USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 03/22/05

GAIN Report Number: SW4019

Sweden

Wine

Annual

2004

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Report Highlights:
Table wine consumption continues to increase steadily in Sweden. In 2003, per capita consumption was estimated at 25 liters. While EU products still dominate, New World wines are growing in popularity. Good market opportunities exist for U.S. quality wines, although competition is strong from other New World suppliers. The future of the retail monopoly, Systembolaget, has come into question by some observers with the recent bribery scandal coupled with declining retail sales due to competition from cheaper alcohol in neighboring countries.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Stockholm [SW1]
[SW]

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Executive Summary

Table wine consumption continues to increase steadily in Sweden and has more than doubled since 1970, from 6.5 to 25 liters per capita in 2003. EU products still dominate, but New World wines are growing in popularity. Good market opportunities exist for quality wines as tastes and knowledge become more sophisticated. Over the past few years, U.S. wine exports to Sweden had been declining due to the strong dollar coupled with strong competition from other New World countries. However, the weakening of the dollar in 2003 and 2004 has fueled 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. The Swedish government managed to retain the retail monopoly despite its accession to the EU in 1995, but was required to relinquish its monopoly on importing, 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 as Sweden is under pressure from EU harmonization requirements. As a result, Sweden has been forced to increase private alcohol import quotas, adjust its prohibition of alcoholic beverages and impose equal tax on wine and beer. The EU is pushing the Swedish Government to make additional tax reductions as the Commission maintains that the current tax scheme still disadvantages imported wine.

Systembolaget's monopoly retail sales have been falling steadily since Sweden raised the limit on private alcohol imports on January 1, 2004. This allowed Swedes to buy much cheaper alcohol from neighboring countries. The situation has been aggravated by several other recent developments in the region including the May 1, 2004 EU Enlargement which added new Member States including Poland and the nearby Baltic States where alcohol sells at a fraction of the Swedish price. In addition, Finland and Denmark also reduced their tax on alcohol.

The Government of Sweden has traditionally favored high taxes on alcohol for public health reasons. However, the Swedish Government is now facing a dilemma. If taxes are cut to meet the neighboring competition, Sweden could consequently face the possibility of increased alcohol consumption. If taxes are not cut, Systembolaget's retail sales could continue to decline, cross-border trade would continue and illegal resale would persist. On March 16, 2005, the Government's own "alcohol investigator" proposed a 30% tax cut, and the parliament is expected to vote on the proposal later this year.

Advertisements for alcoholic beverages were prohibited in Sweden until February 2003 when a verdict by the Swedish Market Court cleared the way for alcohol advertising in Swedish newspapers and magazines. Subsequently, the Swedish Government passed new legislation banning advertisements for alcoholic beverages stronger than 15 percent by volume. A new strict law on alcohol advertising came into force on January 1, 2005.

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, were suspected of accepting expensive gifts from suppliers in return for promoting their products. The ensuing investigations brought Systembolaget to a crisis point, raising concerns over the continued existence of the Swedish monopoly. Analysts question whether Systembolaget's bribery scandal, combined with declining sales due to competition from cheaper alcohol in neighboring countries, will put an end to the monopoly.

Average Exchange Rate 2003: US$ 1 = SEK 8.07
Average Exchange Rate 2004: US$ 1 = SEK 7.48

Production

While Sweden does not traditionally produce wine, it was officially designated a wine-producing country by the European Commission in 2000. There are 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 increased considerably over the past five years, and this development is expected to continue. It is estimated that about 64 percent of wine sales are retailed through Systembolagets' stores. In 2003, Systembolaget's (retail) wine sales grew by 3.9 percent to 142 million liters. 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 continues on an upward trend. In 2003, the bag-in-box and other soft packaging formats accounted for a remarkable 57 percent of Systembolaget's total wine sales. Bag-in-box wines have become very popular among Swedish consumers who find them particularly convenient for summer outings such as picnics and boating excursions. 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 individuals are consuming wine more regularly as a result of this convenience.

Sales of red wine continue to increase, showing a rise of 4.8 percent from the preceding year. Red wine sales are dominated by Spain, Italy, France and Chile, which together accounted for about 70 percent of sales volume. Bag-in-box wines continue to increase their share, and accounted for 47 percent of red wine sales in 2003. Sales of white wine rose by 4.0% during 2003, of which 38% was bag-in-box. With a 6.7 percent decline 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 exceeding 3.5% alcohol content) by Systembolaget rose by 5.1% in 2003 to 179 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 2.9 percent growth in 2003.

Systembolaget's sales of spirits decreased by 5.2% in 2003 to 22 million liters from 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 take advantage of much cheaper alcohol in neighboring countries due to their reduced taxation. The increased private alcohol import quotas in 2004 have made it possible for Swedes to bring home practically an unlimited amount of alcohol from other Member States. In addition, illicit home distilling is widespread, and bootlegging is extensive. Reports estimate that the illegal alcohol trade costs Sweden about SEK 3 billion per year in taxes. Historically, Sweden is part of the "vodka belt" and that spirit has traditionally been the most popular alcoholic beverage. Now, however, Sweden is moving outside of the vodka belt and becoming more and more a wine drinking country.

There has been a noticeable change in consumption of medium-priced wines, indicating that the quality consciousness of consumers is increasing. In 2003, nearly 30% of wine sales were in the range of SEK 61 to 70. Wines over SEK 100 accounted for only 3.9 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 2003

Price level SEK	Wines (excl. fortified wines)
Less than 40	0.9%
41-50	19.3%
51-60	30.6%
61-70	28.8%
71-80	8.6%
81-90	5.0%
90-100	3.0%
over 100	3.9%
Total	100%

Table 2. Systembolaget's Sales - Liter/Capita

Year	Liquor	Wine	Strong Beer	Cider & Mixed Drinks
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
2003	3.0	19.2	24.3	2.5

Trade

After many years of dominating the Swedish wine market, Spain has stepped back in favor of Italy. About 20.8 percent of the table wine market is sourced in Italy, followed by Spain, France, Chile and South Africa. Even though EU suppliers still dominate, wines from New World countries, such as South Africa, Australia and Chile, 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 increased in 2003 to USD 6.7 million, from USD 4.0 million in 2002. U.S. exports continue on the rise – mostly as a result of the considerably lower exchange rate for the dollar.

Please note that the table below indicates Systembolaget sales and does not include wines sold in restaurants and duty free markets.

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

Country	2001	2002	2003	Mkt Share 2003
Italy	21,250	28,627	28,311	20.8%
Spain	31,379	31,439	27,454	20.1%
France	16,676	18,487	18,639	13.7%
Chile	10,143	12,165	12,586	9.2%
South Africa	5,527	5,999	11,172	8.2%
Australia	5,817	7,287	11,011	8.1%
Germany	8,179	7,631	7,040	5.2%
Hungary	3,821	5,846	6,310	4.6%
USA	4,254	4,345	5,110	3.7%
Sweden	2,325	2,321	2,356	1.7%
Bulgaria	2,391	1,999	1,461	1.1%
Other	5,997	4,705	4,909	3.6%
TOTAL	118,506	130,851	136,359	100.0%

Retail sales of U.S. wines increased in volume in 2003, and the market share rose to 3.7% from 3.3% in 2002. The major reason for the market share rise is the considerably lower dollar, which made it possible to compete with other New World wines. Lower-priced bottled wines are losing ground to bag-in-box wines. U.S. wine suppliers who can adjust to providing wine in this type of high demand 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

Due to 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 an equal tax on wine and beer and to increase private alcohol import quotas.

As a result, the alcohol tax on wine was reduced by SEK 5 per liter in 2001. 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 recommended reducing the wine tax. However, the EU has been pushing the Swedish Government to make additional tax cuts in as much as the excise tax on wine is still higher than the excise tax on beer. In October 2004, the European Commission decided to refer Sweden to the European Court of Justice over its tax discrimination against wine in comparison to beer. Sweden imposes a tax of SEK 22.08 a liter on wine, compared with only SEK 14.70 for beer.

A slash in alcohol taxes in neighboring Denmark and Finland, and the entry of nearby Estonia, Latvia and Poland into the EU, has drastically affected sales in Sweden as an increasing number of Swedes cross borders to buy cheap alcohol. The Swedish Government is losing massive revenues from the state monopoly as domestic sales continue to decline. A government commission has prepared a 30% cut in liquor duties, but no final decision will be made before the end of the year.

Table 4. The Swedish Alcohol Tax on Wines on January 1, 2004

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 exemptions from many of the EU's more liberal alcohol laws. As of January 1, 2004, Swedish travelers will be allowed to bring home practically an unlimited volume 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, their only option is to request that Systembolaget bring it in on their behalf, which is time consuming and expensive.

In October 2003, the European Commission formally asked Sweden to lift the ban on independent intermediaries. In its reply, Sweden maintained that the ban on private imports of alcoholic beverages is in compliance with European law since it is an integral and non-discriminatory part of the Swedish state's retail monopoly for alcoholic beverages and since it is necessary for the protection of public health. The Commission believes that an individual residing in Sweden should not be precluded from purchasing products available on the market in other Member States and has decided to bring Sweden before the European Court of Justice. The Commission believes that the ban represents a disproportionate obstacle to the free movement of goods in contravention of EC Treaty rules.

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 shook Swedes' confidence in Systembolaget. Almost 90 employees at Systembolaget were suspected of accepting bribes from suppliers to push 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 case has been turned over to the public prosecutor and the investigation continues. 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 hours of operation. 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 and 15 percent.

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 in December 2003 (Council Regulation 1037/2001). On December 17, 2003, the EU Agriculture Council approved a two-year extension to the U.S. derogation on wine-making practices, until December 31, 2005 at the latest or until the entry into force of a bilateral agreement (Council Regulation 2324/2003). Two additional derogations on labeling (Commission Regulation 2303/2003) and documentation (Commission Regulation 2338/2003) were also extended until December 31, 2005 (also see GAIN report E23247).

In May 2002, the European Commission adopted new rules for the labeling of wine (Commission Regulation 753/2002). These rules lay down what information must be shown on wine labels and regulates the use of certain optional terms such as productions methods, traditional expressions, names of the vineyard and vintage year. The new regulation was originally scheduled to enter into force on January 1, 2003, but was postponed until February 1, 2004, to allow third country wine producers to comply with the new EU wine labeling requirements. Regulation 753/2002 has been amended by Commission Regulation 1991/2004 to incorporate the provisions on allergen labeling established by Directive 2003/89/EC. Starting November 25, 2005, alcoholic beverages containing sulphur dioxide and sulphites at concentrations of more than 10 mg/kg or 10 mg/liter must be labeled "contains sulphites" or "contains sulphur dioxide" (more information in GAIN report E34093).

On February 23, 2004, the European Commission published a set of amendments (Commission Regulation 316/2004) to respond to a number of concerns raised by the U.S. and other non-EU wine-producing countries. In an effort to conform with international commitments under the TRIPs Agreement, the EU has adopted new conditions for the use of traditional expressions on wine labels by third countries. Regulation 753/2002 established a system of two categories of traditional expressions to designate quality wines. The first category contained expressions that could be used by third countries under certain conditions while the second category included expressions exclusively reserved for EU wines. Regulation 316/2004 simplifies this system by merging the two categories into one single category and third countries will be allowed to use them under very strict conditions.

Please refer to the following website for more information on EU import regulations: www.useu.be/agri/usda.html

Marketing

There is a potentially strong growth market for quality wines in Sweden. The considerably lower exchange rate for the dollar is fueling new interest in U.S. wines. Exporters to this market should consider emerging 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 Swedish Government has been preparing a new strict legislation on alcohol advertising. For example, people are not be allowed to appear in the advertisement, which is also required to include warning texts, and ads cannot target people under the age of 25. The new law came into force on January 1, 2005.

The fact that advertisements have been banned in public media has made journalists writing about wines in newspapers and magazines more influential than their colleagues in other countries. Weekly or bi-weekly newspaper and magazine articles by wine journalists 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 participation in wine exhibitions and tastings, developing programs for California winery tours, distributing promotional and informational 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 promotes wine appreciation. The most notable is Munskankarna, which was formed 40 years ago. It has more than 10,000 members with branches throughout Sweden. Another prominent wine society is Stockholm's Vinsallskap 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 EU 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 major Stockholm hotels.

STATISTICAL INFORMATION

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

Prices Table

Country Sweden

Commodity Wine

Prices in	SEK	per uom	Liter	
Year	2002	2003	% Change	
Jan				
Feb				
Mar				
Apr				
May				
Jun				
Jul				
Aug				
Sep				
Oct				
Nov				
Dec	24.1	24.6	2%	
Exchange Rate	6.713	Local Currency/US $		
Date of Quote	12/22/2004	MM/DD/YYYY		

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

Import Trade Matrix

Country	Sweden		
Commodit	Wine		
Time Period	CY	Units:	1,000 L
Imports for:	2002		**2003**
U.S.	979	U.S.	1,415
Others		Others	
Italy	30867		29,597
Spain	21534		20,863
France	19465		19,493
Chile	11484		11,476
South Africa	4978		10,882
Germany	8921		10,460
Australia	6279		7,498
Hungary	2208		2,059
Portugal	2106		1,884
Total for Others	107131		114212
Others not Liste	19757		45771
Grand Total	127867		161398

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

Export Trade Matrix

Country	Sweden		
Commodit	Wine		
Time Period	CY	Units:	1,000 L
Exports for:	2002		**2003**
U.S.	1	U.S.	1
Others		Others	
Norway	1591		4080
Denmark	307		713
Finland	392		699
Estonia	234		189
Germany	2		120
United Kingd	57		53
Czech Republ	13		24
Total for Others	2596		5878
Others not Liste	178		907
Grand Total	2775		6785