

# Japan's Free Trade Network

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Japan has established a significant network of free trade agreements, especially with the member countries of the **Association of Southeast Asian Nations (ASEAN)**, which are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Japan concluded an agreement with the group of ASEAN members, and Japan has bilateral agreements, called **Economic Partnership Agreements (EPAs)**, with most of the ASEAN countries, as well as with Chile and Mexico. In addition to the bilateral EPAs that are already in effect, Japan has signed EPAs with the Swiss Confederation and Vietnam, and these agreements are pending implementation. Together, these EPAs provide preferential duty treatment for many cotton textile and apparel articles that are traded among these countries. In many instances, the preferential origin rules require less extensive production in countries that are parties to the agreements, and the agreements generally do not include the additional rules that are common in trade agreements to which the United States is a party, such as restrictions on the origin of elastomeric yarn or sewing thread.

This summary discusses preferential treatment for cotton yarns, fabrics, apparel, and household textile products under the ASEAN agreement and on a bilateral basis between Japan and Indonesia, Malaysia, Thailand, and Vietnam. The full text of each of Japan's EPAs is available at:

[http://www.meti.go.jp/english/policy/external\\_economy/trade/FTA\\_EPA/index.html](http://www.meti.go.jp/english/policy/external_economy/trade/FTA_EPA/index.html)

## Japan-ASEAN EPA

Japan and the ASEAN countries signed an EPA in April 2008. As of February 2009, that agreement was in effect for Japan, Brunei, Laos, Malaysia, Myanmar, Singapore, and Vietnam. The agreement provides duty-free treatment or reduced duty rates for originating textile and apparel products, according to each country's schedule for the elimination of duties. The full text of the agreement, including its annexes and schedules, is available at:

[http://www.meti.go.jp/english/policy/external\\_economy/trade/FTA\\_EPA/asean.html](http://www.meti.go.jp/english/policy/external_economy/trade/FTA_EPA/asean.html).

### *Preferential Treatment and Rules of Origin*

"Originating goods," in the case of textiles and apparel, must be (1) wholly obtained or produced entirely in an ASEAN country that has implemented the agreement (an ASEAN "Party"), (2) produced entirely in an ASEAN Party from

originating materials of one or more ASEAN Parties, or (3) produced in an ASEAN Party such that all non-originating materials satisfy product-specific tariff shift rules. Originating textile and apparel goods may be imported into Japan free of duty. Certain textile and apparel goods imported into ASEAN Parties from Japan are also eligible for duty-free treatment, but other goods, depending upon the product and upon the country of importation, may be eligible only for reduced duty treatment as duties are phased out over a period of years.

To be originating, cotton yarn and sewing thread must be formed from fiber in an ASEAN Party. The fiber may be of any origin, but cotton fiber must be carded or combed entirely in one or more ASEAN Parties. Generally, cotton fabric must be woven or knitted entirely in an ASEAN Party from yarn that is spun, or dyed or printed entirely in one or more ASEAN Parties. Printed or dyed cotton fabrics may be formed from yarn of any origin, however, if the fabrics are woven or knitted entirely, and dyed or printed entirely, in one or more ASEAN Parties. In both cases, qualifying dyeing or printing operations must also involve at least two finishing operations.

The EPA's preferential origin rules for apparel and other made-up articles apply only to the component that determines the article's classification. The rules require changes in tariff classification and do not specify necessary production operations. Most likely, however, the rule requires that the article be cut or knit to shape, and sewn or otherwise assembled in one or more ASEAN Parties from materials specified in the preferential rules. Where appropriate, therefore, this summary references cutting or knitting to shape, and sewing or assembly.

For cotton apparel, yarn may be of any origin, but fabric used in the component that determines the garment's classification must be formed entirely in one or more ASEAN Parties. Made up textile articles of Harmonized Tariff Schedule (HTS) chapter 63 – such as blankets, bed sheets, towels, and tablecloths – made in an ASEAN Party are also originating, as long as any fabric used in the component determining the article's classification is formed entirely in one or more ASEAN Parties. Quilts and certain other articles of HTS subheading 9404.90 also must be made from fabric formed in one or more ASEAN Parties.

### *De Minimis Content*

The EPA includes a *de minimis* rule that permits the use in textiles and apparel of materials that do not satisfy the applicable tariff shift rule. Under the *de minimis* rule for yarn, fabric, apparel, and made up articles of HTS chapter 63, such content will not disqualify an article from preferential treatment, as long as the total of all non-qualifying materials does not exceed ten percent of the total weight of the finished article. For bedding articles of HTS heading 9404, the total of all non-qualifying materials may not exceed ten percent of the total value of the finished goods.

### *Certification and Verification*

A certificate of origin from the government of the exporting country is required for all claims for preferential treatment. The certificate of origin must be in English and must include data elements specified in the EPA. The certificate must be shipment-specific, but it may be issued up to one year prior to importation.

In addition to the certification requirement, the EPA includes recordkeeping requirements and permits inquiries, document requests, and verification visits by the government of the importing party.

## **Japan-Indonesia EPA**

Japan signed an EPA with Indonesia in August 2007, and the EPA took effect in July 2008. Indonesia is an ASEAN country, but because the ASEAN agreement is not in effect with respect to Indonesia, the bilateral EPA controls trade in textile and apparel goods between Japan and Indonesia. The full text of the EPA between Japan and Indonesian is available at: [http://www.meti.go.jp/english/policy/external\\_economy/trade/FTA\\_EPA/indonesia.html](http://www.meti.go.jp/english/policy/external_economy/trade/FTA_EPA/indonesia.html).

### *Preferential Treatment and Rules of Origin*

Japan's bilateral EPA with Indonesia eliminates or reduces duties on "originating" textiles and apparel, which, like originating goods under the ASEAN agreement, are wholly obtained or produced entirely in Japan or Indonesia, are produced in Japan or Indonesia with originating materials, or are produced in Japan or Indonesia according to tariff shift rules specified in the EPA. Certain household textile articles may have value content rules as alternatives to tariff shift rules.

Originating textile and apparel goods may be imported into Japan free of duty. Originating cotton yarns, fabrics, and apparel may be imported into Indonesia free of duty. Certain household textile articles imported into Indonesia, on the other hand, currently are eligible only for entry at reduced duty rates.

The rules of origin under the EPA with Indonesia are similar to those under the EPA with all the ASEAN countries, including provisions in the bilateral EPA for the use of certain materials from ASEAN countries other than Indonesia.

Specifically, cotton yarn and sewing thread must be formed from fiber in Japan, Indonesia, or both. The fiber may be of any origin, but cotton fiber must be carded or combed entirely in one or more ASEAN countries. Generally, cotton fabric must be woven or knitted entirely in Japan, Indonesia, or both, from yarn that is spun, or dyed or printed entirely in Japan, Indonesia, or another ASEAN country. Printed or dyed cotton fabrics, however, may be formed from yarn of any origin, if the fabrics are woven or knitted entirely, and dyed or printed entirely, in Japan, Indonesia, or another ASEAN country. Qualifying dyeing or printing operations must also involve at least two finishing operations.

The EPA's preferential origin rules for apparel and other made-up articles apply only to the component that determines the garment's classification. Cotton apparel of HTS chapters 61 and 62 and made up textile articles of HTS chapter 63 must be cut or knit to shape and sewn or otherwise assembled in Japan, Indonesia, or both. Yarn may be of any origin, but fabric used in the component that determines the article's classification must be formed entirely in Japan, Indonesia, or an ASEAN country.

Sleeping bags may qualify for preferential treatment under a tariff shift rule that requires cutting, and sewing or assembly, but permits the use of fabrics and yarns of any origin, or under a value content rule that requires not less than 40 percent qualifying value content. While the preferential rule is relatively lenient, and while qualifying sleeping bags may be imported into Japan free of duty, sleeping bags produced in Japan and imported into Indonesia are eligible only for reduced duty treatment according to duty rates that Indonesia must gradually reduce over time. Quilts and similar articles of HTS subheading 9404.90 must be made from fabric formed in Japan, Indonesia, or both. Like sleeping bags, such articles may be imported into Japan free of duty, but they are currently eligible only for reduced duty treatment upon entry into Indonesia.

#### *De Minimis Content*

The EPA includes a *de minimis* rule, which permits the use in yarns, fabrics, apparel, and made up articles of HTS chapter 63 of materials that do not satisfy the applicable tariff shift rule as long as the total of all non-qualifying materials does not exceed seven percent of the total weight of the finished article. For bedding articles of HTS heading 9404, the total of all non-qualifying materials may not exceed ten percent of the total value of the finished goods.

#### *Certification and Verification*

As under the ASEAN agreement, a certificate of origin from the government of the exporting country is required for all claims for preferential treatment. The certificate of origin must be in English and must be in a format agreed upon by the Japanese and Indonesian governments. The certificate must be shipment-specific, but it may be issued up to one year prior to importation.

In addition to the certification requirement, EPA includes recordkeeping requirements and permits inquiries, document requests, and verification visits by the Japanese and Indonesian governments.

### **Japan-Malaysia EPA**

Japan and Malaysia signed an EPA in December 2005, and the agreement has been in effect since July 2006. Malaysia is also a party to the EPA among the ASEAN member countries and Japan, and Malaysia has implemented that

agreement. Pursuant to each country's schedule for the elimination of duties under the ASEAN agreement, originating cotton yarns, fabrics, apparel, and household textile articles imported into Japan from Malaysia are duty-free. Originating cotton yarns, fabrics, apparel, made-up articles, and certain household textile articles imported from Japan into Malaysia are also duty-free; other originating household textile articles imported into Malaysia are eligible for reduced duty rates during a duty phase-out period. Japan and Malaysia's schedules for the elimination of duty under the ASEAN agreement are available at: <http://www.mofa.go.jp/policy/economy/fta/asean/annex1.html>.

The bilateral agreement's preferential rules for textiles and apparel are similar to the rules under the ASEAN agreement, including preference rules for textiles and apparel in the bilateral agreement (like those in the bilateral agreement with Indonesia) that allow many inputs to be sourced from Japan, Malaysia, or any ASEAN country. The full text of the bilateral agreement between Japan and Malaysia is available at: [http://www.meti.go.jp/english/policy/external\\_economy/trade/FTA\\_EPA/malaysia.html](http://www.meti.go.jp/english/policy/external_economy/trade/FTA_EPA/malaysia.html).

Because not all ASEAN countries have implemented the larger EPA with Japan, however, the bilateral agreement between Japan and Malaysia may presently offer additional options for preferential treatment. Where materials from an ASEAN country are permitted under the bilateral EPA, materials from countries that have not yet implemented the Japan-ASEAN EPA are also permitted. Under the ASEAN agreement, materials from a country that has not yet implemented the agreement could cause an article to lose its originating status. For instance, a knit garment that is cut and sewn in Malaysia with cotton knit fabric formed in Indonesia would be an originating garment in Japan under the Japan-Malaysia EPA, but would not currently be originating under the Japan-ASEAN EPA.

### **Japan-Thailand EPA**

Japan and Thailand signed an EPA in April 2007, and the agreement took effect in November 2007. While Thailand is an ASEAN member and will eventually be part of the Japan-ASEAN EPA, the ASEAN agreement is not yet in effect with respect to Thailand. Preferential duty treatment for originating textile and apparel products is currently available only under the bilateral agreement. The full text of that agreement is available at: [http://www.meti.go.jp/english/policy/external\\_economy/trade/FTA\\_EPA/thailand.html](http://www.meti.go.jp/english/policy/external_economy/trade/FTA_EPA/thailand.html).

### *Preferential Treatment and Rules of Origin*

The agreement between Thailand and Japan defines “originating goods” in essentially the same way as the term is defined in Japan’s agreement with the ASEAN members and in Japan’s bilateral agreements with Indonesia and Malaysia. Product-specific rules for fabrics and yarns in the agreement with Thailand, however, offer less flexibility, because they generally do not permit the use of materials from other ASEAN countries.

Thus, cotton yarn and sewing thread must be formed from fiber in Japan, Thailand, or both, with fiber of any origin, but cotton fiber must be carded or combed entirely in Japan, Thailand, or both. Fiber carded and combed in other ASEAN countries will disqualify yarns under Japan’s EPA with Thailand. Most cotton fabric must be woven or knitted entirely in Japan, or Thailand, or both, from yarn that is spun, or dyed or printed entirely in Japan, Thailand, or both. Printed or dyed cotton fabrics, however, may be formed from yarn of any origin, if the fabrics are woven or knitted entirely, and dyed or printed entirely, in Japan, Thailand, or both. Qualifying dyeing or printing operations must also involve at least two finishing operations.

As in agreements with Indonesia, Malaysia, and the group of ASEAN countries, however, the origin rules for apparel and made-up articles in Japan’s EPA with Thailand generally require only that the article be cut or knit to shape and sewn or otherwise assembled in Japan, Thailand, or both, with fabric comprising the component determining the article’s classification that was formed entirely in Japan or an ASEAN country. Similarly, sleeping bags may be cut, and sewn or assembled, in Japan or Thailand from materials of any origin, or they may qualify as originating goods under a 40 percent value content rule. Cotton quilts and similar articles, in contrast, must be cut, and sewn or assembled in Japan, Thailand, or both from fabric formed in Japan, Thailand, or both.

Cotton yarns, fabrics, apparel, and household textiles that are originating under these rules may be imported into Japan free of duty. Such goods are also generally duty-free when imported into Thailand, but certain household textile products are subject to a duty phase-out period and are eligible for importation only at reduced duty rates during that period.

#### *De Minimis Content*

While certain product-specific rules in the bilateral EPA with Thailand are stricter than those in other of Japan’s EPAs, the agreement with Thailand includes a more liberal *de minimis* rule than is found under certain of Japan’s EPAs. The rule, which is comparable to the *de minimis* rule under the ASEAN agreement, permits the use in yarns, fabrics, apparel, and made-up articles of HTS chapter 63 of up to ten percent by weight (rather than seven percent) non-originating materials that otherwise fail to make the required tariff shift. For household textile articles of HTS heading 9404, the *de minimis* threshold is, as in other agreements, ten percent of the article’s value.

### *Certification and Verification*

The EPA between Japan and Thailand also includes certification requirements and verification procedures similar to the requirements and procedures in Japan's other free trade agreements.

### **Japan-Vietnam EPA**

Japan and Vietnam signed a bilateral EPA in December 2008, but the agreement has not yet been implemented. Vietnam has, however, implemented the Japan-ASEAN agreement. The textile and apparel rules in the ASEAN agreement therefore govern preferential trade in textiles and apparel between Japan and Vietnam.

Most originating cotton textiles and apparel imported into Japan from Vietnam are duty-free. According to Vietnam's schedule for the elimination of duties under the ASEAN agreement, however, most originating cotton textile and apparel goods may be imported into Vietnam only at reduced rates of duty during phase-out periods of ten or fifteen years. Each country's schedule for the elimination of duties is available at:

<http://www.mofa.go.jp/policy/economy/fta/asean/annex1.html>.

If Vietnam and Japan implement their bilateral agreement before all the ASEAN countries have implemented the Japan-ASEAN EPA, producers may in some instances benefit from preference rules in the bilateral agreement. Certain rules in the bilateral agreement permit the use of materials from any ASEAN country, even if the source country has not yet implemented the agreement among Japan and all the ASEAN members. The full text of the Japan-Vietnam EPA is available at:

[http://www.meti.go.jp/english/policy/external\\_economy/trade/FTA\\_EPA/vietnam.html](http://www.meti.go.jp/english/policy/external_economy/trade/FTA_EPA/vietnam.html).