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Report Highlights:

According to the statistics of the Japan Ministry of Finance, imports of whisky from the United States to Japan increased 21% from 9,807 kiloliters (kl) in 2014 to 11,854 kl in 2015. In 2015, total whisky imports to Japan reached a record high of 31,131 kl, up 21% from the previous year. Demand for whisky in Japan has increased due to copious amounts of domestic marketing and the growing recognition of the high quality of Japanese whisky. Reflecting the growing demand for high-end whisky in Japan, the U.S. Agricultural Trade Office (ATO) in Tokyo plans to hold a U.S. craft whisky Trade Showcase for U.S. craft distillers to market their spirits to Japanese bartenders and liquor markets. Although most Japanese consumers are not yet familiar with craft spirits and prefer well-known brands, opportunities for micro-distillers of quality craft whisky and spirits are expected to grow.

**General Information:
Market Summary**

Several elements have contributed to the revitalization of the whisky (or “whiskey”, as we commonly write in the United States) market in Japan. First, the largest domestic whisky distiller, Suntory, ran a highly successful advertising campaign to promote the consumption of basic whisky with tonic water, called a “highball” since 2008. The advertising campaign changed the image of whisky from an older “salaryman” drink, to a fun casual drink for the younger generation. Later, Suntory and major competitors released canned Highball beverages, which are now sold at convenience stores and vending machines throughout Japan. Suntory’s canned highball sales grew by 14 percent in volume from 2014 to 2015.

In late 2013 a TV drama called “Massan”, which was a dramatic version of the real-life story about the founders of whisky production in Japan, became very popular and generated strong interest in premium whiskies, and has resulted in even greater domestic whisky sales.

Meanwhile, the image of Japanese whisky overseas has benefited from the accumulation of recognition and prestigious awards at prominent global whisky competitions, most notably an award for “Best Whisky in the World” in 2015 from the widely respected World Whisky Bible. This has resulted in higher export demand for Japanese whiskies.

Finally, according to the statistics of the Japan National Tourism Organization, the number of foreign travelers visiting Japan substantially increased from 13.4 million in 2014 to 19.7 million in 2015, an upswing of 47%. This trend was stimulated by a weak yen and an easing of visa requirements. These inbound tourists to Japan tend to spend heavily on premium Japanese whiskies as high-end souvenirs.

Japan Whisky Import

According to the World Trade Atlas, from January through December 2015, total whisky imports to Japan reached a record high of 31,131 kiloliter (kl), up 20.8 percent from the previous year. Whisky exports from the United States to Japan substantially increased from 9,807 kl in 2014 to 11,854 kl in 2015, a sharp increase of 20.9%. The United States was the second largest exporter of whisky to Japan in 2015, with a 38.1% share of Japan’s total import quantity.

Japan Whisky Imports

#	Partner Country	Quantity: Liter			% Share			% Change
		2013	2014	2015	2013	2014	2015	2015/2014
	World Total	27,320,679	25,770,340	31,131,110	100.0 0	100.0 0	100.0 0	20.80

1	United Kingdom	12,837,881	13,858,264	17,614,967	46.99	53.78	56.58	27.11
2	United States	10,497,031	9,806,753	11,853,798	38.42	38.05	38.08	20.87
3	Canada	3,774,678	1,891,517	1,178,602	13.82	7.34	3.79	- 37.69
4	Ireland	194,918	162,497	294,003	0.71	0.63	0.94	80.93
5	Spain	-	-	144,720	0.00	0.00	0.46	0.00
6	France	4,344	22,810	21,936	0.02	0.09	0.07	- 3.83
7	India	9,297	7,060	11,337	0.03	0.03	0.04	60.58
8	Taiwan	629	2,179	5,386	0.00	0.01	0.02	147.18
9	Vietnam	-	-	2,000	0.00	0.00	0.01	0.00
10	Australia	168	252	1,142	0.00	0.00	0.00	353.17

Source of Data: World Trade Atlas (Japan Ministry of Finance, Year January through December)

Japan Whisky Exports

The increased demand for whisky has resulted in higher domestic sales and export volumes over the past three years. Exports, while still only a fraction of imports, have increased nearly 179% over the past five years, led by high demand from both Western and Asian countries. Meanwhile, Suntory Holdings spent US\$12 billion to acquire Jim Beam in May 2014, with the stated goal of increasing its sales of whisky to the global market. According to Sankei news, Suntory's whisky exports increased to 256 thousand cases (700 milliliter/bottle x 12 bottles per case) in 2015, an increase of 12% from the previous year. Its major rival, Nikka Whisky of the Asahi Beer group also reported higher whisky and spirits sales, with 2015 sales value estimates showing a 23% increase over 2013 numbers.

The boost in export demand has been focused almost exclusively towards premium and high-end Japanese whiskies along with growing stature in the world whisky awards.

Japan Whisky Export and Partner Country

Partner Country	Quantity: Kiloliter					Chng. %
	2011	2012	2013	2014	2015	2015/'11
World Total	1,684.4	1,926.4	2,757.3	3,842.2	4,693.7	178.7
France	231.5	318.0	507.4	753.6	1,348.9	482.7
Taiwan	692.6	601.8	742.9	819.0	912.3	31.7

United States	65.9	95.1	205.1	252.4	594.7	802.5
China	145.7	228.0	218.2	261.1	331.8	127.7
Russia	276.1	239.8	559.6	934.6	291.9	5.7
Netherlands	0.0	0.0	0.0	125.1	280.9	N/A
Singapore	45.4	48.0	67.0	138.5	242.4	433.8
Australia	6.1	6.8	34.9	79.7	184.9	2,954.1
Estonia	0.0	0.0	0.0	0.0	156.8	N/A
Hong Kong	7.1	15.2	22.8	44.2	93.9	1,220.3

Current Market Conditions

Over the past decade, the whisky market had been in a steady downward slump, resulting in the closure of several Japanese whisky producers and a shakeout and consolidation of the industry. About 90% of Japan whisky production is supplied by two companies, Suntory Holdings; Japan's largest whisky producer which owns Yamazaki, Hakushu and Chita distilleries; and Asahi Group Holdings which owns Nikka Whisky Distilling Co., Ltd., and the Yoichi and Miyagikyo distilleries. Only around 10 domestic distillers out of 64 that hold a distilling license currently produce whisky. The inactive license holders in Japan keep their licenses, due to difficulty of acquiring new whisky distilling licenses.

In addition to calendar year statistics, the Japan Ministry of Finance reports annual alcohol beverage shipments taxed during the Japanese fiscal year, which runs from April to March. This statistic shows total whisky shipments (both domestically produced and imported) in the country.

Japan's total whisky market has continuously grown since 2008 and jumped up from 121,523 kl in 2014 to 147,893 kl in 2015, an upswing of 14.5%. The TV show "Massan", which aired in 2013-14, gave a considerable boost to the market expansion.

Japan Whisky Market: Japan Ministry of Finance (Year: April through March next year)



Source of Data: Japan Ministry of Finance

Japan Whisky Market: Japan Ministry of Finance (Year: April through March)

Taxed Quantity: Kiloliter	2011	2012	2013	2014	2015
Domestic Production	79,682	82,980	92,264	103,025	117,198
Imported	16,513	17,768	17,312	18,498	*21,959
Total Whisky Market	96,195	100,748	109,578	121,523	*139,157
Total Japan Alcohol Market	8,501,212	8,863,598	9,039,315	8,697,657	8,815,949
Whisky Share in the Market: %	1.1	1.1	1.2	1.4	1.6

Quantity: Kiloliter

*2015 import and Total: Estimated quantity

Source of Data: Japan Ministry of Finance (Year: April through March next year)

Whisky accounts for less than 2% of the total the alcoholic beverage market in Japan, though this share has increased from 1.1 % in 2011 to 1.6 % in 2015.

Since whisky consumption was stagnant in Japan for a decade before 2008, whisky producers had cut back on the number of whiskies that they set aside for aging. Whisky production requires long lead times and intensive labor to produce quality aged whiskies. As a result of the sudden increase in demand and shortfall in premium aged whiskies, Japanese whisky prices for high-end products have risen, and Japanese whisky producers have removed age statements from their newer bottled whiskies, as supplies run dry. In addition, Japanese domestic producers are increasing their imports of bulk whiskies to create new blended whiskies to make up for the shortfall. This is partly responsible for the jump in whisky import volumes over the last two years.

Unique Japan Whisky Market

As mentioned before, the current boom in demand is still driven by a unique Japanese whisky market for the “highball” which usually only requires a basic non-branded whisky for mixing. Non-premium Japanese drinking establishments, such as “Izakayas” (Japanese style pubs), Sushi bars, karaoke clubs, and casual restaurants often do not even stock more than one type of whisky, using a basic whisky keg to create all of their whisky-based drinks. The increase of whisky sales has been led by higher sales of “Ready-to-Drink” (RTD) canned whisky highballs. Japan is a price sensitive market when it comes to alcohol sold at the retail level. Because of the Japanese taxation structure, the canned beer retail price averages 225 yen, whereas a canned whisky highball averages around 180 yen. This is primarily because the Japanese government imposes a higher tax on beer compared with other liquors. On a per alcohol degree bases, the tax on distilled spirits is one fourth that of beer. The recent increase in canned whisky sales occurred among an overall shift in consumption from beer towards cheaper and more varied RTD canned liquors and whisky highballs.

		
<p>Highballs at Izakaya pub dining are regularly served from a tap with keg.</p>	<p>A line up of popular canned highballs of Suntory sold at major convenience stores.</p>	<p>A variety of RTD canned highballs are also available.</p>

Japanese Whisky Duty and Liquor Tax

In 2002 the Japanese government abolished whisky import duties, in line with WTO agreements. There have been no significant changes in tariff codes or rates since. Additionally, an 8% consumption (sales) tax is levied on all whisky and spirits products when shipped from bonded areas.

The Japanese liquor tax categorizes whiskies, fruit brandies, gin, rum and other spirits into one category which has a liquor tax rate of ¥370,000 per kiloliter for the alcohol contents up to 37%. For alcohol content beyond 37%, an additional ¥10,000 per 1% alcohol degree is added.

Japan Import Duties for Spirits

HS Code	Type of Spirits	Import Duty	Consumption Tax
2208-30	Whisky	Free	8%
2208-40	Rum and spirits obtained by distilling fermented sugar-cane	Free	8%
2208-50	Gin and Geneva	Free	8%
2208-60	Vodka	Free	8%
2208-70	Liqueurs and Cordials	Free	8%

Japan Liquor Tax for Distilled Spirits

Spirits	Liquor Tax Per Kiloliter
Not exceeding 37% alcohol	¥370,000
Per additional 1% alcohol beyond 37%	¥10,000
Example: Whisky of 40% alcohol	¥400,000

Source: Japan National Tax Agency

Potential for U.S. Craft Spirits

A craft spirits movement, similar to the one currently occurring in America, does not yet exist in Japan. Representatives of Japan Wines and Spirits Importers Association affirmed that the Japanese still overwhelmingly prefer aged Scotch whisky and Bourbon whisky as their premium whisky choices. Demand for the young and unique whiskies usually marketed by craft producers has not been cultivated. Distribution dynamics through wholesaler networks in Japan also present unique challenges, until the market distribution channels emerge. Small-scale whisky producers have gradually begun to receive some attention, but remain scarce in Japan. The distilling licenses are moderately difficult to acquire, which limits the rise of small-scale independent producers.

However, the Japanese market has few policy restrictions on the sale and marketing of whisky, and tariffs and taxes on whisky and spirits are low. Whether Japan will follow American's craft spirits trend as it followed American's craft beer trend will likely hinge on the amount of marketing efforts by U.S. or other suppliers, and whether or not they are able to expand and redefine the image of young and small batch whisky in Japan.

ATO Resources

ATO Tokyo recommends participating in a trade show or trade showcase to introduce your product and increase its exposure in the Japanese market place. It is important to present potential uses and product marketing concepts directly to Japanese importers and consumers.

Examples of showcases are the Great American Whiskey Experience, which the Distilled Spirits Council of the United States has held in some countries. The upcoming ATO-sponsored Craft Whiskey and Craft Cider Showcase on May 9 is another example, which will help us to introduce the product concept to bartenders. If successful, we may replicate this event, or target Japanese consumers at another event. If you are interested in future ATO trade showcases, please contact us at ATOTokyo@state.gov.

There are many regular tradeshows, which can be good places to find buyers and distributors, or to promote your product to consumers. FOODEX is the largest food and beverage trade show in Japan, held yearly in Tokyo in March (The 2017 show will be from March 7 through March 10). The ATO coordinates a U.S.A. Pavilion at this show, where exhibitors can present products directly to all segments of the food and beverage market. This four day showcase received around 75,000 trade-only visitors in 2016. FOODEX information for 2017 can be found at:

<http://imexmanagement.com/show/204/foodex-japan-2017/>

Another alcohol specific trade show is the Tokyo International Bar Show and Whiskey Expo <http://tokyobarshow.com/english.html>. There are many other smaller trade shows and showcases held by whisky and spirits related associations in Japan, which your local distributor should be able to help you with.

In-store promotional events are another way to get a foot in the market, once you have a distributor. More than any other place, Japanese consumers are able and willing to pay for high quality food products. Japanese consumers tend to enjoy trying new, high quality alcoholic beverages on special occasions and holidays. Therefore, campaigns intending to introduce new, high quality products to

Japan are more likely to succeed if they target consumers during these brief periods. Campaigns of this nature should anticipate low-volume sales at a limited number of stores at first, and then gradually increase the variety and number of stores. This approach can be useful in generating change in the marketplace.

The ATO publishes a variety of reports, which can help companies prepare for entering the Japanese market such as this report, the Exporter Guide Japan and Food and Agricultural Import Regulations Japan. All are available for free on the following website:

<http://www.usdajapan.org/reports/>