



## DEBATE PACK

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# Effect of US tariffs on the Scotch whisky industry

By Matthew Ward

## Summary

A Westminster Hall debate on the contribution of the effect of US tariffs on the Scotch whisky industry is scheduled for Thursday 30 January at 1.30 pm. The debate has been initiated by David Mundell MP.

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The House of Commons Library prepares a briefing in hard copy and/or online for most non-legislative debates in the Chamber and Westminster Hall other than half-hour debates. Debate Packs are produced quickly after the announcement of parliamentary business. They are intended to provide a summary or overview of the issue being debated and identify relevant briefings and useful documents, including press and parliamentary material. More detailed briefing can be prepared for Members on request to the Library.

# 1. Background

In May 2018, the World Trade Organisation (WTO) ruled that the EU had illegally subsidised the aerospace firm Airbus in providing financing to develop two aircraft at a lower rate of interest that would have been available on the open market, which resulted in lost sales for the American aerospace firm Boeing.<sup>1</sup>

This ruling meant the USA could retaliate through sanctions on EU goods exported to the USA, at an amount set by a WTO arbitrator.

In April 2019, the Office of the United States Trade Representative (USTR) released [a proposed list of EU products](#) that would be subject to additional duties; in July 2019 [a second list was published](#) covering 89 product categories, including Scotch whisky.

On 2 October 2019, a WTO arbitrator authorised the USA to impose tariffs on \$7.5 billion (£6.1 billion) of goods exported from the EU to the USA.<sup>2</sup>

Subsequently, the USTR released [a list of proposed tariffs](#), with 10% tariffs on civil aircraft and 25% tariffs on a range of agricultural goods, including a 25% tariff on American imports of single malt Irish and Scotch whiskies and whisky liqueurs from the UK (blended Scotch is exempt, as is single malt Irish whiskey from the Republic of Ireland).

These tariffs came into effect on 18 October 2019; prior to this, the USA had no tariffs on imported whiskies.

## 1.1 Scotch whisky exports

In 2018 (the most recent full year for which figures are available):

- Scotch whisky exports were worth £4.7 billion.
- Scotch whisky accounted for just over 1% of the UK's total goods exports, just over a fifth of the UK exports of food and drink and 70% of Scotland's exports of food and drink.
- Taken as a bloc, the EU was the largest export market for Scotch whisky, with exports of £1.4 billion, equivalent to 30% of all Scotch whisky exports.
- Looking at individual countries, the USA was the largest export market for Scotch whisky, with exports of £1.0 billion, equivalent to 22% of all Scotch whisky exports.

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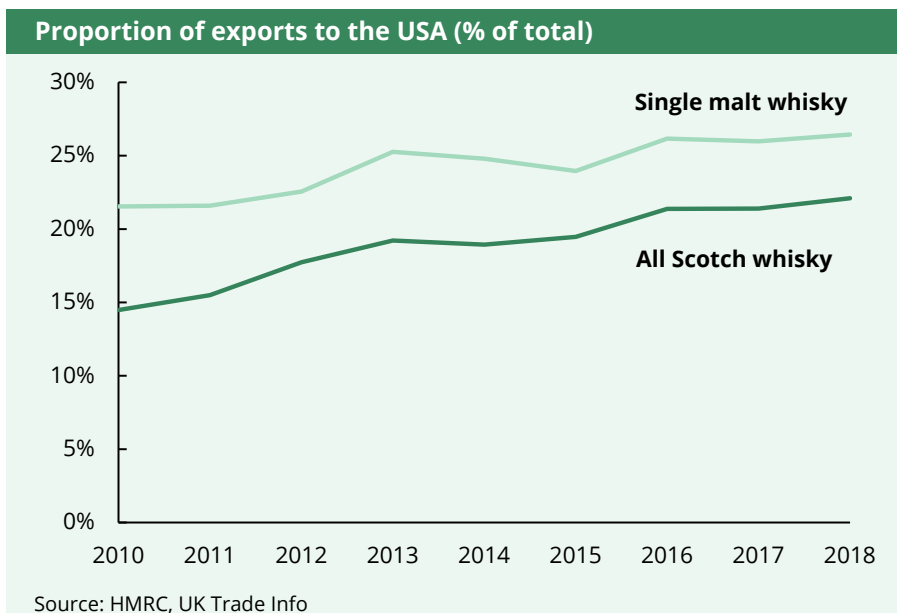
<sup>1</sup> For the full judgement see WTO, [Appellate Body issues report on EU compliance in Airbus dispute](#), 15 May 2018; for a summary see BBC, [EU paid Airbus billions in illegal subsidies, WTO rules](#), 15 May 2018

<sup>2</sup> WTO, [Arbitrator issues decision in Airbus subsidy dispute](#), 2 October 2019

- Single malt Scotch whisky exports were worth £1.3 billion and accounted for 28% of all Scotch whisky exports and 33% of all Scotch whisky exports to the USA.
- The USA was the largest export market for single malt Scotch whisky, with exports of £0.3 billion, equivalent to 26% of all single malt Scotch whisky exports.

Over the last ten decade the USA has become an increasingly important export market for Scotch whisky, in particular single malt whisky:

- In 2010, the USA accounted for 14% of all Scotch whisky exports and 22% of all exports of single malt Scotch whisky.
- In 2018, the USA accounted for 22% of all Scotch whisky exports and 26% of all exports of single malt Scotch whisky.<sup>3</sup>



## 1.2 Effects of tariffs

Tariffs will raise the price of single malt Scotch whisky and whisky liqueurs in the USA, which in turn could lead to a fall in whisky exports to the USA, owing to a fall in demand as consumers change purchasing habits.

In November 2019, the value of single malt Scotch whisky exports to the USA were £25.7 million, compared with £38.6 million in November 2018.

The Scotch Whisky Association (SWA) estimates that exports of Scotch whisky to the United States could fall by 20% over the next year, as the spirit becomes “less competitive in the US market” and Scotch whisky companies will “start to lose market share.”<sup>4</sup>

<sup>3</sup> All data taken from HMRC, [UK Trade Info](#)

<sup>4</sup> Scotch Whisky Association, [US Tariffs on Scotch Whisky](#), 11 October 2019

In the longer term, the SWA predicts that a fall in exports to the USA could see a “dropping off in investment and productivity”, which could ultimately lead to job losses in the industry.<sup>5</sup>

The SWA’s 2018 [annual report on the economic impact of the Scotch whisky industry](#) found that in 2018:

- The Scotch whisky industry provided an estimated £5.5 billion in gross value added (GVA) to the UK economy. This estimate suggests the Scotch whisky industry is larger than the UK shipbuilding industry and considerably larger than the UK fishing industry.
- The Scotch whisky industry supported 42,000 jobs across the UK, including 10,500 directly employed in Scotland.
- Scotch whisky was UK’s 9<sup>th</sup> most valuable export.

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<sup>5</sup> Scotch Whisky Association, [ibid](#)

## 2. Press Articles

[Government working to persuade Donald Trump to remove damaging Scotch whisky tariffs](#)

Scotsman, 23 January 2020

[What has Donald Trump actually achieved on trade?](#)

BBC, 19 January 2020

[Trump vaunts his China trade pact – but some say it’s too little, too late: While a cessation in hostilities is welcome, businesses have a lot of ground to make up, and few expect any further progress](#)

Philip Inman

The Observer, 11 January 2020

[The Insanity of Trump’s Wine Tariffs: He wants to punish Europe — but thousands of American businesses will suffer instead](#)

Jenny Lefcourt

New York Times, 5 January 2020

[US threatens to increase Scotch tariffs](#)

Melita Kiely

The Spirits Business, 11 December 2019

[Salmon fillets and Scotch face renewed US tariffs threat](#)

BBC, 10 December 2019

[Global trade: It's the end of the World Trade Organisation as we know it and America feels fine](#)

The Economist, 28 November 2019

[Johnson, in phone call, urges Trump to lift tariffs on scotch whisky](#)

Aakriti Bhalla

Reuters, 5 November 2019

[Scotch on the rocks as trade tariffs threaten US exports: Small distillers of single malts to be hardest hit by EU trade spat and impact of Brexit](#)

Mure Dickie

Financial Times, 18 October 2019

[What impact will US tariffs have on Scotch whisky?](#)

Magnus Bennett

BBC, 18 October 2019

[US Airbus row: European goods hit by new US tariffs](#)

BBC, 18 October 2019

[Scotch whisky takes to the skies to beat Trump's tariffs: Single malts are one of the big losers in Washington's trade spat with the EU](#)

Alistair Gray and Mure Dickie

Financial Times, 17 October 2019

[A Scotch Maker's Challenge: First Brexit. Now Tariffs: The 25 percent U.S. tariffs to be imposed Friday are causing headaches for single malt distilleries, already struggling with Brexit.](#)

Amie Tsang

New York Times, 17 October 2019

[Plane clash: America is preparing to hit \\$7.5bn-worth of European imports with tariffs: The trade dispute will not end there](#)

The Economist, 3 October 2019

[Scotch whisky 'more productive' than energy sector](#)

BBC, 30 April 2019

[Scotch whisky industry bets on global thirst for single malt: Confidence is booming but China's graft crackdown and Brexit fears test business](#)

Mure Dickie

Financial Times, 26 May 2018

## 3. Parliamentary material

### 3.1 Written questions

#### [Department for International Trade: Whisky: USA](#)

**Asked by Brendan O'Hara (Argyll and Bute)**

**Asked on 14 October 2019**

To ask the Secretary of State for International Trade, what discussions her Department had by telephone between 2 and 7 October 2019 with representatives of the EU on the imposition of US tariffs on malt Scotch whisky.

**Answered by Conor Burns**

**Answered on 22 October 2019**

We are working with the European Commission to continue to support a negotiated settlement to the Airbus dispute. We are continuing to engage and influence EU decision-making on these matters. We are also working with the EU to seek confirmation from the WTO of our compliance and that the UK and the EU should therefore not be subject to tariffs. We have also had extensive engagement with the US administration on the issue of tariffs.

Grouped Questions: [197](#) | [199](#) | [206](#) | [207](#) | [208](#)

#### [Department for International Trade: Whisky: Scotland](#)

**Asked by Patrick Grady (Glasgow North)**

**Asked on 16 July 2019**

To ask the Secretary of State for International Trade, what recent assessment he has of the contribution of Scotch whisky to the UK's food and drink exports market.

**Answered by Graham Stuart**

**Answered on 22 July 2019**

Scotch Whisky continues to be a major contributor towards the UK's overall exports, representing 21.4% of total exports of UK food and drink.

Ministers and officials from this department hold regular discussions with the Scotch Whisky Association and other representatives from the industry with the aim of further increasing whisky exports and to help them to take advantage of a wide range of overseas opportunities. The Department is working to address tariff and non-tariff barriers facing the sector through our planned future trade agreements and other dialogues with partner countries. The current Chief Executive of the Scotch Whisky Association is an adviser to the Board of Trade.

Scotch is the largest export within the food and drink sector with over £4.8bn in sales in 2018, a rise of 7.7% compared to 2017.

## 3.2 Oral questions

### Scotch Whisky Tariffs

#### [HC Deb 17 October 2019 c 433-34](#)

**Brendan O'Hara (Argyll and Bute) (SNP):** What recent discussions she has had with her US and EU counterparts on the imposition of tariffs on Scotch whisky. [R] [900003]

**The Secretary of State for International Trade (Elizabeth Truss):** We are extremely disappointed that the US has decided to levy tariffs, including on the Scotch whisky industry. I have urged my US counterpart to rethink this, and the Prime Minister has also raised the issue with President Trump.

**Brendan O'Hara:** In the days following this announcement, the Government were asleep at the wheel. We now have only 12 hours before this tariff is implemented. What action will the Secretary of State take in the next 12 hours to delay this? If she cannot delay it, what will she do to mitigate the impact, particularly on small and medium-sized distillers, which rely so heavily on the US market?

**Elizabeth Truss:** I have been raising this issue with my US counterpart since July, when I first met Bob Lighthizer. I have also raised it with Commerce Secretary Wilbur Ross. I have made it clear to the Americans that it is not helpful in terms of our relationship with them to see these tariffs placed on such an iconic industry, among other industries in the UK.

**David Mundell (Dumfriesshire, Clydesdale and Tweeddale) (Con):** I welcome my right hon. Friend's efforts. In my recent urgent question I asked the Prime Minister to speak to the President, and he did, but I also asked that consideration be given to an announcement that the UK would not levy tariffs on bourbon when we left the EU. Can she tell us something about her consideration of that?

**Elizabeth Truss:** When we leave the EU, the UK will be responsible for its own tariff policy. At this point we are part of the EU and those overall discussions on tariffs, so we cannot make that type of statement. The point I have been making to the US is that this will not help our relationship. We are also being threatened with £1.2 billion of car tariffs, which could hit the UK on 14 November, and I have raised that with my US counterpart. If the US wants the British public to have a positive view of our trading relationship with it, it needs to reverse these decisions.

**Jim Shannon (Strangford) (DUP):** Scotch whisky producers will have difficulties with the tariffs that will fall on their whiskies, but the Republic of Ireland will have no tariffs whatsoever. Echlinville distillery in my constituency is an Irish whiskey producer. What is being done to help Bushmills and Echlinville distilleries, which are very important to jobs in my constituency and across Northern Ireland?

**Elizabeth Truss:** My understanding is that the Republic of Ireland has been hit with tariffs on other products. These retaliatory tariffs following



the Airbus dispute have been levied on a number of European countries. The point I have been making to the Americans is that the UK has complied with the WTO ruling. We are not in breach of that ruling any more, and we have met all the compliance stats.

**Douglas Ross (Moray) (Con):** The Secretary of State is aware that my constituency is severely affected by a number of the tariffs applied by the US. What will she be doing in the next 12 hours to at least delay these tariffs being implemented? If they are, unfortunately, implemented, what can be done to get them removed as quickly as possible?

**Elizabeth Truss:** I am aware of the fantastic whisky distilleries—in fact, I visited Macallan with my hon. Friend very recently—and they are an incredibly important part of the Scottish economy, but also an iconic brand for the UK. I am hosting a roundtable with affected industries this afternoon, and the Chancellor is currently over in the US speaking to his counterpart as well. We are putting as much pressure as we can on the United States on this issue. We will also be looking at measures to help the industry here in the UK.

### **Scotch Whisky: Economic Impact**

#### **[HC Deb 8 May 2019 c 544](#)**

**Douglas Ross (Moray) (Con):** What assessment he has made of the findings of the Scotch Whisky Association's "Scotch Whisky Economic Impact Report 2018", published on 30 April 2019.

**The Secretary of State for Scotland (David Mundell):** I am very pleased to see how this important sector is thriving. The UK Government are supporting the Scotch whisky success story by freezing duty on spirits again this year. That demonstrates clearly how the UK Government are taking the right decisions on taxes and delivering for the businesses and people of Scotland.

**Douglas Ross:** The report highlighted that the Scotch whisky industry's contribution to the UK economy has increased by 10% to £5.5 billion. Due to the UK Government's welcome announcements, the industry has reinvested £500 million over the past five years in production, distribution and tourism. Does the Secretary of State agree, however, that we can do more to ensure a fairer taxation system for the Scotch whisky industry?

**David Mundell:** My hon. Friend represents the constituency with the most distilleries in the United Kingdom and is a very powerful advocate for the industry. We consider it to be of very great importance, and we will look at any proposals it cares to bring forward in that regard.

## **3.3 Debates**

### **US Tariffs: Scotch Whisky**

#### **[HC Deb 7 October 2019 c1531-1552](#)**

## 4. Press releases

### [US Tariffs on Scotch Whisky](#)

#### **Scotch Whisky Association, 11 October 2019**

A 25% tariff has been implemented on US imports of Single Malt Scotch Whisky and Liqueurs. This is very bad news for our industry. It means that Scotch Whisky is now paying for over 60% of the UK's tariff bill for the subsidies it provided to Airbus, eight times more than the next most valuable UK product on the tariff list. That Single Malts are being targeted is particularly damaging for smaller producers, who stand to be the hardest hit.

Scotch Whisky has been imported tariff-free to the United States for the last 25 years. This move undermines decades of hard work and investment which has seen Scotch Whisky sales boom in the US. It will impact both our industry and its supply chain.

We estimate that 25% tariff on Single Malt Scotch Whisky will see exports to the US drop by as much as 20% in the next 12 months, as Scotch Whisky will become less competitive in the US market. In time, consumer choice will diminish and Scotch Whisky companies will start to lose market share. In Scotland and throughout our UK supply chain, we expect to see a dropping-off in investment and productivity. Ultimately, jobs could be at risk.

We expect the damage to our industry to mirror the damage caused to exports of American whiskies to Europe since the EU imposed a 25% tariff in July 2018. That tariff has done nothing other than damage an industry very similar to, and closely linked with, our own. Alongside American whiskey companies, we have called on the UK, US and EU governments for many months now to find a negotiated solution to the trade disputes that have given rise to these tit-for-tat tariffs, and to ensure that duty-free trade can resume between the UK and the US to the benefit of whisky producers, their employees, the communities we work in, and consumers everywhere.

We now need the UK and Scottish governments to work together to ensure distillers can weather the storm. We want them to consider a range of support to the industry, including reducing the UK tax burden on Scotch Whisky in a new Budget. This will provide an important lifeline while efforts continue to remove the tariffs.

Despite multiple pressures on the UK government, including Brexit, this issue must not fade from the minds of Ministers. Scotch Whisky has long been a standout export success. This is now at risk if government strategy does not urgently use all the powers at its disposal to remove these damaging tariffs.

## 5. Further reading

[Scotch Whisky Economic Impact Report 2018](#)

Scotch Whisky Association, April 2019

[Brewing and distilling in Scotland - economic facts and figures](#)

Scottish Parliament Information Centre, October 2018

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