



## DIAGEO SUBMISSION

### Government review of the Balance of Competences between the United Kingdom and the European Union: Trade and Investment

#### **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 are the advantages and disadvantages of the EU's competence over trade and investment, particularly in relation to international trade and investment negotiations?*
2. *What are the advantages and disadvantages of having trade and investment promotion largely at the national level? How well has this delivered on UK objectives?*
3. *How well are UK objectives met and interests taken into account through a) EU trade defence investigations, and b) the EU representing the UK in trade defence cases against the EU and more generally in trade disputes with other WTO members?*
4. *What future challenges/opportunities might we face on trade and investment policy and what impact might these have on the UK national interest?*



**1. What are the advantages and disadvantages of the EU's competence over trade and investment, particularly in relation to international trade and investment negotiations?**

The main advantages to Diageo from the EU's trade competence include the reduction in tariffs and other market access improvements we gain from the EU's network of trade agreements with a range of countries round the world. In addition, we are able to resolve market issues that arise in key markets through the bilateral dialogue the EU has with the vast majority of countries in the world.

In the absence of the completion of the Doha Round, the bilateral trade agreements already in force or subject to negotiation between the EU and third countries are, and will continue to be, the most important mechanism to tackle barriers to trade and improve market access for our products. The fact that the EU, comprising the world's largest trading bloc, negotiates on behalf of the UK is a big advantage, which no individual state could hope to replicate – even assuming third countries wished to conclude such individual trade agreements.

Diageo currently benefits from a number of these free trade agreements with estimated savings in the region of tens of millions of pounds. We estimate significant projected additional benefits from future agreements in particular the EU-Colombia/Peru FTA and the EU-India FTA. The latter could have a transformative effect on Scotch whisky exports.

Diageo also benefits from the influence of the EU in helping to resolve trade disputes through the World Trade Organisation. The Commission has successfully brought four dispute settlement cases challenging excise tax practices that discriminated against Scotch whisky 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 seek to act in isolation. As Diageo's business grows in markets outside Europe and North America, this influence will become even more important, especially in the emerging markets where we tend to face more significant market access issues.

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.

Our broadly positive assessment of the value of the EU's role in trade policy is dependent to a large extent on the fact that the UK is able to influence that policy within the EU. Diageo would be concerned by any risk to the UK's ability to exercise that influence over EU trade



policy in support of UK exports as well as jobs and growth in Europe more generally. The UK has historically played, and continues to play, an important role in advocating a generally liberal and business-friendly approach and a strong commitment to free trade. If the UK's voice were weaker, or absent, other major EU Member States that take a significantly less liberal approach to trade will direct EU trade policy, likely to the detriment of UK exports.

#### *Scope for improvement*

##### *1. Extra resources in support of the trade agenda*

Absent the successful conclusion of an ambitious Doha round, EU bilateral trade agreements will be crucial in creating export-led growth now and they will influence the future shape and direction of the global trading system.

As such, we believe the Commission should devote more resources to the trade agenda to ensure it has the capacity to negotiate and enforce its trade agreements, as well as manage the increasing complexity of the international trading system. This could be achieved by redeploying resources from areas which have a less immediate impact on the economic growth and prosperity of its citizens. We understand that the Commission is resourced to take on a maximum of two offensive trade dispute cases per year, which suggests that while the EU is negotiating agreements with a range of third countries, there may be insufficient resources to enforce them once in place. Integrating the EEAS and the rest of the Commission services more fully would also increase the Commission's impact overseas and improve further the support it can offer business.

##### *2. Reform of the Commission to support the trade agenda.*

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. Directorates-General with overlapping areas of responsibility reduces the Commission's ability to take a comprehensive view of issues affecting our industry. For example, the EU-India FTA is a top priority for Diageo in an area that is a competence of the EU, but we have to deal with three DGs (Trade, Agriculture and Enterprise) as well as the European Parliament.

##### *3. EU administrative and decision making processes*

More generally, because of the need to take account not only of member states' views but those of the European Parliament (EP) the decision making process for EU legislation tends to be cumbersome. This is particularly relevant to legislation in the single market but also applies to *the ratification process for trade agreements*. The ratification of the EU-Colombia/Peru FTA was slow, and subject to delay by the EP. As the EU increasingly looks to create the conditions to generate jobs and growth, having a clear, efficient and swift architecture will be even more important. This includes expediting administrative processes like translation and legal scrubs which can slow the ratification process further.

**2. What are the advantages and disadvantages of having trade and investment promotion largely at the national level? How well has this delivered on UK objectives?**

Diageo believes having trade and investment promotion largely at a national level is appropriate and helps deliver on UK objectives. This is in no way incompatible with competence for trade policy sitting at an EU level.

National governments are best placed to understand and prioritise the individual companies, sectors or industries that are of most importance to their respective economies and provide direct support for their import and export activities.

Scotch whisky alone contributes over £135 a second to the UK's balance of trade. Diageo and the industry more generally receives excellent support from UKTI in trade promotion through participation in high level trade delegations, through support from UK missions overseas and a range of other services, while at the same time benefiting from support from the Trade Policy Unit at the Department for Business as it seeks to represent our (and ultimately the UK's interests) in trade policy negotiations at an EU level.

EU competence for trade policy magnifies the UK's influence into a trading block large enough to deliver the big value market access wins and ultimately creates a level playing field for European companies seeking to trade internationally. Trade promotion - led nationally - helps British companies to try and exploit those opportunities better than other member states, and "win" in the global race.

**3. How well are UK objectives met and interests taken into account through a) EU trade defence investigations, and b) the EU representing the UK in trade defence cases against the EU and more generally in trade disputes with other WTO members?**

Diageo has no direct experience in any trade defence investigation (anti-dumping), and therefore cannot comment on this point specifically. However, as highlighted above, we believe the EU is effective in supporting the UK in trade disputes with WTO members.

Diageo benefits from the ability to leverage the influence of the EU to help resolve trade disputes through the World Trade Organisations. 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 the UK Government seeking to act in isolation. As more of Diageo's trading takes place in markets outside Europe and North America, this influence will become even more important, especially in the emerging markets where we tend to face more significant market access issues

**4. What future challenges/opportunities might we face on trade and investment policy and what impact might these have on the UK national interest?**

The inability of WTO members to conclude an ambitious multilateral trade deal has led to the proliferation of a range of bilateral and regional agreements negotiated by the EU and United States with third countries. Whilst Diageo fully supports and benefits from trade liberalisation achieved by such deals, there is concern that they may bring about a multi-speed trade world which will diminish the relevance of the WTO, founded on a common set of trade rules that apply equally to all WTO members.

To comply with WTO obligations, FTAs must cover “substantially all trade” and must not result in non-FTA partners being accorded less-favourable treatment as a result of the FTA. Despite this, as countries continue to enter into trade agreements there is a risk that the trading world is becoming fragmented with some agreements going further or adopting different rules than others. Indeed, the European Union and the United States have essentially developed independent and in some ways competing “template” FTAs, which increase the burden of compliance for companies that want to take advantage of the preferential tariff rates. Accordingly, we are optimistic that the Trans-Atlantic Trade and Investment Partnership (TTIP) will lead to the development of “next generation” trade rules.

In this context it is essential that the EU develops a comprehensive EU trade policy machinery to ensure the successful completion of comprehensive and high quality FTAs, bring greater convergence in the trade rules to reduce the increasing complexity of compliance, and have the institutional capacity to support the enforcement of existing and new trade deals. The UK must continue to play a lead role in influencing and shaping these discussions via on-going engagement with EU institutions.