Wine and spirits market in Japan: Barriers and opportunities

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Pernod Ricard Japan President & CEO
**Market context**

### Economic environment indicators

<table>
<thead>
<tr>
<th>Demographics</th>
<th>CY09</th>
<th>CY10</th>
<th>CY11</th>
<th>CY12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total population</td>
<td>128M</td>
<td>127M</td>
<td>127M</td>
<td>127M</td>
</tr>
<tr>
<td>% 20 (LDA) – 34</td>
<td>-3%</td>
<td>-3%</td>
<td>-2%</td>
<td>-2%</td>
</tr>
<tr>
<td>% 35 – 54</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>% 55+</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>% Active women(*)</td>
<td>67.6%</td>
<td>N/A</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

(*) OECD: Employment/population ratios (25-54 women)

### Risk assessment

- Currently, about 20% of the population is over age 65.
- By 2050, that percentage will increase to almost 40%. Retirees will outnumber consumers age 20-40.

### Key Summary

#### Aging Society

**Projection**

- **Over 65s**
  - 1950: 2.5 million
  - 2008: 24.5 million
  - 2050 (est.): 79.6 million

**Source:** Ministry of Health, Labor & Welfare
Long-term evolution of alcoholic market

Beer: 66% total alcohol volumes in Japan
Western style Wines & Spirits: 5%
Imported Wines & Spirits: 2.5%
The Japanese wine duty is arbitrarily high in comparison with beer, brandy and whiskey

- Beer, brandy and whiskey tariffs were reduced to zero in 2002 in accordance with agreements reached at the 1997 WTO panel.

Limited rationale for protection of domestic producers

- 100% domestically produced wine accounts for only 3.5% of the total Japanese wine market, whilst the share of imported (bottled and bulk) wine amounts to 96.5% of the market.

<table>
<thead>
<tr>
<th></th>
<th>Still</th>
<th>Sparkling</th>
<th>Bulk</th>
<th>Exchange rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>15% or 125 JPY/L</td>
<td>182 JPY/L</td>
<td>45 JPY/L</td>
<td>NA</td>
</tr>
<tr>
<td>EU</td>
<td>15 JPY/L</td>
<td>37 JPY/L</td>
<td>NA</td>
<td>135 / euro</td>
</tr>
</tbody>
</table>

Current duty per litre
Import duties on white spirits

- Japan is committed to apply a tariff of zero from 1 April 2002 for EU spirits.
  - Based on the WTO panel decisions (1997), Japan has eliminated tax discrimination between “vodka and other alcoholic beverages such as liqueur, gin, genever, rum, whisky and brandy” and “domestic shochu”.

- However, whereas the zero tariff on whisky and brandy is permanent, the reduction for other spirits, notably, rum, gin, vodka and liqueurs is done on a temporary basis.
  - It has to be renewed by lower and the upper Japanese Parliament Chambers every year in March.

<table>
<thead>
<tr>
<th>Product</th>
<th>WTO bound rate</th>
<th>Present tariff (temporary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other fermented sparkling beverage made, in part, from malt</td>
<td>27 JPY/L</td>
<td>0</td>
</tr>
<tr>
<td>Rum</td>
<td>18%</td>
<td>0</td>
</tr>
<tr>
<td>Gin and Geneva</td>
<td>17.5% or 77 JPY/L</td>
<td>0</td>
</tr>
<tr>
<td>Vodka</td>
<td>16%</td>
<td>0</td>
</tr>
<tr>
<td>Liqueurs and cordials</td>
<td>n/L</td>
<td>0</td>
</tr>
</tbody>
</table>
EU traceability information to be protected

- Traceability is a cornerstone of EU food safety policy

- Today the removal of existing traceability information is not prohibited by law in Japan
  - As a result, liquor products from EU with removed, tampered with or covered up Lot Codes are imported to Japan
Recognition of GI and Wine definition

- **Reinforcement of GI rules in line with EU definitions needed**
  - Geographical Indicators are an important element for the EU liquor industry and importers in Japan. EU liquor industry requests that the Japanese Government reinforce GI rules in line with EU definitions in its Liquor Tax Law.

- **The Japanese definition of wine does not comply with internationally accepted definition, misleading Japanese consumers and posing unfair competition to European wines**
  - Under the Japanese definition of “wine,” as specified in the Liquor Tax Law, any of the fermented, alcoholic liquids made of any fruits / made from condensed grape juice, water and sugar, can be considered “wine.”
Additives to wines

Japanese standard to be harmonized with EU

- The list of additives approved by the Japanese authorities for inclusion in liquor is outdated and differs greatly from the lists of other industrialized countries.
- The process for having additives declared safe is both very costly and time-consuming. Ex. Copper sulfate, accepted by all wine producing countries
## Long-term market trends

<table>
<thead>
<tr>
<th>Health Seeking</th>
<th>Low alcohol, Easy to drink</th>
<th>Cost efficient</th>
<th>Modest/Home luxury experience</th>
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</thead>
</table>

Growing RTDs market: over 500 new products every year

Takara’s Beauty Sparkling, a low cal sparkling wine with collagen addition
Thank you for your attention