

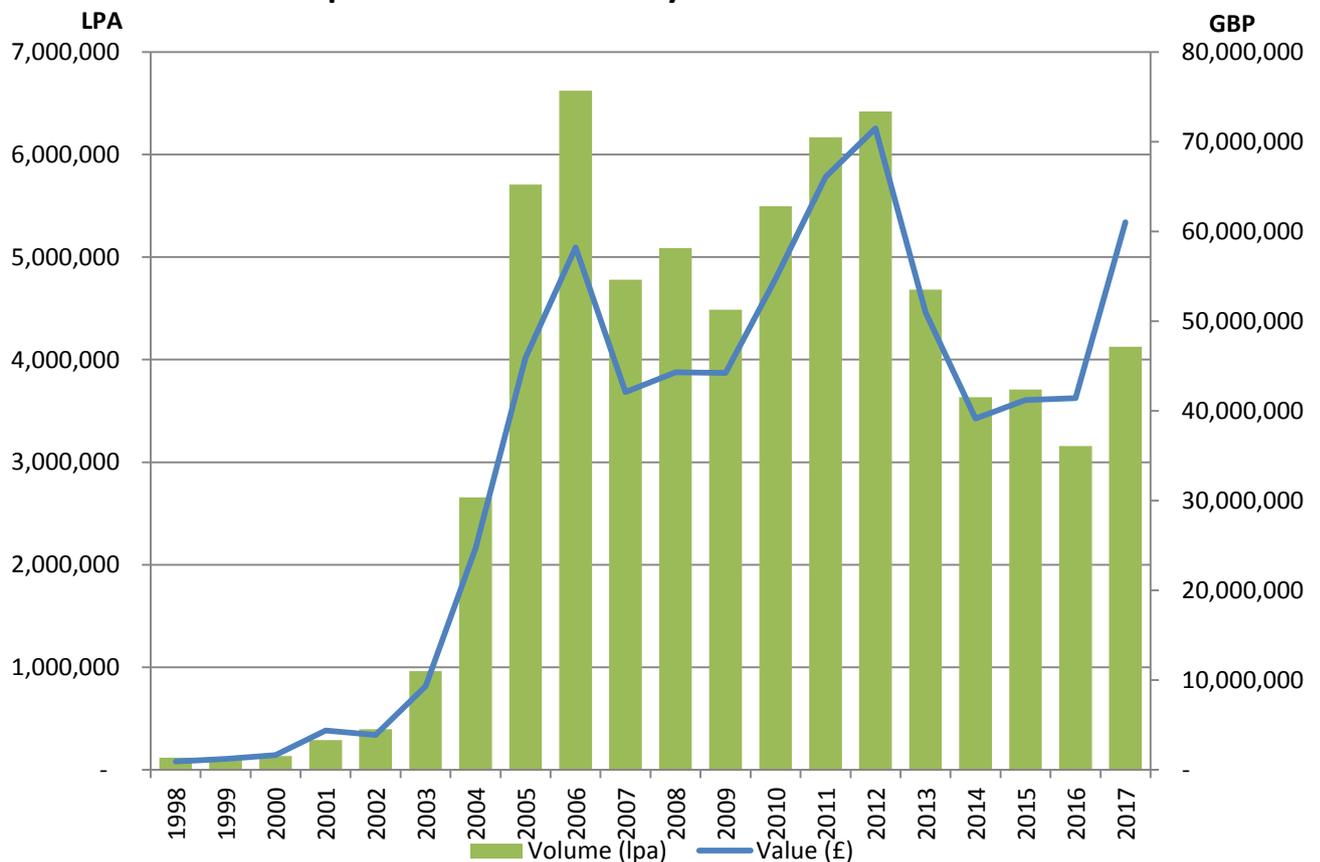
Scotch Whisky Briefing Note: China

June 2018

KEY MESSAGES:

- A key emerging market for Scotch Whisky. Economic downturn saw decline from 2012 peak; now recovering.
- In calendar year 2017, direct exports alone were worth £61 million in shipment value - see graph & note below.
- Harmonised Export Certificate (HEC) requirement, subject to a welcome 2-year delay until Oct 2019, is the principal issue facing the industry. Essential that a workable solution acceptable to all is found in good time.
- Recent tariff reduction from 10% to 5% is a welcome move that will help recovery longer term.
- SWA is grateful to the Chinese government for co-operation on a range of legal and regulatory issues, including combating counterfeit, and seeks maintenance of current high level of engagement/co-operation.

Direct Exports of Scotch Whisky to China - volume and value



Note: SW shipments to China are much higher than the direct shipment figures. Some of the major exporters to the Far East do so through distribution hubs in, e.g. Singapore (exports worth nearly £290 m in 2017); re-exports do not show up as direct exports from UK to China.

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BACKGROUND

Certification/other Regulations under Food Safety Act

In 2016 the State Authority, AQSIQ, announced its intention to require wef 1 Oct 2017 a Harmonised Food Safety Import/Export Certificate (HEC) from the government of the country of origin for all food products, including alcoholic beverages, entering China. Only in June 2017 was this notified to the WTO. The industry has been seeking exemption for spirits on the grounds that they are low-risk and non-perishable, failing which the least burdensome solution possible, together with a grace period for implementation. A two-year delay was granted in September. The UK and EU continue to seek exemption. Meanwhile, Chinese administrative restructuring means AQSIQ will be subsumed into a new department, whose approach remains to be seen.

Lot Codes for traceability purposes

Traceability in the event of a product recall is possible only if the lot code on the product is that of the manufacturer, but spirit brands are found on sale in China without it. The industry seeks the introduction and enforcement of legislation requiring the manufacturer's lot code and forbidding its removal.

Counterfeit

The growth of Scotch Whisky in China has resulted in the emergence of locally produced spirits falsely labelled and sold as 'Scotch Whisky'. The key issue of importance to the industry is therefore preventing counterfeit, both of specific brands and generic counterfeit of 'Scotch Whisky'.

Whisky Definition

Through industry efforts, the whisky category enjoys a premium reputation in China. To protect that reputation, and to prevent unfair competition from inferior spirit sold as 'whisky', the SWA seeks a high quality whisky definition in Chinese law, in line with EU standards. The current standard for 'whisky' is an improvement on previous versions but there remain issues of concern, such as the lack of any prohibition on the addition of flavourings. The SWA continues to encourage the adoption of international standards for 'whisky' in China.

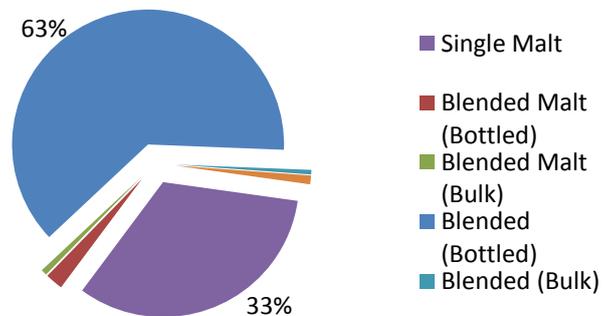
Excise Tax Reform Proposals 2015-18 could disadvantage imported spirits, although it is uncertain whether or how exactly they will be affected. The industry welcomes the dialogue that has taken place so far and hopes that clarity on reform options emerges soon.

SCOTCH WHISKY FACTS 2017

- £4.37 billion exports of Scotch Whisky p.a ; 1.2 billion 70 cl bottles (or 39 bottles per second)
- 40,000 jobs supported across UK, 7,000 rural
- One of the largest net contributors to UK balance of trade in goods
- £5 billion impact across UK economy
- 70% of Scottish food and drink exports.
- 20% of all UK food and drink exports
- More than 40% of EU spirits exports

Sources: SWA, HMRC, Food Drink Federation, FoodDrinkEurope and Scottish Government

2017 SW Exports to China by value category



SCOTCH WHISKY IN CHINA 2017

- 18th largest export market by value and volume
- Direct exports worth over £61m; more via entrepôts
- Scotland's second biggest export to China, with overall shipments estimated to account for a third of Scottish exports to the market
- **Consumption:** 14 million bottles out of estimated total spirits market of over 14 billion i.e. <0.1%
- **Top 3 Blended brands:** Chivas Regal, Johnnie Walker Black, Ballantine's Finest
- **Top 3 Malt brands:** The Macallan, Glenmorangie, Glenfiddich
- **Import Duty:** 5% **Tax:** 20%, threat of changes
- SWA alone investigated 130+ suspect 'Scotch Whiskies' in 2yrs
- **Barriers to trade/problem issues:** certification , no strong mandatory generic definition of 'whisky'.

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