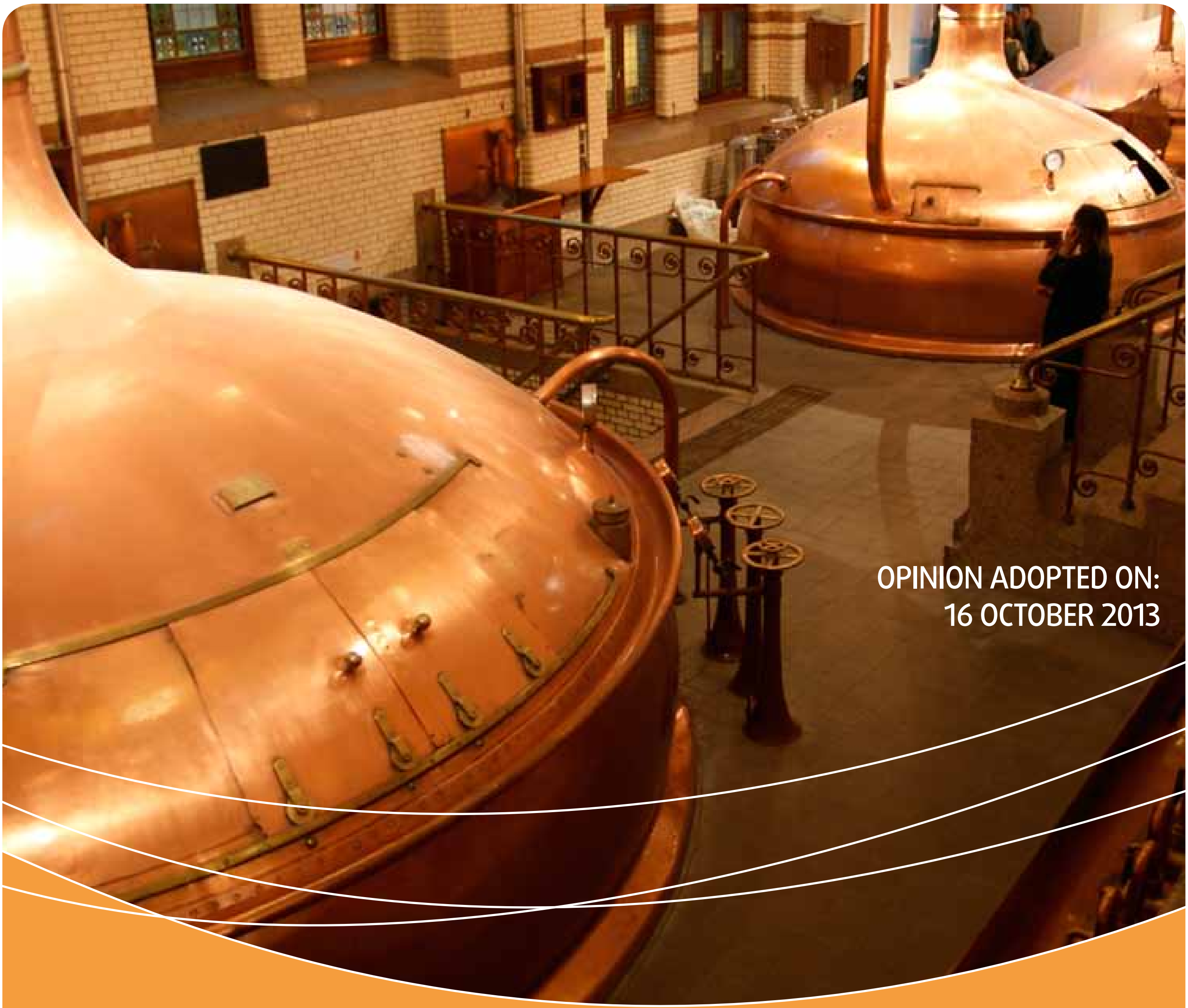

The European beer industry

Incentivising the growth potential

Rapporteur: Mr Jírovec
Co-rapporteur: Mr Calleja

European Economic and Social Committee

Executive summary of the opinion (full text overleaf)

EESC calls on EU policymakers to incentivise growth in European beer sector

The opinion shows that Europe's brewers remain global leaders and that they have adapted in the face of economic crisis. However, the report makes clear that there is untapped potential in this sector and that supportive taxation and trade policies, along with full recognition of the important role of the hospitality sector, can help it maintain its global standing and provide growth and jobs.

EESC recognises the potential of the beer sector to generate jobs and growth and calls on EU policymakers and Member States to back the sector by

- building a balanced regulatory environment together with a predictable and stable tax regime, allowing Europe's brewers of all sizes to brew and market beer in Europe and beyond,
- giving positive reciprocal treatment in free trade agreements,
- taking better into account the implications of the innovation, industrial and agricultural policy developments for the brewing industry,
- promoting responsible consumption, commercial communications and sales,
- supporting initiatives towards environmental sustainability across the whole supply and delivery chain,
- addressing distortions in the Single Market brought about by fluctuations of tax rates,
- developing the cooperation with local authorities in different aspects of community involvement projects and beer tourism opportunities.

EESC presses brewing companies to

- be more active in promotion of food products that encourage healthy eating habits
- make the sector more attractive to the younger generations through the fostering of apprenticeship programmes and vocational training schemes,
- enhance their cooperation with research and education institutes and participation in EU innovation and R&D programmes,
- Increase their participation in various activities developed through regional, structural and SME dedicated funds.
- Encourage use of life-cycle assessments in the brewing industry as a self-analysing tool, while taking into account the limitations of small family brewers due to capacity shortfalls.

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Public hearing organised on 5 September 2013 in Prague

In order to collect views from local actors and facilitate the drafting of its opinion CCMI organised a public hearing on 05/09/2013 in Prague

Representatives from the entire value chain - from raw material producers to consumers - had the opportunity to defend their case.

Following speakers were invited:

Mr. Balach, *CSPAS - Czech Beer and Malt Association*
Evolution of the Czech breweries

Mr. Tabone, *Simonds Farsons Cisk plc, Maltese brewery*
Sustainability Challenges - The Maltese Experience

Mr. Štěpánek, *Trade union*
Trade union perspective

Mr. Olalla Marañon, *Spanish Brewers Association*
On-trade sales

Mr. Reuchlin, *EBCU – European Beer Consumers Union*
Consumers perspective

Programme and presentations made during the hearing can be found on EESC web site **http://bit.ly/12DvNoe**

Or by scanning the QR code

Full text of the opinion

On 14 February 2013 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on

Incentivising the growth potential of the European beer industry.

The Consultative Commission on Industrial Change, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 26 September 2013.

At its 493rd plenary session, held on 16 and 17 October 2013 (meeting of 16 October), the European Economic and Social Committee adopted the following opinion by 47 votes to 1 with 2 abstentions.

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1. Conclusions and recommendations

1.1 Beer is a drink that has been enjoyed in communities across Europe for several thousand years. While the beer cultures across Europe vary significantly, with differing beer styles and consumption habits, beer plays an important role in every European Union country and forms an integral part of the culture, heritage and alimentation. The European Economic and Social Committee highlights the constant evolution of the sector and its adaptation and resilience even in the present challenging circumstances. It notes how the sector conforms to the Europe 2020 objectives in the different priority areas of employment, sustainability, innovation, education and social inclusion.

1.2 The European Economic and Social Committee draws the attention of the European Commission, the European Parliament, the Council and Member States to key policies that should be seriously considered if the European brewing sector is to realise its full growth potential. Specifically, the EESC wants the decision takers to:

- Achieve progress in building a balanced regulatory environment allowing Europe’s brewers of all sizes to brew and market beer in Europe and beyond,
- Include beer as a priority area that requires positive reciprocal treatment in free trade agreements under discussion with other EU commercial partners,
- Encourage and give higher publicity for more participation of brewing companies and associations in the social responsibility, health and education programmes implemented at EU and national level,

- Take more into account the implications of the innovation, industrial and agricultural policy developments for the brewing industry.

1.3 The European Economic and Social Committee equally encourages action at Member States, regional or local level to:

- continue partnership development with the brewing industry and NGOs aimed at promoting responsible consumption and reducing alcohol-related harm, including cooperation to promote responsibility in, and prevent, irresponsible commercial communications and sales,
- support the brewing sector's initiatives towards environmental sustainability across the whole supply and delivery chain at European and local level,
- use the dynamics in the brewing sector to create employment by removing obstacles to further growth by ensuring a predictable and stable tax regime at Member States level for the sector and its delivery chain and by addressing distortions in the market brought about by fluctuations of tax rates. An improvement in this regard would be in the spirit of furthering the completion of the Single Market,
- further explore and develop the cooperation with local authorities in different aspects of community involvement projects and beer tourism opportunities.

1.4 In the opinion of the European Economic and Social Committee brewing companies should

- Engage in more active and responsible participation in various promotion activities of food products that encourage healthy eating habits_within the EU and in third countries that are supported by Chambers of Commerce, regional authorities, Member States and the European Commission,
- Maintain efforts to make the brewing sector attractive to the younger generations as an area for stable and adequately paid employment, through the fostering of apprenticeship programmes and vocational training schemes,
- Continue to enhance their cooperation with research and education institutes, by participating more in EU innovation and R&D programmes with their partners, as well as in education and training programmes,
- Increase their participation in various activities developed through regional, structural and SME dedicated funds.
- Widen existing cooperation of a medium to long-term nature with local producers of hops, grains and other products essential for beer production.
- Encourage as wide a use as possible of life-cycle assessments in the brewing industry as a self-analysing tool, while taking into account the limitations of small family brewers due to capacity shortfalls.

2. The European brewing sector

2.1 The European Union is one of the major beer producing territories in the world. The production volume in 2011 was over 380 million hectolitres[1], brewed by around 4 000 breweries spread all around Europe. Their products are distributed all around the world. In volume terms the EU is a key player, providing over one quarter of world's production, only recently superseded by China, but still ahead of the United States, Russia, Brazil and Mexico[2].

2.2 The European beer industry is a very diverse sector in terms of structure. It is composed mainly of small and medium sized enterprises ranging from microbreweries, breweries operating at local, regional or national level and includes four Europe-based major brewers[3] which are global leaders in their field. The rise of new small and micro-breweries over the last decade is a remarkable sign of the innovation potential of the sector, and an asset for the goal of sustainability.

2.3 The supply chain linked to the brewing sector comprises local operators but also global leaders present among malting companies, equipment producers and technical services providers. Europe's brewing institutes also disseminate their knowledge worldwide. Events such as the European Brewery Convention congress or individual beer conferences attract visitors globally.

2.4 Beer is a key processed agricultural product, accounting for over EUR 2 billion value in exports[4]. It is also covered by the EU agricultural product quality policy[5], through its PDO/PGI[6] schemes, delivering over EUR 2.3 billion in sales value through 23 geographical indications[7]. Nevertheless, the geographical diversity of beers in those schemes is limited, as they are from less than 1/3 of EU countries.

2.5 The key components of beer are of natural origin and comprise water, cereals, hops and yeast. Water is the most important raw material used by the brewing sector, representing on average about 92% of beer. The protection of ground-water is therefore a key concern. Due to the need of cereals (such as barley, wheat or other) which are an essential starch source for beer, the relationship with the agricultural community is essential for the brewers and maltsters.

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1 The Brewers of Europe statistics, 2012 edition, October 2012.

2 Canadean Global beer trends 2012.

3 ABInbev, Carlsberg, Heineken, SABMiller (as in 2013).

4 European Commission, DG Enterprise and Industry.

5 http://ec.europa.eu/agriculture/quality/index_en.htm.

6 PDO (protected designation of origin), PGI (protected geographical indication).

7 European Commission, DG Agriculture and Rural development.

2.6 The European Union is also the main player in the world market for hops that are produced by fourteen EU Member States[8], accounting for about a third of the world's hop-growing area[9], with the brewing sector being the main customer of Europe's hop growers. Competition among the hops producers as well as differentiated treatment within agricultural policies that are in place between EU Member States may need to be re-visited if they are to prevent market distortions which could have a detrimental impact on brewers in the long term.

2.7 Brewers' dependence on the agricultural sector for their raw materials has in recent years meant that the industry had to confront higher prices of agricultural materials needed for beer production, due to harvests of variable quality and price volatility. A sustainable and long term approach between raw materials providers and brewers, where possible and needed, should guide their relationship.

2.8 Total beer sales in 2010 amounted to 106 billion Euros, including VAT, which represents 0.42% of the GDP of the EU. It is estimated that over 63% of European beer production is purchased in supermarkets and other retail outlets (the "off-trade"). The other 37% is consumed in the hospitality sector (e.g. bars, pubs, restaurants; the "on-trade").

3. Managing economic challenges of the 21st century

Market and structural trends

3.1 The European beer market in the last 15 years has been subject to different developments in terms of technical advancement, investments, mergers, new companies setup and consumer attitude. The strong decline in consumption since 2007 is having a direct impact on brewers' activities. After years of expansion in the European Union the production of beer has seen a sharp decrease from 420 mln hectolitres to 377 mln hectolitres in 2011. Nevertheless a recovery and potential for growth are expected in the coming years, if the economic and regulatory circumstances turn more favourable.

3.2 The economic crisis and decline in consumption has led to the restructuring of the sector in Europe, driven by a consolidation of activities on the continent and investment outside the EU by the larger international and national groups. Simultaneously, the number of breweries of smaller size has grown in all countries, developing the diversity of the offer to the consumer and confirming the entrepreneurial mindset of the brewers in line with the Entrepreneurship 2020 Action plan[10]. This is also a favourable development in the sustainability perspective, as

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8 European Commission, DG Agriculture and Rural Development, December 2009; Pavlovic M., February 2012.

9 European Commission, DG Agriculture and Rural development.

10 COM(2012) 795 final.

there are typically spin-offs regarding regional tourism as well as often closer circles in production and consumption, which is environmentally beneficial.

3.3 The economic circumstances have also led to more beer being consumed at home instead of in bars or restaurants, the result being fewer jobs, less value added and lower government revenues being generated by each litre of beer consumed in the EU[11]. Stronger price pressures in the retail sector also influenced this trend.

3.4 The growing number of brewers and product innovation has also led to the appearance of new products, benefiting the consumer, society and the environment. Opportunities for brewers of all size appeared thanks to the diversification into low and non-alcoholic beers which led to increased sales, while availability of organic beers is steadily increasing.

Taxation aspects

3.5 The brewing sector provides substantial benefits to national governments in fiscal terms. Due to the production and sale of beer, governments receive significant amounts of revenues from excise, VAT, income-related taxes and social security contributions paid by workers and their employers in the brewing sector as well as in other related sectors where jobs can be indirectly attributed to activities in the beer sector. In 2010 these revenues amounted to approximately EUR 50.6 billion[12].

3.6 The resilience of the brewing sector to the current economic difficulties has been challenged due to the increasing tax burden, mainly on excise duty, but also on VAT rates in particular on the hospitality sector. Those increases have intensified the uneasy economic situation of breweries in particular in countries such as Hungary, Finland, France, the Netherlands and the United Kingdom[13]. The total value-added attributed to the production and sale of beer in the EU decreased in the period 2008-2010 by 10%[14] and the total tax collected from the EU brewing sector fell by EUR 3.4 billion.

3.7 Excise duty system at EU and national level should recognise the unique characteristics of beer, including its generally low alcohol content, the brewing process and the brewing sector's local contribution to society, job creation and the wider economy. To that end, beer as a fermented beverage should be put on a level playing field, and thus, the zero euro

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11 Ernst Young, The Contribution made by Beer to the European Economy, September 2011.

12 Ernst Young, September 2011.

13 European Commission, Excise duty tables, 2013.

14 Ernst Young, September 2011.

minimum rate applicable to wine and other fermented beverages should also be enshrined in EU excise legislation for beer[15].

3.8 Balanced excise policy at national level and better use of existing cooperation mechanisms within the fiscal administration may become an instrument to avoid tax-driven trade and related damaging practices thus helping to maintain the brewing sector's competitiveness in particular in border areas.

3.9 Due to the importance of the on-trade segment in beer sales[16], taxation policy may also play a role as a growth enhancing measure for the on-trade and brewing sectors, with a positive impact for employment at local level.

International trade

3.10 In the face of adverse conditions the European beer industry continues to be resilient and competitive. Local brewers are still holding their own in markets beyond national and EU boundaries. Even if most of European beer production is traded within the EU Single Market, exports to different parts of the world have been steadily increasing since 2000, with a growth of 30% since 2007. The largest export destinations include the United States, Canada, Angola, China, Switzerland, Taiwan, Russia and Australia[17]. Moreover, Europe's brewers are also large investors on all continents and participate in various cooperation initiatives with local brewers and distributors.

3.11 However, the potential of European beer to maintain and expand its presence in third countries may be jeopardised by local regulations constituting a trade barrier that hampers beer exports and investments. Besides tariffs, those barriers may take the form of legislation related measures such as definition of the product (e.g. Russia) or fiscal administrative procedures (e.g. Albania, Turkey). The European Commission and Member States, in cooperation with the brewing sector, have a key role in tackling these and other difficulties that arise from time to time in foreign markets.

3.12 Whereas the European Union applies a zero Euro customs tariff for imports of beer in the respective trade agreements, several countries maintain customs duties as a means of discouraging competing imports from EU Member States. The ongoing negotiations on Free Trade Agreements also cover this aspect, and most recent agreements (e.g. EU-South Korea) foresee a progressive reduction of duties, a scheme that should be extended further.

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15 OJ C 69, 21.7.2006, p.10.

16 Ernst Young, "The Hospitality Sector in Europe", September 2013.

17 European Commission, DG Trade.

3.13 The prospective presence of European beer brands in foreign markets is also enhanced through promotion events, such as exhibitions and fairs, and consultation schemes provided by the European Commission in third countries. Brewers' participation in the respective activities on-site has been so far rather low due to limited awareness of potential gains and insufficient publicity.

4. Providing employment at all levels

4.1 The brewing sector goes beyond the beer production itself. It covers several activities beginning from the agricultural raw materials that lie at the very heart of the brewing process to the hospitality industry and the retail sector. Breweries in the European Union together provide more than 128 800 direct jobs. Moreover there are 2 million jobs that can be attributed to the production and sale of beer, representing about 1% of all jobs in the EU alone[18], in variable employment capacities.

4.2 The EU goals of a smart, sustainable and inclusive economy of the Europe 2020 growth strategy are reflected in the characteristics of the brewing sector. Brewers are present in all European countries, supporting over 2 million jobs due to high expenditure on goods and services and the significant turnover created in the hospitality and retail sector. Over 73% of jobs created by beer are in the hospitality area.

4.3 Since the hospitality sector also plays a fundamental role in securing jobs and growth, not only directly within associated enterprises, but indirectly for large parts of the European economy, measures for its development are essential for employment, especially among young and unskilled workers, without resorting to precarious jobs or the use of low pay.

4.4 Such a unique variety combines heritage, culture and modernity, offering various possibilities for using labour skills within the breweries and around them. Besides work provided in the supply and delivery chain, the potential for gastronomy experiences and tourism should be further developed to increase employment through brewers’ own activities, as well as EU and national funding schemes.

4.5 The brewing industry has felt the effects of the global economic situation with a decrease in direct employment of 9% between 2008 and 2010 due to reduced consumption of the product. Despite the decrease in consumption due to Europe's strained economic circumstances, the total number of breweries (including microbreweries) in Europe was higher in 2010 (3 638) than in 2008 (3 071 breweries), and it is in continuous development, thus offering further employment potential. This potential shouldn't be threatened by sales-restrictive or detrimental fiscal measures and should be further enhanced via Vocational Education Training and even at higher levels to generate higher quality jobs in the sector.

18 Ernst Young, September 2011.

5. Contributing to environmental sustainability goals

5.1 The European beer industry has to respond to various objectives related to energy efficiency, CO_2-emission reduction and resources use as part of its sustainability engagement. Investments made in recent years are leading to a reduced use of natural resources, producing less waste and consistently reusing secondary materials from the brewing process.

5.2 Brewers have shown commitment towards the environment by taking steps and investing thus resulting in reduced energy use and CO_2 emissions, reduced wastewater production and changes in packaging. The brewing sector has also developed guidelines for Best Available Techniques (BATs), which emphasise the role of sustainable management and which may serve as reference for commitments towards environmental objectives. The use of life-cycle assessments as a self-analysing tool should be encouraged to encompass the widest possible spectrum of the brewing industry, while taking into account limitations in this respect of small family brewers, due to capacity shortfalls.

5.3 Between 2008 and 2010 the brewing sector continued with its efforts in spite of a deteriorating business situation and results point towards a reduced water consumption of 4.5% and a reduced energy usage of 3.8% per hectolitre of beer produced. CO_2 emissions were also estimated to have been reduced by 7.1%[19].

5.4 Water quality and its use are important factors of the brewing process. Therefore proper water management by water suppliers and brewers is necessary to guarantee the sustainability of beer production. In this context, due precautions should be taken to ensure that shale-gas exploration does not contaminate the ground-water supply for consumers, including industrial users. Specifically in the brewing industry the EESC notes that Dutch and German brewers are already following developments in this area with deep concern.

5.5 There are several other valuable products (called secondary products) that are generated from brewing raw materials, as a result of the brewing process. They are much valued as inputs to other industrial processes or as materials for specific end uses, e.g. pharmaceuticals, health foods, renewable energy sources, industrial applications, animal feeds and agricultural products[20], cosmetics or spa products. These materials meet rigorous quality standards and comply with stringent food/animal feed safety and other legislation. The importance and value of these secondary materials has led breweries to create long-established supply arrangements with merchants and end-users.

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19 CampdenBRI / KWA, The Environmental Performance of the European Brewing Sector, May 2012.

20 Bamforth, C. (2009) "Contraception, Charcoal and Cows: The World of Brewery Co-Products" Brew. Guardian, *138(1), 24-27.*

6. Being a responsible actor in the community

6.1 Over the years, brewing companies and associations in all European countries have taken initiatives designed to raise awareness about responsible consumption, to increase consumer knowledge, to ensure responsible advertising and marketing, to deliver prevention messages, and to deter consumers from irresponsible behaviour. Several of those local initiatives have been undertaken in partnership and were also recognised as an important input to society by national authorities and taken up at the European level in the framework of the European Alcohol and Health Forum[21].

6.2 Building on these activities, governments, brewers, other economic operators and civil society groups should work together in campaigning to promote responsible beer consumption, which can be fully compatible with an adult's healthy lifestyle, and to discourage alcohol misuse.

6.3 Due to the local character of beer, European brewers are also well rooted in their local communities, supporting a wide range of activities. Over EUR 900 million is spent annually in the European Union by the brewing sector in supporting the community[22], through a wide breadth of activities supported at local and regional level.

6.4 There is a strong commitment from the industry and the broader stakeholders to support the implementation of corporate and institutional responsibility initiatives to address adverse effects of harmful consumption. This engagement should be recognised in a balanced framework concerning the marketing and commercial communications conducted by brewers[23].

6.5 Given the important role of beer in the fields of culture, heritage and consumption, an EU initiative should be considered to fund the organisation of specialised training for teachers and educators in schools at all levels, devoted to the health, social and cultural aspects of consumption of fermented beverages.

7. Maintaining a role in research, education and innovation

7.1 The role of education and research is an essential key for further maintaining the engagement of the sector. These are made through universities, brewing schools, food technology institutes and through other networks. The organisation of fora for knowledge exchange should be continued, in order to keep Europe as a leading centre for investigations developed by brewers, its partners, researchers and attracted individuals.

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21 The Brewers of Europe, European beer pledge: 1st year report, April 2013.

22 Sponsorship ideas, "Supporting local communities: Assessing the contribution of local brewers", May 2011.

23 OJ C 48, 21.2.2002, p. 130.

7.2 Research capacity and potential should be fostered, as brewers play an important role as an industrial partner in various fields related to food and brewing technologies, health aspects or environmental performance. Increased participation in the European Research Area, Horizon 2020 framework and other technological platforms would enhance existing potential[24].

7.3 Support to the efforts by the brewing sector to promote excellence according to the highest scientific standards regarding the characteristics of beer and the effects thereof on health and behaviour can also contribute to enhance information and education in this important area. Enhanced participation in EU funding and cooperation schemes could be considered by all active parties.

Brussels, 16 October 2013.

The President
of the
European Economic and Social Committee

Henri Malosse

24 OJ C 327, 12.11.2013, p.82.

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