



SCOTCH WHISKY & U.S. TARIFFS

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What has happened?

On 18 October, an ad valorem import tariff of 25% on all Single Malt Scotch Whisky and Scotch Whisky liqueurs entering the United States came into effect.

Scotch is now caught up in a multidimensional trade dispute between the EU and the US. A 25% EU tariff has applied to US whiskeys since July 2018 despite our vocal opposition and calls for this to be removed. This will have contributed to the US decision.

The US is the single largest market for Single Malt Scotch Whisky. The value of US imports in 2018 was US\$ 516.5m.

Scotch Whisky is 'collateral damage'

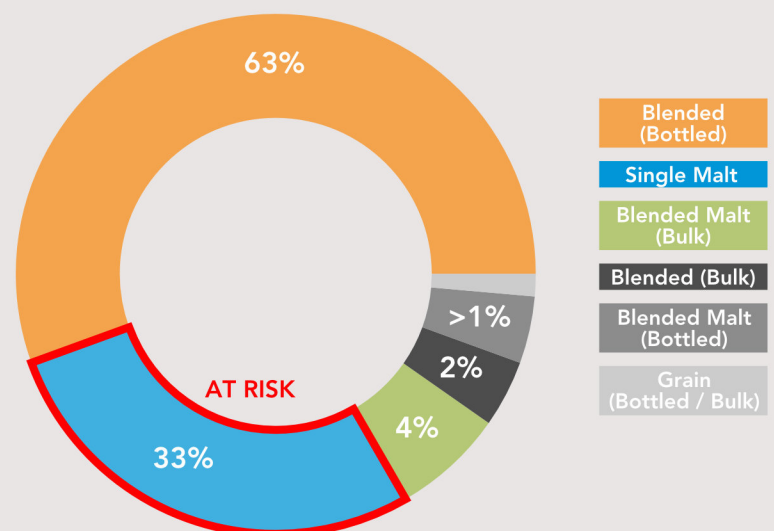
The total UK exposure to tariffs is \$834.9m by US import value. Single Malt imports to the US were worth just over \$516.5m in 2018 and therefore account for 62% of the total UK exposure. Single Malt Scotch is worth 6 times as much by import value than the next nearest individual UK category exposed to tariffs, metals and construction equipment (\$82m) and 8 times as much as US imports of UK dairy products on the tariff list (\$61m).

While we understand the complexity of the situation, we nonetheless find it deeply unjust that our businesses will end up shouldering the burden of well over half of the UK's tariff liabilities in a trade dispute about aeroplanes that has nothing to do with us.

What could happen if nothing is done?

Should tariffs stay in place, we would expect to see a negative impact on investment and job creation in Scotland, and longer term impacts on productivity and growth across the industry and our supply chain. This is particularly serious for smaller distillers who will be disproportionately hit since the majority of them do not produce blended whisky. This new 25% tariff is significant. We will not be able to protect our loyal consumers in the US for long. Some members could have to raise prices. Single Malts will become less competitive and we will lose market share that has taken us years to build up. We estimate that US imports could fall by around 20% in a year (a loss of around \$103m in value).

2018 SW Exports to USA by Value Category



Single Malt Scotch Whisky is a significant part of our total exports (33%) by value to the US.

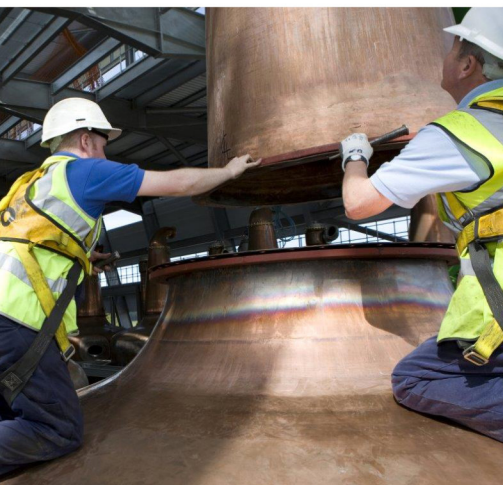
What needs to happen next?

We are seeking the UK government's urgent intervention to get the 25% tariffs on Single Malt Scotch Whisky and Scotch Whisky liqueurs removed as soon as possible.

The UK government should be clear about its strategy to de-escalate these trade disputes. The UK committing to remove EU tariffs on US whiskey as soon as it legally can would help negotiations with the United States. EU-US trade disputes have nothing to do with the Scotch Whisky sector, yet small distillers across Scotland and the whisky supply chain across the UK are set to pay the price for them.

Scotch U.S. export market – Facts and figures

- Scotch exports to the US had a value of £1.04 bn in 2018 (global exports were £4.7bn)
- 137 million bottles (70 cl @40% ABV) were exported to the US. This is the equivalent of 4 bottles per second.
- In 2018, the US market accounted for 22% of exports by global value and 10.7% of exports by global volumes.
- Much of this success has been down to tariff free trade between the EU and the US market. Since the 1994 'zero for zero' agreement, U.S.-EU bilateral trade in spirits has grown nearly 450% to over \$6.7 billion in 2018.
- Scotch and US whisky industries have been integrated for over a century. Every year, the industry spends almost £70 million on importing US bourbon barrels, which are used to mature Scotch – 60% of all the casks which are imported for maturation come from the US.
- The success of Scotch Whisky exports to the US has helped the industry put over £500 million of investment into industry sites in the last 5 years.
- Export success means our highly productive industry directly employs about 11,000 people in Scotland, and many more indirectly through our supply chain. Over 7,000 of these jobs are in rural areas of Scotland.



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