

As rare whisky prices rise, so do scams and schemes

Increasing popularity of mobile investing capitalised upon by those offering ownership in casks and bottles

By [Peter A Walker](#) Content Editor Insider.co.uk

As the price of rare bottles and casks of Scotch whisky has risen in recent years, inevitably too have entrepreneurs trying to turn this into an investable opportunity.

While several companies offer single malt as a way to diversify portfolios - much like fine wine or commodities like gold - other schemes have a less clear grasp on the actual asset and some have been revealed to be fraudulent.

According to the most recent Knight Frank Index, the value of rare whisky has risen by 540% during the last decade; faster than any other collectable luxury asset, such as watches, art or classic cars.

Collector and investor interest has also been piqued by recent headlines like a 1988 cask of The Macallan becoming [the most expensive ever sold at auction](#) - at just under \$1.3m.

So Insider investigated the good, the digitally ethereal and the downright fraudulent, while asking what the industry and authorities can do to reassure investors.



The major players

In June, Scotch Whisky Investments (SWI) [announced proposals](#) for a mixed-used development in Falkland, which will incorporate its new corporate headquarters, alongside an expansion of a proposed whisky storage facility in Glenrothes.

Currently headquartered in Sassenheim, the Netherlands, it has a license to offer financial investment products - in the form of bottles and casks of single malt Scotch whisky - issued by the Dutch Authority for Financial Markets in 2014.

Thomas Van Gameren, marketing manager for SWI, explained that every investor legally owns their whisky portfolio, with the company looking after it on their behalf, giving certain guarantees on cask investment quality.

He stated that for any market it's a problem to have less legitimate companies around. "That's why we find important to convey the message 'know what you are buying' when it comes to whisky, hence, we focus on that legal ownership of existing bottles on the one hand, with guarantees for 'virtual' bottles - whisky that is still in cask - on the other hand."

The Dutch regulator ranks SWI at a six on its one to seven risk factor, advising people not to put more than 10% of investable income in, with portfolios starting at £100,000 and due diligence carried out on every potential customer.

SWI's historical performance sits at a 12.5% annual return, with rising levels of interest - starting at 6% - depending on how much is invested.

"I acknowledge the problems that could undermine our business, but we're prepping a partnership with the Scotch Whisky Association and the Scottish Government to tackle this problem - we want to make the industry more robust for the future, in terms of overall quality of whisky and to protect legitimacy."

Another operator in the space is VCL Vintners, which has 12 years' experience of sourcing and managing investment-grade Scotch whisky casks for a network of retail and institutional investors - with approximately £70m worth of whisky under management.

The company only buys casks from two sources - either directly from distilleries, or via well-known

industry suppliers, who are themselves subject to HMRC Warehouse Keepers and Owners of Warehoused Goods (WOWGR) regulations.

Founder and partner Stuart Thom said: "We have rigorous processes in place with all our suppliers, this ensures we carry out the necessary legal checks on an ongoing basis to confirm that they have all necessary licenses to continue to wholesale in the spirits' market.

"Our stringent internal processes for the purchase of casks equally guarantees that we are purchasing real stock," he continued. "The purchases are confirmed on a delivery order sent from the supplier to the relevant warehouse for every cask that we purchase, which instructs the warehouse to transfer the ownership of the stock from the supplier to VCL."

As an HMRC-regulated entity, the warehouse has its own legal duty to guarantee that the ownership is promptly transferred to VCL and must meet stringent reporting requirements due to being in a bonded environment.

Thom admits that fraud is a serious challenge for the industry, but suggests all that can currently be done is to "urge any potential investors to fully research any firm they are looking to engage in an investment with", adding that: "The key things for potential investors to look out for are the age of the company, the duration it has been trading whisky casks for and whether there's a valid Alcohol Wholesaler Registration Scheme and WOWGR license."

London-based marketplace Cask Trade was founded by Simon Aron, after he had problems buying his own.

"I was continuously and intentionally misled on their location, the litres of alcohol and type of cask - most casks were overpriced, and one didn't exist at all," he commented.

"It made me realise that there was a gap in the market for a company which was genuine, so I set up Cask Trade in 2018, and the response has been overwhelmingly positive."

As stockists, rather than brokers, the company relies on giving accurate information, controlling quality and assuring customer outcomes - with 54% of them now being independent bottlers.

"This contrasts with most other companies, which are just selling as many casks as they can without treating this as a moving marketplace," noted Aron, adding that Cask Trade is UK-registered with all the appropriate licences and also has a location people can visit.

"There is currently no industry regulation and very little is being done to centralise best practice, or to help build trust and understanding amongst investors and potential investors," he complained. "We feel that the main priority right now needs to be protecting investors by ensuring that we and the wider industry operate transparently and honestly.

"This is why it's so important to educate potential investors on the key pitfalls to watch out for and the 'red flags' which would suggest - at least to us - a company which is acting dishonestly."

Problems of provenance

Of course, the main problem with buying into whisky as an investment is that you don't always know exactly what you're getting.

Last June, Casey Alexander from London was arrested over allegations of a £10m fraud in which around 150 elderly people in the US were duped into supposedly investing in Scotch.

Operating under Charles Winn, VWC and Windsor Jones, the scheme would offer exclusive parties in Scotland and huge returns on bottles like the vintage 2017 Craigellachie.

The FBI said the defendants used fake names and talked in British accents, telling victims that they "could identify and purchase a portfolio of fine wines and or whiskeys on behalf of investors," which would be held in a warehouse in the UK and sold for profit. None of the victims ever received their promised returns.

Also last year, The Mirror's resident scam-buster Andrew Penman [told of his troubles with a cold caller from Mason Grey](#), trying to convince him to invest in Irish whiskey.

"Our clients purchase 200 litre casks of new-make whiskey, they hold on to it for an average of three to five years average and then sell at a profit, that's the idea," he was told over the phone.

"We work with five exit strategies, the worst case scenario is it's going to be sold directly back to the distillery where they will bottle it, put huge margins on it and sell it to retail buyers; best case scenario is it goes over to a bidding house and we start a bidding war."

Another problem he revealed was that the Mason Grey brochure used a photo of the Dalwhinnie Distillery, with the London-based company's logo superimposed on it.

Mason Grey is listed on the financial regulator's consumer alert list with the warning: "This firm is not authorised by us and is targeting people in the UK."

A quick online search or scroll through social media quickly reveals a variety of slick-looking cask investment schemes advertising tax-free returns around 12% per year.

Andrew Laing, co-owner of Ardnahoe, the newest distillery to open on Islay, is one of several across Scotland which sells casks of whisky to private investors, with prices ranging from £2,000 to £12,000.

He told This Is Money: "We would never tell anyone they should expect a certain price or return... it's very much about the experience of owning your own whisky, rather than a typical investment."

Mark Littler, auctioneer turned whisky valuer, commented that while casks can be a good investment, "if you are expecting 10% returns a year, you will likely be disappointed."

"The value of whisky doesn't always go up linearly, and you won't make any money until you sell your cask completely," he added.

When it comes to investing in rare and expensive bottles, often problems arise with arbitrage around the valuation.

The aforementioned VCL Vinters shifted from selling wine to whisky and expanded into casks more recently, noting that with alcohol there is no spot-price like with commodities such as gold.

A spokesperson for the firm explained: "All whisky investment companies operate with a margin, as in any industry, margins vary, and there are some of our competitors that use higher price points."



"Pricing clarity is an issue for the wider whisky industry to navigate and that must start from the top down - investment companies that have only been operating for a short time and have no expertise in the sector will not have the pricing history to fall back on as we do."

Jason Chester, senior associate at intellectual property firm Marks & Clerk's Edinburgh office and member of their food and drink team, said rising demand and value can often lead to an increase in counterfeit products.

Identifying fakes can be difficult, time-consuming and expensive, and often involves lab-based processes such as carbon dating.

In 2018, whisky broker Rare Whisky 101 sent 55 bottles of rare whisky to Scottish Universities Environmental Research Centre for analysis. The bottles were selected at random from auctions, private collections and retailers, with the centre finding that 21 out of the 55 bottles examined were either fake or not distilled in the year stated on the label.

"We have seen NFTs [Non-Fungible Tokens] be used to verify the ownership and authenticity of bottles of whisky," said Chester. "At their core, NFTs can be thought of as unique ledger numbers digitally stored on the blockchain, technology which makes it impossible for counterfeiters to manipulate the data used in the process of authentication."

He added that NFTs could make it quicker and cheaper for investors, brand owners and enforcement bodies to identify counterfeit whisky and distinguish fakes from the genuine articles.

The non-fungible craze

In March, Fife-based Scotch whisky retailer and bottling company The Whisky Barrel [released one of the world's first single-cask Scotch whiskies with a digital provenance certificate](#).

Using NFTs to digitally certify the whisky, Alistair Brown and his brother Chris claimed to be leading the authentication process using blockchain technology, stating that by transmitting product information on a public ledger, collectors and connoisseurs can alleviate the risk of investing in counterfeit whisky.

Developed in conjunction with Aberdeen-based tech start-up CD Corp, this is one of the world's first Scotch whisky collections to use digital certification.

In September last year, its previous iteration, CryptoDramz, [announced one of the world's first limited-edition collections of Scotch whisky as NFTs](#).

The first of 20 custom-made whisky sets were auctioned via online marketplace OpenSea - selling out by December. Each case included a bottle of 25-year-old Talisker single malt, a Glencairn crystal whisky glass engraved with that NFT's unique number, and a Harris Tweed-covered hip flask.

Each sale was recorded on the Ethereum blockchain, as will any future resales – providing future buyers with a verifiable record of the provenance.

Aberdeen-based CryptoDramz was founded in March 2021 by Robert Gordon University graduates Ryan Aitken, Murdo McCandlish and Joseph McGraw, changing its name to CD Corp earlier this year as it moved from direct commerce to a business-to-business consultancy.

Ryan Aitken, managing director of CD Corp, told Insider that interest has been strong, to the point where the actual bottling process and supply chain has been the one thing holding up more launches.

"The NFTs were sorted, with lots of interest, but at the moment we're waiting three and half months for bottling," he explained.

"We're not about crypto, or speculative investments, there's so much focus on these buzzwords with a lack of value for customers, it's really all about the whisky - the NFT is just a supplement to that."

Aitken added: "We've been very careful to have the spirit as the tangible asset - I get so frustrated when the focus is on the tech - essentially it just gives a security mechanism, so if you buy a bottle and you want to sell it to someone in the Far East for instance, it's a supplementary technology on top; a secure way of transmitting data."

However, whisky consultant and broker Blair Bowman argues that the rising popularity of whisky-based NFTs is akin to the emperor's new clothes, calling the trend "very alarming".

Author of the Pocket Guide to Whisky - and recently made one of Scotland Food & Drink's regional food tourism ambassadors - he has called for the industry and authorities to stamp down on the "charlatans" throughout the sector, complaining that some directors of whisky investment companies have been previously involved in fraudulent activity.

"HMRC just aren't doing enough, it's very alarming, because customers could be left high and dry as they aren't given the correct documentation.

"Many won't get a proper title of ownership for casks - you really ought to get a delivery order - but it's an unregulated area which is creating more and more of a bubble, and the inflated prices mean customers aren't going to make a return."

Bowman added: "It all feels very flash in the pan, whisky will be here in 100 years time, but I doubt any of these things will - we probably won't even have the tech to even access NFTs at that point, it'll be like floppy discs."

Regulatory scrutiny

Whisky investment appears to fall between the authorities somewhat.

HM Revenue and Customs is responsible for excise duty for whisky casks, approving persons to hold excise casks without payment of excise duty, while the whisky matures in a secure and approved excise warehouse.

Misleading investors is under the authority of the Advertising Standards Authority (ASA) or Trading Standards, with HMRC only alerted to a potentially fraudulent firm if it didn't pay the correct tax.

The ASA stated that it has proactively identified advertisement claims about whisky investment as an area of interest "and as a result we've launched an investigation" looking at claims made with regard to investment return promises, and whether the nature and risks of investments are made clear.

Whisky is not under the remit of the Financial Conduct Authority (FCA), which would only touch alcohol if the investment was structured under a collective investment scheme.

A spokesperson explained that there hasn't been that much contact, with just a few consumers asking whether things were genuine, or when they couldn't get hold of a custodian.

In-line with the rise in DIY investing during the pandemic lockdowns, people in the UK being targeted by financial scams have risen sharply in recent years.

The FCA had more than 36,300 enquiries about illegal activity from March 2021 to March 2022, up by a third on the same period in 2020. Of that figure, 58% were around potential investment scams.

"We continue to receive reports of potential investment scams that involve unregulated products, including high-priced drinks such as wine and whisky or whiskey," said an FCA spokesperson. "Direct investments into these unregulated products do not fall under our remit which means that we have limited powers over their sale, but we want to raise awareness about the risks of investing in them and how they could also be used to facilitate scams.

"We want people to know the scam red flags to look out for and we urge people to do their research first before parting with their money - always check our Financial Services Register to find out if the individual or firm you're dealing with is regulated and if you will be protected."

Lindesay Low, deputy director of legal affairs at the Scotch Whisky Association, confirmed that personal investment in casks has become more popular in recent years, with a number of companies offering opportunities for investing in a maturing cask of whisky.

"However, as with any investment, care should be taken to understand the market and the obligations and costs of cask ownership - the SWA has provided guidance on cask investment which should be considered carefully before investing.

"In addition, we continue to monitor claims made by investment companies to ensure potential investors have access to accurate information, and liaise regularly with regulators like the CMA."

ends