



**European & External Relations Committee
Inquiry into 'EU reform and the EU referendum'
Scotch Whisky Association response**

1. Introduction

- 1.1 The Scotch Whisky Association (SWA) works to sustain Scotch Whisky's place as the world's leading high-quality spirit drink and its long-term growth worldwide.
- 1.2 At EU level and across the Member States, this involves pursuing fair market access, a competitive and sustainable business environment, safeguarding the category 'Scotch Whisky' against unfair competition, and promoting the responsible use of alcohol. Securing the best environment for Scotch Whisky is vital to the wider Scottish economy, with Scotch Whisky representing around 10% of all Scottish exports to the EU.
- 1.3 The Association's 57 member companies, including distillers, blenders and bottlers, account for nearly 95% of the industry.
- 1.4 During the UK Government's balance of competences review (2012-2014), the SWA and its members undertook a full assessment of the EU framework in which the industry operates. This involved analysis of the business environment in relation to a wide range of policy areas, including taxation, the internal market, external trade, health, and energy.
- 1.5 We therefore welcome the Committee's inquiry into the implications for Scotland of the EU referendum and potential EU reform. The following response addresses various questions set out in the call for evidence.

2. SWA position on EU membership

- 2.1 On the basis of detailed consultation with member companies, the SWA believes that it is important for the United Kingdom to remain part of the European Union. Members conclude that, by and large, the current arrangements work well, whilst identifying some areas of the EU framework that could be improved.
- 2.2 The EU's single market, including its regulation of food and drink, and its single trade policy, are central to Scotch Whisky's success. The single market allows distillers to trade across the EU simply and easily. The EU's weight and expertise in international trade helps Scotch Whisky secure fair access to overseas markets. In all these areas, the UK's continued influence in Brussels can shape the rules in a way that supports Scotch Whisky industry jobs and growth.
- 2.3 The SWA also agrees that some EU reforms would be useful. The SWA would like a more free and efficient single market, the elimination of unnecessary national regulations, and for the EU to be even more ambitious and free-trading internationally. The Association continues to encourage the UK Government to secure progress in these areas as part of its reform agenda.

3. EU membership benefits

- 3.1 Scotch Whisky is Scotland's leading single product export. Annual shipments to EU markets in 2014 were £1.24bn or 31% of the value of the industry's global exports (the EU also represents around 37% of Scotch Whisky's global volumes). France (2nd), Spain (5th), and Germany (6th) all feature in the industry's top ten global export markets.
- 3.2 The SWA attaches a high priority to securing an appropriate regulatory environment within the EU's single market, as well as EU accession countries. The single market is much simpler than the alternative in which 28 different regulatory regimes would operate. It is therefore important that the UK Government retains influence on evolving single market legislation. Current examples of relevant debates in Brussels include EU rules on the labelling of alcoholic drinks, bottle sizes, excise duty structures, non-preferential rules of origin, and the protection of geographical indications (GIs).
- 3.3 It is also helpful to have the Scotch Whisky GI protected at EU level, enforced across the single market, and incorporated into EU trade deals.
- 3.4 EU Free Trade Agreement (FTA) negotiations with individual countries or trading blocs are of key importance. Scotch Whisky exports benefit from trade liberalisation, with such negotiations offering the main opportunity to remove long-standing trade barriers.
- 3.5 Market access is prioritised because exports are negatively impacted by tariff and non-tariff barriers to trade. Issues include tariffs and discriminatory taxes, as well as restrictive certification, labelling and licensing rules. Such measures distort competition between domestic and imported products. Inadequate intellectual property protection can also undermine potential growth.
- 3.6 At present, the industry is particularly engaged on EU FTA talks with countries such as India, Malaysia, and the United States. Recent agreements with the likes of Canada, Colombia, and Viet Nam include important benefits for the whisky industry.
- 3.7 As a result, it is important that, within the EU, the UK continues to exert its influence on FTA discussions and market access work more generally. This has resulted in numerous trade barriers being removed, supporting the competitiveness of the sector. Effective influence in the EU Trade Policy Committee and the Market Access Advisory Committee is also critical, helping to address market access problems confronting Scotch Whisky.
- 3.8 The industry is active in the context of the World Trade Organisation, seeking trade liberalisation through multilateral negotiations, as well as using its mechanisms to challenge obstacles to exports. In such instances, there is significant advantage to the EU acting on behalf of the sector, lending its weight to advance industry issues.
- 3.9 Withdrawal from the EU would create uncertainty and is a significant business risk, impacting the industry's ability to secure the best possible access to its largest combined market, as well as to markets outside the EU.

4. EU reform agenda

- 4.1 The current debate on EU membership is centred on the UK Government's desire to reform various aspects of the current settlement.
- 4.2 On the basis of the SWA's work during the UK balance of competences review, whilst supportive of EU membership, areas of potential improvement to the EU framework have been identified which we believe should be included in any reform discussions.

- 4.3 In practice, there remain many national rules and regulations which hinder the free movement of goods within the internal market. The SWA would like a more efficient and freer single market, with the elimination of unnecessary national regulations impacting on the sector. For example, the industry believes the following areas merit further consideration to support competitiveness:
- simplifying the rules around online sales (distance sales) of alcoholic drinks
 - abolition of national labelling rules, reducing cost and complexity
 - amendment of the excise duty structures directive to ensure all alcoholic drinks can be taxed according to alcohol content
 - abolition of excise tax derogations for local spirit drinks, ensuring fair and non-discriminatory tax treatment
- 4.4 Equally, the SWA believes there could be further improvements to the EU's approach to external trade and FTAs. The Commission's priority in recent years has been on developed markets. There is a strong case to re-focus the FTA effort on emerging markets, such as India and Mercosur, where the biggest commercial gains are likely for the Scotch Whisky industry. The recent agreement with Viet Nam is a positive step in this direction.
- 4.5 The Commission could be more creative in its approach to trade negotiations, with there being a case to move towards 'living agreements', i.e. providing a framework to negotiate issues that do not make it into an initial deal. This could provide flexibility and help to secure trade gains at an earlier point in time. The aim could be to develop continuous negotiating processes providing periodic agreements, rather than big bang deals.
- 4.6 The scope of the Commission's work has expanded but its resources have not kept pace. There needs to be better recognition that the Commission should be appropriately equipped to play its lead role in international trade policy. The EC Directorate General for Trade (DG Trade) should be better resourced so that it is able to advance bilateral negotiations but also ensure what is agreed is enforced.

Conclusion

- 5.1 The Scotch Whisky Association believes it is important for the United Kingdom to remain part of the European Union.
- 5.2 The EU's single market, including its regulation of food and drink, and its single trade policy, are central to Scotch Whisky's success. The single market allows distillers to trade across the EU simply and easily. The EU's weight and expertise in international trade helps Scotch Whisky secure fair access to overseas markets. In all these areas, the UK's continued influence in Brussels can shape the rules in a way that supports Scotch Whisky industry jobs and growth.
- 5.3 The SWA also agrees that some EU reforms would be useful. The SWA would like a more free and efficient single market, the elimination of unnecessary national regulations, and for the EU to be even more ambitious and free-trading internationally. The Association continues to encourage the UK Government to secure progress in these areas as part of its reform agenda.