ECO\NM\O\, ENERG\YS AND TOURISM COMMITTEE

AGENDA

10th Meeting, 2010 (Session 3)

Wednesday 17 March 2010

The Committee will meet at 9.30 am in Committee Room 1.

1. The whisky and spirits industry - an update on recent restructuring announcements: The Committee will take evidence from—

   Bryan Donaghey, Managing Director, Diageo Scotland;

   John Beard, Chief Executive, Whyte & Mackay;

   and then from—

   Stephen Boyd, Assistant Secretary, Scottish Trades Union Congress;

   Derek Ormston, Regional Industrial Organiser, UNITE;

   Harry Donaldson, Regional Secretary, GMB.

2. The whisky and spirits industry - wider issues and challenges: The Committee will take evidence, in a round-table discussion, from—

   John Beard, Chief Executive, Whyte & Mackay;

   Bryan Donaghey, Managing Director, Diageo Scotland;

   Harry Donaldson, Regional Secretary, GMB;

   Stephen Boyd, Assistant Secretary, Scottish Trades Union Congress;

   Gavin Hewitt, Chief Executive, Scotch Whisky Association;

   Maggie McGinlay, Regional Director for Aberdeen City and Shire and Director of Food and Drink, Scottish Enterprise;
Ewen Cameron, International Manager Food and Drink, Scottish Development International;

Chris Taylor, Head of Tourism, Food and Drink, Highlands and Island Enterprise;

Donald M. Blair, International Drinks Industry Executive.

3. **The way forward for Scotland’s banking, building society and financial services sector (in private):** The Committee will consider a draft report.

Stephen Imrie  
Clerk to the Economy, Energy and Tourism Committee  
Room T3.40  
The Scottish Parliament  
Edinburgh  
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Email: stephen.imrie@scottish.parliament.uk
The papers for this meeting are as follows—

**Agenda item 1**

Briefing paper from SPICe on the whisky industry  EET/S3/10/10/1

Written submission from Diageo (to follow)  EET/S3/10/10/2

**Agenda item 2**

Note by the clerk  EET/S3/10/10/3

**Agenda item 3**

PRIVATE PAPER  EET/S3/10/10/4 (P)
Restructuring announcements by large companies within the Scotch Whisky industry over the summer of 2009 have brought the industry under the public and political spotlight. In response, the Economy, Energy and Tourism Committee is considering holding an inquiry into the industry. This briefing is intended to provide the Committee with an insight into the current state of the Scotch Whisky industry.

First, it takes a look at the main companies and summarises the economic impact of the industry in Scotland in terms of employment, income and exports.

The legal framework within which the Scotch Whisky industry operates is also outlined, with a particular look at the upcoming Scotch Whisky Regulations 2009 and the existing law with regard to the bottling of Scotch Whisky.

The briefing goes on to take a broad overview of the current domestic and international spirits market, with a specific look at the position of Scotch Whisky amidst other spirit drinks such as vodka.

Trends within the worldwide whisky market, such as the growth of regional brands and premiumisation, are then examined in more detail, before the key challenges currently facing the industry are outlined.

Lastly, Annexes 1 and 2 provide a summary of the restructuring plans announced by Diageo and Whyte & Mackay in recent months.
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EXECUTIVE SUMMARY

The Scotch Whisky industry

Scherie Nicol

Scotch Whisky has been defined in UK law since 1909 and recognised in EU legislation since 1989. For a whisky to be labelled Scotch Whisky it has to be produced and matured in Scotland for a minimum of three years.

In Scotland, around 41,000 jobs directly or indirectly rely on the Scotch Whisky industry. Included in this is employment within bottling, packaging and distribution which together account for a greater proportion of employment in the spirits industry than employment in distilling itself. Whisky is one of Scotland’s top exporting sectors and is sold in over 200 countries worldwide.

Within the domestic market recent years have seen vodka overtake Scotch blended Whisky in sales volumes. However, sales of Scotch Whisky are growing in many overseas markets, such as Eastern Europe. In addition, there has been growth of regional/local whisky brands in markets such as India and this provides opportunities for Scotch malt Whisky to capitalise on premiumisation trends as disposable incomes increase in these countries.

Key challenges facing the Scotch Whisky industry include trade barriers, social responsibility issues and the image of the drink in the domestic market. Recent restructuring announcements by Diageo and Whyte & Mackay have also brought to the fore questions regarding the future of the industry in Scotland, and in particular the issue of foreign ownership and the potential for increasing quantities of Scotch Whisky to be bottled overseas.

The Scotch Whisky industry – key numbers

<table>
<thead>
<tr>
<th>Number of distilleries (2009)</th>
<th>109</th>
<th>Sources:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct employment (2008)</td>
<td>9,300</td>
<td>SWA 2009a</td>
</tr>
<tr>
<td>Direct, indirect &amp; induced employment (2001)</td>
<td>41,000</td>
<td>DTZ Pieda Consulting 2003</td>
</tr>
<tr>
<td>GVA (2007)</td>
<td>£1.7bn</td>
<td>Scottish Government 2009a</td>
</tr>
<tr>
<td>Exports (2008)</td>
<td>£3.1bn</td>
<td>SWA 2009c</td>
</tr>
<tr>
<td>Duty per 70cl bottle (2009)</td>
<td>£6.34</td>
<td>HMRC 2009</td>
</tr>
<tr>
<td>Duty per unit in the UK (2009)</td>
<td>£0.23</td>
<td>HMRC 2009</td>
</tr>
</tbody>
</table>
OVERVIEW OF THE SCOTCH WHISKY INDUSTRY

Whisky has been produced in Scotland for over 500 years. There are now over 102 working malt distilleries in Scotland and 7 grain distilleries. While malt distilleries produce whisky in batches using only malted barley, grain distilleries use a Coffey or Patent Still to allow continuous production of grain whisky using unmalted and malted barley together with other cereals. Some grain distilleries separately produce neutral alcohol for white spirits. The process of producing Scotch Whisky includes:

- barley/maltings
- distillery operations
- maturation & warehousing
- blending
- bottling & packaging
- transport & distribution
- advertising & marketing

The distilling industry has strong links with rural areas, such as Islay and Speyside where primary agriculture activities or distilling take place. Operations further down the supply chain such as bottling & packaging tend to be located in urban areas, such as Glasgow, Broxburn and Livingston. Approximately 15% of Scotch Whisky is bottled overseas. In addition, within some larger drinks companies operations such as advertising and marketing are also undertaken overseas. The Scotch Whisky industry is an international industry and Scotch Whisky has a huge international appeal, being sold in over 200 countries throughout the world (Scotch Whisky Association 2009a).

In 2005 the whisky industry agreed to formally define Scotch Whisky into five categories:

- **Single Malt Scotch Whisky** - distilled at a single distillery (i) from water and malted barley without the addition of any other cereals, and (ii) by batch distillation in pot stills. It is proposed that this type of whisky should only be bottled in Scotland.
- **Single Grain Scotch Whisky** - distilled at a single distillery (i) from water and malted barley with or without whole grains of other malted or unmalted cereals, and (ii) which does not comply with the definition of Single Malt Scotch Whisky.
- **Blended Scotch Whisky**: a blend of one or more Single Malt Scotch whiskies with one or more Single Grain Scotch whiskies.
- **Blended Malt Scotch Whisky**: a blend of Single Malt Scotch whiskies, which have been distilled at more than one distillery.
- **Blended Grain Scotch Whisky**: a blend of Single Grain Scotch whiskies, which have been distilled at more than one distillery (Scotch Whisky Association 2005).

The maturation process for whisky is a minimum of three years, but Scotch malt Whisky is often matured for ten years, and frequently longer. This means that distillers must currently set levels of production to meet what they estimate to be the level of demand over the next decade.

The fact that new capital investment in the whisky sector is at its highest level since the early 1970s is testament to the confidence investors have had in recent years with regard to the future market for whisky. The Scotch Whisky Association (SWA) estimate that there has been over £500m new investment in production capacity – including distilling, bottling and warehousing – over the last two years. It includes that of new distilleries (e.g., Roseisle and Ailsa Bay), the expansion of existing distilleries (e.g., Glenmorangie, The Glenlivet and Cameronbridge) and former distilleries being brought back into production (e.g., Glenglassaugh and Braeval). In addition, there has been investment in the expansion of warehousing, such as John Dewar’s new site in the Douglas Valley and at The Macallan in Speyside (SWA 2009a).
Although the industry has its roots in local independent distillers, in today’s industry the distilleries, warehouses, bottling plants and distribution operations are owned by a range of companies, from large international plcs to family businesses owning a single malt distillery.

As a result of this shift, production is now dominated by a number of large multi-national drinks conglomerates – including Diageo, Pernod Ricard, William Grant & Son and the Edrington Group. These four companies own 62% of the distillation capacity for malt whisky and 85% of the distillation capacity for grain whisky. The remaining capacity is owned by a mixture of foreign and indigenous Scottish companies. Tables 1 and 2 summarise the ownership of distillation capacity within the industry in 2008:

<table>
<thead>
<tr>
<th>Table 1 – Malt ownership by company</th>
<th>Table 2 – Grain ownership by company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Owner</strong></td>
<td><strong>% of distillation capacity</strong></td>
</tr>
<tr>
<td>------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Diageo</td>
<td>27%</td>
</tr>
<tr>
<td>Pernod Ricard</td>
<td>18%</td>
</tr>
<tr>
<td>Wm Grant &amp; Son</td>
<td>9%</td>
</tr>
<tr>
<td>Edrington</td>
<td>8%</td>
</tr>
<tr>
<td>Bacardi</td>
<td>6%</td>
</tr>
<tr>
<td>Others</td>
<td>32%</td>
</tr>
</tbody>
</table>

Source: Gray 2009

**Diageo**

Headquartered in London, Diageo is the world’s leading premium drinks company and is the largest single producer of Scotch Whisky. Key whisky brands in Diageo's portfolio include Johnnie Walker (No. 1 whisky in the world), Bells (No. 1 Scotch Whisky in the UK) and J&B (No. 1 Scotch Whisky in Europe). They also boast an array of what they term ‘Classic malts’, ‘Distillery malts’ and Hidden malts’ which include brands such as Lagavulin and Talisker.

Its operations in Scotland extend to four maltings, 28 malt distilleries, two grain distilleries and eight major warehousing and blending sites (Diageo 2009a). In addition, currently Diageo undertakes 95% of its Scotch Whisky bottling in Scotland (SWA 2009a) and produces Smirnoff Red, Tanquery Sterling, Captain Morgan, Archers Aqua, Smirnoff Ice, Gilby’s Gin, Gordon’s Gin and Tanquery Gin in Scotland. Packaging is focused at three plants:

1. Leven in Fife - bottling white spirits, Ready To Drink products and Scotch malt Whiskies;
2. Kilmarnock in Ayrshire - bottling the complete range of premium Scotch Whiskies; and

Currently, Diageo employs over 4,500 people in Scotland. However, in an effort to save £100m annually, Diageo is implementing a major restructuring programme. Restructuring plans within Scotland, announced on 1 July 2009, will consolidate packaging operations from three sites to two and result in an overall reduction of up to 500 employees in Scotland, bringing employment down to around 4,000 people (Diageo 2009b).

In the year to June 2009 Diageo reported a 2% increase in net sales and a pre-tax profit of £2.015bn (BBC 2009a). Managing Director Diageo GB Simon Litherland explained that strong brands such as Smirnoff had helped it outperform the market (off licence news 2009a).
Pernod Ricard
Pernod Ricard, headquartered in Paris, is the second largest wine and spirits company in the world and has grown through a series of acquisitions over the years. The Group’s activities are focused on 15 key brands, representing more than half of the Group’s profits. Their strategy focuses on premiumisation rather than driving volume. These include The Glenlivet, Ballantine’s and Chivas Regal (Pernod Ricard 2009a).

Pernod subsidiary ‘Chivas Brothers’ employs 1,600 staff across 32 sites in the UK, including 29 locations in Scotland. It operates 12 malt whisky distilleries and one grain facility. Paisley-based Chivas also has more than 300 bonded warehouses containing in excess of 6 million casks of Scotch Whisky.

The Paris-based group has shown confidence in their Scotch Whisky portfolio and recently substantially expanded their Glenlivet distillery in Speyside.

In the year to June 2009 Pernod Ricard reported that pre-tax profit from recurring operations was up 21% to £1.6bn (reported as 1.8bn Euros) and the Group share of net profit was up 13% to £829m (reported as 945 Euros) (Pernod Ricard 2009b). These strong results were largely attributed to strong sales from their recent acquisition – Absolut Vodka. Pernod Ricard has made it clear that Absolut is its number one priority in spirits (off licence news 2009a).

William Grant and Sons
William Grant & Sons, headquartered in Dufftown, is a family-owned business that has been producing Glenfiddich whisky since 1887. Other key brands in their portfolio include Grant’s, Balvenie and Monkey Shoulder. In 1999 they joined forces with The Edrington Group and bought Highland Distillers (William Grant & Sons has a 30% stake).

It is now the largest whisky distiller still under Scottish ownership. Since 2002 William Grant & Sons have also been producing their own new brands of spirits for the market including gin, rum and vodka (William Grant & Sons 2009a). Their whiskies and spirits are bottled and stored in Bellshill, North Lanarkshire. The company’s distribution network comprises wholly-owned, joint venture and third party distribution companies. William Grant & Sons also distributes brands for other drinks companies.

In 2007 the company earned pre-tax profits for the Group of £83.6m for 2007, up 7% on the previous year (William Grant & Sons 2009b).
The Edrington Group

The Edrington Group is also still under Scottish ownership and is headquartered in Glasgow. Unusually for the drinks industry, it is owned by a charitable family trust – the Robertson Trust. The Trust was established to ensure that the family businesses remained active and independent, and that it continued and extended the past support they had given to charities.

In 1999 Edrington acquired Highland Distillers with William Grant & Sons (The Edrington Group 2009a) to become a brand-led drinks company like Diageo, Pernod Ricard and William Grant & Sons. Edrington now produces over 60 different whisky products, including key brands such as The Famous Grouse, Cutty Sark, The Macallan and Highland Park, which are blended on the same site as their bottling operation in Glasgow. In 2008 Edrington also acquired a majority stake in Brugal Company in the Dominican Republic, marking its entry into the market for rum.

In the year to March 2009 Edrington’s profit before tax was £94.8m, up 30.5% on 2008 (9.7% excluding the Brugal brand) (The Edrington Group 2009b). Over the same period the Robertson Trust committed £9.9m to almost 500 charities (The Robertson Trust 2009).

THE SCOTCH WHISKY ASSOCIATION

There are two trade associations which represent the Industry. These are the Scotch Whisky Association (SWA) and the Malt Distillers Association of Scotland (MDAS). While MDAS is focused on the production side of malt distilling, the SWA has a broader role in the industry.

Its 55 members account for more than 95% of production and sales of Scotch Whisky. Paul Walsh, CEO of Diageo, was appointed Chairman of the SWA in January 2008, with Ian Curle, CEO of the Edrington Group, appointed Vice-Chair.

Much of SWA’s work involves the protection of Scotch Whisky worldwide and the SWA alone has five intellectual property lawyers working to protect the category. At any one time they are handling up to 70 legal actions and conducting hundreds of investigations into fake products. Other principal functions of the SWA are:

- To promote responsible attitudes to alcohol consumption
- To secure fair and equal access to international markets
- To tackle tax discrimination and secure appropriate regulation of the industry
- To promote Scotch Whisky as a quality product made from natural raw materials
- To represent the industry’s interests at governmental level both at home and abroad

Source: SWA 2009b
EMPLOYMENT AND INCOME

Around 9,800 people are directly employed within SWA member companies in Scotland (which represents around 90-95\% of the industry). Figure 1 shows how direct employment has changed over the last decade and indicates that up until 2006 the long-run trend was a slow reduction in the number of employees within the industry. There was a pick-up in employment in 2006 and 2007, but it fell again in 2008 (SWA 2009a). Employment within the related bottling, packaging and distribution sectors is much higher than it is within the whisky distilling sector itself.

Taking into account indirect and induced employment it is estimated that in total around 41,000 jobs rely on the Scotch Whisky industry and generate over £800m in income within the economy (DTZ Pieda Consulting 2003).

The latest figures show that the spirit drinks industry accounted for £1.7bn Gross Value Added (GVA) in 2007 – representing £195,900 GVA per employee, compared to £45,700 GVA per employee across all industries (Scottish Government 2009).

EXPORTS

Food, Drink & Tobacco (predominantly whisky) has historically been one of Scotland’s strongest exporting sectors by value. It was the top exporting sector until the early 1980s when the value of electrical engineering exports soared and has remained the second most valuable exporting sector to date. Whisky exports from Scotland in 2008 were valued at £3.1bn. As it is exported to over 200 countries worldwide, the value of Scotch Whisky exports tends to follow global economic trends. Figure 2 below shows that whisky exports dipped substantially in 1998 following the 1997 Asian Financial crisis:

Sources: SWA 2008, SWA 2009c

Figure 1: Direct employment within SWA member companies in Scotland

Figure 2: Export value of Scotch Whisky 1975 to 2008 (£m)
The SWA provides more detailed export statistics on the value of Scotch Whisky exports by destination. Data from the SWA indicates that the USA, France and Spain have consistently been the top three export markets for whisky over the previous decade. However, countries such as Singapore and South Africa have become increasingly valuable markets and in recent years emerging economies such as China and India have entered the top 20 destinations.

Figure 3: Top ten destinations for estimated Scotch Whisky exports (£m) 2008

<table>
<thead>
<tr>
<th>Destination</th>
<th>Value</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU (excl UK)</td>
<td>£1.28bn</td>
<td>441.9m bottles</td>
</tr>
<tr>
<td>Total exports</td>
<td>£3.06bn</td>
<td>1,080.3m bottles</td>
</tr>
</tbody>
</table>

Source: SWA 2009c
A CLOSER LOOK AT LINKAGES WITH OTHER INDUSTRIES

White Spirit Production

Some major drinks companies have consolidated their spirits production activity in Scotland. This has undoubtedly been influenced by the existence of the whisky industry which has created the necessary infrastructure, including production facilities and bottling capacity (DTZ Pieda Consulting 2003). It provides the opportunity for economies of scale, for example through the co-location of white spirits and whisky production or shared distribution channels. Around 2,300 jobs and £50m income is linked to the white spirits industry in Scotland. According to the Scottish Executive, in 2006 the UK was the second largest vodka producer in the EU after Poland (2006).

Agriculture

The Scotch Whisky industry has close linkages with the agriculture sector in Scotland with over £90m of cereals being purchased from Scottish suppliers (DTZ Pieda Consulting 2003).

In addition, distillers supply the agriculture industry with various forms of animal feed derived from the cereals and distillation residues and rely on the industry for the beneficial disposal of used cereals and distillery co-products onto agricultural land (Stevens View Partnership 2007).

Tourism

Research by Market Research Partners found that Scotch Whisky is by far the product most associated with Scotland (ScotlandWhisky 2005). Scotch Whisky, among other products such as golf and ancestry, gives Scotland an international profile and helps attract visitors to the country. The whisky industry is particularly important in drawing visitors to rural areas. According to ScotlandWhisky there are over 50 distilleries spread across five regional areas that can be visited in Scotland (2009).

ScotlandWhisky also released data showing that 1.2 million visitors toured a distillery in 2007 - a 2.6% increase over the last 3 years - and spent more than £22.4 million at whisky visitor attractions - a 17.8% increase over the last three years (ScotlandWhisky 2008).
LEGAL REQUIREMENTS WITHIN THE SCOTCH WHISKY INDUSTRY

DEFINITION OF SCOTCH WHISKY

Key UK legislation relating to Scotch Whisky includes the Scotch Whisky Act 1988 (c.22) and the Scotch Whisky Order made under it in June 1990. These make provisions with regard to the definition of Scotch Whisky and as to the production and sale of whisky. The Scotch Whisky Order 1990 states:

“For the purpose of the Act "Scotch Whisky" means whisky—

(a) which has been produced at a distillery in Scotland from water and malted barley (to which only whole grains of other cereals may be added) all of which have been—
   (i) processed at that distillery into a mash;
   (ii) converted to a fermentable substrate only by endogenous enzyme systems; and
   (iii) fermented only by the addition of yeast;
(b) which has been distilled at an alcoholic strength by volume of less than 94.8 per cent so that the distillate has an aroma and taste derived from the raw materials used in, and the method of, its production;
(c) which has been matured in an excise warehouse in Scotland in oak casks of a capacity not exceeding 700 litres, the period of that maturation being not less than 3 years;
(d) which retains the colour, aroma and taste derived from the raw materials used in, and the method of, its production and maturation; and
(e) to which no substance other than water and spirit caramel has been added.”

In addition, the 1988 Act, and the 1990 Order describe how Scotch Whisky must be a minimum alcoholic strength of 40% (in line with the current EC Regulation for whisky).

This protects consumers from being sold ‘Scotch Whisky’ products not complying with the legislation, and ensures Scotch Whisky’s reputation is not undermined.

SCOTCH WHISKY REGULATIONS 2009

In recent years, there have been calls from the Scotch Whisky industry for the Government to enhance the protection of Scotch Whisky. The UK Department for Environment, Food & Rural Affairs (Defra) has policy responsibility for the EC Spirit Drinks Regulation 110/2008 (see section on EU Legislation). At the time when Defra consulted on their proposals for the Spirit Drinks Regulations 2008, through which the EC Spirit Drinks Regulation is implemented, Defra also proposed new regulations on Scotch Whisky (a protected Geographical Indication under the EC Regulation) which would give additional protection to the industry, named the Scotch Whisky Regulations 2009. Defra stated that:

“The proposed Regulations will:

- Define five categories of "Scotch Whisky" (Single Malt Scotch Whisky, Single Grain Scotch Whisky, Blended Scotch Whisky, Blended Malt Scotch Whisky and Blended Grain Scotch Whisky) and will require these category names to be used.
- Allow the five "Scotch Whisky" categories to be supplemented initially by one of five regional names (Highland, Lowland, Speyside, Campbeltown, Islay). Further protected regions may be added to the Regulations at a later date. Products will not be allowed to use protected regional names if they have not been wholly made in the region.
• Prohibit whisky from being labelled with the name of a distillery or a similar name if it is not a product of that distillery.
• Prohibit labelling, packaging, presentation or advertising suggesting that a single malt was made at a distillery other than the actual distillery where it was made (e.g. using made up company names).
• Require all Scotch Whisky to be wholly matured in Scotland.
• Prohibit the export from Scotland of Scotch Whisky in wooden casks.
• Prohibit the export of Single Malt Scotch Whisky unless it has been bottled and labeled”.

Source: Scotland Office 2007

The proposals for both the Spirit Drinks Regulations 2008 and the proposed Scotch Whisky Regulations were put out to consultation on 31st December 2007. These Scotch Whisky Regulations 2009 are due to come into force on 30th November 2009 – St Andrews Day (Defra 2009).

OTHER LAYERS OF LEGAL PROTECTION

The Scotch Whisky industry uses the existence of the UK legislation in legal action overseas where ‘Scotch Whisky’ is defined by reference to UK Law. Scotch Whisky is also further protected in overseas markets under EU legislation and WTO agreements.

EC Legislation

Scotch Whisky has been recognised in EC legislation since 1989. It is currently protected at EU level by Regulation (EC) No 110/2008 of the European Parliament. It regulates the definition, description, presentation, labelling and protection of Geographical Indications of spirit drinks. With regard to whisky or whiskey it states:

“(a) Whisky or whiskey is a spirit drink produced exclusively by:
(i) distillation of a mash made from malted cereals with or without whole grains of other cereals, which has been:
— saccharified by the diastase of the malt contained therein, with or without other natural enzymes,
— fermented by the action of yeast;
(ii) one or more distillations at less than 94.8 % vol., so that the distillate has an aroma and taste derived from the raw materials used,
(iii) maturation of the final distillate for at least three years in wooden casks not exceeding 700 litres capacity. The final distillate, to which only water and plain caramel (for colouring) may be added, retains its colour, aroma and taste derived from the production process referred to in points (i), (ii) and (iii).
(b) The minimum alcoholic strength by volume of whisky or whiskey shall be 40%.
(c) No addition of alcohol as defined in Annex I (5), diluted or not, shall take place.
(d) Whisky or whiskey shall not be sweetened or flavoured, nor contain any additives other than plain caramel used for colouring”.

Council Regulation (EC) No 510/2006 of 20 March 2006 on the protection of Geographical Indications and designations of origin for agricultural products and foodstuffs also lists Scotch Whisky as a protected Geographical Indication (GI), along with four other whiskies - Irish Whiskey, Whisky Español, Whisky de Bretagne and Whisky d'Alsace. As a protected GI, a named food or drink registered at a European level will be given legal protection against imitation throughout the EU. ‘Scotch’ is designated a GI only to be used for whisky produced in Scotland.
In order to obtain a protected GI, agricultural products or foodstuffs must comply with the product specification, which must include the following aspects:

- the name of the GI;
- the description of the product, with an indication of its main physical, chemical, microbiological and organoleptic properties;
- definition of the geographical area;
- information proving that the product originates from that area;
- information justifying the link between the product and the geographical area;
- description of the production method and, if appropriate, the authentic and unvarying local methods as well as information concerning packaging that takes place in the defined geographical area in order to safeguard quality, ensure the origin or ensure control;
- the name and address of authorities or bodies that verify compliance with the provisions contained in the product specification;
- any specific labelling rule for the product in question;
- any requirements laid down by Community or national provisions.

Source: Europa 2009

The use of designated GI terms is regulated by Defra.

World Trade Organisation

Scotch Whisky is also protected by the World Trade Organisation (WTO) as a recognised ‘geographical indication’ through the TRIPS (trade-related aspects of intellectual property rights) agreement. The TRIPS Agreement is an attempt to narrow the gaps in the way these rights are protected around the world, and to bring them under common international rules.

WHISKY LEGISLATION – WHO’S DOMAIN IS IT ANYWAY?

Legislation regarding the legal definition of Scotch Whisky could be passed by the Scottish Parliament; however, in line with the Scotland Act 1998 any legislation agreed by the Scottish Parliament would need to comply with EU law where Scotch Whisky is defined. It would also have to cover matters that do not fall within the reserved areas set out in Schedule 5 to the Scotland Act. While issues such as labelling could be within the legislative competence of the Scottish Parliament, others such as the legal definition of whisky are unlikely to be given that such provisions will be in the areas of intellectual property (copyright), export control and consumer protection, all of which are reserved matters.

Additionally, the Defra Food Policy Unit has policy responsibility for implementing the EC Spirit Drinks Regulation 110/2008 in the UK, and does so through the Spirit Drinks Regulations 2008. This may be further indication that the legal definition of Scotch Whisky is reserved to Westminster in legislative terms.

It is as a result of this legislative context, as well as the need for the regulations to apply across the whole of the UK, that Defra has been drafting the consultation document and draft regulations for the Spirit Drinks Regulations 2008 and the Scotch Whisky Regulations 2009.
BOTTLING OF SCOTCH WHISKY

There is no law requiring Scotch Whisky to be bottled in Scotland – although as previously mentioned there are proposals within the Scotch Whisky Regulations 2009 to introduce this law with regard to Scotch malt Whisky.

In the case of Scotch Whisky, to stipulate the geographical location where a product is packaged through an EU Geographic Indication, it would need to be proven that the bottling of Scotch Whisky in Scotland is necessary to safeguard quality, ensure the origin or ensure control.

Scotch blended Whisky

Scotch blended Whiskies have been exported in bulk for around a century - to be bottled in countries such as the USA, Brazil and France. The SWA believe that there are reasons for this practice to continue:

1. Many countries demand bulk supplies of whisky to be blended with other whiskies and locally branded. If bulk supplies of Scotch Whisky were not used in these local blends then it is likely that bulk supplies of whisky would be sourced from other whisky exporting countries.

2. In some countries the local fiscal and regulatory framework makes market access easier for bulk rather than bottled products. For example, several countries in South America apply lower taxes to bulk shipments. If Scotch Whisky was not exported in bulk to these countries it would be more difficult to compete with products exported from other whisky producing countries on a price basis.

3. If the exporting of Scotch blended Whisky in bulk was made unlawful, given that the existing trade in bulk shipments of Scotch blended Whisky support a number of bottling jobs in overseas countries, any new requirement to bottle blended whisky in Scotland would likely result in challenge by third country Governments. This occurred when Mexico attempted to stipulate that all tequila must be bottled in Mexico. The USA was prepared to approach the WTO regarding these proposals and in the end they were withdrawn (SWA 2009a).

However, there are also those who believe that all Scotch blended Whisky should bottled in Scotland to preserve the reputation of the industry (through retaining the link between the whisky and its history) and to safeguard direct employment at the bottling plants alongside indirect employment within companies located in Scotland to undertake supply-chain activities such as glass manufacture, labelling, inspection, etc. The Scottish Council of Development and Industry (SCDI) published a discussion paper ‘Should Scotland Export Bulk Whisky?’ in 1979. The paper concluded that Scotland would economically benefit in the long-term if the bulk export of all whisky was banned. SCDI has more recently stated that, to protect Scotch Whisky’s reputation, should the quantities of Scotch Whisky shipped in bulk abroad fall in the future, it may become feasible to revisit the bulk export of Scotch blended Whisky (SCDI 2008).

Scotch malt Whisky

Unlike Scotch blended Whisky, less than 1% of exported Scotch malt Whisky is exported in bulk. The whisky industry in Scotland widely supports the requirement within the Scotch Whisky Regulations 2009 for all Scotch malt Whisky to be bottled in Scotland. It is believed that these regulations will be allowed under EU legislation and will not be opposed by countries outwith the EU for two reasons:

1. Given that Scotch malt Whisky relies on confidence in its purity and quality to generate sales the industry argues that bottling it in Scotland would ensure control of its quality. The
SWA provided evidence to Defra that “exports of Scotch Whisky in bulk has led to adulteration and contamination when it is bottled abroad. This risks damaging the reputation of Scotch Whisky and leaves consumers vulnerable to counterfeit products which could also have public health implications” (Defra 2008). They see this regulation as important to help protect the quality of Scotch malt Whisky and prevent any future problems arising around the misuse of bulk Scotch malt Whisky exports.

2. Only a very small volume of Scotch malt Whisky is currently exported for overseas bottling, and the new rule will have a negligible impact on current employment within overseas countries (SWA 2009a).

PROTECTION OF BOTTLING OF OTHER PRODUCTS

There are some examples of alcohol products within the EU where legislation exists to ensure they are bottled within a defined geographical area.

Wine

Within the wine industry today there is, in general, no legal requirement to bottle at source, however there are some exceptions. One wine for which such a legal requirement still exists is Rioja.

Rioja

The Spanish Government regulates the quality, ingredients and production process of Spanish food and drink. A regulator exists for each region and, thus, the Spanish Government viewed it necessary to enable the regulator to supervise production and ensure the quality for any wine from that region to be bottled within the same region. In 1989 the EC Court stated that these Spanish provisions which limited the bulk export of wine had the equivalent effect of a quantitative restriction on exports – prohibited within Section 34 (now 29) within the EC Treaty.

In response the Spanish Government amended their provisions to rule that bottling had to take place only in authorised bottling plants. In the case of Rioja, wine bearing the words ‘Rioja denominacion de origen calificada’ (Rioja wine of designated origin) could only be bottled within authorised cellars within La Rioja region. Belgium, supported by the UK, subsequently began legal proceedings against Spain for breaching Section 34 of the EC Treaty.

However, the EC Court agreed with Spain that the bottling was not merely filling containers but involved several processes which had to be undertaken within the prescribed rules of trade to uphold the quality and maintain the characteristics of the wine. This is more likely to be assured if it is done by established operations within the region that have specialist knowledge and experience of the strict requirements. The Spanish regulations were therefore upheld and current Spanish law states that Rioja wine must be bottled at cellars within La Rioja region to qualify for ‘Rioja denominacion de origen calificada’ status (O’Connor 2004).

Note there is no prohibition on the export of bulk wine from La Rioja region if it is not branded as ‘Rioja’.

French wine

Other wines use labeling practices to help protect the quality of their products. For example, the labels on a bottle of French wine often carry information about bottling (whether it was bottled at the vineyard, in the general estate or in a different place from where the grapes were grown) that can help the consumer evaluate its quality. However, it is worth bearing in mind that any labeling legislation introduced in the UK would need to comply with the existing UK Food Labeling Regulations 1996. Spirit drinks labeling is also regulated by the EU.
Cognac

Cognac faces challenges in appealing to younger drinkers in its home market, who tend to prefer Scotch Whisky. However, the same cannot be said for export markets and Cognac is now exported to over 150 countries, with individual markets such as the US, the UK and Spain particularly valuable to the industry. Heavy dependence on these markets, particularly on the US market, saw the volume of Cognac sales fall during the recent economic downturn.

The world’s leading four brands of Cognac are Hennessy, Remy Martin, Martell and Courvoisier (Drinks International 2009). Alongside large-scale suppliers, many independent grower-bottlers also exist within the industry.

Like Scotch Whisky, Cognac is protected by a legal framework that preserves the authenticity and uniqueness of the drink. Those who fail to respect its regulations are not allowed to use the name of the ‘controlled appellation of origin Cognac’. The stages involved in Cognac production subject to regulations include the area of production, grape varieties used, vinification, distillation, alcohol content, additives, storage & ageing and labelling (Cognac.fr 2009).

The French Government has passed an enabling law permitting compulsory bottling at source for Cognac and Armagnac products. However, it is not believed that any regulations have yet been introduced (SWA 2009a).

Outwith the EU

Outwith the EU there are examples of other products where protection applies to the packaging of products. For example, under Mexican law all 100% agave or aged Tequila must be bottled in Mexico. In addition to this, Mexico attempted to introduce a bi-lateral trade agreement with the US requiring all Mexican tequila to be bottled in Mexico. However, this was opposed by the US and, ultimately, the 2006 Tequila Trade Agreement between the two countries allowed the US to continue importing tequila in bulk for bottling. Despite this, the agreement created a registry which identified approved bottlers of tequila and an agency to monitor this.
AN OVERVIEW OF THE SPIRITS MARKET

UK

The UK is one of Europe’s most valuable spirit markets. Neilsen’s off-trade Scantrack Service, which monitors weekly sales from a network of nationwide checkout scanners, estimated the value of the off-trade spirits market in the UK as £3bn in the year to August 2009 – up 7% on the previous year. The volume of spirits sold rose 2% over the year. Coverage includes grocery multiples, co-ops, multiple off-licences, independents, symbol groups and multiple forecourts.

The results also show that for the second year running vodka has surpassed blended Scotch Whisky as the favourite category within spirits for take home shoppers. Vodka accounts for £863m - over a quarter of the value of overall spirit sales – whereas blended Scotch Whisky accounts for £782m. However, this still represents almost £1 in every £6 spent on spirits. It is thought by industry analysts that it is Scotch Whisky’s difficulty in appealing to a younger drinker, relative to vodka, that is likely to have caused the sales swing to the latter.

Sources: off license news, 2008 an 2009b

In the UK, the five most popular Scotch blended Whiskies are Bell’s (Diageo), The Famous Grouse (Edrington), High Commissioner (Glen Catrine Bonded Warehouse), William Grant’s (William Grant & Sons) and Teacher’s (Beam Global). Although the value of Scotch blended Whisky sales rose 4% between 2008 and 2009, the volume of sales fell 1% (off licence news 2009b).

Similarly, the value of Scotch malt Whisky sales rose 3%, but the volume fell 2%. The five most popular Scotch malt Whiskies are Glenmorangie Original (Louis Vuitton Moet Hennessy), Glenfiddich (William Grant & Sons), The Glenlivet (Pernod Ricard), Aberlour (Pernod Ricard) and Laphroaig (Beam Global) (off licence news 2009b).

Interestingly, it was imported whisky (headed by Bacardi-owned Jack Daniel’s) that had the strongest growth in sales value in the overall spirits sector over the year to August 2009 (12%), followed by vodka (10%). Within this category, value brands have also seen high growth. off licence news wrote that “shoppers seem to be trading down to less expensive versions of their preferred brands or to cheaper brands altogether” (2009b).

INTERNATIONAL

As a result of the prevailing economic downturn there is some evidence within the worldwide spirits market of reduced demand and trading-down to cheaper products in countries particularly badly hit by the recession, such as the US, the UK, Ireland and Spain. For example, leading cognac brands, which rely heavily on sales in the US and the UK, have experienced a fall in demand, as have high-end vodka brands in the US as a result of trading-down. Another trend emerging as a result of the recession is a switch from on-trade sales (i.e. sales within bars, hotels & restaurants) to off-trade sales (i.e. retail sales) as consumers become more value conscious (Drinks International 2009).
Despite these trends, the worldwide spirits market is still judged by market analysts as performing well given the economic conditions. This is largely attributed to strong brands and growing sales in emerging markets. For example, strong growth in central and Eastern European markets has benefited the Scotch Whisky industry throughout this period.

According to data from Euromonitor International, whisky accounts for 12% of the worldwide spirits market by volume, as shown in Figure 5. It is the second most dominant spirit in the market, after white spirits, which account for 23% of market volumes. It should be noted that a lot of the white spirits markets are domestic, in contrast to whisky which is extensively internationally traded.

![Figure 5 – Proportion of worldwide spirits market by volume, 2008](image)

Within the premium spirit market, vodka is undoubtedly the star performer with data from Impact Databank showing four of the top five growth brands in 2008 being vodka drinks – all showing sales growth of over 20% (Impact 2009). It is a fast-changing market and, although Smirnoff is the clear leading brand, new players are continually emerging and there is considerable churn in the most popular brands. Intangible Business, which produces the Fortune 100 publication rating the most powerful brands in the wine and spirits market, stated:

“The vodka market has surpassed all expectations. Led by Smirnoff, Absolut and others including Grey Goose, Stolichnaya, Skyy and Finlandia, the whole category continued to grow when it had looked like growth was stalling. This underlines vodka’s power in the market, fueled by powerful branding, its versatility as a cocktail and mixer ingredient, its alignment with sophisticated marketing programmes and its capture of a still buoyant US market which may come under threat as the recession takes hold” (2009).

Nevertheless, vodka is not necessarily Scotch Whisky’s biggest competitor – this depends on the market – and Scotch Whisky is still showing growth, with Impact Databank data showing sales volume of key brands such as Johnnie Walker, Ballantine’s, Grant’s and Chivas Regal growing 3-6% over the year (Impact 2009).

While whisky is behind white spirits, and vodka in particular, in terms of worldwide sales volume, the higher price that it commands at the premium end of the market means that it is leading in terms of sales value. Johnnie Walker’s positioning at the high end of the market also means that in terms of sales value it is the top spirit brand in the world. Within their 2009 report, Intangible Business rate whisky as the top sector in terms of its ability to generate value for its owner, followed by vodka (Intangible Business 2009).
WORLDWIDE TRENDS IN THE WHISKY INDUSTRY

CONSOLIDATION AND DIVERSIFICATION

The last decade has brought much consolidation within the drinks industry. In addition, recent years have seen Scotch Whisky companies expand beyond their traditional business. For example, William Grant & Sons recently launched Sailor Jerry rum and Hendrick’s gin. Edrington has expanded into the market for other spirits too, through the acquisition of the Caribbean rum Brugal. Likewise, Scotch Whisky brands have been acquired by larger foreign drinks companies looking to diversify their portfolios. Consolidation and diversification has allowed companies to expand their consumer base and also makes them less exposed to volatility in a single market. However, the consolidation has also resulted in the rationalisation of head office functions in Scotland and the relocation of some positions to global headquarters.

GROWTH OF REGIONAL AND DOMESTIC/LOCAL BRANDS

The global spirits market is founded upon domestic/local brands which account for more than half the volumes of worldwide spirits sales (Drinks International 2009). Local whiskies are showing strong growth in sales volume and may soon begin to dominate sales volume in the market for whisky. For example, Bagpiper, an Indian whisky, sold 15.4 million cases worldwide in 2008, compared to Johnnie Walker’s 16.3 million and, if it continues growing at the same pace, it will overtake Johnnie Walker in sales volume next year (Impact 2009). The SWA does not see these brands as a threat as they believe these brands help nurture local roots, enabling the development of a sales infrastructure that can sustain international brands later (SWA 2009a). However, there is always the risk that the threat of new brands is under-estimated.

PREMIUMISATION IN BOTH EMERGING AND MATURE MARKETS

As disposable incomes rise in emerging markets, such as the BRIC countries (Brazil, Russia, India and China), there is the opportunity to steer these customers towards premium Scotch Whisky. This is already happening in China where Scotch Whisky consumption is growing at an annual rate of 19% (Lloyd-Jones 2003). Within mature markets such as the UK, premiumisation is also a key strategy within the Scotch malt Whisky industry to enable it to sell products with higher profit margins. Companies are making investment to tap into this market through introducing new premium products and repositioning existing brands. For example, Diageo has introduced a new branding – ‘The Singleton’ – for several of its smaller malt brands making them easier to identify as single malt whiskies with the aim of attracting new customers into this category.

GROWING IMPORTANCE OF THE ASIA-PACIFIC MARKET

Although markets such as the US, France and Spain are the most valuable for the Scotch Whisky industry, Asia-Pacific is still the key region in terms of volume of consumption. In 2008, the region accounted for 49% of total spirits consumption. The next biggest region was North America (20%), Western Europe (19%) and Latin America (6%) with Middle East & Africa, Eastern Europe and Australia all accounting for less than 5% each (Drinks International 2009).

With disposable incomes rising in the Asia-Pacific region it offers good growth prospects to the spirit market. However, the economic environment in this region also has the potential to negatively impact sales volumes of Scotch Whisky. For example, in 2004 an economic downturn in South Korea meant that overall export volumes of Scotch Whisky to Asia were down 14% (Beveragedaily.com 2004).
KEY ISSUES FOR THE INDUSTRY

PERFORMANCE OF SCOTCH WHISKY IN UK MARKET
Within the UK, Scotch Whisky is predominantly drunk by males and those aged over 30. Off license news believes that “blended whisky producers will need to pull out all the stops if the spirit is to become the best-selling spirit in the off-trade again. Some funky packaging makeovers and some unique, up-to-date marketing campaigns are what’s needed to turn blended whiskies fortunes around.” (Off license news 2009b).

The under-performance of Scotch ‘own label’ blended Whiskies within the UK volume/value market place contrasts with the strong performance of companies favouring an international premiumisation strategy – particularly for Scotch malt Whisky.

INCREASED COMPETITION FROM OTHER SPIRITS
The high levels of growth seen with white spirits and particularly vodka in certain countries, such as the UK and US, pose a challenge to the whisky industry. In addition, internationally produced whiskies such as those from Canada and Japan are gaining increased sales in some markets. Nevertheless, just as imported spirits are gaining market share in the UK, whisky is an attractive import relative to other spirits in markets such as South Africa and Eastern Europe.

LEGAL PROTECTION
The industry has lobbied hard for specific trademark protection across the globe, conscious that the premium nature of the product means it is particularly vulnerable to counterfeitters. The proposed Scotch Whisky Regulations 2009 which will define Scotch Whisky into five categories and the existence of this new legislation is aimed to help the SWA to take action against foreign counterfeitters.

TRADE BARRIERS
The SWA reports that, of the 200 countries in which Scotch Whisky is sold, it faces over 600 trade barriers in 143 of these. Discrimination most commonly takes the form of high duty on Scotch Whisky relative to other (in certain instances locally produced) products. Other forms of barriers include advertising restrictions, profit margin controls, health warnings, minimum values for duty/tax purposes, quotas and labelling restrictions. The SWA, the UK Government, the EC and the WTO work hard to eliminate discrimination through trade barriers. Successful examples include that of Taiwan, where tax discrimination was removed in 1999 resulting in the retail price of Scotch Whisky falling 25% (Gray 2008).

SOCIAL RESPONSIBILITY ISSUES
Increased awareness of the health and social costs related to alcohol misuse, together with changing patterns of drinking – such as binge drinking - have brought increased concern with regard to the current ‘drink culture’ in the UK. There is growing pressure to implement further measures to prevent alcohol misuse. For example, the British Medical Association is calling for a complete ban on alcohol advertising, blaming it for the growing alcohol consumption, particularly among young people (British Medical Association 2009).

The Scotch Whisky industry has introduced a Code of Practice, setting out minimum standards for marketing and promotion within the UK and best practice in international markets, to show its commitment to promoting responsible drinking.
Minimum Pricing

As part of their 2009-10 legislative programme the Scottish Government will introduce a Bill to Tackle Alcohol Misuse. The Government recognises alcohol misuse as a significant problem in Scotland and estimates that it costs Scotland £2.25 billion per year in extra services and lost productivity (Scottish Government 2009b). One of the key instruments within the Bill will be a minimum pricing policy for alcohol. A study undertaken by the University of Sheffield on behalf of the Scottish Government shows that:

“Using an example minimum price of 40p per unit combined with a ban on promotions, alcohol-related deaths would fall by about 70 in the first year of the policy and about 370 per year after 10 years of operation - a drop in such deaths of nearly 20 per cent. It also shows that a minimum pricing policy would lead to significant falls in alcohol-related illnesses and crimes, leading to yearly savings for taxpayers. It would also have economic benefits - including nearly 30,000 fewer absence days from work every year, using the 40p example with a promotions ban” (Scottish Government 2009c).

The report also states that the greatest impact of the policy will be on heavy drinkers, who tend to choose cheap, higher-strength products such as white cider and own label spirits.

Figure 6 provides information on how duty per unit of alcohol currently varies between different alcoholic drinks.

Source: House of Commons Library 2009

The minimum pricing legislation, like any other alcohol policy, must take into account obligations in relation to:

1. International and European law
2. Other policies dealing with alcohol as an economic commodity
3. International actions to reduce the harm done by alcohol

When considering whether or not health policies on alcohol comply with legal obligations, the EU states that “Health policymakers should ensure that health policies interfere with trade as little as possible, and should monitor the risks inherent in the process of trade liberalisation, especially at the global level” (Policy in Europe 2006). It also states that:

“Member States do have flexibility in setting the relative taxes on drinks but not to the extent that they can attach a greater tax to drinks only produced abroad.... A similar conclusion has been reached on the legality of minimum pricing agreements, which may be ruled illegal where they stop low-price competition from abroad” (Policy in Europe 2006)

The SWA, representing the whisky industry, supports most of the Government’s proposals but is opposed to the introduction of Minimum Pricing for reasons including the following:

- With 30% of Scotch Whisky sales in Scotland being through supermarket own label and ‘cheapest on display’ brands and 50% of sales in Scotland taking place when Scotch Whisky is on promotion, the industry believe that as a result of this policy the price of Scotch Whisky would rise and sales would decline - putting more pressure on jobs within the industry, particularly at firms heavily dependent on the domestic market such as Whyte & Mackay.
- They speculate that the policy would encourage other countries to consider introducing spuriously-based ‘public health’ measures which could purposefully or not discriminate
against imported Scotch Whisky. For example, through introducing a health tax that would apply to spirits over 30% alcohol by volume. The Scotch Whisky industry also believe that fighting these restrictive trade policies based on ‘public health’ concerns would be more difficult if the Minimum Pricing Policy is in operation in Scotland on the grounds of public health. Therefore, this policy would lead to difficulty fighting protectionist policies from other countries which would negatively impact exports of Scotch Whisky (SWA 2009a).

The Economy, Energy & Tourism Committee may wish to explore further how the Minimum Pricing proposals could impact the Scotch Whisky industry.

PERCEPTION OF INDUSTRY WITHIN SCOTLAND

Foreign ownership

The proportion of distilleries under foreign ownership has increased from 22% in 1980 to 40% now (Gray 2008). In addition, of those which remain under UK ownership, the proportion retained by small independent operators has fallen while the proportion owned by the larger firms has increased.

Increased foreign ownership can bring with it the transfer of central functions, such as management and marketing, to international corporate headquarters. In addition, the recent restructuring announcements at Diageo and Whyte & Mackay have increased the perception that pressures to make profit mean that these companies are not as committed to Scotland as indigenous Scottish companies and that strategic decisions taken outwith Scotland do not take as much consideration of the impact they may have on potentially fragile local economies.

However, the SWA believe that their companies are acutely aware of the role they play in Scottish communities, but that difficult decisions have to be made when operating from a high cost base in a challenging global market (SWA 2009d). In addition, it points to the high levels of investment that these larger companies have put into the Scotch Whisky industry in recent years as well as the benefits that their large marketing budgets can bring to the industry as a whole through creating a market for and raising awareness of Scotch Whisky across the world.

Movement of bottling operations overseas

It is currently estimated that 15% of Scotch Whisky is bottled overseas. Whyte & Mackay, for example, bottle Scotch Whisky for domestic Indian consumption at its plant in Western India. This figure is lower than what it was in 1998 (21%). However, recent redundancy announcements by Diageo and Whyte & Mackay have indicated the pressures that international drinks companies are under to cut costs in this period of economic uncertainty. The decision by Diageo to move the bottling of Johnnie Walker out of Kilmarnock, has also been viewed as an indication that there is less emphasis being placed on Scotch Whisky’s historical links with a certain area. Both of these factors have brought with them speculation that in coming years the proportion of Scotch Whisky bottled overseas, closer to key markets, may increase.

Given that the white spirits industry in Scotland relies on the economies of scale provided by the whisky bottling infrastructure, any movement of whisky bottling operations overseas would also raise questions about the viability of white spirits bottling operations in Scotland. This would in turn impact on the viability of other supply-chain operations located in Scotland, including the manufacture of glass, closures, tubes, labelling, packaging, inspection, warehousing and distribution – many of which are owned by foreign investors. Therefore the movement of whisky bottling overseas would be a major threat to the future of the white spirit industry and corresponding supply-chain businesses in Scotland.
The movement of bottling overseas and its potential impact on the Scottish economy may be an area which the Economy, Energy & Tourism Committee may wish to explore further.
ANNEXE 1 - SUMMARY OF DIAGEO’S RESTRUCTURING PROPOSALS

Diageo’s Scottish restructuring plans announced in July 2009 target annual cost savings of £42 million. The restructuring programme comprises five projects; the two largest being the closure of the Port Dundas grain whisky distillery in Glasgow and the closure of a spirit bottling plant in Kilmarnock. There is also the creation of a new bottling line in Fife.

Port Dundas Closure

Diageo’s restructuring plans envisage the Port Dundas grain whisky distillery closing in summer 2011. Diageo selected the Port Dundas site as the closure candidate because it is relatively small scale, compared to North British and Cameronbridge distilleries, which results in a cost disadvantage for every litre of spirit produced. Also significant one-off investment is required in the medium term to replace worn out assets. The company state that savings from this project will be £14 million annually based on the loss of 98 jobs in Glasgow and overheads associated with running the plant. One-off implementation costs are £14 million, the majority of which are costs associated with job losses.

Kilmarnock Closure

Diageo's restructuring plans envisage the Kilmarnock bottling plant closing in 2011. The management’s rationale for this closure is that there is a significant level of overcapacity within the current 38 bottling line footprint at Shieldhall, Leven and Kilmarnock. Diageo’s packaging restructuring plan assumes that a new bottling hall and tank farm will be built at Leven and Kilmarnock will close. Kilmarnock was selected as the closure candidate because it is the oldest site of the three current bottling operations, is space constrained, poorly laid out for product flow and goods in/out and requires significant capital spending in the medium term to replace worn out assets. The company say that savings from this project will be £20 million annually based on the net loss of 317 jobs, overheads and maintenance capital expenditure associated with running the Kilmarnock plant. The job losses are split 82 direct jobs (line operatives) and 235 indirect jobs (support staff - e.g. maintenance/line scheduling required to operate the plant). One-off implementation costs are £120 million, the majority of which, £84 million, is associated with constructing a new bottling hall and tank farm at Leven and equipment and tooling to affect the line moves. Other costs of £36 million consist of redundancy, relocation and other costs.

Source: Scottish Government 2009d

Economic Impact

An independent assessment of the impact of Diageo's proposals has been conducted by EKOS for Scottish Enterprise and East Ayrshire Council. It estimates that the net effect of the restructuring project will be a minimum loss of 710 FTE jobs and £14m of annual GVA output. In addition, the loss of tax base, increased benefit costs and long-term health effects is estimated to cost the public sector £10,000-20,000 per job per annum – a total of £4-8 million per year (EKOS 2009).

The Economy, Energy & Tourism Committee may wish to consider how Diageo, Scottish Enterprise and the Scottish Government intend to mitigate these potential impacts.

It is worth noting that in July 2009 the Scottish Affairs Committee held two private informal meetings with trade union representatives and executives from Diageo plc to discuss Diageo’s proposals for the restructuring of its Scottish business. The Committee states that it will maintain a close interest in the future of the Kilmarnock and Port Dundas sites.
ANNEXE 2 - SUMMARY OF WHYTE & MACKAY’S RESTRUCTURING PROPOSALS

Whyte & Mackay issued a press release on 4 August 2009 indicating the commencement of a restructuring programme. It stated:

“Whyte & Mackay today announced it is undertaking a major review of its organisation which could lead to the loss of up to 85 jobs in Scotland.

Approximately 15 of the company’s sales team out with Scotland may also be affected.

The Glasgow based spirits company, which has 574 employees, has entered formal consultation for the next month to review its options and look at ways of minimising the number of compulsory redundancies.

The company has held meetings over the last week with the relevant Scottish Government ministers and officials, including the First Minister Alex Salmond.

Opposition parties, Scottish Enterprise, Scottish Development International, and Highland and Islands Enterprise have also been briefed on the situation.

Chief Executive John Beard said: “It is with regret that I have to announce this review and the planned job losses. It will come as no surprise to anybody that a combination of the world wide economic situation and the punitive UK legislative climate means that only the fittest alcoholic drink companies will survive. For Whyte & Mackay this means taking the painful decision to review our structures and costs.”

Beard added: “I can confirm that whilst this impacts all of our seven Scottish locations there will be no site closure as a consequence of this decision.

“My priority over the coming days and weeks is to help and assist our staff. We have sought the assistance of PACE (Partnership Action for Continuing Employment) to provide professional support as necessary.”

He concluded: “We are hopeful that this difficult decision will ensure Whyte & Mackay has a sustainable future going forward, leaving us in a strong position to grow when the UK and global economy improves.”” (Whyte & Mackay 2009a).

Whyte & Mackay staff are spread across a number of geographical locations in Scotland:

- Glasgow headquarters: 177
- Grangemouth bottling plant: 201
- Invergordon Distillery: 133
- Fettercairn Distillery: 20
- Jura Distillery: 17
- Dalmore Distillery: 17
- Tamnavulin Distillery: 9  
  (Source: BBC 2009b)

As a result of the review around 95 people will leave Whyte & Mackay. The company are aiming to reduce the number of compulsory redundancies through offering voluntary redundancy, redeployment or relocation (Whyte & Mackay 2009b).

The Economy, Energy & Tourism Committee may wish to monitor the restructuring programme as it progresses.
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Scotch Whisky Association (SWA). (2009a) Personal communication. [Unpublished]


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UK Food Labelling Regulations 2006. SI 1996/1499.
RELATED BRIEFINGS

SB 09-56 Mapping the Recession - 1 September 2009

SB 09-50 Economic Indicators and audio summary - 18 August 2009

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Economy, Energy and Tourism Committee

10th Meeting, 2010 (Session 3), Wednesday, 17 March, 2010

The Whisky Hearing

Background

1. The Committee has received written submissions from some of today’s round-table participants:
   - A combined written submission from Scottish Enterprise, Scottish Development International and Highlands and Islands Enterprise;
   - Scotch Whisky Association;
   - STUC;
   - Donald M. Blair (Mr Blair sent this submission as part of the Committee’s international trade inquiry but it includes information relating to the whisky hearing). Mr Blair has also submitted a report he wrote; The Global Scotch Whisky Industry The Global Hit or Myth a twenty-five year study.

2. The submissions are attached in the annexe to this paper and Members are invited to take them into account in their deliberations when questioning today’s witnesses.

Stephen Imrie
Clerk to the Committee
March 2010
COMBINED WRITTEN SUBMISSION FROM SCOTTISH ENTERPRISE, SCOTTISH DEVELOPMENT INTERNATIONAL AND HIGHLANDS AND ISLANDS ENTERPRISE

Introduction
1. Scottish Enterprise (SE), Scottish Development International (SDI) and Highlands and Islands Enterprise (HIE), warmly welcomes the opportunity to contribute to the EE&T Committee’s Inquiry into the Scotch Whisky Industry; and are also pleased to be invited to attend the roundtable session scheduled for Wednesday 17th March, 2010.

2. The purpose of this paper is to respond to the specific points the Committee has identified and in particular to give:
   • Background information and updates on the assistance and continued support given to Diageo and Whyte and Mackay;
   • Wider issues/challenges facing the industry and how these are being tackled; and
   • SE, SDI & HIE’s continued response to strengthening and supporting the industry

Overview
3. In Scotland, around 41,000 jobs directly or indirectly rely on the Scotch whisky industry and underpins many rural economies across Scotland for examples. We estimate for example, that distilling directly supports around 1000 jobs in Speyside and 150 on Islay with many more jobs supported indirectly. Whisky is one of Scotland’s top export sectors and is sold in over 200 countries. The industry generates £1.7bn GVA and exports in 2008 totalled £3.1bn.

4. Scotland Food and Drink is the Leadership Body for the industry. The Scotch Whisky Association, SE, HIE and SDI are, along with other key stakeholders in the Food and Drink industry, members of Scotland Food and Drink’s Executive Group. This group plays a key role in developing and then delivering the industry’s strategy for Scotland. The ambition is for Scotland to have fulfilled its potential to be a land of food and drink by 2017, and to have a globally competitive industry worth £12.5bn. A significant proportion of this growth, from the current level of £10bn, is anticipated to come from the drinks industry.

5. In pursuit of that £12.5bn ambition, SE, HIE and SDI work in collaboration with industry and stakeholders to accelerate growth in the sector. A specific focus across the agencies is to support company growth, for example through leadership, productivity improvements, new product development and market development and by creating opportunities at a sector level through supply chain work and links with tourism. Single account teams and shared intelligence present a joined up package of support to companies in the sector.

6. We recognise the importance of the whisky industry to Scotland and are actively working with 31 whisky companies on a one to one basis to support their growth. Through building effective relationships with these companies we understand their growth plans and provide them with financial and advisory support to accelerate that growth. We are helping these companies in a number of ways including support for strategy development, market research and feasibility studies, competitor benchmarking, website development, developing international sales, undertaking new product or technology development, investing in training and support for investment. This help is tailored to meet individual company’s vision for growth both in the UK and globally.

7. We also recognise the importance of the supply chain in Scotland for the whisky industry and we work closely on a one to one basis with a number of key suppliers in order to build a
robust supply chain that can allow whisky companies to achieve their international growth ambitions.

**International Support to the Scotch Whisky Industry**

8. SDI has provided a range of international services to over 15 Scotch whisky companies in the past twelve months to support their international objectives. This includes specific international trade support including international strategy development, market research, identification of importers and distributors, identification of international joint venture partners, and attendance at international exhibitions.

9. SDI also has an important role in developing strategic relationships with foreign owned Scotch whisky companies in international markets to understand their global strategies and ensure that further investment and job creation in Scotland is encouraged and supported.

10. By developing relationships internationally and with the local operations in Scotland, SDI is able in, collaboration with other partners, to support investment projects. Examples of foreign owned whisky companies include Whyte and Mackay, Pernod Ricard, Inverhouse Distillers, Morrison Bowmore, Diageo, Glenmorangie and Burn Stewart Distillers.

11. This approach also includes support to foreign owned glass and packaging companies who are suppliers to the Scotch whisky industry. SDI is currently supporting a number of investment projects in the Scotch whisky sector and the associated supply chain.

**Diageo**

12. Prior to Diageo’s restructuring announcement an account team, comprising representation from SE, SDI and HIE worked closely to support Diageo’s operations in Scotland, for example

- In 2008 SE part funded a feasibility study into anaerobic digestion to produce steam and electricity at Diageo’s Cameron Bridge distillery.

- Guidance was provided by the Account Team on how to access income streams from renewable obligation certificates (ROCS).

- SE provided training support at Diageo’s Shieldhall bottling plant and provided ‘Lean Management’ support at Shieldhall through the Scottish Manufacturing Advisory Service (SMAS).

13. Diageo’s restructuring review carried out in 2009 will see the company close its Kilmarnock bottling and packaging facility with the loss of 700 jobs; it will close its distillery and nearby cooperage in Port Dundas, Glasgow with the loss of 140 jobs, and 30 jobs will be lost at Diageo’s packaging facilities. There will be no compulsory redundancies until November 2010. Diageo will create 400 new jobs at its Leven facility.

14. In response to Diageo’s announced restructuring and the closure of the Kilmarnock plant East Ayrshire Council has been leading a Local Task Force to drive forward economic regeneration in Kilmarnock. The Task Force has been developing its initial ideas and a workshop is being held on Friday 12\textsuperscript{th} March to develop these further and explore additional ideas and opportunities. The workshop will include representation from Diageo, SE, Scottish Government, and other local employers and stakeholders. The output of the workshop will be fed into a Recovery Plan for Kilmarnock, SE has offered to second a
member of staff to help deliver the plan, and in addition will support key study work as required.

15. The Account Team still work closely with Diageo and SE is currently providing Environmental Management support at Diageo’s Shieldhall plant to investigate waste for the bottling lines and discuss opportunities to increase recycling of waste in line with the corporate goal of zero waste to landfill.

16. The SMAS Team conducted a value stream mapping exercise during a manufacturing review at Diageo’s Shieldhall bottling plant to establish key improvement opportunities at the site. In addition the SMAS Team delivered support on Changeover Reduction and Dry Goods supply, in February 2010.

Whyte and MacKay
17. SE has an account team in place to support Whyte and Mackay’s (W&M) operations in Scotland which includes representation from SDI and HIE. SE and SDI met with Whyte and Mackay on the 27th of July 2009 following W&M announcement that the company was to enter a redundancy consultation following an internal review. SE/SDI attended subsequent meetings with W&M and the Enterprise Minister on 30th of June and the First Minister on 3rd of August to discuss support to the company.

18. The account team introduced the PACE (Partnership Action for Continuing Employment) team to Whyte and Mackay in August 2009 to provide specialist career guidance services to W&M employees facing potential redundancy. In terms of the work undertaken since August 2009, a programme of support was agreed between PACE and the company which included CV workshops and sessions on job seeking and completing application forms. W&M particularly appreciated the professional, responsive and personalised nature of the support that was provided.

19. The account team is in regular dialogue with W&M and has had meetings with the company at its Invergordon grain distillery (October 2009) and Grangemouth bottling plant (November 2009) to offer project support. SE has offered support via the SMAS at Grangemouth to identify further operational efficiencies in terms of line efficiency and productivity. SE/SDI met with W&M on 17th February to update on support available and to agree next steps. It was agreed W&M would contact the Account Team in due course to explore options as soon as the company has completed its annual budgeting process which is currently underway.

Issues & Challenges Facing the Industry
20. Key challenges facing the Scotch Whisky industry include trade barriers, social responsibility issues and the image of the drink in the highly competitive domestic and global market. Recent restructuring announcements by Diageo and Whyte & Mackay have also brought to the fore questions regarding the future of the industry in Scotland, and in particular the issue of foreign ownership and the potential for increasing quantities of Scotch Whisky to be bottled overseas.

New Scotch Whisky Legislation
21. The Scotch Whisky Regulations 2009 are the definitive rules governing the making, bottling, and labelling of Scotch Whisky. Implemented on 23 November 2009, they are strongly supported by The Scotch Whisky Association, the industry’s representative
organisation. The regulations include a number of provisions developed to ensure traditional Scotch whisky production is protected.

22. SDI is working in collaboration with the SWA to promote the new Scotch whisky legislation to international importers, distributors and retailers. Seminars to promote and explain the importance of the new regulations are being organised in Hong Kong (March), New York (April), Sao Paulo (May) and Paris (June). The objective of each seminar is to help train international distributors on the benefits of the new regulation to help them promote consumer understanding of every type of Scotch around the world and help achieve the highest levels of protection from unfair competition.

**Bottling**

23. It is currently estimated that 15% of Scotch Whisky is bottled overseas and that figure has reduced from 21% in 1998; however there has been speculation that in coming years the proportion of Scotch Whisky bottled overseas, closer to key markets, may increase.

24. We are actively working with the whole supply chain within the industry, from glass manufactures to whisky/white spirit bottlers through to packaging companies to strengthen the supply chain to ensure sustainability and enhance their competitiveness.

25. The SMAS Team has to date worked with whisky companies on 11 projects, which has resulted in £2.5m in value add to the economy.

26. We have also assisted whisky companies to access funding for expansion for example through RSA funding and 3rd party investors; for example Inverhouse Distillers was awarded RSA funding of £120,000 in 2009 to open a new bottling line. The company had some issues sourcing bottling capacity from third parties and this award provides the company with in-house bottling capability, helping them to further grow their business.

**Minimum Pricing**

27. There is not a common perspective from the industry in relation to Minimum Pricing. Some companies are in favour of the legislation believing that cut-price alcohol promotions actually negatively impact on the industry, while others believe legislation could set a precedent for how other countries treat Scottish whisky imports.

28. Industry organisations and individual companies have been involved in the consultation process, as a public sector agency, it is not our role to get involved in the legislation process. Our role is to remain focused on working with individual companies and the wider sector, understand the issues they are facing and identify how we can support them to grow their business and industry, whether that's by helping them to increase efficiencies, reduce costs, develop new markets or secure investment funding.

**Barriers to Trade**

29. Whisky companies’ ability to export is negatively impacted by a large number of tariff and non-tariff barriers. A recent (2009) SWA analysis identified around 600 separate barriers to the trade in Scotch whisky in nearly 200 markets.

30. SWA and its members are working proactively to remove such barriers, as well as supporting trade liberalisation measures that promote Scotch whisky.
31. SDI works closely with SWA to understand where these key barriers are; there is also a strong relationship among SWA, SE, HIE SDI and Scotland Food and Drink, with regular exchanges of information and dialogue which ensures provision of appropriate support and focus to grow the whisky industry’s international strategy.

**Investment in the Scotch Whisky Industry**

32. The industry’s commitment to Scotland can be clearly seen through its preparation for future growth. Over the past 2 years whisky companies have announced more than £500 million in new capital investment will be made in the Scotch whisky industry, some of which has now been completed:

- Inverhouse Distillers opened a new bottling hall in Airdrie (2009) investment of £1 million. (owned by Thai drinks giant, Thaibeve)
- William Grant, new malt distillery in Girvan (2009)
- The Edrington Group invested £20 million in the Macallan distillery to increase capacity by 20% (2008);
- Glenmorangie have made an investment of £45 million including £15 million in new bottling facility planning for Lothians (2008)
- Bacardi, owners of John Dewar and Sons announced an investment of $250 million over 10 years to include new maturation warehouses, new blend centres and plans for new bottling lines and packing equipment;
- Diageo announced £100m in a new malt whisky distillery (£40m) an expanded grain distiller (£40m) and additional bottling and packaging capacity (£20m); prior to recent restructuring announcement;
- Pernod Ricard is doubling the size of the Glenlivet distillery;
- Kilchoman on Islay doubled capacity;
- Morrison Bowmore, owned by Suntory, invested in its three distilleries, near Glasgow, on Islay and in Aberdeenshire; including £500,000 in a new visitor centre at Auchentoshan distillery.

**Tourism**

33. The whisky industry plays an important role in attracting visitors to Scotland. Over 1.23m visitors toured a distillery in 2008 – making a positive contribution to the local economy of over £25m.

34. We recognise this contribution and have provided support over a 6 year period to an industry-led group ‘Scotlandwhisky. Others involved in this initiative include SWA, Scotch Whisky Experience, Visit Scotland and other industry representatives such as Edrington, Diageo etc.

35. The group employs a project manager who is focused on raising awareness of Scotland as a destination - through its status as the home of Scotch whisky whilst improving the quality of the visitor experience of Scotch whisky when they are in Scotland.

36. The main project is the development of a network of whisky embassies - hotels and restaurants where the staff are trained to share their knowledge of whisky with customers and where there will be a good selection of whisky to taste. Training is provided through the Scotch Whisky Experience and culminates in an exam and a certificate.
Agriculture
37. The Scotch whisky industry has close linkages with the agriculture sector in Scotland with over £90m of cereals being purchased from Scottish suppliers. In addition, distillers supply the agriculture industry with various forms of animal feed derived from the cereals and distillation residues and rely on the industry for the beneficial disposal of used cereals and distillery co-products onto agricultural land.

38. SE and HIE run a Planning to Succeed (Agriculture) programme aimed at improving the growth of Scotland’s agricultural businesses, many of which are key suppliers to the whisky industry. This involves participation in group activity over a 4 year period in a series of workshops with the aim of enhancing the overall level of business management expertise of farm managers and owners. A number of the participants in these groups supply malting barley to the whisky industry. Participation in the programme has led to a significant increase in on and off farm investment, an increase in its total profitability and GVA and a greater understanding of the importance of the wider supply chain.

Conclusion
39. Scotch Whisky is vitally important to Scotland’s Food and drink industry and the wider economy. We work in partnership with SWA and Scotland Food and Drink, to ensure that the co-ordinated support that is provided assists the whisky industry to continue to flourish both here in Scotland and Internationally.

40. We recognise that this sector, like others in the industry, faces challenges over the coming years, some of which have been highlighted above. We are confident however that this industry will continue to be a major driver of economic growth for Scotland. This is evidenced by the capital investment in the whisky sector being at its highest level since the early 1970s, the strong export performance of the industry and the continuing global demand for its products. We will continue to build on our relationships with individual whisky companies and key stakeholders such as SWA and Scotland Food and Drink and are well positioned to provide significant support and guidance to the industry to help it respond to future challenges and to take full advantage of growth opportunities.

Scottish Enterprise
Scottish Development International
Highlands and Islands Enterprise
March 2010
1. Introduction

1.1 The Scotch Whisky Association (SWA) is the industry’s representative body, with a remit to protect and promote Scotch Whisky worldwide. Its 55 member companies – Scotch Whisky distillers, blenders and bottlers – account for 90% of the industry.

1.2 To assist the Economy, Energy, and Tourism Committee as it holds a ‘Scotch Whisky Roundtable’, the SWA has prepared the following note, which provides a brief overview of current industry performance and priorities.

1.3 The SWA welcomes the Committee’s decision to engage directly with the industry and is happy to discuss any points set out in this submission.

2. Economic Importance

2.1 Scotch Whisky is iconic and a cornerstone of the Scottish economy. It is Scotland’s leading single product export, with annual shipments of over £3bn in value contributing £97 every second to the balance of trade. Scotch Whisky represents 25% of UK food & drink exports and is the number one FMCG export.

2.2 Around 9,500 people are directly employed in the industry, with a further 30,000 jobs supported across its supply chain. Employment is created, for example, among farmers, maltsters, bottle and packaging manufacturers, plant and machinery firms, hauliers, and in the tourism sector.

2.3 Scotch Whisky companies invest over £1bn a year with Scottish suppliers of goods and services. Around half of that amount is invested with local suppliers of cereals and dry goods.

2.4 The industry contributes in the region of £600m to HM Treasury each year in excise and VAT receipts.

2.5 Scotch Whisky firms are highly productive, outperforming other sectors of the Scottish economy on Gross Value Added measurements.

3. Market Performance

3.1 2008 was a record year for Scotch Whisky exports, despite the international recession. Tough economic conditions were experienced in a range of markets, with a marked weakening in consumer confidence and credit availability in late 2008 and in early 2009. This resulted in trade de-stocking, as well as customer credit issues.

3.2 However, Scottish distillers demonstrated considerable resilience. Scotch Whisky shipments of £3.06bn represented over 20% of Scottish manufactured exports and 90% of food & drink exports. 2009 figures will be published shortly and are expected to show a strong export performance in the second half of the
year. In contrast, other drinks category exports, such as Cognac (-6% in volume in 2008), have been declining.

3.3 Scotch Whisky exports have growth potential, with positive market trends for Single Malt and Blended Scotch Whiskies in traditional and new emerging export markets. The value of exports has risen by over £1bn – an increase of 51% - between 1998 and 2008. Export volume rose by 19% over the same period, an increase of 13.4m nine-litre cases. This reflects premiumisation within the sector and that distiller investment is returning more value to the economy. A breakdown of the industry’s top ten markets by value is at Appendix One.

3.4 Industry performance should be set in context. Within the spirits category, Scotch Whisky volumes compare favourably to competing products. For example, in 2008, Scotch Whisky was 7 times larger than Cognac and 20 times the size of Irish Whiskey.

3.5 UK market conditions have proved very challenging in recent years. A combination of excise duty rises of nearly 16% in the last three years, difficult economic conditions, and changing consumer tastes have impacted on the home market. Clearances from bond onto the UK market are expected to be significantly down in 2009.

4. Industry Investment

4.1 It is important to take a long term view of the Scotch Whisky industry due to the maturation requirements set out in law. The sector is planning today for changing market conditions over a twenty year period. Like any other sector, the industry must be flexible and able to adapt in a highly competitive global market.

4.2 Optimism about long term trends has underpinned around £600m in new capital investment over the last two years. Around one sixth of that total has been invested in environmental sustainability projects, such as in renewable energy schemes. Levels of investment in distilling, warehousing, and bottling are at the highest levels since the early 1970s.

4.3 Over the last 15 years, 18 ‘silent’ distilleries have been brought back into production, with 5 new malt whisky distilleries constructed since 2005. Currently, another 7 distilleries are understood to be at different stages of development and a range of existing distilleries have recently been expanded. Today 109 distilleries are licensed in Scotland, with around 160 industry facilities in operation.

4.4 It is encouraging that there are new entrants into the market, both domestic and international. There has been significant and welcome overseas investment in Scotch Whisky in recent years, helping the sector to compete globally.

4.5 The sector is investing to develop further the potential of Scotch Whisky related tourism, an important contributor to Scottish tourism. Over 1.24m people visited a distillery in 2008, contributing £25m to the rural economy.
4.6 23% of Scotland’s five star visitor facilities are distilleries, ensuring a premium offering to tourists. Such attractions, as well as Scotch Whisky festivals, create opportunities for local businesses and the hospitality sector. Building on this, the industry and public bodies are working on maximising Scotch Whisky’s international appeal to increase tourism. It was for that reason the national whisky tourism initiative – ‘ScotlandWhisky’ – was established in 2003.

4.7 The industry supports and funds a range of organisations, including the Scotch Whisky Research Institute, Heriot Watt University’s International Centre for Brewing & Distilling, and the Scotch Whisky Experience. It also actively contributes to bodies such as Scotland Food & Drink and the Food & Drink Leadership Forum.

4.8 Continued optimism and ongoing investment relies heavily on industry regulation being proportionate and supportive of a product that can only be made in Scotland.

5. Scotch Whisky Industry Priorities

5.1 Like other businesses, Scotch Whisky companies face a wide range of commercial issues, from raw material to energy costs. The following sections, however, focus on outlining specific industry-level priorities.

6. Legal Protection

6.1 Major efforts have been made by the industry to secure robust legal protection for Scotch Whisky in domestic and international law because the category’s reputation for quality and authenticity is fundamental to its success.

6.2 The SWA welcomed landmark UK legislation – The Scotch Whisky Regulations – passed in late 2009. This law covers every aspect of the making, labelling, packaging and advertising of Scotch Whisky. It greatly enhances Scotch Whisky’s legal protection, whilst providing new opportunities to promote the different categories worldwide.

6.3 Scotch Whisky has been recognised as a geographical indication of origin (GI) in European law since 1989. It also has GI protection under the Agreement on the Trade Related Aspects of Intellectual Property Rights at WTO level.

6.4 Where imitation products are found on sale, the SWA uses civil and criminal enforcement mechanisms to have them removed from the market. This prevents the Scotch Whisky designation becoming generic in the manner say of ‘Cheddar Cheese’ which can be made anywhere by anyone.

6.5 Supporting this effort, the industry works to ensure there is a strong legal definition of Scotch Whisky in export markets. The SWA is also seeking to register Scotch Whisky as a GI in a wide range of markets which have set up geographical indication registers. Recent successes have included registration in Malaysia and Thailand.
6.6 Significant resources are invested to protect Scotch Whisky's intellectual property around the world from any form of unfair competition. At any one time, the SWA will be handling up to 70 legal actions and conducting hundreds of investigations into suspicious products. This industry-level work is in tandem with the protection of brand intellectual property rights by individual distillers.

7. Fair and Equal Market Access

7.1 With 90% of sales overseas, the industry attaches a high priority to securing fair and equal access for Scotch Whisky to its export markets.

7.2 International trade priorities are set on a rolling basis according to commercial potential and achievability. For the period 2010-2012, top market priorities include improved access to Brazil, China, Colombia, India, Mexico, the Russian Federation, South Korea, Thailand, and Turkey. Market priorities are pursued in parallel with efforts to secure appropriate outcomes to negotiations within the WTO and EU free trade agreement framework, as well as on EU regulatory issues.

7.3 Export potential is negatively impacted by a large number of tariff and non-tariff barriers to trade. An SWA analysis (2009) identified around 600 separate barriers to the trade in Scotch Whisky in nearly 200 markets.

7.4 Issues include high import tariffs, discriminatory taxation, overly burdensome certification, labelling and licensing requirements. Trade barriers such as India's 150% import tariff or Colombia's discriminatory excise tax arrangements are serious impediments to market penetration. Increasingly, such barriers are spuriously based on health grounds. Up to 15% can be added to the cost of a bottle of whisky by customs procedures.

7.5 The Association works with a range of stakeholders on international trade policy issues, including the UK Government and the European Commission. It is also working with SDI to promote the new Scotch Whisky Regulations in key markets.

8. Promoting Responsible Attitudes to Alcohol

8.1 The Scotch Whisky industry is committed to promoting responsible attitudes to alcohol, supporting proportionate, evidence-based solutions to alcohol misuse. Its starting point is that the vast majority of people who drink do so responsibly and in line with a balanced, healthy lifestyle.

8.2 In the Scottish context, the SWA is a founder member of the Scottish Government and Alcohol Industry Partnership which continues to bring forward tangible measures to address alcohol misuse, such as the annual Alcohol Awareness Week, new guidelines on sponsorship activities, and alcohol in the workplace best practice.

8.3 The SWA supports stricter enforcement of laws that ban sales to those who are under the legal purchase age, intoxicated or proxy purchasers, increased support for effective brief interventions by public health professionals, and
improved alcohol education and server training. Appropriate, legal measures to tackle loss leading alcohol sales are also supported.

8.4 Building on existing company standards and initiatives, the SWA has introduced a tough industry-wide Code of Practice for Responsible Marketing and Promotion of Scotch Whisky, backed by an independent complaints process and financial sanctions. All Scotch Whisky adverts must include a responsible drinking message.

8.5 The industry is opposed to the introduction of a minimum price for alcohol in Scotland. The SWA believes such a mechanism violates both EU Single Market and GATT international trade rules. Its introduction would damage the industry both in Scotland but also in export markets, with such a precedent encouraging discriminatory copy-cat measures against Scotch Whisky overseas. Scottish Government commissioned research shows little evidence that such a measure would impact on alcohol misuse in Scotland.

9. Operational Sustainability

9.1 Scotch Whisky must be made in Scotland. It is therefore important that Scotland remains a competitive place for distillers’ manufacturing operations.

9.2 Protecting the environment on which distillers rely, and securing industry sustainability, was central to the launch of an industry-wide Environment Strategy in June 2009. Welcomed as ‘pioneering’ by the Scottish Government, the industry is understood to be the first sector in Scotland to publish such a strategy.

9.3 Distillers have committed to cutting fossil fuel use by 80% by 2050; reducing average unit weight of product packaging materials by 10% by 2020; ensuring all product packaging is reusable/recyclable by 2020; that no packaging waste from packaging operations is sent to landfill; sustainable water and cask management measures; and to work across the supply chain to maximise sustainability.

9.4 The industry would welcome better support for investment in sustainability projects. This should incentivise companies to innovate and harness opportunities, not just for electricity generation but for heat energy production on which distillers rely, as well as establishing technologies such as anaerobic digestion and the use of distillery co-products as an alternative energy source in the sector. It is important to ensure that businesses do not continue to face the complexity of overlapping energy and trading schemes (e.g. the EU Emissions Trading scheme, Climate Change Agreements, and the Carbon Reduction Commitment – in all of which distillers must operate).

9.5 The highest importance is attached to the health and safety of employees and reportable incidents within the sector were down in 2009. SWA member companies perform better in health and safety terms than other parts of the food and drink sector.
9.6 A highly skilled workforce is essential to competitiveness, with the industry committed to investing in employee skills and knowledge. The SQA accredited Spirits Industry Vocational Qualification (SIVQ), launched in 2007, has been widely taken up and over 600 industry staff are expected to embark on the modules in 2010. Salaries and wages are well above the Scottish average.

9.7 The industry looks to work collaboratively with its supply chain to ensure the right quality and quantity of supplies are available.

10. Fair Taxation

10.1 Scotch Whisky continues to face excise duty discrimination in the UK. Alcohol served as Scotch Whisky is taxed 1.37 times higher than the same amount of alcohol served as beer and 1.18 times higher than wine. Current excise duty policy – increasing spirits duty by 2% above inflation every year until 2013 – entrenches and widens the discrimination faced by Scotch Whisky at each Budget. Recent HM Revenue & Customs figures show spirits revenue is falling, suggesting the current policy is damaging both Government revenues and the industry.

10.2 Excise duty on Scotch Whisky has increased by nearly 16% since 2008. As a result, around 75% of the average price of a bottle of Scotch Whisky represents excise duty and VAT. Excise duty on spirits in the UK is the fourth highest in the EU.

10.3 Coming at a time when UK consumer confidence was already weak as a result of the recession, recent duty rises have been particularly disappointing. They have sent out a potentially damaging message to export markets.

10.4 The SWA believes that the UK excise duty system is outdated and unfair. As such, it should be reviewed during the next Parliament. The fairest and most responsible arrangements would be to tax all alcoholic drinks at the same rate according to alcohol content. Such an approximation of duty could occur over a five year period.

11. Bottling

11.1 A SPICE briefing (October 2009) on the industry suggests that some believe that all Scotch Whisky should be bottled in Scotland. The SWA does not support such a position.

11.2 Scotch Whisky is protected by law as a drink that must be distilled and matured in Scotland. Although there has never been a legal requirement to do so, today some 85% of Scotch Whisky is bottled in Scotland. This is up from 79% in 1998.

11.3 Under the Scotch Whisky Regulations 2009, all Single Malt Scotch Whisky will be required to be bottled in Scotland from November 2012. The industry does not support any extension of such a requirement to Blended Scotch Whisky, given the significant historical bulk trade in that category.
11.4 There are various reasons for such a position. These include the fact that the existing trade in bulk shipments is the lifeblood of several Scottish companies; closing this trade would lead to job losses in Scotland; any ban of bulk shipments would be a trade restraint leaving the UK open to challenge by companies whose business was adversely affected; and it is highly likely the matter would result in a WTO challenge by overseas governments. Market access to certain export markets is easier for bulk rather than bottled products, because of the local fiscal and regulatory framework.

12. Conclusion

12.1 The Scotch Whisky industry is iconic and internationally competitive. It is fundamental to the Scottish economy.

12.2 The food and drink sector has been identified as a strategic priority as part of the Scottish Government’s goal of sustainable economic growth. The SWA believes a more co-ordinated, strategic approach in support of the Scotch Whisky industry, recognising its national significance, should be explored.

12.3 The Economy, Energy and Tourism Committee roundtable is a welcome opportunity to better understand the industry presence in Scotland, its priorities, and outlook. We hope that it will foster a business and regulatory environment designed to support Scotch Whisky’s continued success in the future.

The Scotch Whisky Association
March 2010
Top Ten Scotch Whisky export markets by value (£ million)

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<th>2008</th>
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<th>% change</th>
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WRITTEN SUBMISSION FROM THE STUC

The Whisky Industry

Introduction

1. Scotch Whisky is an iconic Scottish industry, a major provider of quality employment across urban and rural areas and a key source of exports.

2. Volume reductions due to the global recession and the ever increasing demand for shareholder value have combined to threaten employment levels in the whisky industry:

   - 900 jobs will be lost with the closure of Diageo plants in Kilmarnock and Port Dundas (although these will be partially offset by investment at Leven);

   - 100 jobs will be lost with the closure of the Chivas site at Newbridge;

   - Over 100 jobs will be lost with the shift of production from Glenmorangie’s site at Broxburn to a new facility at Livingstone.

Restructuring

3. Trade unions recognise that employment does not and cannot remain static in a dynamic economy. Trade unions will of course seek to defend their members’ interests in any restructuring exercise – this is a fundamental role of any trade union. On occasion there may well be a trade-off between redundancy and investment/longer-term job security.

4. Trade unions do expect that employers, particularly those who have promoted partnership approaches to industrial relations and have a very longstanding commitment to a local community, will inform and consult with their workforce and its representatives in a meaningful fashion at a very early stage of any restructuring process. This will allow alternative business strategies to be developed and debated; potential workplace reorganisation and job redesign to be considered and, if redundancies prove unavoidable, tailored employment and retraining/upskilling initiatives to be designed with the relevant agencies within an appropriate timescale.

5. It is manifestly clear to all that recent restructuring in the whisky industry has failed to adhere to even these minimal standards of industrial democracy. The STUC notes both that companies implementing redundancies are hugely profitable and that key decision making centres are located outside Scotland and therefore divorced from the societal impact. The migration of ownership and control from the Scottish economy is a major economic issue and should be recognised as such.

6. With business strategies increasingly focused on ‘premiumisation’ – investing in the higher end of the market – there is a risk that volume brands may outsource bottling operations overseas. As correctly noted in the SPICe briefing for the Committee, any movement of whisky bottling operations overseas raises serious questions over the future viability of the white spirits industry in Scotland. Bottling and other supply chain operations currently support a substantial number of jobs in Scotland – jobs that are essential to contribute to the Scottish Government’s targets on growth, solidarity and cohesion.
Trade barriers

7. The STUC welcomes the growing recognition of economists from across the political spectrum that globalisation as currently organised has not delivered the benefits its advocates claimed would necessarily accrue to both developed and developing nations.

8. The STUC believes that politicians at UK and Scottish level have been somewhat complacent in failing to recognise that to compete effectively in the global economy, important Scottish industries such as whisky, other food and drink sectors and textiles must be able to derive sufficient premium from their ‘Scottishness’. This requires a regulatory regime which protects Scottish brands from lower quality imitators and in this regard the STUC welcomes the Scotch Whisky regulations 2009. It also requires the Scottish, UK and EU authorities to be as diligent at tackling trade barriers overseas as they have been in ensuring that the UK market is open to overseas competition.

Minimum Pricing of Alcohol

9. The STUC welcomes the Scottish Government’s commitment to tackle Scotland’s very serious problems of alcohol abuse through direct intervention in the market. We also accept that there is a strong link between price and consumption.

10. However the STUC does not support the current proposals for minimum pricing as contained in the Alcohol (Scotland) Bill for the following reasons:

   • the proposals will provide retailers, particularly the supermarkets, with windfall profits none of which will be spent on tackling alcohol abuse, alleviating its consequences or providing additional resources for enforcement;
   • believes that the proposals fail to target either problem drinkers or the drinks most associated with anti-social behaviour e.g. Buckfast; and,
   • the proposals could be detrimental to the whisky industry – a key provider of employment and exports. The potential consequences in key export markets are a particular concern.

11. The STUC is also concerned by the failure of the Scottish Government to disclose advice on the legality of the proposals and the potential that exists for a successful legal challenge which could derail future attempts at targeted pricing mechanisms.

12. The STUC has encouraged the UK Government to consider approaches based on duty increases for problem drinks and remains committed to examining future proposals on pricing with an open mind.

STUC
March 2010
WRITTEN SUBMISSION FROM DONALD M BLAIR

Remit
The inquiry will investigate the current strategy, policies and level of resources allocated within the public sector in Scotland, most notably within the Scottish Government and relevant agencies and public bodies that are aimed at helping Scottish companies and other organisations to internationalise their activities, to export their goods and services and how we attract appropriate forms of inward investment. The inquiry will also look at how these policies all co-ordinated within Scotland and with other trade promotion bodies at a UK level.

Q1. What is the economic rationale for trade development and promotion in Scotland and what have been the trends in international trade and inward investment?

Scotland has a large public sector which must be funded. In addition, many private sector firms rely partly or wholly on work from the public sector. Some commentators estimate that 78% of jobs in Scotland are wholly or partly reliant on public sector expenditure. Any jobs or revenues deriving from trade / export are a bonus economic input into this closed system.

The case for promoting inward investment is less clear. It may provide near instant jobs and incoming technology but can absorb and negate latent talent and, in the longer term, provide little more than local wages with both corporate profits and corporate taxes exiting the Scottish economy. In a business or economic downturn, there is always a risk that the Scottish branch facility will be down-sized, or even closed, precipitating a major all-at-once local jobs catastrophe.

Q2. Are the current strategy, policy and type of public sector support programme the right ones in terms of the needs and requirements of Scottish companies and other organisations? Is the support right in terms of the changed economic circumstances, particularly for key sectors such as manufacturing?

Previous strategic thinking focussed on Scotland’s perceived competitive advantages. Key amongst them was educational prowess in science, technology, engineering and mathematics (“STEM”). Whatever the accuracy of that original assessment, mainstream educational opinion supports the view that Scotland is slipping down international league tables in these areas. If this is true, attempts to incubate global performers in biotechnology, electronics and pharmaceuticals etc. are unlikely to be as successful as attempts elsewhere. Investment in these areas will be less than optimal. One notable exception to this is the areas in which Scotland has an inalienable natural competitive advantage such as Scotch whisky and Scottish seafood.

We have strategies coming out of our ears. It’s tangible outcomes we need. Successfully organising 6 Trade Missions is **NOT** an outcome; getting 6 Scottish companies to set up a subsidiary in country X **IS** an outcome.

Specifically with regard to manufacturing, industry-specific skills are not easily transferable to other sectors. To many people a career in manufacturing is a high-risk / low reward option. The history of manufacturing in Scotland has been littered with closures in recent years. Some people have experience of serial redundancies. Why
would anyone want to work in manufacturing when “jobs for life” occupations such as employment in local authorities, the NHS, the police service or teaching beckon? How many Members of the Scottish Parliament have had substantial careers in manufacturing or commerce?

Q3. Specifically in relation to Scottish Development International – the leading public sector body for trade promotion - how the international account management system operates, who gets access to it, what services they offer in market to support Scottish companies not account managed in Scotland, what does it cost to operate, how many companies are supported and to do what and how is the return on investment of the public sector presence in overseas markets measured?

The only comment that the writer can make on Scottish Development International is that, during his entrepreneurial time in the emerging markets of Central and Eastern Europe (1989 – 2007), he only once came across representatives of SDI. This was in Poland in 2006 when a dinner was arranged by the British Embassy for six members of the Scottish ex-pat business community to meet the then CEO of SDI - whose local regional office was in Dusseldorf. Having asked the question “What could SDI do better in Poland?”), the unanimous view of the six Scottish ex-pat guests was “Your question is 15 years too late. The Germans picked up the best business opportunities in the early 1990s”.

(Questions: Why is the SDI office for Central and Eastern European Regional Headquarters based in Dusseldorf in the west of Germany? And why is the SDI office for Northern Europe, Israel and South Africa based in London?. Hardly local engagement, is it?)

For an insight into the outcomes of such a hands-off approach see submission in response to Question Nine.

Q4. What type of support would businesses and other organisations like to see being supplied and who should supply it?

The writer cannot claim to have a complete knowledge of the experience profile of senior SDI / Scottish Enterprise / HIE employees. However, the few that he has met seem peculiarly lacking in experience of living and working in the entrepreneurial private sector overseas. Those that he has met appear to have had theoretical, college backgrounds in “International Marketing”, “Development Economics” etc. often allied, regrettably, with a condescending attitude towards those who HAVE “walked the walk” and have demonstrable track records of growing companies internationally.

Q5. Do we have the correct balance between the attraction of a diverse range of inward investment and the type of support needed for exporting and international trade?

See response to Question One.

Q6. Should we prioritise where we target the public sector’s resources and intervention in terms of specific sectors of the economy, a geographic focus, on a specific type of company (i.e. those more interested in exporting and trade or those already active in that regard), on opportunities of a particular scale etc?
Priority should be given, firstly, to sectors in which Scotland has a clear natural advantage e.g. Food and Drink. Thereafter priority should be given to supporting sectors which, in global terms, are expanding and in which Scotland has an equal chance compared to competitor countries.

Clearly, priority should also be given to supporting companies which are ultimately owned and controlled from within Scotland and which actively profess a desire to increase overall global sales.

Are we correct in investing in sophisticated, hi-tech sectors where we have no natural advantages compared with any other developed nation? When *The Sunday Times* published its “Tech Track 100” (a survey of the 100 fastest-growing private technology companies in the UK) on 20th September 2009 not one company was based in Scotland. In terms of “outcomes” it’s not a lot to show for years of investment. Of course a newspaper survey is only a snapshot. Perhaps, instead of using Research Council grants to demonstrate that drinking too much alcohol gives one a hangover, we could have some decent analysis of how much long-term bang we’re getting for our buck in this area.

Q7. Do we have the right amount of co-operation and a joined up approach within the public sector in Scotland, between the public sector and the trade and promotion programmes run by other bodies and also between agencies in Scotland and those at a UK level that also carry out related activities on behalf of Scottish companies? This should also cover how the public sector could facilitate business-to-business mentoring, within industries and from successful industries (e.g. oil and gas, and whisky) to other industries and, specifically, a review of what the GlobalScot network delivers and whether it could be used more effectively in order to maximise its potential?

(It is somewhat surprising to find the (Scotch) whisky industry described as “successful” in any document emanating from the Committee. On 3rd December 2008 the writer sent the Clerk of the Committee a copy of a report entitled “The Global Scotch Whisky Industry: Hit or Myth? A Twenty-five Year Study” The Clerk indicated by e-mail on the 18th of December that he thought it best to copy it to all members of the Committee. That report, based on data contained in various Annual Statistical Reports of the Scotch Whisky Association (SWA), showed that, in absolute terms, the global volumes of Scotch sold in the most recent 25-year period had substantially under-performed macro-economic global indicators such as global GDP growth, global GDP per capita growth and global population growth. In fact, over the quarter century analysed, global Scotch volumes had only grown in total by only 1.14%.

On the 9th September 2009, all members of the Committee were circulated with an updated version of the report's conclusions which indicated that the relative growth of competitor spirits had been far higher than Scotch whisky. In the case of vodka, global volumes had increased around 77 times faster over the last decade than volumes of Scotch. The employment implication of this data was that Scotland had lost 51,600 potential direct and indirect jobs because of the poor relative performance of the global Scotch whisky industry.)

In any event, the Scotch whisky industry (in Scotland) is little more that a liquid version of a screwdriver assembly plant. With the exception of a few independent and family-controlled companies, in most cases, the strategically-critical jobs are located outside
Scotland. What “mentoring” current Scottish-based industry employees could give to other industrial sectors is questionable.

The writer would like to be able to contribute on the question of the GlobalScot network but, having filled in the online form several years ago, he never heard anything further.

Q8. Are sufficient resources being made available for such activities and do the various public sector support organisations have the necessary skills and expertise to best support Scottish companies to internationalise and to attract inward investment from within a very competitive market?

One of the perceived views of the staff at SDI / Scottish Enterprise / HIE (shared by the writer but with, admittedly, limited experience) is that they are civil servants, graduates of theory or former academics playing at being businessmen. The development bodies need people who know the difference between a “successful process” and a “successful outcome”. Running 12 trade missions is a successful process; getting 12 Scottish companies to set up in Central Europe is a successful outcome. See response to Question Nine for relative “outcomes” for Scottish and Irish companies in the Polish market.

Q9. Are there any lessons we can learn from the approaches taken by other countries for their trade promotion and international trade schemes?

Perhaps one of the most useful long-term comparisons can be made by looking at Scottish and Irish interest in post-Communist Poland. Despite connections between Scotland and Poland stretching back 500 years (Robert Gordon’s University was founded on the profits of trade between Aberdeen and Gdansk; in the 16th century there were 400 Scottish (trading) settlements in Poland on the banks of the Wisla, Bonnie Prince Charlie was the great-grandson of the most venerated Polish king, Jan Sobieski III and, more recently, the post-World War II settlement of Polish émigrés in Scotland), the number of Scottish companies operating in Poland can be counted on the fingers of one hand.

By comparison, Ireland – with few historical or cultural links with Poland - has around 80 Irish companies with a physical presence in Poland and a further 200 Irish companies believed to be trading with Poland. In addition, BZWBK bank (a 70% owned subsidiary of Allied Irish Bank Group which entered Poland in 1995) operates over 400 “high street” branches and claims to have major plans for expansion in the foreseeable future including the opening of 200 new branches and 300 franchise outlets.

Q10. Do we have in place the necessary data collection and statistical system that is needed to provide policy-makers with a detailed understanding at a Scottish level of our export, international trade and inward investment performances? This could include views on the Global Connections survey and what it is used for and whether there are opportunities to distribute evidence from this survey more widely and more meaningfully.

Absolutely not. And when we do have the data, we ignore it. For example, the long-term data on global Scotch whisky sales volumes is of the highest calibre. It is, and always has been, in the public domain. No one disputes the data. Yet no one other than the
writer appears to have analysed and made public the long term trend viz. a miniscule growth rate during more than 25 years of the greatest economic boom in global history.

We ignore the hard data from the SWA / Eurostats and prefer the soft data (i.e. opinions) from the Global Connections survey to give us false comfort. We are in total denial of the fact that we sold more bottles of Scotch globally in 1978 (equivalent to 322.88 million litres of pure alcohol) than we did in 2006 (322.76 million LPA). How’s that for using statistics pro-actively?

Perhaps worst of all, the public servants who are paid to know these things appear completely disinterested. Twice I have met and briefed a senior civil servant, recommended by the Minister of Enterprise, Energy and Tourism, on the under-performance of the Scotch whisky industry and the negative impact on employment in Scotland, Twice he has promised to get back to me. I am still waiting. The CEO of Scottish Enterprise claims that “our Food & Drink team … do not recall any previous correspondance or interaction with Mr Blair”. Well, who were the two people who claimed to “have the Food & Drinks portfolio” and who sat opposite me at a two-hour meeting in Scottish Enterprise’s Dundee office on the afternoon of 20th January 2009?

Perhaps these public servants consider the potential for almost 52,000 extra jobs in Scotland a mere trifle?

Ladies and gentlemen, thank you for giving me the opportunity to make this individual submission to you. It is a personal view and produced at very short notice. Nevertheless, I hope you will find it of interest in your deliberations.

Donald M. Blair
March 2010
The Global Scotch Whisky Industry:

Hit or Myth?

A Twenty-five Year Study

PoleStar Scotland Limited

Independent Consultants in Performance, Productivity and Profitability
6/6 Bellevue Place, Edinburgh, EH7 4BZ, Scotland
07930-164 013

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Partly in response to the exhortations of Scottish Ministers, the author of this Report returned to Scotland last year.

Having spent over 30 years of his life promoting the interests of the Scotch whisky industry and establishing successful businesses abroad he wanted to bring his internationally-recognised skills and experience back to his native land.

Fifteen months later he is shocked by the gulf between the rhetoric and reality of an iconic Scottish industry. He decided to find out why there are so few jobs in Scotland in his areas of expertise.

This Report is the result of these investigations.
“The volume of Scotch whisky sold globally has only risen by 1.14% over the last 25 years. Put in an everyday context, the overall performance of the Scotch whisky industry could be compared to a sales representative who had sold 10,000 tins of beans last year. When asked by the Sales Director what his or her sales target should be for the following year, the reply might be “I think I could sell an extra 4 or 5 tins which would give me a target of, let’s be optimistic, say 10,005 tins for next year”. Any competent Sales Director might justly reply “Just leave the keys of your company car at Reception on the way out ……………….”

Statistically, that’s the sort of annual “growth” the Scotch whisky industry has been turning in, year after year, for the last quarter century. The word “plodding” seems somehow overly dynamic.

Simply put, the volume growth of the “water of life” has been stagnant for the last 25 years.”
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The Scotch Whisky Industry – Hit or Myth?

Abstract

It is regularly asserted that the Scotch Whisky Industry is a long-standing model of economic success. However, the very consistency of its products, the long-term data available and the robustness of that data all make a unique economic analysis of this iconic Scottish product possible. That analysis reveals a true rate of growth that, far from outperforming other global economic and demographic indicators, has seriously lagged the industry’s true potential for growth over the last 25 years.

Executive Summary

- The Scotch whisky industry is an iconic, stable, profitable, global industry which is consistently one of the top five UK exporters and which accounts for a quarter of all UK food and drink exports.

- However, long-run growth in the Scotch whisky industry is poor; 25 years ago it was selling around 302.7 million LPA globally. Today it sells around 306.2 million LPA. This is a mere 1.14% organic growth over a quarter of a century.

- This growth is equivalent to a Compound Annual Growth Rate (CAGR) of only 0.045%.

- Other global economic performance indicators have CAGRs in the range of 1.5% to 3.1% during the same 25-year period.

- Nearly 16,700 extra jobs could have been created in Scotland had the Scotch whisky industry matched an average annual global growth rate of 1.5%.

- This under-performance has prevented the £700 million currently spent annually in the supply chain supporting Scotch whisky production from rising to over £1,000 million.

- Although not the prime subject of the research, the Report suggests that there has been a major loss in high-level sales, marketing and strategic jobs based in Scotland and that this issue merits further investigation.
THE ECONOMIC PERFORMANCE STUDY

Typical problems in measuring true business performance

Apart from the iconic and fascinating social, political and commercial history of Scotch whisky, there is one further dimension to the product that has hitherto gone unstudied. This dimension is its unique use as a basic index of business success as explained below.

All economists face significant problems in analysing long-term - in this case 25 years - industrial and commercial performance. These difficulties generally arise from five main factors.

1. How to aggregate data from differing versions of the product range
2. The changing value of money over time during the period measured
3. How to account for the effect of technological change in the product range over time
4. How to ensure that the data used for analysis during the period of the study is consistent and robust
5. Is the “portfolio of markets” for the product range sufficiently wide and diversified so as to even out cyclical local, national and regional variations?

1 Aggregating data

In order to compare products of different types (e.g. apples and oranges) it is necessary to convert them into some common unit of measure. This could, for example, be tonnes or money. So the cereal output of Scotland in 2006 could be aggregated as being 1.6 million tonnes of barley worth £117 million and 845,000 tonnes of wheat worth over £56 million.¹

While this is still fairly meaningful from the agricultural perspective (we could add in further agricultural products such as turnips and strawberries) the tonnage becomes less meaningful (is a tonne of turnips more “worthy” than a tonne of strawberries?) the more products that are added.

We can devise various ways to overcome this difficulty (e.g. the use of weightings) but the most convenient tendency is to start to aggregate the data in financial terms. This tendency becomes an inevitability when we widen the scope of our study (is a kilo of potato chips worth more than a kilo of electronic microchips?). We quickly end up with apparently no option but to use a financial measure as the only meaningful way of approximating economic output (and derived data such as economic growth rates, business efficiencies, KPIs² etc.)

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¹ NFU Scotland
² KPIs - Key Performance Indicators – a currently fashionable means of comparing actual results to target results by using a small number of indices or ratios.
2 Output Measurement over Time

The use of a financial measure, however, brings with it new problems – pounds, dollars and Euros are not constant, they change over time. They change not only because of the passive shift in the relationship between the commodity and price (e.g. inflation) but also because of active changes in that relationship (e.g. imposed price increases, futures markets). This writer can well remember buying a packet of potato crisps (inclusive of blue salt bag) for four old pence (less than 2p in 2008 money) as a nipper. Never in the writer’s wildest dreams did he think he would pay 14/- (or 70p) for the same item half a century later. An economist might attempt to compensate for this by using a generalised all-commodity deflator.

3 The Confounding Effect of Technology

A third factor which fudges long-term trends in analysing a product range is the impact of technology. How can we realistically compare the cumbersome black & white-screened wooden cube on which we watched the 1953 Coronation with today’s HD-ready wall-slab of plasma clarity? Certainly, we can convert into the financial measure of cost, but the two products bear as little resemblance to each other as Babbage’s Difference Engine and a modern personal computer.

4 Data Consistency and Robustness

Fourthly, how can we access data which is decades old and, more importantly, in a world whose PR people spin faster than a tumble-dryer, how can we be sure that the data is accurate? Even in recent times official data can be seriously flawed. The writer can recall writing in July 2000 to the Scottish Executive statistician responsible for publishing the data relating to Scottish exports of SIC Code DA 15.9 (i.e. “Drink”) during the period of 1995-1999. The writer questioned how TOTAL exports of “Drink” in four of the five years could be significantly less than the exports of Scotch whisky alone – especially since Scotch whisky data can only relate to Scotland, the only country where it can be produced. For example, in 1999, the Scottish Executive data claimed that Scotland exported “Drink” to the value of £1.483 billion. However, Customs and Excise data for Scotch whisky for the same year reported exports valued at £2.001 billion. The data for 1995 was even more off line – total “Drink” exports from Scotland, at £1.071 billion, were only a fraction (47%) of the value of Scotch whisky exports alone of £2.277 billion. How could the part be greater than the whole? The writer received a reply which said that the statisticians were “trialling a new series” and that little hiccups were to be expected. Well, an accuracy of 47% on a basic data-set certainly supports the “lies, damned lies and statistics” brigade.

3 Letter to Hugh McAloon, Statistician, Scottish Executive, July 2000
5 A Wide and Diverse Market

Finally, if we are to draw general conclusions about an industry’s long-term performance, as wide a marketplace as possible helps protect against local, national or regional peaks and troughs. A truly global market would be ideal. But few products, indeed, have the twin attributes of being both uniquely identifiable as to their origins AND of being true players on the global stage of around 200 geographical markets.

How difficult it is to try to make economic sense of the modern world of business! The five factors above – combining data for different products, the changing value of money over time, technological change, data integrity and truly widespread customers - seem to leave any long-term conclusions about true business performance little more than, at best, educated guesses.
Why the Scotch whisky industry avoids these five problems

Happily, however, the Scotch industry, perhaps uniquely, can come to our aid in all five areas and provide an almost laboratory-like environment in which to conduct a precise and scientific analysis of true business performance.

1 The Problem of Data Aggregation

The industry has a unique measure of output. It needn’t use crude measures like tonnes or money because it has long collected data in “litres of pure alcohol (LPA)”. Simply put, this is a theoretical, scientific and accurate volume based on an alcoholic content of 100%. Take a typical bottle of Scotch. It contains 70cl of Scotch whisky with an alcoholic strength of 40% of pure alcohol. So this 70 cl bottle of Scotch contains 0.7 x 40% = 0.28 LPA. A case of 12 bottles contains 12 x 0.28 = 3.36 LPA. A 40’ shipping container holds around 1200 cases, so it contains 1200 x 3.36 = 403.2 LPA. It’s the drinks industry’s bigger version of the “This bottle contains 3.2 units of alcohol.” Simple and straightforward. It can be applied to single malts, vatted malts, blends, vodka, gin – whatever.

2 The Problem of Measuring Output over Time

Not only has the drinks industry this unique measure of output, the unit of measurement (LPA) doesn’t vary over time. It doesn’t need to be re-calculated to take into account that wonderful cloak of poor performance – inflation. Not a variable pound, dollar or euro sign (or a statistician or economist wielding a deflator) in sight!

3 The Problem of Accounting for Technological Change

No new-fangled, hi-tech product evolution here, thank you! The Scotch we’re drinking in 2008 is pretty identical to that consumed by our grandfathers. In fact, not only is the product unchanged, the packaging is virtually identical. Of course, the marketing gurus have amused themselves for years by making minute adjustments to label colour and fonts but basically it’s the same product. Photographic and video evidence of some bottles of whisky recovered from the SS Politician which sank in the Sound of Eriskay in 1941 while en route to Jamaica show that these 60-year-old bottles would be instantly recognisable on the shelves of today’s supermarkets and specialist whisky shops.
4 The Problem of Data Robustness

The data on Scotch whisky is of an astonishingly high quality and longevity. Up until the 1980s, almost all Scotch whisky production and storage facilities were required to have on-site Customs Officers and Watchers. No process or operation could take place without their prior agreement. Every door to a bonded area had two independent sets of padlocks – Crown locks and Trader locks. Entry was impossible without the co-ordination of both Company and Crown. At the conclusion of the operational activity (distilling, batch blending, bottling or exporting, for example), before-and-after reconciliations of the quantities involved (those unique LPAs again) had to be carried out and agreed with Customs and Excise. Just as in the banks of old, no teller could go home at night without a cash reconciliation having been completed to the satisfaction of all concerned.

These procedures have been in use for a long time. The Scotch Whisky Association (SWA) – a trade organisation for whose skills this writer has the highest regard - reports annually on data collected from what has now been renamed HM Revenue and Customs. Their figures date back to 1949. There are no statistical indices, no weightings, no re-based data, no estimates, no inflation adjustments, no statistical sampling – just decades of solid base data – LPAs produced, bottled and shipped and which were being double-checked for excise duty purposes on a daily basis by both Trader and Crown.

5 The Problem of a Sufficiently Wide and Diverse Market

Within Scotland, no other indigenous industry can claim such a global penetration with its iconic products being sold in 200 countries worldwide. \(^4\) A wider portfolio of markets than almost any investment fund. In short, the diversity of its many marketplaces confers a high degree of insulation from local, national or regional economic swings.

It would only be intuitive to assume that such a stable, aspirational, iconic product in a global, diversified and expanding marketplace could only be a model of stunning economic success.

\(^4\) SWA publication “Scotch Whisky Facts 2007”
ACTUAL GLOBAL PERFORMANCE OF THE SCOTCH WHISKY INDUSTRY OVER THE LAST 25 YEARS

The author decided to look at the published data over the most contemporary 25-year period available. In order to compensate for normal annual fluctuations, it was decided to smooth the data by averaging it over 5-year periods. In other words, the data for the five years 1977-1981 was aggregated and averaged; similarly the data from 2002-2006 was aggregated and averaged. Although data on Scotch whisky is normally displayed separately as “releases (from bond) for UK consumption” and “exports”, both sets of data were combined to give a “whole world” overview. The results are shown in Appendix III.

The writer was stunned and double-checked his figures. Perhaps the decimal place was wrong and the results out by a factor of ten. Recalculate? - still the same answer.

In the five years period from 1977-1981, “releases” (i.e. UK) plus “exports” (everywhere else) totalled 1,513,749,050 LPA, giving an average figure during the period of 302,749,810 LPA per annum. In the five-year period from 2002-2006, “releases” plus “exports” totalled 1,530,925,001 LPA, giving an average figure during the period of 306,185,000 LPA per annum. In simple terms, that’s fractionally over a 1.14% TOTAL growth in volume over a 25 year period.

One of the most popular measures of brand (or industry) performance in the drinks industry is the compound Annual Growth Rate (CAGR). 5 If we calculate the CAGR over the 25-year period presented above, it turns out to be 0.045%. Less than one-twentieth of one percent per year.

As stated above, the volume of Scotch whisky sold globally has only risen by 1.14% over the last 25 years. Put in an everyday context, the overall performance of the Scotch whisky industry could be compared to a sales representative who had sold 10,000 tins of beans last year. When asked by the Sales Director what his or her sales target should be for the following year, the reply might be “I think I could sell an extra 4 or 5 tins which would give me a target of, let’s be optimistic, say 10,005 tins for next year”. Any competent Sales Director might justly reply “Just leave the keys of your company car at Reception on the way out ………………”

Statistically, that’s the sort of annual “growth” the Scotch whisky industry has been turning in, year after year, for the last quarter century. The word “plodding” seems somehow overly dynamic.

Simply put, the volume growth of the “water of life” has been stagnant for the last 25 years.

Surely, the author pondered, there would be some correlation between the growth of such a global industry and world development in general. How did the industry growth compare with other macro-economic indicators such as world population growth, world GDP growth and GDP growth per capita over the same 25-year period?

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5 CAGR is a similar concept to a compound interest calculation. It is a business term for the geometric mean growth rate on an annualised basis.
GROWTH RATES OF SOME OTHER GLOBAL & REGIONAL INDICATORS

World Population Growth

In 1979 (the mid-point of our initial five-year survey period) the world population was 4.371 billion; in 2004 (the mid-point of our final five-year survey period) the world population was 6.371 billion. In round terms, that’s a growth of almost 46% in the same 25-year period. Or, in CAGR terms, 1.52% per annum, around 33 times greater that the volume growth rate of Scotch whisky.

World GDP Growth

World GDP growth is a bit more difficult to measure. It’s also a relativistic measure since currency is necessarily involved. However, one renowned study by Professor Angus Maddison published in 2007 includes a time series which covers the 25-year range from 1978 to 2003. Expressed in 1990 dollars (i.e. adjusted for inflationary effects), world GDP in 1978 was estimated at $18,968,976 million and in 2003 at $40,913,386 million. That infers a growth of around 215% over a 25-year period. Or, in CAGR terms, 3.12% per annum, about 70 times greater than the Scotch growth rate.

Regional GDP per capita growth

However, huge populations don’t necessarily buy bottles of Scotch, especially if they are born into poverty in places like India, China and Africa. Individual people with disposable income do. So it is illuminating to look at growth factors such as GDP per capita in the developed economies. Maddison’s data is again a useful source. He also calculated a GDP per capita time series, grouped by country. In the case of what he described as “29 Western Europe” countries, he calculated GDP per capita in 1978 as being $12,621 and 25 years later, in 2003, as $19,912 (both in equivalent 1990 dollars). This translates into a CAGR of 1.84%. In a second group (which he described, interestingly, as “Western Offshoots”) viz. Australia, New Zealand, Canada and the USA, he estimated a GDP per capita in 1978 of $17,803 and in 2003 of $28,039. Re-cast as a CAGR of 1.83% it bears a close correlation to the first group and is around 40 times the annual Scotch whisky industry growth rate.

Taking all the above into account, the Scotch whisky industry, far from being a star business performer, has signally failed to keep up with global and regional true economic growth rates.

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6 US Census Bureau
POSSIBLE FACTORS INHIBITING THE GROWTH OF SCOTCH

It could be argued, of course, that other factors – market saturation; lack of financial resources; lack of primary production capacity; lack of packaging capacity; lack of business expertise or international trade barriers - have seriously impeded the potential growth of Scotch. For example, it could be operating in a global marketplace already saturated with Scotch.

However, the global market for legal, commercially-produced spirits in 2004 is thought to have been around 7.3 billion LPA. 9 In the same year, Scotch accounts for fractionally under 300 million LPA. 10 A market penetration of around 4% by Scotch could hardly be considered as “saturation”.

As every CEO knows, sometimes you just don’t have the resources to grow as quickly as you would like. Could it be that the industry has been starved of capital – both financial and intellectual? Hardly. The industry’s Annual Reports are full of financial data about excellent levels of “free cash flow” and other financial technicalities.

Of course, the 10-year-old Single Malt being enjoyed in 2008 was produced no later than 1998, so perhaps the industry is investing ahead of current growth in new stocks of maturing whisky? Not really. Industry stocks are stable, having hardly changed in the last 25 years. 11

Lack of primary production capacity a constraint? Again, not so. Capacity utilisation of distilleries is sitting at an economically comfortable 80-90%. 12

Perhaps a shortage of packaging capacity? Not really, one of the largest Scotch bottling plants (Strathleven in Dumbarton) was decommissioned in 1998.

What about a shortage of business expertise? Unlikely. Every type of consultancy imaginable (from branding to strategy, from productivity to paint-ball games, from tax to IT) targets the honeypot of drinks industry’ profits relentlessly.

Nasty competitive international trade practices and other barriers to trade? Well, that’s certainly a current bone of contention – particularly with regard to India - but there’s no evidence that it’s any worse than it has ever been and is probably better. Anyway, the industry’s trade association, the highly-professional SWA, has long had an impressive track record in overcoming such difficulties.

As has been said, the accuracy of historical data on Scotch whisky is beyond reproach. Statistics on other spirits drinks must be treated with a degree of caution: often the time series is not very extensive; the spirit in question may have been produced legally in many countries anywhere in the world with all the difficulties that confers on collecting and collating data - unlike Scotch which is produced in one country with a single, professional, government-controlled data-recording organisation.

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9 International Center for Alcohol Policies: Report 17 (March 2006)
11 Presentation given to the World Whiskies Conference, Glasgow 2007
12 Presentation given to the World Whiskies Conference, Glasgow 2007
Vodka, for example, can be produced anywhere. By any one. A reliable long-term time-series is thus fundamentally more difficult to construct but it is believed that in 1997 global vodka sales were around 445 million 9-L cases (or 1400 million LPA); in 2006 this had risen to 513 million 9-L cases (or 1615 million LPA). 13 This equates to a CAGR of 1.59% during this nine-year period. (If we look at Scotch whisky over the same nine-year time span, the CAGR is 0.52% as volumes rose from around 308 million LPA to almost 323 million LPA). 14 A bit of an improvement in the case of Scotch, but still substantially outpaced in growth-rate by a factor of three by vodka.

It’s rather like the Scotch whisky industry has been almost walking backwards on a 25-year long, upward-moving escalator, while the global economy has been sprinting past it at 40 times its speed. Then, a third of the way from the top, the Scotch whisky industry starts to climb a few steps, slowly. One of its main competitors vodka, meanwhile, keeps running past - taking three steps upward for every one that Scotch takes.

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13 Trade estimates
14 SWA Statistical Report 2006
THE IMPORTANCE OF SCOTCH WHISKY TO THE SCOTTISH and UK ECONOMIES

The economic benefits of the Scotch Whisky industry are large in financial terms:  

- Scotch whisky accounts for 13% of Scottish exports (excl. oil & gas) – around £2.8 billion in 2007
- Scotch whisky is consistently one of the top five UK export earners and alone accounts for a quarter of all UK food and drink exports
- Scotch whisky contributes £800 million in excise duties and VAT from UK consumers
- In addition, Scotch whisky companies pay Corporation Tax on profits (the large company rate in the UK is 28%).

These balance-of-trade and tax revenues accrue, of course, directly to the UK Exchequer in London. The immediate benefit to Scottish society is two-fold viz. (1) jobs provided and wages paid in Scotland and (2) the £700 million spend across the supply chain (presumably excluding wages and salaries) which the industry generates. Indeed, these two contributions are widely, and properly, trumpeted by the industry.

Jobs in Scotland – Current Scenario

In 2000, the Scotch Whisky Association commissioned a Report into the economic impact of Scotch whisky (and other spirits’ production) on Scotland and on the UK. The Report divides the jobs created into three categories:

The **direct impact** consists of employment in the businesses engaged in the production of Scotch and the incomes (mainly wages) which households receive from that production.

The **indirect impact** is the income and employment created in supplier businesses in order to meet the demands of Scotch Whisky producers for inputs, materials and services.

The **induced impact** consists of the jobs and incomes generated in producing the goods and services bought with the incomes created through the direct and indirect impacts.

In numerical terms, in relation to Scotch whisky alone, the Report estimated that the jobs impact on Scotland in 2000 was as follows:

<table>
<thead>
<tr>
<th>Impact Type</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct impact</td>
<td>9,573</td>
</tr>
<tr>
<td>Indirect impact</td>
<td>19,772</td>
</tr>
<tr>
<td>Induced impact</td>
<td>11,465</td>
</tr>
<tr>
<td>Total jobs impact</td>
<td>40,810</td>
</tr>
</tbody>
</table>

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15 SWA “Scotch at a Glance, 2007”
16 SWA “Scottish Parliamentary Elections 2007 – A Scotch Whisky Manifesto”
The SWA Annual Report for 2006 only provides data for direct employment in the production of Scotch whisky which it concludes is 9,055 (plus a further 170 jobs in the rest of the UK). However, the data for indirect impact and induced impact were estimated in 2000 using economic indices such as Scottish Input-Output tables and Income Multipliers. It is unlikely that there has been any material change in these indices in the intervening few years so we can generate a reliable estimate of employment in Scotland in 2006 related to the Scotch whisky industry as below:

- **Direct impact:** 9,055
- **Indirect impact:** 18,700
- **Induced impact:** 10,843
- **Total jobs impact:** 38,597

It is interesting to hypothesise what industry employment levels might have been in Scotland had the Scotch whisky industry had achieved a higher rate of growth over the last 25 years than the awesomely pedestrian 0.045% CAGR calculated above. But what growth rate to use? Why not re-run the data using a CAGR which is somewhere between the various CAGRs calculated earlier?

Summarising the various international CAGRs calculated over 25 years above gives us:

- **Global population growth:** 1.52%
- **Global GDP growth:** 3.12%
- **GDP per capita (33 developed economies):** 1.83%
- **Global vodka (9-year series):** 1.59%

It would hardly seem unreasonable that, in such an international environment, a CAGR of, at least, 1.0% would have been less than challenging. If we do plug in that growth rate, together with other growth rates, into the starting data from the initial five year average 1977 – 1981 (302,749,810 LPA per annum) then total domestic UK releases + exports (i.e. “global sales”) 25 years later would have been as shown below:

- CAGR = 0.045% (actual) 306,185,000 LPA per annum (Ave. 2002 - 2006)
- CAGR = 1.0% 388,256,043 LPA per annum
- CAGR = 1.5% 439,273,430 LPA per annum
- CAGR = 2.0% 496,693,153 LPA per annum

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19 SWA Statistical Report 2006
Implications for jobs in Scotland – Potential Scenarios

The data starts to become more meaningful when we translate it into numbers of jobs. Since the Scotch whisky industry is a large and efficient employer already enjoying significant benefits of scale, it is reasonable to assume that total employment would be a function of the total volume produced and packaged. If we take the number of jobs in 2006 as related to the output in 2006, then the various CAGRs would have resulted in projected employment levels in Scotland as shown below:

<table>
<thead>
<tr>
<th>CAGR</th>
<th>0.045% (actual)</th>
<th>1.0% (proj.)</th>
<th>1.5% (proj.)</th>
<th>2.0% (proj.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume (LPA mln)</td>
<td>306.185</td>
<td>388.256</td>
<td>439.273</td>
<td>496.693</td>
</tr>
<tr>
<td>Direct impact:</td>
<td>9,055</td>
<td>11,480</td>
<td>12,989</td>
<td>14,689</td>
</tr>
<tr>
<td>Indirect impact:</td>
<td>18,700</td>
<td>23,712</td>
<td>26,828</td>
<td>30,335</td>
</tr>
<tr>
<td>Induced impact:</td>
<td>10,843</td>
<td>13,749</td>
<td>15,556</td>
<td>17,590</td>
</tr>
<tr>
<td>Total jobs impact:</td>
<td>38,597</td>
<td>48,941</td>
<td>55,373</td>
<td>62,614</td>
</tr>
</tbody>
</table>

Given the stability and sustainability of the Scotch whisky industry (global prohibition isn’t going to come anytime soon), these “lost” jobs are of key importance. Not only are they permanent, they are generally well-paid as befits a profitable industry with the added benefit that some 7,000 of these jobs (2006) were in rural Scotland. Further, they are jobs in a wealth-creating industry, not jobs in a money re-distributing enterprise.

The total of wages and salaries generated in Scotland by the Scotch whisky industry is £800 million. A further £500 million is paid in wages and salaries in other parts of the UK.  This figure is rather surprising given that SWA data compiled from Members’ returns indicate that the industry directly employs a total of 9,225 persons in the UK – 9,055 in Scotland and 170 in the rest of the UK.

In summary, using a CAGR for organic global sales of 1.5% as a reasonable measure of what COULD have been achieved given the various international economic CAGRs listed above, we can assert, over the long-run (in this case 25 years), that:

Long-run growth in the Scotch whisky industry is only one-fortieth of various comparable major international growth indicators

- This under-performance has cost an estimated 3,935 direct jobs
- This under-performance has cost an estimated 8,128 indirect jobs
- This under-performance has cost an estimated 4,713 induced jobs

Total jobs lost in Scotland through under-performance is thus 16,776 jobs

In addition, using the same arguments as above, it can be argued that the £700 million currently spend annually in the supply chain supporting Scotch whisky production would have been over £100 million had the CAGR been 1.5% rather than the actual 0.045%.

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20 SWA Factsheet “Supporting Jobs and the Economy”
SCOTCH WHISKY - Tourism or Trade?

In its “Scotch Whisky Manifesto”, launched before the 2007 elections to the Scottish Parliament, the Scotch Whisky Association stated “Scotch Whisky is iconic and an instantly recognisable ambassador for Scotland in the global market - attracting visitors, business, and investment.” That statement is undoubtedly true but the stated values are in the wrong order and misleading. The Scotch whisky industry, with its Visitor Centres, is certainly a tourist attraction. The boast that “Whisky-related tourism is growing in importance. Distilleries represent 25% of Scotland’s five star tourist attractions, hosting one million visitors a year” 22 is no doubt true. But the industry is NOT some seasonal local tourist attraction like Loch Ness or Eilan Donan castle. It’s a GLOBAL BUSINESS accounting for, on its own, 25% of TOTAL food and drink exports from the UK.

Why, also, should its economic importance be in “…. (attracting) business, and investment.”? It IS a major business in its own right, a green, sustainable, business which has developed over 500 years and could still be with us in 500 years time. Scotch whisky will not run out like fossil fuels will. It’s a highly profitable and stable industry that uniquely profiles Scotland in the global marketplace – especially the emerging markets.

But it’s an under-performing industry when its economic performance is compared to other global “KPIs” as this report clearly demonstrates. The Scotch whisky industry would only rate an “E-minus” mark on a global performance scorecard when compared with other top performers getting “A-plus’s”. It’s a shocking performance when looked at objectively and contrasts sharply with the annual press-release hype of “Global demand for Scotch increases”.

The industry should not be the drinks equivalent of a “screwdriver assembly plant” supporting blue collar jobs in production facilities in Scotland while more highly-skilled, professional jobs like global marketing, global strategy, global finance, global logistics and the like are elsewhere.

It is not the prime intention of this Report to attempt to provide an answer to the question of WHY the true growth of the Scotch whisky has been so poor over the last 25 years but with the possible loss of almost 17,000 jobs as a result some of the following pointers may be worthy of further study.

Industry Consolidation & Brands:

This may have been good for the survivors, but has it been good for the industry as a whole? While we have highly accurate data for the global industry, companies themselves are reluctant to issue figures on individual brands and there is always a temptation to massage that data upwards. For example, the old Distillers Company Limited was a loose association of various “brand companies” who took great pride in promoting their own small number of brands to the global marketplace. Some industry observers suspect that nowadays many of these “tier 2” brands have been sold off to third parties or have not been prioritised as much as the small number of “tier 1” brands. In other words, has the apparent organic growth in sales of one or two main brands been achieved by the cannibalisation of quite significant volumes of several tier 2 brands, thus accounting for the poor global volume growth of 1.14% over the last 25 years?

Industry Consolidation & Skilled and Professional Jobs:

Have we lost the best and most strategic jobs in Scotch whisky from Scotland? Twenty-five years ago the individual brand companies mentioned above all had physical presences in Scotland with the associated senior sales, marketing and strategic management focussed on the global marketplace. Now, almost without exception, these functions are located outside Scotland - in London or Paris, Tokyo or Singapore, Bankok or Bangalore. It’s not difficult to understand why these functions might want to be “close to the market” – Scotland is no enemy of devolution. But there is a frightening side effect. Once upon a time a young graduate could travel to Perth, Kilmarnock or Glasgow with the hope of embarking upon an international career in the Scotch whisky industry and, per chance, impress the CEO. That is no longer possible and the result has worked its way through the system. If we look at the composition of the Boards of Directors, Executive Committees and Regional Boards of the publicly-quoted largest spirits companies in the world it is difficult to find anyone who appears to have been born, been educated or has even lived or worked in Scotland. Time after time the author of this Report has been told by foreign distributors that “It’s the passion of your (Scottish) people that is your biggest asset”. How can you sell Scotch whisky effectively when all you know of the history and culture of Scotland and its most famous product comes from a corporate DVD?

The author has no wish to denigrate the efforts of Scottish Enterprise and others in job creation and the expansion of the SME sector in general. But why are we pouring scarce resources in to high-risk, high-tech, high-vulnerability start-ups that produce a handful of jobs and, even if successful, rarely exist 10 years later? Should we not be capturing the potential long-term jobs (17,000+) that an averagely successful Scotch whisky industry could supply? We HAVE a large, globally successful industry in Scotland that no one else can emulate. Why is its under-performance being hidden by hype and its true potential being undervalued by politicians and economic analysts? What clutch of SMEs could deliver almost 17,000 indigenous, long-term and well-paid jobs? And wealth-creating jobs, rather than money-redistributing jobs, at that.

Even better, what if the Scotch whisky industry could actually ACHIEVE modern-day mantras such as “exceeding expectations” and “out-performing competitors”? Could growth rates of 2%, 3% or 4% not be achieved? Even a 0.5% increase in growth from 1.5% to 2.0% would result in a further 7,200 jobs in the Scottish economy. Further, an £800 million wage bill spread across 38,597 jobs means an average salary per job in Scotland of £20,726 – not to be sneezed at.

So what to do?
Some Questions Worth Asking

As the Scotch whisky industry is strategically important in so many ways to Scotland, would it not be an opportune time for the Scottish Government to promote a much more dirigiste approach to the Scotch whisky industry and the very real future opportunities it could deliver?

Industry leaders are fond of applying stretching KPIs to their subordinates. In the modern business vernacular, the Scottish Government should set some “challenging and stretching growth targets” for the industry as a whole and monitor the relevant KPIs objectively. We’ve all secretly enjoyed the spectacle of the Chair of the Treasury Select Committee publicly grilling senior figures of the Banking fraternity with such questions as “…in the light of the first bank run in 140 years, if that is success, what is failure?”

Given the unique importance of the Scotch whisky industry to Scotland, isn’t it appropriate for the Minister for Enterprise, Energy and Tourism, in conjunction with his colleague the Cabinet Secretary for Rural Affairs and the Environment and the relevant cross-party group of MSPs, to carry out a similar examination of senior industry CEOs and other industry figures on a regular basis to explain the industry’s global performance when compared to other relevant macro-economic indicators?

It’s a sensitive subject but, sadly, it may be necessary for the Scottish Government to consider some form of specialised Minority Monitoring. We do it already on grounds of Ethnic Origin, Gender, Disability and Age. Is it really too much to ask that the Scottish Government monitors how many people of Scottish origin occupy board positions and senior executive positions in public companies to which Scotch whisky makes a significant profit contribution? Without such monitoring it’s impossible to know if an “Affirmative Action” programme is needed. We talk about the “glass ceiling” for women in industry, government and politics. Shouldn’t we be concerned about a “tartan ceiling” also? What’s the point of encouraging our young people in the direction of education and lifelong learning when a job in a Call Centre or as a “Team Leader” in a production facility is the likely zenith of their career?

Where are the Scottish universities that are capitalising on having this industry a few minutes up the road and spread throughout rural Scotland? Certainly, we’ve got the “International Centre for Brewing and Distilling” at Heriot-Watt University and an annual “Worldwide Distilling Conference” alternating between Edinburgh and Glasgow – but both these institutions are primarily focussed on such operational topics as “Fermentation Raw Materials” and “Impact of New Technologies on Flavour”. A haven for essential and committed industry “operationistas”, perhaps, but it’s not where the real action (or the money and the power) is. Our universities should not only be providing education for local ”team-leaders” and technicians, they should be providing high-level courses in strategic skills for future Scotch whisky industry executives in order that the industry can out-perform their competitors in the international business arena.

In the old days, IBM and the South of Scotland Electricity Board (remember them?) sponsored students through University while giving them practical experience during vacations. In doing so, they developed a core of young graduate managers whose theoretical knowledge was integrated with practical job requirements. The drinks industry should display a similar commitment to the Scottish universities under their well-publicised “Corporate Citizenship” philosophies.
Specifically, where are the undergraduate and post-graduate courses in Scottish universities like “Managing for Growth in Emerging FMCG Markets”, “MBA in Spirits Industry Marketing”, “M.Sc. in Government Affairs majoring in Tax and Duty Issues”, “Ph.D. in Alcohol Misuse and Global Society”, “M.A. in Global Food & Drinks Branding”, “Marketing with Asian Languages” and “BA in Design of Luxury Goods Packaging”? Where? Where? Where? We should be using our educational institutions in partnership with the industry to leverage our skills base in these global business functions.

Key industry players have long prevented the Scotch Whisky Association from generic promotion of Scotch whisky arguing that (their own) brand promotion was enough. Well, some brands might be benefitting but the industry as a whole is not. The author of this Report was the first foreigner to be elected to the Executive of KRPS – the Polish vodka equivalent of the Scotch Whisky Association. During their visit to the SWA in Edinburgh, members of KRPS were astonished to learn that an organisation as well-developed as the SWA merely “defended” the Scotch whisky industry. Knowing the tragic history of Poland, the producers of Polish vodka – a growing premium competitor to Scotch whisky – are convinced that “attack is the best form of defence” and fully intend to use all means at their disposal (including possible EU funding) to promote the whole “Vodka made in Poland” category. Perhaps the Scottish Government should facilitate a review of the question of generic funding for the industry? Much can be broadcast globally about the quality and integrity of Scotch whisky, the ethical way we work with our people and the green ecology of our local rural communities to the benefit of more than simply the Scotch whisky industry.

Some in the industry believe that previous Scottish administrations have shown little true support for, and understanding of, the global nature of the industry. Certainly there have been photo opportunities for MSPs visiting distilleries and bottling plants – nice lunch, couple of drams and a complimentary bottle of Scotch – but little more. The industry, on the other hand, has been happy to concentrate its efforts on a few local (i.e. UK) issues such as appeasement of concerns about irresponsible drinking (generally perceived to be a devolved issue) and minimisation of excise duties on spirits (most certainly not a devolved issue in the Chancellor’s eyes). But local issues account for less than 9% of output – over 91% of Scotch is exported. Isn’t it time the Scottish government woke up to the need to see the “big picture” and to accept its natural role of stewardship and – that cogent American concept – oversight?

Finally, one of the most encouraging signs is the emergence of a few new distillers joining the industry. Whereas consolidation has cost jobs, lost volume and done little for innovation – serial brand extensions hardly count as true innovation – perhaps these newcomers WILL drive real innovation and change. They, therefore, should be the recipients of robust and long-term support from the Scottish government.
In short,

Set targets, provide encouragement and support, measure true performance, reward or castigate!

The Bard would surely have had no truck with bureaucratic KPIs but he certainly understood the concept when he wrote:

“Facts are chiels that winna ding, and canna be disputed”. 23

Let’s see how smart the Scotch whisky industry REALLY is!

Donald M. Blair,

September 2008

23 “But facts are fellows that will not be upset, And cannot be disputed”: Robert Burns “A Dream”, 1786
APPENDIX I

A Brief History of the Scotch Whisky industry

First recorded in the Exchequer Rolls of Scotland in 1494, production remained a rather primitive process until the 16th and 17th centuries saw significant advances in distilling methodology.\(^{24}\) Increasing taxation on malt and the end product by the Scottish Parliament in the 17th century, continued by the British Parliament after the Act of Union in 1707, had the effect of stimulating illicit production away from the eyes of the authorities. Illicit production and the associated “route to market” known as smuggling became commonplace for the next 150 years. By the 1820s it is estimated that 14,000 illicit stills were being confiscated annually and that more than half the whisky being consumed in Scotland was evading taxation.

In 1822 and 1823 Acts were passed designed to encourage licensed distilling and to severely penalise illicit production. The 1823 Excise Act was passed, which sanctioned the distilling of whisky in return for a license fee of £10, and a set payment per gallon of proof spirit. Smuggling died out almost completely over the next ten years. Thus, the next phase of the Scotch whisky industry began – legitimate enterprises sprang up, some of which eventually became family dynasties. These families – the Walkers, the Haigs, the Buchanans, the Dewars, the Bells – are names that are still recognised globally in the 21st century.

The Distillers Company (DCL) was created in 1877 from the merger of six lowland producers to become one of Britain's largest manufacturing companies with diversified interests around the world. It is an extraordinary story of growth, acquisition, and diversification. By the 1920s DCL dominated the whisky industry in Scotland, eventually acquiring the then big three blending firms - James Buchanan, John Dewar, and John Walker. DCL was a fairly loose conglomerate, with the individual “brand companies” John Walker and Sons (Kilmarnock), Dewars (Perth), Buchanans (Stepps) etc. each maintaining independent Scottish-based head offices, operations and sales forces. By the mid-1970s, around 15% of Scotch whisky was being consumed in the UK and remaining 85% was being exported. (Today, exports now make up just over 91% of total output.)

In 1986 DCL was taken over in what was to be dubbed “The Guinness Affair” by the City. The DCL board was generally supportive of the deal whereby they would be taken over by the London-based Guinness plc but were faced with a hostile bid by Jimmy Gulliver’s Argyle Group. By means of an illegal share-support scheme, Gulliver’s audacious counter-bid was defeated and ownership and control of the Scottish drinks group passed to the much smaller London-based Guinness plc. DCL was re-named United Distillers PLC in 1987 after its merger with Arthur Bell and Sons of Perth (which had been purchased by Guinness plc in 1985).

Details of the share-support scheme emerged during investigations into an unrelated matter in New York and details were passed to the DTI in the UK. Subsequently, four businessmen, including Ernest Saunders, Chief Executive of Guinness plc, were charged with false accounting and theft. All were convicted; convictions were upheld on appeal in 1991 but with reduced sentences. In the case of Saunders, his sentence of five years was halved on appeal as the Court of Appeal accepted doctors' advice that he was suffering from the incurable Alzheimer's disease. He was eventually released from Ford Open Prison in June 1991 having served 10 months of his sentence.

\(^{24}\) Scotch Whisky Association web-site
He subsequently apparently recovered from Alzheimer’s and went on to advise various companies internationally. Guinness plc had also negotiated a compensation package in 1988 for owners of Distillers shares at the time of the takeover. A DTI report into the affair was eventually released in 1997, a decade after the event.

In May 1997 a merger was announced between Guinness plc (whose spirits portfolio included Johnnie Walker, Bell’s, Dewars and Gordon’s gin) and Grand Metropolitan plc (spirits included Smirnoff Vodka, J&B Rare Scotch and Bailey’s Irish Cream). At the time of the merger Guinness was valued at £9.8 billion and Grand Met similarly. The merged company – later to be re-named Diageo plc – was three times larger, in profits terms, than its two main rivals, Seagram (based in New York) and Allied Domecq (based in Bristol). In 2000 Seagram was broken up and its beverage division (brands such as Chivas Regal and Glenlivet) was acquired by Pernod Ricard.

In 2005 Allied Domecq (brand-owner of “Ballantines”) was also sold to Pernod Ricard by its CEO Philip Bowman (who was later to sell Scottish Power to Spanish group Iberdrola).

However, one almost immediate effect in Scotland of the Guinness / Grand Met merger was the closure in 1998 of Strathleven packaging plant in Dumbarton with the loss of 470 jobs. In order to compensate for the job losses, the Strathleven Regeneration Company was set up in 2001 by John McFall, MP. In 2000, the Laindon white spirits bottling plant in Laindon, Essex, was closed with a loss of 220 jobs and production transferred to Scotland.

Thus, over 44% of output of malt Scotch whisky (see Appendix II) is currently in the hands of two companies – Diageo plc, headquartered in London and Pernod Ricard, headquartered in Paris. (For further details of the current industry ownership structure see Appendix IV)
APPENDIX II

Summary of the Ownership of Distillation Capacity

<table>
<thead>
<tr>
<th>MALT</th>
<th></th>
<th>GRAIN</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Distilleries</td>
<td>Capacity</td>
<td>% of Industry</td>
</tr>
<tr>
<td>Bacardi</td>
<td>5</td>
<td>13.80</td>
<td>5.90</td>
</tr>
<tr>
<td>Burn Stewart</td>
<td>3</td>
<td>6.50</td>
<td>2.78</td>
</tr>
<tr>
<td>Diageo</td>
<td>27</td>
<td>62.75</td>
<td>26.83</td>
</tr>
<tr>
<td>Edrington</td>
<td>5</td>
<td>18.44</td>
<td>7.88</td>
</tr>
<tr>
<td>Whyte &amp; MacKay</td>
<td>3</td>
<td>8.70</td>
<td>3.72</td>
</tr>
<tr>
<td>Glenmorangie</td>
<td>3</td>
<td>7.00</td>
<td>2.99</td>
</tr>
<tr>
<td>J &amp; G Grant</td>
<td>1</td>
<td>3.00</td>
<td>1.28</td>
</tr>
<tr>
<td>Wm Grant</td>
<td>3</td>
<td>20.00</td>
<td>8.55</td>
</tr>
<tr>
<td>Inverhouse</td>
<td>5</td>
<td>6.03</td>
<td>2.58</td>
</tr>
<tr>
<td>Loch Lomond</td>
<td>2</td>
<td>4.75</td>
<td>2.03</td>
</tr>
<tr>
<td>Nikka</td>
<td>1</td>
<td>2.00</td>
<td>0.85</td>
</tr>
<tr>
<td>Pernod Ricard</td>
<td>12</td>
<td>41.30</td>
<td>17.66</td>
</tr>
<tr>
<td>Morrison Bowmore</td>
<td>3</td>
<td>4.75</td>
<td>2.03</td>
</tr>
<tr>
<td>Tomatin</td>
<td>1</td>
<td>5.00</td>
<td>2.14</td>
</tr>
<tr>
<td>Angus Dundee</td>
<td>2</td>
<td>4.60</td>
<td>1.97</td>
</tr>
<tr>
<td>Campari</td>
<td>1</td>
<td>5.90</td>
<td>2.52</td>
</tr>
<tr>
<td>J &amp; A Mitchell</td>
<td>2</td>
<td>1.50</td>
<td>0.64</td>
</tr>
<tr>
<td>Fortune Brands</td>
<td>2</td>
<td>7.80</td>
<td>3.33</td>
</tr>
<tr>
<td>Others</td>
<td>10</td>
<td>10.10</td>
<td>4.32</td>
</tr>
<tr>
<td></td>
<td>91</td>
<td>233.92</td>
<td>100.00</td>
</tr>
</tbody>
</table>

APPENDIX III

SUMMARY of UK “RELEASES” and EXPORTS during 1977 – 2006

<table>
<thead>
<tr>
<th>Year</th>
<th>UK LPA</th>
<th>Export LPA</th>
<th>Global LPA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977</td>
<td>40,248,500</td>
<td>243,632,634</td>
<td>283,881,134</td>
</tr>
<tr>
<td>1978</td>
<td>48,812,000</td>
<td>274,072,934</td>
<td>322,884,934</td>
</tr>
<tr>
<td>1979</td>
<td>52,536,300</td>
<td>262,420,711</td>
<td>314,957,011</td>
</tr>
<tr>
<td>1980</td>
<td>50,158,800</td>
<td>249,916,996</td>
<td>300,075,796</td>
</tr>
<tr>
<td>1981</td>
<td>47,710,800</td>
<td>244,239,375</td>
<td>291,950,175</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>1,513,749,050</td>
</tr>
</tbody>
</table>

Annual Average 1977-1981: 302,749,810

<table>
<thead>
<tr>
<th>Year</th>
<th>UK LPA</th>
<th>Export LPA</th>
<th>Global LPA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>32,068,600</td>
<td>263,772,741</td>
<td>295,841,341</td>
</tr>
<tr>
<td>2003</td>
<td>31,829,900</td>
<td>273,269,419</td>
<td>305,099,319</td>
</tr>
<tr>
<td>2004</td>
<td>31,929,500</td>
<td>267,300,351</td>
<td>299,229,851</td>
</tr>
<tr>
<td>2005</td>
<td>30,088,300</td>
<td>277,904,381</td>
<td>307,992,681</td>
</tr>
<tr>
<td>2006</td>
<td>28,259,200</td>
<td>294,502,609</td>
<td>322,761,809</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>1,530,925,001</td>
</tr>
</tbody>
</table>

Annual Average 2002-2006: 306,185,000

Total volume growth over 25 years: 1.14%

CAGR of 5-year averages over 25-year period: 0.045%

---

26 Source: SWA Statistical Report 2006 - derived from HM Customs & Excise Export Statistics and UK Home Clearances
## APPENDIX IV

Ownership and Control of the Industry

<table>
<thead>
<tr>
<th>Malt Distilleries</th>
<th>Capacity Litres (million)</th>
<th>% of Malt Capacity</th>
<th>Ultimate Owner</th>
<th>Corporate HQ of Ultimate Owner</th>
<th>Status of Owner</th>
<th>Main Scotch Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bacardi</td>
<td>5</td>
<td>13.80</td>
<td>5.90</td>
<td>Bacardi</td>
<td>Hamilton, Bahamas</td>
<td>Family / Privately held</td>
</tr>
<tr>
<td>Burn Stewart</td>
<td>3</td>
<td>6.50</td>
<td>2.78</td>
<td>CL World Brands</td>
<td>Trinidad</td>
<td>Investment Bank</td>
</tr>
<tr>
<td>Edrington</td>
<td>5</td>
<td>18.44</td>
<td>7.88</td>
<td>Edrington Group</td>
<td>Glasgow, Scotland</td>
<td>Public Stock / Trust</td>
</tr>
<tr>
<td>Whyte &amp; MacKay</td>
<td>3</td>
<td>8.70</td>
<td>3.72</td>
<td>UB Group</td>
<td>Bangalore, India</td>
<td>Listed Company</td>
</tr>
<tr>
<td>Glenmorangie</td>
<td>3</td>
<td>7.00</td>
<td>2.99</td>
<td>Louis Vuitton - Moët Hennessy</td>
<td>Paris, France</td>
<td>Groupe Arnault/Traded</td>
</tr>
<tr>
<td>J &amp; G Grant</td>
<td>1</td>
<td>3.00</td>
<td>1.28</td>
<td>J &amp; G Grant Ltd</td>
<td>Ballindalloch, Scotland</td>
<td>Private</td>
</tr>
<tr>
<td>Wm Grant</td>
<td>3</td>
<td>20.00</td>
<td>8.55</td>
<td>Wm Grant &amp; Sons Ltd</td>
<td>Dufftown, Scotland</td>
<td>Family / Privately Held</td>
</tr>
<tr>
<td>Inver House</td>
<td>5</td>
<td>6.03</td>
<td>2.58</td>
<td>ThaiBev</td>
<td>Bankok, Thailand</td>
<td>Family / Traded</td>
</tr>
<tr>
<td>Loch Lomond</td>
<td>2</td>
<td>4.75</td>
<td>2.03</td>
<td>Loch Lomond Distillery Co. Ltd</td>
<td>Alexandria, Scotland</td>
<td>Family</td>
</tr>
<tr>
<td>Nikka</td>
<td>1</td>
<td>2.00</td>
<td>0.85</td>
<td>Nikka</td>
<td>Tokyo, Japan</td>
<td>Not known</td>
</tr>
<tr>
<td>Pernod Ricard</td>
<td>12</td>
<td>41.30</td>
<td>17.66</td>
<td>Pernod Ricard SA</td>
<td>Osaka, Japan</td>
<td>Privately Held</td>
</tr>
<tr>
<td>Morrison Bowmore</td>
<td>3</td>
<td>4.75</td>
<td>2.03</td>
<td>Suntory</td>
<td>Paris, France</td>
<td>Traded / Family</td>
</tr>
<tr>
<td>Tomatin</td>
<td>1</td>
<td>5.00</td>
<td>2.14</td>
<td>Takara, Shuzo and Okura</td>
<td>Japan</td>
<td>Not known</td>
</tr>
<tr>
<td>Angus Dundee</td>
<td>2</td>
<td>4.60</td>
<td>1.97</td>
<td>Angus Dundee Distillers plc</td>
<td>London, England</td>
<td>Private</td>
</tr>
<tr>
<td>Campari</td>
<td>1</td>
<td>5.90</td>
<td>2.52</td>
<td>Grupo Campari</td>
<td>Milan, Italy</td>
<td>Family majority</td>
</tr>
<tr>
<td>J &amp; A Mitchell</td>
<td>2</td>
<td>1.50</td>
<td>0.64</td>
<td>J &amp; A Mitchell &amp; Co. Ltd</td>
<td>Cambeltown, Scotland</td>
<td>Family</td>
</tr>
<tr>
<td>Fortune Brands</td>
<td>2</td>
<td>7.80</td>
<td>3.33</td>
<td>Fortune Brands Inc.</td>
<td>Illinois, USA</td>
<td>Traded</td>
</tr>
<tr>
<td>Others</td>
<td>10</td>
<td>10.10</td>
<td>4.32</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Total             | 91                        | 233.92             | 100.00         |                                |                 |                     |                     |
APPENDIX V

UPDATE – September 2009

In compiling the report entitled “The Global Scotch Whisky Industry – Hit or Myth” in mid-2008 it was hoped that direct comparison with the long-term performance with other internationally-traded spirits could be made. However, no reliable long-term data could be found to enable this comparison. Instead, proxy macro-economic indicators (global GDP growth, global GDP per capita growth and global population growth) were used to provide comparative growth rates to the growth rate of Scotch whisky during the 25 years under study.

Readers of the report will recall that the compound annual growth rate (CAGR) of the Scotch whisky industry was established as 0.045% over a 25-year period. CAGRs for the proxy indicators were determined as being in the range of 1.5% - 3.1%. In order to calculate the relative performance of the Scotch whisky industry it was decided to adopt a conservative approach and use the lower of these proxy measures, viz. 1.5%, for the purposes of comparison.

That comparison indicated that, had the Scotch whisky industry matched a global CAGR of 1.5%, then nearly 16,700 extra jobs would have been created in Scotland. This was the conclusion stated when the report was first published in September 2008.

However, in August 2009 a new report entitled “Global market review of vodka – forecasts to 2014” 27 was published by industry commentator Just-Drinks and includes data from the internationally-respected and independent Institute of Wine & Spirits Research (IWSR). This report indicates that the global growth (CAGR) of vodka over the most recent 20-year period has been 3.5%.

Now that we can make a direct comparison between Scotch whisky and another global spirit product we can revise our original (September 2008) conclusions as follows:

- The long-term growth of Scotch whisky has a CAGR of only 0.045% (unchanged)

- The long-term growth of vodka has a CAGR of 3.5% - 77 times greater than that of Scotch whisky.

- Nearly 51,600 extra jobs could have been created in Scotland had the Scotch whisky industry sales volume performance matched the CAGR of 3.5% of vodka.

27 Global market review of vodka – forecasts to 2014. Published by just-drinks.com / IWSR. £795 single-user.
In other words, the Scotch whisky industry would be $2\frac{1}{3}$ times larger than it currently is and would provide direct employment for, or support, over 90,000 jobs in Scotland as opposed to the current 38,000.