



**EU-Japan Centre**  
for Industrial Cooperation  
日欧産業協力センター

## **The Wine Market in Japan:**

An Assessment of Challenges and Opportunities for  
Central and Eastern European Producers

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## Report Highlights

- Wine consumption in Japan is increasing annually (ex: from 2.28L per capita in 2011 to 2.69L in 2012).
- Japan is the European Union's sixth biggest trading partner for wine.
- Over 50% of the Japanese population drinks wine at least once per week, with 7% drinking wine every day.
- Even in Japan, the quality-price ratio is a major determinant of the success of a particular wine or producer – 70% of consumers don't mind what wine they purchase as long as the price is right.
- Country awareness is similarly an important factor to consumers – 54% consider country awareness to be either "important" or "very important" when choosing which wine to purchase.
- Central and Eastern European producers are facing difficulties in entering the Japanese market due to lack of country and brand awareness and dominance of Western European and New World wines.
- CEE producers only exported a total of 604,000 liters of wine to Japan in 2013, compared to 35 million liters from Spain and 68 million liters from France.
- Opportunities for business growth lie in differentiation through price and packaging, as well as innovation in grape varietal blends.
- Reduction of tariffs through the potential establishment of a free trade agreement between Japan and the EU would facilitate CEE wine exports to Japan as well as promote competition between emerging and established producers/exporters on the market.

## 1. Introduction

The global wine industry is currently experiencing a phase of continuous growth, with production at 281 million hectoliters in 2013 – a peak not reached since 2006<sup>1</sup>. A shift is occurring in terms of the main wine-producing regions, with Western Europe production in decline compared to significant growth in New World countries that include Chile, Australia and the United States.

One of the most promising new wine exporting regions is Central and Eastern Europe (CEE), referring to the 13 countries which joined the EU in 2004, 2007, 2013, as well as the EU candidate countries from the Balkans. With a history of viticulture and ideal geographic conditions, CEE is primed to have a resounding impact on the global wine industry. There are certain economic and political factors that hinder the efforts of producers to expand to new markets; primarily a lack of awareness of CEE wines abroad.

On the other hand, rising consumption rates in a number of geographic regions have led to the emergence of new markets for the producers. The most striking example is Asia. Countries such as China have seen an exponential increase in the number of wine consumers, with both Old and New World producers competing for market dominance. Japan, although a relatively new market, has seen a growth in demand since 2010. Consumption has increased by 12% from 2011 to 2012, placing it 15<sup>th</sup> worldwide<sup>2</sup>. Producers from traditional regions such as France, Spain and Italy dominate the wine market in Japan, although New World producers are also beginning to gain ground and some – such as Chile – are already firmly established. Central and Eastern European wines are currently near non-existent in the Japanese market, however there is significant potential for growth that would prove advantageous for both CEE producers and Japanese consumers.

## 2. Wine market landscape in Japan

### 2.1 Japan as a wine producer

Although a major consumer of wine, Japan is mostly unsuitable for viticulture. The terrain, soil composition, and especially climate conditions make the cultivation of grapes very difficult. Major limitations include the acidity of the soil and the high amounts of rainfall and humidity, which coupled with the lack of sunshine hours, can lead to rotting and other damage.

Therefore, although Japanese wine is produced in certain regions, such as Yamanashi, it is mostly intended for domestic use. Even so, it is predominantly imported wines from countries such as France and Chile that form the backbone of Japanese consumption. Between 2010-2013, imported wines accounted on average

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<sup>1</sup> [http://www.oiv.int/oiv/info/en\\_press\\_conference\\_may\\_2014?lang=en](http://www.oiv.int/oiv/info/en_press_conference_may_2014?lang=en)

<sup>2</sup> Idem

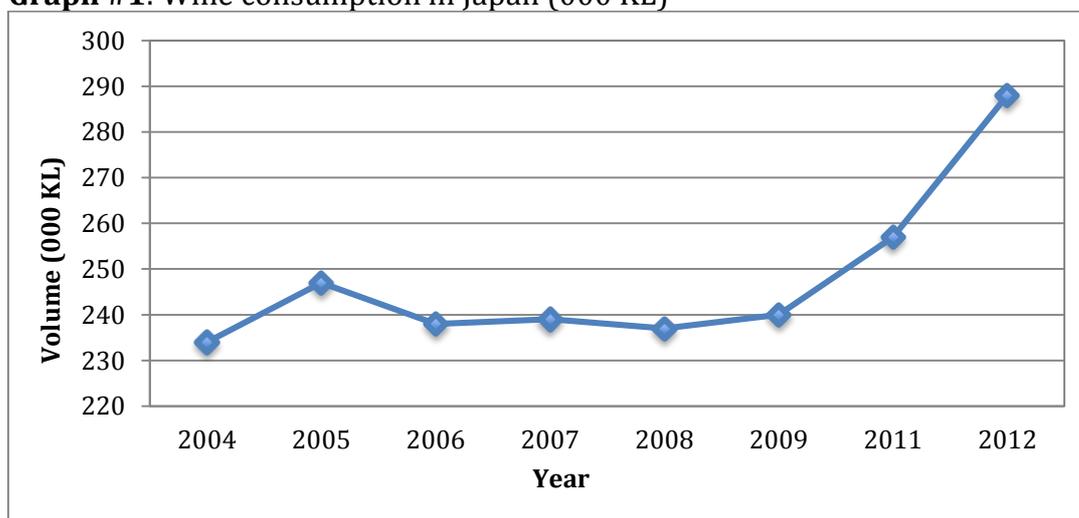
for 67% of total consumption with domestic wines holding 33%<sup>3</sup>. The definition of “domestic” Japanese wine is arbitrary, however. The category can be divided into three sub-categories: *kokunaisan*, wine made exclusively from domestic materials; *kokusan*, wine made from imported ingredients but fermented in Japan; and *yunyu*, imported wine that is bottled in Japan<sup>4</sup>. Since all three types are technically classified as domestic wine, the percentage of *kokunaisan*, or domestic wine in the traditional sense of the term, is in fact much lower.

The most common grape varieties that are grown include Old World Cabernet Sauvignon and Merlot, however recently *koshu* wine has been gaining ground as a popular alternative to foreign varieties. *Koshu*, a pink-skinned grape cultivated predominantly in the Yamanashi wine-growing region, is native to Japan. It yields dry and semi-dry white wines with fresh, citrus notes<sup>5</sup>. A large proportion of Japanese producers have at least one *koshu* wine in their repertoire, and it constitutes as Japan’s primary wine export.

## 2.2 Wine consumption trends in Japan

The wine boom in Japan took place in the late 1990’s, spurred on by the popularization of the drink by the media, especially celebrity sommeliers. The principal demand was for red wine, however sales of white also increased. After 1997 consumption fell, resulting in a surplus of stock. Although wine consumption began slowly increasing once more at the beginning of the 21<sup>st</sup> century, it was only after 2010 that a significant resurgence of popularity occurred<sup>6</sup>. This sudden shift may be attributed to the introduction of cheap, good quality wines on the market.

**Graph #1:** Wine consumption in Japan (000 KL)



Source: USDA GAIN Report

<sup>3</sup> [http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual\\_Tokyo%20ATO\\_Japan\\_2-26-2014.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual_Tokyo%20ATO_Japan_2-26-2014.pdf)

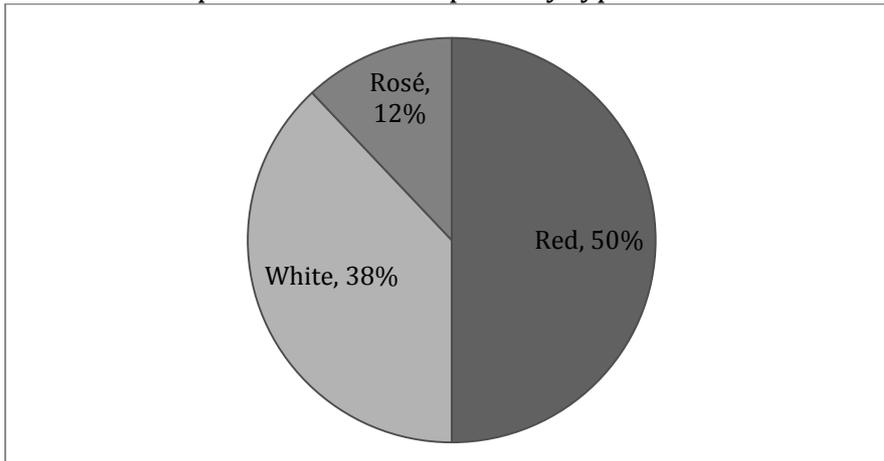
<sup>4</sup> [http://kizan.co.jp/letterbacknumber/japanwine\\_e.html](http://kizan.co.jp/letterbacknumber/japanwine_e.html)

<sup>5</sup> <http://www.wine-searcher.com/grape-1755-koshu>

<sup>6</sup> [http://kizan.co.jp/letterbacknumber/japanwine\\_e.html](http://kizan.co.jp/letterbacknumber/japanwine_e.html)

According to wine market tracker Vinitrac, wine consumption in Japan increased from 2.28L per capita in 2011 to 2.69L in 2012, with both men and women consuming it on a regular basis<sup>7</sup>. Over 50% of the population drinks wine at least once during the week, with 7% drinking wine every day; surprisingly, women constitute the greater percentage of wine consumers and buyers; 55% compared to men's 45%<sup>8</sup>. In terms of grape preference, red wine is the most popular amongst regular wine consumers; 50% prefer red, compared to only 38% who prefer white<sup>9</sup>. Consumption of rosé wine has also recently started to increase, as in other regions of the world, accounting for over a tenth of total wine consumption.

**Chart #1:** Proportion of consumption by type of wine



Source: Vinitrac Japan

When it comes to wine varieties, most consumers favor Cabernet Sauvignon (36%), Merlot (25%) and Pinot Noir (22%) for red, and Chardonnay (45%), Sauvignon Blanc (23%) and Riesling (15%) for white<sup>10</sup>.

Sparkling wine has been gaining ground in Japan, as it is a very good accompaniment to the wide variety of dishes that Japanese cuisine encompasses. The total quantity of sparkling wine imported by Japan has increased by 18.1% from 2011 to 2012, and Japan is the second largest market worldwide for cuvée sparkling wine<sup>11</sup>. Although it has proven more popular with the female demographic, both sexes consume it regularly. It is important to note that sparkling wine has been moving away from only being consumed at celebratory occasions, and has gained an everyday status; it is beginning to replace beer as the most appealing drink for the younger demographic.

Wine consumption in Japan is greatly determined by price; for most groups, value for money is the most decisive factor when purchasing wine – it even surpasses origin. This is evidenced by a query on the attitude towards trying new wines, wherein 15% of consumers responded that they would be open to trying different styles, 15% prefer buying what they know, and an overwhelming 70% don't mind

<sup>7</sup> [http://www1.meiji-gakuin.ac.jp/~makiko/CaseStudyB.files/WI%20Landscapes\\_Japan%202008.pdf](http://www1.meiji-gakuin.ac.jp/~makiko/CaseStudyB.files/WI%20Landscapes_Japan%202008.pdf)

<sup>8</sup> Idem

<sup>9</sup> Idem

<sup>10</sup> [http://www1.meiji-gakuin.ac.jp/~makiko/CaseStudyB.files/WI%20Landscapes\\_Japan%202008.pdf](http://www1.meiji-gakuin.ac.jp/~makiko/CaseStudyB.files/WI%20Landscapes_Japan%202008.pdf)

<sup>11</sup> Idem

as long as the price is right<sup>12</sup>. The quality-price ratio seems to be the dictating force when it comes to the Japanese wine market, particularly in times when Japan is facing a stalling economy. This is also evidenced in the desire for wine to be accessible, as 58% of consumers now prefer buying it in supermarkets rather than drinking it at restaurants and bars, as has been the tradition<sup>13</sup>.

In terms of wine pricing, a majority of the regular drinkers who were surveyed cited that they would spend anywhere between ¥500 to ¥1000 for a 750mL bottle of wine, indicating that producers offering low to mid-range priced wine are most likely to succeed on the Japanese market<sup>14</sup>. However, an interesting piece of data suggests that the Japanese consume wine regardless of their income: “below mainstream income”, “at mainstream income”, and “above mainstream income” consumers all constituted an equal 31% of the total, with the remaining 7% preferring not to answer<sup>15</sup>. Although the luxury wine market has also expanded due to favorable economic policies instilled by the Abe government in 2013, the quality-price ratio remains extremely important to consumers from all income brackets.

### 3. Selling wine in Japan

As previously shown, wine is currently enjoying a significant popularity in Japan, with demand increasing every year. Japan is importing more wine than ever, with a total of 196,054 kL of wine imported in 2010, of which 133,517 kL bottled, 35,807 kL other – including bulk wine<sup>16</sup>. However, it is still considered one of the most difficult markets to enter in Asia.

One aspect that must be considered by all foreign producers looking to enter the Japanese market is the cultural ethos of the country, meaning that the process of securing an importer may be less direct than in Western countries. Acquiring a variety of contacts is absolutely necessary, as a producer cannot hope to succeed without having an array of recommendations to testify for his country, his company, his character and so on. Many producers new to Japan make the mistake of being too straightforward; what they fail to realize is that Japanese business culture is by nature more roundabout and subtle, and that it will reject any contenders who proceed in a different manner.

The CEE producers looking to enter the Japanese market, should particularly take into consideration several factors which determine Japanese consumers choice when buying wine. According to the findings of a recent study, a majority of 54% of Japanese consumers interviewed quoted country of origin as being either “important” or “very important” when it comes to buying wines<sup>17</sup>. This demonstrates that when it comes to selling wine in Japan, country awareness is key. Producers from the CEE region could face recognition difficulties, thus encountering

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<sup>12</sup> Idem

<sup>13</sup> Idem

<sup>14</sup> Idem

<sup>15</sup> Idem

<sup>16</sup> [https://www.ietro.go.jp/en/reports/market/pdf/guidebook\\_food\\_alcoholic\\_beverages.pdf](https://www.ietro.go.jp/en/reports/market/pdf/guidebook_food_alcoholic_beverages.pdf)

<sup>17</sup> [http://www1.meiji-gakuin.ac.jp/~makiko/CaseStudyB.files/WI%20Landscapes\\_Japan%202008.pdf](http://www1.meiji-gakuin.ac.jp/~makiko/CaseStudyB.files/WI%20Landscapes_Japan%202008.pdf)

a significant obstacle in exporting to international markets, such as Japan. The issue is not alleviated by the dominance of Western European (and increasingly New World) wine producers in Japan, with French, Italian, and Chilean wines claiming superiority – making the Japanese wine market a difficult one to break into, particularly for SME producers from a lesser-known European country.

Grape varieties, history, and packaging are three aspects that are important to consider when it comes to selling wine to the Japanese consumer. Although local grapes – such as the Bulgarian *Mavrud* – may bank on uniqueness as a selling point, classic Old World varieties such as Cabernet Sauvignon and Chardonnay remain the most popular. Packaging is also of paramount significance, as it is considered to be a part of the consumer experience. Here, too, there is a divide between classic and innovative in terms of producer approach. To be noted is the simplicity and elegance of Japanese aesthetic, which is appealing to most consumers.

## 4. Patterns of European wine exports to Japan

European wine was first introduced to Japan in the 17<sup>th</sup> century, when Portuguese missionaries brought it as a gift for feudal lords. However, it wasn't until the Meiji Restoration in the late 19<sup>th</sup> century, a period when Western culture was avidly received, that wine grew in popularity and Japanese viticulture emerged, mainly using imported American grape varieties. The post-WWII era saw a surge in imported wine, with European producers from countries such as France beginning to export to Japan, resulting in them being the first to become established in the newfound Japanese wine market.

Currently, Japan is one of the European Union's top trading partners for wine, importing 1.4 million hectoliters in 2013<sup>18</sup>. It is the second largest Asian market for EU producers, after China.

**Table #1:** EU-28 wine exports by trading partner (000 hectoliters)

Country	2011	2012	2013
United States	5,182	5,384	4,868
Russia	3,991	2,730	2,132
China	2,365	2,568	1,832
Canada	1,818	1,887	1,636
Switzerland	1,689	1,707	1,452
<b>Japan</b>	1,307	1,629	1,439
Norway	610	626	590
Hong Kong	304	287	235
Australia	186	242	237
Singapore	155	164	152
<b>Total</b>	<b>22,523</b>	<b>22,293</b>	<b>18,799</b>

Source: USDA GAIN Report

**Table #2:** Bottled wine exports to Japan, 2011

Country	Volume (000 HL)	Share (%)
France	504.5	35.0
Italy	282.6	19.6
Chile	241.7	16.8
Spain	158.1	11.0
United States	92.6	6.4
Australia	64.0	4.4
Germany	34.9	2.4
Argentina	24.9	1.7
South Africa	16.2	1.1
New Zealand	7.8	0.5
Others	16.3	1.1
<b>Total</b>	<b>1443.6</b>	<b>100.0</b>

Source: USDA GAIN Report

<sup>18</sup> [http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual\\_Rome\\_EU-28\\_2-26-2014.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual_Rome_EU-28_2-26-2014.pdf)

In terms of the major European wine exporters to Japan by country, France takes the top position when it comes to both variety and quantity, closely followed by Italy. France exported 504,000 hectoliters (HL) of wine only to Japan in 2011, accounting for 35% of the whole market<sup>19</sup>. Italy exported 282,000 HL in the same year and Spain 158,000 HL<sup>20</sup>.

For SME producers looking to enter the Japanese market, Spain's meteoric rise to one of the top EU exporters to Japan is a model that may be worth following. At 51 million HL, Spain's overall wine production in 2013 has overtaken that of France and Italy, making it the number one wine producing country in the world.<sup>21</sup> The increase in both production and export over the course of the past few years has been noticeable in the Japanese market as well. The country is the fourth exporter in terms of volume for still wines, and second only after Portugal for fortified wines<sup>22</sup>. This rise can be attributed to a reputation of good quality wines at a low price range of between ¥289 and 699, a sector where it faces stiff competition from Chile. Aggressive marketing and promotion within Japan, supported by the Spanish export agency ICEX, has further enforced the appeal of Spanish wines. Products are being advertised through a variety of channels, including Spanish-themed exhibitions at department stores, television commercials, and events such as the annual Spanish Gourmet Fair in Tokyo. The growing number of Spanish restaurants and the availability of products originating from Spain in many supermarkets have also served to raise awareness of Spanish goods as a whole, including wine.

Other major European countries exporting wine to Japan include Germany and Portugal. The dominance of Old World European producers is threatened, however, by the growing popularity of New World wines. The United States and Australia are emerging as serious competitors.

## 5. Central and Eastern European wine producers

### 5.1 General export status to international markets

Overall, the increase in CEE exports to international markets has been slow at best, hindered by historical factors as well as current-day obstacles, such as the sluggish economy of the region. Focus continues to be placed on the national domestic markets instead of on international expansion, despite the fact that in terms of production, 9 CEE countries are within the top 40 global wine producers, with three countries (Romania, Hungary and Serbia) being in the top 20.

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<sup>19</sup> [http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual\\_Rome\\_EU-28\\_2-26-2014.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual_Rome_EU-28_2-26-2014.pdf)

<sup>20</sup> Idem

<sup>21</sup> <http://www.thedrinksbusiness.com/2014/03/spain-becomes-worlds-biggest-wine-producer/>

<sup>22</sup> <http://www.oemv.es/esp/situacion-del-sector-espanol-del-vino-en-japon-marzo-2014-icex-1086k.php>

**Table #3: Wine production trend in the EU-28 (000 hectoliters)**

<b>Country</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
Italy	43,072	40,057	44,900
Spain	33,397	31,123	44,600
France	50,890	40,609	44,100
Germany	9,258	9,000	8,500
Portugal	5,609	6,140	6,740
<b>Romania</b>	4,700	4,100	5,400
Greece	2,750	3,150	3,700
<b>Hungary</b>	2,822	2,243	2,450
Austria	2,814	2,155	2,252
Other EU-28 countries	3,214	2,558	4,911
<b>Total</b>	<b>158,527</b>	<b>141,135</b>	<b>167,553</b>

Source: USDA GAIN Report

Although the United States and the rest of the EU remain viable markets for CEE producers, those who are looking to branch out are increasingly turning towards the East instead of the West, particularly towards China. Demand is exceptionally high; consumption has doubled twice since 2008, and China will become the largest wine consumer in the world by 2016<sup>23</sup>. Furthermore, access to the market is relatively straightforward, compared to Japan where becoming established is more challenging.

## 5.2 EU measures that influence production

The EU single market has been experiencing a surplus of wine of around 18.5 million hectoliters per year<sup>24</sup>. To combat the negative effects of the surplus, such as a drop in prices, the European Union has initiated several measures to diminish production. The primary policy that was introduced in 2008 is colloquially known as “grubbing up”, which means pulling up grape vines to decrease total yield. In EU countries, grape owners would receive a financial incentive if they chose to voluntarily participate in “grubbing up” their vines. The EU targeted an initial area of 175,000 hectares, across all major wine producing member states<sup>25</sup>. Although successful in removing some of the surplus from the market, the scheme failed to be financially effective as the aid that was offered was too high.

Furthermore, the EU instilled a universal ban on any new vine plantings, effective until December 31, 2015, after which individual member states can choose to maintain the prohibition until 2018<sup>26</sup>. Although expedient in countries that produce tens of millions of hectoliters of wine per year, such as Italy and France, this measure has only hampered CEE efforts to increase their wine production, thus proving an obstacle to the development of viticulture in these countries.

<sup>23</sup> <http://www.businessinsider.com/china-is-drinking-the-worlds-wine-2013-10#ixzz2ifghuGUP>

<sup>24</sup> [http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual\\_Rome\\_EU-28\\_2-26-2014.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual_Rome_EU-28_2-26-2014.pdf)

<sup>25</sup> Idem

<sup>26</sup> Idem

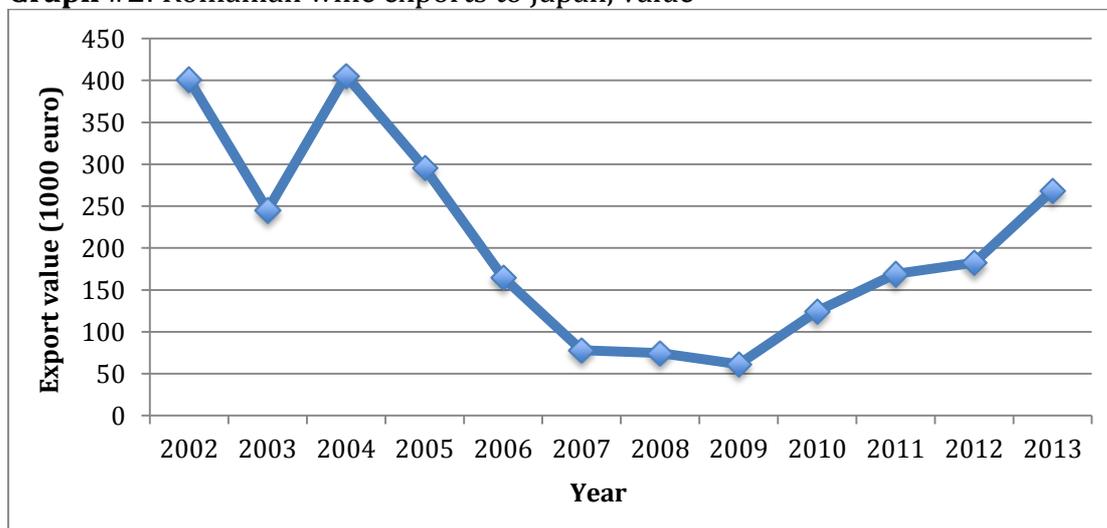
### 5.3 Case study: Romania

Romania is the top wine producing country in the Central and Eastern European region, and is the 11<sup>th</sup> biggest producer worldwide as of 2012<sup>27</sup>. It is also one of the fastest growing wine producers in EU-28, with an increase in production of 32% from 2012/13 to 2013/14, producing 5.4 million hectoliters of wine in 2013 – over double the production of Hungary, the second ranked country in the CEE region, and almost that of Portugal<sup>28</sup>.

Local grapes enable the production of exclusively Romanian wines, for example Feteasca Alba and Cramposie, which have the most potential of securing Romania's place in the global market as a distinct wine-producing country. Additionally, Romanian wine companies also create unique blends by combining Romanian grapes (such as Feteasca Alba) with French varieties such as Sauvignon Blanc. These blends are more price-friendly than the pure versions of the noble wines, while at the same time retaining a high quality, and are ideal for export.

Romanian wine production has been preponderantly geared towards domestic consumption, with Romanian companies only recently beginning to adopt an export-oriented mentality. Although the value of Romanian wine exports surpassed \$19.6 million in 2013, a 10.3% growth from the previous years<sup>29</sup>, exports still only account for 3% of Romania's total wine production<sup>30</sup>. Romania, along with most of its CEE neighbors, has an almost inexistent presence on the Japanese market. The total value of bottled wine that the country exported to Japan in 2013 was 268,000 euros, third in the CEE region<sup>31</sup>.

**Graph #2:** Romanian wine exports to Japan, value



Source: European Commission Market Access Database (ECMAD)

<sup>27</sup> <http://www.oiv.int/oiv/info/enpoint2013>

<sup>28</sup> [http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual\\_Rome\\_EU-28\\_2-26-2014.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual_Rome_EU-28_2-26-2014.pdf)

<sup>29</sup> [http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual\\_Rome\\_EU-28\\_2-26-2014.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual_Rome_EU-28_2-26-2014.pdf)

<sup>30</sup> <http://www.wine-searcher.com/m/2012/10/romanian-wine-revolution>

<sup>31</sup>

[http://madb.europa.eu/madb/statistical.htm?from=form&format=0&ahscode1=2204&cb\\_reporters=066&cb\\_partners=732&list\\_years=2013&cb\\_measures=iv&cb\\_measures=ev&submit=Search](http://madb.europa.eu/madb/statistical.htm?from=form&format=0&ahscode1=2204&cb_reporters=066&cb_partners=732&list_years=2013&cb_measures=iv&cb_measures=ev&submit=Search)

A positive driver for Romanian wine exports has been the country's adhesion to the European Union in 2007. Upon receiving membership, companies were given access to much-needed European funding for projects, allowing further progress to be made in technological development and expansion of the scale of production, as well as the renewal of existing vine plantations. EU membership has also provided Romanian wine companies with other, indirect benefits, such as quality assessment. Given that the EU demands certain levels of quality from all products, as well as imposing specific health and safety regulations, the credibility of Romanian products (including wine) has been greatly bolstered abroad.

The top producer in Romania is Murfatlar, with other major competitors being Cotnari, Jidvei, Vincon and Cramele Halewood. The companies produce a wide variety of award-winning wines, both local types and foreign. In looking to become established exporters in foreign markets such as Asia, Romanian producers, particularly the SMEs are facing several challenges. Perhaps most troublesome is the difficulties that these companies face in terms of consolidating a common export strategy (the likes of which countries such as Chile employ). They are hindered by aggressive competition with one another on the domestic market, which prevents any form of collaboration towards a common goal. This inhibits the producers from attaining their export potential and achieving the success of other wine-producing countries.

The pricing of the exported wine, particularly in Japan, is also limiting efforts of expansion. For example, by European standards, the majority of Murfatlar's wines – even the higher-end M1 Crama Atelier collection – are affordable while uncompromising on their high quality. A 750mL bottle of 3-Hectare Feteasca Neagra, a mid-range wine, costs about 7 euros on the European market. This equates to ¥960, a fair price that would incite most Japanese consumers to buy the product. However, due to taxes and the complexities of the Japanese retail distribution chain, the same bottle would end up retailing at triple the price in Japan, for over ¥2500 – prohibitively expensive when taking into consideration the abundance of cheaper, good-quality wines that are crowding the market. This is indicative of the need for Romanian wine producers, and indeed producers from the entire CEE region, to aim for highly competitive pricing in order to break into the Japanese market.

## 6. Current status of CEE wine exports to Japan

Thus far, CEE wine producers have had limited success in entering the Japanese market. Even though over half of the CEE region is actively involved in the production of wine, no country from this group is included in the top 10 exporters of bottled wine to Japan. In terms of bulk wine, Macedonia exported 8300 hectoliters in 2012 (constituting 2.9% of the market), placing it seventh after France and South Africa<sup>32</sup>. Hungary exported 2100 hectoliters in the same year (constituting 0.7% of the market), ranking it ninth<sup>33</sup>.

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<sup>32</sup> [http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual\\_Tokyo%20ATO\\_Japan\\_2-26-2014.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual_Tokyo%20ATO_Japan_2-26-2014.pdf)

<sup>33</sup> Idem

Although some SMEs from the CEE region do export to Japan, the number of these producers is very low and the quantity that they export is minimal. In Romania, around 5 to 7 wine-producing companies, such as Cotnari and Cramele Halewood, export to Japan, with a few thousand bottles each. The wine is only sold in specialty retail stores or online, at prices ranging between ¥1500 – 2500 due to the high taxes. Even Bulgaria, the top exporter at 297,000 L in 2013<sup>34</sup>, cannot measure up to Western European monoliths. Spain alone exported 35 million L – over 50 times that of the total of the major wine producing countries in the CEE region<sup>35</sup>.

**Table #4:** CEE bottled wine exports to Japan, 2013

Country*	Export value (000 euro)	Export quantity (000 L)
Bulgaria	695	297
Hungary	492	129
Romania	269	87
Slovenia	180	25
Croatia	71	47
Slovakia	56	12
Czech Republic	39	7
<b>Total</b>	<b>1,707</b>	<b>604</b>

\*EU-28 member states only

Source: European Commission Market Access Database (ECMAD)

The market presents a challenge to even some of the most internationally renowned CEE wine producers. Royal Tokaji, one of the foremost wineries in Hungary that is distinguished around the world for its traditional Hungarian Tokay sweet wine, exports to numerous East Asian markets, including China, Hong Kong, Korea and Taiwan. However, the company has been unable to gain a foothold in Japan, which demonstrates the difficulty that even established CEE producers face.

This is partly owed to the ingrained ethnocentric mentality of Japanese culture. Consumers have also traditionally been elitist in their tastes, an approach that has permeated into the wine market as well. Even with Chilean and Australian wines gaining ground in Japan, they still cannot measure up in terms of appeal to the classic wine-growing regions of the Old World, such as Bordeaux and Burgundy.

A further cause is the relative infancy of the Asian wine market, and particularly that of Japan. Taking into consideration that the introduction of wine occurred less than a century ago, it may take years before the market achieves the necessary maturity to embrace innovative products alongside the established.

<sup>34</sup>

[http://madb.europa.eu/madb/statistical.htm?from=form&format=0&ahscode1=2204&cb\\_reporters=068&cb\\_partners=732&list\\_years=2013&cb\\_measures=eq&submit=Search](http://madb.europa.eu/madb/statistical.htm?from=form&format=0&ahscode1=2204&cb_reporters=068&cb_partners=732&list_years=2013&cb_measures=eq&submit=Search)

<sup>35</sup>

[http://madb.europa.eu/madb/statistical.htm?from=form&format=0&ahscode1=2204&cb\\_reporters=011&cb\\_partners=732&list\\_years=2013&cb\\_measures=eq&submit=Search](http://madb.europa.eu/madb/statistical.htm?from=form&format=0&ahscode1=2204&cb_reporters=011&cb_partners=732&list_years=2013&cb_measures=eq&submit=Search)

## 7. Potential for the future

Central and Eastern European producers would stand to make substantial gains from entering the Japanese market, a significant opportunity being facilitated access into other Asian markets.

One of the groups that could benefit the most would be SMEs from Croatia, a country that has exported only 5% of its annual production in 2013, even with over 33,000 hectares of vine<sup>36</sup>. Facing extremely low domestic consumption rates, Croatia now has no choice but to look to foreign markets to sell its wine. Although top producers such as Franc Arman and Kozlovic do export on a limited basis to countries such as the United States, smaller, family owned enterprises that do not are struggling to unload their offerings on the troubled domestic market. However, upon Croatia entering the European Union in 2013, many producers – such as Istria-based winery Roxanich – are confident about the ability of Croatian companies to break through into the international market, as EU funds become available and Croatia gains exposure as a wine-producing nation<sup>37</sup>.

According to Deputy Director General Takako Otaki of the Wine Importers Association of Japan, “the best opportunity for CEE producers to differentiate themselves on the Japanese market would be to promote the combination between old and new.”<sup>38</sup> Japanese wine consumers, although traditionalist in their tastes, nonetheless have an inclination towards sampling new and unusual varieties. The uniformity of New World wines (full-bodied, fruity) has also contributed to the demand for something new. The innovative combination of Old World methods of production and local grape varieties could be a standout trait for CEE wines, allowing them to bring a fresh approach to the market.

Negotiations for a free trade agreement between Japan and the EU, should they come to fruition, could be a substantial opportunity for CEE wine producers.. Although the EU side was more pragmatic and emphasized substance over expediency, the prospect of an FTA between the two economic powerhouses could signify a major turning point for European producers. Apart from increasing EU exports to Japan by 30%<sup>39</sup>, the reduction or elimination of tariffs could significantly alleviate the challenges of entering the Japanese market, and allow CEE wine producers to better compete with their counterparts from Western Europe and the New World.

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<sup>36</sup> <http://www.thedrinksbusiness.com/2012/01/croatian-wine-looks-to-crack-global-market/>

<sup>37</sup> Idem

<sup>38</sup> Personal interview (June 2014)

<sup>39</sup> Idem

**Chart #2: Current tariff rates on wine\*, 2013**

Type of wine	Tariff rate
<b>Bottled wine</b>	
HS220421020 (2L or less)	15% or ¥125/L, whichever is less (minimum of ¥67/L)
HS220429010 (2L – 150L)	--
<b>Sparkling wine</b>	
HS220410000	¥182/L
<b>Wine coolers</b>	
HS220600221	¥27/L
<b>Bulk wine</b>	
HS220429090 (over 150L)	¥45/L
<b>Sherry/fortified wine</b>	
HS220421010	¥112/L

\*Standard rates (excludes preferential rates, economic partnerships, etc.)

Source: Japan customs tariff schedule, 2013

## 8. Conclusion

### 8.1 Conclusive remarks

Central and Eastern European wine producers face several significant challenges in the Japanese market, which can be summarized as:

- Lack of country and brand awareness
- Dominance of Western European and New World wines
- Demand for good quality at low prices
- High tariffs, and market intermediaries, leading to price augmentation of the products
- Elitist approach

Despite these obstacles, the expansion of CEE wine producers into Japan could bring numerous benefits to both sides. Japan is often called the gateway to Asia, and could provide producers with the opportunities to expand into other Asian markets, particularly the southeastern region. Japan, on the other hand, stands to gain from the outside influence and the diversification of its market, and higher levels of competition between different foreign producers could further lower prices and increase quality for Japanese consumers.

## 8.2 Tactical recommendations for market entry

### **1. Build up a strong country image through collaboration with other producers**

Approaching the market with the support of other producers, or an association, is more advantageous than attempting to enter the market alone. Organizations such as the Spanish Wine Federation and ICEX (on a national scale) and Bodegas Familiares de Rioja (on a smaller scale) are two examples of groups that have made it more straightforward for Spanish SMEs to expand to foreign markets, including Japan. Such associations also promote cooperation between competitors in order to achieve a common goal, an approach from which CEE producers could greatly benefit.

### **2. Strengthen awareness of CEE products on the Japanese market**

An increase in general awareness of the Central and Eastern European region in Japan could lead to an opening for CEE wines. Food fairs and expositions, such as FOODEX in Tokyo, are good channels of promotion for both individual producers and more importantly the region as a whole. Currently, only three CEE countries are registered as having a national pavilion at FOODEX 2015, which suggests that stronger involvement from CEE governments is necessary.

CEE promotion could also be achieved through advertisements in specialist wine magazines. Bulgarian wines were recently featured in *The Wine Kingdom*, highlighting three of the major producers in the country and publicizing Bulgarian winemaking traditions as a whole.

### **3. Establish a diverse network of contacts**

Japanese business culture is constructed upon references and recommendations, making it near impossible for an outsider to enter the market without established entities vouching for them. Personal relations are deemed just as crucial as professional relations.

### **4. Aim to eliminate the middle men**

Given the complexity of the Japanese retail distribution chain, expenditure could be significantly reduced by finding a Japanese partner that enables the omission of a number of unnecessary tiers from the chain. For example, The Aeon Group, a major competitor in the Japanese retail industry, is a joint owner of the Cordon Vert import agency.

### **5. Approach the market with highly competitive pricing**

In order to successfully contend with the most popular wines on the market, producers need to ensure that their wines are reasonably priced, yet maintain a good quality. Currently, Spain and Chile dominate the low-end sector of the market, with many products priced at ¥500 or less.

**6. Focus on catering for the home consumption sector by retailing in supermarkets**

An increasing percentage of the regular wine-drinking population chooses to consume wine at home instead of in restaurants or bars. This trend has led to wine sales in supermarkets being higher than those in bodegas or specialist liquor stores.

**7. Look for opportunities in developing sectors of the wine market**

An example is the “bag-in-box” packaging method, which can range anywhere from 2L to 10L quantities. It has the potential to be cost-saving and could cater specifically to chain restaurants seeking to offer wine by the glass.

**8. Differentiate the product through packaging features such as the shape of the bottle, the label, etc.**

Consumers are more likely to purchase a product if it has some distinctive aspect, such as an unusual bottle shape or an attractive label. Screw-cap wine bottles have also recently become popular in Japan, as opposed to the traditional cork, as it is easier to store opened wine for multiple days.

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