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Approved by:

Lana Bennett
U.S. Embassy

Prepared by:

Bettina Dahlbacka

Report Highlights:

Consumption of table wines continue to increase steadily in Sweden, and was estimated at 18 liters per capita in 2002. Although EU products still dominate, New World wines are growing in popularity. Good market opportunities exist for U.S. quality wines, although competition from other New World countries is tough.

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Executive Summary

Consumption of table wines continues to increase steadily in Sweden and has more than doubled since 1970, from 6.5 to 18 liters per capita in 2002. Although EU products still dominate, New World wines are growing in popularity and good market opportunities exist for good quality wines as tastes and knowledge become more sophisticated. With the strong dollar in the past few years and strong competition from the New World countries, U.S. wine exports to Sweden have been declining. However, the considerably lower exchange rate for the dollar in 2003, is fueling new interest in U.S. wines and U.S. exports are on the rise again.

Retail sales of wine and liquor in Sweden continue to be restricted to a government agency, Systembolaget. Systembolaget handles all over-the-counter sales of wine, spirits, and full-strength beer through some 400 liquor stores throughout Sweden. It is estimated that about 80 percent of wine sales are retailed through Systembolaget's stores. The Swedish government managed to retain the retail monopoly despite its accession to the EU in 1995, but had to relinquish its monopoly on importation, wholesaling, production and exporting of wines and spirits. With the dissolution of the import monopoly, more and more restaurants and caterers have started to import directly.

Sweden retains one of the most restrictive alcohol regimes in Europe, but in the past few years the rules have been challenged. Sweden is under pressure from EU harmonization and has been forced to impose equal tax on wine and beer, to increase private alcohol import quotas and to adjust its prohibition of alcoholic beverages.

The Swedish Government has traditionally favored high taxes on alcohol for public health reasons. However, recent tax reductions in neighboring countries and increased private import quotas are adding pressure in Sweden to lower prices on alcohol to avoid consumers crossing borders to stock up on cheap alcohol. The Swedish Government is facing the dilemma of whether to cut taxes to meet the competition and consequently face the possibility of increased alcohol consumption or not to cut taxes and consequently lose revenues and enhance cross-border trade and illegal re-selling.

Prohibition of advertising of alcoholic beverages has applied in Sweden until recently when a verdict from the Swedish Market Court in February 2003, cleared the way for alcohol advertising in Swedish newspapers and magazines.

In October 2003, a bribery scandal at Sweden's state-owned alcohol retail monopoly, Systembolaget, made headlines in Sweden. Almost 90 employees, mostly store managers, at Systembolaget were suspected of accepting expensive gifts from suppliers in return for promoting their products. The ensuing investigations brought the company to a crisis and raised questions concerning the continual existence of the Swedish monopoly. Analysts now question whether the bribery scandal at Systembolaget and decreasing sales due to the competition of cheap alcohol in neighboring countries will put an end to the monopoly.

Average Exchange Rate 2002: US\$ 1 = SEK 9.72

Average Exchange Rate 2003: US\$ 1 = SEK 8.07

Exchange Rate 02/04/04: US\$1 = SEK 7.31

Production

Sweden does not traditionally produce wine, although Sweden was officially designated a wine-producing country by the European Commission in 2000. There are however, some Swedish producers who work with imported grape must. Furthermore, a few farmers have started to grow grape vines for winemaking, although the climate in Sweden is not considered to be suitable for vine growing.

Consumption

Wine consumption in Sweden has been increasing considerably over the past five years, and this development is projected to continue. In 2002, Systembolaget's (retail) wine sales grew by 9.9 percent to 137 million liters. According to statistics from the Hotel and Restaurant Association, wine sales in foodservice outlets increased from 20 million liters to 22 million liters in 2002. Please note that the consumption and sales estimates below are based on Systembolaget's sales figures, i.e. retail sales only.

Consumer demand for bag-in-box wines has continued on an upward trend. In 2002, the bag-in-box and other soft packaging formats accounted for a remarkable 50 percent of Systembolaget's total wine sales. Bag-in-box wines have become very popular among Swedish consumers who find them particularly convenient for picnics, boating excursions etc., during the summer months. Also, the bag-in-box format is appealing because it overcomes the reluctance attached to opening a bottle when all one wants is a single glass. Observers here report that because of this convenience, individuals are consuming wine more regularly.

Sales of red wine continue to increase, showing a rise of 12.2 percent from the preceding year. Red wine sales are dominated by Spain, Italy, France and Chile, which together accounted for 69 percent of sales volume. Bag-in-box wines continue to increase their share, and accounted for 42 percent of red wine sales in 2002. Sales of white wine rose by 8.4% during 2002, of which 38% was packed in bag-in-box. With a 6.7 percent decrease in market share, Germany continues to lose ground, but remains the leading white wine supplier to Sweden followed by Italy, Spain, France and Hungary.

Sales of strong beer (those beers exceeding 3.5% alcohol content) by Systembolaget rose by 9.3% in 2002 to 170.5 million liters. Swedish brands accounted for 83 percent. Sales of beer in cans continue to increase and accounted for 77 percent. It is mostly the younger consumers who are increasing their beer consumption. Since 1996, prices for strong beer have declined by 30% due to a reduced beer tax. Cider registered a 21.1 percent growth in 2002.

Systembolaget's sales of spirits remained unchanged at 23 million liters in 2002. The consumption estimate for hard liquor is based on Systembolaget's sales figures, but total consumption is actually much higher. Because of the very high domestic prices, Swedes traveling abroad take advantage of cheaper alcohol in other countries. In addition, illicit home distilling is wide-spread, and bootlegging is extensive. Reports estimate that the illegal alcohol trade costs Sweden about SEK 3 billion per year in taxes. Historically, vodka has been the most popular alcoholic beverage. Sweden is part of the world's "vodka belt". Now, however, vodka sales have notably declined.

There has been a noticeable change in consumption of medium-priced wines which indicates that the quality consciousness of consumers is increasing. In 2002, nearly 60% of wine sales were in the range of SEK 51 to 70. Wines over SEK 100 accounted for only 3.2 percent of total sales. Retail pricing through the Systembolaget is uniform throughout Sweden, whereas restaurants and bars are free to set their own prices.

Table 1. Systembolaget's Wine Sales by Price Category in 2002

Price level SEK	Wines (excl. fortified wines)
Less than 40	1.1%
41-50	22.6%
51-60	32.3%
61-70	27.4%
71-80	6.4%
81-90	4.3%
90-100	2.6%
over 100	3.2%
Total	100%

Table 2. Systembolaget's Sales - Liter/Capita

Year	Liquor	Wine	Strong Beer	Cider & Mixed Drinks
1998	3.2	14.7	15.6	1.5
1999	3.2	15.6	18.0	1.8
2000	3.2	16.1	19.6	1.8
2001	3.2	17.0	21.4	1.9
2002	3.2	18.6	23.3	2.3

Trade

After many years of dominating the Swedish wine market, Spain has had to step back in favor of Italy. Italy now covers about 24 percent of the table wine market followed by Spain, France and Chile. Even though EU suppliers still dominate, wines from other New World countries, such as Chile, Australia and South Africa, are growing in popularity. South African and Chilean wines, with improved quality and low prices, are presently very competitive in this market. U.S. wine exports to Sweden decreased in 2002, from USD 9 million USD 4 million in 2002. However, due to the considerably lower exchange rate for the dollar in 2003, U.S. exports are on the rise again.

Please note that the table below shows Systembolaget's sales and does not include wines for restaurants and duty free markets.

Table 3. Systembolaget's Sales of Wines by Country (1,000 liters)

Country	2000	2001	2002	Mkt Share 2002
Spain	30,288	31,379	31,439	24.0%
Italy	17,498	21,250	28,627	21.9%
France	15,728	16,676	18,487	14.1%
Chile	7,788	10,143	12,165	9.3%
Germany	8,634	8,179	7,631	5.8%
Australia	5,601	5,817	7,287	5.6%
South Africa	4,494	5,527	5,999	4.6%
Hungary	2,592	3,821	5,846	4.5%
USA	4,808	4,254	4,345	3.3%
Sweden	2,280	2,325	2,321	1.8%
Bulgaria	2,352	2,391	1,999	1.5%
Other	9,309	5,997	4,705	3.6%
TOTAL	110,791	118,506	130,851	100.0%

Retail sales of U.S. wines increased in volume in 2002, but market share dropped from 3.6% to 3.3% in 2002. Major reasons for the market share loss were the then strong dollar, which made it difficult to compete with other New World wines, and the surprisingly large increase in sales of bag-in-box wines. Lower-priced bottled wines are losing ground to bag-in-box wines, which accounted for 42% of red wine and 38% of white wine retail sales in 2002. U.S. wine suppliers who can adjust to providing wine in this type of highly demanded packaging might find greater success in this market.

Policy

In Sweden, the retail trade is separated into two different channels -- ordinary food stores and Systembolaget, the liquor store monopoly. Beer containing more than 3.5% alcohol and other beverages containing more than 2.25% alcohol may only be sold through Systembolaget's liquor stores. Systembolaget does not import directly; purchases are done through Vin & Sprit or independent agents and importers.

Vin & Sprit, another state-owned company, was, until Sweden joined the EU, the only legal importer and distributor of wine, spirits and strong beer in Sweden. Since 1995, independent companies that have acquired a special license have also been eligible to import, produce, trade and distribute alcoholic beverages. This gives both the retail trade,

(i.e., Systembolaget) and the restaurant and catering sector the right to freely choose a supplier. More and more catering and restaurant wholesalers have started to import and distribute alcoholic beverages. Today there are over 600 companies that have an import license for alcoholic beverages

Because of Sweden's need to conform to more liberal EU regulations, Sweden's strict laws regulating alcohol sales have been challenged in recent years. Sweden has been facing EU demands on member states to impose equal tax on wine and beer and increase private alcohol import quotas.

As a result, in 2001, the alcohol tax on wine was reduced by SEK 5 per liter. Sweden was formally asked by the European Commission to stop taxing wine, most of which is imported, at a higher rate than beer, most of which is produced locally. To avoid a lawsuit, the Swedish Government thus recommended a reduction of the wine tax. The EU has been pushing the Swedish Government to make additional tax reductions in as much as the excise tax on wine is still higher than the excise tax on beer. Also, Sweden is greatly affected by the recently adopted and proposed tax cuts in Denmark and Finland as an increasing number of Swedes cross borders to buy cheap alcohol. The Swedish Government is fearful of losing massive revenues from the state monopoly, as domestic sales are likely to decline dramatically unless taxes are lowered.

Table 4. The Swedish Alcohol Tax on Wines on January 1, 2003

Alcohol Content	Tax (SEK/liter)
Not more than 2.25%	SEK 0.00
2.25% but not 4.5%	SEK 7.58
4.5% but not 7%	SEK 11.20
7% but not 8.5%	SEK 15.41
8.5% but not 15%	SEK 22.08
15% but not 18%	SEK 45.17
Liquor containing more than 22 percent alcohol by volume	SEK 501.41

Sweden adopted European Community directives on private alcohol import quotas when the country's exemptions from EU rules expired on January 1, 2004. When joining the EU in 1995, Sweden negotiated temporary exemption from many of the European Union's more liberal alcohol laws. As of January 1, 2004, Swedish travelers will be allowed to bring home practically an unlimited amount of alcohol from other Member States. However, under Swedish law, consumers are prohibited from using independent intermediaries to bring alcohol for their private use into Sweden from other EU countries. If Swedish consumers cannot themselves physically transport the product into the country, they have to request that Systembolaget bring it in on their behalf. The European Commission has formally asked Sweden to lift this ban. The Commission believes that an individual residing in Sweden should not be precluded from purchasing products available on the market in other Member States.

Table 5. Swedish Private Alcohol Import Quotas (liters)

Year	2001	2002	2003	2004
Spirits	1	2	5	10
Wine	26	26	52	90
Beer	32	32	64	110

The corruption allegations in October 2003 have shaken Swedes' confidence in Systembolaget. Almost 90 employees at Systembolaget were suspected of accepting bribes from suppliers pushing sales of certain brands. What started in the beginning of 2003 with a handful of store managers and a couple of suppliers being suspected of bribery, escalated quickly to the most extensive corruption scandal in Swedish history in terms of number of people involved. When the scandal extended to the headquarters level, independent investigators were appointed. The scandal has raised questions about the future of the monopoly – particularly because of the special consideration that the European Union had given to Sweden in allowing it to retain its government-owned retail monopoly.

Systembolaget has been moving in the direction of enhanced service, with initiatives such as introducing self-service shopping and extended opening hours. As of July 7, 2001, the nation-wide liquor stores have been permitted to be open for sales on Saturdays.

As a member of the European Union, EU regulations regarding customs tariffs and wine labeling are in effect in Sweden. Customs duties on wines from non-member countries are the same as in the rest of the EU, i.e. 13.1 euro per 100 liters for table wines, and 15.4 euro per 100 liters for fortified wines, or wines with an alcohol content between 13 to 15 percent.

On April 29, 2002, a law was passed by the European Commission laying down new rules for the labeling of wine entering the EU. The rules specify what information must be shown on wine labels and regulate the use of certain optional terms such as production methods, traditional expressions, names of the vineyard and vintage year. This new law was originally scheduled to come into force on January 1, 2003, but implementation was postponed until February 1, 2004. During the transitional period, the European Commission may consider amendments to the wine labeling regulation to address WTO concerns, raised by the U.S. and other non-EU countries.

The U.S. and the EU are in the process of negotiating a bilateral agreement on wine. Exports of U.S. wine to the EU continue under derogations permitting certain U.S. oenological practices, which would otherwise be prohibited. The derogation for U.S. wine making practices and certification was set to expire on December 31, 2003. On December 17, 2003, the EU Agriculture Council approved an extension to the derogation. The derogation has been extended for two years or until a US-EU wine agreement has been finalized. Please refer to the following website for more information on EU import rules:

www.useu.be/agri/usda.html

Marketing

There is a potentially strong growth market for quality wines in Sweden. With the considerably lower exchange rate for the dollar, U.S. wines are looking more attractive again. Exporters to this market should consider strong market trends, such as bag-in-box and other types of soft packaging, and/or developing trend-setting campaigns. With the dissolution of the import monopoly, hotels, restaurants and caterers can import directly. The continuation of the retail monopoly still makes retail sales more difficult to develop, but the market is much more open and competitive now than it was before. Additionally, advertising of wines in magazines, newspapers and journals is now possible.

Until recently, direct advertising of alcoholic beverages has not been allowed in Sweden. In March 2001, the Swedish legislation was challenged by the Swedish food magazine Gourmet. The European Court of Justice upheld the view that the ban was an obstacle to the free movement of services within the EU. Sweden restricts alcohol advertising on public health grounds. The European Court, however, suggested this could be achieved with less restrictive measures and referred the matter back to a Swedish court to decide whether the ban was an appropriate measure for achieving Sweden's desired goal. In March 2002, the Stockholm District Court upheld Gourmet's right to publish alcohol advertisements. The Swedish Consumer Ombudsman was unhappy with the ruling and appealed the decision to a higher court, the Swedish Market Court. A verdict from the Market Court on February 5, 2003 cleared the way for alcohol advertising in Swedish newspapers and magazines. The Court ruled that the Swedish ban on alcohol advertising was too intrusive to warrant an exception to European Union law. The decision was a heavy blow to Sweden's rigorous policies to restrict alcohol consumption on public health grounds. However, following the verdict, the Swedish Government immediately decided to ban the advertising of alcoholic beverages stronger than 15 percent by volume. The new law came into force in May 2003.

The fact that no advertising has been allowed in public media has made journalists writing about wines in newspapers and magazines more influential than their colleagues in other countries. Wine writers' weekly or bi-weekly newspaper and magazine articles are very popular, and consumers act on the recommendations that are given in them. When a certain type of grape or country becomes fashionable, Swedish consumers tend to act upon these trends very rapidly. Systembolaget's monthly tests of "new products" are reported on in these reviews.

Another means of advertising is Systembolaget's monthly news magazine. This contains listings of the wines on Systembolaget's shelves and gives detailed information about the wine and the region in which it was produced. This information is stored in a database and available for all wines listed in the Systembolaget official price list which is updated bi-monthly. In the December 2003 update, over 70 different U.S. wines were listed. The Systembolaget list can be accessed through its homepage www.systembolaget.se.

In January, 2001 the Wine Institute opened an information office in Stockholm. The Wine Institute promotes California wines through participating in wine exhibitions and tastings, developing programs for California winery tours, distributing promotional and information materials and engaging in other market development activities.

There are several active wine societies in Sweden which promote wines among their members, arrange wine courses, tastings, travel, and generally promote wine appreciation. The most notable is Munska Karkarna, which was formed 40 years ago. It has more than 10,000 members and has branches throughout Sweden. Another prominent wine society is Stockholm's Vinsällskap which is active in the Stockholm area. In addition, there are a number of small, private wine clubs. Importers also arrange small tastings. These smaller tastings are usually targeted to restaurant managers, wine journalists and publishers of food and wine magazines.

The major wine exporting countries, such as Italy, Spain, and France hold annual wine days in Stockholm. Third country wine-producing countries such as Australia, South Africa and Chile (through their wine boards) participate in most wine exhibits in Scandinavia and annually hold one-day wine exhibits at one of the major hotels in Stockholm.

Statistical Section

Table 6. Average Import Price – Table Wine 2204, 2205

Prices Table

Country Sweden

Commodity Wine

Prices in per uom

Year	<input type="text" value="2001"/>	2002	% Change
Jan			
Feb			
Mar			
Apr			
May			
Jun			
Jul			
Aug			
Sep			
Oct			
Nov			
Dec	25.2	24.1	-4%

Exchange Rate Local Currency/US \$

Date of Quote MM/DD/YYYY

Table 7. Import Trade Matrix – Table Wine 2204, 2205

Import Trade Matrix

Country Sweden

Commodity Wine

Time Period	CY	Units:	1,000 L
Imports for:	2001		2002
U.S.	4693	U.S.	979
Others		Others	
Italy	25514		30867
Spain	22604		21534
France	16740		19465
Chile	9064		11484
Germany	7558		8921
Australia	4641		6279
South Africa	4978		4267
Hungary	1743		2208
Portugal	1906		2106
Total for Others	94748		107131
Others not Listed	14487		19757
Grand Total	113928		127867

Table 8. Export Trade Matrix – Table Wine 2204, 2205

Export Trade Matrix

Country Sweden

Commodity Wine

Time Period	CY	Units:	1,000 L
Exports for:	2001		2002
U.S.	2	U.S.	1
Others		Others	
Norway	1141		1591
Finland	109		392
Denmark	74		307
Estonia	273		234
Czech Rep	27		13
UK & Ireland	7		3
Total for Others	1631		2540
Others not Listed	175		234
Grand Total	1808		2775