

JAPAN'S APPAREL & TEXTILE MARKET

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Abstract

This report will provide readers with a clear overview of the size of the Japanese apparel and textile market, the potential and opportunities, as well as lists of retail targets – and the distributors and trading companies that could partner in reaching them. We also describe ways to sell direct to Japanese consumers from the EU (one of the biggest new opportunities to grow your exports AND test the market for your products).

Japan is clearly one of the best fashion export markets available for EU firms. As well as being, economically, the 3rd biggest economy in the world, it is also one of the most stable, organised, rewarding – and fun. Japanese companies work within a society that is highly disciplined and ethical, allowing EU firms to work with Japan comfortably and with confidence.

Japan often gets ignored by exporters because of the looming shadow of its much larger neighbour, China, with its faster growth rates and sheer size. Japan may not be the fastest growing market nor the biggest but there are many EU apparel and textile firms that have seen their fastest growth in Japan and their most profitable sales. This is because of both Japan's large size as a market for good design, the enthusiasm for fashion and education of its populace and the ease of doing business there, which can often mean less costs and so more profit.

Japan's apparel and textile markets remain in good health. The fashion market (apparel and accessories) has remained stable in the last five years, contracting by just 5% – a good result given price deflation and contracting demand globally – and is currently worth ¥15.5 trillion. Imports dominate largely from Asia but, in the premium markets, European and US brands have a strong share. There are many opportunities for EU firms, all the more so now that the EU-Japan **Economic Partnership Agreement** came into force on 1 February 2019.

Japanese appreciation for European fashion manufacturing quality, design, craftsmanship – and the culture that produces these skills – is well known and remains a constant feature of the market. While there are already many famous fashion European brands selling well in Japan, there is an opportunity for more. Japanese people have an appreciation for new and exciting ideas and products and will support up and coming firms often more so than those firms find in their home countries.

At a time when most manufacturers, brands and retailers face huge challenges in their home markets due to the impact of the pandemic, finding new export sales is one of the few options for growth. The impact of the pandemic in Japan has been much, much less harsh than in Europe and its consumer economy remains more robust and so is an ideal export market for EU firms to look at.

With a stable, regulated environment and pockets of significant growth, Japan is one of the best export markets in the world for European firms and well worth the commitment.

1. The Apparel Market

a. Apparel Market Overview

i. Market Value

The Japanese apparel and fashion market is stable and one of the largest export markets for EU firms. We provide data on both the pure apparel market – clothing only – and the wider clothing, accessories and footwear market – the "fashion" market.

During the last five years, the apparel market has remained stable although has contracted slightly. This was not a contraction in unit sales but in value, i.e., prices fell and part of a global decline in retail prices reflecting the expansion of the discount apparel market. Japan too has seen more share acquired by cheap fashion chains but, at the same time, premium and luxury fashions have also flourished. This is because of the great expansion in the wealth market which provides a massive opportunity for premium and luxury EU fashion firms (more on this later).

In FY2019-2020 (the latest data available), sales of pure apparel fell to ¥11.960 trillion in FY2019, down 3.2% within an apparel, accessories and footwear market of ¥15.525 trillion, down 3.5% (see Chart below).

	FY2015		FY2016		FY2017		FY2018		FY2019		
	¥bn	YonY %	¥bn	YonY %	¥bn	YonY %	¥bn	YonY %	¥bn	YonY %	
Total Apparel & Accessories Market Sales											
A	METI Specialty Sales	11,106	-3.0%	10,743	-3.3%	11,095	3.3%	11,048	-0.4%	10,686	-3.3%
B	METI Large Stores	4,359	-1.2%	4,123	-5.4%	4,026	-2.4%	3,877	-3.7%	3,574	-7.8%
C	JADMA Members	901	4.2%	987	9.5%	1,073	8.7%	1,162	8.3%	1,265	8.9%
	Total Apparel & Accessories	16,366	-2.2%	15,853	-3.1%	16,194	2.2%	16,087	-0.7%	15,525	-3.5%
Apparel Only Sales											
A	METI Specialty Sales	8,330	-3.0%	8,057	-3.3%	8,321	3.3%	8,286	-0.4%	8,015	-3.3%
B	METI Large Stores	3,269	-1.2%	3,092	-5.4%	3,020	-2.4%	2,908	-3.7%	2,681	-7.8%
C	JADMA Members	901	4.2%	987	9.5%	1,073	8.7%	1,162	8.3%	1,265	8.9%
	Total Apparel Only Sales	12,500	-2.1%	12,137	-2.9%	12,414	2.3%	12,356	-0.5%	11,960	-3.2%

Note: Accessories = includes scarves, gloves, shoes, bags and related accessories. METI total figures include traditional clothing, some textiles, bedding and other items.

Source: Government Data, Trade Bodies; JapanConsuming

ii. Market Concentration

For the past two decades, the Japanese apparel market has become increasingly concentrated. An analysis of the sales of the top 100 retailers selling apparel annually shows a marked increase in the share of the top 100 retailers of the total market.

In FY2019-20, the total sales for the top 100 apparel chains fell to ¥8.49 trillion, with an average decline of 1.7%. However, because of the slower growth in the market as a whole, the top 100 saw their share rise to 71% – a 1.8-point increase in 2018. Top 100 share has grown in 16 of the last 17 years, rising from a 53% share to 71%, an increase of 18 points¹.

Consolidation will continue to accelerate because of the Covid crisis. While competition among leading specialty firms is increasing, forcing some major firms to scale back, the majority of the firms suffering major cutbacks are medium to small firms where rising inventory levels and thinning cashflow cannot be sustained. Nevertheless, some of the big

¹ JapanConsuming JC2010

firms too are cutting back too, particularly more traditional firms which depend on wholesaling such as World, Onward and Sanyo Shokai.

At the same time, we are seeing a strong increase in the number of small and micro businesses in fashion, particularly in D2C (Direct to Consumer), reflecting the health of the market overall and the great opportunities for new entrants from the EU.

iii. Key Fashion Consumption Trends

By definition, fashion trends are always evolving, but the latest trends as of Spring 2021 are as follows:

Women

Theme: Continuing from last year, “Sustainable and Ethical” is still in trend, with stronger and brighter messages such as “positive” and “toughness”.

Design:

- Sleeve conscious (such as puff-sleeves)
- Designed collars
- Wide pants
- Long outerwear (spring coats, jerseys)

Key Items:

- Wide pants
- Hoodie
- Jacket
- Skirt/dress + boots (even in spring)

Fabrics:

Flower prints, metallic, sheer, lace.

Colours:

Pale colours (blue, pink, orange, yellow and green), white, grey.

Accessories:

- Bags have become smaller
- Shoes: White is back with more volume on sneakers, and also boots.

Men

Theme: Sports Mix (outdoor/Sports/workers items but a clean look), minimal with comfort.

Design:

- Tailored jacket + T shirt
- Casual suits + hoodie
- Big silhouettes

Key Items:

- 80-90s Half zip sweatshirt
- Bomber jacket/MA-1
- Stadium jumper
- Wide trousers vs skinny trousers
- Joggers
- Thick sole sneaker

Colours:

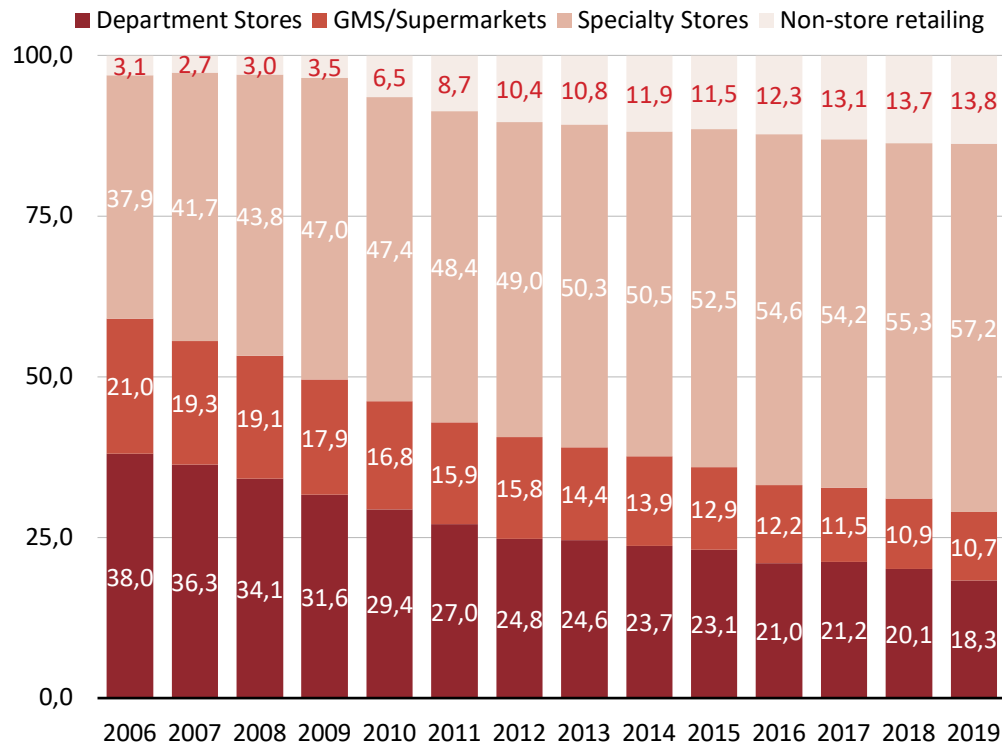
Beige, Navy, Earthy colour

Fabrics:

Corduroy, denim, combination of different fabrics

iv. Key Retail Channels

Market Share by Channel, 2006-2019



Source: Company Reports; Nikkei; Stores Report; Hanbai Kakushin; JDSA; JapanConsuming.

There are four main channels for apparel sales:

Specialty Chains

The majority of market share in this format is held by a small number of very large retailers led by Fast Retailing, which operates Uniqlo and GU, and which has around 10% share of the entire apparel market. Others include Aداستria, Ryohin Keikaku (Muji), Stripe International, Pal Group and World. There are numerous premium retailers as well, such as United Arrows. Specialty retailing has gained the most share in the last two decades. As the chart shows, specialty share rose again in FY2019 too, having risen for 16 of the last 17 years, surging by just under 2 points to 57.2%. However, while most specialty chains have performed well in the last decade, a group of old, traditional retailers have seen sales diminish as they become less and less viable.

Department Stores

Department stores continue to lose market share within the top 100. As can be seen from the Chart above, department store market share of apparel in the top 100 has fallen from 38% to just 18.3% in the last 15 years. This is partly because of changing consumer demand and tastes, and partly structural. The department store sector suffered from overcapacity and has seen store numbers fall by nearly 30%. At the same time, consumers flocked to specialty chains because they offer much higher cost performance.

GMS Chains

GMS chains – hypermarkets selling supermarket produce as well as apparel and household items like TVs – also saw their share fall but by a more modest 0.2 points in FY2019. However, in the last 15 years or so they have seen their share fall by about 50%. The reasons are similar to department stores: the rise of much better value specialty chains

and e-commerce as well as changing shopping traffic patterns towards shopping centres – especially shopping centres near stations.

E-commerce

E-commerce share of apparel retail has grown dramatically in line with other countries. We estimate penetration at around 14% for the top 100² and at around 17-18% overall – but this likely jumped to 25% in 2020 due to the pandemic. This is lower than in markets like the UK, for example, but this is not – as often assumed – because Japan is behind in modernising. It is, instead, because of two main reasons: Japanese still love shopping in shops, and shops are much, much easier to access than in many other markets. This latter point is because Japanese population densities are very high so most Japanese live in just four major conurbations. It is also because almost everyone moves around by train, and shops are usually located at train stations. We expect Japanese e-commerce share to remain lower than other markets going forward for these reasons.

v. Performance by Channel

The top 100 retailers of apparel account for 71% of the total apparel market and for around 95% of the corporate-owned apparel market³.

- For the past decade, the fastest growing retailers have almost always been specialty chains, and in FY2019 too, 22 of the top 25 by growth were specialty chains⁴. For the first time not one department store or GMS (General Merchandise Stores) chains made it into the ranking, despite the fact that last year, gaining entry only required 0.9% growth. Three non-store retailers, Zozo, Belluna and Jupiter Shop Channel also entered the ranking⁵.
- GMS apparel sales fell an average of 4.4%, much worse than the 1.0% the year before, and the format continues to lose apparel share. This is both a function of less footfall to clothing sections of these stores but also because many GMS retailers are now closing down stores or their own clothing floors and handing them over to tenants – not always in the apparel category.
- Most of the 10 worst performing apparel retailers by sales were specialty chains, but the worst of all was Senshukai, a catalogue-based direct marketing firm, falling just under 20% last year. The retailers that performed worst, such as Yamato and Honeys, mostly have legacy supply chains (i.e., reliance on domestic wholesalers which results in poor cost performance) while the suits chains are suffering from the sharp increase in retiring workers and falling demand for suits – all the more so in the last year during the pandemic.

² JapanConsuming JC2105

³ JapanConsuming JC2010

⁴ Ibid.

⁵ Ibid.

b. Competition

i. Top 30 Apparel Retailers FY2019

Rank	Company	Type	Apparel in Total		
			Sales ¥mn	YonY %	Sales* %
1	Uniqlo	SpS	872,957	0.9	100.0
2	Shimamura	SpS	516,068	-4.4	100.0
3	Zozo	EC	317,423	6.7	92.0
4	Aeon Retail	GMS	301,927	-3.9	17.2
5	Daimaru-Matsuzaka	DpS	239,495	-4.2	36.5
6	GU	SpS	238,700	12.7	100.0
7	Acastria HD	SpS	222,376	-0.1	100.0
8	Isetan-Mitsukoshi	DpS	200,038	-12.3	34.3
9	Onward Holdings**	SpS	197,424	5.9	79.5
10	Takashimaya	DpS	194,234	-2.8	27.9
11	World	SpS	184,749	0.7	82.0
12	Sogo Seibu	DpS	169,750	-2.5	28.8
13	United Arrows	SpS	157,412	-0.9	100.0
14	Aoyama Shoji	SpS	153,162	-17.0	100.0
15	Ito-Yokado	GMS	140,760	-8.0	13.4
16	TSI Holdings**	SpS	139,458	6.3	82.0
17	Pal Group	SpS	137,700	5.5	100.0
18	Marui Group	SpS	136,570	-0.4	55.0
19	Stripe International	SpS	132,500	-0.5	100.0
20	Baycrews	SpS	131,000	10.3	100.0
21	Hankyu-Hanshin	DpS	130,632	-0.3	28.0
22	Ryohin Keikaku (Muj)	SpS	122,149	8.4	37.2
23	Seiyu*	GMS	112,432	-	-
24	Sazaby League	SpS	112,400	1.0	95.0
25	Aoki Holdings	SpS	98,352	-14.0	65.0
26	Belluna	EC	90,873	1.2	50.5
27	Uny	GMS	89,320	-2.3	12.4
28	Beams	SpS	85,400	2.9	95.7
29	Kintetsu	DpS	81,711	-1.1	31.6
30	Mash Holdings	SpS	78,700	11.8	100.0

Source: Company Reports; JapanConsuming.

The ranking above of the top 30 retailers of apparel provides a unique list of the leading retailers and a snapshot of who the main competitors are for EU firms wanting to compete at the retail level. However, many of these retailers are also potential customers if you intend to sell at wholesale to Japanese retailers, such as department stores.

Either way, this list will provide a map of where the key targets are. As reported above, since market share in Japanese apparel is increasingly concentrated, this ranking provides a key summary of the market.

ii. Market Profitability

Leading apparel retailers by profitability, FY2019

Company	Op. Margin %		YonY pts	Op. Profit ¥m	YonY %
1 Workman	20.77	20.20	0.6	19,170	41.7
2 GU	11.77	5.52	6.3	28,100	139.2
3 Uniqlo	11.74	13.77	-2.0	102,474	-13.9
4 Zozo	8.10	7.90	0.2	27,888	-21.5
5 Mash Holdings	6.99	7.81	-0.8	5,500	0.0
6 Baroque Japan	6.99	6.67	0.3	4,604	-2.8
7 Aoyama Shoji	6.86	6.86	0.0	12,653	-30.7
8 Pal Group	6.58	6.08	0.5	9,067	14.3
9 Ryohin Keikaku (Mt)	6.32	8.65	-2.3	20,762	-20.6
10 Adastria	5.79	3.23	2.3	12,885	79.2
11 Honeys	5.64	10.20	-4.6	2,400	-51.6
12 United Arrows	5.56	6.96	-1.4	8,758	-20.8
13 Sanki	5.21	5.58	-0.4	3,422	-8.4
14 Shimamura	4.55	4.84	-0.3	23,485	-10.2
15 Aoki Holdings	2.93	6.31	-3.4	2,886	-60.0
16 Palem HD	2.09	3.01	-0.9	504	-28.0
17 Tabio	1.58	3.68	-2.1	249	-58.9
18 Nishimatsuya Chair	1.33	2.61	-1.3	1,908	-47.0
19 Ships	1.13	10.07	-8.9	299	-17.6
20 Haruyama Shoji	0.74	3.29	-2.6	376	-79.4
21	6.13		-1.0		-9.9

Source: JapanConsuming; Company data

Profit margins in apparel retailing increased in the decade to 2015. This is because of the growing share of more efficient specialty retailers which generally have higher operating margins than department stores and GMS chains. In FY2019 however, profitability worsened across the sector again, the fourth straight year of poorer returns. Among all apparel specialty retailers with sales over ¥1 billion, gross profits fell 2.4 points and the average gross margin dropped just under one point to 45.7%⁶. SG&A costs rose 0.4 points on average to 40.2%. Operating profits fell further, down 10.1% on average after a 9.7% drop the year before⁷.

Among the top 20 most profitable specialty retailers, profit growth declined 9.9% last year due to much lower profits from firms like retailers like Ships, Honeys, Aoki Holdings and even Ryohin Keikaku, with average operating profit margins of 6.13%, a fall of 1.15 points (see Chart).

In the chart shown above, apart from Workman, Uniqlo was actually beaten by its own sister brand, GU (both companies are part of Fast Retailing), which increased operating margins by 6.3 points to 11.77%, with Uniqlo relegated to 3rd place at 11.74%. Uniqlo had seen an improvement in 2018 thanks to closing more stores than it opened, but in FY2019 suffered from rising costs because of the poor A/W season. GU increased operating profit by 139.2% on the back of successful new lines focused on mass market trends.

⁶ JapanConsuming JC2010⁷ Ibid.

The only other significant growth came from Adastria, up 2.3 points, which continues to clean up its store portfolio at home and overseas – it opened 55 stores but closed 90, helping sales per store rise 2.4%. Improving merchandising, product planning and sell through helped operating profit rise 79.2%.

One of the few other strong performers was Pal Group, although much of the profit came from its 3Coins variety store (which sells accessories at a flat price of ¥300) rather than its core fashion chains.

Many retailers suffered significant falls in profits. Aoki Holdings was down 60% due to store rationalisation and falling suit sales, just ahead of Tabio, down 58.9% due to inventory issues – Honeys also dropped more than 50% for similar reasons.

iii. Fastest growing Competitors

Fastest Growing Apparel Retailers, FY2019

Rank	Company	Type	YonY	Sales
			%	¥m
1	Workman	SpS	37.9	70,522
2	Daytona Int'l	SpS	30.6	22,639
3	GU	SpS	12.7	238,700
4	Mash Holdings	SpS	11.8	78,700
5	Baycrews	SpS	10.3	131,000
6	Tokyo Base	SpS	9.3	15,247
7	H&M Japan**	SpS	9.0	59,610
8	Ryohin Keikaku (M)	SpS	8.4	122,149
9	Zozo	EC	6.7	317,423
10	TSI Holdings*	SpS	6.3	139,458
11	Onward Holdings*	SpS	5.9	197,424
12	Pal Group	SpS	5.5	137,700
13	Tatsumiya	SpS	5.0	11,617
14	Aming	SpS	4.7	9,295
15	Wacoal	SpS	4.3	25,666
16	Nishimatsuya Chaii	SpS	3.5	74,193
17	Palemo	SpS	3.5	24,085
18	Beams	SpS	2.9	85,400
19	Jupiter Shop Chan	EC	2.4	65,360
20	Age	SpS	2.1	9,414
21	JR Tokai Takashima	DpS	1.6	65,301
22	Izutsuya	DpS	1.6	21,196
23	Belluna	EC	1.2	90,873
24	Sazaby League	SpS	1.0	112,400
25	Uniqlo	SpS	0.9	872,957

Source: Company Reports; JapanConsuming. *Parent Only ** Estimate

We profile some of these retailers to highlight potential competition but also how they exemplify current trends. Some are of course potential customers for EU firms. The following have been some of the fastest growing apparel retailers in the last five years.

Workman

Workman, which sells workwear but is evolving along the lines of a kind of small-format Decathlon, continues to reap the rewards of its brilliant decision to leverage its gritty, rugged image (wrought from decades supplying gear to tradesmen) by moving into the consumer sports casual market through the Workman Plus chain.

Even before Workman Plus, Workman was a consistent performer over the last decade, with the highest operating margins among apparel-related retailers in each of the last 10 years. Key to growth has been the relentless expansion of private brands, adding a plethora of new high function casual apparel and sports lines to the core workwear basics. Workman added 36 new Workman Plus stores last year but converted 121 existing Workman stores to the new moniker while rebuilding six others completely. At the end of FY2019, 175 stores carried the Workman Plus name, a rapid upgrade given the brand was only launched in late 2018.

Daytona International

Daytona International is at the opposite end of the spectrum to Workman. A Harajuku-based business, Daytona was founded in 1990 (although the founder started a used clothing store four years earlier in Ibaraki) as an importer of smaller fashion brands from Europe and the USA. Like many former importers, today Daytona runs its own stores and has also expanded far beyond apparel to now include home decoration and furniture, dining and even hotels and house construction.

Daytona's primary fashion chain is the popular select shop chain, Freak's Store, which focuses on around 60 brands of casual fashions, including its own brands and others like Nautica and The North Face. It also operates chains like Freada, (the face of which is Mexican actress, Frida Kahlo), Sig Freak's Store, Firsthand, and the new chain for career women, Aresense. In 2020, Daytona launched a new chain called The Camp Freak's Store to exploit the booming outdoor and camping market.

Zozo

Zozo is Japan's largest online fashion mall with more than 8 million dedicated fashion consumers and a key source of sales for many EU brands. Zozo had a couple of troubling years between 2017-2019 as it adjusted to becoming so large and, following a change of management, is growing fast again. It is well-known for its many innovations, mixing technology and fashion such as its fitting technologies like the Zozosuit and its new cosmetics skin tone measuring glasses.

Zozo now sells more than 7,000 brands, with the average retail price falling in three of the four quarters in 2019, although the average value of each shipment rose strongly in the last two quarters. However, in early 2021, Zozo introduced a new premium and luxury section selling brands like Loewe and Marni and also a new cosmetics section. It is also expanding footwear.

For any EU firm wanting to sell online in Japan, Zozo is a key channel.

Ryohin Keikaku (Muji)

Ryohin Keikaku keeps on proving its naysayers wrong. The branded non-brand has been written off many times due to fears of saturation at home and competition in China but Muji keeps on growing and has plenty of life left in it both at home and abroad. Muji is also very profitable.

Muji's latest four-year plan calls for sales to rise to ¥500 billion from 1,200 stores through 2021 ending August, and operating profit of ¥60 billion.

Baycrews

Baycrews has been leading the select shop category (a Japanese term for premium multi-brand stores) in recent years by opening stores at a rapid pace – a net 52 stores in FY2019, bringing the total to 428. It is a key channel for premium EU brands as are all its competitors like United Arrows, Beams, Ships and Tomorrowland.

In a way it is easier for Baycrews to expand given the much greater diversity of banners compared to rivals like United Arrows and Beams, which have reached partial saturation for their core brands. Baycrews runs chains ranging from Journal Standard to Edifice, which let it expand without the brand dilution problems faced by rivals and help it hedge the rapid shifts in consumer sentiment and fashions.

Baycrews has been one of the most aggressive retailers in e-commerce and one of the most determined to reduce dependence on malls like Zozo. Half of Baycrews' e-commerce sales are from its own online store. While sales through Zozotown have risen three-fold in the last five years, sales through Baycrews' own e-commerce stores have jumped tenfold.

Baycrews is also moving into the mass market more and now forecasts that by 2027, sales will rise to ¥300 billion.

Mash Holdings

Mash Holdings remains one of the most promising fashion and lifestyle retailers. Its key chains include Snidel, Gelato Pique, Fray I.D. and Cosme Kitchen which cover fashion, cosmetics and lifestyle sports.

Mash Holdings continues to innovate. It has branched out into the burgeoning sports fashion market through Emmi, and has recently signed more overseas brands, including New Zealand's Ecostore household cleaning brand in Spring 2017.

Mash is also exploiting Japan's increasingly sweet tooth. It has signed three overseas confectionery brands in a year, starting with Parisian confectionery chain, Hugo & Victor, and then US organic ice-cream chain, Three Twins. This month, it will launch the popular Taiwanese soft ice-cream brand Ninao, after signing an exclusive franchise last summer.

Mash Holding is also a key target for EU brands.

Urban Research

Urban Research is an important channel for imported apparel brands, including from the EU. It has been a fast-growing retailer for more than a decade, although growth has slowed as it has matured.

Adastria

Adastria' grew rapidly in the first 15 years of this century and has become one of the most powerful apparel retailers. Its core chains are Global Work, Lowry's Farm and "Niko and...". As well its own brands it also sells overseas brands.

iv. Leading Apparel Wholesalers

The apparel wholesale market has shrunk dramatically in the last decade as vertically integrated retailers take more share.

Leading Apparel Firms, FY2019

	Company	Sales ¥m	YonY %	
1	World	236,265	-5.4	https://www.world.co.jp
2	Onward HD	248,233	3.2	https://www.onward-hd.co.jp
3	TSI Holdings	170,068	3.1	https://www.tsi-holdings.com
4	Cross Plus	58,493	-7	https://www.crossplus.co.jp
5	Jun	61,600	-3.6	http://www.jun.co.jp
6	Look HD	43,909	-0.2	https://www.look-holdings.jp
7	Itokin	44,698	-11	https://www.itokin.com
8	Sun Rally Group	56,852	2.3	https://www.sunrallygroup.co.jp
9	4° HD	44,970	-4.6	http://yondoshi.co.jp
10	Five Foxes	50,327	-14.8	https://www.fivefoxes.co.jp
11	Moririn	99,051	-10.6	https://www.moririn.co.jp
12	Koizumi Group	49,554	-9.1	https://koizumi-gr.jp/group/
13	Takihyo	54,274	-7	https://www.takihyo.co.jp
14	Java Group	30,000	-	https://www.java.gr.jp
15	Caitac HD	70,601	0.2	https://www.caitac.co.jp
16	Matsuo International	17,607	1.2	www.matsuo-international.com
17	Hirota	20,367	-4	https://www.hirota-ap.com
18	Tokyo Soir	14,971	-7.2	https://www.soir.co.jp
19	Adventure HD	19,416	-4.3	http://www.adventure.co.jp
20	Yamato International	16,818	1.7	http://www.yamatointr.co.jp

Source: Company Data; JapanConsuming

As the chart shows, there are three major apparel wholesale-based firms before the scale of companies drops dramatically by sales. There was one other major wholesaler, Renown, but this company went into administration in 2020 and parts were sold to other firms such as Koizumi.

The top three firms, World, Onward and TSI, today mix wholesale activities with their own retail operations. Due to the collapse in the apparel wholesale market, these firms have been forced to seek growth selling directly to consumers both through physical stores and, more recently, through e-commerce.

Many of these companies also distribute overseas fashion brands so can be regarded as both competitors and potential partners.

c. Trends in Apparel Distribution

Fewer stores

Company	YonY	Stores	Sales/
	Net	Year End	Store ¥m
Highest Net Store Additions			
Mash Holdings	52	573	137
Baycrews	46	474	276
Workman	31	868	106
GU	28	421	567
Leilian	20	446	94
Mujirushi Ryohin	17	437	751
Honeys	16	881	48
H&M Japan	14	105	-
Shimamura	11	2,158	239
Palemo	9	487	49
Tabio	7	273	62
Sazaby League	3	616	182
Nishimatsuya Chō	2	1,006	142
Highest Net Store Closures			
Aoki HD	-59	638	154
FO International	-36	306	79
Samantha Thavasi	-36	297	79
Adastria	-35	1,392	160
Taka Q	-30	272	82
Right On	-25	473	156
Mac House	-21	371	69
Konaka	-17	542	112
United Arrows	-14	356	185
Baroque Japan	-14	356	185
Uniqlo	-10	817	1068
Haruyama Shoji	-10	464	109

Source: JapanConsuming; Company data

Retailers with sales over ¥1 billion operated 22,895 specialty apparel stores at the end of FY2019, a decline of 59 stores year-on-year⁸. Recently, after years of relentless expansion, the market has stagnated and there is no question that the number of apparel stores will have dropped sharply by the end of FY2020 and then further as e-commerce becomes increasingly pervasive. As well as the pandemic, major drags on store investment continue:

- Saturation for the more mature major chains, who used to lead store expansion, particularly retailers like Uniqlo, United Arrows and Adastria
- Less appetite for apparel/fashion stores from mall developers keen to diversify their tenant base
- The shift to investment in online stores.

Department stores and GMS chains: apparel decline continues

Department stores continued to face tough trading in their apparel floors. Of the 27 department store firms within the top 100 apparel retailers, only three posted higher sales in FY2019-20, compared to 12 the year before⁹. On average, sales fell 3.5% compared to 0.8% in 2018. Lower sales were due to store closures or conversion of space to tenancies as well as poor footfall. Many stores are reducing space for apparel as they refurbish, adding more diversity in the form of interiors brands and lifestyle merchandise, as well as more services.

⁸ JapanConsuming JC2010

⁹ Ibid.

GMS stores performed even worse, down 4.4%.

2020 was of course a terrible year for department stores as stores had to stay closed during April and May 2020 and from February 2020, inbound tourist traffic disappeared. As a result, sales for the sector fell 25.7% in CY2020 to just ¥4.22 trillion¹⁰. While there will be rebound when inbound tourist traffic returns and affluent Japanese go shopping again, the beneficiaries of the rebound will only be the best stores. For EU firms, focusing on the top 50 department stores is the best bet.

Market share is concentrating further

Specialty womenswear is today dominated by the top five companies, Uniqlo, Aداستريا, Shimamura, Pal Group and Stripe International. Among all specialty womenswear retailers with sales of more than ¥1 billion, these five retailers alone had a share of almost 69% in FY2019, up four points in a year. The top 10 took just over 93%, up five points¹¹.

In menswear too, there is a similar concentration but there was no growth in share; the top three specialty menswear retailers, Uniqlo, Aoyama and Aoki, own 51% of the menswear specialty market, and the top 10 have 76%.

E-commerce gaining share

Please see following section “Opportunity” on e-commerce.

i. Future Trends

With growth slowing and headwinds increasing, there are several ways fashion/apparel firms are going to respond in the next few years in order to seek outgrowth for themselves:

Sector shakeout

We will see further shake out of the sector with a big clean-up of merchandising, internal operations and entire businesses that don't perform, with remaining businesses leaner and more able to work with the size of the market. This will mean a reduction in the number of SMEs. Investment funds, trading companies, big retailers and some international firms will act as key agents for this change, creating new forms of conglomerate.

Global Reach

Most larger businesses will expand overseas in order to find growth due to the contracting population at home, like Fast Retailing, particularly in Asia but some are also beginning to expand into Europe and the US.

Business size polarisation

While the biggest firms will grow and Hoover up more market share (at the expense of SMEs which will decrease in number), micro-enterprises will proliferate thanks to online platforms. As already witnessed, these enterprises are often more fleet of foot and creative and certainly have more appetite for risk than SMEs and will be a cause of the latter's decline. This will be a form of polarisation by business size.

Strategic M&A

While the fashion industry has seen a lot of M&A over the last decade, much of it has been poorly executed – examples include Rizap's adventures and Fast Retailing's early acquisitions like Cabin. There is now evidence of more strategic consideration, such as Aداستريا's takeover of Trinity Arts – a move which effectively saved the former from decline. As major firms seek growth in a contracting market, going forward we are likely to see better use of

¹⁰ JapanConsuming 2104

¹¹ JapanConsuming 2010

M&A as a tool for expansion, including overseas. Yagi Tsusho, the apparel distributor, for example, has acquired stakes in several EU fashion brands.

Lifestyle Fashion

Major “lifestyle conglomerates” will emerge, partly through M&A, but also through organic growth. Early adopters of this form of retailing are Baycrews and Mash Holdings, which develop retail across any product category or service that can be “lifestyled”, including food, dining, travel, home decoration and even gyms/health centres.

More showroom stores

Physical retailers will increase the ratio of online sales and improve the seamless integration of off- and online into just “retail” which means all customer touch points. Showroom stores (displaying samples only) or hybrid stores mixing samples and takeaway merchandise will become more common as a way to reduce store sizes, staff numbers and improve the dynamism and customer service in-store, becoming pure brand communication galleries rather than stockrooms. Current examples include GU, Melrose and Sanyo Shokai.

Distribution Automation

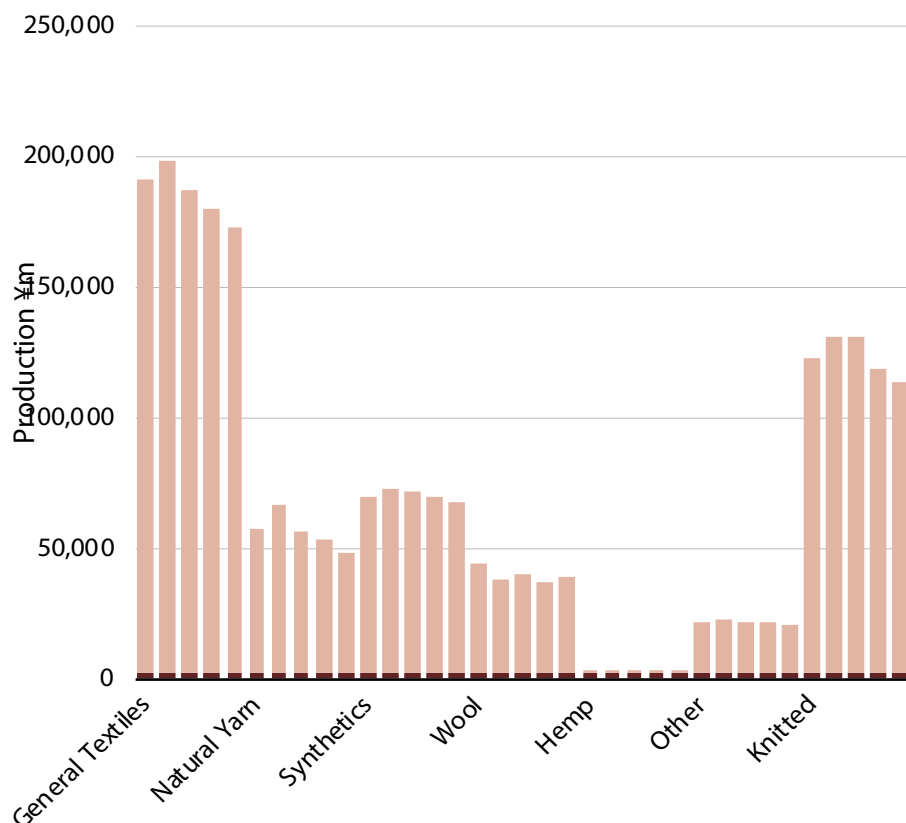
Concomitantly, automation will increase dramatically in the fashion sector, particularly in distribution but also in-store (product information screens, changing room deliveries, purchases) and in head office (data analysis linked to base design). The senior roles will consist of creatives and managers as now, but also engineers and data scientists. Leading exemplars today include fast Retailing, Baycrews, United Arrows and Mash Holdings.

Customisation

Personalisation and concierge services will become pervasive even at low price fashion brands due to automation and AI and the need to compete for every customer. Accessing data will become critical and a factor in who wins and losses in fashion retailing. This will put pressure on malls to share data and/or retailers and brands to increase direct online sales to grab that data. The winners, either way, are already appearing: the leaders in cashless payments and loyalty points are Rakuten and Z Holdings. All that data and automation will make customisation possible even on low-cost items. Uniqueness will become very un-unique.

d. Textile and Apparel Domestic vs. Import Market

i. Domestic Textile Market Value FY2019 (Source: Govt Data)



Japan's textile market in terms of domestic production has declined slightly in recent years but over the long-term has fallen significantly; according to Yano Research¹², domestic shipment values fell 38% between 1994 and 2017.

ii. Imported Apparel

Imports by Type in 2020 (Source: Japan Govt)

2020	Knitwear				
	Volume '000	YonY%	Value ¥m	YonY%	
January	239,589	7.9	122,664	6.4	
February	126,031	-38.4	59,023	-39	
March	226,897	-2.8	102,866	-4.4	
April	233,332	-1.4	101,660	-4.1	
May	120,706	-35.2	53,663	-36.2	
June	127,938	-21.5	61,072	-22.3	
July	189,962	-11	93,204	-20.7	
August	189,089	-18.2	105,799	-22.8	
September	205,154	-7.3	120,212	-12.8	
October	201,863	-10.7	115,352	-14.6	
November	180,663	0.5	101,302	-2.8	
December	194,570	5.1	107,138	2	
Total	2,235,794	-10.7	1,143,955	-13.7	

¹² https://www.yano.co.jp/press-release/show/press_id/2420

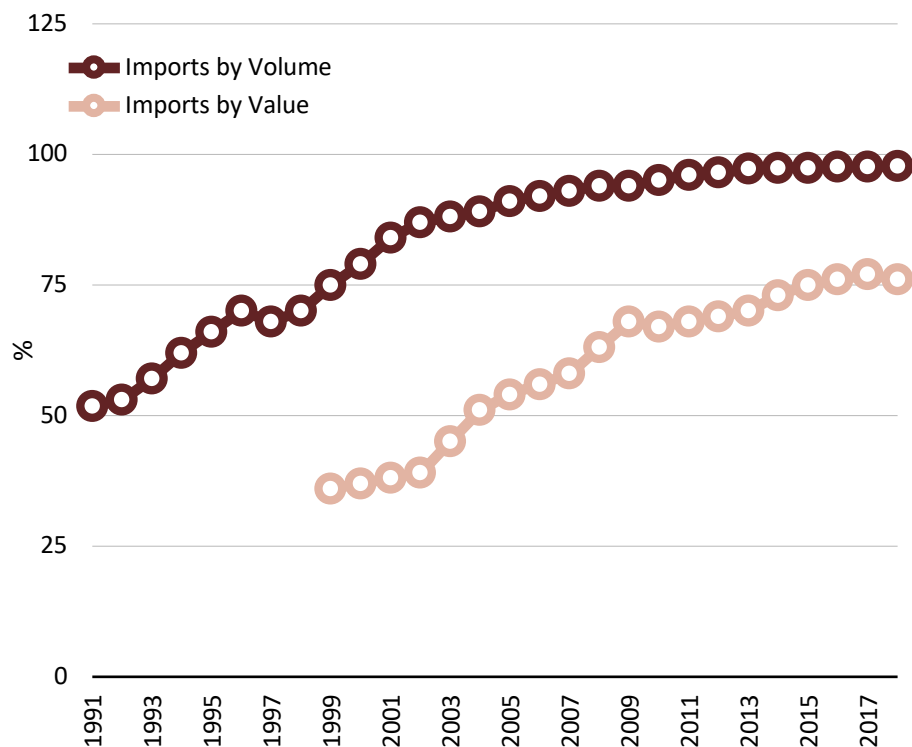
2020	Fabric Apparel			
	Volume '000	YonY%	Value ¥m	YonY%
January	126,102	126,002	136,296	6.7
February	64,312	64,212	68,974	-34.6
March	114,596	114,496	116,223	-2.2
April	120,564	120,464	107,469	-8.6
May	75,217	75,117	66,591	-31.6
June	80,346	80,246	71,514	-16.8
July	95,172	95,072	96,265	-24.8
August	95,382	95,282	106,862	-23.6
September	104,943	104,843	121,199	-17.5
October	87,925	87,825	99,279	-26.2
November	76,992	76,892	74,523	-24
December	82,351	82,251	81,223	-22.2
Total	1,123,902	1,123,802	1,146,418	-18.4

2020	Other Clothing & Accessories			
	Volume '000	YonY%	Value ¥m	YonY%
January	15,490	1.3	37,336	0.8
February	5,620	-47.6	15,792	-43.3
March	11,681	-6.2	28,227	-9.9
April	13,305	2.5	29,905	-5.9
May	10,105	-14.2	19,995	-27.1
June	9,865	-1	21,706	-8.5
July	11,421	-15.8	28,085	-18.1
August	11,989	-16.6	28,830	-20.1
September	13,950	-11.8	30,643	-12.4
October	12,782	-21.9	28,606	-19.8
November	11,310	-6.5	25,029	-11.5
December	10,294	-11.3	23,525	-17.4
Total	137,812	-12.2	317,679	-15.7

2020	Total	
	Total ¥m	YonY
January	296,295	5.9
February	143,790	-37.5
March	247,316	-4.1
April	239,034	-6.4
May	140,249	-32.9
June	154,292	-18.1
July	217,554	-22.3
August	241,491	-22.9
September	272,053	-14.9
October	243,237	-20.3
November	200,853	-12.9
December	211,888	-10.9
Total	2,608,052	-16.1

As can be seen from the chart, imports of apparel shrank dramatically in 2020 due to the reduction in orders from wholesalers and retailers during the pandemic. There is expected to be an upturn during the second half of 2021.

Apparel Imports 1991-2018



Source: Japan Govt Data; JapanConsuming

iii. Imported textiles

Yarn, Textile, Apparel Imports

Product	2018		2019		2020	
	Value ¥m	YonY %	Value ¥m	YonY %	Value ¥m	YonY %
Yarn	137,608	5.1	121,007	-12.1	85,695	-12.1
Textiles	256,272	4.5	249,939	-2.5	216,048	-2.5
Clothing	3,205,848	6.4	3,107,998	-3.1	2,608,052	-3.1
Carpets etc	573,683	4.5	576,044	0.4	943,864	0.4
Total	4,173,411	5.9	4,054,989	-2.8	3,853,660	-2.8

Source: Japan Govt Data; JapanConsuming

The drop in textile imports was much less sharp, falling just 2.5% in 2020, the same as in 2019.

As can be seen from the Chart at the top of this page, imports now account for around 97% of all textile-related markets by volume and 76% by value. This is up from 51% and 35% respectively in 1991.

iv. Clothing imports by country

Apparel Imports by Country

	CY2020									
	Knitwear		Fabric Clothing		Other Clothing & Accs			Total		
	Units '000	Value ¥m	Units '000	Value ¥m	Tonnage	Value ¥m	Tonnage	Share	Value ¥m	Share
1 China	1,341,404	650,365	673,556	587,151	109,072	217,477	586,247	61.9	1,454,993	55.8
2 Vietnam	355,566	202,411	155,454	191,820	10,551	33,982	135,333	14.3	428,214	16.4
3 Cambodia	117,154	52,256	56,129	56,338	913	3,411	42,661	4.5	112,005	4.3
4 Bangladesh	149,904	54,192	65,185	55,435	597	1,247	58,096	6.1	110,874	4.3
5 Myanmar	62,528	25,729	67,478	74,803	776	2,296	38,226	4	102,828	3.9
6 Indonesia	68,631	40,490	47,881	44,477	4,564	6,716	34,822	3.7	91,683	3.5
7 Italy	1,468	24,598	1,451	40,524	271	12,786	1,553	0.2	77,908	3
8 Thailand	55,434	24,553	15,717	5,717	4,454	13,591	11,931	1.3	43,861	1.7
9 India	10,826	5,398	23,092	17,062	465	1,365	7,204	0.8	23,825	0.9
10 Romania	183	2,830	579	13,013	1	37	404	0	15,880	0.6
Asean	687,716	360,933	346,550	380,185	25,118	67,277	275,609	29.1	808,395	31
YoY %	-9.5	-10.9	-5.9	-14	-8.5	-9.3	-10.2		-12.2	
EU	4,712	40,497	3,318	72,587	563	20,920	3,731	0.4	134,005	5.1
YoY %	-24.4	-16.9	-22.7	-13.7	-28.8	-22.7	-22.8		-19.2	
Global	2,235,794	1,143,955	1,123,902	1,146,418	137,812	317,679	947,352	100	2,608,052	100
YoY %	-10.7	-13.7	-11.1	-19.4	-12.2	-15.7	-11.8		-16.1	

Source: Japan Govt Data; JapanConsuming

As the Chart shows, China remains the largest producer for Japan by far, with 62% share of all producer countries by volume but 55.8% by value, reflecting the lower price points originating from China. Italy and Romania are the only two EU countries in the top 10. Italy has been in the top 10 exporters to Japan for decades and continues to be an important supplier of both textiles and apparel, particularly in the premium market. This is why it has just 0.2% share by volume and 3% share by value.

v. Japanese manufacturing

Japanese textile and apparel manufacturing

2020

Product	Production m2
Chemical fibers	705,363
Regenerated and semi-synthetic fi	160,162
Synthetic fibers	545,201
Polyester	168,959
Polypropylene	105,285
Other synthetic fibers	102,541
Woven fabrics	861,055,945
Worsted fabrics	16,164,875
Woollen fabrics	2,783,297
Silk and spun silk fabrics	1,377,851
Viscose staple fabrics	44,718,279
Rayon filament and acetate fabrics	28,082,737
Synthetic fiber fabrics	679,102,998
Synthetic filament fabrics	582,925,679
Nylon	98,838,374
Polyester	324,680,553
Other synthetic filament fa	159,406,752
Synthetic staple fabrics	96,177,319
Polyester	71,654,244
Other synthetic staple fabr	24,523,075
Other fabrics	
Tire cord	15,308,853
Towelling	9,146,624
Cotton fabrics	
Texture total (including bleache	67,691,863
Unbleached muslin	8,307,789
Poplin, broad cloths	3,967,340
Sofu, tenjiku, saifu and flannel cloth	1,881,362
Crapes	46,254
Leases	14,071,413
Satin	4,642,599
Bandage cloth, gauze cloth, white cotton clc	8,446,109
Other texture	26,328,997
Dyed yarn	21,134,045
Gingham	1,677,722
Other dyed yarn	19,456,323
Wool fabrics	18,948,172
Worsted fabrics	16,164,875
Woollen fabrics	2,783,297
Silk and spun silk fabrics	1,377,851

Knit fabrics		48,716,035
	Cotton fabrics	7,654,829
	Wool fabrics	130,103
	Synthetic fiber fabrics	40,642,428
	Nylon	4,373,157
	Acrylic	548,420
	Polyester	34,186,115
	Others	1,534,736
	Other fiber fabrics	288,675
Knitwear		
	Outerwear	18,552,965
	Underwear, foundation garment	27,416,900
	Hosiery	127,080,895
	Gloves and mittens	9,545,586
	Gloves and mittens	
Woven fabric		
	Outerwear	31,854,480
	Outerwear	
	Coats, Jackets, trousers and skirts	3,855,491

Source: Japan Govt Data; JapanConsuming

Japan continues to manufacture textiles and clothing, but the share of domestic manufacturing has fallen in the last 20 years. By volume in textiles, the main product is worsted fabric, followed by cotton.

vi. Textile Competitors and/or Potential Customers

The following is a ranking of the top 20 textile firms by textile sales in FY2019. Many of the larger firms are both manufacturers and importers, meaning that they will be both competitors and customers of EU textile firms but will also be suppliers to some EU apparel manufacturers, brands and retailers.

Leading textile firms, FY2019

	Company	Textile Sales	YonY %
1	Teijin Textile Group	306,320	-3.8
2	Toray International	297,587	-6.6
3	Itochu Shoji	268,910	-15.7
4	Toyoshima	209,121	0.9
5	Toyota Tsusho	192,320	-16.9
6	Nittetsu Bussan	130,200	-13.8
7	Yagi	118,500	0.4
8	Moririn	99,100	-10.6
9	Stylem	93,500	-3.5
10	GSI Creos	89,800	-18.2
11	Sumitomo Shoji	66,800	-8.4
12	Takisada Nagoya	63,000	-7
13	Asahi Kasei Advance	56,300	-5.1
14	Takihyo	53,800	-8
15	Kuraray Trading	45,400	-0.8
16	Yagi Tsusho	39,200	7.1
17	Toyobo STC	28,100	-1.7
18	Unichika Trading	24,000	-10.1
19	Chikuma	21,200	2.5
20	Sankyo Seiko	21,100	-16.3

Source: Company Data; JapanConsuming

e. Future for Apparel Retail Market

The last decade has seen a mixed performance for the apparel sector. The market has expanded in some years and contracted in others but since 2009, the market overall has contracted 3.7% for all apparel and accessories and 3.2% for apparel only¹³. This is a reasonable result given the financial crisis of 2008-9, the 2011 earthquake and the mixed economic performance in subsequent years and the contraction in population. These numbers show the resilience of the Japanese apparel market and we fully expect the market to remain stable in the decade ahead. As we report in the following pages, even in a no-growth market, there remain many opportunities for EU firms to enter and expand in this market.

Of course, this will only be after the pandemic ends. 2019-2020 started off reasonably well but by the end of the year, the darkening clouds were already gathering over Japan as elsewhere and consumers simply stopped buying fashion at the levels of previous years. Retailers and brands have their work cut out to find new growth in the current market.

Even before Covid-19, the sector faced significant headwinds from competition from other consumption categories like entertainment, the home and mobiles.

The good news is that with most Japanese not travelling, those budgets will likely be spent on treats which should mean some higher spending once the recovery comes later in 2021.

Most of these savings will benefit stand out strong mass market fashion labels and retailers as well as premium and luxury brands. The increasing focus on health and working from home (WFH) will also help sports brands and fashion-sports retailers.

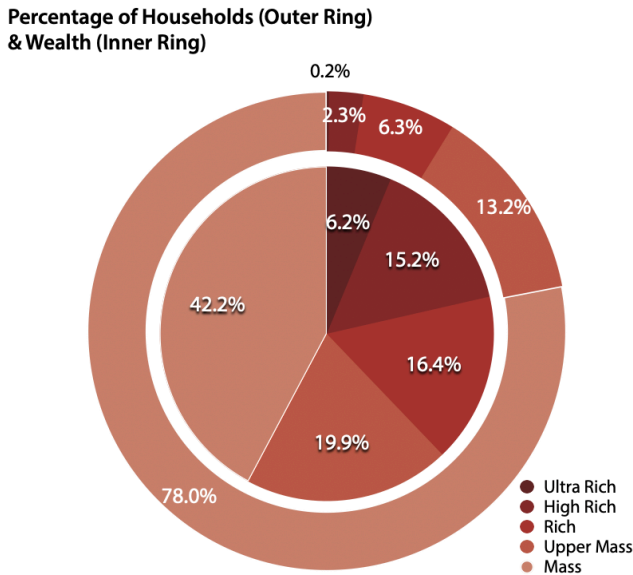
Long term decline means that neither department stores nor GMS chains are likely to benefit and won't be able to revive sales as much as other formats. E-commerce is, of course, the big winner during the pandemic, supporting the online malls but also retailers that have worked out how to bind stores and online together – Japanese examples of this trend include Baycrews, Uniqlo and Adastria.

¹³ JapanConsuming JC2010

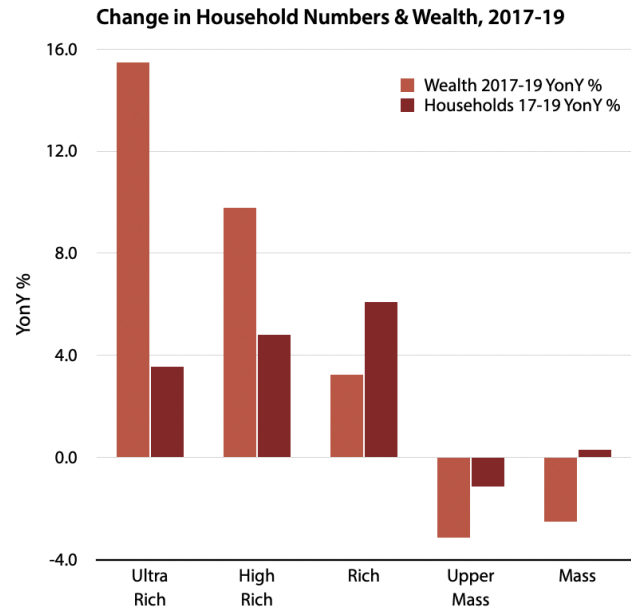
2. Opportunity

a. Key Trends for EU firms to exploit

Sharp increase in Japanese wealth



Source: NRI; JapanConsuming.



The number of high-net-worth households (HNWIs) with liquid assets of ¥100 million or more rose by almost 5% in 2019 compared to 2017. This is according to the latest report from NRI which tracks Japan’s richest households every two years¹⁴. NRI recorded 1.3 million households (2.5% of the total) with assets over ¥100 million. Of these, 87,000 (0.2%) were classified as ‘Ultra-rich’, or UHNWI, with assets of ¥500 million or more.

Comparing this with figures from Cap Gemini’s Global Wealth Report¹⁵, Japan accounted for around 7% of all HNWIs globally. NRI put total liquid assets for this group at around ¥333 trillion, roughly 4.3% of the global total.

The true extent of the enormous growth in the wealthy in Japan and the growing gap between them and the rest is better understood from a wider lens; **compared to 2005, the number of HNWI households has grown a huge 52.5%, with UHNWIs up an even greater 67.3% using NRI’s data as a baseline.**

The same is true of wealth. Assets held by HNWIs increased 9.8% 2017-19, while the value of assets held by UHNWIs surged 15.5%. Average assets per household were up 4.7% for HNWIs to ¥190.3 million, while each UHNWI household averaged ¥1.11 trillion, up 11.5%.

This is an unprecedented shift in wealth and income distribution with profound social and economic implications, including for brands and retailers.

¹⁴ https://www.nri.com/jp/news/newsrelease/lst/2020/cc/1221_1

¹⁵ <https://www.capgemini.com/us-en/news/research-world-wealth-report-2020>

Japanese households appear to be getting generally richer overall. Although the total number of households in Japan increased just 0.6% 2017-19, the number of HNWI and UHNWI households grew much quicker. Households with assets of ¥30 million or less grew 0.3%, while upper middle households (¥30-50 million in assets) fell 1.1% in number. Rich households with assets of ¥50-100 million, however, made up 6.3% of all households and increased by 6.1% 2017-19. These had average assets of ¥74.6 million. Clearly many households are climbing the wealth ladder.

All this increase in wealth offers EU fashion firms a major opportunity:

- There is untapped demand for premium apparel and accessories brands in Japan.
- Many wealthy Japanese are also seeking out new and more authentic brands so for EU firms not yet selling in Japan, there is now a better opportunity than for many years.
- Japanese wealthy are not price sensitive, meaning Japan can be one of the highest margin export markets for EU firms.
- There are many channels serving the wealth market including department stores, "select shops", and small boutiques. Increasingly, e-commerce is now offering luxury with many of the major malls like Rakuten and Zozo now offering luxury sections.

Demand for better value rising from both Japanese and tourists

Japan has seen rising demand for premium fashions which offer good value and high quality at accessible prices.

While the tourist market in Japan has disappeared during the pandemic, the long-term trend is very positive. Tourist numbers tripled to 30 million in 2019 up from 10 million in 2010¹⁶. We fully expect to see a return in tourist footfall after the pandemic ends.

Department stores, select shops and other premium retailers are some of the biggest beneficiaries, and many international brands found a welcome uplift in sales thanks to demand from tourists. The majority of tourists are from mainland China, Hong Kong, Taiwan, Singapore, South Korea and Thailand.

Outlet Malls are a hit in Japan with both locals and tourists. These are providing a useful conduit for unsold apparel stock, helping distributors offset risk, as well as providing an opportunity to sell product designed specifically for outlet malls.

Japanese love new things and this includes brands. Combined with the fact that shopping remains the number one leisure activity, this means that there is a constant quest to discover new and exciting brands and designers. This has created a buoyant market for new entrants to the market.

Fast Fashion boom ends

The fast fashion boom that began in Japan in 2008 has largely ended. Japanese are spending less on disposable fashions and accessories and seeking out higher quality both because of a preference for quality but also because of growing concerns around sustainability. This is good news for EU firms producing or selling higher quality items, whether in the premium/luxury market or sustainable market (or both).

The growing use of digital technologies and AI in supply chains also means that Japanese distributors and retailers are learning to operate with less waste and create more transparent and sustainable businesses and are shifting to

¹⁶ <https://www.mlit.go.jp/kankocho/en/>

producing product that matches demand more intelligently, which means less mass market volume distribution and a shift to more distinctive brands and products, again a trend that should benefit EU brands.

At the same time, the demand for cost performance and low prices remains strong in basic items and provides an opportunity for “category killer” retailers. In 2019, Decathlon, the French sports giant retailer, opened its first Japanese store for example.

Children: fewer but more spending on each

Although there are fewer and fewer children in Japan each year, more money is being spent on each child due to the inverse population pyramid which means that there are more grandparents and other relatives for each child. They are spending on higher-end brands of clothing. Department stores have recently begun to refurbish their childrenswear floors to offer more high-end brands, including from the EU.

Ageing is an opportunity

The decline in births in Japan means that Japan has been ageing fast for more than a decade. This is a challenge but also a major opportunity. The number of Japanese retailers and manufacturers producing apparel for older Japanese remain few, yet the demand is very high. Recently, more local firms have seen an opportunity: in apparel, several retailers like Adastria, Pal Group and Nitori have recently launched new chains for women in their 50s and 60s.

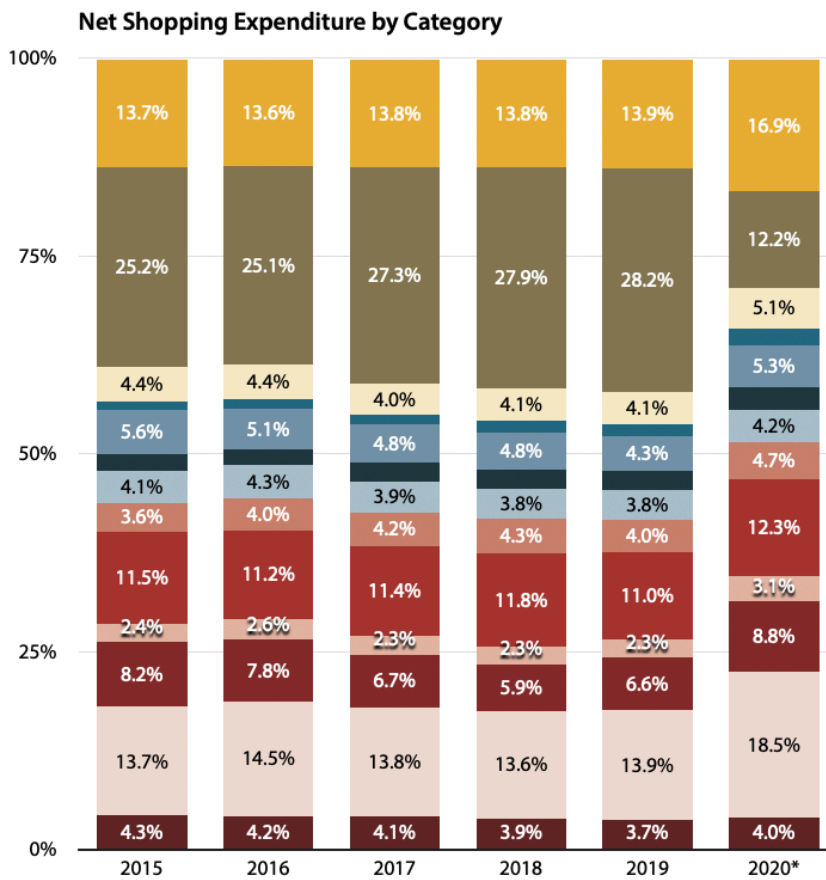
Sports and athleisure

Another area of opportunity is sports and sportswear. Japanese are increasingly concerned with health and participate a lot more in sporting activities than previous generations. At the same time, the “athleisure” boom that has occurred in other major markets is also happening in Japan. These trends provide significant opportunities for sales of sports and sports-fashion apparel. Firms like Goldwin for example have seen sales double for brands they sell such as The North Face.

More women in work = demand for business accessories and footwear

There has been a marked increase in the number of women working in Japan and staying in work to pursue full careers. Over the next 10 years, the ratio will increase further and women in senior positions will also increase significantly. Brands that sell premium clothing for work are increasingly in demand. High-priced suits and other formal work clothes for women, for example, are selling well. More women are looking for comfortable and functional clothing that also look good at both premium and mass market price points.

The rise of e-commerce



Source: Government data; JapanConsuming

- Gifts
- Apparel
- Books, DVDs, CDs
- Other Goods
- Food
- Medical
- Electronics
- Furniture
- Car related
- Cosmetics
- Digital Contents
- Insurance
- Travel & Tickets

E-commerce already accounts for close to 14% of Japanese apparel retailing (as of 2019) based on government figures¹⁷ (although the real number is probably higher and will have shot up in 2020 as described above) and has grown from around 5% in nine years. As the above chart on e-commerce sales by category shows, apparel has been and remains the fastest growing product category in e-commerce, ahead of health products (vitamins and supplements) and food and is likely to remain so for the following reasons:

- Japanese retailers of fashion have been the most proactive among retailers in investing in online marketing.
- Online malls selling fashion have proliferated, led by Zozo but also including the fashion sections of the big general malls like Amazon – Amazon’s Japan subsidiary has a particular focus on fashion – emphasised by Tokyo Fashion Week being sponsored by Amazon until 2019. The new sponsor is Rakuten which has a strong fashion section on its online mall and which is expanding. These online malls also now have luxury sections, selling premium apparel.

¹⁷ <https://www.e-stat.go.jp>

- The barriers to buying online in Japan are falling rapidly. Same day delivery and simple, convenient returns of unwanted purchases have made consumers confident in buying without trying on.
- Japan is designed for mobile shopping given the high rates of train commuting and the length of these commutes. The net effect is a lot of time spent browsing on phones, including shopping. For some malls like Zozo, over 80% of purchases come via smartphones.

This shift to online shopping has been both an opportunity and a threat to distributors of apparel. Some have realised that they can create online stores for the brands they carry, and thus not only grab the retail margin that normally goes to their retail clients, but also form a direct relationship with consumers that can enhance their understanding of the consumer and allow for brand marketing through direct communications. Others have, however, simply viewed e-commerce as yet another threat and failed to innovate, preferring to focus on their existing retail accounts.

Retailers have also begun to learn how to integrate online and retail stores to create a more seamless omnichannel service. Since stores are so easily accessible in Japan, it is likely that e-commerce share of total retailing of clothing will remain lower than some other major markets. Nevertheless, e-commerce will continue to grow at around 10-12% a year for the next five years and will become the biggest channel for merchandise by 2025¹⁸.

Direct distribution forces Japanese distributors to rethink and sign smaller brands

Almost all the biggest international brands now own their own Japanese distribution. Most used to be distributed by, or licensed to, Japanese firms but from the late 1990s the brands themselves took back control. This led to a serious contraction in the size and power of Japanese fashion distributors throughout the 2000s.

Most have only recently begun to recover and find renewed purpose and they are doing this by signing up smaller brands from overseas, providing an opportunity for EU firms. Among the big trading firms, Itochu Shoji switched from distributing mostly major brands to signing more medium and smaller brands to fill the gap left by big labels. Sanki Shoji, a distributor, did the same and focused on Italian brands and factories, while Yagi Tsusho persuaded brands to create joint ventures rather than leave completely, and in other cases bought the brands outright to protect its Japanese business.

A subsequent effect of the increase in the number of foreign companies controlling their own distribution has been investment in retail stores. Foreign companies have been much more willing to risk capital on expanding their chains of directly operated stores across Japan. Distributors were previously reluctant take on the risk and complexity of directly operated stores, but it is now seen as a necessity. As a result, the better distributors now operate large numbers of stores for the brands they carry, improving the brand visibility in Japan. EU firms may wish to explore negotiations over retail investment with potential Japanese partners.

Modernisation of fashion retailing

Specialty retailing dominates distribution for apparel in Japan today but in premium fashions department stores still have a strong share. The shift in retail channels and distribution has led to a rise in new challenges but also new opportunities:

- Most apparel specialty retailers favour vertical models, with their own supply chains, even when supported by trading companies. This means retailers prefer store brands for the most part or, at

¹⁸ JapanConsuming JC2101

the least, retailer-controlled and planned merchandise. As a result, opportunities for overseas brands in this market are fewer. However, a number of retailers are expanding the types of store brands they produce including introducing more upmarket ranges, so there is an opportunity for EU firms to manufacture for Japanese retailers.

- The continued growth of a premium specialty format called ‘Select Shops’ (multi-brand stores) has been a boon to EU exporter. Chains like Beams and United Arrows have long supported foreign brands and designers, and their expansion has meant more sales opportunities. These chains too have expanded the ratio of store brand merchandise but because they are premium retailers, they also source production in the EU, particularly from Italy. They remain a vital retail channel for all distributors of overseas brands.
- In addition, the rise of mass market, dominant apparel retail chains like Uniqlo has led to some reaction and ennui from Japanese consumers bored with the ubiquity of such product. These consumers have sought out the new, different, authentic and unusual, a trend which plays to the strengths of overseas brands.

Better department stores: good news and bad

The department store sector has, along with select shops, traditionally been the main channel for overseas apparel brands. Their dramatic decline from the late 1990s meant a significant contraction in the potential market.

There has, however, been improvement in performance among some major firms since 2014 because management has been overhauled and a new generation of executives have cut away legacy business and stores, overhauled sales floors, taken control of marketing, and introduced private brands. The pandemic has, of course, led to a major contraction in sales (25% in 2020 overall¹⁹) but we expect to see a rebound once the pandemic ends.

The massive cull of stores across Japan has rid the sector of unprofitable and drab stores, helping overall sector performance and image – although there is still a good deal of cleaning house to be done. Conversion of some stores to shopping centres has found a new use for what were otherwise good locations hampered by legacy operations. Inbound tourism helped a lot; before the pandemic, tourist sales accounted for 6% of department store sales and will likely return.

Private brand programmes have been expanded greatly, improving profitability. This is an opportunity for EU firms.

As well as taking control of merchandising through private brands, stores are taking over sections of sales space for their own directly managed in-store sales areas. Key department stores that do this are Isetan-Mitsukoshi, Daimaru-Matsuzakaya and Takashimaya. Much of the merchandise is from overseas designers and brands and is bought both from distributors and directly from overseas. The success of these sales areas is creating new opportunities. Because department stores have to differentiate more and more to compete, and such sales areas help this differentiation, more and larger such spaces can be expected in the next few years.

Japanese consumer demand for the new, authentic, unique and unusual remains unquenched and is indeed growing as the ubiquity and uniformity of mass market fashions leads to something of a reaction against it. This is again an opportunity as department stores are seeking new brands from the EU.

¹⁹ JapanConsuming JC2104

Distributors of overseas brands are changing

The changes in distribution have led a significant evolution among distributors of clothing, both trading companies and importer-distributors, creating new opportunities for EU firms.

For trading companies (commonly called Sogo Shosha) the key changes have been:

- Increasing the number of small and medium sized brands to make up for the loss of major international brands which are now sold directly so providing new chances for smaller EU firms to sign deals.
- Expanding across Asia in the face of a contracting population in Japan, trying to become the Asian distributor for Western brands so some EU firms can sign with one firm to cover the whole of Asia.

Key trends for importer-distributors include:

- The expansion of wealth among the affluent in the last few years has benefitted distributors since the majority of their brands tend to be mid to upscale.
- The demand for investment in stores has forced smaller firms to focus on fewer brands and invest more in each.
- E-commerce is proving a great opportunity to sell direct to consumers, increasing margins and ways to market brands directly to them.

b. Challenges

Demographics

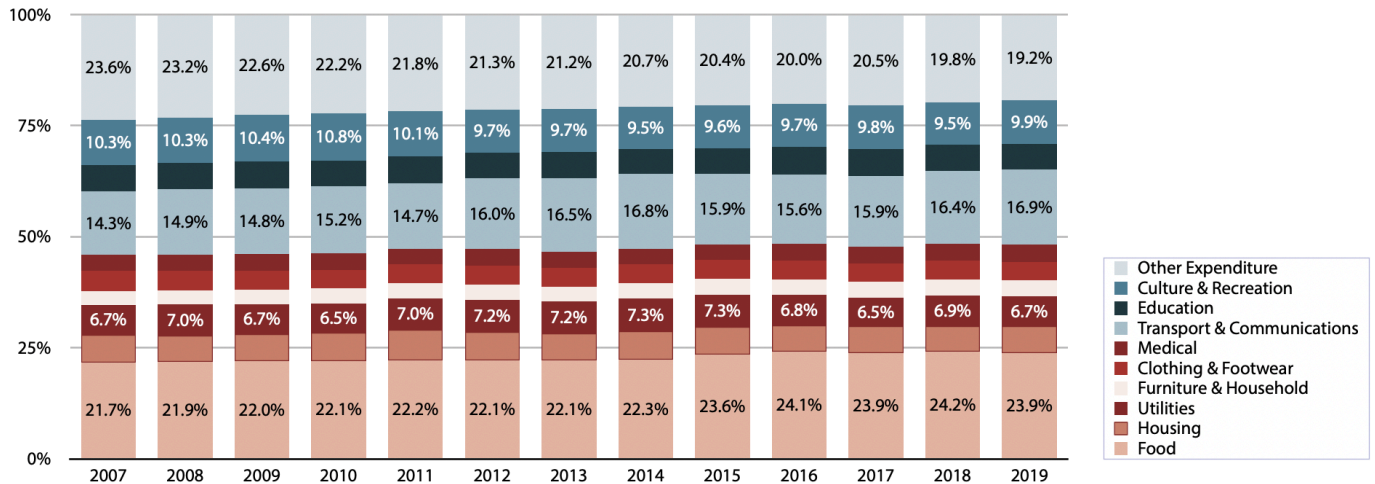
The Japanese population is both ageing and contracting with the total population falling for the last decade but much longer for the working age population. Since working age people tend to consume the most, this trend has had a negative effect on consumption patterns. Yet despite this, the size of the retail market has continued to grow in recent years, showing both recent increases in prices but also the stability and strength of demand in Japan.

Nevertheless, the contracting and ageing population combined with competition from other consumer categories will mean significant constraints on growth going forward – but even then, there are still some serious opportunities within this flat market as outlined above.

More competition for Japanese wallets

Japanese are spending less on clothing and more on other products and, especially, services such as beauty treatments, sports, dining and travel. They are also spending more on the home. As a result, there is growing competition for the consumer wallet and exporters will need to work harder to gain share of a slightly contracting market.

Household Consumption by Category, 2006-2019



Declining spending on apparel

As a result of this wallet competition but also for other reasons, spending on apparel has declined for most of the last decade. Other reasons include the fall in prices, meaning a shrinking market by value if not by unit volume, and less interest in fashion as a form of personal expression as consumers use digital media for this instead.

More share for retail store brands

While the apparel market has only contracted slightly, the share of this market captured by major specialty apparel chains is growing. Since most of the sales of these retailers is taken up by store brands, the share of the market by imported brands is shrinking.

Sharing and Rental

Japanese are increasingly taking an interest in sharing services, in particular rental services for clothing. Sharing services can be found in both the mass market and luxury markets. Department store Mitsukoshi, for example, launched a high-end formal dress rental service called Carite in 2018 which allows consumers to rent a designer dress for two night. In March 2021, Daimaru Matsuzakaya created its own rental service at ¥11,000 per month, offering mostly high-end brands sold at Daimaru Shinsaibashi. Users can rent up to three, high-priced women’s dresses a month with around 50 brands from Japan and overseas offered, including Marni and C by Chloe – and all data is shared with the brands. Cleaning and repairs are included. The store targets 30,000 subscribers and annual sales of ¥6 billion in a few years.

Dedicated fashion rental services include Laxus, Karaoke, Air Closet and Edit.Closet.

These rental services are both a threat and an opportunity. While renting means that consumers buy less, rental services are also a great way to get your brand in front of Japanese consumers. The higher the price of your brand, the more resistance there is to a purchase but if a Japanese can rent the bag first to try it out, there is more chance of them trying out a new, untested, brand and then buying it later. Accordingly, rental services are a great opportunity for EU brands wishing to become better known in Japan.

E-commerce

Japanese manufacturers of clothing have been struggling for many years as shown in Section 2. This is partly because retailers, including department stores, have been sourcing their own store brands direct from factories overseas. In

the last few years, more Japanese manufacturers have seen e-commerce as an opportunity to sell direct to consumers (Dtc) and are setting up their own brands, including in the premium market.

The Dtc market is booming, with many retailers also participating. Zozo created its own Dtc branding programme and Marui, the big shopping mall operator, also promoted Dtc brands. Many of these are created with social media influencers.

This means more competition at retail for EU firms.

The fluctuating Yen

The instability of the Yen over the last decade has challenged Japanese distributors of overseas brands, leading to sharp losses in some years and profit bounties in others. Most have improved financial management, buying swaps and other services from banks to reduce risk, but they are still exposed to longer-term trends which can make them more reluctant to take on a new brand from the EU.

c. Optimal Sectors to Target Across Apparel and Textiles

The key wholesale and retail sectors to target are as follows:

i. Wholesalers and Distributors

- Trading Companies
- General Fashion Distributors
- Specialist Textile Distributors/Wholesalers
- Specialist Apparel Distributors/Wholesalers

ii. Retailers

- Apparel Specialty Retailers
- Select Shops
- Department Stores
- GMS Chains
- E-Commerce Lists of leading firms in these sectors can be found in the following sections.

d. Potential Customers

i. Trading firms

Please see the “How to Export” section for a list of target firms.

ii. Distributors

Please see the “How to Export” section for a list of target firms.

iii. Retailers

The key retail channels to target are as follows:

- Apparel Retailers
- Select Shops
- Apparel Specialty Retailers
- Department Stores
- GMS Chains
- E-Commerce.

Select Shops

In Japan, multi-brand stores selling premium clothing and accessories are called “select shops”. They are one of the most important channels for selling EU brands of bags, accessories and footwear (as well as clothing). It is highly recommended to check each of these retailers and each of their banners to see if your brand fits their stores. Please see the websites listed in the table below for more details.

Leading Select Shop Retailers

Company	Website
United Arrows	https://www.united-arrows.co.jp
Baycrews	https://baycrews.jp
Beams	https://www.beams.co.jp
Tomorrowland	https://www.tomorrowland.co.jp
Ships	https://www.shipltd.co.jp
Urban Research	http://www.urban-research.co.jp
Barneys New York	https://www.barneys.co.jp
H.P. France	https://www.hpfrance.com

Source: Company Reports

Department Stores

Japanese department stores remain a key channel for any EU brand or manufacturer selling footwear or any type of leather goods such as bags and accessories. They will buy via distributors and agents but also directly. As well as selling brands, department stores are also increasingly creating their own store brands and using EU manufacturers to make the merchandise. Therefore, there is an opportunity for both brands and factories from the EU.

The leading department store chains (FY2019) are listed below, and all are potential customers for EU firms:

Leading Department Stores, FY2019

Rank	Company	HQ Location	Sales ¥mn	Yon Y %
1	Takashimaya	Osaka	760,284	-1.1
2	Daimaru-Matsuzakaya	Osaka	656,152	-3.6
3	Sogo Seibu	Tokyo	589,410	-2.5
4	Isetan-Mitsukoshi	Tokyo	583,203	-8.1
5	Hankyu-Hanshin	Osaka	450,458	-0.3
6	Kintetsu	Osaka	258,580	-1.1
7	Tokyu	Tokyo	179,390	-0.1
8	JR Tokai Takashimaya	Nagoya	165,321	1.6
9	Tobu	Tokyo	138,170	-1.1
10	Odakyu	Tokyo	128,485	-5.0
11	Iwataya-Mitsukoshi	Fukuoka	107,163	-9.1
12	Mitsukoshi Nagoya	Nagoya	87,681	-3.9
13	Keio	Tokyo	87,308	-5.4
14	Tenmaya	Okayama	83,997	-3.3
15	Matsuya	Tokyo	81,650	-2.6
16	JR West Isetan	Kyoto	64,463	-5.0
17	Sapporo Marui Mitsukoshi	Sapporo	61,116	-6.5
18	Izutsuya	Kokura	58,717	1.6
19	Tokiwa	Oita	57,303	-3.5
20	Tsuruya	Kagoshima	53,167	-5.3

Source: Company Reports; JapanConsuming

GMS Chains

GMS chains are General Merchandise Store chains which are similar to hypermarkets in Europe or the US selling food mainly but also clothing, home goods and electronics. While their share of footwear and leather goods sales has been falling for more than 20 years, they still sell a reasonable amount of these items and for companies in the mass market can be a useful channel. The leading firms are listed here:

Leading GMS Retailers, FY2019

Company	Sales ¥mn
Aeon Retail	2,192,511
Ito-Yokado	1,185,147
Izumi	744,349
PPIH	704,810
Seiyu	580,000
Heiwado	433,641
Fuji	313,463

Source: Company Reports; JapanConsuming

E-Commerce: Malls and Direct to Consumer

Leading e-commerce malls, FY2019

	2019 ¥bn
Rakuten **	3,859.5
Amazon Japan*	3,423.8
Yahoo!**	2,593.6
Yahoo! Shopping	851.9
Yahoo! Auction	821.2
Mercari	543.4
Zozo	342.3
EC-CUBE	210.0
MakeShop	173.4
Rakuma	150.0
ColourMe	145.9
Wowma!*	128.7
Qoo10*	120.9
futureshop	114.1
Shop Serve*	85.0
Lohaco	66.8
BASE	43.0
Magaseek	29.0
ShopList	24.5
LINE Shopping*	20.0
Locondo	18.2
Minne	12.0

Note: [*] Estimates; [**] Rakuten includes Rakuma, Rakuten Travel, Rakuten Books etc.; Yahoo! includes Yahoo! Shopping, Yahoo! Auction, Zozo etc.; Source: Company Reports; ECC Lab; JapanConsuming.

Japan has three very large online malls and lots of much smaller ones. The top three together control around 50% of the e-commerce market and they are: Amazon Japan, Rakuten and Yahoo! Shopping (which is part of Z Holdings which also owns Zozo and PayPay Mall).

Amazon and Rakuten now make it easier to sell direct from the EU with little extra work. You can see details on their websites. To sell on Zozo, you will need to have a Japanese office or distributor.

Selling Direct to Japanese from the EU

In addition, selling directly to Japanese consumers is a great way to enter the market. While going through partners is a perfectly legitimate option, many of the most successful overseas businesses in Japan today are run directly.

Until recently this meant opening an office, locating retail customers, setting up shops, with all the complicated legal, financial and logistical issues this entails.

Above all, the real problem with going direct has been of course the capital risk. Setting up in Japan has got much cheaper and easier, but it is still a risk.

Today however, e-commerce means you can now sell direct to Japanese consumers from overseas.

For pure e-commerce businesses, there is no other entry route but for all consumer goods companies, e-commerce is both a great route to market in itself, as well as a low-risk way to test the market for your product before committing to a larger investment. It is also a great way to get noticed by Japanese distributors too. So, whether you only want to sell online or have bigger plans, looking at the opportunities for e-commerce in Japan is worth the effort. Please see the following section for more details on how to present your online store to Japanese consumers.

3. How to Export

Setting up a Japanese subsidiary and selling directly to Japanese consumers through stores and e-commerce is increasingly the preferred approach for many EU fashion firms. This is recommended but, of course, for many firms this is not realistic, especially at the early stages.

Instead, many choose to either work with a local partner or sell direct via their online store from the EU. This latter option is increasingly popular, and we cover some tips on how to do this below.

In terms of local partners, the following provides a guide on the different types of partners as well as lists and profiles of some of these firms.

a. Distributors and trading firms: who and how to work with them

Three types of trading company are active in fashion distribution in Japan:

- Sogo Shosha (large General Trading Companies)
- Senmon Shosha (Specialist Trading Companies)
- Importer-Distributors (similar to distributors in other markets)

Sogo Shosha (General Trading Companies)

The Sogo Shosha, or big General Trading Companies, are key conduits in domestic apparel and fashion distribution (alongside their many other interests ranging from power stations to food). They supply yarn, parts like buttons, clothing, accessories and footwear to most of the high street retailers, while also acting as distributors for hundreds of overseas brands.

Their role is changing, however, as more foreign brands operate directly in Japan and more of the bigger Japanese retailers' source direct from overseas factories. Not to be outdone, trading firms are diversifying ODM services (supply of product) to support the next generation of fast-growing retailers, as well as buying retailers themselves, signing yet more up and coming brands from overseas, while also buying outright those they don't want to lose, and investing in e-commerce at home and across Asia.

Trading firms' relationships with international brands include:

- Master Licensee: controlling the brand and handing out sublicenses to affiliates and other companies, taking a cut on all sales.
- Importer and Country Manager: they do the import work but also manage the brand in Japan. The actual work of distribution, whether retailing or wholesaling to other retailers, is almost always undertaken by affiliates or subsidiaries.
- Facilitator: acting as country coordinator to find a suitable partner for the overseas brand. In return they will take a fee for this service, as well as possibly from the Japanese side, and also act as supplier.

Specialist trading Companies

Ranking of General & Trading Companies, FY2019

	Company	Textile Sales	YonY %
1	Teijin Textile Group	306,320	-3.8
2	Toray International	297,587	-6.6
3	Itochu Shoji	268,910	-15.7
4	Toyoshima	209,121	0.9
5	Toyota Tsusho	192,320	-16.9
6	Nittetsu Bussan	130,200	-13.8
7	Yagi	118,500	0.4
8	Moririn	99,100	-10.6
9	Stylem	93,500	-3.5
10	GSI Creos	89,800	-18.2
11	Sumitomo Shoji	66,800	-8.4
12	Takisada Nagoya	63,000	-7
13	Asahi Kasei Advance	56,300	-5.1
14	Takihyo	53,800	-8
15	Kuraray Trading	45,400	-0.8
16	Yagi Tsusho	39,200	7.1
17	Toyobo STC	28,100	-1.7
18	Unichika Trading	24,000	-10.1
19	Chikuma	21,200	2.5
20	Sankyo Seiko	21,100	-16.3

Source: Company Data; JapanConsuming

Sogo Shosha are distinct from Specialist Trading Companies, known as Senmon Shosha, which perform similar functions to Sogo Shosha but only work in apparel/fashion. They usually act as importer-distributors across a smaller number of brands too. They work across many segments but mostly in upscale brands servicing select shops and department stores.

Examples include Yagi Tsusho and Teijin Frontier. Many began as textile wholesalers and traders and retain some of these functions today.

Since their main operations today, other than textile trading, are similar to Sogo Shosha they are profiled in this report.

Importer-distributors

Historically importer-distributors, such as Sanki Shoji, have played the role of brand controller for overseas brands in Japan, similar to distributors in other countries. Many firms still do this work, working for both domestic and overseas brands. They supply retailers and handle merchandising and marketing. Today they retain some popularity with retailers because they usually take the risk on inventory, selling to retailers on a sale or return basis in many cases. In addition, they carry the risk on exchange rates and take care of the logistics of importing and warehousing – functions many retailers are happy to avoid even if their margin is less.

Today the larger firms are also active retailers in their own right, mixing wholesale and retail functions to fit the market. This shift happened slowly as many distributors were reluctant to invest in retail. However, they were forced

to in response to the increasing necessity to open stores to compete for consumer mind share, especially at the higher end of the market.

Some distributors, like Look Inc. and Goldwin, are keen advocates of retail-led marketing, and have developed class-leading expertise in retail management.

Some distributors part-license an overseas brand and hand over sub-licensing rights to affiliates or other independent distributors. For apparel brands, this often means sub-licensing of bags, accessories, and items like umbrellas, handkerchiefs and so on. This can be a key source of revenue although there is a risk of dilution of the brand without proper management – oversight by the brand owner is a necessity.

The above three types of distributor are covered in detail in the following sections of this report.

i. Leading Trading Firms

Itochu Shoji

Itochu is a leader in consumer goods distribution including fashion and footwear. It has well over 100 brands under management through the group's subsidiaries and affiliates, as well as a maze of interrelated networks within fashion and apparel manufacturing, distribution and licensing, and back through to yarn production.

As well as its ODM business and direct ownership of fashion firms like Leilian and Coronet, Itochu has major fashion divisions which control a sprawling range of brands ranging from Paul Smith to Dean & DeLuca, and from electric carpets to Lanvin couture.

Mitsubishi Shoji

Mitsubishi is a leader in apparel and footwear contract manufacturing. It used to have a brand distribution and licensing business, but it was always small, and in 2000 it decided to focus on its strengths, selling some brands off to Sanki Shoji and cancelling the rest. It does continue to act as an importer and financier of various brands, notably Marimekko, which is signed to Look Inc. (see Importer-Distributor Section) with Mitsubishi backing. It also has stakes in Ferragamo Japan and Akris Japan.

Mitsubishi merged its various divisions and subsidiaries into one company called Mitsubishi Corporation Fashion in 2010 which has designers, planners, patterners, production staff, and logistics experts, providing a complete end-to-end fashion supply chain service all linked to generous terms of credit. It has nurtured some of the most successful fashion retailers today from humble beginnings, such as Fast Retailing (Uniqlo) and Aداستria.

Outside apparel, it has an investment in Chiyoda, the third largest footwear retailer for which it supplies shoes.

Mitsui Bussan

Mitsui Bussan is another operator in the fashion and footwear distribution markets. Brands it works with include Pierre Cardin, Max Mara (through joint venture) and Hanae Mori. It also owns Paul Stuart. Mitsui also owns fashion distributor, Sann Freres (see import-distributors). Mitsui is working closely with Sanyo Shokai to develop brands, including Paul Stuart, and others such as Mackintosh Philosophy.

Mitsui has interests in e-commerce and direct marketing including its joint venture with QVC in Japan, the shopping channel.

Sumitomo Shoji

One of Sumitomo's biggest consumer operations is Jupiter Shop Channel, Japan's biggest TV shopping network with sales of more than ¥150 billion. Originally a joint venture, Sumitomo bought out its partner in 2008 but then sold a 50% stake to Bain Capital in 2012. Bain then sold its stake to KDDI in 2017 and KDDI acquired a further 5% leaving Sumitomo with 45%.

Sumitomo used to run Barneys Japan, a license from the US firm but sold this in 2015 to Seven & I.

Other Trading Firms

- Nittetsu Bussan
- Sojitz
- Toyota Tsusho

ii. Importer-Distributors

Leading Fashion Importers

Company	Website
A.Ka Tokyo	http://www.akatokyo.com
Airmonte	http://www.airmonte.co.jp
Aman	http://aman.ne.jp
Aoi	http://www.aoi-net.co.jp
BLBG	http://www.blbg.co.jp
Bluebell Japan	http://jp.bluebellgroup.com
Bluemoon	http://bluemoon-
Boy's Co.	http://www.boyscoltd.co.jp
Caitac International	http://www.caitac.co.jp
Coronet	http://www.coronet.jp
Diptrics	http://www.diptrics.com
Emporio	http://www.emporio.co.jp
Figo	http://www.figo.co.jp
Hero International	http://www.hero-inter.com
HighBridge Int'l	https://highbridge-
HP France	http://www.hpfrance.com
Jack of All Trades	http://www.jackofalltrades.j
Kamei Proact	http://kamei-pro.co.jp
KIC	http://www.kic-jpn.com
Lapine	http://www.lapine.co.jp
Lea Mills	http://www.lea-mills.jp
Lidea	http://www.lidea.jp
Look Inc.	http://www.look-inc.jp
LTN	http://www.ltn.jp
Maiden	http://www.maiden.jp
Misaki Shoji	http://www.misaki.co.jp
Mitsui Bussan i-	http://www.mif-
Oiso Sangyo	http://oiso.co.jp
Onward Global Fashion	https://onwardglobalfashion
Prime Corporation	http://www.prime-
Sanki Shoji	http://www.sanki-
Sankyo Seiko	http://www.sankyoseiko.co
Sann Freres	http://www.sannfreres.co.jp
Sanyo Shokai	https://www.sanyo-
Sazaby League	http://www.sazaby-
SDI	http://www.sdijp.jp
Sojitz Infinity Inc.	http://www.sojitz-
Stockman	http://www.stockman.co.jp
Toray Diplomode	http://www.toray-tdm.co.jp
Tremezzo	http://www.tremezzo.jp
Working Unit	http://workingunit.com
Yagi Tsusho	http://www.yagitsu.co.jp
Yamatwo	http://www.yamatwo-ltd.jp

Source: Company Data; JapanConsuming

Background

Historically importer-distributors (distributors below) have played the role of brand controller for overseas brands in Japan similar to distributors in other countries, although many were originally founded as textile manufacturing or trading businesses. They supply retailers and handle all aspects of merchandising and marketing. Evolution of the distribution industry over the last decade has led some fashion distributors to become active retailers in their own right, mixing wholesale and retail functions to fit the market. These are generally the largest firms.

In addition, there are a host of small distributors serving independent stores who are a useful route to market for smaller overseas firms and are listed later in this section.

The growth in the role of flagship and other branded stores as a key form of brand marketing, profit and sales growth meant that brands invested heavily in retail stores of their own rather than rely on department stores and specialty chains. This put serious pressure on distributors who had avoided the retail channel until then, wary of the capital risk.

Shift to Retail

Distributors had to adapt; either invest in retail stores themselves or face the potential loss of the brands or declining sales because:

- The brand owners were demanding their own stores as in other markets
- Without retail stores it was becoming harder to compete for consumer mind share, so sales would fall, again leading to dissatisfaction from the brand owner
- Department stores reduced the space available for wholesale supplied brands in favour of large concessions for top brands, so narrowing the pipe for distributors.

As a result, the larger distributors have become retailers in their own right. Some have done this willingly and quickly, and others have dragged their feet, fearful of the costs and the risks. In general, the performance of the larger distributors can be measured by the speed of their embrace of these new market realities.

Finding replacement licences

Distributors have had to replace brands that have shifted to direct distribution. They therefore remain important potential partners for many overseas brands looking to enter the Japanese market or change distributor.

Still relevant

The shift to retail among brands and distributors has not been pervasive. There remains a role for the traditional importer-distributor, who manages the brand while relying on retailers to deal with the consumer. In most cases this is only effective for smaller brands that do not yet demand the kind of retail presence needed by higher volume, high profile brands.

For new and small overseas brands there are numerous smaller traders who can provide a distribution service. Many sell into the select shop market through chains like Beams and United Arrows, which is an important channel for premium brands and designers. For larger brands, the merits of using a local distributor are clear in off-loading risk, cost, and in accessing local staff and knowledge, but these are offset by the loss of the profit from direct investment, the acquisition of valuable country knowledge in-house over time, and less control of the brand, a critical issue in this important market.

iii. Key Importer-Distributors

In alphabetical order. Please see the table for website links for each firm.

Aoi

Aoi grew thanks to the success of many leading international brands that it introduced into the Japanese market from the 1950s onwards. These included such names as Fendi, Salvatore Ferragamo and Bulgari. It then lost these brands when they created their own subsidiaries and since then it has signed a new generation of brands.

Bluebell Japan

Bluebell is a Hong Kong-based diversified distributor founded more than 50 years ago, with interests across fashion, cosmetics, fragrances, cigars and watches with operations across Asia. In Japan it is particularly strong in fragrances distribution. Its fashion division focuses on upscale brands like Kenzo, Balmain, Carven, Manolo Blahnik, Proenza Schouler and Charlotte Olympia.

Coronet

Coronet became a subsidiary of Itochu Shoji 18 years ago. Coronet started as a vehicle for sales of Mila Schon in 1996 and the brand remains central to its fortunes, but Itochu has since expanded Coronet's role, making it the principal vehicle for sales of the imported lines of brands it also licenses, including Lanvin and Nina Ricci.

In 2014 Itochu signed Eastpak with distribution by Coronet as the first in what was expected to be a major push into mass market brands – but this has yet to happen – and to diversify beyond apparel into accessories, jewellery, and home fashion.

Coronet has recently signed numerous brands through Itochu such as Paloma Barcelo, Grey Jason Wu, Derek Lam 10 Crosby and A.L.C.

HP France

A distributor and retailer, and a growing power in brand distribution. HP France has a large number of its own stores across fashion and jewellery, but also acts as a distributor for a diverse range of brands from Europe and the US, particularly in bags, accessories and jewellery but also apparel and home fashion. It is also one of the first to exploit the growing design talent in Eastern Europe and South America.

Its retail expertise means it is much more willing to open stores for the brands it distributes, even smaller up and coming designers.

It also runs the well-regarded fashion trade show, Rooms (see late section on trade shows).

Look

Look was previously owned by Renown and was once one of the leading distributors of imported brands. Renown's financial troubles left it stranded with little funding and failing brands. Look posted sales of more than ¥45 billion in 2000, but it lost key brands like Marc Jacobs and sales shrank to ¥30 billion by 2009.

As well as recently signing new, promising brands, Look has cut back on failing department stores brands. Today it is increasingly a multi-format, retail-led business with a string of popular brands such as Paul & Joe, Marimekko and Il Bisonte. Its recent activity includes:

- Signed Repetto in 2010.

- Acquired the Japanese arm of A.P.C. from the French HQ in 2010.
- In 2012 signed Alice + Olivia, La Perla, and Deux Leux, the US bags and accessory brand.
- Launched Vince Camuto in the Japanese market in 2011.
- Acquired womenswear retailer Laisse Passe in 2014.
- Signed Bensimon of France in 2017
- Acquired Il Bisonte in 2019

These new brands helped sales rise from just ¥30 billion in 2009 to ¥45 billion in 2018 although sales fell to ¥37 billion in 2020 due to the pandemic.

Misaki Shoji

Misaki Shoji is one of the larger distributors in Japan, and a key player in the Osaka region. The company has been signing new brands recently, such as Tombollini in 2014, Boglioli, an Italian menswear brand, in 2018 and Macchia J and Lorena Antoniazzi in 2021.

Sanki Shoji

Sanki is a leading distribution business. It launched in 1956 with Agnona and still distributes the brand today, retaining a strong focus on Italian brands. It is also a partner in various joint ventures, notably Max Mara Japan (with Max Mara and Mitsui).

Signings in the last decade include:

- 2011: Strenesse
- 2014: Bark
- 2015: Oscar de la Renta, St. John
- 2016: Eleventy, Odeeh, Allude
- 2018: Missoni, Alexander Wang
- 2020: Marc Cain

Sanki plans to increase its retail operations to as much as 30% of sales to offset an expected decline in the wholesale luxury market and to generate more margin – it recently recruited some high level retail executives including a former top Isetan director.

Sankyo Seiko

A veteran of the brand distribution business, Sankyo Seiko was established in 1920. It grew into a leading apparel firm and in 1991 acquired the British firm Daks-Simpson, the same year as Renown acquired Aquascutum.

Sankyo has recently rationalised its various operations, merging affiliates like Sankyo Seiko Fashion Service. It has not added any new brands in the last few years.

Sann Freres

An affiliate of Mitsui Bussan, Sann Freres was originally set up by ex-directors of Sanki Shoji. It now handles brands such as Les Copains, Mysuely, Weill and Andrea Incontri. Recent signings include Ermanno Scervino signed in 2017 and Monrob and 2010 Limited Edition, two Italian accessory brands signed in 2018 and Pinko and Maison Ullens signed in 2021.

Sazaby League

Sazaby is much more than a distributor. It is also a major retailer. Sazaby was established by Rikuzo Suzuki in 1972 originally as an importer of overseas furniture but quickly moved into bags and apparel and became noted for assiduous deals with rising overseas brands like Agnes B.

Sazaby today is a diverse group ranging from fashion accessories to cafes with the main link being the enthusiasm of the founder for the various ventures. Brands include Camper, American Rag Cie, Ron Herman, and Band of Outsiders. It also entered a joint venture with Flying Tiger, the Danish home accessories chain in 2012.

Sazaby's most famous partner is not in fashion at all – it signed a joint venture with Starbucks for Japan in 1995 and sold its share in the business in 2014.

Recent signings include:

- 2017: State of Escape, US jewellery brand Hoorsenbuhs, Norwegian jewellery brand Tom Wood
- 2018: Reigning Champ (Canadian outdoor brand).
- 2019: Maison Special, I'm Ok, Grid.
- 2020: Bakers gonna Bake

Toray Diplomode

A subsidiary of Toray, the textile and materials giant, it has added a new crop of brands in the last few years such as Vince, Tracy Reese, Fleurs de Rhum and Seventy.

Yagi Tsusho

Yagi Tsusho is both a textile trading company and a distributor and prides itself on building large sustainable businesses for those brands it carries. It also invests in these brands, for example buying Mackintosh, the Scottish coat brand, in 2007 a decade after becoming its Japanese distributor.

When a brand creates its own Japanese subsidiary, Yagi generally tries to keep a stake, investing with the brand as it did with Moncler in 2009, taking a 49% stake in Moncler Japan.

In 2017, Yagi signed a joint venture with Italian brand Trussardi, 60% owned by Yagi. It began import and distribution of Trussardi womenswear from Spring 2018

Recent signings of its own include Kenzo, Helen Kaminski, Faliero Salti, Jérôme Dreyfuss, Alexandre de Paris, Italian bag brand Gianni Chiarini and in 2020 it created Ecopel Japan.

Yagi Tsusho also owns a stake in Look Inc. (see earlier in this section).

b. Selling direct to consumers from the EU

As mentioned in the section on Market Opportunity, it is increasingly easy to sell to Japanese consumers directly from Europe without setting up a local office in Japan or using a distributor. Japanese consumers are increasingly trusting of overseas online stores and Japanese customs handles these personal purchases easily, charging duty and consumption tax on arrival where applicable.

There are, however, some tips we suggest to help Japanese customers both trust your brand and explain the process of shipment.

1. Translate some pages of your website into Japanese.

These days, accessing a good translator is easy and cheap. Having a page for Japanese which covers who you are, your shipping process, and returns policy will make them feel assured. You should also remind them in Japanese that they may be liable for duties and consumption tax on their purchase on arrival.

2. Offering free shipping to Japan

It is possible to get your shipper to provide estimates by weight for shipping to Japan and some brands now increase the retail prices for Japanese customers but instead offer free shipping. This can be an added incentive for Japanese consumers.

3. Hire a Japanese customer service firm.

There are now more and more companies in Japan that offer to provide Japanese customer service by email and/or phone for a small fee. If you offer this clearly on your website (with a local number for example), this can help to reassure Japanese customers and make it easier for them to buy from you.

4. Make the returns policy very clear

Ideally in Japanese but if not, at least explain how a Japanese customer can make a return.

5. Hire a local marketing firm

There are now more Japanese marketing firms helping overseas online stores to increase their presence in Japan. An example is <http://tanejapan.com>.

6. Contract with a Japanese warehouse when sales rise

Once you start to get traction in Japan, it can be useful to rent space in a local warehouse to handle deliveries and returns. You will need a local to receive the goods but some warehouses now offer this service.

c. Trade Shows and Events

Fashion World Tokyo

(Apparel (Import and domestic), textile (import), OEM, sustainable fashion, etc.)

Tokyo: 18-20 October 2021

Tokyo: 6-8 April 2022

<https://www.fashion-tokyo.jp>

Rooms

(Apparel, accessories, shoes, etc)

Tokyo: 21-23 October 2021 (the first closing date for the application is 31 July, and the second date is 31 August):

Tokyo

<https://www.roomsroom.com>

Rooms Online Showroom

3 June 2021-31 August 2021

1 September - 30 November 2021

1 December - 28 February (2022)

<https://www.roomsroom.com/showroom>

Plug In

(Apparel, accessories, etc)

Tokyo 27-29 October 2021

<https://plugin-ex.com>

https://plugin-ex.com/pdf/202103_plugin_application.pdf

Project Tokyo

(Apparel, Fashion accessories, shoes)

Tokyo: 8-9 September 2021

<https://www.project-tokyo.com>

Jumble

(Casual, outdoor, sports, lifestyle apparel, shoes, etc)

Tokyo: 1-3 September 2021

<https://jumble-tokyo.com>

MAG

(Apparel, Fashion accessories, shoes)

Tokyo: 7-9 September 2021

Osaka: 21-22 September 2021

<https://mag-preview.com>

AFF (Asia Fashion Fair)

(Apparel and Textile)

Osaka: 13-14 April 2021

<http://www.asiafashionfair.jp>

JIAM Osaka

(Textile)

Osaka: 30 November - 3 December 2022

<https://jiam-show.com>

Premium Textile Japan

Tokyo: 25-26 May 2021

<http://www.ptjapan.com/index2.html>

JITAC European Textile Fair

Tokyo: 20-22 October 2021

<https://www.jitac.jp>

4. Conclusions

Potential Customers

As is clear from the data in Section 1, the primary target segment for many EU firms is the premium end of the apparel market but of course there is a large and welcome market for mass market apparel as the success of chains like Zara and H&M attest.

Although many EU brands already sell in Japan there are still plenty of opportunities. Since department stores are currently in a battle to find relevance in a modern retail system, they are looking very hard to find new brands and partners in order to make their stores more unique. **This means they are looking for new brands that are not yet sold in Japan.** It is highly recommended to make department stores a target. Yes, they may have seen sales and influence decline in the last decade, but they are not going away and will continue to play an important role as a channel for premium goods in Japan.

Specialty apparel retailers are also expanding their sources of supply and, again given the intense competition in retailing and online at the moment, are also looking for new brands and ideas. They too are expanding store brands and, as they do so, are establishing different store brands to target different segments. This includes more premium brands that would suit being produced in the EU.

At the same time, the ending of customs duties for EU goods over the next few years, thanks to the new free trade agreement between the EU and Japan, means that **the larger mass market is now also more viable.** Of course, production from cheap sources in Asia is the primary source for the mass market and any such goods need to pay duties if there is not a free trade deal, but as costs rise in countries like China, some production locations in the EU are becoming more competitive. Add in great design and other innovations, and a slight price premium over Asian sources may be justifiable and, anyway, **many Japanese look for true value and cost performance more than price alone.** There are opportunities to not only sell mid- to-upper mass market apparel brands but also to become factory suppliers to retailers in Japan wanting to make their own store brands – **with the cachet of being made in the EU.**

How to sell to Japan

We have listed many of the possible retailers as well as distributors and trading firms in Japan. How you decide to enter the Japanese market is a matter that depends on your company size, commitment and budgets. **Many of the most successful EU brands selling in Japan today do so through their own Japanese subsidiary but not all these firms are large.** Many small EU firms know the value of Japan and have made it their number one priority.

If not, there is also **an excellent opportunity today to test the Japanese market by selling to Japan online** first and then investing. This only takes a small investment of hiring a translator to translate key pages and arranging shipping at low cost. Amazon is one online mall that makes it very easy to sell on Amazon.co.jp directly from the EU without having to set up an office in Japan and there are many partners in Japan that can help arrange this too. More details in the "How to Export" section in this report.

If you prefer to work through a distributor, we have outlined the differences between trading companies and distributors and how they work which should help you to work out which type of company suits you. Also included are links for each firm so you can see if the brands they currently carry suit your firm. Although many retailers now buy direct from EU firms, **distributors remain a key part of the channel** if you don't want to invest directly and working with distributors can be helpful in maximising sales.

Working with such firms has many rewards, not least in being able to tap into their existing expertise. However, long experience of living and working in Japan has shown me that **the key to a successful relationship with a business partner in Japan is communication – lots of it and lots of the time**. Getting on the phone weekly is a start but so is visiting the market at least once or twice a year, or even more depending on your export volume. By doing so, you will not only be rewarded by a more committed partner but also be able to see how your brand is being sold and marketed in Japan, an essential check given the importance of Japan as a trend leader in Asia.

Japan: much more than the headlines

As mentioned above, Japan is often overlooked because of its larger neighbour but also because of the very negative headline numbers often written in Europe's business and daily newspapers. These headline numbers only tell half of the story; yes, Japan's population is contracting (slowly) and this has meant that GDP growth *overall* has been patchy in the last 20 years. However, in terms of consumption *per capita* by pricing power parity and productivity *per capita* on the same basis, Japan has actually performed rather well.

Japanese also have money: the average savings per household (excluding housing) are around €150,000. They do, however, have a lot of choice. Getting them to buy your product is not a question of having the money to buy it, it is simply about convincing them to do so. And in general in Japan, this means offering something new, exciting, unique, useful or beautiful – or preferably all five of those things.

Japan is, in some ways, a bit of a secret and many of the brands and companies doing well in Japan would like it to remain that way. With so many other competitors dazzled by the sheer size and macro data of the Chinese market, the Japanese market is too often ignored which is great news for your firm if you decide to make the effort to try and sell to Japan.

5. Appendix: Import Rules

a. Sources and Trade Bodies

i. Trade Bodies

Japan Customs: <https://www.customs.go.jp>

Ministry of Economy, Industry and Trade: <https://www.meti.go.jp>

JETRO: <https://www.jetro.go.jp>

Japan Department Store Association: <http://www.depart.or.jp>

ii. Sources of Information

JapanConsuming: produces a monthly report on Japanese retail & consumer markets:

<https://www.japanconsuming.com>

NewsonJapan: a source of English language news on Japan: <http://www.newsonjapan.com>

EU Embassies: most EU country embassies have information on exporting to Japan.

Doing business in Japan: <http://www.venturejapan.com/doing-business-in-japan/how-to-sell-to-japanese-corporations/foreign-executives-selling-in-japan/>

Street Fashion Trends: <http://www.web-across.com>

iii. Sources used in report

Statistics and policy relating to commerce and trade:

Ministry of Economy, Trade and Industry (METI): <https://www.meti.go.jp/english/statistics/> (Japanese site is more comprehensive: <https://www.meti.go.jp/statistics/>)

Data relating to government policy and social trends:

Ministry of General Affairs (Somucho): <http://www.stat.go.jp/>

Government Database of all official statistical sources:

E-Stat: <https://www.e-stat.go.jp/en>

Trade Statistics:

Ministry of Finance: https://www.customs.go.jp/toukei/info/index_e.htm

Tourism and Transport statistics and policy:

Ministry of Land, Infrastructure, Transport & Tourism: <https://www.mlit.go.jp/kankocho/en/index.html>

Database of all Listed Company Financial Reports:

EDINET: <https://disclosure.edinet-fsa.go.jp/EKW0EZ1001.html>

iv. Relevant Major Trade Publications

Gekiryu (general retail, monthly): <https://www.kokusaishogyo.co.jp/gekiryu/>

Nikkei Marketing Journal (Nikkei MJ) (newspaper covering all aspects of marketing, 3 times a week):
<https://www.nikkei.com/theme/?dw=18083102>

Nikkei X-Trend (Daily marketing blog): <https://xtrend.nikkei.com>

Hanbai Kakushin (general retail & distribution, monthly): <https://www.fujisan.co.jp/product/1281679630/>

Senken Shimbun (textile and apparel daily): <https://senken.co.jp>.

b. Regulations

i. Ruling administrative bodies

There are two main administrative bodies you need to be aware of when exporting to Japan. For straightforward exports to Japan, you should only need to deal with Japan's Customs Organisation. METI is the overarching governing ministry for trade.

- Japan Custom: <https://www.customs.go.jp/english/index.htm>
- Ministry of Economy, Trade and Industry (METI): <https://www.meti.go.jp/english/index.html>

ii. Labelling rules

Japan has its own specific rules for labelling of product sold to consumers in Japan. In general, when exporting to Japan you are likely to be shipping to your distributor, agent or subsidiary. In each of these cases, the Japanese side will take care of the creation and adaptation of labels for the Japanese market. In cases where it is efficient to apply labels at the point of manufacture, again the Japanese side will advise on the wording etc. required by Japanese regulations and anyway, the label will need to carry the name of the Japanese entity that is handling the sale of the goods within the Japanese market. I.e., if you are selling through your own subsidiary, the label will need to carry the name, address and phone number of that subsidiary, not your home country company details.

Having said that, many exporters will want to know what they are letting themselves in for in terms of complexity. The Japanese State has provided a guide to labelling of various products in English which shows clearly what kind of information is required depending on the product being exported.

The details are as follows:

Japan Household Goods Quality Labelling Act:

https://www.caa.go.jp/policies/policy/representation/household_goods/pamphlet/pdf/pamphlet_03_0001.pdf

For apparel products such as jackets, trousers, skirts and coats, please see Section 1 on textiles.

iii. Processes for export

Exporting to Japan today is easier than it has ever been in the history of Japanese-EU relations. Following the free trade agreement between the EU and Japan, processes for export will become even easier over the following few

years. While export of products like food and cosmetics are more complicated, the export process for leather products and footwear is relatively easy.

The best place to start is to check the EU's Market Access Database, which includes all the details on duties, procedures and documents needed for export: <https://trade.ec.europa.eu/access-to-markets/en/home>.

The export process is essentially the same as for any other market but there are very few barriers to export. The basic hurdles needed to overcome are cultural barriers such as language (although English language levels are improving all the time), expectations on product quality and customer service which may be higher than in some other markets (particularly in regard to timeliness of shipments and care of packaging).

In terms of the mechanics of export such as documentation, shipping and so on, these are essentially the same as any market:

- An import (Customs duty payment) declaration form (Customs form C-5020) must be prepared in triplicate
- Invoice
- Bill of lading or Air Waybill
- Packing lists, freight accounts, insurance certificates, etc. (where deemed necessary)
- Customs duty payment slips (when goods are dutiable).

c. Tax and Tariffs

i. Consumption Tax

Japan has a Consumption Tax of 10% (increased from 8% in October 2019) which is applied to all imports.

ii. Tariffs

Japanese tariffs on EU goods are changing (see below section on changing trends in tariffs) and eventually there will be no import duties on EU goods. As of April 2021 however, there are import duties and taxes that exporters to Japan will need to consider. These can be found here:

https://www.customs.go.jp/english/tariff/2021_1/index.htm

Please see section X1 for all textile-related tariffs.

iii. Changing trends in tariffs

Japan-EU EPA

There is one major changing trend when it comes to taxes and tariffs with respect to exports to Japan: the Japan-EU EPA (Economic Partnership Agreement). This is in essence a free trade agreement between the two parties and which went into effect in February 2019.

This does not mean that from that date all trade on all products from the EU to Japan was free of tariffs and taxes. The process is gradual and reductions in duties will take place over the next eight to 14 years depending on the product and applicable laws.

As a general rule, and depending on the product, the majority of exported products from the EU to Japan will be exportable free of import duties by 2028 with the remainder free of duties by 2033. A guide to tariffs is available

from the EU here:

https://trade.ec.europa.eu/doclib/docs/2018/august/tradoc_157230.pdf

Of course, in order to qualify for the lowering tariff rates, your product will have to be of EU origin. If your base is the EU but your products are not of EU origin, you will need to check rates for the country of origin. Please see the following guides provided by the European Commission:

https://ec.europa.eu/taxation_customs/sites/taxation/files/eu_japan_epa_guidance_statement_on_origin_for_multiple_shipments_of_identical_products_en.pdf.

For a full list of guidance documents by the European Commission, please refer to the following website:

https://ec.europa.eu/taxation_customs/business/international-affairs/international-customs-cooperation-mutual-administrative-assistance-agreements/japan_en

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