## Rabobank Spirits Quarterly Q3: Weighing the risks of “aye” and “nyet”

**Alcoholic beverages were the notable exception to the Russian sanctions but the looming threat that they may eventually be implemented weighs on the industry. On the other side of Europe, political tensions of a different kind are making Scotch producers nervous about a possible yes-vote for an independent Scotland. While some point to potential advantages for distillers from Scottish independence, the disadvantages, particularly in the short term, are numerous.**

“With an independence vote, Scotland would lose its status as an EU member, at least temporarily, which would result in loss of automatic free trade with its key markets in the EU, rising input costs and loss of the diplomatic framework that Scotch has come to depend on to champion its interests in international markets,” said Rabobank analyst, Elena Saputo.

**Regional outlooks**

**Europe outlook**

Newly released financials are pointing to some stabilisation in western European spirits markets. Scotch and cognac companies are expected to be the most affected by any additional disruptions caused by Russian sanctions, but the Russian government has made it clear that it has other tools at its disposal to impact trade with its adversaries. Foreign spirits suppliers from the US and the EU have faced increased scrutiny from the Russian government under the guise of consumer safety violations.

**China**

Consumer sentiment towards high-end spirits remains weak, affecting earnings for both foreign and domestic suppliers. Spirits companies are looking to develop alternative channels and alternative products to help revive sales, highlighting the growing importance of diversification. Foreign suppliers will be unlikely to see any improvement before late Q1 2015.

**United States**

The US spirits market remains generally positive, and the prospects for continued economic growth should support ongoing growth in spirits volumes. Whiskey is expected to benefit from premiumisation and vodka is likely to continue to drive volume growth. Conditions remain ripe for continued US wholesaler consolidation.

**Brazil**

Production of cachaça accelerated as inventories declined during a busy World Cup period. However the Brazilian economy continues to face headwinds as industrial production numbers continue to disappoint and overall economic activity saw contraction during the first two quarters of 2014.

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