

~ Taking various measures for the development of liquor business ~

The NTA is making proactive efforts for the sound development of liquor business, not to mention for realizing the proper and fair taxation of liquor tax.

Liquor business not only formed a historically and culturally important local industry but also has energized the countryside and created the new value as Cool Japan in recent years. Its development contributes to revitalizing regional economies and the Japanese economy.

From this point of view, the NTA, as the competent authority in the business, will continue to strive to identify issues, needs, etc. in the liquor industry and strengthen efforts for the development of liquor business in coordination and cooperation with related government offices, organizations and others.

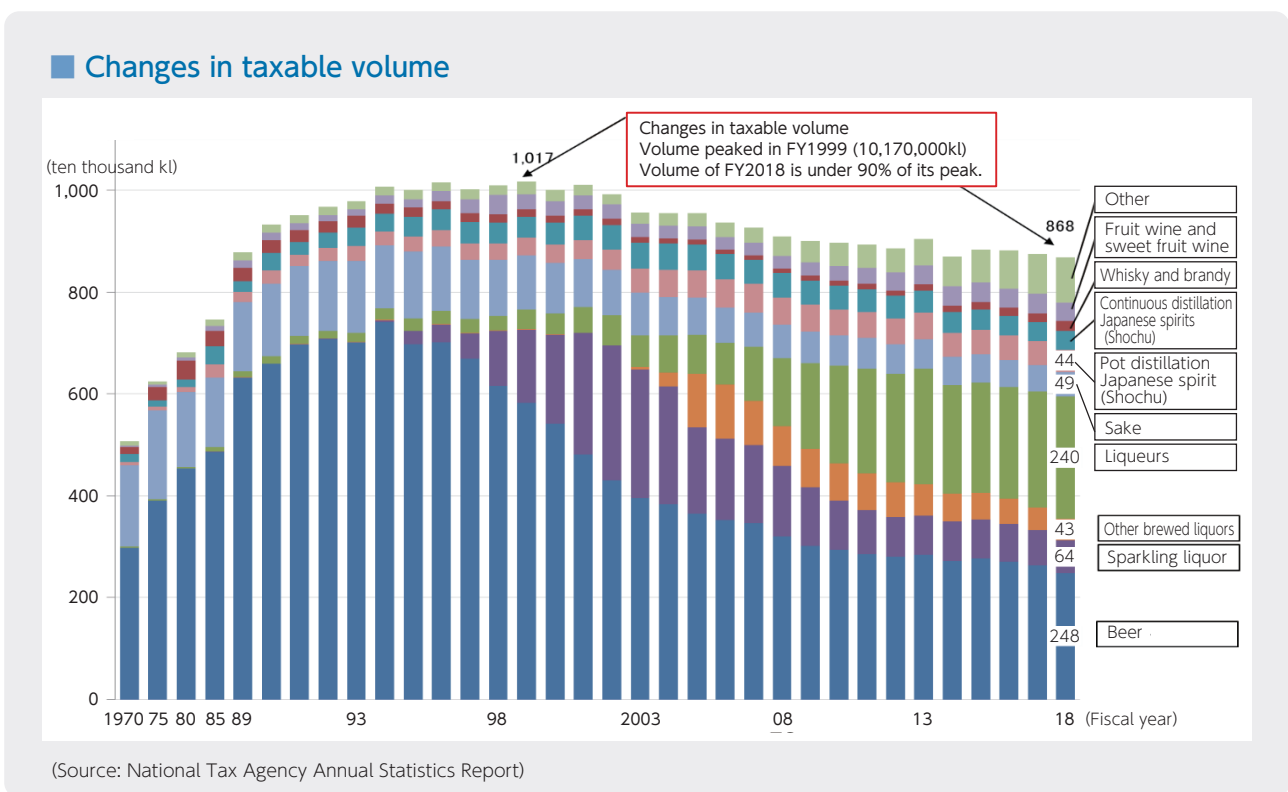
On the other hand, liquor is a product that needs social considerations since it makes people drunk or addicted to it. Therefore, the NTA also responds to efforts to accommodate social requirements appropriately.

1 Situation of Liquor Industry

(1) Situation of domestic market

The taxable volume of liquor (domestic shipment volume) has declined since it peaked at 10,170,000 kl in 1999. The trend in the composition of taxable volume of each kind of liquor products has considerably changed recently. The taxable volume of beer, in particular, declined considerably, because there seems to be the shift of consumption from beer to low-priced liquor, such as chuhai and beer-like products (the so-called new genre drinks). On the other hand, craft beer has become popular in recent years.

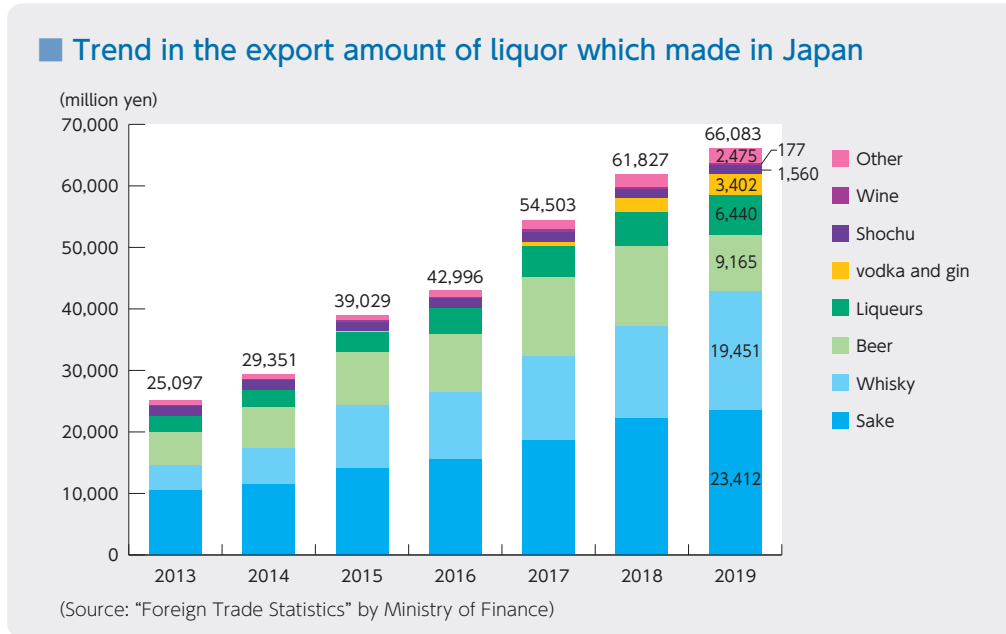
Although most business operators in the liquor industry are small and medium enterprises, they are engaged in efforts, such as product differentiation, emphasis on value and overseas expansion, and many of them have managed to grow. Recently, business operators in different industries, startups and moreover, foreign companies are entering the market too.



(2) Situation of the export of liquor made in Japan

Looking at the overseas market, in recent years, liquor made in Japan has gained global recognition through winning international competitions and others. Also, the global food market is expected to continue growing in the future.

Against that backdrop, the export value of liquor made in Japan reached about 66.1 billion yen (6.9% increase from the previous year) in 2019, renewing its record high for eight consecutive years.



2 Efforts of the NTA

~ Promotion of liquor business ~

In promoting liquor business, the NTA endeavors to provide support and improve the environment in a way that allows business operators, industrial associations and others to come up with ingenious ideas and make ambitious efforts under the appropriate division of roles between the private and public sectors. In addition, the NTA, as a government agency, properly deals with issues that the private sector cannot handle, such as improvement of the system and negotiations with foreign governments. Furthermore, the NTA assists liquor manufacturing industry in strengthening its technical capabilities in addition to paying attention to stabilizing the business foundation of small and medium enterprises.

(1) Cultivation of overseas demand

① International negotiations for removal of tariffs and import restrictions, etc.

The NTA is seeking elimination of customs duties and import restrictions, protection of Geographical Indications (GI), etc. in international negotiations on EPA and others.

Regarding the export of liquor made in Japan to the EU region, the EPA between Japan and the EU¹, which entered into force on February 2019, realized (1) immediate elimination of customs duties on all kinds of liquor, (2) relaxation of import restrictions on "Japan Wine," (3) relaxation of restrictions on the capacity constraint on pot distillation Japanese sprit (shochu) and (4) protection of Geographical

¹ This is the Economic Partnership Agreement (EPA)—concluded between Japan and the EU with the aim of strengthening the economic relationship in international trade, investment and others—and is a comprehensive treaty that comprises of 23 chapters, covering not only the international trade of goods but also services and intellectual proprietary rights.

Indications (GI) for liquor within the EU.

As for the Japan-U.S. Trade Agreement which took effect in January 2020, the U.S. committed to taking the following actions: (1) proceed to amend the capacity constraint on wines and distilled spirits, (2) proceed to consider protection of 10 Geographical Indications of Japanese liquor within the U.S., (3) streamline the procedure for the approval of labels necessary for sales of liquor in the U.S., and (4) review the treatment of Japanese *Shochu* in the U.S. market.

After the accident at Fukushima Daiichi Nuclear Power Plant caused by the Great East Japan Earthquake, some export destinations introduced import restrictions¹. The NTA will continue to ask that these restrictions be lifted based on scientific evidence.

② Expediting and simplifying export procedures

In the customs clearance procedure for exports of liquor from Japan, should a destination country require a certification issued by the NTA, the NTA strives to issue the required certification as swiftly as possible.

In September 2019, from the perspective of expediting the issuance process of the export certification, the NTA improved the flow of administrative procedures from receipts of requests to issuances of various certifications.

In addition, in April 2020 the application procedure on the exemption of liquor tax for exports has been simplified as the presentation of an export certificate to the District Director of the Tax Office became unnecessary.

③ Support in business matching

The NTA is supporting liquor business operators, etc. in participating in overseas liquor expositions and in inviting overseas buyers to Japan so that they can get the opportunity to find overseas importers and distributors.



④ International promotion

To promote the export of liquor made in Japan, the NTA strives to enhance the international recognition and understanding of liquor made in Japan through various measures, such as performing promotional activities in international events and inviting overseas liquor experts to sake breweries.



⑤ Promotion of sake brewery tourism

The "liquor tax exemption system for the sake brewery tourism" came into effect in October 2017, under which when liquor manufacturers sell the liquor that they make themselves to foreign tourists, the liquor tax, in addition to the consumption tax, is exempted. With 151 breweries having the license for tax-

¹ After the accident at Fukushima Daiichi Nuclear Power Plant caused by the Great East Japan Earthquake, some export destinations introduced import restrictions. The NTA has been urging these countries to lift or to relax the restrictions in cooperation with relevant government agencies, the National Research Institute of Brewing and others. As the result, restrictions on Japanese liquors have been lifted or relaxed in the EU, Brazil, Malaysia, Russia, Thailand, Egypt, French Polynesia, Dubai and Abu Dhabi, Brunei and Singapore (as of January 2020).

exemption sales as of October 2019, the NTA will continue to promote the utilization of the system.

In FY2020, as a new measure, the NTA will support business operators in the compilation of model cases.

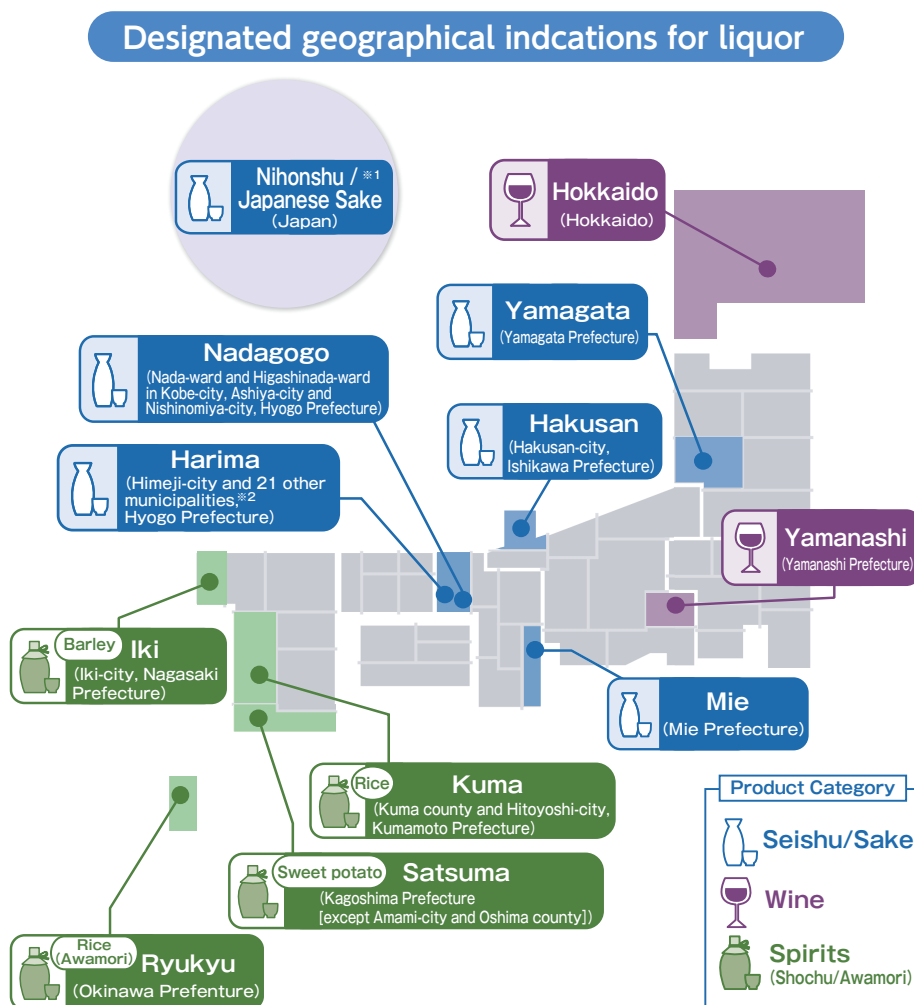
(2) Promotion of branding

① Expansion of the use of Geographical Indications (GI)

Under the Geographical Indication (GI) system, in the case that the characters of a liquor product or agricultural product unique to a specific production area (quality, recognition in society, etc.) have been established, only the product that is produced within the production area and fulfills certain production standards can exclusively use the name of its production area (the name of region as a brand).

The NTA is engaged in the designation and proliferation of GI from the perspective of enhancing brand value of liquor within and outside of Japan. The NTA also provides support to the regions who seek consultations on being designated GI by hosting information sessions and seminars, and preparing publicity materials such as pamphlets.

By the end of June 2020, the NTA has designated 12 Geographical Indications and hosted a symposium with the objective of increasing awareness among consumers.



※ 1 Sake made only from rice grown in Japan and brewed in Japan may call itself "Japanese Sake."

※ 2 Aioi City, Kakogawa City, Ako City, Nishiwaki City, Miki City, Takasago City, Ono City, Kasai City, Shiso City, Kato City, Tatsuno City, Akashi City, Taka town, Inami Town, Harima Town, Ichikawa Town, Fukusaki Town, Kamikawa Town, Taishi Town, Kamigori Town, and Sayo Town, Hyogo Prefecture

※ 3 Locations in the brackets indicate geographical regions. Locations colored in the map are indicated by prefectures and do not necessarily correspond to the areas of production.

② Initiatives to establish the wine labeling rule

So far, in Japan, “Japan Wine,” which is made exclusively from domestic grapes, and wines made from imported concentrated juice or imported wines, existed together in the market, causing the problem that distinguishing one from the other by referencing the label was difficult.

In such backdrop, the NTA formulated the wine labeling rule that sets the definition, etc. of Japan Wine “Standard for Wine Production Process and Quality Indication” (Wine labeling Rule). The rule came into effect in October 2018.

(See <https://www.nta.go.jp/taxes/sake/hyoji/kajitsushu/index.htm> [in Japanese])

In addition, the NTA holds symposiums for the consumers of Japan Wine and information exchange sessions bringing together industry associations and research institutes.

Through the establishment of such labeling rules, the NTA will strive to elevate the brand power of Japan Wine.

③ Preparation and publication of back labels for exporting Japanese sake

In August 2019, in cooperation with the Japan Food Product Overseas Promotion Center (JFOODO), the NTA engaged in activities to increase awareness among business operators and industry associations of back labels of Japanese sake so that consumers overseas are able to recognize Japanese sake and easily choose comparing each other in order to increase exports of Japanese sake by preparing a “standard back label” and “labeling guideline” for exports.

④ Hosting committee meetings on the global branding strategy of Japanese sake

Since September 2019 in order to promote exports and branding in the whole industry of Japanese sake, the NTA has been hosting committee meetings on the global branding strategy of Japanese sake and hold multi-faceted discussions concerning current challenges and future initiatives bringing together the committee members with relevant ministries, agencies, organs and experts in the field.

⑤ Support for building model cases of branding for overseas markets

In FY2020, as a new measure, the NTA strives to support the assembling model cases of initiatives (i.e., strategy plannings, new product developments, developments of sales channels, etc.) undertaken by business operators to build their brand for overseas markets.

Mid-term report of the committee meetings on the global branding strategy of Japanese sake

In the committee meetings on the global branding strategy of Japanese sake, a summary of discussions held between September and December 2019 and government measures based on these discussions were made available to the public in the form of a mid-term report in December 2019.

For the implementation of the government's compiled measures, the NTA is planning to drastically enhance initiatives to promote exports with significantly increased budget in FY2020 and by establishing the International Promotion and Negotiation Office.

Mid-term report on the committee meetings on the global branding strategy of Japanese sake (excerpts)

- The potential of the exportation of Japanese sake is significant.
- Increasing brand power through proactive valuations from a cultural perspective
- Importance of a branding strategy for the premiumization of products and a price determination commensurate of the value of the products
- While expecting greater efforts by business operators who are at the center of the initiative, the government supports for business operators' spontaneous and enthusiastic undertakings.

1. Discussion summary

Need to advance efforts to improve recognition, develop sales channels, and elevate brand value in an integrated manner

- (1) Improving recognition
- (2) Advancing development of sales channels
- (3) Ensuring proper quality control
- (4) Communicating consumer-friendly information
- (5) Leveraging inbound tourists
- (6) Appeal of food pairing (umami)
- (7) Results of tasting session for foreigners visiting Japan
- (8) Product branding
- (9) Utilization of Geographical Indication (GI)
- (10) Price diversification

【Notable opinions concerning branding】

- Direction should be changed from "good products for lower price" to "good products for high price."
- The story behind the products deserved for higher pricing is important.
- Not the facts concerning raw materials or technical significance, but the proposition of value is important.
- Efforts referred to the market and culture of wine (i.e., food pairing, terroir, denomination of origin) should prove effective.
- Sparkling and vintage Sake create new value. Potential for overseas market is strong.
- Luxury market is growing. A perspective of business for the affluent class is also important.
- Reconsider whether a determination of price point based on costing, such as raw material costs and rice polishing ratio, is appropriate.
- A possibility to achieve higher pricing through auctions is interesting.
- Diversity is also important. Variety of products of standard to high-end should be sought.

2. Government initiatives

The NTA, in coordination with relevant ministries, agencies and industry associations, will continue to engage the following initiatives and to work towards the removal of duties and import restrictions of destination countries through international negotiations.

- (1) Enhancing recognition and communication of easily understood information
- (2) Further development of sales channels
- (3) Ensuring appropriate quality control
- (4) Further brand building activities
- (5) To-be state of the labeling rule

【Major initiatives】

- Market research in foreign countries (taste preference, pricing, regulations, quality control, parcel delivery, etc.)
- Establishment of "Consortium for promotion of Japanese liquor exports" (supports to develop sales channels and matching services between trading companies and sake breweries)
- Supports for building model cases concerning Sake brewery tourism and the execution of "Your Japan 2020" campaign
- Supports for building model cases for branding in overseas markets by business operators (strategy planning, development of new products, development of sales channels, etc.)
- Advancing the designation of GI focused on the origin of raw materials
- Consideration of registration on the UNESCO Intangible Cultural Heritage list and a certification of chief Sake brewers as Living National Treasures
- Investigation and research concerning impacts of Terroir and aging on quality and prevention of quality degradation
- Starting discussions on labeling rules

(3) Technological assistance

① Promotion of the spread of brewing technology, etc.

Each Regional Taxation Bureau has the Office of Analysis and Brewing Technology as its technological function to promote the spread of advanced technologies including research results of the National Research Institute of Brewing (NRIB), through activities such as giving advice and consultation to liquor manufacturers, holding competitions, research workshops, etc. and dispatching officials to seminars, appraisals, etc., held by sake-makers associations and others.

② Support in the quality and safety of liquor

With the aim of ensuring the safety of liquor in all stages from liquor production to consumption and enhancing the level of quality, the Office of Analysis and Brewing Technology gives technological assistance concerning improvement, etc. in the production process of liquor and confirms safety through actions including research and provision of information on the radioactive substances of liquor.

Sanitation control in accordance with the HACCP¹ program became mandatory through the amendment of the Food Sanitation Act which took effect in June 2018. To this end, the NTA promotes sake brewers' awareness and supports the liquor industry association to develop a manual² in cooperation with the National Research Institute of Brewing.

③ Efforts by National Research Institute of Brewing (NRIB)

The National Research Institute of Brewing (NRIB) is responsible for high-level analysis and appraisal, and the research, surveys, etc. that give theoretical grounds thereto, which the Office of Analysis and Brewing Technology is unable to handle.

National Research Institute of Brewing

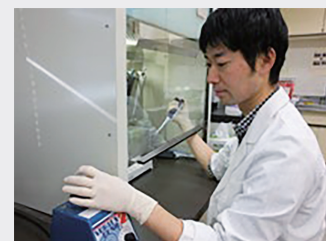
National Research Institute of Brewing (NRIB), to fulfill the mission of NTA to carry out proper and fair taxation of liquor tax and promote the sound development of the liquor business, in addition to research and investigations by requests from the NTA, carries out the following activities in particular.

- Research and development of advanced technologies, etc.
- Development of brewing engineers through brewing classes
- Dispatch of lecturers and judges to seminars and appraisal meetings held by sake-brewing associations

In recent years, the NRIB has enhanced research and development activities to increase the brand value of liquor made in Japan, such as the development of new species of yeast that enables the production of sake that maintains freshness after extended periods of transportation and storage with the objective of contributing to the promotion of liquor exports.

(Photo on right: a researcher working on the development of new species of yeast that does not degrade after extended periods of transportation and storage)

For further details, please visit the NRIB website (<http://www.nrrib.go.jp/English/index.htm>).



1 The HACCP program refers to a food hygiene management system in which the food manufacturer takes initiatives to ensure safety of the food product by managing Critical Control Points that is essential in removing or minimizing elements of hazard upon identification of the elements of hazard through a hazard analysis, such as contamination, that may result in food poisoning or the entry of foreign objects into the food made.

2 In consideration to the burden placed on small scale enterprises, the Ministry of Health, Labour and Welfare has mandated that a manual be prepared by the trade association of food manufactures. In regard to liquor production, a manual was jointly prepared by eight associations, including the Japan Sake and Shochu Makers Association. Please refer to the following site on the Ministry of Health, Labour and Welfare website for information on the available manual. https://www.mhlw.go.jp/stf/seisakunitsuite/bunya/0000179028_00003.html (in Japanese)

(4) Measures for small and medium enterprises

In order for the liquor industry, of which small and medium enterprises account for the majority, to adjust to change in the social and economic conditions properly, the NTA takes various measures, for example, holding seminars lectured by experts including Small and Medium Enterprise Management Consultants (SMECs) and assisting in drafting plans for raising the ability to run business, stipulated by Small and Medium-sized Enterprise Business Enhancement Act, in addition to supporting diverse efforts by industrial associations, such as the modernization project by the Japan Sake and Shochu Makers Association.

Moreover, in coordination with related government offices, organizations, and local government and others, the NTA provides business operators and industrial associations with information on governmental measures for small and medium enterprises (consultation desks, subsidies, the tax system, financing, etc.) in an attempt to promote the use of these measures.

(5) Promotion of Okinawa

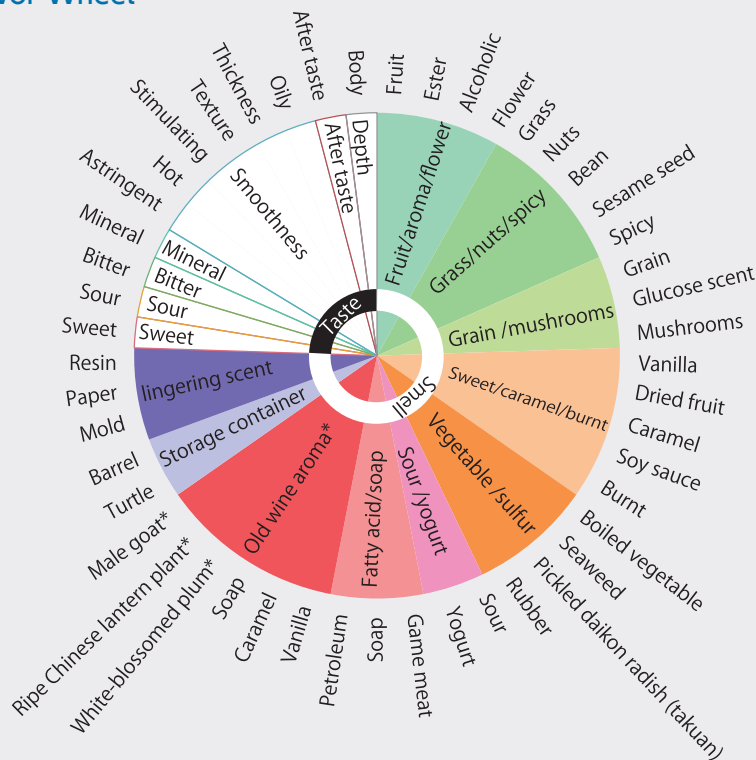
Based on "Ryukyu Awamori Overseas Export Project," the NTA makes efforts to promote liquor made in Okinawa in coordination with related government offices, including the Cabinet Office.

The NTA communicates information on Awamori at promotional events abroad, provides support to Awamori producers' participation in liquor expositions overseas, and in addition, dispatches analysts from the Okinawa Regional Taxation Office to undertakings by relevant ministries and agencies as specialists on the brewing technology.

In addition, the NTA hosts Awamori appraisal meetings which utilize a flavor wheel¹ for the improvement of the quality and technology of Awamori production.

The NTA is determined to make further progress in the dissemination of information on a global scale in cooperation with relevant ministries and agencies to promote the export of Awamori.

■ Awamori Flavor Wheel



Common recognition for those indicated with * could not be established, but was displayed provisionally.

¹ On April 26, 2017, equipped with scientific knowledge on Awamori, the Okinawa Regional Taxation Office compiled descriptions that characterize the flavor and taste of Awamori, and prepared a flavor wheel positioning similar flavors and tastes in close vicinity in a circular shape. Please refer to the following site for more details. https://www.nta.go.jp/about/organization/okinawa/sake/flavor_wheel.htm (in Japanese)

(6) Establishment of a fair trading environment of liquor

As it is important to establish a fair trading environment to realize the sound development of liquor business, the NTA propagates the “Guideline for the Fair Trade of Liquor,” formulated and publicized in August 2006, and the “Standards for the Fair Trade of Liquor,” formulated and publicized in March 2017, (hereinafter referred to as “the Standards”) to liquor business operators and enlightens them, thus making efforts that promote the proactive actions by liquor business operators to ensure fair trade, and the NTA also conducts examinations on the actual status of liquor trade. If examinations detect a transaction that does not comply with the Standards, etc., the NTA takes actions including giving instructions.

From the perspective of promoting voluntary efforts to ensure fair trading by liquor business operators, the NTA publishes the outline of its examination outcome along with the example cases of instructions and the cases in which improvements were instructed every year.

The NTA will continue to strive to ensure communication of the standards and carry out detailed examinations on the actual status of liquor trades, and deal decisively with non-compliant liquor business operators.

(7) Response to social demands

① Promotion of resource recycling

From the perspective of building a recycling-based society through activities, such as recycling liquor containers and reducing food waste, as a member of the food industry, while the NTA carries out PR and enlightenment activities through associations, etc. in the liquor industry to ensure that efforts, including the one to recycle liquor containers, are further promoted, it designates October as “3R¹ Promotion Month” and carries out enlightenment activities in cooperation with relevant ministries and agencies.

In addition, based on the “Plan for Global Warming Countermeasures” determined through the Cabinet decision in 2016, the NTA conducts evaluation and verification of the CO₂ reduction goal (Action Plan for Achieving a Low-carbon Society) undertaken by the beer industry in the Liquor Subcommittee under the National Tax Council.

② Measures for the prevention of those under the age of 20 from consuming alcohol

With the purpose to prevent those under the age of 20 from consuming alcohol, in addition to preparing educational posters and pamphlets, the NTA designates April as the “Month to emphasize the prevention of those under the age of 20 from consuming alcohol,” and carries out enlightenment activities in coordination with relevant ministries, agencies, and industry associations.

In addition, through an establishment of “Labeling standard concerning the prevention of those under the age of 20 from consuming alcohol (public notice)” and a liquor sale management training, the NTA provides guidance to liquor business operators to ensure adequate sales management of alcohol products while issuing documents in joint names with relevant ministries and agencies to business operators of liquor sales, requesting a strict practice of age verification when making a sale of alcohol product.

③ Measures against Health Problems Caused by Alcohol

Based on “The Basic Act on Measures against Health Problems Caused by Alcohol,” the government established the “Basic Plan on Promotion of Measures against Health Problems Caused by Alcohol” through a cabinet decision in May 2016, which includes “prevention of inducement to improperly drink of liquors,” and the NTA is engaged in advancing measures declared in the plan with relevant government offices and associations.

Currently, the discussion is underway towards the second basic plan (April 2021 to March 2026), and the NTA will continue to press forward with efforts to prevent consuming alcohol from those under the age of 20 and pregnant women and health problems caused by alcohol together with the liquor industry.

¹ Refers to the first letters of R at the beginning of the three phrases: Reduce, Reuse and Recycle.

～ Basic Direction of Liquor Administration ～

1. Mission of the NTA

① Realizing of proper and fair taxation and collection of domestic taxes ② Sound development of the liquor business and ③ Ensuring proper administration of services by Certified Public Tax Accountants (CPTAs)

2. Outline of the liquor industry

- The domestic liquor market has saturated in terms of volume and is contracting, as a whole.
- If pricing competition becomes excessive, that will weaken the power of business operators.

- In recent years, along with Ready-to-drink alcohol beverages, whisky, wine, craft beers, etc. are expanding.
- With the recognition of liquor made in Japan including Japanese sake and whisky, exports are increasing. The global food market is expected to continue growing in the future.
- Many business operators are growing through measures including differentiation, emphasis on value and overseas expansion.
- Business operators in different industries, start-ups and also foreign companies are entering the market.

3. Main issues in the liquor industry

(1) Product differentiation and a shift to high value-added products

- Appeal to consumers about an easy-to-understand value
- Price setting commensurate with high value-added
- Branding of products (individual companies, regions and JAPAN)
- Collaboration between agriculture, commerce and industry, and cooperation among different industries
- Expansion and appeal of a new value axis that comes from thinking outside the box

(2) Cultivation of overseas demand (including inbound)

- Enhancement of international recognition and understanding
- Expansion into non-Japanese food markets
- Exploration of local importers, distributors, etc.
- Displays and propositions that are easy to understand to overseas business operators and consumers
- For the wealthy
- Sake brewery tourism

(3) Utilization of technologies and securing human resources, etc.

- Succession and development of traditional techniques
- Utilization of digital tools
- Business succession
- Work style reforms
- Further involvement and contribution of women
- Securing raw materials

(4) Ensuring fair trade

- Ensuring fair trade through compliance with "Standards for the Fair Trade of Liquor" and "Guideline for the Fair Trade of Liquor."
- Securing proper sales management

(5) Response to social demands

- Reduction of environment load
- Measures against health problems caused by alcohol

4. Basic direction of liquor administration

As the competent agency in liquor business to aim at the preservation of liquor tax and the sound development of liquor business, the NTA endeavors to ensure the proper enforcement of laws and strengthen the promotion of liquor business (especially exports) from the comprehensive perspective that covers consumers and the whole liquor industry while coordinating and cooperating with related government offices, organizations, etc.

(1) Proper enforcement of laws

- License
- Oversight of liquor business associations
- Ensuring fair trade
 - Implementation of in-depth surveys of the actual state of trade, etc.
 - Strict treatment of problematic business operators
- Ensuring proper displays
- Ensuring quality and safety
- Promotion of resource recycling
- Measures for preventing those under the age of 20 from drinking alcohol
- Measures against health problems caused by alcohol

(2) Promotion of liquor business

- Support and improvement of the environment in a way that allows business operators, industrial associations and others to come up with ingenious ideas and make ambitious efforts under the appropriate division of roles between the private and public sectors
- Proper involvement in issues that the private sector cannot handle, such as improvement of the system and negotiations with foreign governments
- Support in strengthening the technical capabilities of liquor manufacturers while paying attention to stabilizing the business foundation of small and medium enterprises

Main concrete efforts

Cultivation in demands overseas

- International negotiations (for removal of tariffs and import restrictions, etc.)
- Expediting and simplifying export procedures
- Support in business matching
- International promotion
- Promotion of sake brewery tourism

Promotion of branding

- Expansion of the use of Geographical Indications
- Making wine labeling rules take root
- Hosting committees to review the global branding strategy of Japanese sake
- Support business operators to build model cases

Technological assistance

- Promotion of spread of advanced technologies, etc.
 - Guidance and consultation for business operators
 - Holding of competitions, research workshops, etc.
- Confirmation of safety concerning radioactive substances
- Support in responding to the mandatory adoption of HACCP
- Efforts by National Research Institute of Brewing
 - Research and development of advanced technologies, etc.
 - Development of brewing engineers
 - Dispatching lecturers and judges
 - Promotion of liquor exports

Measures for small and medium enterprises

- Support for efforts by industrial associations (modernization project, etc.)
- Propagation of government-wide measures for small and medium enterprises and promotion of their use

For details of efforts by the NTA, see the "Sake no Shiori (the bookmark of liquor)" in the NTA website (<https://www.nta.go.jp/taxes/sake/shiori-gaikyo/shiori/01.htm> [in Japanese]).