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Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 17 March 2010

Session 3

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ECONOMY, ENERGY AND TOURISM COMMITTEE
10th Meeting 2010, Session 3

CONVENER

*Iain Smith (North East Fife) (LD)

DEPUTY CONVENER

*Rob Gibson (Highlands and Islands) (SNP)

COMMITTEE MEMBERS

*Ms Wendy Alexander (Paisley North) (Lab)
*Gavin Brown (Lothians) (Con)
*Christopher Harvie (Mid Scotland and Fife) (SNP)
*Marilyn Livingstone (Kirkcaldy) (Lab)
*Lewis Macdonald (Aberdeen Central) (Lab)
*Stuart McMillan (West of Scotland) (SNP)

COMMITTEE SUBSTITUTES

Nigel Don (North East Scotland) (SNP)
Alex Johnstone (North East Scotland) (Con)
Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)
David Whitton (Strathkelvin and Bearsden) (Lab)

*attended

THE FOLLOWING GAVE EVIDENCE:

John Beard (Whyte & Mackay)
Donald M Blair
Stephen Boyd (Scottish Trades Union Congress)
Ewen Cameron (Scottish Development International)
Bryan Donaghey (Diageo Scotland)
Harry Donaldson (GMB)
Gavin Hewitt (Scotch Whisky Association)
Maggie McGinlay (Scottish Enterprise)
Derek Ormston (Unite)
Chris Taylor (Highlands and Islands Enterprise)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 1

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 17 March 2010

[The Convener *opened the meeting at 09:33*]

Whisky and Spirits Industry

The Convener (Iain Smith): I welcome everyone to the 10th meeting of the Economy, Energy and Tourism Committee in 2010. Today we have two items on the agenda. The first, which is to look at the state of the whisky industry, is subdivided into a session on the restructuring at Diageo and Whyte & Mackay and a round-table discussion. We will then go into private session, in which I hope we will conclude our report on the banking and financial services sector.

I welcome our first witnesses—Bryan Donaghey, managing director of Diageo in Scotland, and John Beard, chief executive of Whyte & Mackay—and invite them to make opening remarks before we go to questions.

John Beard (Whyte & Mackay): On behalf of Whyte & Mackay, I am pleased to be here. We worked closely with Government officials last year in the process of announcing our restructuring. I am happy to give you an update on where we started and where we got to, and to identify any lessons that we learned and the support that we received from the Government.

Bryan Donaghey (Diageo Scotland): Likewise, I am happy to be here and to answer any of your questions. I am happy to update you on where we are with the restructuring that we announced last July.

The Convener: Thank you. Will you outline where your companies have reached with their restructuring, the current position on potential redundancies and how the new developments are coming along?

Bryan Donaghey: I will start with a quick reminder of what our restructuring involved. Last July, we announced the transfer to a third party of our warehousing activity at Hurlford just outside Kilmarnock; the closure of our Kilmarnock packaging site and the transfer of all the production from that site to our two other packaging sites at Shieldhall in Glasgow and Leven in Fife; and the closure of our grain distillery at Port Dundas in Glasgow and the transfer of the cooperage at that site to Cambus.

Combined with those announcements was investment of £100 million in total—including £85 million in the development of our packaging site at Leven, which involved the construction of a new bottling hall there, and about £9 million in the construction of the new cooperage at Cambus—and the creation of about 400 jobs in the Leven vicinity. In total, 900 people were affected by the site closure announcements.

At the end of January, we completed the transfer of the stock-keeping activity to the third party. The Hurlford site has now been closed—there is no activity there at the moment. Many of the individuals concerned have transferred to the third party, which is a logistics provider, and are now working at Linwood, just outside Glasgow.

Distillation at Port Dundas will finish at the end of this month. Over the next month or so, the employees there will decommission the plant and leave it in a state for demolition. I will come back to the people aspects of that in a moment.

The people in the cooperage who are continuing with us have already transferred through to our Carsebridge site, pending the construction of the new cooperage. On the investment process that we are going through, we got planning permission for the new cooperage at the end of December and we expect to start construction very shortly. Planning permission for the Leven site is still pending, but it is very close to being granted. All the submissions are in and we expect to get planning permission soon, which will enable us to start construction on the new bottling hall before the summer.

On the people side, we have been running what we call an aspirations process with all the affected people at Kilmarnock and Port Dundas. That involves asking people whether they want us to redeploy them within the organisation or whether they want to take their redundancy package and leave. If they want to be redeployed, we ask where their first and second choices would be. We are talking to people on a one-to-one basis about what they would like us to try to do for them.

At the same time, we have opened up voluntary redundancy across all our sites in Scotland. We have just completed that process, so we now know the number of people who are prepared to take the redundancy package, even if they are not on an affected site.

We are in a matching process to see whether we can match aspirations. In other words, I am considering whether someone with the right skills aspires to go to a job from which I can let someone else go who is prepared to take voluntary redundancy.

We have committed to having no compulsory redundancies before October this year. We announced in July last year that nobody will leave under compulsory redundancy prior to October this year.

John Beard: Our starting point is very different from Diageo's. As a company, we are far more dependent and focused on the United Kingdom market. Sixty per cent of our profits are generated in the UK. A combination of the punitive tax environment in the UK and the world economic situation forced us to look at the overall structure of the business.

We took the opportunity to speak to all political parties and the Government in advance of making our announcement last summer. In hindsight, that was probably the best thing for us to do, as it allowed us to get integrated very quickly with partnership action for continuing employment—PACE—through Scottish Enterprise, which has been helpful and supportive, which our workforce has appreciated.

I can update you on the numbers. For accuracy, I will split the figures between the total number of UK jobs in Whyte & Mackay and Scotland-specific jobs. We believed when we went into the consultation process that up to 104 jobs would be lost, but we were open-minded as to whether that would be the final number. I confirm that the final number was 89. On the specific figures for Scotland, we believed at the outset that there would be 83 job losses. Ultimately, there have been 71 and, of those, 18 have been voluntary.

My other key point is that we have completed the restructuring without the need to close any of our facilities. We are conscious of our responsibilities, particularly in the Highlands and Islands. We have worked closely with various Government organisations to ensure that none of our facilities in the outlying parts of Scotland, where we have malt and grain distilleries, has closed.

The Convener: On the Diageo restructuring, some staff might wish to be redeployed, but Kilmarnock to Leven is obviously not a viable commute. Is Diageo in discussion with the authorities in Fife on how to assist workers who might wish to transfer from Kilmarnock to Leven and resettle in Fife?

Bryan Donaghey: Yes. As part of our terms, we are applying a generous relocation policy to help people to move. We are keen to help as many people to move to Fife as are prepared to do so, although we recognise that that is not for everybody and that people have spouses in jobs and children in education. However, we are trying to help people. We have had people from Leven go to Kilmarnock to talk about the site at Leven and we have taken people up to Leven to see the location. We will help people financially with moving if they are up for the move. As I said, I anticipate the creation of 400 jobs in Leven. For a significant number of them, I expect to have to go to the outside market to recruit the people. I am keen to get as many people as possible to transfer and we are encouraging that as best we can. However, I recognise that it is not possible for some people to transfer.

That is reflected in the fact that, in the aspirations conversations that I mentioned, many people want to go to Shieldhall in Glasgow, as it is a commutable distance away. Unfortunately, the number of people at Shieldhall who have put up their hand for voluntary redundancy is significantly less than the number of people who want to go to Shieldhall. We will go through that process of recruiting and then help people with their next aspiration. It would make things easier if people were perfectly mobile, but that is not life and we cannot expect that of people. We are trying to help people as best we can.

The Convener: I am a Fife member with an interest, as Leven is in the neighbouring constituency to mine. What discussions are you in with the authorities in Fife about issues such as the recruiting process and the training that will be required for the 400 new jobs there?

Bryan Donaghey: We are engaging closely with Fife Council and other authorities in Fife. We are some way away from a major recruitment process. We have started recruiting, but only for a relatively small number of jobs. We recently advertised for about 20 jobs—I cannot remember the exact number. We will not get into the more significant numbers until the new site is built, which is not for another year or so. We are actively engaged and there is a lot of support from the local authority and other relevant bodies in Fife on how to go about the process. We are working closely with them.

Rob Gibson (Highlands and Islands) (SNP): Good morning, gentlemen. What is the balance of production between white spirits and whisky in your companies?

Bryan Donaghey: For Diageo, approximately 30 per cent, or call it a third, is non-whisky, such as vodka, gin, rum and ready-to-drink products. It is not just white spirits—we could call it non-Scotch.

Rob Gibson: Where do your profits come from in the main if a third of production is not whisky? Proportionately, do those products give you more profit than whisky, or less?

09:45

Bryan Donaghey: If we think more globally about where Diageo gets its profit from, Scotch accounts for between 25 and 30 per cent—just over a quarter—of our net sales. In general, Scotch tends to be at a higher price—it tends to be more of a premium drink in comparison with some of the vodkas and gins, so the profit would be skewed towards Scotch, but I cannot tell you definitively how Diageo's profit splits between those categories.

Rob Gibson: How much of your total production of white and brown spirits throughout the world is produced here in Scotland?

Bryan Donaghey: In terms of volume, I would say around 30 per cent—if we convert it to equivalent units, because it is very hard to compare beer production, spirit production and wine production—

Rob Gibson: What proportion of your spirit production is produced in Scotland?

Bryan Donaghey: About 30 per cent of Diageo's total spirit production comes out of Scotland.

Rob Gibson: Let us talk about the total mix. I understand that vodka sales have shot up exponentially throughout the world, compared with whisky sales. In the way that you organise your company, how do you deploy the profits from the whisky part of the business when you are obviously making large amounts of profit from white spirits?

Bryan Donaghey: There are transfer pricing rules about how product is moved from country to country, particularly if you are a multinational company that sells to itself across the world. In a statutory and legal sense, how the profits are distributed is down to the transfer pricing rules, which follow international tax regime rules about where profit sits from a statutory entity perspective.

Rob Gibson: Given that we know that it is claimed that exports for whisky have gone up even in the hardest of times, albeit marginally, but that the amount of profit that is made from whisky has not increased very much, how does your company view the role of whisky in future? Is it essential to your business? What part does it play?

Bryan Donaghey: Revenue from whisky has gone up over the past five years and over the past 10 years. For a company the size of Diageo, as I said, whisky accounts for between 25 and 30 per cent—I think the figure is 28 per cent—of our net sales value. We cannot achieve the growth for the whole business that we aspire to achieve unless Scotch grows. Scotch is a critical part of our business. We have a portfolio across a wide range of drinks, but Scotch is critical because it is a big part of our business. We need it to grow, otherwise we will not be able to achieve the company's overall targets.

Rob Gibson: So why is there a move towards more production of vodka rather than whisky? I can see that in other companies as well.

Bryan Donaghey: There is a mixed picture around the world. In some of the mature markets, people are broadening the range of drinks that they drink. Vodka is a drink that is easy to mix, so there will be more occasions when people will drink vodka. However, in some of the developing markets, such as Latin America, half our business is Scotch; similarly, in Asia half our net sales come from Scotch. In the parts of the world where the market is growing, Scotch is still on an upward trend.

There is variation in what consumers will consume. Trends change. It is not possible to beat every trend, but we are laying down whisky for the future. We have invested in distillation capacity. We have invested £500 million in Scotland over the past five years—that is without the restructuring that we have just announced—so we are putting a lot of money into the future growth of Scotch.

Rob Gibson: We agree that a lot of investment must be put into Scotch because it is a product that has to mature, but you are not achieving the growth rates for Scotch that we in this country might wish. What are you going to do about that?

Bryan Donaghey: We are continuing to market our products. If we decide today to grow Scotch by 10 per cent a year and compound that figure for the next 12 years, that is the same as saying that we will triple Scotch production—that is how we run into problems such as whisky lochs. Because of the maturation cycle, the production of Scotch needs a steadier rate of growth and a focus on value rather than volume.

Rob Gibson: I have quite a few questions, as I want to build up a picture. Sixty per cent of Whyte & Mackay's business is based in Britain. I represent the Highlands and Islands, and I visited Invergordon grain distillery when the threat to jobs there arose. What is your commitment to the future of grain distilling in Scotland, at that distillery and/or anywhere else?

John Beard: As you will know, Whyte & Mackay was bought by Dr Mallya of India. His businesses control something close to 60 per cent of the Indian spirits market, which is dominated by whisky. From his perspective, the acquisition of Whyte & Mackay was driven by the strategic necessity for vertical integration of the availability of whisky liquid. It is fundamental to the development of his companies in India to have access to whisky, which specifically means whisky from the Invergordon grain distillery.

Rob Gibson: Does that mean that there will be investment there, given the overall profits that your owners are making in their spirit businesses?

John Beard: Yes, I hope so. We have been talking to some Government bodies about that in the past few weeks. There are some clouds on the horizon at the moment: one example is minimum pricing, which will be a key variable for us in making decisions. The fundamental point is that we are making strategic investment that will develop not only the company's brands but Scotch whisky in general in India, which is a huge opportunity.

Rob Gibson: I appreciate that there is a huge opportunity, and I understand that you or one of your colleagues will explain your remarks about minimum pricing to another committee. With regard to the development of Scotch, will any of your malt distilleries be developed to meet the needs of the market for Scotch in India?

John Beard: Absolutely. We are now making decisions on laying down stocks for future growth—in precisely the way that Mr Donaghey explained—in the Indian market, which is hugely exciting. We talk about a worldwide recession, but markets such as India never went through a recession at all: the gross domestic product growth rate in India is up to nearly 9 per cent again. The volume growth rate for the company in India is in the late teens. There is no better-positioned company than Whyte & Mackay to exploit that growth for the benefit of Scotch whisky.

Rob Gibson: Am I right in saying that there was a burst of activity to produce the greatest volume possible when Whyte & Mackay's Indian operation kicked in, and that that has fallen off more recently?

John Beard: The phrase "whisky lochs" has been used in the context of the future amount of liquid that will be available. The whole industry is sensitive to the importance of not overproducing, as it is clear that there has been a slowdown, which is supported by UK domestic and export volumes. We are not running at 100 per cent capacity right now—consistent with the position of some other distilleries—and I do not think that we should be at this stage.

Gavin Brown (Lothians) (Con): I am keen to get some further, and better, particulars from Bryan Donaghey about Diageo's position with regard to job numbers. I appreciate that Whyte & Mackay is further down the track and is able to tell us what was predicted and what the outcome was, whereas the Diageo restructuring process is on-going rather than complete. The initial prediction was that 400 jobs would be created as a consequence of the investment in Fife. Obviously, you will need to get planning permission and it will depend on the speed of construction, but when do you think that the 400 jobs will be created in that area?

Bryan Donaghey: We will start to move production out of Kilmarnock before the summer. One line is being lifted and put into our Shieldhall plant. In Leven, we are moving the products from one line to another to create space for another line to come in. The first phase is moving some of the lines from Kilmarnock into the existing infrastructure. Some jobs will come with that, but I do not have any specific numbers in my head.

Once we get the bottling hall built at Leven, that will enable us to carry out the final transfer. Our Kilmarnock plant will not shut until May or June 2012. It is in the six-month period when we are transferring the lines that we will complete the recruitment at Leven. The question is how far ahead we need to bring people in to be trained up. The jobs will come during the first half of 2012, when the final moves take place. There is no change to the estimates for job creation that we made at the time of the announcement.

Gavin Brown: The figure of 400 remains your current estimate. All going well with planning and construction, we are probably talking about May or June 2012 for the creation of those 400 jobs.

Bryan Donaghey: It will probably be earlier. People will be recruited earlier to get them trained up, but that will happen in 2012.

Gavin Brown: You say that you cannot put an exact number on the jobs that are moving at the moment through one line being shifted, but is it under 100, under 50 or over 100?

Bryan Donaghey: It is under 100, although the number will increase progressively. There is a map, if you like. How much outside recruitment we undertake will depend on how many people we redeploy. There is a question mark over the timing of our recruitment. We are trying to redeploy as many people as we can first. The reason why we are taking on some people now is that we know that we will never fill the entire requirement and I am not yet able to release the skills from Kilmarnock.

Gavin Brown: Sure. The facilities at Kilmarnock and Port Dundas are closing, so I presume that the estimate for the number of jobs that are affected remains 900.

Bryan Donaghey: Yes, it remains 900. As we go through the aspirations process, talking to people about what they want to do, a number of people are saying that they want to take a package. Several unions have described the terms that we have offered as second to none—we have tried to help people as best we can. We have engaged financial advisers to help people who are thinking of retiring to understand their pension situation, and we are setting up job shops and training with PACE. We are doing everything that we can to help people to move on to the next phase of their lives.

Gavin Brown: It is probably difficult to put a number to it, but do you have any sense of how many of the 900 jobs that will be lost in Kilmarnock and Port Dundas will be redeployed within your business?

Bryan Donaghey: It is hard to say. At the moment, more than 300 people throughout Scotland have said that they do not want to be redeployed and that they are prepared to take a voluntary redundancy package. We have a lot of people with long service and the package is attractive. The challenge is in matching up the skills with the geography of where people can take up jobs. The maths is not straightforward. If I have 10 people in Speyside who are prepared to take voluntary redundancy, I will not necessarily have 10 people in Kilmarnock who want to move to Speyside. There is a challenge in that, and we are working through that process now. The voluntary redundancy and aspirations process finished only last week and we are now trying to see what the match-up looks like. It is down to matching the skills with the locations, and we are doing our best to redeploy as many people as possible because it is in our interests to retain people's skills if we are able to do so. In addition, the people who are prepared to take voluntary redundancy packages tend to have longer service and that makes the packages more expensive for us.

10:00

Lewis Macdonald (Aberdeen Central) (Lab): I will start by asking both companies about engagement with the trade unions that represent their workforces in this restructuring process, which Brian Donaghey mentioned a moment ago. The unions were opposed to the plans for job losses and made their view very clear. Can you tell us a bit about the engagement with the workforce representatives in respect of aspirations around redeployment and voluntary redundancy?

John Beard: The process has been very smooth. We consulted unions before making the formal announcement, in parallel with consulting each of the political parties and informing the Government of what we were doing. Our approach led Jim Mather, the Minister for Enterprise, Energy and Tourism, to say that we were handling a difficult situation in a socially responsible manner, which reflected the way in which we approached it. I met union officials and took them through what we were doing and they understood the logic of it. Although the process was painful, it was relatively smooth.

Bryan Donaghey: We have a well-established process, through plant consultative committees and joint consultative committees, of engaging with employee representatives at site level and at Scotland level. From when we first announced a review in March last year through to the announcement of our proposals and subsequent to it, there was a lengthy consultation process—a task force and independent consultants were appointed to review our proposals, and they confirmed the sense of them in relation to our long-term competitiveness—and we continued to engage with the unions on the terms. Once the decision was made and we finished consulting on what we would do, we continued to consult on how we would do it, the process for VRs and so on. As I said, Unite described the terms that we have ended up with as second to none. We have a partnership approach with the unions and we seek to continue that.

Lewis Macdonald: It would be fair to say that in both cases the affected workforces have a broad mix of skill levels and skill backgrounds. Can you tell us a bit more about what has been done on retraining opportunities? You mentioned working with PACE, and I know that Scottish Enterprise and Highlands and Islands Enterprise have been involved. What is the expected outcome of the retraining opportunities that are being made available to people who are leaving the firm?

Bryan Donaghey: For us, it is about talking to people about their aspirations and understanding what they want to be trained for. For some people, it is as straightforward as them saying, "Help me with my CV. I've never done an interview—help me with interview skills." For others, it is a case of them saying, "I'd like to try something completely different. I'd like to build up a skill in a different area." We are looking at how we can help people to do that.

Obviously, our reorganisation is a bit different from Whyte & Mackay's in that it is quite drawn out in respect of the length of time that we are continuing operation. The good side of that is that you get a lot more time to adjust, think and plan, but it complicates matters in respect of when I can enable people to take up other employment and so on. We are working with local agencies such as PACE to support people. Even if they are thinking of going into retirement, we help them with that and help them to understand their pension situation and their financial situation. If people want to train for something else, it is about talking to them and making it as appropriate for the individual as we can.

John Beard: Without repeating everything that Mr Donaghey has said, we have worked with

PACE very successfully. People have a combination of needs. It can be about providing formal training, but I would build on that: it is about providing coaching, support and practical advice. Writing a CV is a starting point; some of our employees had not done that before.

Lewis Macdonald: Rob Gibson mentioned the prospect of minimum pricing for alcohol being brought forward in this Parliament. In relation to the restructuring that has just been completed, what risks do you anticipate that that poses to future employment in your businesses in Scotland? Should those risks concern those who intend still to be working for you on completion of the current restructuring process?

John Beard: I am particularly conscious of the etiquette that is employed in committees. I will be speaking to the Health and Sport Committee at 10.30, so as a point of etiquette I should probably speak to it first about the absolute numbers. However, I will return to this room for the rest of the session.

That said, our restructuring last year was undertaken on the basis of prevailing conditions and did not take into account any negative impact. For instance, we did not try to second-guess the minimum pricing issue because there is still significant vagueness about what the price will be and real uncertainty about legality. It would have been somewhat strange to base decisions about people's livelihoods on a hypothetical situation. I make it clear to members, though, that the introduction of minimum pricing will be another negative impact on our company.

Bryan Donaghey: We realise that the misuse of alcohol is a challenge for Scotland and agree that there must be action in that regard. However, for a variety of reasons, we do not believe that minimum pricing is the right approach. Its introduction will not change anything about our restructuring but, given that we export 85 per cent of what we produce in Scotland and that, apart from the oil sector, we are the biggest manufacturing exporter in the country, I am concerned about the response of other Governments looking at their home markets. Given the barriers to trade that they already put up, such a move could provide an excuse for those Governments to put up more. I am sure that we will discuss that more in the round-table session, but I am certainly more concerned about the international impact.

Lewis Macdonald: I admit that it has been partly at my prompting, but I find it interesting that in response to my question on potential risks you have both raised that particular issue. Are you considering any other issues in your risk planning?

Bryan Donaghey: For us, the Scotch whisky industry is no different from any other industry with regard to what it needs or where it operates. We want good, reliable sources of energy at sensible prices; we need transport infrastructure, because we have to move a lot of things around and be able, for example, to get to ports for export; and the environment is important because its quality—the fresh air and so on—is what, even at a subliminal level, people perceive about Scotland. That needs to mean something, which is why we are putting £100 million into developing environmentally friendly processes. Finally, we also need tax structures that are competitive for the operation and a workforce that is skilled enough to face an ever more technological world.

The Convener: Stuart McMillan and Marilyn Livingstone are the only other members who wish to ask questions at the moment. Obviously, everyone else will have an opportunity to comment on wider issues in the round-table session, but at the moment we are a bit pressed for time.

Stuart McMillan (West of Scotland) (SNP): How did you justify to the employees who were about to lose their positions in the restructuring the spending of millions of pounds in advertising on formula 1 teams?

Bryan Donaghey: Partly in response to that question and to Mr Gibson's question about what we do to grow Scotch whisky, I point out that we invest £400 million in advertising and promoting Scotch. Indeed, all that activity is part of its future. Our restructuring was about securing the long-term sustainability of our operation and remaining competitive in a world in which we are very much an export company. Following that restructuring, I will produce in Scotland what I previously produced but with 500 fewer people. We have to be efficient in what we do, or jobs will not be secure.

We have to be competitive in that environment and to continue to invest in advertising and promoting our brands, because that work is key to future growth. On how we decide where to advertise, the marketeers know that formula 1 has a great global audience. Like all such things, it will work for a while and then, perhaps, we will do other things. We need to consider it in the mix of the total investment that we make in Scotch and in the other products that we make in Scotland.

John Beard: The two things are not mutually exclusive. We need to be fit to compete within the broader industry. Vodka was referenced earlier. I have already told you that our business is quite dependent on the UK. We have to become more international, and one vehicle for that, if you will excuse the pun, is the likes of formula 1.

Stuart McMillan: I am a fan of formula 1. I know that that will be much to the annoyance of my colleague Rob Gibson.

Rob Gibson: There is time for sinners to repent.

Stuart McMillan: The whisky industry wants to increase its sales in Brazil, China and India, and Whyte & Mackay is a major sponsor of the new Force India formula 1 team, which was launched last year. We can add into the mix the trade barriers into India, such as 150 per cent import tariffs, which create serious challenges for the industry. I agree that you have to market, promote and sell the product to a wider audience. That is essential. Let us face it, that is a given in any industry. However, there could be a perception that the workforce in Scotland will suffer because of external factors, for example because additional moneys are going on promoting the product in other countries, particularly India, through the sponsorship of formula 1, and because the industry must try to overcome the massive import tariffs.

Bryan Donaghey: Clearly, nothing that I say about the sustainability of the business going forward will matter to the 900 people who are affected on the sites that we are closing, because they are personally impacted by that. However, even after restructuring, we will still have 4,000 employees in Scotland, and we spend £400 million a year with Scottish suppliers. That is the picture that we have to look to in the long term. I recognise that that is not a remedy for the people who are losing their jobs, but the issue for us is the long-term sustainability of those 4,000 jobs in Scotland and the supply base that comes with our business. We need to take action to remain competitive as well as continue to invest in the brands that will drive the future growth that will continue to sustain those jobs into the future.

John Beard: I can imagine that it is difficult for someone who has lost their job in either of the processes that we have been through to understand the value of advertising. You mentioned formula 1. There is a job for senior management in each company to communicate the company's strategy and aim in the medium term. From a Whyte & Mackay perspective, that is pretty easy to communicate. We are very dependent on the UK, as I have already said. We were purchased by Dr Vijay Mallya, who is a major player in India, and that has opened up a number of markets for us that we are duty bound to exploit.

Stuart McMillan: Thank you.

Marilyn Livingstone (Kirkcaldy) (Lab): I have two questions specifically for Diageo. Like Iain Smith's constituency, mine is a neighbouring constituency—the other one—and I represent many people who work for Diageo. You talked about the skills mix and future skills, and in your answer to Gavin Brown you mentioned the 400 new jobs with mixed skills that will be created in the lead-up to 2012 and the early part of that year. Have you had talks with the local college and Fife Council regarding future skills?

To save time, I will ask my second question now. Questions have been asked about housing for the people who will be redeployed. What talks have taken place about that?

10:15

Bryan Donaghey: Many conversations are happening locally in Fife and I am not personally involved in all of them. John Paterson, who is my site head there, is very connected into the local community.

As we move towards recruitment processes and indicating the expected number of jobs, we will continue that communication with local people. We will work through what that means and what we can do to help. That work is taking place, although I would not say that it is all tied up with a bow.

I do not think that the number of people who will relocate will create a housing problem. We are helping people to identify the great things that Fife offers and encouraging them to move to the east and see the opportunity there.

As I said, we are putting a lot of money—£85 million—into Leven. We have put £100 million into our Cameronbridge grain distillery, which is a couple of miles down the road. After the restructuring, we will employ more than 1,000 people—about 1,100 people—in that area. We have a major investment there—a lot of money is going in—and I hope that people will see that opportunity.

Christopher Harvie (Mid Scotland and Fife) (SNP): Let us assume that you have a schnapps distillery in Germany with an associated bottling plant. Given the nature of German labour law, would you try to close the facility?

Bryan Donaghey: I am not fully au fait with German schnapps laws.

Christopher Harvie: I asked about labour law.

Bryan Donaghey: I apologise—I thought that you said "label law".

Last year, Diageo undertook restructuring throughout the world—it was not confined to Scotland by any means. Our restructuring touched every part of the business in just about every place.

Christopher Harvie: It is said that the severe labour laws in Germany caused the retention of a highly skilled workforce, which still enables manufacturing at a level of about 30 per cent in some parts of the country. Are you taking advantage of the relative flexibility of British laws, which would not be open to a continental company?

Bryan Donaghey: Not at all. As I said, all our production in Scotland is staying in Scotland—it is not moving to eastern Europe, China or anywhere else.

Christopher Harvie: But many fewer people will be employed in such production.

Bryan Donaghey: That is the nature of what we do and how we do it—we must be efficient. I am sure that German manufacturing businesses are efficient; otherwise they would not exist in the long term, because somebody else would do what they do better and cheaper. That is the reality of global business.

Christopher Harvie: Your supply purchases in Scotland are worth £400 million. That is equivalent to your advertising budget, which must be great fun for the lads and lasses in ad land but is not much fun for the people in Kilmarnock.

Bryan Donaghey: The nature of the alcoholic drinks business is that money needs to be put behind brands. If the right reinvestment is not made in brands, they will die. The track record of our Scotch brands, the support for them and their strength 100 years after they were created are evidence that that is the right answer for the long term. If investment is not made in the brand, it will disappear in the long term.

Christopher Harvie: About two years ago, we heard from Sir Brian Stewart, who lamented the fact that Scottish & Newcastle—which he pointed out was a model international joint stock company—had been bought out by Carlsberg, which is a social trust in Denmark, and Heineken, which is a family-owned social trust in Holland. Does that hold a lesson for your company that you might well be savaged to death by lambs, because they are not as aggressive to their employees?

Bryan Donaghey: I do not know why you refer to aggression to employees. We are a very good employer and we operate responsibly.

As with all public limited companies, our shares are publicly traded. If somebody wishes to buy them, it is open to them to do so. If somebody wants to take over Diageo, that is how the world works. The Scotch industry has a model of a trust—the Edrington Group is controlled through a family trust. There are different models, but the nature of free trade is that anybody can buy shares in a joint stock company.

Christopher Harvie: After the events of the past year, I am not sure that we are quite so keen on free trade as we once were.

The Convener: The witnesses need not comment on that.

I thank John Beard and Bryan Donaghey for their evidence. I know that John Beard has to nip off to the Health and Sport Committee for a little while, but we will see him again later during the round-table discussion.

I will suspend the meeting for a moment while we change panels.

10:20

Meeting suspended.

10:22

On resuming—

The Convener: We resume to take evidence as part of our update on recent restructuring announcements by Whyte & Mackay and Diageo. Our second panel consists of trade union representatives: our old friend Stephen Boyd from the Scottish Trades Union Congress; Derek Ormston from Unite; and Harry Donaldson from the GMB.

Do you want to make any opening remarks before we move to questions?

Stephen Boyd (Scottish Trades Union Congress): We are happy to move straight to questions.

The Convener: You were all in the public gallery when the previous panel gave evidence. Do you have the same take on the discussions with workers and unions that Whyte & Mackay and Diageo have or do you have another point of view?

Stephen Boyd: I will quickly pass that question over to my colleagues who are engaged in the coalface of the restructuring, but I will first make some general points.

It is important to remember that the Scotch whisky industry has a very skilled and productive workforce, which has met every previous restructuring challenge that has been placed before it. The environment has been, or at least was, generally characterised by very good industrial relations. For instance, as part of my work with the Scottish textiles forum, I have taken groups of employers to the Diageo facility at Methil to see how the management and unions—led by Harry Donaldson—have completely overhauled how work is undertaken and how jobs are designed. That has allowed employees far greater discretion over what they do. There has been a very good story to tell.

However, when Diageo put its restructuring proposals to the workforce last year, the proposals were so well advanced that the unions did not believe that there was any real opportunity to engage with management on how the restructuring might be undertaken in a way that was kinder to their members. That is unfortunate and has had an impact on industrial relations within the sector. That is likely to change the very positive environment that I have just described.

My colleagues will be able to say a bit more about what happened.

Harry Donaldson (GMB): During the process of the annual wage negotiations with the company in February last year, we were well aware, through the joint consultative processes that Derek Ormston and I were involved in, that the company was going through a review and a global restructuring. At a certain stage of our negotiations, it was made clear that Scotland was no longer immune from that, and would be factored into the restructuring programme. At that point, it was rather early to provide us with any detailed information.

We met on 1 July 2009, and the announcement was made in connection with a presentation by the employer side and its Scotland leadership team. It was indicated that their proposals were well advanced—15 alternatives had already been thought through—therefore it was rather difficult, to say the least, for the trade union to respond at that point. Our difficulty lay in regrouping and in reassessing and re-evaluating the whole set of proposals. Shockwaves were felt throughout the affected communities, particularly in Kilmarnock and certainly at Port Dundas. The process continued over a long period.

Stephen Boyd has alluded to the fact that we operate an agreement called positive partnership. I go back a long way on positive partnership—I am one of the principal signatories to that agreement, which goes back to 1994. My view, and the joint view of the trade unions, is that earlier engagement might well have given the trade unions an opportunity to participate. That would have meant taking hard decisions and we would have been aware of more information, but we would have had an early opportunity to assess, evaluate and input when the proposals were being thought about, rather than once they had advanced to being the position.

That had a significant impact on the initial level of dialogue. However, during the following six-month period when we were involved with the company, considering all the elements that you have heard about, we reached a certain level of engagement. We were involved as principal key stakeholders in the joint task force that was set up by the Cabinet Secretary for Finance and Sustainable Growth, which involved East Ayrshire Council, local MPs, the trade unions and Scottish Enterprise. We were significantly involved in providing information to the consultants.

From a trade union perspective, we were less than enamoured by the response from the consultants, which suggested that the company could have gone further. That was really not what we wanted to hear, as you might expect. We felt aggrieved by the fact that we could and should have been involved at an earlier stage. If partnership means anything, it means that both partners should have been involved at the earliest opportunity, not when the proposals had been developed to the extent that they left little scope for further consideration.

We participated fully in providing information, and the company gave Unite and the GMB every opportunity to access our senior stewards and members, to get involved with the consultants and to give them alternative information to produce an alternative business case. Unfortunately, as history shows, that was unsuccessful, and we were not able to turn around the decision-making process that has impacted on communities and people in Kilmarnock and Port Dundas.

Derek Ormston (Unite): I will re-emphasise what my colleagues Harry Donaldson and Stephen Boyd have said. My involvement has primarily been with Diageo, and I will comment only on Diageo and not on Whyte & Mackay.

As well as holding pay negotiations, we have a joint consultative committee with Diageo. When we went into discussions about the company’s review of its business model, we made it clear that the trade unions should be involved as soon as an idea emerged and that the company should not wait until it had come up with a structured plan and then give us 90 days of consultation, because that would limit us in coming up with an alternative business plan. Obviously, the task force was involved in that process, and it is disappointing that the company rejected the proposals. The trade union side also put forward an alternative plan. We tried to work in conjunction with the consultants, who gave a presentation to the Scottish Government’s task force. We believe that both plans were sustainable, but the company rejected them.

10:30

I want to say a wee bit more about what the executives said in their presentations. The job losses are disappointing for people, and there is still a lot of anger out there. Members have referred to advertising revenue. Just prior to the announcement, Lewis Hamilton was at the two sites for a public relations exercise, an announcement was made about an extra £90 million being put aside for advertising revenues, and there was the restructuring announcement on the back of a profit of £1.5 billion. That angered members of the workforce, because they saw their value being worth less and saw that Scotland's whisky heritage could be damaged. There was 200 years of whisky history in Port Dundas and Kilmarnock.

We recognise that, in restructuring, the company is going to expand the Leven plant, but the trade union side still has worries and concerns. The 400 new jobs may not all be Diageo jobs; they may be third-party jobs or jobs that involve part-year contracts. We are talking about a diminution of the terms and conditions that Diageo employees enjoy, which is a concern for us. Although there will be jobs, they may not all be Diageo jobs.

The redundancy package has been referred to. We negotiated with the company in a challenging time, and our members eventually agreed to the proposals that were negotiated. The process, in which the Advisory, Conciliation and Arbitration Service was involved, was difficult, but the VR process that was opened up was helpful for Shieldhall, which was missed in the publicity. There were 30 redundancies there. My understanding is that there is currently a 3:1 ratio for jobs at Shieldhall and that the number of people who wish to transfer to Leven is limited. The packages are good, but the issue is that people have to uproot their households.

We still have a number of concerns about where Diageo has gone. When we produced our alternative plan, the chief executive of Diageo North America said that the emerging markets for Scotch whisky

> "are incredibly strong. So China, India, Russia, Brazil, Mexico, these are absolutely going to be growth markets. They may sputter for a couple of years, but demographically, attitudinally as long as we keep our brands and the category ... healthy we are very confident that those markets are going to offer tremendous growth opportunity."

There are growth opportunities. The recession has had its impact, but there will be growth, and there are new markets out there. The alternative plans that were put to the company would have met the demands of the growth part of the business.

I will conclude there.

The Convener: What discussions have the unions had with public agencies such as PACE, local authorities and other agencies about helping workers who are threatened with redundancy to find new opportunities?

Harry Donaldson: The level of involvement and engagement at this stage has been limited because we are going through a process. At one stage, PACE was invited to come along to one of the joint meetings with the company during the negotiation phase on the package. However, that was felt to have been inappropriate because, at that point, the tensions were pretty strong between the parties that were trying to come to a resolution. One of the points of that suggestion was further engagement with PACE, and I am led to believe that PACE is very much involved in the early dialogue on assistance.

We expect a company such as Diageo to be in a position to offer significant support and assistance that is complementary to, and above and beyond, anything that PACE can offer. That is not to be dismissive of PACE; each could complement the other, and I believe that such involvement exists. I hope that we will soon have an exchange with PACE about its overarching view and the support and assistance that it can provide. It should be borne in mind that we are going through a three-phase process in which people are leaving the business, so there will be an impact this year and in 2012. We have just concluded the aspirations process, which was about people's first preferences. As my colleague, Derek Ormston, said, the initial preference, particularly at Kilmarnock, is for people to take jobs or, where the opportunity exists, to move to Shieldhall. That would be advantageous. People in Port Dundas have also said that they would prefer to go to Kilmarnock—that might seem to be rather strange—to get another year or two of employment to try and achieve a better amount in their pensions or redundancy packages. To be fair, the company is looking at where it can accommodate those changes.

The aspirations process has just been completed, and that leads to PACE's involvement and support, assistance or whatever it can do to help colleagues, employees, and our members who will be affected by the job losses.

Derek Ormston: Shop stewards are also involved at all the sites in managing and helping with the internal aspirations process, and they are keeping us informed about progress. As Bryan Donaghey indicated, the company is engaging with people, but the process is on-going and we will maintain that engagement to try and get as many people as possible into alternative employment.

Stephen Boyd: The STUC is not involved on the ground where the job losses are happening, but from discussions with key players at all the agencies that are involved—Scottish Enterprise, Skills Development Scotland, Jobcentre Plus, and so on—we know that at national level there is acute awareness of the challenges, particularly in the Kilmarnock area. We should bear in mind the fact that the local labour market was particularly badly hit during the recession, so PACE might well be effective in providing training opportunities. However, shifting the people who will be made redundant is going to be a profound challenge.

Rob Gibson: You are giving the impression that people are involved, that negotiations are constructive, and that the company's changes are beginning to be flushed out. You have just made your part clear. Thinking about the people in Kilmarnock who are not going to move and who will lose their jobs, do you get the sense that Diageo is prepared to invest in Kilmarnock to help its economy in the hope that some people might be employed in other work there?

Harry Donaldson: The indications have been that Diageo's corporate social responsibility and, therefore, reinvestment in the local economy will be key. From the start, the trade unions have made it clear that they do not want an historical legacy but a living legacy that is about future job prospects. With the greatest respect, I say that that is also a challenge to the Scottish Government. Diageo and the Scottish Government must consider jointly what they can do to enhance viable job opportunities, and they must also consider relocation and attracting inward investment or future job prospects to the area. That is the next stage.

Jointly, the trade unions will push the company on the investment that it will make and will challenge Government to say what it will do. We have a vested interest in that regard. As we have heard, there will be a residual impact on a number of people who are left in Kilmarnock, for whatever reason—age, family or not wanting the lifestyle change of moving to Leven in Fife, if that is the only opportunity that is available. What are their prospects? There are many people in Kilmarnock who have skills and have been excellent workers. Aligning incoming jobs to their skills will be crucial to the prospects of those workers and their families.

Rob Gibson: In its submission, the STUC expresses wider concerns about bottling operations going overseas. About 15 per cent of Whyte & Mackay's bottling takes place overseas.

Harry Donaldson: Over many years, under successive Scottish Governments, the GMB has been concerned to ensure that products are bottled in Scotland. Currently, that is an issue in relation to premiumisation and to malts. European legislation is going some way towards dealing with the matter, but it is not a legal requirement for whisky to be bottled in Scotland. That gives us concern. We share Derek Ormston's concern that, if bottling in Scotland becomes very expensive, whisky may be bottled offshore and transferred to third-party providers. At the moment, that is an unanswered question. The trade unions have always worked closely with the employers—both Whyte & Mackay and Diageo—to sustain competitive advantage and to improve efficiencies. Our membership has been adaptive and progressive and has taken advantage of opportunities to change.

Over time, we have seen people leave the industry. The last major example was more than a decade ago, at Strathleven; colleagues in the room will recall those events vividly. We are conscious of the need continuously to change and to be much more effective and productive. Our members work on that, because whisky production is one of the major manufacturing industries in Scotland. Although there may be the impression that whisky is a rural economy—that is part of the portrayal and the provenance of the product—in reality its bottling plants are highly productive and efficient. People's performance is of key importance to the industry and to protecting jobs.

Rob Gibson: That is why I wanted to highlight the issue. We understand the relationship between the distilleries, the bottling plants and so on. Are there immediate threats on the horizon of further bottling being done overseas?

Harry Donaldson: As a trade union that is involved with employers, we have always known that within a global company—the point applies more to Diageo than to Whyte & Mackay—internal competition is a more important factor than external competition. Plants such as the one at Leven must compete against their European and global counterparts. White spirit is bottled at Leven, but it is competing against 60, 70 or 80 other plants globally where white spirit could be produced and bottled. There is always dynamic internal competition within Diageo. The GMB is more concerned about internal competition than about external competition; Derek Ormston would also subscribe to that view. That is why we have always been willing to adapt, to change and to improve the performance of the business, so that production can be retained in Scotland. The whisky companies have good workforces that are prepared to accept and to adapt to change.

10:45

Lewis Macdonald: When I asked the companies what risks they saw for jobs and structures in Scotland, I was struck by the fact that they did not mention competition from other units elsewhere, and I was encouraged by that. Does that chime with your sense of where the employers are at the moment? Do they value and recognise the productivity that is achieved by the Scottish bottling plants?

Derek Ormston: During and after the time of the announcement, the company made statements to the effect that it does not have to bottle in Scotland, which caused us some concern. As my colleague Harry Donaldson said, we are concerned about internal competition within Diageo. There is a risk that white-spirit bottling will be taken away from Scotland and that brown-spirit bottling will be moved entirely to Leven. There is nothing hard and fast that we can point to that would demonstrate that there is a high risk of that happening, but there is certainly an element of risk that it will.

Harry Donaldson: It would be fair to say that where the company came from is probably where we understood it to be. However, we are acutely aware of the threats that are associated with internal competition.

One unintended consequence of the £85 million investment in brown-spirit bottling in Leven might be that the resultant economies of scale and greater efficiency will enable that plant to compete more effectively in the internal global market.

The situation might not be as acute as was once feared, but I know that we are constantly engaged—particularly in the Leven plant—in considering competition from plants such as Santa Vittoria. We constantly have to compete with other plants, put forward new business models and adapt to changes to ensure that we are as efficient as we can be. We might not always be the lowest-cost option, but we can achieve all the key performance indicators that are required in many other areas, which means that it is much more effective to bottle at Leven than elsewhere in mainland Europe or wherever.

Stephen Boyd: You asked whether the employer recognises and values the ability of the workforce to adapt and change. As an outsider looking in, thinking of the various seminars that I have participated in over the past few years and the visits that I have made to whisky facilities, my answer would be, “Yes, absolutely.” The management and the representatives of the industry always enthusiastically acknowledge the ability of the workforce to change their skills and the ability of the workforce representatives such as Harry Donaldson and Derek Ormston to ensure that the workforce takes part fully in restructuring exercises.

The concern, however, is that the people who value the workforce in Scotland are not necessarily the people who make the key decisions on restructuring. As we say in the paper, the continued migration of ownership and control beyond Scottish borders is a major concern in that respect.

Lewis Macdonald: I was struck by what you said about Methil being held up as a model for other sectors. That was quite encouraging, because it seems that there is recognition of the ability to be flexible, which could help to maintain employment.

Stephen Boyd: Many times over the years, with regard to the two examples that we gave, there have been discussions about the adaptiveness of the Scottish economy and the adaptiveness of the Scottish workplace. Diageo in Methil was held up as an exemplar of the kind of adaptiveness that we are talking about, as was Rolls-Royce in East Kilbride. However, one of the impacts of the way in which the restructuring exercise was handled in the past year is that it is no longer so easy to talk about Diageo in that respect.

Lewis Macdonald: That reflects what you said about the fact that migration of ownership and control poses a risk to good industrial relations, as well as to other things.

I will ask you the same question that I asked the companies when they were sitting where you are now. The restructuring process was not welcome, but it involved fairly high levels of engagement on the parts of both companies. However, are you concerned that the restructuring that has just been achieved might be reopened in a way that would pose a risk to future employment?

Harry Donaldson: There will be a further committee meeting that will be different from today’s meetings of the Economy, Energy and Tourism Committee and the Health and Sport Committee. There are concerns about issues around minimum pricing. We recognise that Scotland has problems with misuse of alcohol; we have some alternative views about how that can best be tackled. We believe that the implementation of the current proposals might have an adverse impact.

We are also concerned about ownership and control of the industry. The major players in the Scottish industry—Bacardi, Glenmorangie, Chivas Brothers and so on—are mostly owned by foreign nationals. The French have a disproportionate impact on the Scotch whisky industry.

Stuart McMillan: Do the trade unions think that it would be beneficial to the bottling industry as a whole if Scotch whisky were bottled solely in Scotland instead of percentages of it being bottled elsewhere around the world?

Stephen Boyd: We do not have a position on that at the moment, but the GMB has submitted a motion to next month’s meeting of the STUC to that effect, so we will debate the issue over the coming weeks.

Harry Donaldson: We raised that issue at the task group. At that point, the task group had recognised that there was no legal requirement for bottling to be done in Scotland. The GMB has been pushing that agenda for at least the past decade, but that aim has not been recognised to the same degree by Government or the industry. If there were a requirement for Scotch whisky to be bottled in Scotland, that would safeguard jobs. The bottling operations would still need to be effective and efficient, of course.

If whisky were bottled in Scotland, that would be a key indicator of the provenance of the brand, which would help with premiumisation of the product.

We do not see any indication that bottling will move from Scotland but, as with everything in life, a risk assessment is being done. We would like legislation to be passed to ensure that Scotch whisky must be bottled in Scotland. We have always been strident about that and, as Stephen Boyd said, we have submitted a motion to the STUC on that position.

Derek Ormston: Unite does not have a policy on the matter, as yet. There will be a discussion about it at the STUC.

There is concern among other industries as well, because a significant amount of the glass that the plants use is supplied by Scottish companies, as are the bottle caps. Sending the whisky abroad to be bottled will have a negative impact on jobs in other parts of the economy.

Stuart McMillan: I really do not know enough about the bottling industry to make a decision one way or the other. However, in our earlier discussion with Diageo, it was claimed that in Scotland internal competition for bottling is greater than external competition. If 100 per cent of Scotch whisky bottling took place in Scotland, could that have a knock-on effect on white-spirit bottling, which might have to be carried out elsewhere and would therefore affect bottling operations in the rest of the country?

Harry Donaldson: I touched on that earlier when I said that the reorganisation and restructuring with regard to investment at Leven will probably give sufficient leverage and result in the kind of economies of scale that will allow it to be more protected, rather than the opposite. The fact is that, no matter whether we are talking about whisky or some other manufacturing industry, companies such as Diageo are always looking for ways of improving performance and reducing their operating costs: we will continue to have to face those issues and to live within that framework and those terms of reference. As Stephen Boyd said, the whisky industry is held up as an exemplar of best practice and of how people can adapt to change.

As I say, what you have suggested is always a possibility, but the current restructuring, and the accompanying convergence and economy of scales, might well mitigate some of the impact.

Marilyn Livingstone: We have been hearing all morning that 400 new jobs will be created as a result of Diageo's restructuring. Do you have any information about those numbers? For example, how many of those 400 positions will be taken by people relocating and how many will be specifically employed by Diageo? I think that Derek Ormston said that some of those people would not be employed by Diageo, which might mean a diminution of terms and conditions.

Derek Ormston: We just have approximate figures. Early on, it was reckoned that 200 people would be on part-year contracts; there would be about 100 Diageo employees and others would potentially be outsourced from agencies. However, at the moment, we are concentrating on securing the aspirations of our members with regard to the position on redundancy; until we have done so we will not have any hard-and-fast numbers.

Marilyn Livingstone: It would be useful to get that information when it becomes available to ensure that we see the picture.

Relocation is obviously a huge issue. Do you get the feeling that not all that many people will relocate?

Derek Ormston: My colleague who services Kilmarnock and the shop stewards there have all indicated that there is no great enthusiasm for the option to transfer to Leven.

Harry Donaldson: As the company indicated earlier, the relocation package is attractive and support mechanisms have already been put in place to allow anyone who is interested to stay for the weekend in the Leven area and to look at the surroundings. The company will also provide longer-term support to people who wish to make the move. For example, with regard to housing, people who find that they need to stay in rented accommodation for longer will be supported for a longer time. The trade unions and the company have renegotiated the whole process and an extensive package of support is now available.

11:00

I will touch on Leven. The 400 jobs will probably be more than 400 full-time equivalent jobs on the basis that part-year contracts are already being worked at Leven. That was agreed by the trade unions a few years ago because of the structure and nature of the business there. It is my understanding from discussions at local level that at present, the majority of those jobs will be full-time contracts, although there will be some part-year contracts. I am not aware that we are looking to outsource additional jobs to third-party providers at this stage. I have been very much involved in the negotiations at Leven. Derek Ormston will not be aware that the situation has moved on a step further since the last time the negotiators met collectively. I am constantly at the Leven plant to upgrade and upskill in terms of the expectations there.

Marilyn Livingstone: One of the things that we are interested in is the job numbers in the relocation. Things such as social housing need to be discussed because it might be an issue depending on the numbers who need it. As Stephen Boyd was saying, the availability of skills and learning is also important. It would be helpful if we could be kept up to date.

Harry Donaldson: We hope that we will know about that soon. Because of the time involved, people were reluctant to get involved in one-to-one dialogues about aspirations. That is now being completed so we will start to develop an overview of the whole process. We have been intensely involved in that process, however difficult it is for us as trade unions.

Christopher Harvie: To some extent, I am here in place of Willie Coffey, the MSP for Kilmarnock, who cannot be here today. I realise how he feels, however, because I was born in Motherwell. My family was involved with the Colville steel works—my grandfather was an office manager there. There, there was a similar tale of the workforce acceding to more efficient working practices, old systems being abolished and a tight structure being put in place so that when they came to close the place down, there were only about 1,300 people working there and the impact of closure was relatively slight. I speak from that experience because I know what Motherwell is like now and it is not a happy place at all—it has great problems with drugs and futureless generations coming up.

That is what worries me about the current situation, so I would like your opinions on it. We hear that acute and measured calculations are being made about the efficiency of the physical workforce, be it at Kilmarnock or, putatively, at Leven. We also hear about huge sums going to advertising agencies, to senior executives and the people who were, after all, responsible for putting Diageo in the headlines in 1986 and 1987 for probably the most criminal takeover that has happened in Britain. The echoes of the Guinness affair still rattle around—I think that Ernest Saunders is proof that you can leap back from Alzheimer's into normal life. Would you prefer the sort of structure that exists, say, in Germany, where representatives of unions and shop floor workers might have seats on the board and a consultative role through the works council and the like, to the system here, where it seems that you are the socially useful part of the firm? The socially useless parts of the firm seem to be the ones that profit most from such situations.

Stephen Boyd: Your question raises so many big issues that it is almost impossible to give a succinct response.

Trade unions generally favour the German model of corporate governance over the UK model of shareholder capitalism. There are problems with the German model in maintaining internal demand—perhaps we can skip over them—but the Germans have got corporate governance far more right than we have.

Christopher Harvie's question raises big questions about how globalisation is currently managed. It is managed in a way that allows capital to absorb the vast majority of the rewards at the expense of labour. Not only is that unfair, it is economically unsustainable. It played a large part in providing the environment for the recent crisis, in which we had to boost demand through credit and house-price bubbles. I endorse where he is coming from in that regard. Harry Donaldson and Derek Ormston will be able to give a better perspective on corporate governance in Diageo and potential changes to it, but I generally agree with Christopher Harvie.

Harry Donaldson: We cannot change the past—the issue is about moving into the future and establishing whether we would prefer co-determination, such as in the German model. European legislation is being discussed in terms of different models, and that gives rise to the trade unions at the European, UK and Scottish levels examining them.

There are faults in all the models—none of them is perfect. Whether we prefer one to another is a matter of debate in the trade unions. Would a trade union representative seat on the board be more advantageous for governance? There are issues with that, including in terms of confidentiality. How would that person balance their needs as a trade union representative with the confidentiality that must exist in a board?

There are dilemmas and difficulties, and there are big choices to be made. There is no easy option for the trade union movement. That does not mean that we will walk away from the challenge—we will step up to it and examine how best we can make the difference. As I said, that is a debate that we have to have in our own organisations, collectively at STUC and Trades Union Congress levels and with colleagues in the European trade union movement.

Stephen Boyd: I would supplement that by saying that it would be almost impossible to graft the current German model of corporate governance on to the UK economy. We might admire many things about that model, but it has grown up in a country where the institutional, cultural and historical factors are all hugely different from those in the UK. It would therefore prove to be extremely difficult simply to transplant them on to our model, although that should not prevent us from learning about what the Germans do better and how we can move our model in that direction.

Christopher Harvie: It was said that some of Diageo's urge to reform and alter its structures came from its relationships with its bankers. What opinions do you have about that?

Harry Donaldson: I do not put much credence in bankers at present. That probably says enough.

Stephen Boyd: I do not know about the specifics of Diageo, but every time I come before the committee I make my usual point that the UK model of finance does not support patient and organic growth in our companies. Would it surprise me if a company such as Diageo was coming under pressure from the banks and other institutional investors to maximise shareholder value? It would not surprise me at all.

Christopher Harvie: What you have described is almost, word-for-word, what Karl Marx wrote in 1864 on the working day, which is certainly among the finest passages in "Das Kapital". The situation does not seem to have changed at all. We are seeing sums equivalent to what Diageo spends in Scotland on suppliers going to advertising agencies or to sponsor formula 1. Even Marx in his wildest paranoid dreams about capitalism could never have foreseen that.

Harry Donaldson: That is a big issue, which we know is being driven by the City. Shareholder value is key. If you speak to a chief executive of any company, they will tell you that everything is driven by return on shareholder value. The stakeholder value is different. The process is and has been driven by the City, and the problem is that all companies, including those that are represented here today, are driven by the same premise. Where does corporate social responsibility factor into that? Is it an add-on or a reality?

Christopher Harvie: I have one last point. Goldman Sachs has a big block in the City of London, and we know what the partners at the top and the cleaning people are paid. The worrying thing is that the approximation of workers in creating the value in a firm such as Diageo has now become that of the cleaning people in Goldman Sachs. The people at the top who are locked into the shareholder value and bonuses are totally different species.

The Convener: I do not think that that is a question to be answered. We will leave it at that—the ghost of Tommy Sheridan lives on.

I thank Harry Donaldson, Stephen Boyd and Derek Ormston for giving evidence. I believe that Harry and Stephen are staying with us for the round-table session, so we will see them in a moment.

I suspend the meeting to allow the round-table session to be set up.

11:10

Meeting suspended.

11:17

On resuming—

The Convener: Item 2 is a round-table discussion on wider issues and challenges for the whisky and spirits industry. We have about an hour and a quarter to an hour and a half, so I ask everyone to keep their comments or questions as brief as possible so that we can get through as much as possible. On this day, it is perhaps particularly appropriate that we are dealing with the whisky industry—although that is whisky without an e. My clerk is wearing his Irish flag pin for St Patrick's day, but that is no indication of support for another type of whiskey. The industry faces several issues. We will undoubtedly cover some of the wider economic and legislative challenges, although I hope that we will not go back to the restructuring that we talked about earlier.

I ask our guests to introduce themselves and give a brief comment on the main threats that face the whisky and spirits industry in Scotland and the main opportunities.

Chris Taylor (Highlands and Islands Enterprise): Thank you for the opportunity to be here. I am the head of the tourism and food and drink team for Highlands and Islands Enterprise, based in Inverness. Many of the opportunities and challenges were touched on in the earlier session. Undoubtedly, there are growth opportunities throughout the world and new sales opportunities. New investment is taking place in renewable energy, waste management, leadership and e-commerce. Those trends are impacting on productivity and growth in individual facilities. At the same time, macro factors are affecting the industry. At headline level, climate change raises concerns about the supply chain and the production in individual facilities. It is a global sales industry and therefore global economic conditions have an impact. At a regional level, the industry revolves around the distribution of goods from what are generally rather remote parts of the country to the marketplace, so there are challenges to do with distribution and infrastructure.

Donald M Blair: The situation is not so much to do with local issues; it is really to do with international issues. The committee has been given a copy of a table showing the global uptake of Scotch whisky from 1970 onwards. The red line at the top shows the performance of vodka over a 20-year period and the green line in the middle shows generalised gross domestic product globally in real terms back to 1992, in dollars. The fact that the Scotch whisky industry has been flatlining for the past 30 years in comparison with other global norms is the real reason why we have local problems today. I really do not know why we are discussing 900 job losses at Johnnie Walker, as I estimate that we have lost 52,000 jobs as a result of the failure of the Scotch whisky industry to keep up with international performance norms.

Gavin Hewitt (Scotch Whisky Association): I am the chief executive of the Scotch Whisky Association. We should not lose sight of the fact that Scotch whisky is probably Scotland's most successful industry. I will come back to that. We need to build on the growth that we have secured in the past 10 years, but the threats are protectionism from markets throughout the world; the regulatory environment in the United Kingdom, including the debate about the social aspects of alcohol, which includes tax and minimum pricing; and the general business environment in which we operate.

Bryan Donaghey: I am the managing director for Diageo in Scotland, as most of those who were present for the previous session are aware. As I said earlier, the key is maintaining Scotland's competitiveness as a place to do business to enable us to compete in a global arena. We must also tackle some of the barriers to trade that exist throughout the world and which prevent us from getting into certain markets. It is important that we can compete on a level playing field. There has been growth in the past 10 years and we have developing markets, particularly in Latin America and Asia.

Ewen Cameron (Scottish Development International): I manage the food and drink team in Scottish Development International. The opportunity for the industry is to continue to perform well in export markets and for us to support more companies to do international business successfully. The threats are that we work in a global market, so it is important that companies are supported to ensure that they perform competitively against the competition.

Harry Donaldson: I am the regional secretary of the GMB. Another witness commented that he does not know why we are discussing 900 job losses. We all know why we are discussing those job losses in Diageo and other ones, so I do not appreciate that comment.

The key challenges for the future are about protecting the jobs that we have through improving efficiency and performance, and growing our whisky base in Scotland and the supply chain that goes with it. We need to create more value added. The gross value added per employee in the whisky industry is significantly more than that in other manufacturing sectors—it is almost double. Therefore, any job losses have an impact in the economy. For us, the issue is about expanding the markets and being much more competitive. If that has to involve a mix of products that the major suppliers make, we want those to be sourced and produced in Scotland.

Stephen Boyd: I am the assistant secretary of the STUC. The aspiration for the whisky industry is that it continues to maximise employment opportunities throughout Scotland—that is essential. One great strength of the industry is the employment that it provides throughout urban and rural Scotland. At the end of last week, I attended the annual Scottish Council for Development and Industry forum in St Andrews. One speaker commented that the UK—they had figures only for the UK as a whole, not for Scotland—continues to export more to Ireland than it does to China and India combined. I was sceptical about that, but the wider point is valid. The UK and Scotland, as part of it, have not done well on maximising opportunities in emerging markets. The most recent figures that I have, which are for 2007, show that in the previous decade Germany increased exports to China by about 92 per cent, whereas the UK figure was 13 per cent. We can do much more to ensure that opportunities are maximised.

The Convener: John Beard is still held up at the Health and Sport Committee. We think that he should be back with us in about a quarter of a hour.

Maggie McGinlay (Scottish Enterprise): I am the director of food and drink for Scottish Enterprise. I agree with a lot of the comments that Chris Taylor and Ewen Cameron made about opportunities and threats. There are very strong opportunities. The recently refreshed Scotland food and drink strategy did a lot of work to see which global growth trends provided particular opportunities. Premiumisation and provenance were two of those trends—the other was health—into which whisky plays strongly. There is a threat in global competition. We must ensure that we retain and build on the significant investment that we have seen in the whisky industry over the past few years, so that the industry remains as competitive as possible in the global marketplace.

The Convener: Let us get some facts on the table. The whisky industry is estimated to export about £3 billion-worth annually. Can anyone break down how much of that is malt—premium product—how much is blend and how much is the ancillary white spirit industry that goes with it?

Gavin Hewitt: The 2008 figure was £3.1 billion of exports. That is obviously the transfer value out of the UK before tax. Of that, approximately 11 per cent is malt and 89 per cent is blend. You need to look carefully at the market overseas and how it is split. Blend is the big category. When you go to markets, whether in Korea or China, you talk about aged product—it is not necessarily the product that you see on the shelves here. That is where the premiumisation is coming from in particular. I am afraid that I cannot talk about white spirits, because I do not look after white spirits. Whisky products dominate—they represent 20 per cent of Scotland's overall exports and 90 per cent of Scotland's food and drink exports. You can look at it another way: we have added more than £1 billion-worth of growth in value since 1998 and, in volume terms, we have added just short of 20 per cent.

The Convener: There is another area that it would be useful to get a feel for. It is estimated that around 9,000 people are employed directly in the whisky industry, but the total for direct, indirect and induced employment is nearer 40,000. Perhaps someone can enlighten us on exactly what they think is the value to the supply chain in Scotland. What are the key industries that benefit from that supply-chain effect?

Gavin Hewitt: Our latest estimate is that about 9,500 people are directly employed in whisky production and close on 39,000 to 40,000 are employed overall. The supply-chain value is about £800 million—we buy from that supply chain and put the money back into the economy. That goes right down to the farmers, the maltsters, the bottle makers, the transport industry—the people who move the product around the country—the closure makers, the label makers, the advertisers and the advertising agencies.

The Convener: In the light of our earlier discussion, I might ask how much of that you think is going to the advertising agencies.

Ms Wendy Alexander (Paisley North) (Lab): I am trying to create a level playing field so that we are all on the same page on the volume issue, Mr Hewitt. The graphic that has been provided by Donald Blair sources global volumes of Scotch to the Scotch Whisky Association's own report. It is worrying that, in relation to total cases sold over the past 25 years, we are not selling any more—or, if we are, it is perhaps 1 per cent more. You mentioned growth of 20 per cent in volume since 1998. Can you reconcile those two very different performance positions for us?

Gavin Hewitt: Donnie Blair considered a 25-year period, which takes us back to 1985. At the time, there were overproduction problems in the Scotch whisky industry. I do not dispute those figures, but I want to look at the period from 1998 to 2008. For those 10 years, the figure is 19 per cent. We exported 13.4 million more cases in 2008 than we exported in 1998. It has been phenomenal. There has been almost a 14 per cent growth in exports since 1998.

11:30

Ms Alexander: I do not just want to talk about exports. It is valuable to talk about the number of cases sold globally. I take it from what you say that you do not dispute that if we take a 25-year time horizon, there has been no increase in global volumes. However, your contention is that the figure went down and that global volumes have increased by 20 per cent in the past 10 years. You talked about exports, but what is happening in the domestic market also affects the figures. If I am to understand the fortunes of the industry, it seems that we are selling no more cases now than we were 25 years ago, which is significant in a world in which the population has doubled. If we take the total population of the world, half as much Scotch is being drunk for the number of people. World GDP has grown enormously; if the volume of sales is the same, that is not encouraging.

It is worrying that the SWA submission makes no mention of volume beyond a comparison with Irish whiskey, and no mention of long-term trends. If it is true that we are selling no more whisky than we were 25 years ago, that is not what our aspiration would have been for the industry. I accept that there has been a rise in value, but I am trying to get a handle on the important statistic of global sales, because that poses challenges for us.

Bryan Donaghey: For several decades, the industry was flat, but beneath that there were maturing markets in decline—North America and the United Kingdom, for example—and developing markets in growth. The two balanced each other out. We are entering a phase in which there is increasing growth in those developing markets. Remember that Scotch whisky is an aspirational drink. The key driver for us is not rises in population, but an increase in the middle class in developing markets, in which people have income and can afford to buy an international brand. As we look forward, the key for us is to get into those emerging economies, and into the middle class, which has money to spend on luxury brands.

The strength of Scotch whisky is that we have a range of products, from secondary Scotches, which are more affordable, to single malts and 20-year-old whiskies. We can bring people in throughout the range. However, there is a bit of a fashion in terms of what people consume, and in some developed markets there has just been a long-term trend. If we consider Scotch drinking in the UK from 40 years ago to now, we find that there have been changes in fashion and in consumer tastes.

Ms Alexander: All those aspiring middle classes in China and India far outweigh any decline in the domestic market. It is clear that people are making a choice between spirits. Why is vodka outstripping Scotch as the spirit of choice globally to the extent that the data appear to show?

Bryan Donaghey: Again, we return to the geographical split. Our business in Latin America is 50 per cent Scotch. Our business in Asia-Pacific is 50 per cent Scotch. Do people in China really understand Scotch versus cognac? The answer is no. Do people in India understand it? Yes, they do, because they have a bit of history from the days of the British empire. It is different in different markets, and people in more developed markets increase the repertoire of drinks that they consume. For example, people might on occasions drink vodka mixed with something. That mixability gives vodka an advantage over Scotch, which is harder to mix and has narrower appeal because, unlike vodka, it has an inherent taste. Such issues have an impact on the relative growth of the two industries. However, as I said, we are laying down more Scotch for growth for the future.

Ms Alexander: It would be helpful if Gavin Hewitt could write to us to confirm whether, on the same statistical basis, global volumes have increased by 20 per cent since 1998. That statistic gives an important insight. I am happy to leave the statistics there, but that would be helpful in understanding the long-term trends.

Gavin Hewitt: Bryan Donaghey makes a significant point about the difficulties of mature markets such as that of the UK, but I should emphasise that tax in the UK has been a serious impediment to our success in that market.

However, let us look overseas. In 1995, we started making great efforts to tackle protectionism and discrimination against imported drinks in new and emerging markets. In places such as Japan, Korea, Chile, Uruguay, India and Thailand, we have taken action to break down discrimination against Scotch whisky. It is significant that China, which had a tariff of 60 per cent on Scotch whisky before it joined the World Trade Organization in 2001, now has a tariff of 10 per cent. Since 2001, we have grown the Scotch whisky market in China from £1 million-worth of exports to not far short of £80 million. We happen to be the largest UK export to China.

We have done exactly the same in new markets. One of our very top priorities is to try to open up new emerging markets to introduce them to the number 1 premium globally traded spirit drink. We need to compare Scotch, which can be made only in Scotland, with drinks such as cognac, which can be made only in France. We are certainly number 1. We are opening up those markets by an extremely vigorous campaign to secure better and fairer market access.

India is absolutely top of our list at the moment. The Indian market—as John Beard would confirm, if he was here—consumes about 120 million cases of brown spirit. Basically, brown spirit—although I myself would not call it whisky—is spirit that is labelled as whisky. People in India know what whisky is. At the moment, we have less than 1 per cent of that market because we face a tariff wall of 150 per cent. If the free trade agreement that the EU is currently negotiating with India is secured, we believe that we could take as much as 10 per cent of that market. A quick calculation reveals that 10 per cent of 120 million cases is an extra 12 million cases.

The Scotch whisky industry needs to plan ahead. Ours is a very long-term industry, which must look 25 years ahead when deciding how much whisky to lay down. As well as those markets that are opening up, we already have markets in places such as Russia, Brazil, Turkey, India and some other countries in Latin America. Through securing fairer market access and breaking down discrimination, we have built on that export success since 1998. Since 1998, our export volume has grown by 13.4 million cases or 19 per cent.

The Convener: After Maggie McGinlay, we will hear an alternative perspective from Donald Blair.

Maggie McGinlay: The whisky industry's focus on value, as opposed to on volume, has been part of its success. In the wider food and drink industry, people have often been competing on volume rather than on value, which is why the food industry has not enjoyed the same level of growth as the whisky industry. Actually, we would like more of the food industry to follow the whisky industry's example by focusing on value and premiumisation, because that is where there has been real success in generating wealth and investment back into the economy. The whisky industry's performance over the past 10 years—from a time when the industry was in decline, which is easy for us to forget—has been phenomenal.

Donald Blair: The data that you see in the charts in my submission, which show Scotch whisky crawling along the bottom of the pond for the past 30 years, are the official data from the Scotch Whisky Association. If we are to have premiumisation and growth, can we please have premiumisation similar to the red line that is shown along the top of the graph, which represents vodka? If we want to compare like with like, that is how we should do it.

How long do we have to listen to people saying, "Bread today, cake tomorrow"? The emerging markets in central and eastern Europe and in other countries opened up in 1989. We are now 20 years up the road and the graph is still flat. We have had opportunities in Brazil, Russia, India and China—the BRIC countries—for the past 10, 15 or 20 years and we have not capitalised on them. This is a shocking performance by the Scotch whisky industry, by any comparable real-term measure, compared with international norms. I am afraid that Scottish Enterprise is doing its usual parochial trick of comparing itself with small bodies elsewhere. We are shocking in comparison with countries such as Ireland in the development of business overseas. That is the almost unanimous view of every person to whom I have spoken in the 20 years that I have been working abroad.

The Convener: You are very critical of the whisky industry and the agencies. What should they be doing differently to reverse the trend?

Donald Blair: I am not critical of the Scotch whisky industry; I am the biggest supporter that the Scotch whisky industry has ever had and I have been working in it for 40 years. I am critical of its appalling performance.

The Convener: That is what I meant. What should the industry be doing differently to improve that performance? What should Scottish Enterprise, Highlands and Islands Enterprise and SDI be doing differently?

Donald Blair: The answer to that is the problem that I have been dealing with for the past 18 months. I have been trying to get some realisation about the actual performance of the Scotch whisky industry compared with real international norms, instead of the constant placebos that we hear about things being better if we look at the figures in a certain way, if we choose six markets for comparison and ignore the rest, and if we split Europe away from Britain and Britain away from the world. If we stop manipulating the figures, look at the global statistics—all markets, for all time, everywhere—and acknowledge that we are not doing well, perhaps we will be in a position to do something about it.

The Convener: Does anyone wish to comment before we move on?

Lewis Macdonald: That response prompts me to start with Donald Blair. I do not think that you got an answer to your question, so I will try again. I am always in favour of establishing the factual basis of a debate and I hope to debunk false illusions. However, if the illusions that you describe exist, what do you suggest as an alternative to the current strategy?

Donald Blair: Other than reiterating—

Lewis Macdonald: Other than reiterating your criticism of the figures, what do you propose?

Donald Blair: We have a problem in terms of the fundamental economics. In the words of the industry, long-term business development is all about recruiting new drinkers. The difficulty is that if a drinker is recruited to whisky—particularly to a single malt whisky—stocks have to be laid down now for his future consumption in 10 years' time. That involves the industry in difficult matters such as long-term planning and financing costs for those stocks; the practical problem of evaporation that happens with Scotch whisky also needs to be taken into account.

Recruiting people to something such as white spirits is much simpler. To put it in the bluntest of terms, vodka can be distilled on Monday, bottled on Tuesday, shipped on Wednesday, invoiced on Thursday and the money can be put into the bank on Friday. If you continue that cycle, instead of working on the economics of a 10-year cycle, you are working on the economics of a one-week cycle.

Lewis Macdonald: You are not proposing anything, though. From our point of view, as a committee of the Scottish Parliament, we recognise that the Polish vodka industry has some built-in advantages over the Scotch whisky industry. We want to know what more can be done to promote Scotch whisky. You have still not answered that question.

Donald Blair: Let me come back specifically on that point. Gavin Hewitt's responsibility with the Scotch Whisky Association is to defend Scotch whisky; it is not to promote Scotch whisky. I was an executive member of the comparable organisation in Poland, the Polish vodka association; within its remit, that association has the ability to promote Polish vodka. The view of several chief executives in the Scotch whisky industry to whom I have spoken recently is that Scotland, as a country, should take a much more proactive role in promoting Scotch whisky.

At the moment—Gavin Hewitt can correct me if I am wrong—the Scotch Whisky Association is virtually banned by its member companies from actively marketing Scotch. Its function is to defend it generally, in a legal and definitional sense, in EU legislation. However, there appears to be no body to promote Scotch other than the drinks companies themselves. A multinational drinks company has a wide portfolio that may or may not be dominated by vodka; why should it promote its minority brands at the expense of its majority brands? I would like some form of national marketing of Scotch whisky.

11:45

Lewis Macdonald: That is interesting. I look to Ewen Cameron and others around the table to respond to that.

Ewen Cameron: Certainly, the role of Scottish Development International is to work with companies to help them into international markets in a number of ways. That may involve strategy development, helping companies with programme arranging, identifying importers and distributors and identifying potential joint venture partners for companies. Although that is not the marketing side of things, it is helping companies to develop international networks. Our other important role is in promoting the industry in Scotland for inward investment. Through our network of 22 offices around the world, we engage with the parent companies of whisky companies to understand what their strategies are in order to ensure that we are supporting the businesses in Scotland so that they get future investment and jobs creation.

Gavin Hewitt: Donnie Blair is correct in saying that we do not market Scotch whisky, but it is misleading to say that we do not promote it. Last year's Scotch whisky regulations were an example of what we have done to enable our member companies to get their brands out into the market more effectively and to promote a better understanding of what Scotch whisky is. Marketing and promotion is an extremely expensive operation, and we believe that our member companies are best able to do that work. I give credit to SDI for helping us to roll out the new Scotch whisky regulations to our international markets, both within the industry and among our consumers abroad. I will be in Hong Kong next week doing that; I will be in New York after Easter and in São Paolo in mid-May doing that; I will be in France in June—I could go on. That is what I am doing all the time. Our major job is getting access for our companies to the new markets that matter, which will bring us greater success than we already achieve.

The Convener: John Beard and Bryan Donaghey might want to comment on the role of the Scotch Whisky Association and their companies' roles in relation to marketing. We will then move on to another area of questioning.

Bryan Donaghey: Gavin Hewitt is correct in saying that the role of the Scotch Whisky Association is to ensure that we have access to our markets and that it is up to individual companies to spend behind their brands. In our previous conversation, I indicated the level of spend that Diageo puts behind its Scottish brands—£400 million a year—which is similar to the levels of spend of many of the other companies in the industry. It must also be remembered that we compete—for instance, Diageo competes with Pernod Ricard. We can co-ordinate through an association, but we are also competitors. The right thing to do is let the companies decide what marketing they will put behind their individual brands in the various markets—brand strategies go down to the market level; they are not generic—and let the SWA focus on access to markets, on definition and on putting in place a framework that is right for everybody, which it is then for the individual companies to use to best effect.

John Beard: I apologise for having missed part of the debate. In the context of malt whisky, it is all about differentiation and the market operates very differently from that of a classic consumer goods category. The concept of generic support for something that is about differentiation instinctively feels like a bit of a disconnect. I do not know whether you have covered that point.

The Convener: Do you want to come back on any of those points, Lewis?

Lewis Macdonald: I have a technical question, which is important, given that we are about to undertake an inquiry into international trade. Some of the statistics that are produced to demonstrate Scottish exports disregard the oil and gas sector for reasons to do with fiscal status and so on. When Gavin Hewitt said that whisky products accounted for 20 per cent of all Scottish exports, did that include or exclude the oil and gas sector?

Gavin Hewitt: It excluded that sector.

Lewis Macdonald: So whisky products make up 20 per cent of all exports other than oil and gas.

Gavin Hewitt: Yes—20 per cent of manufactured goods.

Stuart McMillan: My question is primarily for Mr Beard and Mr Donaghey. I touched on formula 1. I am sure that both your companies have done the numbers on what return you expect to get on your investment in advertising in formula 1. Are you at liberty to provide that information to the committee, particularly in relation to Brazil, China and India?

John Beard: My sense is that that is highly commercially sensitive information, so I would not be in favour of providing it to the committee.

It is clear that the interest in formula 1 of a company such as Whyte & Mackay is linked to emerging markets. From a brand development perspective, it is principally about brand awareness. I do not think that one drives brand imagery per se through advertising on a formula 1 car—one may do that by associated activities—but one does drive awareness. That feels entirely consistent with a strategy of becoming more international, particularly in relation to emerging markets.

Bryan Donaghey: I agree. The key is that it is not just about the advertising on a car or on television; it is about the promotional activity that goes on around that at individual market level. When the race is in Brazil, there is activity in Brazil; likewise in Spain. It is about organising activity around the formula 1 event; it is not just a question of buying a bit of space on a driver's helmet or on a car.

I agree with John Beard that there is too much commercial detail in the information that you have asked us to share.

Stuart McMillan: I admit that I expected you both to say no, but I thought that it was worth while asking nonetheless. I appreciate that advertising in formula 1 is not just about buying a bit of space on a car or a helmet and that work goes on in the relevant markets alongside that.

I assume that you spend substantial amounts on marketing, particularly in the new markets, in tandem with the strategy of formula 1 advertising.

Bryan Donaghey: Yes.

John Beard: Yes.

Gavin Brown: On marketing, Mr Blair was asked what he would do differently and he came up with the national marketing of Scotch whisky. I would not mind exploring that idea a little further, but I have a slight concern. We heard from Diageo that it spends £400 million on marketing and advertising, whereas VisitScotland, in its entirety, has a budget of about £45 million and Scottish Enterprise, in its entirety, has one of about £300 million. Perhaps with his experience in Poland, Mr Blair can answer this. Do you genuinely believe that a national strategy would make an impact, given the budget that it would be likely to have and the size of the market that we are trying to appeal to?

Donald Blair: I think that a national strategy is more important than a national budget. I am not necessarily suggesting that the Scottish or the UK taxpayer should pay, by proxy, for such involvement. We do not have a national strategy for Scotch whisky. Despite all the claims about the money that is spent on marketing and the huge budgets for formula 1 advertising, as the man from Kilmarnock said, facts are chiels that winna ding. We are just not going anywhere with Scotch whisky in international terms, in comparison with other products. We should address that issue.

There is the obvious problem of multinational companies that have a lot more than simply Scotch whisky in their portfolios. As any basic economist will say, a company should maximise those products on which its profit margins are greatest.

I suspect that, despite the production of small volumes of high-margin malt whisky, the high margins of low-cost, high-volume vodka mean that any strategist in a multinational company would choose to optimise profits by promoting that particular sector. That is the real danger that the whisky industry in Scotland faces.

The problem is certainly not productivity. I started work in 1973 at Strathleven Bonded Warehouses, a contract bottling company that at the time was the most efficient bottling plant in Europe. We did overflow bottling for DCL, the company that eventually became Diageo. The eyes of the guys from DCL, Black & White, White Horse and even Johnnie Walker would open wide with amazement when they saw the technology in the plant. If we got a telex—fax machines had not become popular yet—at 7.30 in the morning with a request for 800 cases with special Japanese labels to be shipped to Japan, the order would be bottled during the morning, automatically put into containers at noon, on a truck by 1 o'clock and at Grangemouth docks by 2 o'clock to be shipped the same day to Japan. I doubt very much that some of the modern Scotch whisky companies could do that today.

Bryan Donaghey: It is irrelevant to hark back to the 1970s, or whenever. The real proof of our commitment to the growth of the industry is the fact that we have spent £40 million on building a new malt distillery at Roseisle. We did not do that because we have some notion about statistics.

I have spent around £12 million to £15 million on additional warehousing—each warehouse has cost me £3 million to £4 million, and I still have more to build. I am doing that because I need to lay down stock for the future. If there is to be growth, I will need to put more in than I am taking out, so I need more space, which is why I am building warehouses. I am investing behind that growth, as are other players in the industry. Everybody can play with statistics, but the proof lies in our investment in hard assets in Scotland.

Gavin Hewitt: As Bryan Donaghey said, it is extremely significant that decisions were taken in 2007-08—although fewer such decisions were taken in 2009—to invest in the Scottish whisky industry more than had been invested or even contemplated for 25 years. That investment will enable us to cope with new markets and the advance of Scotch whisky. We should recognise how many companies have bought into Scotch whisky and view it as an important drink in their portfolio of drinks. Very few international and multinational companies that are involved in the spirit drinks market do not have Scotch whisky as a integral part of their portfolio.

Maggie McGinlay: There is a broad strategy for the food and drink industry in Scotland, which involves considering how we establish Scotland's reputation as the land of food and drink by building on the halo effect from the Scotch whisky industry. It also involves finding wider opportunities in the food and drink industry for taking a joined-up approach to overall issues and key markets. We are encouraging the private sector and the public sector to get behind that strategy, and we are considering where best we can collectively make a difference. The strategy is not specific to the whisky industry, but is for the food and drink industry overall.

Gavin Brown: Scotch whisky has been compared with, on the one side, vodka, which is sometimes described as the golden child of the alcohol industry, and with, on the other side, Irish whiskey and cognac. It would be helpful for the committee to see, not necessarily today, how Scotch whisky compares with other spirits in terms of its performance during the past 20 or 25 years—not only with vodka, which is clearly one of the stars of the category, but with rum or tequila, for example.

12:00

Donald Blair: On Maggie McGinlay's point, just on the off-chance that the past is a clue to the future, and given that we have had a flat trend for the past 30 years, I wonder how Scottish food and drink is going to achieve its national target and elevate its exports from £12.5 billion to whatever—please tell me what the new target is. How is the industry going to achieve that when its track record in perhaps its biggest category has been a flat line? What miracle can we expect in the next five years that will suddenly cause the line on the graph to go up?

Maggie McGinlay: Scotland's food and drink strategy is an industry strategy that looks at growing the industry's turnover from £10 billion to £12.5 billion. It is also about increasing the industry's GVA. On what will be done, there is a collective effort to understand the growth market opportunities around premium, provenance and health, to understand which markets growth will come from, and to consider how best we can help companies to access those markets and get behind them. There is a clear road map in place for how that will be achieved, which involves the Scotch Whisky Association, many public sector agencies, and others in the food and drink industry. There is a clear plan in place for how we hope to achieve the ambitious targets.

Donald Blair: I know that Scottish Enterprise is never short of strategies, plans and road maps. It is results that we are looking for.

Rob Gibson: I represent about 95 per cent of the malt whisky distilleries in Scotland as most of them are in the Highlands and Islands. I therefore have a considerable interest in all the areas in which they exist profiting. I heard the remarks about investment, including Diageo's investment in the huge new distillery at Roseisle. What are you doing to ensure that the broad picture of malt whiskies and their origins throughout the Highlands and Islands is nurtured and developed? Apart from the new distillery at Roseisle, are the distilleries stocking more whisky now than they were 25 years ago?

Gavin Hewitt: Apart from Roseisle, 18 silent distilleries have been reopened in the past 15 years, five new malt distilleries have been constructed since 2005, and another seven are understood to be at various stages of development. Some of the big distilleries have expanded, such as Macallan, Glenfiddich and Glenlivet. Roseisle aside, there has been huge investment in the malt distilleries in the area that you represent. You are right—most distilleries are north of the Highland line and they are proud of that. They bring to the Scotch whisky industry not only the malts that you see on the shelves and which are so prevalent elsewhere but an important contribution to the blends that we export and which are marketed here.

The Scotch Whisky Regulations 2009 exist partly to ensure that the names of the malt distilleries are kept distinctive, that the distilleries can market themselves, and that no one can trade in the name of a malt distillery unless the product was distilled there. That is an important development in the industry and one on which we will build.

Rob Gibson: Are we storing the product at each distillery?

Gavin Hewitt: That is a commercial choice. I will use Islay as an example. If we stored and matured on Islay all the whisky that is distilled there, we would cover the whole of Islay with maturation warehouses. That is not necessarily what the planning authority would want. Decisions are made by the companies about where maturation takes place. You can ask them about that.

Rob Gibson: While that is a slightly flippant point about what might happen, it is important to recognise that jobs could be built up in that part of the industry in places such as Islay. I asked the question with a serious intent. Thank you for confirming that Lagavulin and so on are removed from the island almost immediately. In other words, we are dealing with an industry that manipulates the idea of place but only in relation to the point of production, and not in relation to maturation.

Gavin Hewitt: I rise to the challenge; that is not the case. I was trying not to be flippant but to be truthful. We cannot build maturation warehouses unless we have planning permission to do so. The critical issue in relation to Scotch whisky is where it is distilled, not where it is matured—I refer the committee back to the 2009 regulations. The companies choose where maturation will take place. Often the maturation of malts that are marketed as malts takes place around the area of the distillery, but often the maturation of malts that will not be marketed as malts but will be used in blends takes place in the central zone of Scotland. That does not affect the nature of the malt whisky that we produce.

Bryan Donaghey: I confirm that Diageo is investing in all our distilleries around Scotland. We replace mash tuns and maintain those distilleries to a high level. However, there are practicalities. Oban is the size that it is and produces what it produces; I cannot expand it, make it different or double its size. Are we laying down more than we laid down previously? There is a practical limit for each distillery; if we go beyond that, we will destroy what defines the distillery. I assure members that the investment that we have made in Roseisle has not detracted from investment in our 27 other malt distilleries around Scotland, which are being sustained in the way that you would expect for the long term.

Rob Gibson: The iconic, important and prestige part of your business involves malt whiskies and where they are bottled. If you want to bottle whisky in India, you must take the malt there. Do you favour the idea that anything that includes malt whisky should be bottled in Scotland? Some of the unions appear to favour that suggestion; my party has believed in it for 40 or 50 years.

Gavin Hewitt: The regulations that were approved last year make it compulsory from 2012 for single malt Scotch whisky to be bottled in Scotland. The purpose of the regulations was to ensure the integrity and quality of single malt Scotch whisky and to ensure that whisky that was exported overseas in bulk was not adulterated. At the moment, very little single malt Scotch whisky—probably even less than 1 per cent—is exported in bulk.

We looked at what was happening in the industry. It is important to recognise that in 1998 21 per cent of Scotch whisky was exported in bulk; the figure is now down to about 15 per cent. The figures provide evidence of an increasing trend to repatriate the bottling of Scotch whisky to Scotland. A French company, La Martiniquaise, chose to build a completely new bottling plant in Bathgate simply because of cachet; as Maggie McGinlay said, provenance matters. The term "bottled in Scotland" has cachet with the consumer.

We did not consider compulsory bottling of all Scotch in Scotland because we would have run into a trade war, just as the tequila makers in Mexico ran into a row with the United States. It is relevant to note that the first question after the regulations were approved came from the United States, which asked us to explain the bottling requirements. When we indicated that they related only to single malts, the United States said that that was okay. If we had gone the whole hog, we would have ended up with a trade war between Europe and the United States, just as there was a real row between the tequila makers and the United States over local bottling.

The Convener: Harry Donaldson and Stephen Boyd may want to offer a different perspective.

Stephen Boyd: It is difficult for me to say much more than I said during the panel session. We will debate the issue at a forthcoming congress. As an STUC official, I must be careful not to pre-empt that debate. Harry Donaldson might be more forthcoming from the GMB perspective.

Now that I have the microphone, I would like to make a point about Scotland's national food and drink strategy, which was mentioned earlier. I find it hugely disappointing that the workforce was not consulted on the strategy in any way, shape or form. The industry advisory boards for the energy, financial services, aerospace and textile sectors have workforce representatives who have been intimately involved in the development of industry strategies. Given the amount of innovation that there has been in the food and drink industry with regard to workplace reorganisation, job redesign and so on, it is a real shame that such input was not used to inform the wider strategy. I hope that that situation can be addressed over the coming months.

Harry Donaldson: I echo those comments. It would have been helpful had employees been involved with and participated in the development of the strategy. At the moment, it seems to focus primarily on input of a certain kind.

I have debated with Gavin Hewitt, the Scotch Whisky Association and the individual employers the question whether whisky must be bottled in Scotland. Whisky's geographical provenance—the fact that it is distilled, matured and bottled in Scotland—still has huge cachet and adds great value, and it is very much a key issue for us. It just seems very simple: you should get what you see on the bottle. If it is Scotch whisky, it should be bottled in Scotland. Despite some of the difficulties caused by the international trade wars that Gavin Hewitt referred to, we still hold firm to the position that bottling whisky in Scotland is a key indicator and, from the employees' point of view, adds value. Although we recognise the various difficulties and problems, we are quite willing to look at any avenue and work on any opportunity that might arise. Notwithstanding the number of jobs that could have been realised in the industry and the situation that we are in just now, there will always be a debate over whether whisky should be bottled in Scotland. We hope that we will get support for our view from our colleagues at the forthcoming congress; from there, we will make representations again to the companies and the SWA.

Maggie McGinlay: As a member of the Scotland food and drink industry advisory board, I am happy to pick up Stephen Boyd's comments about the food and drink strategy and feed them back to the rest of the board.

As for bottling, a lot of the work of the Scottish manufacturing advisory service, in which Scottish Enterprise and Highlands and Islands Enterprise are involved, has focused on ensuring how bottling plants can be as absolutely efficient as possible. After all, efficiency attracts on-going investment from other parts of the spirits sector, and we can best support the industry by ensuring that the bottling supply chain is efficient and provides the right environment to keep investment in Scotland.

The Convener: Does anyone have a rough estimate of how many of the 9,500 jobs in the whisky industry are involved in bottling?

Gavin Hewitt: Do not quote me, but I would have thought that bottling would account for 8,000 jobs.

The Convener: And what about knock-on jobs in glass manufacturing, transport and so on?

Gavin Hewitt: Those would be included in the overall 39,000 figure.

Harry Donaldson: Although the majority of jobs are in the central belt of Scotland, from east to west, the distilleries themselves are quite often based in fragile rural economies that depend on the Scotch whisky industry for their future.

The Convener: If my understanding is correct, the new regulations on single malt bottling will affect approximately 11 per cent of the export market. I think that that figure was mentioned earlier. Currently, 85 per cent of what we produce is exported, so 74 per cent of the overall market consists of blended whisky that is bottled in Scotland and exported. Is it reasonable to say that that 74 per cent could be bottled outwith Scotland? I am not saying that it will be, but could it be?

12:15

Gavin Hewitt: My maths is not as good as yours, convener, but I will make two comments on that.

There is an aspiration in the industry to return bottling to Scotland where that is possible, but there are constraints, including tax constraints. Exporting in bulk and bottling outside Scotland allows people to access lower tax levels. That used to be the case in India, for example. It should be remembered that a lot of Scotch is exported for admixes—that is, it is mixed with local spirits—which will not be bottled in Scotland.

I agree with Harry Donaldson that there is an aspiration in the industry to move more bottling back to Scotland because that adds to the provenance, quality and integrity of the product. However, there are limitations to how much bottling we can bring back because of the nature of the global market in which we operate.

Bryan Donaghey: Given the comparative issues and trade barriers, for example, it would be difficult to legislate on bottling in Scotland. However, the key point is that the issue matters to the consumer, and as long as it does and the consumer sees value in bottling in Scotland, that will encourage bottling to stay here. The key is what Scotland means in the consumer's mind. That will make the difference.

Donald Blair: I think that somebody said earlier that brands will die if they are not invested in. Of course, the corollary is also true. If people want brands to die, they should not invest in them.

The Convener: Let us move on to another issue.

Christopher Harvie: We have really received a series of factoids that are all rather relative and which must be filtered by someone with a knowledge of the markets and legislation not just here, but elsewhere. By training, I am an economic and social historian. I would like to think that we could turn to one of our universities and get an economic historian to do a comparative analysis of all the data that we have. George Rosie is a friend of mine who is not an economic historian; rather, he is an entertaining historian. He conducted a study of Scottish whisky exports in the 1920s, when remarkable amounts of Scottish whisky went to places such as Barbados and Jamaica but then just disappeared. People ask whether that was the result of prohibition in the USA, with whisky making its way there by various underhand methods, ending up in speakeasys throughout the continent, and then vanishing from the statistics.

We could get real statistical comparability. It has been said that people involved in the whisky industry are not like bankers. Your material is around for the time that it takes to mature, so you will not be found investing heavily in bathtub gin elsewhere, which is more or less what has brought great Scottish institutions low. We have that to go on.

My plea is simple: we require an economic study of the market that shows all the variables that impact on it at various times, the policies of firms and their relationships with banks and economic movements. Such a study would not be impossible, and it would give us a much better understanding of our room for manoeuvre.

I will make one point that has not been mentioned at all. My anecdotal experience is of holidays in the north-east of Scotland back in the 1960s, when whisky was drunk during meals with local meats; if someone got wine at all, it would be dreadful stuff such as Hirondelle or Lutomer riesling. Since then, the availability of wine has expanded enormously. Where has that placed whisky in the drinking palette? That type of relativism is important to work out. If we do so, we will have a fairly accurate notion of where expansion lies. I do not think that we can do that without properly working through the figures first, otherwise they will be used as voodoo by the various groups that have an immediate concern.

That was a statement rather than a question.

The Convener: I agree that that was a statement rather than a question, but if anyone wants to comment on it, they are free to do so. When I was in Russia, they had vodka for breakfast, but I would not necessarily recommend it.

As no one wants to comment, we will move on to Marilyn Livingstone.

Marilyn Livingstone: We have heard quite a lot about the need to have and retain a highly skilled workforce. We have also talked about opportunities for the industry. How well does Scotland do at providing such a highly skilled workforce?

Bryan Donaghey: We have a good and loyal workforce. The key is basic education and Scotland has had a very good education system that we need to sustain. We need to think about how to get people into trades such as engineering and other crafts. We do not necessarily need graduates for every job that we have; we need people to do apprenticeships and that type of activity. Basic education should therefore come in, and people need to be able to come to work and be reliable, open in their thinking and able to adapt to change. As Harry Donaldson said, we need to keep changing and making steady improvements in the way that we do things. That means that people need to be adaptable and open to change and doing things in different ways. Those are the key issues. It starts with the education system.

Marilyn Livingstone: We have also heard about the current economic climate and the increase in the number of people who want to go to further and higher education colleges. What is the one thing about skills and learning that you would ask us to recommend to the Government?

Bryan Donaghey: It would be to ensure that we have enough people who have practical skills, such as engineers and lab technicians, as opposed to having skills in generic practical activities. We need graduates to fill the roles that require chemical engineering degrees, but we also need a lot of people to come through who have engineering type skills.

Marilyn Livingstone: Is there enough discussion between Government agencies and the industry about skills and learning?

Bryan Donaghey: Gavin Hewitt is able to speak on behalf of the industry.

Gavin Hewitt: Yes, I think that there is. Improve is the skills council, with which we work very closely. Scotland Food & Drink has identified the need for a skills academy, which will probably be centred on the University of Abertay Dundee. The Scotch Whisky Association, along with the GMB, had an extremely good programme on soft skills that has increasingly been rolled out to the industry. Also, two to three years ago, we introduced our own Scotch whisky vocational qualifications to improve the knowledge and skills in our workforce. Those are very specific programmes, but we go beyond them. For example, we work closely with the international centre for brewing and distilling at Heriot-Watt University and we have our own Scotch whisky research institute there.

As Bryan Donaghey said, the area for which we need to identify skills is not necessarily for Scotch, but the actual engineering skills that are applicable to Scotland and that go wider than the Scotch whisky industry.

We have an extraordinarily loyal and skilled workforce, and we have put some effort into making sure that they have even better skills when they are on the job.

Harry Donaldson: There is a range of skills from graduate level through to skilled craftspeople and everything else. We hear a lot about knowledge workers and the knowledge economy, and I suggest that the issue of some of the soft skills, which we have approached with the industry, has been based on the need for such workers. For most employers that I see, irrespective of whether it is the whisky industry, manufacturing or general public services, the issue is people's ability to obtain the required soft skills. Employers tell us time after time that they want people with the correct behavioural and attitudinal skills. They can train people for the hard skills, but it is all about attitudes and behaviours. When I first took up employment, you were hired for your skills and dismissed for your behaviours, but things have changed significantly—I mean that in a positive sense.

Employability comes up time after time. The issue is seen as employeeship, or what an employee needs to show an employer in order to be employed, but I would invert that and think about employership, or what employers will do for people coming into their industry. It is not just one-way traffic. There must be a quid pro quo that is about employers committing to invest in the training and development of the people who are at the heart of their companies. That, among other things, is what brings about success. When you turn the lights out at night and walk out the door, there is not a lot left. What is needed are highly trained, skilled and motivated people. Behaviour and attitude are key, so we need the soft skills to complement the hard skills.

The Convener: One of the concerns about the future of the Scotch whisky industry is that so much of it is no longer Scottish-owned; it is mainly owned by large international drinks companies. Is that a potential threat to the future of the industry? Might one of those companies say one day, "Scotch whisky isn't worth it any more. We'll shut it down and produce something else"? Or are there advantages to foreign ownership that the committee should know about?

John Beard: Whyte & Mackay has been purchased by Dr Mallya from India because he sees a huge opportunity in Scotch whisky and has a huge regard for the category. In many ways, there was a lot of foresight in that acquisition by someone who is looking to increase dramatically the presence of Scotch whisky in India. From a trade relationship perspective, the acquisition has opened some doors over the past couple of years. Dr Mallya is a player in the Indian market who is committed to the development of Scotch whisky, not Irish or American, in a market where they drink, eat and breathe whisky—it is what they do. We should look to exploit that, and Dr Mallya's ownership helps to achieve that.

Donald Blair: The issue is not simply foreign ownership and control. As Christopher Harvie pointed out, one of the sad results of the ultimate economic crime of the 1980s—I believe Mr Saunders is still alive 25 years later—is not simply the foreign control, whether foreign is defined as London or Paris, but the fact that the officer class is now almost entirely non-Scots. The squaddies, the people with the soft skills and engineering skills who are based in Scotland are Scottish. Frankly, however, looking at the corporate profiles of the major international companies, I do not recognise anybody who was born or educated in Scotland.

Gavin Hewitt: I sit round my council table and look at the companies that are, in effect, foreign owned and I think of how much value those owners have brought to Scotland and maintained in Scotland. That is a significant element that shows how much the outsider values the Scotch whisky industry. As I said before, such people make the investment decisions. They say that Scotch whisky is part of their portfolio of drinks and that, if they are not in Scotch whisky, they do not have a complete portfolio and are not competing in the global market in the way in which they should. The investment that we have had in terms of the passion for Scotch whisky and its future is very important. I reiterate what John Beard said. I am trying to secure the possibility of opening up the Indian market with Vijay Mallya and his deputy Vijay Rekhi. Through their purchase of Scotch whisky, they are better able to understand where we are coming from.

12:30

Chris Taylor: Food and drink companies across the whole spectrum consist predominantly of very small companies and microcompanies. Because of their ownership structure, the drinks industry, and the whisky industry in particular, bring a lot of value to that make-up. It brings a global brand strength. The important question is how to lever off that brand strength and whisky's iconic status. Whisky is up there with Nessie and tartan, and the important thing is to get more leverage from that sort of awareness around the world into our activities in tourism and other sectors.

The structure of the industry and the engagement of the whisky companies through Scotland Food & Drink can benefit the wider food and drink sector and other sectors.

Maggie McGinlay: SE, HIE and Scottish Development International will work with companies whether they are indigenously owned or foreign owned. It is a matter of the investment that they bring and the overall investment in the supply chain. There is no evidence that we are not getting that investment. As Ewen Cameron pointed out earlier, it is important to have relationships at the corporate head-office level, wherever that office may be, so that we develop those relationships and so as not to take the investment for granted. SDI works hard to ensure that relationships are developed at a corporate HQ level as well as at a Scotland level.

Harry Donaldson: You would expect us to say this from a trade union perspective, but there is a growing concern about decisions being made in a way that is much more removed from Scotland. Companies that are global players may well make decisions that are based on different views and values to those that we hold. The current issue, it has been suggested, is about reinvestment back into the economy, and it is good to hear that. Repatriation is a good thing.

However, there will be times when, driven by shareholder value, significant decisions are taken that are not in the best interests of Scotland as a whole. The increased removal of decisions was part of the difference of opinion, let us say, that we had with Diageo regarding the impact that would be felt following the announcement of the closures in Kilmarnock and Port Dundas. Concerns are increasingly being expressed by the trade unions. Our membership is concerned that, although growth of the sort that we have been discussing might have a benefit at present, there is a real underlying risk for employees in the industry.

Donald Blair: It has been a long and arduous morning, and I am no social historian but, on a lighter note, was it not said of the Romans that first they make you slaves and then they make you pay for the privilege?

Stuart McMillan: Mr Hewitt mentioned the bottling of tequila. Does the US have any particular rules or regulations preventing brown spirits from that country being bottled elsewhere? Do you know of any countries in the world that prevent the bottling of their particular spirits—brown or white—outside their borders?

I have a second question, about packaging, but I will come to that in a moment.

Gavin Hewitt: I will take GI drinks—those with a geographical indication. Champagne is the most obvious example for wine, and Rioja from Spain is another. In those cases, the wine must be bottled at origin. As far as I know, I do not think that the Americans insist that American whiskey is bottled in the States, and I do not know of any other controls on a globally traded spirit drink such that it must be bottled at home.

Stuart McMillan: My second point is about packaging. The issue is obviously one of the more peripheral aspects of the industry rather than a main driver, but the environmental impact of excessive packaging is pretty vast and, to be honest, the packaging of some products drives me absolutely bonkers. That applies to some whisky products. In particular, Johnnie Walker blue label has a lovely box that comes in a plastic sheath. In my humble opinion, you do not need the plastic sheath or the lovely box. The whisky industry is just one industry that has the issue. The perfume industry is another one in which there is a flagrant waste of resources through excessive packaging. I firmly believe that the whisky industry, and the spirits industry as a whole, could save vast amounts of money by cutting out some of that nonsense and using the money to reinvest in the products.

The Convener: We should try to avoid mixing up the whisky industry with the perfume industry.

Bryan Donaghey: There are parallels. Personally, I share many of those thoughts because I do not need a lot of packaging around a product. However, we must follow the consumers around the world—for example, in parts of the world, the weight of the bottle is important. Johnnie Walker blue label is often a special gift, so the box is part of the product and the brand perception. The industry can push along on the issue and we are doing so. We try to use lightweight bottles as far as possible and we ensure recyclability.

The main part of our carbon footprint is in the fertilisers that go on the crops that end up as the barley that comes to us, the manufacture of glass and the distillation process. The industry needs to take steps, and we are doing so. We have set ourselves some pretty tough targets, which I think have been shared with another committee. However, we need to be competitive. We need the consumer to move, too, not just in one country, but throughout the world. We must try to help the consumer move on and say that they do not want all that stuff. However, we cannot get ahead of the consumer on that, because we would lose our market share.

The issue is a live one for our organisation. We have environmental policies that set out what we try to do. Another point is that we export Scotch whisky, which is 60 per cent water and 40 per cent alcohol, throughout the world. We ship a lot of stuff to a lot of places, so we need to ensure that our carbon footprint in Scotland is as good as it can be to support that.

Gavin Hewitt: I am happy to share with Mr McMillan our environmental strategy, which we adopted in June last year and which sets out the issues of recyclability and our stretching and impressive targets in that area.

Stuart McMillan: I would be happy to receive a copy of that and to read it. I just think that there has been a change in mindset and in people's attitudes in the past decade or so—people are now more conscious of their environmental responsibility. Obviously, not everyone is, but there is a lot more awareness. The whisky industry should ensure that it does what it can to help move the agenda along.

Lewis Macdonald: When I asked earlier witnesses about future risks, all or most of them identified minimum pricing as one. There is no time to explore all the aspects of the issue, but I have a simple question, which is perhaps for Gavin Hewitt and others, on the export issues. Are there price interventions that could be made either here or at Westminster that would not affect the export sector? How do you draw a distinction between price interventions that would have a negative impact internationally and those that might not?

The Convener: We are running short of time, so I ask everyone to keep responses to that as brief as possible. It is a big topic.

Gavin Hewitt: As the European Court of Justice ruled 10 days ago, a price intervention through taxation is both compatible with EU law and the least trade-restrictive measure that can be introduced to address price. I would go further and say that the Scotch whisky industry would also welcome the UK tax system addressing the issue of the differentials between different categories of drink so that all drink is taxed according to its alcohol volume to ensure that people do not choose drinks on the basis of the price, which is affected by tax, but on the basis of preference, because tax is equalised.

Donald Blair: I will not comment on the minimum price issue, but offer a different perspective. If you want to minimise social problems, whether it is substance abuse, marital breakdown or any such social problems, achieving full employment is probably the best single way forward. Therefore, the stimulation of job creation in Scotland would be my number 1 choice of approach to reduce substance abuse in Scotland, including binge drinking.

Gavin Brown: SE, HIE and SDI produced a joint submission in which they say:

> "There is not a common perspective from the industry in relation to Minimum Pricing."

However, my reading of the submission from the Scotch Whisky Association, which represents the industry, is that the Scotch whisky industry has a common perspective on minimum pricing. I accept that a public sector agency does not get involved in legislation, but if minimum pricing has anywhere near the impact that the Scotch Whisky Association has said that it will—Mr Hewitt mentioned to the Health and Sport Committee a loss of £600 million in exports—I would expect the agencies to do some neutral economic analysis of that figure and say whether minimum pricing is likely to have any impact.

Will any of the agencies represented here comment on that, or pledge to let the committee know what it thinks that the economic impact of minimum pricing might be?

Maggie McGinlay: Just to clarify, our submission talked about the drinks industry in its widest sense, rather than specifically about the whisky industry. I know that the whisky industry's position is clear.

As we said in our submission, because the minimum pricing policy is going through the legislative process, Scottish Enterprise and Highlands and Islands Enterprise have not taken a position on it, although the whisky industry has made its views clear on what the potential economic impact would be.

Rob Gibson: Is the industry making any progress on harmonising laws and tariffs through the World Trade Organization?

Gavin Hewitt: We are indeed. The World Trade Organization has probably been our best friend by working through the European Commission and the European Spirits Organisation. The work that has been done over the past 15 years to open up the markets has been phenomenal. Because of the stalling of the Doha round—the world trade round—the European Union has decided that some of the best routes might be through free trade agreements between the EU and the countries concerned. The European Union has just signed such an agreement with Korea and Colombia and is negotiating one with India. We certainly want to see that extended into other markets to ensure that we can be given the market access that we are trying to secure and have been securing elsewhere.

Rob Gibson: Would that make a difference to your product's penetration, or would it reflect some figure that is pulled out of the air for the effects that minimum pricing might have here in the Scottish domestic market?

Gavin Hewitt: The two things work in very different ways, Mr Gibson. As I explained to another committee, setting a Scottish precedent for minimum pricing would give other Governments and other Administrations the opportunity to structure their tax or other regimes so that they would be allowed to discriminate against Scotch and protect their local product. Overall, we see a huge advantage in breaking down protectionism, but a Scottish trade barrier through minimum pricing would bring a serious reverse of our success overseas.

The Convener: I bring this evidence-taking session to a close and thank everyone who took part in the round-table discussion. It has been an interesting session and we have covered a lot; I am sure that several of the issues will come up again as part of our international trade inquiry, which starts next week.

12:45

Meeting continued in private until 13:50.

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