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WHITE PAPER

An investigation into the growth of fraud in the Scotch whisky cask trading market, and a look at prevention.

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Scotch Whisky: The Background

This white paper is a response to the current upsurge in criminal activity within the cask trading market, a relatively newly formed offshoot of the Scotch whisky industry, and one which is worth upward of 30 billion GBP.

The Scotch Whisky industry stands as a cornerstone of both the Scottish and UK economies, bringing £7.1 billion (SWA January 2024) to the UK economy, supporting 66,000 jobs across the UK, accounting for 77% of Scottish and 26% of UK food & drink exports. This report provides an overview of the industry's economic impact in 2022, highlighting its pivotal role in driving growth, innovation, and sustainability. Additionally, it explores key challenges facing the industry and calls for government support to safeguard its future prosperity.

At a production level the Scotch whisky industry is a fundamental part of the Scottish heritage and one which stretches back over many centuries. The production process is simple - a fermented mash (similar to beer) is made from three ingredients; water, yeast and barley, and this is distilled to produce 'new make spirit', a clear, strong spirit high in alcohol. The spirit is reduced in strength and filled into casks, and stored for maturation.

Scotch Whisky can only be matured or finished in new oak casks or oak casks which were previously used to mature wine, beer/ale or spirits but not if those casks were previously used to mature:

- wine, beer/ale or spirit produced from, or made with, stone fruits
- beer/ale which has had fruit, flavouring or sweetening added after fermentation
- spirit which has had fruit, flavouring or sweetening added after distillation

The spirit must be in wood for a minimum of three years when it officially becomes whisky, and over the maturation process, which can take up to (but seldom beyond) 70 years, the cask loses volume and the liquid loses strength. Once the strength drops below 40% alcohol by volume it ceases to be legally called whisky, so the rate of loss creates the lifespan of the whisky. For this reason it is a 'wasting asset' and is not subject to Capital Gains Tax.

The HMRC definition from Guidance HS293 states that "A wasting asset is an asset with a predictable life of 50 years or less." This does not apply to bottled stock as the maturation process and losses cease when bottled.

Traditionally distilleries traded casks between each other for creating blends, and this trade was handled by brokers. Some of these casks found their way into private ownership or the hands of independent bottlers (Gordon & MacPhail, Cadenheads, Laing's, Adelphi to name but a few) who released them as not only single malt, but single cask.

A trend for single cask whisky saw a steep rise in private cask ownership, independent bottling, and more latterly, entities offering cask sales as investment opportunities. The newly grown cask trading market has grown very suddenly from this foundation. Casks of Scotch whisky must remain in Scotland, however the trading market is global.

As this document will go on to explain, the newness of this market means that it is unregulated and presents huge opportunities for fraudulent activities, the extent of which are beginning to come to light. Proactive measures are essential to ensure the safeguarding of the integrity of the cask trading market, thereby protecting investors and preserving the industry's reputation.



The Scotch Whisky Industry: A National Overview

Production Size and Output:

- Scotland boasts nearly 150 distilleries dedicated to Scotch whisky production.
- Annual output exceeds 400 million litres of alcohol.
- In 2017 it was estimated that 22 million casks lie maturing in warehouses in Scotland, output indicates that figure to be closer to 25 million.

Export Market:

- Approximately 90% of Scotch whisky production was exported to 174 global markets in 2022.
- Scotch whisky constituted 77% of all Scottish food and drink exports and 26% of the UK's food and drink exports in 2022.
- In 2022, Scotch Whisky accounted for 26% of all of Scotland's international goods exports and 2% of all UK goods exports
- Export volume surged by 21% in 2022, equating to 1.67 billion 70cl bottles shipped overseas.

Revenue:

- The Scotch Whisky industry generated £7.1 billion Gross Value Added (GVA) in the UK in 2022.
- £5.3 billion of GVA came directly from Scotland.
- £6.3 billion GVA injected into the economy by the manufacturing process, with £3.4 billion directly from production.
- Export value increased by 37% in 2022, reaching £6.2 billion.

Key Facts:

- The whisky industry directly employs 11,000 individuals in Scotland, with over 7,000 in rural areas.
- Additionally, it sustains 42,000 jobs across the wider UK economy.
- Around 90% of barley requirements of the industry are sourced in Scotland.
- In 2022, there were 2 million visits to Scotch Whisky distilleries, making Scotch Whisky visitor centres collectively the most popular tourist attraction in Scotland.



Glossary of Scotch whisky industry stakeholders, agencies involved, and their roles

- Brand owners (ie Diageo, Pernod Ricard, LVMH, Edrington etc.)
- Distilleries (ie Macallan, Dalmore, Springbank, Ardbeg etc.)
- Warehouses (originally attached to distilleries, now privately owned ones are flourishing to accommodate the increase in production. ie Craigton, SWI Glenrothes, Caley Casks, Bonhill Road)
- Bonded Warehouse Association (optional membership)
- Bottling Facilities (ie Young Spirits, Auld Bond Bottlers etc. often attached to storage warehouses ie Craigton, Auchtermuchty etc.)
- Wholesalers
- Retailers
- Exporters
- Distributors
- Independent Bottlers (Are not producers, but buy, bottle & sell whisky as their own brand - ie Gordon & MacPhail, Decadent Drinks, Adelphi, Compass Box, Cadenheads)
- Cask Traders (Brokers, ie Mark Littler, Cask Trade, Bordeaux Index)
- Consumers (private buyers, corporate or investment)
- Investment Companies (ie Hackstons, London Cask Traders, Spiritfilled, VCL Vintners, Chelsea Vintners)
- SDVS (protects the reputation and authenticity of Scotch whisky through geographical indication)
- Scotch Whisky Association (represents distilleries interests, especially with geographical indications)
- HMRC (collects taxes & duty on spirit bottled for UK sales)
- DEFRA (ensures traceability in food chains for food safety)
- Trading Standards
 - enforce fair trading
 - combat illegal trading
 - monitor product safety
 - address under-age sales
 - verify weights and measures
- The Home Office and Border Force (UK-wide cross-departmental duties including maritime customs checks)
- The Joint Alcohol Anti-fraud Taskforce (JAAT) took place on 16 January 2014, there are no records of subsequent meetings or action.
- Advertising Standards Authority (forcibly remove advertising of casks where false claims of returns are used)
- Financial Conduct Authority (do not recognise whisky casks as a financially regulated product, do not have authority over anyone selling casks for investment or offering investment advice on casks.)



The Cask Trading Market: A Global Overview

The global cask trading market is a niche yet dynamic sector driven by brokers, investors, collectors, and whisky enthusiasts. Here's an overview along with some key statistics, facts, and figures:

Market Size and Growth:

- The global cask trading market has experienced significant growth in recent years, fuelled by increasing interest from investors and collectors. Much of this hype has been generated by opportunistic behaviours and while there are undoubtedly good returns on investment to be made, much of what is currently advertised is false.
- While there is no data which gives clarity on the market size, based on a number of factors (number of brokers with numbers of casks traded, size of private portfolios, insurance information) estimates suggest that the size of the market is in the region of 1 million privately owned casks, a market which would be valued at over £30 billion GBP. Many of these transactions are occurring overseas so the ability to track and analyse is challenging, and one which we aim to overcome.

Types of Casks Traded:

- Casks of Scotch whisky are subject to trends and the trend driven by the Asia Pacific market if for sherry matured or finished casks. However, casks which have held other spirits such as bourbon, rum, and tequila, as well as wine casks, are also used for maturation and traded.
- Different cask types offer unique flavour profiles and investment opportunities, attracting a diverse range of buyers.
- Casks may contain peated or unpeated whisky, and whisky from heritage barley as well as modern varietals.
- Casks range in value from around £2,000 to up to £16m (1975 Ardbeg, sold in 2022)



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Investment Potential:

- Cask investment presents an enticing prospect for investors, offering the potential for robust returns.
- Certain rare whisky casks have demonstrated significant appreciation in value over time, with the added benefit of being exempt from Capital Gains Tax.
- Investors are attracted to cask ownership as it represents a tangible asset capable of capital appreciation, thereby providing portfolio diversification.
- Key factors influencing cask value encompass age, rarity, distillery reputation, and cask type.

Regulation and Oversight:

- The cask trading market operates within the parameters of a regulatory framework established by the UK Government, delineated in SPIR3260 - Law, Policy, and Application - Scotch Whisky.
- Owners of casks are mandated to adhere to regulations tailored for the production industry, including distillers.

Key Players and Platforms:

- A plethora of companies globally facilitate cask trading, offering an array of services such as cask sourcing, storage, and brokerage, thereby presenting casks as viable investment opportunities.
- Online platforms and auctions, though less common, furnish a marketplace for buyers and sellers to engage in global cask trading, thereby enhancing market accessibility.

Trends and Challenges:

- The dynamics of the cask trading market are shaped by evolving trends aimed at maximizing financial opportunities, exemplified by the recent surge in selling casks as investment instruments.
- Challenges confronting the market encompass apprehensions regarding counterfeit casks, escalating storage costs, and the imperative of regulatory compliance, facets not uniformly comprehended or adhered to within this domain.

Outlook:

- Despite a recent downturn in the overall international whisky market, the global cask trading market is poised for sustained growth.
- This trajectory is underpinned by the burgeoning global interest in whisky investment.

In summary, the global cask trading market epitomises a distinctive fusion of tradition, investment, and craftsmanship, appealing to connoisseurs and investors alike with its potential for both financial returns and the appreciation of Scotland's most renowned export.



An Unregulated Global Market: The Challenges

The challenges stemming from the lack of regulation in the cask trading market manifest in two primary forms: inadequacies within existing legislation from HMRC and the absence of protective measures from the Financial Conduct Authority. This regulatory void fosters an environment ripe for fraudulent activities, presenting a myriad of obstacles to market participants.

Lack of Regulation:

The regulatory framework governing the cask trading market was designed primarily for distilleries within the production industry, failing to adequately address the complexities of private transactions and brokerage services. As a result, private individuals, brokers, and companies engaged in cask trading have developed their own operational protocols, often falling short of regulatory standards. Warehouses, too, have had to adapt to accommodate the influx of privately owned casks, often compromising industry regulations for expedience. Disappointingly but predictably, His Majesty's Revenue & Customs are only concerned by the fraud which deprives the UK Treasury of due taxes, but not individuals or the industry falling victim to crime.

Absence of Oversight:

The absence of robust regulatory oversight exposes the unregulated cask trading market to various fraudulent practices. Without clear regulations and enforcement mechanisms, nefarious actors exploit loopholes, perpetuating fraudulent schemes and compromising the integrity of transactions. None of the relevant authorities who play a part in creating regulation take any responsibility for enforcement of those regulations, or for criminal behaviour. The cask trading market is left to self-regulate which is very clearly not working

Counterfeit Casks:

A prevalent risk in the unregulated cask trading market is the proliferation of counterfeit casks. Fraudulent sellers may misrepresent casks as containing rare or prestigious whiskies, manipulating factors such as age, provenance, or distillery origin to inflate their value.

Misrepresentation of Cask Contents:

Deceptive sellers may exaggerate the quality, age, or historical significance of casks to deceive buyers, leading to inflated prices and disillusionment among investors. Equally, they may simply replace the liquid in the cask with something considerably less valuable than what they are purporting to sell.



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Opaque Ownership Chains:

Inadequate adherence to proper procedures results in fragmented or obscured ownership trails, complicating efforts to verify the authenticity and provenance of casks. The deliberate obfuscation is usually intentional, one reason being that is to protect the source. This lack of transparency not only facilitates fraud but also poses significant challenges to compliance with traceability requirements, jeopardising food safety standards.

Forgery of Documentation:

Wrongdoers may fabricate or alter documentation related to cask ownership, provenance, and quality, creating false assurances of authenticity and concealing the true nature of the assets being traded. Contracts and written agreements are infrequently used in the industry, making it easier to create forged documentation.

Storage and Custody Risks:

Failure to transfer ownership correctly and ensure proper insurance coverage exposes investors to financial risks. Casks are often sold with promises of insurance that may not materialise, leaving owners vulnerable to losses. We have seen casks being moved location without the owner's permission or knowledge, nullifying their insurance.

Warehouses:

Although warehouses are subject to stringent regulations, lack of enforcement may be leading to an increase of criminal behaviours being conducted at these locations. It is not uncommon for warehouse staff to offer visitors a sample from a cask which belongs to a client, if that cask is a 1993 Macallan (to use a live example) that 5cl dram could be worth £125 to the owner. (Pricing correct as at March 2024)

Legal and Jurisdictional Challenges:

Disputes arising from fraudulent transactions face complexities in legal proceedings, particularly in cross-border transactions where standardised legal frameworks and enforcement mechanisms are lacking.

“ The UK Government Fraud Strategy sets out a plan to reduce fraud by 10% on 2019 levels by December 2024 ”



An Unregulated Marketplace: What Are We Seeing?

The problems which are being reported with an increase in frequency are:

- Counterfeit - ie casks not containing the correct liquid
- Selling of casks which do not exist
- Multiple selling of the same cask using faked documentation
- Selling casks based on a spirit sample which is not from the cask being sold
- Selling of 'fractional ownership' of casks which seller has not purchased
- Casks apparently going missing (which should not be possible due to HMRC processes)
- Cask trading market is heavily used for money laundering
- Transfer of ownership being mis-handled leaving buyers not legally owning their asset
- Traders may offload casks with very low ABV which could spell disaster for an unwitting buyer.
- Investments overpriced and consumers unable to reach profit neutral position
- Mis-selling terms & conditions including 'naming rights'
- Mis-selling insurance so casks subsequently not being appropriately insured, clients unaware
- Traders peddling investment opportunities, no FCA protection or regulation applies, no client protection.
- Failure of DEFRA's requirement for traceability according to food safety laws.
- No authority is taking control, no codes of conduct for traders or advice for buyers.

“

There are plenty of opportunities for sellers to deceive investors, who sometimes have no proof the cask, stored in a warehouse somewhere in Scotland, even exists.

- Blair Bowman

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An Unregulated Global Market: What Is The Size of The Problem?

The absence of available data necessitates an approach to assessing the scale of the issue through probability analysis.

To provide context, it is understood that Scotland houses approximately 25 million casks, a figure derived from industry data indicating an annual production output of 405 million litres of alcohol.

Taking into consideration various factors such as the number of casks held in private warehouses (allowing for casks owned by distilleries so not falling within this account), the involvement of the insurance industry, the presence of brokers, and the quantities of casks within private collections, an estimated 500,000 casks are estimated to be in private ownership. (With the huge increase in sales of new make spirit in recent years it is possible that the market is double this size and growing.)

Within this private ownership segment, it's plausible to assume a distribution: roughly 50% of casks are likely to be aged 10 years or younger, 40% falling within the 10 to 25-year age bracket, and the remaining 10% exceeding 25 years in age.

Factoring in the diverse brand values influencing pricing disparities, we can conservatively approximate the value of casks as being: those under 10 years old averaging around £7,000, casks aged between 10 and 25 years fetching an average of £80,000, and casks surpassing 25 years averaging £250,000 in value.

Based on these assumptions, the aggregate value of this market segment amounts to approximately £30,250,000,000.

Assuming a hypothetical incidence of fraudulent activity at 0.5%, the projected size of the issue would amount to £151,250,000 - a significant win for UK law enforcement should the cask register reduce that number. While the casks remain in Scotland, fraudulent activity is being committed throughout the UK and rest of the world.

In 2023, the City of London police issued a statement about whisky investment fraud. From only 89 reports, there was a loss of over £3m from fraudulent alcohol investments.

NB. While these figures are estimations, they are grounded in reasonable assumptions and reflect accurate - if conservative - pricing within the cask trading market.



An Unregulated Global Market: Impact Report

The challenges and fraudulent behaviors in the unregulated cask trading market have several current and future impacts, both on market participants and the broader industry. Here are some of the key impacts:

Financial Losses:

The lack of regulation or enforcement leaves this market wide open for criminal activity to flourish. Investors who fall victim to fraudulent schemes or purchase counterfeit casks may suffer significant financial losses. These losses create bad press, can erode investor confidence in the market and discourage future participation, leading to reduced liquidity and investment activity.

Damage to Reputation:

Instances of fraud damage the reputation of the cask trading market, tarnishing the image of legitimate sellers and distilleries. Negative publicity (which is on the increase) surrounding fraudulent practices can deter potential investors and undermine trust in the authenticity and integrity of cask investments.

Legal and Litigation Risks:

Fraudulent behaviours expose market participants to legal and litigation risks, including lawsuits, regulatory penalties, and reputational damage.

Resolving disputes arising from fraudulent transactions may entail costly legal proceedings and protracted litigation, further impacting affected parties' financial resources and credibility.

Market Volatility and Uncertainty:

Fraudulent activities contribute to market volatility and uncertainty, as investors grapple with the risk of encountering fraudulent sellers or counterfeit casks.

Heightened risk perceptions may lead to increased price volatility and reduced market liquidity, making it challenging to accurately assess the value of cask investments.



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Loss of Investor Trust:

Persistent challenges and fraudulent behaviours undermine investor trust in the cask trading market, diminishing its appeal as a viable investment asset class. Rebuilding trust and restoring confidence among investors requires concerted efforts to address underlying vulnerabilities and strengthen regulatory oversight.

Innovation and Market Evolution:

The prevalence of fraud in the unregulated cask trading market may spur innovation in authentication technologies and transparency measures. Market participants such as CaskNet will adopt blockchain-based solutions, smart contracts, and advanced tracking systems to enhance traceability and mitigate the risk of fraudulent activities.

Long-Term Sustainability:

Addressing the impacts of fraudulent behaviours is essential for the long-term sustainability of the cask trading market.

Sustainable growth and development require robust mechanisms for fraud detection, prevention, and enforcement, as well as collaborative efforts to promote market integrity and investor protection.

Addressing these challenges necessitates concerted efforts to enhance transparency, diligence, and collaboration among industry stakeholders, regulators, and law enforcement agencies.

Only through proactive measures can the integrity of the cask trading market be safeguarded, thereby protecting investors and preserving the industry's reputation.

Impact on Market Integrity:

The prevalence of fraud undermines the integrity of the cask trading market and the broader Scotch whisky industry, eroding trust and confidence among stakeholders. Persistent fraudulent activities tarnish the industry's reputation, impeding its growth and sustainability.

Fraudulent activities are occurring - and increasing - on a global scale, with all of the assets in a duty suspended warehouse in Scotland. This is a problem which is on our doorstep.

Overall, the current and future impacts of challenges and fraudulent behaviours underscore the importance of proactive measures to safeguard the integrity and credibility of the cask trading market, ensuring its viability as a transparent and trustworthy investment platform.

**IN 2023, OVER 85 REPORTS WERE
MADE TO ACTION FRAUD RELATING
TO ALCOHOL INVESTMENT SCAMS
WITH LOSSES OF OVER £3 MILLION**

**DON'T MAKE POUR
DECISIONS THAT
LEAVE YOUR
FINANCES ON THE
ROCKS**



ActionFraud
National Fraud & Cyber Crime Reporting Centre
www.actionfraud.police.uk

Published: 30/11/2023

Don't make pour decisions that leave your finances on the rocks: City of London Police urges people to stay vigilant over misleading whisky investment ads

City of London Police is urging people to take proper measures online, after whisky investment advertisements on social media left people high and dry. The lure for potential investors is that you buy a cask of whisky when it is first produced and as the whisky ages in the barrel, it becomes something worth more to the consumer and as such, your initial investment becomes more valuable.

Claiming that potential investors of whisky could expect to see modest returns of between eight – 12 per cent a year, paid advertisements on social media sites for one company have now been found to be misleading. Detective Inspector Nichola Meghji, from the Fraud Operations team at the City of London Police, said: "As we approach the run up to Christmas, we would like to remind people of the potential risks associated with investment opportunities, especially around whisky. "Much like gin, the interest in micro-breweries and independent distilleries has grown exponentially over the last decade as the British consumer has become more interested in home grown spirits versus imported beers and wine." "An investment of a cask of whisky may seem like a wise choice, and perfect as a Christmas present to some, but we would encourage everyone to stay vigilant and to not be sucked in – especially if adverts guarantee you will get year-on-year returns. Certain companies prey on peoples lack of knowledge around investing, which is then exploited at a great cost to the consumer."

The City of London Corporation's Port Health and Environmental Services Committee oversees the Square Mile's Trading Standards operations. Its Chair, Mary Durcan, said: "City Corporation Trading Standards team has serious concerns over the whisky investment schemes that have sprung up over the last couple of years. "Casks are being sold as a long-term investment because whisky takes time to mature in the cask, consumers are being told. This means that it could be several years before investors realise their investments aren't performing. "It is vitally important to remember that whisky investments are not regulated by the Financial Conduct Authority which means that there is no recourse to the Financial Services Compensation Scheme if anything goes wrong." The investigation by the Advertising Standards Authority (ASA) found that these risks were not highlighted in advertisements on social media, with some claiming that whisky cask investment was a suitable means to fund early retirement. The terms and conditions provided in some advertisements also didn't state that fees would be incurred, meaning that some investors were stung with a charge later down the line.

In one particular case, complaints were raised regarding the misleading advertisements of Blackford Casks Ltd. Subsequent investigations upheld these complaints, determining that although no fraudulent activity occurred in this case, the ads needed to be revised and not to quote average returns without adequate evidence. This was found by the ASA to be irresponsible as the adverts were not easy to understand and took advantage of consumers' lack of experience and credibility. In 2023, there were 89 reports made to Action Fraud about alcohol investments, with losses totalling over £3 million. This shows that aside from misleading advertisements, fraudulent activity is taking place with whisky investments proving to be an enticing opportunity for unsuspecting investors. Whisky investments, like any investment, are never a sure thing when it comes to seeing a profitable return. External factors, mostly out of the investor's control, play a part in either a dip or a rise in the market.

To prevent becoming a victim of investment fraud:

- Take your time considering investment opportunities: don't be rushed into making an investment. Remember, legitimate organisations will never pressure you into investing on the spot.
- Seek advice first: before making significant financial decisions, speak with trusted friends or family members, or seek professional independent advice.
- Check the FCA register: use the [Financial Conduct Authority's \(FCA\) register](#) to check if the company is regulated by the FCA. If you deal with a firm (or individual) that isn't regulated, you may not be covered by the Financial Ombudsman Service (FOS) if things go wrong and you lose your money.

Lastly, if you aren't an expert in a certain field of investment, or feel that you don't know enough of the markets, then it's probably best not to invest. If it sounds too good to be true, then it probably is.

City of London Police would also urge the public to follow the Take Five to Stop Fraud advice.

- Stop: taking a moment to stop and think before parting with your money or information could keep you safe
- Challenge: could it be fake? It's ok to reject, refuse or ignore ant requests. Only criminals will try to rush or panic you.
- Protect: contact your bank immediately if you think you've fallen for a scam and report it to Action Fraud.

If you think you have invested money into a fraudulent investment, or you have been contacted about an investment that doesn't seem right, report to Action Fraud at actionfraud.police.uk. Reports can also be made by calling 0300 123 2040. In Scotland, reports of fraud should be made directly to Police Scotland on 101.



The Solution: A Simple Register

Implementing a technical cask register for cask ownership, similar to the Driver and Vehicle Licensing Agency (DVLA) for vehicles, will significantly mitigate many of the challenges and fraudulent behaviours in the unregulated cask trading market. Here's how:

Enhanced Transparency:

A technical register will provide a centralised platform for recording and tracking ownership information, offering greater transparency to market participants. Buyers and sellers can access real-time data on cask ownership, provenance, and transaction history, reducing the opacity surrounding ownership chains and mitigating the risk of fraudulent activities.

Improved Traceability:

Each cask will be assigned a unique identifier with an RFID tracker, both linked to its digital record in the register, facilitating full traceability throughout its lifecycle. This will enable stakeholders to verify the authenticity and legitimacy of casks, ensuring that they meet the specified quality and provenance standards. By enhancing traceability, the register will help prevent the circulation of counterfeit casks and mitigate the risk of misrepresentation and even untraceable food safety issues from arising.

Fraud Detection and Prevention:

The digital register will incorporate advanced authentication technologies, such as blockchain or cryptographic signatures, to ensure the integrity and immutability of ownership records. By leveraging tamper-resistant mechanisms, the register will deter fraudulent activities such as falsifying ownership documentation or misrepresenting cask attributes. Automated alerts and validation checks will also flag suspicious transactions, enabling timely intervention and fraud detection.

CaskNet will work with the industry to ensure that intelligence is shared quickly with law enforcement, enabling early action to be taken which will stop fraud within this marketplace.



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Regulatory Compliance:

A digital register will facilitate compliance with regulatory requirements by standardising reporting and documentation processes. Regulators and oversight bodies could access the register to monitor market activity, enforce compliance with industry standards, and investigate potential violations. By promoting adherence to regulatory guidelines, the register will help uphold market integrity and instil confidence among investors and stakeholders.

Streamlined Transactions:

The digital register will streamline the transfer of ownership by providing a secure and efficient platform for conducting transactions. Buyers and sellers can easily verify ownership rights and transfer cask ownership electronically, reducing administrative burdens and transaction costs associated with manual paperwork. This fosters a more liquid and accessible market, enabling smoother transactions and facilitating market growth.

Data Analytics and Insights:

The register will serve as a valuable repository of data on cask ownership trends, market dynamics, and consumer preferences. By analysing aggregated data, market participants can gain valuable insights into market trends, identify emerging opportunities, and make informed investment decisions. Data-driven analytics can also help detect patterns indicative of fraudulent behaviour, enabling proactive risk management and mitigation strategies.

Overall, a digital register for cask ownership offers a comprehensive solution to the challenges and fraudulent behaviours in the unregulated cask trading market. By promoting transparency, traceability, and regulatory compliance, the register enhances market integrity, fosters investor confidence, and contributes to the long-term sustainability of the cask trading industry.



An Unregulated Global Market: Looking Ahead

Proposed Solutions:

- Implementation of a Digital Register:
- A digital register, akin to the DVLA, offers a comprehensive platform for stakeholders to adhere to regulatory requirements aligned with their objectives. This register serves as a pivotal tool for clarifying regulations and ensuring compliance across the board.
- Continuous advancement of technology is essential to build and maintain the comprehensive history of each cask within the register. Additionally, it facilitates the enhancement of value-added features for register users, ensures robust cybersecurity measures, facilitates data analysis, updates outdated systems, and seamlessly integrates with evolving technologies, among other essential functions.

Establishment of a Code of Good Practice:

- It is imperative to establish a Code of Good Practice within the marketplace, serving as a reference point for brokers, traders, and owners to ensure lawful processes are adhered to. This code not only safeguards consumers but also provides guidance for industry professionals to protect their own interests.
- Integration with the digital register will facilitate easy access to this code, providing clarity and guidance for market participants.

Swift Implementation and Adoption:

- It is critical to garner support from all relevant authorities and bodies to swiftly implement and adopt the proposed solution. With the register already in place, authoritative directives are necessary to ensure market-wide compliance and adherence to regulatory standards.



In Conclusion

In conclusion, the Scotch whisky industry stands as a pivotal contributor to both the Scottish and UK economies. Nonetheless, alongside the longstanding tradition of distillery production, an emerging unregulated marketplace has given rise to prevalent fraudulent activities.

Instances of counterfeit casks, misrepresentation, and obscured ownership chains erode market integrity and investor confidence, posing significant threats to the sustainability of the Scotch whisky industry and the cask trading market. Other than the HMRC regulations around the storage and movement of duty suspended spirit, there are no regulations, there is no entity policing poor practises whether intentionally fraudulent or through ignorance, and nobody is enforcing the basic standard good practises which the market has adopted second hand from the Scotch whisky industry.

The proposal for a digital register, working in a similar manner to the DVLA for vehicles, presents a promising opportunity to address these challenges. Such a register would provide essential transparency, traceability, and fraud detection capabilities, thereby enhancing market integrity, mitigating risks, and restoring investor trust. Ultimately, it would empower buyers to verify assets before making commitments.

By centralising ownership information and leveraging advanced authentication technologies, the digital register offers a robust framework for regulatory compliance and market oversight. Its adoption heralds a transformative shift towards accountability and innovation within the Scotch whisky industry and the global cask trading market.

As stakeholders embrace technological solutions to safeguard authenticity and trust, they pave the way for sustainable growth, heightened market liquidity, and the continued prosperity of these valuable industries.

The economic importance of the Scotch whisky industry is undeniable as the data evidences, injecting billions into GDP, sustaining tens of thousands of jobs, and driving export activity. Yet, persistent challenges threaten its future growth and competitiveness, underscoring the imperative for support of proposed solutions to overcome regulatory hurdles.



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ADDENDUM

It is a requirement for 'revenue traders' to hold a WOWGR (Warehousekeepers and Owners of Warehoused Goods Regulations) which gives permission to hold duty-suspended spirits in excise-approved warehouses.

The WOWGR is set to be revoked (as announced by HMRC at a meeting of the Joint Alcohol and Tobacco Consulting Group in September 2022) which will remove the last barrier which formalises, registers or partially legitimises cask traders, and once scrapped there will be nothing preventing anyone wishing to trade casks from being able to do so. While this may not be a problem in itself, it coincides with a surge in the number of privately owned bonded warehouses being built, warehouses where there is little to no oversight by an apparently under-resourced HMRC.

Additionally, we are seeing far larger quantities of whisky being sold into private ownership than ever before, the sharp rise in price at the old and rare end forcing the market to be receptive to new make spirit which is quick and easy revenue from distilleries which are still struggling with the rise in energy costs, raw materials and salaries. The size of the market, and therefore the problem, is growing rapidly.

The lack of regulation and enforcement, increase in private warehousing and in whisky being sold into the market can only lead to a rise in fraudulent and criminal activity.



About the Author

Vikki Bruce has been immersed in the Scotch whisky industry for over two decades. She began her journey with independent bottlers Adelphi, who built The Ardnamurchan Distillery in 2013. Despite being a bystander in the intricate process of distillery construction, Vikki gained invaluable experience in the process.

In her initial venture, Vikki partnered with renowned whisky writer and expert Charles MacLean MBE to establish a luxury travel business catering to high-net-worth tourists visiting Scotland. This venture exposed Vikki to the world of distilleries and luxury whisky experiences from 2013 onwards, interrupted briefly by the lockdown period.

While her years in the traditional whisky industry provided familiarity, the onset of the global pandemic in 2020 forced Vikki to pivot. Recognising the potential of whisky sales to sustain her business, Vikki navigated towards the relatively young whisky cask trading market.

Vikki's move into cask trading quickly revealed the prevalence of fraudulent practices and unethical behaviour among traders, leading to disillusionment. A stark wake-up call came in late 2022 when a Chinese client, through his lawyer, requested verification of a £22 million cask parcel before finalising the purchase—a pivotal moment prompting Vikki to address the industry's challenges.

Determined to combat whisky cask ignorant, fraudulent and criminal behaviour, Vikki founded the tech startup solution CaskNet, while also overseeing her original travel business, a bonded warehouse & bottling facility based in Perth, and the cask trading arm of her business.



