

VI Administration of the Liquor Industry

The Liquor Tax has been a major source of government revenue, as well as the land tax since the Meiji Restoration in 1868, and surpassed the land tax at one point to become the primary source of national tax revenue. Thereafter, direct taxes, such as income tax and corporation tax, have come to account for a greater proportion of total revenues. In fiscal year 2007, the liquor tax accounted for 2.9% (¥1,524 billion) of total tax revenues. Meanwhile, the liquor tax, which is less influenced by changes in the economy and ensures stable tax revenue, continues to play an important role in Japan's tax system today.

The liquor industry is composed of 2,878 manufacturers and 162,861 distributors (as of the end of March 2008), most of which are small and medium enterprises.

The arrival of a decreasing population, rising concern about health and food safety of the people, and changes in the lifestyle are causing great changes in the environment surrounding the liquor business today.

In order to adapt to these changes in the socio-economic conditions, the NTA is implementing a variety of measures to ensure the sound development of the liquor industry as a whole from a comprehensive perspective.

Since the recent incident of the illegitimate distribution of contaminated rice has raised concern about food safety, the NTA is making a variety of efforts to assure the safety and quality of every process from production to consumption of liquor in order to supply consumers with safe, high quality liquor.

(1) Activities to assure the safety and quality of liquor

Offices of analysis and brewing technology in Regional Taxation Bureaus provide technical guidance to liquor brewers and conduct surveys on the liquor distributed in the market (investigation of safety, quality, and labeling), and assure the quality and safety of domestically available liquor. For catching up with the new brewing technology to assure the safety and quality of liquor and for acquiring advanced technologies, such as research and development related to analytical methods, the NTA is exchanging information and cooperating with the National Research Institute of Brewing (NRIB).

From the standpoint of protecting consumers' interests, the NTA has established labeling criteria to which the liquor business operators must comply and is trying to ensure appropriate liquor labeling within the industry through compliance examinations.

National Research Institute of Brewing (NRIB)

NRIB was originally established in 1904 as the National Research Organization of Technology for Liquor within the Ministry of Finance. In April 2001, it shifted from the NTA's Research Institute of Brewing to an independent administrative agency. Furthermore, in April 2006, the NRIB became an independent administrative agency, in which all staff members are treated as non-government employees, with a view to accelerating the exchange of researchers and joint research between the private sector and universities. Today, as Japan's only comprehensive liquor-related research institute, the NRIB conducts advanced analyses and examinations to realize proper and fair taxation of liquor and also conducts research and surveys on liquor, provides training courses for small and medium-size liquor manufacturers, and seminars for consumers. For further details, please visit the NRIB website at <http://www.nrrib.go.jp/English/index.htm>.

(2) Activities for the sound development of liquor Industry

In order for the liquor industry to realize sound development, it is necessary to consider the principle of change from quantity to quality and consumer perspectives. High quality and safe liquor must be produced from the standpoint of consumers and under proper quality control, and the product must be offered to consumers along with proper disclosure of information. To achieve them, it is important that

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Future Challenges

Statistics

both industry and government work together to address issues that may arise in each process from production to the distribution of liquor.

To this end, the NTA provides support for the liquor industry by conducting research on industry trends, offers training courses by experts in business management, and makes available information on examples of successful management improvement and on government programs offered for small and medium-size enterprises.

Meanwhile, a growing boom in Japanese foods overseas is also helping raise the appraisal of Japanese liquor as part of Japanese culture. The NTA is supporting the establishment of more favorable export conditions, such as offering information on export procedures for liquor and rules and regulations implemented in other countries.

(3) Ensuring a fair trade environment

For the sound development of the liquor industry, ensuring a fair trade environment is essential. In August 2006, the NTA reviewed and updated the guidelines and set forth the Guidelines on Fair Liquor Trade. Through its publicity activities about the new guidelines, the NTA is encouraging liquor business industry to make their own efforts to ensure fair trade. The industry itself is voluntarily promoting fair trade practices, such as reasonable pricing by the cost plus method or establishing its own standards regarding transaction terms to move forward with fair trade.

The NTA examines the status of the liquor trade. If any transactions run counter to the above guidelines, the NTA will provide guidance for improvement and work together with the Fair Trade Commission when necessary.

(4) Response to Social Demands

In order to meet the social demand for the prevention of underage drinking, the NTA is thoroughly ensuring the appointment of liquor sales managers, encouraging attendance at training courses, and ensuring the obligation to adhere to the labeling of liquor. Furthermore, the NTA has liquor sales management cooperators publicly appointed to monitor liquor shops in order to thoroughly confirm that the liquor suppliers comply with the obligation of displays.

In addition, in order to respond to the social demand for the prevention of drunken driving, as it is very important that families, schools, local communities, and government as well as liquor industry address such issues, the NTA is tackling the issues in partnership with them.

In accordance with the resolutions of the World Health Organization (WHO) in May 2005, the NTA, with the relevant government authorities and liquor industry, is continuing to consider how to reduce the adverse effects that the harmful use of alcohol may have on health and society.

(5) Proper handling of application for liquor sales license

Liquor is an article subject to a high rate of tax. Therefore, to ensure the taxation and collection of the liquor tax and to smoothly shift the tax burden onto consumers, the licensing system is adopted to manufacture and distribute liquor.

The NTA is working to properly operate the administrative affairs to issue licenses for the manufacture and distribution of liquor in accordance with purpose of the system, keeping the procedures for the issue of licenses transparent and uniform. For the new licensees, the NTA properly guides and instructs them to maintain their obligation to appoint liquor sales managers for retail operations and other matters of compliance.

Guidelines on Fair Liquor Trade (Established on August 31, 2006)

Purposes

To assure liquor tax revenue and stabilize liquor trade (Article 1 of The Law concerning Liquor Business Associations and Measures for Securing Revenue from the Liquor Tax)

Execution of trade complying with guidelines

Sound management and improvement on consumers' interests

Sound development of the liquor industry

① Recent liquor market

- Changes in the business environment (arrival of the decreasing population society, etc.)
 ...> Difficulty with further total volume growth of liquor consumption in the domestic market
- Diversification in liquor retail (convenience stores, supermarkets, drugstores, etc.)
 ...> Gaps in trade volume and price among traders

② Issues for the Sound Development of the Liquor industry

- “Shift from quantity to quality”, “Consumers’ perspectives”,
 “Sales Management”, and “Assurance of Fair Trade”

③ Considering the applicability of Article 84 of The Law concerning Liquor Business Associations and Measures for Securing Revenue from the Liquor Tax 《Recommendation or orders to assure the liquor tax》, the NTA makes suggestions on fair liquor trade practices and ways to cooperate with the Fair Trade Commission.

- Facilitating voluntary efforts to assure fair trade

1. Fair trade related to liquor

(suggestions of how liquor trade should be from the standpoint of securing the liquor tax)

1 Setting of the rational price

- ① The rational retail price should be “purchase price + SGA expense + profit.” In addition, the liquor prices should be rational from the viewpoint of liquor’s unique characteristics.
- ② In light of its unique characteristics, it is inadequate practice to use liquor as a “loss leader” for attracting customers, which should be improved;
- ③ Production should be kept at proper level based on a correct supply-demand outlook.

2 Fair treatment of business clients, etc.

Discriminatory treatment of the selling price and trade conditions according to the trade clients or sales territories without rational reasons is likely to become one of the factors in distorting market prices.

3 Setting of fair trade conditions

It might erode supplier operations and affect the collection of receivables by manufacturers, which is likely to cause problems in securing the liquor tax, when large-scale operators, such as supermarkets, unilaterally return products at their discretion, refuse to accept products with a private brand, demand to dispatch employees, demand payment of contributions and excessive center fees, or treat suppliers unfavorably because of refusal to accept such demands.

4 Transparent and rational rebates

Rebates that lack transparency and rationality should be eliminated.

2. Conducting Survey on Actual Trade Practices and Collaborating with the Fair Trade Commission (Measures by the NTA)

1 Conduct of the status survey on effective trade practice, etc.

- ① Conducting tax examinations focused on liquor business operators who are largely influential on the market;
- ② Conducting follow-up surveys on liquor business operators for which guidance for improvement was issued;
- ③ Disclosing the inappropriate trades and their case examples for improvement results as much as possible for preventing other operators for engaging in the same kind of trade.

2 Measures to secure the liquor tax

- ① Judging the existence of excessive competition provided for in Paragraph 1 of Article 84 of the Law concerning Liquor Business Associations and Measures for Securing Revenue from the Liquor Tax in reference to 1 “Fair trade related to liquor.”
- ② Taking the minimum but essential actions to solve the problem if measures should be implemented to maintain liquor tax revenues.

3 Response to Violations of the Antimonopoly Law

The regional commissioners, who find the liquor business operators violate the Antimonopoly Law, will inform the Fair Trade Commission of such facts.

4 Collaboration with the Fair Trade Commission

- ① The NTA consults with the Fair Trade Commission issues related to distribution of liquor.
- ② Officials are appointed in Regional Taxation Bureaus in charge of centralizing the administration of liquor market information.