



## Sectoral Study:

# Impact of the EU-Japan Economic Partnership Agreement on the Leather Products Market in Japan

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## I. EXECUTIVE SUMMARY

- The Agreement between the European Union and Japan for an Economic Partnership (the “EPA”), which entered into force on 1 February 2019, addresses economic activities in a wide variety of sectors, including leather products.
- Thanks to the EPA, importers of EU products such as leather of bovine or equine animals, leather of sheep, lambs, goats, or kids, and leather footwear (excluding slippers and sports footwear) no longer have to apply for tariff rate quotas in Japan. The EPA introduces lower tariffs for such products than the tariff rates applied for the quotas. Those EPA tariffs will be gradually reduced through 11 annual reductions from the time of the entry into force of the agreement, and will ultimately be eliminated on 1 April 2028. The general tariff rates on other leather products that have not been subject to the tariff quota system have been, and will be, lowered as well.
- The tariff reduction and elimination provided in the EPA brings new opportunities for EU exporters, by strengthening the price competitiveness of EU leather products on the Japanese market, especially EU footwear, which is more price-sensitive. The EPA may also contribute to establishing more robust distribution channels for leather footwear, and consequently improved competitiveness, because Japanese importers of EU leather footwear no longer have to go through the application procedures for tariff quota allocations each year.
- Japan’s domestic production of leather products has been declining since the 1990’s. The domestic production value in 2016 was about 4.06 billion euros<sup>1</sup>, which amounts to only about one fourth of that of 1991, when the domestic production was the largest. On the other hand, Japan’s importation of leather products has seen a rapid increase; the total import values have increased by more than 50% compared with the late 1990s. The total import value in 2018 was 3.83 billion euros.
- With respect to the market conditions of leather goods in Japan, one of the most important characteristics of the distribution channels is that leather goods wholesalers, who come in-between the leather goods manufacturers and consumers, have great presence. This is in contrast with the common distribution chains found in Italy, a major leather products exporter in the EU, where the Italian brands directly deal with tanners, manufacture their products from the leather, and directly sell their products to consumers. It was also found that Japanese consumers spend more when they shop for bags than they do for shoes.
- Imported leather bags have a large market share in Japan. Their market share in value in 2017 was 78.2%. In recent years, there has been a greater demand for high-value products in Japan.
- Imported leather footwear has maintained about the same volume and value for the last 15 years, and the market share in value of imported leather footwear in 2017 was 58.3%.
- With respect to EU imports, the import value of leather bags has more than doubled in the past 15 years. Their share in value in 2018 was as large as 68%, with Italy, France, and Spain together accounting for 67% of the entire import value to Japan, whereas their share in volume was only 20%. With respect to leather footwear, both the import volume and value from the EU have remained mostly the same in the last 15 years, and their shares have both decreased. The 2018 market share of EU leather footwear in volume was only 9%, and that in value was 31%.

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<sup>1</sup> In this report, the conversion of Yen to Euro was performed using the posted exchange rate on March 10, 2020 (119.07 yen/euro).

## **II. INTRODUCTION**

On 17 July 2018, after more than five years of negotiations which started in 2013, the European Union and Japan signed the Agreement between the European Union and Japan for an Economic Partnership. After the domestic legal processes to ratify the Agreement on both sides were completed, the EPA entered into force on 1 February 2019.

While the EPA concerns economic activities regarding a wide variety of goods and services, this report focuses on its impact on the market for leather products, with particular attention to finished leather goods such as leather bags and footwear.

Although Japan's domestic production of leather products has declined, the import of them into Japan has seen an increase; with the preferential tariff rates introduced for the leather products originating in the EU, which will ultimately be eliminated, the EPA presents opportunities for the EU producers of leather products in the EU to expand their exports to Japan.

This report aims to provide assistance to the EU producers in making use of this new business opportunity, by providing an overview of the market and the relevant laws and regulations.

## **III. CURRENT STATUS OF DOMESTIC PRODUCTION AND IMPORTS OF LEATHER PRODUCTS IN JAPAN**

### **A. Domestic Production**

Japan's domestic production of leather products has been declining since the 1990's. The domestic production value in 2016 was about 4.06 billion euros, which amounts to only about one fourth of that of 1991, when the domestic production was the largest.<sup>2</sup> The number of businesses of leather product production has also declined to 5,443 as of 2014, which is a three-fourths reduction in the last quarter of a century. The number of employees has declined to 34,851, which is more than a two-thirds decrease.<sup>3</sup> The reasons for this shrinking of the domestic industry include an increase in the import of cheap leather products from China and South East Asian countries, and flat consumer spending.<sup>4</sup>

One of the characteristics of the Japanese leather industry is that the manufacturers are mostly small size businesses; more than two thirds of leather industry operations consist of three or fewer people.<sup>5</sup> Another characteristic of the industry is that it is concentrated in a few locations in Japan. In 2014, out of the 1,394 businesses that are of four or more people, 302 were located in Hyogo prefecture, especially in Himeji city and Tatsuno city, 292 in Tokyo prefecture, with a concentration in the eastern parts of Tokyo, such as Taito ward and Sumida ward, and 172 in Osaka prefecture.<sup>6</sup> In order to protect

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<sup>2</sup> Sources: Industrial Statistics, Economic Census for Business Activities

<sup>3</sup> Source: Ando, Toshiaki, Current Status and Challenges of Leather Industry - How to deal with Economic Partnership Agreements - Legislation and Investigation, Nov. 2016, No. 383, p. 20.

<sup>4</sup> Source: UZABASE Materials Sector Team, Leather Industry Overview -Japan-, Oct. 10, 2019, p. 5.

<sup>5</sup> Source: Industrial Statistics (Industry).

<sup>6</sup> Source: Ando, Toshiaki, Current Status and Challenges of Leather Industry - How to deal with Economic Partnership Agreements - Legislation and Investigation, Nov. 2016, No. 383, p. 20.

the domestic leather industry, Japan has adopted protective measures such as the tariff quota system as explained below. Japan also has a subsidy program for domestic producers; for example, in the fiscal year 2019, the Ministry of Economy, Trade and Industry (the “METI”) had a budget of 2.66 million euros allocated to subsidies for domestic leather products producers.

## B. Imports

Japan’s importation of leather products has seen a rapid increase; the total import values have increased by more than 50% compared with the late 1990s.<sup>7</sup> Of this total import value for leather products, which equaled 3.83 billion euros in 2018, the biggest exporter was the EU, accounting for 47.4% of the total (with Italy and France accounting for 30.8% and 10.4%, respectively), followed by China, which accounted for 17.8%.<sup>8</sup>

Economic partnerships such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the EPA, which reduce and eventually abolish the tariffs applicable to leather products, are expected to further increase the imports of the leather products.

## C. Supply and Distribution Chain of Leather Products in Japan

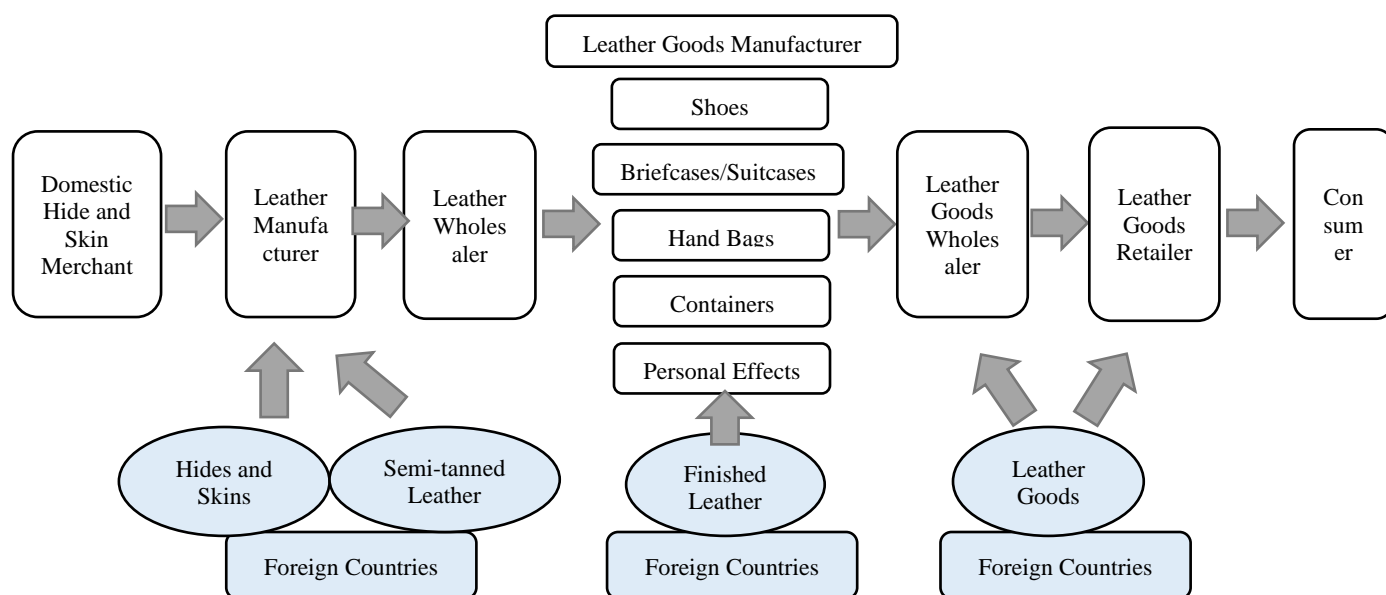
### 1. Supply Chain

The standard chain of production of hides, skins, leather, and leather goods in Japan is shown in Chart 1 on the following page:

<sup>7</sup> Source: Trade Statistics for Harmonized System codes whose first two digits are 41, 420211100, 420211200, 420221110, 420221120, 420221210, 420221220, 420231100, 420231200, 420291000, 420310100, 420310200, 420321100, 420321210, 420321250, 420321290, 420329110, 420329190, 420329200, 420330100, 420330200, 420340100, 420340200, 420500110, 420500190, 420500900, 640312010, 640312090, 640319010, 640319090, 640320011, 640320012, 640320021, 640320022, 640340011, 640340012, 640340021, 640340022, 640351011, 640351012, 640351021, 640351022, 640351029, 640359011, 640359012, 640359019, 640359020, 640359044, 640359045, 640359049, 640359104, 640359105, 640359109, 640359111, 640359119, 640391011, 640391012, 640391019, 640391021, 640391022, 640391029, 640399011, 640399012, 640399013, 640399014, 640399015, 640399016, 640399019, 640399021, 640399022, 640399029, 640399031, 640399039, 640419111, 640419119, 640420111, 640420119, 640420211, 640420212, 640420221, 640420222, 640510111, 640510119, 640510190, 640590111, 640590112, 640590121, 640590122, 640590128, 640610110, 640610190, and 640690110. This report uses Trade Statistics data available in excel format at the website of the [Japan Leather and Leather Goods Industries Association](#).

<sup>8</sup> Ibid. Imports from the UK are excluded.

Chart 1



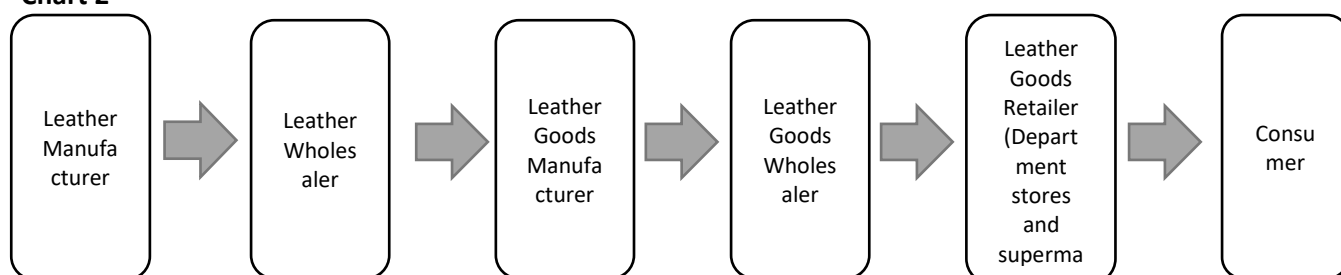
The supply chain begins with merchants selling such products as hides and skins to leather manufacturers or “tanners,” who transform hides and skins to leather. Next, the leather is sold to leather wholesalers and then on to the manufacturers of leather goods, such as bags and shoes. The end products reach consumers through wholesalers and retailers.

Imported products, such as skins, leather, and leather goods, enter the supply chain at various points, depending on their stage of production.

## 2. Distribution Chain

The standard channels of distribution for leather and leather goods in Japan are shown in the following chart:

Chart 2



One of the most important characteristics of the distribution channels in Japan is that leather goods wholesalers come in-between the leather goods manufacturers and consumers.

A study shows that this is in contrast with the common distribution chain found in Italy, a major leather products exporter in the EU.<sup>9</sup> As described in Chart 3 below, in the case of Italian brands, it is common that they directly deal with tanners, manufacture their products from the leather, and directly sell their products to consumers.

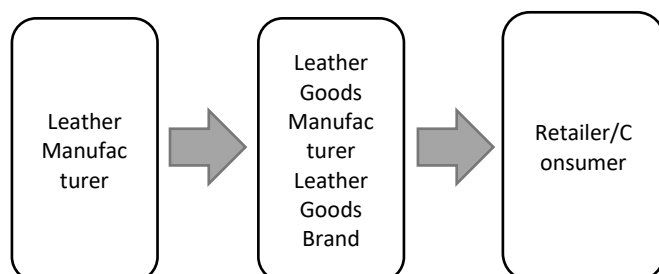
<sup>9</sup> Source: Nomura Research Institute, Report on the general investigation into how to strengthen the international competitiveness of the leather industry in Japan, Mar 2014, pp. 55-56 and 62.

In 2014, the sales that the wholesalers of bags in general (not necessarily made from leather) made with the products purchased from abroad amounted to 1,426.30 million euros, accounting for 30.8% of the import value of bags in 2014, which was 4,630.17 million euros.<sup>10</sup> In 2014, the sales that the wholesalers of shoes in general made with the products purchased from abroad amounted to 2,068.47 million euros, accounting for 40.1 % of the import value of shoes in 2014, which was 5,060.83 million euros.<sup>11</sup> For the retail industry of textiles, clothes, and personal effects, out of the entire sales of 66,893.10 million euros, the sales made with the products purchased from domestic wholesalers amounted to 32,851.42 million euros (49.0%), and the sales made with the products directly purchased from overseas amounted to 2,797.45 million euros (4.2%).<sup>12</sup> These figures suggest that wholesalers have great presence in the distribution channels of leather goods, especially with respect to shoes, and that retailers purchasing directly from abroad are in the minority.

In exporting the leather products to Japan, leather goods manufacturers have the following options; they may sell their products to trading companies or leather goods wholesalers in Japan, they may sell their products to retailers in Japan, or they may set up a subsidiary in Japan. In the first case, the products would go through the wholesalers, in addition to retailers, before reaching the consumers. In the second and third case, the leather goods manufacturers can directly engage with the retailers or Japanese consumers, which enables them to capture consumers' needs, share that information with the tanners, and produce goods that are more tailored to the consumers' needs.<sup>13</sup>

Economic partnership agreements such as the EPA, which minimize trade barriers as explained below, could make it easier for the EU exporters to directly communicate with the retailers and Japanese consumers.

**Chart 3**



<sup>10</sup> Sources: Commercial Statistics (2014), Commercial Statistics Table by Distribution Channel (Wholesale Business), Table 2-1, Industry Code 5133, and Trade Statistics (2014) for Harmonized System codes whose first four digits are 4202.

<sup>11</sup> Sources: Commercial Statistics (2014), Commercial Statistics Table by Distribution Channel (Wholesale Business), Table 2-1, Industry Code 5132, and Trade Statistics (2014) for Harmonized System codes whose first two digits are 46.

<sup>12</sup> Source: Commercial Statistics (2014), Commercial Statistics Table, Volume 1, Industry (Summary Tables), Table 21, Industry Code 57.

<sup>13</sup> Source: Nomura Research Institute, Report on the general investigation into how to strengthen the international competitiveness of the leather industry in Japan, Mar. 2014, pp. 49, 55-56, and 62.



## IV. LEATHER BAGS AND FOOTWEAR

### A. Market Overview

Given the diverse brands, retail outlets, and distribution channels available in Japan, it is difficult to define the overall consumers' trend for leather bags and footwear in general; however, one of the key findings in the market research on leather bags and footwear conducted by the Yano Research Institute<sup>14</sup> was that the companies or brands that have been successful in their sales have succeeded by capturing the younger generation's needs.

It is also notable that in recent years, for luxury leather goods, the growth has been driven by inbound tourists who shop in Japan.<sup>15</sup>

More detailed market trends for each product category are explained below.

#### 1. Bags

Traditionally in Japan, especially for leather bags, the demand was large when there were seasonal/ceremonial events, such as entrance ceremonies for school, coming-of-age ceremonies, and Christmas. Recently, however, such demand has declined due to those ceremonies becoming more casual, and consumers having more options for gifts.<sup>16</sup> On the other hand, the increase in the number of women in employment is driving growth in Japan.<sup>17</sup>

According to a survey, when categorizing the consumers in Japan into three types (those who usually spend 30,000 yen, or 251.95 euros or less when shopping for bags, those who usually spend more than 30,000 yen, or 251.95 euros and less than 100,000 yen, or 839.84 euros, and those who spend more than 100,000 yen, or 839.84 euros), the biggest market in value is those who spend more than 100,000 yen, or 839.84 euros, although they only constitute 6.5% of the entire consumer population.<sup>18</sup> With respect to the occasions when the bags are used, business attire accounted for 26.6%, formal or dress-up attire accounted for 37.1%, and casual, daily use accounted for 36.1% in value.<sup>19</sup>

In contrast with shoes, whose practicality is of most importance in consumers' choice, brand-recognition weighs in for bags, which are seen to be fashion items rather than practical items.<sup>20</sup> Louis Vuitton Japan KK, Gucci Group Japan Ltd., Hermes Japan Co. Ltd, and Prada Japan Co Ltd. together had 36.6% market share in 2018.<sup>21</sup> Many of these international brands have started supplying personalized services which enable customers to customize products to their own preferences.<sup>22</sup>

<sup>14</sup> Source: Yano Research Institute, Report on the Leather Industry Development Research, p. 12.

<sup>15</sup> Source: Sector Capsule: Luxury Leather Goods In Japan, Euromonitor International 2019, Feb. 11, 2019.

<sup>16</sup> Source: Yano Research Institute, Report on the Leather Industry Development Research, p. 12.

<sup>17</sup> Source: Sector Capsule: Bags and Luggage In Japan, Euromonitor International 2019, Feb. 11, 2019.

<sup>18</sup> Source: Yano Research Institute, Report on the Leather Industry Development Research, pp. 92-94.

<sup>19</sup> Ibid.

<sup>20</sup> Source: Ibid, pp. 12-13.

<sup>21</sup> Source: Sector Capsule: Bags and Luggage In Japan, Euromonitor International 2019, Feb. 11, 2019.

<sup>22</sup> Ibid.

## 2. Footwear

The practicality, e.g., ease of walking, is valued for shoes, whereas brand-recognition weighs in for bags, as explained above.

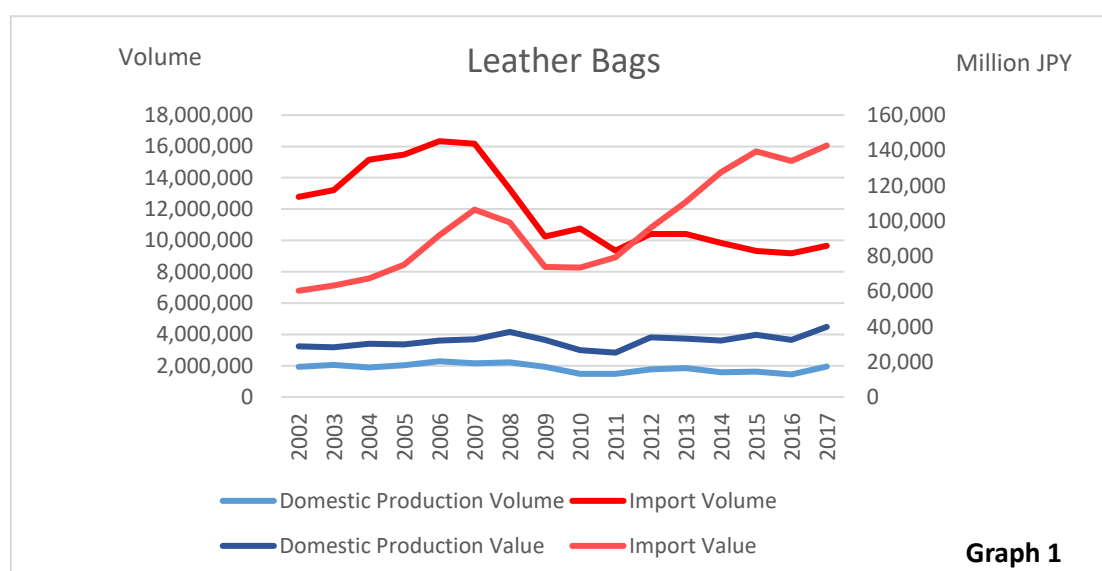
According to a survey, when categorizing the consumers in Japan to three types (those who spend 10,000 yen, or 83.98 euros or less when shopping for shoes, those who spend more than 10,000 yen, or 83.98 euros and less than 30,000 yen, or 251.95 euros, and those who spend more than 30,000 yen, or 251.95 euros), the biggest market is those who spend more than 10,000 yen, or 83.98 euros and less than 30,000 yen, or 251.95 euros.<sup>23</sup> With respect to the occasions when the shoes are used, business attire accounted for 37.7%, formal or dress-up attire accounted for 24.9%, and casual, daily use accounted for 37.4% in value.<sup>24</sup>

Recently, it has become popular that retailers develop their own brands and take on manufacturing, as well as retail.<sup>25</sup>

### B. Trends of Domestic Production and Imports of Leather Bags and Footwear

#### 1. Domestic Production, Imports, and the Share of EU Imports

The trends of domestic production and imports of leather bags and footwear are as follows.<sup>26</sup>



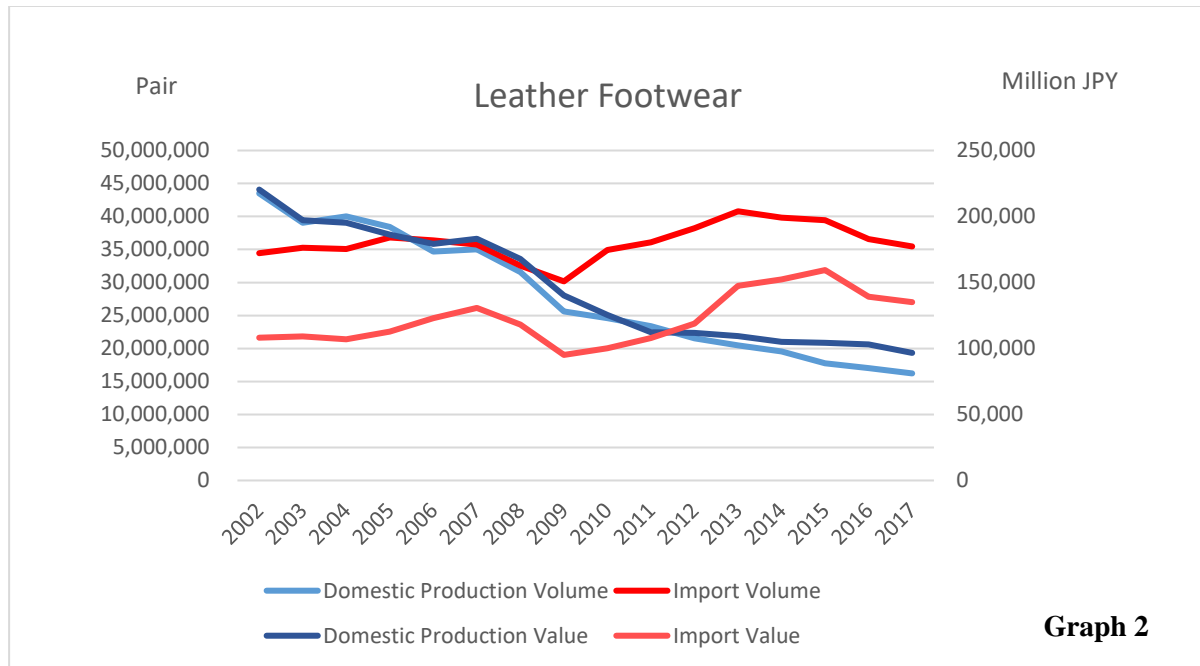
Graph 1

<sup>23</sup> Source: Yano Research Institute, Report on the Leather Industry Development Research, pp. 83-85.

<sup>24</sup> Ibid.

<sup>25</sup> Source: UZABASE Materials Sector Team, Shoes Industry Overview -Japan-, Jun. 28, 2019, p. 3.

<sup>26</sup> Source: Trade Statistics and Industrial Statistics (Industry). The import data covers the following Harmonized System (HS) codes: HS codes 420211100, 420211200, 420221110, 420221210, 420221220, and 420291000 for leather bags and HS codes 640312010, 640312090, 640319010, 640319090, 640320011, 640320012, 640320021, 640320022, 640340011, 640340012, 640340021, 640340022, 640351011, 640351012, 640351021, 640351022, 640351029, 640359011, 640359012, 640359019, 640359020, 640359044, 640359045, 640359049, 640359104, 640359105, 640359109, 640359111, 640359119, 640391011, 640391012, 640391019, 640391021, 640391022, 640391029, 640399011, 640399012, 640399013, 640399014, 640399015, 640399016, 640399019, 640399021, 640399022, 640399029, 640399031, 640399039, 640419111, 640419119, 640420111, 640420119, 640420211, 640420212, 640420221, 640420222, 640510111, 640510119, 640510190, 640590111, 640590112, 640590121, 640590122, and 640590128 for leather footwear.

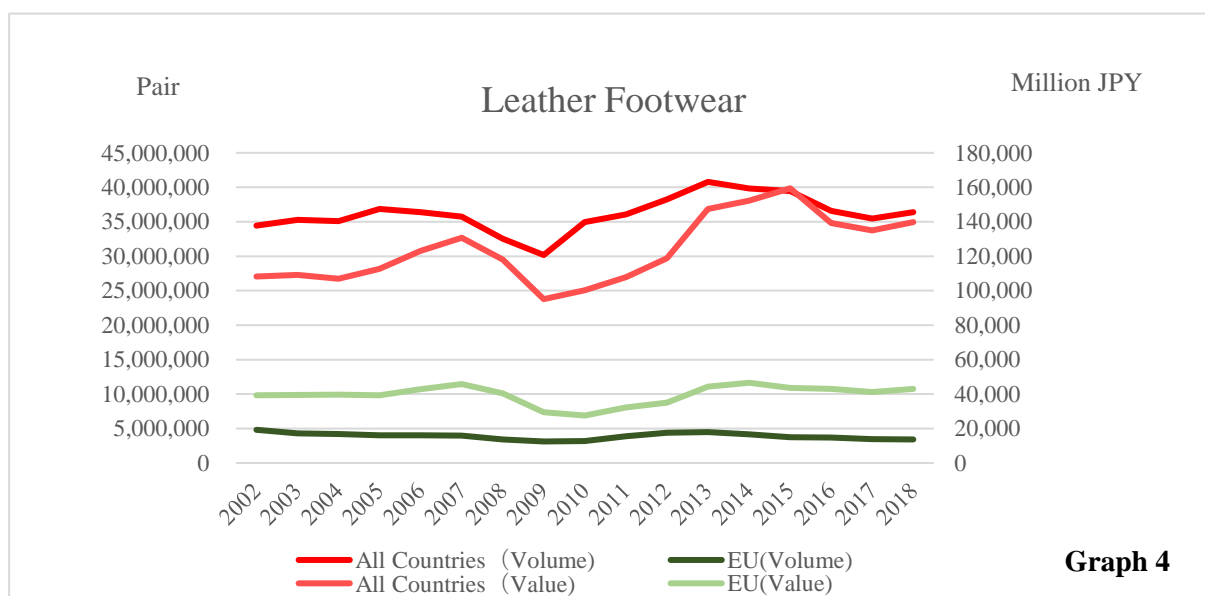
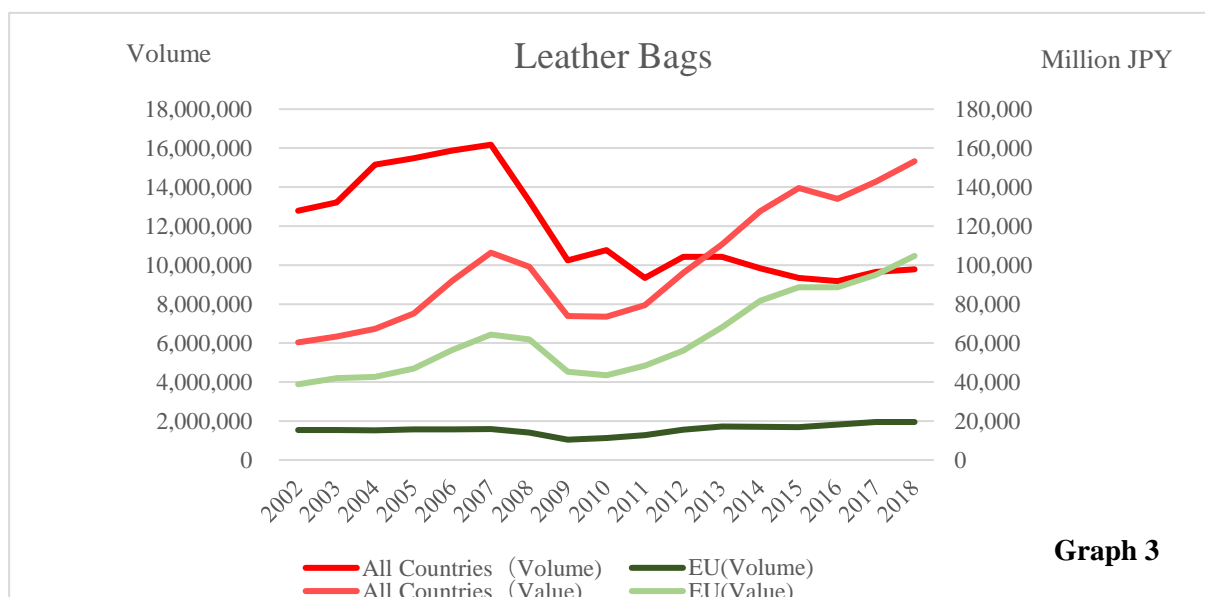


Graph 2

Graph 1, the graph of the domestic production and imports of leather bags, shows that imports have a large market share in Japan. The market share in value of imported leather bags in 2017 was 78.2%. It also indicates that the import value has increased significantly, whereas the import volume has decreased. Thus, it can be said that a greater demand for high-value products has been cultivated in Japan. With respect to the domestic production, both the domestic production volume and production value have stagnated in the past 15 years.

Graph 2, the graph of the domestic production and import of leather footwear, shows that the domestic production is steadily declining, whereas imports have maintained about the same volume and value for the last 15 years, with a slight upward trend. The significance of the imports of leather footwear in the Japanese market, therefore, has increased. The market share in value of imported leather footwear in 2017 was 58.3%.

The import volume and value of leather bags and footwear from the EU are as follows.<sup>27</sup>

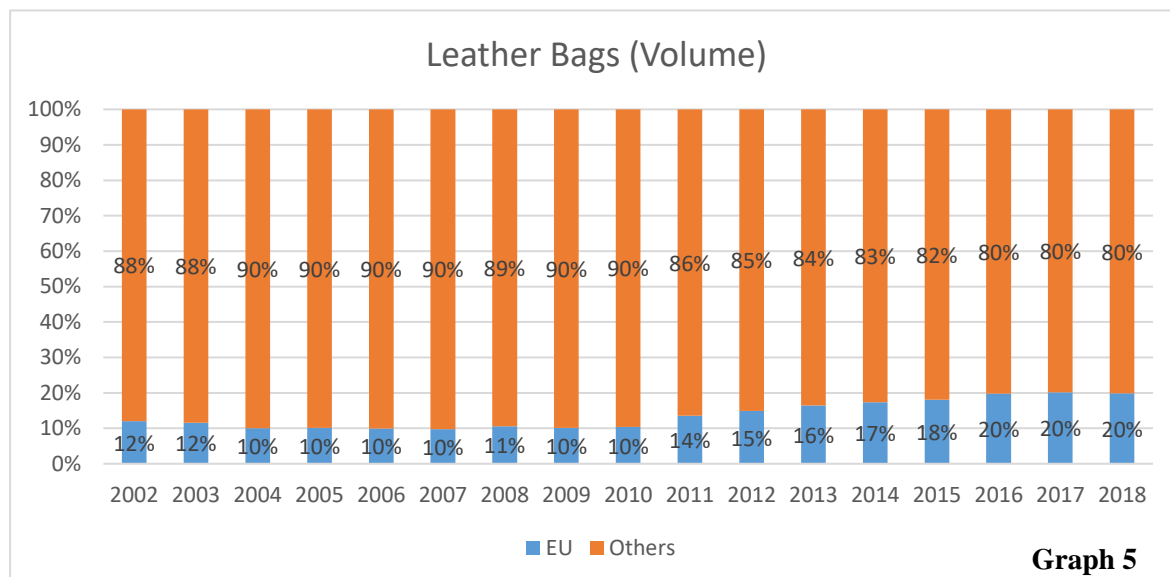


<sup>27</sup> Source: Trade Statistics for Harmonized System (HS) codes: HS codes 420211100, 420211200, 420221110, 420221120, 420221210, 420221220, and 420291000 for leather bags and HS codes 640312010, 640312090, 640319010, 640319090, 640320011, 640320012, 640320021, 640320022, 640340011, 640340012, 640340021, 640340022, 640351011, 640351012, 640351021, 640351022, 640351029, 640359011, 640359012, 640359019, 640359020, 640359044, 640359045, 640359049, 640359104, 640359105, 640359109, 640359111, 640359119, 640391011, 640391012, 640391019, 640391021, 640391022, 640391029, 640399011, 640399012, 640399013, 640399014, 640399015, 640399016, 640399019, 640399021, 640399022, 640399029, 640399031, 640399039, 640419111, 640419119, 640420111, 640420119, 640420211, 640420212, 640420221, 640420222, 640510111, 640510119, 640510190, 640590111, 640590112, 640590121, 640590122, and 640590128 for leather footwear. Imports from the UK are excluded.

As shown in Graph 3, with respect to leather bags, the import value from the EU has more than doubled in the past 15 years. Although the import volume from the EU has not increased significantly, as the import volume from worldwide has decreased, the share of the EU products has increased.

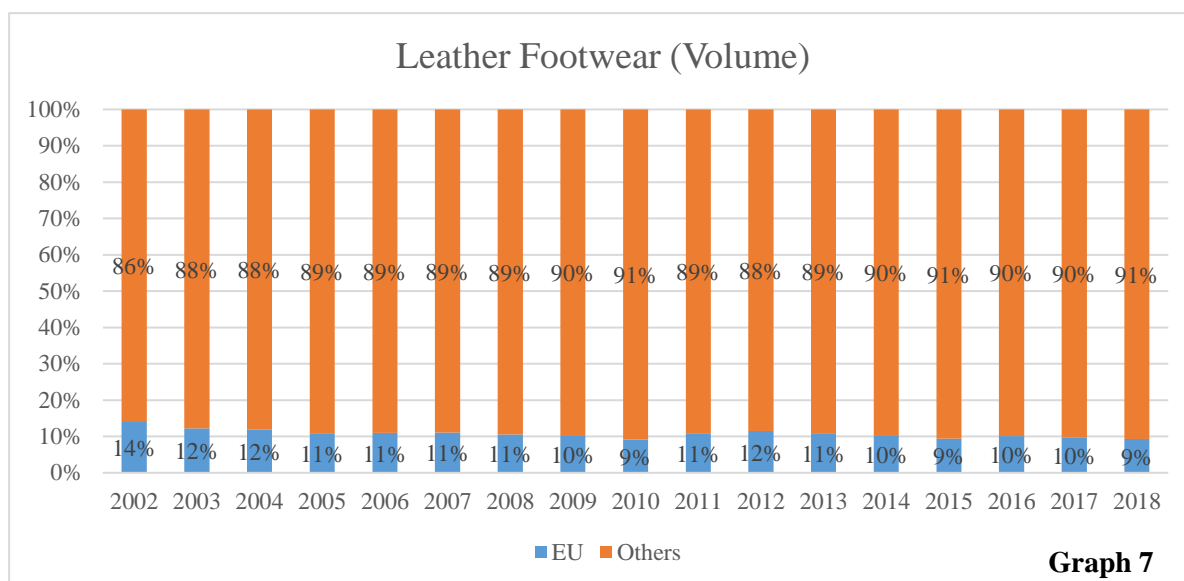
With respect to the leather footwear, Graph 4 shows that both the import volume and value from the EU have remained mostly the same.

The share of the EU imports is as follows.<sup>28</sup>



<sup>28</sup>

Ibid.



Graphs 5 and 6 show that the share of leather bags imported from the EU has increased both in import volume and value. It is also important to note that the EU market share in value in 2018 was as large as 68%, whereas its share in volume was only 20%. The higher priced EU imports are well accepted in the Japanese market, and thus by reducing and eliminating applicable tariffs, the EPA can make way for a further increase in EU imports.

On the other hand, with respect to leather footwear, Graphs 7 and 8 show that the market shares of the EU import volume and value have both decreased. The 2018 market share of EU leather footwear in volume was 9%, and that in value was 31%. This is consistent with the fact that the consumers spend less for shoes than bags, as explained above; it seems that higher priced shoes from the EU have not gained as much popularity as the leather bags from the EU have. The tariff reduction and abolition of the EPA, however, could bring new opportunities for EU exporters by strengthening the price competitiveness of the EU footwear in the Japanese market. The EPA may also contribute to establishing more robust distribution channels for leather footwear, and consequently their improved competitiveness, because, as explained below, with the EPA in place, the Japanese importers of the EU leather footwear do not have to go through the application procedures for tariff quota allocations each year. The successful export of the EU bags to Japan suggests that establishing a good brand recognition and good distribution channels in Japan could also benefit the export industry of the leather footwear.

## 2. The Biggest Exporters of Leather Bags and Footwear

The biggest exporters of leather bags are shown in Tables 1-4 below.<sup>29</sup>

**Table 1 Top 5 Exporters of Leather Bags (Volume)**

Year	Country	Volume (No.)	Share
<b>2014</b>	<b>Total</b>	<b>9,832,483</b>	
2014	China	5,545,781	56%
2014	Italy	1,300,640	13%
2014	Vietnam	1,068,706	11%
2014	Bangladesh	388,706	4%
2014	India	214,247	2%
<b>2015</b>	<b>Total</b>	<b>9,330,591</b>	
2015	China	4,540,088	49%
2015	Vietnam	1,360,360	15%
2015	Italy	1,312,866	14%
2015	Bangladesh	456,307	5%
2015	The Philippines	385,090	4%
<b>2016</b>	<b>Total</b>	<b>9,177,552</b>	
2016	China	3,931,458	43%
2016	Vietnam	1,592,419	17%
2016	Italy	1,443,547	16%
2016	Bangladesh	548,705	6%
2016	The Philippines	376,119	4%
<b>2017</b>	<b>Total</b>	<b>9,655,634</b>	
2017	China	3,841,268	40%
2017	Vietnam	1,569,671	16%
2017	Italy	1,537,400	16%
2017	Bangladesh	664,264	7%
2017	The Philippines	410,514	4%
<b>2018</b>	<b>Total</b>	<b>9,780,751</b>	
2018	China	3,532,977	36%
2018	Vietnam	1,737,703	18%
2018	Italy	1,518,217	16%
2018	Bangladesh	810,056	8%
2018	The Philippines	385,164	4%

**Table 2 Top 5 Exporters of Leather Bags (Value)**

Year	Country	Value (1,000 yen)	Share
<b>2014</b>	<b>Total</b>	<b>127,686,341</b>	
2014	Italy	50,473,971	40%
2014	China	25,561,921	20%
2014	France	22,796,295	18%
2014	Vietnam	9,618,227	8%
2014	Spain	5,610,804	4%

<sup>29</sup> Ibid.

Year	Country	Value (1,000 yen)	Share
<b>2015</b>	<b>Total</b>	<b>139,464,320</b>	
2015	Italy	54,309,431	39
2015	France	26,123,582	19
2015	China	23,919,134	17
2015	Vietnam	14,221,900	10
2015	Spain	5,782,021	4
<b>2016</b>	<b>Total</b>	<b>133,939,795</b>	
2016	Italy	55,628,852	42%
2016	France	25,860,045	19%
2016	China	16,801,813	13%
2016	Vietnam	15,721,490	12%
2016	Spain	4,718,930	4%
<b>2017</b>	<b>Total</b>	<b>142,776,706</b>	
2017	Italy	58,939,553	41%
2017	France	28,082,326	20%
2017	Vietnam	16,779,360	12%
2017	China	15,382,433	11%
2017	Spain	5,211,828	4%
<b>2018</b>	<b>Total</b>	<b>153,262,239</b>	
2018	Italy	64,111,364	42%
2018	France	32,139,678	21%
2018	Vietnam	16,655,069	11%
2018	China	14,302,678	9%
2018	Spain	5,920,181	4%

Table 3 Top 10 EU Exporters of Leather Bags (Volume)

Year	Country	Volume (No.)	Share in EU
<b>2014</b>	<b>EU Total</b>	<b>1,702,828</b>	
2014	Italy	1,300,640	76%
2014	France	160,374	9%
2014	Spain	93,942	6%
2014	Bulgaria	58,820	3%
2014	Romania	56,337	3%
2014	Portugal	12,245	1%
2014	Poland	6,230	0%
2014	Germany	5,380	0%
2014	Hungary	4,914	0%
2014	Finland	1,167	0%
<b>2015</b>	<b>EU Total</b>	<b>1,682,975</b>	
2015	Italy	1,312,866	78%
2015	France	172,039	10%
2015	Spain	86,539	5%
2015	Romania	42,665	3%
2015	Bulgaria	42,596	3%
2015	Portugal	12,153	1%
2015	Germany	5,491	0%
2015	Hungary	3,228	0%



Year	Country	Volume (No.)	Share in EU
2015	Poland	2,184	0%
2015	Netherlands	1,416	0%
<b>2016</b>	<b>EU Total</b>	<b>1,817,732</b>	
2016	Italy	1,443,547	79%
2016	France	161,605	9%
2016	Spain	78,283	4%
2016	Romania	60,411	3%
2016	Bulgaria	47,745	3%
2016	Portugal	12,654	1%
2016	Netherlands	4,335	0%
2016	Germany	3,714	0%
2016	Hungary	2,192	0%
2016	Poland	1,188	0%
<b>2017</b>	<b>EU Total</b>	<b>1,949,306</b>	
2017	Italy	1,537,400	79%
2017	France	178,097	9%
2017	Spain	85,006	4%
2017	Bulgaria	66,064	3%
2017	Romania	53,196	3%
2017	Portugal	16,374	1%
2017	Germany	5,046	0%
2017	Netherlands	3,392	0%
2017	Poland	1,635	0%
2017	Belgium	1,026	0%
<b>2018</b>	<b>EU Total</b>	<b>1,944,675</b>	
2018	Italy	1,518,217	78%
2018	France	221,529	11%
2018	Spain	86,756	4%
2018	Romania	47,323	2%
2018	Bulgaria	43,292	2%
2018	Portugal	12,864	1%
2018	Germany	4,521	0%
2018	Netherlands	4,023	0%
2018	Greece	1,796	0%
2018	Belgium	1,663	0%

Table 4 Top 10 EU Exporters of Leather Bags (Value)

Year	Country	Value (1,000 yen)	Share in EU
<b>2014</b>	<b>EU Total</b>	<b>81,646,425</b>	
2014	Italy	50,473,971	62%
2014	France	22,796,295	28%
2014	Spain	5,610,804	7%
2014	Romania	1,354,363	2%
2014	Bulgaria	736,483	1%
2014	Hungary	211,989	0%
2014	Portugal	197,076	0%
2014	Germany	139,070	0%

Year	Country	Value (1,000 yen)	Share in EU
2014	Belgium	50,430	0%
2014	Poland	17,613	0%
<b>2015</b>	<b>EU Total</b>	<b>88,655,231</b>	
2015	Italy	54,309,431	61%
2015	France	26,123,582	29%
2015	Spain	5,782,021	7%
2015	Romania	1,198,695	1%
2015	Bulgaria	700,183	1%
2015	Portugal	205,356	0%
2015	Hungary	102,745	0%
2015	Germany	95,464	0%
2015	Belgium	77,008	0%
2015	Netherlands	16,760	0%
<b>2016</b>	<b>EU Total</b>	<b>88,692,489</b>	
2016	Italy	55,628,852	63%
2016	France	25,860,045	29%
2016	Spain	4,718,930	5%
2016	Romania	1,274,583	1%
2016	Bulgaria	669,634	1%
2016	Portugal	184,168	0%
2016	Belgium	149,800	0%
2016	Germany	75,701	0%
2016	Hungary	66,689	0%
2016	Netherlands	16,881	0%
<b>2017</b>	<b>EU Total</b>	<b>95,049,717</b>	
2017	Italy	58,939,553	62%
2017	France	28,082,326	30%
2017	Spain	5,211,828	5%
2017	Romania	1,467,630	2%
2017	Bulgaria	887,412	1%
2017	Portugal	170,348	0%
2017	Belgium	111,270	0%
2017	Germany	102,828	0%
2017	Luxemburg	20,031	0%
2017	Netherlands	17,156	0%
<b>2018</b>	<b>EU Total</b>	<b>104,712,264</b>	
2018	Italy	64,111,364	61%
2018	France	32,139,678	31%
2018	Spain	5,920,181	6%
2018	Romania	1,417,903	1%
2018	Bulgaria	636,401	1%
2018	Portugal	202,784	0%
2018	Belgium	119,046	0%
2018	Germany	75,367	0%
2018	Greece	25,103	0%
2018	Netherlands	20,073	0%

With respect to the import volume of leather bags, China and Vietnam together account for more than 50% of the imports to Japan. Italy has been the third biggest exporter in recent years at around

15% market share. Within the EU, Italy, France, and Spain have always been in the top three in this order. In 2018, Italy accounted for 78%, France 11%, and Spain 4%.

Italy, France, and Spain were always to be found among the top 5 exporters in value of leather bags to Japan in the last 5 years. In 2018, the three countries accounted for 67% of the entire import value to Japan, while China and Vietnam only accounted for 20%. This indicates that imports from EU are higher priced than those from Asian countries.

The biggest exporters of leather footwear are shown in Table 5-8 below.<sup>30</sup>

**Table 5 Top 5 Exporters of Leather Footwear (Volume)**

Year	Country	Volume (Pair)	Share
<b>2014</b>	<b>Total</b>	<b>39,825,435</b>	
2014	China	8,836,086	22%
2014	Vietnam	7,495,720	19%
2014	Cambodia	5,348,179	13%
2014	Bangladesh	4,518,958	11%
2014	Myanmar	3,498,186	9%
<b>2015</b>	<b>Total</b>	<b>39,440,823</b>	
2015	China	8,142,324	21%
2015	Vietnam	7,996,169	20%
2015	Cambodia	4,710,294	12%
2015	Bangladesh	4,448,406	11%
2015	Indonesia	3,384,121	9%
<b>2016</b>	<b>Total</b>	<b>36,564,371</b>	
2016	Vietnam	7,536,540	21%
2016	China	7,479,549	20%
2016	Cambodia	4,789,466	13%
2016	Bangladesh	3,536,005	10%
2016	Indonesia	3,463,697	9%
<b>2017</b>	<b>Total</b>	<b>35,475,679</b>	
2017	Vietnam	7,804,760	22%
2017	China	6,665,950	19%
2017	Cambodia	4,640,655	13%
2017	Indonesia	3,128,895	9%
2017	Bangladesh	3,038,503	9%
<b>2018</b>	<b>Total</b>	<b>36,399,770</b>	
2018	Vietnam	8,475,305	23%
2018	China	7,074,403	19%
2018	Cambodia	4,499,621	12%
2018	Indonesia	3,624,950	10%
2018	Bangladesh	2,715,968	7%

<sup>30</sup>

Ibid.

Table 6 Top 5 Exporters of Leather Footwear (Value)

Year	Country	Value (1,000 yen)	Share
<b>2014</b>	<b>Total</b>	<b>152,224,563</b>	
2014	Italy	33,224,759	22%
2014	China	28,960,819	19%
2014	Vietnam	19,683,729	13%
2014	Cambodia	15,873,751	10%
2014	Bangladesh	10,006,414	7%
<b>2015</b>	<b>Total</b>	<b>159,411,224</b>	
2015	Italy	31,522,965	20%
2015	China	28,689,629	18%
2015	Vietnam	23,816,035	15%
2015	Cambodia	15,963,719	10%
2015	Bangladesh	11,509,432	7%
<b>2016</b>	<b>Total</b>	<b>139,270,081</b>	
2016	Italy	32,123,323	23%
2016	China	22,777,441	16%
2016	Vietnam	21,962,836	16%
2016	Cambodia	13,958,769	10%
2016	Bangladesh	8,545,485	6%
<b>2017</b>	<b>Total</b>	<b>134,979,117</b>	
2017	Italy	30,557,414	23%
2017	Vietnam	21,885,847	16%
2017	China	20,408,608	15%
2017	Cambodia	13,881,434	10%
2017	Bangladesh	7,486,849	6%
<b>2018</b>	<b>Total</b>	<b>139,771,816</b>	
2018	Italy	31,715,185	23%
2018	Vietnam	24,908,468	18%
2018	China	21,222,764	15
2018	Cambodia	13,125,587	9
2018	Indonesia	8,532,197	6

Table 7 Top 10 EU Exporters of Leather Footwear (Volume)

Year	Country	Volume (Pair)	Share in EU
<b>2014</b>	<b>EU Total</b>	<b>4,144,534</b>	
2014	Italy	2,211,238	53%
2014	Spain	740,592	18%
2014	Portugal	484,014	12%
2014	Germany	273,837	7%
2014	Romania	190,314	5%
2014	France	137,253	3%
2014	Slovakia	45,384	1%
2014	Hungary	17,623	0%
2014	Austria	9,853	0%
2014	Netherlands	8,793	0%

Year	Country	Volume (Pair)	Share in EU
<b>2015</b>	<b>EU Total</b>	<b>3,719,228</b>	
2015	Italy	1,993,471	54%
2015	Spain	619,268	17%
2015	Portugal	452,354	12%
2015	Germany	228,296	6%
2015	Romania	184,285	5%
2015	France	143,071	4%
2015	Slovakia	27,726	1%
2015	Sweden	15,953	0%
2015	Hungary	15,097	0%
2015	Greece	9,654	0%
<b>2016</b>	<b>EU Total</b>	<b>3,706,143</b>	
2016	Italy	2,046,920	55%
2016	Spain	660,189	18%
2016	Portugal	394,145	11%
2016	Germany	238,032	6%
2016	France	140,856	4%
2016	Romania	113,709	3%
2016	Slovakia	40,713	1%
2016	Sweden	18,429	0%
2016	Hungary	15,994	0%
2016	Netherlands	8,173	0%
<b>2017</b>	<b>EU Total</b>	<b>3,453,112</b>	
2017	Italy	1,877,395	54%
2017	Spain	576,234	17%
2017	Portugal	381,785	11%
2017	Germany	220,364	6%
2017	France	155,620	5%
2017	Romania	135,636	4%
2017	Slovakia	38,727	1%
2017	Hungary	15,868	0%
2017	Greece	13,851	0%
2017	Austria	8,374	0%
<b>2018</b>	<b>EU Total</b>	<b>3,395,969</b>	
2018	Italy	1,776,117	52%
2018	Spain	568,281	17%
2018	Portugal	415,607	12%
2018	Germany	268,646	8%
2018	France	146,698	4%
2018	Romania	106,874	3%
2018	Slovakia	49,743	1%
2018	Greece	15,668	0%
2018	Hungary	12,026	0%
2018	Austria	9,235	0%

Table 8 Top 10 EU Exporters of Leather Footwear (Value)

Year	Country	Value (1,000 yen)	Share in EU
<b>2014</b>	<b>EU Total</b>	<b>46,564,194</b>	
2014	Italy	33,224,759	71%
2014	Spain	4,426,444	10%
2014	Portugal	3,213,584	7%
2014	Germany	2,095,192	4%
2014	France	1,797,294	4%
2014	Romania	1,090,216	2%
2014	Slovakia	233,313	1%
2014	Hungary	154,841	0%
2014	Austria	77,186	0%
2014	Netherlands	74,812	0%
<b>2015</b>	<b>EU Total</b>	<b>43,552,132</b>	
2015	Italy	31,522,965	72%
2015	Spain	3,862,729	9%
2015	Portugal	2,909,180	7%
2015	France	1,801,181	4%
2015	Germany	1,775,692	4%
2015	Romania	1,049,145	2%
2015	Slovakia	150,776	0%
2015	Hungary	137,352	0%
2015	Netherlands	66,733	0%
2015	Austria	65,160	0%
<b>2016</b>	<b>EU Total</b>	<b>43,034,631</b>	
2016	Italy	32,123,323	75%
2016	Spain	3,855,501	9%
2016	Portugal	2,480,688	6%
2016	France	1,663,011	4%
2016	Germany	1,512,024	4%
2016	Romania	700,033	2%
2016	Slovakia	216,630	1%
2016	Hungary	160,264	0%
2016	Netherlands	64,974	0%
2016	Austria	63,324	0%
<b>2017</b>	<b>EU Total</b>	<b>41,188,964</b>	
2017	Italy	30,557,414	74%
2017	Spain	3,381,382	8%
2017	Portugal	2,613,997	6%
2017	France	1,834,613	4%
2017	Germany	1,416,091	3%
2017	Romania	662,957	2%
2017	Slovakia	222,417	1%
2017	Hungary	165,944	0%
2017	Austria	67,184	0%
2017	Netherlands	60,469	0%
<b>2018</b>	<b>EU Total</b>	<b>42,963,654</b>	
2018	Italy	31,715,185	74%
2018	Spain	3,568,657	8%

2018	Portugal	2,825,732	7%
2018	France	1,907,943	4%
2018	Germany	1,739,729	4%
2018	Romania	482,720	1%
2018	Slovakia	287,109	1%
2018	Hungary	112,691	0%
2018	Austria	78,436	0%
2018	Greece	59,591	0%

With respect to the import volume of leather footwear, the market is more fragmented compared to that of the leather bags; in 2018 Vietnam, China, Cambodia, and Indonesia each had the market share of 23%, 19%, 12%, and 10% respectively. The biggest exporters within the EU are also different from those of the leather bags. The top 3 countries have been Italy, Spain, and Portugal, and although Italy is ranked at the top, its share in the EU was 52%, which is small compared to its share of 78% in volume for the export of leather bags.

With respect to the import value of the leather footwear, only Italy is to be found among the top 5 biggest exporters worldwide to Japan, whereas for the leather bags, three EU members are ranked among the top 5 as discussed above. Within the EU, Italy by far has the largest share; in 2018 its share was 74%, followed by Spain, whose share was only 8%.

## **V. IMPORT REGULATIONS**

### **A. Overview**

Historically, Japan's leather products industry has been well protected, long enjoying an import quota. Even when the import quota was abolished in 1986, a tariff quota system was put in place for certain leather products.

Recently, the Japanese government has made concessions regarding the leather market in some economic partnership agreements, including the EPA and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

The EPA enables EU exporters to export leather products to Japan, regardless of the applicability of the tariff quota system, at lower tariff rates (than non-EU countries which must comply with the standard tariff rates).

### **B. Tariff Quota System**

#### **1. Overview**

The tariff quota system imposes lower tariff rates on certain amounts of imports than the general tariff rates otherwise imposed on the same type of imported goods. For certain leather products, the tariff quota system in Japan has been in place for more than 30 years. However, the quotas are not

necessarily exhausted every year (e.g., in the fiscal year 2016, only 66.4% of the quota for leather footwear was exhausted<sup>31</sup>).

Contributing to the above is the fact that some countries that have signed economic partnership agreements with Japan and Least Developed Countries pay tariff rates lower than those of the tariff quota system, or none at all in the case of the latter. As explained below, the EPA also enables EU exporters to export the leather products at lower tariff rates than the tariff quota system.

## 2. Relevant Law and Regulations

The Act on Temporary Measures Concerning Customs (the “**TMCC Act**”), Article 8-5, paragraph 2, refers to the Customs Tariff Act, Article 9-2, and applies the tariff quota system defined in the article to the goods which are both listed in Annex 1 of the TMCC Act and designated in the Decree on Tariff Quota System, Article 1.

Leather products under the tariff quota system are divided into four different categories: leather of bovine or equine animals (dyed, etc.),<sup>32</sup> leather of bovine or equine animals (other),<sup>33</sup> leather of sheep, lambs, goats, or kids (dyed, etc.),<sup>34</sup> and leather footwear (excluding slippers and sports footwear).<sup>35</sup>

## 3. The EPA

The EPA introduces lower tariff rates than the tariff rates applied for the quota. The tariff rates applied for products originating in the EU will be eliminated through 11 equal annual reductions, and will ultimately be duty-free on 1 April 2028.<sup>36</sup>

This means that the EU exporters will no longer need quota allocations, as long as the products are deemed to be originating in the EU<sup>37</sup> and enjoy the preferential tariff rates of the EPA. As Japanese importers of the EU leather products do not have to apply for quota allocations any more, this could lead to the EU exporters having more options as to the distribution channels in Japan.

<sup>31</sup> Decree on Tariff Quota System, Article 1 and Trade Statistics (from April 2016 to March 2017) for Harmonized System codes 640320011, 640320021, 640340011, 640340021, 640351011, 640351022, 640359012, 640359044, 640359045, 640359049, 640391012, 640391022, 640399012, 640399013, 640399014, 640399022, 640419111, 640420111, 640420211, 640420221, 640510111, 640590111, and 640590121.

<sup>32</sup> Harmonized System codes: 4104.41-2(1), 4104.49-2(1), 4107.11-2(1), 4107.12-2(1), 4107.19-2(1), 4107.91-2(1), 4107.92-2(1), 4107.99-2(1)

<sup>33</sup> Harmonized System codes: 4101.20-2, 4101.50-2, 4101.90-2, 4104.11-2, 4104.19-2, 4104.41-1(2), 4104.41-2(2), 4104.49-1(2), 4104.49-2(2), 4107.11-2(2), 4107.12-2(2), 4107.19-2(2), 4107.91-2(2), 4107.92-2(2), 4107.99-2(2)

<sup>34</sup> Harmonized System codes: 4105.30-1, 4106.22-1, 4112.00-2(1), 4113.10-2(1)

<sup>35</sup> Harmonized System codes: 6403.20, 6403.40, 6403.51-1, 6403.51-2(2), 6403.59-1(2), 6403.59-2(2), 6403.91-1(2), 6403.91-2(2), 6403.99-1(2), 6403.99-2(2), 6404.19-1(1), 6404.20-1(1), 6404.20-2(1)A, 6404.20-2(2)A, 6405.10-1(1), 6405.90-1(1)A, 6405.90-1(2)A(a)

<sup>36</sup> For more detailed information on tariff elimination and reduction, see Annex 2-A of the EU-Japan EPA. The latest tariff schedule of Japan customs is available [here](#).

<sup>37</sup> Guideline for the statement on origin/importer’s knowledge and verification under the EU-Japan EPA is available [here](#).



### C. General Tariff Rate Reduction

Under the EPA, general tariff rates on other leather products that have not been subject to the tariff quota system have been, and will be, lowered as well.

For HS Code Chapters 41 (Raw hides and skins (other than furskins) and leather) and 64 (Footwear, gaiters and the like; parts of such articles), concessions have been made for all of the goods that have not been subject to tariff quota system; the tariffs on all the goods under Chapters 42 (Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)), and 43 (Furskins and artificial fur; manufactures thereof) have also been lowered and will be eliminated, if they were not already duty-free before the EPA took effect.<sup>38</sup>

### D. Other Regulations on the Import of Leather Products

Imported leather products may be subject to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (the "CITES"), also known as the Washington Convention. The domestic implementation of the CITES is as follows; the Foreign Exchange and Foreign Trade Act, Article 52 stipulates that persons seeking to import goods may be obligated to obtain import approval pursuant to a Cabinet Order, to allow Japan to fulfill its obligations under a treaty. The Import Trade Control Order, Article 3, paragraph 1 states that the METI shall provide for and publicize the items of goods requiring import approval. Through the Import Trade Control Ministerial Ordinance, and some other announcements made by the METI, fauna and flora subject to the regulation of the CITES are protected in Japan, pursuant to the CITES.

The Act on Welfare and Management of Animals, a domestic law which concerns the health and welfare of animals, principally lays out the guidelines for pet owners, and regulations for businesses or non-profit operations that sell, keep, lend, train, display, bid, or care for live animals. Imported leather products are usually not subject to the law.

Imports of leather products could be subject to other regulations, such as the Domestic Animal Infectious Disease Control Law and the Law concerning Wildlife Protection and Hunting.

## VI. CONCLUSION

While Japan's domestic production of leather products has been declining since the 1990's, imports of leather products have been increasing in recent years, especially high-value added products. It is very clear from Trade Statistics that luxurious leather bags imported from the EU have gained much popularity in Japan because, for example in 2018, Italy, France, and Spain together accounted for 67% of the entire import value of leather bags to Japan, whereas the EU market share in volume was only 20%. On the other hand, with respect to leather footwear, the shares of EU imports are not as large; the 2018 market share of EU leather footwear in volume was only 9%, and that in value was 31%. This is consistent with the fact that Japanese consumers spend more when they shop for bags than they do for shoes.

Given the above market conditions in Japan, the tariff reduction and elimination, and consequent better price competitiveness made possible by the EPA, presents an important opportunity for EU leather products manufacturers who are known for their quality of their products. This is particularly

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<sup>38</sup> For more detailed information on tariff elimination and reduction, see Annex 2-A of the EU-Japan EPA. The latest tariff schedule of Japan customs is available [here](#).

important for footwear, as it is in general less expensive and more price sensitive than bags, and the competition with low-priced products from Asian countries is severe, especially in the mid- to low-end market segments of shoes.

The EPA also affects the necessary import procedures for leather footwear, which are subject to a tariff rate quota system, as the EPA introduces lower tariff rates than the tariff rates applied for the quota. Japanese importers of EU leather footwear do not have to go through the application procedures for tariff quota allocations each year anymore. While leather goods wholesalers, who come in-between the leather goods manufacturers and consumers, exercise great presence in the distribution channels in the Japanese market for leather products at the moment, not having to apply for quotas can enable EU exporters to engage with Japanese consumers more directly, without the wholesalers, which should lower the cost of distribution and help EU exporters better understand Japanese consumers' needs. For the reasons above, the EPA makes way for EU exporters of leather goods to expand their business in the Japanese market.

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