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Wine

Wine Report 2008

2008

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Report Highlights:
Japan wine imports were stable for the second consecutive year after several years of declines that ended in 2005. Overall, the value of wines increased due to marketing efforts to increase the $15 per 750ml bottle or higher priced market and the strong yen.

U.S. wine import volumes were stable for 2007, but the total value increased 9.5% above 2006 figures to reach $71 million and the unit price increased 23% to $6.04 per liter.

Includes PSD Changes: No
Includes Trade Matrix: No
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[JA]

Table of Contents

I. Introduction

1.1 Summary Highlights

The overall wine market
Total imports for bottled wine remained stable at approximately 1,310 hectoliters for the second year in a row, which confirms that the Japanese wine market has recovered. The total value of imported bottled wine increased by 7% compared to 2006. The strong yen forced importers of European wines to raise prices, but this was not the only reason for the higher value. There was also an increase in consumption of middle level priced wines, which are $15/bottle or higher. Unit values of imports from France and Italy showed a 10% increase from the previous year, and U.S. imports showed a greater increase of 23%. The value increase of U.S. wines can be attributed to the “Wine by the Glass” and other marketing programs implemented by The Wine Institute, and the wine associations of the States of Washington and Oregon.

Competition among exporting countries
The Japanese wine market is very competitive, with more than 30 countries exporting to Japan, led by France, Italy and the United States. Exports to Japan by these leading countries were stable in 2007. New World wine countries like Australia, Argentina, South Africa and New Zealand increased exports to Japan in 2007. In particular, Australian wine made major strides by increasing its products’ visibility and sales over the past two years.

1.2 Glossary

1.3 Glossary

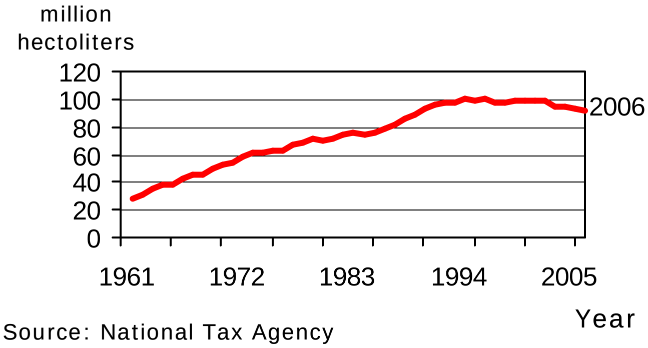
Chuhi	A fruit flavored, ready-to-drink, carbonated cocktail with a liquor base (e.g., vodka, shochu).
Happoshu and Third Beer	Happoshu is a low malt content beer that made its debut about ten years ago as a cheap alternative to standard beer. Because it contains less malt, happoshu avoids some of the draconian liquor tax that comes with the same official classification as standard beer. “Third beer” is another alternative alcoholic beverage to beer with no malt but other kinds of ingredients like soy peptide. Third beer is currently classified as one of several miscellaneous liquors with an even lower liquor tax than Happoshu.
National Tax Agency	A government organization whose responsibilities include tracking shipments of all types of liquor in Japan as well as administering taxes on alcohol.
Shochu	A traditional Japanese liquor that is clear alcoholic beverage that can be made from the distilled spirits of various materials such as potatoes, sweet potatoes, barley, buckwheat, etc.

II. An Overview of Japan’s Alcoholic Beverage Market

2.1 Japan's changing alcohol consumption

Alcohol consumption in Japan has increased significantly and steadily for several decades along with Japan's rapid economic growth. Consumption subsequently leveled off, however, in the early 1990's as Japan entered a recession from which it has yet to fully recover (see Fig. 1). While the economy has registered modest growth in 2005-07, overall alcohol consumption has begun to decline reflecting both demographic and lifestyle trends.

Fig. 1: Japan Alcohol Consumption 1960-2006



Source: National Tax Agency

Some of the factors that influence and limit the growth of alcohol consumption include the country's negative population growth, lower alcohol consumption by younger generations, and broader consumer beverage tastes.

Although wine consumption in Japan has grown significantly since 1960, the wine share in the total alcohol consumption is still very small compared to other countries (see Fig. 2).

Fig. 2: Cross-country Comparison of Adult Per Capita Alcohol Consumption

(liters per year)

Country	Total Consumption	Wine Consumption	Wine as a share of total (%)
Portugal	16.6	7.2	43.0
France	13.3	8.3	62.0
Germany	12.5	3.3	26.0
South Africa	11.5	5	43.0
Spain	11.2	4.6	41.0
Australia	10.3	3.4	33.0
UK	9.7	2.3	23.0
Argentina	9.6	6.9	71.0
Italy	9.2	7.1	77.0
USA	9.1	1.7	18.0
Romania	8	3.4	42.0
Korea	6.8	> 0.1	*
Japan	6.3	0.4	6.0
China	5.2	0.1	2.0

*: less than 0.5%

Note: Consumption volume is converted to 100% alcohol equivalent.

Source: Alcohol Database, WHO

Wine: Wine consumption has been trending upwards since the 1960s, although it has experienced several booms and busts. During the “red wine boom” of 1997/98, studies touting red wine’s health benefits created consumer interest, causing consumption to double. After the boom ended, however, consumption suffered a rebound decrease and has been hovering around its current level for the past several years. Most market observers remain confident, however, wine long-term remains brighter than the overall alcoholic beverage market.

Beer, Happoshu, and Third Beer: Though beer has traditionally accounted for more than half of Japan’s total alcohol consumption, since 1994 it has faced increasing competition from a cheaper, low-malt beer variety called happoshu. More recently the tax saving “Third Beer”, which contains no malt, and consists of other base ingredients like soybeans or peas, emerged in the market and reduced significantly the market share of traditional beers. Both Happoshu and Third beers are subject to lower liquor taxes and retail prices, which led to legislative streamlining of the tax structure. Yet the total volume of beer and beer alternatives has been decreasing due to changing drinking habits and consumers’ tastes.

Sake: Consumption of sake, traditional Japanese rice wine, has been steadily declining during the last half century due to greater availability of a variety of other alcoholic beverages, and change in consumers drinking tastes and habits. In particular, sake is much less consumed by younger generations.

Shochu: Shochu, another traditional spirit, enjoyed a massive boom in recent years, brought about by increased attention to its beneficial health effects, and a belief that its after-effects, such as headaches, are less severe than other alcoholic beverages. Stores and restaurants specializing in shochu have gained popularity. Shochu mixes with various fruit juices, which are sold under the category of liquors and fruit wines, and are especially popular among younger generations and female consumers.

Chuhi: Chuhi is a shochu based fruit taste alcoholic drink that is usually carbonated. The original flavor was lemon, but recently other flavors such as grape, grapefruit, orange, lime, apple, and pineapple have been added. It is offered in restaurants as an alternative to beer and many varieties are sold in retail markets.

Whisky and Brandy: Overall, whisky and brandy consumptions have declined in the last several years. At institutional outlets, Shochu has been replacing whisky and sake.

Spirits and Liquors: Spirit consumption remains flat and their total volume is quite small compared to other categories. Liquors are most frequently used in cocktail drinks. They are popular with women because of their sweet taste, lower alcohol content, and visual appearance.

Fig. 3: Amount of Alcohol Consumption by Variety

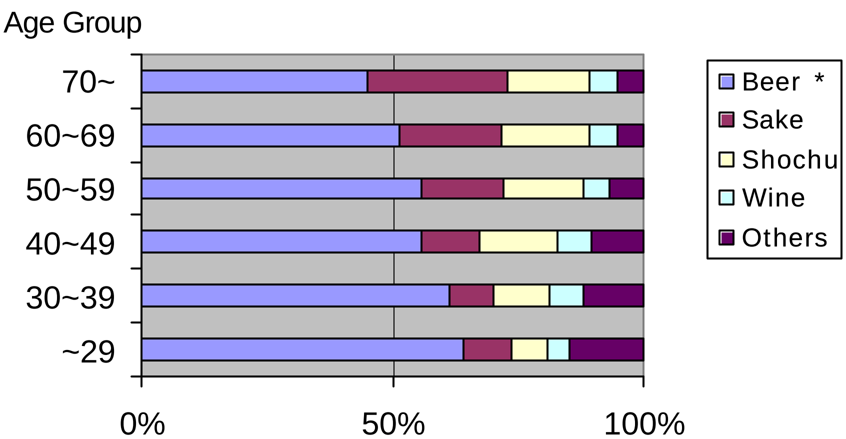
(%=percentage share, Vol=Kiloliters)

	Wine		Sake		Beer/Happoshu		Shochu		Whiskey/Brandy	
Year	%	Volume	%	Volume	%	Volume	%	Volume	%	Volume
1995	2.6	22,084	22.0	189,519	38.5	341,501	19.0	163,446	9.2	79,107
2000	4.7	39,862	17.3	147,892	41.4	354,306	21	183,124	6.8	58,621
2003	4.2	34,762	15.1	125,074	38.8	321,044	28	228,198	7.4	41,816
2004	3.9	28,066	16.7	121,238	40.1	291,508	34	245,768	5.5	39,976
2005	4.2	28,968	16.8	114,800	37.2	253,967	36	248,360	5.5	37,498
2006	4.3	28,597	16.9	111,785	36.3	241,062	38	250,055	4.8	31,856

Note: Volume given as 100% alcohol equivalent
Source: Monthly Statistics Journal of Food and Liquor
National Tax Agency

2.2 Demographic breakdown of Japanese alcoholic beverage consumption
Statistics Bureau data of Japan's household expenditures indicate that beer, including low-malt beer, accounts for nearly 50% of total alcohol consumption among all age groups. Older consumers spend more on sake and shochu, both traditional liquors, while people in the 30-39-year-old range consume more wine than any other age group (see Fig. 4).

Fig. 4: Alcohol Beverage Expenditure Share by Age Group 2005



*Including happoshu (low-malt beer)
Source: Statistics Bureau of Japan

2.3 Geographical breakdown of Japanese alcoholic beverage consumption
Tastes in alcohol vary with location. Most wine in Japan is consumed in major urban areas, with more than 60% of premium wines consumed in Tokyo alone. In rural areas, however, beer, sake and shochu remain the alcoholic beverages of choice. On the other hand, 70 per

cent of the total population lives outside of the Metropolitan area. Cultivating those outside areas for wine is important and effective for further market expansion. Historically, domestic wine in a large glass bottle and a low price was popular in rural areas, but wine markets across the nation continue to progress and become more sophisticated.

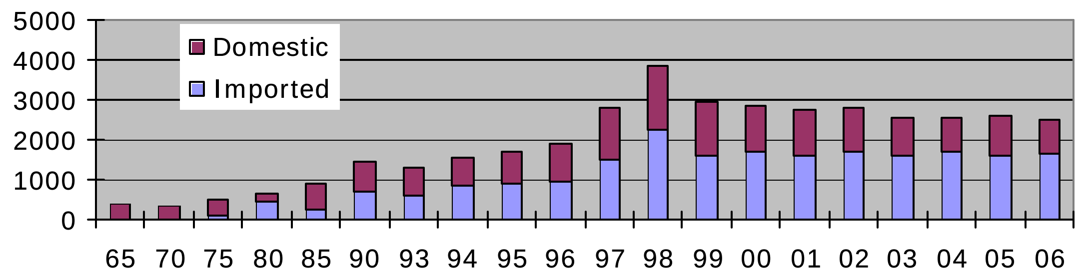
III. Wine Market Overview

3.1 Consumption trends

Throughout its several decades of steady expansion, the Japanese wine market has experienced at least six surges in consumption. One such increase occurred when domestic wine first became available for less than ¥2000 a bottle in 1978. Another spurt occurred in the late 1970s and early 1980s when sweeter German wines became popular. The Beaujolais Nouveau boom followed in the late 1980s, and continues to be an important seasonal event.

The most important boost to the industry, however, came in the 1990s when a series of scientific reports touting the health benefits of red wine suddenly sparked consumer interest in red wine. When these benefits became widely known in Japan in 1998, consumption more than doubled compared to 1996. However, this surge led to a buildup of excess inventories that took more than two years to clear, causing a subsequent bust—one that was exacerbated by stagnant to declining consumption. By early 2004, most Japanese traders were predicting that the wine market had bottomed out in 2003 and would begin to recover; however, 2004 overall wine consumption remained at, or even a little below, 2003 levels (see Fig. 5). This slump was due mostly to continuing declines in domestic wines. It was in 2005 that the wine market bottomed out and began a recovery. This was confirmed by 2006 trade statistics, which showed increased imports.

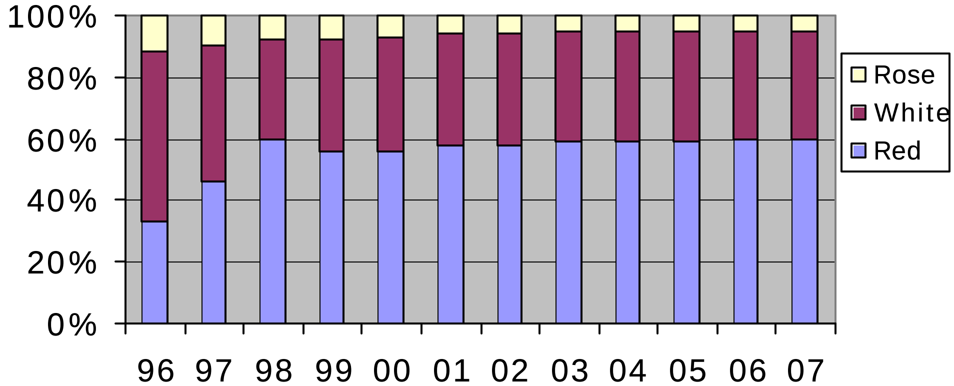
Fig. 5: Japanese Wine Consumption
1965-2005



Source: National Tax Agency

Through the 1980s and early 1990s, Japanese consumers showed a preference for sweet, and fruity white wines, which accounted for more than half of all consumption. Following a boom in 1997/98 driven in part by links to health benefits, however, red wine has taken more than a 60 percent share. In fact, the percentage of red and white has reversed in the past several years. Meanwhile, rosé has failed to catch on with consumers and its share dropped considerably (see Fig. 6). Sparkling wine is now trendy, especially for women and the growing sophistication of wine drinkers. Restaurants are offering more varieties and reasonable prices, and some offer them by the glass.

Fig. 6: Wine Consumption by Type
1994-2007



Source: California Wine Institute

Fig. 7 shows annual expenditures on wine in Japan from 1994 to 2005. Though the average cost per liter fluctuated over the entire period, prices have, overall, been sliding downwards in the past few years. Due to the strong yen, cost per liter rose in 2007. This reflects both deflations in the Japanese economy as whole and increasing sales of more moderately priced New World and California wines.

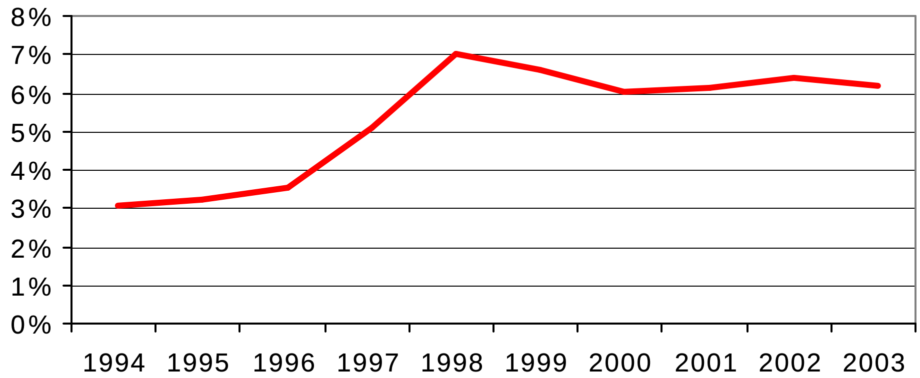
Note that while total spending on alcohol declined significantly over the period, wine consumption nearly doubled, expenditures on wine rose by close to 70 percent, and wine's share of the total alcoholic beverage market doubled - from 3.0% to 6.4%. In short, Japanese consumers are buying larger quantities of wine at overall lower prices.

Fig. 7-A: Annual Expenditures On Wine (Fiscal Year April-March)
1994-2003

Year	Expenditure (¥billion)	Quantity (000 hectoliter)	Avg. Cost per liter (¥)	Total Expenditure On Alcohol (¥billion)	Wine Share of Total Alcohol Expenditure %
1994	207	1,570	1320	6,860	3.0
1995	211	1,700	1240	6,660	3.2
1996	227	1,880	1210	6,540	3.5
1997	329	2,820	1170	6,510	5.1
1998	443	3,850	1150	6,360	7.0
1999	401	2,940	1360	6,130	6.5
2000	369	2,840	1300	5,880	6.3
2001	349	2,730	1280	5,720	6.1
2002	348	2,790	1250	5,468	6.4
2003	326	2,483	1310	5,334	6.1

Source: National Tax Agency

Fig. 7-B: Share of Wine in Japanese Alcohol Expenditure



Source: National Tax Agency
Data available only to 2003

3.2 Domestic wine

Domestic wines maintain a significant presence by targeting the low-end of the market, where average prices are lower than ¥500 per 750ml bottle. However, there has been a stronger marketing effort to promote premium domestic wines as well. The largest wine company in Japan, Mercian, has employed European wine makers to produce wines using Koshu grapes.

Competition has grown in intensity since the introduction of several low-priced brands from major California wineries, many of which are handled by Japan's major liquor/beer producers and distributors.

In the first half of 2005, taxed delivery of domestic wine showed an increase of more than 10 percent because the figures include some non-wine beverages, such as other fruit wines and chuhi which are classified under the same category as wine, sales of which have been continuously increasing.

Fig. 8: Domestic Wine Shipments 1999-2005*

Year	**Volume** (000 hectoliter)	**Increase or (Decrease) from Previous Year** (%)
1999	1,252	(17.6)
2000	1,153	(7.9)
2001	1,101	(4.5)
2002	1,110	0.8
2003	975	(12.2)
2004	863	(11.5)
2005	1,004	16.3
2006	888	(11.6)

*Includes some non-wine beverages; wine made from grape is estimated to account for two thirds of these shipments.
Source: National Tax Agency

The domestic wine market is dominated by a few large companies, with the top three accounting for nearly three-fourths of all sales. Recently, the large domestic producers such as Mercian, Suntory, Sapporo, and Kikkoman have been attempting to differentiate their products based on quality or other value-added attributes such as health orientation, variety of fruit bases, organic, and additive-free wines, with less focus on pricing.

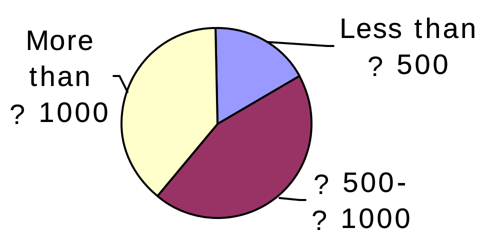
Fig. 9: Market Share Estimates of Major Japanese Wine Manufacturers 2003-2005

(? million, %)

	2003		2004		2005	
	Sales	**Share**	**Sales**	**Share**	**Sales**	**Share**
Mercian	18,600	34.6%	18,700	36.4%	18,700	36.4%
Suntory	9,000	16.7%	6,500	12.6%	6,500	12.6%
Sapporo Beer	10,500	19.5%	11,000	21.4%	11,000	21.4%
Kikkoman	7,500	13.9%	7,600	14.8%	7,600	14.8%
Asahi Beer	5,650	10.5%	5,800	11.3%	5,800	11.3%
Others	2,550	4.7%	1,800	3.5%	1,800	3.5%
Total	53,800	100.0%	51,400	100.0%	51,400	100.0%

Fig. 10 shows wine sales of three price ranges. As previously noted, domestic wines generally target the less than ¥500 price zone, while imported wines traditionally targeted the two other higher price zones. However, recent penetration of the low price zone by imported wines has led domestic producers to give more attention to the moderate and premium price zones, which cost ¥1500 and above per bottle.

Fig. 10: Wine Sales by Price Range
2007

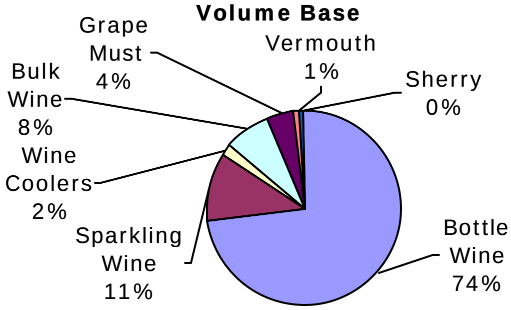


*Includes some (1/3) non-white products
Source: WANDS

3.3 Imported wine

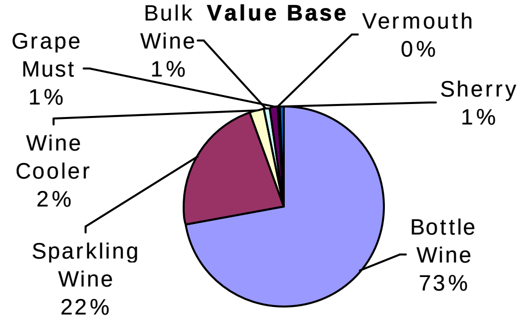
Imported wine accounts for more than 60 percent of all wine. Even in domestic wine, imported bulk wine and grape must are commonly used as raw material. In terms of both volume and value, bottled wines represent more than 70 percent of imports, which is the main part of the trade discussed in this report.

Fig. 11-A Breakdown of Japanese Wine Imports 2007 Volume Base



Source: Trade Statsitics, Japan Customs

Fig. 11-B: Breakdown of Japanese Wine Imports 2007 Value Base



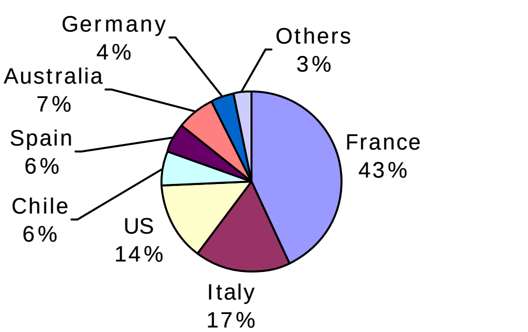
Source: Trade Statistics, Japan Customs

U.S. wine exports to Japan achieved tremendous growth in market share between 2002 (10.9 percent) and 2003 (13.7 percent) and increased again in 2005 (14.1 percent). This breakthrough was fueled largely by the success of California wines selling for less than ¥1,000 per bottle.

France's share of the wine market has been declining. In 2003 it was 43.5 percent and has declined to 41 percent in 2007. Italian wine exports are 18 percent and Spain follows at 6.5 percent of the market. Germany once had 6.3 percent share, but it is now down to 2.8 percent.

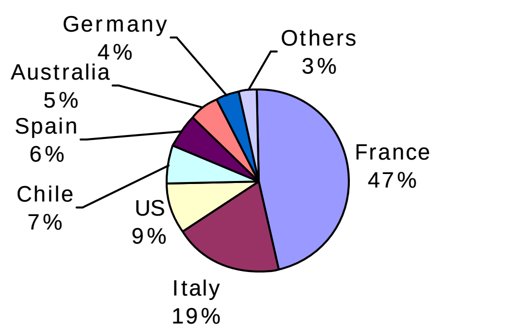
New World wines increased their shares in recent years. Chile has made a strong push in the low price ranged wines to increase their exports by 31% above 2006 and now shares 8 percent of the market. The other New World countries and increased export percentages are Australia (18 percent), Argentina (16 percent), South Africa (16 percent), and New Zealand (5 percent).

Fig. 12-A: Bottle Wine Import Share by Country 2005



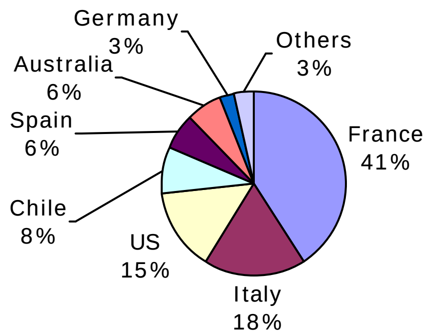
Source: Trade Statistics, Japan Customs

Fig. 12-B: Bottle Wine Import Share by Country 2006



Source: Trade Statistics, Japan Customs

Fig. 12-C: Bottle Wine Import Share by Country 2007



Total 14.1 million 9L cases

Source: Trade Statistics, Japan Customs

Fig. 12-D: Share of bottled wine imports by country (%)

Country	2000	2001	2002	2003	2004	2005	2006	2007
France	41.1	43	45.4	43.5	44.8	43.0	46.2	40.8
Italy	19.8	21.7	20.6	19.8	17.2	17.3	19.0	17.9
US	12	11.3	10.9	13.7	13.4	14.1	9.3	14.6
Chile	6.7	6.6	5.7	5.7	5.9	5.9	6.7	8.0
Spain	3.7	3.7	4.4	5	5.3	5.6	6.0	6.5
Australia	4	3.3	3.5	4	5.2	6.9	5.2	6.1
Germany	8.9	7.1	6.3	5.2	4.3	4.1	4.2	2.7
Others	3.8	3.2	3.2	3.1	3.9	3.2	3.3	3.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Trade Statistics, Japan Customs

3.3.1 United States

U.S. wine exports to Japan dramatically grew in 2003 by 20 percent in volume. This up trend continued in 2004, but at a much more moderate pace of about 1 percent. The U.S. volume growth has largely depended upon increasing exports of lower-priced California table wines costing less than ¥900 per 750 ml bottle. These bottles are being sold at supermarkets and liquor shops, which include several major California brands – e.g. Carlo Rossi, River Crest, Franzia, Almaden, Beringer and Papio, and are being distributed by major Japanese liquor companies. Another driving force for U.S. wine exports is the increasing presence of premium California wines, supported by promotional campaigns. Wines from other states, especially Washington and Oregon, are growing even more rapidly from a small base. Wine-by-the-glass marketing programs have proven to be successful in the Japanese restaurant industry. Inquiries for New York wines have increased in the past year as well.

U.S. wines predominantly target the lower end of the market. Although wines costing ¥1000 or less makeup 55 percent of the Japanese wine market, they account for 80 percent of U.S. wine imports. Mid-range products (¥1,000 to ¥2,000) now account for roughly 16 percent of U.S. sales. How to develop more mid-range products especially in the retail sector is an important challenge for U.S. wine. U.S. wine in this price range faces particularly tough competition from French, Italian, and Chilean wines.

Sales of U.S. premium wines are rising steadily and are well established in certain market sectors, particularly in the major metropolitan markets where Japanese consumers' wine knowledge has expanded significantly. The "California Wine by the Glass" campaign, in which over 400 restaurants serve California wines, along with other U.S. promotional efforts, continue to build awareness of these products and help encourage consumers to move upscale in their wine selections. Washington wine, in particular, made significant progress for placement in Tokyo area hotel and restaurant wine lists, and in 2004 recorded separately for the first time in trade statistics according to industry representatives.

3.3.2 France

For many Japanese wine drinkers, France is synonymous with wine. It offers a broad range of products and is strong in all price segments. One of the wine categories that have been steadily growing is Beaujolais Nouveau. This seasonal wine has become popular among Japanese consumers, who are known to be especially fond of seasonal food products. The wine's annual November release has grown to be a highly anticipated event. The sales of Beaujolais Nouveau in 2004 reached a record volume of 1 million cases and accounted for more than 10 percent of total French wine imports. This helped drive a partial recovery in France's market share versus the competition of New World imports. Champagne wine has increased in 2006 and 2007. 2007 volumes rose 8% compared to 2006.

3.3.3 Italy

Italian wine exports to Japan exploded in the 1990s along with the growing popularity of Italian cuisine and a sharp rise in the number of Italian restaurants. As the Italian restaurant boom peaked and subsides, sales have leveled off in recent years. Exports have been level at 234,000 hectoliters in 2006 and 2007. Italian wines have been squeezed by price competition at the lower end of the market while midrange products are also facing increasing price pressure. Stricter enforcement of alcohol and driving laws also had a relatively stronger impact on Italian wine, which depends heavily on restaurant sales.

3.3.4 Chile

Chile, one of the most successful New World producers, emerged in Japan around 1998 as a maker of reasonably priced, good quality wine. Excess inventories in subsequent years led to steep price discounts and a "cheapening" of the country's brand image. Nevertheless, Chilean wine maintains a significant presence, especially in retail outlets. Chilean imports increased by 31% above 2006 to reach 105,200 hectoliters.

3.3.5 Germany

German wine exports to Japan, which are predominantly white wines, continue to fall since the red wine boom in 1998. German wines maintained 50,000 hectoliters in 2005 and 2006, but significantly declined by 28% in 2007 to 36,000 hectoliters.

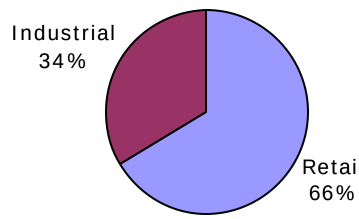
3.3.6 Australia

Australia is one of only a few countries that have shown steady growth for the past several years. After a decline in 2006 Australian wine exports to Japan jumped back up in 2007.

3.4 Distribution channels

Nearly three-fourths of all wine consumed in Japan is sold at retail; the remainder moves through restaurants, food service outlets, bars, and others.

Fig. 13: Wine Sales by Distribution Channel 2007



3.4.1 Retail

Distribution of wine and all other alcohol beverages are regulated under the Liquor Tax Law, which is applied to retailers that hold liquor licenses. Domestic wine distribution is generally a three- or four-tiered system from manufacturer to retailer, with one or two wholesalers in between.

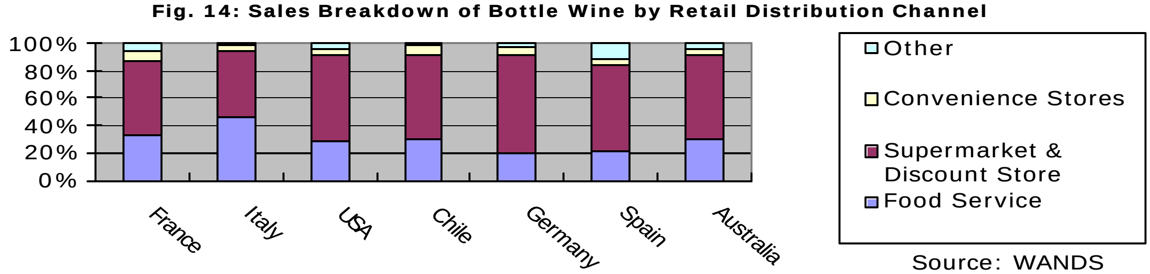
There are many types of retail distribution channels:

- Direct imports by Japanese domestic manufacturers (e.g. Suntory, Mercian)
- Imports through specialist trading companies.
- Direct imports by department store alliances or large discount stores that sell through their own channels.
- Imports by specialist wine importers who sell products directly to consumers including mail order and online sales.

In the late 1980s, as some discount stores and importers started to import wine directly, the price of imported wine in Japan eventually came down to the international market level. As more and more low-priced wines appear on the market, the sales share of supermarkets and convenience stores will continue to grow. Liquor discounters are being impacted by the growing competition from supermarkets as liquor license deregulation proceeds. Online retailers dominated by a handful of companies have also increased sales as they focus on small-lot shipments and other methods of lowering logistics costs.

The sales breakdown by retail distribution channel differs according to country of origin. U.S. wines have a fairly high proportion (57%) of sales at supermarket and discount stores. This tendency reflects the rapid growth of lower-priced California wines that are mainly sold by these kinds of retailers. Italian wine, on the other hand, depends heavily on in-restaurant consumption (49%).

Fig. 14: Sales Breakdown of Bottle Wine by Retail Distribution Channel



Source: WANDS

Deregulation of liquor retail licensing

In September 2003, the Japanese government abolished restrictions that had limited the distribution of retail liquor licenses. This long-awaited deregulatory measure had been expected to boost the number of liquor-selling retailers throughout the country and have a profound impact on the way alcoholic beverages are sold in Japan. More than 20,000 shops applied for the license just after the act was implemented.

However, the deregulation took time to take effect. The main reason is that the government enacted an “anti-deregulation measure” that tentatively restricted liquor license distribution in certain areas to protect small liquor shops likely to be affected by the changes. This anti-deregulation measure was adopted in regions that currently together account for 37.7 percent of Japan’s total area, which the government decided to continue to adopt through August 31, 2006.

The following table shows the change in the number of liquor wholesalers and retailers since 1997. With the establishment of direct import channels, wholesalers have begun to play a less important role, and their numbers are declining. In addition, more than 25,000 small and medium-scale liquor retailers have closed down their shops in the run-up to deregulation.

Fig. 15: Annual Change in Number of Liquor License-holders

	Wholesale	Retail	Total
1997	17,117	166,883	184,000
1998	16,847	171,848	188,695
1999	16,627	175,095	191,722
2000	16,489	177,482	193,971
2001	16,250	176,873	193,123
2002	15,983	182,022	198,005
2003	15,755	184,567	200,412
2004	15,099	193,226	208,325
2005	14,417	197,411	211,828
2006	13,922	196,460	210,452

Source: National Tax Agency

IV. Key Issues Affecting the Wine market

4.1 Mandatory inclusion of consumption tax in displayed price

Previously, Japan’s 5 percent consumption tax had been excluded from price displays for all commodities. However, in April 2004, the Ministry of Internal Affairs and Communications implemented a law requiring the inclusion of consumption tax in all displayed prices. This change significantly affects lower-end wines that are sold at targeted price-points. For example, a wine costing ¥498 must now be displayed with the less eye-catching price of ¥523.

4.2 Implementation of liquor sales deregulation

In September 2003, the Japanese government abolished restrictions that had limited the distribution of retail liquor licenses. This long-awaited deregulatory measure had been expected to boost the number of liquor-selling retailers throughout the country and have a profound impact on the way alcohol beverages are sold in Japan. However, the deregulation took time to take effect. The main reason is that the government enacted an "anti-deregulation measure" that tentatively restricted liquor license distribution in certain areas to protect small liquor shops likely to be affected by the changes. This anti-deregulation measure was adopted in regions that currently together account for 37.7 percent of Japan's total area which the government has decided to continue to adopt through August 31, 2006. Nevertheless, the number of convenience stores and super markets that sell liquor has increased significantly (see the previous section of deregulation).

4.3 Impact of proposed liquor tax reform and rate increases

The LDP tax panel proposed liquor tax reform package was intended to reduce the number of liquor tax categories from ten to four; to eliminate loopholes of much lower taxes for so-called third (non-malt) beer and to increase or decrease taxes on other products. The proposal to streamline liquor tax categories was not passed, because of consumer familiarity of these categories, but proposal to change taxes on products were implemented in May 2006.

Unfortunately, the tax rate for wine rose 9.5 yen from the current 70 yen a liter. The rate on sake, on the other hand, would fall 20.5 yen from the current 141 yen per liter. As a result, wine would be disadvantaged vis-à-vis sake, particularly given that nearly all sake is domestically produced and therefore faces no import tariff as is the case for the majority of wine consumed in Japan. Meanwhile, the tax rates on products with lower alcohol, such as the third beer and chuhi beverages would be unified at 80 yen per liter, which would mean an increase of 4-5 yen per 350ml can. Third beer in a 350ml can now sells for around 125 yen, much lower than regular beer or happoshu, for which taxes were increased a few years earlier.

4.4 Organic wine

European and American consumers are increasingly conscious of food safety and the environment. Reflecting these concerns, many California wineries are producing organic grapes and wines. This trend toward a greater concern for the environment and food safety is also apparent in Japan. Consumers are showing increasing interest in organic products including wine, although the availability of such products remains very limited.

Since 2001, foods and beverages must meet the requirements of the Japan Agricultural Standards (JAS) law to be certified organic in Japan. U.S. producers can arrange to be certified in the United States under the USDA's organic program, which is recognized by JAS. As for other imported alcoholic beverages, the Japanese government recognizes the organic standards of certain countries, including the United States. Despite the new JAS organic standards, some importers complain that the rules are ambiguous and fail to meet consumer needs.

4.5 Sparkling Wine

Sparkling wine is becoming more popular among women and the younger generation. Twenty years ago sherry was the drink, but now sparkling wine is gaining market share. Wine-by-the-glass campaigns that started around 10 years ago have gradually developed the sparkling wine market. The long standing trend to have a glass of beer as the first drink now includes sparkling wine to quench the thirst. Also, the growing sophistication of wine drinkers has given rise to the bubbly and cute wine.

4.6 Cork and Screw Caps or No Caps at All

Screw caps were quite an unacceptable feature of bottled wine at one time, but now more and more bottles are capped and not corked. Heavy wine users don't mind capped bottles. They are concerned with the wine in the bottle and drinking it.

Screw caps are becoming more common in lower priced items to mid range priced wines sold in retail markets. Capped wines are also sold in chain restaurants. However, the mid to upper scale restaurants and their patrons are bias toward the ceremonial process of opening the wine. Perhaps as Mercian, the largest wine distributor in Japan offers a ceremonial process on their website, which recommends holding the bottom part of the cap that covers the neck of bottle and turning the bottom of the bottle with the other hand.

Led by Mercian's Franzia brand, boxed wines are becoming more visible in retail markets, and sales volumes are increasing. These boxes can now be stored in the Japanese household, because refrigerators have become more spacious.

Appendix I: Legal regulations related to the wine trade

1. Food Sanitation Law requirements

Under the Food Sanitation Law, the Japanese Ministry of Health, Labor and Welfare (MHLW) outlines the permissible quantities of wine coloring agents and preservatives used as additives. All wines imported as gifts or for sale and other commercial purposes are subject to the Food Sanitation Law. Import notification is also required. Importers must submit a "Notification Form for Importation of Foods, etc." to the quarantine station with jurisdiction over the port of entry. Depending on the content of this notification form and the import history of the wine, inspection may be required.

2. Labeling requirements

Fig. 16 lists labeling requirements for wine. Labeling must be in Japanese and must be attached to the container in a visible location. Wine without required labeling may not be sold, displayed with intent to sell, or used for other commercial purposes.

Fig. 16: Labeling Requirements For Wine

Label Item	Requirement	Name of Statute*
Product Name	Wine, fruit wine, or sweetened fruit wine	FSL
Food Additives	Name of substance (and usage category) of anti-oxidants or synthetic preservatives, etc.	FSL
Alcohol Content	Label must list the ethyl alcohol content at 15°C as a percentage of total volume rounded to the nearest percentage point. (Example: "14%" or "Over 14% and less than 15%")	LBA/MSR/LT
Container Volume	Listed in milliliters (*ml*) or liters (*l*)	LBA/MSR/LT, ML
Type	Sparkling wine labels must state, "Contains carbonation," or, "carbon dioxide gas mixture."	LBA/MSR/LT
Country of Origin	The country of origin	AUPRMR

Name and Address of Importer	Wines must list the name and address of the importer	FSL, LBA/MSR/LT
Destination	Label must list the destination after removal from the bonded area or the location of the bottler or packager. However, a symbol may be used with the permission of the Ministry of Finance	LBA/MSR/LT
Other Requirements	**(1) Blends of imported and domestic wine** Wines made from mixtures of domestic and imported wines must list the wines in order of quantity. For example, "Made from domestic and imported wine."	Voluntary industry standard
	(2) Geographic labeling Geographic brand names such as Bordeaux and Chablis, whose product quality and reputation fundamentally arise from place of origin, can only be used on products that actually originate from the said region.	Labeling standard based on LBA/MSR/LT and ML
Labeling Requirements For Wine: Other Requirements Continued		
Label Item	Requirement	Name of Statute*
Other Requirements	**(3) Labeling to prevent consumption by minors** All liquor containers must clearly state that "Consumption of alcohol by minors is prohibited," or "Alcohol may only be consumed by those who are 20 years or older."	Labeling standard based on t LBA/MSR/LT and ML
	(4) Promotion of recycling of liquor containers Products packed in steel cans, aluminum cans, and PET bottles must have a mark on the container identifying the packaging material type.	Law for Promotion of Utilization of Recycled Resources
	(5) Warning of risks to pregnant and breast-feeding women Pregnant and nursing mothers are advised that consumption of alcohol may adversely affect their infant's health. For example, "Drinking alcohol while pregnant or breast-feeding may harm the detus or infant."	Voluntary Industry Standard

* · Food Sanitation Law: FSL (http://www.jetro.go.jp/en/market/regulations/pdf/food-e.pdf)
· Measurement Law: ML (http://www.jetro.go.jp/en/market/regulations/pdf/keiryo2003jan-e.pdf)
·Law Concerning Liquor Business Association and Measures for Securing Revenue from Liquor Tax: LBA/MSR/LT
· Act against Unjustifiable Premiums and Misleading Representation: AUPRMR

Source: JETRO Marketing Guidebook for Major Imported Products 2004/Food

3. Requirements under the new packaging recycling law

The Japanese government began full implementation of the Packaging Recycling Law in April 2000, which requires the industry to recycle all paper and plastic packaging, glass bottles, steel and aluminum cans, PET bottles, and other plastic and paper containers. Manufacturers, distributors, and retailers who manufacture and/or use the materials are responsible for recycling costs. For imported products, importers are likely to be held responsible for such costs.

In the case of wine, according to industry sources, some importers have requested that exporters use colorless glass bottles if possible and a number of wines in clear bottles have appeared on the market. However, this is only appropriate for less-expensive or early drinking wines that will be consumed within two to three weeks after purchase. For premium wines, the industry continues to generally use colored bottles despite added recycling costs. Green bottles pose the biggest problem since there is very limited use for them as a recycled product.
Current recycling charges by type of container, effective through FY2006 (April-March), to be paid to the Japan Containers and Packaging Recycling Association are as follows:

Colorless glass	¥3,900/metric ton
Brown glass	¥4,800/metric ton
Green/other colored glass	¥7,100/metric ton
PET bottles	¥9,100/metric ton
Paper containers	¥20,400/metric ton
Plastic containers	¥89,000/metric ton

4. Tariff and tax

WTO Uruguay Round tariff reductions

Import duties on wine were gradually reduced with implementation of the WTO Uruguay Round agreement. The final reduction came in April 2000, when, most notably, the tariff rate on bottled wine was lowered to 15% (or ¥125/l, whichever is less with a minimum of ¥67/l) from its 1999 level of 21.3% (or ¥150.83/l, whichever is less with a minimum of ¥80.83). Reductions in tariffs on other wine categories have also gone into effect, as summarized on the next page.

Tariff Rates on Wine (as of November 2005)

Bottled Wine -HS220421020 (2L or less) -HS220429010 (2L to 150L)	 15% or ¥125/l, whichever is less with a minimum of ¥67/l 15% or ¥125/l, whichever is less with a minimum of ¥67/l
Sparkling Wine -HS220410000	¥182/l
Wine Coolers -HS220600221 (Other fermented beverage mixtures)	¥27/l
Bulk Wine - HS220429090 (>150L)	¥45/l
Grape Must -HS220430191 (1%+ alcohol, less than 10%sucrose by weight) -HS220430200 (1% + alcohol – other)	19.10% ¥45/l
Vermouth -HS220510000 (2L or less) -HS220590200 (1%+ alcohol)	 ¥69.3/l ¥69.3/l
Sherry/Fortified Wine -HS220421010	¥112/l

Source: Customs Tariff Schedules of Japan 2004, Japan Tariff Association

Liquor Tax Law regulations

The liquor tax rate was increased by 13.5% for wine and 15.7% for sweetened wine in May 2006. (See Section 4.3 above for details)

Tax rate on wine before/after the tax increase

		Per kiloliter	Per 750ml bottle
Wine	Before	70,472 yen/k	53 yen/bottle
	After	80,000 yen/k	60 yen/bottle
Sweetened wine	Before	103,722 yen/kl*	78 yen/bottle
	After	120,000 yen/kl*	90 yen/bottle

*For liquors with an alcohol content of 13 percent or higher, an additional 8,644yen/kl (8,220yen before increase) is levied for each percentage point above 12 percent.

APPENDIX II: STATISTICAL TABLES

Table 1: Wine imports by type

Volume (000 hectoliters)				
	2005	2006	2007	2007/2006 % Change
Bottled Wine	1,268.0	1,307.0	1,310.0	0.2
HS220421020 (2L or less)	1,181.0	1,194.0	1,191.0	-0.3
HS220429010 (2L to 150L)	87.0	113.0	119.0	5.3
Sparkling Wine HS220410000	158.2	198.0	207.0	4.5
Wine Coolers HS220600221	129.7	98.0	35.0	-64.3
Bulk Wine HS220429090 (>150L)	145.4	148.8	141	-5.2
Grape Must	59.6	71.6	77.8	8.7
HS220430191 (1%+ alcohol, <10% sucrose by weight)	0.0	0.0	0.0	0.0
HS220430200 (1%+ alcohol - other)	59.6	71.6	77.8	8.7
Vermouth	21.2	18.7	21.3	13.9
HS220510000 (2L or less)	20.8	18.2	20.9	14.8
HS220590200 (1%+ alcohol)	0.4	0.5	0.4	-20.0
Sherry/Fortified Wine HS220421010	8.7	8.2	9.0	9.8

Source: World Trade Atlas, based on Japan Customs data (CY January - December).

(Table 1 continued)

Value (US$ mill)				
	2005	2006	2007	2007/2006 % Change
Bottled Wine	751.6	798.7	855.2	7.1
HS220421020 (2L or less)	738.1	781.5	836.6	7.1
HS220429010 (2L to 150L)	13.5	17.2	18.6	8.1
Sparkling Wine HS220410000	236.4	335.4	366.0	9.1
Wine Coolers HS220600221	22.2	30.0	20.2	-32.7
Bulk Wine HS220429090 (>150L)	14.4	14.5	13.1	-9.7
Grape Must	11.6	15.3	16.5	7.8
HS220430191 (1%+ alcohol, <10% sucrose by weight)	0.0	1.0	0.0	0.0
HS220430200 (1%+ alcohol - other)	11.6	14.3	16.5	15.4
Vermouth	7.2	5.7	7.1	24.6
HS220510000 (2L or less)	7.1	5.6	7.0	25.0
HS220590200 (1%+ alcohol)	0.06	0.08	0.08	0.0
Sherry/Fortified Wine HS220421010	6.8	7.9	8.0	1.3

Source: World Trade Atlas, based on Japan Customs data (CY January - December).

Table 2: Bottled Wine Imports by Supplying Country

Volume (000 hectoliters)						
Rank	Country	2005	2006	2007		2007/2006
				Volume	Share (%)	% Change
1	France	544.7	560.2	535.3	40.9	-4.4
2	Italy	219.9	232.9	233.9	17.9	0.4
3	**United States**	**178.4**	**201.9**	**191.3**	14.6	-5.2
4	Chile	75.1	80.1	105.2	8.0	31.4
5	Spain	75.0	73.4	85.7	6.5	16.7
6	Australia	87.0	68.1	80.4	6.1	18.0
7	Germany	51.5	50.5	36.5	2.8	-27.7
8	Argentina	9.3	12.0	13.9	1.1	15.5
9	South Africa	12.3	10.5	12.1	0.9	15.9
10	New Zealand	4.0	4.8	5.0	0.4	5.1
	Others	11.6	14.9	10.7	0.8	-28.5
	Total	1268.8	1309.2	1309.9	100.0	0.1

Value ($ mill)						
Rank	Country	2005	2006	2007		2007/2006
				Value	Share (%)	% Change
1	France	458.9	491.7	516.3	60.4	5.0
2	Italy	103.5	109.9	122.1	14.3	11.0
3	**United States**	**55.8**	**64.6**	**70.8**	**8.3**	9.5
4	Australia	36.3	29.6	37.4	4.4	26.4
5	Chile	25.8	27.9	35.3	4.1	26.2
6	Spain	23.9	25.3	30.0	3.5	18.3
7	Germany	26.2	26.4	20.7	2.4	-21.8
8	New Zealand	4.5	4.7	5.5	0.6	16.5
9	South Africa	4.2	3.9	4.6	0.5	19.7
10	Portugal	1.4	1.3	1.1	0.1	-16.8
	Others	11.1	13.3	11.6	1.4	-12.5
	Total	751.6	798.7	855.2	100.0	7.1

Source: World Trade Atlas, based on Japan Customs data (CY Jan - Dec).

Table 3: Sparkling Wine Imports by Supplying Country

Volume (000 hectoliters)						
Rank	Country	2005	2006	2007		2007/2006
				Volume	Share (%)	% Change
1	France	72.2	91.7	99.0	47.8	7.9
2	Italy	35.2	43.5	41.3	19.9	-5.1
3	Spain	31.2	38.2	41.3	20.0	8.0
4	Australia	5.71532	9.1	8.5	4.1	-6.4
5	**United States**	**8.0**	**7.1**	**7.9**	3.8	11.5
6	Germany	4.2	6.4	5.2	2.5	-18.1
	Others	7.4	1.9	3.7	1.8	91.7
	Total	158.2	198.0	207.0	100.0	4.5

Value ($ mill)						
Rank	Country	2005	2006	2007		2007/2006
				Value	Share (%)	% Change
1	France	191.9	279.6	304.6	83.2	8.9
2	Italy	18.5	23.3	24.5	6.7	5.4
3	Spain	17.0	20.2	23.5	6.4	16.7
4	Australia	3.6	5.2	5.3	1.4	0.8
5	**United States**	**2.5**	**2.3**	**3.1**	0.8	31.3
6	Germany	2.2	3.3	3.2	0.9	-4.5
	Others	0.8	1.4	1.8	0.5	25.4
	Total	236.4	335.4	366.0	100.0	9.1

Source: World Trade Atlas, based on Japan Customs data (CY January - December).

Table 4: Wine Cooler Imports by Supplying Country

Volume (000 hectoliters)						
Rank	**Country**	**2005**	**2006**	**2007**		**2007/2006**
				Volume	**Share (%)**	**% Change**
1	France	13.5	30.5	20.8	58.6	-31.9
2	**United States**	**23.7**	**10.5**	**5.3**	**14.8**	-50.1
3	Spain	2.4	3.6	4.6	**13.0**	28.8
4	Germany	3.8	4.2	3.3	9.4	-20.8
5	Thailand	0.4	0.4	0.5	1.4	22.6
	Others	86.0	48.8	0.9	2.7	-98.1
	Total	129.7	98.0	35.4	100.0	-63.9

Value ($ mill)						
Rank	**Country**	**2005**	**2006**	**2007**		**2007/2006**
				Value	**Share (%)**	**% Change**
1	France	9.3	21.3	16.2	80.3	-23.9
2	Spain	0.7	1.1	1.7	8.5	60.8
3	Germany	0.9	1.1	1.0	5.2	-6.0
4	**United States**	**2.1**	**0.9**	**0.6**	3.0	-36.1
5	Chile	0.2	0.1	0.3	1.3	106.2
	Others	9.0	5.5	0.3	1.7	-93.7
	Total	22.2	30.0	20.2	100.0	-32.9

Source: World Trade Atlas, based on Japan Customs data (CY January-December)

Table 5: Bulk Wine Imports by Supplying Country

Volume (000 hectoliters)						
Rank	Country	2005	2006	2007		2007/2006
				Volume	Share (%)	% Change
1	Argentina	34.7	54.1	50.4	35.8	-6.9
2	Chile	49.8	36.0	45.5	32.3	26.6
3	Spain	5.6	7.4	12.2	8.7	64.7
4	France	10.5	11.0	8.9	6.3	-19.0
5	Italy	8.0	7.6	6.0	4.3	-21.0
6	**United States**	**4.4**	**3.8**	**5.2**	3.7	35.5
7	Brazil	4.1	3.4	3.6	2.6	6.6
8	Macedonia	1.9	3.0	3.0	2.1	-0.1
9	Bulgaria	14.9	14.0	2.3	1.7	-83.2
10	South Africa	3.4	2.7	1.4	1.0	-50.4
	Others	8.1	5.7	2.2	1.6	-61.1
	Total	145.4	148.8	140.8	100.0	-5.4

Value ($ mill)						
Rank	Country	2005	2006	2007		2007/2006
				Value	Share (%)	% Change
1	Chile	4.8	3.7	4.1	31.6	12.5
2	Argentina	2.6	4.2	3.7	28.0	-12.4
3	France	1.9	1.8	1.6	12.1	-13.1
4	Italy	0.8	0.8	0.7	5.1	-16.8
5	Spain	0.4	0.5	1.1	8.3	102.4
6	**United States**	**0.6**	**0.5**	**0.6**	4.3	6.0
7	Brazil	0.3	0.3	0.3	2.6	25.8
8	Macedonia	0.2	0.3	0.3	2.2	-2.7
9	Bulgaria	1.5	1.4	0.3	2.1	-80.3
10	South Africa	0.3	0.2	0.1	1.0	-40.6
	Others	0.9	0.7	0.3	2.6	-50.3
	Total	14.4	14.5	13.1	100.0	-9.4

Source: World Trade Atlas, based on Japan Customs data (CY January - December).

Table 6: Grape Must Imports by Supplying Country

Volume (000 hectoliters)						
Rank	Country	2005	2006	2007 Volume	2007 Share (%)	2007/2006 % Change
1	Argentina	44.4	53.7	51.8	87.0	-3.5
2	Chile	12.0	13.6	23.0	38.6	69.1
3	South Africa	3.1	4.3	2.9	4.8	-33.4
4	Australia	0.0	0.0	0.1	0.1	--
	Others	0.0	0.0	0.0	0.0	0.0
	Total	59.6	71.6	59.6	130.5	-16.8

Value ($ mill)						
Rank	Country	2005	2006	2007 Value	2007 Share %	2007/2006 % Change
1	Argentina	8.1	9.9	9.8	0.8	-1.5
2	Chile	2.9	3.6	6.2	0.5	71.1
3	South Africa	0.5	0.7	0.5	0.0	-28.7
4	Australia	0.0	0.0	0.0	0.0	
	Others	0.0	0.0	0.0	0.0	0.0
	Total	11.6	14.3	1267.0	100.0	8755.3

Source: World Trade Atlas, based on Japan Customs data (CY January - December).

Table 7: Vermouth Imports by Supplying Country

Volume (000 hectoliters)						
Rank	Country	2005	2006	2007		2007/2006
				Volume	Share (%)	% Change
1	Spain	9.1	7.5	9.4	43.9	24.7
2	Italy	4.6	4.5	4.7	21.8	3.0
3	France	3.8	3.8	4.2	19.5	9.6
4	China	2.8	1.9	1.9	8.9	1.2
5	Germany	0.8	0.5	0.8	3.8	49.4
	Others	(0.4)	(0.0)	0.4	2.0	(1429.3)
	Total	20.8	18.2	21.3	100.0	17.0

Value ($ mill)						
Rank	Country	2005	2006	2007		2007/2006
				Value	Share (%)	% Change
1	Spain	2.7	1.8	2.8	39.5	54.2
2	France	2.2	1.7	1.8	25.3	3.7
3	Italy	1.5	1.4	1.7	23.8	17.1
4	China	0.6	0.4	0.4	6.1	(0.9)
5	Germany	0.1	0.1	0.1	2.0	56.7
	Others	0.0	0.1	0.2	3.3	158.7
	Total	7.1	5.6	7.1	100.0	26.6

Source: World Trade Atlas, based on Japan Customs data (CY January - December).

Table 8: Sherry/Fortified Wine Imports by Supplying Country

Volume (000 hectoliters)						
Rank	Country	2005	2006	2007 Volume	2007 Share (%)	2007/2006 % Change
1	Portugal	4.5	3.9	4.8	53.3	21.9
2	Spain	2.4	2.6	3.0	33.3	15.1
3	Italy	0.8	0.9	0.7	7.8	-19.7
4	**United States**	**0.5**	**0.4**	**0.2**	2.5	-45.7
5	France	0.1	0.3	0.2	2.5	-14.9
	Others	0.3	0.1	0.0	0.5	-63.1
	Total	8.7	8.3	9.0	100.0	9.3

Value ($ mill)						
Rank	Country	2005	2006	2007 Value	2007 Share (%)	2007/2006 % Change
1	Portugal	4.0	3.7	4.5	56.7	22.9
2	Spain	1.9	2.1	2.5	31.6	20.6
3	France	0.2	0.5	0.4	5.5	-3.3
4	Italy	0.4	0.4	0.3	4.3	-9.1
5	**United States**	**0.2**	**0.1**	**0.1**	0.9	-44.4
	Others	0.2	1.2	0.1	1.0	-93.5
	Total	6.8	7.9	8.0	100.0	0.5

Source: World Trade Atlas, based on Japan Customs data (CY January - December).