

3. Whisky

1. Definition of Category

Whiskies (alcoholic beverages made through the fermentation of germinated barley, rye or corn with water and through distillation).

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

Scotch whisky, Canadian whisky, and Irish whisky are classified as “other whiskies” and has no independent customs clearance statistics.

2. Import Trends

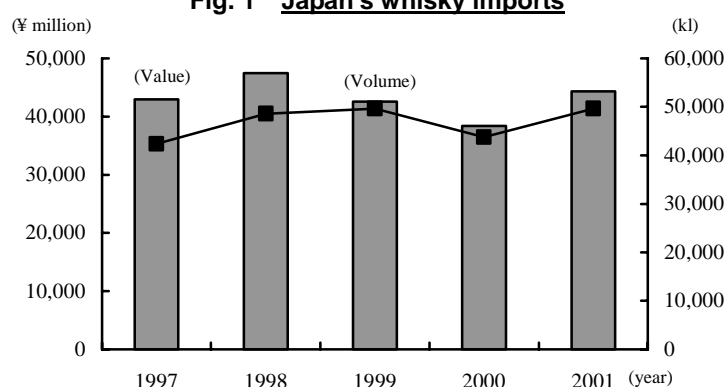
(1) Recent Trends in Whisky Imports

Whisky imports include bulk whisky to be used in blends with domestic whisky, in addition to whisky sold in retail sale bottles of under 2 liters. Whisky import growth in recent years has resulted mainly from increased imports of bulk whisky, which more than tripled from the 1996 level of 7,005 kiloliters to 22,641 kl in 1999 and also increased to 24,021 kiloliters in 2001, accounting for almost half of total import volume (48.4%).

By product type, Scotch whisky (imported from the United Kingdom and classified under “other whiskies” in official customs statistics) makes up 72.7% of all whisky imports. Bourbon whisky (certified authentic by the producer nation’s government) accounts for 19.2%. Rye whisky (certified authentic) accounts of 0.1%, and other whiskies for 8.0%.

Overall trend is, however, 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. The demand for whisky is at a standstill. Bottled whisky imports for retail have been declining, while bulk whisky imports have been growing. The overall result was the highest import volume in 2001 during the last five years (49,671 kiloliters).

Fig. 1 Japan's whisky imports



	1997		1998		1999		2000		2001	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Bourbon whisky	9,928	6,180	11,371	7,674	10,563	6,905	9,245	6,051	9,557	6,763
Rye whisky	133	107	130	117	132	91	111	71	74	54
Other whiskies	32,354	36,634	37,114	39,651	38,972	35,576	34,435	32,287	40,040	37,524
TOTAL	42,414	42,920	48,614	47,443	49,666	42,572	43,791	38,408	49,671	44,340
(Whisky for blend)	8,828	5,786	18,779	11,212	22,641	10,212	18,348	7,414	24,021	11,991

Units: kl, ¥ million

Source: Japan Exports and Imports

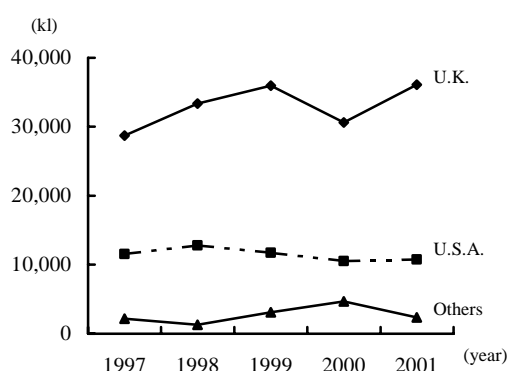
There are a couple of principal reasons for these trends. First of all, Japan has reduced the liquor tax rates and tariff rates on whisky since 1997. Second, Japanese whisky distillers have significantly boosted their imports of blend whisky as they seek to benefit from the reduced tax rates and strengthen their product lineups. Third, while reduced tax rates and marketing efforts have produced hopeful signs of increased consumer demand, although corporate demand for whisky remains depressed, and higher-priced whisky sales continue to fall.

(2) Imports by Place of Origin

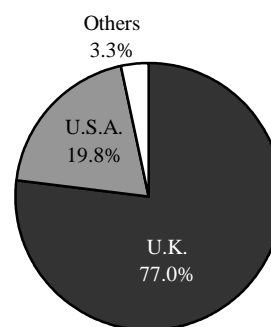
Scotch whisky imports from the United Kingdom have increased in recent years, especially bulk whisky for use in blends. Scotch whisky imports rose by 36.7% in 2001 to 21,371 kiloliters. Bourbon whisky is imported entirely from the United States, and bulk imports have been growing. In contrast, rye whisky is imported from both Canada (54 kiloliters) and the United States (20 kiloliters), but imports from both countries slipped from previous year levels. Irish whisky imports had doubled in 2000, but in 2001 imports slipped from 1,748 kiloliters the year before to 1,136 kiloliters.

Fig. 2 Principal exporters of whisky to Japan

Trends in import volume by leading exporters



Shares of whisky imports in 2001 (value basis)



	1997	1998	1999	2000	2001				
	Volume	Volume	Volume	Volume	Value	Volume	Value	Volume	Value
U.K.	28,715	33,348	35,973	30,581	28,827	36,098	72.7%	34,134	77.0%
U.S.A.	11,512	12,793	11,698	10,516	8,024	10,758	21.7%	8,763	19.8%
Canada	1,590	2,248	1,151	907	618	1,618	3.3%	753	1.7%
Ireland	584	190	821	1,748	798	1,136	2.3%	534	1.2%
R. Korea	2	-	-	-	1	18	0.0%	89	0.2%
Other	12	35	23	39	141	42	0.1%	67	0.2%
TOTAL	42,414	48,614	49,666	43,791	38,408	49,671	100.0%	44,340	100.0%
(E U)	29,300	33,549	36,806	32,362	29,728	37,261	75.0%	34,718	78.3%

Units: kl, ¥ million

Source: Japan Exports and Imports

(3) Imports' Market Share in Japan

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. Sales of black spirits are depressed worldwide, but there are signs of an upturn in the Japanese consumer market, aided by the lower tax rates. Sales of whisky are up slightly on a taxable volume basis in 1997 and 1998. But the chronic recession has brought even more difficult conditions to the commercial market, and commercial sales turned downward again since 1999 onward. The downturn is especially pronounced in sales of upscale whiskies at upscale food and beverage establishments, where expense account dining and drinking is common. As a result, imported whisky has lost overall sales share, falling to 20.0% in 2000.

Note: Taxable volume: Liquor tax is collected on domestic whisky when it is shipped from the distillery and on imported whisky when it is taken from the bonded warehouse. Taxable volume refers to the volume of whisky for which the liquor tax has been paid and is used as a measure of the volume of whisky distributed in Japan.

Fig. 3 Imports' share in the Japanese market

	1996	1997	1998	1999	2000
Domestic products	102,721	104,893	107,689	102,770	100,576
Imported products	33,001	32,784	31,122	29,369	25,216
Total	135,722	137,677	138,811	132,139	125,792
Imports' share	24.3%	23.8%	22.4%	22.2%	20.0%

Unit: kl

Source: National Tax Administration

Note: These figures are calculated based on taxable volume and differ from the import figures above.

3. Key Considerations related to Importing

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

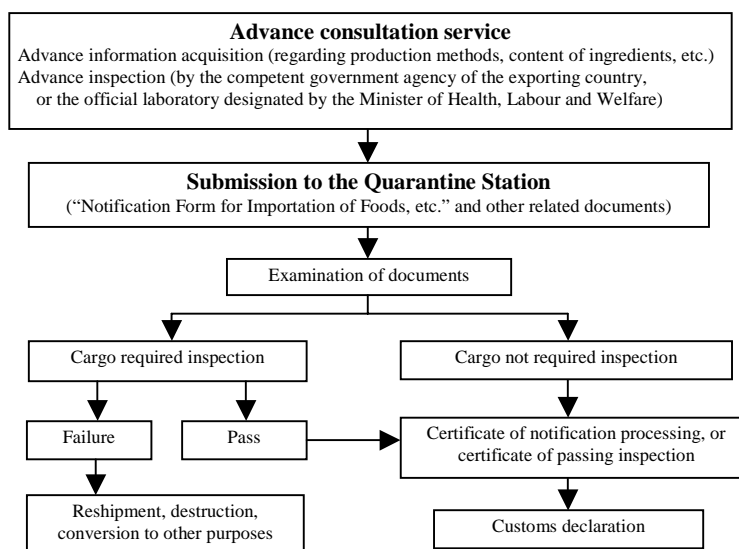
The importation of whisky is subject to the Food Sanitation Law and the Liquor Tax Law.

1) Food Sanitation Law

Under provisions of the Food Sanitation Law, an import notification is required for whisky 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. (see Fig. 4)

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.

In addition, importers who wish to submit their notifications by computer may make use of the computerized FAINS (Food Automated Import Inspection and Notification 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. 4 Procedures required under the Food Sanitation Law

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 whiskies without restriction, but without a liquor vendor's license, it is not permitted to ship imported whisky out of the bonded area. Therefore, it is essential to first obtain a liquor vendor's license to sell imported whisky. In addition to customs duties, liquor taxes are collected when the whisky is shipped from the bonded area.

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

The domestic sale of whisky is subject to the Liquor Tax Law, the Liquor Business Association Law, the Food Sanitation Law, the Measurement Law, the Containers and Packaging Recycling Law, and the Law for Promotion of Effective Utilization of Resources.

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 whisky at their restaurants and do not sell to other restaurants or to customers. The various types of licenses for selling imported whisky 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 (whisky, wine, spirits, liqueur, and miscellaneous liquors), 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) 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.
- d) 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, however, the 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.
- e) 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.

<Deregulation of liquor retailer's license qualification>

The 3-Year Deregulation Plan (1999) relaxed qualifications for obtaining a general liquor retailer's license. Minimum distance between outlets criteria was abolished as of January 1, 2001, and population criteria is due to be abolished in September 1, 2003.

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

When whisky is 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 whisky is sold, it must be labeled in accordance with provisions of the Food Sanitation Law. (see 4. Labeling)

4) Measurement Law

When whisky is sold packaged or bottled, it is required to indicate the net content to certain accuracy. (see 4. Labeling)

5) 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, whisky 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.

6) Law for Promotion of Effective Utilization of Resources

As of April of 2001, new identifier labeling requirements apply to paper (not including beverage containers not containing aluminum) and plastic container materials, in addition to previously existing labeling requirements for steel and aluminum cans.

7) Fair Competition Code for Imported Whisky under the Act Against Unjustifiable Premiums and Misleading Representations

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 (Premiums and Representations Act). It consists of premiums guidelines (Fair Competition Code concerning Restrictions on Premiums, etc. in the Importation and Sale of Liquors) and labeling guidelines (Fair Competition Code concerning Representation of Imported Whisky). (see 4. Labeling)

(3) Competent Agencies

- Liquor Tax Law / Liquor Business Association Law
Consumption Tax Policy Division, Tax Bureau, 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>
- Containers and Packaging Recycling Law / Law for Promotion of Effective Utilization of Resources
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>
- Act Against Unjustifiable Premiums and Misleading Representations (Fair Competition Code)
Consumer Related Trade Division, Trade Practices Department, Fair Trade Commission of Japan
TEL: 03-3581-5471 <http://www.jftc.go.jp>

4. Labeling

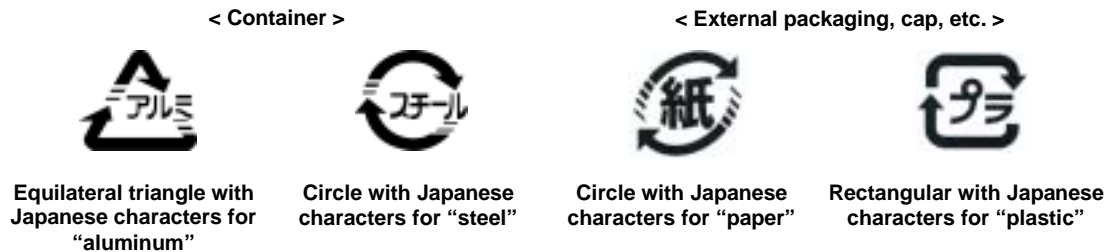
(1) Legally Required Labeling

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

- 1) Product name (the phrases “whisky”)
- 2) List of ingredients
- 3) List of food additives used
- 4) Alcohol content
- 5) Content volume
- 6) Whether or not effervescent
- 7) Country of origin
- 8) Importer name and address
- 9) 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.)
- 10) Labeling to prevent consumption by minors

<Labeling under the Law for Promotion of Effective Utilization of Resources>

The Law requires that all canned whiskies, whether produced in Japan or elsewhere, display an identifying mark affixed to or printed on at least one spot on the side of the can. Aluminum cans display a triangular symbol, while steel cans display a circular symbol. Both symbols are overlaid with the appropriate terms in Japanese. In addition, as of April of 2001, new identifier labeling requirements apply to paper (not including beverage containers not containing aluminum) and plastic container materials



(2) Voluntary Labeling based on Provisions of Law

<Labeling Standard on Organic for Liquors>

When employing the phrase "organic" in the labeling, it must comply with the above-mentioned Standards under provisions of the Liquor Business Association Law.

(3) Voluntary Industry Labeling

<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

Example label for whisky

Product name	Whisky
List of ingredients	Malt, grain
Alcohol content	45%
Net contents	500 ml
Country of origin	Scotland
Importer:	XYZ Co., Ltd. X-X, YY-machi, ZZ Prefecture
Imported for:	OOO Toshima-ku, Tokyo
<i>You must be 20 to drink alcohol beverage</i>	

5. Taxes

(1) Customs Duties

Fig. 5 on the following page presents tariff rates on 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

All alcoholic beverages, including whisky, are subject to a liquor tax per alcohol content and volume. Liquor taxes on whisky have already been cut twice. Fig. 6 on the following page presents current tax rates on whisky.

Fig. 5 Customs duties on whisky

HS No.	Description	Rate of Duty (%)			
		General	WTO	Preferential	Temporary (till 2002.3.31)
2208.30	Whiskies				
	(1) Bourbon whisky	(13.7%)	(7.4%)		3%
-011	(a) Of a alcoholic strength by volume of 50% vol or higher				
-019	(b) Other Bourbon, in containers holding less than 2 liter container				
	(2) Rye whisky	(15.7%)	(8.4%)		5%
-021	(a) Of a alcoholic strength by volume of 50% vol or higher				
-029	(b) Other Rye, in containers holding less than 2 liter container				
	(3) Other whisky				
-031	(a) Of a alcoholic strength by volume of 50% vol or higher	(¥207.20/liter)	(¥123.90/liter)		¥92.68/liter
-032	(b) Others, in containers holding less than 2 liter container	(¥172.50/liter)	(¥102.90/liter)		¥77/liter

Note: Refer to "Customs Tariff Schedules of Japan" (published by Japan Tariff Association) etc. for interpretation of tariff table.

Fig. 6 Liquor tax rates on whisky

Alcohol content of more than 40% but less than 41%	¥409 per liter
Alcohol content of more than 41%	¥10.225 per liter for each percent of alcohol above
Alcohol content of more than 38% but less than 40%	¥10.225 per liter for each percent of alcohol below
Alcohol content of less than 38%	¥378.325 per liter

(3) Consumption Tax

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

6. Product Characteristics

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

The whisky market has been hit harder by the recession than other alcoholic beverages. Both domestic and imported whiskies continue to post weak sales. However, both domestic distillers and importers responded to the major liquor tax reductions under the 1997 amended Liquor Tax Law 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 whisky market posted two straight years of annualized growth, in 1997 and 1998. Although the size of domestic market failed to maintain the same level in 1999 as the year before, whisky continued to fare well in the market, especially 40 proof or less whisky in regular size bottles priced at under ¥1,000. Traditionally Japanese have tended to drink whisky mainly in alcoholic beverage establishments, but the number of home whisky drinkers is steadily increasing. The market for domestic whisky is characterized by accelerating price declines and container capacity increases in the home user market. At the same time, distinctive and high-quality premium whiskies are selling well, further testifying to the polarization of consumption.

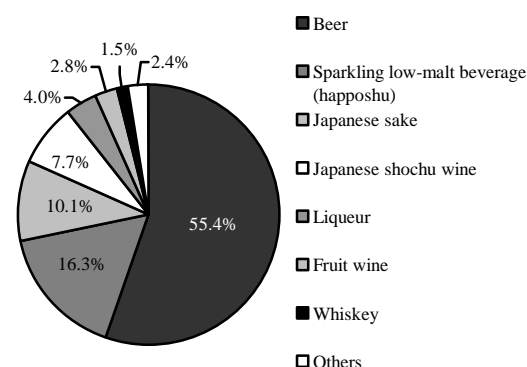
Discount liquor stores sell whisky in large volumes and at low prices. These stores not only cut prices in response to the liquor tax cuts, but they also sell brands of imported whisky that once were considered strictly luxury items, at prices that are comparatively affordable. As a result, these brands 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, and further growth in this area is expected in 2002.

[Japanese consumption of alcoholic beverages]

Figure 7 presents the Japanese consumption of alcoholic beverages on a volume basis. The favorite alcoholic beverage of the Japanese is beer. Average annual consumption of beer plus sparkling low-malt beverage (*happoshu*) per capita is about 71 liters, putting them far ahead of any other alcoholic beverages. The chronic recession in Japan, combined with more diverse life styles, means that per capita alcoholic beverage consumption has been on the decline. The overall trend is toward lower-priced beverages with lower alcohol content, and there has been growth in *happoshu*, in liqueurs and in white spirits.

Fig. 7 Japanese consumption of alcoholic beverages (2000)

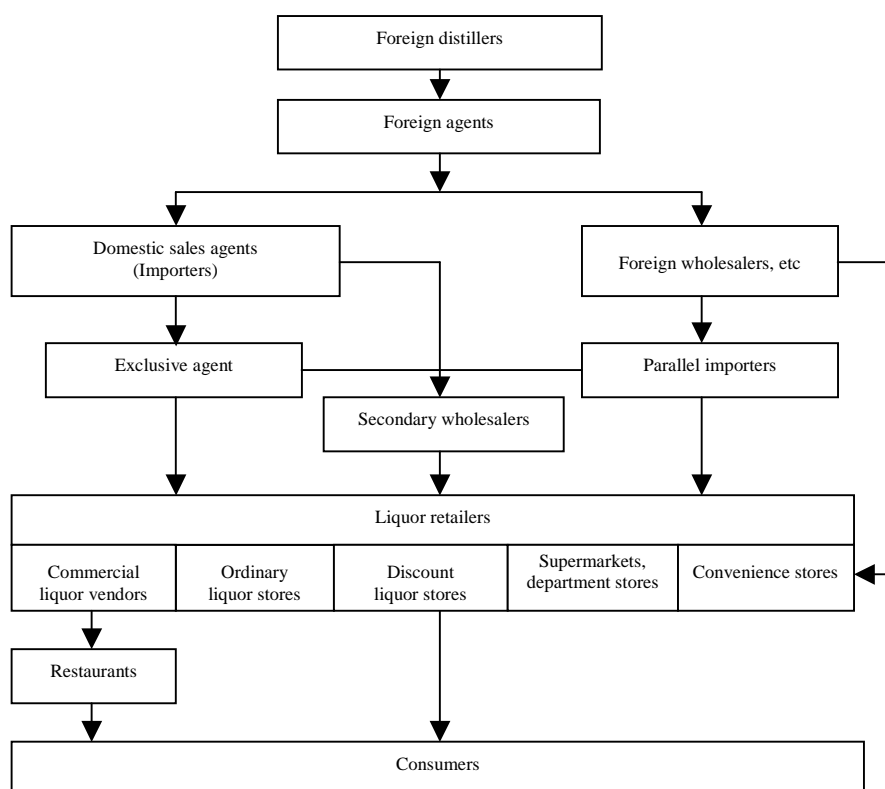
	Total annual consumption (kiloliter)	Percentage of total	Per capita consumption (litter)	Yearly change	Percentage of imports
Beer	5,571,659	55.4%	55.2	95.5	0.5%
Sparkling low-malt beverage (<i>happoshu</i>)	1,636,740	16.3%	16.2	116.6	4.0%
Japanese <i>sake</i>	1,015,450	10.1%	10.1	95.1	0.0%
Japanese <i>shochu</i> wine	771,574	7.7%	7.6	101.5	7.5%
Liqueur	400,282	4.0%	4	107.5	2.7%
Fruit wine	276,836	2.8%	2.7	92.9	58.4%
Whisky	146,933	1.5%	1.4	95	20.9%
Others	244,835	2.4%	2.4	114.6	4.1%
Total	10,064,309	100.0%	99.7	99.6	3.6%



Source: National Tax Administration Agency

(2) Distribution Channels

Liquor business license holders issued under provisions of the Liquor Tax Law may only distribute whisky in Japan. The principal distribution channels are illustrated on Fig. 8 below. 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.

Fig. 8 Imported whisky distribution channels

There are about 13,000 holders of liquor retailer's licenses in Japan. Deregulation has prompted leading supermarkets to become a presence in liquor sales. Further deregulation of liquor sales licensing in 2003 will further increase the number of retail outlets for whisky. Observers are concerned about the impact of price competition. 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.

(3) Key Considerations for entering the Japanese Market

To import and sell liquors, it is first necessary to obtain a business license for seller of liquors (for more information please refer to 3. (2)-1)). Those entering the market for the first time should be fully aware of the risks entailed by price competition as mentioned in (1) above.

8. After-Sales Service

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

9. Related Product Categories

Other forms of imported alcoholic beverages include wine, brandy, beer and other distilled spirits. Under the law these beverages are treated much the same as whisky. However, prospective importers should note that different beverages are subject to different types of inspection under the Food Sanitation Law. Please check with customs to determine the taxes and duties applicable to a particular product.

10. Direct Imports by Individuals

Individuals may import quantities of whisky deemed appropriate for personal consumption without business license of liquor vendor and/or being subject to the Food Sanitation Law requirements. However, imports of whisky 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 Organization

- The Japan Wines and Spirits Importers' Association

TEL: 03-3503-6505