

**EXPLANATORY MEMORANDUM TO  
THE SPIRIT DRINKS REGULATIONS 2008**

**2008 No. 3206**

1. This explanatory memorandum has been prepared by the Department for Environment, Food and Rural Affairs and is laid before Parliament by Command of Her Majesty.

**Purpose of the instrument**

2. The UK Spirit Drinks Regulations 2008 (*“new Regulations”*) provide for the enforcement of Regulation (EC) No 110/2008 of the European Parliament and of the Council of 15 January 2008 on the definition, description, presentation, labelling and the protection of geographical indications of spirit drinks and repealing Council Regulation (EEC) No 1576/89

Replace the following existing national legislation:

The Spirit Drinks Regulations 1990

The Spirit Drinks (Scotland) Regulations 1990

The Spirit Drinks Regulations (Northern Ireland) 1990

The Spirit Drinks (Scotland) Amendment Regulations 1995

The Spirit Drinks (Amendment) Regulations 1995

The Spirit Drinks (Amendment) Regulations (Northern Ireland) 1995.

**Matters of special interest to the Joint Committee on Statutory Instruments**

3. None.

**Legislative Context**

4. EC regulation No 110/2008 was adopted on 15 January 2008, came into force on 20 February 2008 and applied from 20 May 2008. It replaces the two EC spirit drinks regulations, Council Regulation 1576/89 on the definition, description and presentation of spirit drinks, and Commission Regulation 1014/90 laying down detailed rules on the definition, description and presentation of spirit drinks. The new EC spirit drinks Regulation aims to:

- improve general understanding by enhancing the readability and clarity of the legislation;
- introduce a defined policy based on three product categories: spirits, specific spirit drinks and other spirit drinks;
- adapt the regulations to new technical requirements;
- introduce flexibility by changing the procedure used to amend Annexes from the co-decision procedure of European Parliament and Council to the Commission supported by a Committee for Spirit Drinks;
- adapt the regulations to World Trade Organisation (WTO) requirements, including Trade Related Intellectual Property Rights (TRIPs); and
- define the criteria for the recognition of new geographical indications.

A Transposition Note is attached at Annex A.

## **Territorial Extent and Application**

5. United Kingdom.

### **European Convention on Human Rights**

6. As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

### **Policy Background**

- *What is being done and why?*

7. The spirit drinks sector is important for consumers, producers and the agricultural sector in the EU. The measure adopted under the new EC spirit drinks regulation detailed above and being implemented in the UK by The UK Spirit Drinks Regulations 2008, aim to protect consumers from deceptive practices, and encourage market transparency and fair competition. One of the biggest problems facing the spirit drinks industry is counterfeiting. In the UK, the value of spirit drinks exports was over £3bn in 2007, but with counterfeiting an increasing issue. One of the main aims of the new regulations is to protect consumers from counterfeit products, which in some cases can be injurious to health. The measures should thereby safeguard the reputation of Community-produced spirit drinks, including by respecting traditional practices of production. The new Regulations also aim to take account of technological developments in the spirit drinks industry since 1989 when the previous EC spirit drinks regulation was introduced. The instrument is being made to ensure that the UK meets its legal obligations to effectively enforce the EC Regulation on spirit drinks and will meet aim to ensure the following:

- i) that the objectives of the UK spirit drinks industry are met on enforcement and protect an important sector of the wider alcoholic drinks market; and
- ii) to protect consumers against fraudulently labelled products and so can be confident that what they are buying is what it says it is.

- *Consolidation*

7.1 Not applicable.

### **Consultation Outcome**

8. A consultation on these proposals was undertaken between 31 December 2007 and 25 March 2008. The consultation was posted on the Department's website. Devolved administrations, relevant trade associations, Local Authority Co-ordinators of Regulatory Services, private companies and individuals, consumer organisations and other government departments were all consulted. Copies were placed in the Department's library and also the libraries of both Houses of Parliament. It is our conclusion that because the new Regulations do not propose any new obligations or burdens there was only a light response. A full list of the organisations consulted and a summary of responses can be found on the following Department web link: <http://www.defra.gov.uk/corporate/consult/spiritdrinks/index.htm>

## **Guidance**

9. As the new legislation does not create new obligations or burdens on stakeholders, apart from the consultation document that already sets out obligations and proposals, no guidance was produced for users and stakeholders. However, Guidance on the new UK regulations may be provided by the enforcement authorities, e.g. the Local Authority Co-ordinators of Regulatory Services (LACORS) where required by trading standards officers and/or environmental health officers.

## **Impact**

10. An Impact Assessment is attached at Annex B. This Instrument applies to the spirit drinks sector including small businesses.

## **Regulating small business**

11. The legislation applies to small business. The Impact Assessment (attached) considered the impact on small businesses and as an inevitable consequence of some provisions in the new EC Spirit drinks regulation, there will be an impact on those small producers who produce vodka using raw materials other than cereals and potatoes. Unfortunately, no concessions were appropriate because of the UK's legal obligations to enforce the provisions of EC law.

## **Monitoring and Review**

12. The Regulations will be reviewed in five years.

## **Contact**

13. Stuart Cooper at the Department for Environment, Food and Rural Affairs. Tel: 020 7238 3191 or email: [stuart.cooper@defra.gsi.gov.uk](mailto:stuart.cooper@defra.gsi.gov.uk) can answer any queries you may have on this instrument.

## TRANSPOSITION NOTE

| <i>EC Regulation Article</i>   | <i>Transposition provision</i> | <i>Comments</i>  |
|--|--------------------------------|--|
| Article 1 (Objectives)   |                                | Objectives of the EC Regulation is achieved by the UK Regulations as a whole |
| Article 2 (Definitions)  |                                | Transposition not required   |
| Article 3 (Origin of ethyl alcohol)  |                                | Transposition not required   |
| Article 4 (Categories of spirits)  |                                | Transposition not required   |
| Article 5 (General rules concerning the categories of spirit drinks)                       |                                | Transposition not required   |
| Article 6 (Member States' legislation)   |                                | Objectives of the EC Regulation is achieved by the UK Regulations as a whole |
| Article 7 (Definitions)  |                                | Transposition not required   |
| Article 8 (Sales denomination)   |                                | Transposition not required   |
| Article 9 (Specific rules on sales denominations)  |                                | Transposition not required   |
| Article 10 (specific rules on the use of sales denominations and geographical indications) |                                | Transposition not required   |

|  |  |                            |
|--|--|----------------------------|
| Article 11 (Description, presentation and labelling of mixtures)                             |  | Transposition not required |
| Article 12 (Specific rules on the description, presentation and labelling of spirit drinks)  |  | Transposition not required |
| Article 13 (Prohibition of lead-based capsules or foil)                                      |  | Transposition not required |
| Article 14 (Use of language in the description, presentation and labelling of spirit drinks) |  | Transposition not required |
| Article 15 (Geographical indications)  |  | Transposition not required |
| Article 16 (Protection of geographical indications)  |  | Transposition not required |
| Article 17 (Registration of geographical indications)  |  | Transposition not required |
| Article 18 (Cancellation of geographical indication)   |  | Transposition not required |
| Article 19 (Homonymous geographical indications)   |  | Transposition not required |
| Article 20 (Established geographical indications)  |  | Transposition not required |

|   |  |  |
|---|--|--|
| Article 21 (Alteration of the technical file)   |  | Transposition not required   |
| Article 22 (Verification of compliance with the specifications in the technical file) |  | Transposition not required   |
| Article 23 (Relation between trademarks and geographical indications)                 |  | Transposition not required   |
| Article 24 (Control and protection of spirit drinks)                                  |  | Objectives of the EC Regulation is achieved by the UK Regulations as a whole |
| Article 25 (Committee)  |  | Transposition not required   |
| Article 26 (Amendment of the Annexes)   |  | Transposition not required   |
| Article 27 (Implementing measures)  |  | Transposition not required   |
| Article 28 (Transitional and other specific measures)                                 |  | Transposition not required   |
| Article 29 (Repeal)   |  | Transposition not required   |



## Summary: Intervention & Options

|  |   |                               |
|--|---|-------------------------------|
| <b>Department /Agency:</b><br><b>Defra</b> | <b>Title:</b><br><b>Impact Assessment of EC Regulation 110/2008 on spirit drinks.</b> |                               |
| <b>Stage: Draft Final</b>                  | <b>Version: 5</b>   | <b>Date: 15 December 2008</b> |
| <b>Related Publications: None</b>          |   |                               |

### Available to view or download at:

<http://www.>

**Contact for enquiries:** Stuart Cooper or Anil Kanani

**Telephone:** 020 7238 3191/ 6569

### What is the problem under consideration? Why is government intervention necessary?

A new EC European Parliament and Council regulation covering the definition, description, presentation, labelling and protection of geographical indications for spirit drinks above 15% alcohol produced in the EU was introduced into EC law on 20 February 2008 and came into force on 20 May 2008. The UK is legally obliged to introduce provisions to provide for the enforcement of these EC provisions.

### What are the policy objectives and the intended effects?

The policy objectives are:

- a) protection of an important sector of the alcoholic drinks market, and
- b) protection of consumers against fraudulently labelled products so that they can be confident that what they are buying is what it purports to be.

### What policy options have been considered? Please justify any preferred option.

To implement the new EC regulation through a statutory instrument to provide for its enforcement in the UK.

### When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? In five years.



**Ministerial Sign-off** For final proposal/implementation stage Impact Assessments

***I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs***

Signed by the responsible Minister ....Jane Kennedy.....

.....Date:15th December 2008

## Summary: Analysis & Evidence

|                         |                                 |
|-------------------------|---------------------------------|
| <b>Policy Option: 2</b> | <b>Description: EU Proposal</b> |
|-------------------------|---------------------------------|

|  |   |   |   |                        |               |
|--|---|---|---|------------------------|---------------|
| <b>COSTS</b>   | <b>ANNUAL COSTS</b>   | Description and scale of <b>key monetised costs</b> by 'main affected groups' Producers (mostly SMEs) of vodka made from sugar cane or sugar beet-derived ethyl alcohol.<br><br>This includes the cost of enforcement, and the production of the technical file estimated as a one-off cost of around £200. |   |                        |               |
|  | <b>One-off</b> (Transition) <span style="float: right;"><b>Yrs</b></span> |   | 1 |                        |               |
|  | <b>£ 0.2m</b>   |   |   |                        |               |
|  | <b>Average Annual Cost</b><br>(excluding one-off)                         |   |   | <b>Total Cost (PV)</b> | <b>£ 0-4m</b> |
| Other <b>key non-monetised costs</b> by 'main affected groups'<br><br>Possible trade implications resulting from the extra labelling requirements for sugar beet/cane-derived vodka giving these products a trade disadvantage, and the technical file needed for Plymouth Gin which previously did not require one. |   |   |   |                        |               |

|  |  |  |  |                           |                          |
|--|--|--|--|---------------------------|--------------------------|
| <b>BENEFITS</b>  | <b>ANNUAL BENEFITS</b>                                       | Description and scale of <b>key monetised benefits</b> by 'main affected groups' Producers of Plymouth Gin could benefit from the registering of this product with the EU through a technical file as a geographical indication. |  |                           |                          |
|  | <b>One-off</b> <span style="float: right;"><b>Yrs</b></span> |  |  |                           |                          |
|  | <b>£ to be confirmed</b>                                     |  |  |                           |                          |
|  | <b>Average Annual Benefit</b><br>(excluding one-off)         |  |  | <b>Total Benefit (PV)</b> | <b>£ to be confirmed</b> |
| Other <b>key non-monetised benefits</b> by 'main affected groups'<br><br><b>Social:</b> protection of consumers, consolidation and simplification of current legislation, and clearer definition of products. <b>Economic:</b> greater GI protection for Plymouth Gin leading to increase in value of product. |  |  |  |                           |                          |

### Key Assumptions/Sensitivities/Risks

SMEs are the major producers of the vodkas that will be affected by the new labelling requirements and so are disproportionately affected. Their size and the very small profit margins on their products also has a potentially adverse effect on their ability to shoulder the new labelling requirements

|                         |                         |                                     |   |
|-------------------------|-------------------------|-------------------------------------|---|
| Price Base<br>Year 2008 | Time Period<br>Years 10 | <b>Net Benefit Range (NPV)</b><br>£ | <b>NET BENEFIT (NPV Best estimate)</b><br>£ |
|-------------------------|-------------------------|-------------------------------------|---|

|   |   |
|---|---|
| What is the geographic coverage of the policy/option?                 | UK  |
| On what date will the policy be implemented?                          | December 2008   |
| Which organisation(s) will enforce the policy?                        | TSOs and EHOs   |
| What is the total annual cost of enforcement for these organisations? | £ to be completed                                     |
| Does enforcement comply with Hampton principles?                      | Yes   |
| Will implementation go beyond minimum EU requirements?                | No  |
| What is the value of the proposed offsetting measure per year?        | £ N/A   |
| What is the value of changes in greenhouse gas emissions?             | None  |
| Will the proposal have a significant impact on competition?           | No  |
| Annual cost (£-£) per organisation<br>(excluding one-off)             | Micro [£ ]    Small [£ ]    Medium [£ ]    Large [£ ] |
| Are any of these organisations exempt?                                | No    No    No    No                                  |

|   |                      |                                     |
|---|----------------------|-------------------------------------|
| <b>Impact on Admin Burdens Baseline</b> (2005 Prices) |                      | (Increase - Decrease)               |
| Increase of    £ to be confirmed                      | Decrease of    £ N/A | <b>Net Impact</b> £ to be confirmed |

Key:    Annual costs and benefits: Constant Prices    (Net) Present Value

## Evidence Base (for summary sheets)

### **BACKGROUND**

The new legislation applies to spirit drinks produced in the European Union (EU), spirit drinks sold within the EU but produced outside it, and spirit drinks exported from the EU.

The spirit drinks sector is important for consumers, producers and the agricultural sector in the UK. The revised measures in the EC Regulation are aimed at contributing to the attainment of a high level of consumer protection, the prevention of deceptive practices and the achievement of market transparency and fair competition.

By doing so, the measures are aimed at safeguarding the reputation which spirit drinks in the EU have built up both within the EU and overseas. This will be achieved by taking account of traditional practices used to produce spirit drinks and increased demand from consumers for protection and information.

The new measures also aim to take account of technological innovation, where this improves quality, without affecting the traditional character of the spirit drinks in question.

In order to protect consumers, the new legislation applies not only to spirit drinks produced in the EU but also spirits drinks that are sold within the EU but produced outside it.

However, for most of the UK spirit drinks sector the proposed changes will have little impact, since the new EC regulation is largely concerned with clarifying existing rules and definitions.

The majority view of the industry is that the approach we are adopting to implementing the EC regulation is the right one with most of the industry concerns addressed.

### **Changes over existing EC regulation**

The main changes arising out of the new EC regulation concern the registration of geographical indications via a technical file, the labelling of vodka produced from materials other than cereals and potatoes, clarifying the requirements relating to the production of whisky and tightening the London Gin definition.

### **Rationale for Government intervention**

The SI ensures that there is a domestic legal framework within which the UK industry could operate in terms of enforcement. This is in the best interests of the UK spirit drinks industry and consumers otherwise there would be no domestic legal mechanism to ensure they were not being misled on e.g. labelling.

The UK is one of the largest producers of spirit drinks in the EU and produces 4,300 thousand hectolitres, which is equivalent to 430 million one litre bottles. This includes Scotch Whisky, Gin and Vodka.

More than 3 quarters of production (3,300 thousand hectolitres – 330 million one litre bottles) goes for export, including 90% of Scotch Whisky.

These exports are valued at £3.317bn (€ 4.8 bn). Our industry is expanding its markets and getting a foothold in China and India. We export to over 170 countries globally.

1,170 thousand hectolitres of Spirits were released for Home consumption in the UK during 2007.

Nearly a quarter of the alcoholic drinks consumed in the UK come from spirit drinks, second after beer.

Spirits drinks contributes over half (56%) of Gross Value Added of the total alcoholic drinks sector.

The sector is worth nearly £3.5billion (€5bn) in annual turnover and sales. It employs around 68,000 people in the industry. 10,800 people are employed directly by spirit drinks manufacturers.

Imports are also important to the UK and we import from around the globe, including the US, South Africa, Brazil, Australia, the Caribbean (Rum), Mexico (Tequila) and, of course, the EU. Our imports stand at around 160 million one-litre bottles in 2006 which is valued at around £456m (€660 bn).

Ireland and France feature heavily for imports to the UK with Ireland accounting for £106m (€150 m) and France at £100m (€144 m).

The UK is the second largest producer of vodka in the EU after Poland. Total UK production is over 42,000,000 litres of pure alcohol. Retail value is estimated at around £1.78bn Up to 30% of UK vodka made from products other than potatoes and cereals. Around 70% of vodka is produced in Scotland.

Vodka exports from UK is approximately 6 million litres of pure alcohol valued at £29m

There are 12 cider brandy producers in the UK mainly in the South West of England. The largest of these has indicated he has around £4m of stock currently maturing in warehouses, though we have not been able to verify this.

### **Costs and benefits**

- **Sectors and groups affected –**

The new EC regulation covers all spirit drinks at 15% alcohol and above. It therefore affects all spirit drink producers in the UK. However, it largely maintains the status quo, except on the following aspects:

- i) strengthened definitions for London Gin and clarification of production rules for whisky
- ii) new labelling provisions for vodka not made from cereals or potatoes (see below), and
- iii) new arrangements for registering geographical indications.

The current definitions for spirit drinks remain largely unchanged (except for those strengthened definitions mentioned at i) above).

However, there are new labelling provisions for producers of vodka not made from cereals and potatoes would affect mainly Small and Medium-sized Enterprises (SMEs) because these are the producers who make most of their vodka from sugar beet molasses-derived ethanol.

- **Benefits**

The benefit would be mainly for producers of products with a geographical indication (GI) such as Scotch Whisky, Plymouth Gin and Irish Whisk(e)y and for those producers of vodka made from cereals and/or potato-derived ethanol. This new regulation will also provide greater protection to consumers from misleading labelling, presentation and advertising as well as against sub-standard and counterfeit products.

- **Costs**

The significant impact of these proposals would be on producers who make vodka for the UK supermarket own label and 'cheapest on display' (COD) market which is produced almost wholly by small and medium-sized enterprises (SMEs). The cost ranges from a minimum of 0.27% to a maximum of 2.7% of total retail value for the vodka sector as a whole. For the vodka sub-sector most heavily affected (the COD sector), the cost ranges from 0.4% to 4% of total retail value.

## **Specific Impact Tests**

### **Competition Assessment**

We are satisfied that there are no adverse impacts on the industry as a whole as a result of the new EC regulation. Also, improving labelling and the provision of information should be beneficial for competition.

### **Small Firms Impact Test**

The main impact will be the adverse effect of on-going labelling costs on the margins of these SMEs. However, it is the added cost as compared to the pre-tax factory-gate price that is considered more relevant by the industry since such costs are difficult to pass on to retailers. It is therefore the added production costs that will impinge on the viability of producing these products. It should also be noted that if labels have to be changed more often than once a year as a result of a change in the raw materials used or a change in the product mix, the annual costs increase. It is not possible to say what these might be, since it will depend on the market circumstances at the time, including the availability of the raw materials and their cost. Further details are set out in Annex C.

### **Legal Aid**

These measures update the current criminal sanctions. The Regulations also allow for the service of penalty notices. These will be administrative in nature, but the availability of these should reduce the likely number of criminal prosecutions. The new Regulations will provide, as an alternative to prosecution, new criminal remedies through fixed penalty notices.

### **Carbon Impact Assessment**

These proposals will not impact at all on environmental indicators since they will not result in an increase in the production of spirit drinks or change the way they are produced.

### **Health Impact Assessment**

These proposals will not directly impact on health and wellbeing and will not result in health inequalities.

### **Race/Disability/Gender/Age etc.**

These proposals do not impose any restriction or contain any requirements which a person of a particular racial background, disability, gender, age, or sexual orientation would find

more difficult to meet. Conditions apply equally to all individuals and businesses involved in the activities covered by the proposals.

### **Human Rights**

These proposals are consistent with the Human Rights Act 1998.

### **Rural Proofing**

These proposals will not have any different effect in rural areas. Rural employment would not be affected in an adverse way. In fact, the industry has a long history of ensuring that its association with the rural economy is maintained.

### **Unintended consequences**

None are anticipated at this stage.

## **ENFORCEMENT, SANCTIONS AND MONITORING**

### **Provide for enforcement of the EC Regulations**

The overall aim is to provide clear and effective enforcement measure for spirit drinks as required by EC law. However, the proposals may have an indirect result that the industry will take more frequent enforcement action against producers both in the UK and abroad, since the provisions of the new EC regulation are much more clear than in the existing regulation (one of the driving forces behind its introduction). This will mean that the better prospects for legal action by the trade against products where there is currently some ambiguity, may well increase the level either of compliance with the new regulations or the number of actions taken by the industry to support legitimate trade.

### **Enforcement**

Enforcement would be by food authorities, i.e. officers of the local authorities (trading standards officers and environmental health officers) as appropriate.

Those affected would need to ensure that their labels stated the raw materials used to produce their vodka if this WAS NOT made from potatoes or cereals, such vodka remaining unlabelled (as at present). The labelling requirements being proposed will mean that enforcement bodies can use their discretion, since there will be no mandatory lettering size or place on the label where the raw materials must be listed. The level of compliance with existing policies is high. It is envisaged that the new labelling requirements will continue to be enforced using existing systems, inspection/penalty regimes and enforcement bodies. The risks of non-compliance are expected to be low, so as at present, it is expected that checks for compliance will continue to be on a risk-management basis and on a small proportion of high risk producers. Increased enforcement activity as a result of the new regulation is expected to be low.

### **Sanctions**

A number of criminal sanctions are included in the SI. Provision is also made for administrative monetary penalties to be imposed as well as the power to seize and destroy non-compliant products.

### **Monitoring**

Regular (i.e. weekly and monthly) contact with the enforcement authorities and the relevant trade associations as at present to ensure that proportionate monitoring, given the predicted high compliance, is carried out. This takes the form of regular contact via email or telephone with all interested stakeholders directly (as with Trading Standards, Environmental Health, Port Health Authorities and Her Majesty's Revenue and Customs) or indirectly through SWA, GVA and WSTA contacts with the businesses concerned.

## Specific Impact Tests: Checklist

| Type of testing undertaken | <i>Results in Evidence Base?</i> | <i>Results annexed?</i> |
|----------------------------|----------------------------------|-------------------------|
| Competition Assessment     | Yes                              | No                      |
| Small Firms Impact Test    | Yes                              | No                      |
| Legal Aid                  | Yes                              | No                      |
| Sustainable Development    | Yes                              | No                      |
| Carbon Assessment          | Yes                              | No                      |
| Other Environment          | Yes                              | No                      |
| Health Impact Assessment   | Yes                              | No                      |
| Race Equality              | Yes                              | No                      |
| Disability Equality        | Yes                              | No                      |
| Gender Equality            | Yes                              | No                      |
| Human Rights               | Yes                              | No                      |
| Rural Proofing             | Yes                              | No                      |



## Annexes

### Annex A: UK Spirit Drinks Industry: Economic Contribution

1. The UK spirit drinks (manufacturing) industry continues to represent an important component of the food and drinks manufacturing sector. According to provisional data published by the **Office for National Statistics** (ONS) in its **Annual Business Inquiry**, in 2006 the sector accounted for 15.8% of total food and beverage manufacturing Gross Value Added<sup>1</sup> (GVA) of £21.2bn.
2. The contribution of the spirits sector to the total GVA of the UK alcoholic drinks industry in 2005 and 2006 is presented in Table 1 below.

**Table 1: GVA of the Alcoholic Drinks Industry By Sector in 2005 and 2006**

|                 | 2005       |              | 2006         |              |
|-----------------|------------|--------------|--------------|--------------|
|                 | GVA        | %            | GVA          | %            |
|                 | (£million) | Contribution | (£million)   | Contribution |
| Potable Spirits | 1,525      | -            | 1,859        | -            |
| <b>TOTAL</b>    | <b>**</b>  | <b>-</b>     | <b>3,342</b> | <b>100</b>   |

Source: *Annual Business Inquiry*, ONS.

3. The number of direct employees in the UK spirit drinks industry was (based on data released by the ONS) estimated to be 8,900 in 2005.
4. Employment in the spirit drinks sector is detailed in Table 2 below.

**Table 2: The Distribution of Employees in the UK Alcoholic Drinks Manufacturing Industry in 2006**

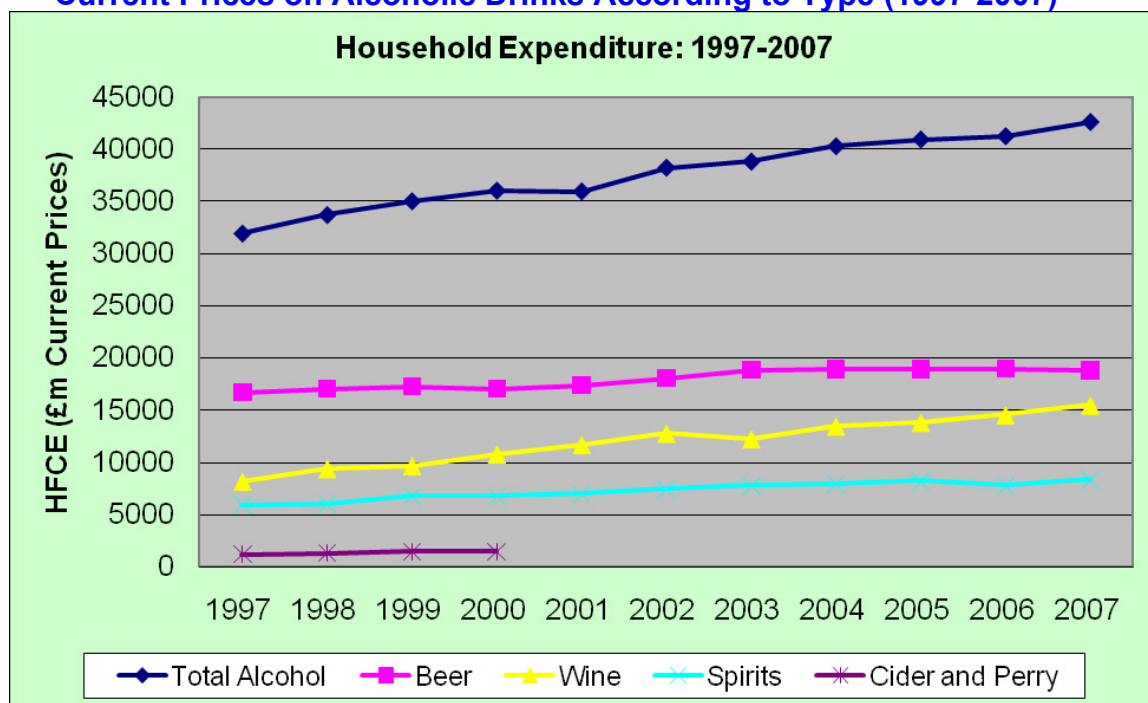
|                 | Number of Employees<br>(000s) | Employment<br>(%) |
|-----------------|-------------------------------|-------------------|
| Potable Spirits | 9.9                           | 35                |
| <b>TOTAL</b>    | <b>28.2</b>                   | <b>100</b>        |

Sources: *Annual Business Inquiry*, ONS; *British Beer and Pub Association Statistical Handbook (2006)*. Totals are rounded.

<sup>1</sup> GVA measures the difference between a sector's sales and the value of its purchased inputs. Gross Domestic Product is the sum of all GVAs in the economy.

4. Household final consumption expenditure (HFCE) on alcoholic drinks rose by approximately 33% in value terms between 1997 and 2007 from £32 billion to £42.7 billion. An increase in HFCE on wine and cider has been the predominant driving force in alcohol spending over this period.

**Chart 1: Household Final Consumption Expenditure (HFCE) at Current Prices on Alcoholic Drinks According to Type (1997-2007)\***



Sources: *Consumer Trends*, ONS; *The Drink Pocket Book (Various editions)*, AC Nielsen.

5. Table 3 below illustrates the trend that between 1997 and 2007, the composition of household final consumers expenditure (HFCE) on alcoholic drinks has changed considerably, with a shift in HFCE away from beer and towards spirits, wine and cider.

**Table 3: Composition of HFCE on Alcoholic Drinks in 1997 and 2007**

|                     | 1997<br>(%) | 2007<br>(%) |
|---------------------|-------------|-------------|
| Beer                | 55.4        | 43.2        |
| Wine, Cider & Perry | 25.4        | 36.3        |
| Spirits             | 19.2        | 20.5        |
| <b>TOTAL</b>        | <b>100</b>  | <b>100</b>  |

Sources: *Consumer Trends*, ONS; *The Drink Pocket Book 2006*, AC Nielsen.

6. This shift in consumer preferences is also illustrated in Table 4 which shows that beer taken out of bond and released for home purchase and consumption fell by almost 9% between 1997 and 2007.

**Table 4: Alcohol Released for Home Consumption by Type.**

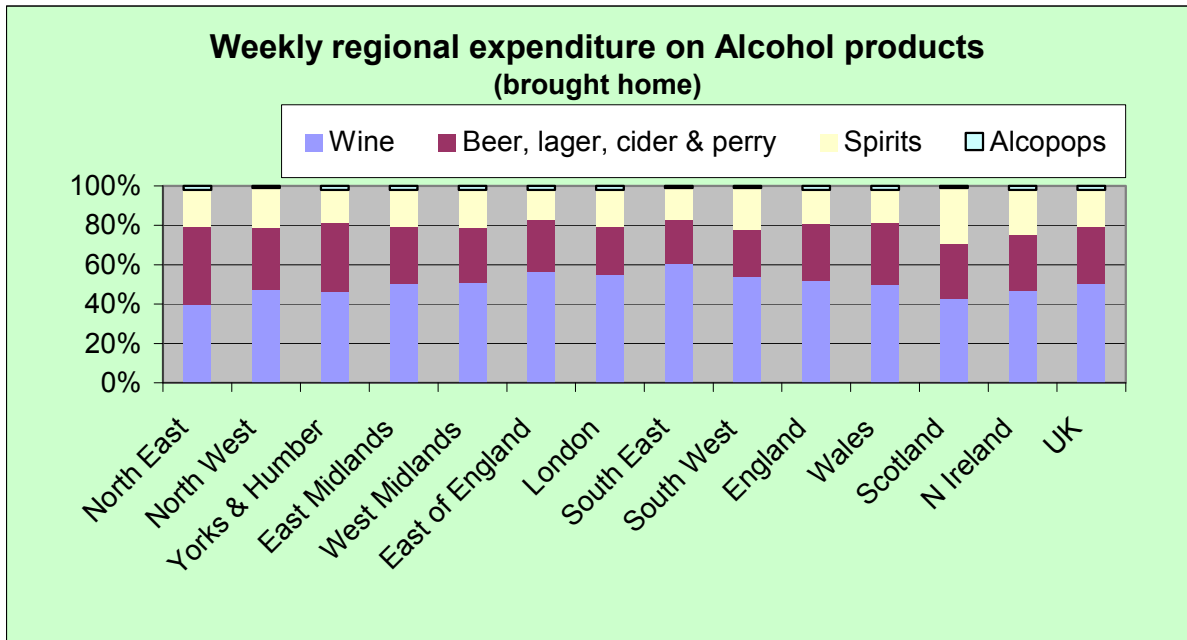
|                            | <b>1997</b>                              | <b>2007</b>                              |
|----------------------------|--|--|
|                            | <i>(Thousand Hectolitres)</i>            | <i>(Thousand Hectolitres)</i>            |
| <b>Beer</b>                | <b>61,114</b>                            | <b>53,315</b>                            |
| <b>Cider &amp; Perry</b>   | <b>5,513</b>                             | <b>8,046</b>                             |
| <b>Wine of Fresh Grape</b> | <b>8,358</b>                             | <b>13,702</b>                            |
| <i>Still/Light</i>         | 7,653                                    | 12,559                                   |
| <i>Fortified</i>           | 323                                      | 305                                      |
| <i>Sparkling</i>           | 382                                      | 838                                      |
| <b>Made Wine</b>           | <b>1,638</b>                             | <b>1,068</b>                             |
|                            | <i>(Thousand Hectolitres of Alcohol)</i> | <i>(Thousand Hectolitres of Alcohol)</i> |
| <b>Spirits</b>             | <b>845</b>                               | <b>1,170</b>                             |

Sources: Table 6.13 - *Monthly Digest of Statistics*, ONS; HM Revenue & Customs.

7. An analysis of regional weekly household expenditure on alcoholic drinks reveals that in South East England, 60% of weekly consumer expenditure on alcohol is spent on wine.
8. In comparison, consumers' in Scotland spent the most on spirits; with spirit purchases in Scotland accounting for 28% of weekly consumer expenditure on alcohol.
9. Consumers' in the North East of England spent the most on beer, lager, cider and perry, with expenditure accounting for 41% of weekly consumer expenditure on alcohol.
10. It should be noted that the **Office for National Statistics** (ONS) data used to calculate regional consumer expenditure on alcohol focuses on alcoholic products purchased at supermarkets and off-licences, for home consumption.
11. In comparison, the ONS data used to calculate national consumers' expenditure on alcohol also includes expenditure at pubs, restaurants, and hotels. At least 84% of national consumers' spending on beer in 2006 occurred in pubs, restaurants, and hotels; around 59% of national consumers' spending on spirits in 2006 took place in pubs, restaurants, and hotels; while around 59% of national consumers' spending on wine in 2006 took place in pubs, restaurants, and hotels **2**.
- 12.

**Chart 2: Weekly Household Expenditure on Alcohol products as a % of Total Household Expenditure on Alcohol by Region**

<sup>2</sup> 'Consumer Trends': Table ALC.CN – Office for National Statistics



Source: (Table A35) Family Spending: 2006 edition – Office for National Statistics.

## Annex B: Structure of the UK spirit drinks industry

### UK Spirit drinks sector overall

The UK spirit drinks sector for producers is the second largest in the alcoholic drinks industry, after beer, with Government tax revenue totalling £3.6bn in 2004-2005.

The UK is one of the largest producers of spirit drinks in the EU. Each year we produce the equivalent of 430 million one litre bottles of Scotch Whisky, Gin and Vodka.

Spirits drinks contributes nearly half (46.5%) of the value of production of all alcoholic drinks in the UK.

Spirit drinks are exported to over 170 countries around the world. These exports were worth around £3 billion in 2007 (latest figures available). The industry makes a significant contribution to the UK balance of trade in food and drink.

Around 33% of all spirits consumed in the UK are imported.

### UK Industry key facts:

- Consumer expenditure on Alcoholic Drinks was £42.7 billion in 2007, representing around 5% of total consumer expenditure
- Consumer expenditure was £8 billion on spirits in 2007
- UK excise duty is £5.60 on a bottle of spirit (70cl at 37.5% alcohol by volume)
- The UK alcoholic drinks industry as a whole contributes £14 billion to the Exchequer per year
- In 2005 UK per capita consumption was around 2.5 litres on spirits
- Employment in the UK alcoholic drinks industry is estimated at 1.5 million people which is about 5.5% of the UK active population.

### Scotch whisky

Whilst there are over 90 producers, the industry is highly concentrated, with the top six companies accounting for 85% of distilling capacity and worldwide case sales. **Diageo** is the industry leader, with a world market share of approximately 34% and 29 distilleries. **Pernod Ricard** is the second largest with a world market share amounting to approximately 23% and 15 distilleries. According to research for the Scotch Whisky Association, in 2007 9,221 people were employed in the industry and over £90 million worth of Scottish cereals were used.

## **Gin and Vodka**

The UK is the second largest vodka producer in the EU after Poland, with around 10% of total EU production. UK-produced gin and vodka contributes £3bn out of a total £14bn to the UK economy. The gin and vodka sector employs around 2000 people directly and 8000 indirectly. Each year £12 million is spent on UK cereals for gin and vodka production. UK exports of gin and vodka are worth £230 million with exports to over 200 countries. Together with Scotch Whisky, gin and vodka accounts for some 25% of total UK food and drink exports.

## Annex C: Small Firms Impact

44% of the UK spirit drinks market is dominated by the top 3 drinks companies. The remaining companies are primarily Small or Medium-Size Enterprises (SMEs).

The costs (set out below) have been obtained through the GVA who have directly contacted a representative sample of SMEs. The figures show that the overall impact of the new proposals are not significant.

**The total retail value of all (standard) vodka** is £45m and makes up 43% of the UK market, and includes Own Label brands, comparable Off Trade brands and Cheapest on Display.

This total retail value is based on a total volume of 4m 9-litre cases.

Of which **Own Label vodkas** account for 26% of the total UK market with a total retail value of £18m. This total retail value is based on 2.25m 9-litre cases.

And **Cheapest on Display (COD)** vodka accounts for the bottom 2.5% of the total UK market, with a total retail value of £1.6m. This total retail value is based on 213,000 9-litre cases.

**Cost of one-off re-labelling** would be very small at around £0.03p per dozen bottles if a producer could order large numbers of labels at minimal origination costs.

Therefore the **costs for all (standard) vodka** would be around £120,000 or 0.27% of total UK retail value.

Of which the **cost for Own Label vodkas** would be around £67,500 or 0.37% of total UK retail value.

Of which the **cost for COD vodka** would be around £6,390, or 0.4% of total UK retail value.

**Cost if labels have to be changed each time producers change raw materials** rises to £0.12p per dozen bottles.

Therefore the **costs for all (standard) vodka** would be around £480,000 or around 1.07% of total UK retail value.

Of which the **cost for Own Label vodkas** would be around £270,000 or 1.5 % of total UK retail value.

Of which the **cost for COD vodka** would be around £25,560 or 1.6 % of total UK retail value.

**If a back label is also required to accommodate the new labelling requirement** (some producers use only front labels) then the cost rises to around £0.20p per dozen bottles based on a volume of 50,000 cases per annum.

Therefore the **costs for all (standard) vodka** would be around £800,000 or 1.78% of total UK retail value.

Of which the **cost for Own Label vodkas** would be around £450,000 or 2.5% of total UK retail value.

Of which the **cost for COD vodka** would be around £42,600 or around 2.6% of total UK retail value.

The cost per dozen bottles rises further if volumes are lower.

Therefore, a producer producing 25,000 cases would incur costs of nearer to £0.30p per dozen bottles.

Therefore the **costs for all (standard) vodka** would be around £1.2m or 2.7% of total UK retail value.

Of which the **cost for Own Label vodkas** would be around £675,000 or 3.75% of total UK retail value.

Of which the **cost for COD vodka** would be around £63,900 or 4% of total UK retail value.