

Submission to International Trade Committee regarding UK Trade Negotiations

2nd October 2020

Introduction

1. Drinks Ireland | Irish Whiskey Association is the all-island representative body for the Irish whiskey industry.
2. Northern Ireland, currently only accounts for c. 9% of all Irish whiskey production. However, the number of operational Irish whiskey distilleries in Northern Ireland has increased from one to five over the past decade. More distilleries are in development. The largest distillery in Northern Ireland is currently undergoing a major expansion. All this points to a bright future for Irish whiskey production in Northern Ireland. But this production will require markets.
3. At present the Irish whiskey industry produces in excess of 20 times more product than demand on the island of Ireland would justify. We do so because we know that there is an ever-increasing demand for Irish whiskey from consumers around the world.
4. History shows that Irish whiskey prospers when it has maximum global trading opportunities. The recovery of Irish whiskey sales over the past two decades has been driven by export growth and this in turn has been greatly facilitated by access to the benefits of both bilateral trade agreements and the global multilateral trading framework.
5. 85% of all Irish whiskey sales are to markets where Irish whiskey is subject to zero tariffs. The vast bulk of Irish whiskey markets apply a 0% most favoured nation (MFN) tariff on whiskey, highlighting the particular benefit to Irish whiskey of the multilateral framework of which MFN tariffs are a feature.
6. Furthermore, in 2019, sales of nearly 10 million cases of Irish whiskey, or 83% of all Irish whiskey sales, were to markets where Irish whiskey has some level of GI protection or protected spirit designation. Trade policy plays an important role in extending protection for UK GIs.
7. In looking to the future, the immediate challenge for the Irish whiskey industry is to recover sales lost as a result of the Covid-19 crisis. Beyond that our industry is confident that there will be increasing international consumer demand for Irish whiskey, driven in part by increasing premiumisation in the global spirits market.

8. The island of Ireland is the home of whiskey and because we've been making whiskey for longer than any other nation, Irish whiskey has a depth and diversity to it which sets it apart from other international whiskey categories. Irish whiskey is unique and authentic and cannot be made anywhere else other than the island of Ireland. As awareness and appreciation of Irish whiskey grows, we are confident that more and more global consumers will choose Irish whiskey – in the same way UK consumers will want to choose similarly unique and authentic international products from Tequila to Champagne to Parma ham.
9. Notwithstanding increasing consumer interest in 'local', we believe that satisfying broader consumer choice will remain a key impetus for international trade; while the elimination of tariffs, the protection of GIs and the removal of market access barriers will remain key facilitators of this trade.

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10. However, despite the opportunities that may exist, our industry is concerned regarding the increasing challenges to international free trade. At both societal and political levels, there is increasing scepticism and hostility to the concept of free trade, often ill-informed. Quite often, international trade is blamed for problems such as job losses and inequality, when matters such as automation or domestic fiscal policy may be more to blame. We are also increasingly hearing over-simplistic objections to bilateral trade deficits. More critically, there has been a marked re-emergence of economic nationalism and the populist resorting to protectionist policies in many countries.

This submission calls on the UK, in developing its own ambitious, independent trade policy, to double-down on rules-based free trade. The UK should seek more tariff reductions, more GI protection, more removal of market access barriers (particularly in emerging areas such as e-commerce), while ensuring effective implementation and enforcement of all current trade rules.

Importance of Free Trade Agreements

11. The Irish whiskey industry has benefitted in real and tangible terms from bilateral agreements, including FTA's, negotiated by the EU and more recently by the UK. These benefits include tariff elimination, GI protection, removal of market access barriers, etc.
12. We welcome and support the objective set-out by the Secretary of State for International Trade to secure free trade agreements with countries covering 80% of U.K. trade within the next three years.
13. We also welcome the substantial progress made by the UK in putting in place continuity trade agreements with a large number of markets subject to EU trade agreements. We would urge the UK to continue to seek agreements with remaining markets so as to ensure

seamless trading conditions from 1st January 2021. We would identify Western Balkans as a key concern for the Northern Irish whiskey industry.

14. In seeking to negotiate comprehensive new free trade agreements, we submit that the UK must ensure they are truly comprehensive. For example, tariff elimination for spirits may prove futile if a partner country then decides to raise excise or consumption taxes on spirits outside of the provisions of a trade agreement, particularly in countries where the bulk of spirits are imported. Future bilateral agreements on tariff elimination should seek to prevent excessive or unjustified tax increases to offset or in lieu of tariffs; and to remove current and prevent future tax differentiation between domestically produced and imported spirits. Similarly, future bilateral agreements on tariffs must protect against unfair competition as a result of a lowering of standards or diminution of rules designed to protect consumers and ensure quality. In the case of whiskey, the protection of GIs – or at minimum the compliance with general standards for spirits categories – must be included as part of any agreement.
15. On the other hand, there may, at times, be an argument for agreements that cover specific single aspects of policy which would support fair and free, rules-based trade to the mutual benefit to the UK and a partner country or region. These should only be pursued where it may prove more realistic than seeking to agree a broader FTA and where doing so would not be seen to be side-stepping other major trade barriers or matters of contention. Examples of matters which could be subject to subject-specific agreements include customs facilitation, e-commerce facilitation and GI protection.
16. We welcome and are strongly supportive of the UK policy of allowing EU inputs to have originating status in UK trade agreements. This is particularly important to ensuring Irish whiskey products from Northern Ireland, containing inputs from Ireland, do not lose on the benefits of UK FTAs just because of the centuries-old practices and supply-chains which are standard in the all-island Irish whiskey industry.
17. However, we would point out that the pursuit of further bilateral agreements is only one priority in what must be multi-faceted approach.

Market Priorities

18. This section proposes a number of priority markets and regions which we submit warrant a focus in future UK trade policy. This list of markets does not necessarily correspond with Irish whiskey's future priority growth markets, but instead represents markets we feel future export growth could be supported or impacted by active trade policy. Note, sales figures referenced here relate to the entire Irish whiskey industry, not just the Northern Irish industry.

United States

19. The United States represents the largest market for Irish whiskey, with five million cases sold in 2019, accounting for 41% of all Irish whiskey sales. Regrettably, a small volume of single

malt Irish whiskeys produced in Northern Ireland are subject to a 25% tariff imposed by the US as part of its action against the UK in the Airbus dispute. The remaining bulk of Irish whiskey produced in Northern Ireland also remain under threat of US tariffs.

Reinstating zero-tariff trade in whiskey between the UK and US is the No.1 priority of this submission.

20. We urge the UK to prioritise efforts to de-escalate trade tensions and to seek a negotiated resolution which removes all tariffs and reinstates full and permanent zero MFN tariffs on all spirits trade between the UK and US.
21. At a broader level, we support the proposal for a US-UK free trade agreement and recommend the following be included:
 - a. Commitments to protect the Good Friday Agreement and all-island economy.
 - b. Measures to remove barriers to e-commerce in spirits across individual US states.
 - c. Enhanced protection for Irish whiskey similar to that afforded to Scotch whisky to provide that *“the words “Irish”, “Ireland”, “Eire”, and similar words and symbols connotating, indicating or commonly associated with Ireland, may only be used to designate distilled spirits wholly manufactured in Ireland.”*
 - d. Protection of the minimum three-year maturation period for whiskeys sold in the UK.

Russia/Eurasian Economic Union

22. Russia represents the second largest market for Irish whiskey, with over 600,000 cases sold in 2019. In total, the Eurasian Economic Union (also including Kazakhstan and Belarus) saw sales of over 680,000 in 2019. We assess that Russia and Kazakhstan offer the prospect of substantial sales increases in Irish whiskey in coming years.
23. We note that relations between the UK and Russia are particularly complex with respect to broader geo-political and security matters. Nonetheless, in light of the close trading relationship between the UK and Russia (and its EEU neighbours), we submit that future UK trade policy should recognise and embrace this reality and seek to ensure a harmonious and mutually-beneficial framework from trade between both blocs.
24. We would submit that the UK should seek to prioritise closer cooperation with the Eurasian Economic Union to seek enhancements with respect to:
 - a. Mutual protection and enforcement of GIs and IP rights (as a top priority).
 - b. Conformity in spirits classifications and standards.
 - c. Improved customs facilitation, including for transit via third countries.
 - d. Mutual removal or reduction of remaining tariffs on spirits categories.

Canada

25. Canada remains a strong growth market for Irish whiskey. 12 of 13 Canadian provinces/territories operate as ‘control states’, with provincial liquor control boards holding

monopolies on alcohol sales. A key outstanding concern for Irish whiskey exporters to Canada is the persistence of discriminatory provincial levies or mark-ups on imported spirits applied by provincial liquor control boards. The CETA agreement resulted in the reform of the cost-of-service-differentials (COSD) imposed by provincial liquor boards in Ontario and Quebec, moving from an ad-valorem calculation to a flat volume-based fee. This move greatly benefitted higher-priced premium Irish whiskey brands in allowing them to be priced more competitively. This supported a 25% increase in sales of premium Irish whiskey brands in Canada increased between 2017 and 2019. However, we continue to seek reductions in COSD in Ontario and Quebec, as well as a reduction of the excessive discriminatory mark-up of 160% on imported spirits in Nova Scotia, compared to the 50% mark-up on domestic spirits.

26. We welcome the recent announcement that negotiations have recommenced with Canada on a proposed bilateral agreement to allow for the continuity of CETA with respect to the UK. We understand the negotiations are primarily focussed on continuity but may include some limited technical adjustments to the CETA provisions. We would also support a future comprehensive FTA between the UK and Canada.
27. In order to support the continued growth of exports of Northern Irish whiskey to Canada, we would ask the UK to address the following matters in both the proposed continuity agreement and any future FTA with Canada:
 - a. Continued geographic indication protection for Irish Whiskey/Uisce Beatha Eireannach/Irish Whisky;
 - b. Retention, in an appropriately amended format, of both Annex 30-B, 'Amendments to the 1989 alcoholic beverages agreement and the 2003 wines and spirit drinks agreement' and Annex 30-C, 'Joint declaration on wines and spirits' of CETA; with a particular focus on seeking an agreement with Canada on progressing the objective set-out in the previous EU-Canada joint declaration to eliminate discriminatory mark-ups and levies imposed by provincial liquor control boards on imported spirits.

Asia/Pacific

28. Asia has historically seen low sales of Irish whiskey. However, the past three years have seen strong growth crystallising in Japan and India. We assess the potential for future growth in exports of Irish whiskey to Asia is massive, particularly as Asian consumers increasingly demand more choice in premium global spirits. E-commerce platforms offers substantial, accessible opportunities for sales growth across Asia, particularly in China.
29. In the Pacific region, Australia has been one of Irish whiskey's fastest growing markets in recent years.
30. With a view to supporting future growth in Irish whiskey exports to Asia/Pacific:
 - a. We support the proposal for UK FTAs with Australia and New Zealand, including full tariff elimination on exports to Australia.
 - b. We support the proposal for UK accession to the CPTPP trade agreement.

- c. We propose the UK prioritises engagement with both India and Thailand with a view to removing the high tariffs and other market access barriers facing UK spirits exporters. This may involve bilateral agreements, including where possible, comprehensive FTAs.

Sub-Saharan Africa

31. Sub-Saharan Africa represents a strong growth region for Irish whiskey, with over 640,000 cases sold in 2019. While sales are led by South Africa with nearly 400,000 cases sales, the Sub-Saharan region outside of South Africa saw an increase in sales last year alone of 27%, from 194,800 cases to 246,800 cases. Key growth markets outside of South Africa include Zambia, Nigeria, Kenya, Mozambique and Namibia, with market such as Botswana and Uganda also identified as future growth markets. With its young population and rapid digitalisation, we see Sub-Saharan African markets are offering the prospect of substantial sales increases in coming years.
32. We submit that strengthening trading relations between the UK and Africa will support both UK exports and sustainable economic development across the African continent.
33. We propose the UK should seek to negotiate comprehensive FTAs with Zambia & Nigeria; as well as putting in place a realistic bilateral agreement with the East African Community, noting the EU's EPA with this bloc has not been ratified. In all cases, full tariff elimination for whiskey should be a priority.
34. Based on the experiences to date of Irish whiskey exporters, the implementation and enforcement of trade agreements and of basic customs facilitation rules must remain a priority for the UK, particularly with a view to eliminating the far-too-regular occurrences of unjustified customs blockages of goods in African ports.

Promoting and removing barriers to e-commerce

35. Forecasts have predicted that ecommerce will become the largest retail channel in the world by 2021 and account for 14% of total retail in that year. In 2018, the value of the e-commerce market for alcohol across 34 key markets was estimated at over €15 billion, more than half of which was accounted for by China. The onset of the Covid-19 pandemic and resulting restrictions has seen a major pivot by consumer to online purchasing and delivery.
36. Unfortunately, there remains many barriers to e-commerce in spirits in international markets around the world. Examples include:
 - a. Complete e-commerce sales ban in Russia.
 - b. Restrictions on digital marketing in markets from Brazil to Thailand.
 - c. Varying barriers across individual US states from complete e-commerce sales to bans on deliveries from out-of-state to restrictions on digital marketing.

37. We propose that promoting and removing barriers to e-commerce in spirits should be a central feature of future UK trade policy. Dedicated chapters on e-commerce should be included in all future FTAs.
38. While this submission relates to international trade, trade policy must start at home. We call on HMG to remove all restrictions on digital marketing of spirits in the UK.

Protecting and promoting geographic indications

39. Irish Whiskey/Uisce Beatha Eireannach/Irish Whisky is a protected geographic indication recognised, applied and enforced equally by both the UK and EU. Our GI is our guarantee of Irish whiskey's authenticity and uniqueness. By providing legal protection for Irish whiskey in export markets, exporters can more confidently invest in selling into that market knowing there is legal recourse in the event of unfair competition from products infringing on the Irish whiskey category.
40. The promotion and protection of geographic indications should remain central to UK trade policy.
41. In addition to GI protection, trade policy should also protect against any attempt at lowering of standards or diminution of rules designed to protect consumer and ensure quality. In the case of whiskey, we propose that key basic standards such as the minimum three year maturation period for whiskey must be protected against attempts by other whiskey-producing countries to reduce the maturation period and then sell into the UK market, which would undermine the standards of quality in the category and allow unfair competition for lower standard products.
42. Promotion of GI's should be seen as going hand-in-hand with protection. We would propose the greater provision of funding for campaigns to promote UK GI categories in selected key markets, through UK government initiatives such as the 'Great' campaign, by devolved economic development agencies such as Invest Northern Ireland or directly by trade associations such as ours.

Product of Ireland labelling

43. As an all-island industry, it has been common for Northern Irish whiskey to be labelled 'Product of Ireland' We would ask the UK to work to ensure that Irish whiskey products from Northern Ireland continue to be permitted to be labelled as 'Product of Ireland' in third countries as long as all customs requirements relating to exports from the UK to each country are complied with.

Effective and fair enforcement

44. We propose that ensuring effective implementation and enforcement of the rule-based international trade system should be a key feature for future UK trade policy. An effective

trade enforcement function should be put in place to ensure implementation of all new UK FTAs and to address complaints from UK industry over non-implementation or non-compliance in markets subject to a UK FTA.

45. Given the experience of recent bilateral trade disputes which, while originally relating to steel/aluminium and aircraft, have ended-up with the imposition of punitive or retaliatory tariffs on unrelated sectors, we propose that future UK trade policy – as a matter of fairness - should exclude actions affecting unrelated sectors in the case of future disputes.