SCOTCH WHISKY BREXIT BRIEF

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On balance, the draft Withdrawal Agreement and accompanying Political Declaration on the Future UK-EU Relationship stand up well against the Scotch Whisky industry's Brexit priorities.

The SWA therefore supports approval of the two negotiated texts by the UK and European Parliaments.

If the deal is rejected, this will create considerable uncertainty for the industry and greatly increase the potential of a no-deal Brexit in October 2019.

In 2018, £4.7bn of Scotch Whisky was shipped to 180 countries

40,000 jobs across the UK are supported by Scotch producers

The industry contributes over £5.5bn to the UK economy annually

Scotch Whisky accounts for 21% of all UK food & drink exports

WITHDRAWAL AGREEMENT

Crucially, the Withdrawal Agreement allows for a transition period to take effect until December 2020. There is also an option to extend the transition period by 1 or 2 years beyond December 2020, should no agreement on the future relationship be reached by 1 July 2020.

We believe this transition period is essential to allow adequate time for the industry to prepare for any changes in how the UK trades with the EU and global markets as a result of Brexit. The transition period should be long enough to avoid businesses from having to make any significant changes more than once.

The Withdrawal Agreement addresses some important practical Brexit issues for the Scotch Whisky industry including:

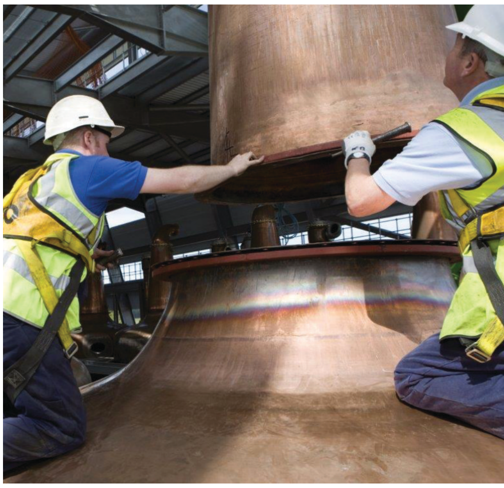
- Continued reciprocal protection for UK GIs in Europe and EU GIs in the UK, subject to anything agreed to the contrary in the next phase of negotiations. This helps ensure Scotch Whisky's GI status in the EU is not put at any risk. (Article 54)

- Continued access to the EU Excise Movement & Control System (EMCS) until the end of the transition period. Any movements beginning before the end of transition, and ending thereafter, will also be allowed to be completed through EMCS. (Article 52)

- A pragmatic approach towards goods 'placed on the market' from the point they enter the distribution chain. This provides legal certainty that a bottle of Scotch Whisky can make its way to its final destination without having to undergo any changes (such as having to add an EU name and address on labels), even if it arrives and is physically on sale in the EU market after the end of the transition period. (Articles 40-42)

- The UK continuing to benefit from EU FTAs for the duration of transition, subject to agreement with the third country. The EU has agreed to notify the third countries of this arrangement. (Article 129)

- Provisions to provide legal certainty that EU citizens can continue working in the UK and vice versa (Article 13)



POLITICAL DECLARATION ON FUTURE UK-EU RELATIONSHIP

This is a political document intended to act as starting point for future negotiations. As such, the document does not provide us with a great level of detail about the precise rules and procedures we will need to comply with after December 2020 (or later). However, the general direction of the document is encouraging, and we support that the political declaration commits both parties to exploring:

- A comprehensive free trade area and wider sectoral cooperation that respects the integrity of the EU Single Market and the UK's internal market, as well as the UK's right to develop an independent trade policy.

- The "avoidance of unnecessary barriers to trade in goods" including technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures. The Declaration also explicitly mentions common principles in the fields of "standardisation, technical regulations, conformity assessment, accreditation, market surveillance, metrology and labelling."

- "Ambitious customs arrangements" based on "all facilitative arrangements and technologies". When negotiated, these must ensure no additional costs for exporters and importers compared to current procedures.

- "Appropriate protection for geographical indications", including a mechanism for co-operation and exchange of information on IP issues of mutual interest. This is clearly important for Scotch Whisky, the UK's leading GI.

AVOIDING 'NO-DEAL' SCENARIO

It is for these reasons that we support the approval of the Withdrawal Agreement and Political Declaration in the UK and European Parliaments.

If, however, the deal fails to be agreed in either Parliament, our industry will face continued uncertainty about the possibility of a no-deal Brexit in October 2019.

Substantial costs are already being incurred as companies do their best to plan for all scenarios; in the event of a no-deal, these costs will escalate significantly due to:

- **Changes to labels on Scotch Whisky exports to the EU.** Product labels will need to display either an EU address of the producer or, if that is not possible, the relevant importer into the EU market. Currently many Scotch Whisky companies list a Scottish address to comply with this requirement.

A no-deal Brexit could necessitate at least two different labels from October 2019: one for products sold in the UK; and at least one (sometimes many more) for products destined for the EU.

This would increase costs because of shorter bottling runs and having to manage additional stock keeping units (SKUs). One SME in our sector considers the cost of this change to be in the region of £1.6m a year.

- **Loss of lower tariffs to key non-EU markets through EU FTAs.** Even with recent progress, the UK will no longer be party to a number of international economic agreements signed by the EU.

These agreements either lower, or completely remove, import duties for some key Scotch Whisky export markets such as South Korea, Morocco, Lebanon and Panama.

If import duties were to return on exports to these markets, it would immediately cost the industry £40m, without accounting for long-term impacts on market share.

- **Changes to customs and excise procedures for trade with the EU** - the UK will no longer have access to the EU Excise Movement and Control System (EMCS).

This means that consignments of Scotch Whisky to the EU will need to move under the UK's national EMCS to move internally within the UK, and will then need to be entered into the EU-wide EMCS after importation into the EU in order to progress to their final destination. Export and import declarations will be required for customs clearance at the borders.

The closer we get to October 2019, the more difficult and costly it will be to adapt to changes in the handling of these movements. The potential for significant disruption to industry operations if ports or IT systems can't cope is severe.

- **Tariffs will come back into force on imported inputs** such as glass, cereals and machinery. Companies will need to factor this in while also planning for a worst-case scenario in transporting inputs to their sites across Scotland.

This could lead to escalating production costs and adverse market conditions.

We urge MPs to take these points into account when considering their vote in June 2019.

For further information, please contact:

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