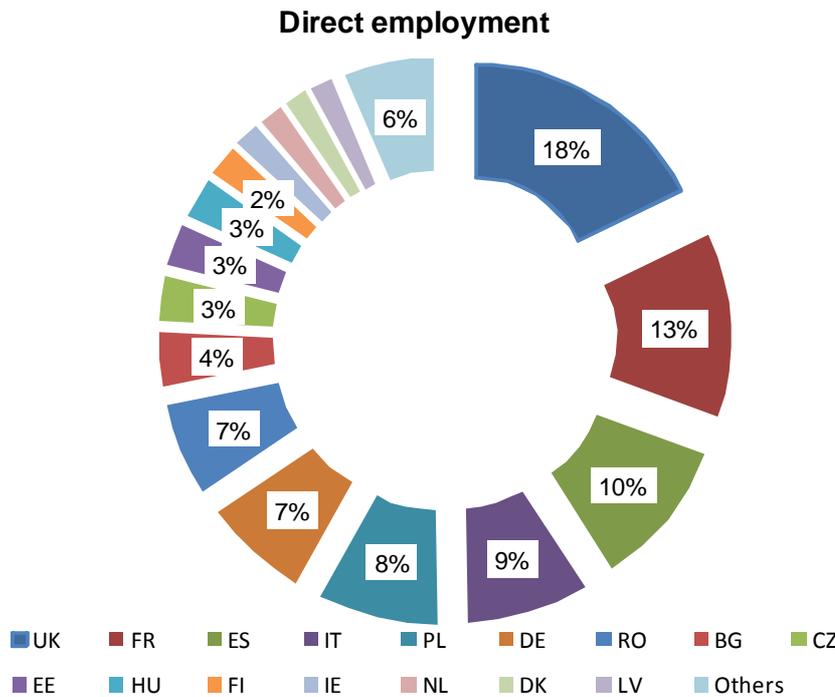


Source: Ernst & Young calculation (2010) (see Annex III for an explanation of the methodology used).



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).

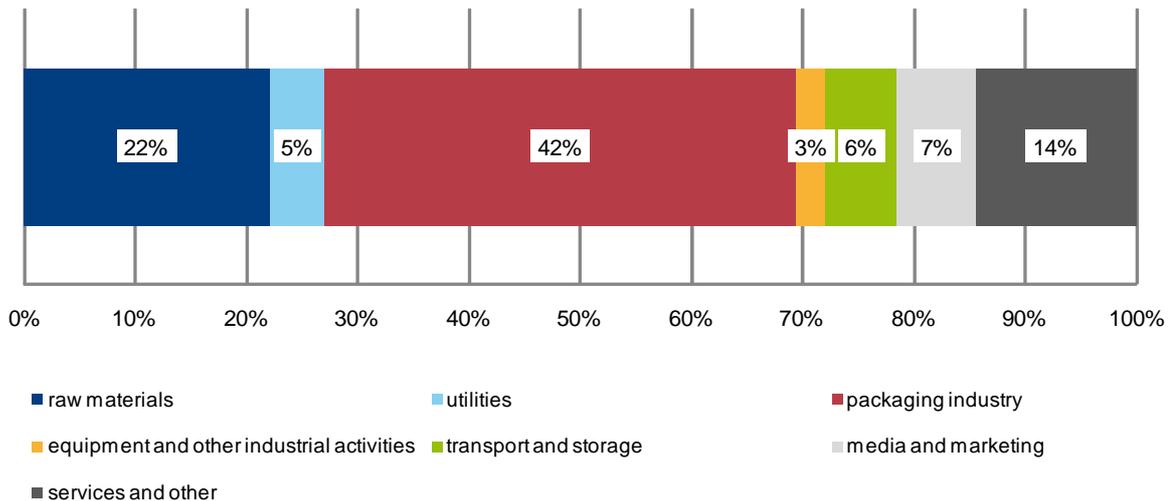
4.4 Indirect employment

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

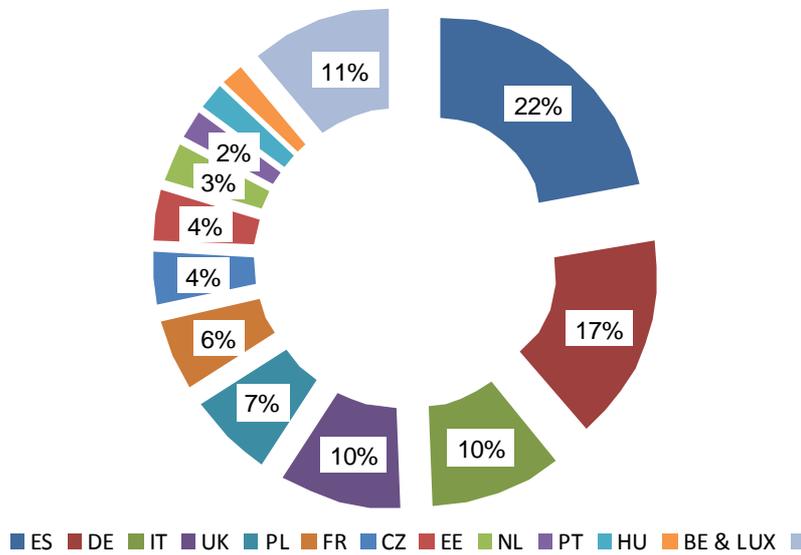
In addition to the direct and indirect employment contributions of the spirits sector, the number of jobs created by spirits sales in the hospitality (on-trade) and retail sectors (off-trade) demonstrates an even greater impact. Approximately 748,000 jobs can be attributed to the sales of spirits (on-trade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

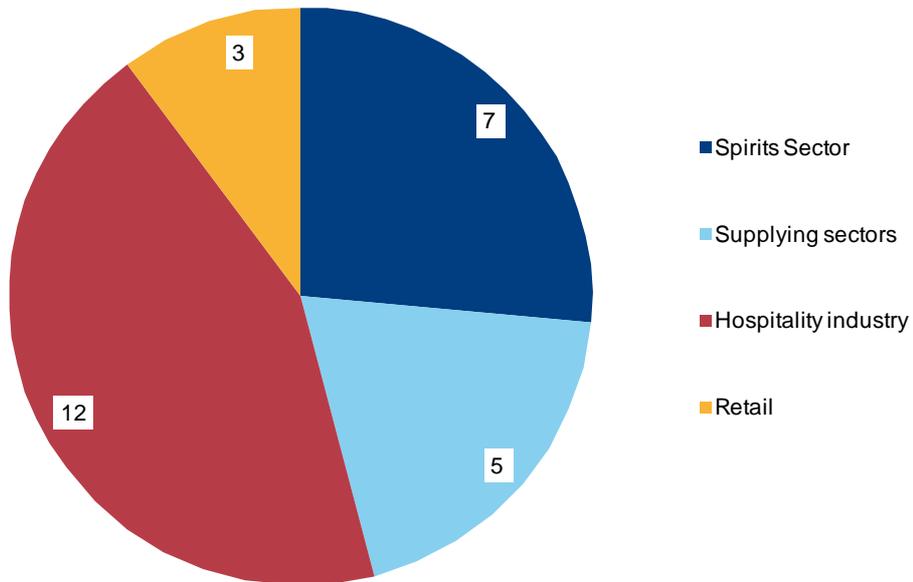
Source: Eurostat 2007

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 euros**¹⁵.
- ▶ 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.

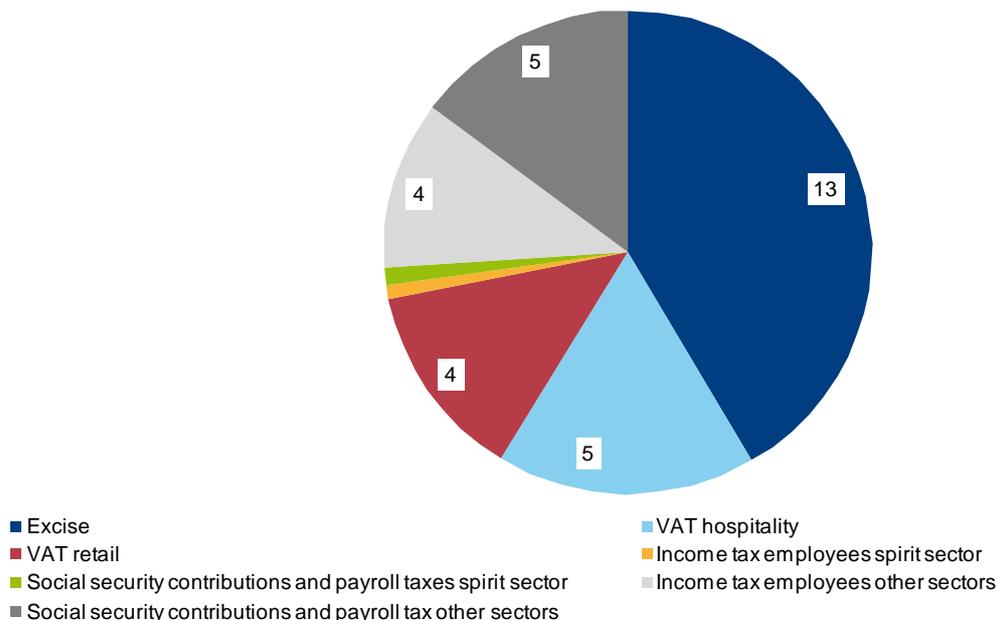
¹⁵ Including VAT, excise, income taxes, payroll taxes and social security contributions.

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.

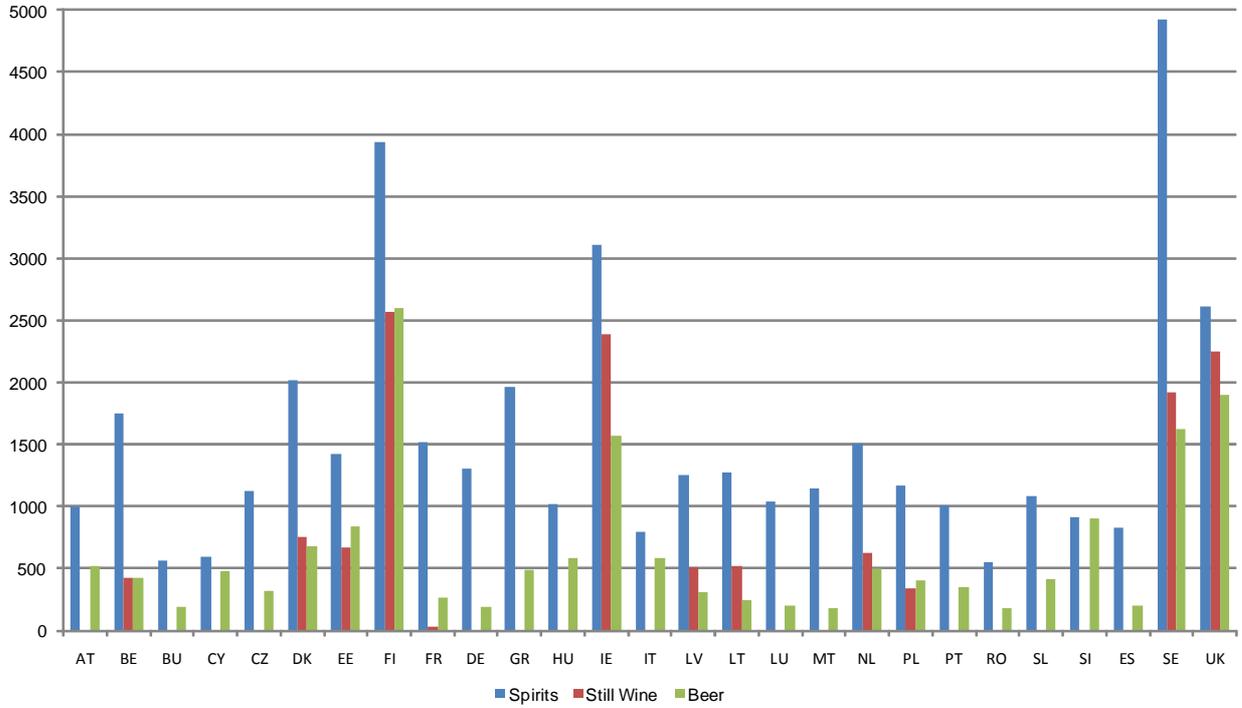
As Member States of the EU-27 have a certain degree of flexibility in setting the levels of spirits taxation, with a minimum rate of 550 euros per hectolitre, the excise rate varies between countries. Excise duties levied on wine and beer also differ from those on spirits in all EU Member States. The 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 - HPLA)**



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 around 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.



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 off trade outlets and hospitality firms is an important source of economic benefits. The economic contribution of firms in the off trade 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 off trade 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 off trade 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 off trade 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 sales 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.

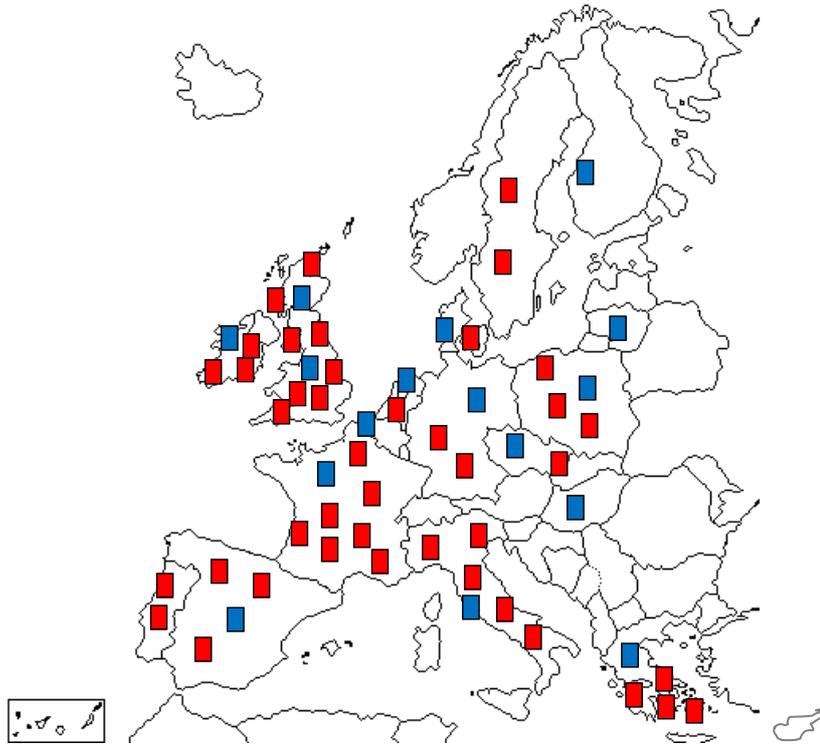
Another important role of the national associations was to validate the outcomes of the study. To strengthen the underlying database for this study, Ernst & Young has presented draft country reports on the economic impact of the spirits sector to all national associations representing the spirits sector. 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 off trade 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

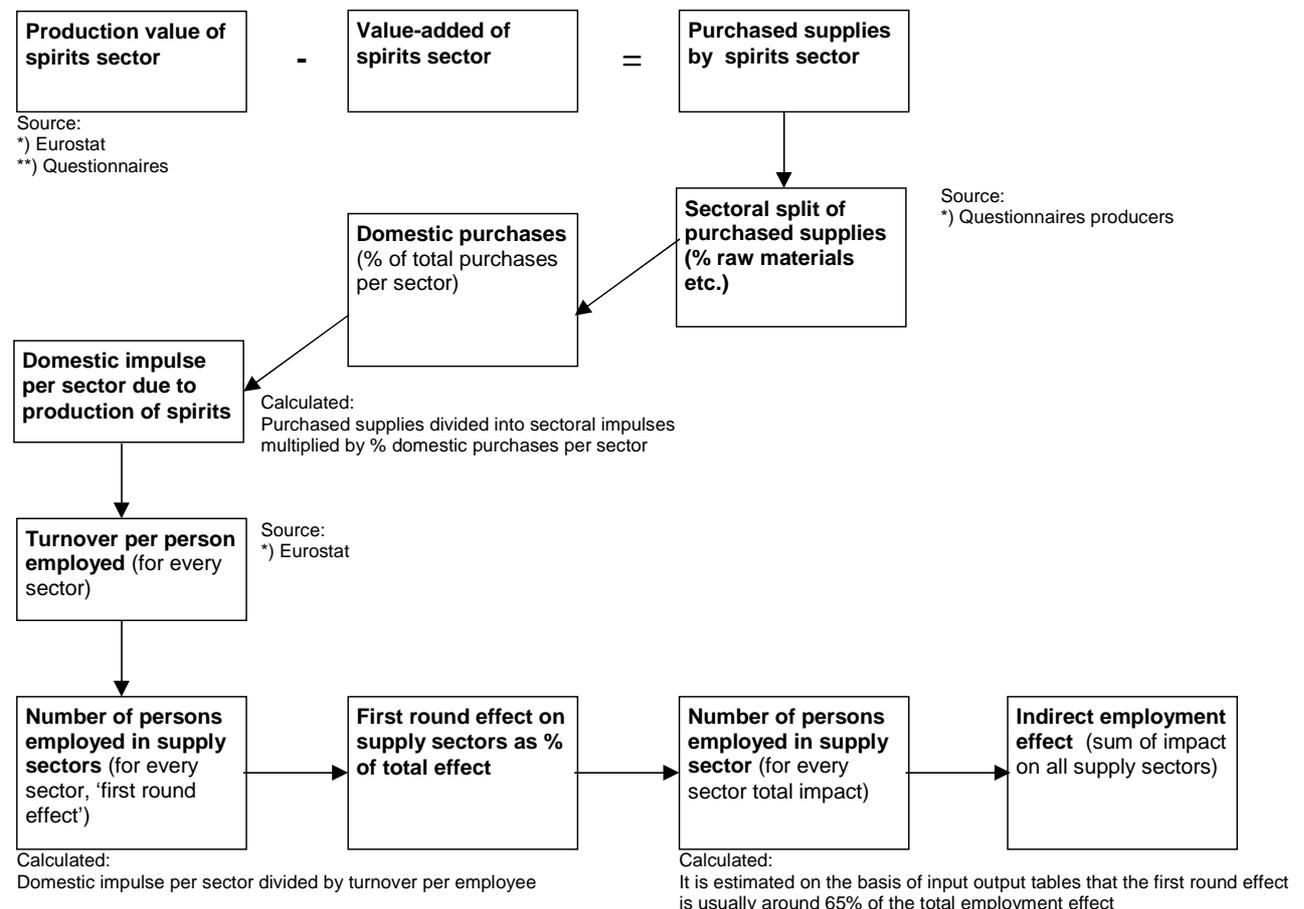
Some of the reported outcomes on the economic impact of the spirits sector are based on estimates. These estimates derived from a **model** constructed by Ernst & Young. We illustrate here how these variables have been estimated, focusing on:

- ▶ 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.



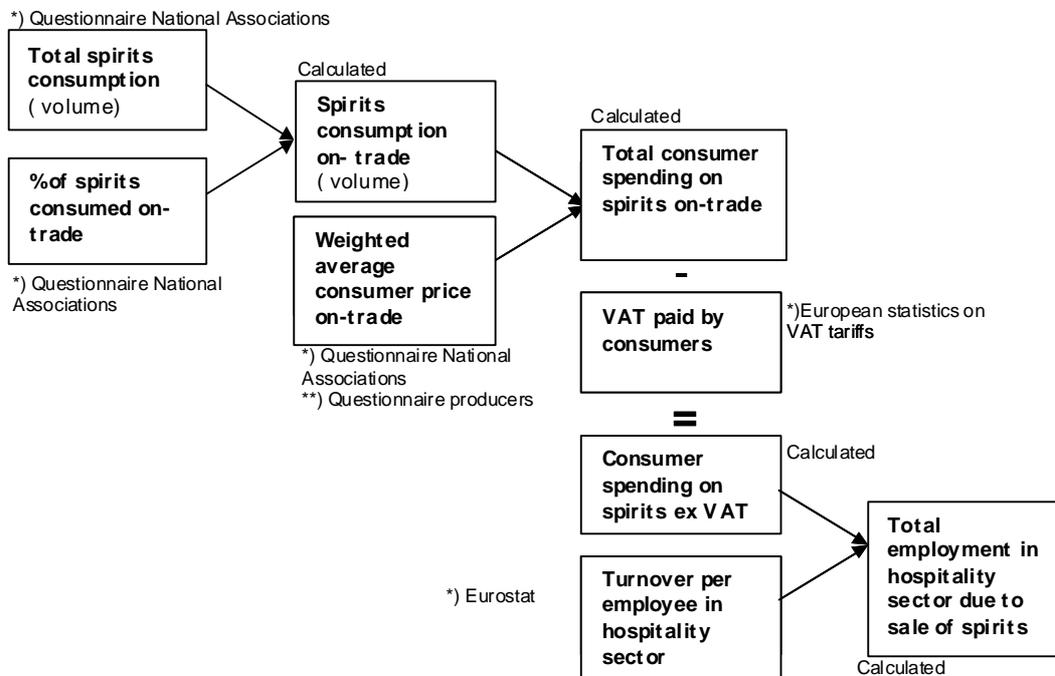


Within the data collection, differences in consumer prices between different types of spirits were taken into account. Furthermore, for each type of spirit three consumer price categories were distinguished, namely: lower, medium and higher segment. Six types of spirits were distinguished:

- ▶ 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); off trade outlets²² (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 off trade outlets, 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 sales) of each component (average price of each price segment of each type of spirits). Estimates for off trade outlets are made in a similar way.

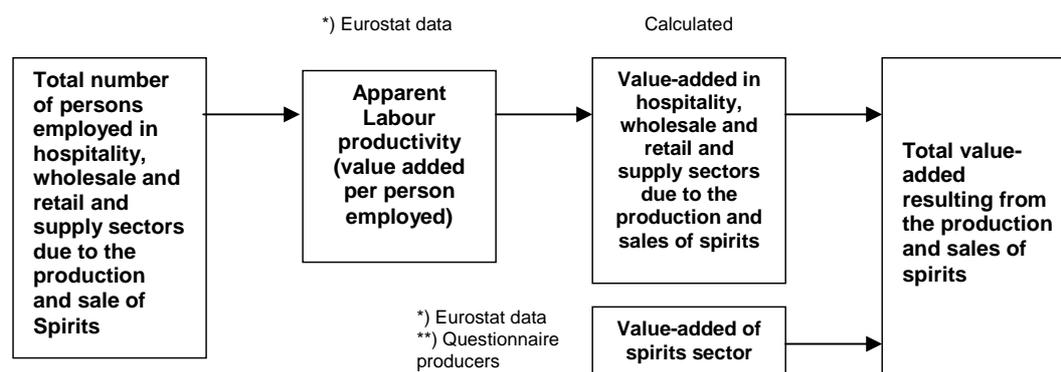
²² The percentage of added-value on spirits in the wholesale and retail sector differs significantly from other products. For this reason NACE code G5225 (Retail sale of alcoholic and other beverages) has been used for the added-value per employee in wholesale and retail.



The figure above shows that the starting point of the calculations of the induced effects in hospitality and off trade outlets 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 sales volume was calculated based on the excise revenues (according to the European Commission). Since only the sales 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 sales volume in litres of final product. For this we have used an average alcohol percentage of 30 percent.²³ 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.²⁴

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.

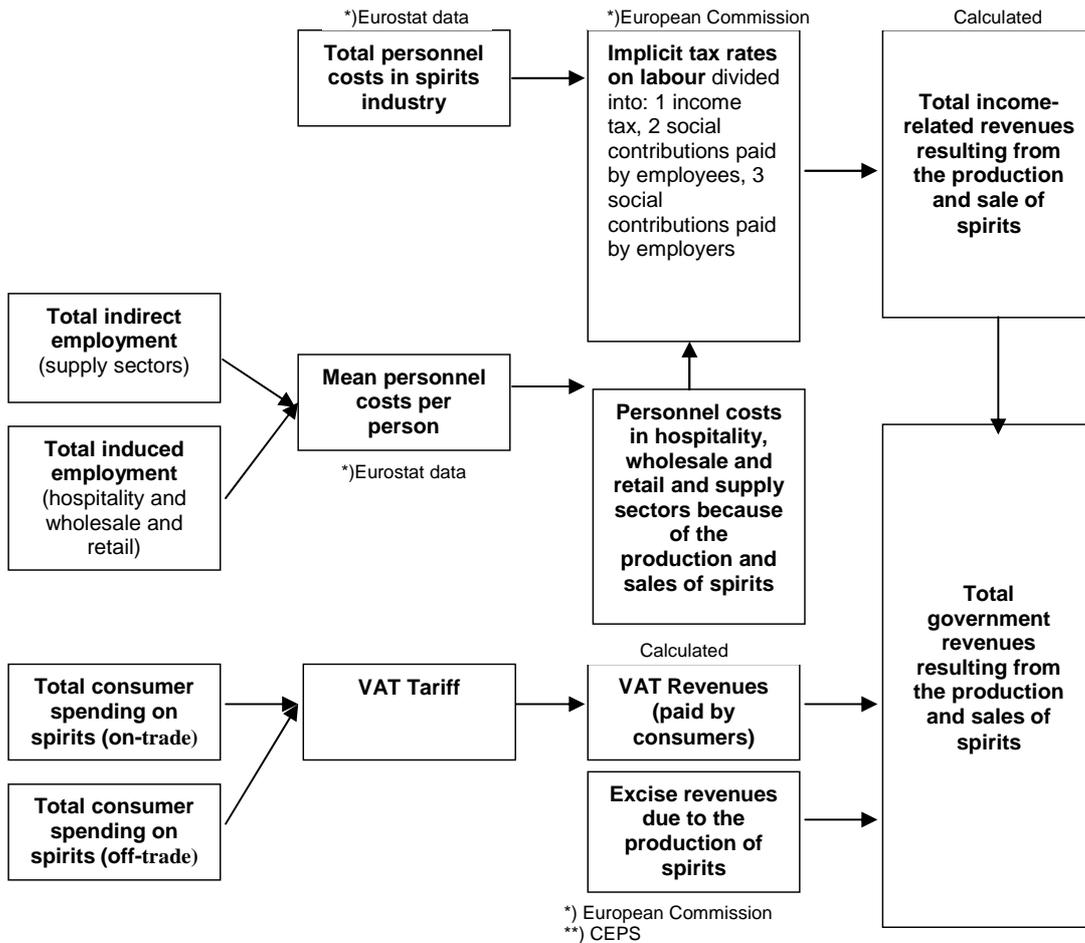
Income-related revenues have been estimated by multiplying personnel costs with implicit tax rates. The personnel costs in the spirits industry were obtained directly from Eurostat. Personnel costs in supply sectors, hospitality and off trade outlets were calculated by multiplying indirect and induced employment by the mean personnel costs per person employed according to Eurostat.

²³ 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.

²⁴ 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 off trade outlets 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, off trade outlets and hospitality sectors. For example: bartenders, waitresses and shopkeepers. For this study the induced employment is confined to the off trade 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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