



DIAGEO SUBMISSION

Government review of the Balance of Competences between the United Kingdom and the European Union: Free Movement of Goods

Background to Diageo

Diageo is the world's leading premium drinks business with an outstanding collection of beverage alcohol brands across spirits, beer and wine. These brands include Johnnie Walker, Crown Royal, J&B, Windsor, Buchanan's and Bushmills whiskies, Smirnoff, Ciroc and Ketel One vodkas, Baileys, Captain Morgan, Tanqueray and Guinness.

Our brands are sold in approximately 180 countries. We employ around 36,000 people around the world and have offices in 80 countries. We also have manufacturing facilities across the globe including the United Kingdom, Africa, Australia, Canada, the Caribbean, India, Ireland, Italy and Latin America.

Diageo is a FTSE 20 company listed on both the London Stock Exchange (DGE) and the New York Stock Exchange (DEO).

Questions in the review most relevant to Diageo include:

- 1. What do you see as the advantages and disadvantages of EU action on the free movement of goods? How might the national interest be served by action being taken in this field at a different level (for example, at the WTO), either in addition to or as an alternative to EU action?*
- 2. To what extent do you think EU action on the free movement of goods helps UK businesses?*
- 3. To what extent has EU action on the free movement of goods brought additional costs and /or benefits to you when trading with countries inside and outside the EU? To what extent has EU action on the free movement of goods brought additional costs and /or benefits to you as a consumer of goods?*
- 4. What types of EU action would be helpful or unhelpful for your activities as a business and/or as a consumer in the Internal Market?*
- 6. Do you think that the EU strikes the right balance between regulating imports and exports and facilitating international trade?*

Given the interlinked nature of the first four questions, this submission seeks to answer them together.



1. **What do you see as the advantages and disadvantages of EU action on the free movement of goods?**
2. **To what extent do you think EU action on the free movement of goods helps UK businesses?**
3. **To what extent has EU action on the free movement of goods brought additional costs and /or benefits to you when trading with countries inside and outside the EU?**
4. **What types of EU action would be helpful or unhelpful for your activities as a business and/or as a consumer in the Internal Market?**

The Single Market – Free Movement of Goods

The ability to move goods freely within a market of over 500 million consumers is a significant benefit to Diageo and one which will continue to grow with the accession of new member states. The EU represents approximately 20% of Diageo's global net sales and contains key markets for a number of our strategic brands.

The specific benefits of the internal market and free movement of goods to Diageo fall in to four areas:

Customs cooperation

The Single Market eliminates the need for Export Declarations and corresponding Import Declarations for intra-EU shipments, delivering direct cost savings as well as a more efficient supply chain. It reduces or eliminates charges by customs agents and costs associated with developing in-house resources - including training and IS investments - for linking ERP systems to custom authorities' systems.

Efficiency gains stem from shorter delivery lead times as well as less risk for interruption in the supply chain at the border. Any changes to this system, with its relatively efficient administrative procedures, would increase the burden on Diageo entities both in UK and in EU countries.

Within the Single Market there are no customs borders and therefore customs duties apply only to imports from non-EU countries. Currently EU import duty rates for goods produced by Diageo in the UK are zero. Diageo also benefits from significant savings from customs fees each year.

UK based production centres account for 36% of Diageo's total global production volume producing scotch and Irish whiskey as well as gin, vodka and ready to drink products. In addition, there are blending and bottling activities of rum as well as bottling and packaging of Guinness Draught at our sights in Belfast and Runcorn. As such, the free movement of goods and the elimination of customs duty on our products that this allows in many markets is a significant advantage for our business.



Competition

The EU helps to ensure a level playing field for our products, by drawing up market rules and enforcing them. We are thus able to influence the rules which enable us to compete fairly. And we can rely on Commission/European Court of Justice (ECJ) to enforce the rules if member states or organisations infringe them or fail to comply. This represents a significant benefit in that we do not have to mount legal challenges at our own expense. One recent example is that following complaints by spiritsEUROPE, a pan European alcohol industry trade association, a member state was referred to the ECJ for applying a zero rate of alcohol excise tax on certain domestic spirits, in contravention of Directive 92/83 which only allows it to apply a rate which is 50% below the standard rate of excise duty.

Common EU rules and standards

Common EU rules and standards provide advantages to our business within Europe, allowing economies of scale, and enabling us to launch new product lines and innovations in the knowledge that the same food and safety standards apply across the EU. Commonality on environmental standards makes them simpler to apply and more efficient to administer – in our existing business and when integrating new acquisitions. Legislation on climate change, waste, energy, packaging, labeling has in general had a positive impact. Common standards create a common playing field, and minimise duplication across markets.

Intellectual Property

The EU also helps protect our business equities and intellectual property. Geographical indicators are one example. We benefit from EU rules defining scotch whisky as a GI, which preserve the distinctiveness of scotch against competing whiskies from America and Japan for example. Although the success of our products is heavily reliant on the effectiveness of our branding and the unique recipes owned by the brand owner, the fact that GIs are able to be incorporated in free trade agreements protects our product and enhances its uniqueness around the globe.

Other broader advantages

More generally, the EU plays a key role in the development of global standards. Others watch to see what the EU does; and in multilateral fora its negotiating/policy-shaping power is significant. This is true on issues from tax, to climate change to alcohol policy. Diageo benefits from the UK's influence within the EU and this is an important additional influence on the broader international debates which affect our business. We benefit from the EU's participation in global debates in addition to that of the UK, in, for example, the G8, OECD, G20, and other top tables. On many issues, the EU is regarded as speaking with more authority than any individual nation. For example, the EU's membership as a single entity of the World Health Organisation (WHO) means that input from EU on consultations has real leverage. And as we seek to invest more in developing markets, the EU's role in helping shape their financial regulatory systems will be increasingly important.



Scope for Reform

EU-Decision Making

In our view there is scope for reform of the decision making process for EU legislation. Because of the need to take account not only of member states' views but those of the European Parliament (EP) it can be cumbersome. This applies not only to new law but changing existing ones, where the process can be lengthy. The quality of consultation with industry can also be variable, as is the use of impact assessments. The industry's engagement on the rules of compound terms is one such example.

Reform of the Commission

In our view, a slimmer and more joined-up Commission would improve its ability to prosecute the trade agenda. The political need to give a new Commission portfolio to every new member state militates against efficiency. In our experience, different Directorates-General have overlapping areas of responsibility and this reduces the Commission's ability to take a comprehensive view of issues affecting our industry.

6. Do you think that the EU strikes the right balance between regulating imports and exports and facilitating international trade?

In our view the EU does strike the correct balance between regulating imports and exports and facilitating international trade. The single market and the free movement of goods that it allows is a model of best practice for regional integration in promoting customs cooperation, producing and enforcing common standards, promoting competition but also protecting intellectual property. This benefits Diageo both as an exporter to the EU as well as local business in many European Markets.

The EU's competence for trade policy has also supported our business through reduced tariffs and other market access benefits we gain from the EU's network of trade agreements with a range of countries round the world.

Diageo also benefits from the influence of the EU in helping to resolve trade disputes through the World Trade Organisation. The Commission has been party to a number of recent cases which were successfully resolved, protecting significant value for our business.

We believe the Commission's negotiating power and ability to influence such cases is greater than that of any member state seeking to act in isolation. As more of Diageo's trading takes place in markets outside Europe and North America, the EU's additional influence to extend free trade and foster the conditions in which investment can be encouraged will become even more important, especially in the emerging markets where we and other consumer goods companies tend to face more significant market access issues.