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Retail Food Sector

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Report Highlights:

The consolidation and restructuring of the Nordic food retail sector offers new interesting opportunities in terms of volumes and diversity of products being demanded. Best products prospects include fish and seafood and convenience food and beverages which appeal to the health conscious. Additionally, the market is expanding for international and ethnic cuisine, including foods that are uniquely associated with the various regions of America. Major current impediments to U.S. sales include consumer resistance to products containing genetically modified (GMO) ingredients. The strong dollar, which has also been a major impediment, has weakened considerably.

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Table of Contents

SECTION I: Market Summary	3
Sweden and Finland.....	3
Advantages and Challenges Facing U.S. Products in Sweden and Finland.....	4
SECTION II: Road map for market entry	4
A. Supermarkets, hyper-markets or super centers, club and warehouse outlets.....	4
Market Structure	5
Company Profiles - Sweden	5
Sweden – Major Food Retail Profile	7
Company Profiles - Finland	7
FINLAND – Major food retail profile	9
B. Convenience Stores, Gas marts and Kiosks	10
Entry Strategy.....	10
Market Structure	10
Company Profiles - Sweden	11
Gas Marts in Finland.....	11
C. Traditional markets – Small Independent Grocery Stores.....	12
SECTION III: Competition.....	12
TABLE A: Sweden’s import of Consumer-Oriented Agricultural Products in 2002..	12
TABLE B: Finland’s import of Consumer-Oriented Agricultural Products in 2002 ..	13
SECTION IV: Best product prospects	13
A. Products present in the market with good sales potential:	13
B. Products not present in significant quantities that have good sales potential:	14
C. Products not present because they face significant barriers:.....	14
SECTION V: Post contact and further information.....	14

SECTION I: Market Summary

Sweden and Finland

Economic growth in both Sweden and Finland has strengthened domestic demand for high-value consumer-ready products. However, the recent slowdown in both world and local economies inserts some caution concerning future consumer spending habits. Thus far, however, retail food sales have remained high and further growth is expected.

The food retail sector in these markets are largely integrated and concentrated. In both Sweden and Finland, the three largest import/wholesale groups in each country cover about 80% of their markets.

The restructuring of the Nordic retail food sector continues as pan-Nordic mergers and cooperative agreements seek to achieve greater efficiencies and economies of scale to fend off other European competitors. The Swedish and Finnish retail chains are meeting the intensifying competition by increasing efficiency by centralizing purchases, international alliances and expanding their operations in the Nordic and Baltic countries. In such concentrated markets where retailers have such large market shares, growth in the home market becomes virtually impossible. Going abroad, therefore, becomes the only possible road to growth and the Swedish and Finnish retailers are being pressured into finding new and larger forms of cooperation and mergers at an international level.

The fastest growing "concept" in the food retail trade in Sweden and Finland is discount stores. Although discount stores currently account for only 13 and 10 percent in Sweden and Finland respectively, volumes have tripled over the last ten years. Growth figures are showing no signs of leveling off, and this, of course, has stirred interest among foreign players to enter the domestically dominated Nordic food retail market. The German hard discounter Lidl has started an explosive market entry into the Nordic countries. The chain entered the Finnish market in August 2002 and the Swedish market in September 2003, with expansion in Norway and Denmark set for next year.

The trend throughout Europe of fewer but larger players continues. In 2002, 75% of Swedish retail food sales of approximately USD 19 billion went through large supermarkets and hypermarkets. In Finland, the 375 largest stores accounted for half of total retail food sales of USD 12 billion in 2002. There were 6,060 food retail outlets in Sweden in 2002 compared to 13,000 in 1970. In Finland, there were 4,163 outlets in 2002, which was slightly fewer than the previous year.

Swedish and Finnish consumers are gravitating towards fresher, more convenient and more nutritional foods. High demands are being made on food quality, origin and environmental concerns. The ongoing socio-demographic changes with busier life styles and increasing single-person households are affecting food retailing to a high degree. Retailers are shifting their product ranges towards an increasing share of ready-to-eat foods and home meal replacements. Eating out is growing faster than traditional retail sales. Both in Sweden and Finland, about 20 percent of meals are currently eaten out of the home. Fast food is the segment benefiting most from these trends, and it is now a rapidly growing part of the traditional restaurant sector. American-style fast food chains, sushi bars and coffee shops are extremely popular in these markets.

Organic and functional foods are gaining popularity in these markets with significant consumer awareness in the area of food safety and healthy eating habits. Consumers are willing and able to pay higher prices for food and drink products that fall into these

categories. Also, through increased traveling and willingness to move away from their culinary traditions, Swedish and Finnish consumers are more open to ethnic foods.

Despite the facts that the Nordic countries maintain a leading position when it comes to computers per capita, and that many consumers are attracted by the thought of doing their food purchases from a computer, internet sales of retail food products have been limited. The positive outlook that the major retailers had a few years ago regarding this sales vehicle has changed, and the list of retailers terminating their websites is long. Currently, there are only a few profitable Internet operators in food distribution in Sweden and Finland.

Advantages and Challenges Facing U.S. Products in Sweden and Finland

Advantages	Challenges
Sophisticated markets. High acceptance of new products and concepts. U.S. products are considered high quality and trendy.	U.S. products at a price disadvantage compared to competitors based in the European Union.
Growing consumer demand for value-added products, convenience foods, international/ethnic cuisine, "functional" and organic foods.	High distribution and shipping costs.
Location gives access to a Nordic/Baltic market comprising 25 million consumers spending about USD 45 billion annually on food, beverages and meals out.	Strong hesitation with respect to genetically modified products and no access for hormone-treated beef from the U.S.
High standard of living, well-educated workforce, growing incomes. English is widely spoken.	Strong dollar in 2002 was negatively affecting U.S. sales.

SECTION II: Road map for market entry

A. Supermarkets, hyper-markets or super centers, club and warehouse outlets

As stated above, these markets are dominated by a few import/wholesale/retail groups, and therefore, U.S. exporters have a relatively easy job of locating potential buyers. However, for the same reason, it may be difficult to get in the door. Depending on the product and the quantities, there are different ways for the American exporter to penetrate these markets:

- retailers/wholesale groups (large quantities)
- specialized importers/distributors (niche and select brand name and private label products)
- agents (products with strong brand names)

Market entry strategies for U.S. food products should include:

- Market research in order to assess product opportunities and existing competition.
- Advance calculation of the landed cost of a product in order to make price comparisons vis-a-vis competitors.
- Locating an experienced distributor or independent reliable agent with strategic distribution channels to advise on import duties, sanitary regulations, and labeling requirements. It is advisable to initiate personal contact in order to discuss marketing

matters such as funding for advertising, slotting allowance, in-store promotions and tasting events. Suppliers may also want to consider trade fair participation to raise awareness of their products.

- Exploration of the purchasing arrangements of the larger retail chains.
- Consider using USDA's Supplier Credit Guarantee program to make credit terms more attractive to importers.

Market Structure

The Swedish and Finnish retail food industry has long been characterized by stable structures and a low degree of internationalization. However, this picture began to change in 1999 when the Netherlands's retail food giant Ahold took over a 50% interest in Sweden's leading retailer ICA. Subsequently, there has been a wave of consolidations among the Nordic retailers and the companies are becoming more Nordic than domestic in their perspective.

Looming international competition has increased the role of volume dynamics in the food retail sector in the Nordic market. All the major players are seeking to minimize their costs by coordinating central purchasing and taking advantage of the economies of scale. Also, the Nordic retailers are aggressively promoting the development of private label product lines.

The general trend remains unchanged in Sweden and Finland, with hypermarkets and large supermarkets increasing sales volumes, while small and medium-sized stores lag behind. The number of retail outlets continues to decrease, although at a somewhat slower pace.

The discount stores continue to gain market shares in Sweden and Finland. In 2002, there were 365 discount stores in Sweden which accounted for 13% of total sales, compared to 3% in 1990. Discount stores have not been developed as extensively in Finland as in Sweden. However, this scenario is about to change with the market entry of German hard discounter, Lidl, into Finland in August 2002. Since opening up their first outlets, Lidl has grabbed a 2.5% market share and has about 40 outlets. The chain has aggressively targeted the Nordic countries and is now moving into Sweden with the opening of 11 stores in September 2003. Establishments in the Norwegian and Danish markets have been projected for quite a while and operations are expected to begin in 2004.

The Nordic retailers have been gearing up for Lidl's entry in the market and are opening up their own discount units and increasing the number of products sold under their own label, which offer better margins. Axfood, the main player in the discount sector in Sweden, has started up "Willys Hemma" stores, a Swedish version of Lidl's outlets. Sweden's major retailer, ICA Ahold, and leading Danish retailer, Dansk Supermarked, combined forces in a 50/50 joint venture to operate Netto discount stores in Sweden and Norway. So far, 25 Netto stores have been opened in the South of Sweden and more locations in Sweden are expected during 2004.

Company Profiles - Sweden

The Swedish wholesale and retail food market is dominated by four groups, ICA, Axfood, Coop and BergendahlsGruppen, accounting for about 80 percent of the commodity retail market. Each group has developed a tight integration of purchasing, importing, wholesaling, distribution and retailing. Imports of foods are either handled by the chains themselves or through specialized importers and agents. ICA and Coop are also engaged in joint Nordic buying groups.

Nordic expansion has been high on the agenda for the three major Swedish food retailers. The formation of Coop Norden in 2002 was the Swedish cooperative movement's first step toward working on a pan-Nordic basis. ICA, in turn extended its Nordic cooperation by entering into a joint venture with Dansk Supermarked and Axfood strengthened its ownership in Spar Finland in 2002.

ICA Ahold is the Nordic region's largest grocery retail group. Although most of its stores are located in Sweden and Norway, the chain is now expanding its interests into Denmark and the Baltic countries. In 1999, the Netherlands' retail food giant Ahold acquired a 50-percent stake in ICA. A merger between ICA and the Norwegian Hakon Group had been implemented earlier in 1999. In 2001, a joint venture between ICA Ahold and the leading Danish retailer Dansk Supermarked was formed. The 50-50 venture operates discount stores and hyper-markets in Sweden and Norway. ICA Ahold operates about 1,858 outlets in Sweden (ICA Nara, ICA Supermarket, ICA Kvantum, ICA Maxi, Rimi), and the operations center is located in Vasteras. ICA stores accounted for 36.5% of Sweden's retail food sales in 2002.

ICA Ahold is present in all three Baltic countries and intends to grow in the Baltics. Reportedly, ICA and Finland's largest retailer, Kesko, is planning joint retail food operations in the Baltics. The new entity will combine the retailers' current operations in Estonia, Latvia and Lithuania. The planned arrangement supports ICA's and Kesko's strategies for a strong growth and profitability in the Baltic countries. The joint venture aims at reaching the market leader position in the Baltic food market and a 25% market share in three years.

COOP Norden is the result of a merger of three Scandinavian cooperatives; Coop Sweden, Danish FDB and Coop Norway. Coop Norden is estimated to have a turnover of USD 8 billion, a 30% market share of the Nordic market and 26,000 employees. Coop Norden established its headquarter in Gothenburg, Sweden and started operations there on January 1, 2002. The increase in competition from large international chains and the pace of changes in the industry prompted this merger of cooperatives. Through the merger, the three cooperatives believe they can face these challenges by benefiting from larger buying volumes, efficiencies in distribution, a common business development strategy and lower costs for information technology. Coop Norden owns the biggest share of NAF International, a buying company located in Denmark, which represents retail cooperatives in the Nordic countries and other European countries. In Sweden, Coop operates about 914 outlets (supermarkets, hypermarkets, discount outlets) and accounted for 18.5% of Sweden's retail food sales in 2002.

Axfood AB was formed in November 1999 through the merger of Hemkop and D&D Dagligvaror and the subsequent acquisitions of Spar Sverige, SparInn Snabbgross and a 60% of the share capital in Spar Finland. The new organization became one of the largest food retail operations in the Nordic countries. Axfood has 918 stores in Sweden (Hemkop, Willys, Willys Hemma, Spar, Tempo, Vivo) and 296 stores in Finland (Spar, EuroSpar). In 2002, Axfood had a market share of 18.2 percent and 9 percent in these countries, respectively.

BergendahlsGruppen AB is a regional group with a strong base in the Southern part of Sweden where the market share is about 20%. Bergendahls has a total of 116 outlets (food retail, discount, supermarkets) and a market share of 2.4%. In 2002, BergendahlsGruppen entered the Stockholm market with two outlets, Eko Lanna and City Gross. The City Gross outlets have, in general, a sales area of 7,000-12,000 square meters. Bergendahls operates totally five City Gross outlets of which one is Sweden's largest food store.

Sweden – Major Food Retail Profile

Retailer/Type of Outlet	Ownership	Sales CY02 (\$ Mill)	No. of Outlets	Location	Mkt Share	Purch/ Agent Type
ICA Ahold - food retail - discount stores - gas marts/convenience - supermarkets - hyper-markets	Swedish/ Norwegian/ Dutch	7,361	1,858	Sweden Norway Denmark Estonia Latvia Lithuania	36.5	Direct/ importer/ wholesaler
Coop - food retail - gas marts/convenience - supermarkets - hyper-markets - department stores	Swedish Norwegian Danish	3,727	914	Sweden Norway Denmark	18.5	Direct/ importer/ wholesaler
Axfood - food retail - convenience - discount stores - supermarkets - gas marts/convenience	Swedish/ Finnish	3,667	918	Sweden Finland Norway Denmark	18.2	Direct/ importer/ wholesaler
BergendahlsGruppen - food retail - discount stores - supermarkets	Swedish	1,498	107	Southern Sweden Stockholm	2.4	Direct/ importer/ wholesaler

Company Profiles - Finland

A few central wholesale organizations (K-Group, S-Group, Tradeka/Elanto, Spar Group, Wihuri and Stockmann) together dominate the food industry with an aggregate market share of nearly 95%. These chains have closely knit wholesale and retail arrangements comprising a compact and efficient goods delivery system and a nationwide network of retail shops as well as department stores and supermarkets. They also have hotel and restaurant chains and catering services. The centralized system makes distribution economical, and purchases from abroad can be made in feasible quantities considering the relatively small size of the market. Almost one-third of the total wholesale trade in Finland goes through these wholesale organizations.

KESKO is the leading trading company in Finland. It consists of the parent company Kesko Ltd. and its four subsidiaries of which Kesko Food Ltd. is the largest. The key businesses of

Kesko Food Ltd. are the chain operations of the K-Food stores, catering sales to HRI customers and wholesaling and retailing in the Baltic countries. The K-food stores are privately owned and buy most of their products from the Kesko wholesale organization. Centralized purchasing gives competitive advantages by creating volume and synergy benefits. Also, Kesko works in cooperation with major European food chains in AMS (Associated Marketing Service). The total sales of the Kesko-affiliated retailers accounted for 36% of retail food sales in Finland in 2002. The K-Group operates about 1,106 outlets (Citymarkets, K-Supermarkets, K-markets, K-Extra, K-Pikkolo, Rimi chains).

Kesko continues to aggressively expand its operations in the Baltic countries. As mentioned earlier, Kesko and ICA recently combined forces in a 50/50 joint venture to operate retail food stores in the Baltics. Both retailers have identified the Baltic region as a driver for future growth and is aiming at a 25% market share in the next three years.

S-GROUP

The S-Group and Tradeka/Elanto Group represent the cooperative movement in Finland. The S-Group consists of member-owned regional cooperative societies and their subsidiaries and the Finnish Cooperative Wholesale Society (SOK). In June 2003, the S-Group's largest regional cooperative, HOK and Elanto merged into a new cooperative, Helsingin Osuuskauppa Elanto. The new cooperative society will begin operations in 2004 and become a part of SOK. Consequently, Elanto will end its cooperation with Tradeka. The S-Group operates Citysokos department stores, S-Market supermarkets, Prisma hypermarkets, Sale and Alepa grocery stores, hotels and restaurants, service stations, hardware and agricultural stores as well as several specialty stores. The S-Group's grocery store chains, Prisma, S-market and Sale/Alepa have, during recent years, been extremely successful. This success can be measured by a market share increase from 15.9% in 1990 to 31.1% in 2002. Through its subsidiaries and associated companies, the S-Group also conducts food trade in the Baltic countries.

INEX PARTNERS OY is a joint venture owned on a fifty-fifty basis by the S-Group and Tradeka/Elanto. Inex Partners OY specializes in the sourcing of groceries and the provision of logistic services for the retail chains operated by the S-Group, Tradeka and Elanto.

SPAR Finland is a subsidiary of the Swedish food retail company Axfood AB. At year-end, the parent company held 69.3% of Spar Finland's share capital. The Spar Group comprises 296 retail outlets (Eurospar, Spar) of which 79 are owned by Spar Finland. In 2002, Spar Finland had a market share of 8.1% compared to 8.6% in 2001.

LIDL the German hard discount chain entered the Finnish market by simultaneously opening up ten outlets around the country in August 2002. Today, Lidl has 40 outlets and further expansion is planned throughout Finland. According to a market survey, Lidl's products are priced at about 10-15% below the average Finnish food prices and about 80% are private label products. Lidl's entry into the Finnish food has undoubtedly increased the competition in the Finnish retailing sector and is a player to take into account. Since opening up their first outlets in August 2002, Lidl has grabbed a 2.5% market share in Finland, pressing prices at about the same rate.

FINLAND – Major food retail profile

Retailer/Type of Outlet	Ownership	Sales CY02 (\$ Mill.)	No. of Outlets	Location	Mkt Share	Purchasing/ Agent Type
Kesko (K-Group) - hyper-markets - department stores - supermarkets - self-service - small shops	Finnish	3,754	1,106	Finland Sweden (hardware) Estonia Latvia Lithuania	36.0	Direct/ importer/ wholesaler (Ruokakesko)
S-Group - hyper-markets - department stores - supermarkets - self-service - small shops	Finnish	3,241	652	Finland Estonia Latvia Lithuania	31.1	Importer/ wholesaler (Inex)
Tradeka/Elanto - hyper-markets - department stores - supermarkets - self-service - small shops	Finnish	1,345	594	Finland Estonia Latvia Lithuania	12.9	Importer/ wholesaler (Inex)
Spar Group - department stores - supermarkets - self-service - small shops	Swedish Finnish	843	296	Finland Sweden	8.1	Importer/ wholesaler (Tuko Logistics)
Wihuri - supermarkets - hypermarkets - small shops	Finnish	552	564	Finland	5.2	Importer/ wholesaler (Tuko Logistics)
Stockmann - department stores	Finnish Finnish	151	6	Finland Estonia Latvia Lithuania Russia	8.1	Importer/ wholesaler (Tuko Logistics)

B. Convenience Stores, Gas marts and Kiosks

Entry Strategy

The convenience sector offers more limited opportunities for the U.S. exporter, but certain products could sell well via such outlets. Most of the convenience stores belong to established retail chains, and the same large wholesalers/retailers are suppliers to the convenience sector. Gas marts are either affiliated with gasoline companies or with the large retail food distribution groups. New-to-market exporters should target this sector in the same way as described under the entry strategy section for supermarkets.

Market Structure

As in the retail food sector, there has been a wave of consolidations and mergers among the Nordic players over the last years. In Sweden, the six largest players in the convenience sector, ICA, Coop OKQ8, Shell, Reitan Narvesen, Axfood and Preem accounted for USD 1.7 billion SEK or 52% of total sales of grocery products in the convenience sector.

Gas marts continue to gain market shares in Sweden and Finland. Fast food is the concept that is expanding the most in gas marts. In 2002, total sales of grocery products in gas marts in Sweden amounted to USD 1.2 billion, or 6% of total retail food sales. In Finland, sales reached USD 376 million in 2002.

Convenience stores have been in a continued decline for the last couple of years, mostly due to tough competition from gas marts. However, the extension of opening hours for stores of under 400 sqm in Finland in 2001, has been somewhat of a renaissance for small convenience stores. Several of the large Finnish retail chains have started operations with a network of small shops. These stores are especially popular in larger cities, where time-pressured lifestyles predominate.

Kiosks offer limited items such as snacks, sweets, cigarettes and magazines. The Rautakirja R-Kiosk is the leading kiosk chain in Finland, where kiosks still have 3.5% of total grocery sales. The chain comprises a total of 769 R-kiosks in Finland and over 200 in Estonia. Rautakirja's involvement in Latvia derives from its 50% holding in Narvesen Baltija SIA. Narvesen Baltija is jointly owned by the Norwegian Reitan Narvesen and operates around 450 kiosks in Latvia. In 2002, total sales of grocery products in kiosks in Finland amounted to USD 401 million.

Company Profiles - Sweden

Major Gas Marts and convenience stores in Sweden

Retailer Name/ Outlet Type	Ownership	2002 Grocery Sales (US\$ million)	No. of Outlets	Location	Purchasing Agent Type
Statoil, gas mart	Statoil/ICA (Norwegian/Swedish)	463	550	Sweden, Norway, Denmark	Wholesaler/Importer (ICA)
OK/Q8, gas mart	Swedish/Kuwait Petroleum	300	578	Nationwide	Wholesaler/Importer (Axfood)
Select, gas mart	Swedish Shell (Dutch/Swedish)	258	291	Nationwide	Wholesaler/Importer (Axfood)
Preem, gas mart	Saudi/Swedish	111	171	Nationwide	Wholesaler/Importer (Axfood)
Pressbyran, convenience	Reitan/Narvesen (Norwegian)	223	320	Sweden, Norway, Latvia	Wholesaler/Importer (ICA)
Handlarn, convenience	Axfood (Swedish)	144	225	Nationwide	Wholesaler/Importer (Axfood)
7-Eleven, convenience	Reitan /Narvesen (Norwegian)	68	70	Sweden, Norway, Denmark	Wholesaler/Importer (ICA)
NaraDej, convenience	ICA (Swedish)	19	45	Nationwide	Wholesaler/Importer (ICA)

In Finland, the four largest gas marts (Neste, Shell, Esso and Teboil) accounted for almost 80% of total gas mart sales of grocery products in 2002. These companies operate their shops under the names of Quick Shop for Neste, Snack & Shop for Esso and Select for Shell.

Gas Marts in Finland

Gas Marts Finland	No. of Outlets in 2002	Grocery Sales (US\$ Million) 2002	Market Share %
Neste	356	120	30
Shell	240	92	20
Esso	185	78	16
Teboil	192	46	16
Seo + others	217	39	18
Total	1,190	376	100

C. Traditional markets – Small Independent Grocery Stores.

The small "gourmet food" grocery stores offer limited possibilities for U.S. exporters. The stores are usually located in larger cities and sometimes carry a wide range of imported products, but they tend to buy in very small quantities.

SECTION III: Competition

European Union (EU) member states provide the main competition to U.S. consumer-oriented food imports. EU-origin products have a natural advantage in many product categories simply because they enter Sweden and Finland duty free, while American exporters have to face the EU's external duty/tariff structure as well as non-tariff barriers to trade (e.g. the hormone in beef ban, sanitary restrictions on poultry and GMO policies).

TABLE A: Sweden's import of Consumer-Oriented Agricultural Products in 2002

Country: Sweden	Import in 2002 (\$1,000)	Market Share
Denmark	738,040	20%
Netherlands	629,321	17%
Germany	413,701	11%
Spain	227,202	6%
Italy	226,162	6%
France	211,078	6%
Belgium	147,272	4%
Finland	143,900	4%
United Kingdom	141,599	4%
Ireland	125,099	3%
Norway	81,446	2%
Country: United States	73,247	2%
Panama	57,391	2%
Austria	40,064	1%
Poland	35,774	.97%
Other	388,142	11%
World	3,679,515	100%

Note: Imports from the U.S. are understated due to transit trade via other EU countries such as the Netherlands and Germany.

TABLE B: Finland's import of Consumer-Oriented Agricultural Products in 2002

Country: Finland	Import in 2002 (\$1,000)	Market Share
Sweden	214,960	15%
Netherlands	154,521	11%
Germany	137,735	10%
France	135,713	10%
Spain	126,506	9%
Denmark	111,474	8%
Belgium	61,460	4%
Italy	61,452	4%
United Kingdom	48,432	3%
Costa Rica	43,518	3%
Ireland	38,436	3%
Country: United States	23,778	2%
Brazil	25,678	2%
South Africa	18,027	1%
Austria	16,056	1%
Other	205,491	14%
World	1,424,325	100%

Note: Imports from the U.S. are understated due to transit trade via other EU countries such as the Netherlands and Germany.

SECTION IV: Best product prospects

A. Products present in the market with good sales potential:

Wines
 Tree Nuts
 Dried Fruits
 Snack Foods
 Fruit Juices
 Processed fruits & vegetables
 Sauces/Seasonings
 Pancake/cake mixes
 Rice (most U.S. rice currently packaged in other European countries)
 Candies

B. Products not present in significant quantities that have good sales potential:

Seafood Products
Fresh Fruits and Vegetables
Organic Food
Ethnic Food
Niche market; Specialty Food Products
Frozen Food
Rice mixes
Vegetarian Food
Ready-made convenience meals

C. Products not present because they face significant barriers:

Meat (hormone ban)
Poultry (sanitary restrictions)

SECTION V: Post contact and further information

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S-115 89 STOCKHOLM, Sweden
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Fax: (46-8) 662 8495
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For further information on exporting U.S. agricultural products to Sweden, please visit the FAS/Stockholm home page at: <http://www.usemb.se/Agriculture>.

Average exchange rate 2002 in Sweden: US\$ 1 = SEK 9.72
Average exchange rate 2002 in Finland: US\$ 1 = EUR 1.06