BUDGET SUBMISSION FEBRUARY 2020

www.scotch-whisky.org.uk

#SupportScotch

@ScotchWhiskySWA

@ScotchWhiskySWA

ACTIONS SPEAK LOUDER THAN WORDS

Ridge on Sunday @RidgeOnSunday

When asked about his spending plans and plans to cut taxes, Boris Johnson responds "as the great Tunisian scholar and sage Ibn Khaldun pointed out as early as the 14th century, there are plenty of taxes that you can cut which will actually increase your revenues" #Ridge

9:11 AM - 30 Jun 2019

David Mundell @DavidMundellDCT

Great to have a dram at conference with @ScotchWhiskySWA at conference and to hear about their record exports across the world and significant economic contribution

6:17 PM - 4 May 2019

Cabinet Office @cabinetofficeuk

One of the UK's most valuable exports, the Scotch Whisky industry brings £5.5 billion to the UK economy a year and sustains thousands of jobs.

5:10 PM - 24 Jan 2020

3 Retweets 12 Likes

Liz Truss @trussliz

Our tax burden is too high. We need to make arguments for tax cuts across the board, particularly those that damage growth.

22 Retweets 91 Likes

Boris Johnson @BorisJohnson

The Scottish whisky industry supports over 10,000 jobs in Scotland, and over 42,000 jobs across the UK. We will continue to back these brilliant businesses that keep our economy growing.

3:04 PM - 7 Nov 2019

296 Retweets 1,600 Likes

Douglas Ross MP @Douglas4Moray

At questions to @ScotSecofState today I highlighted a recent report from @ScotchWhiskySWA showing the huge contribution the industry makes to the UK economy.

8:11 PM - 8 May 2019

10 Retweets 50 Likes

ScotGovEconomy

Good news for one of Scotland's greatest global exports!

Rural Economy Secretary @FergusEwingMSP: "I welcome the contribution that the Scotch whisky industry makes to the #ScottishEconomy. The industry's performance is testament to the hard work of those who work in this sector"

7 Retweets 9 Likes

David Linden MP @DavidLinden

In my constituency, I've got three cooperages, one maturation warehouse and a bottling hall. I'm immensely proud and supportive of our #whisky industry and the jobs it provides. Thank you to @BrendanOHaraSNP for his leadership of our APPG & the issues we raise with @hmtreasury

11:55 AM - 10 May 2019

9 Retweets 34 Likes

Scottish Conservatives @ScotTories

A review of alcohol duty was the whisky industry's key ask for this election campaign and a future UK Conservative government has now pledged to roll out action immediately.

4:35 PM - 7 Nov 2019

45 Retweets 109 Likes

Boris Johnson @BorisJohnson

I am committed to supporting the iconic Scottish whisky industry.

2:39 PM - 12 Jun 2019

320 Retweets 1,400 Likes

Jamie Stone MP

🥃The contribution of #ScotchWhisky to the UK economy has increased 10% since 2016 to £5.5bn 📈

As the Scotch whisky industry grows we should all raise a dram to those who produce Scotland's most iconic drink.

2 Retweets 8 Likes

CUT DUTY ON THE ROAD TO REFORM

On average, one bottle of Single Malt is exported to the United States every second. Since 18th October each bottle has had an additional 25% tax added to it by the US government to pay for a trade dispute that has nothing to do with the Scotch Whisky industry.

No business, and no industry, can sustain that additional tax burden for long. The 25% tariff on Single Malt and Scotch Whisky liqueurs in the industry's largest global market presents a serious challenge to Scotch Whisky. Exports to the United States fell 33% year on year in November 2019, and could drop by as much as £100m if the tariffs remain in place for a year, with a corresponding impact on the industry's substantial contribution to the UK economy.

As part of the package of support promised by the UK government, we call on the Chancellor to cut the duty on Scotch Whisky in the UK budget on 11 March. This will not fully mitigate the impact of US tariffs, but it will show that Ministers are truly "determined to support this sector"[1] and that actions do speak louder than words.

As well as supporting the Scotch Whisky industry, a cut in spirits duty can also help drive government revenue. The duty cut in 2015 and freezes in the 2017 and 2018 autumn budgets resulted in higher spirits revenue to HM Treasury. The government's own figures show that spirits revenue grew by £348m to £3,779m in 2018/19 – an increase of 10.2% year on year, making spirits the fastest growing of any alcohol category. Between February and November 2019, spirits revenue has continued to grow – up £18.2m to £3,032m, an increase of 0.6% of the same period in 2018.

The more stable tax environment has allowed the industry to re-invest in the UK economy. It is no coincidence that the industry has been able to invest over £500m in capital projects over the last five years at a time when there has only been one duty increase on spirits - boosting our industry's GVA by 10% to £5.5bn since 2016.

This investment has a number of upstream impacts on the economy through our supply chain – 95% of which is based in the UK. It also helps to secure and create thousands of highly productive jobs, especially in rural areas where investment and employment opportunity is much needed. A cut in duty will enable SME distillers to invest in securing a stronger UK revenue base while the US market is under threat.

A cut will also ensure we remain competitive in global markets as the UK leaves the EU. While other countries back their national industries in the tax system – France, Spain and Italy with wine, Germany with beer – the UK puts its spirits industry at a competitive disadvantage by taxing it at a higher rate per unit of alcohol than any other category and most other countries.

In addition to cutting duty, the Chancellor should kick start the reform of alcohol duty which was set out in the Queen's Speech.

Since the Excise Act was passed in 1823, the tax system has not kept pace with changes in the alcohol industry. Almost 200 years later, we now have a system that allows duty on wine and cider to decrease as product strength increases, while Scotch Whisky and other UK spirits are taxed significantly more per unit of alcohol than any other category.

A cut in duty will show that the UK government is determined to **#SupportScotch**

AT A GLANCE: THE SCOTCH WHISKY TAX BURDEN

SOURCE: Tax burden based on average off trade price of 70cl Blended Scotch Whisky at £14.61; Nielsen, May 2019

[1] Conor Burns MP, Trade Minister, 7th October 2019

THE CASE FOR A DUTY CUT

DUTY CUTS CAN DELIVER MORE REVENUE - AND HAVE!

Real-world data from HMRC shows that in the twelve months to November 2019, spirits revenue has continued to grow. Continued duty support for spirits through a cut in duty would be a win-win - more revenue for public services and greater confidence for industry to invest.

Following the 2% cut in 2015, spirits revenue grew 4.1%. More recent freezes to duty have continued to increase revenues to government, but at a slower rate. Moving Annual Total (MAT) to November 2019 shows that spirits revenue grew by 0.5%, compared to beer and cider which saw revenue fall by 1.1% and 1.7% respectively. Between February 2019, the implementation date for duty changes, and November 2019, the HM Treasury's receipts from the spirits duty freeze have grown £18.2m to £3,032m, an increase of 0.6% year on year.

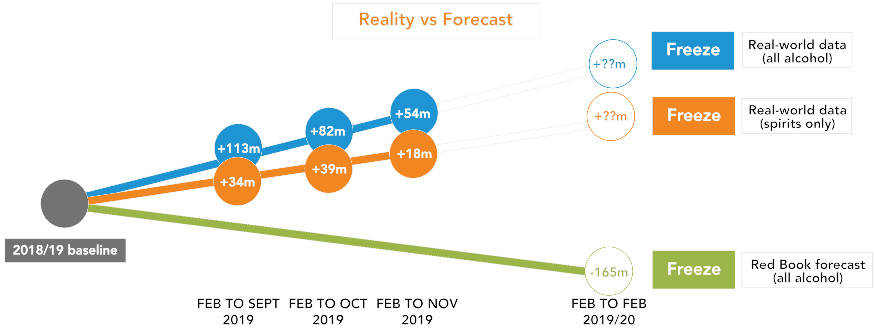
Wine, 99.7% of which is imported, continues to generate revenue following previously planned uprating - up 2.6% between February and November 2019.

Spirits are extremely sensitive to differential treatment to other categories, and the current discrepancies between spirits and beer, wine and cider already significantly disadvantage spirits. We strongly believe that the high elasticities of the spirits category means that cuts to duty can increase revenue as it has in previous years. HM Treasury's treatment of spirits in the tax system over the last decade bears this out.

In the five years to 2013 excise rates were increased each year - a total increase of £6.87 per LPA. In the corresponding years, excise receipts increased £536m. Comparatively, in the five years to 2018, spirits excise was increased by 52p per LPA. Despite this marginal increase over the five year period, excise receipts increased by over 23% to add an additional £735m to HMT revenues.

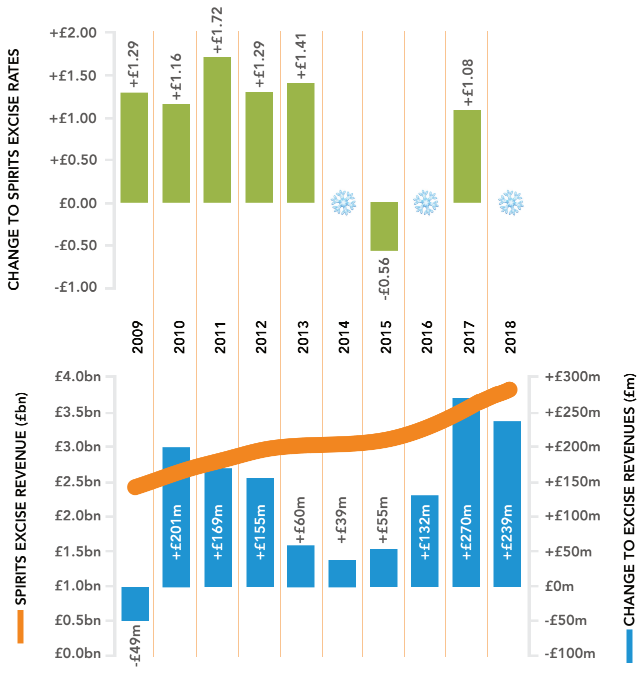
It is clear that a continued support for Scotch Whisky can deliver more revenue for the government to spend on vital public services.

The real-world HMRC data shows that spirits revenue continues to grow despite government forecasts.



SOURCE: HMRC Tax & NIC receipts, January 2020; Budget Red Book, October 2018

SPIRITS EXCISE RATES AND ANNUAL REVENUES



SOURCE: HMRC

THE CASE FOR A DUTY CUT

ENABLE THE INDUSTRY TO RE-INVEST IN ITS HOME MARKET

Diageo's £150m investment in Scotch Whisky Tourism

Chivas Brother's £50m investment in world class bottling facilities

Isle of Raasay distillery providing vital employment for island communities

The Scotch Whisky industry has made major investment decisions in local communities in the past five years - it has invested more than £500m in capital projects in Scotland. It has been able to do so as a result of cuts and freezes to duty, enabling the industry to re-invest in the UK economy.

We are committed to continue our investment in the communities where our distilleries, maturation warehouses, bottling hall and other industry sites are based – this is even more important now that the United States market is under threat.

By cutting duty, HM Treasury can help create the conditions that will allow distillers to build market share in the the UK, and focus investment into tourist attractions, distillery upgrades and the UK supply chain, each with additional benefits to the economy.

In 2019, a £150m investment in a new tourist visitor centre in Edinburgh was announced by Diageo. In 2018, Edrington opened the new £140m distillery and visitor experience at The Macallan Estate, which has been named one of the World's Greatest Places by Time Magazine. Chivas Brothers has invested £50m in a state of art bottling hall plant in Dumbarton, and has increased distilling capacity at Aberlour, Scapa, and The Glenlivet distilleries - the latter alone representing a £30m investment. William Grant & Sons has made a £30m expansion to its Glenfiddich distillery.

In addition, new distilleries are starting up all over Scotland. Ardnahoe Distillery on Islay, Holyrood Distillery in Edinburgh, and Lagg Distillery on Arran have all opened their doors since the last budget in October 2018. Each of these investments and new distilleries bring with them an additional boost to the economy though our supply chain - 95% of which is based in the UK.

As a result of these investments, we estimate the Scotch Whisky industry has grown its contribution to the UK economy by 10% since 2016 to £5.5bn. We have repeatedly shown that investments in the Scotch Whisky industry through the excise duty system results in investment for the UK economy.

We ask the Chancellor to encourage and continue this virtuous circle by cutting duty on Scotch in the budget.

DID YOU KNOW ???

SCOTCH WHISKY INDUSTRY INVESTED MORE THAN £500 MILLION IN CAPITAL PROJECTS OVER THE LAST FIVE YEARS

95 PERCENT OF THE SCOTCH WHISKY INDUSTRY'S SUPPLY CHAIN IS BASED IN THE UK

THE CASE FOR A DUTY CUT

THE WORLD IS WATCHING - GLOBAL BRITAIN TO LEAD BY EXAMPLE

Budget decisions made by the UK government send a strong signal to governments overseas. This is something the Scotch Whisky industry, as a major exporter, knows only to well. The UK's current tax and regulatory environment is used in major export markets as a justification for higher taxes - hindering the industry's growth.

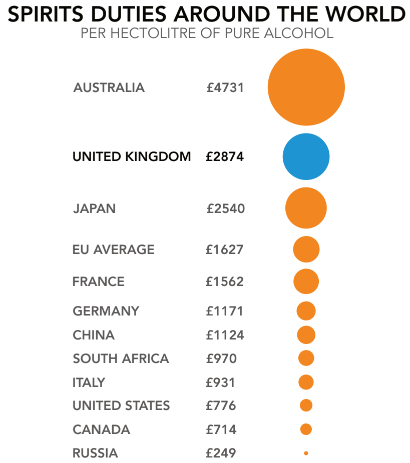
Consumers of Scotch Whisky are often shocked to discover that £3 in every £4 spent on an average priced bottle in the UK is collected in tax. Per unit of alcohol, this is more than any other category of alcohol.

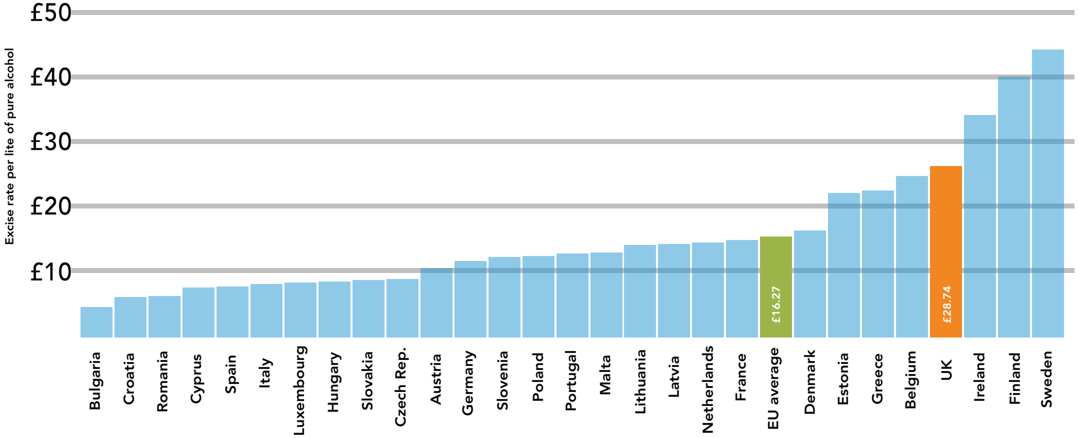
Tax on Scotch Whisky in the UK is particularly high when compared to comparable economies around the world.

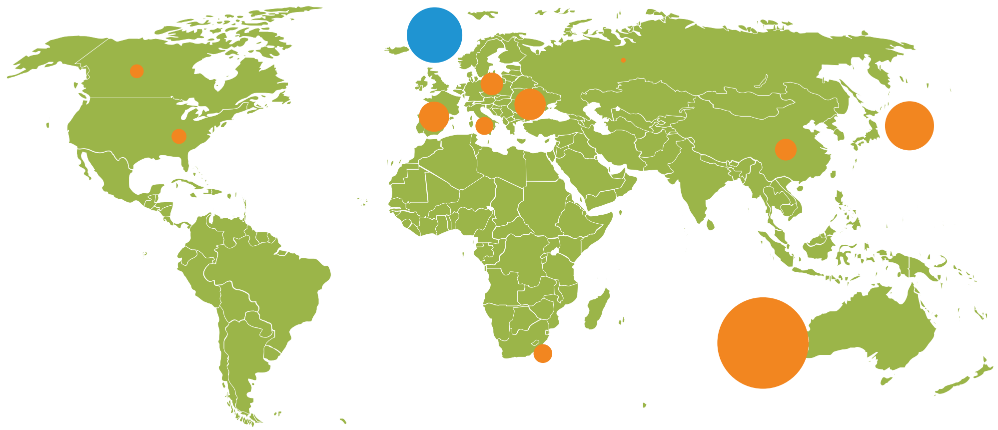
The UK has the fourth highest spirits duty rate in the EU, with only Sweden, Finland and Ireland having higher rates. Internationally, across other major producing and consuming nations, the UK has one of the highest rates of spirits duty in the world.

For example, the UK's tax on spirits, including Scotch Whisky, is three times higher than the tax on spirits in the United States, the second largest producer of globally marketed whisk(e)y.

Scotland is the largest producer of globally traded whisky in the world, and produces 70% of the UK's gin. We now have a chance to set an example for markets around the world: we should be proud of our spirits industry and back it at home to succeed overseas.







DRINKING LESS, DRINKING BETTER

The Scotch Whisky industry is deeply committed to helping ensure that those who consume alcohol do so moderately and have the information they need to make responsible choices. We also take very seriously our role to tackle alcohol related harm in conjunction with partners.

For more information on our work to promote responsible drinking visit:

www.scotch-whisky.org.uk

Alcohol consumption in the UK has been on a gradual downward trend and peaked in 2005. In Scotland, consumption is 15% lower than it was in 2007, and has continued to fall over the last five years during a period of duty freezes and cuts.

Overall the trend in sales of pure alcohol is decreasing. The distribution of sales is changing due to preference shifts, with more people choosing to drink spirits in long serves, but the overall level of drinking throughout the UK was lower in 2017 than at its peak.

The ONS survey of adult drinking habits shows the majority drink at least once a week, but the number has declined from 64.1% in 2005 to 57% in 2017.

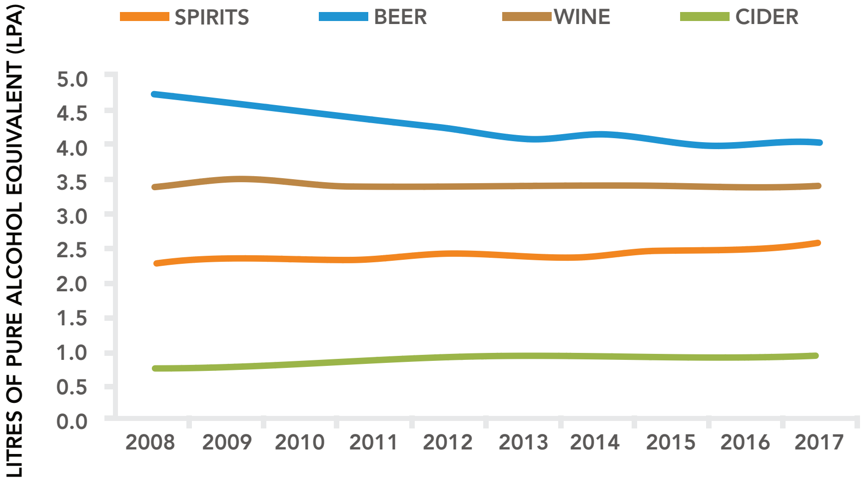
While the share of those drinking at least once per week has reduced in the last decade, this appears to be a result of more consumers becoming less regular drinkers – those who do not declare themselves as teetotal, but who did not drink in the week prior to the survey.

The proportion of binge drinkers and those who drank alcohol on five or more days a week have also experienced declines since 2007.

We therefore believe that duty on Scotch Whisky and other spirits can be cut without having a detrimental impact on drinking habits. Consumer trends are evolving, with more choosing to drink responsibly and support our great spirits industry.

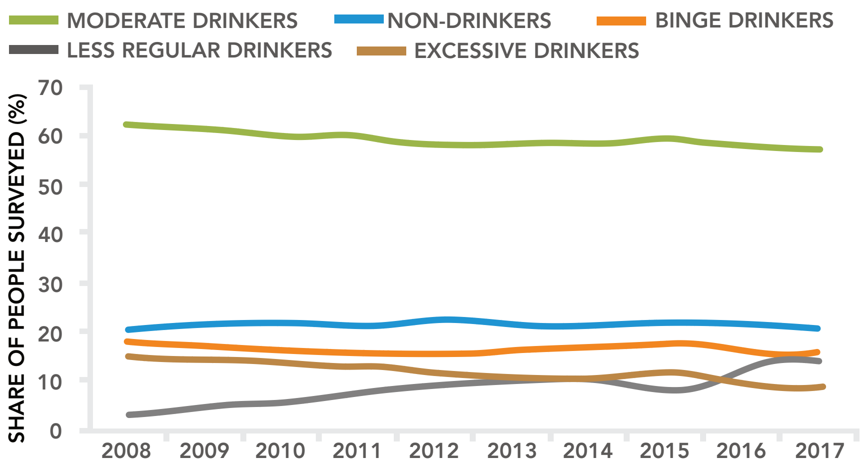
Consumers would further benefit from a clear, rational alcohol tax system that more accurately taxed alcohol on a per unit basis.

VOLUME OF ALCOHOL SOLD PER CAPITA



SOURCE: NHS Scotland

DRINKING TRENDS IN THE UK



SOURCE: Office of National Statistics

THE CASE FOR REFORM

The UK alcohol duty system is "among the most incoherent and badly designed parts of the UK tax regime", according to the Social Market Foundation think-tank.

The UK government's stated aim of creating a "more predictable, stable and simple tax system", one that raises revenue and protects jobs and investment, is undermined by the current alcohol duty regime. It should therefore be reformed.

We are pleased that the need for reform was highlighted in the Queen's Speech, and that alcohol duty will be reviewed "to ensure our tax system is supporting Scottish whisky and gin producers." While this review takes place, it is vital that Scotch Whisky is not put at further competitive disadvantage in our home market.

Differences in how excise tax is calculated for different categories causes large inconsistencies. For example, on a per-unit of alcohol basis, 11% ABV wine is taxed at 27p, while 15% wine is taxed at 20p. For cider, 4% ABV product is taxed at 10p per unit, while high-strength 7.5% ABV product is taxed less than 7p per unit.

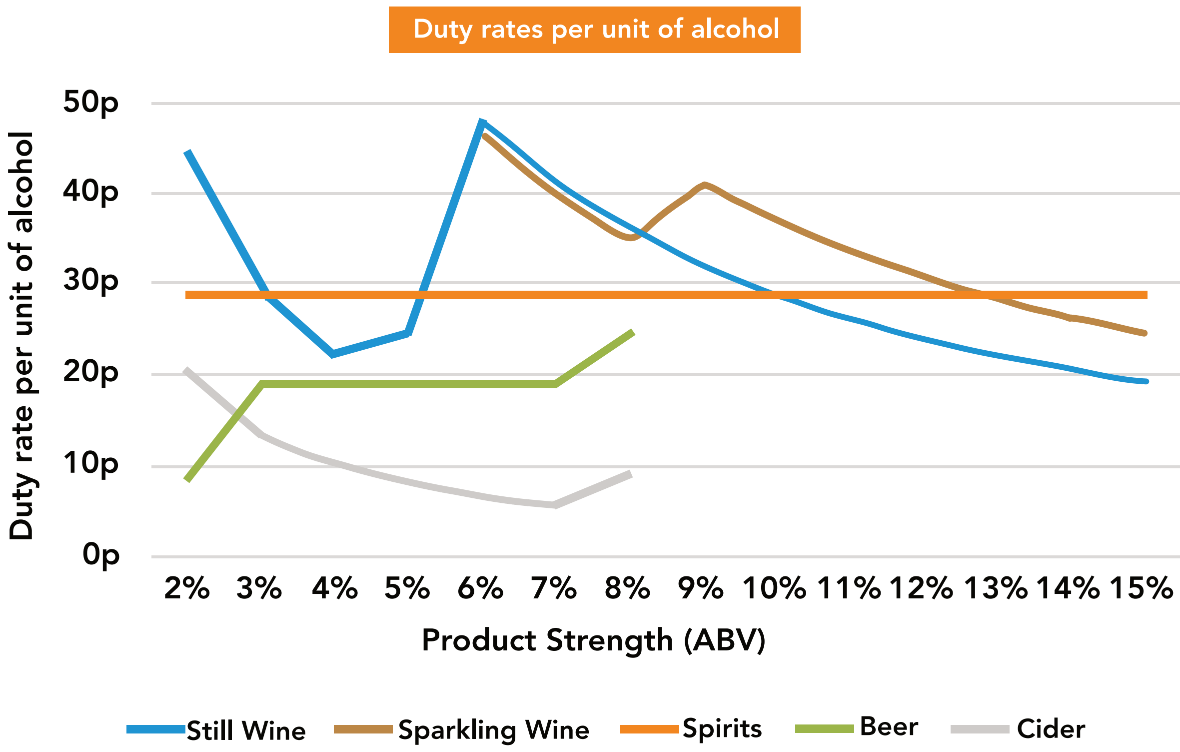
The CMOs guidelines on low-risk consumption say adults should drink no more than 14 units a week of alcohol. The guidelines do not discriminate between categories of alcohol, but the tax system does.

As a result, consumers who choose to drink 14 units of cider a week, as per guidelines, are taxed £1.13, those who choose to drink 14 units of wine are taxed £3.36, while those who choose to support Scotch Whisky are taxed £4.06.

Spirits, including domestic products such as Scotch Whisky, are taxed 256% higher per unit than cider and 16% higher than wine.

There is now an opportunity to create a more coherent, reasonable and effective alcohol duty regime in the UK.

Indeed, a simplified and fairer system based on robust economic reasoning is expected to increase competitiveness. As such it will be beneficial to both consumers and jobs in the UK and it will remain an important driver of tax revenue.



TAX FIT FOR THE 21ST CENTURY

The UK's current alcohol duty system is broken. It exhibits large differences in how excise tax is calculated for different categories which causes significant differences in the duty applied to different alcohol categories and sub-categories on a per unit of alcohol basis.

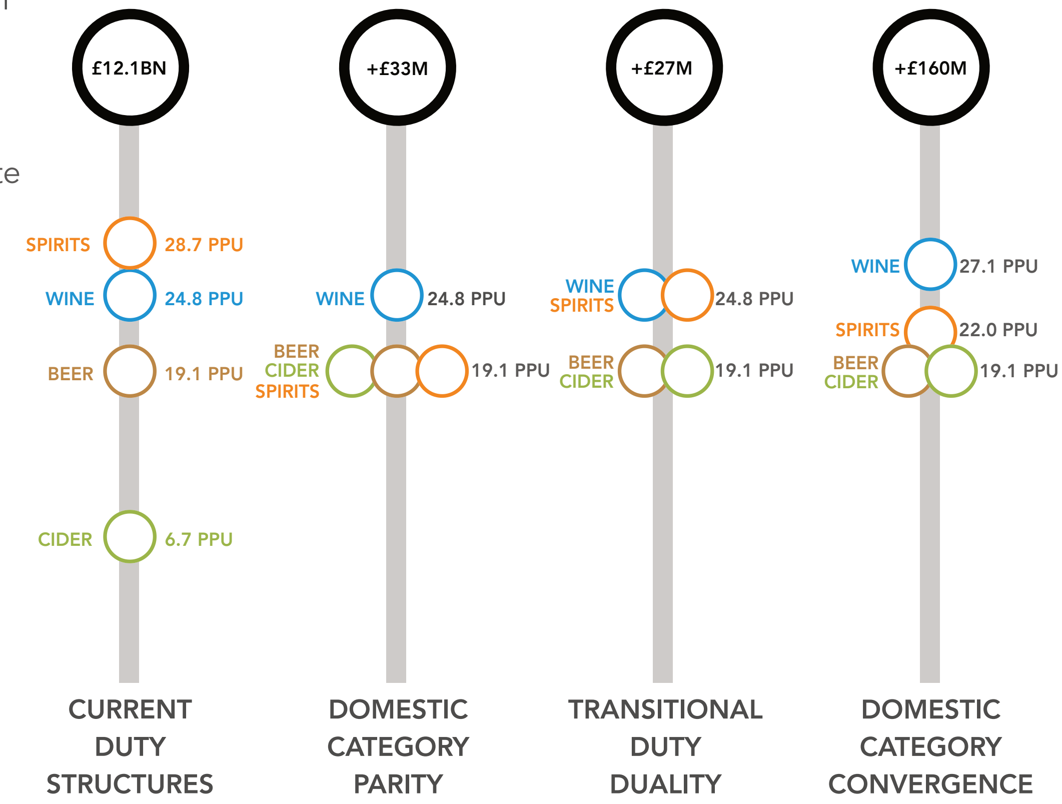
As the UK approaches the 200th anniversary of the Excise Act, it is appropriate to look at how alcohol taxation should be applied in a modern economy.

The SWA, working with the Centre for Economic and Business Research (Cebr), has developed three reform scenarios - all of which enhance the current revenue which HM Treasury receives through alcohol duty while reducing the per duty differentials between alcohol categories.

In doing so, we have shown that it is possible to change the structure of UK alcohol taxation into a more rational and fairer system in such a way that tax revenues are maintained or even increased and become more stable and predictable, while additionally providing the UK economy with stimulus.

The scenarios seek to reduce the current imbalance between alcohol categories and remove anomalies that distort tax structures.

The Conservative government committed to completing the review by the 2020 Spending Review, and we look forward to discussing our proposals in more detail.



> "We also want to step up UK government action to support key sections of the Scottish economy... it means listening carefully to the whisky industry's proposals for a review of alcohol duties."

Scottish Conservative MPs
Letter to new Prime Minister

> "We think that review should be based on the amount of alcohol in each drink, and that taxation should therefore be levied on an appropriate basis."

Kirsty Blackman MP
SNP Deputy Westminster Leader

> "We need a simpler tax system... of course we should continue to look at areas like alcohol duties as well."

Rt Hon Liz Truss MP
Former Chief Secretary to the Treasury

CASE STUDIES OF SUCCESS

MULTI-MILLION POUND RURAL INVESTMENT ON RAASAY

The Isle of Raasay, a teardrop island off the East coast of Skye in rural Scotland, became home to its first legal distillery in September 2017. The distillery embarked on a major new development incorporating a new visitor centre in January 2018. In total, the new distillery and visitor development is a multi-million pound investment.

R&B Distillers is an independent Scottish owned company. Today, the distillery employs around 20 staff, which accounts for 12% of the island's local population. Since the distillery opened, it has become a notable feature of the community, generating additional tourism which has, in turn, resulted in the creation of other new local businesses.

The company is currently building two new maturation warehouses on Raasay which will allow it to utilise its current warehouse on site at the distillery for bottling in addition to cask filling which will in turn create new jobs.

The company currently exports to 15 countries with 78% of its sales exported and 22% in the UK.

BOOST FOR WHISKY TOURISM IN SCOTLAND'S CAPITAL

In 2019, plans were announced by Diageo for a £150m investment in Scotch Whisky tourism in the form of a new global flagship visitor experience centre in the heart of Edinburgh.

Diageo announced this project in early 2019 and it is as a result of the stable tax regime maintained in last year's budget that has made investments like this possible across Scotland.

The project is projected to create just under 200 new full time jobs as well as generate around £135m in tourism spend in the wider Edinburgh economy through the visitors it attracts to the city.

Diageo is currently investing over £185 million in Scotch whisky experiences in Scotland. As well as the Edinburgh location, the company is also investing to transform its existing 12 distillery visitor attractions across Scotland and a £35 million investment to reopen the iconic distilleries of Port Ellen and Brora.

NOW IS THE TIME TO SUPPORT SCOTCH

The Prime Minister has said that he is committed to supporting Scotland's iconic national drink. The Chancellor has said that maximising revenue "doesn't always mean that you have to have the highest tax rate possible." The UK government has promised to do all it can to support the industry as it faces a 25% tariff in its largest global market.

It is, therefore, incumbent on the Chancellor to cut duty on Scotch Whisky in the budget on 11 March. By doing so, he can back up these words of support with concrete actions that will help to mitigate the impact of tariffs, especially on small and mid-sized distillers.

A cut in duty is not counter to the government's aim to grow revenue. Indeed, over the last five years, during a period of cuts and freezes to spirits duty, the industry has shown that lowering duty can raise more revenue to help pay for vital public services. As the Chancellor points out, higher taxes do not always lead to higher revenues - and the spirits category proves this time and time again.

But revenue does not tell the full story of the Scotch Whisky industry's contribution to the UK economy. When the government backs the industry at budgets, the industry in turn has the confidence to invest in the UK - creating vital employment and opportunity in communities across the country and filling the order books of our UK-wide supply chain.

The UK is a world-class producer of spirits, led by Scotch Whisky. The UK government should be proud of that and continue to back the industry at home.

In doing so, it will help to keep us competitive in global markets. The UK's spirits duty is almost twice the EU average, and one of the highest across comparative developed economies. One of the main barriers to tax reform in our export markets, where growth enables us to grow our domestic economic contribution, is the example the UK sets to others. But it doesn't have to be this way.

> **"We want to set them at a rate where we are trying to maximise revenue, and that doesn't always mean that you have to have the highest tax rate possible. Generally I want to see lower taxes, but at a level that is going to pay for the public services."**
>
> **Rt Hon Sajid Javid MP**
> Chancellor of the Exchequer

A reformed, simplified and fairer system can continue to deliver for the economy but reduce the inequalities between categories which make little sense in the modern world.

The UK can lead the way in how alcohol is taxed in the 21st century - ensuring consumers can enjoy alcohol responsibly, while supporting domestic industries - like Scotch Whisky - that directly benefit the UK economy.

The UK government has recognised this by signalling the need for a review of alcohol duty. 11th March is the opportunity for the Chancellor to announce the details of the review process, and look seriously at the credible proposals put forward by the Scotch Whisky industry.

Chancellor, cut duty for Scotch Whisky in the budget, and show that the promise to #SupportScotch is matched by action.