

# The Year that was

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New distilleries | Bottling grapevine

Global alcohol consumption is on the decline and has been for the past five years with an average rate of -0.3%. In 2016, this downward trend became even more alarming as the decline for the year accelerated to -1.3%, at least according to the IWSR. Some other data companies reported smaller declines. Still, it is obvious that people around the world drink less alcohol every year. However, if you break down the figures into the different categories, it is largely beer and cider that is to blame for last year's disappointing figures. Beer volumes were down by -1.6% with many consumers changing their habits to drinking less by moving away from cheap budget brands and instead favouring craft beer producers.

Spirits on the other hand, does not seem to be affected by this trend of drinking less. Sales volumes grew in 2016 by 1.8% compared to a growth of 0.8% the year before. Most of the spirits subcategories increased their volumes with the exception of the continued downward trend for vodka (-0.7%). Whisky, on the other hand grew by 2.5% but were beaten by gin, tequila and cognac as all these spirits showed a volume increase of around 5-6%.

The question is, will this negative trend for alcohol consumption continue? If you ask the IWSR, it's a no. It will reverse in the next five years and the prediction is that volumes will rise by 0.8% until 2021, largely driven by whisky but also with beer bouncing back in Asian and sub-Saharan markets.

So, let's have a look at Scotch whisky. The industry has been through a couple of troublesome years with both volumes and value declining. In 2015, the decline was less noticeable but it was in 2016 that the negative trend significantly ended. For the entire category, volumes were up 4.8% and values by 4% with the continued success for single malt as the main driver. Values increased by almost 12% and for the first time, single malt Scotch broke the magic £1bn barrier. Single malt accounts for 9.3% of all exported Scotch in terms of volumes while its share of the values is an amazing 26% (an increase from 16% in 2006)!

### SINGLE MALT SCOTCH - EXPORT

Value: +11.8% to £1.02bn  
Volume: +10.0% to 113m bottles

### OTHER BOTTLED SCOTCH\* - EXPORT

Value: +1.4% to £2,75bn  
Volume: +3.0% to 822m bottles

### TOTAL SCOTCH - EXPORT

Value: +4.0% to £4.01bn  
Volume: +4.8% to 1.21bn bottles

\* Other bottled Scotch includes bottled blended malt, bottled blended Scotch and bottled grain Scotch whisky. Bulk export is not included, except in the Total.

Whilst these figures seem reassuring, there is a cloud on the horizon. The Scotch whisky industry are naturally concerned about any possible negative impacts from Brexit and the 4% increase on spirits duty excise that was announced in spring 2017 didn't help either. On the other hand, in the short term, the Brexit decision has helped the industry by way of a weaker pound and it could also make growth in India easier in the future. For ten years now, India and the EU have been negotiating a free trade agreement with very little success. With the UK leaving the EU, the country will have the possibility of negotiating an agreement with India by themselves.

Even though Scotch whisky is exported to more than 200 countries, around 80% of the volumes and values are supplied to the top 25 markets. Of these 25 markets, 15 showed increasing values in 2016, while volumes grew in 16 of them. The most important export market for Scotch for a very long time has been the USA and with a value increase of no less than 14%, this had significant impact on the overall figures for 2016.

Looking at the detailed figures for each of the nine regions, five of them have shown both increasing volumes and values, two accounted for an increase in values only while the final two showed decreasing figures for both values and volumes.

## The European Union

Since its inception, the European Union has always been the biggest export market for Scotch whisky. More than



Scotch whisky export got a boost in 2016 from the weaker pound caused by Brexit

every third bottle that is exported from Scotland goes here and if we focus on single malt it's almost every other. It is a mature and well established market and one would think there is little space for growth. This was not the case in 2016 though. Volumes increased by 8.6% while values climbed by 3.6%. This was a big improvement compared to the year before when both indicators dropped by 3%.

### EU — Top 3

|         |         |      |        |      |
|---------|---------|------|--------|------|
| France  | volumes | +8%  | values | -2%  |
| Spain   | volumes | +10% | values | +10% |
| Germany | volumes | +13% | values | +13% |

Unsurprisingly, France is still the biggest importer of Scotch whisky in the world in terms of volume - no less than 190 million bottles were sold last year. The Scotch interest in the country has always leaned towards the less expensive part of the range in contrast to the Americans where the revenue for each exported bottle is 220% higher compared to France. Another traditionally strong market comes in at second place - Spain. The 10% increase in 2016 was pleasant news for the producers but the volumes are still only 50% of that which was sold during the best years around 2003. Germany has over a period of time secured third place and in 2016 export volumes were at their highest ever. What one should remember regarding Germany is that a substantial part is re-directed to other countries,

not least Turkey and Belarus. In line with last year, there are two countries that continue to dramatically increase their import of Scotch; In Poland, volumes were up by 16% and values by 19% and The Netherlands increased volumes by 12% and values by 3%. One thing should be kept in mind though - both these countries also serve as a transit point where part of the volumes are transferred to other countries. Finally, Italy, which in the new millennium has shown decreasing interest in Scotch, surprised us with the highest imports since 2010.

## North America

In 2013, North America passed Asia to become the second most important region in terms of values. Under 2016 the lead was extended due to an increase in volumes by 1.2% and values by 10.6%, surpassing £1bn. Not least the 17% increase in the value of single malts had considerable impact on the strong figures.

### North America — Top 3

|        |         |     |        |      |
|--------|---------|-----|--------|------|
| USA    | volumes | +2% | values | +14% |
| Mexico | volumes | +1% | values | -3%  |
| Canada | volumes | -5% | values | -4%  |

The region increased also during 2015 but while it was Mexico and Canada which helped drive the growth at that