

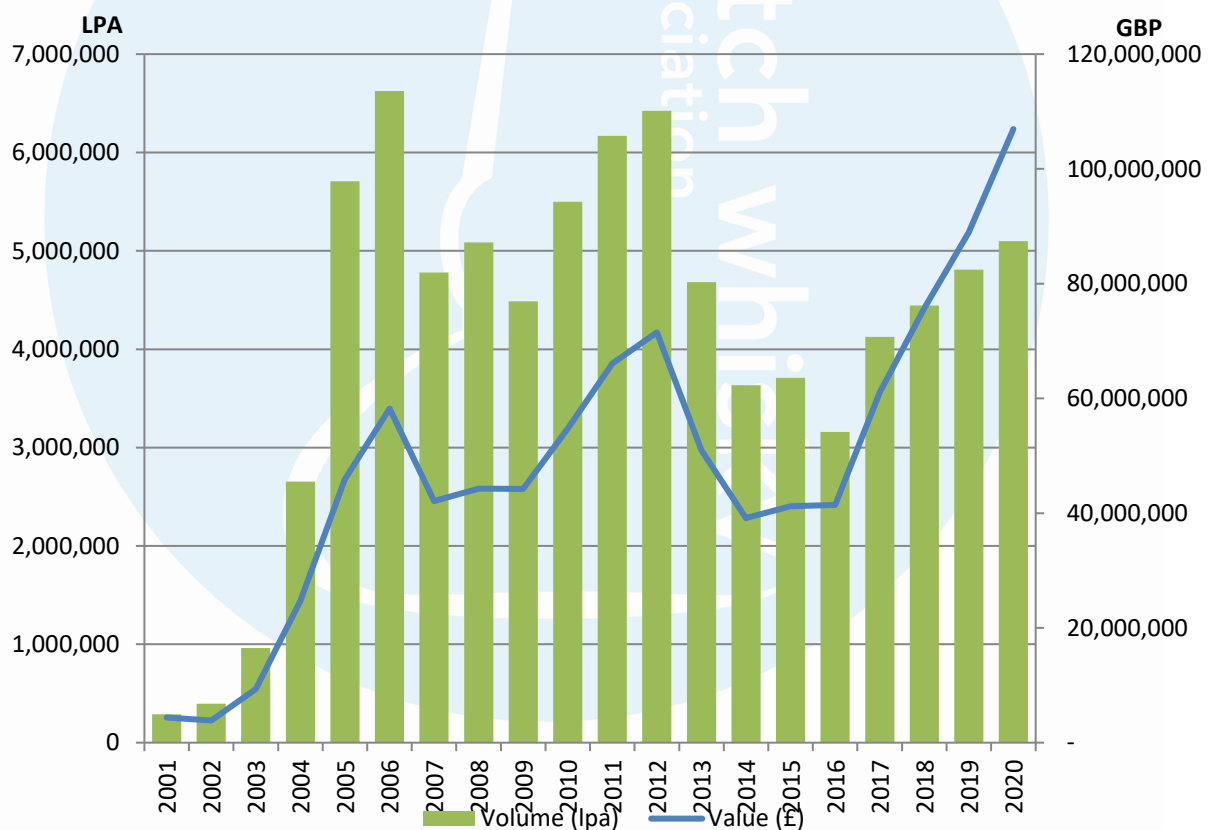
Scotch Whisky Briefing Note: China

APRIL 2021

KEY MESSAGES

- A key emerging market for Scotch Whisky.
- Direct exports worth £106 million in shipment value in 2020 calendar year, of which 62% is single malt, indicating a high degree of premiumisation. The anticipated Covid-19 reduction occurred in early part of year only, after which the market appears to have recovered.
- HMG has received verbal assurances as to the non-implementation of Harmonised Export Certificate proposal, pending joint EU China initiative to define “low-risk” in Codex Alimentarius Committee.
- Tariff reduction from 10% to 5% was a welcome move that has helped recovery from 2013 downturn.
- SWA is grateful to the Chinese government for co-operation on a range of legal and regulatory issues, including combating counterfeit, and seeks with HMG’s assistance maintenance of current high level of engagement/co-operation.

DIRECT EXPORTS OF SCOTCH WHISKY TO CHINA – 20 YEAR COMPARISON



Note: Shipments of Scotch Whisky to China are 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 £300 m in 2019); re-exports do not show up as direct exports from UK to China.

Source: HMRC Export Statistics

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BACKGROUND

Certification & other Regulations under Food Safety Act

In 2016 the then State Authority, AQSIQ, proposed a Harmonised Food Safety Import/Export Certificate (HEC) from the government of the country of origin for all food products entering China. The industry sought exemption for spirits on the grounds that they are low-risk and non-perishable, failing which the least burdensome solution possible. Subsequently, a two-year delay until 1 October 2019 was granted. Restructuring in 2018 saw some AQSIQ functions subsumed into new General Customs Administration and both UK and EU received verbal assurances that HEC would not be implemented pending joint initiative to define 'low-risk' in Codex committee; this is being kept under review. Meanwhile various proposals on labelling and registration emerged and are being assessed for their potential impact. In a positive development, allergen labelling will not be required for spirits.

Lot Codes for traceability purposes

Traceability in the event of a product recall is possible only if the lot code 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 2015-2021

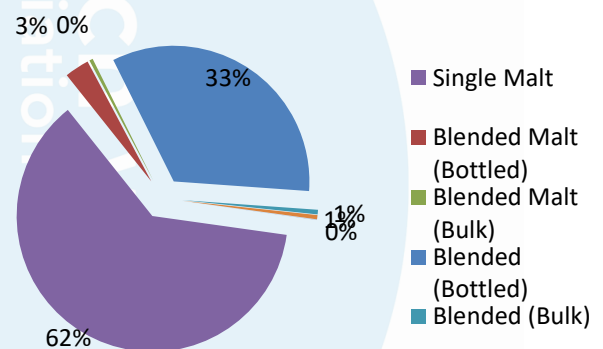
These could disadvantage imported spirits, although it is uncertain whether or how exactly they will be affected. The industry welcomes the dialogue that has taken place so far and looks for clarity.

SCOTCH WHISKY FACTS 2019

- £4.9 billion annual exports of Scotch Whisky in 2019 (1.3 billion 70cl bottles)
- One of the largest net contributors to the UK balance of trade in goods
- £5.5 billion in gross value added (GVA) to the UK economy
- 75% of Scottish food and drink exports
- 20% of all UK food and drink exports and 1.3% of all UK exports
- 40,000 jobs supported across the UK
- More Scotch Whisky is enjoyed over the world than American, Canadian & Irish Whiskies combined

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

2020 EXPORTS OF SCOTCH WHISKY TO CHINA BY VALUE



CATEGORY

SCOTCH WHISKY IN CHINA 2019/20

- 10th largest export market by value and 19th by volume
- Direct exports worth 106 million (2020)
- Consumption: 16 million bottles out of total spirits market of over 10 billion bottles
- Top 3 Blended brands: Chivas Regal, Johnnie Walker, Ballantines
- Top 3 Malt brands: The Macallan, Glenfiddich, The Singleton
- Excise Tax: 20%
- Import Duty: 5%
- Barriers to trade/problem issues: certification proposal; absence of legislation to prevent lot code removal; no strong mandatory definition of 'whisky'; threat of labelling, registration and tax changes

Sources: HMRC, IWSR, SWA

