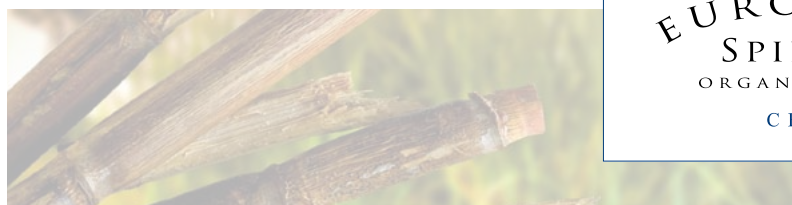


Annual Review

2009 – 2010



The EU spirits industry produces 42 million hectolitres of spirit drinks every year. With EU consumers spending over 30 billion Euros on spirits annually, the industry generates more than 13 billion Euros in excise revenues for national tax authorities.

The European Spirits Organisation – CEPS acts as the representative body at EU level for producers of spirits drinks. Its membership comprises of 31 national associations representing the industry in 27 countries, in addition to a group of leading spirits producing companies.

With exports of over 6.5 billion Euros a year, the EU is the world's leading exporter of spirit drinks and in an effort to safeguard the worldwide reputation of our industry's products, the European Spirits Organisation – CEPS seeks to:

- Raise and promote the understanding of the EU spirits industry to decision makers in the EU institutions, international organisations and other key stakeholders;
- Secure appropriate legislative conditions for the production, marketing, distribution and sale of spirits within the EU and beyond;
- Secure non-discriminatory treatment of spirits in comparison to other alcoholic drinks;
- Secure free and fair access for European spirits in third markets;
- Promote responsible consumption.



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Introduction



James Cockeram
President

When I took over as president of the European Spirits Organisation – CEPS in November last year, I was new to the organisation and I was immediately struck by the number of both challenges and opportunities the industry was facing at EU level. This report reinforces that fact. At a time when the priority of so many of CEPS national association members was trying to resist proposed national level spirits excise rate increases, one inevitable result of the economic downturn, it is a credit to CEPS and its members that, with the limited resources CEPS has at its disposal, it was able to so actively defend the industry's interests at EU level. I am indebted to my predecessor as CEPS president, Guy Tapernoux, for ensuring that, during the challenging economic climate which began in 2008, the CEPS presence and resource in Brussels was maintained and strengthened. With a new EU treaty, a new European Parliament and Commission, and an active Swedish Presidency and ongoing WHO discussions on alcohol and health issues, that resource has been kept even more busy these past twelve months, than previously. The creation of the new European Parliament Spirits Group and the decision to become a member of the European Food Industry Association, CIAA, are but two new and very welcome responses to these and other developments which are further challenging the CEPS secretariat and membership.

During my term as CEPS president it is my strong intention to build on the strong foundation left by my predecessor and concentrate my efforts on two priorities:

Further strengthening the CEPS presence and visibility in Brussels;

The Alcohol and Health agenda and the spirits industry response to it.

In these times of economic uncertainty I do not underestimate the challenge I have set myself. To meet these challenges I will be heavily reliant on the active support of all the CEPS membership and, in particular the board members and Standing Committee chairmen.

In 2009, as well as myself as new CEPS president, we witnessed three changes in the CEPS board. Campbell Evans took over as treasurer, and Jean Rodesch and Leszek Wiwala as vice presidents. CEPS is extremely grateful to Guillaume de Guitaut, Aldo Davoli and András Nagy for their time as board members. I am confident that with Campbell, Jean and Leszek, the new board will be equally active and engaged.

In 2009 we also welcomed two new standing committee chairmen. Stefano Fresi took over from Jaime Gil-Robles as chairman on alcohol and society and Martin Bell took over from Guillaume de Guitaut as chairman on external trade. My thanks to Jaime and Guillaume for their hard work and leadership on these issues. This report clearly describes the challenges and opportunities these two committees face and I believe that in Stefano and Martin, CEPS has two very well qualified chairmen to build on Jaime and Guillaume's achievements.

The CEPS June General Assembly in 2009 took place in Sofia. Whilst I could not personally attend, the feedback I received was nothing but positive and my thanks to Branimir Botev and his colleagues for being such welcoming hosts.

Last year's November cocktail reception was held for the first time at the European Parliament, kindly hosted by Struan Stevenson MEP. The event, like our March MEP dinner, was, as always, an excellent opportunity for all our Brussels based stakeholders to sample some of the wonderful products which CEPS represents. Such events, which are going on every day throughout the EU, are a welcome reminder of how intrinsic the responsible enjoyment of spirits drinks is to EU culture and heritage. It is precisely this that the EU spirits industry must continue to actively encourage and defend. That is what CEPS is about and I am extremely proud to be its new president.

Social aspects

Following the resignation of Jaime Gil-Robles as Chairman of the CEPS Standing Committee on Alcohol and Society, Stefano Fresi took over this role in November 2009 and has been leading on the important work of this key committee since. The past twelve months have been significant in view of the approaching deadline for implementation of the CEPS Charter 2005-10, the mid-term review of the EU Alcohol Strategy and the ongoing work of the EU Alcohol and Health Forum. New avenues have also been explored to seek to improve the communication surrounding the industry's commitments to help reduce alcohol-related harm. The new Chairman describes these developments:



Stefano Fresi
Chairman of the Alcohol & Society Standing Committee

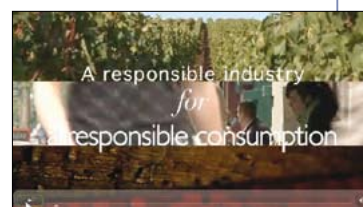
FINAL YEAR OF CEPS CHARTER IMPLEMENTATION

CEPS adopted the Charter on Responsible Alcohol Consumption in November 2005 and has been working hard to support its members in implementing their commitments. These commitments have ranged from new Responsible Drinking Messages (RDMs) to national consumer information websites to targeted prevention programmes. The 4th annual Charter progress report was published in November 2009¹, subject, as in previous years, to an annual independent verification by KPMG Sustainability. Despite the difficult economic context and challenges presented in some markets, the spirits industry has continued to make progress and has demonstrated its strong commitment to implementing the Charter. Best practice and individual experiences were shared at the Charter workshop in Sofia in June 2009 and, although obstacles remain in some Member States, CEPS members are already working on a new series of challenging commitments for 2010-2015. Following further consultation, these new commitments will be presented at the CEPS Conference in November 2010. CEPS, in partnership with the European Forum for Responsible Drinking, EFRD, has also developed a number of tools to help better communicate the wide range of social responsibility initiatives in which the EU spirits industry is involved, notably:



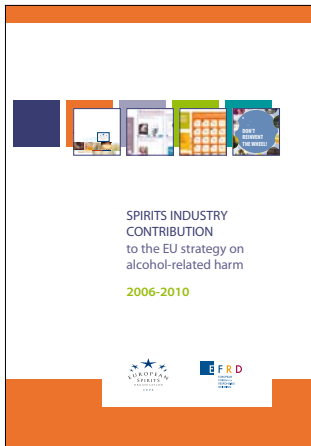
A new website showing industry campaigns across the EU, www.drinksinitiatives.eu

4 video clips highlighting the industry's initiatives on server training, drink driving, alcohol and minors and consumer information, all available on the CEPS website.²



¹ http://europeanspirits.org/documents/ceps_report_2009.pdf

² <http://europeanspirits.org/thelssues/Drinksindustryinitiatives.asp>



A new brochure summarizing our contribution to the EU strategy on alcohol related harm, also available on the CEPS website.³

THE EUROPEAN ALCOHOL AND HEALTH FORUM

The Alcohol and Health Forum is an effective platform for multi-stakeholder dialogue on alcohol policy, and was created in 2007 as part of the EU strategy to support Member States in reducing alcohol related harm. CEPS has continued to work on its three commitments to the Forum with the support of its members. The latest set of annual commitment progress reports were submitted in April 2010. Since June 2009 the EU Alcohol and Health Forum has held a Marketing Task Force meeting in June 2009, a plenary meeting in November

2009, and will hold an Open Forum in 2010⁴. A number of meetings of the other bodies of the Forum have also taken place in the last year, namely the Science Group, the Committee on Data Collection and the Committee on National Policy and Action. CEPS is not a member of these groups but, as part of the Forum, provides input into the work of the former two.

Strongly supported by CEPS, the Forum has continued to ensure that discussions focus on concrete actions instead of policy discussion. DG SANCO presented its first progress report on the implementation of the EU Alcohol strategy in September 2009, during the Swedish Presidency of the EU. This report was welcomed by CEPS which, in its response, reiterated its commitment to fostering and promoting a multi-stakeholder action oriented approach to reducing alcohol misuse which recognizes the wide divergence of drinking patterns within the EU. CEPS also actively participated in the Presidency's September conference in Stockholm with the CEPS Director General, Jamie Fortescue, participating as an official speaker on three of the conference panels/workshops.

Following the conference, Swedish Presidency Conclusions were adopted acknowledging the progress made on the existing EU strategy, reiterating Member State support for its implementation and suggesting a new focus of attention on alcohol misuse amongst the elderly. 2012 will see the renewal of the EU Alcohol Strategy and CEPS is committed to contributing fully to discussions in the coming years. Following the ratification of the Lisbon Treaty in 2009 and the approval of the new European Commission in 2010, we have entered a new institutional environment. We hope to work with the new Commissioner on practical ways to reduce misuse in the years to come. As one contribution to the discussion, CEPS



has published in the past year scientific factsheets on alcohol advertising, alcohol taxation and alcohol and young people, all available on our website⁵.



³ http://europeanspirits.org/documents/Spirits_Industry_Contribution_to_EU_strategy_200610.pdf

⁴ Unfortunately the Open Forum meeting, scheduled for 22 April 2010, was cancelled due to European travel disruptions

⁵ <http://www.europeanspirits.org/theissues/Factsheets.asp>

WHO GLOBAL ALCOHOL STRATEGY

In December 2009 the World Health Organisation published a draft strategy for tackling the harmful use of alcohol. The discussions surrounding the strategy began in May 2008 as a result of a resolution at the World Health Assembly (WHA). Consultations between Member States and the WHO Secretariat have taken place over the last two years, with the industry, including CEPS, also being offered the opportunity to present its views to the WHO.

A draft strategy was approved by the WHO Executive Board in January 2010, following some sensible changes to initial drafts, and is to be considered by the full WHA in May. Changes include the need for health policies to recognise international trade rules and the recognition of industry as a stakeholder in discussions. Upon its adoption, the strategy will act as a menu of policy options for Member State governments to choose from, depending on their specific cultural and economic situations. The WHO secretariat will report on the progress of the strategy in May 2013.



Picture on the top of the page: © copyright: WHO/P.Virot
WHO headquarters, Geneva
<http://www.who.int/mediacentre/multimedia/inside/en/index.html>





Internal market

Chairman of the CEPS Standing Committee on the Internal Market, Joe Luppino, offers his thoughts on a busy year in the industry's work on intra-EU issues, including the Food Information regulation, Spirits Definitions, Agricultural Product Quality Policy, environmental developments and additives issues.



Joe Luppino
Chairman of the Internal
Market Standing Committee

FOOD INFORMATION

It is fair to say that much time and effort has gone into the European Commission proposal for a Regulation on the provision of food information to consumers. The draft regulation is important to the industry with regards to the labelling and presentation of all its products.

CEPS position

1. Any information to be provided should be relevant and understandable to consumers;
2. Any new requirements should cause minimum disruption to the EU internal market and cost to producers;
3. Any new requirements should apply equally to all alcoholic beverages.

CEPS supports the Commission proposal that wine, beer and spirits should be exempt from the requirement to place nutrition and ingredient information on the label, an exemption which should be reviewed five years after adoption of the text. But CEPS believes that this exemption should be extended to cover all alcoholic beverages. CEPS also has concerns about some other aspects of the proposal, most notably on origin labelling and font size, concerns shared by other food sectors as well.

As a result of the European Elections in May 2009, the first reading of this draft regulation was postponed and work resumed in September 2009 leading up to a plenary vote in June 2010. So far, the Parliament's Environment committee has agreed on the exemption of beer, wine and spirits from ingredient listing as well as an exemption from nutritional labelling for all alcoholic beverages, both to be reviewed five years after the adoption of the text.

The Council, under the Czech, Swedish and Spanish presidencies, has also been working hard on finding agreements on the proposed regulation. This has been proving difficult given the number of issues and complex articles presented. It is understood that the Council agrees in principle with the exemptions for alcoholic beverages and the importance of accurate allergen labelling. Country of origin and front of pack labelling have caused much disagreement amongst Member States and it is hoped a sensible agreement can be reached.



CEPS views have been communicated to both the Council and the European Parliament on a regular basis and this Standing Committee will continue to follow the discussions as the dossier enters the next crucial stages. While it is difficult to predict the outcome, it does seem unlikely that the Parliament and Council will reach a compromise to allow the Regulation to be adopted at its first reading. This would mean a new Regulation would not enter into force before the end of 2011.

COMPOUND TERMS

CEPS continues to work closely with the European Commission and Member State Governments to ensure the consistent implementation of EU Regulation 110/2008 on definitions of spirits drinks. One area which continues to cause concern is the use of compound terms (for example whisky liqueur, vodka lemon, rum cream etc.), an area in which Member States do not appear to be interpreting the provisions of the new Regulation in a consistent manner.

CEPS position

1. Spirits sales denominations must be duly protected, in accordance with Regulation 110/2008;
2. Consumers must not be misled about the nature of the products they purchase, as required by Directive 2000/13
3. Regulation 110/2008 should be implemented in a uniform way so that the internal market principle is respected and operators can have certainty on their labels' EU validity;
4. Regulation 110/2008 only permits the use of a defined spirit name in a compound term, or an allusion to a defined spirit in the presentation of a liqueur or spirit drink, if all the alcohol in the product originates from that defined spirit.

CEPS is in ongoing discussions with the European Commission and Member States in an effort to find a way to ensure these four principles are implemented in a uniform manner, without adversely impacting legitimate products or legitimate innovation.

ENVIRONMENT

With the decision in 2008 that CEPS should start to play a more active role on environmental issues, a dedicated CEPS working group was established in 2009 with the task of identifying CEPS priorities and positions in this complex and wide ranging area. The group has now met three times and is working on issues including the implementation of the EU Waste Framework Directive, where spirits producers will endeavour to ensure that Member States do not include distillers' "by-products" in their lists of "waste". CEPS is also working on aspects related to environmental labelling and participates in the EU Sustainable Consumption and Production Round Table, where agreements on uniform and scientifically reliable environmental assessment methodologies for food products are sought.



ADDITIVES

On 16 December 2008, the European Council and the European Parliament adopted the European Commission regulation on food additives. The Commission is now mandated to transfer the annexes of the old Directives (94/35 on sweeteners, 94/36 on food colours and 95/2 on additives other than colours and sweeteners) to Annex II of the new regulation, which is currently empty. Therefore, it has prepared tables where all categories of foodstuffs are listed. Each food category should have a descriptor (actual descriptive content of the category). The authorized additives for each food category would be then attributed.



As requested by the Commission, CEPS submitted an exhaustive list of the categories we represent and the corresponding descriptors. Discussions on this list are ongoing.

Moreover, following a Commission report on the development of methodologies for the monitoring of food additive intake across the European Union, published in 2001, the Commission has undertaken the data collection for calculating the Acceptable Daily Intake (ADI) for a list of additives used in high concentration in widely consumed food categories, including spirits. Again, CEPS provided the Commission with the relevant concentration levels and awaits next steps.

In a similar exercise, CEPS has also shared concentration data on colours to feed into the re-evaluation undertaken by EFSA and, specifically, on azo-colours.

Finally, following CEPS actions vis-à-vis the Commission and Member States, an implementation Regulation to Regulation 1333/2008 on food additives has been adopted in order to grant an exemption from the azo-dye warning (E-name: "may have an adverse effect on activity and attention in children") for all alcoholic beverages of more than 1.2%. This exemption is based on our argument that alcoholic beverages are not intended to be consumed by children and is timely, as the main additives Regulation will become applicable in July this year.

AGRICULTURE PRODUCT QUALITY

In May 2009, the Commission published its Communication on Agricultural Product Quality Policy which proposes its intentions for developing and advancing agricultural product quality policy in the EU. This document is important for the spirits sector given the potential impact on the EU Geographical Indication (GI) system currently in place to protect spirit drinks. The European Parliament, led by the Agricultural Committee, voted on their report in March 2010 and CEPS has been in contact with the relevant MEPs during this process.

CEPS position

1. The three existing systems for registration (Spirits, wine and foodstuffs and agricultural products) should remain separate for Spirit Drinks GIs to avoid any dilution of the protection of drinks like Scotch Whisky, Cognac, Brandy de Jerez or Polish vodka. Existing mandatory labelling requirements for spirits are extensive and no need to review this regime has been demonstrated.
2. The labelling of place of origin for raw materials of processed foods, including spirits drinks, should remain voluntary as it depends on world market prices and availability.
3. The creation of an international register of GIs through the current WTO negotiations is something that industry supports strongly, and this could take place in the context of the current WTO negotiations.

It is now back to the Commission who will be looking into future legislative measures for 2011-2012. CEPS will continue to liaise with the Commission during this process.

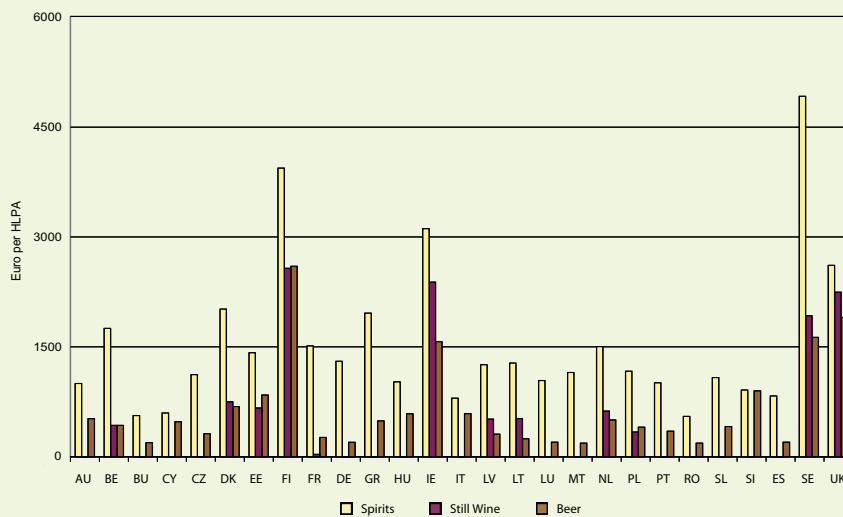
Fiscal affairs

The economic downturn and its impact on national budget deficits has inevitably raised the possibility of spirits excise duty increases in a number of Member States. Whilst it is the exclusive competence of Member States to set spirits excise rates, the Standing Committee on Fiscal Affairs has held some useful exchanges of views and best practice exchanges on how to counter this ongoing risk and has monitored the situation from the industry's perspective, especially in cases where the higher taxes have not delivered extra revenue. The committee has also continued to closely follow and input into EU level discussions on taxation issues and to monitor any indications of protectionism. Standing Committee Chairman, Edwin Atkinson, offers some thoughts on key developments in the last year:



Edwin Atkinson
Chairman of the Fiscal Affairs
Standing Committee

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



Source: Industry data collated by The Scotch Whisky Association, May 2010*.

EMCS

EMCS (Excise Movement and Control System) is a computerised system for monitoring movements of excise goods under suspension of excise duty within the EU, i.e. for which no excise duties have yet been paid. As from 1 April 2010, it is replacing the paper document that currently must accompany such movements (the Administrative Accompanying Document or AAD) with electronic messages from the consignor to the consignee via Member State administrations, and should bring huge benefit to the industry in terms of speed and trade facilitation. From April 2010, economic operators in "initial Member States" can start submitting electronic Administrative Documents (e-ADs) for excise movements to any other Member State under EMCS. All these documents will have to be discharged electronically by the consignee in the Member State of destination. From 1 January 2011, all movements of excise goods under suspension of excise duty shall be carried out using EMCS.

[*] While The Scotch Whisky Association endeavours to ensure the accuracy of the information, it accepts no legal responsibility for any errors, omissions or misleading statements caused by negligence or otherwise.

Denmark, Greece, Poland and Italy have announced that they were not ready to develop required EMCS functionality to discharge electronically e-ADs by 1 April 2010. Therefore, movements to Denmark and Poland continue to take place under the current paper AAD until 1 January 2011. Movements to Greece will continue under the current paper AAD until 31 May 2010 and those to Italy until 1 June 2010.

EMCS brings many advantages to operators: simplification of procedures, paperless administration, secure movement of goods, quicker release of the guarantee for traders and effective monitoring with real time information and checks during movements. CEPS has actively participated in the preparation of the system with the European Commission and we are glad that the first steps towards implementation in Member States are entirely successful.

EXCISE STRUCTURES

The Commission mandated London Economics last year to perform a study on possible changes in the minimum rates and structures of excise duties on alcoholic beverages. CEPS provided the available data on volumes, values and elasticities by category of product during the corresponding public consultation. The outcome of this study is expected in May 2010. CEPS will be consulted again regarding the suggested options that result. Whatever the outcome, our longstanding position remains valid that only taxation by degree for all alcoholic beverages would avoid discrimination against spirits. A revalorisation of excise minimum rates would result in deeper discrimination if the rate for wine remains zero.

With regards to the custom classifications for excise purposes (CN 2006 – fermented or 2208 –distilled) of products with added ethyl alcohol and with cleaned up alcohol, it is important to recall that most of the products that CEPS represents do not encounter classification problems. However, our operators require legal certainty when placing their products on the internal market taking on board the criteria set up by the ECJ Siebrand ruling⁶.



⁶ C-150/08, 7 May 2009



External trade

With exports valued at over 6.5 billion euros, spirit drinks remain the EU's most exported foodstuff. The last year has been both a busy and uncertain time for the trade world which has been faced with the possibility of new trade barriers as governments struggle to cope with the economic downturn. As a consequence there has been little progress in WTO talks in 2009-10. Governments have instead been putting their efforts into negotiating bilateral and multilateral agreements. There have been developments on a number of Free Trade Agreements (FTAs). Nonetheless much work remains to improve market access around the world. The CEPS Standing Committee on External Trade is working hard to ensure that the priorities of EU Spirit producers are high on the EU agenda. Martin Bell, Chairman of the External Trade Standing Committee, offers his views on a turbulent year:



Martin Bell
Chairman of the External
Trade Standing Committee

WORLD TRADE ORGANISATION (WTO) DEVELOPMENTS THE INTERNATIONAL CONTEXT

Despite many positive statements, little progress was made on the Doha Development Agenda (DDA). CEPS remains a firm supporter of the DDA and continues to remind EU negotiators of the spirits industry's objectives for the Round. Nonetheless, following last year's discussions, CEPS members are doubtful that the DDA will deliver on CEPS' priorities.

CEPS objectives for the DDA

1. Reduction, and where possible, elimination of tariffs imposed by WTO members on imports of distilled spirits, with particular emphasis on 'peak' tariffs;
2. An ambitious agreement on trade facilitation;
3. Better protection of spirits with geographical indications (GIs), most notably through the creation of a multinational register with legally binding effect for GI spirits (and wines).

Members of the World Spirits Alliance met together in Geneva in July 2009, allowing representatives of the world spirits industry to come together to meet with key players in Geneva. CEPS organized several meetings with WTO Senior Officials and visits to a number of the key Missions. Preparations for the 2010 WSA Forum are underway. This will include an industry seminar on WTO issues as well as a seminar on trade and health.

Finally, a recent announcement from Russia reiterating its intention to join the WTO was welcomed by CEPS members. This has always been an important issue for CEPS, and it is hoped that accession negotiations will help to reduce the longstanding trade irritants in this market.



EU Spirits – Top 10 export markets

Rank	Country	Value Euro
1	USA	1,998,282,000
2	Singapore	488,969,000
3	Russia	247,154,000
4	China	227,190,000
5	South Africa	186,680,000
6	Canada	172,639,000
7	Japan	158,461,000
8	South Korea	142,962,000
9	Australia	136,060,000
10	Venezuela	135,721,000

Source: EUROSTAT

DISPUTES AND PROCEDURES

The spirits industry is currently part of two WTO actions under the Dispute Settlement Understanding:

THE PHILIPPINES



The Philippines' discriminatory tax regime, dating from 1997, unfairly restricts access to the Filipino market for EU spirit drinks. It is a large market where EU exports were valued at more than €21 Million in 2009 but, partly due to discrimination, it is dominated by domestic products. Further to several tax increases, imported spirits are currently taxed at a rate which is between 11 to 43 times higher than that of locally produced spirits.

For many years CEPS has been raising this violation of WTO law at different levels. Recently the issue moved forward when the EU made a formal request for WTO consultations on 29 July 2009. This consultation procedure failed to result in an agreement. In December 2009, further to CEPS' request, the EU asked for the establishment of a WTO Panel against the Philippines. The Philippines opposed the request. The decision to establish the Panel is to be taken by the Dispute Settlement Body in April 2010. CEPS continues to gather information and work alongside the Commission as it prepares for the panel.

INDIA



Further to the Trade Barrier Regulation Complaint that CEPS filed against India regarding the WTO-incompatible additional duty on imported wines and spirits and certain state measures in 2005, the situation has improved in many States. The Commission believes that the situation requires careful monitoring in order to ensure that the three remaining States (Andhra Pradesh, Tamil Nadu and Dehli) abide by commitments given to the EU.

EU BILATERAL AGREEMENTS AND FTAs

KOREA



On 13 July 2009, the EU and Korea concluded their negotiations for a Free Trade Agreement (FTA). It was subsequently initialed by the Commission and the Korean government on 15 October. This agreement, in accordance with CEPS objectives, provides for the liberalization of tariffs for imported spirits over a period from 3 to 5 years. For the very first time since the entry into force of the Lisbon Treaty, the European Parliament will be required to give its assent on an international trade issue, which may result in some delay. Nevertheless, both the Korean government and the Commission hope for an entry into force by the end of 2010. In the meantime, CEPS will continue to voice its support to this Free Trade Agreement, which represents a significant opportunity for EU spirits on the Korean market.

INDIA



The FTA Negotiations between India and the EU were opened in 2007. The spirits industry's main priority is to secure the elimination of the Basic Customs Duty (BCD), which is currently applied at the WTO bound rate of 150%. Progress on the FTA has been extremely slow. CEPS has met with the Commission on several occasions to make sure that our concerns are discussed with India. On both sides, it seems that there is a political will to make efforts to conclude the FTA negotiations by the time of the EU/India summit of October 2010, although this seems ambitious.

COLOMBIA/PERU



After the de facto collapse of the negotiations with the Andean Community in 2008, the Commission started negotiating a Free Trade Agreement with Colombia and Peru, two major export markets in Latin America. Negotiations were concluded on 1 March 2010 and the text is to be initialed on 18 May, for the EU/ Latin America Summit. As requested by CEPS, the FTA addresses Colombia's 20% tariff on spirits, the discriminatory tax on imported products and the anti-competitive and discriminatory practices of Colombian monopolies. The FTA also requests protection for a number of GIs. Once initialed the agreement will also require the assent of the European Parliament under the new Lisbon procedures.

CANADA



Canada has always been a significant export market for EU spirits, averaging €182 million per annum over the last 10 years. Negotiations for a Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada began in October 2009. CEPS has been active in presenting and explaining spirits' issues to the Commission and Member States. Our aims within the negotiations are to secure removal of the import tariff on white spirits and liqueurs, (Canadian white spirits enter the EU without tariff), liberalisation of restrictive practices by the Canadian provincial Liquor Boards and to increase protection for GIs. Future negotiating rounds will take place in June and October 2010, after which an assessment will be made on whether a deal can be reached. CEPS is planning to visit the market in support of these objectives in autumn 2010.



MARKET ACCESS

CEPS has been an active participant in the EU Market Access Advisory Committee (MAAC). Furthermore, at the request of CEPS and CEEV⁷, the Commission created a new Working Group dedicated to Wines and Spirits in September 2009. This working group will meet approximately three times a year to address market issues exclusively regarding wines and spirits products, bringing together both sectors, the Commission and Member State representatives. Two meetings have taken place so far, focusing initially on Turkey, Israel, Russia, Thailand and China.

TURKEY



CEPS members are still facing various difficulties in exporting European spirits to Turkey. The customs valuation issue has not been solved and companies are continuing their discussions with the Finance Ministry and Customs Administration, with the aim of finding a pragmatic means of settling the issue. Recent Turkey Court rulings against EU companies have increased the need for an urgent settlement, and Turkey has been urged not to enforce rulings while efforts continue at political level. On the positive side, Turkey agreed to resolve the issue of the excise discrimination through a phased equalization of excise rates until 2018. Nevertheless, spirits continue to face discrimination through the absence of a duty deferment facility. There are also many other unresolved issues in Turkey, including on GMO legislation and import permits, and discussions will need to continue to ensure our products can compete equally on the territory of this very important trade partner.

ISRAEL



CEPS has been raising its longstanding concerns on the discriminatory aspects of Israel's purchase tax (excise tax), including the application of the apparently arbitrary 60% uplift (or tama) to imported products and the differential ad valorem tax rates, which favour domestically-produced spirits.

In October 2009, Israel revived a tax proposal which would set up a hybrid tax from 1 January 2010 and ultimately lead to a WTO-compliant single rate in 2014. CEPS confirmed to the European Commission that this tax reform proposal would be preferable to maintaining the status quo. However, before the law was approved, and despite CEPS' actions to support the reform, the government adopted a new tax law which was applied as from March 2010. This law has the same structure as the previous proposal, but the rates are far higher, including the final single rate to be applied at the end of the transitional period in 2014. Our industry is extremely disappointed with this development and we have formally notified the Commission of our concerns. The Knesset Finance Committee is to vote on this reform after its April break.

RUSSIA



There have been many developments with regards to Russia this year. Indeed, in November 2009, Russia, Belarus and Kazakhstan agreed to establish their Customs Union with a unified customs tariff and non-tariff measures to enter into force in January 2010. CEPS has voiced its numerous concerns over new trade irritants created by the establishment of this Customs Union. Amongst other things, the Customs Union required new licenses for EU wines and spirits as of 1 January 2010 resulting in a major blockage. Although exports have now returned to normal, Russia has not yet removed these duplicative licenses, despite assurances that it would during WTO accession negotiations. CEPS continues to work with the Commission to solve the remaining issues. Russia's next steps are still unpredictable, notably with regards to the unified Customs Code that will come into effect on 1 July 2010. To clarify further, CEPS is planning a new market visit in 2010.

⁷ Comité Européen des Entreprises Vins

THAILAND



Thailand continues to represent a difficult market for European spirits producers. One piece of good news from 2009 was that the customs valuation difficulties, resulting in WTO consultations in 2008, were largely resolved. Unfortunately the Thai excise tax system continues to favour local spirits over imported spirits and this has been a long standing hurdle to EU spirits growth. In 2009 there were positive signs that this discrimination would be addressed, when the government put forward a view that alcohol taxation should reflect the amount of alcohol a beverage contains. These discussions are ongoing. CEPS believes that, at the very least, the applied rates on imported and domestic distilled spirits should be harmonized, as should the license fees charged for selling imported and domestic products. CEPS key recommendation is to remove the current discrimination in the tax structure and amend it towards a simplified and non-discriminatory regime based on specific rates.

Thailand is also discussing a proposal to introduce graphic health warning labels on all alcoholic beverages. There is a lack of scientific justification for health warning labels, particularly those that are intended to discourage all consumption of alcohol, rather than the misuse of alcohol. CEPS is working closely with the Commission and international colleagues to advocate an evidence-based, proportionate approach.

CHINA



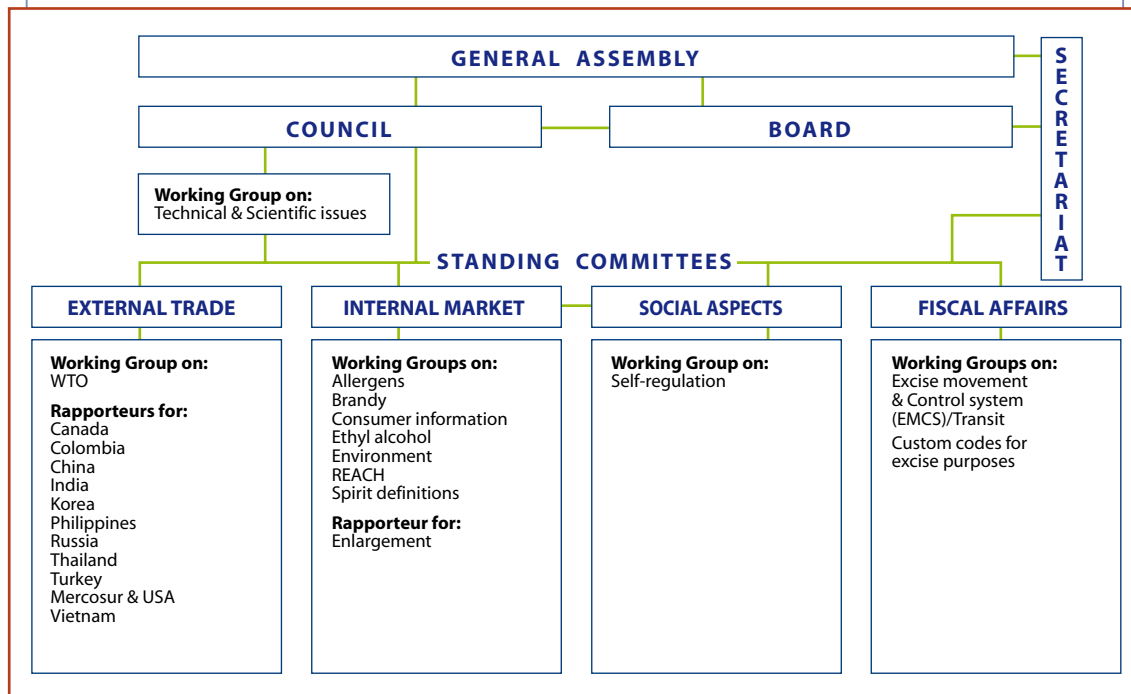
China is the fourth largest export market in value for EU spirits (valued at over €227 Million in 2009). In 2008, China adopted a range of standards defining western-style products. The suggested standards raised a number of concerns among CEPS members. CEPS briefed the former EU Agriculture Commissioner Mariann Fisher Boel prior to her visit to China in May 2009, and liaised with Chinese authorities, but with no impact on the substance of the standards. In September 2009 CEPS hosted a meeting with representatives of FFI⁸ and this opportunity was used to reinforce the importance of the EU regulatory framework. CEPS has also been liaising with Chinese officials as regards standards on methanol and standards on excessive packaging, the latter coming into effect from 1 April 2010. The dialogue with the Chinese authorities continues.

⁸ The Chinese National Research Institute for Food and Fermentation Industries (FFI)



Annexes

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