

The Business of Whisky



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Hopes soar for spirited revival

Producers are responding to an expected increase in worldwide demand, writes *Mure Dickie*

Gene Hewitt picked a good decade to work in the whisky business. The former UK diplomat became chief executive of the Scotch Whisky Association in 2003 and in the 10 years since watched the customs value of Scotland's exports of its most famous tippie soar from £2.4bn to an expected £4.4bn in 2013. "It's a pretty good record," says Mr Hewitt, who steps down this month. Sales of Irish whiskey are also surging, with multinationals investing in the main brands and the number of Irish distilleries set to triple over the next five years. In the US, Jack Daniel's this year announced plans to invest more than \$100m in new stills and warehouses at its rural Tennessee distillery. Bourbon producers in Kentucky have poured hundreds of millions more into their facilities in what has been described as the industry's biggest expansion since Prohibition ended 80 years ago in the US. New players are breaking in: England and Belgium now boast working distilleries and Taiwan's Kavalan single malts are winning respect. But Scotland is where the action is. Old stills have been taken out of

mothballs and new ones brought into operation. UK-listed Diageo, the world's largest spirits producer by sales, announced in 2012 it would invest more than £1bn in Scotch production over the next five years. Chivas Brothers, the Scotch whisky and gin arm of the France-based Pernod Ricard drinks group, says its capital expenditure is about £40m a year. And, just last month, Scottish producer Edrington announced plans for a modern distillery and visitor centre for its Macallan whisky that will have a price tag of more than £100m. As Ian Curle, Edrington chief executive, explains in this report (page 4), the group has done well by focusing on premium spirits, particularly its Macallan single malts. While blends still dominate – accounting for 90 per cent of total Scotch whisky export volume in 2012 – their share by value has fallen to about 80 per cent, says the SWA. Marketing has become increasingly sophisticated. Chivas Brothers recently opened a new "Prestige Hall" at its bottling plant in Glasgow that features a less automated production line for upmarket brands that require special packaging. The company's



Roll out the barrel: a cooper at Scottish producer Edrington builds a Macallan cask

Royal Salute Tribute to Honour comes in a bottle decorated with gold and diamonds and has a price tag of \$200,000 before tax. Not all is good cheer. Scotch producers are locked in a legal battle with the Scottish government over plans for a minimum alcohol price that the SWA says would encourage protectionism in other markets. And, in a reminder that even the most promising market can stall, a slowing economy and a crackdown on excess have badly hurt sales to China, with the value of direct shipments falling 20 per cent year-on-year to £25m in the first half of 2013. Scotch is also suffering some of the double-edged problems of success, not least a shortage of aged stock. Edrington and other distillers are trying to gain flexibility by moving from marketing whisky by age. The sheer pace of investment suggests risks ahead. But Mr Hewitt says the growth in capacity is far exceeded by the emergence of millions of potential drinkers in Asia and elsewhere. "The industry has a fantastic opportunity," he says.

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The Business of Whisky

India's taste for real McCoy fuels hopes of higher sales

Both Scottish and Indian producers want to see a reduction in tariffs, writes *Amy Kazmin*

In theory, India is already the world's largest whisky market – at least in volume terms. Its 1.3bn people inherited a taste for whisky as part of the legacy of British-colonial rule, and the drink is seen as a symbol of sophistication and status.

Indians currently consume about 150m nine litre cases of whisky each year. That accounts for about half of the country's total spirits market, which is growing by some 10 per cent a year as the economy expands and millions of young Indians reach legal drinking age.

Yet to purists, most of what Indians know and drink as whisky does not merit the label. Indian whiskies – colloquially known as IMFL or “Indian-made foreign liquor” – are made from distilled molasses spirit, which is then blended with small quantities of imported grain- or malt-based Scotch whisky.

Scotland, the world's biggest whisky producer, exported £61.5m worth of whisky to India in 2012, up nearly 18 per cent from the previous year – and up 46 per cent since 2007 – but still just a fraction of the country's £4.3bn of global whisky exports last year.

But Scottish whisky producers have a keen eye on India. They believe it could become their largest single market – eventually surpassing the US – if India's 150 per cent import tariff on foreign spirits were reduced.

Scotch whisky producers have long lobbied for a tariff cut. But they are

hoping that the changing composition of India's spirits market – including the growing importance of foreign multinational players such as Diageo and Pernod Ricard – and increasing pressures on domestic spirits makers could make the government more inclined to act.

“In terms of our market access agenda, India is our number one priority,” says Gavin Hewitt, chief executive of the Scotch Whisky Association. “There is a massive unmet demand from Indian consumers for Scotch whisky, but the pricing puts it beyond the reach of many in the middle classes.”

India was the fifth biggest market for Scotland's whisky exports in volume terms in 2012, but only its 19th biggest market in value.

Most of India's imported Scotch is the bulk-blended malt used by local companies to make Indian whiskies. Of the 150m cases of whisky consumed, genuine bottled Scotch accounted for less than 1 per cent.

Yet distillers believe the entire dynamic of India's whisky market would change if tariffs were lowered, allowing for greater consumption of pure Scotch even by budget-conscious middle-class consumers.

“These things are determined by price, and price is determined by tariff and tax,” says Mr Hewitt.

Prising open India's highly protected domestic market for Scotch whisky, and other European spirits and European wines, was one of the



What's in a name? India's market is split between home-brewed whiskies and Scottish imports Getty

main items on the agenda of a proposed India-EU trade agreement that Brussels and New Delhi began negotiating in 2007.

But the talks have stalled for more than a year and there is little prospect of a deal – or even a revival of negotiations – ahead of India's parliamentary elections, due to be held before May.

Even after elections, reviving the trade agreement would seem an uphill battle, given the chasm between the two sides, not mainly on the spirits tariffs, but on issues such as high import duties on cars.

Mr Hewitt, however, suggests that India's government could unilaterally lower the tariffs on imported spirits – a move that he says is supported not just by Scottish distilleries but, surprisingly, the Indian spirits companies that once vociferously opposed any talk of cutting tariffs. “Their stand is shifting markedly,” he says.

The most vocal and influential opponent of cutting spirits tariffs used to be Vijay Malia, former controlling shareholder of United Spirits, which dominates India's liquor industry with a 45 per cent market share.

But Diageo recently took a 25 per cent stake in United Spirits, along with management control, a deal

expected to mute Mr Malia's opposition to a tariff reduction.

Indian companies that use imported Scotch as a raw material for their whiskies also believe tariff cuts could help them grapple with sharply higher input costs, shrinking margins, and demands for better quality.

The expectation of a tariff reduction – eventually, if not imminently – is leading some Indian players to make new investments in Scotland in order to ensure their future Scotch supply.

Scotland's total annual whisky production is just 100m cases a year, which could come under strain from a sudden surge of demand from a newly opened Indian market.

Kyndal India, a drinks company that manufactures and imports premium spirits brands, has just entered into a joint venture with John Fergus & Co to set up a £6.7m malt distillery and bonded warehouse in Fife to produce Scotch for India and other emerging economies.

Rooma Bussi, the India country manager for Scotland Development International, says other Indian whisky producers are planning to invest in Scottish distilleries, as a strategy for their long-term future.

“Interest from India in Scotch whisky is at an all-time high,” Ms Bussi says. “A lot of Indian companies are looking to secure their supplies.”



Venezuela and Colombia Rocky for Scotch

In Venezuela, a lack of dollars for importers, because of tight currency exchange controls, has caused rampant shortages of everything from niche goods to mass-market staples, and from ceremonial wine to toilet paper, writes *Andres Schipani*.

But amid increasing scarcity, one thing is seldom absent from shelves in bars or shops: Scotch whisky.

“Sometimes there might not be milk in grocery stores, and people will complain. But if we ran out of whisky there could be a riot,” says a shop owner in a plush neighbourhood of Caracas, who wished to remain nameless.

Despite Venezuela producing some of the Caribbean's best rum, such as Diplomático and Santa Teresa, Scotch whisky accounts for 20 per cent of the spirits market and 88 per cent of drink imports. It is omnipresent in bars and clubs, at dinners and at beach parties.

Be it an affordable blend or an expensive single malt – both habitually served with lots of ice in tall glasses – whisky remains popular, which some observers attribute to British workers in the oil industry. According to the Scotch Whisky Association, Venezuela was its ninth largest export market last year, with total sales of £102m.

But, despite the drink's popularity, there are clouds on the horizon. Aside from foreign exchange controls, which, among other things, hinder imports and limit companies' ability to repatriate profits, Nicolás Maduro, successor to the former president, the late Hugo Chávez, has vowed to limit “profiteering” and strengthen price controls.

Although Venezuela's per capita consumption outstrips that of its neighbours, Colombia appears increasingly on producers' radars. The Andean country is a high-priority emerging market, they say. Despite exports of only £23m last year, companies believe Colombia is a market of considerable potential. Direct exports have risen by 140 per cent over the past decade.

Chinese develop connoisseurship

New generation is learning to appreciate malts, writes *Ben Marino*

As dusk settles on a smoggy Beijing Sunday evening, Kamiwase Satoshi quietly prepares to open his tiny whisky bar, hidden in an office building near the capital's diplomatic area.

The Japanese expatriate, who has been running his upmarket outlet for the past four years, is part of a close-knit community of independent bar owners who have been selling premium whiskies to the capital's well-heeled drinkers for almost a decade.

While whisky remains a luxury product in a domestic spirits market worth \$42bn in 2012 – according to MarketLine, a research firm – Chinese drinkers are slowly learning to distinguish single malts from blended whiskies.

“At the start, customers were unable to tell the difference between single malts and blends, but now they often ask for limited edition single malts,” says Mr Kamiwase.

Today, whisky is marketed as an upmarket product by both global drinks brands and smaller Scottish distillers, as they try to capitalise on years of booming luxury sales in China.

Nonetheless, the Chinese spirits market remains dominated by local white spirits and imported cognac. In 2012, sales of speciality spirits accounted for 85.7 per cent of the market, compared with 3.1 per cent for whisky, according to

data compiled by MarketLine.

While selling Scotch whisky to drinkers more accustomed to local spirits may sound like a Herculean task, the overall picture remains positive, according to industry insiders.

Recent figures reveal exports to China stand at £140m – up from just £1m in 1992. Yet, as Scottish distilleries invest millions promoting their brands in China, the recent slowdown in the Chinese economy has had a notable impact.

Faltering exports have been hit by the new leadership's aggressive campaign against corruption and lavish spending by government officials.

Sales of all spirits have been hit as gift-giving, often

used as a way to grease the wheels of business, and entertainment budgets have been slashed by state-owned companies and local governments falling in line with Beijing's edicts.

In late November, Rémy Cointreau, the French drinks group, warned that its full-year operating profits are expected to drop by 20 per cent at least.

The drinks group blamed continued European uncertainty and a “sharp” slowdown in the sales in China for its warning. Sales of Rémy Martin cognac during the first six months of its business year fell 10.4 per cent compared with the same period in 2012, to €327.2m.

Whisky sales have also been affected, falling by 20

per cent to £25m in terms of direct shipments to China in the first six months of 2013. According to Alex Salmond, Scotland's first minister, however, this year's slowdown is just a blip.

Speaking in Beijing in October, Mr Salmond said: “The slowdown... is actually a slowdown in the rate of expansion and I suspect that every other product in the world would like to have a slowdown which resulted in a substantial rate of expansion.”

Overall, the Chinese spirits market is expected to grow 17 per cent to \$53bn by 2017, according to MarketLine.

A stone's throw from the Forbidden City and the hordes of Chinese tourists lining up to see Mao's remains resting in state is the capital's historic legation quarter, once home to foreign diplomatic missions in the 1920-30s.

Johnnie Walker House, once part of the US diplomatic mission, now serves as a private club, whisky bar and educational space.

Inside, new drinkers are introduced to the complex flavours that make up the blended whisky's signature coloured label bottles. And the new customers are all different, stresses Siew Ting Foo, a brand manager for Johnnie Walker. “You can't use one lens and apply it to all” drinkers in China, she says.

Additional reporting by *Gu Yu*



Spirits level: China's drinkers are turning to whisky Getty

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A toast to carbon reduction

Sustainable practices could save the industry money, writes *Trisha Andres*

Green credentials and the whisky industry make a perfect pair. With strong links to the wild Scottish Highlands, whisky has a reputation for being natural, comprising ingredients of water, barley and an admixture of peat. With many distilleries tied to rural communities, the industry has always had a motive to limit its environmental impact.

But the whisky industry has striven to go further by adopting sustainable practices, from reducing emissions and reliance on fossil fuels to waste and water management.

Their motives are not altogether altruistic, however.

"We invest in green projects not solely to reduce carbon. It's also about supporting the growth of our business," says Michael Alexander, head of environment at Diageo.

Mr Alexander sees environmental initiatives as longer-term investments. Apart from helping the company meet its carbon reduction targets, they control the input costs of energy and ensure continuity and security of supply, especially during harsh winters. Over the past four to five years, Diageo has invested nearly £100m in renewable energy development in Scotland.

A recent report from the Scotch Whisky Association (SWA)

shows the industry is on course to meet its environmental targets for 2020 and 2050. Energy efficiency at the distilleries has improved by 6 per cent while packaging operations have become 16 per cent more energy efficient since 2008. While production has risen 11 per cent since 2008, the industry has reduced greenhouse gases emitted by 10 per cent over the same period as well as boosting energy efficiency per litre of pure alcohol distilled.

Meanwhile, 16 per cent of the industry's fuel came from non-fossil sources, up from 3 per cent in 2008.

The SWA has yet to quantify the savings the industry has made from going green but Julie Hesketh-Laird, director of operational and technical affairs, says that more environmentally aware production should lead to cost savings, for example in reducing energy bills. "The cost of energy is so critical to companies that anything that improves the efficiency of the manufacturing process yields energy

Go green: Diageo has won an award for its new plant

savings. So there is certainly a small green dividend, although we can't say for sure what that might be in absolute terms," says Ms Hesketh-Laird.

A surge of investment in the industry has allowed companies to explore new technologies to offset its consumption in both big and small ways. On a local level, Bowmore distillery uses recycled energy from the production process to heat the local swimming pool.

Chivas Brothers has replaced its transport fleet for employees with Vauxhall Ampera electric vehicles, plug-in cars that will cut the official emissions figures for the vehicles by 75 per cent compared with the average car in the UK.

In August, Diageo won the prize for renewable energy project of the year at the Business Green Leaders' Award for its £17m bioenergy plant at the new Roseisle distillery in Speyside, Scotland.

Charles MacLean, a consultant and writer on whisky, says that while there is a significant capital outlay to go green, the benefits are substantial. "There is a competitive advantage in being at the leading edge of environmental sustainability," he says. "It makes perfect sense for the industry to invest in ways to save and reuse energy, especially as energy prices increase rapidly over time."



Distillers of malts could reap benefits of research into barley DNA

As the main ingredient, barley is vital to the health of the whisky industry. The whisky and beer sector, worth an annual £20bn to the UK economy, relies on malting barley.

As such, the industry is keen to develop varieties that are better able to adapt to environmental stresses and generate higher yield.

In 2012, scientists published a high-resolution draft of the barley genome sequence in the journal *Nature*. The International Barley Sequencing Consortium (IBSC), including UK researchers in Dundee, Cambridge and Norwich produced a DNA sequence assembly comprising the majority of barley genes in linear order.

"The publication of the sequence means it may be possible to improve barley production through breeding varieties that are disease- and pest-resistant and able to withstand drought and hostile conditions," says Dr David Marshall, head of information and computational sciences at the James Hutton Institute, a research organisation in Scotland that is involved in the study.

By better understanding the barley genome, the industry would be able to generate more yield out of each batch, helping counterbalance the amount of barley needed if production continues to rise at all the industry's distilleries.

This could reduce costs for the industry and

provide a back-up during bad crop years.

Dr William Thomas, a barley geneticist at the James Hutton Institute, says the costs of research and its implementation are negligible, compared with the benefits of breeding improved barley varieties.

"We can increase the efficiency of the breeding process using information gleaned from the genome sequence and produce new and better varieties, quicker and more efficiently," he says.

"Of course, it is an ongoing process and may take about eight years before there is an impact to the distilling industry," he adds.

TA

Spirit that's keen to woo more female drinkers

Cocktails have broken the ice, writes *Amie Tsang*

Whisky is still widely seen as a man's drink – and that is not far from the truth.

Women make up just 25 per cent of whisky drinkers worldwide, according to Diageo, the drinks company.

British women are keener, representing 29 per cent of UK whisky drinkers, but the beverage remains overwhelmingly more popular with men.

The picture has started to change, however, partly helped by the growth of a cocktail culture. Bartenders are mixing more drinks with brown spirits such as whisky and rum, which has tempted women looking to try new drinks, or who were previously daunted by rules about how to drink whisky.

Rachel Barrie was Scotland's first female master blender and she thinks the growing number of female bartenders over the past five years has helped this trend.

She says there are "female bar tenders who are confident, not scared to experiment... They're the ambassadors for women also experimenting."

Whisky is gaining a higher profile, particularly among women: Christina Hendricks, who plays a secretary in the US TV series *Mad Men*, is a brand ambassador for Johnnie Walker; and singer Lady Gaga has credited Jameson, an Irish whiskey, for helping her songwriting.

Design is critical in attracting women to the spirit.

Cara Laing, head of brands marketing at independent blender Douglas Laing, explains the impor-

ance of how a brand is perceived.

"Our Big Peat brand is a serious, credible whisky inside, but the packaging pokes fun at it," she says. "I think that appeals to women. It's not old school whisky, and I think that makes it more warm and welcoming."

Ms Barrie wants to promote whisky as a versatile drink for women. "The industry has changed, what's available has changed – it's becoming more interesting, with a much wider spectrum of flavour to choose from."

Companies are responding. Labels are offering tasting notes, and packaging has been redesigned to attract female buyers.

But the industry is divided over the recent introduction of flavoured whisky.

According to

Maureen Brekka, director of marketing in North America for Jack Daniel's owners Brown-Forman, says the bourbon brand's Tennessee Honey has extended the appeal among women.

Karen Fullerton, Glenmorangie's global brand ambassador, says: "A lot of it is just women saying, why can't I? Why should it be gender-specific?"

Ms Fullerton admits that while it may be the case in many countries that whisky drinking is still male dominated, she says women are voicing their taste for whisky everywhere – even as far away as emerging markets such as Kazakhstan, for example.

Markets such as Brazil and South Africa, have been fruitful, as less exposure to the beverage means the gender split is less pronounced.

Yet despite the attempts to give the drink a modern image, history is a critical part of the brand, for men or women.

"Whisky is a category that lives by its history," says Fred Minnick, author of *Whiskey Women*, which examines the stories of women who were crucial to the survival of distilleries.

For him, knowledge of the drink's provenance does more to promote whisky than any marketing campaign could.

"The difficulty," says Alwynne Gwilt, a journalist turned whisky writer, "is whisky companies all want to find a way to target the female market without coming out with a pink whisky."



Mad Men actress Christina Hendricks Getty

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The Business of Whisky

Race builds to increase capacity

The industry gears up for anticipated growth in emerging markets, reports *Oliver Ralph*

Close to Falkirk in the Scottish lowlands, nestled beside the Forth and Clyde canal, is the site of the Rosebank Distillery. Whisky was first produced there in 1817 and, at one time, its triple-distilled product was lauded as one of the finest of its type. But Rosebank was closed in 1993 and has lain derelict ever since. Although much of the equipment remains in place, the stills themselves have disappeared, reportedly stolen for their scrap metal value.

Gerald Michaluk plans to change all that. The managing director of the Isle of Arran brewery, he wants to buy the site, fix it up, put in new stills and start producing whisky again. His £7m investment plan will cover refurbishments and the cost of stock. He aims to find £4m with a crowd funding initiative, raising small amounts from a large number of people.

Mr Michaluk wants to produce about 1m litres of whisky a year, although only a small amount of that would be single malt. "Most would go overseas," he says. "We'd sell it quite young to be used for blends in India and China."

Mr Michaluk, like everyone else in the Scotch whisky industry, is eyeing the impressive growth rates in emerging markets. According to International Wine and Spirit Research, the global Scotch market is expected to grow by 2.6 per cent a year between 2012 and 2018. But, while the markets in Europe and North America are expected to be largely flat, Latin America is forecast to grow at 4 per cent a year, with Asia just shy of that and the Commonwealth of Independent States at more than 10 per cent.

Given that Scotch whisky has to be produced and matured in Scotland, it is hardly surprising there is an investment boom. "There is a huge number of people wanting to build and invest in distilleries at the moment," says Stuart Nickerson who runs the Malt Whisky Company, a consultancy.

That boom is driven not just by growing demand, but also by a supply crunch. "The industry has always traded whisky to be used for blends internally," says Mr Nickerson, "but that's become far more difficult recently. Companies think they can use the stock themselves."

The result is that people who used to rely on internal trade are themselves starting to look at distilling.

The shortage stems partly from the financial crisis that prompted some producers to cut the amount of new stock they laid down. Given that Scotch must mature for at least three years, it is difficult to turn the supply taps on and off to cope with short-term fluctuations in demand.

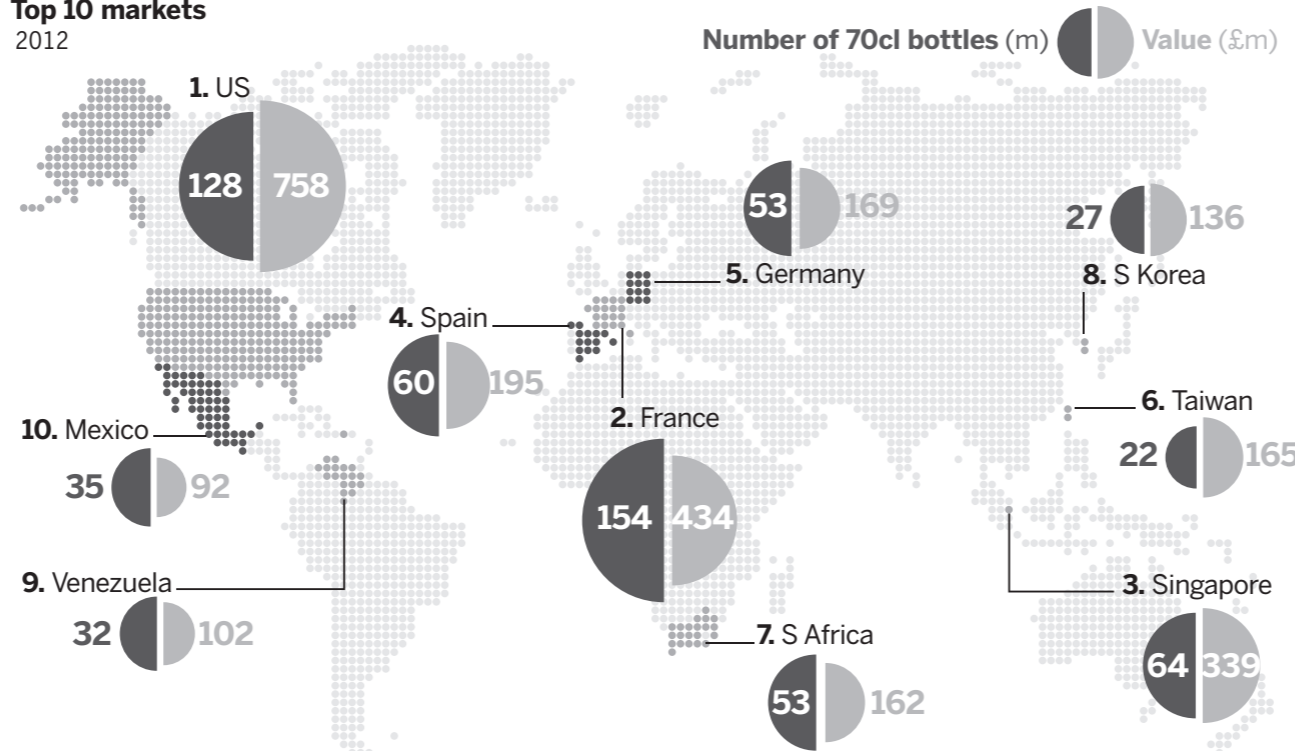
Mr Nickerson has first-hand experience of the trend. In 2006, he was approached by a group of Moscow-based investors who wanted to put money into the industry. Two years later, he bought the mothballed Glenglassaugh distillery in Speyside and brought it back into production. The investors held on for five years, before selling it to the BenRiach distillery this year.

It is not just smaller players who are ploughing money into production. Pernod Ricard, the French owner of Chivas Regal, is spending £40m a year on its distilleries. In 2010, it increased capacity at Glenlivet by 75 per cent. Last year, it expanded four other distilleries. In June this year, it reopened Glen Keith, mothballed in 1999. In 2015, it will open a new distillery at Carron on the river Spey.

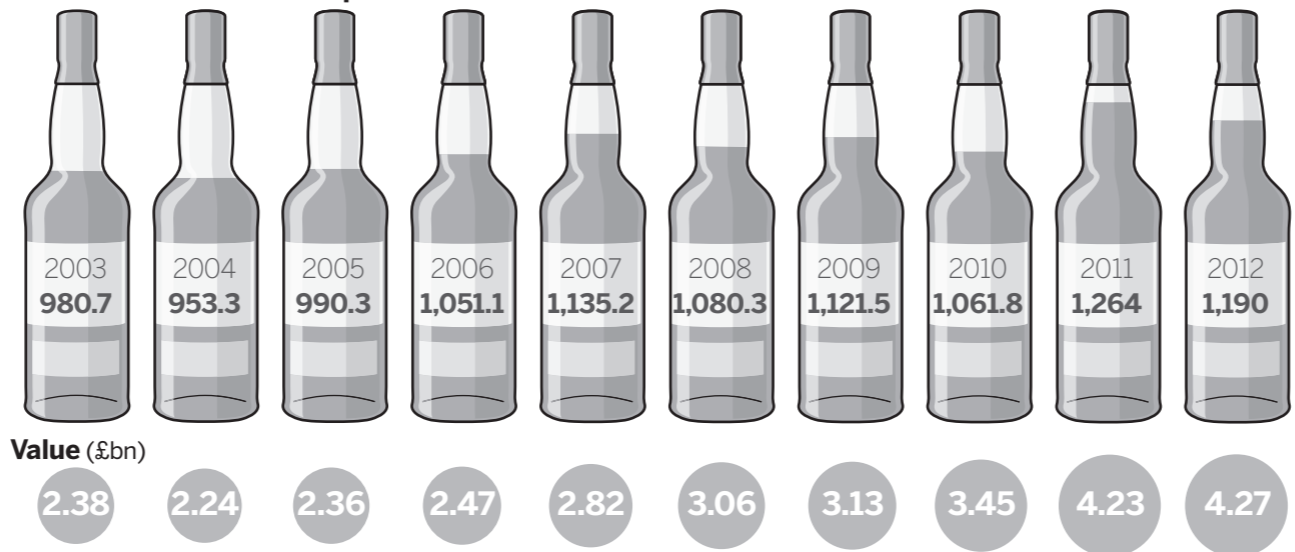
But the biggest spender is Diageo, the largest Scotch producer in the world by volume and value, according to Bernstein Research. Like Pernod, much of its investment will produce premium blends, such as its Johnnie Walker range, popular in emerging markets. "Johnnie Walker has hit 20m cases a year and we need to provide for the future," says David Cutter, supply director at Diageo.

Global whisky exports

Top 10 markets
2012



Number of 70cl bottles exported



Source: Scotch Whisky Association

Scotch has always been a great mixer internationally

Traditionalists, turn away now. Whisker it quietly but, if you travel to some of the fastest-growing whisky markets, it is just as likely to be coconut water as mineral water in the mixing jug.

Whichever statistics you look at, there is little doubt the world whisky market is growing. The International Wine and Spirit Research group (IWSR) estimates 2012 was a record year, with sales of 96.3m cases, while the Scotch Whisky Association reported export growth of 6 per cent year on year.

But most of this growth is not coming from the traditional western markets,

says Alexander Smith, editor of the IWSR's magazine: "The greatest cause for optimism lies in emerging markets. India, Brazil, Mexico, Russia, Poland and South Africa – to name just a handful of the largest emerging markets – have all seen rapid growth in Scotch consumption in recent years.

In many of these markets, drinking whisky neat is not the norm – green tea and Scotch is a common tippie in Shanghai and, on the beaches of Brazil, Diageo's Johnnie Walker – the world's top selling whisky brand – is served with ice and coconut water.

Yet, while the industry is embracing mixers, blends of different types of whiskies have long been accepted. Rob Allanson, editor of Whisky Magazine, says this is part of Scotch heritage.

"Companies have been tailoring blends for various markets pretty much since blending began," he says.

"The blending houses created lighter styles than those sold on the domestic market. One notable example is Cutty Sark – created to be light to meet a specific American palate that wanted a sweet lighter style."

Emily Cadman

Japan saw explosive growth in demand in the 1970s, followed by 25 years of decline

The company announced last year that it would invest £1bn in Scotch production. Plans include a new distillery at Teaninich in the Highlands and the expansion of 14 malt distilleries. It is laying down plenty of new stock; according to Bernstein, Diageo has been increasing its inventories at a rate of 9 per cent a year since 2005.

This is not the first time the industry has become excited about growth and ramped up production. It has not always ended well. Bernstein points out that Japan saw explosive growth in demand in the 1970s, followed by 25 years of decline.

The Asian crisis in the late 1990s hit demand in South Korea and Thailand, leading to mothballing of distilleries. More recently, there has been a slowdown in both Asia and Latin America.

There will always be uncertainty. "We can know where the market is going in broad terms, but you have to finesse your plans," says Mr Cutter.

Many of those investing are building flexibility into their business plans, and starting small.

"The whisky industry has gone through cycles in the past and we've seen distillery closures and amalgamations of companies," says Mr Nickerson. "This time, with boutique distilleries, it is easier for companies to work their way through the trough, especially if the owner is doing it out of interest rather than purely for financial returns."

Back at Rosebank, this is the sort of investor Mr Michaluk has in mind.

"This kind of investment is for the enthusiast who wants to get into craft distilling. You have to be passionate about the product and willing to buy it," he says. Even if the emerging middle classes in Asia and Latin America lose their taste for whisky, Rosebank would at least be left with a group of people who like the product so much, they funded the distillery.

Rare releases provide grist for collectors

Curiosity must be the appeal for investors, writes *Camilla Apcar*

Finite supply is the nemesis for collectors of vintage cars and commemorative crockery alike. In the case of single malt Scotch, the thrills of limited edition are heightened by factors including silent distillery releases and the unknown number of bottles that may have already been drunk.

Whisky presents an attractive collectors' item with inherent investment value. The industry is working to support the recent influx of newcomers, but top-tier enthusiasts have been around for a while.

London collector Sukhinder Singh, of The Whisky Exchange, began collecting miniatures as a teenage hobby. He now specialises in full-size bottles, mostly single malts, and has accumulated between 7,000 and 8,000 over the past 25 years. "In whisky, there is something unique," he says.

The most expensive bottle Mr Singh has bought was a £100,000 Dalmore 64-year-old, Trinitas, of which only three were produced.

"I've probably got the largest Port Ellen collection in the world," he says. With just over 800 different bottles from the Islay distillery – closed since 1983 – Mr Singh is aware of between 30 and 50 more that he is missing.

About 12 years ago Mr Singh was paying £30 and £70 for Port Ellens. Its popularity has since increased – as have its prices. The 2013 annual release was £1,500 per bottle.

Values are also rising among many active distilleries. Certain limited edition Macallans have appreciated 280 per cent since 2011, according to independent valuer and consultant Whisky Highland.

"Such is the beauty and rarity of the Macallan's limited editions, we can't but help to fuel desire and collectability," says Ken Grier, director of malts at Edrington, Macallan's owner.

The savvy distillers welcome modest beginners alongside seasoned collectors, by launching products in a wide range of prices.

In November, Bowmore introduced a £16,000 1961 expression limited to 200 bottles and in September Devil's Casks, a 10-year-old matured in first fill sherry casks with a global total of 6,000 bottles, selling for £52.99. It is now mostly sold out in the UK.

"It isn't [a] huge [market], and I don't think it ever will be. But that will also, to some degree, prevent a bubble bursting," says Andy Simpson, founder of Whisky Highland. "We're about 20 years behind wine in terms of the maturity of the market."

US-based property developer Mahesh Patel, who bought one of the other Trinitas bottles, was first introduced to whisky at university. Mr Patel estimates his collection of

nearly 5,000 bottles, comprising many single malts plus old blends from brands such as Johnnie Walker and Royal Salute, is now worth close to \$5m.

"My rule of thumb is to buy two bottles of everything I can afford. One to drink, the other to keep," he says.

Curiosity is central for Mr Patel, who often finds off-limits to be unsuspecting treasure troves: "I have found some very interesting bottles that are gems for a bargain basement price."

In 1969, aged 18, Giuseppe Begnoni, an Italian collector, also began with miniatures. By 1986, Mr Begnoni, of Whisky Paradise in Bologna, was buying at auction in the UK and has accumulated more than 8,000 bottles, which he estimates are worth around £4m.

Auction houses offer a gateway for novice collectors. Glasgow auctioneer McTea's holds 10 dedicated sales in which winning bids range from less than £100 to several thousand pounds.

Ever-appreciating prices are also inspiring new businesses to explore whisky as an alternative investment.

The Whisky Trading Company was launched in October and is assembling Scotch portfolios to buy and sell to retail investors.

Crowns 3, a Kuala Lumpur-based investment consultancy, has spent much of the past five years buying single malts.

But direct investment is not universally endorsed. "Our whisky really isn't made for investing, and we don't encourage it," says Nick Morgan, head of whisky outreach at Diageo.

Single malt Scotch caters best to patient investors whose passion has evolved from consuming and collecting. In the past, Whisky Highland's Mr Simpson has

'If it was an investment, I would not be paying the prices I'm paying'

been asked to build a £50m fund of physical stock, but declined because such supply was not available.

Yet like Mr Begnoni and Mr Patel, Mr Singh would not call himself an investor. "I can look at my collection now and say that it's become a really good investment, but I never started off like that.

"If it were an investment, I would not be paying the prices I'm paying for certain bottles, because they might not become investable items for another five to 10 years.

"Investing in whisky isn't like investing stocks and shares," Mr Singh warns. "If you're not a whisky drinker, I would say don't even bother."

Edrington targets younger demographic by dispensing with age

The group has decided on a bold step in marketing, writes *Mure Dickie*

For a flavour of trends in the whisky industry, there could be few better places to start than the office of Ian Curle, chief executive at distilling group Edrington and chairman of the Scotch Whisky Association. At Edrington's headquarters in Glasgow, Mr Curle grapples with the challenges that come with whisky's global boom, including stock shortages, the need to tend to super-premium markets and selling whisky in new ways to new consumers. Edrington itself is an example of one important trend – the increasing

emphasis on single malts, a higher-value segment growing much faster than the blended whiskies that account for the bulk of volume.

Edrington's Famous Grouse has been Scotland's top-selling blend for 30 years and is in the top 10 worldwide. But the group's focus has moved toward the standalone output of its Macallan distillery on Speyside. Both brands were acquired with Highland Park on Orkney as part of Highland Distilleries, which Edrington bought for £601m in 1999.

"We were effectively buying the Famous Grouse company in 1999. Now we're in 2013 and, if you were to look at the relative contribution of each of these brands, you would now argue that we bought the Macallan company," Mr Curle says. "There's

been a significant shift in the centre of gravity."

This is not the only transformation. The company has become far more global. While most of its profits came from Europe 14 years ago, well over half now come from elsewhere. And from a workforce entirely based in Scotland, now only 40 per cent of staff work there.

Globalisation can be costly, however. The group suffered a £90m loss for the year to March 2013 because of a £275m writedown of the value of its Brugal rum brand, acquired in 2008 and since battered by the economic troubles of key southern European markets.

But Edrington's underlying performance has been strong, with pre-tax profits hitting £169m, up from £119m in the year to 2010. Over the past 14 years,

Mr Curle says, profits have more than quadrupled.

The chief executive, a former accountant who was brought up in Glasgow and has spent his entire career at Edrington, credits much of the success to the long-term perspective fostered by an unusual ownership structure. In 1961, three granddaughters of the founder of the 152-year-old company put it under the control of the Robertson Trust, a charity.

Employees own about 24 per cent of the group's shares and, free of stock market pressures, it can take a longer view, a real benefit when it comes to whisky, which must by law be aged at least three years before sale. Private ownership may also aid the making of bold decisions. Edrington has put itself at the forefront of efforts to find new ways

to differentiate upmarket single malts, traditionally classed by the ages on their labels.

One range of Macallan is now marketed by colour rather than age. And Highland Park whiskies are sold under the names of Norse warriors and gods whose characteristics they are supposed to embody.

There are clear benefits to moving away from age. Lack of stock is the biggest restraint on sales of Macallan, says Mr Curle, even when it retails at a 50 per cent premium to peers.

Leaving off the age statement – which must refer to the youngest whisky used in a bottle – allows much more flexible use of available stock.

It also, say analysts, reduces reliance on dwindling supplies of older spirit.

has dismayed some enthusiasts. One Canadian reviewer left a tasting of the new colour-themed 1824 series this year deeply frustrated. "For those who have tasted what Macallan used to produce, what they were and could be again, this is gravely disappointing," he declared.

Mr Curle is unapologetic. Most

Macallan will still be sold by age, but the 1824 series shifts attention to what the company sees as the decisive impact on taste made by the wood in which a whisky is matured.

Purists were also upset by the new Fine Oak range of Macallans, he says, but they have been a hit and have helped attract young and

female drinkers to the brand. "We have taken a risk, but we think it's a managed risk and we think the benefits of taking this risk outweigh the downsides," Mr Curle says.

Edrington's biggest effort is going into further building its core drinks, with plans including a £100m redevelopment of the Macallan distillery that will increase capacity and create a new visitor centre.

Such plans rest on deep confidence in the prospects for Scotch and other spirits among the growing populations in Asia, Latin America and Africa. "There are millions of new consumers with higher income levels emerging," Mr Curle says. "If you look at the demographics, that's going to go on for years and years."



Ian Curle, chief executive of Edrington