1. Introduction

1.1 The Scotch Whisky Association (SWA) works to sustain Scotch Whisky’s place as the world’s leading high-quality spirit drink and its long-term growth worldwide.

1.2 In international markets this involves pursuing fair market access, a competitive and sustainable business environment, safeguarding the category ‘Scotch Whisky’ against unfair competition, and promoting the responsible use of alcohol.

1.3 The Association’s 57 member companies, including distillers, blenders and bottlers, account for nearly 95% of the industry.

1.4 We welcome the committee’s inquiry into how the Scottish Government and its agencies engage internationally. The following response addresses questions set out in the call for evidence and should be read in conjunction with the SWA’s submission and recommendations to the Economy, Energy & Tourism committee inquiry into internationalising Scottish business (attached at appendix one).

2. Export performance

2.1 On the basis of the Scottish Government’s Global Connections Survey (2013), annual shipments of Scotch Whisky in excess of £4bn in customs value represent over 15% of total Scottish exports, as well as 85% of Scottish food and drink shipments. Scotch represented 10% of Scottish exports to the EU, 23% of exports to North America, 30% of exports to Asia, and 38% of exports to Central & South America. Any EU and international engagement strategy should take into account the perspective of the Scotch Whisky industry.

2.2 Over the first six months of 2014, export value was 11% down on the same period in 2013. It is clear that Scottish exporters face a number challenges, at least in the short term. There remain global economic headwinds and unfavourable developments in some markets.

2.3 Growth in some emerging markets has slowed and the Eurozone (a key destination for Scottish exports) remains difficult. Geopolitical risk and uncertainty also impacts on exports. Obvious examples relevant to the whisky industry at the moment include the situation in the Russian Federation, Ukraine and Venezuela.

2.4 Such considerations need to be reflected in any Scottish Government strategy on international engagement if it is to add full value to industry.
3. **International priorities**

3.1 The SWA and its membership assess export priorities on a rolling three year basis. Over the 2012-2015 period, the sector’s international priority markets are as follows: Africa (with a focus on South Africa and sub-Saharan African markets such as Angola and Nigeria), Andean markets (especially Colombia), Brazil, China, Mexico, the Russian Federation, Thailand, Turkey, and Viet Nam.

3.2 The Scotch Whisky industry's top trade priority remains securing fairer access to the Indian spirits market. The market is one of considerable potential for Scotch Whisky brands but access remains restricted by an exorbitant import tariff (150%), state level tax and regulatory challenges.

3.3 The SWA attaches a high importance to ensuring there is an appropriate regulatory environment within the EU’s Single Market, as well as the accession countries. EU Free Trade Agreement (FTA) negotiations with third countries or trading blocs are also a key focus, with such negotiations often offering the main opportunity to remove long-standing trade barriers. At present, the industry is particularly engaged on FTA talks with third countries such as India, Malaysia, Viet Nam, and the United States.

3.4 Market access must be prioritised because exports are negatively impacted by tariff and non-tariff barriers to trade. An SWA analysis, for example, identified over 450 separate barriers to the trade in Scotch Whisky in 186 markets. The EU has exclusive competence on external trade policy issues and engaging the European Commission directly, as well as via the UK Government, is vital. Market access issues within the EU are part of the Single Market framework and, once again, engaging the Commission and UK Government is essential.

4. **Scottish framework**

4.1 The Scottish Government and public agencies are regularly updated on trade priorities and the industry has welcomed Ministerial support on various issues. There is, however, limited Scottish Government day to day involvement in pursuing such issues, reflecting where responsibilities for trade lie under the devolution settlement. In this context, there can be challenges in ensuring industry priorities are understood and reflected in the Scottish Government’s international engagement strategy.

4.2 The Scotch Whisky industry has not been involved to any significant degree in work around the Scottish Government’s International Framework. The SWA would welcome the opportunity to work more closely with the Scottish Government’s EU and international team as it develops strategy and related engagement activities.

4.3 This would ensure industry priorities are understood as strategy is developed and implemented. It would also help to ensure the Scottish Government is able to take full advantage of industry networks, international experience and expertise in different markets.

4.4 The industry receives good support on export promotion activities from Scottish Development International (SDI). The SWA has welcomed the efforts of SDI to engage with the industry on its priorities and its recognition of the strategic importance of Scotch Whisky. A good working relationship and regular dialogue has been established. It is also essential that SDI collaborates as closely as possible with UK Trade & Investment (UKTI), both in-market and domestically.
4.5 More could be done to ensure SDI has an appropriate, well-resourced presence in new emerging markets and the SWA welcomes continued efforts to do so. Obvious areas for improvement include better engagement in Central and South America, as well as sub-Saharan Africa.

4.6 Such markets underpin the SWA view that the long-term fundamentals for Scotch Whisky exports are strong. Increasingly affluent consumers in such emerging markets want to buy premium imported products and there is increasing interest in high-quality and authentic goods, as well as what are considered affordable luxuries.

5. Industry recommendations

5.1 The SWA has made a detailed submission to the concurrent inquiry on internationalising business being conducted by the Economy, Energy, & Tourism committee. This submission includes recommendations on how the Scottish Government could work with export-oriented sectors, such as Scotch Whisky, in its international engagement work.

5.2 A copy of that submission is at appendix one and we commend the recommendations to the European & External Relations committee.

6. Conclusion

6.1 The SWA believes there are opportunities for the Scottish Government and its agencies to work more closely with the industry to deliver a strategy that maximises the ability to add value to existing activities and to deliver sustainable economic growth. The SWA and its member companies would welcome such a dialogue.

Scotch Whisky Association
January 2015
1. Introduction

1.1 The Scotch Whisky Association (SWA) works to sustain Scotch Whisky’s place as the world’s leading high-quality spirit drink and its long-term growth worldwide.

1.2 In international markets this involves pursuing fair market access, a competitive and sustainable business environment, safeguarding the category ‘Scotch Whisky’ against unfair competition, and promoting the responsible use of alcohol.

1.3 The Association’s 57 member companies, including distillers, blenders and bottlers, account for nearly 95% of the industry.

1.4 We welcome the Committee’s inquiry into the opportunities and challenges faced by Scottish exporters, as well as the chance to offer comment on the extent to which Scottish and UK Government services assist companies in the Scotch Whisky sector. The following response addresses various questions set out in the call for evidence.

2. Export performance

2.1 Scotch Whisky is Scotland’s leading single product export, with nine out of every ten bottles sold overseas. Annual shipments in excess of £4bn in customs value represent nearly 20% of total Scottish exports, as well as over 80% of Scottish food and drink shipments. Scotch Whisky represents almost a quarter of UK food and drink exports.

2.2 With the value of whisky exports growing by some 90% over the last decade, and continued confidence in long-term export potential, around £2bn in new capital investment has been made in the industry over recent years. Existing sites have been expanded to ensure the industry is well-placed to meet future demand, with over 30 new distilleries currently at different stages of development.

2.3 Whilst Scotch Whisky has enjoyed strong export growth over the last decade, it is important to note that such year on year growth cannot be taken for granted. Over the first six months of 2014, export value was 11% down on the same period in 2013.

2.4 It is clear that Scottish exporters face a number challenges, at least in the short term. There remain global economic headwinds and unfavourable developments in some markets.

2.5 Growth in emerging markets in Asia and South America, for example, has slowed and the Eurozone (a key destination for Scottish exports) remains difficult. These conditions may be compounded by government action as economic problems can increase the likelihood of countries resorting to more protectionist measures. Geopolitical risk and uncertainty also impacts on exports. Obvious examples relevant to the whisky industry at the moment include the situation in the Russian Federation, Ukraine and Venezuela.

2.6 That said, the SWA continues to believe that the long-term fundamentals for Scotch Whisky exports are strong. Increasingly affluent consumers in emerging markets want to buy premium imported products and there is increasing interest in high-quality and
authentic goods, as well as what are considered affordable luxuries. These trends benefit Scotch Whisky brands.

3. International priorities

3.1 The SWA and its membership assesses export priorities on a rolling three year basis, following detailed consideration of a market’s commercial potential, political and economic conditions, and the likely achievability of tackling barriers to trade.

3.2 Over the 2012-2015 period, the sector’s international priority markets are as follows: Africa (with a focus on South Africa and sub-Saharan African markets such as Angola and Nigeria), Andean markets (especially Colombia), Brazil, China, Mexico, the Russian Federation, Thailand, Turkey, and Viet Nam.

3.3 The Scotch Whisky industry’s top international trade priority remains securing fairer access to the Indian spirits market. The market is one of considerable potential for Scotch Whisky brands but access remains restricted by an exorbitant import tariff (150%), state level tax and regulatory challenges, and issues around food labelling.

3.4 The SWA attaches a high importance to ensuring there is an appropriate regulatory environment within the EU’s Single Market, as well as the accession countries. EU Free Trade Agreement (FTA) negotiations with third countries or trading blocs are also a key focus, with such negotiations often offering the main opportunity to remove long-standing trade barriers. At present, the industry is particularly engaged on FTA talks with third countries such as India, Malaysia, Viet Nam, and the United States.

3.5 The industry is active in the context of the World Trade Organisation (WTO), seeking greater trade liberalisation through multilateral negotiations, as well as using its mechanisms (for example the Technical Barriers to Trade committee and regular country Trade Policy Reviews) to challenge obstacles to exports. The industry is a regular and successful user of the WTO dispute settlement process, for example in Japan, Chile, and South Korea, to secure non-discriminatory tax treatment of Scotch Whisky.

3.6 Market access must be prioritised because exports are negatively impacted by tariff and non-tariff barriers to trade. An SWA analysis, for example, identified over 450 separate barriers to the trade in Scotch Whisky in 186 markets. Issues include high import tariffs and discriminatory taxes, as well as restrictive certification, labelling and licensing rules. Measures of this sort distort competition between domestic and imported products, adding cost and complexity to supply chains. Inadequate intellectual property protection can also undermine potential growth.

4. Trade policy and promotion

4.1 Government level trade strategy can be divided into two major strands of activity. The first, which is most commonly recognised, is export promotion. This is an area where the industry works with both the Scottish and UK Governments. It is primarily the responsibility of UK Trade & Investment (UKTI) and Scottish Development International (SDI).

4.2 However, it is the second area, trade policy, that is of particular importance to the Scotch Whisky industry. This covers a range of activities, including WTO dispute settlement, Free Trade Agreements, the EU market access strategy, and inter-governmental contacts. The EU has exclusive competence on external trade policy issues and therefore engaging the European Commission directly, as well as via the UK Government, is vital. Market access issues within the EU are part of the Single Market framework and, once again, engaging the Commission and UK Government is essential. Within the UK, trade policy is a reserved
matter and, accordingly, the SWA is in close contact with the UK Government on the full range of these issues. Indeed, the need to have the closest possible dialogue is one of the reasons why the SWA is opening a London office in 2015.

4.3 It is worth noting that the range of market access barriers faced by the Scotch Whisky industry is broad. The issues go beyond simple tariffs or taxes into a wide range of regulatory issues, for example on product standards, labelling, market restrictions, or public health justified measures that are not evidence-based.

4.4 This environment often requires contacts with a range of other Governments’ Ministries and agencies with highly technical responsibilities. In some markets, it is not easy to identify who the decision-makers are and where responsibilities lie. Support from the British Embassy network on the ground is essential in navigating this landscape.

4.5 In dealing with these barriers, how industry is treated in its home market is often relevant to how easy it is to deal with issues overseas. For example, the high level of excise duty on Scotch Whisky in the UK makes it easier for other governments to maintain high levels of taxation on the product overseas. It is important that decision-makers on what may seem to be purely domestic issues think about the export consequences of policy.

5. UK framework

5.1 The industry works with the full range of UK Government departments and the British Embassy network. The generally high-quality support received over many years has resulted in numerous trade barriers being removed, supporting the competitiveness of the sector.

5.2 Within the EU, UK participation in a number of fora is important. Effective UK influence in the EU Trade Policy Committee and the Market Access Advisory Committee is critical. Both are vital to progressing market access problems confronting Scotch Whisky.

5.3 The global footprint of the British Embassy network and its commercial diplomacy expertise is invaluable. The Embassy network does important work in ensuring a co-ordinated response in-market, through the local EU market access teams, to trade issues that arise. UKTI and the Embassy network also work with Scotch Whisky companies to take part in trade shows to enhance their visibility and meet potential customers.

5.4 The support received from the UK Permanent Representation in Brussels is important, for example in relation to complex EU dossiers regarding labelling and product definitions. Similarly, the UK Mission in Geneva provides support and access to the WTO system.

6. Scottish framework

6.1 The Scottish Government and public agencies are regularly updated on trade priorities and the industry has welcomed Ministerial support on various issues. However, there is limited Scottish Government day to day involvement in pursuing such issues, reflecting where responsibilities for trade lie under the devolution settlement. In this context, there can be challenges in ensuring export priorities are understood and reflected in Scottish Government strategy.

6.2 The Scotch Whisky industry has not been involved, for example, to any significant degree in progressing the Scottish Government’s International Framework. The SWA would welcome stronger engagement by the Scottish Government’s international team to better understand the export opportunities and challenges faced by the sector.
6.3 The industry receives good support on export promotion activities from SDI. The SWA has welcomed the efforts of SDI to engage with the industry on its priorities and its recognition of the strategic importance of Scotch Whisky. A good working relationship and regular dialogue has been established. More could, however, be done to ensure SDI has an appropriate, well-resourced presence in new emerging markets (such as South America and Africa) and the SWA welcomes continued efforts to do so. It is also essential that SDI collaborates as closely as possible with UKTI, both in-market and domestically.

7. Industry recommendations

7.1 The SWA supported the findings of the 2014 Wilson Review of Scottish Exporting and would like to see the UK and Scottish Governments moving ahead with its implementation. In the Association’s evidence to the Wilson Review, the industry made practical recommendations on how public sector support could be delivered more effectively with, we believe, benefit for the wider Scottish export effort.

7.2 The Review endorsed several SWA recommendations, commending them to both the UK and Scottish Governments. In our view, there should be:

7.2.1 Better co-ordination of Ministerial and senior official visits, inward and outward. Our concern remains that business associations and companies do not know about such visits until it is too late to feed in appropriate briefing to allow trade barrier issues to be raised. We recognise that in some cases security can be an issue here but it is important to develop mechanisms that give as much warning as possible about high-level contacts. Informal contacts in the margins of major visits can also be helpful.

7.2.2 A more co-ordinated approach to trade issues across Government, both in the UK and Scotland. Departments and organisations do not communicate as effectively as they should and a more joined-up approach would be beneficial. At UK level, those with a responsibility for trade are spread across many departments and there is a case for bringing such responsibilities together in one Department of Trade as happens in many other EU countries.

7.2.3 Trade promotion support that is better geared towards smaller companies. Navigating the complex landscape above can be highly time-consuming for smaller businesses. This is an area where both UKTI and SDI have an important role to play, for example in relation to supporting attendance at international exhibitions.

7.2.4 Recognition that the European Commission needs to be appropriately equipped to play its lead role in international trade policy. The EC Directorate General for Trade (DG Trade) needs to be much better resourced so that it is able to advance bilateral negotiations but also, equally importantly, ensure what is agreed is enforced. A better understanding in Scotland - both in business and government - of the opportunities offered by engaging in such negotiations and Brussels fora is necessary.

7.2.5 A better understanding of the benefits of exporting. In particular, there is a low level of awareness of the opportunities for the Scottish economy offered by ambitious Free Trade Agreements. A case in point is the current interest in the EU-US Transatlantic Trade & Investment Partnership (TTIP) talks. The SWA gave evidence to the Parliament’s European & External Relations Committee in December 2014 to highlight the commercial opportunities and important precedent such an agreement would set for other FTA negotiations.

7.2.6 The Association and its members have decades of experience and expertise in exporting and trade policy. The industry is happy to explore mechanisms to share that expertise
across Scottish exporters, particularly in relation to trade policy work and co-ordination of trade promotion efforts.

8. Conclusion

8.1 Efforts to improve the export environment, and to promote fair market access, must be prioritised. Any discussion on business internationalisation inevitably focuses on export promotion, access to export finance, and creating a more global mind-set. Such factors are of course important.

8.2 However, the SWA believes it is also key that government works closely with business to promote the benefits of open markets and to be proactive in seeking to remove trade barriers to Scottish exports. Tariff liberalisation and tackling technical barriers to trade may be perceived as the ‘nuts and bolts’ of trade work but securing a level playing field in overseas markets is vital to the export effort.

8.3 As Scotland’s premier export industry, Scotch Whisky should be a core part of that effort. The SWA and its member companies are keen to continue to play a leading role in that work.

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