

The Business of Whisky



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Enthusiasm for single malt lifts slowing demand

Industry plans £2bn investment despite decline in exports, writes Scheherazade Daneshkhu

The Ardnamurchan whisky distillery sits on a remote sea loch in Scotland's far west, at a point where the Highlands splinter into the Atlantic Ocean, creating myriad islands. It was to this sparsely-populated region, close to the Isle of Mull, where Princess Anne, the Princess Royal, paid a visit in July, to open the distillery and admire its environmental credentials as the first in the country to be powered by local renewable sources.

The distillery is one of seven to have opened in the past year in Scotland. Another 40 are being built or planned – a steep addition to the 115 already in existence, assuming all are finished.

Ardnamurchan, like most of the new distilleries, was planned in the mid-2000s. Then, the thirst for whisky was so strong that supplies of Scotch – which must mature in oak casks inside the country for at least three years to go by the name – looked in danger of dwindling.

For more than a decade, wealthy



buyers in South America and Asia had splashed out on bottles of premium Scotch, often on expense accounts in nightclubs and restaurants.

In France, the historical "auld alliance" remains alive and well, at least judging by the amount of Scotch drunk. France is the spirit's biggest export market by volume, according to the Scotch Whisky Association, the industry body.

'Scotch sales and GDP growth are closely correlated'

The average French person drinks almost three bottles a year, mainly of cheaper brands, says Trevor Stirling, analyst at Bernstein Research.

"Orders were greater than we could supply," recalls Alex Bruce, who is managing director of Adelphi Distillery, the company behind the new Ardnamurchan project.

Exports of Scotch doubled over 10

years and grew at a bracing 16 per cent compound annual rate between 2009-2011, according to Bernstein Research.

It was in this merry period that producers rushed to invest in new distilleries or extend the capacity of existing ones, such as the Cameronbridge distillery, already the largest in Scotland.

Diageo, its owner, which is the world's biggest producer of Scotch, spent £40m

Spirited revival:
Ardnamurchan whisky distillery

on expansion and another £65m on a biomass facility. The distillery produces spirit for Diageo's Smirnoff vodka and Gordon's gin as well as for its Scotch brands, which include Johnnie Walker, Bell's and White Horse.

Pernod Ricard, the French group behind Chivas Regal and Royal Salute, this year invited Nicola Sturgeon, Scotland's first minister, to open the £25m Dalninch Distillery on the site of a distillery mothballed in 1998. It has also increased capacity at a number of others including The Glenlivet single malt distillery.

In all, more than £2bn of new investment is being poured into the industry over the next couple of years, according to the SWA.

Soberingly, however, demand has slowed sharply after a decade of strong growth. Exports fell last year by 7 per cent, the fastest rate of decline in 16 years, having stalled in 2013 at £4.3bn, according to the SWA.

Demand has been affected by the slowdown in economic growth in emerging markets, including China and Brazil. Rupert Patrick, chief executive of WhiskyInvestDirect, the trading site, says: "Scotch sales and GDP growth are closely correlated. Scotch whisky is seen as the most aspirational spirit for emerging middle classes."

In other countries, such as Russia and Venezuela, there has been political and

Continued on page 5

Minimum pricing proposal prompts a spirited defence

Policy The industry is keenly aware that sales are affected by tariffs and tax levels, explains John McDermott

The taxman has tried to have his share of whisky revenues since at least 1644, when the Scots Parliament passed an Excise Act fixing the duty at 2/8d for a Scots pint.

After Scotland and England formed a political union in 1707, officials from south of the border spent more than a century trying to place smugglers and bootleggers under control, before distilling was properly legalised in 1823.

There are fewer bootleggers today, though the taxation of whisky remains a topic of debate among policymakers and the alcohol industry.

According to the Scotch Whisky Association, the UK duty burden on a 70cl bottle of Scotch at a price of £15 is £7.74. The total tax burden, including VAT, stands at £9.91, or 76 per cent of the price of a bottle of Scotch. In his March Budget, George Osborne, the UK chancellor, cut 2 per cent off the duty on Scotch whisky and other spirits, only the fourth time in a century that duty has been cut.

The rate of duty and VAT remains a sore point for the industry but there is a newer policy that is becoming more prominent: minimum alcohol pricing.

The Scottish National party, which has a majority in the Holyrood parliament in Edinburgh, pledged in its 2011 manifesto to introduce a minimum price for a unit of alcohol. In 2012, MSPs voted 86-1 in favour of a 50p per unit rate.

For the SNP and public health campaigners, minimum pricing is a way of curbing heavy drinking by Scots, who drink a fifth more per person than people in England and Wales.

For the industry, it is a worrying sign that other countries may follow the Scottish lead.

"You can't ignore the market when it comes to tackling alcohol abuse," says Peter Rice, a psychiatrist and the chair of Scottish Health Action on Alcohol Problems (Shaap).

Dr Rice says the 50p per unit price – which would affect only a few cheap whisky brands priced under £14 – was a



Bottleneck: a 1955 production line

"modest" response to a public health problem that had risen since the 1990s as the drinking of cheap spirits and high-strength ciders at home became more common.

The SNP, meanwhile, cites evidence from Canada and Sweden that it suggests shows minimum pricing can decrease rates of drinking among the heaviest users.

David Frost, however, describes minimum pricing as "ineffective and illegal". The chief executive of the Scottish

The Scottish National Party has pledged in its manifesto to introduce a minimum price for a unit of alcohol

Whisky Association claims the policy would penalise those who drink moderately and would not affect the behaviour of the heaviest drinkers.

Although some studies suggest heavy drinkers' overall behaviour is fairly resistant to across-the-board price increases, those effects cannot be presumed for minimum pricing, argues Dr Rice.

The chairman of Shaap says a minimum price prevents the option of "trading down", in which people respond to a general price rise by drinking a cheaper brand.

Dr Rice does not see how a 50p per unit price would affect most whisky brands. He refers to comments last year by Alex Salmond, former leader of the SNP, who said: "I do not believe the whisky association's motivation is about whisky, it is about cheap vodka," implying that the price would hit other products of the industry harder.

The legality of minimum pricing has been challenged by the SWA, which argues it breaches EU rules on free trade. Yves Bot, the advocate general of the European Court of Justice, whose advice the ECJ often broadly follows, in September said minimum pricing would be legal only if Edinburgh could show it was the only way of meeting its health aims.

An ECJ verdict is expected early in 2016. After it has issued its final ruling, the case will be referred back to the Court of Session in Edinburgh for a final decision.

How the Scottish debate on minimum pricing ends up could have global consequences: the OECD has recently recommended it as a public health policy across the rich world.

Though pricing and tax are the most important issues for the industry, there are other areas of policy that influence the production, distribution and selling of whisky.

Mr Frost said another crucial area was around free trade, adding the EU referendum David Cameron has pledged to hold before the end of 2017 will be watched closely by whisky-makers.

"I'm on record saying that the industry supports EU membership," says Mr Frost. "We are very willing to be involved in that debate." He adds that the benefits were not only in the EU single market but also in working towards a single set of rules and the enforcement of intellectual property: Scotch Whisky, like champagne, carries geographic protection.

Mr Frost hopes the EU can conclude free trade deals with India and the US, following its agreement this year with Vietnam, which involved a drop in the tariff on spirits in that country from 45 per cent to zero.

A free trade deal with Delhi would, adds Mr Frost, see the Indian spirits tariff fall from its level of 150 per cent.

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The Business of Whisky

Distillers try to keep one step ahead of the counterfeiters

Fakes Bottles full of hooch and false labels are some of the problems the industry faces, says *Louise Lucas*

It causes poisoning in eastern Europe. In South Africans, nearly 3 litres of contraband is drunk a year. It features laboratories-cum-breweries and factories that are dedicated to producing caps for bottles of fake whisky.

The story of counterfeit alcohol is far-ranging, shady and costly. It is the bane both of distillers, such as Diageo and Pernod Ricard, and of governments which bear the bill in terms of lost tax receipts and bloated health bills.

"It's a challenging issue for us, especially in China," says Richard Black, global brand director for Chivas Regal, Pernod Ricard's whisky brand.

However, country regulators are increasingly stepping up to the mark to help, says Andrew Barber, managing director at the International Federation of Spirits Producers, whose job it is to tackle the counterfeit trade.

"Authorities are taking it more seriously. The police are taking a much more active role, so we are hopeful that acting with them [will help]," he says.

The battle against fakes is a broad one, but liquor offers more scope for what Lindsay Low, senior legal counsel at the Scotch Whisky Association, calls "a sliding scale of tricking consumers". Near-perfect copying of bottles and labels means the whisky can be an inferior brand, heavily diluted — a hooch or

similar cheap chemical concoction.

While Scotch — which by law must be made in Scotland — can be illicitly produced and sold overseas and labelled as Scotch to suggest genuine provenance.

Bulgaria illustrates the point: the SWA discovered a "grain alcoholic drink" called Highlander, with a label depicting a Scottish bagpiper in full regalia. The labelling may have confounded consumers but it landed the manufacturers in Bulgaria's civil courts. The SWA successfully managed to have the Highlander mark removed from Bulgaria's trademark register.

The SWA has around 50 legal actions in place at any one time. These can be time consuming: "In China, from first learning of the problem to resolution it can be two years," says Mr Low.

However, the SWA claimed a breakthrough in September when a Chinese

court ruled against a packaging company in China's Anhui province which had been manufacturing bottle caps stamped "Scotch whisky" and used on fake bottles that surfaced in Myanmar.

It was the first time the SWA had been victorious in a case in the Chinese civil

"They reuse a bottle so you have genuine packaging and quality is perfect from the exterior"

courts, and the first time it succeeded in breaking a cross-border supply chain.

But while the industry is making progress on the legal side, the counterfeiters too are stepping up their game.

"Bottles and labels could be genuine," says Mr Barber. "Typically they reuse a

bottle or packaging, so from the outside you can have genuine packaging and quality is perfect from the exterior."

While China draws the most limelight, it is far from the sole offender. Russia has long proved a problem, both for industry and government — which already bears the cost of alcoholism.

In October Dmitry Medvedev, Russia's prime minister, ordered a crackdown on counterfeit products and equipment used to make it — a tightening of rules that were generally undermined by the corrupt recycling of product seized back on to the black market.

Mr Low says there are two factors that lead to increased counterfeiting: "One is where Scotch has had a rapid growth — such as six to seven years ago when China was a new market, so lots of people are trying to cash in and make fake products. The second, which Spain

typifies, is during economic downturns and finding products that meet people's needs encourages [counterfeiters] to cut corners."

Technology is the other big instrument in the distillers' armoury against counterfeits. Chivas, for example, uses codes to verify bottles — scanning the code leads to a three-digit number which can be cross-checked against the number on the label. Laser marking is used on the foil on the cap, so users can tell if it has been tampered with.

At the University of St Andrews in Scotland scientists have developed a handheld device to test for toxicity in fake and adulterated liquor. It is hoped that this will reduce the deaths and injuries that can follow from dangerously concocted brews. As Mr Low says: "It's not like clothes. I don't think people buy fake drinks on purpose."

Deep pockets, hard work and entrepreneurial spirit necessary

Distilleries Independent ventures are growing faster than the overall market, says *Brian Groom*

The map of Scotch malt whisky distilleries has a new location — Glasgow. The recently formed Glasgow Distillery Company started production this year of what will be the first single malt whisky to be made in Scotland's largest city for more than 100 years.

"There used to be 30 or 40 distilleries here a couple of hundred years ago," says Liam Hughes, chief executive and drinks industry veteran who co-founded the venture with two partners. Most distilleries lie in rural locations.

A dip in Scotch whisky exports over the past two years may have slowed the industry's investment boom but distilleries are still opening, encouraged by years of growth that preceded it. Eight have begun distilling in the past 18 months alone. Scotland had 115 licensed whisky distilleries in 2014, according to the Scotch Whisky Association.

Mr Hughes and his partners were inspired by the rise of craft distilleries in the US and elsewhere. The movement aims to exploit a global shift from mass-produced brands towards products with a strong provenance.

The Glasgow company, whose production site is at Hillington Business Park, takes its name from a distillery in the city's Dundashill area that operated between 1770 and 1902. "We have had a huge amount of interest from the international markets, driven primarily by

the fact that it is the first single malt distillery in Glasgow for such a long time," says Mr Hughes.

Launching a distillery is not to be undertaken lightly. "We have invested well over seven figures in getting the distillery up and running," Mr Hughes adds. The venture has been part-funded by a group of Asian investors and a £130,000 regional development grant. It has six full-time employees, as well as the founders, and expects to add three or four more in 2016.

It will be several years before investors see a return. By law, whisky has to age for at least three years before it can be sold. Glasgow Distillery Company plans a limited release of its whisky, as yet unnamed, in 2018 but it will be much longer before substantial quantities enter the market.

To bridge the gap, the company is making and selling its own gin, named Makar, the Scottish word for poet. It has also acquired a selection of casks of aged Speyside single malt whisky, which it is bottling and selling as the Prometheus range.

Despite the Scotch whisky industry's history of booms and troughs, Mr Hughes believes prospects are bright for small craft distilleries in the single malt sector, which has grown faster than the overall market. "The interest in new products and distilleries is massive on a global basis."

Diageo, the largest Scotch whisky



New markets: production at Annandale Distillery began a year ago

producer, has doubled production in the past decade. The company said last year it would "review and adjust" the timing of its next phase of investment, which included a new £50m distillery. But Pernod Ricard, which owns Chivas Brothers, opened a £25m distillery named Dalmunach, near the banks of the river Spey, in June. It is expected to produce 10m litres of whisky a year.

Smaller distilleries that have opened recently include Ballindalloch, on an estate in the Spey Valley, Kingsbarns in Fife and Ardnamurchan in north-west Scotland. Eden Brewery in Fife became Scotland's first combined brewery and distillery by branching out into whisky and gin production.

David Thomson, a sensory and consumer psychologist, and his wife Teresa Church have invested £10.5m in reopening Annandale Distillery in south-west Scotland, established in 1836 but closed in 1918. When they bought the buildings in 2007 they were being used as farm buildings.

After building up their company MMR Research Worldwide, a consumer market research agency, they were looking for other challenges.

Their venture has been fuelled by their passion for Dumfries-born Mr Thomson's home region and a desire to revive a distillery in a part of Scotland that lacks one. Production began a year ago after three years of painstaking restoration.

"A lot of people get dewy-eyed about running a distillery. Well, forget it," he says. "It's hard work and it takes a lot of money and a huge amount of effort." The business plan aims for the distillery to start making an operating profit in 2018-19.

The company will launch two single malt labels: Man O' Sword, inspired by King Robert the Bruce, and Man O' Words, inspired by poet Robert Burns, both of which will be available for limited release by early 2018. Both these historical figures are local: Mr Thomson believes Burns, an exciseman, would have visited the site when it was an illicit distillery.

To start a distillery, Mr Thomson says: "You have to have the money, you have to have a plant that can create good spirit, and in the end you have to be able to market it and sell it." Annandale's unusual features include the ability to switch between making peated and unpeated whisky on a batch by batch basis.

Like many distilleries, Annandale — which employs 15 people — runs distillery tours, partly to generate revenue but also to create interest in the brand.

Mr Thomson believes the new independent distilleries are good for the industry. "They are owned mostly by private individuals who are enthusiastic and want to make a difference. . . . I like the idea of Scotch whisky distilleries being in Scottish hands."

Seeking harmony in the Hebrides

Environment

The industry is going green and finding fresh uses for by-products, says *Natalie Whittle*

At the fledgling R & B distillery on the southern end of the isle of Rasaay, Hebridean wildlife comes before whisky. Co-founder Alasdair Day, who is aiming to make a single malt "lighted peated and finished in Tuscan wine casks", submitted his successful planning application last year, and was asked to look for protected species on site. There were three — the Rasaay vole, otters and bats.

While there are no voles on this part of the island, the creatures that caused the most concern were brown, long-eared bats. The creatures have adopted the distillery building, the former estate manager's house, as their summer colony. "It was certainly unexpected," says Mr Day. "We put 'bat hotels' in the roof; we're hoping that becomes part of the visitor attraction. These are things that are of interest anyway."

That the whisky industry leaves no mark on the craggy beauty of the Scottish landscape is expected by the consumer. But increasingly, whisky companies are trying to reduce their impact on the environment, targeting waste, energy and packaging as key areas. The Scotch Whisky Association's environmental strategy report for 2015 says the industry is close to achieving zero waste to landfill (2 per cent in 2014); net water use is down by 14 per cent since 2008; and recycled content used in product packaging is up from 29 per cent in 2012 to 33 per cent in 2014.

Julie Hesketh-Laird, deputy chief executive of the SWA, says "We're hitting our targets — everything is moving in the right direction. The area we're most proud of is the industry's strong contribution to the shift away from fossil fuel. We're a major investor in renewable technology."

Michael Alexander, head of water, environment, agriculture sustainability at Diageo, cites an example of renewable energy at the group's Roseisle distillery in Elgin, Morayshire.

"In 2007/08 we decided we were going to build a new distillery," he says. Although the plan was for a large distillery, Mr Alexander says Diageo did "not want to reinvent a quaint distillery, it

was going to be a statement for the future.

"It cost about £45m — and of that we spent £17m on a bioenergy plant that uses the co-products from the distilling process to feed back into the distillery."

Using the draff "porridge" of barley husks left after malting, Roseisle creates biogas that is converted to steam to power the distillery. "Any ash left over is spread over the fields that grows the barley."

Ms Hesketh-Laird says it makes sense to feed the pot ale and draff, the by-products of the distilling process, back into the "circular economy". Traditionally this has been achieved by using the porridge as cattle feed, but more technically advanced ideas are cropping up.

Martin Tangeny is president of Celtic Renewables, a company launched four years ago, which uses draff and pot ale to make biobutanol, a biofuel that can be mixed with petroleum to run cars and other engines.

The underlying process was first developed in the early 1900s by Chaim Weizmann [the scientist who later became president of Israel], says Prof Tangeny. Weizmann pioneered Acetone-Butanol-Ethanol fermentation, in which bacterial organisms are used to convert sugar sources into fuel. But the

"[Diageo did] not want to reinvent a quaint distillery, it was going to be a statement for the future"

raw material cost was "prohibitive" and ABE fermentation dwindled. "I saw a huge opportunity for reinvigorating a process that had died out 50 years ago," adds Prof Tangeny. "We looked at a low-value, low-sugar material [draff and pot ale]."

Celtic Renewables has patented its technology and received an £11m government development fund. "We've had independent analysis that if we were to take all the available residue now from the malt whisky industry, we'd turnover £100m year," he says.

The company's commercial demonstration facility is being built in Grange-mouth, Scotland and once it has demonstrated that the process is viable it plans to roll it out across Scotland, Ireland, Japan. "We offer the whisky industry a green, long-term disposal 'out' for these products that they produce on a daily basis," adds Prof Tangeny.

Venture charts the highs and lows of the water of life

Trading Founders of historical sales database lead charge to attract investors, writes *Aliya Ram*

Deep in rural Perthshire in central Scotland, a banker-turned-entrepreneur is becoming the go-to expert for a growing band of investors looking to make money from buying and selling the so-called "water of life".

For a long time rare whisky has been a niche market where trading is carried out through contacts and valuations are negotiated on an ad hoc, subjective basis. But Andy Simpson, armed with a database of historical sales compiled by hand over 15 years, thinks he can make it easier to discover the value of a bottle of whisky.

"What [I] did was commoditise

single-malt Scotch whisky and prove beyond doubt whether whisky can go up in value," he says, describing the origins of his research and brokerage company Rare Whisky 101.

Mr Simpson and his partner David Robertson use more than 130,000 pieces of data related to international sales, vintage, bottlers and distilleries to provide instant online valuations.

They publish market reports on the sector, produce an "FTSE of the value of whisky" that charts prices in the market and introduce sellers of higher-value whiskies to potential buyers. In August they reported that sales of single malt in the UK had increased by 35 per cent in the first half of this year compared with 2014.

Mr Simpson says one of the standout sales was a bottle of Caol Ila "Manager's Dram" given to employees at Caol Ila distillery in 1990 and sold at auction in 2009 for £380. A bottle was bought in August this year for £2,100.

Mr Simpson describes himself as the

tech analyst of the pair at Rare Whisky 101, while Mr Robertson is a former master distiller of Macallan in Moray. "He is whisky distilling royalty," Mr Simpson says.

Mr Simpson's love of the rare whisky industry is matched by a passion for the spirit, which began when he was given a book from his father who said they would "drink their way through every distillery in Scotland".

When he started, he says many in the industry resisted the idea that rare whisky could be commercialised. "There were some people out there who [thought] vehemently, massively, that whisky is a drink. . . and to do anything else with it is sacrilege."

But the market value of a bottle of Scotch will always be underpinned by its "drinkability," he adds, which is why whiskies that price out drinkers — such as Karuizawa Japanese whisky, a collector's favourite

Addicted to the whisky business: Andy Simpson



"One person's investment today is going to be someone else's drink tomorrow"

The growing taste for an old-fashioned cocktail

Consumers Brands are becoming bolder with the flavours of their drinks, writes **John McDermott**

To make a Priory Sour, bartenders at London's Zetter Townhouse infuse Rittenhouse 100 rye whiskey with a nut butter which has been melted, caramelised and frozen for 24 hours. The liquid is then strained once through a superfine food bag and twice through a coffee filter. Lemon and sugar is added, as well as the white from an egg that has been treated with drops of oil essence that have diffused through the shell overnight. Then simply shake, pour and serve.

Cocktails based on whisky (usually denoting the spirit from Scotland) or whisky variants (liquor from Ireland or the US) have come a long way from the traditional combinations of an Old Fashioned, a Manhattan or its Scotch version, a Rob Roy.

"More people are drinking whiskey cocktails than ever before," says Keivan Nemati, head barman at the Zetter in central London. "And they have more options than ever before in terms of flavours." Whiskey-makers have tracked the growing popularity of their product in cocktails.

A quarter of all UK bars now offer cocktails, according to the William Grant & Sons UK 2015 market report. Although vodka and gin remain the most popular bases for mixed drinks, 6 per cent of all cocktails downed in the UK are whisky or whiskey-based, says the report, and that share is rising.

"Consumers are willing to spend more in order to get the most out of their experience, so stocking special, on-trend and unique cocktails is key for outlets," says Ian Baines, category manager, William Grant & Sons.

"With vodka cocktails you need to add flavour, with whisky the richness is already there, which is why simple, yet flavoursome cocktails such as the Old Fashioned are becoming popular," says Cat Spencer, brand manager for esoteric whiskies at William Grant.

Ms Spencer says consumers, especially millennials, are becoming more



Mixing it: bartenders are becoming 'liquid chefs' (above); a whiskey cocktail (right)

adventurous. "They're on the look out to try something new which gives them 'social currency'. As millennials approach purchasing age, they seek quality, which they expect to get with whisky."

Also driving the trend is the "American boom", a rising demand for bourbons and rye whiskeys from the US.

The interest in Scotch or whiskey cocktails has not escaped some of London's classiest bars, such as the Zetter and the American Bar at the Savoy Hotel. According to Erik Lorincz, head bartender of the American Bar, demand for whiskey cocktails has increased "drastically" in the past five years.

"In the past, consumers have been very purist about whisky cocktails – the belief was that you couldn't possibly use a good whisky in such a way, that premium whisky should never be mixed. This attitude has changed," he adds.

This shift in perspective has also prompted a change in how the Scotch industry views its products and the relationship between its whiskies and bars.

"Whisky brands now have more trust in bartenders – who are effectively 'liquid chefs' – and are much more open to them breaking the boundaries and

combining whisky with other ingredients," adds Mr Lorincz.

Declan McGurk, the manager of the American Bar, says patrons want to appreciate the history of "Europe's most famous cocktail bar", one of the first bars to serve mixed drinks to London's elite. But he adds that its willingness to innovate with its menu shows that "we will never become a museum".

The desire for innovation is a sentiment shared by Jim Beveridge, the master blender for Johnnie Walker. He joined the company in 1979 as an analytical chemist investigating the origins of malt and grain whiskies and now leads the 12-person team that blends the varieties of the Scotch.

For some of his blends, Mr Beveridge "works back from the bar", considering which whiskies would best suit a specific cocktail. For example, the Johnnie Walker Select Cask, aged in a rye cask, was chosen for its use in the US market for Old Fashioned cocktails.

"Consumers are becoming more sophisticated in terms of

the flavours they like. The challenge is being aware of consumer changes and having a diverse range that can respond to those changes," says Mr Beveridge.

In their latest ranges, whisky brands are trying to anticipate consumer trends and in doing so are being bolder than ever with the flavours of their drinks.

In November, Diageo, which owns Johnnie Walker among other brands, launched Whiskey Union, "a new experimental whiskey collective in pursuit of the extraordinary".

Diageo gave its whisky-makers near free range over its stocks and asked them to experiment.

The initial results are Boxing Hares, made from whisky infused with hops, and Smoky Goat, a smoky, sweet, blended Scotch.

Experimentation may not go down well with traditionalists who prefer their Scotch neat. However, Mr Lorincz believes that: "As long as you use a premium whisky and good-quality ingredients and get the balance right by using good technique, the results can only be positive."



Enthusiasm for single malt lifts slowing demand

Continued from page 1 economic turmoil. The pound's strength against some emerging markets currencies has also hit exports.

The question now is whether the industry's optimism could lead to an oversupply of Scotch and a fall in prices.

David Frost, chief executive of the Scotch Whisky Association, says that the extra capacity implied by the number of new distilleries is not as great as it looks.

"This level of interest is new and is a response to 10 years of growth. Many of the new distilleries are start-ups and are small scale. Their addition to capacity is relatively limited. What's exciting is that new people are coming in and bringing new enthusiasm," he says.

Mr Bruce points out that many of the new distilleries, including Ardnamurchan, will produce single malts – a market that has defied the downturn by continuing to grow, despite prices that are more than double the average bottle of Scotch, according to Bernstein Research.

Single malts – made, as their name implies from malt produced at a single distillery – are still a small part of the industry, accounting for just 9 per cent of volumes. But their value equates to 23 per cent of all Scotch.

Alex Smith, editor of IWSR magazine, the house journal of the International Wine & Spirits Research group, says that blended Scotch and single malts have gone in different directions.

"Blended Scotch, which is the big locomotive of the category, has stalled out, with sales down 1.3 per cent last year, whereas single malts grew by 4.8 per cent.

"Maybe the industry has to do a better job of explaining the craftsmanship of blended Scotch."

That is where Diageo has placed the emphasis in a new marketing push for its flagship Johnnie Walker blended Scotch, sales of which fell by 6 per cent last year in terms of volume.

Its Blenders' Rooms operate like a pop-up chemist's store, with rows of elongated bottles of golden spirit used to demonstrate the skill involved in making blended Scotch.

But Diageo is mindful of the danger of oversupply now that demand has slowed and as a result has put on ice some of its Scotch expansion programmes, including the construction of a new distillery at Teaninich.



David Gates, head of the group's premium core spirits business, says: "We feel we are at a really nice level of equilibrium right now and as we see the economy slow down, we just took our foot off the accelerator a bit in terms of laying down stocks."

Moreover, there are now signs that demand is picking up. Scotch exports totalled £1.7bn in the first six months of the year, still 3 per cent down on the same period last year but a big improvement on the 11 per cent drop in the first six months of 2014, according to the SWA.

Mr Frost says last year's fall has bottomed out but is too cautious to make cheery predictions about this year. "Our assumption is that growth will resume during next year," he says.

Emerging markets accounted for 56 per cent of the value of Scotch consumption last year, up from 40 per cent a decade earlier, says Bernstein Research, which is why recovery in these countries is so important for the industry.

Though demand in these countries is largely cyclical, moving up and down with the fortunes of the economy, Mr Stirling, sees bigger structural issues for Scotch in the US, the world's biggest and most profitable drinks market.

Despite a brown spirits revival in the US, Scotch has underperformed American whiskies over the past five years, which have enjoyed a boom particularly in flavoured varieties.

"The only area of consistent growth for Scotch in the US has been high-end single malts and Hispanic-oriented blends," says Mr Stirling.

Ian Wisniewski, an author and spirits critic who writes particularly about Scotch whisky, says this is partly because of growing interest in various styles of whisky.

"This is great for brand owners. However, consumers have also never had so much choice which has, inevitably, resulted in the market being more competitive than ever," he says.

ADVERTISEMENT FEATURE

Raise a glass around the world

Fuelled by innovation, fired by integrity, Chivas Brothers is at the forefront of global Scotch whisky growth

Whisky is aspirational. It is liquid gold in a glass, its rich aroma the scent of success. Today, whisky is the drink of choice for a burgeoning middle-class, not just in Europe but worldwide. Would it surprise you to know that Chivas Regal – the world's first luxury Scotch whisky – is No.1 in China, selling 4.5 million 9-litre cases each year? It shouldn't. Whisky is an exciting, opportune marketplace and current trends show a large sector

of consumers consciously making the move from native, traditional products to global brands. To this end, the Scotch Whisky Association (SWA) recently reported signs of a returning growth in whisky exports, and the market has seen a single-malt boom, with 4.8 per cent global growth.

At the forefront of this trend is Scotch whisky and premium gin business Chivas Brothers.

"We have millions of customers from South America to Africa, from Asia to America, and as they gain purchasing

power they want more access to international brands because of their values and quality," says Chairman and CEO Laurent Lacassagne. Based in Scotland, Chivas Brothers continues to invest and as such has seen its malt distilling capacity increase by an impressive 17 per cent while its stills are now 25 per cent more efficient.

Last year, Chivas Brothers confidently increased sales by 4 per cent. This success is due to a number of factors. Its strong portfolio is one major growth driver, with whisky

"We have millions of customers from South America to Africa, from Asia to America"

brands including Chivas Regal, Ballantine's, The Glenlivet and Royal Salute at the heart of a multitude of consumer occasions. Dynamic marketing campaigns play a key role, too; Chivas Regal's Win The Right Way and Ballantine's Stay True have been massive hits; plus, inspired innovation

of its existing brands is thriving – last year alone saw consumers offered an array of new expressions of whisky. Chivas Brothers' firm economic commitment to Scotland has also built global business.

"I have every confidence in the future of our market," says Lacassagne. "Across all brands, from Chivas Regal to Passport, we sold 350 bottles every minute in the last financial year – that's over 7,000 serves and, in turn, 7,000 moments each minute people shared around the world with our brands."

Chivas Regal

Proving brands can do good

Truly global brand, Chivas Regal is enjoyed in more than 150 countries, but it has not sat idly on its laurels. Aiming to inspire a new generation while making a positive impact on lives, the brand launched its hugely successful Win the Right Way campaign in 2014. The global response – including 17 million video viewers on YouTube – proved what a deep connection Chivas Regal has with its consumers. The Venture – part of the overarching Win the Right Way campaign – saw Chivas Regal back the most promising projects from young entrepreneurs across the globe who want to change the world. From nearly 1,000 applications from five different continents, five finalists received part of a \$1m prize fund for their projects.

"We are very proud to have helped uncover the potential of talented, ambitious social entrepreneurs working for the benefit of society," says Lacassagne. "This brand and our business are about generosity and integrity so this campaign is close to our hearts." Chivas Regal expanded the campaign to include 30 countries this year with global finalists set to be announced in March 2016.

But Chivas Regal isn't the only brand in the Chivas Brothers portfolio to demonstrate that brands can do good. Ultra-prestige brand Royal Salute's partnership with the Sentebale Royal Salute Polo Cup supports communities in Southern African countries affected by HIV and AIDS, and has donated over £1m to the charity.



Heritage and innovation

Ahead of the game by building strong foundations

Chivas Brothers is dedicated to ensuring the future of Scotch whisky so category growth driven by innovation is key. May 2015 saw the launch of Chivas Regal The Icon, a new ultra-prestige Scotch created with a blend of some of the rarest and oldest whiskies in Scotland, including a proportion from distilleries now gone forever. "It's a very unique, very specific proposition," says Lacassagne. "It relays the exceptional skill of our master blender and the premium offer of the brand." Prior to The Icon, October 2014 brought to market Chivas Extra, providing a key step between Chivas 12 and Chivas 18 and already in 40 markets globally. Another driver – evolving world-consumer demand – is constantly anticipated.

"We don't innovate just for innovation's sake," says Lacassagne. "We believe it's important to innovate to meet new consumer needs. Tastes are changing and they want relevant choices." I tribute to this is the success of The Glenlivet which last year became the world's No.1 single malt Scotch whisky, selling more than one million 9-litre cases and making Pernod Ricard – Chivas Brothers' parent company – the global leader for single malt Scotch whisky.

Brand family innovations created to drive developing trends include Ballantine's Brasil – a whisky-based spirit drink infused with Brazilian lime peel created to attract non-whisky consumers. "It's an accessible drink and introduces our brands to new consumers," says Lacassagne. "It's a way to develop brands

"It's important to innovate to meet new consumer needs – they want relevant choices"

in new occasions." Ballantine's Brasil is now in 23 markets and fast approaching sales of 100 9-litre cases.

Integrity is important to Chivas Brothers, and the support of Scotland is central to operations. Local and national initiatives with additional focus on those close to its Scottish sites include Outward Bound Trust, Scottish International Education Trust and Children's Hospice Association.

"A huge proportion of our workforce is in Scotland," explains Lacassagne. "As such Chivas Brothers is a major contributor to Scotland's economy.

I'm immensely proud that our business is a part of the community in Scotland and beyond. And in February 2016 we're launching Chivas Spirit of Support – where our employees can each donate one day a year to work in the community."

Continuing its investment in the long-term global growth of Scotch whisky, Chivas Brothers opened Dalnainach, its 14th operating malt whisky distillery, in June 2015. "You have to modernise production," says Lacassagne. "It's an expression of our confidence in the future of our industry."



Chivas Brothers
Pernod Ricard

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The Business of Whisky

Thirst for single malt helps island distilleries

Isles Buoyed by a rise in tourism and an increase in sales, producers are thriving and bringing jobs to the region, writes **Brian Groom**

Robert Louis Stevenson, in his poem *The Scotsman's Return From Abroad*, praises his favourite Scotch whiskies: "The king o' drinks, as I conceive it, Talisker, Islay, or Glenlivet." The first two refer to drinks produced on islands which are among the most romantic of Scotland's whisky locations. Sixteen of Scotland's 115 licensed whisky distilleries are located on islands off the country's western or northern coasts, where they bring employment to often fragile communities.

In the past they have suffered from Scotch's cycles of boom and bust and several were closed for long periods. Recently, however, these distilleries have benefited from the growing worldwide popularity of single malt whisky with exports of single malt up by 159 per cent since 2004, according to the Scotch Whisky Association. Half of the distilleries have opened or reopened in the past 20 years, though others date back to the 18th century.

They produce single malt, meaning whisky is distilled at a single distillery using a pot still distillation process and made from a mash of malted barley. Some goes into blends, but single malt commands premium prices, which is helpful given the expense of transport.

"There are significant 'on' costs to being on Harris," says Simon Erlanger, managing director of the Isle of Harris Distillery, which opened in September. He calculates the cost of building the distillery in the Outer Hebrides was 25-30 per cent higher than it would be on the mainland and operating costs are higher too.

"Everything has to be brought to the



Island life: Kenny Maclean, production manager at Isle of Harris Distillery — Laurence Winram

island and everything has to be taken off again," he says.

Islay, with eight distilleries and plans for a ninth, has the biggest concentration of island distilleries. Others are more thinly spread: Tobermory on the Isle of Mull, Talisker on the Isle of Skye, the Arran distillery on Arran, Isle of Jura on Jura, and Scapa and Highland Park on the Orkney Islands.

The Isle of Harris Distillery is only the second legal distillery in the Outer Hebrides, after Abhainn Dearg on Lewis, established in 2008. Harris is not actually an island, but the southern and more mountainous part of Lewis and Harris, the largest of the Western Isles.

The Harris distillery is the result of a seven-year project led by its chairman Anderson Bakewell, a US-born former musicologist. He fell in love with Harris 50 years ago but was dismayed to see its population, now just under 2,000, fall

by about a third during that time. He wanted to create a sustainable business to encourage more islanders to stay.

The distillery employs 10 people, rising to 25 in the summer. The aim is also to boost tourism and encourage other ventures. "If we can create pride, that lifts the spirits and motivates people to do other things," Mr Erlanger says.

The project raised £8.3m in equity from 17 investors in Europe, the US and Asia and a further £3.1m from grants. It aims to create a distinctive whisky called The Hearach, the Gaelic name for a Harris inhabitant.

Islay, sometimes known as "whisky island", is one of the southern most Inner Hebridean islands. It has seen closures in the past but is now profiting from the single malt boom.

"If you are into whisky, it's nirvana, it's Shangri-La. Islay tends to hold a place at the pinnacle of single malt,"

says Simon Coughlin, the chief executive of Bruichladdich distillery.

Bruichladdich, built in 1881, reopened in 2001 after being bought by a group of private investors including Mr Coughlin, after closing in 1994 for the third time in its history. In 2012 it was bought by Rémy Cointreau for £58m.

The distillery employs nearly 80 people, up by 30 since 2012, and the headcount is still growing. It is more labour-intensive than other distilleries as its production is not computerised.

Mr Coughlin says: "We've got a team of still men, mash men and blenders — we make it by hand and eye and taste."

The other Islay distilleries are: Ardbeg (owned by LVMH); Bowmore and Laphroaig (Suntory); Bunnahabhain (Burn Stewart); Caol Ila and Lagavulin (Diageo); and Kilchoman, a farm distillery opened in 2005.

Mr Coughlin estimates that Islay's



distilleries together employ only about 200 people. However, they support many more in maintenance, transport and especially tourism, which has grown strongly in the past 10 years on the back of single malt enthusiasts arriving for distillery tours. Agriculture and fishing also remain big activities.

"The tourist season used to be April to October but now people come at all times of the year," says John Campbell, distillery manager at Laphroaig, which has seen annual visitor numbers increase from 6,000 a decade ago to 25,000.

Islay's population is declining, however, Mr Campbell, the first Ileach (native of Islay) to run Laphroaig in its 200-year history, hopes the distilleries' success will slow that. Hotels and restaurants have been opening.

Many Islay malts, not least Laphroaig, have a smoky character derived from

peat used to dry the malted barley. Mr Campbell says demand for Laphroaig in markets such as the UK, Germany, the US and Australia exceeds supply, so it has not ventured much into China and India.

He adds: "Blends are pretty flat just now and sales of single malts generally are growing by 4-5 per cent, but Islay single malts are seeing double-digit growth."

Mr Campbell is optimistic that consumers' focus on taste and authenticity will maintain Islay malt's popularity, though some distilleries on the island that sell whisky mainly for blending could be hit if there were a big downturn in blends.

Even if that happens, he thinks that the closures of the past could be avoided. "I think the industry will react better," he says. "They have got much tighter control of their stocks."

A revival in fortunes for a traditional Irish product

Whiskey The industry once faced extinction but now has ambitious plans for growth, writes **Vincent Boland**

Stephen Teeling has whiskey in his blood. Before he takes a visitor on a tour of the new distillery he and his brother Jack have established in central Dublin, the Irish businessman stops in the building's foyer and points to a small plaque.

The plaque honours an ancestor — Walter Teeling — who set up a distillery in roughly the same spot in 1782. That was when Irish whiskey was emerging as one of the world's best-selling spirits. That distillery has long gone — it was sold to the Jameson family in 1826 and is now buried somewhere in the DNA of Irish Distillers, the dominant producer of Irish whiskey.

Irish whiskey almost disappeared as a popular spirit in the last century, shunted into a shrinking consumer market as an ingredient in Irish coffee.

However, seven generations after Walter established his distillery, the Teeling family is once again at the centre of the Irish whiskey story.

As the industry enjoys a tentative but encouraging revival, Mr Teeling has opened the Teeling Whiskey Company in a restored old stone warehouse building in Newmarket Square, a few hundred metres from Dublin's Grafton Street shopping district.

The €10m investment — complete with grain silos, mill, German-made extracting machine, and vast wooden fermenters — is the first new distillery in Dublin for many years, and for the Teelings it feels like coming home.

"This used to be the golden triangle, the epicentre of Irish whiskey production and there was an opportunity for us to go right back to where it started for the family," Mr Teeling says.

The 34-year-old is the son of John Teeling, the Irish entrepreneur who founded the Cooley distillery in County Louth in 1987. But the whiskey drinking market of the 1980s was very different from today's.

Whiskey revival: Stephen Teeling

"When my dad was setting up, Irish whiskey was drunk by old men in hats. Now it is being drunk by young American women," Mr Teeling says.

This changing market is in the sights of the new Irish whiskey industry. In 2013, there were four working distilleries in Ireland producing and selling Irish whiskey — Cooley, Kilbeggan, Middleton and Bushmills. By the end of last year there were eight; within the next three years there should be 15 if planned projects reach completion, says Bernard Walsh, chairman of the Irish Whiskey Association.

The revival comes after a long and steep decline in the fortunes of Irish whiskey. In the mid-1800s, when the drink was the world's most popular spirit, there were nearly 90 distilleries in Ireland. But a combination of a lack of marketing, prohibition in the US, the Irish war of independence and subsequent trade war with the UK, and domestic economic upheaval saw the industry shrink to almost nothing.

The creation of Irish Distillers in the 1960s, which brought the four surviving Irish distilleries under one corporate roof, was a move to save the industry from extinction. Irish Distillers was bought in 1988 by Pernod Ricard. Mr Walsh says the Irish whiskey revival would be impossible without the French group's distribution and marketing experience.

The revival in recent years has been



dramatic, although from a low base. Last year, according to the IWA, Irish whiskey production reached 6.7m nine-litre cases — an increase of about 200 per cent from a decade ago. The industry expects production to reach 12m cases by 2020. Exports last year were worth €350m and about €1.1bn of investment is expected to be poured into the industry in the 15-year period up to 2025.

Even with all that activity, the industry is a global minnow. There are 115 working distilleries in Scotland and its exports last year were £5.95bn, according to the Scotch Whisky Association. Pat Massey, director of Comecon, a consultancy that has published an extensive report on the future of the Irish whiskey industry, is sceptical it can achieve its outsized ambitions: barriers to entry are high and there is no wholesale market. The industry has the scope to expand, he says, but mainly "because it is so small".

André Levy, co-founder and chairman of the Wild Geese whiskey company, which uses whiskey produced by other distilleries under one corporate roof, says the reality of the Irish market is tougher than the industry would like drinkers to think.

"A lot of these new distilleries are very small scale and most of them won't survive," he says. "There is this claim that there are tens of thousands of Irish bars in America that are queuing up for Irish whiskey products — that's just not how it happens."

However, investors continue to back the industry. Cooley is owned by the Beam Suntory Group; William Grant has relaunched the Tullamore distillery; and in September Brown Forman broke ground on a \$50m distillery in Slane, near Dublin. Ilva Saronno, the Italian owner of Tia Maria liqueur, has invested in Mr Walsh's Walsh Whiskey in County Carlow, where his family is building a new distillery.

These producers are likely to dominate the new Irish whiskey market. But there should still be room for smaller operators, many in the industry believe. Much of the new investment is in rural distilleries. Mr Teeling says that what sets his company apart is its central Dublin location.

"We're here, we're urban, and we're hopefully the template for this new generation of Irish whiskey producers."

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