



NFUS Speech, 6 February 2020

Karen Betts, Chief Executive – The Scotch Whisky Association

It's a pleasure to be here at the National Farmers Union Scotland conference. The Scotch Whisky carefully crafted at Scotland's now 133 operating distilleries could not be produced without your cereals, in particular your barley. We value the partnership we have with Scotland's farmers. It goes without saying that our success is heavily dependent on yours.

I have been asked to talk about our industry's view of future trade agreements with Europe and the rest of the world, now that the UK has left the European Union. And it feels right to be doing this in Glasgow, a city built on trade and built by trade. In the nineteenth century, Glasgow and its shipbuilders largely created the modern system of global trade. And it was Glasgow's ships that first brought Scotch Whisky from Scotland to the world.

Trade is the lifeblood of Scotch Whisky. It sustains small, local distilleries across the four corners of Scotland by taking Scotch to now millions of global consumers. So trade is certainly something we've been thinking a good deal about recently, not least since the UK government now has the remainder of this year to negotiate our future relationship with the EU. At the same time, the UK will start trade negotiations with the US, Japan, Australia and New Zealand, to take effect when the Brexit transition period ends.

It goes without saying that how the UK trades with the EU and the rest of the world going forward matters to us. As I've said, the Scotch Whisky industry is export-focussed. Ninety percent of Scotch Whisky produced is exported to around 175 countries, making Scotch the world's number-one internationally traded spirit. We are more than one fifth of UK food & drink exports, and three quarters of Scotland's. We have been exporting for the last 140-odd years. This was driven in its early years by the demand – particularly across the British Empire – for Scotch, from those who wanted a taste of home to those who wanted British-made products; by high taxation in the UK making spirits fiercely competitive and relatively low-margin; and of course by Glasgow's unmatched ship-building. Nowadays, Scotch Whisky is simply a global phenomenon.

So we are hugely invested in the UK's new, post-Brexit trading relationships. Broadly, we want to see the same level of – or better – market access to the countries to which we export Scotch. Ideally, we want to see a shared approach to industry regulation with those markets, as this tends to increase exports by reducing costs for Scotch Whisky producers as they operate globally. The EU is incredibly important to us – at the moment, about a third of our exports by value, so £1.4 billion pounds-worth of Scotch, goes to EU countries. But other markets are important too – the US is our largest single market by value, accounting for



over 1 billion pounds of our exports; and emerging markets, such as India, China, Russia and Nigeria are growing rapidly, with increasingly high levels of demand for Scotch.

As we look out at future negotiations, therefore, we would urge the UK government – working closely with the Scottish Government – to ensure the following things. First, they must use this year as wisely and as expeditiously as possible. The UK government has the opportunity this year to bring clarity to the UK's future global trading relationships. This is critical for businesses, many of whom – including our companies – have been affected by high levels of uncertainty since the 2016 EU referendum. So we would like the UK government to set out clearly and as soon as possible its negotiating objectives for those countries with which it will conduct trade negotiations, and the proposed timetables for moving forward.

Secondly, we urge the UK government to be as transparent as possible with business. Some good mechanisms are already in place for consulting sectors and businesses about future negotiations, and these are important. But as negotiations get underway, we believe that the relationship between government and business will need to strengthen and deepen. After all, without business, there is no trade. To negotiate successfully on the UK's behalf, the government will need a detailed understanding of what business needs from trade deals, and businesses will need to get better at explaining this to government. Within this, you are no doubt working to ensure that the needs of Scottish agriculture are understood by government.

Turning to the UK's future relationship with the EU, we have four key priorities.

- First, we want zero tariffs on goods; including on our inputs, such as glass and bottle closures, as well as for Scotch Whisky exports;
- Second, we want an appropriate level of regulatory consistency. Here I would stress that the SWA has worked closely with the EU over many years to shape the regulations that apply to our sector, so they work for us and make sense for our consumers. We don't want to move away from these if all that would do would be to make it more costly and complicated for us to access the EU market. However, we can also see circumstances where the UK might need to cut its own regulatory path, not least since – now that the UK has left the EU – the EU will be able to change its regulations without reference to us. If changes were to disadvantage our sector over time, then some regulatory divergence could be in our interests.
- Third, we want to see Scotch Whisky's geographical indication continue to be properly protected. The GI system is a critical guarantee of Scotch Whisky's quality and provenance and it has been a key factor in our export success. It helps us to remove fake Scotch Whisky from shop shelves around the world



quickly, stops others profiting from our reputation, and ensures that when consumers buy Scotch Whisky, they can be sure they are getting the real deal. The same applies, of course, to other UK's GIs, like Scotch Beef and Scottish Farmed Salmon.

- Finally, it's important to us that there's a minimum of disruption to the – rightly closely controlled – movement of excise goods. Currently we work through an EU common platform for moving Scotch Whisky into and around the EU, where excise taxes only become payable when the whisky reaches the country in which it will be sold. If new processes will need to be put in place, these must be communicated to us – and tested with us – well in advance of coming into effect.

Of course, the UK government will need to look across trade with non-EU markets at the same time as negotiating with the EU. What the UK agrees with the EU will impact trade with other countries, and vice versa. In this, successful negotiations with the United States are very important to us. As I said, the US is Scotch Whisky's most valuable single market. The US economy is relatively buoyant and in growth, and consumers there are drawn to Scotch Whisky's heritage and provenance, as well as, of course, to the diversity of its wonderful flavours. Until mid-October last year, Scotch had traded tariff-free with the US for more than 20 years, and exports had grown a remarkable 270% in that time.

But Scotch Whisky – alongside American whiskies – have now been drawn into long-running, bitter disagreements between the EU and US about global supplies of steel and subsidies to aircraft manufacturers. Scotch and American whiskies are now paying a heavy price. To be precise, Scotch Whisky is currently paying 62% of the UK's tariff liabilities for subsidies that the UK government gave to Airbus in breach of World Trade Organisation rules.

Negotiations between the UK and US, now that the UK has left the EU, have the ability to unlock this. We were encouraged by Prime Minister Boris Johnson's commitment late last year that the UK would lift EU tariffs on American whiskies as soon as possible, and by his continued pressing of the US government, including earlier this week, to remove tariffs on Scotch. This matters to us. We estimate that the Scotch Whisky industry could lose around £100 million in exports if tariffs remain in place for a year. And in time there could be an impact into our supply chain. So the situation is urgent, and it's particularly so for smaller distillers who are taking a disproportionate hit, given many only produce single malts and for whom the US market is key. Given this, we have asked the Prime Minister to talk to President Trump about lifting all whisky tariffs and agreeing other measures to boost Scotch Whisky exports to the US and American whiskey exports to the UK when he visits Washington in the coming weeks. In doing so, the Prime Minister will be able to demonstrate the tangible benefits of trade to companies, communities and individuals.

It's not only settling the UK's new trading relationships with the EU and US that interest us. Around 45% of Scotch Whisky exports go to other markets. So we



will also engage with the UK government as it begins negotiations with Australia, New Zealand and Japan, which are all stable, mature markets for Scotch. Beyond these countries, it's emerging markets where we expect to see strong growth in the coming years. Out of these, India is the most important. India is the largest whisky market in the world and, at the moment, Scotch Whisky has only a 1% share of it. We face a prohibitive 150% import tariff as well as complex tax and regulatory challenges. We are talking to the UK and Scottish governments about how they can help us increase our exports to India, including by reducing the tariff. Other markets, such as China, Mexico and Russia are also important: we believe that Scotch Whisky sales will continue to grow in these and other emerging markets as consumers become more affluent. In the time that takes to happen, we will be working to ensure that trade with these countries is progressively liberalised.

Finally, on trade, I want to mention the World Trade Organisation. Scotch Whisky's success in exporting is significantly based in the WTO's work to liberalise trade and enforce international agreements. As a result of the WTO's efforts, increasingly, Scotch Whisky exports compete on a level playing field with locally-produced spirits and other imported spirits in global markets. Alongside the government-to-government negotiations I've just been talking about, the WTO is key to our continued success in developed markets; and key to our future growth in emerging markets.

But the WTO is under pressure. It's facing challenges stemming from global economic challenges that didn't exist when it was first created, as well as from its growing membership. Reform is key. It's in all our interests that the WTO functions effectively and that commitments made there are effectively enforced. So the impasse over the Appellate Body needs to be resolved, as well as new thought given to how countries can hold each other to account without the need for so many lengthy disputes. Because we need the WTO not to be paralysed by disagreements but to focus on a forward-looking agenda, for example, looking at digital trade and cross border e-commerce, where conflicting rules hinder companies who want, in response to consumer demand, to operate digitally and globally.

Before I draw to a close, there's one final subject I wanted to touch on, and that's sustainability. This is key to our industry: after all, Scotch is rooted in Scotland and its landscape, just as farmers are too. We rely on natural ingredients to make Scotch – water, yeast and cereals. And of course on the expertise of the communities across Scotland who have made Scotch for generations, and know its secrets. We take none of that for granted.

So we have been working to reduce our environmental impact for more than 10 years now, and we have made good progress. For example, as many of you will know, some of the industry's by-products – draff & pot ale – now fuel Scotch Whisky production through on-site renewable energy plants, thus reducing our reliance on heavy fuel oil in remote areas. But we know we need to go further to ensure we meet Scottish Government's 2045 net-zero goal. And we know that



this will require more innovation, for example to decarbonise the heat we need to run our stills and to transfer the heat we cannot use to other industries or to households.

In order to make sufficient progress, we will need to work in partnership with everyone in our supply chain too. So for example, we remain committed to the sustainability of our barley supplies. We are pleased that the James Hutton Institute's International Barley Hub will be looking at new crop varieties to improve the quality and consistency of our cereal supply and at new farm management techniques which support strong and sustainable local ecosystems.

We are also delighted that Glasgow will be hosting the next UN Climate Summit, COP26, later this year. This is a great honour for Scotland, and a chance for Scotland to showcase its environmental leadership. We hope to play our part in welcoming the world's leaders here.

To wrap up, we live, as they say, in interesting times. All industries, from Scotch Whisky, to farming, to telecoms and car manufacture, are having to navigate change and uncertainty in global markets, many of which have been stable for years. In that change will come challenges, but also opportunities. Our industry will do what it has always done. Our industry thinks in decades, not in years or quarters, given that the whisky laid down today will be matured for at least three years, and probably for much longer than that. So we will take a long view and, in the tradition of one of Scotland's whisky barons, keep walking.

For more information, please contact pressoffice@swa.org.uk