

1. Alcoholic Beverages (Wine, Beer and Whisky)

1. Definition of Category

In alcoholic beverages, this section mainly covers wine, beer and whisky.

HS Numbers

<Wine>

Spirits made from fermented grapes or grape juice.

2204.10-000	Sparkling wine
2204.21-010	Sherry, port and other fortified wine (in 2 liter bottles or smaller)
2204.21-020	Bottled wine (in 2 liter bottles or smaller)
2204.29-010, 29-090	Bulk wine
2205.10-000, 90-200	Vermouth and other wine

Note: In Japan, people sometimes refer to all brewed spirits made from fruits as wine, while the Liquor Tax Law classifies wine into fruits wine and sweetened fruits wine. This guidebook, however, shall follow the common definition, and shall refer to spirits made from fermented grapes or grape juice as "wine."

<Beer>

Beer, which is fermenting a mixture of barley malt, hops and water produce an alcoholic beverage, and sparkling beverages made, in part, from malt

2203.00-000	Beer
2206.00-225	Sparkling malt beverages (so called <i>happoshu</i>)

Note: Imported beer and wine containing less than 0.5% alcohol are classified under category 2202.90 (non-alcoholic beverages). In addition, beverages with an alcohol content of 0.5-1.0% are not classified as beer under the Liquor Tax Law. These products are sold as soft drinks instead

<Whisky>

Alcoholic beverages made through the fermentation of germinated barley, rye or corn with water and through distillation

2208.30-011, -019	Bourbon whisky
-021, -029	Rye whisky
-031, -032	Other whiskies

Note: Scotch whisky, Canadian whisky, and Irish whisky are classified as "other whiskies" and have no independent customs clearance statistics.

2. Import Trends

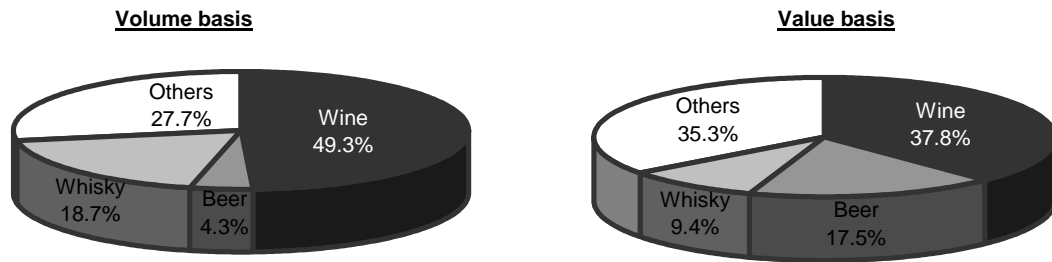
(1) Recent Trends in Alcohol Beverage Imports

<All alcoholic beverages>

This section will begin with an overview of imports of all alcoholic beverages (beverages with an alcohol content of 1% or higher). In 2002 Japan imported a total of 450,024 kiloliters of alcoholic beverages, worth ¥203.4 billion. Both totals were virtually unchanged from the year before. The leading imported alcoholic beverage is wine, which accounts for 37.8% of all imports on a volume basis and 49.3% on a value basis. The next leading imports on a volume basis are "*shochu*" (rough distilled spirits) and other distilled liquors (18.7%) and beer and *happoshu* (17.5%). On a value basis the next leading imports are whisky (18.7%) and brandy (10.6%).

The fastest growing category in the imported alcoholic beverage market in recent years has been other distilled liquors (*shochu*, etc.), which grew by 70% between 1998 and 2000 from 49,274 kiloliters to 83,980. Most of this growth consists of increased imports from the Republic of Korea. In contrast, imports of brandy continued downward and the pattern of falling has not come to a halt.

Fig 1 Breakdown of imported alcohol beverages by variety (2002)



(Note) Beer includes "happoshu."

	Volume					Value				
	2000	2001	2002	Share	Yearly change	2000	2001	2002	Share	Yearly change
Wine	168,996	171,833	170,042	37.8	99.0	86,004	95,650	100,230	49.3	104.8
Beer and <i>happoshu</i>	87,154	75,987	78,934	17.5	103.9	7,960	7,867	8,784	4.3	111.7
Whisky	43,791	49,671	42,368	9.4	85.3	38,408	44,340	38,099	18.7	85.9
Others (subtotal)	140,441	152,102	158,679	35.3	104.3	55,247	55,627	56,325	27.7	101.3
Other distilling liquors	65,549	75,680	83,980	18.7	111.0	10,837	12,271	13,464	6.6	109.7
Imitation sake and white sake	20,621	19,528	17,703	3.9	90.6	1,963	1,831	1,697	0.8	92.7
Other fermented liquors	17,611	17,229	16,894	3.8	98.1	3,628	3,544	3,907	1.9	110.2
Liqueurs and cordials	10,771	14,340	13,583	3.0	94.7	6,771	9,048	9,745	4.8	107.7
Brandy	10,503	8,877	7,509	1.7	84.6	27,263	23,404	21,558	10.6	92.1
Fermented liquors	3,016	3,709	4,666	1.0	125.8	710	930	1,286	0.6	138.2
Other spirituous beverages	1,130	1,991	3,458	0.8	173.7	140	317	404	0.2	127.4
Gin	3,087	3,524	3,433	0.8	97.4	1,567	1,885	1,858	0.9	98.6
Vodka	2,909	2,707	2,903	0.6	107.2	1,112	1,075	1,139	0.6	105.9
Japanese sake	3,245	2,403	2,527	0.6	105.2	412	301	299	0.1	99.4
Rum and tafia	1,999	2,114	2,025	0.4	95.8	844	1,019	967	0.5	95.0
TOTAL	440,382	449,592	450,024	100.0	100.1	187,619	203,484	203,439	100.0	100.0

Units: kl, ¥ million

Source: Japan Exports and Imports

(Note) HS numbers of "others"

Japanese sake (2206.00-210), other fermented liquors such as cider and perry (2206.00-229), brandy (including fruits brandy, 2208.20-100, -200, 2208.90-111, -119), rum and tafia (2208.40-000), gin (2208.50-000), vodka (2208.60-000), Liqueurs and cordials (2208.70-000), other distilling liquors (2208.90-129), imitation sake and white sake (2208.90-220), other spirituous beverages (2208.90-240)

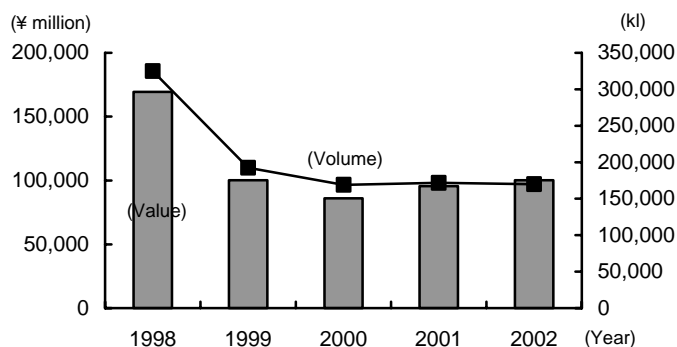
<Wine>

Wine imports skyrocketed during the red wine boom of 1998, and it took until 2000 to clear out the entire inventory, and imports suffered as a result. Imports turned upward slightly again in 2001, rising by 1.7% from the year before to 171,833 kiloliters. In 2002 wine imports were down by 1.0% on a volume basis, to 170,042 kiloliters. However, the taxable volume (shipments from bonded area storage, see Fig. 11) was up, and industry experts believe that the slump in wine has come to a halt. On a value basis imports were up 4.8% to ¥100.2 billion, aided by the strong euro and an increase in high-priced French wine.

The only type of wine to post growth on a volume basis was sparkling wine, which experienced its second straight year of growth to finish up 7.0% with imports of 13,298 kiloliters. After a surge in demand during 1999 to go with Y2K celebrations, sparkling wine has become firmly established in the home use market, while sparkling wine served by the glass has become a standard part of the year-round menu in many restaurants.

Imports of bottled wine (in 2 liter bottles or smaller), the flagship product in this category, stayed roughly the same on a volume basis, finishing at 129,612 kiloliters (down 0.8%). On a value basis, bottled wine imports rose by 5.1% to ¥77.6 billion. Japan imports wine in bulk to mix with domestic wines in producing blended wines. Bulk wine imports continued a downward trend in 2002, while fortified wine and aromatized wines also were off from the year before.

Fig. 2 Japan's wine imports



	1998		1999		2000		2001		2002	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Sparkling wine	9,938	13,401	11,845	16,483	10,697	14,441	12,429	16,964	13,298	18,252
Sherry, port wine	970	793	806	622	853	604	940	682	852	636
Bottled wine	242,500	143,875	125,259	74,848	123,605	66,044	130,653	73,847	129,612	77,614
Bulk wine	67,984	10,269	50,725	7,065	30,592	3,978	25,121	3,348	24,175	3,153
Vermouth & others	3,385	1,102	3,780	1,105	3,249	937	2,689	809	2,104	575
Total	324,777	169,440	192,414	100,123	168,996	86,004	171,833	95,650	170,042	100,230

Units: kl, ¥ million

Source: Japan Exports and Imports

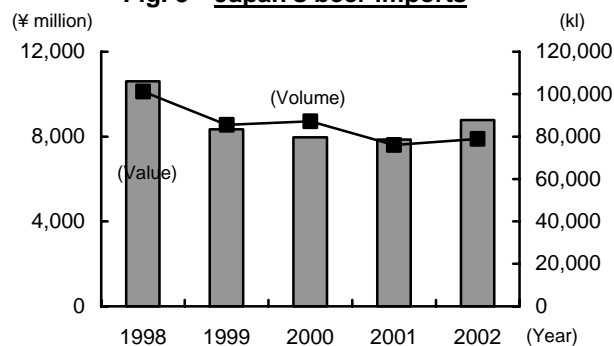
<Beer>

The World Cup Soccer tournament held in Japan during June of 2002 boosted consumption of beers from many nations around the world. Beer imports grew for the second year in a row, rising on a volume basis to 35,554 kiloliters (up 1.9%) and on a value basis to ¥4.78 billion (up 17.0%). However, official World Cup sponsor and leading world brand Budweiser switched to licensed production in Japan under an agreement with Kirin Beer of Japan. As a result, Budweiser beer is no longer imported, in the strict sense. Miller Special (U.S.A.), Heineken (the Netherlands), Löwenbräu (Germany) and other leading brands also are produced under license in Japan, and with only small size cans still being imported from the home country. Consequently, import volume growth has been very small.

Nevertheless, this remains far below the all-time high (323,848 kiloliters) recorded in 1994. Since that time, the imported beer market has shrunk to just one-tenth its former size. The aftereffects remain of high-volume imports of ultra-cheap beer. Imported beer has yet to recover its status in the minds of consumers.

Sparkling malt beverages (so called *happoshu*) is a lower-priced beverage with the taste of beer. A number of new products have appeared on the domestic market, which forced down prices even further and put imports in a difficult position. But 2002 saw a recovery from the steep drop in imports of the year before, as imports rose 5.5% to 43,380 kiloliters.

Fig. 3 Japan's beer imports



	1998		1999		2000		2001		2002	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Beer	81,177	8,651	52,439	5,486	29,550	3,384	34,885	4,088	35,554	4,784
Happoshu	19,999	1,943	33,095	2,849	57,604	4,576	41,103	3,779	43,380	4,000
TOTAL	101,177	10,594	85,534	8,336	87,154	7,960	75,987	7,867	78,934	8,784

Units: kl, ¥ million

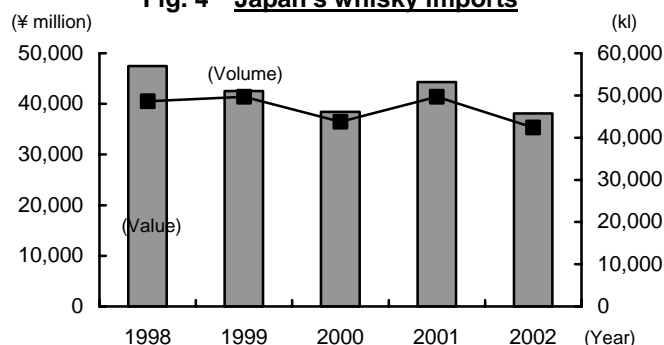
Source: Japan Exports and Imports

<Whisky>

Whisky imports include bulk whisky to be used in blends with domestic whisky, in addition to bottled whisky for retail in 2 liter bottles or smaller. Bulk whisky imports rose dramatically in 2001, accounting for nearly half of all whisky imports (48.4%, 24,021 kiloliters) on a volume basis that year. However, bulk imports tumbled by 20% in 2002 to just 19,227 kiloliters, while bottled whisky imports also were off from the year before by finishing at 23,141 kiloliters (down 9.8%).

By product type, Scotch whisky (imported from the United Kingdom and classified under “other whiskies” in official customs statistics) tumbled by 25.6% to 26,844 kiloliters, especially bulk whisky for blend. Bourbon whisky (certified authentic by the producer nation’s government) also declined 16.8% to 7,950 kiloliters. In contrast, Canadian whisky and American whisky made from wheat showed an increasing trend. (see Figure 5)

Fig. 4 Japan’s whisky imports



	1998		1999		2000		2001		2002	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Bourbon whisky	11,371	7,674	10,563	6,905	9,245	6,051	9,557	6,763	7,950	6,061
Rye whisky	130	117	132	91	111	71	74	54	79	58
Other whiskies	37,114	39,651	38,972	35,576	34,435	32,287	40,040	37,524	34,339	31,980
TOTAL	48,614	47,443	49,666	42,572	43,791	38,408	49,671	44,340	42,368	38,099
(Whisky for blend)	18,779	11,212	22,641	10,212	18,348	7,414	24,021	11,991	19,227	7,032

Units: kl, ¥ million

Source: Japan Exports and Imports

Fig. 5 Trends in imports of bottled and bulk whisky

		2000	2001	2002	Share	Yearly change
Bottled whisky	Bourbon whisky (U.S.A.)	8,173	8,759	6,870	78.4	16.2
	Rye whisky (Canada)	61	48	40	83.3	0.1
	Rye whisky (U.S.A.)	17	19	7	36.8	0.0
	Scotch whisky (U.K.)	14,948	14,727	13,942	94.7	32.9
	American whisky (U.S.A.)	1,226	1,180	1,354	114.7	3.2
	Canadian whisky (Canada)	840	736	792	107.6	1.9
	Irish whisky (Ireland)	138	197	103	61.7	0.2
	Other whiskies (Other)	39	60	34	56.7	0.1
	TOTAL	25,443	25,650	23,141	90.2	54.6
Bulk whisky for blend	Bourbon whisky (U.S.A.)	799	1,072	1,080	100.7	2.5
	Rye whisky (Canada)	6	6	32	533.3	0.1
	Rye whisky (U.S.A.)	27	-	-	-	-
	Scotch whisky (U.K.)	15,633	21,371	12,902	60.4	30.5
	Canadian whisky (Canada)	-	828	4,758	574.6	11.2
	Irish whisky (Ireland)	1,609	1,015	453	44.6	1.1
	American whisky (U.S.A.)	-	2	1	55.2	0.0
	TOTAL	18,348	24,021	19,227	80.0	45.4

Unit: kl

Source: Japan Exports and Imports

Overall trend is toward a decline in alcohol consumption and to the shift to lower-priced beverages with lower alcohol content, due to the recession’s impact on propensity to consume, and more diverse life style. In addition, corporate and restaurant demand for whisky remains depressed. Japan has reduced the liquor tax rates and tariff rates on whisky since 1997, and Japanese whisky distillers have strengthen their product lineups as they seek to benefit from the reduced tax rates. Nevertheless, overall market condition puts imported whisky in a difficult position.

Although it is not apparent from official customs statistics, single malt whisky carried by leading importers is showing strong growth. Brands with an air of sophistication and distinctiveness are winning acceptance among consumers.

(2) Imports by Place of Origin

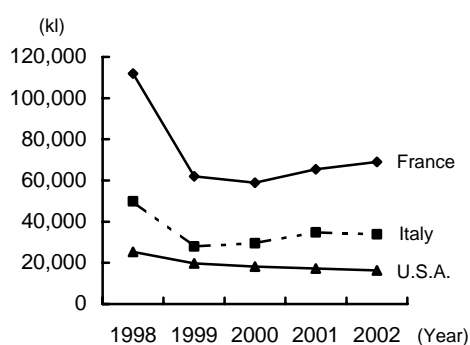
<Wine>

The leading exporter of wine to Japan is France with 40.6% in 2002 on a volume basis, followed by Italy (19.9%), the United States (9.6%), Chile (6.4%), and Spain (5.7%). These top five exporters together account for about 82% of Japan's wine imports. In 2001 France and Italy both registered double-digit growth, partly due to the "Italy in Japan 2001" project. But, in 2002 France was the only one of the two with strong growth (up 5.6%, 69,053 kiloliters). Italy, the United States and Chile all finished the year down. Spain, on the other hand, rode a second straight year of growth to finish in the top five for the second time since 1999. In sharp contrast stood the performance of Germany, which followed the 16.0% drop of 2001 with another 5.0% decline, falling to sixth place in the rankings as a result.

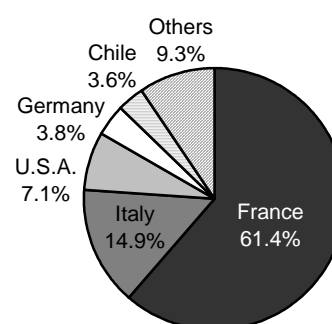
On a value basis, France accounts for 61.4% with ¥61.5 billion (up 6.9% from the year before), indicating their high level of unit price.

Fig. 6 Leading exporters of wine to Japan

Trends in import volume by leading exporters



Shares of wine imports in 2002 (value basis)



	1998	1999	2000	2001		2002		Volume	Value
	Volume	Volume	Volume	Volume	Value	Volume	Value		
France	111,968	62,095	58,935	65,413	57,534	69,053	40.6%	61,498	61.4%
Italy	49,925	27,909	29,532	34,875	13,623	33,863	19.9%	14,887	14.9%
U.S.A.	25,314	19,689	18,115	17,261	7,266	16,343	9.6%	7,099	7.1%
Chile	29,576	8,938	10,054	10,960	3,926	10,862	6.4%	3,584	3.6%
Spain	16,944	11,551	9,079	9,268	3,349	9,716	5.7%	3,519	3.5%
Others	91,051	62,233	43,280	34,055	9,953	30,204	17.8%	9,643	9.6%
Total	324,777	192,414	168,996	171,833	95,650	170,042	100.0%	100,230	100.0%
(E U)	199,983	118,381	110,836	121,067	79,145	123,113	72.4%	84,491	84.3%

Units: kl, ¥ million

Source: Japan Exports and Imports

Most wine is imported bottled in 2 liters or less, and in this subcategory France (47.0%) retain a strong lead over all other countries. All exporters of sparkling wines recorded export volume growth to Japan. Nevertheless, France (41.4% combined share for *champagne* and *vins mousseux*), Italian *spumante* (29.9%), and Spanish *cava* (15.4%) together control 86.7% of the import market.

In bulk wine, however, Bulgaria slipped to fourth place (share 12.4%) after leading the rankings in 2000. Argentina (20.2%) also finished the year lower, while the United States (21.3%) finished on top for the first time ever. In the area of fortified wines, the leading imports are port from Portugal (48.7%) and sherry from Italy (33.5%), while in the area of aromatized wines, Spanish sangria (30.9%) posted strong growth.

Fig. 7 Leading exporters of each item to Japan (2002)

Item	Country	Volume	Share	Yearly change	Item	Country	Volume	Share	Yearly change
Bottled wine	1. France	60,963	47.0%	104.8	Sparkling wine	1. France	5,507	41.4%	104.3
	2. Italy	27,739	21.4%	94.6		2. Italy	3,972	29.9%	111.4
	3. U.S.A.	10,151	7.8%	89.4		3. Spain	2,044	15.4%	100.1
	4. Germany	8,546	6.6%	88.7	Fortified wine	1. Portugal	415	48.7%	84.5
	5. Chile	7,820	6.0%	86.1		2. Spain	285	33.5%	102
	6. Spain	5,990	4.6%	118.2		3. Italy	90	10.5%	92.7
	7. Australia	4,162	3.2%	114.8	Aromatized wine	1. Spain	650	30.9%	148.6
Bulk wine	1. U.S.A	5,156	21.3%	108.5		2. Italy	526	25.0%	59.6
	2. Argentine	4,879	20.2%	96.3		3. China	334	15.9%	72.1
	3. Chile	3,042	12.6%	162.3					
	4. Bulgaria	3,001	12.4%	105.6					
	5. France	2,307	9.5%	143.9					

Unit: kl, Source: Japan Exports and Imports

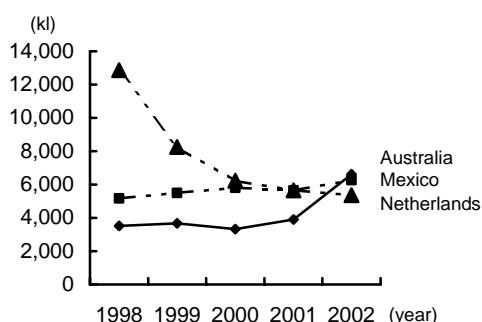
<Beer>

Posting the most dramatic growth during 2002 in the imported beer market were Australia (6,623 kiloliters, up 69.8% from the year before) and Ireland (4,213 kiloliters, up 60.1%). Australia moved past Mexico into first place in the rankings for the first time ever, on the strength of a short-term discount campaign. For its part, Ireland vaulted to 4th place from 6th the year before, aided by sales of Guinness beer at Irish pubs during the World Cup. Although Mexico slipped out of the top spot, the unique drinking style of Corona beer has gained a firm foothold of popularity among young adults. Also, Mexico's good result during the World Cup helped boost imports (6,275 kiloliters, up 10.9%). British and Belgium beers also registered growth. In contrast, imports are declining from the Netherlands, the United States and Germany, because most of whose major brands are now produced in Japan.

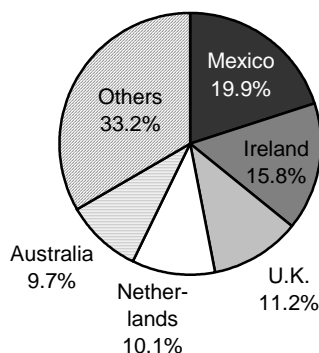
In contrast, in imports of *happoshu*, there was growth in private brand imports from the Republic of Korea and Hong Kong, but import volume from the United States, which still leads in the rankings, tumbled from 23,222 kiloliters to 17,487 kiloliters. This serves to highlight the overall stagnation of the imported *happoshu* market. The most prominent American brand, Zima is a low-alcohol malt beverage made according to its own unique process. Its blend of 23 natural flavors and its stylish bottle have made it especially popular in the restaurant market, but even there it suffers from intensified competition with Japanese brands.

Fig. 8 Principal exporters of beer to Japan

Trends in import volume by leading exporters



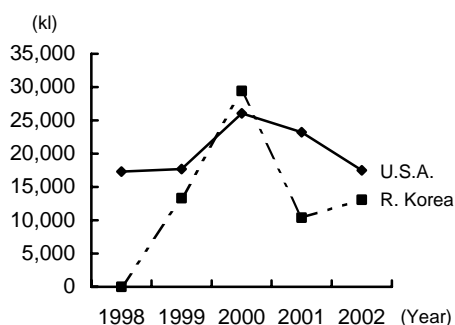
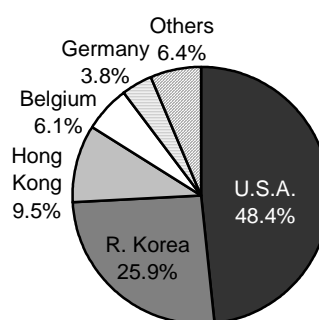
Shares of beer imports in 2002 (value basis)



	1998	1999	2000	2001		2002			
	Volume	Volume	Volume	Volume	Value	Volume	Value	Volume	Value
Australia	4,990	5,178	5,504	5,801	806	5,661	16.2%	866	21.2%
Mexico	20,749	12,858	8,243	6,238	547	5,652	16.2%	496	12.1%
Netherlands	87,132	48,494	25,975	4,929	485	4,398	12.6%	472	11.5%
Ireland	4,239	3,515	3,672	3,319	204	3,900	11.2%	237	5.8%
U.S.A	332	218	85	75	6	3,829	11.0%	278	6.8%
Other	14,793	10,915	8,960	9,188	1,336	11,445	32.8%	1,739	42.5%
TOTAL	132,236	81,177	52,439	29,550	3,384	34,885	100.0%	4,088	100.0%
(E U)	31,599	20,399	13,978	12,312	1,534	13,338	38.2%	1,768	43.2%

Units: kl, ¥ million

Source: Japan Exports and Imports

Fig. 9 Principal exporters of *happoshu* to Japan**Trends in import volume by leading exporters****Shares of *happoshu* imports in 2002 (value basis)**

	1998	1999	2000	2001		2002			
	Volume	Volume	Volume	Volume	Value	Volume		Value	
U.S.A.	17,324	17,690	26,071	23,222	2,348	17,487	40.3%	1,934	48.4%
R. Korea	-	13,303	29,429	10,408	831	13,078	30.1%	1,037	25.9%
Hong Kong	-	-	-	2,561	179	5,315	12.3%	379	9.5%
Belgium	269	204	459	1,048	116	2,463	5.7%	242	6.1%
Germany	2	-	71	1,678	138	1,739	4.0%	151	3.8%
Other	2,405	1,898	1,574	2,186	166	3,298	7.6%	256	6.4%
TOTAL	19,999	33,095	57,604	41,103	3,779	43,380	100.0%	4,000	100.0%
(E U)	594	365	697	3,351	298	5,745	13.2%	515	12.9%

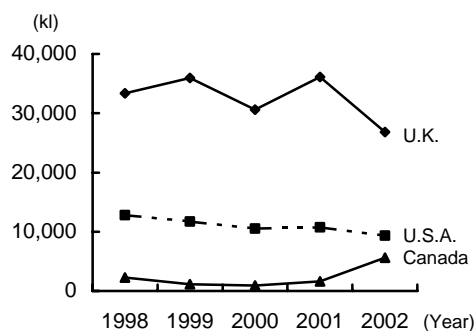
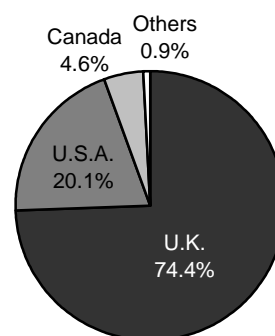
Units: kl, ¥ million

Source: Japan Exports and Imports

<Whisky>

The leading variety of imported whisky is Scotch whisky (from Great Britain), which makes up 63.4% of total bulk and bottled imports on a volume basis and 74.4% on a value basis. As stated previously, some upscale brands of single malt whisky grew significantly in 2002, but premium scotch and standard scotch struggled in the market and finished down 25.6% overall from the year before.

American-style whisky from the United States held its own, while bourbon whisky and rye whisky were both down. In contrast, Canadian whisky posted strong growth, but only in bulk imports.

Fig. 10 Principal exporters of whisky to Japan**Trends in import volume by leading exporters****Shares of whisky imports in 2002 (value basis)**

	1998	1999	2000	2001		2002			
	Volume	Volume	Volume	Volume	Value	Volume		Value	
U.K.	33,348	35,973	30,581	36,098	34,134	26,844	63.4%	28,364	74.4%
U.S.A.	12,793	11,698	10,516	10,758	8,763	9,312	22.0%	7,640	20.1%
Canada	2,248	1,151	907	1,618	753	5,622	13.3%	1,771	4.6%
Ireland	190	821	1,748	1,136	534	556	1.3%	272	0.7%
Netherlands	-	-	2	2	8	10	0.0%	6	0.0%
Other	35	23	37	58	148	24	0.1%	47	0.1%
TOTAL	48,614	49,666	43,791	49,671	44,340	42,368	100.0%	38,099	100.0%
(E U)	33,549	36,806	32,362	37,261	34,718	27,423	64.7%	28,676	75.3%

Units: kl, ¥ million

Source: Japan Exports and Imports

(3) Imports' Market Share in Japan

<Wine>

Statistics on shipments of domestic and imported wine (including sweetened fruit wines) calculated on a taxable volume basis, indicate that imported wine shipments have exceeded domestic wine shipments since 1995. In 2002, the ratio of imports to domestics in this subcategory is approximately six-to-four.

Domestic grape production in Japan is around 250,000 tons per year, nearly 90% of which is sold as table grapes. It would be impossible to meet the demand for wine with domestically grown grapes alone. Thus, imported bulk wine and must used in blends with domestic wine represents a critical element of the wine market in Japan.

<Beer>

The Japanese beer market peaked in 1994 and has been on the decline ever since. In 2002 the total market size was 4.39 million kiloliters. One of the factors in this decline has been the shift to inexpensive sparkling malt beverages (*happoshu*), which registered total shipments of 2.63 million kiloliters in 2002 (for a beer-to-*happoshu* ratio of 62.5%:37.5%). In combination, the two products have saturated the market, resulting 7.03 million kiloliters (down 2.5% from the year before). The big loser in the equation has been imported beer, which has fallen further than domestic beer. Imports now have a share of just 2.7% of total beer and *happoshu* market. It should be noted that some foreign brands of beer are now actually produced in Japan, and their shipments are included with other domestic beers for statistical purposes. Estimates put total market share with around 1%, even when they are added.

Fig. 11 Imports' share in the Japanese market

		1998	1999	2000	2001	2002	Yearly change
Wine	Domestic products	164,200	137,034	115,302	110,171	113,794	103.3
	Imported products	252,830	160,995	161,534	165,639	167,877	101.4
	Total	417,030	298,030	276,836	275,810	281,671	102.1
	Imports' share	60.6%	54.0%	58.4%	60.1%	59.6%	
Beer	Domestic products	6,179,047	5,784,267	5,545,347	4,900,680	4,366,309	89.1
	Imported products	77,040	48,386	26,313	30,628	28,203	92.1
	Total	6,256,087	5,832,675	5,571,660	4,931,308	4,394,512	89.1
	Imports' share	1.2%	0.8%	0.5%	0.6%	0.6%	
<i>Happoshu</i>	Domestic products	952,130	1,363,610	1,571,048	2,230,558	2,580,212	115.7
	Imported products	28,179	40,715	65,691	49,388	53,102	107.5
	Total	980,309	1,403,783	1,636,739	2,279,946	2,633,314	115.5
	Imports' share	2.9%	2.9%	4.0%	2.2%	2.0%	
Beer + <i>Happoshu</i>	Domestic products	7,131,177	7,147,877	7,116,395	7,131,238	6,946,521	97.4
	Imported products	105,219	89,101	92,004	80,016	81,305	101.6
	Total	7,236,396	7,236,458	7,208,399	7,211,254	7,027,826	97.5
	Imports' share	4.1%	3.7%	4.5%	2.8%	2.7%	
Whisky	Domestic products	107,689	102,770	100,575	91,619	82,781	90.4
	Imported products	31,122	29,369	25,216	24,650	22,720	92.2
	Total	138,811	132,139	125,791	116,269	105,501	90.7
	Imports' share	22.4%	22.2%	20.0%	21.2%	21.5%	

Unit: kiloliters

Source: National Tax Administration

Note 1: These figures are calculated based on taxable volume and differ from the import figures above. Figures for 2002 are preliminary.

Note 2: The taxable volume is regarded as equivalent to the volume of liquors distributed and sold in Japan. Liquor taxes are collected on domestic liquor when it is shipped from the factory, and on imported liquor when it is taken from the bonded warehouse. *happoshu* uses less malt than beer, they are classified as miscellaneous liquors under the Liquor Tax Law, and thus are subject to lower liquor taxes than beer. Nearly all of the growth in the miscellaneous liquors category has been in *happoshu*, and for the purposes of this report, the entire taxable volume of miscellaneous liquors has been treated as consisting of *happoshu*.

<Whisky>

Japan has reduced the liquor tax rates on whisky twice in response to directives from the WTO, once in October of 1997, and again in May of 1998. Moreover, a staged reduction in tariff rates on whisky began in 1997, and as of April 1, 2002, whisky is set to become duty free.

There is a global slump in black spirits overall, and though reduced taxes in Japan temporarily produced a turnaround in the home market, the chronic recession continues to depress the commercial market, and the market resumed its pattern of contraction since 1998. During this time imports' share of the market has remained at around 22%, finishing at 21.5% for 2002.

3. Key Considerations related to Importing

(1) Regulations and Procedural Requirements at the Time of Importation

Alcoholic beverage imports are subject to provisions of the Food Sanitation Law and the Liquor Tax Law.

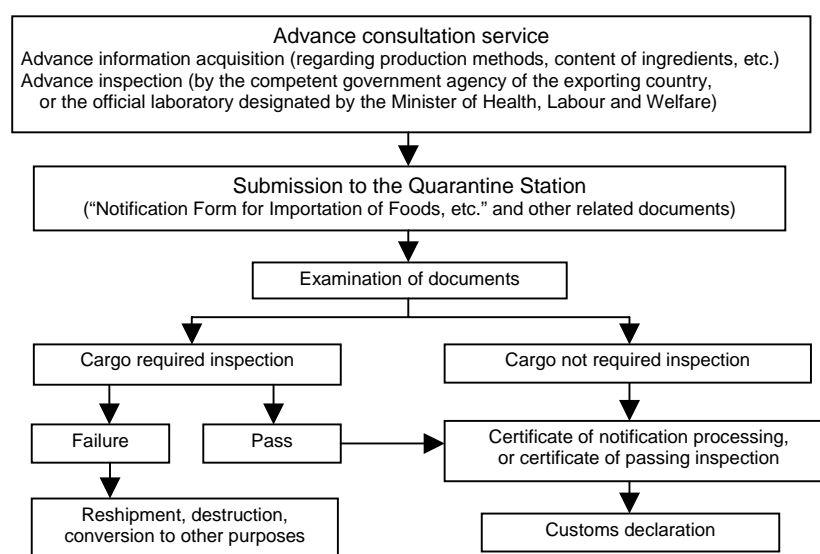
1) Food Sanitation Law

Under provisions of the Food Sanitation Law, an import notification is required for alcoholic beverages being imported for the purpose of sale or for other commercial purposes. Importers are required to submit the completed "Notification Form for Importation of Foods, etc." to the Quarantine Station at the port of entry. A determination is made based on the document examination whether or not an inspection at the bonded area is required.

Prior to importing, the importer may take a sample of forthcoming imports to official laboratories designated by the Minister of Health, Labour and Welfare in Japan or in exporting countries. Those test results may be substituted for the corresponding inspection at the port of entry, which expedites the quarantine clearance process.

Importers who wish to submit their notifications by computer may make use of the computerized FAINS (Food Automated Import Notification and Inspection Network System) for processing import-related documentation. Importers who have the required hardware and software may apply for a security code from the Minister of Health, Labour and Welfare to access the system.

Fig. 12 Procedures required under the Food Sanitation Law



In addition to standard inspection, wine may be subject to the following additional contents inspections if there is a prior history of problems with wines from a particular exporting country.

- | | | |
|---------------------------|---|---|
| a. Sulfur Dioxide Content | 350 ppm or less | |
| b. Sorbic Acid | 200 ppm or less | |
| c. Ethylene Glycol | } Inspections may be required depending on origin of countries. | } |
| d. Methanol | | |
| e. Diethylene Glycol | | |

2) Liquor Tax Law

The Liquor Tax Law requires a business license from the competent tax office in order to manufacture or sell liquors. Any person or entity may import liquors without restriction, but without a liquor vendor's license, it is not permitted to ship imported liquors out of the bonded area. Therefore, it is essential to first obtain a liquor vendor's license to sell imported liquors.

In addition to customs duties, liquor taxes are collected when the liquors are shipped from the bonded area. In Japan, the Liquor Tax Law subjects all forms of beverages with an alcohol content of 1% or higher to taxation. Beer, wine and other beverages containing less than 1% alcohol are not classified as alcoholic beverages under the Liquor Tax Law. These products are sold as soft drinks instead, thus they are not subject to the Liquor Tax Law. In addition, please be aware that the Liquor Tax Law limits additives can be used as preservative mixtures by type of liquor.

(2) Regulations and Procedural Requirements at the Time of Sale

The domestic sale of liquor is subject to the Liquor Tax Law, the Liquor Business Association Law, the Food Sanitation Law, the Measurement Law, the Act Against Unjustifiable Premiums and Misleading Representations. Products that infringe intellectual property rights are regulated by the various intellectual property laws (Trademark Law, Patent Law, Unfair Competition Prevention Law, etc.). Prospective exporters to Japan must be aware of these considerations, as rights holders may initiate legal action.

Containers and packaging may also be subject to identifier labeling provisions of the Law for Promotion of Effective Utilization of Resources, and recycling provisions of the Containers and Packaging Recycling Law. Please contact one of the agencies listed below for more complete information about affected packaging, the definition of specific providers (certain small-scale providers are exempt from regulation), and labeling methods.

1) Liquor Tax Law

All those engaged in the business of selling liquors must obtain a license for each sales location from the tax office with jurisdiction over the sales location. However, no license is required for restaurants that serve the liquor at their restaurants and do not sell to other restaurants or to customers. The 3-Year Deregulation Plan (1999) relaxed qualifications for obtaining a general liquor retailer's license (see below). As of September 1, 2003, a general liquor retailer licensing system will shift to a notification system. There are various types of licenses for selling liquors by type of business (wholesaler or retailer) and products (all items or imported item only). Some licenses for selling of imported liquors are listed below.

<Classification of liquor vendor's license>

- a) General liquor wholesaler's license
Holders of this license are authorized to sell all liquors, regardless of domestic or imported, as a wholesaler to liquor retailers, but not to consumers or restaurants as a retailer.
- b) Western-style liquor wholesaler's license
Holders of this license are authorized to sell western-style liquors (wine, whisky, spirits, liqueur, and miscellaneous spirits only), as a wholesaler to liquor retailers, but not to consumers or restaurants as a retailer. The holders also are not authorized to wholesale beer.
- c) Beer wholesaler's license
Holders of this license are authorized to wholesale beer only, but not to consumers or restaurants as a retailer.
- d) Imported liquor wholesaler's license
Holders of this license are authorized to sell all imported liquors, as a wholesaler to liquor retailers, but not to consumers or restaurants as a retailer. The holders also are not authorized to wholesale liquors made in Japan.
- e) General liquor retailer's license
Holders of this license are authorized to sell all liquors to consumers or restaurants as a retailer within the sales territory. The holders also are authorized to import liquors directly and retail them. In order to exhibit imported liquor at a trade fair, holders must apply to the local tax office with jurisdiction over the trade fair venue for temporary permission to sell at a location other than the license holder's regular sales location.
- f) Mail order liquor vendor's license
Holders of this license are authorized to sell liquors by mail order to consumers or restaurants. However, holders are restricted to carry liquor labels that import less than 100 kiloliters per year. In order to obtain a license, a reseller must be a member of the Japan Direct Marketing Association (JADMA), and must have at least two years of experience in mail order sales of food products.

2) Liquor Business Association Law (Law Concerning Liquor Business Association and Measures for Securing Revenue from Liquor Tax)

When alcoholic beverages are sold, it must be labeled in accordance with provisions of the Liquor Business Association Law. (see 4. Labeling)

3) Food Sanitation Law

The Food Sanitation Law prohibits the sale of foods containing toxic or harmful substances and foods that are unsafe for human health. When alcoholic beverages are sold, it must be labeled in accordance with provisions of the Food Sanitation Law. (see 4. Labeling)

4) Measurement Law

Alcoholic beverages sealed in wrapping or containers are required to indicate the net content to certain accuracy. (see 4. Labeling)

5) Act Against Unjustifiable Premiums and Misleading Representations

The Act prohibits a form of improper labeling exaggerated or false labeling that misleads consumers about the nature or quality of products. Also, vague or confusing labeling that makes it difficult to discern the actual country of origin is also prohibited as a form of improper labeling.

<Fair Competition Code concerning Restrictions on Premiums, etc. for the Imported Beer>

<Fair Competition Code concerning Restrictions on Premiums, etc. for the Imported Whisky>

The industry has voluntarily adopted these guidelines in order to assure consumer product choice availability and preserve fair competition, based on the Act Against Unjustifiable Premiums and Misleading Representations. It consists of premiums guidelines (Fair Competition Code concerning Restrictions on Premiums, etc. in the Importation and Sale of Liquors) and labeling guidelines. (see 4. Labeling)

6) Law for Promotion of Effective Utilization of Resources

Identifier labeling is required for steel and aluminum cans, paper (not including beverage containers not containing aluminum) and plastic container materials. (see 4. Labeling)

7) Containers and Packaging Recycling Law (Law for Promotion of Sorted Collection and Recycling of Containers and Packaging)

The Containers and Packaging Recycling Law was enacted to promote recycling of container and packaging waste materials. It provides for sorting by consumers, sorted collection by municipalities, and product reuse (recycling) by product makers and distributors for glass bottles, PET bottles, paper and plastic containers and packaging. Consequently, alcoholic beverage importers and vendors incur the obligation for recycling of containers and packaging (although stipulated small-scale importers are exempt). Please consult the competent government agencies listed below for more information.

Imported wine frequently comes in colored glass bottles of varying shapes and sizes, and these create some problems for recycling. The Japan Wines and Spirits Importers Association issued an official "Request for use of clear bottling in *Beaujolais Nouveau* containers" since 1999, as part of efforts to promote the adoption of clear uncolored bottles.

(3) Competent Agencies

- Liquor Tax Law / Liquor Business Association Law
Liquor Tax and Industry Division, Taxation Department, National Tax Agency, Ministry of Finance
TEL: 03-3581-4161 <http://www.nta.go.jp>
- Food Sanitation Law
Policy Planning Division, Department of Food Sanitation, Pharmaceutical and Medical Safety Bureau,
Ministry of Health, Labour and Welfare
TEL: 03-5253-1111 <http://www.mhlw.go.jp>
- Measurement Law
Measurement and Intellectual Infrastructure Division, Industrial Science and Technology Policy and Environment
Bureau, Ministry of Economy, Trade and Industry
TEL: 03-3501-1511 <http://www.meti.go.jp>
- Act Against Unjustifiable Premiums and Misleading Representations
Consumer Related Trade Division, Trade Practices Department, Fair Trade Commission of Japan
TEL: 03-3581-5471 <http://www.jftc.go.jp>

- Law for Promotion of Effective Utilization of Resources / Containers and Packaging Recycling Law
 Recycling Promotion Division, Industrial Science and Technology Policy and Environment Bureau,
 Ministry of Economy, Trade and Industry
 TEL: 03-3501-1511 http://www.meti.go.jp
- Recycling Promotion Division, Waste Management and Recycling Department, Ministry of the Environment
 TEL: 03-3581-3351 http://www.env.go.jp
- Food Industry Policy Division, General Food Policy Bureau, Ministry of Agriculture, Forestry and Fisheries
 TEL: 03-3502-8111 http://www.maff.go.jp

4. Labeling

(1) Legally Required Labeling

The Liquor Business Association Law, the Food Sanitation Law, and the Measurement Law specify the following label items for alcoholic beverages. Liquors made from genetically modified agricultural products are required by the Liquor Business Association Law to display labeling compliant with provision of the Product Quality Labeling Standards for Genetically Modified Foods under the JAS Law. In the case of imported alcoholic beverages, the labeling obligation falls upon the importers and vendors.

- 1) Product name (the phrases “fruit wine,” “sweetened fruit wine,” “beer,” or “whisky”)
- 2) List of food additives used (anti-oxidants or synthetic preservatives, etc.)
- 3) Alcohol content
 (Ethyl alcohol content at 15 degrees Celsius as a percentage of content rounded down to the nearest whole percentage point)
- 4) Content volume (expressed in milliliters or liters)
- 5) Whether or not effervescent
- 6) Importer name and address
- 7) Distributor (rebotling plant) address
 (In case of imports, address of distributor or rebotling plant receiving wine from bonded area. May be omitted if it is the same as importer address.)
- 8) Labeling to prevent consumption by minors
 (All liquor containers must clearly state that “consumption of liquors by minors is prohibited” or “liquors may only be consumed by those age 20 and over.”)

In addition, wine must bear geographic labeling that conforms to the standard, or else it may not be sold, displayed for the purpose of supplying it for sale, or for any other commercial purpose. For products such as Bordeaux and Chablis whose product quality and reputation fundamentally arise from the geographic place of origin, it is not permitted for labels to use the place name unless the product actually comes from that place.

< Law for Promotion of Effective Utilization of Resources >

Some specified containers and packaging may be subject to identifier labeling provisions of the Law for Promotion of Effective Utilization of Resources. The Law requires that all caned beers or whiskies, steel or aluminum, must display an identifying mark affixed to or printed on at least one point on the side of the can. In addition, when paper or plastic is used as a packaging material for caps, labels, external packaging or elsewhere, a material identifier labeling must be displayed with information where the material is used.

< Container >



Equilateral triangle with Japanese characters for “aluminum”



Circle with Japanese characters for “steel”

< External packaging, cap, etc. >



Circle with Japanese characters for “paper”



Rectangular with Japanese characters for “plastic”

(2) Voluntary Labeling based on Provisions of Law

<Labeling Standard on Organic for Alcoholic Beverages >

Imported alcoholic beverages that display the Japanese-language terms for “organic” on their labeling must conform to standards based on the Liquor Business Association Law.

(3) Voluntary Industry Labeling

<Wine>

While not required by law, wines made from mixtures of domestic and imported wines list the wines in order or preponderance in the mixture; for example “made from domestic wine and imported wine.” Industry standards also mandate that the label list in Japanese, variety of grape, vintage, location of the vineyard, and any special winemaking procedures employed, in as much as consumers may not understand such label information on the original winery label.

<Beer>

<Fair Competition Code concerning Representation of Imported Beer>

Under the Code, importers are required to display list of ingredients and country of origin.

Contacts: Japan Wines and Spirits Importers Association TEL: 03-3503-6505

<Special terminology>

Use of any of the following terms on the product label signifies that the beer satisfies certain established criteria. These criteria must be met before the terms can be used, but their usage is optional. The label may contain any or all of these terms for which the product meets the defined criteria.

- 1) Lager beer: Beer aged during storage
- 2) Draft beer: Unpasteurized beer
- 3) Black beer: Dark-colored beer made partly from dark-colored barley
- 4) Stout beer: Dark-colored, strong-tasting beer made partly from dark-colored barley

<Whisky>

<Fair Competition Code concerning Representation of Imported Whisky>

Under the Code, importers are required to display list of ingredients and country of origin.

Contacts: Japan Wines and Spirits Importers Association TEL: 03-3503-6505

5. Taxes

(1) Customs Duties

Fig. 13 presents tariff rates on wine, beer and whisky. Under terms of the Uruguay Round agreements, a step-by-step reduction in whisky tariff rates began in 1997, and as of April 1, 2002, whisky is set to become duty free. Bourbon whisky and rye whisky must be certified authentic by the government or an authorized government organization in the producer nation in order to be admitted to Japan at customs.

(2) Liquor Tax

The Liquor Tax Law subjects all forms of liquors (beverages with an alcohol content of 1% or higher) based on categories and alcohol content. The liquor tax rates on wine, beer, *happoshu*, and whisky are shown in Fig. 14. The liquor tax on wine and *happoshu* is set to increase on May 1, 2003 by ¥10 for every 750 milliliters of wine and every 350 milliliters of *happoshu*.

<Wine>

Wine is classified under the Liquor Tax Law into the categories of fruit wines and sweetened fruit wines.

Fruit wines: wines produced by fermenting fruit or fruit plus water, with sugar, brandy and other substances added up to specified limits.

Sweetened fruit wines: wines produced by adding brandy or other alcoholic beverages or sugar to fruit wines above a specified quantity.

Fig. 14 shows current liquor tax rates in effect as well as the revised rates due to go into effect on May 1, 2003. Sparkling liquors including sparkling wines with an alcohol content of fewer than 13% are taxed separately based on the formula.

<Beer>

The Liquor Tax Law distinguishes between beer and *happoshu* according to authorized raw material ingredients, and according to the malt ratio. Beer must have a malt ratio of at least 67%, and Cabinet order limits the ingredients to rice and barley malt. Beverages that do not conform to these requirements are classified as malt liquor under the category of “miscellaneous liquors.” Three different levels of liquor tax rates apply depending on the malt ratio.

<Whisky>

Liquor taxes on whisky have already been cut twice in October 1997 and in May 1998. Fig. 14 on the following page presents current tax rates on whisky.

Fig. 13 Customs duties on wine, beer and whisky

HS No.	Description	Rate of Duty (%)			
		General	WTO	Preferential	Temporary
2204.10-000	Sparkling wine	¥201.60/liter	¥182/liter	¥145.60/liter *Free	
21-010	Sherry, port and other fortified wines (In containers holding 2 liter or less)	¥123.20/liter	¥112/liter		
-020	Other wine (In containers holding 2 liter or less)	21.3% or ¥156.80/liter, whichever is the less, subject to a minimum customs duty of ¥93/liter	15% or ¥125/liter, whichever is the less, subject to a minimum customs duty of ¥67/liter		
29-010	Other wine (In containers holding 150 liter or less)	Ditto	Ditto		
-090	(Other)	¥64/liter	¥45/liter	¥24/liter *Free	
2205	Vermouth and other wine of fresh grapes flavored with plants or aromatic substances				
10-000	In containers holding 2 liter or less	¥70.60/liter	¥69.30/liter	¥50.40/liter *Free	
90	In containers holding more than 2 liter				
-200	Of an alcoholic strength by volume of more than 1 % vol	¥70.60/liter	¥69.30/liter	¥50.40/liter *Free	
2203.00-000	Beer made from malt	¥6.40/liter	Free	Free	
2206.00-225	Sparkling beverages made, in part, from malt	(¥6.40/liter)	(¥42.40/liter)	Free	
2208.30	Whiskies				
-011	(1) Bourbon whisky (a) Of a alcoholic strength by volume of 50% vol or higher	(13.7%)	(4.9%)		Free
-019	(b) Other Bourbon, in containers holding less than 2 liter container				
-021	(2) Rye whisky (a) Of a alcoholic strength by volume of 50% vol or higher	(15.7%)	(5.6%)		Free
-029	(b) Other Rye, in containers holding less than 2 liter container				
-031	(3) Other whisky (a) Of a alcoholic strength by volume of 50% vol or higher	(¥207.20/liter)	(¥82.60/liter)		Free
-032	(b) Others, in containers holding less than 2 liter container	(¥172.50/liter)	(¥68.60/liter)		Free

Note 1: “*Free” in Preferential Rate is applicable only for the Least Developed Countries.

Note 2: Normally the order of precedence for application of tariff rates is Preferential, WTO, Temporary, and General, in that order. However, Preferential rates are only eligible when conditions stipulated by law or regulation is met. Also, WTO rates apply when those rates are lower than Temporary or General rates. Refer to “Customs Tariff Schedules of Japan” (published by Japan Tariff Association) etc. for more complete interpretation of tariff table.

(3) Consumption Tax

(CIF + Customs duty + Liquor tax) x 5%

Fig. 14 **Liquor tax on wine, beer and whisky**

		Rate till April 30, 2003	Rate after May 1, 2003
Fruit wine		¥56,500 / kiloliter	¥70,472 / kiloliter
Sweetened fruit wine	Alcohol content of less than 13%	¥98,600 / kiloliter	¥103,722 / kiloliter
	Alcohol content of more than 38%	¥98,600 / kiloliter plus ¥8,220 / kiloliter for each 1% over 12% alcohol content	¥103,722 / kiloliter plus ¥8,644 / kiloliter for each 1% over 12% alcohol content
Beer	Malt ratio of more than 67%	¥222,000 / kiloliter	Not revised (Note 1)
Happoshu (Alcohol content of more than 38%)	Malt ratio of more than 50%, less than 67%	¥222,000 / kiloliter	Not revised
	Malt ratio of more than 25%, less than 50%	¥152,700 / kiloliter	¥178,125 / kiloliter
	Malt ratio of less than 25%	¥105,000 / kiloliter	¥134,250 / kiloliter (Note2)
Whisky	Alcohol content of more than 40%, less than 41%	¥409,000 / kiloliter	Not revised
	Alcohol content of more than 41%	Plus ¥10,225 / kiloliter for each 1% over 40% alcohol content	Not revised
	Alcohol content of more than 38%, less than 40%	Minus ¥10,225 / kiloliter for each 1% under 40% alcohol content	Not revised
	Alcohol content of less than 38%	¥378,325 / kiloliter	Not revised

(Note 1) Barley is added to the authorized ingredients for use in beer.

(Note 2) Because the subcategory of "sparkling alcoholic beverages made partly from barley" has been added to the category of happoshu, sparkling alcoholic beverages made partly from barley but that contain no barley malt, which previously were classified as spirits or liqueur are now classified as happoshu. Conversely, some products that previously were classified as happoshu are not classified as spirits or liqueur. There is no change to other categories of alcoholic beverages.

6. Product Characteristics

(1) Wine

Classification by Production Method

- Still wine

Non-sparkling wine made from fermented grapes or grape juice. Most wines fall into this category. Classified into three types: red, white, and rose, each of which comes in dry and sweet varieties. The alcohol content is 14% or less for Japanese wines, and normally around 11-12%. The alcohol content is usually 10-12% for French, German and Italian wines.
- Sparkling wine

Produced by adding carbonation to the bottle of still wine during fermentation. The best-known varieties are French *champagne*, Italian *spumante*, and German *sekt*.
- Fortified wine

Produced by adding brandy to still wine during or after fermentation to increase the alcohol content to around 18%. The best-known varieties are sherry from Spain and port from Portugal.
- Aromatized wine

Produced by adding spice, herbal distillates or extracts, or fruit juice to still wine. The best-known varieties are vermouth (U.S.A. or Italy), sangria (Spain), and kir (France).

Characteristics of Products from Different Countries / Regions

- France

France is blessed with nearly ideal climate and soil conditions for growing wine grapes, and its tradition of winemaking expertise consistently puts its wines at the top in quality. The French government closely regulates the winemaking industry in order to maintain its high quality standards. While wines come from all across the country, about 60% of high quality wine comes from four regions: *Bordeaux*, *Bourgogne*, *Cote du Rhone*, and *Loire*. In Japan, French wine has high demand for gift.
- Italy

Italy's mild climate gives it a host of winemaking regions all across the country. Subtle differences in climate between north and south make Italian wines highly varied and distinctive. The winemaking industry operates under strict government regulations.

- **Germany**

Germany is the world's northernmost winemaking nation. Its wide variety of wines (especially in white wine), its unique soils, and its north country climate are what distinguish German wines from all others.
- **United States**

American wine production has grown markedly in recent years, and wineries now operate in more than half of its states. Some 80% of all-American wines are produced in California. American wines generally have a reputation as mass-market products in Japan, but high-grade wines from the Napa and Sonoma Valley regions have become more widely available of late.
- **Australia**

Winemaking areas are widely scattered across the breadth of the country. Australian wine features consistent flavor qualities that are affected little by differences in climate. Most Australian wine is consumed in Australia itself, but recently Australian winemakers have begun exporting their wines, and they are now available in some 80 countries around the world. Their affordable prices make Australian wines broadly popular with the wine drinking public.
- **Chile**

Chile is a long and narrow country extending north to south along the Pacific coast of South America. The central valley of Chile, located between the Andes and the Coastal Range, is the important winemaking region in the country. In recent years Chile has ventured into varietal wines (made from specially selected vintages of grapes) that are well suited to world markets, and it has made dramatic technical advances as well. As a result, Chilean wine has become popular in the United States and elsewhere. Chilean wine has a reputation in Japan of being a good value for the money, and imports of Chilean wine saw explosive growth in 1998.

(2) Beer

Characteristics of Products from Different Countries/Regions

There are many different varieties of beer, resulting from differences in ingredients, in yeasts, and in alcohol content. Each beer-making country also tends to have certain distinctive characteristics, some of which are mentioned below.

- **United States**

The United States has more than 2,000 breweries making more than 5,000 brands of beer. Some of its most distinctive types of beer are malt liquor (which has higher alcohol content than regular beer), light beer (lower in calories) and American beer (made with corn or other secondary ingredients that give it a refreshing taste). Two leading American brands, Budweiser and Miller Special, are produced in Japan under license by Japanese breweries. Coors Special and Zima (sparkling malt beverage), both products of Coors, are imported from the United States. Zima has gained in popularity in recent years.
- **Netherlands**

Heineken, the best-known brand of Dutch beer, is known for its sophisticated taste that is well suited to Japanese preferences. Heineken is the second best-selling foreign brand of beer in Japan, after Budweiser. Heineken has used its strong image and its barrel-aged draft beer to focus on the urban commercial market. In the consumer market, Heineken has a strategic alliance with Kirin Beer.
- **Mexico**

Corona beer, one of Mexico's leading brands, is typically drunk with a slice of lime, and this has given Corona a unique style image. Other brands also have their own strong followings, at Mexican and Brazilian restaurants, and at drinking establishments that cater to young adults.
- **Australia**

Most Australians are of British descent, and most Australian beers are traditional full-bodied British-style beers, although Australian brewers also make lower calorie light beers. Australian beer has been getting popularity since the Sydney Olympic.
- **Belgium**

Belgium is known for its classic, high-alcohol beers with their flavorful aroma. Belgium has more than 1,000 breweries that make more than 3,000 brands of beer. Belgian brewers also make vintage beer aged 1-3 years, and its brewing industry offers perhaps the widest variety of beers in the world. Many of its beers are sold in corked, swing top and other old-fashioned types of bottles, and many brands of beer have their own distinctive bottle glass as well.

- **Germany**
Germany boasts more than 1,000 breweries and more than 5,000 brands of beer, the largest number of brands of any country in the world. Its best-known brands are Weizen and Rauch. Weizen has a well-balanced flavor that many consider the ideal combination of barley malt with the refreshing and slightly sour and bitter taste of wheat. The word “Rauch” in Rauch Beer means “smoky,” and as the name implies, this beer is smoked with beech wood and oak, which gives it a uniquely enjoyable taste.
- **United Kingdom**
British beers are known as rich, full-bodied beers high in barley malt. The United Kingdom has more than 150 breweries producing more than 2,000 brands of beer. It ranks first in the minds of many for its so-called vintage beers, which are aged anywhere from one to 25 years. The United Kingdom is also known for superior yeast technology, and it exports a considerable portion of its production.
- **Czech**
Czech Republic has 30 breweries that produce more than 200 brands of beer. Czech is known as the home of Pilsner Uguell beer (Pilsen beer), which takes its name from the city of Pilsen where it was first brewed. This beer is noted for its fresh taste and sharp hop flavor, it is the most widely brewed light yellow-colored beer in the world.

<Handling Recommendations>

- Beer stays fresh for quite a long time if it is refrigerated, but at room temperature it will start to go flat after 3-4 months. Thus, appropriate temperature control should be maintained at all times.
- Many imported beers are sold in cans and importers and distributors must take steps to ensure that the cans do not rust while in storage.

(3) Whisky

Whisky is mainly produced in five regions, Scotland, Ireland, the United States, Canada and Japan, each of which boasts its own distinctive flavors and other characteristics. As a rule, the longer whisky is aged, the more it matures, the more mellow it becomes and the greater its depth and price. However, if it is left to age too long in the cask, the tones it acquires from the wood can become too strong and the flavor and freshness suffer. The characteristics of the major whiskies are as follows.

- **Scotch whisky (producing regions: England, Scotland)**
Most Scotch whisky is either “malt whisky,” made from malt only, or blended whisky incorporating “grain whisky” made using corn or other grains. Because the malt whisky is dried with burning peat, it has a distinctive smoky flavor.
- **Irish whisky (producing region: Ireland)**
The use of barley, corn and other grains in addition to malt gives Irish whisky a grain-like flavor. Because it is dried with the burning of coal rather than peat, it has less of a smoky flavor than Scotch whisky. It is distinctively mellow in flavor and feels thick to one’s palate. Although it was previously not made in blended form, recently “Irish blended whisky” has appeared incorporating grain whisky and produced mainly for export.
- **Bourbon, rye, and wheat Whisky (producing region: United States)**
These whiskies are classified according to main ingredient (the ingredient making up at least 51% of the ingredients) as bourbon (corn), rye whisky (rye wheat) and wheat whisky (wheat). Because they are aged in new casks of white oak whose interiors have been scorched, they boast distinctive colors and fragrant scents.
- **Canadian whisky (producing region: Canada)**
Canadian whisky is made from corn, rye wheat, malt and other ingredients. It is a blend of smooth “flavoring whisky” and cleanly distilled “base whisky.” Its light flavor is distinctive.
- **Japanese whisky (producing region: Japan)**
Made in the same way as Scotch whisky, Japanese whisky comes in “malt whisky,” “grain whisky” and “blended whisky” incorporating both. It is less smoky than Scotch whisky and distinctive in its own right. Smooth and well balanced in flavor, Japanese whisky is known for its ample body.

7. Domestic Distribution System and Business Practices

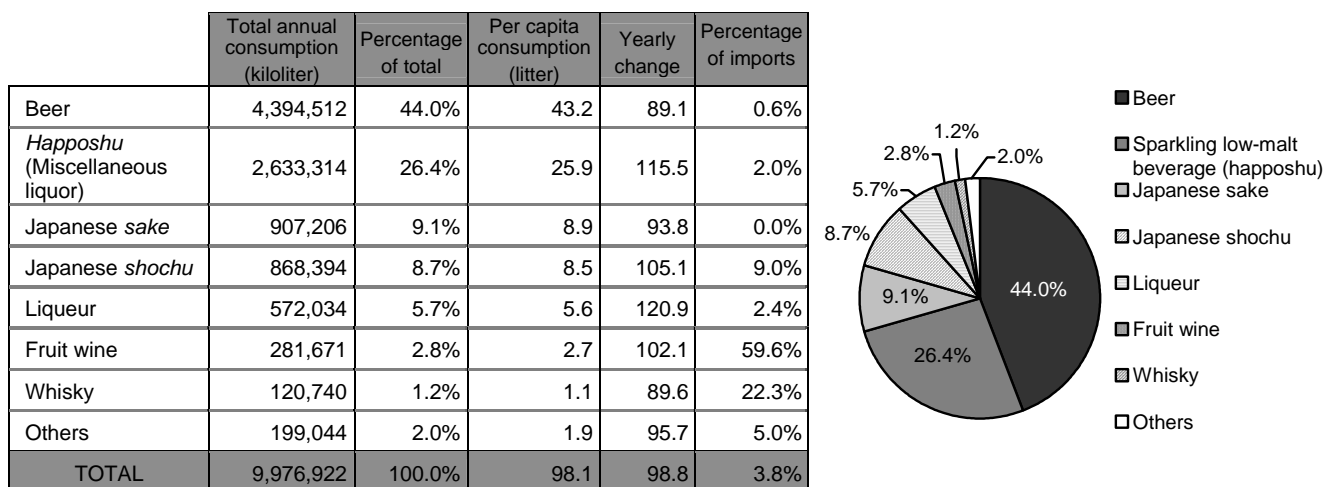
(1) Domestic Market Conditions

Characteristics of the liquor market in Japan

Per capita annual liquor consumption in Japan averages 98 liters. The favorite liquor of the Japanese is beer. Per capita annual consumption of beer and “*happoshu*” (sparkling low-malt beverage with the taste of beer but lower-priced) totals some 69 liters, far above all other types of alcoholic beverages.

Nevertheless, persistent recession, life style changes and diversified consumer tastes have resulted in flat or even declining overall sales for alcoholic beverages. Increasingly consumers are preferring lower-priced and “light” (low-alcohol) beverages. Striking differences have emerged between different categories of alcoholic beverages. Sales of *happoshu*, liqueur and “*shochu*” (rough distilled spirits) have risen, while sales of beer, Japanese *sake* and whisky have fallen. Wine sales jumped temporarily during the red wine fad of 1998 only to tumble thereafter before finally flattening out and posting a small gain in 2002.

Fig. 15 Japanese consumption of alcoholic beverages (2002)



(Note) Figures are calculated based on taxable volume (the volume for which liquor tax has been paid). Liquor tax is collected on domestic products when they are shipped from the distillery and on imported products when they are taken from the bonded warehouse

Source: National Tax Agency (preliminary figures)

Please note that the Liquor Tax Law classifies bottled and canned cocktails and “*chuhai*” under the same category as liqueur. *Chuhai* is an alcoholic beverage unique to Japan, made from a combination of *shochu*, neutral spirits (raw material alcohol) or vodka with lemon, grapefruit or orange juice and carbonated water. It comes in small-size 250-350 ml cans, and has rapidly gained market share due to its popularity as a low-cost low-alcohol (alcohol content 5-7%) beverage (industry observers estimate 2002 sales at approximately 500,000 kiloliters).

Recent trends in the alcoholic beverage market in Japan

The alcoholic beverage market in Japan stands at a crossroads, for several reasons. (1) June of 2002 saw the promulgation of the amended Road Traffic Law, which instituted significantly stiffer penalties for driving under the influence of alcohol (DUI). The result has been a drop in alcoholic beverage sales at suburban and rural beverage service establishments. The impact on rural establishments has been especially severe, and many are shifting more to non-alcohol beverages and carbonated beverages.

Note: Imports of non-alcoholic beers (HS 2202.90) soared from 14,420 kl in 1998 to 31,949 kl in 2002. The leading exporter of non-alcoholic beer to Japan is the United States, followed by Germany, the Republic of Korea and the Netherlands. All the leading beer brands have reinforced their non-alcoholic beer product lines, and the price of a 350 ml can of imported non-alcoholic beer has dropped from ¥150 to ¥130. Sales and import growth has resulted in part from increased demand at golf courses and at beverage establishments along major arterial highways.

(2) The liquor tax on wine and *happoshu* is set to increase on May 1, 2003 by ¥10 for every 750 ml of wine and every 350 ml of *happoshu*. The impact of this tax increase will have a major effect on market trends. (3) In addition, as of September of 2003 the general liquor retailer system will switch from a licensing system to a notification system, effectively deregulating liquor distribution. Supermarkets, convenience stores, discount stores and drugstores are expected to start carrying alcoholic beverages, if they do not already.

Furthermore, companies from other industries have announced plans to begin liquor retail sales in order to attract customers. These include video rental stores, gasoline stations, home delivery services and pizza delivery chains. Since there is little prospect for dramatic growth in demand in the alcoholic beverage market as a whole, it is expected that expanded liquor distribution channels will greatly intensify competition. (4) To respond to this new environment, leading beer makers are transforming themselves into comprehensive alcoholic beverage providers, adding wine, *shochu*, spirits, *chuhai*, liqueur and other beverages to their mainstay beer and *happoshu*, or even as general beverage providers. They are moving rapidly on strategic alliances and acquisitions both inside and outside Japan in an effort to solidify their positions. Also, there is a noteworthy trend toward alliances and mergers between food and liquor wholesalers, in an effort to acquire comprehensive wholesaling capabilities.

<Wine>

The wine market in Japan was particularly vibrant in 1998. Numerous TV shows and magazine articles have touted the health benefits of drinking red wine, saying that the large amount of polyphenols in red wine helps prevent arteriosclerosis and Alzheimer's disease. The red wine boom died down beginning in 1999, and excess inventories were not cleared out until mid-way through 2001. The boom focused more attention on wine, and it definitely expanded the scope of consumption and distribution. Wine has taken its spot as a routine part of Japanese life styles. It is no longer something people drink only on special occasions. Now it is something that people drink routinely, with their daily meals. Consumers' wine knowledge seems to have grown markedly. Annual per capita wine consumption is 2.7 liters. Still, this represents solid growth compared to the 1.8 liters recorded in 1996. Observers say that in 2002 Japan became the world's largest importer of *beujolais nouveau*.

The Japanese market as a whole is marked by a strong deflationary trend, and the best-selling wine products are low-priced wines selling at around ¥500 per bottle. Consumers increasingly are choosing imported wines over domestic wines if they are priced similarly, and this is significantly undermining the position of domestic wines. September of 2002 saw the launch of production of domestic wine brand in France by Suntory, one of Japan's most prominent brands. Japanese wine is aiming for a higher profile in premium class wines, which depend on carefully selected grapes, and in plumb, apple and other fruit wines.

Many imported wines have been forced to revise retail prices due to the strong euro and to the higher cost imposed by the liquor tax increase in May. At the same time, hotels, restaurants and other commercial users have been reducing the purchase prices they are willing to pay. Thus, profit margins on wine are being squeezed ever tighter. After the licensing system of general liquor retailers is abolished in September of 2003, more stores will be carrying wines, but it is also expected that expanded wine distribution channels will greatly intensify price competition.

On the other hand, sales remain strong for products that are differentiated by type, by winemaking method or by other distinctive product characteristics. Consumers tend more and more to pick wines that suit a particular occasion or social setting. Recently new products have been developed, such as polyphenol-reinforced health wines and organic wines. Expectations are high for future growth in these products.

<Beer>

The beer market in Japan is an oligopoly, essentially controlled by the two most prominent brands, Kirin and Asahi, along with two other important brands, Sapporo and Suntory. Beer consumption has been on the decline, due to the recession's impact on propensity to consume, to an overall decline in alcohol consumption, and to the shift to lower-priced alcoholic beverages (*happoshu* and *chuhai*). Even when total beer and *happoshu* consumption is combined, it is apparent the market is at a standstill.

As of May 2003, *happoshu* is subject to increased taxes, and leading beer makers have announced suggested retail price increases as a result. The price of a 350 ml can will go up by ¥10 to ¥135, while the price of a 500 ml can will go up by ¥16 to ¥185. April is expected to see a 50% increase in shipments compared to the same month a year earlier, as consumers stock up to beat the looming price increases. But after the price increases go into effect, *happoshu* will increasingly be in a difficult competitive position in relation to *chuhai* and other lower-priced beverages.

Consequently, marketing for imported beer (which makes up less than 1% of the market) and for domestically produced foreign brands of beer is increasingly targeting the commercial market. Makers or importers are focusing on beverage establishments consistent with the unique characteristics of the country and the brand, with special emphasis on draft beer. The World Cup inspired surge in demand has come to an end, but there are excellent prospects for growth in exploring beverage establishments, especially in smaller cities in the provinces.

<Whisky>

The whisky market has been hit harder by the recession than other alcoholic beverages. Both domestic and imported whiskies continue to post weak sales. Both domestic distillers and importers responded to the major liquor tax reductions by cutting retail whisky prices significantly. They have also aggressively introduced new products, including smaller bottles of whisky to encourage young adult drinkers to try the product, and whiskies that go better with Japanese style home-cooked meals. As a result, after years of contraction, the steady shrinkage in the whisky market temporarily reversed itself in 1997 and 1998. However, from 2001 onward annual consumption has been dropping about 10,000 kl per year.

Discount liquor stores sell whisky in large volumes and at low prices. These stores not only cut prices in response to the liquor tax cuts, but they also sell brands of imported whisky that once were considered strictly luxury items, at prices that are comparatively affordable. As a result, these brands have become much more available and accessible. There has been a noticeable decline in imports of whisky in the personal possession of returning from overseas trip. A similar pattern is evident in the import market as well, as standard whiskies are selling for lower prices while high added value malt whiskies remain highly popular. Importers have been organizing informational seminars for bartenders and discriminating consumers in order to evangelize high added value products.

As discussed above, leading beer makers are attempting to establish themselves as comprehensive alcoholic beverage providers. In the process, they are moving at a fever pitch to form business alliances and to make corporate acquisitions, both domestically and abroad. One example is Kirin Beer, which has absorbed into the parent company Kirin Seagrams, the subsidiary that once served as a sole import agent for Chivas Regal. Kirin Beer now handles Chivas Regal directly. Kirin Beer has also acquired worldwide marketing rights for Four Roses bourbon from the United States, as well as domestic marketing rights in Japan for alcoholic beverage products of Pernod Ricard (France). In the same vein, Asahi Beer has acquired Nikka Whisky as a fully owned subsidiary and has signed a Japan marketing agreement with Maxxium Worldwide (the Netherlands). These moves are expected to significantly enhance the marketing strength of these brands in Japan in 2003 and thereafter.

(2) Distribution Channels

Liquor business license holders issued under provisions of the Liquor Tax Law may only distribute alcoholic beverages in Japan. As of March 2002, there were a total of 146,430 licensed liquor (all varieties) retail sale locations in Japan. Retail sale deregulation measures have prompted leading supermarkets and convenience store chains to enter the liquor sale market on a major scale, resulting in an increase of roughly 10,000 sale locations compared to five years earlier. Already there are a number of moves at the wholesale distribution stage to forge alliances and mergers between alcoholic beverage and food wholesalers, a trend that will strengthen the hand of general food wholesalers with nationwide distribution networks.

<Wine>

Domestic wines are normally distributed from the wine maker through primary liquor wholesalers, secondary liquor wholesalers to retailers, then finally to consumers or commercial users. A variety of channels are available to the imported wines, including direct imports by Japanese wine makers, indirect imports via specialized trading companies, or joint imports. Some leading wholesalers and large retailers buy direct from abroad and distribute through their own sales channels, bypassing importers altogether.

Also some wine specialty importers sell directly to consumers. Japanese wine makers often serve as the authorized import agent for leading brands of French and Italian wine. In the past, trading companies had tailored their bulk and bottled wine import business to accord with the preferences and strategies of domestic wine makers and wholesalers. However, trading companies are now starting to devote effort and resources to imports of wines for sale under their own brand labels. One turnaround strategy for small and medium-sized liquor wholesalers and retailers is to reduce the volume of beer, which turns almost no profit, and place more emphasis on wine instead. More and more liquor stores are learning about wine and increasing the amount and variety of wines they carry. Also, Internet-based mail order outlets are all over the country now, and they are expected to play a more prominent role in the future. (see Fig. 16)

<Beer>

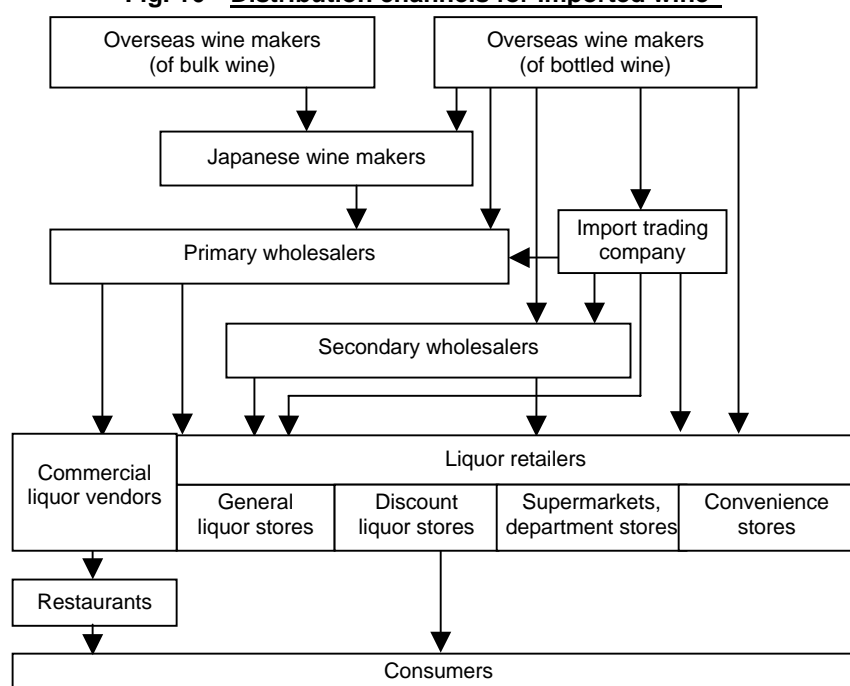
After the liberalization of general liquor retail's licensing set for September of 2003, many more stores are expected to start carrying beer and happoshu, though, many of them may not want to start carrying wine or whiskey. A survey by a leading convenience store chain showed that about 90% of happoshu purchasers also bought a boxed lunch at the same time. Thus, even if there is no profit to be made on happoshu itself, its customer drawing power may prove attractive. Liquor taxes will go up on May 1 as part of the amended Liquor Tax Law, and major supermarkets and convenience stores have announced that they will raise the price of wine accordingly but plan to hold the line on prices of happoshu. In the future channel competition is likely to grow more intense in the beer and happoshu sector

Imported beers are mainly sold through mass merchandiser outlets in major metropolitan areas, and into the commercial market, through restaurants. Nearly all imported beers have avoided a strategy of mindlessly expanding sales volume. Instead, they begin by exploring compatible restaurants in the commercial market, where they seek to gain supporters and cultivate a brand image. Only gradually do they venture into the consumer market. Imported beers little by little gain support when they clearly establish a distinctive identity and appeal that sets them apart from domestic beers. Also, barrel-aged draft beer provides an advantage in the commercial market, and helps brands differentiate themselves in the minds of restaurants. (see Fig. 17)

<Whisky>

Whisky is imported through official routes authorized by foreign distillers and through parallel routes opened by parallel importers. Parallel-import volumes are affected by market conditions, including overseas distribution volumes and exchange rates. In recent years, the trend has been downward. According to industry sources, retail outlets for whisky are divided among commercial liquor vendors (30%), discount liquor stores (25%), ordinary liquor stores (16%), supermarkets (15%) and convenience stores (12%). Channel competition is increasing. (see Fig. 17)

Fig. 16 Distribution channels for imported wine



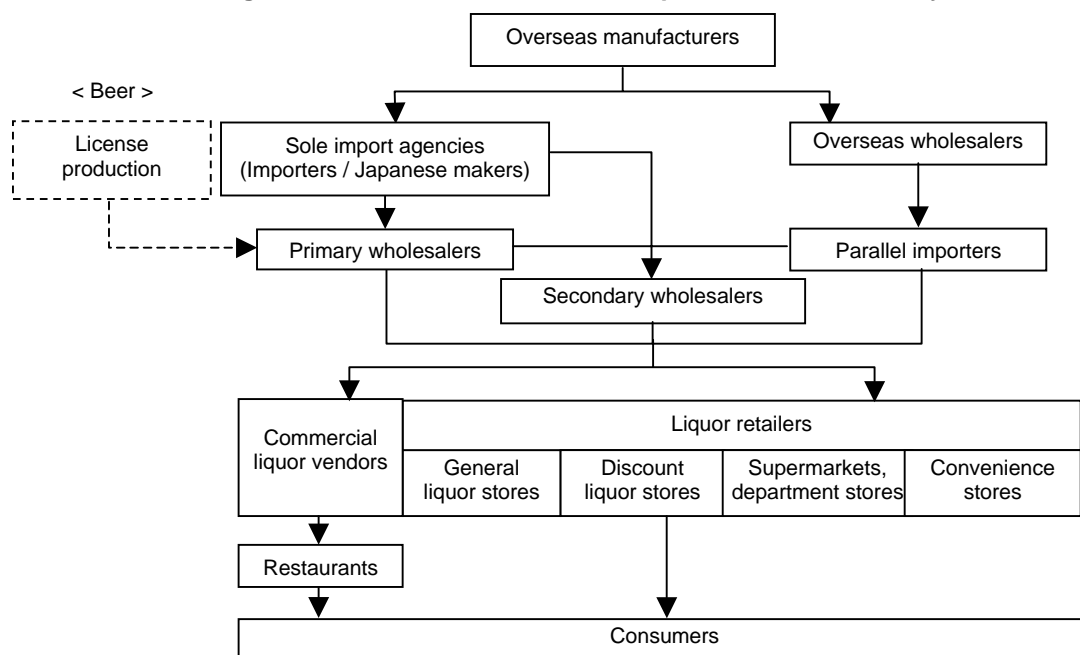
(3) Key Considerations for entering the Japanese Market

Before entering the Japanese liquor market, prospective importers must first make sure that all necessary business licenses for sales of liquors under the Liquor Tax Laws have been obtained. In the case of alcoholic beverages, coloring agents and preservatives are sometimes used as additives. Products containing additives that are not approved for use with food products under Japanese standards, or in excess of permissible quantities may not be imported into Japan. When the alcoholic beverage is being imported into Japan for the first time, voluntary inspection performed in advance by official laboratories designated by the Minister of Health, Labour and Welfare in Japan or registered official laboratories in the exporting country may be essential. Alcoholic beverages must contain less than 1mg/cubic cm of methanol. Prospective importers should obtain samples and check thoroughly in advance to determine whether the product conforms to Japanese standards.

<Wine>

Importing and selling wines require some knowledge of the characteristics of the product. In particular, the delicate flavor of wine requires that it be stored and transported under precisely controlled temperature conditions. Ships from Europe and Australia must pass through tropical regions where the temperature rises as high as 40 degrees Celsius. Because of this, many exporters ship wine in reefer containers that keep the wine at a set temperature. In addition, while in storage wine should be kept in a wine cellar or an equivalent facility where the temperature can be maintained at 15-20 degrees Celsius.

Fig. 17 Distribution channels for imported beer and whisky



<Beer>

Prospective beer importers should also be borne in mind the following points:

- You should carefully study Japanese taste preferences, then establish a distinctive identity and appeal that sets them apart from domestic beers.
- Unsold stocks will deteriorate, resulting in flat beer, broken bottles and crusted cans. Defective will have to be discarded, which is costly in it. Also, customs duties and liquor taxes are not refundable. For these reasons, prospective importers would be well advised to begin by importing and test marketing only a small quantity of beer in Japan.
- You must have a thorough understanding of beer distribution and retailing practices in Japan.

<Whisky>

It is essentially the same as beer, but in the case of whisky, product quality and brand management are more important than beer.

8. After-Sales Service

Importers and resellers bear legal responsibility for any defects in imported alcoholic beverages. They are also responsible for collection of used containers. These considerations need to be kept in mind.

9. Related Product Categories

- Other alcoholic beverages

Other forms of imported alcoholic beverages include brandy, liqueur and other distilled spirits. Under the law these beverages are treated much the same as wine, beer and whisky. Please note that customs and tax authorities classify products differently according to different levels of alcohol content. Check with customs to determine the taxes and duties applicable to a particular product.

- Non-alcoholic beverages

Beverages containing less than 0.5% alcohol are classified as non-alcoholic beverages. Any foods and beverages are subject for the Food Sanitation Law, when they are imported for the purpose of sale or for other commercial purposes. Beverages with an alcohol content of 0.5-1.0% are classified as alcoholic beverages for the purpose of customs clearance, but are not classified as alcoholic beverages under the Liquor Tax Law. These products are sold as soft drinks.

10. Direct Imports by Individuals

Individuals may import quantities of alcoholic beverages deemed appropriate for personal consumption without business license of liquor seller and/or being subject to the Food Sanitation Law requirements. However, imports of alcoholic beverages to serve to customers of restaurants personally owned or operated, or to provide to a multiple non-specific persons are subject to provisions of the Food Sanitation Law. Imports for personal use remain subject to customs duties and liquor taxes. Individuals returning from overseas trips may bring in up to three 760 cc bottles of whisky duty-free, with customs duties levied on amounts in excess of this limit.

11. Related Organizations

- | | | |
|--|-------------------|---|
| • Nippon Wine Importers Association | TEL: 03-3445-6853 | |
| • Japan Imported Beer Association | TEL: 03-5489-8888 | |
| • Japan Wines and Spirits Importers Association | TEL: 03-3503-6505 | |
| • SOPEXA (French Food Promotion Association) | TEL: 03-3585-7440 | http://www.franceshoku.com |
| • Deutscher Weinfonds Representative Office in Japan | TEL: 03-3511-4033 | http://www.dwfjp.com |
| • CMA (German Agricultural Marketing Board) | TEL: 03-3580-0169 | |
| • Italian Trade Commission Tokyo | TEL: 03-3475-1401 | http://www.ice-tokyo.or.jp |
| • Brewers Association of Japan | TEL: 03-3561-8386 | http://www.brewers.or.jp |
| • Japan Craft Beer Association | TEL: 0797-31-6911 | http://www.beertaster.org |