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Report Name: Malt Market Overview and TRQ Administration Update

Country: Japan

Post: Tokyo

Report Category: Grain and Feed, Country/Regional FTA's, Beverages

Prepared By: Keiko Fujibayashi

Approved By: Zeke Spears

Report Highlights:

Japan imports approximately 500,000 metric tons of malt annually, which accounts for nearly 90 percent of total demand. While overall beer consumption is declining, malt demand is expected to rebound from a down year in 2020 and steadily grow in subsequent years, reflecting strong demand for malt in craft beer and whiskey production. Over the first seven months of 2021 craft beer sales increased 180 percent over the same period last year. Craft brewers are looking for new and unique malts to differentiate their products in a growing market. An incremental change to the taxation of liquor products will also favor high content malt beverages. A recent change to the malt import requirements also provides more flexibility to importers.

Malt Production and Imports

Malters produce approximately 68,000 metric tons[1] of malt in Japan annually from domestic and imported barley (see JA2021-0128 for more on the Japan barley market). Each year, breweries and distillers purchase roughly 50,000 tons of domestic barley through pre-plant contracts and roughly 30,000 tons of barley imported from Canada and Australia. Japan imports approximately 500,000 tons of malt annually, resulting in roughly 563,000 tons of malt on hand each year (Table 1). The price of domestic malt is three to four times higher than imports.

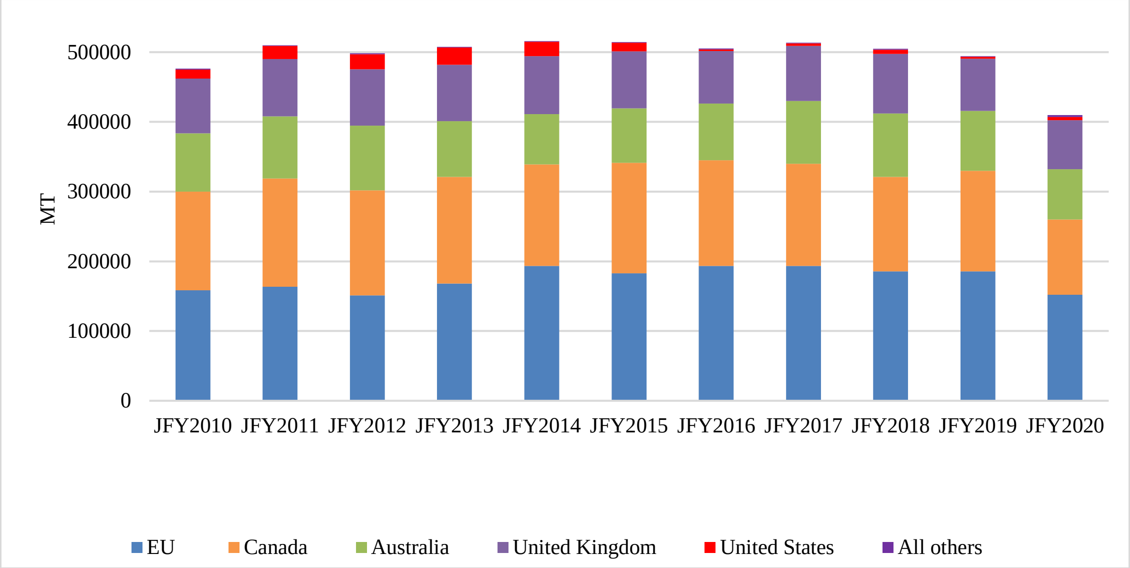
Table 1. Japanese Malt Production and Imports Metric Tons (MT)

	2015	2016	2017	2018	2019	2020	Average
Malt Barley Production	52,000	49,000	52,000	46,000	50,000	46,000	49,167
Malt Barley Imports	21,105	32,608	33,848	27,109	47,854	20,400	30,487
Total Domestic Malt Production	**62,139**	**69,367**	**72,971**	**62,143**	**83,176**	**56,440**	**67,706**
Malt Imports	507,061	517,283	513,229	504,957	496,324	433,264	495,353
Total Malt Supply	**569,200**	**586,650**	**586,200**	**567,100**	**579,500**	**579,436**	**578,014**

Source: Ministry of Agriculture, Forestry, and Fisheries (MAFF), Trade Data Monitor.
Note the .85 malt barley to malt conversion rate.

The COVID-19 pandemic resulted in reduced demand for beer and whiskey from the food service industry and malt imports decreased 17 percent, to 410,000 tons in Japanese Fiscal Year (JFY) 2020 (Chart 1). The European Union (EU), Canada, Australia, and the United Kingdom dominate the Japan malt market. These four suppliers account for 98 percent of market share, which has remained stable for the last decade.

Chart 1. Japan Malt Imports

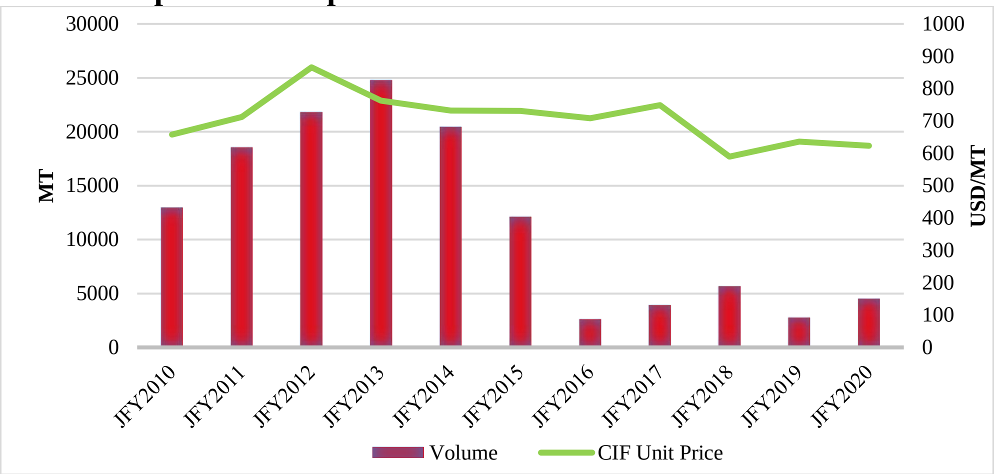


Source: Trade Data Monitor

[1] This report uses 0.85 malt barley to malt conversion ratio.

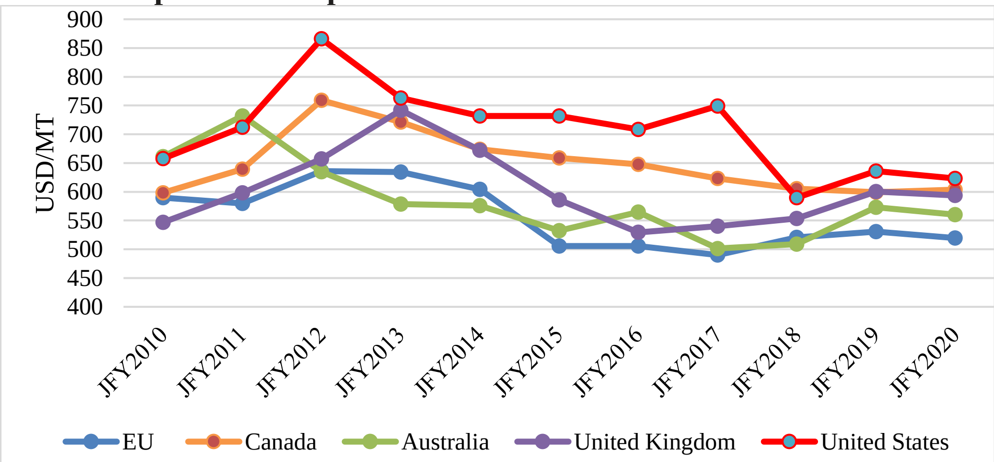
Imports of U.S. malt decreased 82 percent, to 4,500 tons, in JFY2020 from the peak of 24,800 tons in JFY2013 (Chart 2). Accordingly, the U.S. market share dropped from 4.9 percent in JFY2013 to 1 percent in JFY2020. Industry sources attribute this drop to comparatively high prices and high demand for U.S. malt in the U.S. market, leading to limited export supplies. (Chart 3).

Chart 2. Japan Malt Imports from the United States



Source: Trade Data Monitor

Chart 3. Japan Malt Import CIF Prices



Source: Trade Data Monitor

Tax Changes

Beer breweries and whiskey distilleries are the major malt users in Japan. The National Tax Agency[2] (NTA) sets labeling standards and taxes alcoholic beverages in Japan according to malt content. The NTA requires at least 50 percent malt content for companies to label their product as beer. Beer-like alcoholic beverages, with less than 50 percent malt, are collectively referred to as *happoshu*. Beverages with a beer-like taste but that have no malt are referred to as *dai san no biru* (new genre beer). The NTA taxes these three types of beverages differently. However, in October 2026, liquor taxes on beer,

[2] The National Tax Agency is responsible for licensing of liquor manufacturers and sellers and collects liquor taxes.

happoushu, and *dai san no biru* will have equal tax rates. The NTA will lower taxes on beer and high malt content *happoushu* while raising taxes on low malt content *happoushu* and no malt content *dai san no biru* (Table 2, for more information see JA8502).

Table 2. Japan Liquor Tax Change (Yen per kiloliter)

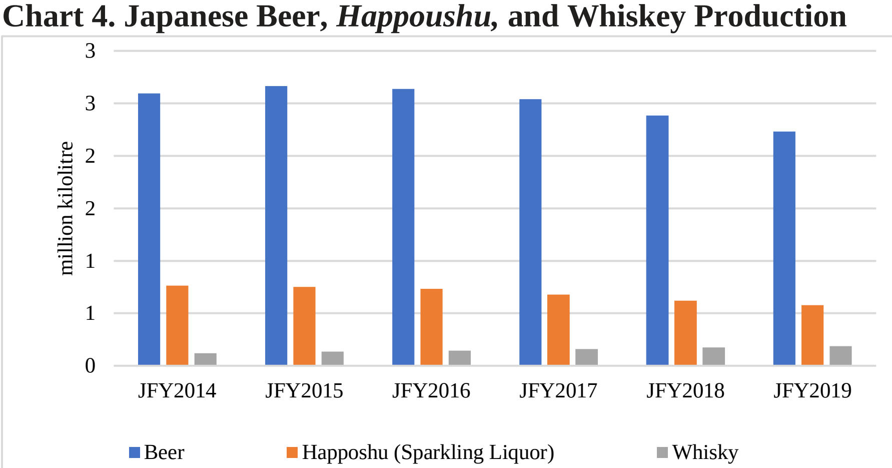
<table>
<tr><th></th><th></th><th>Before October 2020</th><th>From October 1, 2020</th><th>From October 1, 2023</th><th>From October 1, 2026</th></tr>
<tr><td rowspan="5">Effervescent alcoholic beverages</td><td>Beer</td><td>220,000</td><td>200,000</td><td>181,000</td><td rowspan="4">155,000</td></tr>
<tr><td>Happoushu with malt content between 25% and 49%</td><td>178,125</td><td>167,125</td><td>155,000</td></tr>
<tr><td>Happoushu with malt content less than 25%</td><td>134,250</td><td>134,250</td><td rowspan="2">134,250</td></tr>
<tr><td>Dai 3 no biru (New Genre Beer)</td><td>80,000</td><td>108,000</td></tr>
<tr><td>Other effervescent alcoholic beverages
with alcohol content under 10%</td><td>80,000</td><td>80,000</td><td>80,000</td><td>100,000</td></tr>
</table>

Source: NTA

Malt Consumption

Driven by declining consumption, overall production of beer and *happoushu* is on the decline (Chart 4). Conversely, the total number of breweries has nearly doubled in the last six years, in line with growing popularity of craft beer (Table 3). Over the first seven months of 2021 craft beer sales increased 180 percent over the same period last year. Industry sources expect some consumption to shift from *happoushu* and *dai san no biru* to beer as the taxes are equalized. With competive tax rates for beer and increasing demand for craft beer, malt consumption is also expected to increase as beer and craft beer use more malt than *happoushu* and *dai san no biru*. In addition, the number of whiskey distilleries, whiskey production, and whiskey exports have increased in recent years (see JA2020-0053 for more on the Japan whiskey market) . Industry sources expect this trend continue, also contributing to increased malt consumption.

Chart 4. Japanese Beer, *Happoushu*, and Whiskey Production



Source: NTA

Table 3. Number of Licensed Breweries in Japan

	JFY2013	JFY2014	JFY2015	JFY2016	JFY2017	JFY2018	JFY2019	Change JFY2019/13
Beer	259	260	262	265	271	499	503	94.2%
Happoushu	1,572	1,538	1,525	1,516	1,599	1,603	1,605	2.1%
Whisky	73	74	77	86	93	102	110	50.7%

Source: NTA

Table 4. Japan Imports and Exports of Beer and Whiskey (kiloliter)

	JFY2015	JFY2016	JFY2017	JFY2018	JFY2019	JFY2020	Change JFY2020/ JFY2015
Imports							
HS2203 Beer made from malt	38,516	35,480	36,916	33,818	44,823	39,793	3.3%
HS 220830 Whiskies	32,857	38,249	40,419	51,192	56,760	50,112	52.5%
Exports							
HS2203 Beer made from malt	76,797	88,634	117,901	115,744	75,348	51,722	-32.7%
HS 220830 Whiskies	5,055	5,520	5,384	6,853	8,156	9,843	94.7%

Source: Trade Data Monitor

Malt Tariff Rate Quota Imports

Most of Japan's malt imports are imported under a pooled, duty-free WTO Tariff Rate Quota (TRQ). Japan applies a 21.3 yen/kg duty for out-of-quota imports (Table 5). In addition to the WTO TRQ, Japan established duty-free TRQs and Country Specific Quotas (CSQ) under the Japan-EU Economic Partnership Agreement (EPA), the Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP), the U.S.-Japan Trade Agreement (USJTA). Japan did not establish a separate quota for the UK in the Japan-United Kingdom (UK) EPA, but if there is unused volume in the EU quotas, Japan will retroactively apply the zero tariff to UK malt if requested. As there are no advantages to using the new trade agreement TRQs and CSQs over the WTO TRQ, importers continue to use the WTO TRQ. However, some importers have imported small amounts of malt outside the WTO TRQ incurring a 21.3 yen per kg duty (Table 6).

The Ministry of Agriculture, Forestry and Fisheries (MAFF) administers the WTO TRQ and free trade agreement TRQs and CSQs. MAFF sets the WTO TRQ quota volume twice a year to meet demand. Prior to the semi-annual quota allocation by MAFF, the NTA asks beer and whiskey manufacturers for the quantities of malt they wish to import for the next six months to assess demand. Malt quotas under the WTO TRQ are allocated to over 100 malt users in each JFY (the list of malt quota holders as of April 2021).

Until August 2021, MAFF only allocated malt quotas to NTA licensed liquor manufacturers. However, on August 20, 2021, MAFF revised its TRQ administration rules to allow importers to become eligible quota holders on the condition that importers sell malt imported under the allocated quota to NTA licensed liquor manufacturers (MAFF announcement, Japanese only). Industry sources expect this to shift almost all imports from outside the quota to in-quota as importers may now consolidate orders from small malt users and import sizable shipments as a quota holder. This could also lead to reduced associated import costs, such as customs brokerage charges.

Table 5. Japan Malt Import Duty and TRQs

HS		In-WTO Pooled Quota Duty	MNF Duty	Duty-free Trade Agreements TRQs			
				CPTPP Australia	CPTPP Canada	Japan-EU EPA	USJTA
110710011	Malt, not roasted, fumigated with peat	Free					
110710021	Malt, not roasted						
110720010	Malt, roasted						
110710019	Malt, not roasted, fumigated with peat		21.3 yen/kg				
110710029	Malt, not roasted,			72,000 MT	89,000 MT	185,700 MT	JFY2021: 27,200 MT JFY2022: 29,600 MT JFY2023~ : 32,000 MT
110710020	Malt, roasted			3,000 MT	4,000 MT		JFY2021: 805 MT JFY2022: 840 MT JFY2023: 875 MT JFY2024: 910 MT JFY2025: 945 MT JFY2026: 980 MT JFY2027: 1,015 MT JFY2028~: 1,050 MT

Source: Japan Customs, MAFF

Table 6. Japan Malt Imports (MT)

	JFY2016	JFY2017	JFY2018	JFY2019	JFY2020
WTO TRQ Imports	478,531	491,600	482,964	488,926	406,794
TRQ Imports under Japan-Australia EPA	23,916	19,483	19,270	-	-
TRQ/CSQ Imports under trade agreements	-	-	-	0	0
Imports outside TRQs	2,907	2,671	2,493	5,367	3,174
Total Imports	505,354	513,754	504,727	494,293	409,968

Source: Trade Data Monitor, *TRQ under the Japan-Australia EPA has abolished from JFY2019 due to the establishment of Australian CSQ under the CPTPP which became effective from December 2018.*

Attachments:

No Attachments.