



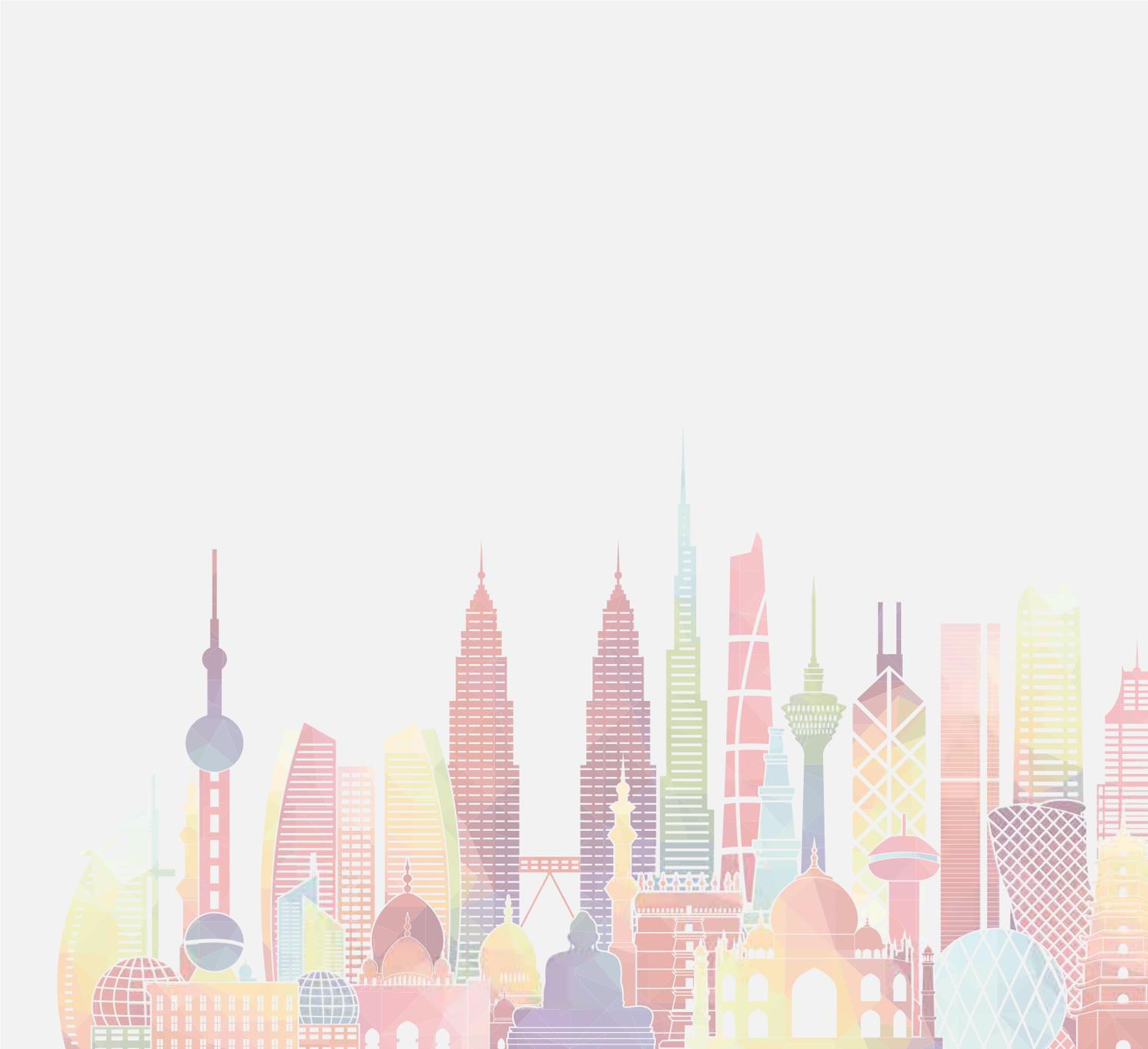
EXPORTING BEVERAGES TO ASIA

A DISTRIBUTION
GUIDE TO JAPAN,
SOUTH KOREA
AND SINGAPORE

OCTOBER 2018

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MODEL LOGIC LIMITED

Model Logic is a supply chain and logistics consultancy. Services cover all aspects of the logistics of exporting for food and drink companies, from the strategic design of the supply chain network to seeking improvements in operational processes and systems. Model Logic also provides support, training and mentoring services for SMEs.

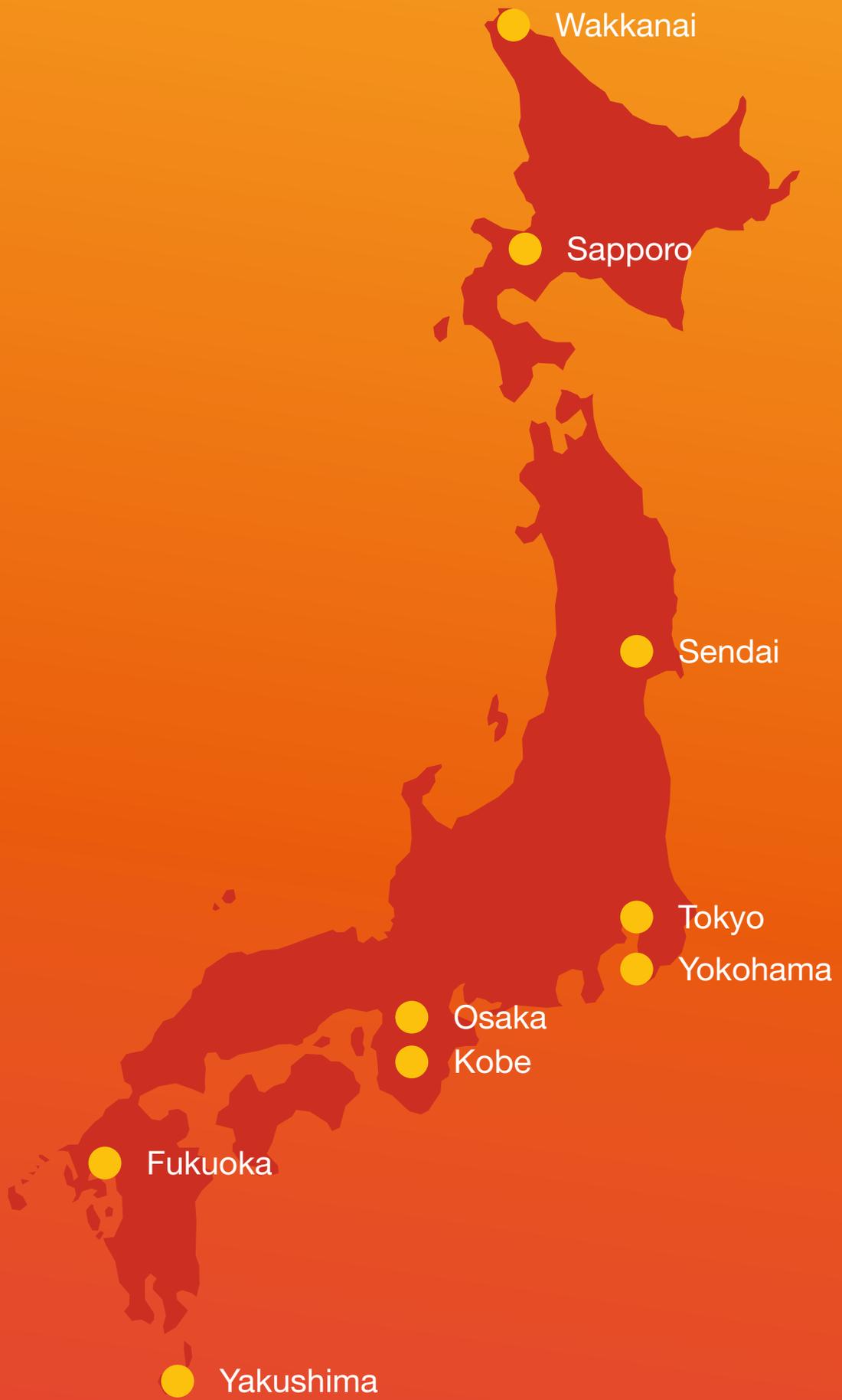
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JAPAN MARKET





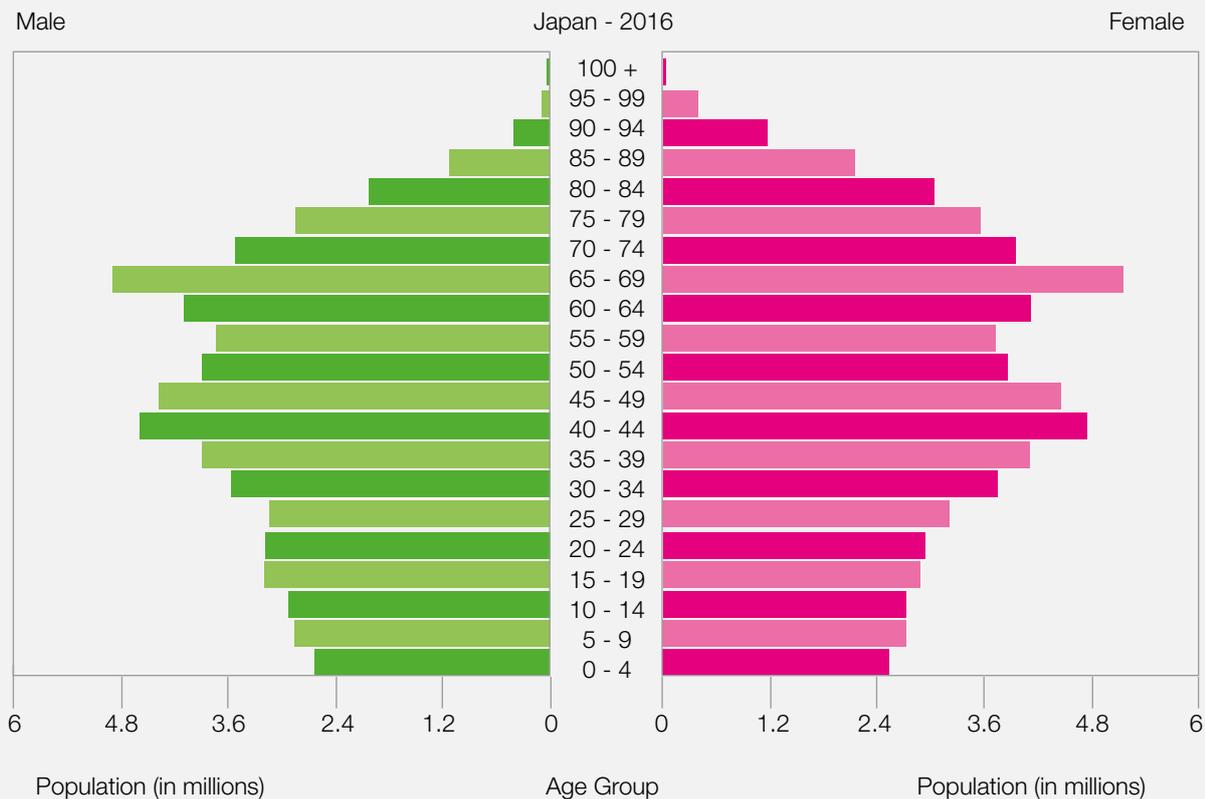
MARKET STRUCTURE

Economic Dimensions

Japan is the third largest economy in the world based on GDP, having experienced the longest period of uninterrupted growth in more than a decade in 2017. The key economic dimensions of Japan are:

- In 2016 the country's population was 126 million with GDP at approximately EUR4.05 trillion GDP, per capita of EUR32,000 .
- The Japanese society of Yamato people is linguistically homogeneous, with small populations of Koreans (0.9m), Chinese/Taiwanese (0.65m), Filipino (0.31m) and Brazilian (0.30m).

Figure 1: Japan population age profile



Source: CIA World Factbook 2016

- Japan is currently facing a demographic crisis as it has one of the fastest ageing populations in the world combined with a low birth rate.
- Approximately 41% of the population has a university degree, compared to 32% in Ireland and UK.

— 1000 JPY (Japanese Yen) = 9.37 USD; 7.92 EUR (August 2018)

Private consumption of alcohol beverages declined in 2017 driven by lower spending at restaurants and hotels. Wages have remained fairly stagnant whilst living costs have risen.

Outlook

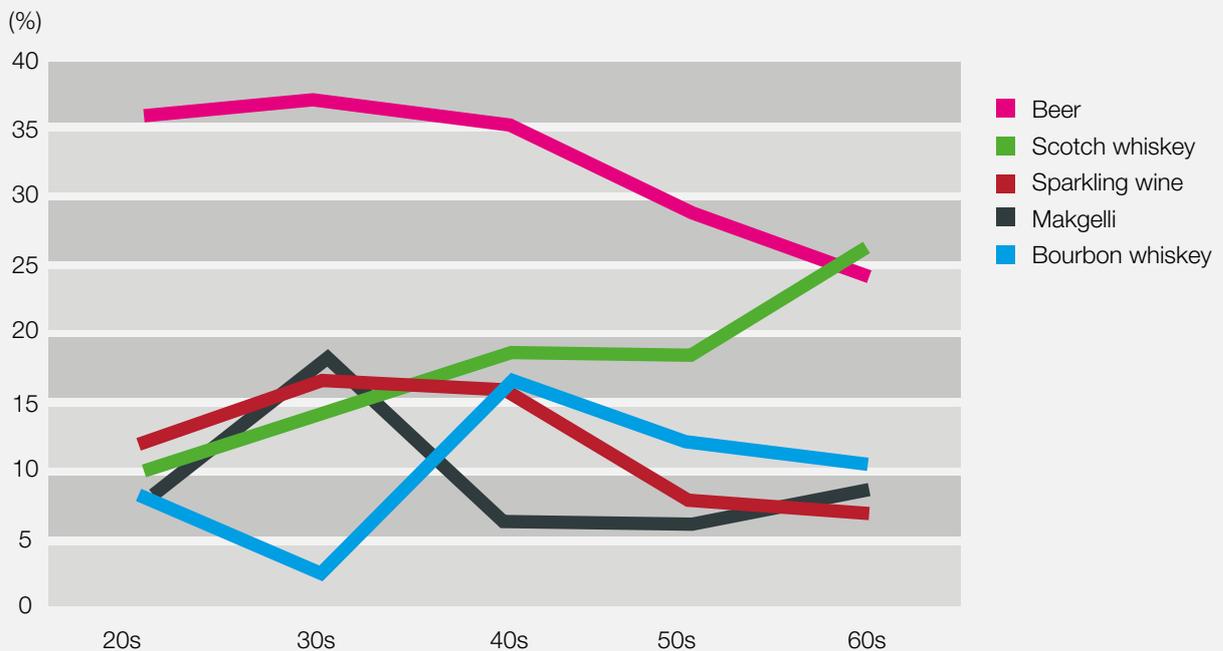
The uncertainties of Brexit and the withdrawal of the United States from the Trans-Pacific Partnership (TPP) have affected Japanese business confidence but may pave the way for a more positive market entry environment for EU companies. The EU-Japan Economic Partnership Agreement (EPA), agreed at the end of

2017 has signalled a growing co-operation between the two trading regions. There is a small but thriving Irish community in Japan and there are some Irish producers exporting drinks to Japan. The Yen is still being depreciated by the government of Prime Minister Shinzo Abe and the Euro is fairly strong against the Yen, however currency fluctuations may still occur. With an ageing population and also an increase of women entering the labour force, the online grocery market is one to watch.

Market Characteristics

The diminishing population in the younger segments of the population that have been targeted by drinks companies may reduce alcohol consumption in Japan.

Figure 2: Consumption Percentage of Foreign Alcohol in Japan by Age Category



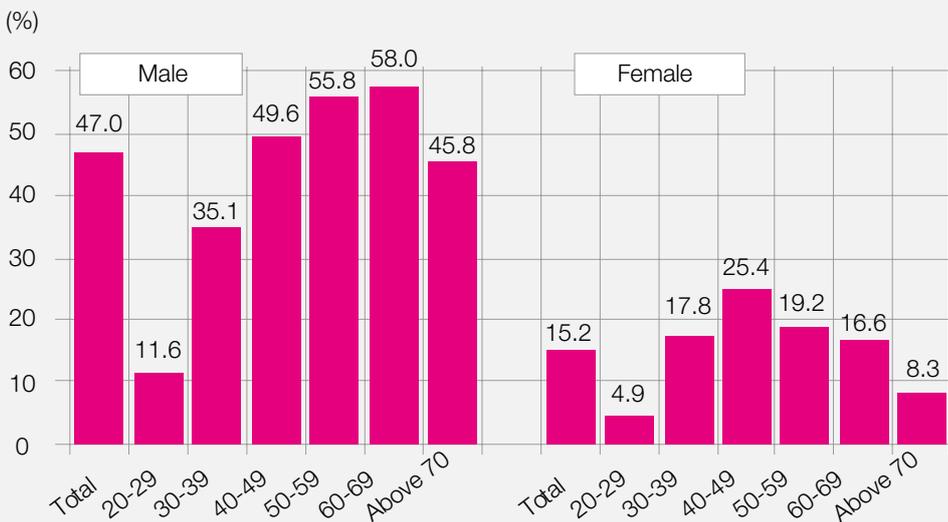
Source: Asahi group holdings (2017)

MARKET STRUCTURE

CONTINUED

According to the Ministry of Health, Labour and Welfare, men drink alcohol in much higher numbers than women. The recent increase of women entering the Japanese labour force, together with a relaxing of social norms surrounding women drinking, means that some drinks companies are now targeting professional women. Their preferences are wine, cocktails and other mixers, with a focus on health and interesting new flavours.

Figure 3: Alcohol consumption in Japan by age and gender*



Source: Ministry of Health, Labour and Welfare (2014)

*People who have habit drinking alcohol in this data defined that drinking alcohol more than 3 days a week

Other Drinking trends in Japan

An online survey by Asahi in 2016 shows the popularity of foreign, imported drinks amongst Japanese consumers:

Figure 4: Percentage of Foreign/Imported Drinks consumed by Japanese drinkers

Foreign/Imported Drink	% Total
Wine	58.0%
Beer	32.5%
Scotch whiskey	17.3%
Sparkling wine	12.7%
Bourbon whiskey	10.5%
Makgelli (Korean rice wine)	9.0%
Gin	7.9%
Cognac	6.4%
Vodka	5.3%
Shaoxing wine	5.3%

Source: Asahi Holdings (2016)

Convenience plays a big part in consumer behaviour in Japan, with a preference towards buying fresh foods at local supermarkets. Long working hours and a good public transportation network means that most people will do their food and drink shopping on the way home. Although drink consumption per adult has dropped since its peak in 1992, Japan still has a drinking culture based around groups socialising after work and corporate entertaining.

Drinking also plays a crucial role in ceremonial functions such as weddings and funerals as well as special events like New Year celebrations. Even though corporate entertaining and the budgets for it have reduced in recent years, eating and drinking out is still very much part of corporate life and socialising in Japan, with a high standard and variety of food available.

When drinking in groups, people tend to order the same drinks as others, which favours the larger brands. Japanese people tend to drink alcohol alongside food. The Western idea of a stand-up type pubs is less popular. Craft beer, gin and premium whiskeys are enjoyed in more niche establishments. There has been a recent trend towards drinking at home resulting in a popularity of ready to drink (RTDs), low alcohol and healthy drinks. Trends for the specific drinks categories will be outlined below.

The Japanese drinks market is dominated by the four major alcohol drinks manufacturers: Asahi, Kirin Holdings, Sapporo and Suntory, who have also undertaken many buy-outs of foreign drinks companies (including Beam) and retain exclusive rights to their distribution in Japan. There have also been many mergers and acquisitions between retailers and wholesalers.

MARKET STRUCTURE

CONTINUED

On-trade (hotels, bars and restaurants) environment in Japan

The most typical drinking establishment in Japan is the izakaya, which is somewhere in between a pub and a restaurant. Izakayas offer a huge variety of fast food accompanied by drinks, sometimes on an “eat and drink as much as you can” basis. Some smaller bars and local snack bars (primarily frequented by men) feature numerous bottles of whiskey behind the bar with the name of the customer on them. The customers buy on a tab and call in to drink on their way back home from work. There is also a thriving chain of Irish and British pubs, with a recent emergence of Craft Beer bars. High-end hotels will sometimes feature foreign whiskey but the big names dominate. There is still a preference for Japanese drinks in hotel chains, due to the perceived cost issues associated with importing.

The on-trade has suffered from the recent trend for people to drink at home. The dominance of the four big brewers (Asahi, Kirin Holdings, Sapporo and Suntory) makes life hard for new entrants, especially in the mass market, as they control access to the key izakaya on-trade channel. The major players have partnered with or bought out many non-Japanese brands and import their drinks into Japan. (After the buy-out of Beam, Suntory holdings now owns various Irish whiskey distillers such as Connemara, Kilbeggan and Cooley).

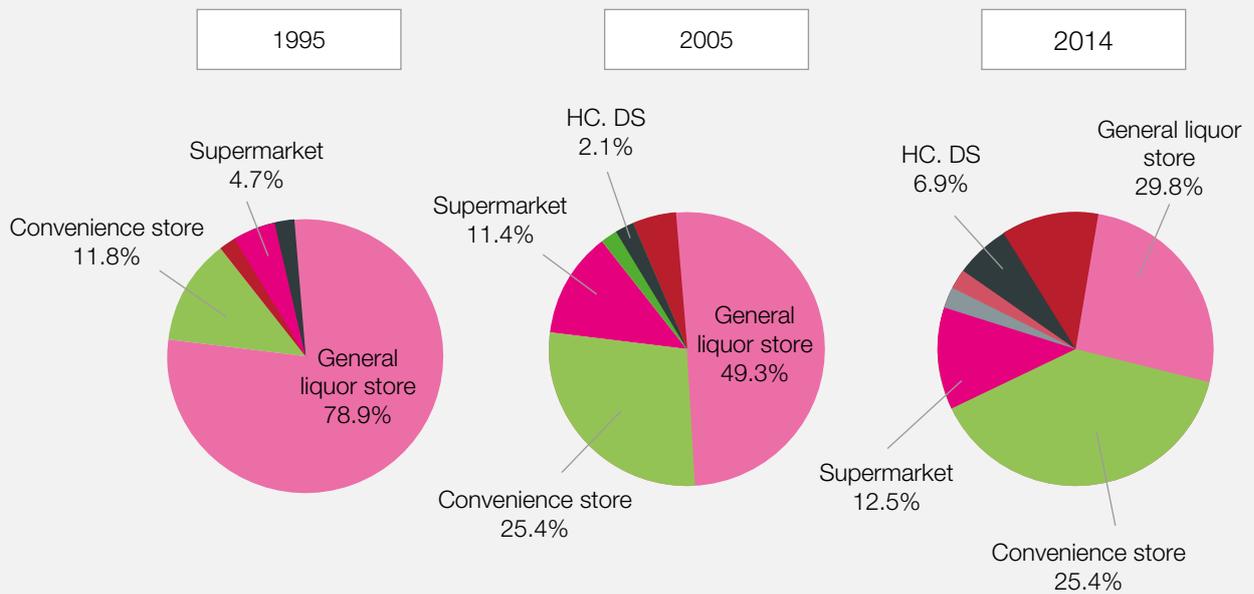
There is a growing interest amongst the Japanese public in drinks outside of the traditional drinks that were once enjoyed as standard (sake, shochu and Scotch whiskey). There is also an expanding expatriate population in Japan, who have set up pubs, restaurants and distribution

companies, and are now starting to import more niche drinks.

Off-trade (supermarket, retailers, off licences)

The main retailers selling drinks are general liquor stores, convenience stores, supermarkets, home centres and drug stores, and their market share has changed dramatically since 1995, resulting in convenience stores being one of the major retailers of alcohol drinks.

Figure 5: Percentage of Japanese shops/stores with Liquor Retail Licence



*HC = Home centre, DS = drug store Source: Ministry of Internal Revenue Service (2017)

Supermarkets were the most dynamic retail channel for sales of alcohol drinks in Japan during 2016, as consumers sought to take advantage of the regular price discounts and promotions offered on their favourite alcohol drinks. In addition, supermarkets benefited the most from rising sales of cider or perry, RTDs and high-strength premixes. Convenience stores and internet retailing were also strong performers in the retail distribution of alcohol drinks as consumers continued to prioritise convenience when purchasing these products.

MARKET STRUCTURE

CONTINUED

Online Retail of Alcohol

Examples of online alcohol channels include:

Figure 6: Online Retail of Alcohol

Company
Amazon http://www.amazon.co.jp/
Asahi Shop http://beer.asahishop.net/
Ito Yokado http://iyec.omni7.jp/basic/30601
Kameya http://www.kameya.jp/shopbrand/001/X/
Rakuten https://www.rakuten.co.jp/category/liquor/
Lohaco https://lohaco.jp/g1/71/
Sapporo Beer Net Shop http://www.sp-mall.jp/shop/pages/S2/index.aspx

Rakuten Ichiba is Japan's biggest domestic online marketplace. More information on selling via Rakuten Ichiba, is available on Webretailer(<http://webretailer.com/>). Walmart has announced a partnership with Rakuten to target online grocery retail in Japan, which is an untapped market due to the preference for fresh food and daily shops.

MARKET TRENDS

Whiskey

During the economic boom, Scotch Whiskey was a niche product aimed at the older man, and a bottle of premium Scotch Whiskey was the gift often recommended to give to Japanese business people when visiting Japan. Being obsessive with notions of quality, Japan has traditionally looked to Scotland for whiskey knowledge. As a result, Japanese consumers now know a lot about whiskey and appreciate awards, history, quality and heritage. In Japan, the market is finally moving ahead after a long period of slump and the biggest reason for that is the Highball (consisting of whiskey, soda and garnish), which revolutionised the way the Japanese drink standard whiskey and made it more mainstream.

Japan is a strong market for connoisseurs and for limited edition products but it is not so great for standard products. There is not a huge array of standard whiskeys in supermarkets, where mostly, the big global names are represented. The recent success of Japanese whiskey manufacturers is a double-edged sword. On the one hand, it has renewed the public's interest in whiskey and the innovative processes behind the Japanese versions as well as possibly lessening the reliance on Scottish whiskey. On the other hand it has increased competition within a market that prefers to consume the 'best' whiskey in the world.

Japanese whiskey has supply constraints and Japanese distillers are holding on to stock for innovation, ageing and blending purposes. A recent decline seen in Japanese single malts has resulted in a sharp rise in prices, causing some distributors to favour imports. Scotch and Bourbon have been the main beneficiaries of this, with Jim Beam, Johnnie Walker, White Horse and Dewar's all seeing explosive growth. New large-format PET bottles with Japanese language labels have been introduced for use in izakaya accounts. Even the cheaper Scotch and Bourbon whiskeys are considered to be of superior quality to standard Japanese whiskey and sell at a lower price point.

Premium Scotch blends have done well as they occupy a

price range that Japanese whiskeys have largely vacated due to price increases. Scotch suppliers have taken advantage of this to raise their own prices, though not by as much. Single malt Scotch is seeing increased interest, though growth is slow. Malts' failure to penetrate the traditional on-trade channel means they miss out on a lot of potential volumes. Japanese whiskey producers are husbanding their stocks for greater ageing in order to expand their ranges into the premium segments and take advantage of the increased global interest in Japanese whiskey. Japanese single malts are now in decline due to supply constraints.

Prices have risen sharply over the last few years. Distributors are seeking to premiumise the Highball in order to increase margins. Premium Scotch and Japanese blends, as well as Japanese single malts are being promoted. (Source: *IWSR Domestic Volume Report, All Spirit Categories, Japan, 2017*)

Craft Gin

The global gin trend is only starting to emerge in Japan despite the gin-and-tonic being a popular mix. Larger foreign gin companies still dominate Japan and according to one distributor, there is still a need to educate bartenders about making premium cocktails with craft gin as opposed to using the more well-known brands. The global craft gin movement has been bolstered by the opening of the first artisanal craft distillery in Japan in Kyoto (by David Kroll from Whisk-e).

The major whiskey manufacturers in Japan are now entering the craft gin scene releasing products featuring uniquely Japanese flavours such as yuzu and sansho (Japanese pepper) in the Nikka Coffey Gin, retailing at 4,500 JPY (EUR33) and cherry blossom and green tea flavours in Suntory's Roku Gin, retailing at around JPY 4000 (EUR30). According to officials with Asahi Breweries Ltd, the market for premium gins, with prices in excess of 3,000 JPY (EUR22) per bottle, grew 1.5 fold in 2016 from the previous year. The company expects the market this

MARKET TRENDS CONTINUED

year to double the size of last year.

Consumers are drinking gin in a broader range of settings, as exemplified by the emergence of specialist gin bars. Gin based concoctions took both first and second places in the Nippon Bartenders Association ranking of the most popular cocktails for 2016.

Craft Beer

Although craft beer had a shaky start in Japan due to licensing laws and pressure from the larger beer manufacturers, it is currently experiencing a revival, albeit at a very niche level. Craft beer sales only account for a very small percentage of beer sales in Japan (around 3%). Domestic beer has long been the go-to drink at izakayas, whilst convenience stores featuring craft beer tend to favour locally brewed beers (ji-biiru). Imported craft beer still remains a fairly niche offering through craft beer bars and microbreweries .

The import market is slightly dominated by American craft beers, in order to satiate the American community

in Japan, however there is a market for other beers from around the globe. There are foreign craft beer manufacturers brewing in Japan and selling at Brewpubs (Campion Ale).

As is typical in Japan, there is a very wide range of taste and knowledge by consumers, who seem to be accepting of novelty beers and flavours. Some of the major beer manufacturers have started to take an interest in producing some 'craft' type beer and buying out Japanese craft beer breweries. There is some criticism that there is a lack of a true beer and brewing culture in Japan, with home-brewing and craft beer being totally unrelated due to strict regulations on home brewing.

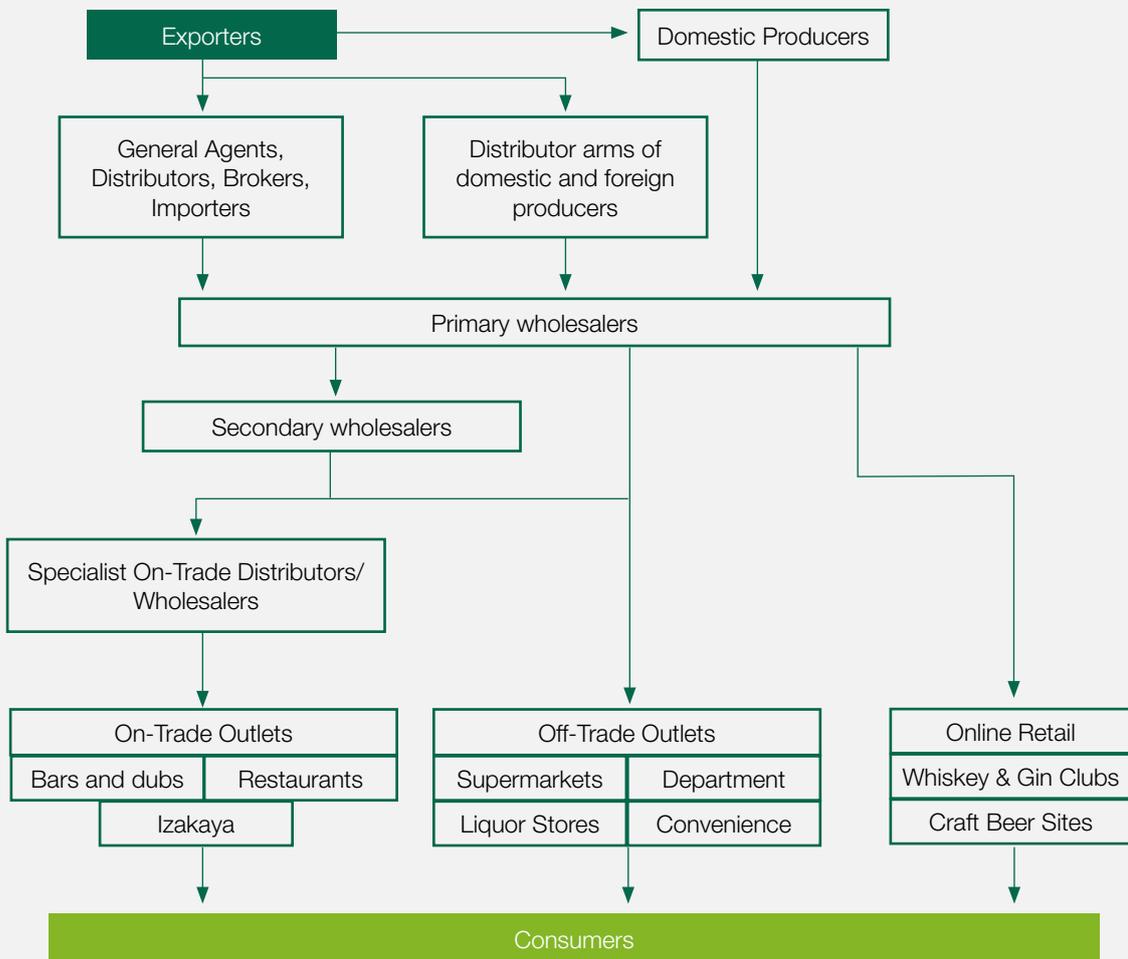
Craft beer will continue to grow, but shares will remain small. There is a general trend in Japan towards low alcohol beers. Sales of non-alcohol beer and RTDs are booming and could begin to affect volumes of low-ABV alcohol drinks soon. (IWSR Domestic Volume Report, All Spirit Categories, Japan, 2017)

DISTRIBUTION CHANNELS AND BUSINESS CONSIDERATIONS

Distribution Channels

Traditionally in Japan, an imported product is handled by several organisations on its way to the consumer. The manufacturer sells to a Japanese importer, who sells to a wholesaler, who sells to a retailer, who sells to the consumer.

Figure 7: Traditional Channels of Distribution for Alcohol Products in Japan



DISTRIBUTION CHANNELS AND BUSINESS CONSIDERATIONS

CONTINUED

In contrast to the typical UK and Ireland distribution channel which is open, independent, and margin-driven, the Japanese distribution channel that emerged during Japan's post-war economic boom was characterised as a 'long, complicated network of relation-driven middle men who were interacting closely with "fellow-trade" wholesalers, brokers, manufacturers, importers, and retailers. Within this channel, it was not uncommon to include as many as four

layers of wholesalers.' (Hokey Min, Distribution Channels in Japan; Challenges and Opportunities for the Japanese Market Entry, International Journal of Physical Distribution & Logistics Management, December 1996). This aspect of the Japanese distribution channel is deeply rooted in Japanese business culture and the network oriented model of Japanese business, which explains the dominance of business networks whose cross-holdings and obligations effectively blocked outsiders. Due to global influences, competition and intervention from the current Japanese government, who are trying to eliminate non-tariff barriers to trade, the distribution channels have lost some of their layers (middle-men) and have flattened out. However, it is important to note that Japanese business still sometimes operates according to the network system mentality and there may be more intermediaries involved than you are used to, who will eat into suppliers' profit margins.

It is rare for manufacturers to engage in direct sales unless selling via online channels. Since Japanese retail outlets tend to have limited storage space, they tend to keep inventory levels low and rely on the wholesalers to store the drinks and re-stock when needed. In this sense, wholesalers in Japan can buy in larger quantities than retailers can.

A recent development is that some companies are offering import, distribution and wholesale functions, meaning that the whole process can go through one organisation. The major drinks manufacturers in Japan serve as an agent for the import and distribution of the big named brands from abroad and have sole distribution rights to some of the major brands. These tend to dominate the market,

especially off-trade.

Most SME manufacturers enter the Japanese market by finding an agent or distributor to suit their needs. Such are the demands of the Japanese market that some overseas manufacturers have set up a Japan based subsidiary (known as a Kabushika Kaisha or KK) to serve as their importer or agent, or to give extra support to their distributors to increase their brand awareness and market presence. This option should be considered if Japan is being targeted as a major export market. Japan External Trade Organisation (JETRO) offers comprehensive advice on setting up a subsidiary in Japan(http://www.jetro.go.jp/en/invest/setting_up/) as well as providing an overview of the options available.

Agents, Distributors and Wholesalers

Figure 8: Key players

Compan	Function	Range	On / Off trade	Focus
AQ Bevolution +81 359049534 http://www.aqbevolution.com/	Distributor, Wholesaler	Beer	Both	Beer promotions across pubs & bars
Beer Cats +81 359048949 http://beercats.jp/	Distributor, Wholesaler	Beer	Both	Currently only US, but considering other options
Bond & Co. Ltd +81 786716001 http://www.bondco.co.jp/english.html	Distributor, Wholesaler	Whiskey, Spirits & Wine	Off	Interested in Irish companies
Bonili +81 798391700 http://www.bonili.com/	Distributor, Wholesaler	Whiskey, Spirits & Wine	Off	Interested in Whiskey
Ezo beers +81 116140191 http://www.ezo-beer.com/eng/	Distributor	Whiskey, Spirits & Beer	On	Created Ezo brand of beers
Ikon Europubs +81 353693601 http://www.ikon-europubs.com/en/	Distributor	Whiskey, Spirits, Beer & Wine	Both	Supply wholesalers and company has Irish roots
Kataoka & Co. +81 354057001 http://www.kataoka.com/en/	Distributor, Wholesaler, Retailer	Whiskey, Beer & Wine	Both	Large company with own food lines. Interested in high end brands
Kokubu Group Corp. +81 354057001 http://www.kokubu.co.jp/english/	Distributor, Wholesaler	Whiskey, Spirits, Beer & Wine	Both	Largest food wholesaler
Lead-Off Japan +81 354648170 http://www.lead-off-japan.co.jp/	Distributor, Wholesaler	Whiskey, Spirits, Beer & Wine	Both	Wholesaler of groceries
Liquor Mountain +81 752556111 https://likaman.co.jp/global/eng/	Distributor, Wholesaler, Retailer	Whiskey & Beer	Off	Over 160 stores
Mitsubishi Shokuhin +81 337679745 http://www.mitsubishi-shokuhin.com/en/	Distributor, Wholesaler	Whiskey, Spirits, Beer & Wine	Both	One of biggest food wholesalers
Nihon Shurui Hanbai Co. Ltd +81 343301700 http://www.nishuhan.co.jp/en/	Distributor, Wholesaler	Whiskey, Spirits, Beer & Wine	Both	Wide coverage with many branches
Nippon Beer +81 354898888 http://www.nipponbeer.jp/	Distributor, Wholesaler	Whiskey, Spirits & Beer	Both	No 1 beer importer

DISTRIBUTION CHANNELS AND BUSINESS CONSIDERATIONS

CONTINUED

Nomura Unison Co. Ltd +81 335386502 http://www.nomura-g.co.jp/business/liquor_yunyuhanbai.html	Distributor, Wholesaler	Whiskey, Spirits & Wine	Off	Wholesaler to liquor stores. Mainly wine
Royal Liquor +81 334400622 http://royal-liquor.co.jp/	Distributor, Wholesaler	Whiskey, Beer & Wine	Both	Mostly French wine and Champagne
Shinanoya Shokuhin Co. Ltd +81 364531970 http://www.shinanoya.co.jp/	Distributor, Wholesaler, Retailer	Whiskey, Spirits, Beer & Wine	Off	One of best Whiskey retailers
Vinadeis Japan Inc +81 337973740 http://www.vinadeis.com/	Distributor, Wholesaler	Wine poss Whiskey & Spirits	Both	Wine but interested in Whiskey and Spirits
Whisk-e Limited +81 338631501 https://whisk-e.co.jp/	Distributor	Whiskey, Spirits and Beer	Both	Knows market very well

Further details on the agents, distributors and wholesalers in Japan can be found on the Bord Bia website: www.bordbia.ie/supplychain

Considerations for selecting and working with distributors in Japan

It is crucial to find the right distributor, to negotiate the correct terms and to be clear about the expectations regarding the products to be managed. A list of general selection criteria is given in Appendix 1, however some specific considerations related to Japan may include:

- What marketing activities does the distributor engage in to make sure the product is featured? Sometimes, marketing expectations can be very different within the Japanese market.
- Be willing to make a market visit to attend trade shows and meet more potential distributors or even consider organising taster events in Japan. Sometimes, these market visits are supported through Bord Bia, or other stakeholders in Japan.
- It is crucial to know the value of the product. Japan can still demand high prices especially with niche products when there is a perceived feeling of quality and originality. Research the competitive landscape to gain an understanding of the pricing strategies employed by your competitors. Then negotiate transfer fees based on this

information. Please note Pricing Tree in the section below which provides average percentages demanded by the Japanese market.

- Japan is very relationship based and introduction to key players is always more effective if done through pre-established contacts or through official channels. The list of potential agents, distributors and wholesalers is short because of this crucial factor within Japan business relations. Networking and information gathering within Japan is a crucial part of this process before deciding on a distributor. Attendance at trade shows will widen exposure to more contacts, who may well not respond to cold calling.
- Japanese business stakeholders are very detail-oriented and risk-averse. Whilst there are much more flexible decision-making structures in the West, in Japan, generally, once a decision has been made, it sticks, so trying to change it may lead to a sense of distrust unless the rationale has been well communicated. Only promise what can be delivered.
- In Japan, relationship-based business is key and a market visit is crucial to start any business relationship. Japanese businesses respond better to

mutual introductions therefore consider using official organizations such as Bord Bia, JETRO (its London office also covers Ireland) or the Irish Chamber of Commerce in Japan to link in with key bodies and Trade Associations in Japan. Irish promotional events take place in Japan, sometimes involving Bord Bia and the Irish Embassy.

Added Cautions

Although the Japanese Fair Trade Commission has guidelines applicable to exclusive agency contracts, there are no statutory damages required upon termination of an agent or distributor. Japan's business world is however small and relatively concentrated. Many of the larger distributors are part of networks including other companies and reputation is key, since word can travel fast. Within this business environment, there are negative implications for the exporter's reputation if the relationship with a Japanese agent or distributor has to be severed. Termination should be a last resort and enacted on the best terms possible. At all costs, avoid being viewed as lacking adequate commitment to the Japanese business relationships. Japanese agents may request "parting compensation" in the event that the foreign exporter decides to dissolve a business relationship.

What will distributors expect from exporters?

Japan is very detail oriented and distributors will request further details about products, including samples, before considering a potential business partnership. It will be a requirement to demonstrate the traceability and the quality control of products and ingredients. Due to the Japanese need for quality assurance, some companies have been known to visit the foreign manufacturers to view not only the manufacturing facilities, but the whole supply chain. Suntory site visits have even included visits to the lumberjacks cutting wood for the casks and have used these pictures on promotional material to show the processes involved.

The Japanese have strong attention to detail and will question many aspects of the production process. This normally indicates interest, not criticism. Some distributors

may expect product changes and alterations suitable for the Japanese market, at the expense of the exporter.

General Marketing Tips

- The Japanese consumer is very discerning and generally will not buy something new in the premium price range unless they feel familiar with it or have had it endorsed. There is therefore a need for some level of marketing undertaken by the exporter or distributor.
- Marketing is a recent feature of Japanese business and the expected level of marketing and means of monitoring should be clearly defined when negotiating any distributor agreement.
- Some distributors are heavily involved in marketing promotions at retailers and will attend trade shows on behalf of the exporters. Others are less proactive and undertake little marketing.
- To appeal to the Japanese, it is important to show quality, possibly with innovative flavours and also have a story with appealing pictures.
- Any credentials and awards related to the products are powerful promotional tools in Japan and should be included in the initial approach to an agent and showcased to the Japanese customers.
- The appeal of the drink, especially if in the higher price range, will be enhanced by adding a feeling of quality and luxury using packaging and ingredients with high added value.
- Japanese marketing materials often outline how to drink the product along with many details about the ingredients. It can help to introduce, not only the style of drinking from the respective country, but also ways that the Japanese consumers might enjoy the beverage. This strategy proved successful for the Korean alcohol beverage makgeolli, which was originally drunk straight in Korean restaurants, but became more popular when manufacturers suggested new ways of drinking it by blending it with liqueurs and soft drinks such as fruit juice. Izakayas then started to introduce the drink on their menus.

DISTRIBUTION CHANNELS AND BUSINESS CONSIDERATIONS

CONTINUED

Commercial Factors

Import Tariffs and Taxes

Tariffs

In December 2017, EU and Japan concluded negotiations on an Economic Partnership Agreement (EPA). The EPA has yet to be ratified, but may lead towards the removal or partial removal of tariffs on Irish food and drink products.

The EPA will offer protection for Irish whiskey also. The trade agreement means the geographical indication (GI) of Irish whiskey will now be protected in Japan for the first time.

Tax

The current tax regime for exporting alcohol products to Japan is:

Import Duty – zero
Consumption tax (VAT) – 8% (will be increased to 10% in October 2019)
Liquor Tax for Beer:
Not exceeding 20% alcohol – 220,000 JPY per kilolitre (EUR1.69 per litre)
Liquor Tax for Spirits:
Not exceeding 37% alcohol – 370,000 JPY per kilolitre (EUR2.84 per litre)
Per additional 1% above 37% alcohol – 10,000 JPY per kilolitre (EUR0.08 per litre)

All calculations assume an exchange rate of JPY1000 = EUR7.68 (February 2018)

Example calculations of tariffs, taxes and fees for various ABV strength alcohol drinks:

Beer		4% ABV	8% ABV
A	CIF* Invoice Value per Litre (examples)	EUR 2.000	EUR 3.000
B	Import Tariff: A x 0%	EUR 0.000	EUR 0.000
C	Liquor Tax: EUR1.69 per Litre	EUR 1.690	EUR 1.690
D	Subtotal: (A+B+C)	EUR 3.690	EUR 4.690
E	VAT**: D x 10%	EUR 0.369	EUR 0.469
F	Handling fees for Customs clearance***: A x 8%	EUR 0.160	EUR 0.240
G	Total cost per litre of Beer upon Customs clearance (D+E+F)	EUR 4.219	EUR 5.399

Spirits		37% ABV	57% ABV
A	CIF* Invoice Value per Litre (examples)	EUR 20.000	EUR 30.000
B	Import Tariff: A x 0%	EUR 0.000	EUR 0.000
C	Liquor Tax: EUR(2.84 + (ABV%-37)x0.08)	EUR 2.840	EUR 4.440
D	Subtotal: (A+B+C)	EUR 22.840	EUR 34.440
E	VAT**: D x 10%	EUR 2.284	EUR 3.444
F	Handling fees for Customs clearance***: A x 8%	EUR 1.600	EUR 2.400
G	Total cost per litre of Spirits upon Customs clearance (D+E+F)	EUR 26.724	EUR 40.284

Note*: Cost Insurance and Freight (CIF) is an export price upon arrival in a port in Japan inclusive of insurance and freight cost. The value of a single use plastic keg container is recognised as part of the CIF product value. Freight cost could be high if the product is shipped in a temperature controlled sea container. The CIF values used in the examples are for demonstration only and are not intended to be accurate.

Note**: The paid Value Added Tax (VAT) is eventually refunded to the importer as the tax is carried over to the consumer.

Note***: In addition to import tariff and taxes, additional cost of about 8% of CIF value will occur for miscellaneous expenses during the Customs clearance process, including paperwork, inspection, warehousing, and transportation. The amount of this additional cost depends mainly on the kind of inspection to which the shipment is subject. For example, warehousing fee and inspection fee will increase significantly if a detailed chemical inspection is required instead of documentary inspection.

DISTRIBUTION CHANNELS AND BUSINESS CONSIDERATIONS

CONTINUED

Pricing

- Manufacturers will see mark-ups on their original prices to a final retail price ranging from 50% up to 70% (plus consumer tax) depending on the route it takes to market and the channels used.
- Wholesalers tend to mark-up around 25% on their input cost.
- Some super-premium brands may have a much higher mark-up and there is a general experience when working with Japanese distributors that the mark-up can be quite high, if they take title to goods.
- Due to the multi-layered distribution channels, the distributor selected may pass the products through one or more layers of sub-distributors before it reaches its intended consumer or corporate buyer.
- If selling into a large Japanese organisation, they are likely to mandate a trading company (usually one of its subsidiaries) to handle the transaction and take a 5% – 15% fee for its efforts.
- Very often a sub-distributor may in fact be a subsidiary of the contracted distributor which, although common practice in Japan, has led to complaints of double fees. This needs to be handled sensitively within initial contract negotiations.
- Some distributors operate on 60 day payment terms and there are variations between agent agreements and distributor contracts therefore the details should be checked carefully.

product for use in trade fairs, exhibitions and other trade facing exercises must follow the same procedures as for commercial sales. In addition:

- The consignee should be listed as “*the exhibition name*” on the Airway Bill
- The following should also be indicated on all documentation:
 - Exhibitors name
 - Address of exhibition
 - Event name
 - Hall
 - Booth Number

Import Registration and Customs Procedures

The procedures and required documentation for registering products for import and customs processing are contained in Bord Bia's report Exporting Beverages to Asia: Regulatory Guide.

Sending limited volumes of samples/not-for-resale

USEFUL LINKS FOR JAPAN

Exhibitions and Festivals

- [Tokyo International Bar Show-Whiskey Expo](http://www.tokyobarshow.com/index.html)
http://www.tokyobarshow.com/index.html
- [Whiskey Festivals 2018](https://japanwhiskytravels.wordpress.com/2017/12/15/whisky-festivals-in-japan-2018/)
https://japanwhiskytravels.wordpress.com/2017/12/15/whisky-festivals-in-japan-2018/
- [Foodex Japan Trade Show 2018](https://www.jma.or.jp/foodex/en/)
https://www.jma.or.jp/foodex/en/
- [Wine & Gourmet Japan 2018](http://www.wineandgourmetjapan.com/)
http://www.wineandgourmetjapan.com/
International Wine, Beer, Spirits, Gourmet Food and Bar Exhibition & Conference in Japan
- [Beer Grand Prix](http://beer1grandprix.craftbeersupport.org/)
http://beer1grandprix.craftbeersupport.org/
- [Craft Beer Festival](http://www.craftbeerfestival.org/) http://www.craftbeerfestival.org/

Trade Associations and Government Agencies

- [Irish Chamber of Commerce and Industry Japan](https://www.ijcc.jp/)
https://www.ijcc.jp/
- [Japan Craft Beer Association](http://www.beertaster.org/index-e.html)
http://www.beertaster.org/index-e.html (useful links to beer festivals)
- [Japan Wine and Spirits Importers' Association:](https://youshu-yunyu.org/english/)
https://youshu-yunyu.org/english/
- [Alcohol Wholesalers Association](http://www.gyoushuren.com/member/) (it's recommended that any formal approaches should come through Bord Bia)
http://www.gyoushuren.com/member/
- [Japanese Fair Trade Commission](http://www.jftc.go.jp/en/) http://www.jftc.go.jp/en/
- [Irish Embassy in Japan](https://www.dfa.ie/irish-embassy/japan/)
https://www.dfa.ie/irish-embassy/japan/
- [Japan External Trade Organisation \(JETRO\):](https://www.jetro.go.jp/uk/)
https://www.jetro.go.jp/uk/

Awards

- **International Spirits Challenge (ISC):** Organised by Drinks International in the UK. There are several categories, such as whiskey, brandy, tequila, gin and vodka. Gold, Silver and Bronze.
 - [International Whisky Competition \(IWC\):](https://www.whiskycompetition.com/) Whiskey competition in the USA. Awards are Gold, Silver and Bronze per category. They also introduced the medallion point system as each whiskey tasted is also scored.
https://www.whiskycompetition.com/
 - [World Gin Awards:](http://www.worldginawards.com/) Presented by TheDrinksReport.com.
http://www.worldginawards.com/
 - [International Wine and Spirits Competition \(IWSC\):](https://www.iwsc.net/) Organised by International Wine and Spirits Competition Ltd. in the UK. https://www.iwsc.net/
 - [International Beer Cup](http://www.beertaster.org/) (Formerly known as International Beer Competition) since 1996: Organised by Japan Craft Beer Association and held once a year. This competition is the oldest one in Japan. Japanese beers and world beers can enter. The award ceremony is held at the "Japan Beer Festival in Yokohama". http://www.beertaster.org/
 - [The Asia Beer Cup](http://www.beertaster.org/abc/abc17/index_abc17_e.html) (it used to be called Japan Asia Beer Cup (JABC)) since 1998: Organised by Japan Craft Beer Association and held once a year. All beers sold in Japan and Asia can be entered. The screening is in April and May, and the award giving ceremony is at the Japan Beer Festival, Tokyo.
http://www.beertaster.org/abc/abc17/index_abc17_e.html
 - **JCBS Award:** Japan Craft Beer Selection Award (since 2009): It is held as part of Japan Beer Grand Prix and Nippon Craft Beer Festival organised by Japan Craft Beer Support (NPO) for Japanese craft beers only. This is more of a promotional event of Japanese craft beer.
 - [Monde Selection:](http://www.monde-selection.com/en/default.asp) This is not a Japanese award but very well-known in Japan. This is not only for alcoholic drinks but also food, supplements, cosmetics, toiletry and more. The Japanese recognize this award easily by the sticker (Grand gold, gold, silver and bronze. More than half of the awarded items are from Japan).
http://www.monde-selection.com/en/default.asp
 - [Whisky Magazine Japan:](http://whiskymag.jp/) This is a Japanese version of Whisky Magazine that publishes a whiskey magazine in the UK. The Japanese version started since 2000 and became the biggest online magazine on whiskey in Japan. You can find Japanese Distilleries' information, tasting information, bar information, whiskey related news and articles (e.g. events and awards). http://whiskymag.jp/
 - [The Japan Beer Times:](http://japanbeertimes.com/) This is a free bilingual (English and Japanese) quarterly magazine that seeks to support craft beer in Japan. It is recognized by major brewers and craft-beer bar operators throughout the country.
http://japanbeertimes.com/
- Japan does not hold any specific awards for whiskey or spirits. However, the following are recognized in Japan and some have been won by Japanese drinks.
 - **Icons of Whisky / Hall of Fame** (UK based organised by Paragraph Publishing Limited)
 - **World Whisky Award (WWA):** Organised by Paragraph Publishing Limited and held once a year in the UK. Japanese whiskey won the top award from 3 categories out of 13 categories in 2017. Since this competition started, Japanese whiskey won the top award every year and it is recognized well in Japan.



SOUTH KOREA MARKET





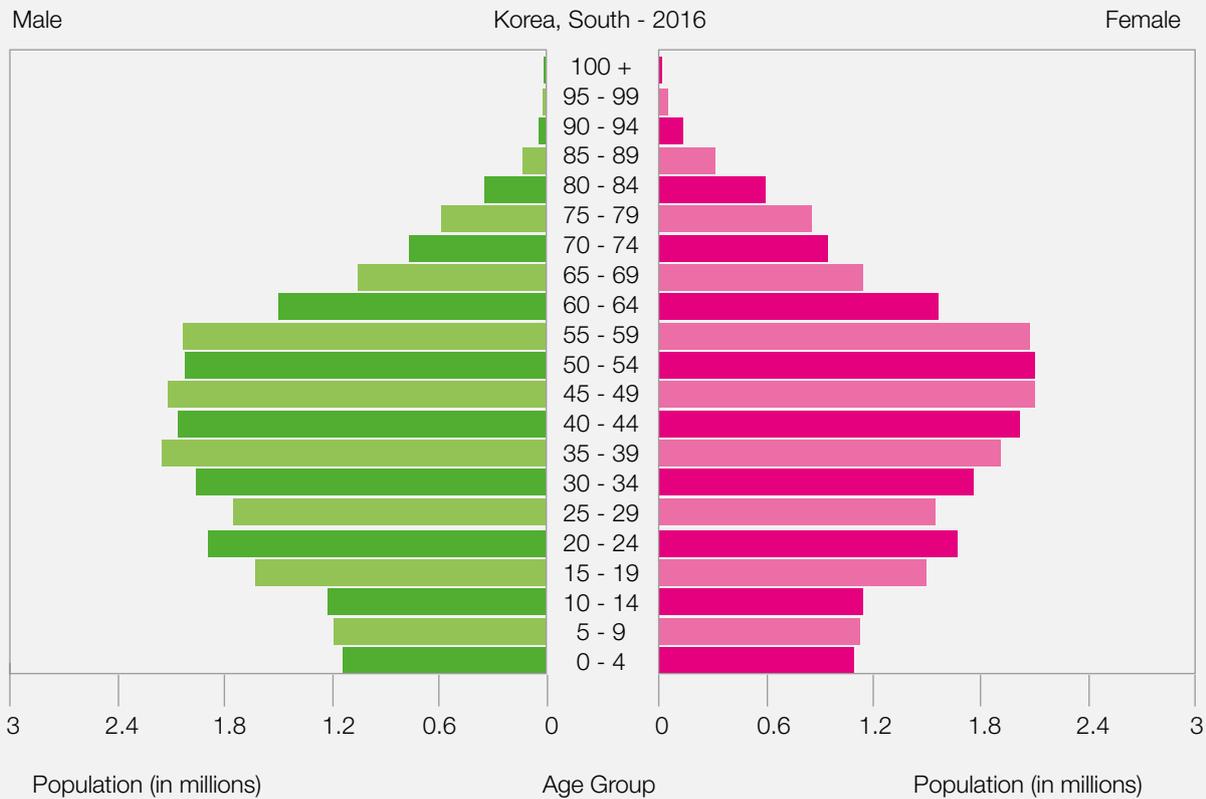
MARKET STRUCTURE

Economic Dimensions

South Korea is the world's 13th largest economy and Asia's 4th largest after China, Japan and India. Key economic dimensions for South Korea are:

In 2016 the country's population was 51 million with GDP at approximately EUR1.16 trillion, giving GDP per capita of EUR22,500.

Figure 9: South Korea population age profile



Source: CIA World Factbook 2016

- Highly educated, hard-working workforce
- Modern, high-tech infrastructure
- Low public debt and unemployment, with relatively stable markets.

- Free Trade Agreements with existing and future key partners, such as EU, but also US, China and Australia.
- Consumer base has a strong appetite for imported brands
- Increased interest in Europe and a greater focus on new and unknown products, with major department stores selling an ever-increasing range of foreign imports from Europe.
- Female consumers have significantly greater buying power and are a discerning audience, but remain a largely untapped section of consumers.
- 1000 KRW (Korean Won) = 0.91 USD; 0.75 EUR (February 2018)

South Korea is 70% mountains, forcing its 50 million people into key population centres:

Figure 10: Population of Major Metro Areas

Metro Area	Population
Seoul	10+ million
Busan	3.5 million
Incheon	2.9 million
Daegu	2.5 million
Daejeon	2.0 million

Source: Korean Statistical Information Service 2016 census data

MARKET STRUCTURE

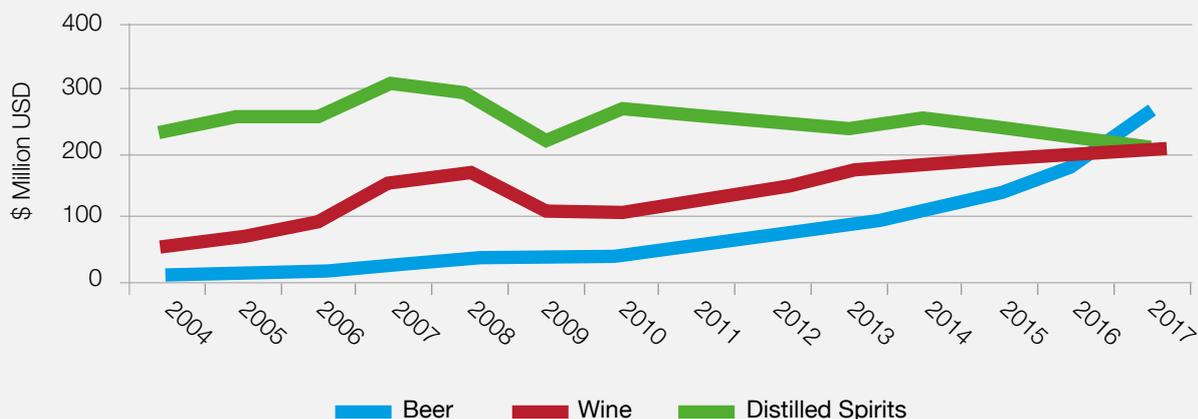
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Market Characteristics

Korea is one of the leading markets in the world for per-capita alcohol beverage consumption. Drinking is considered an important part of social life and is often encouraged at social and business occasions. Although drinking is decreasing among the elderly population for health concerns, the market is gaining new drinkers from the young and female population.

The type of alcohol being drunk is changing however, especially in terms of imports, as shown in Figure 9:

Figure 11: Alcohol Imports to South Korea (net values) 2004 - 2017



Source: Korea Trade Information Service Database (Beer HS2203; Wine HS2204; Distilled Spirits HS2208) – February 2018

The total amount of alcohol beverages supplied in Korea in 2016 came to KRW 5.1 trillion (about EUR 3.8 billion), this being the net value of products exclusive of liquor taxes, and equates to 3.7 billion litres, down 1% and 2% from the previous year respectively. Beer and soju (traditional Korean hard liquor distilled from sweet potato/tapioca/rice/other starch ingredients and then diluted to about 18% alcohol content) together accounted for 76% of the alcohol beverages supplied to the market in terms of value (or 85% in terms of volume).

Note that the effect of taxation is to approximately double the net figures to arrive at cash register sales values, as illustrated in the later section on Tariffs and Taxes.

Imported beer and imported spirits accounted for around 4% each of total alcohol beverage sales.

Figure 12: Net Value of Sales of Alcohol Beverage Products in Korea (2016, EUR millions)

Product Category	Local Products	Imported Products	Total
Beer	1,538	150	1,688
Soju	1,321	0	1,321
Distilled Spirits	19	156	175
Rice Wine	366	14	380
Fruit Wine*	79	160	239
Others	109	33	142
Total	3,432	513	3,945

Source: Korea Wine & Spirits Importers Association based on Korea Tax Service data

*Note: Local products under Fruit Wine category includes all wine made from fruits. Imported fruit wine refers to grape wine only.

Overview of Leading Korean Breweries

The domestic beer industry has long been driven by two large-scale local breweries, Oriental Brewery Company Co., Ltd. (OB) and Hite-Jinro Co. (Hite). The next largest producer is Lotte Chilsung Co. (Lotte).

Figure 13: Profiles of Leading Korean Breweries

	Oriental Brewery Company Ltd. (OB)	Hite-Jinro Co. (Hite)	Lotte Chilsung Co. (Lotte)
Major Brands	Cass, OB, Cafri	Hite, Max, Stout, Filite	Kloud, Fitz
Imported Brands	Budweiser, Hoegaarden, Corona, Beck's, Stella Artois, Leffe, Löwenbräu, Suntory	Carlsberg, Kirin, Singha, Kronenbourg, Tooheys Brothers	Miller, Coors, Bluemoon, Asahi
Beer market share (2017)	60%	26%	4%

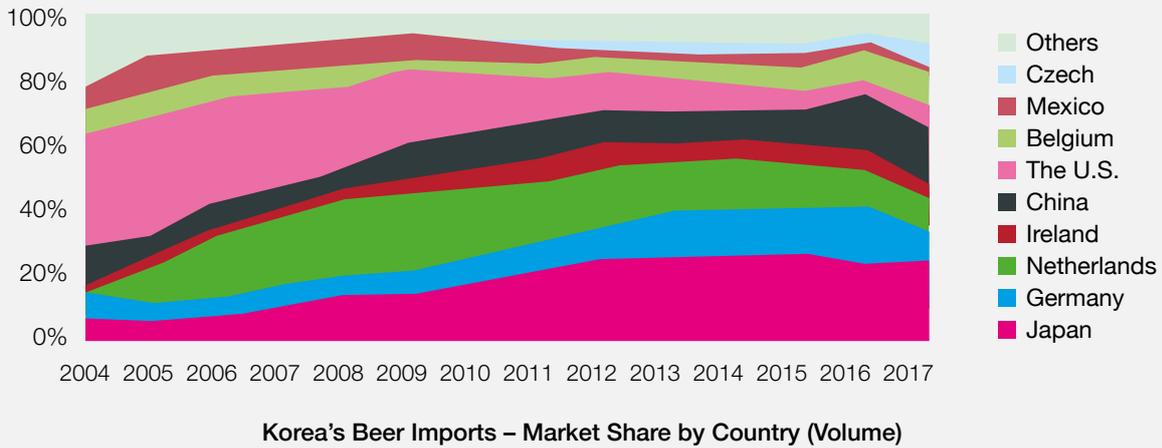
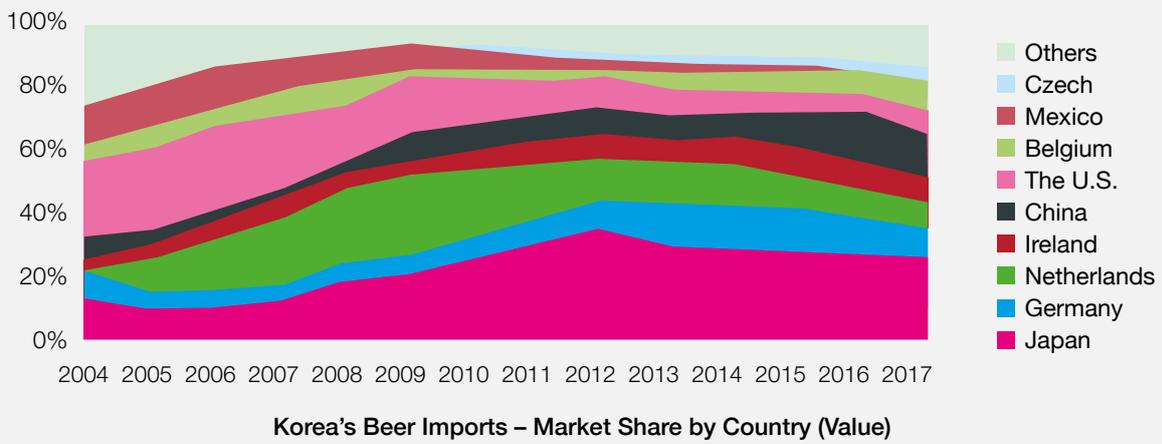
OB was acquired by Anheuser-Busch (AB) InBev in 2014. As a result, OB currently brews and bottles some of the AB InBev portfolio, including Hoegaarden, in Korea for local distribution. In addition, OB imports and distributes many of AB InBev portfolio into Korea, including Budweiser, Corona, Beck's, Stella Artois, Leffe and Löwenbräu (Budweiser was switched from local brewing to imports from the US in 2017). Hite-Jinro and Lotte Chilsung have also established import distribution partnerships with some of leading international beer companies to cope with increased market demand for imported beer.

MARKET STRUCTURE

CONTINUED

Market Characteristics

Figure 13: Korea's Beer Imports – Market Share by Country (Value and Volume)



Source: Korea Trade Information Service (KOTIS) Database – February 2018

Market Trends

General

The following trends are being seen in the South Korean market:

— Fast changing alcohol drinks market

- Alcohol drinks in South Korea trended downwards in volume terms towards the end of 2016 - early 2017, affected by economic conditions, rapid product life cycles, an increasing number of single households and new regulation. It is suggested that trends changed swiftly due to millennials becoming a mainstream consumer audience

— Imported alcohol retains strong position for key products

- Local products dominate the market for beer, soju and rice wine
- Imported beer remained lucrative, making inroads into domestic lager
- Imported products continue to lead the market for distilled spirits and fruit (grape) wine
- Popularity of Scotch is declining, increasingly seen as a spirit of the older generation
- Clear spirits are growing in popularity. Absolut Vodka has had considerable success with young drinkers. Gin and rum sales are also growing
- Despite imports of distilled spirits stagnating (mainly due to increased health concerns), Korean consumers' strong demand for diversified taste and higher quality is likely to generate additional imports for wine and beer in the coming years (e.g. Korea's beer imports totalled EUR217 million in 2017, up >40% from 2016)

— Lower alcohol drinks and sparkling formats growing in popularity

- Rising health concerns among the general public is increasing the demand for products with less alcohol

content such as wine and beer

- Soju has shown a steady performance in recent years mainly backed by continued launchings of new products that contain less alcohol
- There is an overall trend towards reduced ABV spirits in the Korean market
- Both Pernod Ricard and Diageo have launched Scotch whiskey based liqueurs at around 30% ABV (cannot legally be called Scotch whiskey, which requires 40% ABV minimum. Same rule applies for Irish whiskey)
- Domestic giant Lotte has developed a lower alcohol whiskey aimed at younger male consumers
- New sparkling RTD products, both wine and soju based with lower alcohol contents, are also appearing on the market. Typically aimed at female and younger drinkers, sparkling RTDs are designed to be drunk mainly in the summer time, because soju consumption declines in hot weather. Sparkling RTDs are positioned between soft drinks and alcohol drinks, and consumers feel free to drink them at any time and (increasingly) at home

— Anti-corruption law strongly hits the on-trade channel

- An anti-bribery law implemented in 2016 weighed heavily on on-trade sales, especially in whiskies, beer and wine. Companies were required to follow the new law, which limits to a certain value the price of goods for gifts and hospitality. A reduction in the frequency of business meetings in on-trade premises also influenced sales of beer, whiskies and wine in 2016. Rising numbers of consumers had more free time after work for at-home entertainment instead

— Established brands suffer declining sales

- With the volume slowdown and rapidly changing market trends, established brands faced the challenge

MARKET STRUCTURE

CONTINUED

Market Trends

of falling sales in 2016. Their best-selling products no longer appealed as much to mainstream consumers, so companies attempted to adapt to the fast changing market environment. The majority of established brands avoided the challenge and struggled with sales declines, failing to meet consumers' expectations. Whiskies and domestic lager became vulnerable, with global alcohol drinks giants witnessing decreasing sales in whiskies compared with domestic company Golden Blue

— Craft beer and microbreweries making inroads

- Craft beer's growth traces from 2013 following on US trends, which are heavily influenced by expatriates and Korean-Americans
- Currently makes up just 0.7–0.8% of the beer market, but growing steadily
- Crucially, the trend has extended outside of the Seoul districts of Itaewon, Gangnam and Hongdae and across the country
- Younger people show increasing willingness to pay more for quality beers from Europe
- The local conglomerates are paying attention and are expected to release their own craft beers

— On-trade versus off-trade split: at home drinking on the rise

- Reducing disposable incomes and the economic downturn has resulted in growth in the off-sales sector, with an increasing number of drinkers opting to consume at home
- The increasing number of single households also enjoyed at-home entertainment to maximise cost savings
- The key growth categories are in imported alcohol, notably premium beers, wines (including sparkling RTD derivatives) and spirits

— On-line purchases of alcohol difficult to research

- Whilst it is true that South Korea has one of the highest percentage of online grocery in the world there is little evidence on how much alcohol is available on-line. Korean liquor laws are notoriously difficult to unpick and certainly up to a few years ago it was illegal to buy liquor anywhere other than licensed liquor outlets. TV advertising is only permitted for drinks under 17% alcohol and even that is tightly regulated. There have been complaints that internet advertising and promotion is not regulated in the same way.

Whiskey

Whiskey was once seen as one of the most prestigious alcohol drinks in South Korea. Exclusive imported whiskey brands were consumed by Korean businessmen while negotiating deals or entertaining their guests. The Korean economy ground to a halt after the global financial crisis of 2008, putting a big dent in that market. Ever since then, Korean whiskey has been looking for a new identity among drinkers of alcohol beverages. This applies to both imported blends of scotch and premium single malts as well as the locally produced brands. Korea has historically been a market for blends rather than single malts, and even though the malts category is expanding, it still only represents 5% of Scotch sales. Whilst the total market for Scotch whiskey has undeniably shrunk, Korea remains its eighth largest market in the world, and some rebound is now being seen.

Because of these factors the market for whiskey in Korea can be said to be at a crossroads. Some brands are sticking to their guns by selling whiskey as a premium product aimed at high class customers. Others are attempting to reinvent the product by producing cheaper brands with a lower ABV than in traditional Scotch whiskey. This lower alcohol whiskey has proven to be a success among a younger generation, who have started to enjoy the dram in a more relaxed setting away from the smoky hostess bars.

The trend towards lower ABV whiskies is now well

established. Examples include Diageo's 35% ABV W Signature 12, which uses whiskies matured at least for 12 years in Scotland. It follows the launch of W Ice in 2015 and W Signature 17 in November 2016. Diageo's market share in the low ABV drinks segment has grown from 0% in 2014 to 28% in the first half of 2017.

Pernod Ricard estimates that these products, bottled between 35% and 37% ABV, now account for 40% of the total whiskey market in South Korea, and as much as three quarters in certain areas. The firm has now launched the 35% ABV 35 Imperial to capitalise on business entertainment occasions.

Golden Blue is a Korean owned distillery operating in Busan. Their products are distributed by local giant Lotte Chilsung. They rapidly gained market share since launching in 2009, based on innovative marketing and packaging to sell a smooth, milder product at 36.5% ABV. Golden Blue plans to follow in the footsteps of Japanese distillers by creating a truly Korean made whiskey.

According to Euromonitor International, evolving bar trends can make or break certain spirits categories. For example, blended Scotch sales are falling because the category's size and growth was predicated on the traditional on-trade hostess bars. These have fallen out of fashion and being supplanted by a far more casual on-trade, leading to opportunities for more casual drinks such as vodka, tequila and bourbon.

Craft Gin

The craft gin revolution is still in its infancy in Korea. Bars with a wide range of craft gins are thin on the ground, but are increasing. For example, at the White Bar, there is a choice of 70 types of gin, many of them previously unseen in Korea.

Euromonitor sees opportunities for white spirits, which capitalise on consumer familiarity with products such as soju and baijiu, but they also see a fight by local brands to retain market share. Vodka was doing well a few years ago, which then spawned a range of flavoured,

mixable soju. The initial success of this innovation was not sustained and showed how Western spirits face challenges.

Cocktails and low alcohol content drinks are popular with young adult consumers, especially women. Young adults aged 20 to 34 represent the largest consumer group in South Korea and made up 22% of the total population in 2011. The popularity of these drinks has led to an increased demand for vodka and gin products. Consumers are increasingly drinking spirits based cocktails in bars or pubs rather than enjoying straight whiskies or other spirits. As a result, the white spirits and liqueurs are in growth, whilst the darker spirits such as whiskies, brandy and cognac show decline.

Craft Beer

Korea's beer imports continue a robust growth as Korean beer consumers maintain a strong demand for products of diversified taste and better quality (although value-orientated domestic beer still accounts for a dominant 90% share of overall beer market sales in Korea).

There is an emerging demand for premium quality beer among young professionals and affluent seniors. Many of the opinion-leading beer consumers are well travelled and recognise the diverse origins of premium quality and craft beers around the world.

Beer remains the most consumed alcohol beverage in Korea, with solid growth, driven by:

- Increased demand for value under the downturn of the local economy
- Increased demand for products of diversified taste and quality
- Increased alcohol beverage consumption among the female population

The environment of limited market competition has led the large scale domestic breweries to maintain a conservative product portfolio over the years which was focused on

MARKET STRUCTURE

CONTINUED

Market Trends

a limited assortment of low price, low quality products. Market reforms introduced in January 2015 laid out a key milestone in the local microbrew industry as it allowed microbreweries to distribute products outside their premises through non-affiliated restaurants and pubs. Further reforms will expand microbreweries' distribution to grocery retail stores and wholesalers. Increased market prospects under these reforms have led to openings of many new microbreweries throughout Korea over the last couple of years. However, this industry is still in its infancy and accounts for less than 1% of the overall beer market sales in Korea. Its penetration is limited to key metropolitan areas. Nevertheless, growth of the local microbrew industry should help reduce the influence of large scale breweries in the market while cultivating consumer taste for premium quality beers.

Craft beer has some barriers to overcome:

- In general, beer consumers in Korea lack an understanding of and experience with premium quality craft beer
- The high retail price of imported craft beer is a major barrier that restricts further expansion of consumption
- There is no product definition or identity established in Korea that would guide local consumers to differentiate craft beer from imported mainstream brands

Craft beer can benefit from the rapid increase in demand for imported beer in general, but in these early days of changing patterns of beer consumption, producers of craft beer need to find ways of educating and influencing consumers in the difference between genuine craft beers and those which are merely imported (and usually seen as 'premium'), whilst also being mindful of competition from the growing local micro-brewing industry.

To further underline that a lot of the growth in the Korean beer market is coming from imports of premium positioned brands (and not yet from true craft beers):

- Japan remained the leading supplier of imported beer to Korea by shipping EUR58 million in 2017, up 40%

from 2016. Many of the leading Japanese breweries have developed direct business partnerships with leading Korean breweries for efficient penetration into the Korean market. Marketers also point out that Korean consumers' developed taste for lager style beer is another key reason for Japanese beer's early success. Japan has yet to establish a free trade agreement with Korea and as a result, Japanese beer is still disadvantaged by the 30% import duty upon entry into Korea. Nevertheless, Japan's logistic advantage for shipping to Korea as well as Japanese breweries' aggressive pricing and consumer promotion strategy has enabled it to establish the leading market share in Korea's imported beer market. Japan is particularly strong in the leading distribution channels for imported beer, such as hypermarket grocery stores and franchise beer pub restaurants

- China has rapidly emerged as a leading exporter of beer to Korea partly due to a rapid increase of Chinese tourists travelling to Korea (8 million in 2016) as well as non-immigrant Chinese people living in Korea under work visas (1 million in 2016). In addition, some of multinational beer companies bring products from their Chinese breweries into Korea at lower cost. China remained the second largest exporter of beer to Korea by shipping EUR31million in 2017, up 43% from 2016. The 30% import tariff on Chinese beer is scheduled to phase out over a 20 year period under the China-South Korea Free Trade Agreement implemented in December 2015
- Many Korean consumers harbour the idea that Europe is the leading source for quality beer around the world. As a result, many European countries, including Germany, the Netherlands, Ireland and Belgium, have established strong market share in Korea's imported beer market. Imported beer from European Union (EU) countries now enters Korea duty free under the Korea-EU Free Trade Agreement implemented in July 2011
- The market share held by the US in Korea's imported beer market has declined from 24% in 2004 down to 7% in 2017 in terms of value. Marketers point out

that major competitors have outperformed American beer in the key distribution channels for imported beer, hypermarket grocery stores and franchise pub restaurants, based on more aggressive pricing and promotions

- There is no official data available to track separately imports of craft beer. According to a report by the American Craft Brewers Association, exports of American craft beer to the Asia-Pacific market totalled EUR16 million in 2016, up 13% from the previous year, and Korea was one of the top export markets in the region. Over two thirds of the imported American craft beer is reportedly distributed through off-premise retail stores, including hypermarket grocery, department, and independent premium liquor stores (“bottle shops”). On the other hand, marketers point out that American craft beer’s penetration into the on premise market (restaurants and pubs) is somewhat challenged due to increased competition from both the local craft beer industry and other foreign beer.
- Limited product offers in keg packaging is also a challenge for many American craft beer suppliers that target the on premise market. Introductions of major, large scale American beer brands such as Budweiser, Miller and Coors are aimed at expanding the market for overall American beer in Korea by strengthening the value proposition to the general beer consumers. These large scale American breweries have established distribution partnerships with leading Korean breweries and thus a strong reach into major on and off premise market channels.

DISTRIBUTION CHANNELS AND BUSINESS CONSIDERATIONS

Distribution

Most freight forwarders use an extensive network of first class railways, 3,000 km of highways and air routes that criss-cross the country.

Incheon, Gimpo, and Busan's airports and ports are the points of entry for most imported goods. Products are then transferred by quality roads and railways to major modern distribution centres in Seoul, Busan, Incheon, Daegu, and Gwangyang. South Korea has 15 airports, 8 of which are international, including the world-class Incheon International Airport near Seoul. Around 77 international passenger and cargo airlines operate regular scheduled flights between Korea and many nations around the world.

The Port of Busan is the world's fifth largest cargo port. Incheon Airport opened a new terminal in January 2018 and the development of Busan's Gimhae Airport is scheduled for completion in 2023.

Distribution methods and the function of intermediaries vary widely by product in this mature market. Traditional retail distribution networks of small family run stores, stalls in markets and street vendors are being replaced by large discount stores.

Korea's major cities have numerous fashionable and expensive large department stores and boutiques. Thousands of second-tier and third-tier retail stores also abound. Full-line discount stores have gained in popularity, as has US based Costco, which entered the Korean discount market more than 10 years ago and is successfully competing against Korean rivals E-Mart and Lotte Mart, as well as Homeplus (owned by Tesco until 2015, then sold to MBK Partners, a South Korean buyout firm).

The rapid expansion of discount chain stores is planned nationwide, with suburban satellite cities attracting the greatest number of stores. Distribution of goods through large discount chains is one of the best ways to market foreign products to Korean consumers.

In order to protect smaller retailers and traditional local markets the large discount chains are required to close on the second and fourth Sundays in the month. This includes Costco, E-Mart, Homeplus, Lotte Mart, Mega Mart and the SSMs (Super Super Markets) such as Lotte Super and Homeplus Express.

It should also be noted that products imported without the knowledge of the brand owner (parallel imports) can legally enter Korea. Many importing companies continue to give exclusive contracts, since territorial limits in neighbouring countries enhance the value of an exclusive area in any one country.

Any parallel importer in Korea not receiving the support of the OEM and not moving a meaningful volume of products cannot be guaranteed a steady source of income. The legitimate exclusive distributor still has considerable advantages in Korea.

Market Entry Strategy

Importing Alcohol

By law, only licensed liquor importers are allowed to import alcohol beverages, including beer. There is no ceiling on the number of licenses issued, so any qualified candidate can obtain a liquor import license. Currently there are over 500 licensed liquor importers, but marketers estimate that only about 50 of them maintain an active business. It is reported that a dozen leading importers account for over 70% of total imports (Source: US Department of Agriculture – KS1807 2018).

In general, Korean alcohol beverage importers currently maintain a very conservative stance when it comes to launching new products. The importers may not react to new product offers from foreign suppliers unless the product in question indicates strong market potential particularly in terms of: international acclaims earned by the product (e.g. awards, critics' favourable evaluations); value-quality proposition in comparison to leading

products in the target market and promotional supports offered by the supplier.

Korean traders highly value face-to-face contacts when developing business relationships with new foreign suppliers. Personal visits to Korea allow new suppliers to gain contacts with Korean importers as well as hands-on knowledge about local market trends.

Agents, Distributors and Wholesalers

The South Korea Customs Service is strict and full Customs compliance is essential. Undervalued shipments, vague descriptions (e.g. sample, spare parts) and inaccurate company name or address will be subject to physical inspection and penalties. Therefore, full and accurate information on waybills and invoices is required to ensure smooth clearance. Formal clearance is required for any e-commerce shipments being sent into South Korea, regardless of order value.

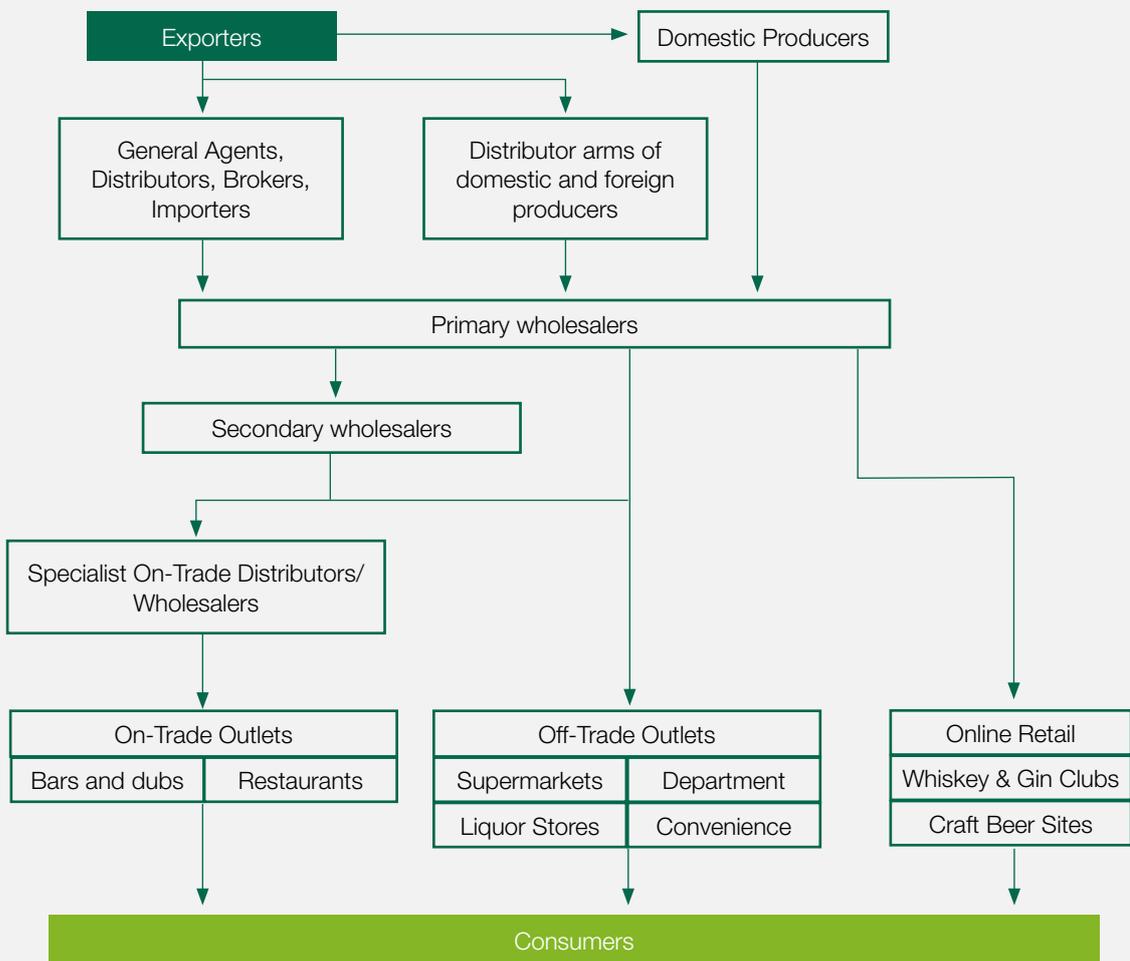
DISTRIBUTION CHANNELS AND BUSINESS CONSIDERATIONS

CONTINUED

Figure 14: Key players

Company	Function	Range	On / Off trade	Focus
Shinsegae L&B +82 222891191 http://www.shinsegae-lnb.com/	Importer, Wholesaler, Retailer	Beers, Whiskey & Spirits	Both	Part of the large Shinsegae family conglomerate (chaebol). Although chaebols in the past have been criticised for monopolistic and aggressive business dealings, this group offers access to its many retail outlets, high end hotels and restaurants.
Kaja & Wine +82 24062220 http://www.kaja.co.kr/	Importer, Wholesaler, Retailer	Whiskey & Spirits	Off	Whilst primarily focussing on wine they also distribute Jura and Dalmore Scotch whiskies (both owned by Whyte & Mackay, itself now owned by Philippines based brandy producer Emperador)
Bex Spirits +82 24659993 http://bexkr.com/en/	Importer, Distributor	Whiskey & Spirits	Both	Aiming to be the leading independent spirits importer. Associated with a wide range of premium spirits brands from around the world, particularly Sazerac brands
Vintage Korea +82 25741999 http://www.vintagekorea.co.kr/	Importer, Distributor	Beers	Both	Claim to be a pioneer of importing and distributing premium wine and craft beer, although beer appears to be the smaller part of their portfolio
Indulge Korea +82 25125270	Brand development & distribution	Spirits	Both	A food and beverage brand management firm, creating new brands as well as localizing global brands for the Korean marketplace
Mortise Asia +82 1066521031	Importer, Distributor	Beers, Whiskey & Spirits	Both	Imports alcohol, food and beverage products from Europe through Boorim Trading (BRT), with the majority coming from Ireland and the UK and selling into the Korean, Chinese and Filipino markets

Figure 15: Channels of Distribution for Alcohol Products in South Korea



DISTRIBUTION CHANNELS AND BUSINESS CONSIDERATIONS

Commercial Factors

On 1 July 2011, the EU-Korea Free Trade Agreement (FTA) entered into force, marking the beginning of a new era in EU-Korea trade relations. This brought to an end a process that began five years previously with the Commission's Communication on 'Global Europe in a Competing World' which called for the EU to renew its engagement in Asia. The EU-Korea FTA is only the first agreement in a series being negotiated with Asian partner countries, but it is an example of how two partners can work together to achieve a deal that brings significant benefits to the economies of both sides.

The EU-Korea FTA is the most ambitious trade agreement ever negotiated by the EU and it is also the EU's first trade deal with an Asian country. The Agreement is expected not only to boost bilateral trade and economic growth in both the EU and Korea, but also to have a wider impact in Asia and elsewhere by signalling the EU's openness to doing business with third countries and its commitment to free trade.

The Agreement is unprecedented both in its scope and in the speed at which trade barriers are to be removed.

By the end of the transitional periods in 2018, virtually all import duties between the two economies will have been removed.

Exporters and importers of all industrial products and almost all agricultural products will be able to trade without having to pay duties. Additionally, the FTA breaks new ground in tackling significant non-tariff barriers to trade, with a specific focus on the automotive, pharmaceuticals, medical devices and electronics sectors. The Agreement will also create new opportunities for market access in services and investments, and lead to major advances in areas such as intellectual property, government procurement and competition policy.

Import Tariffs and Taxes

Korea previously applied a complicated tariff and tax system to imported alcohol beverages. Since July 2018 the import tariff (previously 3.7%) has been reduced to zero. The table below summarizes the tariff and local taxes applied to imported beer from the EU as of September 2018.

Korean Import Tariff and Taxes on EU Imported Beer

Product	Import Tariff	Liquor Tax	Education Tax	Value Added Tax
Beer	0.00%	72.00%	30%	10.00%

Effects of Import Tariff and Taxes

Beer		4% ABV	8% ABV
A	CIF* Invoice Value per litre (examples)	EUR 2.00	EUR 3.00
B	Import Tariff: A x 3.7%	EUR 0.00	EUR 0.00
C	Liquor Tax: (A+B) x 72%	EUR 1.44	EUR 2.16
D	Education Tax: C x 30%	EUR 0.43	EUR 0.65
E	Subtotal: (A+B+C+D)	EUR 3.87	EUR 5.81
F	Value Added Tax **: E x 10%	EUR 0.39	EUR 0.58
G	Handling fees for Customs clearance ***: A x 8%	EUR 0.16	EUR 0.24
H	Total cost of beer upon Customs clearance: (E+F+G)	EUR 4.42	EUR 6.63

The following table illustrates the effects of import tariffs and local taxes on a 1 Litre bottle of whiskey imported into Korea, at 37% and 57% ABV:

Korean Import Tariff & Taxes on EU Imported Whiskey

Product	Import Tariff	Liquor Tax	Education Tax	Value Added Tax
Irish Whiskey	0.00%	72.00%	30%	10.00%

Spirits		37% ABV	57% ABV
A	CIF* Invoice Value per Litre (example)	EUR 20.00	EUR 30.00
B	Import Tariff: A x 0%	EUR 0.00	EUR 0.00
C	Liquor Tax:(A+B) x 72%	EUR 14.40	EUR 21.60
D	Education Tax: C x 30%	EUR 4.32	EUR 6.48
E	Subtotal: (A+B+C+D)	EUR 38.72	EUR 58.08
F	Value Added Tax **: E x 10%	EUR 3.87	EUR 5.81
G	Handling fees for Customs clearance ***: A x 8%	EUR 1.60	EUR 2.40
H	Total cost of whiskey upon Customs clearance: (E+F+G)	EUR 44.19	EUR 66.29

Note*: CIF is an export price upon arrival in a port in Korea inclusive of insurance and freight cost. The CIF values used are for demonstration only and are not intended to be accurate.

Note**: The paid Value Added Tax (VAT) is eventually refunded to the importer as the tax is carried over to the consumer.

Note***: In addition to import tariff and taxes, additional cost of about 8% of CIF value will occur for miscellaneous expenses during the Customs clearance process, including paperwork, inspection, warehousing, and transportation. The amount of this additional cost depends mainly on the kind of inspection to which the shipment is subject. For example, warehousing fee and inspection fee will increase significantly if a detailed chemical inspection is required instead of documentary inspection.

DISTRIBUTION CHANNELS AND BUSINESS CONSIDERATIONS

CONTINUED

Mark-ups

After Customs clearance, typical mark-ups in distribution and retail are as follows:

a: Importer mark-up:

Importer selling to large scale retail store: mark-up 15-40%

Importer selling to wholesaler: mark-up 15-20%

Importer selling to luxury hotel: mark-up 40-50%

b: Wholesaler selling price to liquor store:

mark up 15-30%

c: Retailer mark-ups:

Hypermarket stores: mark-up 20-30%

Liquor stores: mark-up 30-40%

Luxury hotels: mark-up 50-200%

The retail price for a EUR10 CIF bottle can therefore vary from between EUR30 and EUR70.

Euromonitor quote slightly lower rates of mark-up for Wholesalers and Retailers:

Figure 16: South Korea – Typical Wholesaler and Retailer (Off-Trade) Markups (%) by Selected Categories

	Beer	Whiskey	Brandy/ Cognac	White Spirits	Rum	Tequila	Liqueurs	Other Spirits	Wine
Wholesaler	10	15	19	20	18	15	17	18	8
Retailer	24	23	17	23	20	16	19	20	17

Source: Euromonitor International, 2012

Import Registration and Customs Procedures

The procedures and required documentation for registering products for import and customs processing are contained in Bord Bia's report Exporting Beverages to Asia: Regulatory Guide.

Sending limited volumes of samples/not-for-resale product for use in trade fairs, exhibitions and other trade facing exercises must follow the same procedures as for commercial sales. In addition:

- The consignee should be listed as “the exhibition name” on the Airway Bill
- The following should also be indicated on all documentation:
 - Exhibitors name
 - Address of exhibition
 - Event name
 - Hall
 - Booth Number

Local Business Customs and Practices

- Korea is a country of long tradition. While Korean importers understand international business customs and practices, paying attention to cultural differences and localities will facilitate building a trusted business relationship. The following are some business tips that suppliers should keep in mind when associating with Korean businessmen.
- **Initial Communication**
 - Koreans tend to be formal when they develop contacts with new people. As such, cold calling (or cold e-mailing) could be problematic in Korea. Koreans

would take extra steps or efforts to make the initial communication as formal as possible.

- Initial communication may not be considered official or meaningful unless done in a formal way (e.g. use of official letterheads or seals) or by a proper level person in the organization. Communication exchanged between the working level staffs may not take effect until the senior level staffs are introduced to the discussion later for final confirmation on the preliminary agreement already made. Therefore, Irish exporters should try to match the formality of the Korean counterpart particularly during the initial stage of contact. As a result, progress of the initial communication could be slow.

— Relationship Building & Social Networking

- Koreans put high value on personal interaction when developing a new relationship and prefer to deal face-to-face. The foreign supplier may see little progress in negotiation until there is a face-to-face encounter made with the Korean counterpart. To supplement the personal interaction, Koreans seek introductions or comments by mutually connected third parties.

— Language

- Although English is the most common foreign language used in Korea and is officially taught in public schools, many Koreans find it difficult to communicate in English. For every communication, the exporter should try to avoid using slang and ask for confirmation that the Korean counterpart has fully understood the idea. By cultural nature, Koreans rarely say, “no” directly. Instead they often say the issue is “difficult”. If there is anything unclear or confusing, it is best to ask directly and clearly what additional information or explanation is needed. When there is no satisfying reply, there is nothing wrong with politely asking again.

— Name Cards

- Exchange of name cards is usually the first item of business expected at the very beginning of a face-to-

DISTRIBUTION CHANNELS AND BUSINESS CONSIDERATIONS

CONTINUED

face encounter. In Korea, people seldom call others by their first names. Instead, they use surnames (e.g. Mr. Lee) or title and surname together (e.g. President Lee). Never use the first name unless the person specifically asks to be called by his or her first name. Having the back side of business card translated and printed in Korean should help the Korean recipient better understand and remember you.

— Dress Code

- It is recommended to wear a business suit and tie when meeting or visiting Korean importers for the first time, regardless of the weather.

— Resolving Conflicts

- Koreans do not like to appear to have “lost face” when dealing with conflicts. Therefore, even a small concession offered by the foreign supplier can help resolve the conflict more quickly. Visible anger is not useful in a confrontation. Instead, silence could be a more effective method of conveying displeasure.
- Law suits are a very expensive and time consuming way to resolve conflicts. Therefore, it is always recommended to include an alternative measure in the contract describing how potential business disputes would be resolved. The following is a clause often used by the Korean traders: “All disputes related to this contract shall be finally settled by arbitration in the country of the respondent. In case the respondent is the Korean importer, the arbitration shall be held at the Korean Commercial Arbitration Board. In case the respondent is the (country) supplier, the arbitration shall be held at a (country) commercial arbitration association.” The Korean Commercial Arbitration Board offers some useful information related to this issue (http://www.kcab.or.kr/servlet/kcab_adm/memberauth/5000).

USEFUL INFORMATION FOR SOUTH KOREA

Exhibitions and Festivals

- **JCBS Award:** Japan Craft Beer Selection Award (since 2009): It is held as part of Japan Beer Grand Prix and Nippon Craft Beer Festival organised by Japan Craft Beer Support (NPO) for Japanese craft beers only. This is more of a promotional event of Japanese craft beer.

Trade shows are an efficient venue for new-to-market suppliers to develop contacts with a large number of Korean buyers. Spirits and beer suppliers are encouraged to consider the following food and beverage trade shows in Korea:

- **Seoul Food & Hotel** is the most important food trade show held annually in Korea and is attended by a large number of international suppliers and local distributors. <http://www.seoulfoodnhotel.co.kr/>
- **The Seoul International Wines & Spirits Expo** is a key trade show in South Korea dedicated to wine and spirits market. Organized by the Korea Wines & Spirits Importers Association, this show has brought together many foreign suppliers and local traders over the years. <http://www.swsexpo.com/>
- **The Great Korean Beer Festival** was last held at COEX in Samseong-dong in October 2017. Launched in 2013, the event claims to be the first and the largest craft beer festival in Korea with over 200,000 visitors (this may include the other event(s) running in parallel). Media Paran have organised in the past.

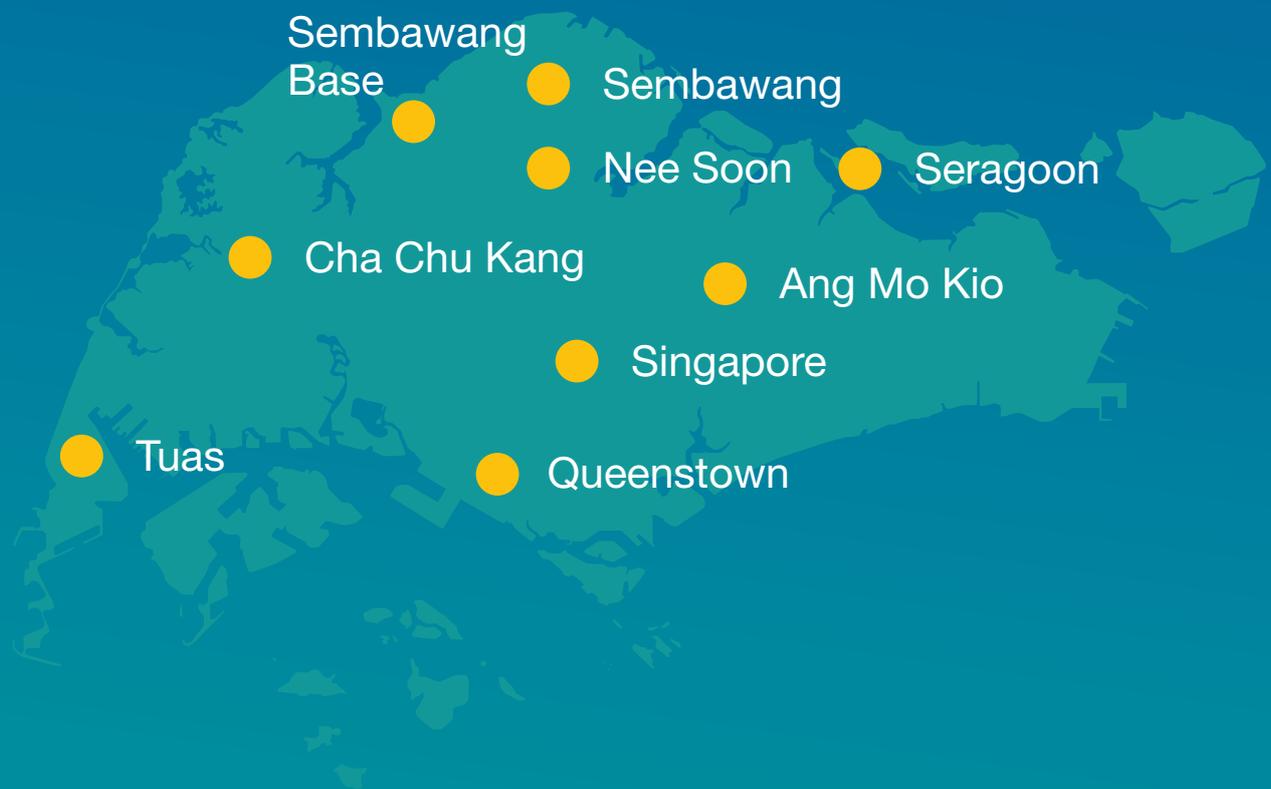
Trade Associations and Government Agencies

- **Korea Wine & Spirits Importers Association (KWSIA)** <http://www.kwsia.or.kr/>
- **Korea Alcohol & Liquor Industry Association (KALIA)** <http://www.kalia.or.kr/>
- **The Whisky Society of Korea** <http://www.whiskysociety.or.kr/>



SINGAPORE MARKET





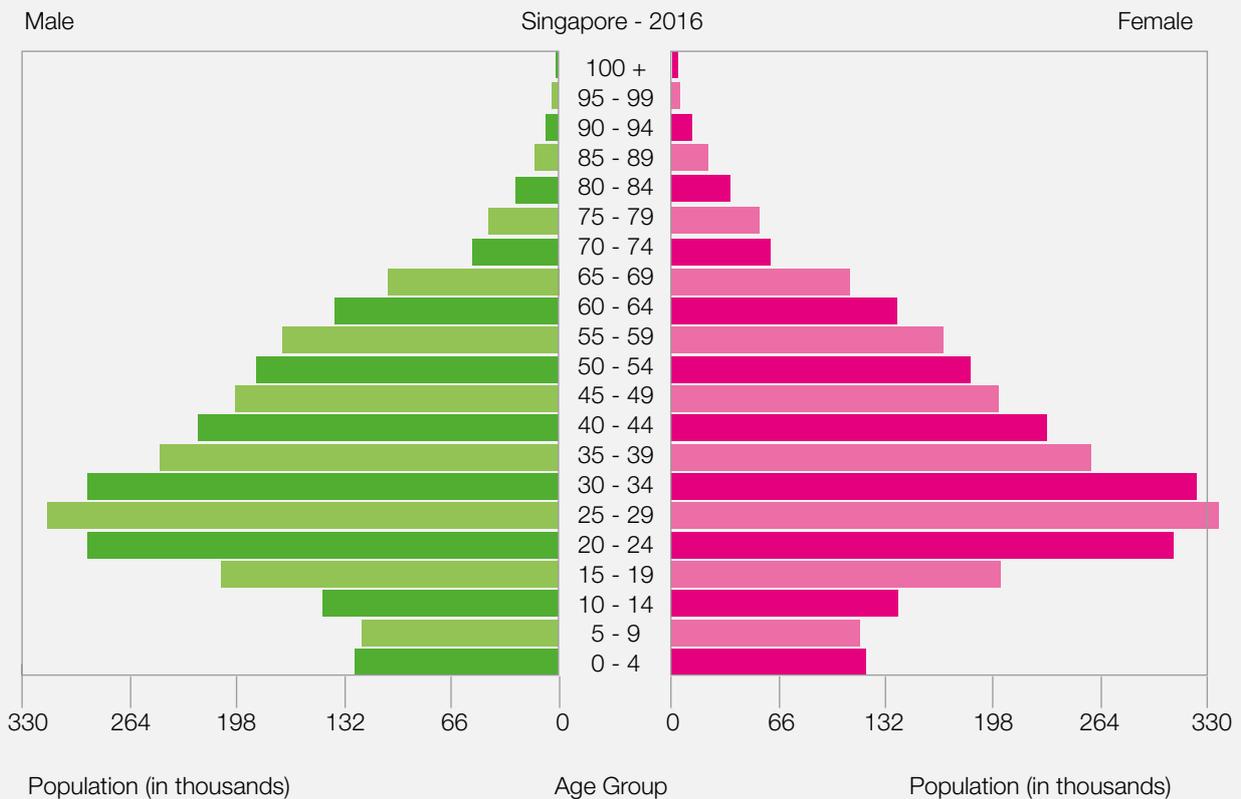
MARKET STRUCTURE

Economic Dimensions

Singapore is the world's 13th largest economy and the 9th largest in Asia Pacific. Key economic dimensions of Singapore are:

- In 2016 the country's population was 5.6 million with GDP at approximately EUR243bn giving GDP per capita of EUR43,500.
- The population is made up of 3.9m residents and 1.6m non-residents. Tourism is important, with 17.4 million arrivals in 2017.
- The resident population is 74.3% ethnic Chinese, 13.4% Malay, 9.1% Indian and 3.2% other ethnic groups.
- There are four official languages in Singapore: English, Tamil, Malay and Mandarin.

Figure 17: Singapore population age profile



Source: CIA World Factbook 2016

- Singapore boasts a highly educated population, with 56% of the resident population aged 25 years and over having at least post-secondary qualifications in 2016. University graduates constituted 29.1% of the resident population in 2016 compared to 17% a decade ago. Residents with diploma and professional qualifications also accounted for a larger share at 14.7% in 2016.
- 1 SGD (Singapore Dollar) = 0.75 USD; 0.61 EUR (February 2018)

Current Government strategy is aimed at meeting the three major challenges of the rise of Asia, emerging technologies and an ageing population by encouraging businesses to move increasingly from price competition towards differentiation through innovation. Singapore is by far the EU's largest commercial partner in the Association of Southeast Asian Nations (ASEAN), accounting for slightly under one-third of EU-ASEAN trade in goods and services, and roughly two thirds of investments between the two regions. Over 10,000 EU companies are established in Singapore. This represents Singapore's importance as a hub to serve the whole Pacific Rim.

Singapore boasts excellent transportation infrastructure. Businesses can tap into Singapore's excellent shipping and air links, as well as its first-class telecommunications and banking facilities to manage their global operations. Singapore is considered a top global transportation hub, with connections to over 600 ports in 120 countries. It boasts the world's second busiest container port and is the gateway to the ASEAN region.

Singapore is a multicultural city with a strong presence of a large expatriate community in addition to the local population. Singaporeans are open to products from developed countries that are of a high quality and are value-for-money. There are a large number of single adults (Source: Singapore Dept of Statistics – Population Trends 2017), particularly under the age of 30 (84% single) who are indulgent in their spending patterns. This benefits premium imported meats, some dairy products, exotic fruits, confectionery, wines and spirits, gift items and pet foods.

Importantly, Singapore only produces approx. 10% of its

own food and imports over 90% from other countries. Major consumer oriented food imports in Singapore include fish and seafood, dairy products, alcohol and non-alcohol beverages, meat, fresh fruit and vegetables, snack foods and processed fruit and vegetables.

Market Characteristics

Spending on alcohol drinks continues to increase due to the rising disposable incomes of Singaporean consumers. The spending patterns of the large number of single adults benefit premium products.

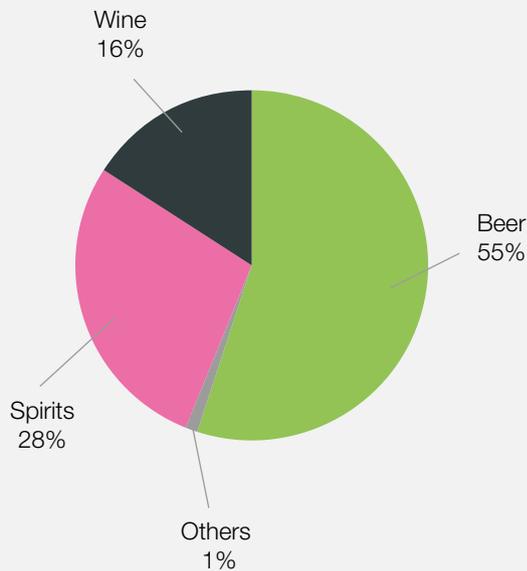
In recent years, a more vibrant social scene with the opening of more restaurants and pubs has also boosted sales. Several off-trade and on-trade retailers capitalized on the consumers' willingness to spend, especially young and affluent Singaporeans who continued to embrace the drinking culture and social scene. The rise of tourist arrivals has shifted companies' efforts on meeting foreign consumer need with the introduction of more premium quality products. Different products were imported from a variety of countries as companies sought to diversify their product portfolios.

Over the last five years, Singaporeans have increased their spirits consumption by almost 83%. Consumption has risen from around 1 litre pure alcohol (LPA) per head in 2005 to 2 LPA in 2010 and the latest figures show 2.9 LPA in 2015. The World Health Organization in their Global Alcohol Report (2014) revealed that during 2010 the consumption of spirits in Singapore accounted for 15% of the total alcohol consumed in litres of pure alcohol. This is in contrast to beer, which accounted for 70% of total alcohol consumed, and wine, which accounted for 13%. Additionally, it has been reported that sales of spirits rose from EUR380 million in 2007 to EUR850 million in 2016 (Euromonitor/DBS Bank report 2016). Most of the increase in Singapore's alcohol market continues to be delivered by beer, which is forecast to grow at 3.4% CAGR until 2019. Growth for other alcohol drinks including Cider, Perry, RTDs and high strength premixes are expected to grow at 11%, albeit from a lower base. Spirits and wine are projected to grow at 3.5% and 6.8% CAGR respectively.

MARKET STRUCTURE

CONTINUED

Figure 18: Singapore alcohol beverage product categories 2014, % share by value sales



Source: Euromonitor, DBS Bank

In 2015, the Liquor Control Act passed a new regulation that disallows consumption of liquor in all public places from 22.30hrs to 07.00hrs every day.

The latest Singapore National Health Survey report (2010) shows the following patterns of alcohol consumption:

- 2.6% of Singaporeans drink alcohol regularly (>4 times per week)
- Amongst drinkers, the most preferred drink was beer (49%) followed by wine (28%) and spirits (15%)
- Binge drinking (5 or more units of alcohol for males, 4 or more for females, in any one drinking session) was reported by 8.7% of the population (males 13.3%; females 4.3%) and is more common amongst Indians (9.6%) and Chinese (9.2%) compared to 4.9% of Malays
- Young adults in the 18 – 29 age group were most likely to binge drink (18.7% of males, 12.7% of females, 15.5% of this age group). In groups 30+ years of age, the prevalence of binge drinking was lower overall and much more heavily skewed to males

Figure 19: Alcohol consumption of Singapore residents aged 18 -69 years, by gender, 2010

Alcohol Consumption		Males	Females	Total
Non-drinker		42.3%	65.5%	54.0%
Occasional	≤ 3 days / month	42.2%	29.7%	35.9%
Frequent	1 -4 days / week	11.8%	3.4%	7.6%
Regular	>4 days / week	3.8%	1.5%	2.6%

Source: Singapore National Health Survey report (2010)

Figure 20: Age specific prevalence of regular alcohol consumption by gender, 2010

Age (years)	Males	Females	Total
18 - 29	1.8%	0.6%	1.2%
30 - 39	3.7%	2.4%	3.0%
40 - 49	4.2%	1.5%	2.8%
50 - 59	4.9%	1.0%	2.9%
60 - 69	5.2%	2.1%	3.6%
18 - 69	3.8%	1.5%	2.6%

Source: Epidemiology & Disease Control Division, Ministry of Health, Singapore

MARKET STRUCTURE

CONTINUED

Market Trends

General

Approximately 60% of Singapore's alcohol drinks are sold on-trade at modern channels such as pubs, bars and hotels (Source: EU Commission – The Food and Beverage Market Entry Handbook: Singapore (2016)), followed by supermarkets and hypermarkets at approximately 17%. The rest of the market share is formed by specialist retailers and other channels such as department stores and duty-free stores. Examples of specialist retailers include The Straits Wine Co, which also carries a range of artisanal gins and whiskies, and Thirsty Craft Beer Shop, which carries a range of craft beers from around the world. In common with many other similar businesses these retailers offer retail shops (some with attached bars) and online with delivery service, including supply arrangements to other bars. In recent times, sales of alcohol drinks have increased at foodservice outlets, where food is as important as the alcohol drink. Cafés, for example, increasingly offer more alcohol drinks products. As such, alcohol drinks manufacturers are seeking to establish collaborations with consumer foodservice players to open up a new segment.

Despite hefty excise taxes on alcohol, Singapore still enjoys a vibrant nightlife. This is especially true in the more well-to-do areas of the city, with areas like Clarke Quay and Marina Bay full of bars catering to diverse tastes. Hawker centres rule the roost among those wanting a quick bite to eat at a reasonable price. Global observers might make comparisons between these centres and the food courts found in Western malls, but in reality they're a Singapore tradition all of their own, and places where beer lovers indulge much like those in the West enjoy pubs, bars and cafes.

Overall alcohol drinks recorded a slowdown in growth in total volume terms in 2016. This is attributed to the poor economic outlook, with consumers showing more discretion in their spending. Nevertheless, some categories recorded dynamic growth such as cider or perry and spirits, due to strong marketing efforts as well as the new openings of bars. At the same time, craft beer and artisanal craft spirits are expected to continue

growing, as consumers become more knowledgeable and willing to experiment with new flavours.

It is predicted that there may be some trading down from spirits to beer in the coming years, though it is expected to be a short soft phase as demand for spirits will remain due to the rising sophistication of drinkers in Singapore (The Food and Beverage Market Entry Handbook: Singapore 2016 EU Commission). Spirits will still have their place in the Singaporean market, particularly due to growing interest in categories like cocktails and premium whiskies.

The craft beer revolution is now well established in Singapore with a rapidly expanding craft beer and microbrewery scene, although this still only represents 2% of the beer market. As in other markets, the big brewers are entering the craft beer arena and APB has already done this through its ownership of Archipelago Brewery, a craft brewer that uses Asian flavourings such as lemongrass, tamarind and coriander.

In addition, the following trends are being seen in the Singapore market:

Use of cultural icons in innovative marketing campaigns

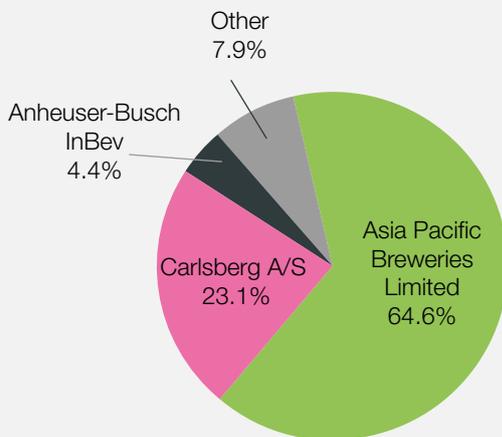
In 2016, leading players such as APB launched innovative marketing campaigns to create excitement amongst consumers, tapping into the use of culture and food pairing. For instance, Tiger beer conducted a marketing campaign entitled "uncagestreetfood" to celebrate the local street food culture. Through a series of hawker dining events, consumers were able to pair their local food with the brand. It also released limited edition packaging for its multipacks during the Chinese New Year festive season. Similarly, Chang beer utilised Thai culture and food in its marketing campaign Chang Sensory Trails. Through these campaigns, the players are strengthening their brand awareness and maintaining their competitiveness.

Asia Pacific Breweries remains industry leader

APB Ltd remained the leader in alcohol drinks in 2016, with its key portfolio being in beer. In addition to marketing campaigns, new product innovation was also observed with the launch of the Singapore Blonde Ale in 2016 which comes in Calamansi and Pandan Leaf flavours.

Tiger remains the leading brand in beer. Although it saw a drop in its total volume share in 2016 (Euromonitor report Beer in Singapore), Tiger retains its strong positioning, being the most famous brand amongst local consumers and foreign tourists.

Figure 21: Market share of Major Brewers, % share by value sales



Source: Marketline Report (2013)

Increased availability of alcohol in new distribution channels

With an increasing presence of alcohol drinks in new distribution channels these products are becoming

more readily accessible to consumers. For instance, the number of internet wine retailers such as Vinomofu is increasing due to the lower set-up and operating costs. Moreover, online retailers are importing a wider range of wine brands positioned at a lower price point, which is attracting more consumers who are seeking value for money.

Apart from wine, craft beer is becoming more readily available in convenience stores such as 7-Eleven. By expanding into retail channels, this is strengthening consumer awareness for craft beer amid its growing popularity.

Emerging categories set to continue growing

While the alcohol drinks category is set to show moderate volume growth due to its maturity and weak consumer sentiment (Euromonitor report Alcoholic Drinks in Singapore June 2017), emerging categories of spirits such as Japanese whiskey, soju and gin are all set to experience faster growth. This is due to the growing sophistication and more affluent lifestyles of consumers, who are becoming more willing to try out new product variants. At the same time, more bars are set to open amid the growing cocktail culture, bringing in an increase in artisanal alcohol drinks ranging from bourbon, which is an inexpensive spirit to use in cocktails, to increasingly popular white rum, tequila and artisanal gin.

The cocktail culture is also supported by the trend of food pairing, which is now no longer about pairing food with just wine. Customized cocktail bars are also booming, with innovative mixes from bartenders. Consumers are willing to offer feedback and choices to bartenders when visiting these new concept bars. In the past, there was a chauvinistic attitude and men would not be seen holding a cocktail glass but this is no longer the case.

Female consumers will continue to be a key target consumer segment for alcohol drinks in Singapore, with

MARKET STRUCTURE

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Market Trends

more flavoured and lighter drinks focused at them. At the moment, males still consume around twice as much alcohol per capita as females.

The older generation is the main audience segment that tends to stick with beer and drink it at most social occasions.

Whiskey

Single malt whiskies have seen strong growth, with two styles in particular: the peated single malts and the sweet-sherried style malts. It is no surprise that the names synonymous with this growth are giants Diageo with Lagavulin and Morrison-Bowmore's Bowmore. Malts and Japanese whiskies continue to grow. The larger blended Scotch segment declined in recent years (particularly driven by volume losses from Chivas Regal 12yo), driving the overall category down. Jack Daniel's is also losing ground. Craft is beginning to have an impact, but is quite segmented in this small market. (IWSR Country report 2017). Shortage of supply and big price rises for some of the premium Japanese whiskies may be related to seeing more non-age statement whiskies, but this is seen as a short to medium term response while new investment and aging releases more to market

Craft Gin

For the place that invented the Singapore Sling way back in 1915, gin seems to have taken a long time to raise its profile, but things have started to change in recent years. The artisanal gin market has finally take off (<http://www.todayonline.com/lifestyle/gin>), although bars dedicated solely to gin are still rare as the revival in gin consumption has been primarily through the burgeoning cocktail scene.

Various factors have been cited as the reason behind the increasing popularity of gin and gin-based cocktails, including

- Gin and tonic has always been a popular drink in former British colonies such as Singapore
- A blossoming cocktail scene has fostered a greater

appreciation of and therefore heightened curiosity about the spirit

- A growing number of craft gin aficionados who actively seek out new and emerging gin brands, developing an affiliation to cult gins
- Customers becoming more discerning and knowledgeable when it comes to the spirits they enjoy e.g. instead of a regular gin and tonic, they might now request a Sipsmith & Tonic. This 'brand-calling' is happening across all spirit types, resulting in the opening of spirit focused bars
- The introduction of craft tonics such as East Imperial, allowing the gins to express themselves in a much wider variety of flavours and botanicals
- Promotional events such as Gin Jubilee and dedicated gin workshops

Bars which are now focussing on gin and gin based cocktails include:

- The Rabbit Hole (serving a selection of craft gins, garnished with herbs from its garden and mixed with its house-made tonic)
- The Spiffy Dapper, a cocktail bar which has been in operation since 2013, serves a wide selection of gins
- Cin Cin, a speciality gin bar that serves almost 100 different gins and offers customers over 500 ways to make their drink (the whole concept of 'curation' – tailoring the ingredients according to individual customer tastes – is very on-trend in Singapore)
- Conrad Centennial Singapore's Lobby Lounge runs an ongoing gin promotion, the Gin Experience. Guests are taken on a journey to create their own customised gin and tonic, choosing from 12 premium gins, seven varieties of craft tonics, eight unique bitters and more than 30 garnishes
- Oxwell & Co serves a selection of British pub grub, craft beers and innovative on tap cocktails including a special Gin and Tonic menu

- The Art Deco themed Atlas bar claims to house one of the world's most diverse and thoughtfully selected physical gin collections - more than 1,000 gins in all. It also runs the Juniper Society, a social, membership-based community that provides exclusive access to the Atlas gin collections and all things gin. It engages both gin aficionados, and those who are simply gin curious, to explore and learn about the history, provenance, ingredients, flavours, and uses in the world of the juniper spirit. The society hosts events such as visits by renowned gin distillers, master classes, new gin launches, workshops, exhibitions and special gin dinners

At the time of writing, there is only one Singapore based distillery (Tanglin), although the Paper Lantern Distillery Co is currently making its Kokoro "peppery citrus" gin in a Thai distillery and states that it is only a matter of time before they start producing locally. A raft of Japanese gins are appearing on the market from both craft (e.g. Kokoro, Kyoto, Ki No Bi) and mainstream (e.g. Beam Suntory's Roku) distillers. There is a discernible trend towards Asian flavours using botanicals as diverse as Sichuan peppercorns, green tea, cherry blossom, yuzu and bamboo leaf.

The sheer diversity of the cocktail scene means that bartenders are actively working with gins from around the world. For example, the Scottish Arbiekie distillery are already bringing in three very different spirits to Singapore - Arbiekie Chilli Vodka (using chipotle chillis from Scotland's first chilli farm), Kirsty's Gin (which uses local botanicals chosen by master distiller Kirsty Black such as sea kelp for an added savory element) and AK's Gin (made using fresh honey and wheat from the estate itself and combined with black pepper, mace and cardamom). This shows that there is real opportunity in the Singaporean market for European craft distillers playing to their distinctive characteristics.

Since 2014, gin volumes in Singapore have risen more than 36 per cent, whereas overall liquor volumes grew just 4 per cent in the same period. (Whisky volumes, in comparison, grew 4.3 per cent in line with the overall trend - though they are five times that of gin). The rapid

rise in demand for craft gin is put down to a proliferation of serious cocktail bars, but their original focus on perfecting classic cocktails is already morphing into concept bars, whether centred on certain spirits - such as gin at Atlas or more esoteric themes such as foraged ingredients at Native. These routes to the consumer have a major impact on demand as it is a feature of the Singapore liquor trade that it is heavily skewed towards sales in establishments such as bars, clubs and restaurants. According to European Chamber of Commerce in Singapore (EuroCham), 90 per cent of sales are on-premise rather than off-premise retail. This holds true in the craft market as well - in Europe, perhaps 90 per cent of craft brand stocks make their way to consumers through shops and only 10% through on-trade, whereas in Singapore it is almost the exact opposite.

In terms of future sales growth, Singapore is seen as a regional "lighthouse market", where the rest of the region looks for what's good, and coupled with Singapore's position as a major re-exporting hub this could form part of a wider regional sales development strategy.

Beer

The beer market in Singapore is considered highly saturated with a wide variety of brands from around the world. Standard lager is the largest segment of the beer market in Singapore, accounting for 73% of total value, with speciality beers accounting for a further 12%. Promotional and marketing activities of mass consumer brands are typically focused during festive seasons such as Oktoberfest, Christmas and Lunar New Year in Singapore.

As seen elsewhere, young and affluent drinkers are becoming more brand conscious when it comes to beer drinking. The national beer, Tiger, is losing popularity among young drinkers who are increasingly choosing not only imported beers but are also being drawn to local microbreweries featuring beer with Asian flavoured spices. Evidence from events such as BeerFest Asia and the arrival of bars adding flavours at the point of

MARKET STRUCTURE

CONTINUED

Market Trends

sale indicates that flavoured beers are likely to grow in prominence in the near future.

Importantly, consumer prices for beer in Singapore are the highest in Asia. A typical brew at a bar in Singapore costs EUR8 per 35cl bottle which is 45% more than a beer in Beijing, itself the world's 15th most expensive city, and 39% higher than one in Tokyo, the 10th most expensive place. Even Hong Kong, with its similar overall cost of living, is a comparatively low cost environment for beer, which is priced at around EUR6.25 per 35cl bottle.

Tiger continues to be the most popular beer in Singapore with more than 20% market share, followed by Carlsberg and Heineken. The company Heineken owns the Tiger brand through its acquisition of Asia Pacific Breweries (APB) in 2012.

Craft Beer

Since the appearance of craft beers in Singapore nearly 10 years ago, it has moved on from its niche status. Despite experiencing high growth rates in recent years, it is not yet regarded as mainstream. It is mainly served in restaurants, bars and clubs supplied through beer importers. Due to the small market size and high import duties, specialty and craft beers are relatively expensive, particularly those with a high alcohol content.

These types of beer are considered as premium products similar to wine and liquor, especially for on-premise consumption. Whilst craft beer is still an acquired taste in a market so used to mass produced lagers, real opportunities exist as consumers are more willing to try out different types of beer than just commercial beer and a new generation of drinkers are looking for artisanal products and a more flavourful beer experience.

This is helped by the fact that Singaporeans are well-travelled and willing to spend and try new products. It is anticipated that there will be a continual growth of specialty beers and microbreweries in Singapore as this fits well with the typical pattern of on-premise consumption amongst both locals and the large and

rising numbers of expatriates and tourists. Wheat beer was new to the market in 2015 and is expected to continue to grow as millennials continue to want to try new things.

The widest range of specialty or craft beer available in Singapore is imported from Belgium, but other varieties of specialty beers come from Australia, Denmark, Germany, Japan, Netherlands, Taiwan and the US.

Singapore imported approximately 6.96 million litres of beer including ale from Belgium in 2016, including abbey beer, craft ales, lager/pilsner, trappist ales, wheat beer and lambic beer. However, due to the small market share, many of the big bars and clubs still don't currently stock them, and many younger drinkers remain unaware of craft beers.

Singapore's small market size remains a limiting factor to how much more the scene can continue at this pace. Local operators believe that there is a chance of over saturation in terms of the number of outlets and brands available, and advise new entrants into the market to be careful to identify a specific market opportunity and bring in products that fit that gap.

In 2016, it was estimated by Charles Guerrier, organiser of Craft Singapore that the craft beer market still has plenty of room for growth, perhaps to double or triple its current size.

DISTRIBUTION CHANNELS AND BUSINESS CONSIDERATIONS

Distribution

Singapore is regarded as the busiest port in the world, even if it is now second in tonnage terms to Shanghai.

Figures indicate that despite competition from Malaysia and China, Singapore's box volumes have risen to more than 33 million units (twenty foot equivalent) in 2017 (although 85% of these are trans-shipments, making Singapore the world's largest container trans-shipment port).

The Port of Singapore handled 145,000 ship arrivals in 2017, including 17,700 container ships.

Major investment is underway to meet anticipated medium and long term growth prospects, and to address the challenge of huge investments in shipping and logistics facilities elsewhere in Asia.

Once imported, island wide road distribution is the norm, as would be expected on such a small land mass.

Market Entry Strategy

As the market for consumer oriented products is open and easily accessible, Singapore offers a quick entry for newcomers. Competition in certain consumer product categories is sometimes very intense. Singapore levies no import tariffs or excise taxes for all food and beverages, except for alcohol beverages and tobacco products.

Off-trade

Singapore is an extremely competitive market. The major supermarket and hypermarket operators control the whole retail market by actively segmenting it around different store concepts, store brands and banners.

Merchandising strategies are targeted at the low income group through to the high income groups and expatriates.

As a result, retailers control access to shoppers and have very strong bargaining power over suppliers of all forms of food and drinks.

Marketing and distribution costs are extremely high for

new product launches and also high for the ongoing maintenance of market shares and positions, as retailers expect brand support and promotion to justify initial and ongoing listing.

There are three major companies that dominate the Singapore food retail market:

NTUC Fairprice Co-operative Ltd was founded by the labour movement in 1973, with a social mission to moderate the cost of living in Singapore. From one supermarket, it has grown to become Singapore's largest retailer serving over 600,000 shoppers daily, with a network of over 200 outlets, comprising FairPrice supermarkets, FairPrice Shop, FairPrice Finest, FairPrice Xtra, Cheers convenience stores and Unity Pharmacies. Larger stores will stock Western items depending on location

FairPrice supermarkets have more than 100 stores located island-wide. From fresh products to household products, they aim to be easily accessible and to meet every daily essential needs.

FairPrice Xtra hypermarkets provide an extensive range of products and services, including a wide selection of electronic products and casual / basic clothing choices. Many products are available in family-size packages offering better value.

FairPrice Finest is aimed at bringing the fine life closer to shoppers, offering a wider product assortment, value-added services and a more relaxed shopping environment.

FairPrice Shop was launched in 2016 with stores situated in the heartlands and serve as a quick stop for basic needs.

FairPrice Xpress was an industry-first initiative made possible when retail limits in petrol stations were relaxed in November 2006. This paved the way for an alliance between NTUC FairPrice and ExxonMobil to redesign conventional petrol marts by a doubling in size.

Cheers, a home grown 24-hour convenience store, caters to a diverse group of customers including

DISTRIBUTION CHANNELS AND BUSINESS CONSIDERATIONS

CONTINUED

Distribution

the young and trendy, students and working professionals who lead active and busy lifestyles and value convenience. Launched in 1998, Cheers has since expanded to over 120 outlets situated across Singapore.

Taken together (FairPrice Xpress and Cheers) FairPrice's convenience arm now comprises a network of over 200 locations, serving over 100,000 customers daily.

Dairy Farm Group Part of the Dairy Farm Group, the leading pan-Asian food and drugstore retailer with over 6,100 outlets in the region. Dairy Farm is owned by the Jardine Matheson Group, a diversified business group focused principally on Asia .

It operates as three main brands – Cold Storage, Market Place / Jasons and Giant.

Cold Storage operates 48 stores in Singapore, located across the country in city centres, affluent suburbs and public housing estates. A firm favorite among expats and higher earning locals, Cold Storage stocks produce from the USA, Europe and Australia as well as Asia.

Market Place is a supermarket brand and full-service retailer. Formerly known as Jasons Market Place it started business in 1975 and now operates five stores in Singapore. It describes itself as “a premium supermarket filled with exquisite ingredients for the adventurous connoisseur”. They stock a large selection of imported items from meats, cheeses, wines, and delicatessen items, including many organic, gluten free, and specialist products from around the world.

Jasons has now concentrated on a single store in Singapore although the name is more widely used in other Asian countries. They describe themselves as a gourmet supermarket selling all things trendy, exotic and exquisite, with a range of exclusive niche brands and gourmet delicatessen products.

Giant now operates a total of 62 outlets in Singapore comprising hypermarkets (8), supermarkets (27) and convenience stores (27). These figures include the former Shop N Save discount chain acquisition with all stores being rebranded to Giant in 2013. Known as the

discount retailer over Singapore for its hypermarket style of selling - stock it high and keep it cheap.

Since 1989, Dairy Farm have also been sole franchisees for the 7/11 group in Singapore, operating the largest chain of convenience stores island-wide (393). The 2006 agreement to rebrand all 68 Shell Select convenience stores into 7/11 format was terminated in 2017 and those stores are being gradually rebranded back to Shell Select.

Sheng Siong Supermarket, “born and bred” in Singapore, was founded in 1985 by the three Lim brothers. There were 17 stores by the end of 2005, rising to 46 today, with group revenue now in excess of 0.5bn Euros making it the 3rd largest supermarket chain in Singapore. Predominantly local stores found in retail locations in the heartland of Singapore, and designed to provide customers with both wet and dry shopping options, including a wide assortment of live, fresh, and chilled produce (seafood, meat, vegetables), together with the typical supermarket staples.

The strategies of the retailers in segmenting the market means that it is possible for a shopper to buy a huge range of different products from across the world.

Selling techniques vary according to the industry or product involved but they are comparable to the techniques used in any other sophisticated market. Price, quality and service are the main selling factors in Singapore.

On-trade

It is recognised that many players in the craft or artisanal area will not be expecting to use supermarkets as their primary sales route. In this respect, selection of the right agents or distributors and possibly some of the ‘advocacy’ contacts in the database will be a better way to get to the on-trade market.

Singaporeans are tech savvy and the use of social media to introduce and promote venues, brands and news is commonplace (but companies should ensure that they comply with the advice and guidance for

use of social media in advertising published by the Advertising Standards Authority of Singapore (<https://asas.org.sg/>) as well as the more general rules for advertising of alcohol).

Because of the relatively small size of the Singapore market, potential partners often ask to cover wider regional territories. With a strong history of trade, Singaporean companies are particularly successful at taking products to the surrounding regions.

DISTRIBUTION CHANNELS AND BUSINESS CONSIDERATIONS

CONTINUED

Agents, Distributors and Wholesalers

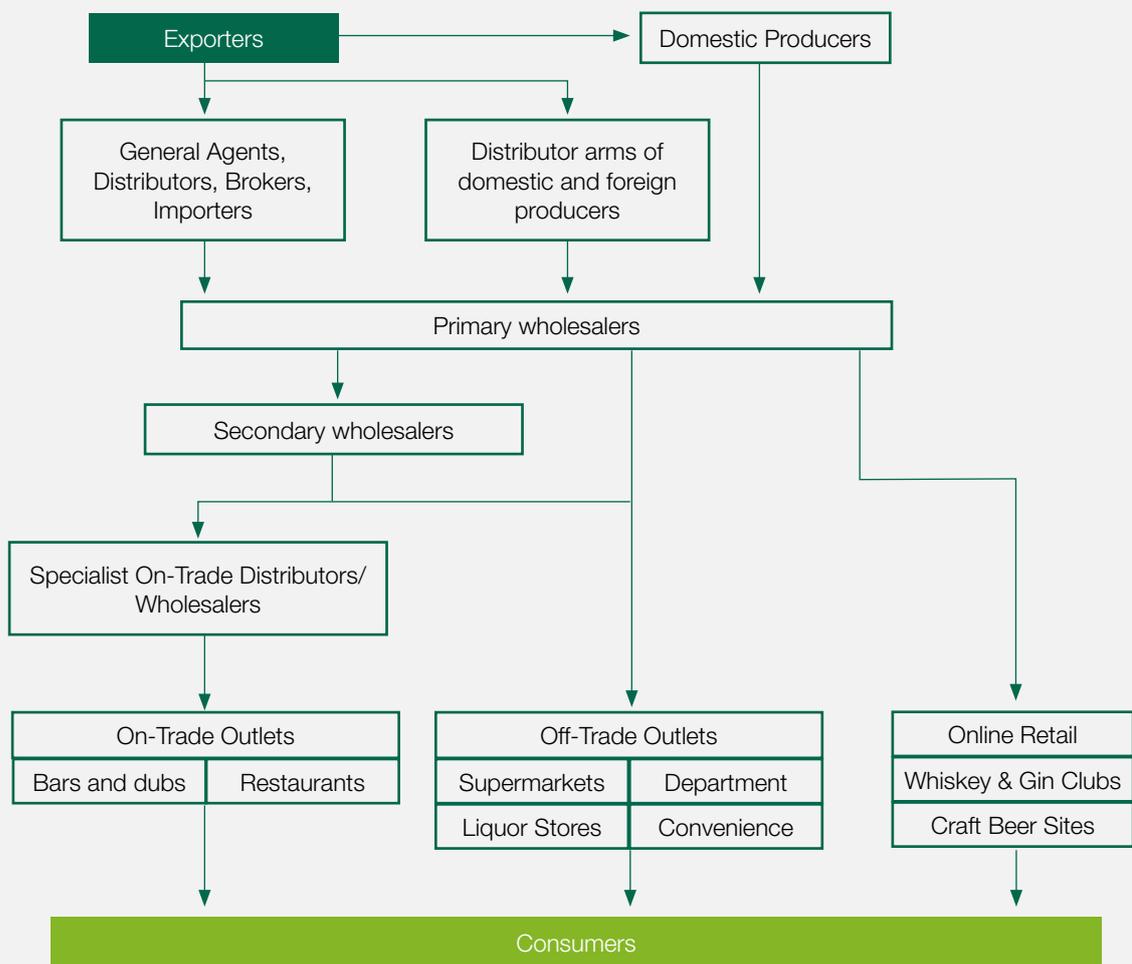
Importing Alcohol

Singapore imported approximately EUR133 million of beer in 2017. The main imports were from Malaysia (18.3%), Vietnam (15.8%) and the Netherlands (12.5%), with an overall EU market share of 28.3% (Source: ITC TradeMap).

Local specialty beer importer The Drinking Partners has been actively promoting and creating awareness of Belgian specialty beer in Singapore through tasting events, cultural events and beer appreciation workshops. In order to make a successful campaign, specialty beer producers need to provide some form of marketing support for their appointed agent for the implementation of these marketing and promotional strategies. For example, one of the selling points for Belgian specialty beer has been the individual beer glassware for each brand, and this has proved to be a powerful marketing component.

Apart from local consumption, Singapore can be considered as part of a South East Asian regional strategy for the nearby markets such as Malaysia, Thailand and Vietnam. Singapore beer importers are always seeking opportunities to expand their distribution network to the wider region because the local market is quite saturated. Other than good marketing strategies, specialty beer producers should evaluate their local agents or distributors for their wider distribution network and exclusive distributorships for brand building.

Figure 22: Channels of Distribution for Alcohol Products in Singapore



DISTRIBUTION CHANNELS AND BUSINESS CONSIDERATIONS

CONTINUED

Other companies vary in size and range of services; see below as an illustration:

Figure 22: Key players

Company	Function	Range	On / Off trade	Comments
6DM +65 67666887 http://6dm.sg/index.php	Sales, marketing and distribution	Beer (inc dispensing equipment); some wines & spirits	On	SABMiller distributors. Draught beer specialists but with a range of specialist spirits and some wines.
AM Trading & Agencies +65 68468034 http://liquordelivery.com.sg/	Importer, distributor, online retailer, delivery	Beer & spirits	Off	Trades as Liquordelivery.com
Applehops http://www.applehops.com/	Importer, distributor and online retailer	Craft beer	Off	Independent
Asher BWS +65 6283 5555 http://www.asherbws.com/	Wholesale, distributor, online shop and delivery	Beer, wines & spirits	Off	Focussed on e-shop and delivery
Beer Importers & Distributors +65 62581338 http://www.bidbeer.net/home/	Importer / wholesaler / distributor	Beer	Both	Australian company with Singapore office
Brand Connect https://www.brandconnect.asia/	Brand management and distribution	Beer, wines & spirits	Both	Partnered with Drinks & Co (retail and online) and Octopus Group (logistics)
Chuan Seng Liquors +65 6458 6857 https://www.chuansenghuat.com.sg/	Import, export and distribution	Beer, wines & spirits	Both	E-store and delivery
Destination Beverage +65 63416741 http://www.destinationbeverage.com/index.php	Importer, wholesaler and distributor	Spirits & cocktail supplies	On	Supplier to F&B establishments via e-shop
Eastern Craft Trading +65 66815678 http://www.easterncraft.asia/	Importer, distributor and consulting	Craft beer and cider	On	Part of Eastern Craft Group, who operate craft beer bars & stores

Gap Drinks http://www.gapdrinks.com/	Brand development & distribution	Spirits & wine	Off	Part of Quintessential Brands
Inish Bia https://www.inishbia.com/	Import and online retail	Artisanal beer, gin, cider & whiskey	Off	Specialise in Irish food and drink products
Le Vigne +65 64620053 http://www.singaporewines.com/	Importer, distributor, retailer	Wine & whisky	Both	Primarily supplies to on trade but also has retail store
Millie's Enterprise +65 64000813 http://www.millies.com.sg/index.php	Import, export, distribution, online retail and delivery	Beer, wines & spirits	Both	Originally supplier to on trade but online shop also services individual customers
Octopus Group +65 65333312 https://www.octopusgroup.com.sg/	Import , distribution and marketing	Spirits & wine	Both	Independent group covering SE Asia. See also Brand Connect
Pacific Beverages +65 68582338 http://www.pacbev.net/	Distributor and wholesaler	Beer	On	Online and delivery through burndownthehouse.com
Proof & Company Spirits Pte. Ltd https://www.proofandcompany.com/	Import, distribution, bar owner and consultancy	Spirits	Both	On line retail via EC Proof. Originally importers of spirits, Proof & Company has evolved to become a collective of bars and bartenders, offering concept and operations guidance to other venues
The Drinking Partners +65 93851752 http://www.thedrinkingpartners.com/	Import & distribution	Craft beer & cider	On	As pioneer of the craft beer movement in Singapore, knowledge, expertise and portfolio helps to create extensive craft beer and cider menu. Includes a couple of UK beers.

EXPORTING BEVERAGES TO ASIA: SINGAPORE

It is noticeable that several companies who originated by wholesaling within the on-trade area have added e-retail with delivery to their operations, often with some retail premises too, blurring the lines between traditional on and off trade segmentation.

Further details on the agents, distributors and wholesalers in Singapore can be found on the Bord Bia website: www.bordbia.ie/supplychain.

Two of the key on-line platforms are Redmart and Honestbee:

Company	Function	Range	On / Off trade	Comments
Redmart	Online sales platform	Full range of grocery & household items	Off	Founded 2011; acquired in 2016 by Alibaba-backed Lazada, Southeast Asia's leading online shopping and selling platform
Honestbee	Online sales platform using concierge shopper model	Grocery, prepared food, laundry service & ticketing	Off	Founded 2015: Honestbee is a Singaporean company that operates an online grocery and food delivery service, as well as a B2B parcel delivery service

CONSIDERATIONS FOR SELECTING AND WORKING DISTRIBUTORS IN SINGAPORE

Before exporting to Singapore, it is essential to identify and appoint a knowledgeable and experienced importer or distributor as a partner. Drink products in Singapore are generally distributed through local importers or distributors, who in turn supply them to wholesalers and retailers. Large retailers also procure directly for cost efficiencies and utilise their own warehousing facilities to store and to repack goods. A list of general tips is given in Appendix 1, however some specific issues related to Singapore include:

Contractual Terms

Exporters and distributors often sign distribution agreements with each other, but the terms of such agreements may not always be properly structured. The unintended problems created often do not become apparent until it is too late. Three areas that merit attention in Singapore are effective termination, non-compete restrictions and possible abuse of a dominant position under the Singapore Competition Act.

Effective Termination

If a distribution arrangement does not work as planned, a logical next step is to search the contract for ways to end it. Planning ahead allows exporters or distributors to end a relationship with minimum fuss if things do not work out. Two key approaches are “no-fault” termination rights and “for-cause” termination rights. “No-fault” termination rights allow for termination by notice or when a fixed term ends.

“For-cause” termination rights can be used in relation to specified events: for example, where the distributor does not spend contractually agreed amounts for advertising and promotion or does not meet annual purchase targets, or where the exporter or distributor become insolvent

Non-compete restrictions

Exporters often ask distributors to provide non-compete undertakings. This is designed to avoid competing activities impeding the distribution of exporters’ products in the distributor’s market. While non-compete undertakings act as useful legal protection for exporters, not properly structuring the obligation may make it void under Singapore law. A well-designed non-compete obligation should protect an exporter’s legitimate interests (e.g. goodwill),

be reasonable and not overly wide and not be contrary to public interest. Also, exporters and distributors may want to consider at the outset if their arrangement should be non-exclusive or exclusive. For example, if a distributor is granted a non-exclusive licence and does not perform as planned, the exporter is free to appoint other distributors in the same market. Separately, exporters sometimes specify in distribution agreements that if a distributor with an exclusive licence does not meet pre-agreed targets then this will result in the licence becoming non-exclusive. The change can be automatic or by notice to the distributor.

Obviously the parties should aim for absolute clarity at the outset but there have been occasions where the court has held that despite there not being an express agreement by the distributor not to deal with rival brands, such a term can sometimes be implied based on the surrounding circumstances and presumed intention of the parties.

Competition law requirements

The Singapore Competition Act may be infringed if distributors are required to purchase exclusively, or a substantial part of their requirements, from a single source. While exclusive distribution agreements are allowed in Singapore, the Singapore Competition Act prohibits the abuse of a dominant position in any market in Singapore.

A distribution arrangement can be structured such that it strikes an appropriate balance between protecting business interests and legal compliance. To do so, the relationship is designed in a way that does not prevent or severely restrict competition in a particular market (for example, where other exporters or distributors will be denied an outlet for their products). For complaints against exporters or distributors, the Competition Commission of Singapore will consider factors that include the scope of the exclusivity provisions, the duration of the exclusive arrangements and market conditions.

Preparing distribution contracts

When negotiating distribution contracts, it is prudent to plan ahead and endeavour to avoid the problems that have arisen in other arrangements. In this regard, the experience of legal counsel can be useful to both exporters and distributors.

CONSIDERATIONS FOR SELECTING AND WORKING DISTRIBUTORS IN SINGAPORE CONTINUED

Commercial Factors

Singapore boasts excellent transportation infrastructure. Businesses can tap into Singapore's excellent shipping and air links, as well as its first-class telecommunications and banking facilities to manage their global operations from Singapore.

A comprehensive Free Trade Agreement between the EU and Singapore has been negotiated and is in the final stages of approval by the EU. This agreement is now only shortly behind the approval timeline of the EU – Japan Economic Partnership Agreement. The EU is aiming to have both agreements fully in force before the current Commission's mandate expires (October 2019).

Parallel trading is common and there is a widely held view that once product has been imported into Singapore it could end up anywhere in South East Asia. These topics should be thoroughly explored as part of setting up any commercial agreements.

Import Tariffs and Taxes

In Singapore, there is a mandatory Goods and Services Tax (GST) of 7% of the cost, insurance and freight (CIF) value, which is levied on all goods and services at the point of distribution. It should be noted that in the February 2018 Budget it was announced that this will rise to 9% "sometime between 2021 and 2025", with the general expectation being that it is more likely to be towards the earlier part of this timeframe. In Singapore, valuation for Customs purposes is based on the Customs Valuation Code (CVC). The primary basis for Customs value is the transaction value of the imported goods when sold for export to Singapore. Where goods are dutiable, ad valorem or specific rates may be applied.

The table below summarizes tariff and local taxes applied to imported alcohol from the EU as of February 2018.

Singaporean Import Tariffs & Taxes on EU Imported alcohol

Product	Customs Duty	Excise Duty	General Sales Tax*	Value Added Tax
Beer	SGD16 (EUR9.76) per litre of alcohol	SGD60 (EUR36.6) per litre of alcohol	7.00%	10.00%
Spirits	-	SGD88 (EUR53.68) per litre of alcohol	7.00%	

*GST payable on CIF value plus all Customs, excise and other charges
Assumes an exchange rate of SGD1 = EUR0.61 (February 2018)

Illustration on the computation of duties payable and GST for beer, based upon a value per litre at 4% and 8% ABV.

Beer		4% ABV	8% ABV
A	CIF* Invoice Value per Litre (examples)	EUR 2.000	EUR 3.000
B	Customs Duty: (1 x ABV% x EUR9.76)	EUR 0.390	EUR 0.781
C	Excise Duty: (1 x ABV% x EUR36.6)	EUR 1.464	EUR 2.928
D	Subtotal: (A+B+C)	EUR 3.854	EUR 6.709
E	General Sales Tax**: D x 7%	EUR 0.269	EUR 0.470
F	Handling fees for Customs clearance***: A x 8%	EUR 0.160	EUR 0.240
G	Total cost per litre of Beer upon Customs clearance (D+E+F)	EUR 4.283	EUR 7.419
H	Total cost of beer upon Customs clearance: (E+F+G)	EUR 4.42	EUR 6.63

Illustration on the computation of duties payable and GST for spirits, based upon a value per litre at 37% and 57% ABV.

Spirits		37% ABV	57% ABV
A	CIF* Invoice Value per Litre (examples)	EUR 20.000	EUR 30.000
B	Customs Duty: 0	EUR 0.000	EUR 0.000
C	Excise Duty: (1 x ABV% x EUR53.68)	EUR 19.862	EUR 30.598
D	Subtotal: (A+B+C)	EUR 39.862	EUR 60.598
E	General Sales Tax**: D x 7%	EUR 2.790	EUR 4.242
F	Handling fees for Customs clearance***: A x 8%	EUR 1.600	EUR 2.400
G	Total cost per litre of Spirits upon Customs clearance (D+E+F)	EUR 44.253	EUR 67.240
H	Total cost of beer upon Customs clearance: (E+F+G)	EUR 4.42	EUR 6.63

Note*: Cost Insurance and Freight (CIF) is an export price upon arrival in a port in Singapore inclusive of insurance and freight cost. The value of a single use plastic keg container is recognised as part of the CIF product value. Freight cost could be high if the product is shipped in a temperature controlled sea container. The CIF values used are for demonstration only and are not intended to be accurate.

Note**: The paid General Sales Tax (GST) is eventually refunded to the importer as the tax is carried over to the consumer.

Note***: In addition to import tariff and taxes, additional cost of about 8% of CIF value will occur for miscellaneous expenses during the Customs clearance process, including paperwork, inspection, warehousing, and transportation. The amount of this additional cost depends mainly on the kind of inspection to which the shipment is subject. For example, warehousing fee and inspection fee will increase significantly if a detailed chemical inspection is required instead of documentary inspection.

CONSIDERATIONS FOR SELECTING AND WORKING DISTRIBUTORS IN SINGAPORE CONTINUED

Mark-ups

Typical Off-premise pricing

Wholesaler or distributor: mark-up 7%

Retailer: mark-up 15%

Typical On-premise pricing

Wholesaler or distributor: mark-up 7%

Club or restaurant: mark-up 350%

Import Registration and Customs Procedures

The procedures and required documentation for registering products for import and customs processing are contained in Bord Bia's report Exporting Beverages to Asia: Regulatory Guide.

Sending limited volumes of samples/not-for-resale product for use in trade fairs, exhibitions and other trade facing exercises must follow the same procedures as for commercial sales. In addition:

- The consignee should be listed as “the exhibition name” on the Airway Bill
- The following should also be indicated on all documentation:
 - Exhibitors name
 - Address of exhibition
 - Event name
 - Hall
 - Booth Number

Local Business Customs and Practices

— Greeting

- Shake hands with everyone present at a business meeting or social occasion. Shake hands again when leaving. Singaporeans may bow slightly as they shake your hand. Many Westerners are generally taller than Singaporeans, so it would be polite to give a small bow.
- Conservative Muslims avoid touching the opposite sex, so a man meeting a Malay woman should let her offer her hand first and a woman meeting a Malay man should wait for him to offer his hand. If they opt to place their hand on the heart and bow slightly instead, follow suit.

— Corporate culture

- Westerners are expected to be punctual for social occasions and business meetings. Personal contacts are important in business. It takes several years to develop business relationships. Take time to know people before discussing business.

— Gifts

- Each ethnic group shares different gift giving traditions. Business gifts are generally not exchanged. Small business-related gifts such as a pen with the company logo would be sufficient.
- Use both hands to give someone a gift. A gift given to a guest or the host is not opened in the presence of the giver. Always bring the hosts a gift when invited to someone's home.
- Be careful of the gift being misinterpreted as a bribe, even a small gift. Never give a government official a gift.

USEFUL INFORMATION SINGAPORE

Exhibitions and Festivals

- **Food And Hotel Asia** <http://www.foodnhotelasia.com/>

Venue : Singapore Expo

FHA is a biennial event held in Singapore for the international food and hospitality industry. The trade show encompasses specialized events such as FoodAsia, HotelAsia, Bakery & Pastry, HospitalityStyleAsia and HospitalityTechnology. FHA serves as a premier sourcing platform among international food and hospitality trade buyers with a showcase of latest products, services and technologies from international companies. This will next be held in 2020 and discussions are underway to split it into two dedicated shows in 2020 — FHA-HoReCa (Hotel, Restaurant and Catering) in early March and FHA-Food & Beverage starting late March.

- **ProWineAsia** runs in parallel at same venue on same dates (wines & spirits) <http://singapore.prowineasia.com/>
- **BeerFest Asia** is an annual event for both trade professionals and public members to sample and taste varieties of beer from around the world. With over 500 different beers from all over the world, Beerfest Asia is a great opportunity for companies in the retail, hospitality and F&B industries to try out new beer products with trade suppliers and wholesalers. <http://www.beerfestasia.com/>
- **Restaurant, Pub & Bar Asia:** In 2018 (its second year) Speciality & Fine Food Asia (SFFA) and Restaurant, Pub & Bar Asia (RPB Asia) welcomed more than 3,300 visitors from the food and beverage and hospitality industries across Southeast Asia, with 160 local and international exhibiting companies and eight national pavilions from 20 countries for the three-day shows and related events. The trade-only shows saw buyers and exhibitors in a focused environment – making valuable contacts, signing multi-million dollar deals and learning from industry experts through a series of engaging panel discussions, cooking demos by star chefs, and beverage master classes by sommeliers, bartenders, sake and tea masters. Based on visitors' and exhibitors' feedback from the 2017 event there was more onsite programming and a focus on finding the right experts to speak on topics that were important to them. There was collaboration with industry partners such as FoodBev Media, The Bar Awards, Restaurant Association of Singapore and Singapore Halal Culinary Federation to co-organise competitions and workshops at the shows which provided more depth and relevance to the F&B industry. <http://www.rpb-asia.com/>
- **Whisky Live** is an international tasting event that brings whisky and spirits connoisseurs together from all around the world since 2010. Organized by La Maison du Whisky, this event gathers over 70 whisky and spirit brands for tasting, with rising stars of the whisky industry as well as some of the world's most famous distilleries. In 2017, 2765 visitors and 62 exhibitors from almost 20 countries sampled 600 whiskies and fine spirits and 50 exclusive new products. <http://www.whiskylive.sg/>

- An annual event on Asia's cocktail calendar, **Singapore Cocktail Festival** is a social and experiential gathering of drink makers and lovers from around the world. With over 15,000 attendees the promoters claim that festival goers can expect "a smorgasbord of immersive experiences, craft workshops and exciting parties and promotions". <https://www.singaporecocktailfestival.com/ehome/317619&>

Trade Associations and Government Agencies

- **Food And Beverage Managers' Association Of Singapore (FBMA):** The FBMA was founded and registered in Singapore in 1989. Starting out as an avenue for food and beverage professionals to meet, the association has developed into a hub for its members to network, exchange business ideas and practices and support the ever growing food and beverage industry. FBMA is also a founding member of the International Food and Beverage Association - collaboration between the food and beverage associations from four different countries (Malaysia, Germany, Cambodia, and Singapore). Food and Beverage Managers' Association (FBMA) c/o SHATEC 21 Bukit Batok St 22 Singapore 658589 Tel: (65) 6415 3557 Fax: (65) 6569 1834 . <http://www.fbma.sg/>
- **Hospitality Purchasing Association Singapore (HPA):** The HPA (Singapore) serves as a networking channel between procurement professionals, suppliers as well as other industry counterparts. With a current strength of more than 100 members, the Association continually strives to bring up the competency of procurement professionals. This is done through the various seminars, workshops, conferences, factory visits and social activities organized, which also aims to foster closer ties between members and business associates. Hospitality Purchasing Association Singapore 3791 Jalan Bukit Merah #04-13 E-Centre@ Redhill Singapore 159471. <http://www.hpasg.com/>
- **Restaurant Association Of Singapore (RAS):** RAS was formerly known as the Singapore Hotel and Restaurant Association, catering to the distinctive needs of restaurant and hotel operators. RAS has since grown its membership base to more than 300 members, accounting for over 1,500 restaurant outlets. It also works closely with various Government bodies and F&B related associations overseas to develop and propel the local F&B industry. <http://www.ras.org.sg/>
- **Restaurant Association of Singapore:** 141 Redhill Road Block E & F, #01-22 Employment & Employability Institute Singapore 158828 Tel: (65) 6479 7723 Fax: (65) 6479 8108 Email: enquiry@ras.org.sg <http://www.ras.org.sg/>
- **Irish Chamber of Commerce Singapore** <http://irishchamber.com.sg/>
- **EU Commission – The Food and Beverage Market Entry Handbook:** Singapore (2016) <https://ec.europa.eu/chafea/agri/content/food-and-beverage-market-entry-handbook-singapore>

CONSIDERATIONS FOR SELECTING AND WORKING WITH AGENTS AND DISTRIBUTORS IN ALL MARKETS

Contract Type:

- Does the company manage agency and/or distributor contracts?
- Is a sole agency or distributor contract required?

Size of Sales Force:

- How many field salespeople does the representative or distributor have?
- What are the distributor's short- and long- range expansion plans, if any?
- Would the representative company need to expand in order to accommodate your account properly? Would it be willing to?

Sales Record:

- Has the representative company had consistent sales growth? If not, why not? Try to determine the company's sales volume for the past five years.
- What are the distributor's sales objectives for next year? How were those objectives determined?

Territorial Analysis:

- What sales territory does the representative company cover?
- Is the sales territory consistent with the coverage you desire? If not, is the representative or distributor able and willing to expand the territory?
- Are their offices located where your sales prospects are greatest?
- Does it have any plans to open additional offices?

Product Mix:

- How many product lines does the representative company handle?
- Are these product lines compatible with yours? Is there any conflict of interest?
- Does the distributor represent any other Irish companies? If so, which ones?
- Would the representative company be willing to alter its present product mix to accommodate yours?
- What is the minimum sales volume that the representative or distributor needs to justify handling your lines? Do its sales projections reflect that minimum figure? From what you know of the territory and the prospective representative or distributor, is the projection realistic?

Facilities and Equipment:

- Does the representative company have adequate warehouse facilities?
- What is the method of stock control?
- Are the distributor's computer systems compatible with yours?
- What communications capabilities does the distributor have (fax, modem, e-mail)?

Marketing Policies:

- How does the company compensate sales staff and is the structure compatible with the Irish exporter's market objectives?
- Does the representative company have special

incentive or motivation programs?

- Does it use product managers to coordinate sales efforts for specific product lines?
- How does it monitor sales performance?
- How does the representative or distributor train its sales staff?
- Would it pay or share expenses for its sales personnel to attend promotional / training events in Ireland?

Logistics

- Ask about shipment logistics - is the distributor already bringing in shipments from Ireland? Might this make it cheaper and allow larger loads?
- Does the company have any special relationships with any freight forwarders or shipping lines?

Customer Profile:

- What kinds of customers is the distributor currently in contact with?
- Are the distributor's interests compatible with your product line?
- What are the distributor's key accounts and what percentage of the total gross receipts do those key accounts represent?
- How many principals is the representative or distributor currently representing? Who are they?
- What percentage of the total business would you represent? How does that percentage compare with other suppliers'?

Promotional activities:

- Can the representative company help you compile market research information to be used when making forecasts?
- What media does it use, if any, to promote sales?
- How much of the company's budget is allocated to advertising? How are those funds distributed among various principals?
- Will you be expected to contribute funds for promotional purposes? How will the amount be determined?
- If the representative or distributor uses direct mail, how many prospects are on the mailing list?
- What type of brochure does the distributor use to describe the companies and products that it represents?
- If necessary, can the company translate your advertising copy?
- Does the representative have a website to promote the product?
- Can it provide product demonstrations and training, if needed?

It is recommended to obtain the following information during contract negotiation:

- Restrictions on the use of sub-distributors, or the total percentage retained by sub-distributors (particularly if they are subsidiaries of the contracted distributor).
- Guaranteed minimum transfer fees paid quarterly.

CONSIDERATIONS FOR SELECTING AND WORKING WITH AGENTS AND DISTRIBUTORS IN ALL MARKETS

CONTINUED

- Monthly submission of exact in-progress sales forecasts and monthly (at minimum) review of those sales forecasts.
- Terms to protect against currency fluctuations.
- Direct access to key customers with product feedback to occur, especially when there are different players involved.
- Agreed levels of advertising to promote the product (magazine advertisements, visit retailers, a dedicated website, trade shows etc.) and how can it be monitored?
- Staff details showing who is promoting the product and preferably named in the agreement.
- Performance criteria with clearly stated terms for termination for non-performance.
- Minimum performance terms required to keep any exclusivity.
- Protection against being used as a loss-leader (e.g. minimum prices).

