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Product Brief

Beer

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Report Highlights:
The market for both alcoholic and non-alcoholic beverages has risen steadily during the last 20 years in Finland. The Finnish beer market is stabilizing following an unsteady two-year period during which tax cuts and intense price wars created favorable market conditions for imported beers.

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I. MARKET OVERVIEW

The market for both alcoholic and non-alcoholic beverages has risen steadily during the last 20 years in Finland. The market for beer has, however, experienced periods of both upward and downward trends during this time period as there have been many structural changes on the market. The Finnish beer market is now stabilizing following an unsteady two-year period during which tax cuts in 2004 and intense price wars (retailers' price competition) gave favorable market conditions for imported beers. Finnish beers are nonetheless currently showing signs of strengthening again.

The reduction in alcohol taxes in 2004 was weighted in favor of spirits and the effect on the price of beer was much less than first expected. The focus of taxation will now be shifted to milder beverages by halving the beer tax to be on the same level as other European countries. It is considered that this would have positive economic and health effects.

At present, beer accounts for about half of the total alcoholic beverage consumption in Finland. Consumption of domestic beers has remained steady during the past decade, at about 400 million liters a year. In 2005, sales of medium-strength beer (under 4.7 percent in alcohol content) in daily consumer goods stores grew considerably, while sales of strong beer declined. Beer sales in daily consumer goods stores accounted for 76 percent of all beer sales, sales in restaurants accounted for 21 percent and the monopoly retail chain Alko's sales accounted for 3 percent. Imports of beverages by travellers increased greatly during the summer and have remained at the same level as 2004 due to the trend in the price of beer in Finland.

Sales of canned beer in Finland have increased substantially in the last year mainly because of the fact that cans are favorable packages for lager beers.

Advantages	**Challenges**
Growing interest in beers.	High tariffs/taxes.
Expected further tax reductions for beer.	Restricted advertising.
Favorable dollar exchange rate.	Increased competition from new EU countries.
High standard of living, well-educated workforce, growing incomes.	Increased cross-border trade.

II. MARKET SECTOR OPPORTUNITIES AND THREATS

1. Market Size, Structure and Trends

Beer production and consumption has a long tradition in Finland and Finnish beer is high in quality and internationally recognized. Industrial brewing in Finland dates back to the 19th century with long traditions of brewing activities and the cultivation of barley. Brewery and beer drinking have been, and still are, a part of Finnish culture and drinking habits. An example of this is the Finnish "sahti home-brew", which is thought to be the only significant primitive beer to have survived in Western Europe besides Belgian lambic ale.

In recent years, Finns have rediscovered beer and its status as a mild party and meal beverage has risen. Finnish drinking habits and attitudes, particularly in larger cities, have also gone through changes towards alcohol from a more traditional "hard drinking culture" (drinking more in one sitting) to combining beverages with a lower alcoholic content, such as beer and wine, with various foods. The interest in beer has steadily increased in Finland and this change in trend is expected to spur further interest in different types of beers in the years ahead.

Beer production in Finland exceeds 400 million liters a year and domestic beers account for 98 percent of consumption in Finland. Finns have a preference for light lagers and these make up most of beer sales in Finland but darker varieties have gained popularity in recent years. Medium-strength beer, which is around 4.5 percent alcohol by volume, accounts for 90 percent of beer consumption in Finland. Strong beer accounts for only 6.9 percent of domestic beer sales and is purchased abroad and at tax-free shops.

Due to the heightened interest in different beers there are a number of new beers on the market. For example, American beers from Brooklyn Brewery were introduced in Finland and the brewery's Brooklyn Lager was chosen Beer of the Year for 2006 at the Helsinki Beer Festival in April 2006. Opportunities exist for U.S. beers with a special niche, such as micro-brewed beers, for example.

Beer consumption in Finland is in line with the European average at some 80 liters per person a year. In the other Nordic countries the figure is less than 60 liters per person, with the exception of Denmark, where consumption has averaged over 100 liters per person for many years.

Sales of strong beer have dropped in Finland due to increased private imports. When Estonia entered the European Union on May 1, 2004, private imports of alcoholic beverages from Estonia began to increase rapidly as Finns became free to import as much beer as they wish from their neighbor country. In 2005, some 42 million litres of beer were imported for private consumption. According to recent survey results, Finns stated that they had brought home 42.4 million litres of beer from abroad for own use, mainly from Estonia and ferries. This totals EUR 50 million in tax revenue losses for the Finnish government. Total Finnish beer consumption, including private imports, amounts to about 460 million litres per year. Hence, almost one in ten litres of the beer consumed is brought back from abroad.

2. Entry Strategy

The goal of Finnish alcohol policy is to reduce consumption of alcoholic beverages for reasons of national health. In accordance, beverages with alcoholic content are taxed heavily, by international comparisons. The long-term goal of Finland's alcohol policy has been to steer consumption from spirits to milder beverages. The government operates a retailing monopoly, Alko Oy. Alko functions under the Finnish Ministry of Social Affairs and Health. Alcohol sales in Finland are dominated by Alko's 330 outlets. Alko Oy, handles all over-the-counter sales of wine and spirits over 4.7 percent and only people over the age of 18 can buy wine and beer at Alko (and age 20 to buy spirits).

In Finland, beer with a lower alcohol content (under 4.7 percent), which is the most sold beer on the Finnish market, is typically sold through retail shops/wholesalers in Finland. In 2005, beers in this category accounted for 68.5 percent of total beer sales, restaurants 26.5 percent and state alcohol monopoly shops, Alko, 5.0 percent. Retail shops increased their share of sales, while sales at restaurants and state alcohol monopoly shops declined in 2005. Low-priced beer currently has the greatest market in Finland. The largest player on this market includes the German retail chain "Lidl", which sells some 20 million liters of beer (inexpensive beer under 4.7 percent in alcohol content) annually in Finland. Statistics show beer consumption totaling about 80 liters per person last year and consumption not covered by statistics is estimated to more than 10 liters per person.

Alko Oy, handles all over-the-counter sales of beer over 4.7 percent and only people over the age of 18 can buy beer at Alko (and age 20 to buy spirits). Alko has about 300 stores in Finland. In order for companies to import strong beer to Finland, an import license is required. Licensed companies can be divided into three main categories: The monopoly chain Alko, restaurants and the duty free market (international airports, airlines and ferry lines).

One of the world's largest sellers of duty free spirits are ferry lines operating between Sweden and its neighboring countries. Large breweries are helpful in importing beers with a special niche, such as American micro brewery beers. Breweries put together "packages" for the Hotel/Restaurant/Catering sector and U.S. exporters with specialty beers could take the opportunity to enter the market here. It is also possible to contact companies on the HRI market directly.

Contacting the monopoly retail chain Alko is also recommended as the company enjoys a strong position on the market (for selling beer with more than 4.7 percent in alcohol content). Alko's website contains the information necessary to enter the market and, as previously mentioned, the purchasing plans for retail chain can be viewed on their home page. All forms, such as the offer forms for example, for the different stages of the purchasing process can be found on the company's home page. On the whole, any company (retailers, wholesalers, importers, restaurants, etc.) that has a license to import in Finland can bring and sell beers attractive to their selection.

As regards imports of beer with a lower alcohol content (under 4.7 percent), U.S. representatives should contact the National Product Control Agency for Welfare and Health (see IV. key contacts and further information) for a list of consumer goods stores that sell beer in this category.

3. Company Profiles – Distribution Channels

Alko Oy

Alko Oy, Finland's monopoly retail chain is the only actor on the market that can sell beer with alcohol content over 4.7 percent directly to customers. Presently, there are about 100 different imported beers for sale in the Alko stores. It is possible to view a list of products in this category for sale at Alko on the company's home page.

Finland's four national breweries - Hartwall, Olvi, PUP and Sinebrychoff - produce a total of 34 different medium-strength and strong beers (classes III and IV). There are also numerous mini-breweries in Finland and a variety of low-alcohol beers (class I) as well as seasonal beers in the selection of domestically produced products.

Oy Hartwall Ab

Oy Hartwall Ab retains its position as the leading player in the Finnish brewing industry with its 44.8 percent aggregate market share. During the period January-August, the brewing industry's sales went down by 1.3 percent, and amounted to 561.1 million liters (568.7 million liters) due to mild and rainy weather. During the same period, Hartwall's total sales decreased by 1.2 percent to 247.2 million liters (250.1 million liters). Hartwall retained its market leading position in both alcoholic (44.1 percent market share) and non-alcoholic beverages (44.0 percent market share).

Internet

Internet based sales of alcohol are becoming more popular in Europe. www.viinisaitti.com was launched in Finland on August 1, 2006. It is not clear, however, if sales of alcohol on the internet are legal. The Finnish customs has decided that it is illegal and has seized some 84,000 litres of beer, wine and spirits from previous internet alcohol sales. If it is decided that alcohol sales on the internet are legal (i.e. that free trade within the European Union also should include alcohol) there may be great potential for U.S. exporters to enter the market via web based sales of wine/alcohol.

Distribution Channel	2000 share of sales (%)	2005 share of sales (%)
Retail outlets	67.0	75.3
Restaurants	28.0	20.8
Alko's retail outlets	5.0	3.9

III. COSTS AND PRICES

The excise tax on beer in Finland is the highest in the EU - it is 15 times higher than in Germany, 8 times higher than in Estonia and almost twice as high as in Sweden. More than 60 percent of the retail price of Finnish beer is tax. According to a survey conducted by Finnish Gallup, the price of alcoholic beverages would have to be reduced by about 30 percent to stop private imports from abroad, which would be the only way to ensure the competitiveness of the Finnish brewing industry on its home market.

In Finland, alcoholic beverages are subject to a basic tax on alcohol beverage, an environmental surtax as well as the general Value Added Tax (VAT). The beer excise tax in Finland is now 0.195 (0.29) euros per litre by volume-percent. In addition to beer tax the price includes 22 percent VAT. If Finland's beer tax is reduced by 70 percent, the retail price of a 0.33 litre bottle of 4.5 percent beer will fall to about 0.70 euros (now about 1.10 euros).

BEER EXAMPLE FROM ALKO:
Bottle size 0.33 litres
Alcoholic content of 5.2% vol.

Purchase price + Alko's margin	0.70	56%
Alcoholic beverage taxes and package handling charges	0.33	26%
VAT	0.23	18%
Retail price	1.26	100%

Freight charges for the United States are priced separately.

It is widely considered that, in order to direct consumption to milder beverages and to ensure that the Finnish brewing industry will not die out in Finland, the beer tax should be halved. The bulk of the price of beer consists of tax, if the current tax level is maintained, Finnish beer will not be able to compete with foreign prices for long. Imports by travellers will otherwise continue, which is not good for the domestic beer industry. In the case of beer, from which neither stores nor breweries make a profit anymore, the consumer price has been artificially set to a level that keeps imports in check.

IV. MARKET ACCESS

Labeling / Production

The new decree on the labelling of foodstuffs, drafted in accordance with EU directives, came into force in November 2006. According to the decree, beverages containing over 1.2 percent alcohol must at the very least indicate ingredients causing allergies or hypersensitivity. The ingredients that must be listed on brewery beverages are wheat and other cereals containing gluten as well as sulphur dioxide and sulphites used as preservatives at concentrations of more than 10 mg/kg or 10 ml/litre. Allergy-causing agents must be market on beer packages, both in Finnish and in Swedish. Such allergens include sulphur dioxide and cereal which contain gluten; wheat, rye, barley, oat, spelt and their hybrids, as well as grain products made of these cereals. Allergens may also be given in a complete list of ingredients and food additives, which is the practice applied by the Finnish breweries.

Hartwall, Olvi, Nokian Panimo and Sinebrychoff will introduce ingredient lists on the labels of their products. The labels of beers, ciders and long drinks will soon inform consumers about not only the alcohol content of the beverage, but also all the product ingredients and additives in both Finnish and Swedish. Brewery beverages are not required to be labeled with a complete ingredient list, but the brewing industry considers such lists a service to consumers. The ingredient lists will be gradually added to labels in 2005. On soft drinks, they are already a familiar sight.

V. KEY CONTACTS AND FURTHER INFORMATION

Alko Group – www.alko.fi

Kesko Ltd. – www.kesko.fi

Meira Nova Oy – www.nettitilaus.meiranova.fi

Hartwall Oy – www.hartwall.fi

Government, business and trade resources for Finland

Finnish Government – www.valtioneuvosto.fi

Finnish Customs – www.tulli.fi

Invest in Finland – www.investinfinland.fi

National Product Control Agency for Welfare and Health - www.sttv.fi