

# Cross-Party Group on Scotch Whisky

24 February 2022 via teams, 13:00-14:00.

## Minute

## Present

### MSPs

Jackie Baillie MSP  
Finlay Carson MSP  
Murdo Fraser MSP  
Rhoda Grant MSP  
Rachael Hamilton MSP  
Gordon MacDonald MSP  
Jenni Minto MSP  
Colin Smyth MSP

### Invited guests

### Non-MSP Group Members

Susy Atkinson (Edrington)  
Martin Bell (Scotch Whisky Association - SWA)  
Blair Bowman  
Susanne Cameron-Nielsen (SWA – Secretariat)  
Karen Freel (Perspectiva Consultants)  
Alan Gaskel (Stolt Tank Containers UK)  
Fraser Grieve (SWA)  
Annie Hill (International Centre for Brewing and Distilling)  
Orchid Liu (UK Chinese Times)  
Joseph Meaden (Portman Group)  
Ian Smith (Diageo)

## Apologies

Liam McArthur MSP

## Agenda item 1

Welcome, introduction and apologies

Gordon MacDonald MSP chaired the meeting and welcomed members to the meeting.

## Agenda item 2

Approval of minutes of previous meeting on 21 September 2021

The minutes were approved. (Proposer: Murdo Fraser MSP – Seconder: Jenni Minto MSP).

## Agenda item 3

Scotch Whisky 2021 exports

SWA Deputy Director of Strategy & Communications, Fraser Grieve, presented the 2021 export figures demonstrating the industry was on the road to recovery following the impact of Covid-19 and US tariffs but not yet fully returned to growth. Overall, the value of Scotch Whisky exports in 2021 were up by 19% on 2020 but remained 8% down on 2019. Recovery was particularly driven by strong market performances in Asia-Pacific and Latin America.

Looking in more depth at the figures for Brazil for example (the 16<sup>th</sup> largest market by value), these demonstrated a 131% growth in value on 2019 and 84% on 2020. Scotch Whisky's 5<sup>th</sup> largest market by value, China, also performed strongly, with growth figures of 123% on 2019 and 85% on 2020.

Scotch Whisky's largest market by value remains the USA. While volume held up during the tariffs period (down 1% on 2019 and up 13% on 2020), the industry is now seeing value recovering – while 26% down on 2019 it was 8% up on 2020.

In the context of the next item on the agenda – the ongoing UK-India FTA negotiations, the figures in relation to India, Scotch Whisky's 8<sup>th</sup> largest market by value, Scotch Whisky was up 43% on 2020, but remains 12% down on 2019. Volume of exports however had held strong with exports 4% up on 2019 and up 44% on 2020.

In response to a query as to whether it was possible in the export figures to distinguish between exports to off-sale versus on-sale, it was confirmed that distinction was not made in the export figures. However, an overview of the differences in consumption profiles in different countries and how these had been impacted by the pandemic and associated restriction a helpful indication as to general split. The IWSR (global drinks market analysis) would be publishing global consumption figures later in Q2 and it was proposed that a presentation be offered in the context of these at the next CPG planned for June.

With the CPG taking place on the day Russia invaded the Ukraine, members also inquired as to impact on Scotch Whisky. Just short of £28m in value of Scotch Whisky was directly exported to Russia last year – predominantly in bulk - making it the industry's 32<sup>nd</sup> largest market in terms of value but 10<sup>th</sup> largest by volume. Last year the industry exported just short

of £3.3m Scotch Whisky in value to the Ukraine, making it the 75<sup>th</sup> largest market out of the 174 markets that the industry exports to. It was also highlighted that Latvia, an important distribution hub and 6<sup>th</sup> largest market, had seen an almost 12% drop in value compared to 2020.

Diving into the value still being 8% down on 2019 driving an almost £400m shortfall, members enquired as to what could be attributed to the impact of the US tariff. The US market 2021 was down 26% on 2019, but the return to growth was highlighted (8% up on 2020) as an immediate impact of the suspension of the US tariff in June 2021. Similarly, while Singapore (4<sup>th</sup> largest market and an important distribution hub) had seen a 29% drop on 2019 and 14% drop on 2020, this should be seen in the context of, for example, China's performance (5<sup>th</sup> largest market by value), where exports had grown almost 123% on 2019 and almost 85% on 2020.

In the context of the encouraging figures, members also enquired around the continued appetite for distilleries and growing demand. Companies across the industry have over the past five years or so invested about £1bn - this investment have seen mothballed distilleries returning to production, further development of existing site (e.g. visitor experiences) and new distilleries (now 137 distilleries across Scotland), demonstrating the confidence in Scotch Whisky and growing markets. In addition to the attraction of being a high-quality product, new expressions, premiumisation and sustainability have been key selling points and – before Covid – was demonstrated also in drawing in tourist from across the globe, making distilleries the 3<sup>rd</sup> most visited attraction in Scotland. The industry should have its updated 2021 tourism figures in Summer and would be happy to share these at the June CPG meeting.

## Agenda item 4

An update on the UK-India FTA negotiations

Deputy Director of Trade at the SWA, Martin Bell, provided an overview of India as the Scotch Whisky industry's 8<sup>th</sup> largest market by value and 2<sup>nd</sup> by volume. For context of the current ongoing negotiations and the potential to the industry, he highlighted the Scotch Whisky 20-year comparison of exports, which had demonstrated the significant impact of a successful WTO trade dispute with India 2008/09 in affecting rate of growth in exports. Over the past decade, the volume of Scotch Whisky exports to India have grown by more than 200%. But while whisky is hugely popular in India and many Indian consumers are keen to add a bottle of Scotch to their shelves, bars and collections, Scotch Whisky has just a 2% share of the Indian whisky market (which is the biggest whisky market in the World). Through the UK-India FTA negotiations there is a huge potential for that to grow and moving from 2% to e.g., 6% would be transformational for the Scotch Whisky industry while not posing a threat to the continued growth of the domestic spirits industry.

The substantial complexity across the Indian states was highlighted, in addition to the 150% import tariff. The Indian constitution allocates the power to tax and regulate alcohol to the states, for whom it is a significant source of revenue. This leads to very wide disparities between the tax and regulatory regimes from state to state, while ad valorem tax regimes can

lead to retail prices for Scotch Whisky that are substantially higher than in the UK. He was hopeful that the FTA would bind states – not to harmonise across India but to promote regulatory and tax convergence over time. This would fit with the process of competitive federalism seen under the current Indian government, where states monitor the impact of new policies introduced by other states and, where they generate more effective policies or higher revenues, tend to adopt similar policies themselves. While the FTA is the best opportunity in many years to secure a step change in Scotch exports to India, he also highlighted the timelines potentially involved in implementation, let alone in securing the agreement itself. If both sides agree to an early harvest 'Interim Agreement' the industry would expect to see the tariff addressed then, with the more technically complex State issues addressed in the comprehensive FTA to follow.

Recognising the currently large retail price gap for consumers to bridge if they are to trade up to Scotch from local spirits, members considered the opportunities open to the Scotch Whisky industry through the negotiations. They also reflected on the changes in ownership in the Indian spirits industry since the EU/India FTA negotiations, where at that time very Indian-owned, now a bigger proportion globally owned, which may prove helpful in moving the negotiations along. In response to a question around competing investment with Scotland from global spirit companies, the confidence in Scotch Whisky performance and growth was highlighted as demonstrated by investment in Scotch Whisky marketing and advertising as well as visitor experiences expansion – a deliberate choice to invest in Scotch Whisky and which was expected to continue.

On the 'landing zone' for the deal for Scotch Whisky, while not expecting any liberalisation under a certain value threshold and while aiming for 0% from day one, the expectation would be that it would be very significantly lower than the current 150%.

## Agenda item 5

Any other business

Ian Smith (Diageo) offered to facilitate CPG visit to Johnnie Walker Princess Street, which was warmly welcomed by members.

**Action: Secretariat to set up visit with Ian Smith (Diageo).**

## Agenda item 6

Future meetings.

**Action: The dates of meetings in June and September (AGM) will be circulated to members.**

**Meeting closed.**