

COMPECON - COMPETITION ECONOMICS

Economic Analysis of the Irish Whiskey Industry

Prepared for The Wild Geese Irish Whiskey

FINAL REPORT

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KEY FINDINGS AND RECOMMENDATIONS.

- The Irish whiskey industry has a long history and is a major employer and export earner. Irish whiskey exports amounted to €350 million in 2014.
- There are significant barriers to entry in whiskey distilling, largely due to the requirement that the product must be matured for three years before it can be sold. Such entry barriers represent a significant impediment to the expansion of the industry, but could be overcome if there was a wholesale market for bulk Irish whiskey, as is the case with Scotch.
- While Ireland and Scotland are similar in population terms, the Irish whiskey industry is dwarfed by its Scottish counterpart. Scotland has 115 working distilleries compared to Ireland's 12, although to date only four of these have produced mature whiskey. More than 10,000 people are directly employed in the Scotch whisky industry, with many of these jobs in economically disadvantaged areas, compared to 750 in the Irish whiskey industry. Scotch whisky exports in 2014 were in excess of €5 billion, compared to Irish whiskey exports of €350 million.
- Many of the brands that have contributed to the international success of Scotch whisky are owned and marketed by firms which are not engaged in distilling, but purchase supplies of whisky on the wholesale market for bulk Scotch whisky.
- There is considerable potential for Irish whiskey to increase export sales with potential employment benefits. Whiskey production is largely based on domestically produced inputs so that increased exports would have considerable knock-on effects in various upstream supply industries.
- The establishment of a market for bulk whiskey as advocated by the Irish Whiskey Association would represent a very effective means of encouraging new export-oriented firms in the industry by removing supply uncertainty and would yield significant economic benefits in terms of exports, output and employment at little or no cost to the Exchequer. In the past, several firms built Irish whiskey brands and businesses that were subsequently undermined by a lack of supply of mature whiskey.
- Pending the establishment of such a market, immediate action is required to prevent the demise of smaller brands simply because they are unable to obtain supplies of whiskey.

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1: INTRODUCTION.

1.1: Background to the Report.

This report has been prepared by Compecon for The Wild Geese Irish Whiskey which supplies and distributes Irish whiskey under the brand “The Wild Geese Collection” throughout the world.¹ Compecon was requested to prepare a report, analysing the performance of the Irish whiskey industry and its potential to contribute to growth in the Irish economy through increasing exports, notably in the context of the Irish Government’s *Food Harvest 2020* programme to promote food and drink exports.² In considering the export potential of Irish whiskey, Compecon was asked to compare the performance of the Irish whiskey industry with that of the Scotch whisky industry. In addition, Compecon was asked to consider possible obstacles to increasing Irish whiskey exports and how these might be addressed.

1.2: Structure of the Report.

The balance of the report is structured as follows: Section 2 provides a description of the key characteristics of the Irish whiskey industry and its performance over time. Some comparative information on the Scotch whisky industry is contained in section 3. Section 4 then considers the potential for future expansion of the Irish whiskey industry and addresses the issue of supply availability for new firms wishing to enter the industry and whether this constitutes a bottleneck to future growth. The report’s conclusions are outlined in section 5.

1.3: Disclaimer.

This report is the sole responsibility of Compecon Limited and is solely for the use of the client. The report has been prepared primarily using information that is in the public domain. In a small number of instances information has been provided by the client. Compecon will not, by virtue of having prepared this report, or otherwise in connection with this assignment, assume any responsibility in contract, tort (including without limitation negligence) or otherwise in relation to this assignment and shall have no liability to third parties. Nothing in this report constitutes legal advice or opinion on the issues addressed or any other matter.

¹ The Wild Geese Irish Whiskey is sold under the Wild Geese Soldiers and Heroes Brand in the United States.

² Available at <http://www.agriculture.gov.ie/media/migration/agri-foodindustry/foodharvest2020/2020FoodHarvestEng240810.pdf>

2: ECONOMIC ANALYSIS OF THE IRISH WHISKEY INDUSTRY.

“A nation of distillers and brewers, does any other trade prosper in Ireland?”

(George Moore).³

2.1: Introduction.

Irish whiskey is, to some extent, a unique product due to the strict legal requirements which must be satisfied in order to be designated as Irish whiskey. The Irish whiskey industry has a long history and is a significant contributor to the Irish economy. In 2014, Irish whiskey exports amounted to €350 million.⁴ It is a major user of domestic raw materials and inputs including malted barley and uses a significantly higher proportion of domestically produced inputs than many other industry sectors. The Irish Whiskey Association (IWA) estimates that there are 750 people directly employed in Ireland in the production of whiskey, with many more employed in supply-related industries.⁵ Just two years ago there were only four distilleries in Ireland producing and selling whiskey. Today there are 12 distilleries located on the island of Ireland, of which ten are located in the Republic of Ireland with two more in Northern Ireland. Many of the newer distilleries established over the past two years are relatively small scale and none of them will have their own whiskey available for sale for some time as there is a legal requirement that whiskey must be matured for three years before it can be sold to consumers. To date only four of the 12 distilleries have produced mature whiskey. Pernod-Ricard’s Midleton distillery is by far the largest, accounting for approximately 80% of total distilling capacity on the island of Ireland. There are currently 11 companies engaged in the distilling industry on the island of Ireland, as one company, Suntory, owns two distilleries (see Table 2.2. below).

There are strict legal requirements which must be satisfied before a product can be described as Irish whiskey. These requirements are set out in the Irish Whiskey Act, 1980 and corresponding UK legislation.⁶ These include *inter alia* a requirement that spirits must be distilled in the State or in Northern Ireland from a mash of cereals and that they be matured in

³ Cited in J. Meenan, *The Irish Economy Since 1922*, Liverpool University Press, 1970, p.315.

⁴ CSO *Trade Statistics*.

⁵ IWA *Vision for Irish Whiskey A Strategy to Underpin the Sustainable Growth of the Sector in Ireland*, May 2015.

⁶ The legislation is currently being reviewed.

wooden casks in a warehouse in the State or in Northern Ireland for a period of not less than three years.

2.2: Historical Background.

It is claimed that Irish whiskey production dates back to the 6th century.⁷ The first documented reference to Irish whiskey dates back to 1405.⁸

Lyons records how in the latter half of the 19th century Irish distilling enjoyed “a world-wide fame”.⁹ The early 19th century saw dramatic growth in Irish whiskey from 40 distillers in 1823 to 86 in 1840. Between 1823 and 1900, the output of Ireland’s distilleries quadrupled, at which point Ireland was the World leader in whisk(e)y, according to the IWA, with annual sales of 12 million nine-litre cases.¹⁰ The increase in Irish whiskey production was erratic, however. O’Grada reported that output in 1900 was only double that of the 1840s “and stagnated thereafter.”¹¹ He also states that there were only 28 distilleries still in operation by 1887. This total had fallen to 23 by 1919, with 11 of these in the six counties that were to become Northern Ireland, “though the number operating was probably smaller.”¹² Nevertheless, by 1907, Irish whiskey accounted for one quarter of total UK whisk(e)y output. “[T]he industry’s growth was perforce very much export-oriented.”¹³ Two thirds of total whiskey production in 1907 was exported.¹⁴

Whiskey production methods had remained largely unchanged for centuries until the introduction of new technology which was patented in 1830. The traditional pot-still production process produced what was known as malt whiskey, though “Irish pot-stillers always worked from a mixed mash, a practice which may have forced them to run the spirit through three stills to make the product drinkable.”¹⁵

The new technology revolutionised distilling in the long-run, but Irish distillers were slow to adopt it. The new patent still process was ideally suited to the production of industrial alcohol

⁷ IWA, 2015.

⁸ Source: <http://www.irishdistillers.ie/our-company/irish-distillers-history.html>

⁹ F.S.L. Lyons, *Ireland Since the Famine*, London, Fontana 1973, p.68.

¹⁰ IWA, 2015.

¹¹ C. O’Grada, *Ireland: A New Economic History 1780-1839*, Oxford, Clarendon Press, 1994, p.295.

¹² O’Grada, 1994, p.316.

¹³ O’Grada, 1994, p.316.

¹⁴ Lyons, 1973.

¹⁵ O’Grada, 1994, p.298.

and gin but, when first applied to whiskey, it produced “a spirit that was cheap but barely drinkable.”¹⁶ Most Irish distillers rejected the patent still process “on the grounds that it produced an inferior product”.¹⁷ O’Grada states that Irish distillers possibly held a comparative advantage in the original malt product “as the thrice distilled Irish malt was smoother than Scotch, and thus less in need of blending with tasteless patent spirit.”¹⁸ The traditional pot-still method, however, involved much higher production costs than the patent still technology as it was far more fuel-intensive and required more time in cask while triple distillation also increased the costs of Irish whiskey relative to those of Scotch. Nevertheless, in the early years of the 20th century, the Irish whiskey industry “enjoyed a seemingly secure prestige”.¹⁹

In contrast to Ireland, Scotch whisky distillers were quicker to adopt the patent still process. By 1887, Scotland’s two largest distilleries – the Port Dundas in Glasgow and the Caledonian in Edinburgh – were grain whisky producers, while “many of the smaller malt whisky producers were playing the subsidiary role of providing a blending base for such giants.”²⁰ By the time UK legislation providing for compulsory bonding was introduced in 1915, “the Scots had largely won the battle for the English market for whiskey”.²¹ This is illustrated in Table 2.1, which gives data on English imports of spirits from Ireland and Scotland over the period from 1880 to 1910.

Table 2.1: English Imports of Spirits from Ireland and Scotland 1880-1910			
(million gallons)			
	Scotland	Ireland	Irish as % total
1880	1.8	1.6	47.1
1888	2.2	1.5	40.5
1900	7.1	4.2	37.2
1910	4.4	1.8	29.0
Source: O’Grada, 1994, Table 12.9.			

¹⁶ O’Grada, 1994, p.298.

¹⁷ O’Grada, 1994, p.298.

¹⁸ O’Grada, 1994, p.298.

¹⁹ Meenan, 1970, p.16.

²⁰ O’Grada, 1994, p.299.

²¹ O’Grada, 1994, p.300.

The table shows how Irish and Scotch whisk(e)y held almost equal shares of the English market in 1880. However, Irish whiskey's share declined steadily over time, from 47% in 1880 to just 29% thirty years later.

According to O'Grada, the decline in Irish distilling in the early years of the 20th century cannot be blamed solely on technological choices:

“A more plausible explanation for the lacklustre Irish performance is the lack of marketing, it is difficult to think of a single Irish distiller that built up the level of overseas distribution network that characterised the leading Scottish blenders.”²²

The industry continued to decline following Irish independence in 1922. Various reasons have been put forward. For example, the IWA cites factors such as prohibition in the United States from 1919 to 1933 and the Economic War with Britain in the 1930s, although, as pointed out, the decline in Irish whiskey's share of the UK market predates the trade war with Britain by some way.²³

By the 1960s, there were only four distilling companies remaining on the island of Ireland, three of them located in the Republic, and the fourth, Bushmills, in Northern Ireland. In 1966, the three remaining distillers in the Republic of Ireland - John Jameson & Son, John Power & Son and The Cork Distilleries Company - merged to form the Irish Distillers Group (“IDG”). A new distillery was built at Midleton in 1975, alongside the existing one. Over a period of five years, all of the old distilleries in the State were closed as the new Midleton Distillery came on stream.²⁴ IDG acquired the Bushmills distillery in Northern Ireland, but this was subsequently sold to Diageo in 2005 and has since been acquired by Jose Cuervo. In 1988, IDG was acquired by French drinks group, Pernod-Ricard.

The Cooley distillery in County Louth became the first new distillery to open on the island of Ireland in over 100 years when it commenced operations in 1987. Cooley subsequently acquired the old Kilbeggan distillery in County Westmeath, which had closed in 1954, and brought it back into production in 2007. Pernod-Ricard sought to acquire Cooley in 1994, but

²² O'Grada, 1994, p.301.

²³ Source: <http://www.irishdistillers.ie/our-company/irish-distillers-history.html>

²⁴ Source: IWA, 2015.

the transaction was blocked by the Competition Authority on the basis that it was anti-competitive. According to the Competition Authority:

“IDG has indicated publicly that it intends to close the Cooley distillery and not to produce or market any of its products. Thus the only Irish whiskey producer not controlled by IDG and ultimately by its parent Pernod-Ricard will be eliminated.”²⁵

Cooley was subsequently acquired by US drinks group Beam in 2012. Beam, in turn, was acquired by Suntory, a Japanese drinks group. All of the major Irish distillers are, therefore, subsidiaries of multinational drinks groups.

2.3: Industry Structure.

Details of the owners and location of distilleries currently operating on the island of Ireland, along with estimates of their productive capacity, are set out in Table 2.2.

There is one very large distillery with a capacity that is four times that of all of the others combined; four which are small to medium sized by comparison while the remainder might effectively be described as “micro” distilleries. Each of the distilleries is owned by a different company with the exception of the Cooley distillery in County Louth and the Kilbeggan distillery in County Westmeath which are both owned by Suntory. Pernod-Ricard completed a major expansion of its Midleton distillery in 2013 which effectively doubled its capacity. It is by far the largest distillery on the island of Ireland and accounts for 80% of total installed industry capacity. The new William Grant distillery in Tullamore, which opened in September 2014, accounts for almost 9% of total industry capacity.²⁶ The Bushmills distillery in Northern Ireland accounts for a further 5% of capacity. The Suntory distilleries at Cooley and Kilbeggan between them account for less than 3% of total industry capacity. These four firms between them therefore account for 96% of total capacity. The remaining eight distilleries all of which have commenced operations within the past two years are all relatively small-scale and together account for less than 5% percent of total installed capacity.

²⁵ Competition Authority, Decision no.285 - Irish Distillers Group plc/Cooley Distillery plc, 25th February 1994 available at <http://www.tca.ie/images/uploaded/documents/Pre%202002%20DEC285.pdf> .

²⁶ This is on the basis that it has a reported annual capacity of 1.5 million 9 litre cases. It was also reported at the time of its opening that the building has adequate space to permit future expansion. *Irish Examiner* 18th September 2014.

None of this latter group will have mature whiskey of their own available for sale to the public for some time.

Company	Distillery	Capacity (million lpa)	% Total Capacity
Pernod-Ricard	Midleton	64.00	80.0
Suntory	Cooley & Kilbeggan	1.90	2.4
Jose Cuervo (Diageo)	Bushmills	3.50	4.4
William Grant	Tullamore*	7.50	9.4
Altech	Carlow*	0.10	0.1
Dingle	Dingle*	0.06	0.1
Dunville	Echlinville*	0.10	0.1
Teeling Whiskey Distillery	Dublin*	0.50	0.6
Great Northern Distillery	Dundalk*	2.10	2.6
Glendalough Distillery	Glendalough*	n.a.	n.a.
West Cork Distillers	Skibbereen*	n.a.	n.a.
The Shed Distillery	Drumshanbo*	n.a.	n.a.
Total		Approx 80.0	100.0

Note: * Distilleries which have recently opened and do not yet have mature whiskey of their own available for sale, although they are believed to be producing and maturing spirit.
 Source: <http://www.irishdistillers.ie/img/news/NewsPDFs/The%20Houewarming%20040913.pdf>
 Cooley Annual Reports, media reports and Protégé estimates.

Table 2.3 gives details of the principal Irish whiskey brands that are currently on the market. It should be noted that while the three largest distilleries all have their own brands and these account for the vast bulk of Irish whiskey sales, there are a number of other brands on the market which currently obtain their supplies of whiskey from one of the three main distillery companies.

Table 2.3: Details of Main Irish Whiskey Brands		
Owner	Brand Name	Distillery
Pernod-Ricard	Midleton	Midleton
Pernod-Ricard	Jameson	Midleton
Pernod-Ricard	Paddy	Midleton
Pernod-Ricard	Powers	Midleton
Pernod-Ricard	Redbreast	Midleton
Suntory	Kilbeggan	Kilbeggan
Suntory	Locke's	Kilbeggan
Suntory	Connemara	Cooley
Suntory	Greenore	Cooley
Suntory	Millars	Cooley
Suntory	Tyrconnell	Cooley
Jose Cuervo (Diageo)	Bushmills	Bushmills
Jose Cuervo (Diageo)	Black Bush	Bushmills
William Grant	Tullamore Dew	Midleton
Walsh Distillers	The Irishman	Midleton
Walsh Distillers	Writer's Tears	Midleton
Castle Brands	Knappogue Castle	Bushmills via Pernod-Ricard
Terra	Cú Chulainn	Cooley
The Wild Geese Irish Whiskey	The Wild Geese Collection	Cooley
Teelings	Teelings Whiskey	Cooley
Source: IWA/IWSR.		

Table 2.4 sets out estimates of capacity utilisation for the various distilleries on the island of Ireland. The table shows that current sales are equivalent to approximately 31% of the industry's installed capacity following the opening of the extension to Pernod-Ricard's Midleton distillery. Of course, the requirement to mature whiskey for a number of years prior to its sale means that product sold in 2013 was actually produced several years earlier. According to the IWA total production in 2013 was equivalent to 40 million lpa which is equivalent to 57% of installed capacity.²⁷ The industry clearly has plenty of capacity to increase production in order to supply new entrants.

²⁷ IWA Briefing Note, March 2014, p.22.

Table 2.4: Ratio of Sales to Capacity in the Irish Whiskey Industry 2013			
(million lpa)			
Company	Capacity	Sales	Sales as % of Capacity
Pernod-Ricard	64.0	16.3	25.5
Cooley	1.9	1.1	56.8
Jose Cuervo (Bushmills)	3.5	1.2	34.3
William Grant	7.5	n.a.	n.a.
Smaller Brands	0.3	2.7	3.9
Total	77.2	21.3	27.6

Notes: Pernod-Ricard sales include 2.3 million lpa bulk sales to Grants for its Tullamore Dew Irish whiskey brand. The smaller brands purchase their whiskey supplies from one of the larger distilleries and their sales are expressed as a percentage of total industry capacity.
Source: Cooley PLC Annual Reports, media reports and The Wild Geese Irish Whiskey estimates.

According to the IWA, the number of distilleries on the island of Ireland could increase to more than 15 over the next few years “if all the current projects move forward”.²⁸ Of course, it is by no means certain that all of the projects currently planned will come to fruition. Some proposals have allegedly encountered planning difficulties and it is by no means certain that all of the would-be entrants will be able to obtain the necessary finance. More importantly, however, most of the potential entrants that have been identified by the IWA will be relatively small-scale producers. It is reported, for example, that the proposed Walsh Whiskey distillery would have an annual capacity of 1.4 million lpa²⁹ which is equivalent to approximately 2% of current industry capacity.³⁰ No information is available regarding the size of any of the other planned distilleries, although the indications suggest that they are all likely to be relatively small-scale. Pernod-Ricard will thus remain by far the largest producer, accounting for almost 80% of total industry capacity. Again it is important to stress that when these additional planned distilleries are completed, it will be some years before such entrants will have their own whiskey ready for sale to final consumers.

2.4: Barriers to Entry.

The fact that a firm may incur significant costs in order to enter a market need not constitute a barrier to entry if those costs, or most of them at least, can be recouped if the firm is

²⁸ IWA, 2015, p.5.

²⁹ *Drinks Report*, 16th October 2013 available at <http://www.liquidirish.com/2013/10/walsh-whiskey-distillery.html>.

³⁰ *Irish Times*, 29th January 2014 available at <http://www.irishtimes.com/business/sectors/agribusiness-and-food/teeling-to-establish-new-whiskey-distillery-1.1672181>

subsequently forced to exit. Thus, for example, even if a firm incurs significant costs in acquiring plant and equipment, such costs do not constitute a barrier to entry if the firm could recoup these costs by reselling such equipment if it is subsequently forced to exit the market. Costs that cannot be recouped in the event of exit are referred to as “sunk”. Economics recognises that “sunk costs” constitute a barrier to entry, a point recognised by the IWA in its Vision for Irish Whiskey.

It is also widely recognised in the economics literature that industry incumbents can act strategically to discourage entry. This view of entry barriers distinguishes between exogenous and endogenous entry barriers. The former are effectively determined independently of the firms in the industry. Endogenous, or artificial, entry barriers are the result of strategic behaviour by incumbents that is designed to impede entry by exploiting some asymmetry between the incumbent and the new entrant, in order to raise the potential entrant’s costs. Such barriers may enable incumbent firms to maintain prices above their competitive level for a time, i.e. they may constitute barriers to entry in the short-run but not in the long-run.

The Competition Authority concluded in 1994 that entry barriers in the whiskey industry were relatively high:

“In addition it [the Competition Authority] accepts that the level of working capital necessary for entry is high due to the long lead time involved between the commencement of production and the availability for sale of the finished product. It believes that the start-up costs represent a significant barrier to entry in this market.”³¹

The entry barriers identified by the Competition Authority are still there.

According to the IWA:

“Building a distillery, maturing stock and creating a successful brand mean the financial demands on a new entrant are significant.”³²

³¹ Competition Authority, 1994, p.27.

³² IWA, 2015, p. 10.

The Competition Authority in 1994 reported that the founder of Cooley distillery, Dr John Teeling, indicated at the time of the attempted acquisition of Cooley by IDG, that construction of a new distillery on a Greenfield site could cost up to Ir£15 million.³³ More recently, it was reported that a proposed new distillery and visitor centre in Slane Castle, County Meath, would cost approximately €12 million.³⁴ The new William Grant pot still distillery in Tullamore, which opened in September 2014, cost a reported €35 million.³⁵ A PowerPoint presentation by the Irish Spirits Association (ISA) for a meeting with the Scottish Whisky Association (“SWA”) on 3rd February 2014, states that Walsh Whiskey were to invest €25 million in a new distillery in Carlow. Significantly, Walsh Whiskey appears to have linked up with an international drinks company in order to develop the planned distillery. The presentation also noted that John Teeling was planning to invest €35 million “to reinvent the Great Northern Brewery in Dundalk” as a distillery. According to the IWA, it costs approximately €15-20 per litre to build a distillery with an annual capacity of 0.5 million litres, i.e. 100,000 9 litre cases.³⁶ The capital cost of building such a distillery from scratch is, therefore, in the region of €7.5 to €10 million. In fairness, the full cost of plant and equipment may not be sunk as there may be a second-hand market for such equipment so that an entrant that was unsuccessful might recoup some of the capital cost incurred in setting up a distillery.

Statutory requirements provide that Irish whiskey must be matured for a minimum period of three years before it may be sold to final consumers, although the IWA have stated that a good pot-still Irish whiskey could take up to seven years to mature.³⁷ In effect, this means that an undertaking that wishes to become involved in distilling whiskey must wait at least three years before it can generate any revenue from sales of its product. In the interim, the firm must bear ongoing production and storage costs. According to the IWA, the working capital required for a 0.5 million lpa distillery to distil, mature, bottle and ship before the first cases are available for sale is of the order of €15 million.³⁸ The vast bulk of such costs would appear to be effectively sunk, as it is unlikely that they could be recouped in the event that a

³³ Competition Authority 1994.

³⁴ *Irish Examiner*, 18th September, 2014.

³⁵ Drinks International 14th August 2012 available at http://www.drinksint.com/news/printpage.php/aid/3195/Irish_whiskey.html

³⁶ IWA, 2015, p.23.

³⁷ IWA, 2015, p.23.

³⁸ IWA, 2015, p.23.

firm was forced to exit the market. If entry is unsuccessful, it might be possible to sell any whiskey produced as bulk product but the maturation and storage costs are essentially sunk.

In addition, new entrants must also invest in marketing and branding. It is generally recognised that advertising spending also constitutes a sunk cost.

Distilling is thus characterised by high levels of sunk costs which represent a significant barrier to entry. The barriers to entry due to the high costs involved in storage and maturation were also acknowledged by the CEO of the Irish Malting Company, Mr. Dick Walsh:

“The biggest problem is that there is a five-year lead-in, and most businesses don't have pockets deep enough to absorb that.

Even if they do get going, they are only going to be doing 1,000 tonnes of malt a year. That's not going to make a big difference really”.³⁹

The IWA has implicitly recognised that there are significant entry barriers in the Irish whiskey industry:

“An Irish whiskey distillery faces the issue of having very high start up costs while having to wait a minimum of three years for the initial product to mature for sale.”⁴⁰

Until relatively recently, Cooley constituted the only example of entry in Irish whiskey distilling for over a century. As previously noted, eight new distilleries have commenced operations over the past two years and more are planned. Most of those that have come on stream over the past two years and have yet to reach the stage of having mature whiskey to sell while those which are planned are relatively small-scale.

Evidence of entry of itself is not conclusive proof of the absence of entry barriers. Entry needs to be sustained over time and must not be confined to niche markets. Recent entrants such as Dingle and many of the other planned distilleries appear to be very small-scale, niche operations. A number of them also appear to be intended to operate as tourist attractions as a means of ensuring their financial viability. To that extent, the entry of such firms does not

³⁹ Agri-business: Irish Whiskey Back Where it Belongs, *Irish Independent*, 27th February 2014.

⁴⁰ IWA Briefing Document March 2014, p.16.

alter the fact that there are sizeable barriers to entry in whiskey distilling, particularly in the case of large-scale entry.

New entrants may seek to overcome entry barriers in different ways. For example, they could distil other kinds of spirits as well as whiskey, as there is no three-year storage requirement in respect of products such as vodka and gin. In other words, a new entrant could seek to generate some revenue from sales of gin and vodka while waiting on any whiskey it produces to mature. Dingle Gin and Vodka is a recent example of such a strategy. However, this involves some opportunity cost because using stills to produce other spirit reduces the quantity of whiskey which can be produced. Revenue from tourist visits represents another mechanism by which new entrants may seek to generate revenue to help offset start-up costs and this is a route which several recent entrants have chosen. Of course it remains to be seen whether such strategies will prove successful at overcoming the very significant entry barriers which exist and result in viable long-term entry by these new distilleries. None of them has yet reached the stage of having their own mature whiskey available for sale.

Firms may also seek to enter the Irish whiskey business without first establishing a distillery by purchasing whiskey from an existing distillery and bottling and marketing it. In this way, a firm can establish a new whiskey brand and generate sales without incurring the upfront costs of setting up a distillery and storing product until maturity. This is the strategy which was adopted by The Wild Geese Irish Whiskey when entering the market. In time, if the brand proves successful, such a firm could invest in a distillery and produce its own whiskey rather than purchase its supplies. Walsh Whiskey is another example, as it currently purchases whiskey from Pernod-Ricard. Similarly, Dunville whiskey has reportedly supplied customers in Britain, other EU Member States and the US having obtained supplies from an existing Irish distiller while waiting for whiskey produced at its new distillery to mature.

“Whiskey, of course, has to mature in a cask for at least three years. We are able to provide the Dunville whiskey now because we were able to purchase a consignment from another Irish distillery and finish and blend it ourselves”.⁴¹

⁴¹ Quote attributed to Echlinville Distillery managing director Shane Braniff, *Irish Times* 23rd January 2014. Available at www.irishtimes.com/business/sectors/agribusiness-and-food/irish-whiskey-brand-returns-80-years-after-prohibition-1.1665413

In a recent television interview, Mr. Stephen Teeling indicated that it would probably not have been possible to fund the new Teeling distillery without the cash flow generated from sales of mature whiskey which Teelings bought from Beam.

On a larger scale, Grants purchased approximately 2.3 million lpa from Pernod-Ricard for its Tullamore Dew brand prior to the opening of its own new distillery in Tullamore. A number of very successful and very well known Scotch whisky brands are owned by firms which do not own distilleries, but purchase their whisky supplies from distilleries owned by rival firms or through the wholesale market. A number of examples are given in section 3 of the report.

In addition to entry barriers, it is also necessary to consider the question of barriers to expansion. These are barriers which serve to prevent expansion by smaller firms that are already operating in the relevant market(s). Barriers to expansion are also significant because increasing production increases the quantities that must be stored and matured, thus increasing working capital requirements.

Clearly the entry barriers arising from the cost of maturing stocks could be overcome if potential entrants could purchase bulk supplies of mature whiskey. In fact there have been several examples of entrants doing precisely that. The difficulty is that, up to now, such buying and selling has occurred on an ad-hoc basis. While there are several examples of new firms launching new Irish whiskey brands and developing export markets through purchasing whiskey from incumbent distillers, many of these subsequently were forced to exit the market as they were no longer able to obtain supplies in this way. Consequently relying on such ad-hoc arrangements will not work and may not constitute an effective entry strategy. What is required is the establishment of a bulk wholesale whiskey market which would remove existing barriers and facilitate access to available stocks. This point has been explicitly recognised by the IWA and is one of the measures proposed in their *Vision for Irish Whiskey* document published earlier this year as necessary to achieve their stated target of doubling Irish whiskey exports by 2020.⁴² The existence of a bulk wholesale market has been a significant contributory factor in the development of the Scotch whisky industry.

⁴² IWA, 2015.

2.5: Irish Whiskey Sales.

While the Irish whiskey industry declined through most of the 20th century, it has recovered significantly in recent decades. In volume terms, Irish whiskey sales have increased substantially since 1995, as Fig.2.1 illustrates.



The growth in sales has been particularly strong since 2005. Total sales in 1995 amounted to approximately 2 million 9 litre cases. This had risen to 3.4 million cases in 2005 and increased to 6.7 million cases by 2014.

Table 2.5 confirms the sharp increase in sales growth since 2005.

Table 2.5: % Increase in Irish Whiskey Sales 1995-2014	
(Volume)	
1995-2000	+33.6
2000-2005	+25.4
2005-2014	+98.0
1995-2014	+231.7
Source: As Fig.2.1.	

Fig.2.2 shows trends in exports as a proportion of total Irish whiskey sales in volume terms.



The Irish whiskey industry is heavily export-oriented. The proportion of Irish whiskey sales due to exports has increased steadily over time from 73% in 1995 to 92% in 2013 meaning that only 8% of the whiskey produced on the island of Ireland is purchased by Irish consumers.

Table 2.6 gives a breakdown of the main export markets for Irish whiskey over time.

	1995	2000	2005	2011
EU15	38.9	46.1	41.1	24.0
EU27	39.5	49.4	47.2	32.9
North America	19.6	18.9	22.3	34.9
Rest of World	40.9	31.7	30.5	32.2
Total	100.0	100.0	100.0	100.0
Note: Rest of World includes worldwide duty free sales.				
Source: As Fig.2.1.				

The table shows that there has been a very significant shift in export sales of Irish whiskey, particularly in recent years. North America was the largest export market for Irish whiskey in 2011, accounting for 35% of total exports compared with 20% in 1995. The share of sales due to the EU 15 has almost halved, from 46% in 2000 to 24% in 2011. The newer EU Member States share has increased from less than 1% in 1995 to almost 9% reflecting the fact that these states are important emerging markets for Irish whiskey. The rest of the world, including worldwide duty free sales, accounted for 32% of Irish whiskey exports in 2011, compared with 41% in 1995.

Table 2.7 shows changes in Irish whiskey sales by area since 1995.

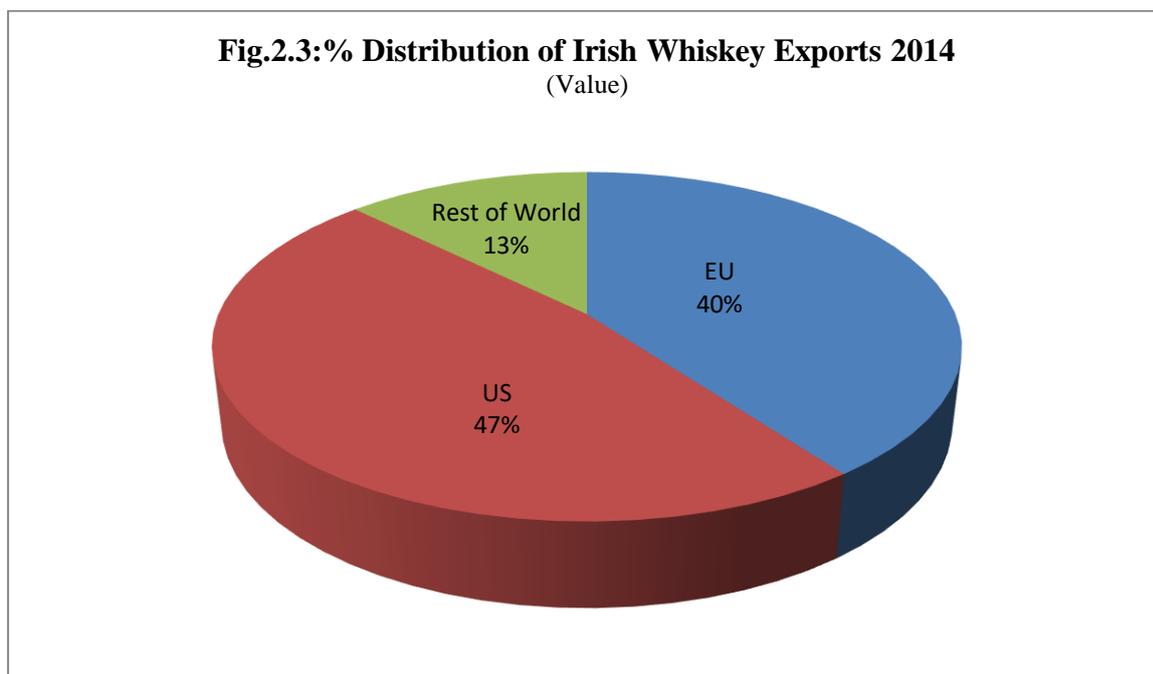
Table 2.7: % Change in Irish Whiskey Sales 1995-2011				
	1995-2000	2000-2005	2005-2011	1995-2011
Ireland	+12.7	-17.9	-9.3	-16.0
EU15	+67.6	+23.4	+3.8	+114.8
EU27	+77.0	+32.2	+24.0	+190.0
North America	+35.9	+63.3	+179.4	+520.1
Rest of World	+9.8	+33.2	+87.6	+174.4
Total	+33.6	+25.4	+84.8	+176.0
Note: Rest of World includes worldwide duty free sales.				
Source: As Fig.2.1.				

Domestic sales have fallen over the past decade. The rate of sales growth to the EU 15 has slowed considerably. Between 1995 and 2000, exports to the EU 15 increased by 68%. Between 2005 and 2011, however, exports to the EU 15 increased by less than 4%. Sales have grown much faster in the newer EU Member States reflecting the fact that these are newly emerging markets with greater potential for increased sales growth than more mature markets. In contrast, the growth in sales to North America has increased dramatically over time. Between 1995 and 2000, Irish whiskey exports to North America increased by 36%. Over the following five-year period exports to North America increased by 63%, with sales growing by 179% between 2005 and 2011. The growth in sales to the rest of the world has also increased over time, albeit not to the same extent as sales to North America.

Table 2.8 gives details of the value of Irish whiskey exports.⁴³ Irish whiskey exports increased from €89 million in 2000 to €131 million in 2007, and to almost €350 million in 2014. This clearly constitutes a very impressive performance.

Table 2.8: Irish Whiskey Exports 2000-2014	
(€ million)	
2000	89.1
2007	130.7
2014	349.1
Source: CSO, <i>Trade Statistics of Ireland</i> . various years.	

Fig.2.3 illustrates the breakdown of Irish whiskey exports in value terms. The chart shows that the US accounted for 47% of Irish whiskey exports by value in 2014, with the EU accounting for a further 39%. Sales to the rest of the world accounted for just 13% of Irish whiskey exports in value terms.



Source: CSO: *Trade Statistics of Ireland*.

Irish whiskey exports to the US have increased considerably over the past twenty years, making it the largest export market for Irish whiskey. Nevertheless, Irish whiskey accounts

⁴³ This data is taken from the CSO's *Trade Statistics of Ireland* and thus relates to exports by firms in the Republic of Ireland only, i.e. export sales from Northern Ireland, mainly Bushmills, are not included.

for a very small share of US whisk(e)y sales. Data for the 52 weeks ending 25th January 2015, indicate that the US whisk(e)y market was worth \$1.89 billion. Sales of Jameson accounted for 4% of total US whisk(e)y sales in value terms.⁴⁴ The IWA estimate that Scotch whisky sales in the US amounted to more than €1bn, compared to Irish whiskey sales of approximately €160 million.⁴⁵

There is, therefore, clearly considerable potential to increase Irish whiskey exports to the US. Even a small increase in Irish whiskey's share of the US whisk(e)y market would result in a significant increase in export receipts.

2.6: Conclusions.

The Irish whiskey industry has a long history and enjoyed a worldwide reputation in the mid-19th century. The industry, however, declined through the latter part of the 19th century and for most of the 20th century. Irish whiskey exports have increased considerably over the past 10-15 years, however, reversing the pattern observed over much of the previous century. There are significant barriers to entry in whiskey distilling, largely due to the requirement that the product must be matured for three years before it can be sold. Nevertheless, the number of distilleries on the island of Ireland has increased from four to 12 over the past two years with more in the pipeline. Most of these new distilleries are relatively small and, as yet none of them have reached the stage where they have mature whiskey of their own available for sale to consumers. Whether such attempts at entry will prove successful, thus remains to be seen. One way of addressing such entry barriers would be to establish a properly functioning wholesale market for bulk Irish whiskey as is the case with Scotch. Indeed as we will see in the following section of the report such a market is regarded as having played a crucial role in the successful expansion of the Scotch whisky industry. This would replace existing ad-hoc arrangements which have proved somewhat unsatisfactory with a market in which price would be determined by supply and demand. The IWA has called for the establishment of such a market.

⁴⁴ The Statistics Portal <http://www.statista.com/statistics/422954/us-market-share-of-the-leading-whiskey-brands-based-on-dollar-sales/>

⁴⁵ IWA, 2015.

3: A TALE OF TWO INDUSTRIES.

3.1: Introduction.

Scotch whisky, like its Irish counterpart, has a long tradition dating back 1,500 years, although the “first recorded entry in Scotland of inventory being kept for the purposes of making a distilled spirit appeared in 1494.”⁴⁶

“Much to the chagrin of the Scotsman, it is likely that the first whisky was distilled not in Scotland but in Ireland. The spirit was known in Ireland when that land was invaded by the English in 1170. In all likelihood the art of distillation was imported into Scotland by missionary monks from Ireland. Two of today’s main centers of Scotch distilling, namely the island of Islay and the Speyside town of Dufftown, were the sites of early monastic communities.”⁴⁷

There are currently 115 licensed distilleries in Scotland.⁴⁸ Seven of these are grain distilleries, with more than 100 working malt distilleries. Three of the grain distilleries, which are among the largest in Scotland, and more than 20 of the malt distilleries are independently owned, i.e. they are not owned by one of the multinational drinks groups. While malt distilleries produce whisky in batches using only malted barley, grain distilleries use patent stills to allow continuous production of grain whisky using unmalted and malted barley together with other cereals.⁴⁹ A number of Scotch whisky brands are owned by firms which do not have a distillery of their own but simply purchase their requirements from operating distillers or on the wholesale market.

Total production of Scotch whisky in 2014 amounted to 518 million lpa. More than 10,000 people are directly employed in the industry across all the Scottish regions and other parts of the UK and the SWA estimates that more than 40,000 jobs in total depend directly or

⁴⁶ R.A. Dow and S. Jung, Strategic Management of Channels of Distribution and Integrated Marketing Communications: Essay on the Scotch Whisky Industry, *International Journal of Business and Social Science*, 22(2) December 2011, p.108.

⁴⁷ T.P. Lyons, Production of Scotch and Irish Whiskies: Their History and Evolution.

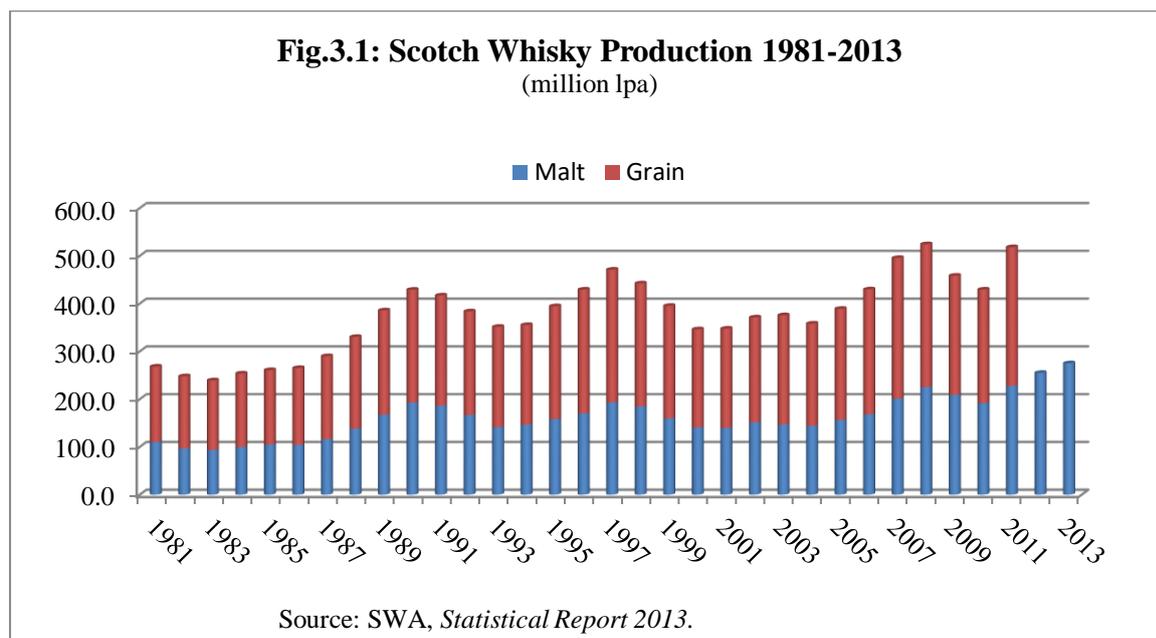
⁴⁸ Scotch Whisky Association (SWA), *Scotch at a Glance 2014*, 4th June 2015 available at <http://www.scotch-whisky.org.uk/news-publications/publications/documents/scotch-at-a-glance-2014/#.Vdc-532YFOg>

⁴⁹ SPICe Briefing, *the Scotch Whisky Industry*, 28th October 2009. Some grain distilleries separately produce neutral alcohol for white spirits.

indirectly on the industry.⁵⁰ Export sales in 2014 amounted to approximately £4 billion. Scotch whisky accounts for one quarter of total UK food and drink exports, according to the SWA.

3.2: Scotch Whisky – Key Statistics.

Fig.3.1 shows how total production of Scotch whisky has evolved over the past 30 years.



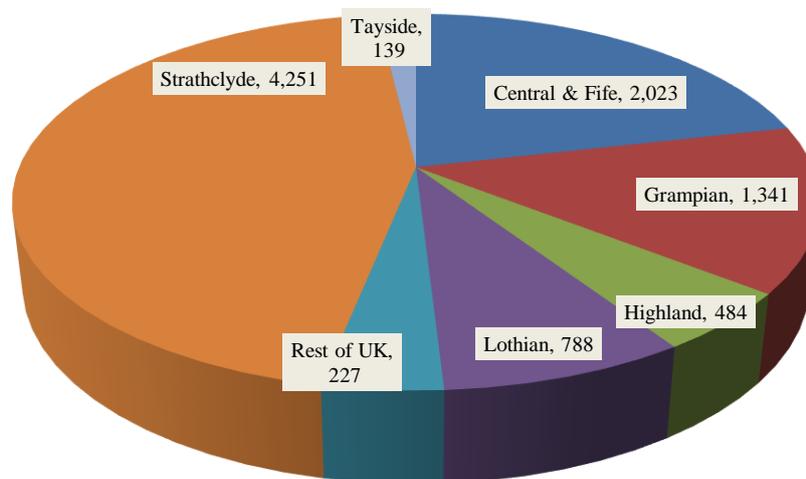
Total production of Scotch whisky in 2011 amounted to 518 million lpa, compared with 268 million in 1981.⁵¹ Grain whisky has traditionally accounted for 55-60% of total production, with the balance due to malt. Total malt whisky production in 2013 amounted to 275 million lpa, an increase of 43% on 2010. This means that the average output of the malt distilleries in 2013 was 2.5 million lpa. Average output of the seven grain distilleries amounted to 41.5 million lpa in 2011.

Fig.3.2 provides details of the numbers directly employed in the Scotch whisky industry in the various Scottish regions in 2013.

⁵⁰ This implies that for every person directly employed in the industry, a further 3 are employed indirectly. The IWA claims that the whiskey industry supports an additional 4,200 jobs in total suggesting that for every person directly employed a further 5.6 are indirectly employed. Even on the basis of the lower Scottish figure, it is clear that increased direct employment in the Irish whiskey industry would generate a significant number of additional indirect jobs.

⁵¹ This is the latest year for which data on grain produced whisky is available.

Fig.3.2: SWA Member Companies Employment by Region 2013



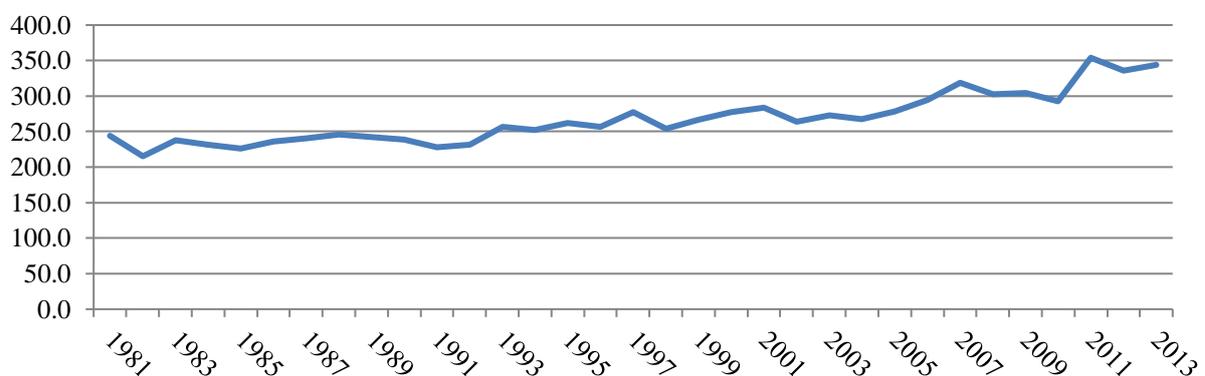
Source: SWA, *Statistical Report 2013*.

Note: Figures are for persons directly employed within Scotch whisky industry.

A total of 9,445 people were directly employed in the industry in 2013. Almost half of the jobs in the industry are located in the Strathclyde region. However, almost 5,000 jobs are located across the remaining Scottish regions, many in economically disadvantaged areas. Total employment in the industry increased to more than 10,000 in 2014.

Fig. 3.3 illustrates Scotch whisky exports in volume terms.

Fig.3.3: Scotch Whisky Exports 1981-2011
(million lpa)



Source: SWA, *Statistical Report 2013*.

Total Scotch whisky exports increased from 244 million lpa in 1981 to 354 million lpa in 2011. Exports fell slightly to 336 million lpa in 2012, but increased to 344 million lpa in 2013. As in the case of Ireland, exports account for the vast bulk of sales of Scotch whisky. In volume terms, exports share of total sales increased from 84% in 1981 to 93% in 2012. Total UK consumption in 2012 amounted to 25 million lpa, down from 48 million lpa in 1981.

Trends in the value of Scotch whisky exports are shown in Fig. 3.4.



The value of Scotch whisky exports increased from £784 million in 1981 to almost £2.4 billion in 1997. Export sales remained relatively flat from 1997 to 2006. However, export sales have increased dramatically in recent years, from £2.5 billion in 2006 to £4.3 billion in 2012, an increase of 72% in six years. Export sales declined to £3.9 billion in 2014.

3.3: Irish versus Scotch – Some Comparisons.

Table 3.1 provides some comparative data on the Irish and Scotch whisk(e)y industries.

Scotland has 115 working distilleries with 30 new distilleries under construction and more planned,⁵² compared to Ireland's 12. Total direct employment in the Scotch whisky industry amounted to more than 10,000 people in 2014, compared to 750 in the Irish whiskey industry.

⁵² http://www.scotch-whisky.org.uk/media/70534/economic_impact_20pp_web_v2.pdf

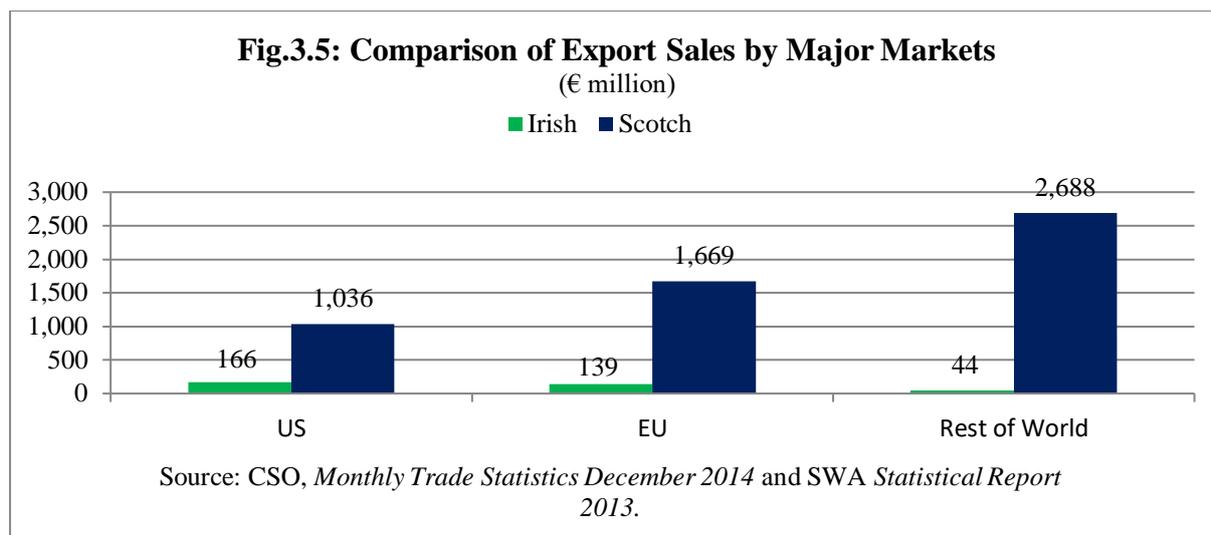
Section 2 of the present report showed that Irish whiskey exports have increased dramatically over the past 10-15 years. Nevertheless, Scotch whisky exports exceed those of Irish whiskey by a substantial margin. Exports of Scotch amounted to 344 million lpa in 2013, compared with Irish whiskey exports of 21 million lpa. In value terms, Scotch whisky exports amounted to more than €5 billion in 2014. Exports of Irish whiskey in 2014 amounted to just €350 million.

	Irish	Scotch
Distilleries	12	115
Direct Employment	750	10,000+
Exports (million lpa)	20.7	344.0
Exports (€M)	349.1	5,123.4

Fig.3.5 compares Irish and Scotch whisk(e)y exports to various destinations. Irish whiskey exports to the US in 2014 amounted to €166 million, compared with Scotch whisky exports of just over €1 billion in 2013. The respective figures for the EU were €139 million for Irish whiskey compared to €1.7 billion for Scotch.⁵³ Irish whiskey exports to the rest of the world amounted to €44 million in 2014, compared to sales of Scotch of €2.7 billion in 2013. In volume terms, Irish whiskey accounted for less than 1% of global whisk(e)y sales in 2013, although the IWA estimate that Irish whiskey brands accounted for approximately 4% of the premium World whisk(e)y market.⁵⁴

⁵³ The Irish whiskey total includes exports to the UK, while UK sales are not included in the Scotch figures.

⁵⁴ IWA, 2015.



3.4: The Wholesale Market.

An important feature of the Scotch whisky industry is the existence of a well-functioning wholesale market which enables firms to buy and sell bulk quantities of new fillings and mature whisky. Within this market brokers play a key role: purchasing bulk stocks from distillers; storing and maturing stock; and selling to customers seeking bulk supplies of whisky. Such customers include other distillers seeking product to blend with their own whiskies and firms which are not engaged in distilling but which blend and bottle whisky. Some blenders rely entirely on buying mature whiskies from the brokerage market and/or from the surplus stocks of distillers. Others enter into contractual arrangements to fill new-make spirit at distilleries and augment this with opportunistic purchases of mature stocks. Blenders may then sell product under their own brands or blend and bottle for a downstream customer who is the brand owner.

“Independent bottlers tend not to concentrate on producing in bulk and rather concentrate on bottling single casks with the spirit at higher strength, and leaving the spirit natural without being chill filtered or coloured. These collections focus on premium and also some off-the-beaten-track distilleries, unique Single Malts that are bottled at different ages and strengths.”⁵⁵

The wholesale market operates largely like any other commodity market. Whisky brokerage has two unique differences compared with other commodity markets. Maturing whisky stocks

⁵⁵ <http://www.duncantaylor.com/trade-sales/>

tend to increase in value every year as they grow older, In addition prices are underpinned by a “floor price” which is essentially determined by the production cost of new-make spirit – which depends in turn primarily on the prevailing costs of cereals and energy. “These factors conveniently reduce the risk of trading and/or holding whisky stocks.”

Some distillers and blenders also trade as brokers and some successful brokers have gone on to become fully integrated distillers and blenders by acquiring brands, distilleries and blending/bottling facilities. Examples include Stanley P. Morrison (now Morrison Bowmore Distillers, a subsidiary of Suntory) and Peter J Russell (now Ian Macleod Distillers). “Whilst an increase in inter-company trading between the larger distilling companies has reduced the number of brokers, the brokerage market **remains essential for the whole industry and the small number of independent brokers are crucial to the success of SMEs and early stage businesses in the Scotch whisky industry.**”⁵⁶ (Emphasis added).

The wholesale market also enables smaller distilleries to join forces and buy bulk supplies required for blending with their own product at prices which enable them to compete with larger distillers.

“For instance we can still price our whisky competitively as we team up with other independents to purchase casks in bulk, which helps us imitate some of the economies of scale enjoyed by bigger producers.”⁵⁷

The large number and diversity of Scotch Whisky blenders and distillers in a successful international industry have ensured that a ready market exists for bulk Scotch whisky. “It can also be argued that brokers provide an essential service to the industry by helping to balance supply with demand and easing the working capital requirements of the smaller distillers.”⁵⁸

3.5: Conclusions.

Scotch whisky is a major industry, which employs more than 10,000 people directly and has annual worldwide exports of more than €5 billion. Scotch whisky exports remained relatively flat for the best part of a decade from the mid-1990s. In recent years, however, the industry has managed to expand export sales rapidly. The Scotch whisky industry’s total export sales

⁵⁶ Insights to the Scotch whisky market from Dr Alan Rutherford available at <https://www.whiskyinvestdirect.com/about-whisky/scotch-whisky-insights-dr-alan-rutherford>

⁵⁷ Euan Mitchell Isle of Arran Distillers in an interview published in *The Drinks Report* 25th March 2014.

⁵⁸ Rutherford

of €5 billion in 2014 compares with total Irish whiskey exports of €350 million. Scotland has 115 licensed distilleries, comprising six grain distilleries and more than 100 malt distilleries, compared with just 12 distilleries in Ireland, although only four of these have produced mature whiskey. In terms of production, employment and exports, the Irish industry is considerably smaller than its Scottish counterpart.

There are numerous Scotch whisky brands which are owned and marketed by undertakings which are not engaged in distilling, but which purchase supplies of whisky from various distilleries. Such operations are facilitated by the existence of an established market for the purchase and sale of bulk whisky with price determined competitively by the interaction of supply and demand.⁵⁹ These companies have contributed to the international success of the Scotch whisky industry and their success demonstrates that it is possible to build a major international whisk(e)y brand without owning a distillery. The lack of a similar wholesale market for bulk Irish whiskey, therefore, prevents the emergence of similar successful Irish whiskey brands and represents an obstacle to increasing export sales.

⁵⁹ The price of bulk Scotch whisky is significantly lower than that of bulk Irish whiskey.

Case Study 1: How Wholesale Market Facilitates Entry in Scotch Whisky Industry.

There are numerous examples of Scotch whisky brands which are owned and marketed by firms which do not own or operate distilleries. A few examples are described below.

Duncan Taylor Scotch Whisky Ltd

Duncan Taylor Scotch Whisky Ltd is an Independent Scotch whisky bottler. This means that they are not a distiller and do not produce whisky but bottle and sell whisky under their own brand name because they can access supplies of mature whisky on the wholesale market.

Duncan Taylor originated in Glasgow where the company was initially a merchant and broker of Scotch Whisky casks. When the company moved its headquarters to the North East of Scotland, close to Speyside – Scotland’s largest whisky producing region – it took the decision to focus on the production and marketing of its own brands and to cease the “brokering” of whisky in cask form to Distillery companies and Independent bottlers.

The company now has an established design, marketing and production operation and has complete control of the entire production process from cask selection and management, through “in-house” product and packaging design to its own “under bond” bottling facilities.⁶⁰

Angus Dundee

Angus Dundee is another very good example. It has built an annual turnover of approximately £50 million in just ten years. This needs to be viewed against total Irish whiskey exports in 2014 of €350 and illustrates the potential impact that such firms could have in terms of boosting Irish whiskey sales internationally. It employs over 100 people in two small single malt distilleries. Almost all of its sales are of blended whiskey and, according to Protégé, it purchases approximately 15 million litres of grain whiskey annually, without which its operations would be critically damaged.

Campbell Meyer Ltd.

⁶⁰ <http://www.duncantaylor.com/about-duncan-taylor/>

Similarly, Campbell Meyer was established by Colin Barclay about 25 years ago. Campbell Meyer is an independent blender, bottler and stockholder of a maturing inventory of malt and grain whiskies. It does not own a distillery and relies on purchasing supplies in the market. Based in East Kilbride near Glasgow, it operates a bottling plant and employs more than 50 people while its exports amount to tens of millions pounds.

Other Examples.

“The Scotch industry depends on “New Fill” and bulk whisky sales. There are over 5,000 blended Scotches and hundreds of malt but only seven grain distilleries and about 130 distilleries.”⁶¹

According to the IWA Dewar’s and Cutty Sark are other Scotch whisky brands that were owned by brokers which did not operate distilleries.⁶² Dewar’s has grown from a small wine and spirits merchant in Perth to being the fifth largest blended whisky brand in the world, and the top selling Scotch Whisky in the USA.⁶³

Cutty Sark was launched in 1923 by Berry Bros. & Rudd. Since 1936 Robertson & Baxter which evolved into Edrington, has been the sole supplier of Cutty Sark blended Scotch whisky.⁶⁴ In 1961 Cutty Sark became the first Scotch whisky to sell 1,000,000 cases in the USA. In 1968 total Cutty Sark sales amounted to 2,400,000 cases, equivalent to 200,000 cases per month – or 600,000 bottles being sold per week.⁶⁵

J&B scotch is a major international brand which is dependent on sourcing whisky from a large number of distillers as it is a blend of 42 different whiskies.

The success of all of these firms is based on the fact that they can purchase whisky on the wholesale market.

⁶¹ IWA, 2015,p.35.

⁶² IWA, 2015, p.35. Dewar’s has a small malt distillery in Aberfeldy but depends on purchasing grain whisky on the wholesale market in order to produce its blended whiskies.

⁶³ <http://www.bacardilimited.com/our-brands/dewars-blended-scotch-whisky>

⁶⁴ Edrington ultimately acquired Cutty Sark in 2010.

⁶⁵ <http://cutty-sark.com/cutty-story>

4: GROWTH POTENTIAL OF THE IRISH WHISKEY INDUSTRY.

4.1: Introduction.

Section 2 of the report described how the Irish whiskey industry had declined for the best part of a century from the 1880s onwards, despite having enjoyed a worldwide reputation at the start of this period. This trend has been partly reversed over the past 10-15 years with strong export growth. However, this growth has come from a very low base. Section 3 illustrated that the Scotch whisky industry is much larger than its Irish counterpart, although the two countries are broadly similar in population terms. Scotch whisky exports in 2014 amounted to more than €5 billion, compared to Irish whiskey exports of just €350 million. A detailed analysis of the reasons why Irish whiskey has historically performed poorly relative to its Scotch counterpart is outside the scope of the present report. It is clear from the data, however, that there is considerable potential for Irish whiskey to increase export sales and that the IWA target of doubling Irish whiskey exports by 2020 can be achieved, provided appropriate policies are put in place. The potential for increased exports provides considerable scope for the industry to expand production and generate significant increases in employment.

Case Study 2: The Wild Geese Irish Whiskey.

In 2002, The Wild Geese Irish Whiskey brand was launched. It sought to negotiate a contract for the supply of whiskey. Efforts by The Wild Geese Irish Whiskey to conclude a supply agreement with the largest producer, Pernod-Ricard, were unsuccessful. In 2002, The Wild Geese Irish Whiskey entered into a contract with Cooley Distillers for the supply of Irish whiskey for the brand, albeit at a higher price to that quoted by Pernod-Ricard.

The first sales of The Wild Geese Irish Whiskey took place in 2002/3. Beginning in 2003, however, The Wild Geese Irish Whiskey had to defend a series of legal actions alleging infringements of trade marks. Defending these actions in 34 different countries involved a considerable drain on its resources, both financially and in terms of managerial resources.⁶⁶ It was only with the conclusion of the majority of the various litigations in 2009 that

⁶⁶ Apart from the US, all of these actions against the Wild Geese were unsuccessful. The Wild Geese Irish Whiskey sells its whiskey under a different brand name, The Wild Geese Soldiers and Heroes, in the US.

management time was freed up to concentrate on developing and promoting The Wild Geese Irish Whiskey brand.

The Wild Geese Irish Whiskey export sales increased tenfold in just six years. This demonstrates that The Wild Geese Irish Whiskey has established itself as a successful international premium Irish whiskey brand. It also clearly shows the potential that exists to increase Irish whiskey exports and how brand owners that do not own distilleries can play a key role in increasing exports provided they can gain access to supplies.

Table 4.1 shows the percentage breakdown of worldwide sales of The Wild Geese Irish Whiskey.

Table 4.1: % Distribution of The Wild Geese Irish Whiskey Sales

(Volume)

Year	Ireland	EU	Non-EU	Total
2007	0.0	0.0	100.0	100.0
2008	9.0	26.6	64.4	100.0
2009	3.1	41.3	55.6	100.0
2010	7.3	57.0	35.7	100.0
2011	6.0	24.6	69.4	100.0
2012	6.8	62.5	30.8	100.0
2013	0.8	64.5	34.7	100.0

Source: The Wild Geese Irish Whiskey.

Sales to non-EU Member States accounted for the bulk of The Wild Geese Irish Whiskey sales in its early years. In recent years, however, the majority of sales have been to EU Member States. The performance of The Wild Geese Irish Whiskey since its establishment confirms that considerable potential exists to increase Irish whiskey exports. It also demonstrates how it is possible to enter the whiskey business and establish an international brand without having to invest in building a distillery, thereby overcoming the significant entry barriers that exist on the production side – provided, of course, that it is possible to obtain supplies of mature whiskey. A wholesale market would also facilitate an expansion in

the range of Irish whiskey brands on offer which is likely to further boost sales of Irish whiskey in overseas markets as has happened in the case of Scotch.

In 2012, Cooley was acquired by Beam. Beam immediately indicated that it would limit the volume of whiskey that it was prepared to supply the Wild Geese Irish Whiskey. This hindered The Wild Geese Irish Whiskey sales over the following two years. Beam subsequently gave notice of its intention to terminate the supply agreement with The Wild Geese Irish Whiskey with effect from July 2014. Beam was subsequently acquired by Suntory. The Wild Geese Irish Whiskey has, on several occasions, tried to obtain a supply of whiskey from Pernod-Ricard, which is effectively the only other source available, without success to date. This is despite the fact that Pernod-Ricard appears to have plenty of spare production capacity.

The continued development of The Wild Geese Irish Whiskey is in doubt, due to difficulties it is currently experiencing in obtaining supplies of Irish whiskey. In contrast to Scotland, where there is an established market for bulk whiskey which has enabled many new entrants to establish new brands and generate export sales, new entrants in Ireland face significant obstacles due to a lack of access to supplies of bulk whiskey. This was acknowledged earlier this year by the IWA, which has highlighted the need to establish a wholesale bulk whiskey market for Irish whiskey as part of a series of measures required in order to achieve a doubling of Irish whiskey exports by 2020.⁶⁷ The lack of such a market means that new entrants such as The Wild Geese Irish Whiskey, that have established successful international brands, find that they cannot obtain supplies of whiskey despite the fact that the industry has ample spare production capacity. The brand may be forced to exit the industry as it has had no reliable source of supply since Cooley distillery ceased supplying it at the end of June 2014. While the creation of a bulk wholesale market would hopefully prevent other entrants being faced with such difficulties in the future, immediate action is required to prevent the demise of existing brands.

⁶⁷ IWA 2015.

Case Study 3: Building A Successful Irish Whiskey Brand Without Your Own Distillery
By André Levy, Chairman, The Wild Geese Irish Whiskey Company

(as featured in ‘A Vision for Irish Whiskey’, Irish Whiskey Association, launched May 2015 by Minister Simon Coveney).

“It is good to see the sector encouraging and mentoring new entrants, funding brand ambassadors and committing to sustainable growth” – Simon Coveney T.D. Minister for Agriculture, Food and the Marine

Ireland was torn by injustice and natural disaster. The soldiers and refugees forced to set sail on ships for other lands became known as ‘The Wild Geese’. In this vein, the Wild Geese Irish Whiskey range celebrates the courage and determination of Irish people when faced with adversity, and their successes and achievements in Ireland and abroad. My wife, Mairade, (who is Irish) and I felt it important to commemorate the spirit of the original ‘Wild Geese’ and exemplify the life force of subsequent generations of ‘Wild Geese’ who have taken flight but who remain, irrespective of distance or new nationality, rooted in their Irish heritage. The roll-call is a long one, and includes a French Emperor, several European Presidents, two US Presidents, politicians and Hollywood stars, with an international supporting cast of commercial, literary and scientific genius.

Since 2002, we have built up the Wild Geese brand to become a multi-award-winning product, with 15 major awards to date, including Best Non-Age Irish Malt (World Whiskey Awards 2011). With just 11 staff, we now export to 30 countries worldwide. From the outset, we sought to raise the profile of Irish whiskey to one of pride and heritage, rather than a product more generally known at that time for mixing with coffee. This required significant and ongoing investment.

Building a brand is a long-term proposition, requiring consistent innovation and investment. It takes a minimum of 10 years to create a brand such that it is recognised as a brand rather than a commodity product that happens to be Irish.

All this has been achieved, ironically, precisely because we did not have our own distillery. Costs and time associated with developing a new distillery are significant, not least because of the minimum three-year maturation period, which represents a major barrier to entry. The ability to buy whiskey from one of only three distilleries in Ireland is what allowed us to free up capital and

invest in the long-term in an Irish brand, rather than an Irish spirit. This distinction is an important one, as it is how many of the famous Scotch whisky brands have achieved success before building their own distilleries funded from cash flow and government support. Scotland has an open whisky market, resulting in hundreds of brands and over 130 distilleries. Consequently, it dominates the international whisky market. By emulating that template in Ireland, we could achieve similar success.

4.2: Developing the Irish Whiskey Industry.

There would appear to be considerable potential to increase exports of Irish whiskey given that it currently accounts for a very small share, approximately 1%,⁶⁸ of total worldwide whisk(e)y sales. The performance of the Scotch whisky industry demonstrates that this is an industry where being located in a small country does not constitute a disadvantage. It is not being suggested that the Irish whiskey industry could expand to match Scotch whisky in the near future. It is clear, however, that there is very considerable potential for the Irish whiskey industry to increase exports. Increasing exports is essential to the continued recovery of the Irish economy following the sharp contraction experienced post-2008. Export growth also represents an important mechanism for increasing employment.

In 2014, Scotch whisky exports to the US were more than eight times greater than those of Irish whiskey, while Scotch exports to the EU were more than 14 times greater than Irish whiskey exports. Irish whiskey exports to the rest of the world in 2012 amounted to just €44 million while exports of Scotch whisky amounted to €2.7 billion. Certain developing countries such as Venezuela, Brazil, Mexico, Russia, South Africa and China are among the largest consumers of Scotch whisky in the world.⁶⁹ India has one of the world's highest levels of whisk(e)y consumption, with over 70 million cases consumed in 2006. Traditionally, India imported very little whisk(e)y, with the bulk of consumption accounted for by domestically-produced brands⁷⁰ aided by high tariffs on imports. Scotch accounted for only 1% of total whisk(e)y sales in that country. However, a combination of tariff reductions, an economy that is among the world's fastest growing, and the sheer size of the Indian middle-class

⁶⁸ *Drinks International*, 14th August 2012 available at http://www.drinksint.com/news/printpage.php/aid/3195/Irish_whiskey.html

⁶⁹ Dow and Jung, 2011.

⁷⁰ "Indian" whisk(e)y is generally not regarded as whisk(e)y in most other countries throughout the world.

(approximately 80 million) provide considerable scope for increased sales by attracting consumers to switch away from the domestically produced “whiskies”.

“Through proper understanding of the retailers, the distribution network, and the desired on-premise accounts, the Indian market, in the future, could easily grow to become one of the largest sources of revenue for the Scotch whisky industry.”⁷¹

There is no obvious reason why Irish whiskey could not enjoy similar success in that country.

While the analysis in sections 2 and 3 of this report suggests that Irish whiskey has underperformed relative to Scotch over a prolonged period, it is important to recognise that the Scotch whisky industry was far from dynamic until about twenty years ago. As Fig.3.4 illustrated, exports of Scotch remained relatively flat for the best part of a decade, beginning in the early 1990s. In the past, the Scotch whisky industry was seen to be poor at promoting its products.

“Scotch whisky, as late as the mid or late 1990’s, did not offer much in the way of revolutionary promotional efforts that would distinguish it from the other premium spirits with which it competed for market share. In many people’s minds, the Scotch drinker was either wealthy (at best) or pretentious (attempting to emulate the wealthy). This perception also carried over in international markets. Many developing markets received little in terms of promotional energy.”⁷²

This position has changed dramatically in recent years, with a corresponding rapid increase in Scotch whisky exports. The Scotch industry is continuing to expand with 30 new distilleries planned. This again indicates that there is considerable potential for Irish whiskey to increase export sales substantially.

The IWA has set a target of seeking to double Irish whiskey exports by 2020. Even a doubling of Irish whiskey exports would still leave it with a very small share of worldwide whisk(e)y sales, but would yield very significant benefits to the Irish economy. Such benefits would include increased output, income and employment. The fact that whiskey production is

⁷¹ Dow and Jung, 2011, p.110.

⁷² Dow and Jung, 2011, p.111.

largely based on domestically-produced inputs means that any increase in exports would have considerable knock-on effects in various upstream supply industries. It is estimated, for example, that every €100 of drinks exports involves €50 of domestic inputs. Drinks exports involve a far higher level of domestic inputs than exports from many other sectors. It is estimated that every €100 worth of exports by the drinks industry has “the same impact on the economy as €625 of chemicals/pharmaceutical exports or €294 of computer, electronic and optical exports or €185 of medical devices exports.”⁷³

The high level of domestic inputs used in the whiskey industry means that a significant increase in exports would generate considerable benefits in terms of employment in other industries. Even if one accepts the Scottish figure of 3 indirect jobs for every person directly employed in the industry, it is clear that a significant expansion of the industry would generate a significant number of new jobs both directly and indirectly.

Doubling Irish whiskey exports from their current level of €350 million would have significant positive economic effects. Based on the figures cited above, it would generate increased purchases of domestically-produced inputs of approximately €177 million and have the same impact on the domestic economy as a €2.2 billion increase in chemical/pharmaceutical exports. The benefits to the overall economy are thus likely to be very significant. It is clear that it would also generate additional employment, both directly and indirectly.

4.3: Why a Wholesale Market is Required.

The potential to increase whiskey exports could be significantly enhanced through an increase in the number of firms, particularly SMEs, in the industry. This is acknowledged in the Government’s *Food Harvest 2020* programme:

“There are a small number of large Irish companies currently delivering export-focused growth in this sector and these will continue to grow in the future. However, new foreign direct investment (FDI) entrants and SMEs with a potential to upscale will be

⁷³ A. Foley, *Drinks Industry Exports 2000-2011*, Drinks Industry Group of Ireland, April 2012, p.5. €100 of beverages exports generates a net gain to the economy of €50 when the imports of services and inputs are excluded. €625 of chemical/pharmaceutical exports generates a net gain to the economy of only €50, based on the direct expenditure share of 8%. Consequently, the €100 beverages exports are equivalent to €625 chemicals exports in terms of net gain to the economy.

the driving force behind increased employment levels in the sector. Accelerating the growth of an optimal number of SMEs to large company size and a greater focus by SMEs and artisan producers on niche markets such as functional foods and organics will be highly significant in delivering regional growth and employment creation.”⁷⁴

The existence of significant barriers to entry in the whiskey industry, however, constitutes a significant impediment to the establishment of new firms and new brands. These entry barriers are mainly on the production side and arise because any undertaking which opens a new distillery in order to enter the whiskey business must wait at least three years before it can generate any revenue from sales of its product, while they must bear the cost of storing and maturing product in the interim.

New entrants could overcome production entry barriers by purchasing whiskey supplies from existing distilleries. Many famous Irish whiskey brands, including Millars, Glen Erin, Kinahans, Burkes and Redbreast, were owned by firms which never owned a distillery.⁷⁵ This would enable them to concentrate on developing new brands and marketing them in overseas markets, without having to incur the significant sunk costs involved in storing and maturing product. The experience of Cooley confirms that such arrangements can benefit both distillers and new entrants.

“We supply whiskey to a growing number of drinks companies who want an Irish whiskey in their portfolio but do not want to build their own distilleries. We supply the whiskey either bottled or in bulk. Labels such as Michael Collins, John L Sullivan, Danny Boy and Slane Castle are supplied with Cooley whiskey. This is a fast growing sector now accounting for 20% of our sales.”⁷⁶

Having supply arrangements in place would enhance the ability of entrants to secure distribution agreements in export markets and enable them to develop new brands. Having built up sales in this way, some entrants might well choose to develop their own production capacity at a later stage. New entrants such as Walsh Whiskey and Dunville are trying to enter the industry in this fashion, while multinational group William Grant & Sons has also

⁷⁴ *Food Harvest 2020*, p.33.

⁷⁵ IWA, 2015, p.35.

⁷⁶ Cooley plc, *Annual Report, 2010*, p.6.

established its Tullamore D.E.W. brand on the basis of purchasing supplies from other Irish distilleries, prior to producing whiskey at its new distillery, which opened in September 2014. The potential for new entrants to establish new brands and develop export sales in this way was previously acknowledged by Cooley:

“The main increase in this business has been with US drinks companies who have come to Cooley looking for their own brand of Irish whiskey. This has led to an increase in our overall sales to the US and a growth in the number of brands on the market. This is giving the Irish whiskey category some necessary breadth and depth. As the category develops, given the size of the US market, *there is room for a range of Irish whiskey brands.*”⁷⁷ (Emphasis added).

New Irish firms could also participate and contribute to the development of the Irish whiskey industry if there was an effective means available for them to obtain supplies.

There is plenty of spare capacity available in the industry. As pointed out in section 2 of this report, output in 2013 was equal to 57% of year end installed capacity. The IWA estimate that, allowing for maturation, doubling exports by 2020 would require production to increase to 56 million lpa by 2016.⁷⁸ That level of output is equal to 70% of current installed capacity. Thus, even if no additional capacity was brought on stream before 2016, the industry would appear to have adequate capacity to supply entrants without distilling operations of their own. This supports the view that there is plenty of available capacity in the industry to supply the likes of The Wild Geese Irish Whiskey. Possible scale economies mean that incumbents could also benefit from lower average production costs if they were to increase output to supply new entrants.

“The domestic market is very small by international standards and access to export markets lengthens production runs. This enables firms to benefit from scale economies and to operate at lower average cost of production than would be possible if production levels were determined by the domestic market alone.”⁷⁹

⁷⁷ Cooley plc *Annual Report, 2009*, p.17.

⁷⁸ IWA 2014, p.22.

⁷⁹ Foley, 2012, p.4.

As noted, the owners of a number of highly successful Scotch whisky brands are not involved in distilling. They purchase their supplies from distilleries owned by firms that are their rivals in the downstream consumer market. The ready availability of reliable supplies of Scotch whisky has permitted new entry and enabled the development of new Scotch whisky brands which have carved out a niche for themselves on world markets. This has contributed to the strong performance of the Scotch whisky industry.

The Irish industry appears to have sufficient production capacity to achieve the target of doubling Irish whiskey exports by 2020. Thus, measures to encourage incumbent producers to supply whiskey in bulk to new entrants would appear to constitute an important mechanism for increasing Irish whiskey exports. In effect, encouraging the development of a wholesale market for bulk whiskey would represent a very effective means of encouraging the establishment of new export-oriented firms in the industry which would yield significant economic benefits in terms of exports, output and employment at little or no cost to the Exchequer.

A 2013 report on the Irish whiskey industry published by Bord Bia highlighted the fact that co-operation between large and small firms in the industry was critical in order to maximise its potential.

“Larger whiskey producers will be able to create significant category volume growth due to their economies of scale and their access to resources and distribution networks.

They are likely to achieve significant growth by focusing on a concentrated portfolio of products and their established global presence will consequently generate significant category exposure.

Smaller distillers will then be able to ride the positive wave of increased exposure and consumer awareness. They will then be the ones who are able to add creativity to the category, by adding portfolio variety through small batch innovations. In turn larger distillers will benefit from the energy injected into the category by smaller distillers’.

For this reason, larger players should support smaller whiskey producers with difficult business challenges - such as limited access to capital, succession issues and resource shortages – as it is in their best interest to secure overall growth in the category.”⁸⁰

It is important to recognise that encouraging new entrants that can develop new brands is key to maximising the growth potential of the Irish whiskey industry. For example, Mr John Teeling, who founded Cooley in the 1980s, has stated:

“If Irish whiskey is to reach its potential of 24m case sales by 2030 it must offer products demanded by customers worldwide – it must offer choice. Scotch has over 5,000 brands of blended whisky and hundreds of branded malts yet has only seven column still grain distilleries.”⁸¹

Similarly the IWA has stated:

“To attract and retain newly interested consumers within the category it is essential that there are many points of interest, many different styles and brands all with different stories to be explored. The advent of new entrants to the category is fundamental to the sustainable growth of the category and the recruitment and retention of consumers from other spirits categories. There is a lot to be learned from the recent experience of the American whiskey industry in this regard where they have witnessed a surge in new entrants as consumers seek authenticity and craft.”⁸²

Measures to encourage incumbents to supply bulk whiskey to third parties would also contribute to export growth by enabling established drinks producers to add an Irish whiskey brand to their product range.

“If Irish whiskey continues growing at the current rate, it seems inevitable that there will be more interest from the other major drinks groups without an Irish whiskey in their portfolio.”⁸³

⁸⁰ Bord Bia/The Futures Company, *The Future of Irish Whiskey*, 2013

⁸¹ IWA, 2015, p.35.

⁸² IWA, 2015, p.38. It should be noted, however, that American whiskey is not subject to any maturation requirements which removes a major entry barrier for small entrants.

⁸³ Cooley plc, *Annual Report*, p.15.

Mr Brendan Buckley, Innovation and Category Development Director at Pernod-Ricard (IDG), highlighted the positive effects on markets of having a multitude of competing brands when commenting on the development of Pernod-Ricard’s pot-still brands:

“We would be delighted to see other producers join us. Like any category, the more players, the more investment, the more talk that is created around it the better.”⁸⁴

Such views apply to Irish whiskey generally.

The Wild Geese Irish Whiskey has succeeded in identifying customers and markets for its products, having increased its sales ten-fold in just six years. These export sales will be lost if The Wild Geese Irish Whiskey is unable to source supplies of whiskey. However, it is not just the future prospects of The Wild Geese Irish Whiskey brand that are affected, but the potential for other new entrants to develop new Irish whiskey brands. It is, therefore, not in the national economic interest that new firms are prevented from entering or forced to exit the market due to a lack of access to supplies.

“The development of new brands, which can emulate the success of Ireland’s small cadre of global food and drink brands, will be an important benchmark of success.”⁸⁵

The above point from the Government’s *Food Harvest 2020* project document is worth highlighting. Facilitating the entry of new brands will increase consumer choice in various export markets. Supply arrangements that enable new entrants to introduce new Irish whiskey brands will enhance the industry’s competitiveness, which is likely to result in stronger export growth than would be achieved through reliance on incumbents alone.

The point has also been made by the IWA.

“A key factor that must emerge if the category is to function efficiently is an effective internal market in both new-make and mature bulk whiskey. In Scotland, apart from the

⁸⁴ Drinks International 14th August 2012 available at http://www.drinksint.com/news/printpage.php/aid/3195/Irish_whiskey.html

⁸⁵ *Food Harvest 2020*, p.34.

large and small distilleries manufacturing for their own brands, there are also a number of distilleries manufacturing for bonders and non-distilling brand owners. In addition, they manufacture for each other.

In Ireland the market for new-make and mature bulk whiskey is very immature, especially in recent years as expanding demand has exceeded capacity. Some brand owners, that did not have their own distilling and maturing facilities, had built brands and businesses that were then undermined as surplus mature whiskey became scarce.

It should be possible to enter the market without having to build your own distillery. To encourage new entrants, lower-risk business models, and a more efficient use of capacity, it is important that a properly functioning internal market for bulk mature and immature whiskey develops.”⁸⁶

Action in this regard is urgently required to prevent more small firms from joining the list of those that had built brands and businesses only to be undermined by a lack of supply. It would be particularly worrisome if one of the IWA’s founding members, and a case study in the IWA’s *Vision for Irish Whiskey* was forced out of business so soon after the launch of the association in April 2014. The demise of one of the founding members would also serve to discourage other would-be entrants. This would clearly represent something of a setback in terms of achieving the ambitious target of doubling Irish whiskey exports outlined by the IWA in its *Vision for Irish Whiskey* report.

It is, therefore, essential that an effective wholesale market for bulk whiskey be established. In the interim, action is required to ensure that those smaller brands that may be facing supply difficulties are able to obtain supplies to enable them to maintain their successful operations, pending the establishment of such a wholesale market.

4.4: Conclusions.

There is clearly considerable potential for the Irish whiskey industry to increase exports and this would undoubtedly have very significant benefits for the overall Irish economy. Historically, Irish whiskey has underperformed relative to its Scotch counterpart, although

⁸⁶ IWA 2015, p.34.

the latter industry faced many similar difficulties such as prohibition in the US, World wars and so on.

“Scotch whisky brands have been faced with various hurdles that seemed unconquerable.”⁸⁷

Despite these obstacles, the Scotch whisky has developed into a major industry directly employing more than 10,000 people and generating total annual exports of more than €5 billion. This indicates that there is considerable potential for the Irish whiskey industry to grow and prosper. This view is echoed by comments made in 2014 by the Chairman of the ISA, Mr Peter Morehead, Production Director at Pernod-Ricard:

“However, when we compare the whiskey industry to that of Scotch whisky, it becomes clear that there is a space for huge potential growth in the sector.”⁸⁸

In order to achieve this potential, it is important that new entrants are not hindered by barriers to entry which are significant on the production side. The objective should be to maximise export sales. It is possible that incumbent firms could achieve the target of doubling exports by 2020. This target is more likely to be achieved and even be exceeded by enabling new entrants to gain access to the market. The productive capacity already exists to achieve the target of doubling exports. What is required is a mechanism to enable new entrants to obtain access to supplies of bulk Irish whiskey in order to develop successful new export brands. Provided new entrants can obtain supplies from incumbents, production entry barriers need not constitute an obstacle to them identifying new market openings and opportunities, and thereby helping to drive export growth in the industry.

The Scotch whisky industry, which has more than 100 distilleries along with many firms that have developed major brands without the need to develop production facilities of their own, demonstrates how this can be done. The Irish industry has the necessary capacity with which to supply new entrants and the scale involved would not be unduly burdensome for incumbent producers. One measure that could be implemented quickly and at little cost to the

⁸⁷ Dow and Jung, 2011, p.111.

⁸⁸ Irish whiskey sales to double by 2020, Available at <http://www.thespiritsbusiness.com/2014/02/irish-whiskey-sales-to-double-by-2020/>

Exchequer would be to establish a wholesale market for trading in bulk supplies of both new fill and mature Irish whiskey.

The failure to develop such a wholesale market for Irish whiskey is likely to impede entry and innovation and is likely to have a negative impact on potential export growth. A failure to maximise the industry's export growth potential will mean that the benefits which would accrue to the economy from an expansion of Irish whiskey exports will not be fully realised.

5: CONCLUSIONS.

Irish whiskey is, to some extent, a unique product due to the strict legal requirements which must be satisfied in order to be designated as Irish whiskey. The Irish whiskey industry has a long history and is a significant contributor to the Irish economy. In 2014, Irish whiskey exports amounted to €350 million. The industry is a major user of domestic raw materials and inputs including malted barley and uses a significantly higher proportion of domestically produced inputs than many other industry sectors.

There are significant barriers to entry in whiskey distilling, largely due to the requirement that the product must be matured for three years before it can be sold. Such entry barriers represent a significant impediment to the expansion of the industry, but could be overcome if there was a wholesale market for bulk Irish whiskey, as is the case with Scotch.

While Ireland and Scotland are similar in population terms, the Irish whiskey industry is dwarfed by its Scottish counterpart. Scotland has 115 working distilleries with a further 30 planned, compared to Ireland's 12, of which, only four have actually produced mature whiskey. More than 10,000 people are directly employed in the Scotch whisky industry, with many of these jobs in economically disadvantaged areas, compared to 750 in the Irish whiskey industry. Scotch whisky exports in 2014 were in excess of €5 billion, compared to Irish whiskey exports of €350 million.

Many of the brands that have contributed to the international success of Scotch whisky are owned and marketed by firms which are not engaged in distilling, but purchase supplies of whisky on the wholesale market for bulk Scotch whisky.

There is considerable potential for Irish whiskey to increase export sales with potential employment benefits. Whiskey production is largely based on domestically produced inputs. Consequently increased exports would have considerable knock-on effects in various upstream supply industries and on the wider Irish economy.

The establishment of a market for bulk whiskey as advocated by the IWA would represent a very effective means of encouraging new export-oriented firms into the industry by removing

supply uncertainty. Such entry would yield significant economic benefits in terms of exports, output and employment at little or no cost to the Exchequer. In the past, several firms built successful Irish whiskey brands and businesses that were subsequently undermined by a lack of supply of mature whiskey.

Pending the establishment of such a market, immediate action is required to prevent the demise of yet more small brands, which have been developed in recent years, but whose future is now under threat because they are unable to obtain supplies of whiskey.

The failure to develop such a wholesale market for Irish whiskey is likely to impede entry and innovation and will have a negative impact on potential export growth. A failure to maximise the industry's export growth potential will mean that the benefits which would accrue to the economy from an expansion of Irish whiskey exports will not be fully realised.