Additional independent expert report
containing an economic analysis of the Irish Draft Regulations under the PHAA 2018
as to whether they are capable of hindering trade within the EU single market

The Drinks Ireland/Ibec's contribution of 18 August 2022 regarding the Irish Draft Regulations under the PHAA 2018 ("the draft Regulations") as notified under the TRIS Directive and FIC Regulation (2022/441/IRL) contained an independent expert report by Frontier Economics in relation to the potential costs that could result from the provisions of draft regulations made under Section 12 of the Public Health (Alcohol) Act 2018 (entitled 'Assessment of the cost of impact of the draft Regulations under Section 12 of the Public Health (Alcohol) Act 2018', dated 9 August 2022 and submitted as Annex 1). Ibec hereby submits the follow-up report prepared by the same expert organization (Frontier Economics) and entitled 'Assessment of the impact of the draft Regulations under Section 12 of the Public Health (Alcohol) Act 2018 on hindering trade within the single EU market' (dated 9 September 2022).

This report confirms that the draft Regulations are likely to impose additional costs for producers and distributors and that the additional costs could potentially hinder trade by reducing exports to and from Ireland, and could lead to a decrease in exports from non-Irish firms to Ireland.

The report is based on interviews with alcohol producers and distributors conducted before the publication of the draft Regulations, follow-up interviews with alcohol producers and distributors conducted after the publication of the draft Regulations, and a survey of alcohol producers and distributors based in Ireland and other EU countries conducted after the publication of the draft Regulations.

14th September 2022

ASSESSMENT OF THE IMPACT OF THE DRAFT REGULATIONS UNDER SECTION 12 OF THE PUBLIC HEALTH (ALCOHOL) ACT 2018 ON HINDERING TRADE WITHIN THE SINGLE EU MARKET

Instructing client: Drinks Ireland

09 SEPTEMBER 2022

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Executive summary

Frontier Economics has been asked to provide an independent economic analysis of the potential effects of the provisions of draft Regulations[1] under Section 12 of the Public Health (Alcohol) Act 2018 ("the Act") [2], (hereafter referred to as "the draft Regulations"). The draft Regulations require that a label is applied to alcohol products sold in Ireland containing:

- a health warning stating that *"Drinking alcohol causes liver disease"*; and that *"There is a direct link between alcohol and fatal cancers"*;
- a symbol that warns people about the danger of alcohol consumption when pregnant;
- the quantity of grams of alcohol contained in the product;
- the number of calories contained in the alcohol product; and
- a link to a website (www.askaboutalcohol.ie) which gives information about alcohol and how it can affect health and wellbeing.

Frontier has prepared an initial economic assessment of whether the draft Regulations could impact the cost of producing alcohol products for sale in Ireland, which was submitted to the European Commission on 18/08/2022 ("Frontier's first report").

Building on the key findings of Frontier's first report, this report provides an assessment of whether the draft Regulations are capable of hindering trade within the single market.

Our findings are based on:

- nine interviews with alcohol producers and distributors conducted before the publication of the draft Regulations, which also informed the findings of Frontier's first report;
- further follow-up interviews with four alcohol producers and distributors conducted after the publication of the draft Regulations; and
- a survey of alcohol producers and distributors based in Ireland and other EU countries. The survey received 33 answers.

Two key questions form the basis of our framework for assessment.

- Are the draft Regulations likely to impose additional costs?

[1] In order to enact the draft Regulations, Ireland is required to notify them to the European Commission (EC), as the regulations may deviate from standardised EU requirements, specifically Article 34 of the Treaty on the Functioning of the European Union (TFEU). The draft Regulations have recently been notified to the EC and are now published on the EC's Technical Regulation Information System (TRIS) database. The draft Regulations have also been submitted under the Food Information to Consumers (FIC) Regulation. The draft Regulations, as published, are intended to implement the provisions of Section 12 of the Act.

[2] https://data.oireachtas.ie/ie/oireachtas/act/2018/24/eng/enacted/a2418.pdf

- If so, to what extent could the additional costs hinder trade?

We summarise below our findings.

Evidence collected suggests that the draft Regulations are likely to impose additional costs for producers and distributors

The evidence collected suggests that the draft Regulations are likely to result in additional costs. In particular the evidence suggests that costs are likely to be imposed for producers who are likely to be responsible for producing the Irish-specific label, and are therefore likely to incur the additional fixed and variable costs related to the labelling process, as well as the potential additional stock-holding costs.

However, the parties interviewed also stated that distributors are likely to face some additional costs, mainly related to additional stock holding costs or costs associated with re-labelling (e.g. if foreign producers are unwilling to produce an Irish-compliant label).

The additional costs are likely to include both:

- **direct tangible costs**, including:
  - fixed costs associated with designing a compliant Irish specific label for each product line;
  - variable costs associated with an increased cost per label; and
  - stock holding costs associated with an increase in the number of SKUs.
- **intangible costs**, such as:
  - potential brand damage (associated with the risk of adverse brand reputation costs resulting from the draft Regulations if the labelling requirements provide incomplete information, information that could easily be misinterpreted, or if the draft Regulations will hinder consumer behaviour beyond the objectives of the regulations).

There is still significant uncertainty around the magnitude of the potential cost impact. However, survey results provide an initial estimate of the potential magnitude of both the fixed and variable costs increase. For example:

- survey respondents estimated a median increase of fixed labelling costs of 30% for beer and 25% for spirits (this corresponds to a median increase of € 92,500 for beers and € 20,000 for spirits); and
- respondents also estimated a median 20% increase in variable labelling costs for both beer and spirits (this corresponds to a median increase of €0.04 per bottle for beers and €0.75 per bottle for spirits).

The parties interviewed suggested that the additional costs could potentially hinder trade by reducing exports to and from Ireland

The evidence collected suggests that the draft Regulations could lead to a **decrease in exports from some non-Irish firms to Ireland.** The parties interviewed stated that generally some of these firms have a low cost of diversion, therefore it is easy for them to switch supply to another country. In particular there may be a decrease in exports for the following types of products.

- **Low volume product lines:** Distributors outlined that lower volume product lines have less scale to spread the additional fixed costs over, and additional variable costs per unit increase as volumes decrease. As a result, the parties outlined that exports of low volume product lines could reduce. This could be particularly relevant for new product lines, limited edition product lines and craft products that are often associated with low volumes.

- **Premium product lines:** Distributors outlined that non-Irish premium product producers are likely to not want their products to be associated with cancer warnings. This is due to concerns about this association negatively impacting their brand, and hence reducing sales in other countries. As a result, the parties outlined that exports of premium product lines could reduce.

In addition, some of the **Irish based producers interviewed outlined their concerns about the likely impact of the draft Regulations on their ability to export to other countries.** In particular, parties that currently do not export, or export small quantities, outlined that the additional costs imposed by the draft Regulations could be a barrier to them starting or expanding their export quantities.

1 Introduction

Frontier Economics has been asked to provide an independent economic analysis of the potential effects of the provisions of draft Regulations under Section 12 of the Public Health (Alcohol) Act 2018 ("the Act") [3], (hereafter referred to as "the draft Regulations"). The draft Regulations require that a label is applied to alcohol products sold in Ireland containing:

- a health warning stating that *"Drinking alcohol causes liver disease"*; and that *"There is a direct link between alcohol and fatal cancers"*;
- a symbol that warns people about the danger of alcohol consumption when pregnant;
- the quantity of grams of alcohol contained in the product;
- the number of calories contained in the alcohol product; and
- a link to a website (www.askaboutalcohol.ie) which gives information about alcohol and how it can affect health and wellbeing.

In order to enact the draft Regulations, Ireland is required to notify them to the European Commission (EC), as the regulations may deviate from standardised EU requirements, specifically Article 34 of the Treaty on the Functioning of the European Union (TFEU). The draft Regulations were notified to the EC on 21/06/2022 and are now published on the EC's Technical Regulation Information System (TRIS) database. The draft Regulations have also been submitted under the Food Information to Consumers (FIC) Regulation. The draft Regulations, as published,. are intended to implement the provisions of Section 12 of the Act.

Starting from the draft's date of notification, a three-month standstill period comes into place. During this time the draft Regulations cannot be adopted. This enables parties to provide comments on the draft Regulations and the extent to which they might create barriers to the free movement of goods within the EU single market.

Frontier has prepared an initial economic assessment of whether the draft Regulations are likely to materially impact the cost of producing alcohol products for sale in Ireland, which was submitted to the European Commission on 18/08/2022 ("Frontier's first report").

Building on the key findings of Frontier's first report, this report assesses whether the draft Regulations are **capable of hindering trade** within the single market.

Our assessment is informed by interviews with parties in the alcohol sector (conducted both before and after the publication of the draft Regulations) and by a survey of alcohol producers and distributors based in Ireland and in the rest of the EU.

The remainder of this report is structured as follows.

- Section 2 provides a short summary of the main provisions under Section 12 of the Public Health (Alcohol Act);

[3] https://data.oireachtas.ie/ie/oireachtas/act/2018/24/eng/enacted/a2418.pdf

- Section 3 summarises the research methodology for this report;
- Section 4 outlines our assessment approach;
- Section 5 assesses the evidence on whether the draft Regulations are likely to impose additional costs;
- Section 6 assesses the evidence of whether those potential costs are likely to be capable of hindering trade; and
- Section 7 concludes.

2 Summary of the draft regulations for alcohol labelling

The draft Regulations notified on the TRIS database[4] provide details of how Section 12 of the Act will be enacted. In particular, Part 2 of the draft Regulations provides information about the label that must be applied to alcohol containers. The label must contain:

- a health warning stating that *"Drinking alcohol causes liver disease"*; and that *"There is a direct link between alcohol and fatal cancers"*;
- a symbol that warns people about the danger of alcohol consumption when pregnant;
- the quantity of grams of alcohol contained in the product;
- the number of calories contained in the alcohol product; and
- a link to a website (www.askaboutalcohol.ie) which gives information about alcohol and how it can affect health and wellbeing.

Part 2 of the draft Regulations also provides the exact wording for the warning label described above and prescribes specific instructions on the proportion, dimension and style characteristics for each of these requirements. We report these details in Annex A.

[4] https://ec.europa.eu/growth/tools-databases/tris/en/search/?trisaction=search.detail&year=2022&num=441

3 Overview of research methodology

Prior to the draft Regulations being published, we conducted nine interviews with alcohol producers and distributors. This was to gain a preliminary understanding of the draft Regulations' potential impacts on the supply chain and costs. These interviews informed the findings of Frontier's first report.

The published draft Regulations provided further information on the exact details of the labelling requirements, including details on its size and the exact wording of the health warning. As these details were not known at the time of the first interviews, we conducted follow-up interviews with four of the nine alcohol producers and distributors that were previously interviewed.

The follow-up interviews focused on probing whether the views expressed in the first round of interviews were still valid and allowed interviewees to provide more details of the potential impact of the draft Regulations on their businesses.

An overview of the parties interviewed is outlined in Table 1.

Table 1 Firms interviewed (first and second round)

SUPPLY CHAIN SEGMENT	PRODUCT	INTERVIEWEE POSITION	PREMIUM /HIGH VOLUME/CRAFT	FOLLOW UP INTERVIEW CONDUCTED (YES/NO)
Distributor	Spirits, Wine, Beer	Commercial Director	Premium and high volume	Yes
Distributor	Beer	Founder	Craft	No
Distributor	Spirts, Wine	Marketing and Supply Chain Managers	Premium	No
Domestic and EU production	Beer	Supply Chain Director	High volume	Yes
Domestic and EU production	Beer	Ireland Marketing Manager	High volume	No
Domestic production	Spirits	Managing Director	Premium	Yes
Domestic production	Spirits	Managing Director and Founder	Premium	No
Domestic production	Beer	Global Sales Manager	Craft	No
Domestic production	Beer	CEO	Craft	Yes

Source: Frontier Economics

In parallel with the second set of interviews, a survey was circulated to producers and distributors based in Ireland and other EU countries. The survey's aim was to collect more systematic evidence on the additional costs that the draft Regulation may impose.

The survey received 33 responses. An overview of respondents' characteristics is provided in Table 2 below.

Table 2 Overview of survey respondents

	RESPONDENTS' CHARACTERISTICS	NUMBER OF ANSWERS
Location of producer / distributor		
	Ireland	25
	EU (excl. Ireland)	8
Segment of value chain		
	Production	27
	Distribution	4
	Production and Distribution	2
Product sold*	Spirits	24
	Beer	10
	Wine	3
	Other	4
Market segment		
	Premium	19
	Craft	10
	High Volume	4

Source: Frontier Economics

*Note: *More than one answer was possible for the question on products sold.*

4 Assessment approach

This section sets out our framework for assessing whether the draft Regulations are likely to be capable of hindering trade within the single market.

Our assessment framework is based on two questions.

- Are the draft Regulations likely to impose additional costs?
- If so, to what extent could the additional costs be likely to hinder trade?

We provide more detail in the following sections.

4.1 Are the draft Regulations likely to impose additional costs?

First, to assess if the draft Regulations are capable of hindering trade, we assess the extent to which the draft Regulations are likely to impose additional costs. This was the focus of Frontier's first report, which used the three step process detailed below. The present report complements this assessment with updated evidence from the second round of interviews and the survey.

- **Step 1: Are the draft Regulations likely to impose additional costs?**

  We consider how parties expect to comply with the draft Regulations, if they expect the draft Regulations are likely to impose additional costs on the supply chain and what type of costs are likely to be imposed.

- **Step 2: Who in the supply chain is likely to incur the additional costs?**

  After establishing if the draft Regulations are likely to impose additional costs on the supply chain, we assess who in the supply chain is most likely to be subject to the additional costs.

- **Step 3: What is the potential magnitude of the additional costs that may be imposed?**

  After establishing the types of additional costs that will be imposed by the draft Regulations, we consider evidence from industry participants on the potential size of additional costs.

The key findings of Frontier's first report are summarised in Section 5, alongside the additional evidence collected from the new round of interviews and the survey.

4.2 To what extent could the additional costs be likely to hinder trade?

After establishing the extent to which the draft Regulations are likely to impose additional costs, we then explore if they could be likely to hinder trade. This assessment is a three step process.

- **Step 1: How could the draft Regulations hinder trade?**

  We set out the mechanisms by which the draft Regulations could hinder trade, that is, by decreasing exports to Ireland and/or reducing exports from Ireland.

- **Step 2: Is it likely that exporters will face additional costs and could these additional costs be material enough the hinder trade?**

  We outline the additional costs that exporters are likely to incur (identified by the parties interviewed and the survey respondents), and explore the likely materiality of those costs based on the information gathered to date.

- **Step 3: What impact could the draft Regulations have on the Irish alcohol sector and consumers in Ireland?**

  We explore the potential impact that the draft Regulations are likely to have on the Irish alcohol sector and consumers in Ireland.

The findings of this assessment are presented in Section 6.

5 Are the draft Regulations likely to impose additional costs?

This section assesses the extent to which the draft Regulations are likely to impose additional costs. We consider the following questions.

1 Are the draft Regulations likely to impose additional costs?

2 Who in the supply chain is likely to incur the additional costs?

3 What is the potential magnitude of the additional costs that are likely to be imposed?

The evidence collected to assess if the draft Regulations are likely to impose additional costs is presented in Table 3. This is based on the two interview rounds and the survey of alcohol producers and distributors. Evidence from the second round of interviews and the survey confirmed to a large extent the initial views expressed by the parties in the first interview round. We therefore refer to Frontier's first report for a more comprehensive overview of the additional costs that might be imposed by the draft Regulations.

Table 3 Additional costs that may be imposed by the draft Regulations

ASSESSMENT STEP	EVIDENCE FROM FIRST AND SECOND INTERVIEW ROUNDS	EVIDENCE FROM SURVEY
1. Are the draft Regulations likely to impose additional costs?	**All parties expect to develop an Irish-specific label to comply with the draft Regulations**. This is likely to impose the following additional costs: ▪ **Fixed costs** to re-design an Irish-specific label. ▪ **Variable costs** associated with an increased cost per label due to lower scale economies. ▪ **Stock holding costs** associated with an increase in the number of SKUs. ▪ Some interviewees also highlighted that they may incur **intangible costs associated with potential brand damage.**	At this stage, a number of respondents were not able to assess whether the draft Regulations are likely to impose additional costs. However, the majority of those who responded consider that an increase in costs is likely[a]. In particular: ▪ **24 respondents** expect an increase in **fixed costs.** ▪ **22 respondents** expect an increase in **variable costs**. **2 respondents** do not expect variable costs to increase. ▪ **21 respondents** expect an increase in **stock holding costs**. **3 respondents** do not expect stock holding costs to increase. ▪ **18 respondents** expect they might incur **intangible costs** associated with brand damage. These are all producers and distributors of premium and craft products. **6 respondents** do not expect this to be an issue. ▪ **All eight respondents based**

ASSESSMENT STEP	EVIDENCE FROM FIRST AND SECOND INTERVIEW ROUNDS	EVIDENCE FROM SURVEY
		outside of Ireland expect an increase in either fixed, variable or stock holding costs.
2. **Who in the supply chain is likely to incur the additional costs?**	The majority of interviewees consider that the **compliance burden is likely to fall primarily on producers** (who are responsible for labelling). However, the parties also stated that **distributors are likely to face some additional costs**, mainly related to **additional stock holding costs or costs associated with re-labelling** (e.g. if foreign producers are unwilling to produce an Irish-compliant label).	▪ **5 out of the 8 respondents based outside of Ireland stated that they will develop an Irish-specific label for Ireland**. 1 respondent stated that they won't be doing so, while 2 were still considering their options. If non-Irish producers are unwilling to develop an Irish-specific label, compliance costs might be shifted to Irish distributors. ▪ **13 respondents stated that they will pass-on (either in part or in full) any additional costs to their consumers**. 7 respondents stated that they will absorb additional costs in their margins, while 13 respondents were still considering their options.
3. **What is the potential magnitude of the additional costs that are likely to be imposed?**	Even after the publication of the draft Regulations, there is still significant uncertainty around the potential magnitude of the additional costs. ▪ Fixed costs increases are likely to range from **a few thousand euro to hundreds of thousands of euro**, depending on the number of SKUs. ▪ Variable cost increases are likely to range from **€0.03** to **€0.50** per unit, depending on the company and the product line. The parties outlined that the variable cost increase is likely to be more substantial for smaller volume product lines.	Significant uncertainty around the potential magnitude of the additional costs emerged also from the survey. Many respondents did not provide a response to this question. ▪ 8 respondents were able to quantify the expected increase in fixed costs for beers, while 14 quantified the expected additional fixed costs for spirits. ▪ Respondents estimated **a median increase of labelling fixed costs of 30% for beer and 25% for spirits**. This corresponds to a median increase of **€ 92,500 for beers and € 20,000 for spirits**. ▪ 6 respondents were able to quantify the expected increase in variable labelling cost for beers, while 10 quantified the expected additional labelling costs for spirits. ▪ Respondents estimated a similar

ASSESSMENT STEP	EVIDENCE FROM FIRST AND SECOND INTERVIEW ROUNDS	EVIDENCE FROM SURVEY
		increase in variable labelling costs for both beer and spirits (**ca. 20% increase**). This corresponds to a median increase of **€0.04 per bottle for beers and €0.75 for spirits**.

Source: Frontier Economics

Notes: [a] 24 respondents out of 33 answered to questions on the types of additional costs they expect to bear as a result of the draft Regulations.

Therefore, in line with the preliminary findings outlined in Frontier's first report, the additional evidence suggests four main findings.

- **The draft Regulations could potentially increase fixed and variable costs**. Significant uncertainty remains around the actual magnitude of the potential cost increase. The majority of survey respondents did not provide a quantification at this stage, as reported in Table 3 above. Respondents who did provide a quantification estimated:
  - a median increase of fixed labelling costs of 30% for beer and 25% for spirits (this corresponds to a median increase of € 92,500 for beers and € 20,000 for spirits); and
  - a median 20% increase in variable labelling costs for both beer and spirits (this corresponds to a median increase of €0.04 per bottle for beers and €0.75 per bottle for spirits).
- **The variable labelling cost increase could potentially be more substantial for lower volume product lines**. All producers stated that they expect the cost increase per unit to be higher for lower volume product lines. The interviewees have explained that this is due to the pricing structure of labels and pre-printed bottles/cans. The parties explained that companies producing labels and pre-printed bottles/cans apply steep discounts that increase as volumes ordered increase. Therefore, by requiring a different label for Ireland and the rest of the EU, they may be unable to reach the minimum quantity to avail of such discounts, and hence costs would increase by more for lower volume products.
- The evidence suggests that the draft Regulations are likely to result in an increase in the number of SKUs as a result of the need for separate labels for Ireland vs. rest of the EU. Ultimately, **this is likely to result in higher inventory levels and thus higher stock holding costs for both producers and distributors**.
- **The evidence suggests that the draft Regulations' main impact could be on other intangible costs (not just fixed and variable costs) that are difficult to quantify**. The parties stated that intangible costs such as brand reputation could have the potential to be the most substantial (*"it is a lot about intangible costs and complexity"*[5]). The interviewees noted that these costs could potentially be substantial enough to cause some companies to reduce or cease their exports to Ireland.

[5] Manging Director of a domestic spirit producer.

6 To what extent could the additional costs potentially hinder trade?

After establishing the extent to which the draft Regulations are likely to impose additional costs (Section 5), this Section now assesses if such cost increases could likely hinder trade. We complete this assessment in a three step process.

- Step 1: how could the draft Regulations hinder trade?
- Step 2: is it likely that exporters will face additional costs and are these costs likely to be material enough to hinder trade?
- Step 3: what impact could the draft Regulations have on the Irish alcohol sector and consumers in Ireland?

6.1 Step 1: how could the draft Regulations hinder trade?

As introduced in Section 4, we consider the following ways in which the draft Regulations would likely have the ability to hinder trade.

- **Decreased exports to Ireland:** We assess if the additional costs that are likely to be imposed by the draft Regulations could make it difficult for firms not based in Ireland to export to Ireland to sell to Irish consumers. This could happen if the draft Regulations raise the price of exports relative to the price of goods produced in Ireland and/or increase barriers to entry into Ireland.
- **Reduced exports from Ireland:** The draft Regulations will effectively introduce mandatory requirements in Ireland that are not present in the markets to which Irish firms export. Therefore we assess if the additional costs that are likely to be imposed by the draft Regulations are likely to make it more costly for firms based in Ireland to export their products to other countries.

6.2 Step 2: is it likely that exporters will face additional costs and are these costs likely to be material enough to hinder trade?

As explained in more detail in Section 5, evidence from the interviews and the survey suggests that the draft Regulations are likely to impose additional costs. In particular:

- label design costs;
- increased costs per label;
- stock holding costs; and
- brand reputation costs.

These costs cover both additional fixed and variable costs and the parties outlined that they are most concerned about the likely increase in variable costs.

The parties interviewed outlined that these costs could be material enough to hinder trade through reduced exports.

The parties interviewed outlined that in particular, low-volume producers are likely to find it harder to bear the additional costs for producing an Irish-compliant label. This is because companies producing labels and pre-printed bottles/cans usually apply steep discounts that increase as order volumes increase. As such, the variable cost increase is likely to be more substantial for smaller volume product lines. Lower volume product lines also have less scale to spread the additional fixed costs over. Therefore, low-volume Irish producers might find it more profitable to supply exclusively the Irish market, thus avoiding the additional costs of producing multiple labels. Similarly, low-volume non-Irish producers might no longer find it economically viable to supply the Irish market, unless a critical sales volume can be achieved in the Irish market (for example by imposing minimum order quantities to Irish distributors).

However, we note that the available data did not allow us to conduct an empirical assessment of the magnitude of any impact that such additional costs could have on exports to and from Ireland.

6.3 Step 3: what impact could the draft Regulations have on the Irish alcohol sector and consumers in Ireland?

The evidence collected suggests that the draft Regulations could decrease exports from other EU countries to Ireland, and potentially also limit exports from Irish firms to other EU countries.

- **Decreased exports from non-Irish firms to Ireland:** All distributors interviewed stated that non-Irish firms may stop exporting certain alcohol products to Ireland as a result of the additional costs they would likely incur to comply with the draft Regulations. Irish distributors are also not necessarily ready to cover additional costs for non-Irish producers to encourage them to operate in the Irish market. For example, one distributor stated that they will add new brands to their imported-product portfolio only if producers will commit to supply the product with an Irish-compliant label (i.e. they are not willing to bear the compliance burden in place of non-Irish producers).

  The parties interviewed outlined that the following product categories are likely to be impacted the most.

  - **Low volume product lines**: The parties interviewed suggested that low volume product lines could be particularly affected. The parties interviewed outlined that the need for an Irish-specific label is also likely to result in higher inventory levels and hence higher stock holding costs for both producers and distributors. Similarly to fixed costs, this is likely to have more of an impact on smaller firms with low volume product lines, or low volume product lines of larger firms, as there is less volume to spread costs over.

  - **New product lines:** The parties interviewed stated that the draft Regulations are likely to lead to non-Irish producers choosing to not introduce **new product lines** in Ireland. The interviewees noted that firms typically produce lower volumes (with an associated higher labelling cost compared to higher volume product lines) for new product lines compared to more mature product lines. As an Irish-specific label is likely to be needed to comply with the draft Regulations, producers may have to choose between supplying new product lines in Ireland or other countries.

- **Premium product lines**: The parties interviewed outlined that producers of premium products are unlikely to want their brand to be associated with cancer warnings. Distributors outlined that producers of premium products are likely to be concerned that this association could negatively impact their brand reputation in other countries, in particular if stocked alongside products without similar warnings in other countries. Therefore it is likely that they could stop supplying premium products to Ireland if the draft Regulations were to be commenced.

The parties interviewed suggested that Ireland is not the core market for most non-Irish firms. In addition firms currently use an EU-wide label for each product line. As a result, non-Irish export firms have a low cost of diversion, meaning that it is likely to be relatively easy for them to switch their supply to another country in the EU as a result of the draft Regulations.

- **Reduced exports from Irish firms to other countries**
  - Irish producers interviewed stated they are concerned about the likely impact of the draft Regulations on their ability to export to other countries. One Irish producer explained that due to scale economies, the regulations might increase the production costs for foreign markets relatively more than production costs for the domestic market. This is because they are currently selling higher volumes domestically. As they can apply an EU-wide label, they currently benefit from volume discounts on the labelling of all their products, regardless of whether these are sold domestically or abroad. However, if an Irish specific label will be required, volumes sold in continental Europe alone will no longer be sufficiently large to benefit from volume discounts, which will still be granted on domestic production.
  - Similarly, parties that currently do not export outlined that the draft Regulations are likely to be a barrier to them starting to export. Absent the draft Regulations these parties could use the same label for products sold in Ireland and products sold in other EU countries. However if the draft Regulations commence, it is likely that they would have to produce a separate label for other countries. The parties outlined that the additional cost and complexity of this could be a barrier to them commencing exporting, particularly for low volume producers.

7 Conclusion

This report provides an initial assessment of whether the draft Regulations are likely to be capable of hindering trade within the single market.

Two key questions form the basis of our framework for assessment.

- Are the draft Regulations likely to impose additional costs?
- If so, to what extent could the additional costs hinder trade?

Our findings are based on:

- nine interviews with alcohol producers and distributors conducted before the publication of the draft Regulations. These informed the findings of Frontier's first report, which evaluated whether the draft Regulations are likely to materially impact the cost of producing alcohol products for sale in Ireland;
- further follow-up interviews with four alcohol producers and distributors conducted after the publication of the draft Regulations; and
- a survey of alcohol producers and distributors based in Ireland and other EU countries. The survey received 33 answers.

We note a more fulsome assessment would likely require a larger and more granular dataset. This would allow analysis to uncover more precisely any differences in the impacts that the draft Regulations might have on different business and product lines. However, such dataset is not readily available and it was not possible to collect similar data within the three months standstill period.

We summarise our key findings in the sections below.

7.1 Evidence collected suggests that the draft Regulations are likely to impose additional costs for producers and distributors

The evidence collected through interviews and the survey suggests that the draft Regulations are likely to result in additional costs, in particular for producers, who are likely to be responsible for producing the Irish-specific label and are therefore likely to incur in the additional fixed and variable costs related to the labelling process, as well as the potential additional stock-holding costs.

However, the parties interviewed also stated that distributors are likely to face some additional costs, mainly related to additional stock holding costs or costs associated to re-labelling (e.g. if foreign producers are unwilling to produce an Irish-compliant label).

The additional costs are likely to include both:

- **direct tangible costs**, including:
    - fixed costs associated with designing a compliant Irish specific label for each product line;

  - variable costs associated with an increased cost per label; and
  - stock holding costs associated with an increase in the number of SKUs.
- **intangible costs**, such as:
  - potential brand damage (associated with the risk of adverse brand reputation costs resulting from the draft Regulations if the labelling requirements provide incomplete information, information that could easily be misinterpreted, or if the draft Regulations will hinder consumer behaviour beyond the objectives of the regulations).

There is still significant uncertainty around the magnitude of the potential cost impact. However, survey results provide an initial estimate of the potential magnitude of both the fixed and variable costs increase.

- Survey respondents estimated a median increase of fixed labelling costs of 30% for beer and 25% for spirit. This corresponds to a median increase of € 92,500 for beers and € 20,000 for spirits.
- Respondents also estimated a median 20% increase in variable labelling costs for both beer and spirits. This corresponds to a median increase of €0.04 per bottle for beers and €0.75 for spirits.

7.2 The parties interviewed suggested that the additional costs could potentially hinder trade by reducing exports to and from Ireland

The evidence collected suggests that the draft Regulations could lead to a **decrease in exports from non-Irish firms to Ireland.** The parties interviewed stated that generally these firms have a low cost of diversion, therefore it is easy for them to switch supply to another country. In particular for

- **Low volume product lines:** Distributors outlined that lower volume product lines have less economies of scale to spread the additional fixed costs over, and additional variable costs per unit increase as volumes decrease. As a result, the parties outlined that exports of low volume product lines could reduce. This could be particularly relevant for new product lines, that are often associated with low volumes.
- **Premium product lines:** Distributors outlined that non-Irish premium product producers are likely to not want their products to be associated with cancer warnings. This is due to concerns about this association negatively impacting their brand, and hence reducing sales in other countries. As a result, the parties outlined that exports of premium product lines are likely to reduce.

In addition, some of the Irish based producers interviewed outlined their concerns about the likely impact of the draft Regulations on their ability to export to other countries. In particular, parties that currently do not export, or export small quantities, outlined that the additional costs imposed by the draft Regulations are likely to be a barrier to them starting or expanding their export quantities.

Annex A - Template details prescribed in the draft Regulations for alcohol labelling

The draft Regulations notified on the TRIS database[6] provide details of how Section 12 of the Act will be enacted. In particular, Part 2 of the draft Regulations provides information about the health warning that must be applied to alcohol containers. It requires that the following wording must be included on the alcohol product label:

- *"Drinking alcohol causes liver disease"*; and
- *"There is a direct link between alcohol and fatal cancers".*

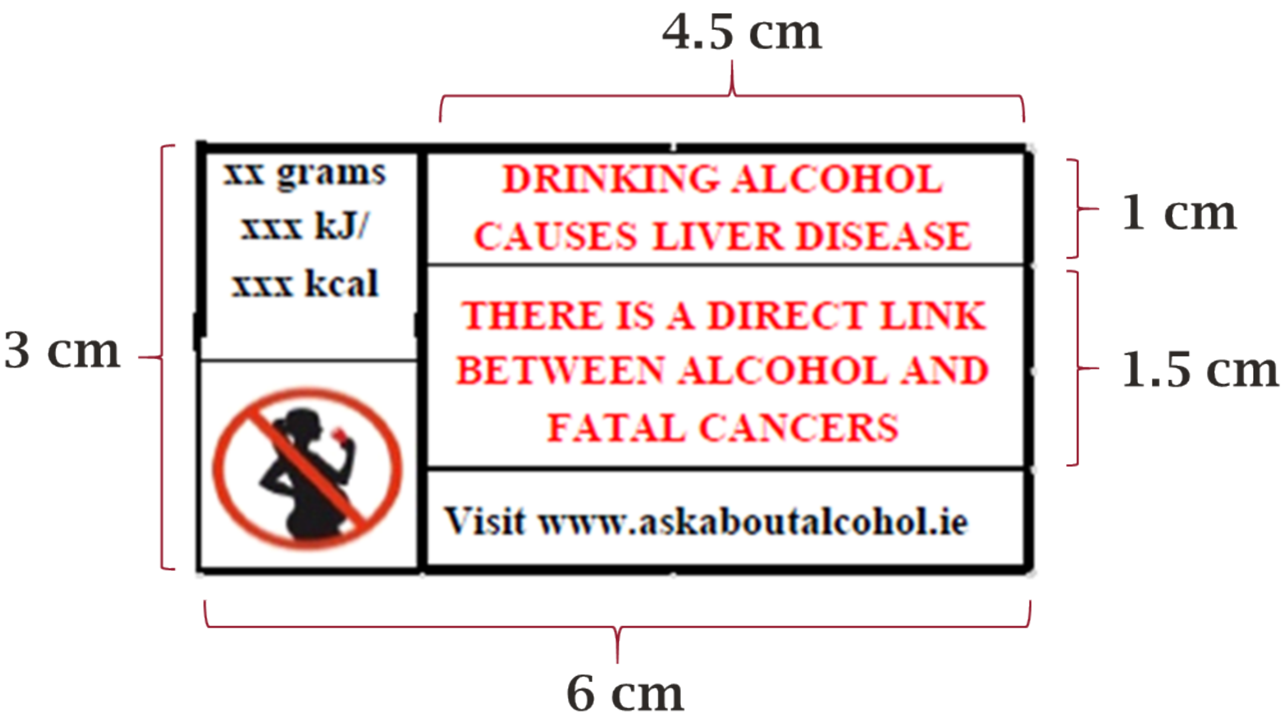
The draft Regulations prescribe specific instructions on the proportion and style characteristics of this text on the label.

- Proportion
  - The surface area reserved for the text "drinking alcohol causes liver disease" must have a "*width of not less than 45 millimetres and height of not less than 10 millimetres and shall not contain anything other than that warning*".
  - The surface area reserved for the text "*there is a direct link between alcohol and fatal cancers*" must have a "*width of not less than 45 millimetres and height of not less than 15 millimetres and shall not contain anything other than that warning*".
- Text characteristics
  - *"printed in Times New Roman bold type on a white background;*
  - *printed in upper-case type;*
  - *printed in colour Pantone reference 2035 or a like red colour and in indelible ink;*
  - *printed at such a font size so as to occupy the greatest possible proportion of the surface reserved for the text of the warning;*
  - *printed in normal, weighted, regular typeface;*
  - *positioned at the centre of each surface reserved for such warnings and in the same direction as the majority of other written information on the container."*

Figure 1 sets out the template prescribed by the draft regulation for the warning label described above. **According to the Regulations, the total warning label is required to be no less than 6cm in width and 3cm in height, or a total surface area of 18cm².**

[6] https://ec.europa.eu/growth/tools-databases/tris/en/search/?trisaction=search.detail&year=2022&num=441

Figure 1 Warning label template provided in the draft regulations



Source: Public Health (Alcohol) (Labelling) Regulations 2022 – Schedule 1

Note: The measurements in the Figure represent the minimum size that each element of the health warning label must be in order to comply with the draft Regulations