

VI Administration of the Liquor Industry

Ensuring the Sound Development of the Liquor Industry

Liquor tax has been a major source of government revenue alongside land tax since the Meiji Restoration of 1868 and even surpassed land tax revenue at one point to become the primary source of national tax revenue. Subsequently, direct taxes, such as income tax and corporation tax, have come to account for a greater proportion of total revenue, and in fiscal 2006, liquor tax accounted for 2.9% (¥1,547.3 billion) of the total revenue of tax. Liquor tax is a stable form of tax revenue because it is not easily affected by economic fluctuations. For this reason, liquor tax continues to play an important role in Japan's tax system today.

The liquor industry is composed of 2,876 manufacturers and 158,043 distributors (as of the end of March 2007), and most of them are small and medium-sized enterprises.

Accompanied by a shrinking population, the public's growing interest in health maintenance and food safety, changes in lifestyles, and progressive deregulation, there are significant changes in the environment surrounding the liquor industry.

In order to adapt to such socioeconomic change, the NTA is taking various measures to ensure the sound development of the liquor industry from a comprehensive perspective covering the whole liquor industry.

(1) Measures Aimed at Improving the Liquor Industry

In order to improve the managerial makeup of the liquor industry, measures should be taken based on the ideas of a shift from quantity to quality and the viewpoint of consumers. It is important for both industry and administration to collaborate on issues occurring at every stage, from liquor manufacturing to sales, from the viewpoint of consumers, so that high-quality and safe liquor is produced and provided to consumers with proper information and under appropriate quality control.

In this respect, the NTA actively listens to the opinion of consumers, provides information to the liquor industry, and conducts label, quality, and safety checks on liquors at the retail stage.

In order to support the activities of the liquor industry to provide proper product information and to establish regional brands of sake, in October 2005, the NTA added provisions

aiming to protect the geographical indications (GIs) for sake to the "Standard for Indication in Relation to Geographical Indications," which were previously applicable only to wines and distilled liquor.

As Japanese cuisine has been attracting increased overseas attention, Japanese sake is also being more widely acclaimed as part of Japanese culture. In this context, the NTA is supporting the establishment of more favorable export conditions, such as providing liquor merchants with information on export procedures.

In addition, the NTA also provides support for liquor businesses, such as helping them identify their own management problems, holding management consultant lecture sessions, providing information on best practices in business management and government SME-related policies, and helping their business innovation plans.

(2) Fair Trade Environment

For sound development of the liquor industry, a fair trading environment is vital. In this sense, the NTA reviewed the existing guidelines and laid down "Guidelines on Fair Liquor Trade" in August 2006. Through PR activities on the new guidelines, the NTA encourages the voluntary efforts of liquor businesses for fair trade. On its part, the liquor industry is also voluntarily promoting fair trading, such as

reasonable pricing by the cost plus method, or establishing objective criteria on trading terms.

Furthermore, the NTA examines actual liquor trade practices, provides guidance for improvement when transactions going against these guidelines are detected, and is working with the Fair Trade Commission as well when necessary.

(3) National Research Institute of Brewing (NRIB)

Each regional taxation bureau has an office of analysis and brewing technology, which works on enhancing the quality and safety of domestically available alcoholic beverages through technical guidance to liquor breweries and surveys on commercially available alcoholic beverages.

In addressing brewing technologies for improving liquor quality, and ensuring the safety of liquors, the research and development of analytical methods, and other highly technical problems, the NTA exchanges information and cooperates with the NRIB.

National Research Institute of Brewing

The National Research Institute of Brewing (NRIB) was established at Takinogawa, Tokyo in 1904, as a national research organization of technology for alcoholic beverages within the Ministry of Finance. The NTA brewing research institute was transformed into an independent administrative agency in April 2001. Furthermore, in April 2006, the NRIB became an independent administrative agency, in which staff members are treated as non-governmental employees, based on the perspective of promoting cooperation and personnel exchange with the public sector and universities. As Japan's only comprehensive liquor-related research institute, the Institute undertakes advanced analyses and examinations for realizing proper and fair taxation on liquors, research and surveys on liquors, training programs for small and medium-sized liquor manufacturers, and seminars for consumers. For details, see the NRIB website at <http://www.nrib.go.jp/English/index.htm>.

(4) Social Demands

In order to meet various social demands, such as preventing underage drinking, the NTA attempted to ensure thorough compliance with the obligations to appoint liquor sales managers, attend liquor sales management training, and present at venues displaying liquor beverages. Furthermore, "liquor sales management cooperators" were publicly sought to consign such management to, and the efforts were strengthened to confirm the state of compliance with the obligation of display.

Moreover, the efforts, not only of the liquor industry, but

also of each of families, schools, communities, and the government, are crucial to addressing social issues such as the problem of drunk driving. The NTA is cooperating and coordinating its efforts with related government ministries and agencies, members of the liquor industry, and others.

In accordance with the resolution of the World Health Assembly* held in May 2005, the NTA is considering, with the relevant government agencies and the liquor industry, measures to reduce the impact imposed on the health of people or society caused by the harmful use of alcohol.

(5) Liquor Sales License

On August 31, 2006, the designated emergent adjustment districts in accordance with the "Emergency Measures Law on Improving Business Operations of Liquor Retailers" lost their effectiveness. As a result, many applications for liquor sales license have been submitted,

which the NTA is examining properly and promptly.

The NTA is also providing proper guidance to new licensees concerning the obligations of the licensed businesses, such as appointing a liquor sales manager and attending liquor sales management training sessions.

* The World Health Assembly is the supreme decision-making body for the World Health Organization (WHO).

Guidelines on Fair Liquor Trade (August 31, 2006)

Purposes:

To ensure liquor tax revenue and stabilize liquor trade

(Article 1 of the Liquor Business Associations Law)

Trading complying with the Guidelines

→ Sound business management and improvement in consumer benefits

Sound development of the liquor industry

Introduction

(i) Recent Liquor Market

- ➔ • Changes in the business environment (advent of society with declining population, etc.)
 - > Difficulty in expanding the domestic liquor market overall in terms of volume
- Diversification of liquor retailers (convenience stores, supermarkets, drugstores, etc.)
 - > Gaps in trade volume and prices among liquor businesses

(ii) Issues for the Sound Development of the Liquor Industry

- ➔ “Shift from quantity to quality,” “Viewpoints of consumers,” “Sales management,” and “Ensuring fair trade”

(iii) To suggest “fair liquor trade practices” and “how to cooperate with the Fair Trade Commission,” considering the applicability of Article 84 of the Liquor Business Associations Law “Recommendation or orders for maintaining liquor tax revenue”

- ➔ Encouraging voluntary efforts to achieve fair trade

I. Fair Liquor Trade Practices

(Suggests fair liquor trade practices from the viewpoint of keeping liquor tax revenues)

1. Rational Price Setting

- (i) The rational price should be “purchase price + SGA expenses + profits.”
Liquor prices should be also reasonable from the viewpoint of a liquor’s unique characteristics.
- (ii) As liquor beverages have unique characteristics, they should not be used as a “bait leader” to attract customers, since this is improper business practice.
- (iii) Production should be kept at a proper level, based on an accurate supply-demand outlook.

2. Fair treatment of Business Partners

If liquor businesses set discriminatory selling prices or business terms for certain business partners or sales territories without justifiable reason, such behavior would distort the proper market prices.

3. Setting of Fair Trading Conditions

If a large-scale retailer, such as a supermarket, unilaterally returns products for its own reasons, refuses to accept private brand products, demands suppliers accept its staff, pay rebates or excessive center fees, or imposes disadvantageous treatment based on refusal to accept such demand, such behavior would adversely affect the profitability of liquor suppliers, have a negative impact on the collection of receivables by manufacturers, and erode liquor tax revenues.

4. Transparent and Rational Rebates

Rebates that lack transparency and rationality should be abolished.

II. Conducting Surveys on Actual Trade Practices and Collaborating with the Fair Trade Commission

(Measures taken by the NTA)

1. Conducting Surveys on Actual Trade Practices Effectively

- (i) Conducting surveys focusing on liquor businesses that have a significant influence on the market
- (ii) Conducting follow-up surveys on liquor businesses subject to the NTA’s improvement guidance
- (iii) Publicly disclosing problematic trade practices and guidance provided to the extent possible in order to prevent similar trade by other businesses

2. Measures to Keep the Liquor Tax Revenues

- (i) Judging the existence of excessive competition (as specified in Article 84, Paragraph 1 of the Liquor Business Associations Law) in line with the descriptions in I “Fair Liquor Trade Practices”
- (ii) Taking the minimum actions to solve the problem if measures should be taken to keep the liquor tax revenues

3. Addressing Violations of the Antimonopoly Law

If a regional commissioner finds any violation of the Antimonopoly Law in liquor businesses’ trade, the commissioner will report this fact to the Fair Trade Commission.

4. Collaborating with the Fair Trade Commission

- (i) The NTA has discussions with the Fair Trade Commission concerning problems in the distribution process.
- (ii) The officers in the regional taxation bureau in charge of managing market-related information are newly appointed.