The United Kingdom's departure from the European Union

How leaving the single market and customs union would affect Scotch Whisky exports to Finland

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Abstract

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Abstract

Since the United Kingdom voted to leave the European Union in the 2016 Brexit referendum, there is an increasing likelihood that there will not be a trade deal between the two parties. Scotch Whisky is a net contributor to the UK economy and is one of Scotland's most important exports. The thesis aims to find out the kind of barriers could arise if the UK leaves the EU without a trade deal. It also aims to ascertain how those trade barriers would affect Scotch Whisky exports to Finland as an EU member state and how Finnish customers would react to those effects.

The thesis uses deductive methods, in addition to qualitative and quantitative research. Primary and secondary data is used in the thesis. The secondary sources are as follows: books, electronic articles and other online materials, which are referenced in the theoretical part of the thesis, Scotch Whisky export statistics, and facts concerning the EU Single Market and Customs Union. The primary data is collected from a dialogue with the product manager of a company that imports Scotch Whisky and supplies Alko (the national alcoholic beverage retailing company in Finland), and, a questionnaire, which was then analysed.

Keywords

Brexit, Consumer Behaviour, Economics, EU Single Market and Customs Union, Scotch Whisky Exports

CONTENTS

1 INTRODUCTION

This introductory chapter will familiarise the reader with the background, objectives, and questions of this thesis, and thus the importance of the research conducted. The reader will also become familiarised with the research methodology and data collection. To summarise the chapter, the reader is presented with an overview of the structure of the thesis.

1.1 Research Background

Why Scotch Whisky Exports

Scotch Whisky is one of the most famous alcoholic beverages in the world. There are many different types of Scotch Whisky: malt and grain, however the former is more popular. The Scotch Whisky industry is important for the Scottish economy and, in a broader sense, the UK economy.

Scotch Whisky is the single largest contributor to the UK economy (Scotch Whisky Association).

People from all around the globe visit Scotland and visit Scotch Whisky distilleries and museums. Scotch Whisky is a massive contributor to the tourism industry in Scotland, not only in the bigger cities (such as Edinburgh and Glasgow) but also in the more rural towns and villages in the Highlands and Lowlands (Scotsman).

Why Brexit is Important

In 2016, the UK voted in a referendum to leave the EU. On 29 March 2017, Theresa May invoked Article 50 of the Lisbon Treaty—meaning that the UK formally decided to withdraw from the EU (BBC News).

The UK and EU will negotiate a withdrawal agreement. If a withdrawal agreement is not made, the UK will leave two years after the notification on the 29 March 2019. Article 50 may be extended if the UK and the European Council unanimously agree to extend negotiations. Once the withdrawal agreement has been formally approved by the UK parliament, the transition period comes into effect which lasts until 31 December 2020. The transition period can be extended two years until 2022 (European Commission 2018).

At the time of writing this thesis, the UK government and the European Commission had negotiated a withdrawal agreement, but it faced much opposition in the UK Parliament due to complications surrounding the shared border between Northern Ireland (UK) and the Republic of Ireland (EU). Nevertheless the prime minister has made it very clear that the UK will be leaving the EU, because that is what the people voted for in the 2016 referendum, hence her coining of the term ‘Brexit means Brexit.’

The idea of Brexit is quite controversial in terms of economics because it was not specified in the 2016 referendum.

The referendum question and options are as follows:

Should the UK remain a member of the EU or leave the EU?

Remain a member of the EU

Leave the EU

Therefore, taking different definitions, we see a new understanding of what Brexit means. Brexit is;

> *‘Not partial membership of the European Union, associate membership of the European Union, or anything that leaves us half-in, half-out. We do not seek to adopt a model already enjoyed by other countries. We do not seek to hold on to bits of membership as we leave.’ (Theresa May (2017.)*
>
> *‘A customs union with Europe and also protection of all the conditions that are so important such as workers’ rights and environmental protections.’ (Jeremy Corbyn 2018.)*

The Financial Times has defined six scenarios in the cases of hard and soft Brexit.

Table 1 Brexit Scenarios (Financial Times 2017)

Scenarios	**Advantages**	**Disadvantages**
No deal: UK no longer adheres to EU treaties and nothing to replace the thousands of international agreements from which they stem	It would be a clean break from the EU leaving the UK free to make trade deals with any country, thus making the UK truly international. The UK could also make new agreements with the EU.	Large scale disruption affecting most businesses in Britain, causing border problems, making export and import operations more difficult. Tariffs, bureaucracy, and other trade barriers. Historical issues can reappear between Northern Ireland (UK) and Republic of Ireland (EU).

Divorce-only agreement: UK leaves with an Article 50 agreement, leaving lots to be negotiated still. UK-EU trade would be based on WTO rules.	Trade barriers would increase, Britain becomes more independent economically, domestic production would increase. UK will be free to strike trade deals with other countries. British companies can get more state aid which is not allowed according to single market rules.	Tariffs and non-tariff barriers would increase, thus affecting British companies that export goods to EU. Customs delays and bureaucracy would increase.
Limited tariff-free trade deal: No guaranteed access to the single market, increased customs checks, and the UK can make trade deals with other countries.	EU countries could still sell their products to the UK without tariffs, which is stable for the automotive industry (BMW, Fiat).	Service sector, such as finance and banking, would face tariffs. Companies that rely on complex supply chains will be affected by non-tariff barriers and delays at customs posts.
Far-ranging trade deal: A trade deal that would cover most goods and services, which would limit the amount of freedom on the UK making new trade deals with non-EU countries.	More stability for businesses that rely on exporting goods and services to the EU. More stability for people who buy EU products at a good price. Labour and capital can still move easily across borders.	Companies would have to deal with some bureaucracy. UK take rules and can't influence them as a full EU member.
Customs Union: UK could agree on a customs union (e.g. Turkey). UK can make deals with other countries for agriculture and services.	Stability for manufacturing sectors (including whisky). No need for as many border checks and a most non-tariff trade barriers would be mitigated.	Some goods could still be subject to customs checks if they do not meet EU regulations which will cause delays. UK will have less freedom to negotiate trade deals with non-EU countries.
Single Market: UK will have access to the single market (e.g. EEA countries). Goods and services won't face trade barriers. There would be little to no confliction with regulations.	Stability for financial industry and other services and manufacturers. Free movant of labour/people. Employers face more stability if workers are from EU/EEA countries.	UK European Court of Justice would still interpret regulations that UK must follow. EU workers would still have full rights to work in UK. A lot of division in society i.e. Brexit hasn't been delivered.

The first two scenarios on Table 1 describe what is called 'Hard Brexit' henceforth, which describe leaving the single market and customs union. Few political commentators see the Norway option as an appropriate compromise for both sides: those that wish to leave the EU and those that wish to remain in the EU. The Norway option could satisfy both sides of the referendum debate (Hitchens 2018). The European Free Trade Association (EFTA) – Iceland, Liechtenstein, and Norway – has multiple free trade arrangements outside of the EU. (Regjeringen.no). Therefore, they are not in the EU Customs Union. Moreover, EFTA states on its website that ‘EFTA does not envisage political integration. It does not issue legislation, nor does it establish a customs union.’

The website goes further to say that the EEA’s objective ‘is to extend the internal market of the EU to the three participating EFTA States, creating a homogeneous European Economic Area’ (EFTA.) In addition, there are safeguards which can limit the free movement of workers in accordance with Article 112 of the Agreement on the European Economic Area (EEA Agreement.) This is a temporary measure that can be put in place if difficulties in society become overwhelming. This means that free movement of people can be halted. Switzerland and Lichtenstein have invoked Article 112 when necessary (EU Law Analysis).

The EU single market is an integral part of the EU, which guarantees good and healthy trading relations between countries (especially France and Germany) thus sustaining economic prosperity and peace throughout Europe. This means that there are no tariffs, quotas imposed on goods traded between members of the single market. Being in the customs union eliminates customs checks between members, and, moreover, members have a common external tariff: same customs duties, import quotas, and other such non-tariff trade barriers. The UK is currently still a member of the EU, which means there are no tariffs, customs clearances, or any other barriers to trade between the other 27 EU member states and the UK (El-Agraa 1998, 12-13.)

1.2 Thesis Objectives, Research Questions and Thesis Limitations

The objective of the thesis is to ascertain how the UK leaving the EU will affect Scotch Whisky exports to Finland. As this has not happened yet, it is impossible to say at this point what it means. The way that most people have understood Brexit is as follows: controlling immigration, therefore leaving the single market; having an independent trade policy, therefore leaving the customs union. Henceforth, the research questions are;

RQ1: “What kind of friction between UK-EU trade in commodities could arise when the UK leaves the EU Single Market and Customs Union?”

RQ2: “What effect could that friction have on Scotch Whisky exports to Finland?

RQ3: “How would consumers in Finland react to changes in Scotch Whisky prices?”

Arguing whether the UK should or should not leave the EU would go beyond the scope of the thesis. Therefore, the thesis deals only with the hypothetical outcome of the UK leaving the EU in the sense that it is not in the EU single market and customs union.

1.3 Research Methodology

There are two distinct approaches of research: deductive and inductive. Deductive reasoning is top-down logic. The premise of a statement, if it is a testable proposition, will be conclusive. A thinker should assume or believe something is true (e.g. a theory or investigation) and then explore whether it is or not (Saunders et al. 2009, 127 - 128.)

Whereas inductive reasoning is down-up logic. The conclusion follows from a preposition with some probability. Saunders, Lewis & Thornhill (2009) provide a clear comparison of the differences between deductive and inductive reasoning.

Table 2 Research Approaches (Saunders et al. 2009, 127 - 128)

Deductive Emphasises	*Inductive Emphasises*
Scientific principles	*Gaining an understanding of the meanings humans attach to events*
Moving from theory to data	*A close understating of the research context*
The need to explain casual relationships between data	*The collection of qualitative data*
The collection of quantitative data	*A more flexible structure to permit changes of research emphasis as the research progresses*
The application of controls to ensure validity of data	*A realisation that the researcher is part of the research process*
The operationalisation of concepts to ensure clarity of definition	*Less concern with the need to generalise*
A highly structured approach	
Researcher independent of what is being searched	
The necessity to select samples of sufficient size in order to generalise conclusions	

There are two different types of research methods: qualitative and quantitative. The main differences are explained below.

Qualitative Research

Qualitative research is chiefly exploratory. It is used to better understand opinions, attitudes, and motivations. Successful qualitative research provides insights into a research problem and helps researchers develop a hypothesis and thereafter quantitative research. The most common way of collecting qualitative data is by conducting interviews, group discussions and observations. The sample size is typically limited to a small number of respondents. (Saunders et al. 2009, 482.)

Quantitative Research

Quantitative research is used to quantify issues, feelings, attitudes, opinions and other variables that can be quantified. This is done by creating numerical data that can be transformed into statistics. (Saunders et al. 2009, 414.) Common approaches to collecting quantitative data for statistics are conducting face-to-face interviews, telephone interviews, systematic observations, polls and questionnaires. When conducting quantitative research, the results should reflect a population (i.e. of a company, city, country) as it would be extremely difficult to get the entire population to take just one questionnaire, therefore the respondents should be random. This is known as ‘simple random sampling’. (Saunders et al. 2009, 223.)

Both primary and secondary data collection are used in the thesis. Primary data is collected during the research by the author; secondary data is collected from various types of sources (e.g., online articles and published books). Both qualitative and quantitative research methods have been used in this thesis. In chapter four, the empirical part (qualitative research) in form of an interview has been conducted with a product manager of an import company in Finland. This is to ascertain how Scotch Whisky exports to Finland will be affected after the UK leaves the EU. Quantitative research, in the form of a random sample is taken from Scotch Whisky consumers in Finland is discussed in the fifth and sixth chapter. The questionnaire collects the data on attitudes and opinions toward a change in the price of Scotch Whisky in Finland. The participants are residents in Finland, both Finnish and foreign.

1.4 Thesis Structure

Moving forward, there are three distinct parts in this thesis. The first part handles the statistics on Scotch Whisky global exports, and, more specifically, exports to Finland. It is also important to discuss what defines Scotch Whisky according to UK and EU law. The second part is theoretical, because it handles the potential trade barriers to which Scotch Whisky could be subjected. The third part of the thesis discusses the empirical data analysis. Finally, the conclusion answers the research questions and makes suggestions and recommendations concerning Scotch Whisky sales when the UK leaves the EU.

1. Introduction
2. Literature Review
3. Scotch Whisky Exports
4. In the case of leaving the single market and customs union: Scotch Whisky exports to the EU
5. Empirical research and data analysis
6. Conclusion
7. Summary

The first chapter is the introduction to the research background, the thesis objectives, research questions and limitations. The first chapter also goes over the research methodology, data collection and the purpose and goals of this thesis. Then, there is a focus on the market in Finland; how much Scotch is exported to Finland and how the market is regulated. The whisky sales data in Finland is reviewed in addition. The second chapter explores the economic aspects surrounding free trade, tariff and non-tariff barriers to trade to which Scotch Whisky may or may not be subjected.

The third chapter explains why Scotch Whisky is chosen as an example of an exported commodity to Finland. It is crucial to discuss the standing of Scotch Whisky in the global market and how it is defined according to UK and EU law. Also discussed is the importance of the Scotch Whisky to the UK economy.

Chapter four and five is the empirical research and data analysis. The data are analysed and then going forward on to the sixth chapter (the conclusion) the research questions are answered. There is then a discussion about the reliability of the collected data in this thesis and suggestions for further research. This thesis is summarised in the seventh chapter.

2 DEMAND AND SUPPLY AND CONSUMER BEHAVIOUR

As said in the previous section, the objective of this thesis is to ascertain how much the disruption caused under the conditions of a hard Brexit (leaving the customs union and single market) will affect Scotch Whisky exports to Finland. To reach the objectives of the thesis, existing theories around free trade, protectionism, and supply and demand on a global scale must be studied.

The theory of *absolute advantage and comparative advantage* developed by Adam Smith and David Ricardo respectively. The main concepts are total utility and marginal utility, price elasticity, and why governments implement protectionist policies. This contributes to the various aspects surrounding the UK leaving the EU. And, finally, it is important to discuss the theory of Consumer Behaviour, in addition to Scotch Whisky as a brand.

2.1 Main Concepts: Supply and Demand (Invisible Hand)

Adam Smith coined the term “Invisible Hand” which is the origin of *Absolute Advantage* (Smith 1776, 349.) The core idea of this concept is that every person in a society will pursue their own interests and the government should leave people to their own devices to trade freely and compete. Smith’s invisible hand theory had been extended to international trade, too.

Smith writes that the impost 1629 (a twenty-five percent duty that Great Britain imposed on all French wine and other commodities) while all the other nations had only had a five percent duty on their products, was disadvantageous to both French wine-makers and British wine consumers. (Smith 1776, 349.)

This duty had made French wine substantially more expensive than Portuguese wine of equal or even lower quality. In response, France had imposed similar duties on British commodities which had had a detrimental effect on British manufacturers. Moreover, Smith argued that, had there been no duties on French wine, British merchants could re-export what was left over and hence increase their profits. He goes on to explain that one of the most important branches of Dutch trade was transporting French goods to other European countries. (Smith 1776, 364.)

Smith also provides an example of the invisible hand by discussing wine-making in Scotland.

> *"By means of glasses, hotbeds, and hotwalls, very good grapes can be raised in Scotland, and very good wine too can be made of them at about thirty times the expense for which at least equally good can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines, merely to encourage the making of claret and burgundy in Scotland? …As long as the one country has those advantages, and the other wants [lacks] them, it will always be more advantageous for the latter, rather to buy of the former than to make."*
>
> (Smith 1776, 351.)

Comparative Advantage is when a country can produce a good or service at a lower opportunity cost than another country. Therefore, France is said to have had a comparative advantage over Portugal in wine production. The price for a bottle of French wine, without tariffs, would have been cheaper than Portuguese wine, and higher quality.

For example, Portugal is more efficient than France at producing clothing and footwear. France is more efficient at producing wine than Portugal. Therefore both countries will benefit more if they focus on producing what they can do so at a lower opportunity cost.

Table 3 Maximum outputs of France and Portugal (author's own table)

Maximum Outputs	Portugal (A)	France (B)
Wine	6 million	21 million
Clothing and Footwear	30 million	35 million

France can choose to allocate all of its resources to either producing twenty-one million units of wine or thirty-five million units of clothing and footwear. Portugal could either allocate all its resources to producing six million units of wine or thirty million units of clothing and footwear. Henceforth, it is more advantageous for France produce wine and more advantageous for Portugal to allocate all its resources to producing clothing and footwear.

France is almost four times more productive at wine production than Portugal. However, Portugal is 17% more productive at producing clothing and footwear. Therefore, France should specialise in producing wine, leaving Portugal to produce clothing and footwear. France has an absolute advantage in producing both wine and clothing and footwear, but it has a comparative advantage in producing wine.

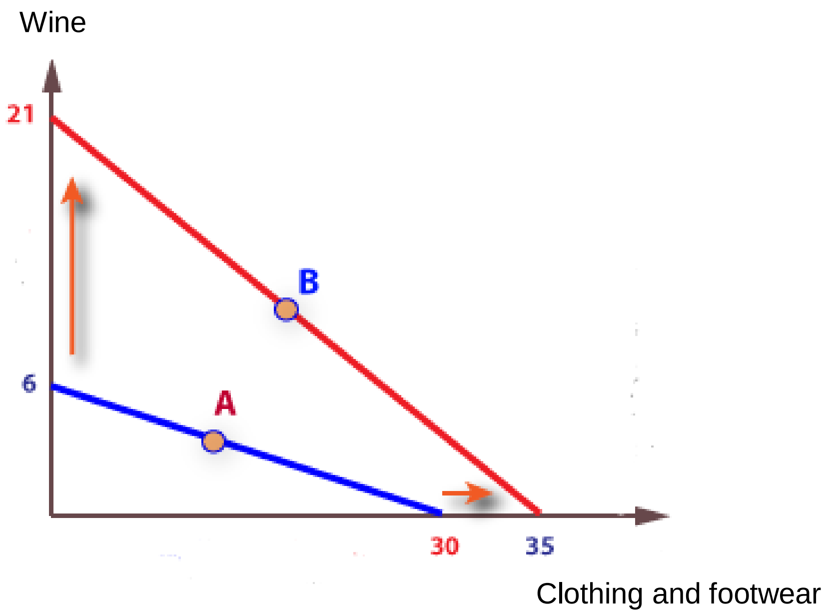

Figure 2 Production Possibility Frontier

If France and Portugal were to become more self-sufficient by producing both commodities instead of importing, their combined output would be much lower, which had been the case in the 1930s when international trade had been far less integrated than today (Krugman, Obstfield & Melitz 2012, 516-517).

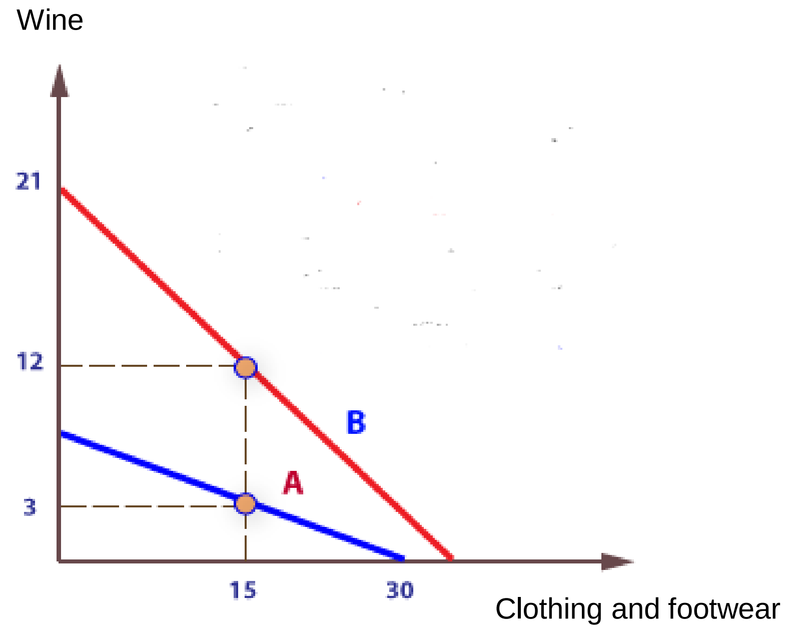

Figure 3 Effects of being self-sufficient

In this example, if France and Portugal were to allocate resources to producing both commodities equally, combined, they would produce (15m+15m) 30 million units of clothing and footwear; and (12m+3m) 15 million units of wine, which altogether equals a combined output of 45 million. Whereas, if they both specialise in the good of which they have a comparative advantage, the combined output would be thus 51 million which is better than 45 million.

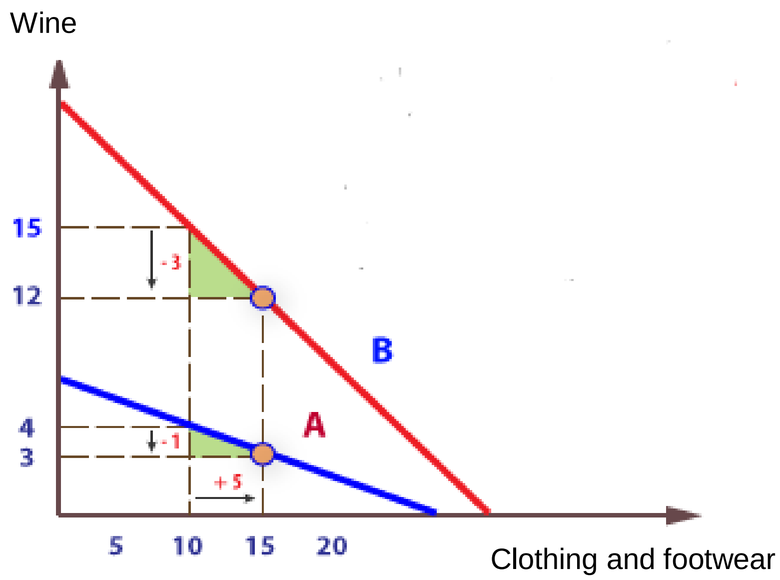

Figure 4 Opportunity cost of production

Figure 4 shows that France needs to give up producing three million units of wine to produce an extra five million units of clothing and footwear. However, Portugal just needs to give up 1 million units of wine to produce clothing and footwear.

Therefore, the opportunity cost for France would be (-3/+5) -0.6Y and the opportunity cost for Portugal would be (-1/+5) -0.2Y. France loses the most, therefore, they should specialise as much as possible in wine production, and Portugal should specialise in clothing and footwear.

2.2 Main Concepts: Protectionism and Free Trade

It is important to look at the different theories surrounding friction in trade i.e. trade barriers which can include non-tariff barriers and tariff barriers. So, what is *trade friction*? There is no agreed definition of trade friction, but there are other terms that mean the same thing. This includes phrases such as trade tension, trade dispute or trade conflict. Trade friction arises if countries (or trading blocs) implement protectionist trade policies, known simply as *Protectionism.* (Krugman et al. 2012, 205-211.)

Griffiths writes that there are two different methods of Protectionism: Tariff Barriers and Non-Tariff barriers. Tariffs are effectively a tax levied on imported goods, which therefore increases their prices and thus decreases their demand. Non-Tariff Barriers have the same effect as tariffs at the end, however the means are different. A quota is a quantity limit on imported goods coming into a country during a set period. Other non-tariff trade barriers include time-consuming formalities, such as mandatory proof of origin certificates (or commercial invoices) which are required when imported goods enter a country, trading bloc or customs union. Currency manipulation, exchange controls, and safety, technological and environmental standards are further ways of protecting domestic industries (Griffiths & Hall 2012, 554-560.)

A great example of protectionism is the WTO dispute settlement “DS389: European Communities — Certain Measures Affecting Poultry Meat and Poultry Meat Products from the United States” (WTO, 2018.) Chlorine-washed chicken from the US is banned from being imported to the EU/EEA under concerns of human health and environmental protection. (European Commission). However, the European Food Safety Authority (EFSA) made a statement to the media that it is not unsafe to eat chlorinated chicken, rather they take issue with the hygiene standards during the entire process of the production chain and are opposed to disinfecting the product with chemicals at the end of the process.

However, Peter Spence (2009) of the Adam Smith Institute writes the following:

> *"On the contrary, after decades of safe use in the US, the scientific evidence has confirmed that PRTs are effective. US households eat their way through 156 million chickens treated this way each week, the National Chicken Council reported, in testimony before the Senate Committee on Finance in 2014." (Spence 2009, 5).*

In 2015, the WTO ruled in favour of the US being able to export chicken to India because the ban had breached several international trade rules (Farm Futures). American lobbyists are eager to make a trade deal with the UK, post-Brexit, in which chlorine-washed chicken can be imported from the US.

Europe's Common Agricultural Policy (CAP) had been devised in 1957 and had comprised of six nations: Belgium, France, Germany, Italy, Luxemburg, and the Netherlands. These countries had been known collectively as the European Economic Community (EEC).

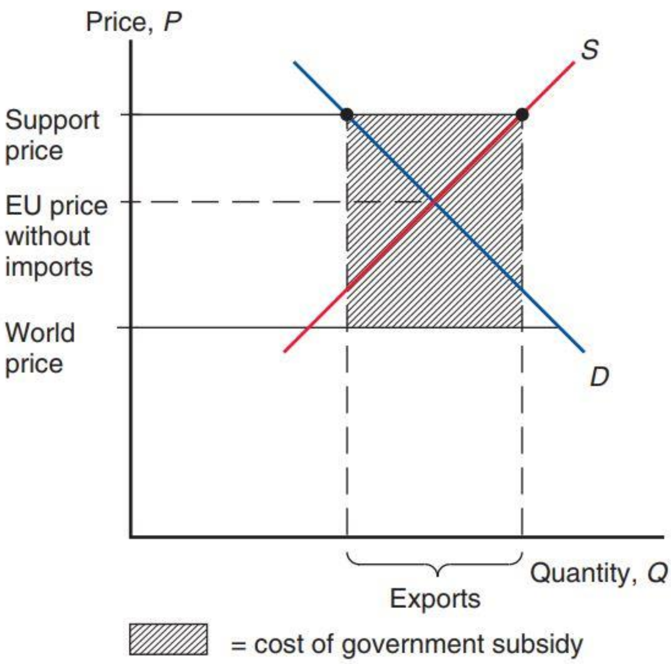

Figure 5 The effect of Europe's Common Agricultural Policy (Krugman et al. 2012, 205)

To maintain peace in Europe, the EEC (currently the EU) embarked on an effort to ensure that farmers can make a reasonable income and keep the rural economy alive. The CAP effectively subsidises EU farmers by providing income support, market measures (e.g. if demand drops due to health scares or if the price drops due to oversupply in the market) and rural development measures. The effects of which are illustrated in Figure 5. Note that world prices are substantially cheaper than the EU prices, which is, for the most part, due to high external tariffs and other trade restrictions to countries outside of the customs union, single market, or CAP. In 2018, the European Union provided farmers with €58.8 billion worth of subsidies (El-Agraa 1998, 206-211.)

Arguments for Protectionism:

- To prevent dumping
- To protect the environment and safety standards
- To protect important industries in a country
- Fair trade
- To protect infant industries

Arguments against Protectionism:

- Retaliation (trade wars)
- Supporting inefficient industries
- Foreign countries may have a comparative advantage over producing certain goods;
- Therefore, consumers must pay more for domestic goods that are more expensive or that are lower in quality

It is unambiguous that free trade is more beneficial than protectionism. Tariffs cause prices of goods to increase. Products that could be made in developing countries and countries that have a comparative advantage, when faced with EU tariffs, are more expensive. (Krugman et al. 2012, 220).

A shift to free trade (i.e. the removal of all tariffs and quotas) would be more efficient. This is known as the efficiency case for free trade (Krugman et al. 2012, 220). A shift to free trade is illustrated in Figure 6.

Trade barriers impose higher prices which lead to production and consumption distortions which are illustrated by the measuring of the blue triangles in the Figure 6. Without trade barriers, the price of a good would be at the lower world price which means firms will produce more and consumers buy more.

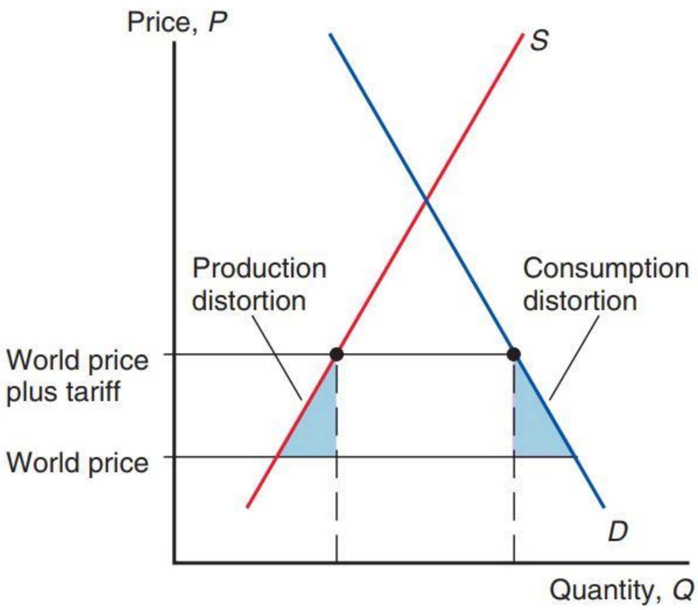

Figure 6 The efficiency case for free trade (Krugman et al. 2012, 220)

2.3 Main Concepts: Utility

Consumer behaviour theory is the assumption that consumers in a market maximize their utility while being subject to the constraint of a limited budget. Consumers attempt to obtain the greatest value upon making purchase decisions for the least amount of money. (Pindyck & Rubinfeld 2009, 149).

Marginal Utility is the amount of satisfaction one can get from consuming an additional good or goods. Utility is measured qualitatively rather than quantitively. Total utility is the “number of units of utility that a consumer gains from consuming a given quantity of a good, service, or activity during a particular time period.” (University of Minnesota).

Figure 7 illustrates the total utility curve and the marginal utility curve of someone who goes to the cinema in one month. Panel (a) shows the total utility of movies that a customer has. When the customer goes to the cinema to see the first movie, his marginal utility is 36; the second time he goes, it is 28. Every time he goes to see another movie, the marginal utility of the movie diminishes. Panel (b) shows the marginal utility of each movie that he watches on a downward slope. This, in theory, proves that Aristotle’s argument is true. Aristotle argued that the pleasure or happiness that one gets from a perishable something is bound to perish with it.

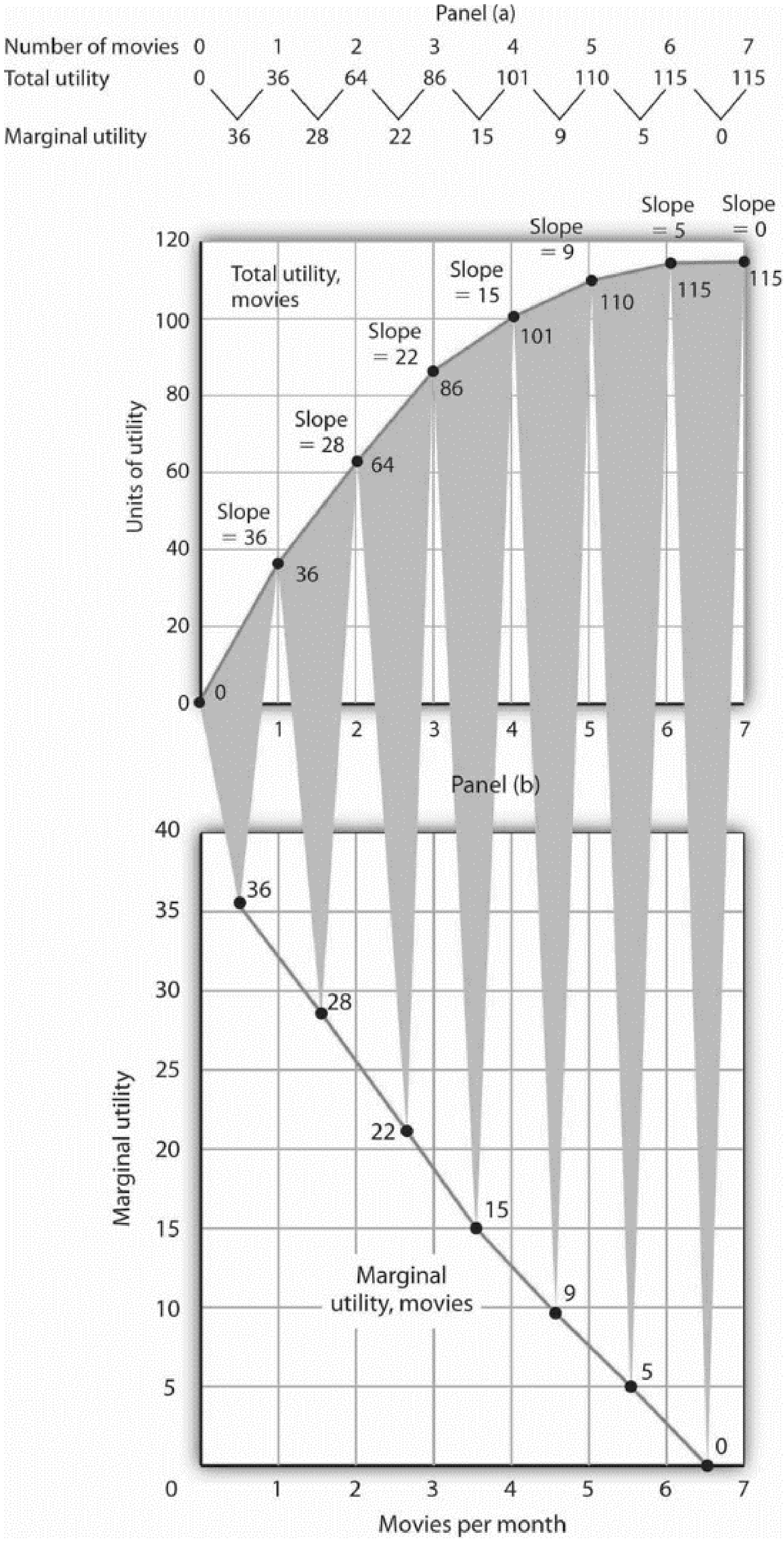

Figure 7 Two panels showing Total Utility and Marginal Utility Curves (University of Minnesota)

Taking the utility curves from Figure 7 as an example, marginal utility decreases with each movie watched and total utility is reached at six movies, therefore, it would be useless to pay to watch the 7th movie in a month. Consumers have a budget constraint; therefore, they have to gauge the opportunity cost of buying another good. If there are two competing brands in the market, consumers choose which one they find the most utility and which is within their budget constraint. Consumer behaviour is very diverse as people have various attitudes towards different goods.

2.4 Main Concepts: Price Elasticity

Price Elasticity is a measure of the effect of a price or a change in the quantity supplied on the demand of product or service. This is a very important theme in this thesis as this gets down to the nub of the matter in terms of RQ3: "How consumers in Finland would react to changes in Scotch Whisky prices?" This is the most important theoretical part that is the key to answering the question, therefore it is important to review the literature on it. (Parkin 2019, 124).

A product can be deemed perfectly inelastic, relatively inelastic, unit elastic, relatively elastic and perfectly elastic. Unit elasticity is when the price of a good changes by e.g. 1% and the demand changes by 1%. When a good is perfectly inelastic, its demand does not change no matter how much the price may change. When a good is perfectly elastic, if the price increases, there will be no demand. (Parkin 2019, 125-128).

This is important for determining the demand for Scotch Whisky in Finland, in conjunction with exploring the answer to RQ3: "How consumers in Finland would react to changes in Scotch Whisky prices?" This is the key question of this thesis.

2.5 Main Concepts: Marketing and Consumer Behaviour

In this chapter, there is a review of the literature of consumer behaviour. Individuals, groups, and organizations as consumers all have their own preferences, what they like and dislike. Groups can be made up of people with the same or similar languages, cultures, ethnicity and race, nationality, sexual orientation, social background, occupation, class, and income. Marketers' main goal is to understand what goods and services these consumers need or want, and then provide them accordingly.

This sub-chapter discusses the psychological aspects behind consumer behaviour: motivation, perception, learning, and beliefs and attitudes. (Armstrong & Kotler 2013, 156-158).

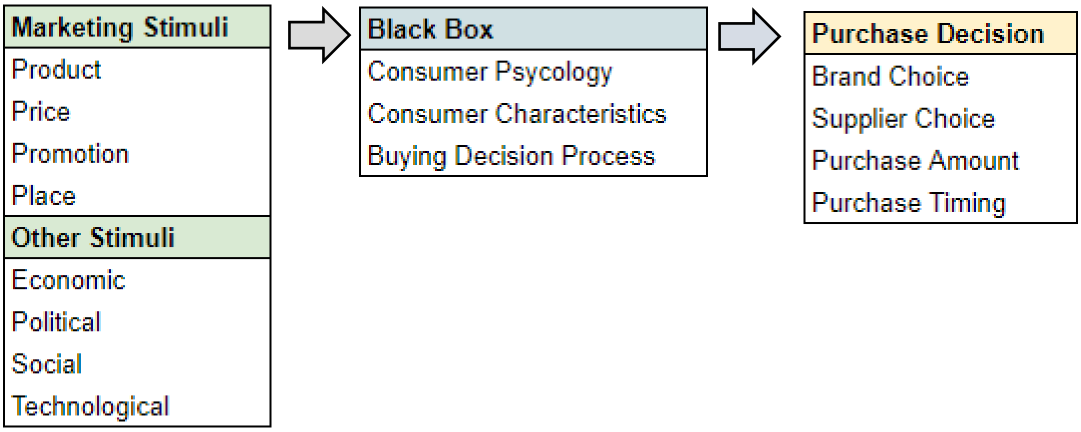

Figure 8 Model of Consumer Behaviour (adapted from Armstrong & Kotler 2013, 157; Kotler & Keller 2016, 187)

The first process is the marketing (which includes the 4 P's: product, price, place and promotion) and other stimuli enter the consumer's black box. These stimuli influence strongly influence consumers' consumer behaviour. However, it is very difficult to read what is inside a consumer's head, what they prefer and why, therefore it is called the black box. That is why marketers are dedicated to finding out what makes consumers tick. (Armstrong & Kotler 2013, 157).

Culture

The cultural aspects of consumer behaviour are the simplest part of a consumers' wants, needs and behaviour. People grow up learning basic values, perceptions, wants and behaviours from family, leaders in the society and different institutions. Culture is not static and it does change over time. The three functional areas of a cultural system are ecology, social structure, and ideology. (Armstrong et al. 2013, 157.) In the United Kingdom, for example, children are told to think for themselves and find their unique and induvial contribution to society. Brits are highly individualistic with only the United States and Australia ranking slightly higher. Happiness is achieved through personal fulfilment. (Hofstede Insights).

Ecology

Humans adapt to social and physical surroundings (Solomon 2009, 604.) Nordic countries and Russia, for example, have very warm houses and sauna (banya in Russia) due to very cold winters and a high density of forests, which yield a high supply of wood with which the sauna can built and fuelled. When people from a country in which they drive on the left-hand side of the road drive in countries where people drive on the right-hand side, they certainly adapt to that country's traffic system (and vice versa). The dangers and consequences of failing to adapt to that are innumerable.

Social Factors

Society is made up of different types of groups, social roles and status. There are various membership groups to which people belong which strongly influences their behaviour. People from lower and middle classes want to scale the social ladder to reach a better position in life. For example, a child who wants to grow up to be just like that her favourite singer, footballer, or actor. Marketers try to identify reference groups of their target market (Armstrong et al. 2013, 160-161.)

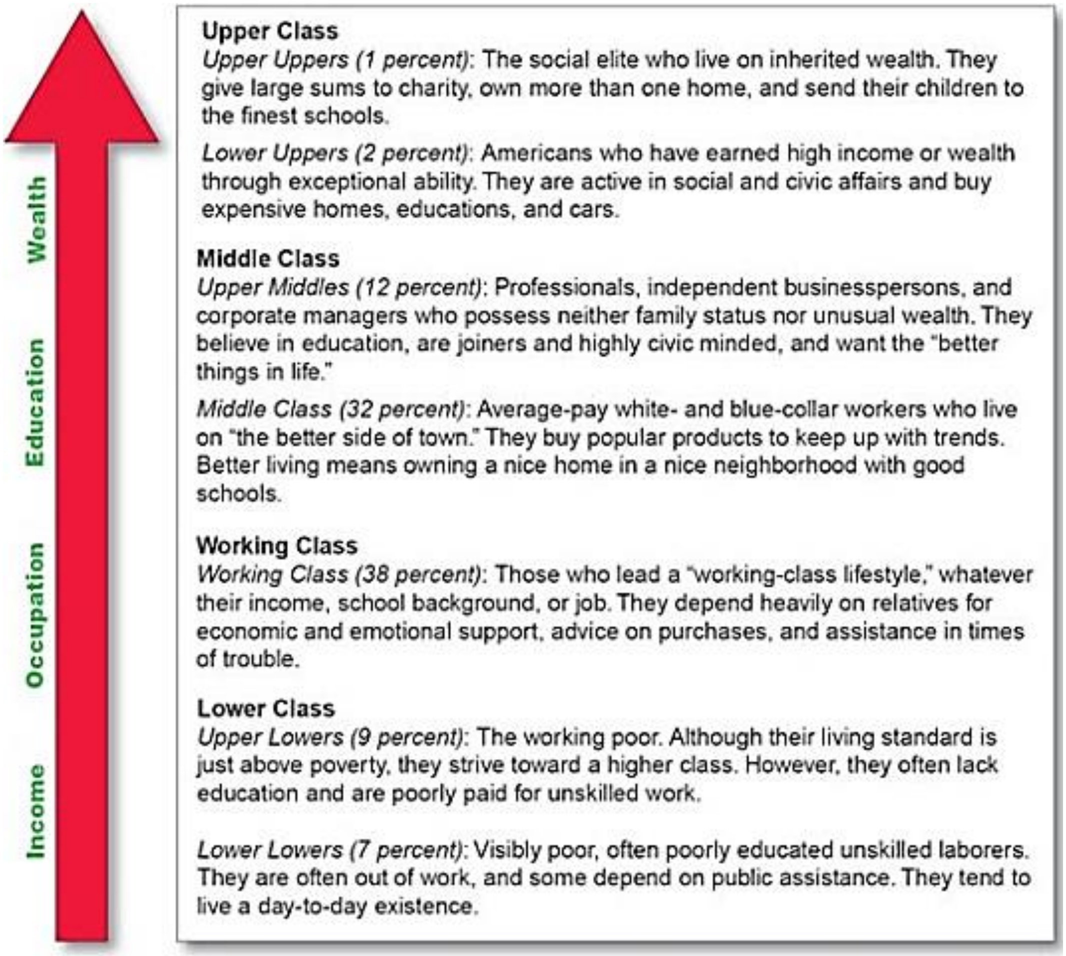

Figure 9 The Major American Social Classes (Armstrong et al. 2013, 160)

Figure 9 shows the different social classes in the USA which are influenced and identified by income, occupation, education, and wealth. Marketers need to understand what these different target markets want and can afford. In addition, when doing an online advertisement, for example, marketers know that the 'lower lowers' might not be able to read, therefore, the message is not being conveyed to that segment of consumers. In such a case visual and audio communication is preferential. Another example if Audi is advertising a new model, the marketers would be appealing mostly to the middle class who have a good salary and/or good credit to afford a trendier car.

Ideology: this can be religion, philosophy and consciousness that relates people to their social groups and worldview.

Personal Factors

There are five personal characteristics: Age and life-cycle stage, occupation, economic situation, lifestyle, and personality and self-concept.

Table 4 Personal Characteristics in Buying Behaviour (adapted from Armstrong et al. 2013, 165-167)

Characteristics	**Description**
Age and life-cycle stage	Consumers change the products and services that they buy over time. Life-stage changes, the result of demographic and life-changing situations (e.g. marriage, children, buying a home, sickness etc.) All of these various circumstances have an impact on what products a person consumes
Occupation	People's occupation will certainly affect what products and services they buy. For example, a board member of a company has a monthly round of golf with the CEO. He or she would have to pay for club membership, hire a caddy and buy top brand golf clubs, shoes, and clothing appropriate for the course.
Economic situation	People's disposable income varies depending on the national or global economic situation. If interest rates or inflation is high, then people will not have as high purchasing power if their income stays the same. In such conditions, companies like Ikea have cheap,

	simple-to-build and reliable furniture. Hence slogans such as “Buy More, Pay Less!”
Lifestyle	Lifestyle is recognized by identifying sub-cultures and AIO (activities, interests and opinions) Dimensions. Therefore, consumers have a set of values that can change. In the past few years, there is an emerging market for electric cars in light if the damage that carbon dioxide emissions do to the planet.
Personality and Self-Concept	Everyone has their own unique personality. People can be self-confident, shy, aggressive, sociable, agreeable, dominant, autonomous etc. There are five brand personality traits: sincerity, excitement, competence, sophistication, and ruggedness (Aaker 1997, 347-356.) The Scotch Whisky brand (particularly Single Malt) is associated with all five brand personality traits. This is explained in the proceeding sub-chapter/chapter/section.

Psychological Factors

There are four phycological factors that effect a person’s buying choices: motivation, perception, learning, and beliefs and attitudes.

Motivation

Humans have various needs, some of which are biological. They arise often out of hunger, thirst, or discomfort. People have a deep need for a sense of belonging, recognition. Thus when a need turns into a motive when it is aroused to a sufficient level of intensity. It is also known as *drive* which is a need that that leads a person to seek satisfaction from that need (Armstrong et al. 2013, 167.) Freud suggests that people’s purchasing decisions are affected by unconsciousness and that people have “unconscious instinctual impulses,” (Freud 1915, 176.)

To ascertain why consumers are driven by different needs at different stages in their lives and surrounding circumstances, it is important to consider Maslow’s theory. Consumers try to satisfy their most important needs first. For example, a person who perceives the environment as being the most important (i.e. safety needs are foundational) will buy more ecological fair-trade products, cosmetics that haven't been tested on animals or biodegradable shopping bags. (Armstrong et al. 2013, 167-168).

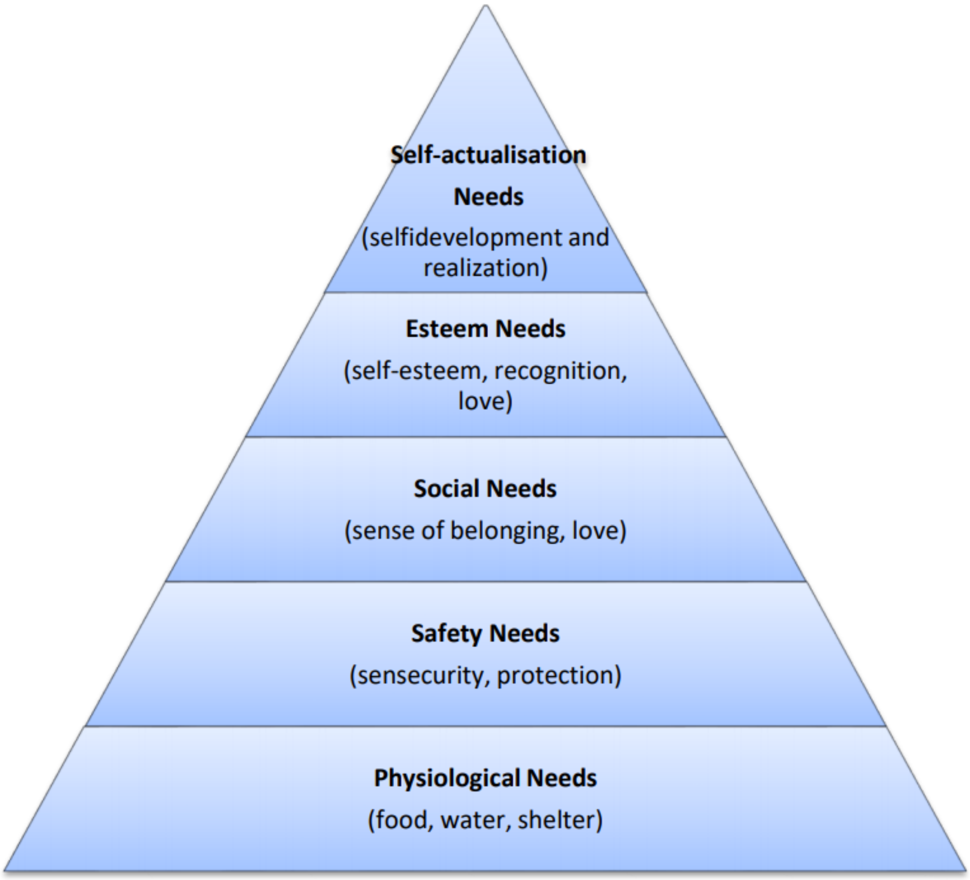

Figure 10 Maslow's Hierarchy of Needs (Armstrong et al. 2013, 168)

Maslow illustrates the rank order (the base being the most foundational) on the Hierarchy of Needs (see Figure 10). Thus, when a consumer's need is met, it is no longer possible to satisfy, therefore, they will focus on fulfilling another need (Kotler & Keller 2016, 187.)

Perception

Consumers are ready to act and be influenced depending on their situation in life. Consumers select, organize and interoperate information differently using all five senses: hearing, sight, smell, touch, and taste, and that influences their buying behaviour. First, consumers are exposed to advertisements, then, secondly, it has their attention, and, thirdly, they interoperate the message, by using one or more of their five senses, which are the very basic stimuli. (Armstrong et al. 2013, 168.)

Perception include human stimuli's connection to the surrounding environment. However, people have different perceptions is directly a consequence of three perceptual processes;

- Selective attention: the tendency for people to filter the information (e.g. YouTube advertisements) to which they are being exposed;
- Selective distortion: the tendency for people to reinterpret the information to which they are being exposed to support their worldview;
- Selective retention: the tendency for people to just remember the good points about the brand that they like, however, they only remember the bad points of a brand that they do not like
  (Kotler & Keller 2016, 190.)

Learning

The learning experience is the permanent change in consumer behaviour (Solomon 2009, 116.) Learning initiates changes in human behaviour from experience. Learning occurs through drives, stimuli, cues, responses, and reinforcement.

Table 5 How Learning Occurs (adapted from Armstrong 2013, 168)

How learning occurs	Description
Drive and stimulus	A strong stimulus that the consumer feels internally that calls for action, which is turns into a motive when it is directed towards a stimulus objective.
Cues and Responses	Cues determine when, where and how consumers respond to drives and stimuli.
Reinforcement	This is when a consumer buys a product or service, likes it, and keeps buying it, therefore their response has become reinforced.

For example, an American living in Scotland has been invited by his colleagues to attend his first Burns Supper. He is *driven* to go and buy a bottle of Scotch Whisky to bring to the party. He asks his friends where he could buy a special type of Scotch. His friends that there is an excellent shop on the high street that sells unique Single Malt Scotch Whisky (word of mouth). This is the cue which is influencing a response to his interest in buying a certain type of Scotch Whisky. Once he has bought the Scotch, taken it to the party and he and his friends enjoy it, he will buy more for similar occasions. Thus, his response will be reinforced.

Beliefs and Attitudes

Consumers acquire descriptive attitudes and beliefs concerning products and services through learning. A belief is a descriptive thought that someone has about any given thing. Attitude describes a person's evaluation (which relatively stays the same, all things equal), feeling and attitudes towards ideas and objects. If a they experience a product positively, this will influence them to buy more, and vice versa. It is for that reason that marketers seek consumers' beliefs and attitudes toward their products and services, their rivals' too. (Armstrong et al. 2013, 169.)

Therefore, leaders and managers of companies need to receive that much valued feed-back from their customers whether it is good or not. Moreover, that precious feedback must be passed onto employees to ensure that they receive the right training to meet, and, in hopefully most cases, exceed the standards that their customers expect. There are many various factors that influence consumer behaviour: culture, society, psychological, and personal.

Scotch Whisky as a Brand

Scotch Whisky is seen as a more affluent brand of whisky. Single Malt Scotch Whiskies from Islay and Campbeltown are more expensive because there are not very many distill-eries in those areas. There are only eight active distilleries in Islay and three in Campbel-town (VisitScotland), therefore the taste is unique, mystical, and smoky. In addition, Scotch Whisky from Orkney is also unique as there are only two distilleries in the area. (VisitScotland).

Figure 11 Islay Storm, Campbeltown 21 Year Old, Highland Park 18 Year Old Viking Pride and Highland Park 50 Year Old Single Malt Scotch Whiskies

Scotch Whisky relates to a lot of people that have visited or long to visit Scotland. The taste of Islay Storm gives impressions of adventure, elegance, and the mystery and ruggedness of Islay's features. Similarly, Campbeltown Loch Single Malt relates to those who have been or want to go fishing at the Campbeltown *Loch* (meaning lake in Scots) which has quality brown trout. Highland Park's whisky distillery is in Kirkwall, Orkney which had once been under Norwegian rule. Orkney is an archipelago of magnificent beauty that attracts many tourists all year round. Highland Park 50 Year Old is the oldest in their collection and is therefore their most valuable and unique.

To celebrate one hundred years of Finnish independence, Bruichladdich distillery (in Islay) exported the 1917 Independence Day 15-year-old Port Charlette Single Malt to the Finnish market.

Scotch Whisky is very popular in the United States of America and Canada since many people there identify themselves as having Scottish roots. Therefore, they feel an affinity with the Scots and an appreciation for Scottish culture: kilts, bagpipes, Burns Supper, Scotch Whisky, and the landscape. Some might have parents or grandparents from Scotland.

Figure 12 Canadians wearing kilts ice skating in Ottawa (The Scotsman)

Canadians who descend from Scots celebrate their Scottish heritage, which is illustrated in Figure 12. It is common to see pipers and drummers wearing kilts marching through Canadian cities streets during certain holidays.

Porters Five Forces Analysis

Porter's Five Forces is a marketing model that identifies and analyses five different competitive forces that shape every industry. Moreover, it is a useful framework for identifying industries' strengths and weaknesses. It proves very useful when applying it to the whisky industry in Scotland.

Porter Five Forces consists of five competitive forces: competitive rivalry, threat of new entrants, threat of substitutes, bargaining power of suppliers, and bargaining powers of customers.

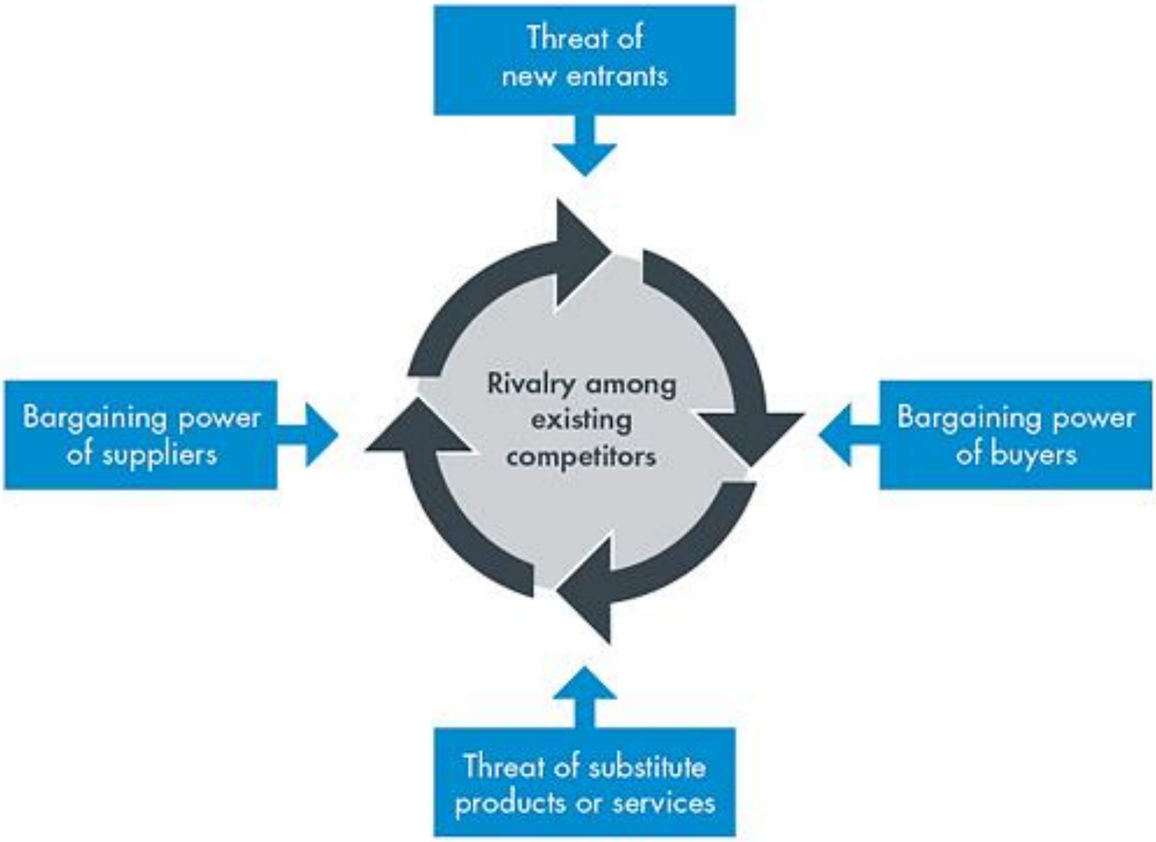

Figure 13 Porter's Five Forces (adapted from Porter 1979)

1. Competitive Rivalry: Like most market places, the more players in the market, the higher and more intense the competition. Moreover, high fixed costs, high storage cost and exit barriers make it more difficult for companies to compete. Competitive Rivalry decreases when switching costs and levels of product differentiation are low.

2. Threat of New Entrants: The number of new entrants to the market depends on how difficult the barriers, economics of scale, patents, governments, propriety knowledge, and asset specificity.

3. Threat of Substitutes: The threat of substitutes increases if substitute products are cheaper than the industry product. Moreover, threats of substitutes are higher if consumer switching costs are low, and, in addition, if substitute products are the same or of superior quality than the industry product.

4. Bargaining Power of Suppliers: The Bargaining Power of Suppliers increases with few suppliers, if the switching costs are high. The same also applies if the buyer is

not price sensitive, if the supplier’s product is highly differentiated or if substitute products are not available.

5. Bargaining Power of Buyers: The bargaining Power of Buyers (or customers) increases when the concentration of customers is high (e.g. in a major city), switching costs are low, customers are price sensitive, and know a lot about the product. It also increases when product differentiation is low and backward integration is high.

The first three factors are considered horizontal because they are operating in the same direction in the market. The last two are considered vertical as they operate within the supply chain.

Analysis of the Whisky Industry

Porter’s Five Forces is used for highly related products for a specific business or businesses operating in a competitive market. Therefore, it is adequate for the Scotch Whisky industry competing against Irish Whiskey, American Whisky, and Canadian Whiskey. As the Republican of Ireland is a member of the EU, and they do not intend on leaving, there is no threat of any trade barriers when exporting to the EU. The following analysis aims to outline the various strengths and weaknesses of Scotch Whisky.

Competitive Rivalry

The competitive rivalry is very high in the whisky industry because there are many players in the international market: Ireland, US, and Canada. They have a very skilled and educated workforce that have extensive knowledge of producing whisky. The product differentiation is medium; the market is mature with relatively slow growth. Storage costs are high for Scotch Whisky production due to the mandatory three-year maturation period, which is explained more in chapter three.

Threat of New Entrants

The threat of entrants is quite low due to the various barriers to entry: health and hygiene regulations, bottling regulations and taxes. Taxes make up 74% of the price of a bottle of Scotch Whisky, according to figures in June 2018. (Scotch Whisky Association). The industry requires people with extensive knowledge of whisky and the initial costs of casks and stills are high. Additionally, the EU has imposed a 25% tariff on American Whiskey, which makes it more difficult for American producers to export their products to the EU, and thus protects Scotch and Irish Whisky industries.

Figure 14 Tax on Scotch Whisky (SWA)

Threat of Substitutes

The threat of substitutes is medium since Scotch Whisky has a unique taste, especially those more expensive single malts from Orkney, Islay, and Campbeltown. Some cheaper Blended Scotch Whiskies may come under threat from, for example, Irish Whiskey at the same price and of similar or higher quality.

Bargaining Power of Suppliers

The bargaining power of the suppliers is low as the barley is not a differentiated good and there are many suppliers, and, in addition, the switching costs are low, which therefore results in low bargaining power.

Bargaining Power of Buyers

The bargaining power of buyers (customers) is quite high, therefore they are price sensitive and switching costs are low, especially when their knowledge of Scotch Whisky is limited. Scotch Whisky aficionados, however, are loyal to only a few types of Scotch Whisky and therefore their price sensitivity is low. This is especially true for Single Malt Scotch Whisky collectors and drinkers (Whisky Analysis.)

The whisky industry overall is hugely competitive and attractive. The barriers to entry are high, making it difficult for new entrants to the market. The Scotch Whisky market has grown in the last few years, which is explained in more detail in chapter three.

The various theories in this chapter are important for answering the research questions. It is vital to discuss the supply and demand of commodities in an economy and trade bloc. Understanding how trade barriers affect trade between two countries or unions. The EU Single Market and Customs Union ensure that there is free movement of goods throughout the EU: goods are not subject to tariffs, customs checks, and producers do not need to obtain proof-of-origin certificates, customs declarations, and the like (El-Agraa 1998, 12-13.)

Additional costs for producers are ultimately passed on to consumers, and if the price is higher, the demand will decrease when there are similar products or substitute products in the market at a lower price (Krugman, Obstfield & Melitz 2012, 220).

Price Elasticity is another important factor in the thesis. How elastic is the price of Scotch Whisky: if the price of a bottle of Scotch Whisky increases due to trade barriers, how much will demand decrease?

Scotch Whisky is a world-famous brand, and is consumed all around the world, even in the most unlikely of places, according to the Scotch Whisky Associations export figures (2018). The final part of the theory in this chapter was Consumer Behaviour and Marketing. It is important for marketers to understand how Scotch Whisky consumers in Finland perceive the product, which is achieved in the thesis through a questionnaire.

The Porter's Five Force Analysis of the whisky market. It is very competitive and Scotch Whisky has a strong presence in the market due the wealth of experience gained over, in some cases, hundreds of years. Scotch Whisky has a unique taste, especially those single malts produced in Islay, Campbeltown, and Orkney, which are typically more expensive. However, those cheaper Scotch Whiskies might could may come under threat from whiskey from other countries that have the same or higher quality at the same price or even cheaper.

The threat of new entrants is low because of the initial costs of setting up a distillery, buying machinery and employees with extensive knowledge. There is also a whole raft of regulations to which Scotch Whisky producers must follow. This requires inspections, on the job training for staff and managers always need to be aware of any changes of regulations. Taxes on Scotch Whisky are very high at a rate of 74%, therefore, the price of the actual whisky without taxes would be four times cheaper.

3 SCOTCH WHISKY EXPORTS

This chapter discusses Scotch Whisky global exports around the world, and, more importantly, to Finland. Before analysing the data, it is important to review the legal definition of Scotch Whisky so that it is clear what qualifies as Scotch Whisky.

Secondly, there is an analysis of global Scotch Whisky export figures and its significance to the Scottish and UK economies; and what kind of impacts it has on sustaining and creating more employment. Thirdly, there is an analysis of the Scotch Whisky market in Finland. In addition, there is a review of how alcohol is regulated in Finland and furthermore how that affects alcohol consumption in Finland.

3.1 Definition of the Scotch Whisky Brand

The Scotch Whisky brand is split into two categories: 'Single Malt Scotch Whisky' and 'Blended Scotch Whisky'. Single Malt Whiskies are produced in one distillery and aged in oak casks. Blended Whiskies are a mix of two or more single malt Scotch whiskies. Before Scotch whisky is matured in barrels, it is a clear liquid. All the magic happens in the barrel over several years, in which the clear liquid turns into a golden colour.

The taste of the whisky depends on which type of oak the Whisky is matured in and how long the maturation period is. Single Malts are the most revered by collectors around the world for their quality and nuance. Blended Scotch Whisky, on the other hand, is made by blending different single malts, and aging them together in oak barrels. They are typically less expensive than Single Malts, however, limited editions can be quite expensive. According to EU law, the minimum maturation period for Scotch Whisky is three years, however, most Scotch Whiskies are matured much longer than three years. (Scotch Whisky Association 2017).

The legal definition of Scotch Whisky in the UK is based on the Scotch Whisky Act 1988 passed by parliament. It stipulates that "Scotch whisky means such whisky (distilled and matured in Scotland) as conforms to a definition of Scotch Whisky contained in an order made under this subsection by the ministers". The Act goes on further to say that whisky should be "produced by the distillery of a mash of cereals," and the alcoholic strength should be no stronger than 94.8%. In addition, the Act also states that whisky should be matured in wooden casks with a capacity of no more than 700 litres for at least three years (Scotch Whisky Act 1988.)

European Union Geographical Indicators (GIs) are essentially put in place to support intellectual property rights in Europe. They 'create value for local communities through products that are deeply rooted in tradition, culture and geography.' (European Commission 2013.) The European Union is at the forefront of negotiating Geographical Indicators (GIs) with the World Trade Organisation.

Some examples of EU GI's are:

- Bayerisches Bier;
- Champagne;
- Feta and Gorgonzola;
- Irish Whiskey;
- Polska Wódka;
- Queso Manchego;
- Scotch Whisky

It is illegal to produce counterfeits of the above product examples. It is a form of copyright infringement. Therefore, companies, whose products are protected under EU law, can file lawsuits against companies who make counterfeit products. One example of this is when D'Aquino Bros Pty Ltd (an Australian alcohol manufacturer, importer, and exporter) had been selling counterfeit Scotch Whisky, as it had not been made in Scotland. By 2011, the Scotch Whisky Association (SWA) had taken legal action against them three times. In 2012, the SWA, along with Chivas Brothers (as co-plaintiff) filed a lawsuit against D'Aquino Bros Pty Ltd, after which a settlement was made, in the form of a payment made to the plaintiffs. (Scotch Whisky Association 2012.)

This is a very positive step in challenging those who produce counterfeit products. That ensures that consumers are buying genuine quality products.

Her Majesty's Revenue and Customs (HMRC) has established a verification scheme for those who:

- "are involved in the production of Scotch whisky in Scotland
- bottle, blend or label Scotch whisky outside of Scotland
- are a bulk importer of Scotch whisky
- produce Irish whiskey, Irish cream or Irish poteen in Northern Ireland
- bottle, blend or label Irish whiskey, Irish cream or Irish poteen outside Northern Ireland
- produce or bottle Somerset Cider Brandy"

  (GOV.UK.)

In addition, companies who are involved in any of the activities must apply for verification of UK GI spirit drinks after which they will be processed and checked. The checks are stated on GOV.UK as follows:

- fermentation (malt whisky production)
- distillation (malt whisky production)
- fermentation (grain whisky production)
- distillation (grain whisky production)
- maturation and blending
- bottling and labelling of final product

(GOV.UK)

Customers seeking to verify if a certain brand of Scotch Whisky is genuine can do so at the Spirit Drinks Look-Up Facility on the HMRC website, by inputting the brand name and searching, and, if it is genuine, it will show the details of the distillery in which it is produced. Moreover, the SWA, UK Trade & Investment (UKTI) and the UK's Intellectual Property (IP) Attaché have been deeply involved in securing trademarks with South Africa, China and Taiwan, meaning that companies that want to make counterfeit Scotch Whisky are faced with more challenges. (SWA; GOV.UK)

This initiative protects factories and workers in rural areas in the UK, and, equally importantly, it protects consumers from buying overpriced counterfeits.

3.2 Significance of Scotch Whisky in the Scottish and UK Economy

Scotch Whisky exports are the largest net contributor to the UK economy. This surplus in trade balance indicates the importance of Scotch Whisky in the Scottish and UK economies. The SWA has concluded that the UK trade deficit, which was £32 billion in 2017, would have been 12 percent worse had Scotch Whisky exports been unsuccessful (SWA.)

3.3 Scotch Whisky Exports

In 2017 alone, Scotch Whisky's export value amounted to £4.37 billion, meaning that 1.23 billion bottles had been sold worldwide. Approximately 90% of Scotch Whisky produced in 2017 was exported. (The Scotch Whisky Association, 2018.) Observing Scotch Whisky export data from 2017 (Table 6), 842 million bottles of Blended Scotch Whisky were exported compared to 122 million bottles of Single Malt. Observing the value of each bottle sold, a bottle of Single Malt is three times more valuable than Blended.

Table 6 Scotch Whisky Exports in 2017 (HMRC, Quoted by the SWA)

Exports	Single Malt Scotch Whisky	Blended Categories	Other Scotch Whisky	Total
Value - £GBP million	**£1,171m**	**£2,956m**	**£241m**	**£4,368m**
% change	+14.3%	+7.8%	-1.0%	+8.9%
£ change	+£146m	+£215m	-£2m	+£359m
Volume – bottles equiv.	**122m**	**842m**	**270m**	**1,234m**
% change	+8.1%	+0.9%	+1.3%	+1.7%
bottles equiv. change	+9m	+8m	+3m	+20m

Having said that, Blended Scotch Whisky proves to be more popular and therefore generates more revenue than Single Malt. The report goes on further to say that the industry invests £1.74 billion in its supply chain every single year and pays out £1.4 billion of salaries to workers in the UK and supports over 40,000 jobs in the UK, 7,000 of which are in rural areas.

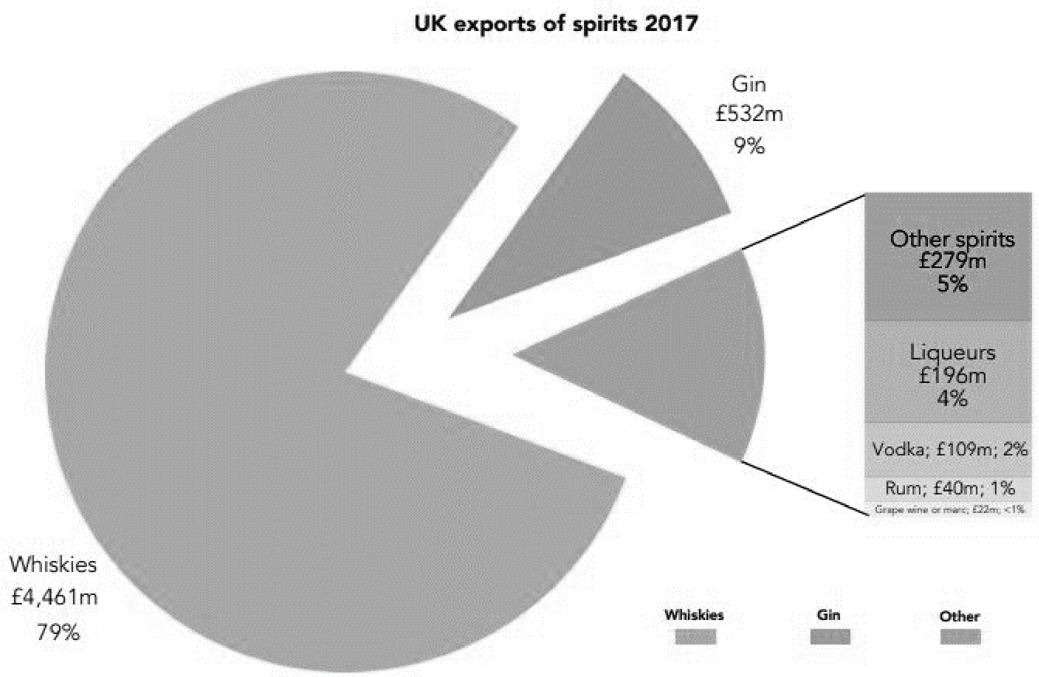

Figure 15 UK Exports of Spirits, HMRC, Quoted by the SWA

In 2017, 79% of spirits exported from the UK had been Scotch Whisky. Other spirits that the UK exports include gin, rum, and vodka.

Figure 16 Export Destination by Value, HMRC

The most valuable market is the European Single Market and then North America (Canada, Mexico, and USA.)

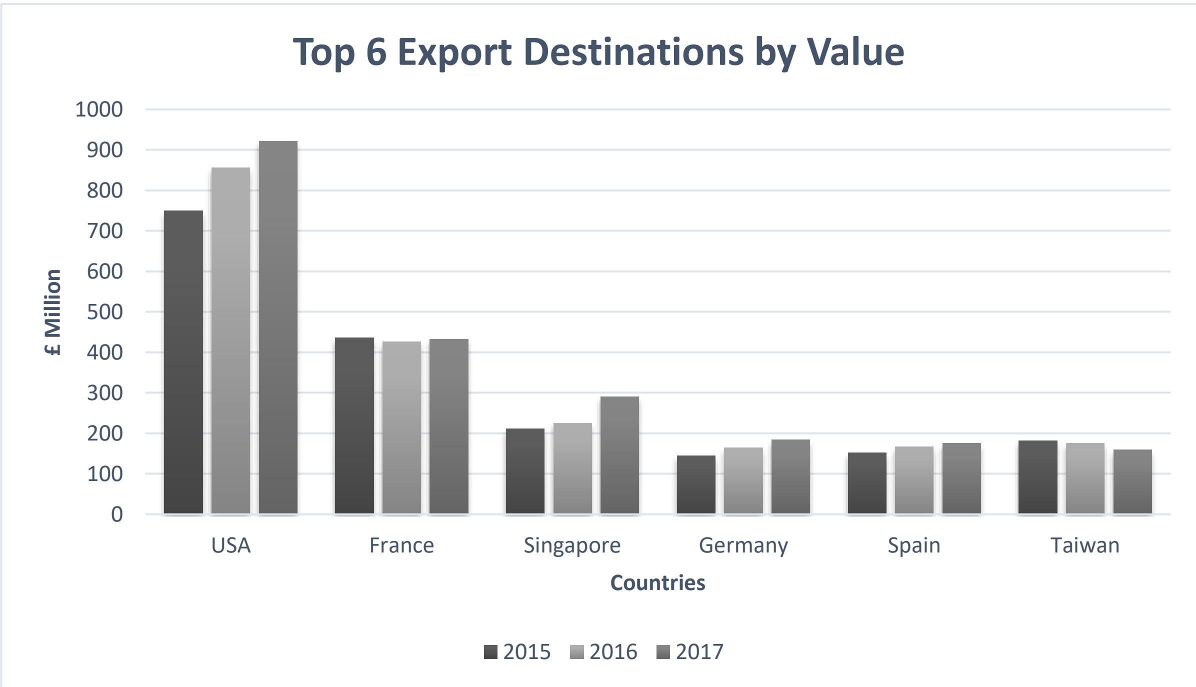

Figure 17 Top 6 Export Destinations by Value

Scotch Whisky exports had increased substantially from 2016 to 2017. The USA is the single most valuable market for whisky exports. The data show that £922 million worth of whisky was exported to the USA in 2017. That is an increase of 7.7% from 2016. France is the second most valuable market with £433 million in exports in 2017, which was only 2.1% increase from 2016. Taiwan had been the fourth largest export destination in 2016, but value dropped by 8.3% in 2017. Substantial growth has been seen in Latvia from £59 million in 2016 to £120 million in 2017 (SWA.)

The substantial growth of exports to the USA is linked to the weakening of the pound after the UK decided to leave the EU on the 23rd of June 2016. Between June and July 2016 the pound fell by 6.5%. This was unprecedented depreciation of the pound. The exchange rate had plummeted by 20% between November 2015 and October 2016 (Office of National Statistics.)

The first line graph illustrates the overnight weakening of the pound to the US dollar (Macrotrends.)

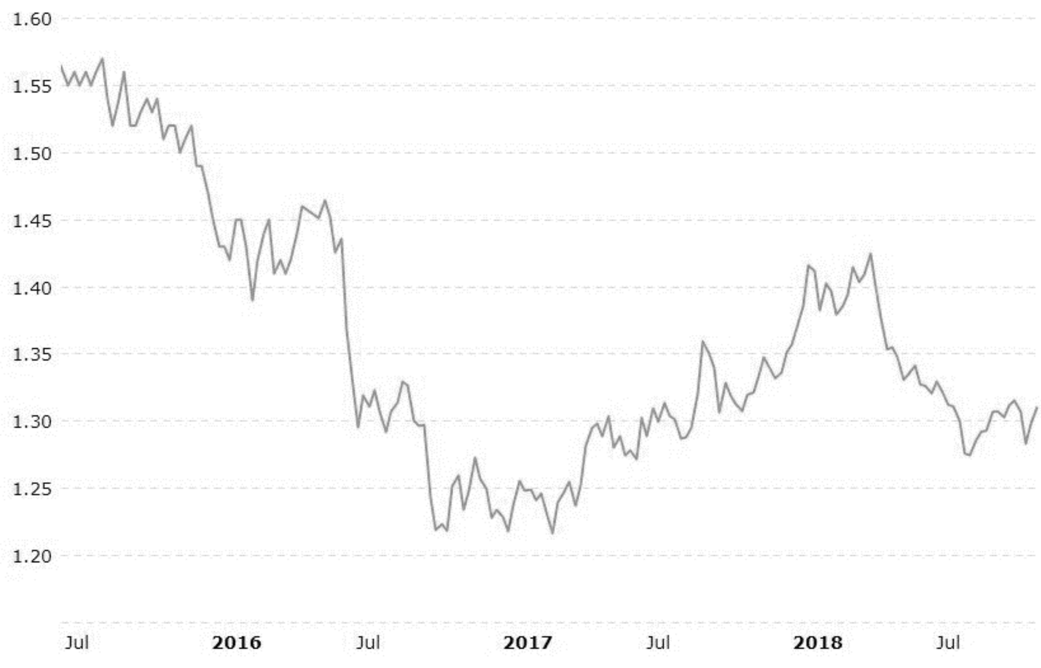

Figure 18 USD-GBP Exchange Rate before, during and after the Referendum on 23 June 2016

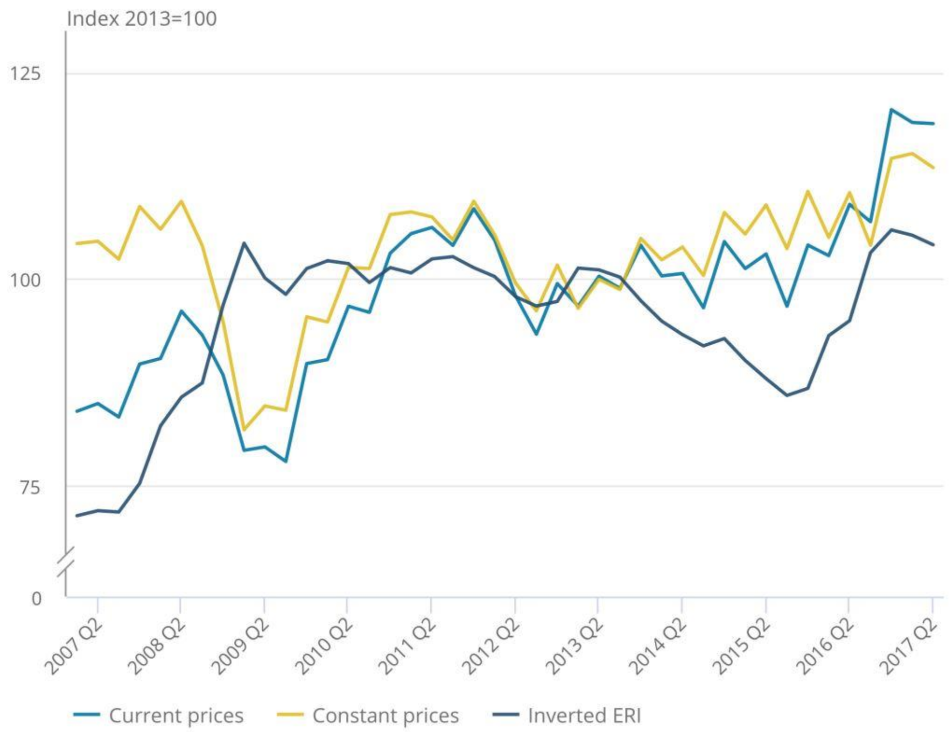

Figure 19 UK Exports: Rise in exports as Sterling depreciates as the UK votes to leave the EU

The second graph illustrates how the weakening of the pound boosted UK global exports after the second quarter of 2016 (i.e. during and after the Brexit Referendum.)

The Office for National Statistics defines turnover simply as:

$$Turnover = \sum_{i} Price_i \; x \; Quantity_i$$

Companies in the USA, for example, must convert their USD into GBP when they want to buy Scotch Whisky. Therefore, with reference to the supply and demand for currencies, when the pound had significantly depreciated, demand for Scotch Whisky (and other goods from the UK) had increased (Griffiths & Wall 2012.)

However one may analyse the data, it is irrefutable that the EU, as one trading bloc, single market, and free trade area is the most valuable market for Scotch Whisky exports. The EU has various trade deals with major international players, for example, the Transatlantic Trade and Investment Partnership (TTIP), the EU-Japan Economic Partnership Agreement, EU-Canada Agreement, EU-Australia Agreement, EU-Singapore Free Trade and an Investment Protection Agreement. The EU and Mercosur nations are currently negotiating a trade deal, namely the EU-Mercosur Trade Agreement. (European Commission.) These agreements substantially reduce or remove customs duties and overlapping bureaucracy. These are seriously important agreements which have taken year upon year to negotiate.

3.4 Scotch Whisky Exports to Finland

In the last section, there had been a discussion on the significance of Scotch Whisky in the Scottish and UK economies. Scotch Whisky is a very important commodity which is exported to all corners of the earth. The biggest export market is by far the EU, after that, the US stands as the single largest importer of Scotch Whisky. That said, the data are very clear that the EU as a single trading bloc is the most valuable market for Scotch Whisky exports.

Moving forward to this section, the research problem, as per discussed in the first chapter is ‘how Brexit will affect Scotch Whisky exports to Finland,’ therefore it is important to discuss the second half of the problem, ‘Scotch Whisky exports to Finland’ as it currently stands. To do this, there is an analysis of the amount of Scotch Whisky that has been exported to Finland from 1996 to the present. This shows the demand for Scotch Whisky in the Finnish market over the past two decades.

It is important to include additional background of the retail shops in Finland, most notably Alko, which has a monopoly the retail sales of alcoholic beverages with an alcohol level higher than 4.8%. Moreover, Alko’s sales statistics are discussed which provide an overview of whisky retail sales in Finland. Alko statistics however do not reflect all whisky sales in Finland, considering that whisky is sold in bars, restaurants, nightclubs and brought over on so-called ‘booze cruises’ from Tallinn, Estonia, which is just two hours from Helsinki on the ferry. Whisky sales in bars, nightclubs and restaurants are analysed as well in this chapter, which provides a comprehensive overview of the market for whisky in Finland.

Data on Scotch Whisky exports to Finland have been collected from the HMRC database. The data show that the exports from 1996 to 1999 had seen steady growth. Exports would then go onto fluctuate between 2000 and 2002, then in 2003, exports spike to £10.4 million. From 2004-2011, exports stay between £6 million and £7 million with little fluctuation until 2012 when exports had skyrocketed to nearly £11 million.

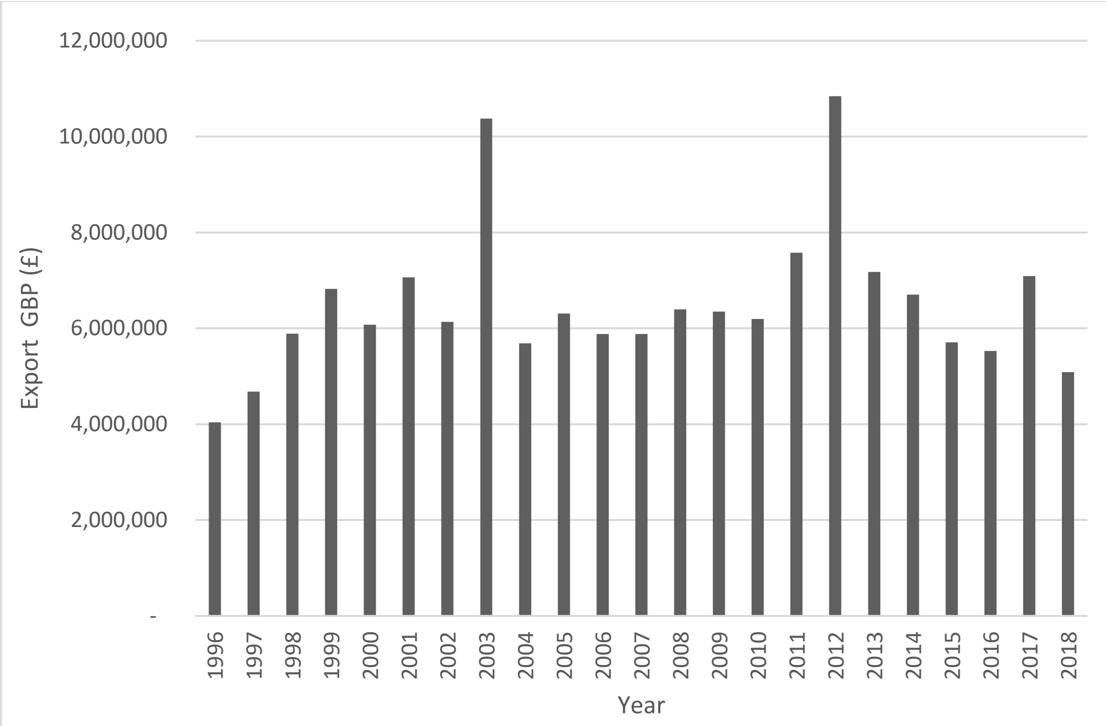

Figure 20 Scotch Whisky Exports to Finland 1996-2018, HMRC

Although Finland is far from being the most valuable export destination for Scotch Whisky producers, the data show that approximately £150 million worth of revenue has been generated between the period of 1996-2018.

Scotch Whisky Share in the Finnish Market

Turning now to Alko sales statistics, which show the most popular alcoholic beverages in Finland and the amount of whisky which Alko had sold. In 2018, Alko had sold 1.10 million litres of Blended Scotch Whisky and 137,000 litres of Single Malt Whisky. However, 174,000 litres of Irish Whiskey had been sold; 123,000 litres of Canadian Whisky; and 118,000 litres of American Whiskey. In addition, 7,000 litres of other Whiskeys (e.g. Finnish and Japanese) had been sold in 2018.

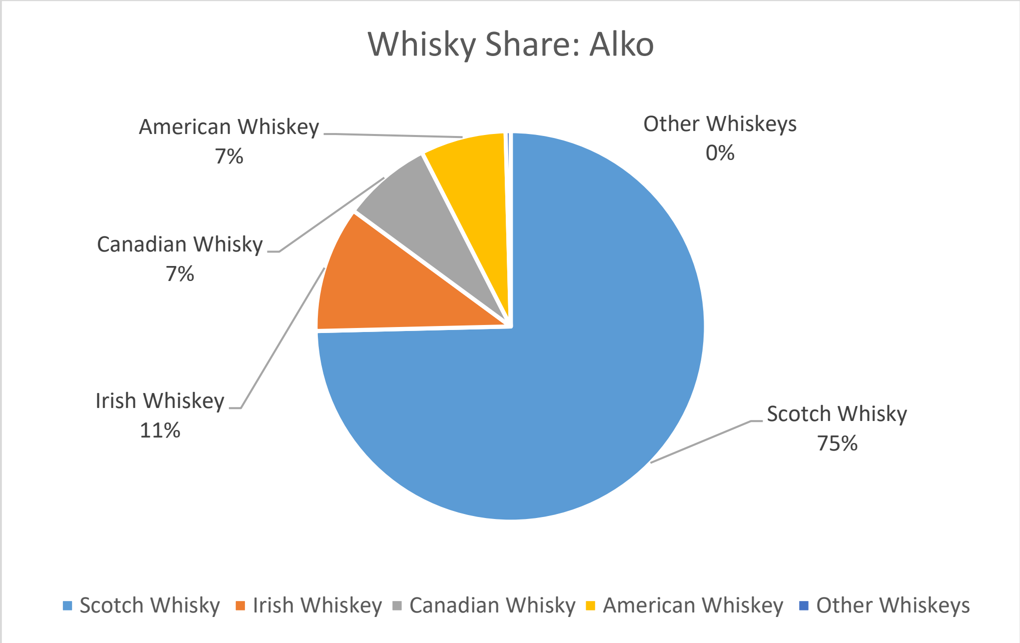

Figure 21 Finnish market share for Whiskey

Scotch Whisky is the dominant brand in the Whisky market in Finland with 75% of the market share. This illustrates how much Alko customers value Scotch Whisky more than any other whiskeys.

4 IN THE CASE OF LEAVING THE SINGLE MARKET AND CUSTOMS UNION: SCOTCH WHISKY EXPORTS TO THE EU

It is particularly important to address the questions surrounding the UK's departure from the EU—that means the EU single market and customs union. It is important to reiterate that this thesis is not arguing if or whether UK products will face trade barriers after it leaves the EU, but rather the author has assumed that there will be some changes to how UK-EU trade is conducted. It is important to state however that Scotch Whisky is not and will not be subject to EU tariffs under the GATT 1994 Agreement. Therefore, it is unnecessary to discuss tariffs being imposed on Scotch Whisky itself from EU countries.

According to the first of the three pillars of the Treaty of Maastricht (1992), the EU (formerly the ECSC and the EUROATOM) comprises the customs union, single market, CAP, economic and monetary union, and structural policy. (Treaty of Maastricht 1992, 7-8). Therefore, this could mean that the UK won't have full access to these associations when departing from the EU (Kings College London).

4.1 Leaving the Customs Union

This part of the thesis sets out to answer the question of the non-tariff trade barriers that Scotch Whisky producers could face are pre-shipment inspection and other formalities carried out by an independent inspection agency.

Proof of origin certificates would be required if the UK leaves the EU Customs Union. Norway, which is in the EEA, does have to provide proof of origin on some products entering the EU. Norwegian exports going to the EU must be "60% local value added" to be eligible for tariff-free access. Because of Norway's integration in the EU, there is a shared IT system that mitigates customs checks and the cost thereof. (Owen, Stojanovic & Rutter 2017, 12-13).

However, Norway is not a member of the CAP nor the Common Fisheries Policy (CFP). Therefore, Norwegian goods such as fish and agricultural are subject to tariffs when entering the EU. Table 7 illustrates the tariff regime imposed on Norwegian fresh or chilled fish entering the EU market. When the quota contingent of 250,000 has been reached, the total tariff is then 19.5%. The quota tariff limit is reached on a "first come, first serve" basis.

Table 7 Tariffs and Quotas Imposed by EU on Norwegian Fish (author's own table)

Product	Tariff Regime (MFN)	Quota Contingent (KG)	OQTR	IQTR
Fresh or Chilled Fish	15%	250,000	4.5%	0%

OQTR: Outside quota tariff rate

IQTR: Inside quota tariff rate

Source: WTO

Canada and the EU had taken seven years to negotiate the Comprehensive Economic and Trade Agreement (CETA), which came into effect in 2017. Under this agreement, the parties have agreed to eliminate a substantial number of tariffs, which takes away many burdens that importers and exporters face therefore providing a more competitive landscape. Canadian products must have a proof of origin certificate, so that they can be identified as having "preferential origin" (i.e. not subject to tariffs or customs duties etc.) when entering EU ports and vice versa. Therefore, Canadian goods are still subject to more regular customs checks than Norwegian. CETA eliminates 99% of tariffs between the two parties. (European Commission).

Therefore, one cannot say with certainty that there would or would not be any tariffs on UK products, however, it is a viable possibility. Moreover, it is likely that if the UK leaves the EU customs union, there would have to be some sort of customs checks which would bring about more costs to export operations, thus the consumer price, and according to the law of supply and demand, that would affect the demand of Scotch Whisky.

The barriers that Scotch Whisky producers could face being outside of the EU Customs Union are henceforth:

- pre-shipment inspections
- Obligations to pass through specified port of customs for inspection
- Import-monitoring and administrative measures which monitor the import volume and value of products being imported

These barriers would add to the operating costs of Scotch Whisky producers, and, thus, to the end consumer. It is difficult to estimate how much such trade barriers.

The Bank of Ireland has estimated the trade impacts of the UK leaving the Customs Union on trade between the UK and Ireland on both aggregate and at goods-level. The study estimated that there will be a 3.1% decrease in aggregate Irish imports from the UK. It found that this will be a consequence of border checks and delays. Bulky goods, such as metals and fresh foods are most exposed to delays. (Byrne & Rice 2018, 19-20).

4.2 Leaving the Single Market

Being fully part of the EU Single Market means that UK products do not have to be checked for safety standards, proof of origin, and other regulations. The SWA published a report—*Scotch Whisky Brexit Brief*—on 14 January 2019 that sets out what kind of barriers to trade that a so-called hard Brexit could incur. It is very important therefore to identify what they have they have laid out in their report. This helps answer RQ1 and RQ2.

The SWA has laid out the following barriers to trade that they foresee. Changes to labels may have to be implemented if the UK leaves without a deal on 29 March. Labels should always display the address of the producer (i.e. the address of the distillery in Scotland). Bottles exported to the EU only need the UK addresses. However, if the UK leaves in March without a deal, producers must necessitate two different labels: one displaying an EU address or the address of the importer into the EU market and one for domestic sales. The SWA states that operations cost would therefore increase due to necessity of managing stock keeping units and shorter bottling runs. The SWA has estimated that the cost of this change would be approximately £1.6 million per year.

The EU has various FTAs with countries outside Europe that are key export markets for Scotch Whisky. When the UK leaves the EU (whether without a deal, outside the customs union and single market) British companies could therefore be excluded from FTAs with South Korea, Morocco, and Lebanon which are those key export markets for Scotch Whisky producers. If those countries reintroduced import duties on UK goods, there would an immediate cost of £53 million to the industry. Another barrier to trade that the SWA has anticipated is tariffs that may be imposed on imported inputs: glass, cereals, and machinery (Scotch Whisky Association 2019).

4.3 Finnish Importers of Scotch Whisky

The author contacted the product manager of a Finnish company which imports and supplies Scotch Whisky to Finnish companies, including Alko.

The contact gave his perception of the UK leaving the EU and how that will affect importing Scotch Whisky to Finland. He made it clear that Scotch Whisky companies would lose out if further weakening of the pound were to occur. He states that is because invoices are in Euros. That would thus lead to increased prices in Finland. Alternatively, Scotch Whisky producers would lose money in the case of a further weakened Pound, which would, in addition, cause inflation in the UK itself.

He went on further to say that Alko could have some empty shelves where Scotch Whisky should be, as there could be delays at borders due to customs checks. Because of this uncertainty, this import company has taken measures to stock up with Scotch Whisky to ensure that they are in turn able to supply their customers. This product manager has also been talking with some of his suppliers and they have hinted at moving warehouses to mainland Europe and stock up before the UK leaves the EU to mitigate the costs of a no-deal Brexit.

5 EMPIRICAL RESEARCH AND DATA ANALYSIS

The empirical research and data analysis are discussed in this chapter. To support the information in the literature review the research among Scotch Whisky consumers in Finland was conducted. The data collection, formulation of the questionnaire and the analysis thereof are addressed. Finally, the outcomes of each answer are discussed.

5.1 Data Collection

As discussed in the introduction, the thesis uses primary and secondary data. It also uses qualitative and quantitative research methods. The primary data was taken from a questionnaire. A questionnaire was carried out with Scotch Whisky consumers in Finland. This was to ascertain their perceptions toward any changes in the price of Scotch Whisky in Finland, which, therefore, answers RQ3.

The data collection from the questionnaire started on 17 January 2019 and closed on 23 February 2019. There were 91 respondents of which eighty-five were valid. The questionnaire was available only in English and shared on various Facebook pages (e.g. Lahti City, Brits in Finland, Expats in Helsinki). Moreover, the questionnaire was shared with the administrator of the Finnish Scotch Whisky Association, who shared it further with his network.

The questionnaire was designed in early January, using Google Forms. It was then opened and shared on social media on 17 January and closed on 23 February. Finally the data were analysed at the end of January going into the beginning of February.

5.2 Formulation of the Questionnaire

The questionnaire was created by using Google Forms. The full and final questionnaire is in the appendices. When creating and sharing the questionnaire, it was important to mention that respondents must live in Finland and buy Scotch Whisky.

To analyse the different participants, it was important to ask more information: age group, nationality, gender, income, and occupation. Participants were asked to choose from where they buy Scotch Whisky more frequently. The choices are as follows: a) from Alko b) from shops onboard ferries c) from bars, pubs, and restaurants.

5.3 Analysis of the Questionnaire

This section provides an analysis of the questionnaire: demographics, preferences to Scotch Whisky and how much people pay for it. Then, how they would react to a change of price in Scotch Whisky.

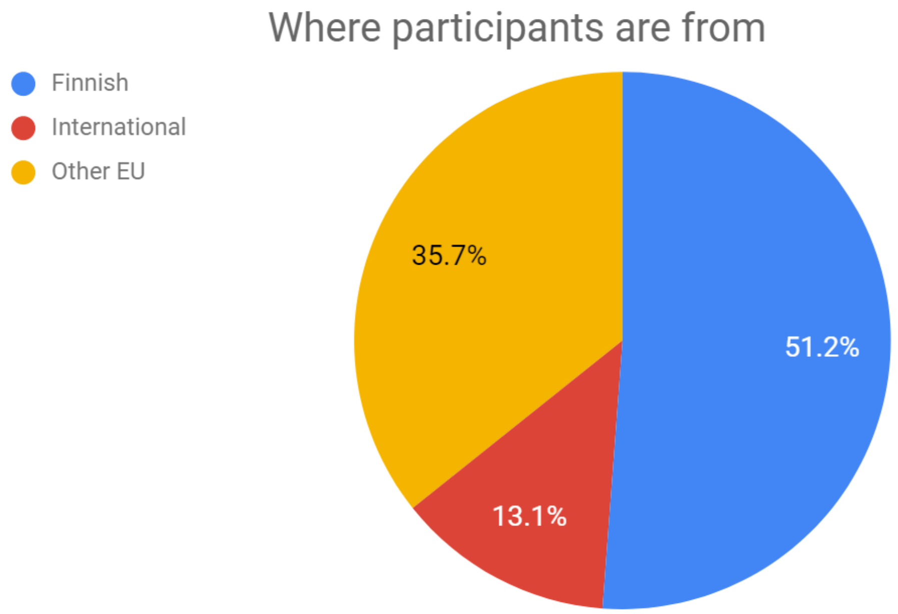

Figure 22 Nationality of participants

The vast majority of the people that answered the questionnaire were either from Finland or other EU countries. Only 14 % were international (i.e. non-EU citizens living in Finland).

Almost a quarter of the participants in the questionnaire were male. This could mean that the males are perhaps more interested in Scotch Whisky and, therefore, were more inclined to answer the questionnaire.

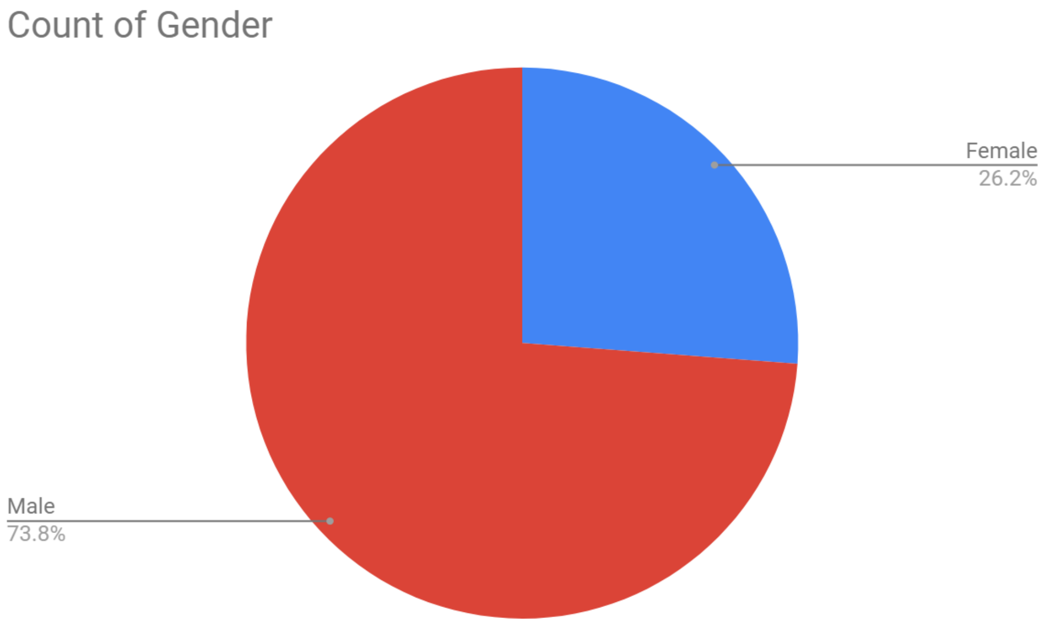

Figure 23 Gender of participants

Over half of the participants are in full-time employment, 19% are studying in university or other higher education, 11% are unemployed and 10% are in part-time employment. A very small fraction are stay-at-home parents, caring for family and retired.

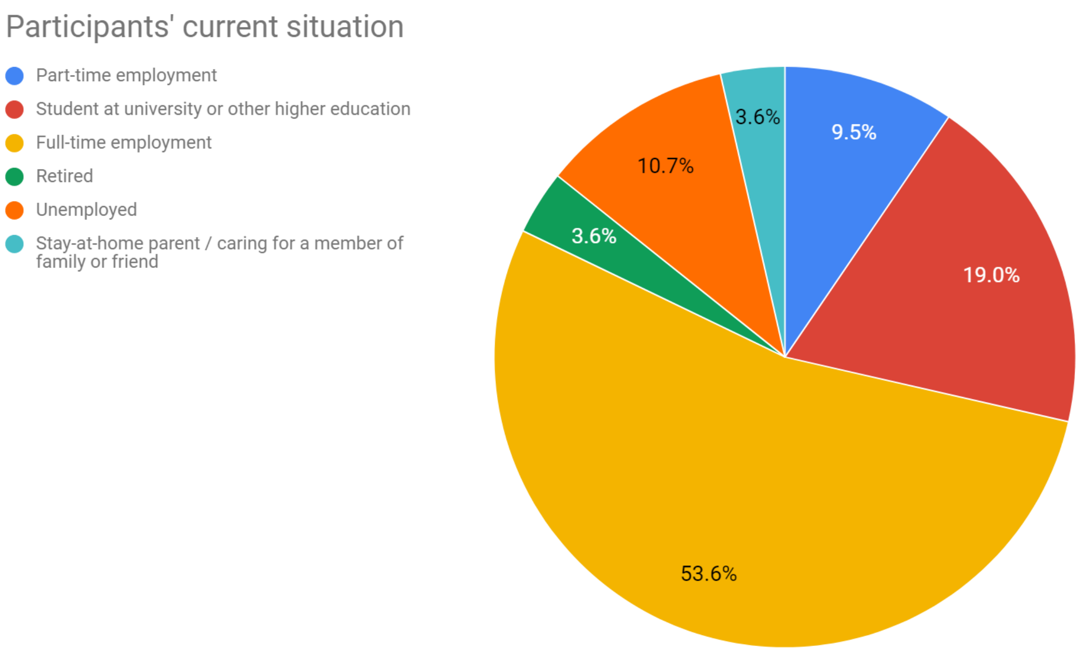

Figure 24 Participants current situation

Most people who answered the questionnaire said that they earned €2,000 - €2,500 per month. Participants' monthly earnings are as follows:

- 2.4% have no income
- 10.7% earned €200 - €499 per month;
- 20.2% earned €500 - €999;
- 9.5% earned €1,000 - €1,499;
- 16.7% earned €1,500 - €1,999;
- 25% earned €2,000 - €2,999;
- 9.5% earned €3,000 - €3,499;
- 6% earned €4,000 or more

Just over half of the people that answered the questionnaire stated that they bought Scotch Whisky mostly from Alko. While a quarter bought theirs in bars or restaurants and just over a fifth bought theirs from shops onboard Finnish ferries. It is of course cheaper to buy alcohol from the shop and drink at home or at house parties than drink in the pub. Finnish ferries (e.g. Viking Line) have tax free shops which is a cheaper option than Alko.

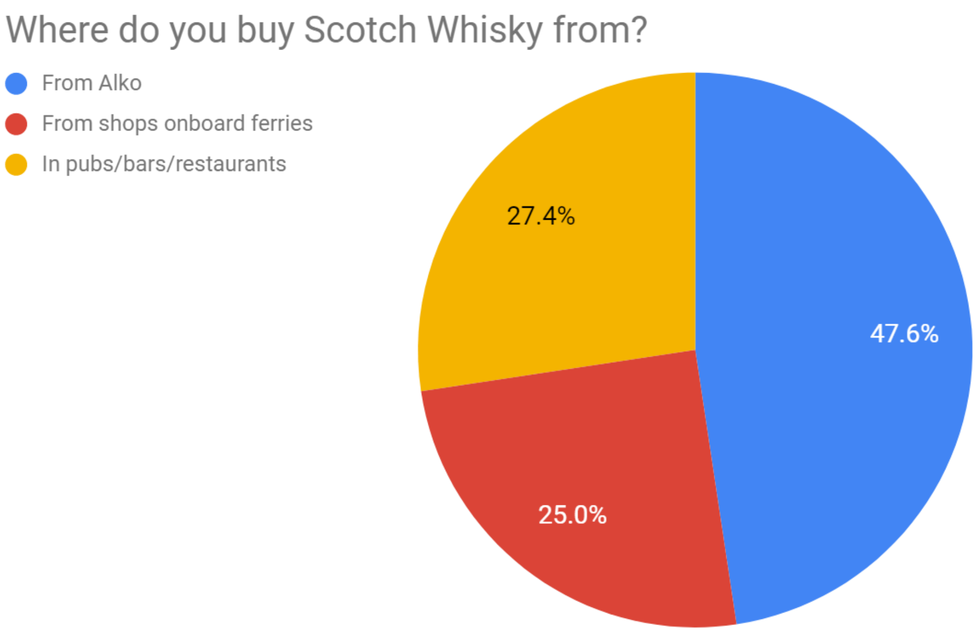

Figure 25 From where the participants buy their Scotch Whisky

Despite the participants buying their alcohol from different establishments, more than threequarters bought Single Malt Scotch Whisky, and just a quarter buy Blended Scotch Whisky. Alko sells more Blended than Single Malt (see chapter three) but in the questionnaire, people answered that they buy more Single Malt than Blended. The reason for this could be that Single Malt drinkers are more interested in Scotch Whisky, so they would be more inclined to answer the questionnaire.

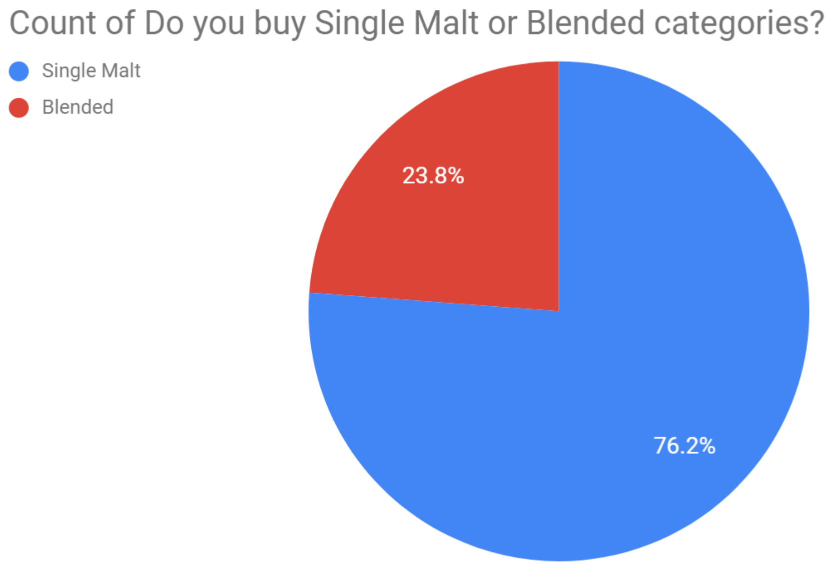

Figure 26 What category of Scotch Whisky the participants buy

People who shopped for their Scotch Whisky at Alko, on average bought two bottles over a six-month period. Most people bought 700ml (or 70cl) bottles. Just over 60% of people that bought their Scotch Whisky onboard ferries bought only one bottle. Over a quarter of the respondents that bought from the ferries bought two bottles.

Respondents that bought their Scotch Whisky from the pubs, bars, and restaurants were asked how often they go there.

When asked about their perception of the quality of Scotch Whisky compared to other whiskies, 36% answered that it is the same as others. Approximately 26% said that they valued it a little more than others, and 27% viewed it as a lot more valuable than others. Only 1.3% viewed it as a little less than other and nobody viewed it as a lot less valuable than others. Figure 27 illustrates how Finnish and foreigners living in Finland differ in their perception of Scotch Whisky compared to other brands of whisky.

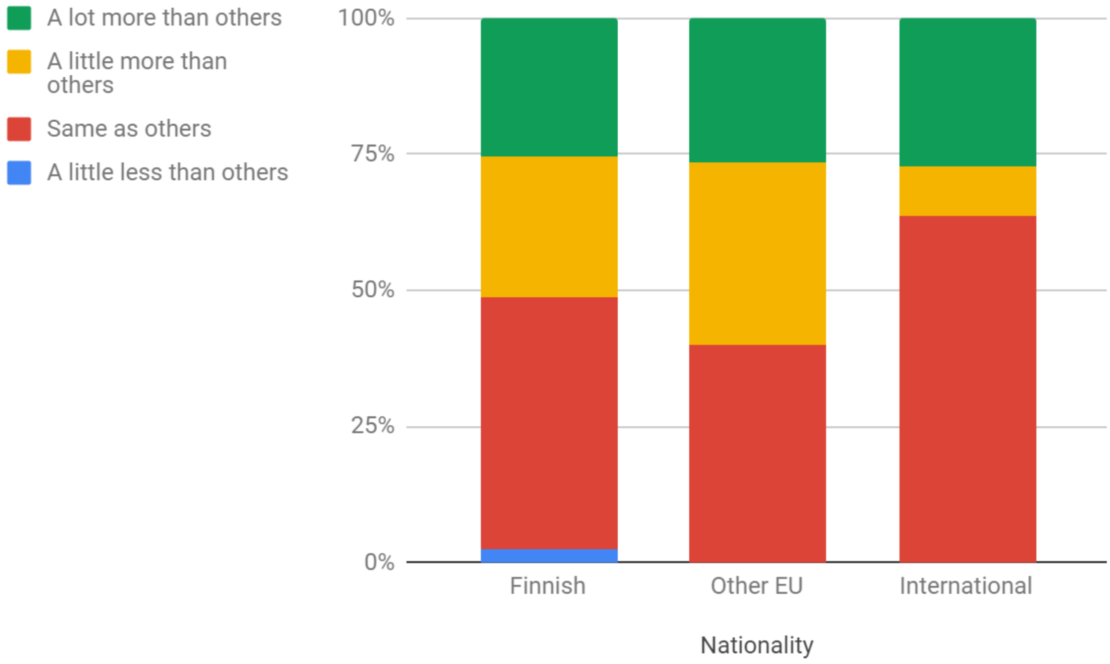

Figure 27 How respondents view Scotch Whisky for value compared to other brands of whisky

Participants were asked in one question when would the Scotch Whisky that they bought become too expensive most answered. Just over 44% of the participants said that the Scotch Whisky that they buy would be too expensive if its price were to rise by 20%. Just under 18% of the participants said the Scotch Whisky that they buy would be too expensive if it were to increase by 10%. A quarter of the participants answered that the Scotch Whisky that they buy were to become more expense if its price were to increase by 30%. Just over 2% answered if the Scotch Whisky they buy would become too expensive if its price were to increase by 40%; just under 5% if the price were to increase by 50%. Just over 1% said that if the price were to increase by 100% (double the price) it would be too expensive for them, and another 1% said that 200% would be too expensive. Just under 4% said that they would keep buying no matter how much the price of their Scotch Whisky increased. So, to put that in perspective, the average participant answered that if the current price of the Scotch Whisky that they bought would be thus too expensive if the current price were to increase by 30%.

Then the participants were asked how they would respond if the Scotch Whisky that they buy were to become too expensive.

Just under 40% of people said that they would buy smaller quantities of the Scotch Whisky that would become too expensive after a rise in price. Whereas 25.6% said that they would buy other brands of whiskey such as American, Canadian or Irish whiskies. Interestingly, just over 20% said that they would buy entirely different spirits altogether such as vodka, gin and rum. And, lastly 3.8% said that they would buy a cheaper, more affordable type of Scotch Whisky.

Respondents that buy from Alko

Forty-eight percent of participants answered that they bought their Scotch Whisky from Alko, which means that is where most participants bought their Scotch Whisky. Most people that buy from Alko, bought Single Malt Scotch Whisky. However, Alko sells more Blended Scotch Whisky than Single Malt. The people engaged more with the questionnaire perhaps were in general more interested in whisky, because the majority buy Single Malt which is more expensive and more popular among whisky aficionados. Nevertheless, it is still important to collect the data on their opinions and buying behaviour.

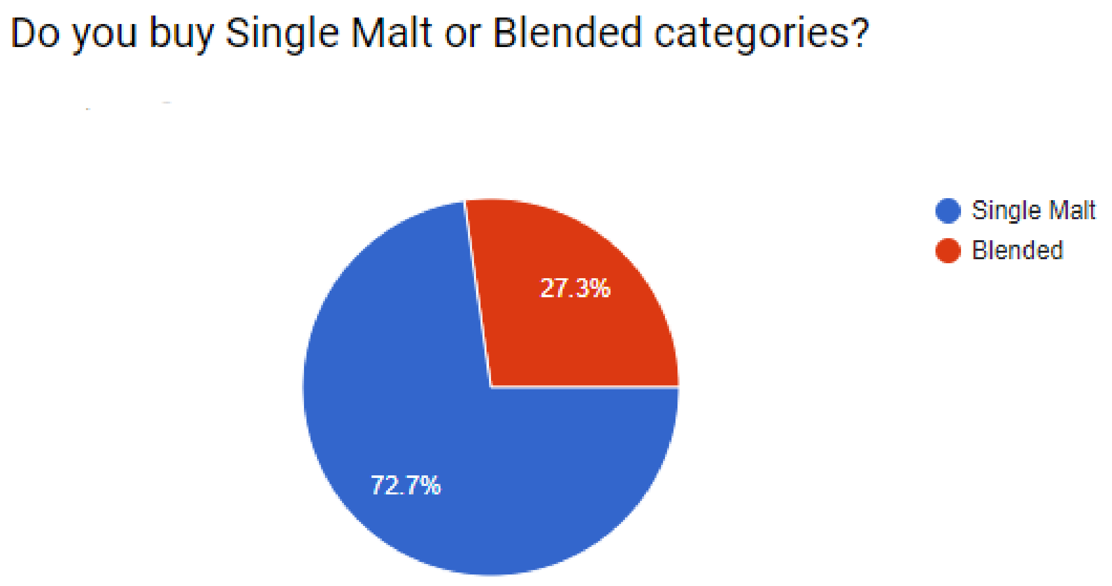

Figure 28 What category of Scotch Whisky participants bought from Alko

Participants were then asked to answer how many bottles of Scotch Whisky they purchase in a six-month period. Over half answered that they bought one bottle during that period; 18% answered that they bought two bottles; 14% answered that they bought three bottles; 11% answered that they bought four bottles; and, 2% said that they bought five bottles. No one answered that they bought six bottles in a six-month period.

Figure 29 How many bottles respondents bought from Alko in a six-month period

When asked on the size of the bottles that they bought, unsurprisingly, the most common size of bottle was 700ml (58%). Fifteen percent of the participants answered that they buy one litre bottles; 10% answered that they bought 350ml bottles and another 10% answered that they bought 200ml bottles. Only 7.5% answered that they bought 50ml bottles (i.e. miniatures).

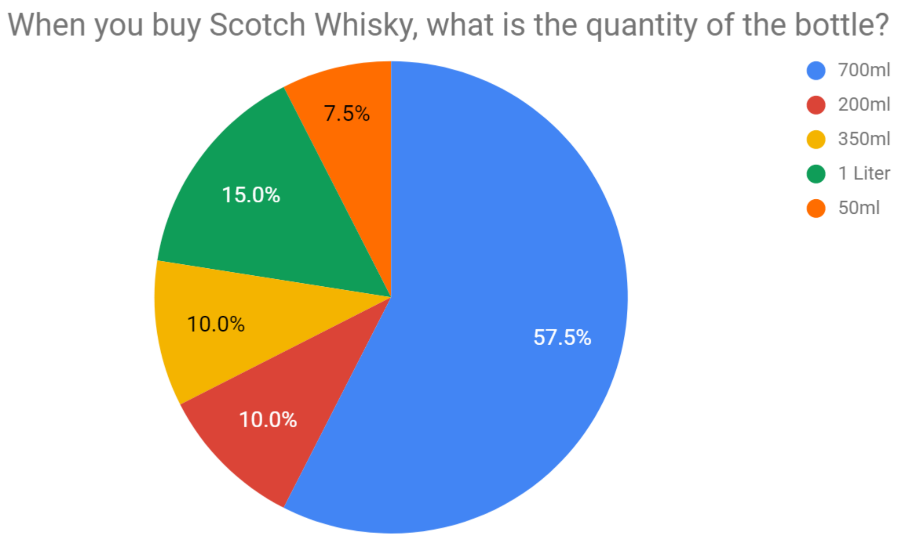

Figure 30 Size of bottles that the participants buy from Alko

The average price that the participants paid for a bottle of Single Malt Scotch Whisky was €47, the maximum was €80, and the minimum was €6 (for a 50ml bottle). The average price paid for a bottle of Blended Scotch Whisky was €34, the maximum was €100, and the minimum was €15. When the participants that bought their Scotch Whisky from Alko were asked when would the Scotch Whisky that they buy become too expensive, 43% answered the current price +20%. Twenty-three percent answered that the Scotch Whisky that they buy would become too expensive at the current price +30%. Fourteen percent said that the current price +10% would be too expensive for them. A small margin people said that +40% and 50% would be too expensive and others went as double the price. One person said that he would still buy the same Scotch at the same amount no matter how much the price increased. Therefore, the average is current price +30%.

When asked what they would do if the price of the Scotch Whisky become too expensive, 41% said that would buy smaller quantities of the same brand. Twenty-seven percent said that they would switch to buying American, Canadian or Irish whiskies. Eighteen percent said that they would buy a cheaper type of Scotch Whisky. Fourteen percent said that they would buy other spirits altogether.

Figure 31 What participants would do if the Scotch Whisky that they buy becomes too expensive

Among those who answered that they would buy smaller amounts of the same Scotch Whisky (the one would be too expensive) the average would decrease consumption by 32%. This means those people who are loyal to one brand of Scotch Whisky would rather buy less of that one rather than switching to other brands of Scotch Whisky, whiskeys or spirits.

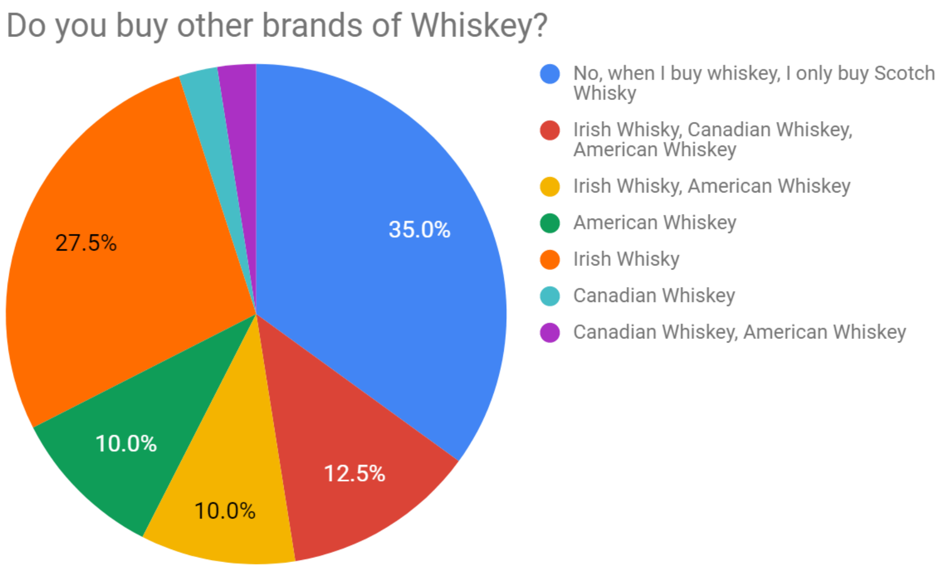

Figure 32 What other brands of whisky participants buy

When participants were asked if they buy any other types of whisky, 35% answered that they only buy Scotch Whisky, 28% answered that the drink only Irish Whiskey in addition to Scotch Whisky, 12.5% answered that they also drink American, Canadian, and Irish whiskies. Ten percent said that they also drink American Whiskey and an additional 10% said that they only drink Irish and American whiskeys. Moreover, 25% said that they do not drink any other spirits except Scotch Whisky. The other 75% said that they drink other spirits: rum, gin, vodka, and cognac.

Respondents that buy their Scotch Whisky from shops onboard ferries

People that answered that they buy their Scotch Whisky from shops onboard ferries. Seventy-eight percent of people buy Single Malt Scotch Whisky. Sixty-three percent buy just one bottle in a six-month period; 20% buy two bottles; and 10% buy three bottles. Only 7% would buy more four bottles. The shops onboard ferries are tax free, therefore prices are cheaper. Perhaps that is why there is a higher percentage of people that buy two bottles in a six-month period.

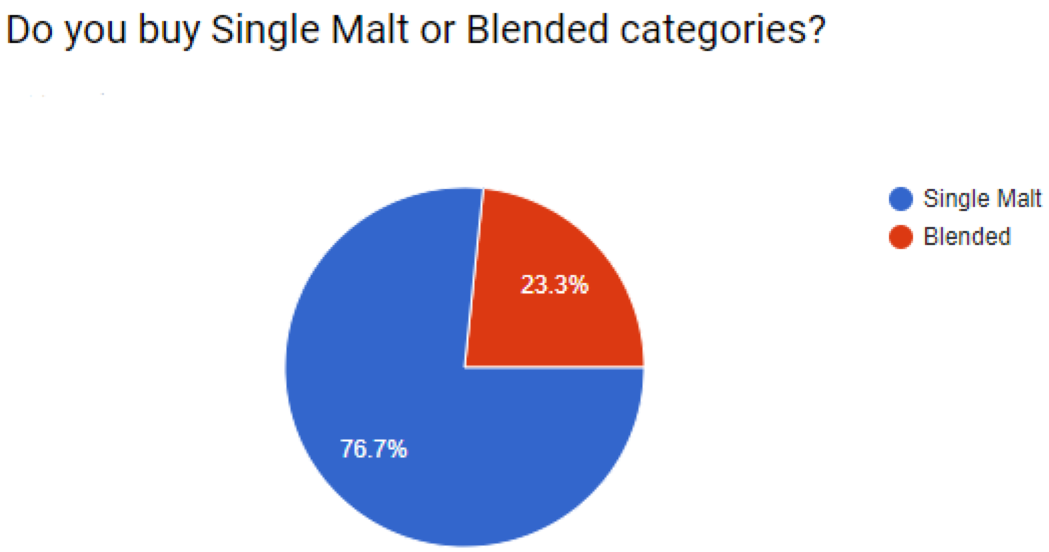

Figure 33 Participants that buy Single Malt or Blended from shops onboard ferries

Sixty percent bought 700ml bottles; 30% bought one litre bottles; 7% bought 350ml bottles and just 3% bought 200ml bottles. The average person spent €45 on a bottle—the minimum, €18, the maximum, €75. When asked when the Scotch Whisky that they buy were to become too expensive, 53% said that it would be at the current price +20%. Twenty-three percent said that it would become too expensive at the current price +30%, and 17% said that it would become too expensive at the current price +10%. Only 3% said that the current price +50% would be too expensive, while one person simply stated that the price should match the quality.

Participants were then asked to state their opinion on their perceptions towards Scotch Whisky and value for money compared to other brands. Forty-three percent said that they see it as the same as others, while 34% said that it was a lot more than others, and 20% see it as a little more than others.

When asked how they would react when the Whisky that they buy becomes too expensive, 37% answered that they would buy a cheaper, more affordable type of Scotch Whisky. While 30% said that they would buy smaller quantities of the same Scotch Whisky and 23% said that they would buy other brands of whisky from other countries. Only 10% said that they would buy other spirits altogether.

Amongst the people that answered that they would buy smaller quantities of Scotch Whisky when it becomes too expensive, on average answered that they would cut down by 31%. Forty-three percent of the participants said that when they buy whisky, they only buy Scotch Whisky; 24% said that they also buy Irish Whiskey only; 19% sad that they also drink American, Canadian, and Irish whiskies; 10% said they also drink American and Irish whiskies; while only 5% said the also drink American Whiskey.

Respondents that buy from bars, pubs, and restaurants

In the questionnaire, the participants were asked where they buy their Scotch Whisky most frequently.

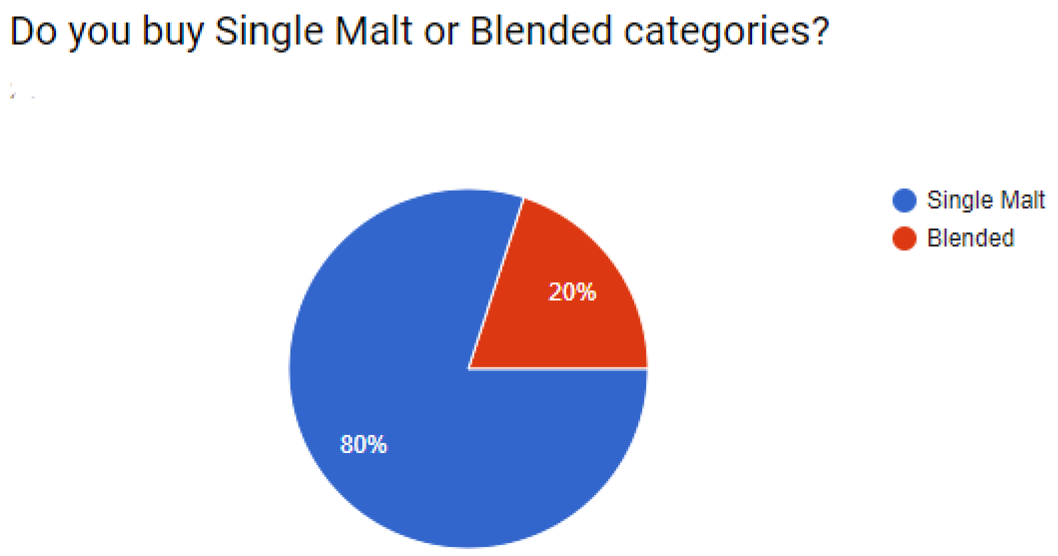

Figure 34 What category of Scotch Whisky participants who buy their whisky from bars prefer

The overwhelming majority of people that buy their Scotch Whisky from pubs and bars prefer Single Malt Scotch Whisky.

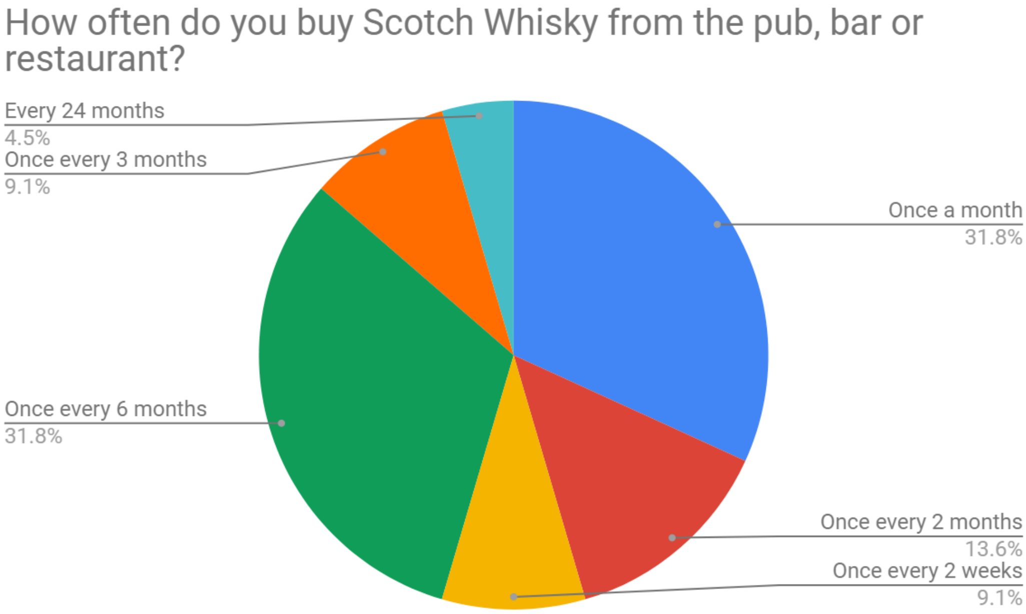

Figure 35 How often participants go to the pub, bar, or restaurant to and buy Scotch Whisky

Thirty-two percent bought Scotch Whisky once a month and another 32% bought every six months. Thirteen percent bought once every two months. Almost 10% bought once every two weeks, and, similarly, just under 10% once every three months. Just 4.5% said that they bought Scotch Whisky from the pub once every 24 months.

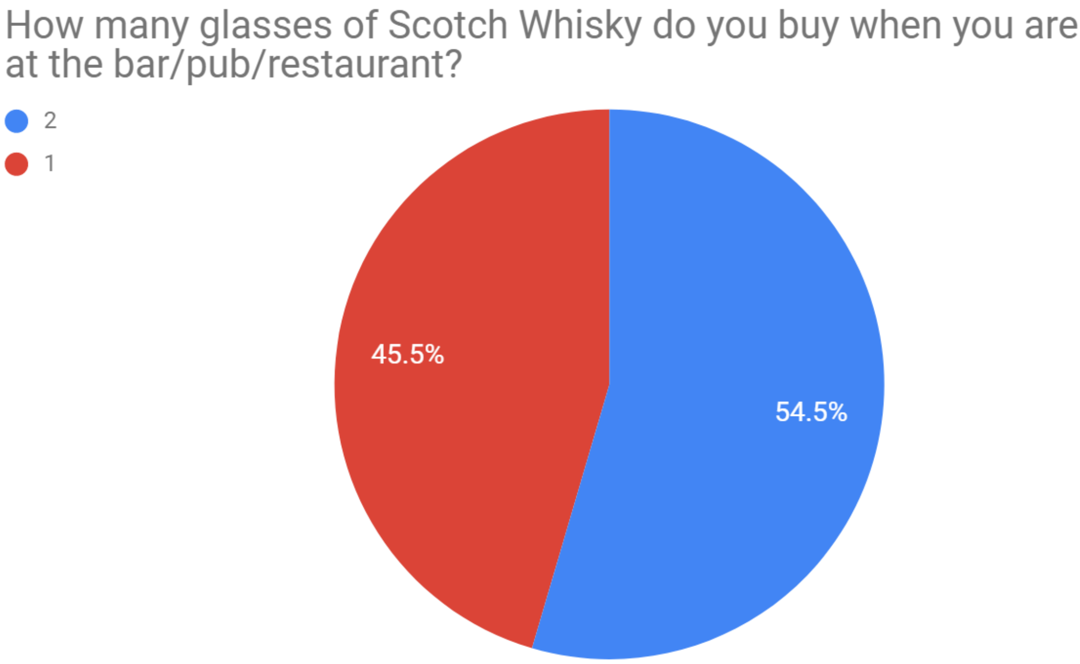

Figure 36 How many glasses participants bought from the pub, bar, or restaurant

Participants that bought from the bar, pub, restaurant do not buy more than two glasses each visit. Fifty-five percent bought two glasses and 46% bought just one glass every visit. The average price that the respondents paid was €11. Some participants paid as much as €20 for one glass of Single Malt Scotch Whisky.

When asked how much would the glass of whisky that they drink become too expensive, the average answer was the current price +24% and the most frequent answer was the current price +20%.

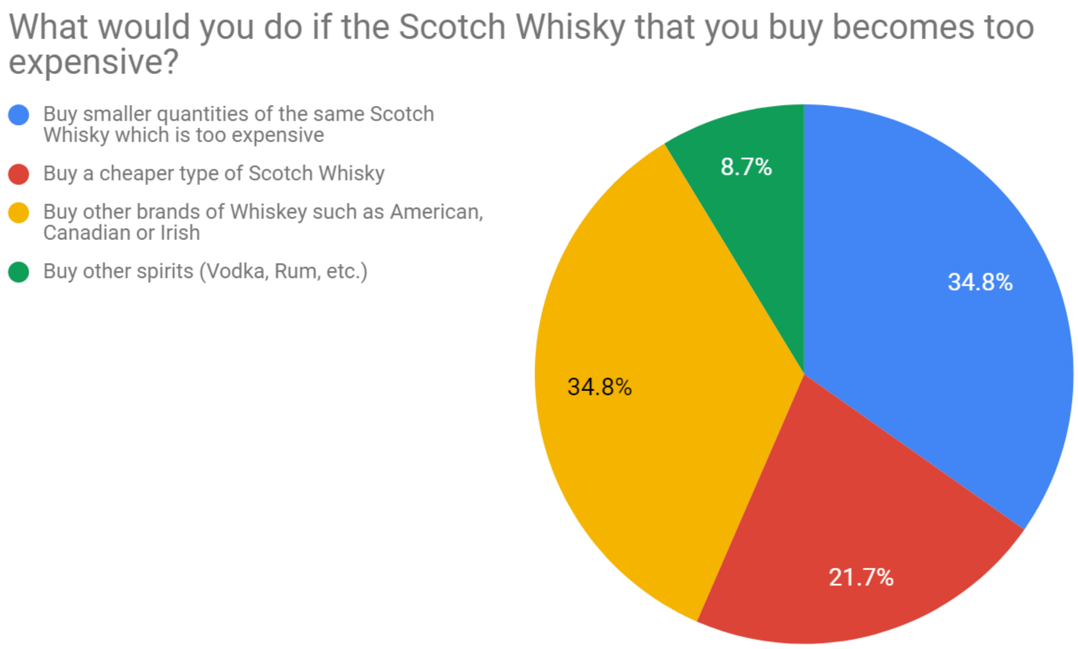

Figure 37 What would you do if the Scotch Whisky that you buy becomes too expensive?

Thirty-five percent of people that answered the questionnaire said that if the Scotch Whisky that they buy becomes too expensive would switch brands to American, Canadian, or Irish Whiskey. Thirty-four percent answered that they would buy less of the Scotch Whisky that has become too expensive, 22% said that they would buy a cheaper type of Scotch Whisky and 9% said that they would buy other spirits altogether.

The participants that answered that they would buy less of the same Scotch Whisky that is too expensive would cut down by 28% (average). Twenty-nine percent of the people that buy Scotch Whisky from the pub, bar, or restaurant say that they only buy Scotch Whisky. A third said that they also buy Irish Whiskey and the rest answered that they also buy Canadian and American Whisky. Eighty-eight percent of people said that they also buy other spirits: vodka, gin, rum and cognac from bars and pubs.

6 CONCLUSION

The objective of the thesis is to ascertain how the UK leaving the EU would affect Scotch Whisky exports to Finland. This also gave an insight of what could potentially happen in other EU countries. This concluding chapter provides the answers to the research question. In addition, suggestions to Scotch Whisky companies will be made. The research questions are as follow:

- RQ1: “What kind of friction between UK-EU trade in commodities could arise when the UK leaves the EU Single Market and Customs Union?”
- RQ2: “What effect could that friction have on Scotch Whisky exports to Finland?
- RQ3: “How consumers in Finland would react to changes in Scotch Whisky prices?”

6.1 Answers to the Research Questions

Only the future can tell what the situation surrounding the UK’s departure from the EU and how that will affect Scotch Whisky exports to Finland. If the UK leaves the EU without any kind of deal, remaining in the single market or the customs union, the biggest challenge for Scotch Whisky producers exporting to the EU would be non-tariff trade barriers. This is simply since, as a part of the single market, the standard of Scotch Whisky complies with EU laws and regulations. Coming out of the single market means that there is no more free movement of goods, as they would have to be checked by customs at EU ports.

The answer to RQ1 is quite simple. There would be regulations and customs checks if the UK leaves the EU Single Market and Customs Union. Such non-tariff trade barriers are exemplified by the free trade deal between Canada and the EU, and, also, the quota contingent on Norwegian fish imposed upon entering the EU.

Being in the Single Market means that there are not any checks on goods flowing between the UK and the EU, because both have the same laws, regulations, and standards. As per discussed in the fourth chapter, there could be trade barriers imposed on the inputs that go into making Scotch Whisky. Such inputs include glass, cereals, and machinery that are imported from other EU countries (Scotch Whisky Association 2019).

The thesis showed in chapter four that Scotch Whisky will not be subject to EU tariffs as stipulated in the GATT 1994 Agreement. That will mean the only potential barriers would be non-tariff barriers. It is difficult to estimate how much non-tariff barriers effect the price of a product. There are proof of origin certificates, import duties, customs checks and borders checks. If the UK comes out of the Single Market, and EU regulations are not in effect in the UK, British products would have to be inspected upon arriving to the importing country i.e. Finland and other EU countries.

Answering RQ2: "What effect could that friction have on Scotch Whisky exports to Finland? The law of supply and demand is clear: if the supply of a product is scarce, its price will rise. If there are trade barriers, which make the product more expensive, its demand will decrease.

This would yield the same result for Scotch Whisky. If Scotch Whisky faces non-tariff barriers, the producer must pay (or take the time) to ensure the legal documents (proof of origin certificates) are completed. Similarly, if there are customs checks, then Scotch Whisky producers will have to pay customs duties levied by the government of the importing state—in Finland's case, that duty would be levied by Tulli (Tull in Swedish).

These trade barriers would be added to producers operating costs, which would be ultimately passed onto consumers in Finland. If prices increase, demand will surely decrease, and, thus, Scotch Whisky producers, will see a decrease in revenue and employees would be made redundant. In addition to affecting the Scotch Whisky industry, it would mean less production for suppliers of inputs (e.g. glass, barley, factory machines etc.) that come from the EU and countries that have FTAs with the EU (and the UK as part of the EU).

As discussed also in chapter four, the author reached out to the product manager from a Finnish import company that supplies Scotch Whisky to Alko, bars and restaurants. He stated that the worst-case scenario would be delays in shipments, which would lead to a short-term shortage of Scotch Whisky. In such a scenario, it could be possible to see empty spaces in Alko due to delayed shipments.

Scottish suppliers invoice the company in Euros. He went on to say some regulations may become stricter if the UK were to leave the EU Single Market and Customs Union, which would make Scotch Whisky more expensive for Finnish consumers. The product manager is preparing by increasing stock of Scotch Whisky in case the UK leaves without a deal. He has heard from his associates and partners in the industry that some producers are moving warehouses to the EU (to the mainland) to avoid potential trade barriers.

Answering RQ3: "How consumers in Finland would react to changes in Scotch Whisky prices?", the majority of participants overall said that the Whisky that they buy would become too expensive if the current price were to increase by 20-30%. The average person that buys Scotch Whisky from Alko would find the current price +30% too expensive; the average person that buys from shops onboard ferries, pubs, bars and restaurants would find the current price +24% too expensive. The overall average would be current price +26%.

When the participants were asked what they would do if the Scotch Whisky that they buy were to become too expensive, 36% said that they would buy smaller quantities of the same Scotch Whisky. Those that said they would buy less of the same Scotch Whisky said that they would decrease their consumption by 32% on average.

Twenty-nine percent said that they would switch to buying American, Canadian or Irish whiskeys. Twenty-five percent said that they would buy a cheaper, more affordable type of Scotch Whisky, while 11% said that they would buy other spirits instead such as vodka, gin, and cognac. Therefore, the 36% and 25% that said they would buy smaller quantities and cheaper Scotch Whisky respectively would mean 61% would continue buying Scotch Whisky if the price were to increase to a point at which the whisky that they buy becomes too expensive. The remaining 39% percent said that they would either switch to buying American, Canadian or Irish whiskeys or switch to buying other spirits altogether.

In the case of a single market and customs union, Scotch Whisky consumers need to reduce costs, while adding extra value to their products. The 76% tax that is imposed on Scotch Whisky must be reduced so that Scotch Whisky prices can be reduced if they become too expensive. In addition, it would be advantageous for the Scotch Whisky industry if the UK would enter a trade deal that would lead to the reduction of trade barriers on Scotch Whisky being exported to non-EU countries, such as India, which imposes a 150% tariff on Scotch Whisky imports. India has a market of over one billion people, therefore it is a very valuable market for the Scotch Whisky industry.

6.2 Reliability and Validity

It is important to discuss the reliability and validity of the research that has been carried out in this thesis. Both primary and secondary data was used. The primary data came from the questionnaire (discussed in chapter 4 and available in full in the appendices). All the people that answered the thesis live in Finland (at the time of participation) and drink Scotch Whisky. However, it is not possible to portray the opinions of all Scotch Whisky consumers in Finland. The answer to RQ1 and RQ2 are based on economic theories which were identified in chapter two. Analyses and forecasts were referenced from the SWA, which a trade organization that represents the Scotch Whisky industry.

The author also gathered an insight from the product manager from a Finnish distribution company that supplies Scotch Whisky to Alko, bars and restaurants. Prior to the dialogue, the product manager had had concerns over the UK's departure from the EU without any deal, and what affects that would entail for the Scotch Whisky market in Finland. He explained the actions that his company is taking to try to mitigate the effects of a hard Brexit such as buying a surplus of Scotch Whisky in case supply chains are disturbed due to complications with customs at EU ports. This is primary data from a professional who is currently active in international trade, which increases the validity of the thesis.

Most of the participants who stated that they bought Single Malt Scotch Whisky from Alko. This is not reflective of Alko sales statistics which state that they sell substantially more Blended Scotch than Single Malt. This begs the question would people that buy Blended Scotch Whisky have answered any differently? The questionnaire could have been more reflective of Finnish Whisky consumers had more people that buy Blended Scotch Whisky participated.

It is also conceivable that people's economic situation will certainly change in the future. The Finns that participated in the questionnaire may become unemployed or receive a promotion in which case their disposable income would change, therefore, their price sensitivity may change.

The secondary data used in this thesis includes various academic books, economists, and economic theories. Sales statistics were taken from various organizations such as the Scotch Whisky Association and Her Majesty's Revenue and Customs (HMRC) database in addition to other governmental institutions and the like. Various news articles with reference to Brexit were referenced. The Scotch Whisky Association published their analysis of what a hard Brexit could mean for Scotch Whisky exports to the EU and the various countries that have FTAs with the EU.

7 SUMMMARY

This thesis set out to answer how the UK leaving the EU could affect Scotch Whisky exports to Finland. As Finland is part of the EU trading bloc, it also gives an idea how it would affect other EU member states. Of course geography is an important factor—countries such as the Belgium, France, the Netherlands, and Germany are substantially closer to the UK than Finland and other Nordic countries as well as eastern European countries that are in the EU.

The first chapter consisted the research background, thesis objectives, research methodology and data collection, and thesis structure. The main concepts of various economic theories and consumer behaviour were discussed in chapter two. The third chapter consisted of Scotch Whisky exports statistics and the different definitions of Scotch Whisky according to UK and EU laws. In chapter four, there was an analysis of the UK leaving the EU without a deal. Other countries that have close trading relations with the EU still face several barriers to trade as they are not in the single market or customs union—such the EEA states and Canada. The author had a dialogue with the product manager of a company that imports Scotch Whisky and supplies several companies in the Finnish market, including Alko.

In chapter five, the empirical analysis was discussed. The empirical research was a questionnaire on how Scotch Whisky consumers in Finland would react to a change in price that is expected should the UK leave the EU Customs Union and Single Market, out of the customs union and single market. There is also an analysis of that the participants that answered the questionnaire were Scotch Whisky consumers living in Finland.

The conclusion in chapter six stated the answers to the research questions, the reliability and validity of the research and the suggestions for further research. The majority said that if the price of the Scotch Whisky that they buy were to increase by 20-30%, it would be too expensive. Thirty-nine percent of the participants answered that they would switch to buying either whiskeys from other countries or different spirits altogether.

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APPENDICES

APPENDIX 1: Questionnaire

Scotch Whisky Survey

This is a questionnaire for Alexander McCreath's thesis: how much could Brexit affect Scotch Whisky sales in Finland. Please note: participants must be 18 years old and over, live in Finland and buy Scotch Whisky.

*Required

Do you live in Finland? *

- ○ Yes
- ○ No

Which nationality are you? *

- ○ Finnish
- ○ Swedish
- ○ Estonian
- ○ Russian
- ○ Other EU
- ○ Other: ____________

Which of the following groups describes how old you are? *

- ○ 18 - 25
- ○ 26 - 35
- ○ 36 - 45
- ○ 46 - 60
- ○ 61 - 69
- ○ 70+

Please choose what best describes your current situation: *

- ○ Full-time employment
- ○ Part-time employment
- ○ Stay-at-home parent / caring for a member of family or friend
- ○ Unemployed
- ○ Student at university or other higher education
- ○ Retired

Approximately, what is your income/earnings after taxes per month? *

- ◯ €0
- ◯ €200 - €499
- ◯ €500 - €999
- ◯ €1000 - €1499
- ◯ €1500 - €1999
- ◯ €2000 - €2999
- ◯ €3000 - €3999
- ◯ €4000 +

Do you buy Scotch Whisky mostly in pubs/bars/restaurants, from Alko or from shops onboard ferries? *

- ◯ In pubs/bars/restaurants
- ◯ From Alko
- ◯ From shops onboard ferries

NEXT

Scotch Whisky Survey

*Required

I buy Scotch Whisky mostly from pubs/bars/restaurants

Do you buy Single Malt or Blended categories? *

- ○ Single Malt
- ○ Blended

How often do you drink Whisky in the pub/bar/restaurant? *

- ○ Once a week
- ○ Once every 2 weeks
- ○ Once a month
- ○ Once every 2 months
- ○ Once every 3 months
- ○ Once every 6 months
- ○ Other: ____________

How many glasses of Scotch Whisky do you buy when you are at the bar/pub/restaurant? *

- ○ 1
- ○ 2
- ○ 3
- ○ 4
- ○ 5
- ○ Other: ____________________

How much do you spend on a glass? *

Your answer ____________________

If the price of the glass of whisky that you normally buy rises, when would it be "too expensive" for you to buy? *

- ○ Current price +10%
- ○ Current price +20%
- ○ Current price +30%
- ○ Current price +40%
- ○ Current price +50%
- ○ Other: ____________________

When compared to the other whiskey brands (e.g. Irish, Canadian, American) that are your ideal price, what are your perceptions toward Scotch Whisky and the value for money? *

- A lot more than others
- A little more than others
- Same as others
- A little less than others
- A lot less than others

What would you do if the Scotch Whisky that you buy becomes too expensive? *

- Buy smaller quantities of the same Scotch Whisky which is too expensive
- Buy a cheaper type of Scotch Whisky
- Buy other brands of Whiskey such as American, Canadian or Irish
- Buy other spirits (Vodka, Rum, etc.)

Scotch Whisky Survey

*Required

I buy Scotch Whisky mostly from Alko

Do you buy Single Malt or Blended categories? *

- ◯ Single Malt
- ◯ Blended

How many bottles of Scotch Whisky do you buy in a 6-month period? *

- ◯ 1
- ◯ 2
- ◯ 3
- ◯ 4
- ◯ 5
- ◯ 6

When you buy Scotch Whisky, what is the quantity of the bottle?
*

- 50ml
- 200ml
- 350ml
- 700ml
- 1 Liter

How much do you spend on a bottle? *

Your answer

If the price of the bottle of whisky that you normally buy rises, when would it be "too expensive" for you to buy? *

- Current Price +10%
- Current Price +20%
- Current Price +30%
- Current Price +40%
- Current Price +50%
- Other:

When compared to the other whiskey brands (e.g. Irish, Canadian, American) that are your ideal price, what are your perceptions toward Scotch Whisky and the value for money? *

- ◯ A lot more than others
- ◯ A little more than others
- ◯ Same as others
- ◯ A little less than others
- ◯ A lot less than others

What would you do if the Scotch Whisky that you buy becomes too expensive? *

- ◯ Buy smaller quantities of the same Scotch Whisky which is too expensive
- ◯ Buy a cheaper, more affordable type of Scotch Whisky
- ◯ Buy other brands of Whiskey such as American, Canadian or Irish
- ◯ Buy other spirits (Vodka, Rum, etc.)

In the last question, if you answered "Buy smaller quantities of the same Scotch Whisky which is too expensive" how much would you cut down percentage-wise? *

- ◯ I answered something else
- ◯ -10%
- ◯ -20%
- ◯ -30%
- ◯ -40%
- ◯ -50%
- ◯ Other: ____________

Do you buy other brands of Whiskey? *

- ☐ Irish Whisky
- ☐ Canadian Whiskey
- ☐ American Whiskey
- ☐ No, when I buy whiskey, I only buy Scotch Whisky

Do you buy other spirits? *

- ☐ Vodka
- ☐ Rum
- ☐ Cognac
- ☐ I don't buy any other spirits
- ☐ Other: ____________

BACK NEXT

In the last question, if you answered "Buy smaller quantities of the same Scotch Whisky which is too expensive" how much would you cut down percentage-wise? *

- ○ I answered something else
- ○ -10%
- ○ -20%
- ○ -30%
- ○ -40%
- ○ -50%
- ○ Other: ____

Do you buy other brands of Whiskey? *

- ☐ Irish Whisky
- ☐ Canadian Whiskey
- ☐ American Whiskey
- ☐ No, when I buy whisky, I only buy Scotch Whisky

Do you buy other spirits? *

- ☐ Vodka
- ☐ Rum
- ☐ Cognac
- ☐ I don't buy any other spirits
- ☐ Other: ____

BACK SUBMIT

Scotch Whisky Survey

*Required

I buy Scotch Whisky mostly from shops onboard ferries

Do you buy Single Malt or Blended categories? *

- ◯ Single Malt
- ◯ Blended

How many bottles of Scotch Whisky do you buy in a 6-month period? *

- ◯ 1
- ◯ 2
- ◯ 3
- ◯ 4
- ◯ 5
- ◯ 6

When you buy Scotch Whisky, what is the quantity of the bottle? *

- 50ml
- 200ml
- 350ml
- 700ml
- 1 Liter

How much do you spend on a bottle? *

Your answer

If the price of the bottle of whisky that you normally buy rises, when would it be "too expensive" for you to buy? *

- Current Price +10%
- Current Price +20%
- Current Price +30%
- Current Price +40%
- Current Price +50%
- Other:

When compared to the other whiskey brands (e.g. Irish, Canadian, American) that are your ideal price, what are your perceptions toward Scotch Whisky and the value for money? *

- ◯ A lot more than others
- ◯ A little more than others
- ◯ Same as others
- ◯ A little less than others
- ◯ A lot less than others

What would you do if the Scotch Whisky that you buy becomes too expensive? *

- ◯ Buy smaller quantities of the same Scotch Whisky which is too expensive
- ◯ Buy a cheaper, more affordable type of Scotch Whisky
- ◯ Buy other brands of Whiskey such as American, Canadian or Irish
- ◯ Buy other spirits (Vodka, Rum, etc.)

In the last question, if you answered "Buy smaller quantities of the same Scotch Whisky which is too expensive" how much would you cut down percentage-wise? *

- ◯ I answered something else
- ◯ -10%
- ◯ -20%
- ◯ -30%
- ◯ -40%
- ◯ -50%
- ◯ Other: ____________________

Do you buy other brands of Whiskey? *

- ☐ Irish Whisky
- ☐ Canadian Whiskey
- ☐ American Whiskey
- ☐ No, when I buy whiskey, I only buy Scotch Whisky

Do you buy other spirits? *

- ☐ Vodka
- ☐ Rum
- ☐ Cognac
- ☐ I don't buy any other spirits
- ☐ Other: ____________________

BACK SUBMIT