

Cross-Party Group on Scotch Whisky

22nd September 2022 via Teams, 13:00-14:00.

Minute

Present

MSPs

Jackie Baillie MSP

Finlay Carson MSP

Murdo Fraser MSP

Gordon MacDonald MSP

Jenni Minto MSP

Colin Smyth MSP

Non-MSP Group Members

Martin Bell (Scotch Whisky Association)

Blair Bowman (Whisky Consultant)

Susanne Cameron-Nielsen (Scotch Whisky Association – Secretariat)

Karen Freel (Perspectiva Consultants)

Alan Gaskell (Stolt Tank Containers UK)

Fraser Grieve (Scotch Whisky Association – Speaker)

Annie Hill (International Centre for Brewing and Distilling)

Kenneth Junner (Diageo)

Orchid Liu (UK Chinese Times)

Apologies

Liam McArthur MSP

Agenda item 1

Welcome, introduction and apologies

Gordon MacDonald MSP chaired this part of the meeting [Murdo Fraser took over at Agenda Item 3, having been slightly delayed due to technological issues] and welcomed members to the meeting, noting apologies.

Agenda item 2

Approval of minutes of previous meeting on 21st June 2022.

The minutes were approved.

Agenda item 3

AGM: election of office bearers

The office bearers were all re-elected as follows:

Conveners:

- Murdo Fraser MSP
- Gordon MacDonald MSP

Deputy Conveners:

- Jenni Minto MSP
- Colin Smyth MSP

Secretary

- Susanne Cameron-Nielsen, Scotch Whisky Association

Agenda item 4

Current issues facing the industry. Fraser Grieve, Deputy Director of Strategy & Communication, Scotch Whisky Association

Fraser provided an overview of the current issues facing the industry, with a particular focus on the impact of rising costs to the industry as demonstrated through a recent SWA membership survey.

Key findings showed:

- Energy costs up by 50% for half of distillers and expected to rise by a further 50% in the next year.
- Half of distillers have seen shipping costs go up by at least 50% in the past year with a third seeing them double.
- The lead time for packaging has gone up by half for 63% of distillers and doubled for 25% of them.
- Regulatory costs rising and set to double for 1 in 5 distillers and by at least 10% for all.
- Supply chain costs have increased by at least 10% and by half for 2 in 5 distillers.

A specific concern included the cost of getting ready for the Deposit Return Scheme in Scotland, which was affecting smaller members disproportionately.

Encouragingly, the industry had seen positive recovery in their export figures, although they remained concerned about the impact of downturn in consumer confidence and how this would affect exports over the coming months. While a current positive outlook, this should be seen in the

context of increasing input and production costs to which the industry had not been immune with ongoing supply chain volatility impacting also.

At UK-level, the industry continues to face a significant tax burden with regard to the alcohol duty. Over the past five successive budgets the industry has seen freezes in excise duty that have not only supported the Scotch Whisky industry's investment but seen revenues to the Treasury increase by 32%. However, without action at Budget excise duty would automatically increase by RPI which according to the latest data is tracking at 12.3%. Such an increase would see over a £1 in extra tax on every bottle of Scotch, compound the cost of business pressures, causing further inflation. The industry continues to call for a freeze and are grateful of any support policy-makers can provide to support Scotch. [post-meeting note: The following day UK government presented a mini-budget, which confirmed an alcohol duty freeze.]

Fraser also highlighted, how the industry was seeking fairness through pressing back on the proposals set out in the alcohol duty review (paused over the Summer due to the Conservative leadership contest). Fraser outlined how the proposals, set out by the previous Chancellor, are based on the false premise that lower alcohol products are less harmful and those with higher alcohol content, like Scotch or gin, are more so. As an example he outlined that if you were to order a Scotch Whisky highball (2 units of alcohol with a double measure) and then stood beside someone who had ordered a pint of 4% ABV cider (2.3 units), based on the Treasury's plans, you would pay more than three times as much in tax than on the pint of cider, despite the Scotch containing less alcohol.

He highlighted how all of these pressures hamper investment, including on what are key priorities for the industry of decarbonising scope 1 and 2 emissions by 2040 and reaching true net zero by 2045.

Murdo thanked Fraser for presenting and noted the findings of the very comprehensive survey. He started of the discussion by asking to what extent the industry was seeing duty-free coming back with the return of travel, which Fraser confirmed was recovering strongly reflecting the likely pent-up demand, but air travel was still below previous levels. He outlined the work that was being done to introduce duty-free arrival stores in the UK, showcasing the great products on arrival, creating further jobs and tying-in strongly with the tourism offer through encouraging more to visit distilleries and Scotch Whisky visitor experiences.

Murdo welcomed the positive reflections on how this is developing and asked to what extent the industry, with growth in distilleries and trade, are impacted by workforce pressures experienced by so many. Fraser highlighted workforce pressures experienced in the Scotch Whisky especially with regards to their tourism and hospitality, to which Jenni Minto MSP reflected the experience on Islay where they are seeing a 60-70 people shortfall across the island, which in turns severely impact son what the distilleries can offer. She also recognised the great track record of the distilleries who are growing and developing their staff and providing continued opportunities on the island and advocated a Whisky Academy on the island working in conjunction with Herriot Watt University to further support growing that capacity. Jenni was also keen to hear how the SWA may have engaged with the carbon neutral islands project to which Fraser confirmed the SWA had met with the officials team and looking to engage further as it develops. He also provided an overview of the industry's ambitions and what had been delivered to date with regards to the industry's scope 1 and 2 emissions and outlined how the industry was now looking at how to work with supply chain partners

in addressing the industry's scope 3 emissions (recognising these are supply chain partners scope 1 & 2). He stressed that it would not be a one-size fit all and the work would need to take into account local and regional issues and challenges. He highlighted the positive impact of both the UK Green Distilleries Fund and the Scottish government's Scottish Industrial Energy Transformation Fund from which a number of SWA members had benefitted. He highlighted Islay as a good example of a more regional approach and Speyside with a high concentration of industry sites as another potential area to accelerate decarbonisation developments and which could bring in wider community interests and help set out a plan for how to ensure the right infrastructure to deliver.

Jackie Baillie MSP acknowledged the challenges faces by the industry but was also interested in hearing what was driving the upward trend of trade. Fraser acknowledged how the pandemic had impacted the industry and consumption patterns and saw some of the upward trend in domestic market in response to this where many people drinking less but better and premiumising their spirit or drink choice which lends itself well to Scotch Whisky and a shift towards cocktails.

Blair Bowman raised the introduction of the Deposit Return Scheme in August 2023, highlighting that through his conversations with many involved across whisky industry, tourism and retail, it was evident that the scheme was wholly unworkable and was keen to hear how the industry was experiencing it. Fraser highlighted how in a context of not being short of many ongoing challenges, DRS was one of the areas really causing concern, particularly with the inclusion of glass without a clear glass-remelt target. If the industry is to meet its ambitions on sustainability it needs access to high-quality recycled clear glass cullet and is concerned that without a re-melt target supply could diminish. He also highlighted how smaller producers were disproportionately affected by the scheme and outlined the feedback from many smaller members that they would need to seriously assess if they can afford to put their product on the Scottish market as a consequence. He stressed the fraud risk in relation to glass remained low but that with less than a year to launch there were still many unanswered questions that needed resolved, not least the important point around interoperability with rUK schemes. He was aware of the lack of a developing infrastructure at this stage – 37,000 return points are expected to be set up as part of the scheme – and highlighted the very low levels of public awareness. A question was raised as to whether big international stakeholders, such as the Distilled Spirits Council of the US was aware, to which he confirmed that bigger organisations and companies would be aware but there was a real acknowledgement of the barrier to trade into Scotland.

Agenda item 5

Open discussion on CPG priorities and timings of next meetings

Murdo opened the discussion and suggested the CPG added tourism as a topic and that it would be helpful to have a number of speakers coming in. Having recently visited Aberfeldy Distillery, he was keen to understand to what extent tourism had bounced back and if there were any lessons to be learned for the future.

Blair proposed a more in-depth session on DRS, highlighting how low the level of awareness is amongst those who would be affected and the public. This was also highlighted as a good area to link into forthcoming Circular Economy Bill.

Alan Gaskell offered to facilitate a CPG visit to Grangemouth, which was welcomed as a good addition to the programme to see at site the workings as a crucial aspect of the industry's trade.

Murdo also reflected on the split in-person/virtual, recognising the difficulty securing a room in the Scottish Parliament. The group agreed to seek to facilitate in-person but hopefully being able to retain the hybrid option to enable participation.

Office-bearers and the secretariat would identify future meeting dates and circulate via email to the membership as soon as possible.

Agenda item 6

Any other business

No other business was raised.

Meeting closed.