Cross-Party Group on Scotch Whisky
22nd November 2022, CR3 and via Teams, 18:00-19:00.

Minute

Present

MSPs

Murdo Fraser MSP
Gordon MacDonald MSP
Colin Smyth MSP

Non-MSP Group Members

Stacey Adam (Scottish Parliament)
Susy Atkinson (Edrington)
Blair Bowman (Whisky Consultant)
Alex Bruce (Adelphi Distillery - Speaker)
Susanne Cameron-Nielsen (Scotch Whisky Association – Secretariat)
Annie Hill (International Centre for Brewing and Distilling)
Orchid Liu (UK Chinese Times)
John McCartney (GMB Scotland)
Joseph Meaden (Portman Group)
Gordon Morrison (Association of Scottish Visitor Attractions – Speaker)

Apologies

Jackie Baillie MSP
Finlay Carson MSP
Liam McArthur MSP
Jenni Minto MSP

Agenda item 1

Welcome, introduction and apologies

Gordon MacDonald MSP welcomed members and extended a particular welcome to new member of the CPG, Michael Taylor, who was looking forward to contributing to the CPGs work using his experience in the industry.

Agenda item 2

Approval of minutes of previous meeting and AGM on 22nd September 2022.

The minutes were proposed by Murdo Fraser MSP and seconded by Gordon MacDonald MSP and approved.

Agenda item 3

Impact of Scotland's Deposit Return Scheme, Alex Bruce, Managing Director, Adelphi Distillery Limited

Alex Bruce opened his presentation by reflecting on the role of the CPG in unlocking a planning issue the distillery build faced and thanked for the support received from the group and the ensuing company growth that it helped progress.

The current situation for their still relatively young company is challenging in light of the global economic situation, delivering a perfect storm of extraordinary supply chain and utility cost rises, wage increases, logistical delays and debt management, and affecting immediate cash flow – any additional avoidable regulatory costs and administration at this time would be self-defeating for the economy.

Company overview:

- December 1992 - Adelphi Distillery Ltd founded as a niche, high-quality bottler of rare Scotch whiskies.
- 2010 – new bottling and logistics warehouse in Fife.
- 2013 - build begins for a greenfield distillery on the Ardnamurchan peninsula in Argyll.
- 2014 – Distilling commences in July.
- 2020 – first whisky released September.
- Employs 32 people across the two sites with its distillery running at an optimal production level of 400,000 litres of alcohol per annum and all bottling and logistics taking place in Fife.
- Bottle sales have grown from 5,000 in 2004 to just under 200,000 year ending March 2022 with close to 1 million per annum forecast by the end of the current decade.
- In 2004 it sold to four markets; now it sells to 36 and has grown the UK from 15 specialist retailers and distributors to 148 within the last two years.
- Built with sustainability and circular economy at its centre, benefitting local long-term employment and was the first distillery to be wholly reliant on local, renewable energy, using hydroelectricity and woodchip, supporting the construction of a directly connected supply and off take facility just two miles away, that not only processes the locally sourced timber into fuel, but also converts its distillation co-products into highly nutritional animal feed for the peninsulas livestock.
- Reached finals of the Scottish Environmental Business Awards (VIBES) for two years running, winning a Good Practice Award in 2021.
- Its first whisky launched in 2020, was the first to be packaged in fully recycled board, covering a bottle that already contained more than 50% recycled glass. Two years on, the

company is committed to removing all outer gift cartons for majority of markets and is aiming for 80% if its bottles to be from recycled glass.

Despite this growth, the unprecedented global economic crisis has already started to bite and is requiring careful navigation now and coming years. He outlined how already, the cost of producing their spirit which will one day become Scotch Whisky, is due to rise by just under 100% next year, resulting in the need to increase sales prices. Additionally, pressures caused by Brexit logistics and post pandemic delays continue to hamper their material supply and final product export – for example – a container of Scotch Whisky now takes 3-6 months to reach their importer on the west coast of the USA, compared to just 1 month pre-pandemic.

He also outlined that despite demand being high, immediate cash flow is taking a hit from multiple angles, e.g. corks, capsules and glass must now be ordered 6 months in advance (rather than 1 month previously) and invoices therefore reflects these increased volumes correspondingly. SMEs like Adelphi Distillery are already struggling with enough working hours in the week, storage space and cash flow impact. The addition of further cost and complexity at this time, such as DRS as currently proposed, hence incredibly challenging and very likely to adversely affect small businesses in an otherwise successful industry.

He highlighted specific areas of concern: Cost – Adelphi estimates it will cost them £9,000, which would be £9,000 they are not able to invest in their planned 138 PV array at the distillery to further reduce their reliance on electricity from the grid and enhance their sustainability. Without a DRS re-melt target he was also concerned that this would make sourcing high-quality recycled clear glass for his bottles more cost-prohibitive as there was a risk that the recovered glass could be sold outwith the glass bottle supply chain. In addition to impacts in relation to cost, he also highlighted how any changes to labelling requirements would be impacted by supply times. Sales – a large proportion of their current sales of approximately 20,000 bottles go into Scotland through online retailers, dispersed to all corners of the UK, the cost of tracking these from Adelphi to retailers to consumers to recycling would be disproportionally expensive, especially for smaller producers like Adelphi. This would in turn force them to reallocate stocks to other markets in order to avoid being penalised at home (i.e. because it no longer being financially viable to place the product on the Scottish market). This would lead to less choice for consumers and tourists visiting Scotland. Lastly, he highlighted the concern that their retail site at their Ardnamurchan Distillery could end up not being exempt from operating as a return point operator, despite its very remote location one hour up a single track road.

He summed up his presentation by outlining his recommendations for a cost-effective, practical and manageable DRS that doesn't restrict a fundamental part of the Scottish economy during this time of uncertainty: a) roll-out a UK-wide DRS to remove much of the administrative burden and cost; b) remove glass from DRS as is the case in many European DRSs and which are likely to not be included in England and Wales schemes; c) realise the value of recycled materials incentivising collectors/processors; and d) exempt SMEs for the scheme and limit return points to larger premises. Initiate DRS with the largest producers to test and prove the system works; educate the consumer and the look to gradually include smaller producers.

Gordon MacDonald MSP thanked him for his presentation and opened up the floor to questions kicking this off by his initial question of how Adelphi was dealing with DRS in the countries they export to that have DRS, such as Germany and many States in the US. Alex Bruce responded they do not cope in the sense that they have no involvement in these as all taken care of by the distributors. He added one observation that in many countries the focus in their DRS was on the retailers' role rather than producers, which removes a large amount of administration and cost.

Colin Smyth MSP enquired regarding cross-border trade and the risk of fraud, especially if glass remains excluded in the English scheme to which Gordon MacDonald MSP highlighted e.g. the cross-state arrangements for schemes in US States requiring different labelling.

Blair Bowman highlighted the letter which had gone to the Minister from Green Skills, Circular Economy and Biodiversity, Lorna Slate MSP, from almost 600 businesses, highlighting the very deep concerns about the unworkability and cost of the scheme as well as the lack of clarity to enable implementation. The letter outlined a clear ask of a delay to the current 16th August 2023 launch date and for the scheme to be integrated with the rUK.

Alex Bruce added here the difficult issue of assessing how much product was required to be allocated for the Scottish market and which in turn could then necessitate a re-labelling if reallocated to a different UK market. Gordon MacDonald MSP highlighted the ease of which labelling could be changed in bottling halls, which Alex Bruce agreed with but emphasised the difficulty was in knowing where the product would be going on day one and being able to deal flexibly with any surplus that may need reallocated to different part of the UK market highlighting how moving from one UK market to different markets in the UK was causing additional administration and costs for businesses at a time where they are already facing several head winds.

Blair Bowman also highlighted concerns regarding the 6 weeks for new products coming onto the market, which would stifle the quick turn-around currently and which drives innovation and which would disproportionally impact smaller producers.

Murdo Fraser MSP inquired regarding engagement with CSL citing the understanding that they were due to publish their Operating Plan in November. Susanne Cameron-Nielsen (SWA) provided an overview of the engagement which a group of Trade Associations working together had had with SEPA, CSL and the Minister. They met with the Minister in October on the back of a 'ask and proposed solutions' representation made (which was shared also with all MSPs). While a constructive meeting and with some developments in some of the raised areas of concern, there was still some outstanding areas that need addressed e.g. glass re-melt target, small producer threshold/exemption and online take-back to name a few, and the group would be writing to the Minister late November/early December, providing an update on their experience of progress to ensure the scheme is pragmatically workable for all included in its delivery and to ensure it is delivered on a more cost-effective basis.

Gordon MacDonald MSP thanked all for their contribution and invited the meeting's second speaker, Gordon Morrison, CEO, ASVA.

Agenda item 4

Cost of doing business in the visitor attraction economy, Gordon Morrison, Association of Scottish Visitor Attractions

Gordon Morrison provided an overview of ASVA, which vision is to ‘support and inspire Scottish visitor attractions to deliver outstanding experiences for each and every visitor’. It has 284 organisations in membership, representing 510 individual attractions (including 43 Scotch Whisky distilleries) and over 60 businesses in the supply chain to the sector. For context, he shared that I 2019, over 65 million people visited attractions in 2019 with attractions being a key driver to bringing visitors to various regions in Scotland – spending £85m, including the many Whisky Distillery Visitor Centres across Scotland (which in 2019 saw 2.2m visitors), and with attractions being the custodians of much of Scotland’s culture, heritage, history and landscapes.

He took members through the results of their recent sector-wide survey (which he had also shared at the CPG Tourism the week prior and appreciated this meant some MSPs were already familiar, he had added some specific Scotch Whisky Distillery Visitor Centre points to provide further perspectives to this group), which was conducted between 27th October and 6th November 2022 and to which they had received responses from 88 organisations representing 106 individual attractions and which demonstrated the following overview:

Visitor numbers and turnover comparison

- 55% reporting visitor numbers are down on 2019
- 22% down by more than more than 30%
- 34% reporting turnover is down on 2019
- 8% down by more than 30%
- 27% of sector closing fully for the winter
- 25% fully open, 45% partially open

He noted that some attractions had stayed closed for longer and that while the domestic market had re-bounded, international was taking longer. With regards to the domestic market, he noted in particular a trend of business events bookings wanting to provide something special and unique to their staff after some challenging years apart.

However, challenges remain:

Cost of doing business

- Average energy bills currently £35,283pa, rising to £50,675pa in 2023
- 36% have their fixed price contracts due for renewal within the next year
- 15% at risk of insolvency if no further action is taken by UK Government, beyond the measures set out for 6 months support.
- Greatest cost pressures on the sector are:
    - Spending on goods and services for core activity
    - Energy costs
    - Spending on goods and services for capital projects

He outlined ways in which the sector was looking to mitigate impact as it heads into some challenging winter months, with actions including:

- 71% - seeking new ways to increase income
- 52% - reducing energy consumption (for some members coming to the end of their contract, they are looking at cost increases of up to 600%)
- 41% - recruitment freeze
- 27% reducing opening hours/days open
- 26% - reducing other outgoings – e.g. training & development for staff

Passing costs onto visitors

- 1 in 3 operators intending to increase prices – but only 3% at a rate higher than inflation
- 38% are unable/unwilling to increase prices, not least because of their audiences some from very local markets and who would not accept significant price increases
- Other measures include introducing variable pricing, dynamic pricing or a 'pay what you can' policy (like e.g. Kingsbarns Distillery)
- With regards to cost of living crisis, 83% of respondents believe the worst is yet to come

Recruitment challenges

- 83% of the sector facing challenges with recruiting staff, predominantly, but not exclusively, in front of house roles
- To address this, 1 in 3 are planning to further increase wages. 7% planning to increase wages above inflationary rate.
- A further 34% are paying national living wage or real living wage
- 17% are providing further flexibility with work patterns or rotas
- 13% introducing further additional benefits beyond pay, e.g. incentive vouchers, additional holidays, refer a friend bonuses etc
- 27% cite lack of access to EU migrant labour as detrimental to business operations

Biggest short-term barriers to business

- Cost of living crisis and impact on visitor numbers and spend i.e. a fall in consumer confidence
- Increasing costs of doing business - for distilleries this is the biggest concern due to its high energy dependency and the slower return of international visitors
- Recruitment and retention of staff
- Overstretched resources impacting on business operations
- Insufficient funding support/inability to access funding

Top measures to further aid economic sustainability

- Further government intervention to reduce the cost of living for the consumer
- Further government intervention to reduce the cost of doing business, with Gordon Morrison reflecting that DRS had come up in many of the responses
- Increased funding support/increased opportunity to access funding
- Increased national marketing activity/spend targeted at a rest of UK audience
- Increased national marketing activity/spend targeted at international visitors

In summary he concluded that the key ask of the visitor attractions was 'help us help ourselves' and cited the recent Days Out Campaign as a good example (although timing last year was unfortunate due to coinciding with the arrival of the Omicron variant and noted this year's campaign was not supported by funding from the Scottish Government but was wholly driven by Visit Scotland and ASVA).

Gordon MacDonald MSP thanked him for sharing the results of the survey and highlighted the recruitment challenge in particular and asked where they were hoping to get the workers from. Gordon Morrison acknowledged it was a great question and one they didn't necessarily have the answer to. He noted that before Brexit their workforce consisted of about 30% EU workers and considered it would be important to look at the migration policy to attract more people to Scotland.

Agenda item 5

Any other business

Gordon MacDonald MSP highlighted the recently launched Scottish Government consultation on alcohol advertising and promotions which was important for as many as possible to respond to by its deadline of 9th March. The next CPG would include formally as an agenda item.

Action: Secretariat.

A date of the next meeting (and for the remainder of the year) would be circulated to members when agreed and the group agreed that the next meeting would be solely online and a future in-person, given this meeting's experience of the limitations of hybrid currently.

Action: Secretariat.

Meeting closed.