



Benny Higgins FRSE

3 June 2020

Dear Benny,

Advisory Group on Economic Recovery: meeting with the Scotch Whisky industry, 2 June

My thanks to both you and Lord Smith for finding the time yesterday to discuss the work of the Advisory Group with senior representatives from the Scotch Whisky industry. I hope you found the discussion useful as you consider what could support Scotland's economic recovery and future most effectively. We covered a good deal of ground in a short meeting, so I am writing with a summary of the key points that we raised. We would be very happy to discuss these in further detail with you or your team.

The first point I would stress is that our industry hopes to play a key role in Scotland's recovery. By definition, Scotch Whisky is of Scotland, and has been for more than 500 years. We are rooted in the past, but our future is here: one that we intend to be vibrant and innovative, sustainable and global. To that end, we fully support the aims you outlined: of a recovery that addresses education and skills, inequality, and climate and sustainability.

In terms of the short and medium-term recovery, I would highlight the following:

- It's critical for our industry that Scotland continues to offer a competitive environment in which to grow businesses and develop commercial opportunities. Our companies, like many other consumer goods companies across the UK and globally, are being impacted – heavily in some cases – by COVID-19. Inevitably, this is calling a halt to or slowing investments (which, over the last five years, have amounted to more than £500 million invested in capital projects in Scotland) and job creation; and, depending on how deep the crisis runs and for how long, the situation could worsen into job losses. While Scotch Whisky will always be based in Scotland, what the crisis has highlighted is how functional companies can be remotely. This will inevitably raise questions about whether some company functions could be performed more effectively elsewhere. To that extent, the attractiveness of Scotland as a place to invest applies not only to attracting foreign

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investors, but in keeping existing ones. We believe that the example set by countries such as Singapore is instructive.

- Linked to this is Scotland's regulatory environment. From our point of view, regulation must support business recovery and long-term growth; and if it cannot evidence that it supports growth it should not be pursued. Regulation must also be properly consulted on with business – at the outset, in terms of whether new regulation is justified; and then, if it is, in terms of its aims and scope. In addition, linked to my point above, it should not put businesses based in Scotland at a competitive disadvantage globally. For example, we are concerned that the effect of alcohol advertising restrictions proposed by the Scottish Government will be to restrict our role as an important part of Scotland's 'brand' and to curb advertising revenues to organisations which need them. We also question whether the restrictions will in fact cut through with the young people and vulnerable drinkers that they aim to support; our view is that smart, alternative policies, developed between government, industry and the third sector, tackling in particular social media platforms, would be a more targeted, agile and effective response to responsible consumption and alcohol misuse. Overall, we think that Scotland consider should adopting the principles set out in the EU's Better Regulation model, or something similar (see https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-and-how_en).
- We understand that there will be huge pressures on public finances into the future, and that governments will need to recoup over time the financial support offered to companies and individuals during the crisis. Tax policy is very important to our industry – we are proud taxpayers, and our companies contribute significantly to indirect taxation globally through excises taxes, as well as to corporation and other taxes. How tax develops in our home market (Scotland and the UK) is very important to us as it sets a benchmark for how our industry is treated overseas, which has a direct impact on how successfully we export to global markets. We operate in a very competitive global marketplace and our success has been hard fought over decades: we do not take it for granted. As for regulation, we would like a sustained dialogue with government on smart taxation, through which we continue to contribute to the funds that pay for public services while growing our positive impact on jobs and prosperity throughout the country.
- We have a critical stake in the tourism sector in Scotland and the hospitality sector in the UK and globally. We are very concerned about the impact of COVID-19 on these sectors. Business failures and unemployment in tourism/hospitality will have a massive impact on the people who work in them, and particularly on young people; and, in Scotland, in rural areas. We want to work with the Scottish and UK governments, and with associated organisations, to act quickly and imaginatively to support these sectors and their recovery. 'Brand Scotland', on which much progress has been made recently, should be a central part of this. Systematic investment in training and skills – including while these sectors cannot operate – will be vital too; as is government promotion overseas of Scotland and its food & drink products during crisis recovery (it's worth noting that the EU is already acting in support of European wine producers and the agricultural sector that

supports them. Scotland and the UK should consider similar support, linked to Scotland as a high-quality tourism destination).

- Good infrastructure is vital to our businesses too. Here we are looking to government to redouble its efforts to roll out high-speed, fibre optic broadband right across Scotland. Our industry has had to invest in digital infrastructure improvements at our own cost because of the slow rollout of broadband in rural areas. Internet connectivity is as key to the efficient operation of whisky companies (eg in the digital uploading of export declarations) as it is to other local businesses. Plus tourists expect it. Road, rail, and ferry routes are also critical to a goods export like whisky. We would like to be able to input better into Transport Scotland's strategic planning, which is crucial to our own plans for growth.
- Our industry fully embraces a green recovery. The Scotch Whisky industry is a leader in environmental sustainability, and we have taken significant steps in the last 10 years to reduce our environmental impact. However, over the next 25 years we will be able to achieve less and less on our own, but will increasingly depend on working in partnership with government and other industries. Our pathway to net zero is similar to other industrial sectors dependent on energy for heat and we are going to need to work with the Scottish Government if we are to make the transition to net zero. This will require partnership and a commitment from companies to invest in the greening of production sites alongside a commitment from government to provide the policy certainty required to unlock the potential of new energy technologies. In this light, we believe the single most important action that the Scottish Government could take, working with UK Government, would be to provide policy certainty quickly about the use of hydrogen, alongside the right investments in the distribution and supply infrastructure. Investment in demonstration projects for other new technologies and investment in R&D will be necessary too. We are happy to share our thinking on this.

Our industry stands ready to help wherever we can in Scotland's economic recovery, beyond driving up our exports to pre-COVID levels as soon as we are able and as demand returns. To do this really well, our industry believes that a more open, systematic partnership with government will be necessary.

With my very best wishes,

Karen Betts

Karen Betts
Chief Executive

Copy to: Robert Smith, Baron Smith of Kelvin, Chair, Scottish Enterprise