

WINE IN THE LAND OF THE MIDNIGHT SUN

Since Norway signed the European Economic Agreement in 1994, the number of brands available on the market has risen from just 500 to over 10,000. At the same time Norwegians are trading up in both quality and price, as Arne Ronold MW discovers.

Wine consumption in Norway has risen steadily over the past 25 years from four litres per head in 1982 to 17 litres in 2006. Although the sale of wine has been organised through the state monopoly, Vinmonopolet, since 1922, the market has changed significantly in the last ten years. This has been driven primarily by the European Economic Agreement (EEA) between the European Union and the former European Free Trade Association (EFTA) countries Norway, Iceland and Lichtenstein.

The big players

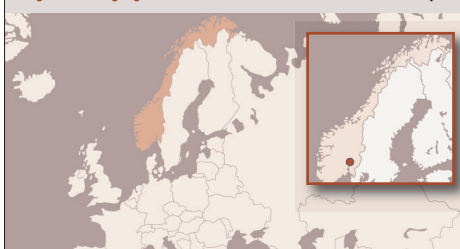
Until 1996, the Vinmonopolet held, as the name implies, a monopoly position on the import, production and sale of alcoholic beverages above 4.7% alcohol by volume. As a consequence of the EEA, however, the monopolies on import and production were abolished 11 years ago. Since then, Vinmonopolet has held its monopoly position only on the retail side and now sells around 85% of wine. Today, there are approximately 200 private importers who sell directly to the on-trade, the remaining 15% of the market, and to private customers through Vinmonopolet's 215 retail outlets.

The former production part of Vinmonopolet was privatised under the name of Arcus. Today, Arcus is one of the two major players in the Norwegian wine market (Table 1) and the only importer to handle bulk wine for bottling and production of Bag-in-Box (BiB) within Norway.

Vinmonopolet, on the other hand, is completely owned by the Norwegian state. It is considered one of the most important instruments of the national

Norwegian alcohol policy, which attempts to limit alcohol consumption by regulating access to liquor. However, according to managing director Kai Henriksen, it is equally important to ensure its own legitimacy within the general public: "In order to achieve this,

1	Benchmark Data	www.no
Inhabitants:		4,627,926
GDP:		\$213.6/€153.9 billion
Currency:	Norwegian kroner NOK (NOK1 = \$0.18/€0.13)	
Per head wine consumption:		17 litres
Total wine consumption:		53m litres (as at 2005)
Legal drinking age:		18 wine and beer/20 spirits



Vinmonopolet places emphasis on being an efficient, service-minded chain of specialist shops, which manages the exclusive right to sell wine, spirits and strong beer via 215 retail outlets throughout Norway. It has a social policy, but no private profit interests."

In accordance with the EEA, Vinmonopolet must ensure that all suppliers and products have access to the market on equal terms and conditions. This has led to a significant change in market accessibility. Prior to 1996, the wines listed at the Vinmonopolet were chosen exclusively by the buyers and the total number of different brands available at that time was approximately 500. Today, there are

several ways to gain access to the market and currently some 10,000 wines available. The buyers at Vinmonopolet still decide on most of the listings in the main catalogue through tenders, and these wines obviously get good distribution in the retail shops. Importers can, however, also offer other wines through the so-called "additional order list". This list comprises wines available from the importers, but not generally available in the monopoly shops. If a wine in the additional order list achieves a certain volume of sales over a period of time, it will be transferred to the main list.

Red wine dominates

Wine sales in Norway are approximately 75% red and 25% white. This compares to a 50/50 ratio in the UK. Some people claim the dominance of red wine is a consequence of the climate. It's certainly true that white wine sales are more significant in the summer period and in the southern part of Norway. Relatively speaking, then, red wines sales are higher during the winter period and in the north. In general, wine sales are highest in the Oslo area, followed by Stavanger and Bergen. One peculiarity of the Norwegian wine market is that about 50% of the wine is sold in BiBs, mostly of the 3-litre size.

How wine is priced

Wine prices in Norway are fairly high, mostly due to the high taxes on alcoholic beverages. For wine, the alcohol tax rate is currently NOK 3.74 (\$0.64/€0.47) per litre and degree of alcohol by volume. Vinmonopolet's mark-up comprises a flat rate of NOK 3.75 per 75cl bottle plus a percentage of the delivered duty unpaid

(DDU), with a total maximum limit of NOK 75. Given the strong competition, most importers operate with a relatively modest mark-up. Together with the limited monopoly mark-up for high quality wines, this results in comparatively modest prices at the top end of the market. Generally speaking, inexpensive wines are very expensive in Norway and very expensive wines are often less expensive than in most other countries. As an example, the Amarone from Romano Dal Forno currently sells at NOK 1990 (\$340/€250) in Norway. In London, when available, the price can be 50% higher. Note that the ex-cellar price and the importer's mark-up are the two factors the producer and importer can vary in order to determine the final list price.

Common price points are NOK 69.90, 79.90, 89.90, 99.90 and so on. Given the general price structure, NOK 69.90 (\$12/€8.75) per bottle is used to achieve big volumes. An example is Marques de Monistrol, who, through aggressive pricing at NOK 69.90 in recent years, has overtaken Freixenet to become the leading Cava brand from Spain. However, according to Rolf Gathe from Vinarius, a medium size importer, the most critical price point is NOK 99.90 (\$17/€12.50). "We see a significant change in sales if we move the price from NOK 99.90 per bottle to just over NOK 100," he says, which is borne out by the statistics from

QUOTE UNQUOTE

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Christopher Moestue

Christopher Moestue, owner of Moestue Grape Selections, one of the successful importers in the Norwegian quality wine segment.



Vinmonopolet showing that 80% of wine sold in Norway is under 100 NOK. For 3-litre BiBs the most important price points are NOK 299.90 and 319.90.

Leading brands and importers

The common feature of all the best selling brands (Table 4) is that they are available in BiB. Some of them are only available in BiB, while others are available in both BiB and bottle. If a producer or importer's aim is to compete among the top volume sellers, it is thus essential for them to have the wine available in BiB.

V & S Norway and Arcus are the two largest companies by volume among the importers. V & S Norway was formerly known as Amundsen and jointly owned by the Amundsen family and the Swedish V & S Group. Since 1st April of this year, V & S has been the sole owner. At the time of the takeover, the entire Australian portfolio of Foster's was transferred to V & S, a move that made it the largest player on the Norwegian wine scene, a position formerly held by Arcus. Like Arcus, V & S is also big on BiBs, but currently do all the packaging in Denmark.

Among the other large importers, Ekjord is responsible for J. P. Chenet and Engelstad for Viña Maipo. Brand Partners is partly owned by Pernod Ricard.

The shape of the market

With 50% of sales being BiB, bulk wine is a significant part of the market, although by volume less important than in Denmark, Sweden and the UK. The international research programme BiB Performance has resulted in a clear recommendation to do the packaging as close to the market as possible, according to Frithjof Nicolaysen, vice president of Arcus. This is primarily to maintain wine freshness and secure shelf life. "We see a clear advantage of doing the BiB packaging of wines from Australia and America in Norway," he says.

2 Leading importers*

Name	Market share, in %
V & S Norway	10.1
Arcus	8.3
Ekjord	6.4
Engelstad	5.4
Brand Partners	4.7
Red & White	4.7
Strøm	4.5
Best Buys	4.1
Euowine	3.8
Vectura	3.3

3 Red wine sales*

Country	2000	2005	2006
Italy	588,736	999,142	1,090,775
France	754,974	915,532	917,765
Spain	586,092	748,732	765,210
Australia	220,804	461,578	484,287
Chile	664,436	431,618	372,889
Argentina	22,210	261,321	318,809

*by value at Vinmonopolet, in NOK, rounded up to nearest whole number; in 1000s NOK
Norwegians prefer red wine to white wine, which may have to do with Norway's rugged climate. The number of red wine brands has exploded since the European Economic Agreement, from 500 to over 10,000. France and Germany dominate the white wine market.

4 Top ten brands at Vinmonopolet 2006

Brand	Country	Volume*
J.P. Chenet Cabernet-Syrah	France	1 899
Lindemans Shiraz Cabernet	Australia	1 252
La Boisélière	France	965
Gato Negro Cabernet	Chile	865
Chapelle du Bois 2005	France	858
Viña Maipo Cabernet	Chile	710
Soñador 2005	Argentina	657
Mezzomondo Negroamaro	Italy	652
Tariquet 2005	France	602
Marqués de Chivé Crianza	Spain	579

*in 1000 litres

*Table wine by volume, January-June 2007

SOURCES: VINMONOPOLET

Among both producers and consumers, BiBs have to some extent been associated with lower quality wine, but this is gradually changing. Today, even wines like Chablis and Sancerre are available in BiBs. Nicolaysen is very clear on this: "Our aim is to put higher quality wines into BiB."

As in many other countries, the New World has gained market share in recent years (Table 2), but is still a minor player with less than 30% of overall sales. Despite increasing sales of Australian and Argentinean wines, the New World market share actually fell from 2005 to 2006, mainly due to reduced sales of Chilean and South African products. It is worth noting that just 58% of the sales of Chilean reds are done by two brands, Gato Negro and Viña Maipo. Similarly, two brands, Dunavar Chardonnay and Chapel Hill Rhine Riesling Sauvignon Blanc, make up more than 90% of the Hungarian white wine sales.

Italy, France and Spain are the three largest players when it comes to red wines, collectively accounting for 58% of sales. Italy overtook France in 2006 as the leading source of red wines, and it is interesting to note that the average price paid for an Italian red wine is actually higher than for a French red wine, which is not the case in many markets. Moreover, the region of Piedmont is not only outperforming Bordeaux, but the average price paid for a bottle of red wine from Piedmont is higher (NOK 145/\$24.80/ €18.20) than that paid for a red Bordeaux (NOK 130).

Germany and France dominate the white wine sector, holding a 64% share of the market.

Trading upwards

Although German white wine was long dominated by cheap, sweeter style wines like Liebfraumilch, dry German Riesling is undergoing a revival and sales have increased more than tenfold from 2003 to 2006. Over the same period, the average price paid for a bottle of German white wine has significantly increased. When it comes to white wines from France, Burgundy holds the lead, with Chablis being the top seller, but the

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Kai Henriksen is the managing director of Vinmonopolet, the state-owned monopoly that controls retail distribution in Norway. It is one of the most important instruments of Norway's national alcohol policy, which attempts to limit alcohol consumption by regulating Norwegian access to liquor.



Loire has increased sales by more than tenfold in just five years. Here, Sancerre is the big name. Alsace has also seen a sharp rise in sales in recent years.

With a flourishing economy, the Norwegians are trading upwards in wine quality and price. At the quality end of the wine market, the Old World dominance is even more significant than in the overall picture.

Sales of Champagne have more than doubled in just four years and, today, Norway is one of the largest buyers of the German Grosses Gewächs or Grand Cru. As in many other countries, rosé is also booming, albeit with a minor share of the total market.

One of the more successful importers in the quality wine segment is Moestue Grape Selections. Owner Christopher Moestue is very clear in his strategy.

"Europe is holding up in the quality market," he says, "and the classic regions will consolidate their position over the coming years. Our focus will continue to be on such wines from these areas."

Moestue has been at the forefront of the positive development for dry German Rieslings in recent years and continues to put emphasis on that market segment.

"Despite the phenomenal increase in sales of dry German Riesling," he says,

"we still believe there is a potential for further growth."

A ban on advertising

Another feature of the Norwegian market is the total ban on advertisements for alcoholic beverages. The highly regulated Norwegian market limits the possibilities for promotional activities so that most countries choose to arrange public tastings to show their wines. The most active are Austrian Wine Marketing and the Portuguese ICEP, followed by the Italians (ICE). The French Sopexa, on the other hand, which handles the Norwegian market through its office in Copenhagen, is noticeable by its absence. An interesting consequence of the ban on advertising, and the inability of producers to buy shelf space in the retail outlets, is that the market share of the major brands is currently decreasing in Norway, while the opposite is true for the British market. A court decision in Sweden recently resulted in the legalisation of alcohol advertisements in that country. For that reason the ban on advertising in Norway is currently under legal dispute and a case will be heard at the Norwegian superior court in 2008.

It is often argued that wine writers are more important in Norway than in most other countries, as the lack of advertising limits the flow of information. In any case, wine writers – Tom Marthinsen at Dagens Naeringsliv, Geir Salvesen at Aftenposten and myself as editor of Vinforum magazine – are known to have a significant impact on wine sales.

The future

There are currently no signs of slow down and most people in the trade expect the current trend of steady growth to continue in the foreseeable future. With a bright economic outlook, the current upward shift in both quality and price is also expected to continue unabated. However, the high Norwegian taxes on wine lead to significant cross-border shopping, especially in Sweden, and the Norwegian government is under pressure to reduce taxes. If this becomes a reality, the growth in wine consumption might increase even faster. ■