Voluntary - Public

Date: 8/31/2018

GAIN Report Number: JA8507

Japan

Post: Tokyo ATO

Cracking Open Japan's Craft Beer Market

Report Categories:
Market Development Reports
Product Brief
Beverages

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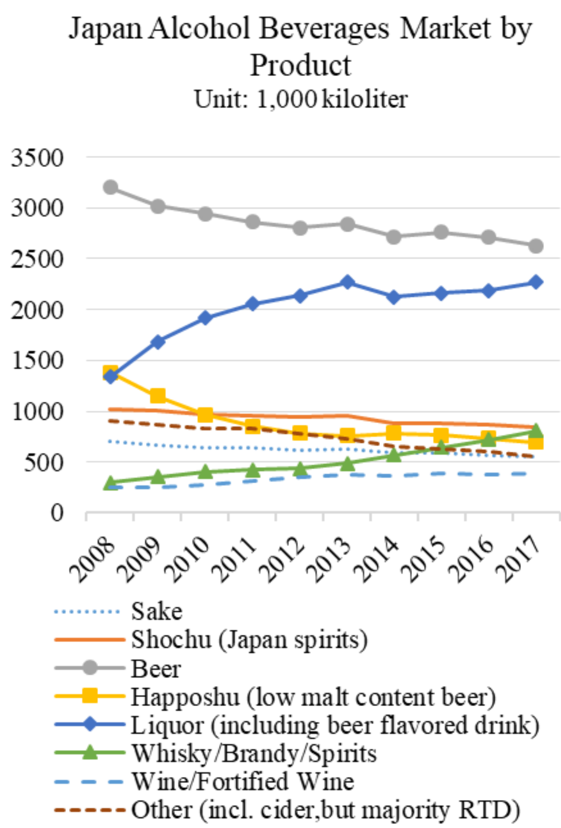
Report Highlights:

In the last decade, overall beer consumption in Japan has fallen. At the same time, craft beer's market share has quadrupled to approximately two percent of all beer. In 2017, the United States remained the fourth largest supplier of beer by value ($6.8 million) and once again became the highest value beer supplier on a cost per liter basis, due to premium craft beer sales. Recently, U.S. suppliers have had success marketing for special occasions, seasonal events, and to the growing pub scene. Additional opportunities are expected to arise with the Rugby World Cup in 2019 and Tokyo Olympic Games in 2020.

General Information:

Japan's economy has improved over the last four years, resulting in increasing GDP and growth in the food service market. However, the beer market has continued to diminish due to a higher liquor tax, shifting trends in alcoholic beverage product sales, and a shrinking national population.



Source: Japan National Tax Agency, total of domestic and imported products; Annual: April-March

Despite the declining trend in consumption, down 1.8 percent in 2016, the beer market (including Happoshu, a Japanese low-malt beer) still has a forty percent share among all alcoholic beverages. Per capita beer consumption in 2016 was 41.4 liters and Japan has remained the seventh largest beer consuming country in the world for the last decade. The vast majority of beer consumed remains light pilsner, which has been produced domestically since 1870 and pairs well with Japanese food. "Draft" beer, which is the most popular beer in the market, is produced using a filtration system and is non-heat treated. Heat treated beer is usually referred to as "Lager;" which the majority of consumers do not recognize as a type of craft beer. However, craft beer fans are generally aware of what India Pale Ale (IPA), wheat ale, and other beer styles are.

Four large scale-domestic breweries account for 98.6 percent of beer by volume and the remaining volume is produced by a number of small local microbrewers (Percentage share of domestic beer market: Asahi 39%, Kirin 31%, Suntory 16%, Sapporo 12% and other 2%). These domestic breweries capitalize on an excellent distribution system that can quickly turn-over product. Without that efficiency, it can be difficult to survive in the market. These breweries also compete with each other to develop new products using attractive advertisements, varying quality and taste, and through investments in the foodservice industry and related markets. For example, Kirin has invested in local microbrewers, Asahi in brew pubs and restaurants, and Suntory has started to brew and sell small batch beers such as pale ale, wheat ale and golden ale under the name of "Craft Select."

With strong domestic production, imported beer only constitutes approximately 1.4 percent of the overall beer market, although some fluctuations occur during international events, e.g. the Soccer's World Cup, the World Baseball Classic, and the Olympic Games. From 2016 to 2017, imports increased marginally, by 0.7 percent, to $60.5 million, and by 1.5 percent in volume; to nearly 37,000 kilo-liters. According to Global Trade Atlas, U.S. beer exports to Japan dropped by 2.7

percent to $6.8 million while volume fell 8.1 percent to 2,633 kiloliters year-over-year. Meanwhile, the United States remains the fourth largest supplier of beer by value, despite ranking lower in volume. In 2017, U.S. beer once again became the highest value imported beer by cost per liter, with an average value of $2.59/liter. No statistics exist that show what percentage of beer imports are craft beer, but U.S. beer's unit value is a strong indicator that exports include a significant amount of premium craft beer. In total, fifty-nine countries exported beer to Japan in 2017.

Chart 1: Japan Imported Beer by Origin – Unit: Thousand US$, Kilo-liter

Partner Country	2015		2016		2017		2017 Share	
	US$	Quantity	US$	Quantity	US$	Quantity	US$	Quantity
World Total	**60,464**	**38,146**	**60,001**	**36,372**	**60,405**	**36,927**	**100.0**	**100.0**
Mexico	8,918	7,179	10,158	7,988	12,233	9,000	20.3	24.4
Belgium	9,041	4,117	8,865	4,097	8,539	3,694	14.1	10.0
Ireland	8,841	3,953	9,331	3,795	8,140	3,443	13.5	9.3
United States	**6,413**	**2,744**	**7,005**	**2,866**	**6,815**	**2,633**	**11.3**	**7.1**
Germany	6,413	4,158	6,087	3,892	6,102	4,603	10.1	12.5
United Kingdom	4,680	2,417	3,858	2,155	4,093	2,239	6.8	6.1
Korea South	2,064	3,198	2,547	3,213	2,269	3,171	3.8	8.6
Thailand	1,861	1,396	1,905	1,418	1,860	1,347	3.1	3.6
Italy	1,360	719	1,524	786	1,645	789	2.7	2.1
Australia	1,456	1,437	1,320	1,359	1,413	1,393	2.3	3.8

Source: Global Trade Atlas

Chart 2: Japan Imported Beer Unit Price: US$ per litter

Partner Country	Unit Value - US$ per liter			% Change
	2015	2016	2017	2017/2016
World Total	**1.59**	**1.65**	**1.64**	**- 0.84**
United States	**2.34**	**2.44**	**2.59**	**5.88**
Ireland	2.24	2.46	2.36	- 3.85
Belgium	2.2	2.16	2.31	6.83
Italy	1.89	1.94	2.09	7.58
U. K.	1.94	1.79	1.83	2.13
China	1.47	1.38	1.45	4.48
Thailand	1.33	1.34	1.38	2.71
Mexico	1.24	1.27	1.36	6.88
Germany	1.54	1.56	1.33	- 15.24
Australia	1.01	0.97	1.01	4.46
Korea South	0.65	0.79	0.72	- 9.73

Source: Global Trade Atlas

Craft Beer Market Volume:

Craft beers have been surging in popularity among Millennials, wealthy seniors, and women. The total market share of domestic microbrewers and craft beer imports is estimated to have been less than a 0.5 percent in 2007. However, in 2016, the total volume sold by other breweries, primarily domestic micro-breweries that specialize in craft beer, accounted for 1.74 percent of the market, as seen in Chart 3. In addition, given that a large share of the imported beer was believed to be craft beer, ATO Tokyo estimates that approximately two percent of all beer is comprised of craft beer, a four-fold increase over a decade ago, despite the decline in total beer consumption. Aside from that, the total production of four major breweries also includes microbrews they produce. In contrast to the increasing volume of craft beer produced, however, is the number of Japanese microbrewers in operation, which has fallen from 260 to 174 over the past decade.

Chart 3: Size of Craft Beer Market 2016

Japan Taxed Beer Shipment	**Quantity - Kiloliter**	**Share**
Overall (A)	2,709,758	100.00%
Total of major 4 brewers (B)	2,662,496	98.26%
Estimated Microbrew Production	47,262	1.74%

Source: A) National Tax Agency, B) Brewers Association of Japan (may include a part of craft beer)

Snap Shots: Craft Beer Trends

	
Kirin invested in a microbrewery, Spring Valley Brewery, in Daikanyama, a fashion-oriented town in Tokyo	Suntory's small batch production beers, "Craft Select," sold for a limited period.

Market Access:

Japan has no restriction on beer imports based on food safety or regulatory standards. However, requirements from end users such as retailers, foodservice operators, and consumers are very specific and may differ from the United States. Frequent differences include:

i) Distribution:

Local distribution systems quickly ship small quantities of craft beer to retailers which have smaller shelf space than in the United States. Domestic brewers usually deliver beer within three days to wholesalers or end users (retailers and HRI). The time between bottling and retail store delivery is five to seven days. Domestic mass market beer is delivered at room temperature and then chilled for sale in shops and restaurants. However, craft beer and premium beer are chilled throughout distribution at temperatures below 5 degrees Celsius (41 degrees Fahrenheit). Local delivery companies also provide service in cold chain for both individual and commercial customers.

Craft beer is occasionally packaged in quantities smaller than a six-pack, often sold individually, and can be found on shelves at major convenience stores. There have been reports of a surge in cost-effective one-way keg containers for craft beer imports, which are increasing in popularity and favorability in Japanese craft beer pubs. According to the Brewers Association of Japan, the beer market retail:foodservice ratio has shifted very slightly from 56:44 in 2007 to 53:47 in 2017.

ii) Shelf-Life:

End users request that suppliers deliver beer that retains more than two third of its original shelf life. For instance, if the shelf life of a beer products is nine months, end users expect to receive the product within three months of production. Marketing fresh products or products with a shelf life of over ten to twelve months is suggested.

iii) Advertisement:

The large volume of advertising by major domestic brewers distinguishes their products from competitors. From May 2016 through April 2017, Kirin Holdings spent JP¥62.9 billion (US$580 million), Suntory Food International (including soft drink and health care food) JP¥50.2 billion (US$460 million), Asahi JP¥48 billion (US$440 million) and Sapporo JP¥20.4 billion (US$187 million) just for advertising. National retailers and buyers review advertising data provided by the major breweries before placing orders, ensuring they stock their shelves with products that costumers will recognize. Craft beer producers find it very difficult to compete directly with these large scale brewers and instead focus on smaller markets where unique products can stand out. Meanwhile, the number of stores and restaurants that carry craft beer has been steadily increasing over the last decade.

Potential Distribution Channels:

i) Major Breweries:

Major domestic brewers also sell imported brands. For example, Asahi markets Pilsner Urquell, Grolsch, and Peroni; and Suntory sells Carlsberg. Kirin is licensed to brew international brands, such as Budweiser, Heineken, Guinness and Brooklyn Lager. International sports events, such as Soccer’s World Cup and the Olympic Games help motivate these breweries to pick up imported beer.

ii) Food Wholesaler and Trading Houses:

Local food wholesalers have faced fierce competition and have seen substantial concentration. Most medium-size food wholesalers have been acquired by major trading houses such as Mitsubishi, Mitsui and Itochu. Kokubu is the largest independent national food wholesaler to survive in Japan. These major wholesalers have assumed a key role in distribution. Mitsui Foods imports a variety of beer such as Anchor, Primo, Chimay, Baladin, and Hinano. Itochu sells Mexican beers such as Tecate, Dos Equis, and Day of the Dead through a subsidiary company. These food wholesalers research and select potential products carefully and select products only when they find substantial potential and competitiveness in the market.

iii) Craft Beer Importers:

U.S. craft beer imports are niche products buoyed by dedicated small importers. There are about two-dozen companies that import and wholesale U.S. craft beers, bringing in more than four-dozen U.S. craft beer brands. Some of them started in the beer import business thirty years ago. They are key players in distribution of craft beers to retailers and restaurants in cold chain and have good relationships; not only with craft beer pubs and American style restaurants, but also major retailers and chain restaurants. These companies strenuously study U.S. craft beer for quality of products and interesting background information to use for marketing. Warehouse space is expensive in Japan, so these small importers can only afford to handle large volumes of craft beer when they have firm orders from their customers.

iv) Large-Scale Retailers:

The largest supermarket chain, AEON group, and Osaka-based department store, Hanshin-Hankyu, carry out American Food Fairs annually and promote U.S. made foods, including craft beer and craft cider. Other national retailers and convenience store chains have also shown interest in selling craft beer in a limited space or on a trial basis. They primarily procure U.S. craft beers through food wholesalers and/or the craft beer importers, as described above.

v) Restaurant Industry - Craft Beer Pubs:

No major restaurant chain serves U.S. craft beer regularly due to relatively low demand for this niche product. However, there are over three hundred beer pubs in Tokyo metropolitan area and an increasing number in major cities such as Sapporo, Sendai, Hiroshima, Fukuoka, Osaka and Nagoya that serve craft beers. Most of these specialty pubs purchase U.S. craft beers through importers and the wholesalers, as described above.

Import Duties, Liquor Tax Reform, and Consumption Tax Increase:

In 2002, Japan abolished beer import duties in accordance with the WTO agreement. There have been no significant changes in tariff codes or rates since. Additionally, an eight percent consumption (sales) tax is levied on all beer products when shipped from bonded areas. This consumption tax will be increased by the government to ten percent in October 2019. Hard cider made from apple (HS code 2206-229) still has an import duty of ¥42.4 per liter, and is also subject to the same eight percent consumption tax as beer products.

Currently, the Japanese liquor tax categorizes four grades of beer and beer flavored drinks, based on the volume of malt used in production. This tax applies for both domestic and imported beer. In 2017, the government of Japan revised the national liquor tax, including beer, which will unify the beer grades into one category over the next eight years. The details of liquor tax reform is available in the following GAIN Report: [JA 8502 Liquor Tax Reform Japan.]

Marketing Ideas:

There is potential for quality American craft beer because of the positive image of American culture among Japanese. U.S. craft beer suppliers have had success marketing their beers for special occasions, seasonal events, and to the growing pub scene. For example, one New York based microbrewer started selling Pumpkin Ale with a jack-o'-lantern label prior to the Halloween season. In addition, a San Francisco based craft brewer also exported beer with a Christmas tree label for the holiday season and sold fifty percent more than in the previous year. The limited sales period for seasonal products and smaller shipments present constraints for exporters and importers, but seasonal promotions can be effective in introducing new U.S. craft beers.

Large-scale convenience chains and supermarkets are showing interest in researching potential sales of craft beer with the expected increase of inbound tourists for the Rugby World Cup in 2019 and Tokyo Olympic Games in 2020. Opportunities are expected to grow for microbrewers and for those who target their products to those events. Generally, Japanese consumers are able and willing to pay for high quality food products.

Japan is a very competitive market and buyers in the food and beverage industry are inundated with meeting requests, therefore, they often do not respond to "cold calls" or requests for meetings with unknown companies. Instead, they prefer to find new products at large trade shows, or specially targeted trade showcases, where they can look at many products at once. Hence, the best way to find buyers may be to participate in one of the food related trade shows or showcases. The Tokyo ATO organizes U.S. pavilions at the Supermarket Trade Show in February and FOODEX Japan in March, and offers support to exhibitors including market briefings, business meeting lounge, etc. The U.S. Brewers Association (BA) has also held a craft beer festival in Tokyo during November of the last three years. Members of BA are provided export counseling and assistance in bring delegations to the festivals.

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