

# Japan-EU EPA: Japan Customs conducting verifications

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## In brief

More than one year after the Japan-EU Economic Partnership Agreement (JEEPA) went into effect, there are reports that Japan Customs has begun to conduct post-entry verifications checking if goods entered under JEEPA preferential duty rates meet the applicable rules of origin. Those using the JEEPA to import goods into Japan should ensure that they are prepared for a potential verification. Japanese exporters that issue preferential statements on origin should also prepare for verifications from the EU side.

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## In detail

More than a year has elapsed since the JEEPA went into effect on 1 February 2019. In recent months, an increase in post-entry verifications by Japan Customs has been observed. In these verifications, Japan Customs conducts retrospective audits of importers who have imported goods under preferential JEEPA duty rates in order to make sure that the imported goods met the applicable rules of origin under the JEEPA at the time of importation.

Much as it is important to check that important goods meet the JEEPA rules of origin, it is also important to ensure that there is a robust paper trail to support this. Failure to maintain sufficient documentary evidence may result in Japan Customs retroactively denying the use of the JEEPA duty rate, which would lead to additional duties, interest, and penalties. Importers are required to keep such evidence for at least three years after importation.

### Steps for Japanese importers (importer's knowledge)

Importers claiming JEEPA benefits based on importer's knowledge must be able to show how their goods meet the rules of origin. Therefore, they should review their internal recordkeeping practices and processes for determining originating status as well as those of their suppliers. It is important to note that, even if the importer can demonstrate that the imported goods themselves meet the rules of origin, they may be asked to produce evidence that the raw materials in the imported goods are originating. When using the importer's knowledge option, the Japanese importer will be required to obtain all of the supporting documentation from its EU vendors.

If it is discovered during a verification that goods declared as originating did not meet the rules of origin, additional duties, interest, and penalties will be applied. However, if the importer notices such a mistake through an internal audit beforehand and declares it to Customs prior to receiving notice of a verification, penalties will be waived and the only costs incurred will be the duty shortfall and interest.

### **Steps for Japanese importers (statements on origin)**

For importers declaring based on exporters' statements on origin, importers only need to retain those statements to demonstrate originating status. However, in many cases, Japan Customs may contact European customs authorities, who will in turn contact exporters to confirm that the goods actually meet the rules of origin. Should Japan Customs determine, even as a result of the exporter's failure to prove origin, that the goods did not actually meet the rules of origin, the importer will be the one responsible for paying the duty shortfall, interest, and penalties. From this perspective, it is crucial that importers ensure their exporters understand the requirements of the JEEPA.

### **Steps for Japanese exporters**

Given that verifications are increasing in Japan, there is a possibility that EU customs authorities are also beginning to scrutinize goods imported under the JEEPA. Japanese exporters that make out statements on origin under the JEEPA may be contacted by Japan Customs, at the request of EU customs authorities, for verifications of EU importers. Hence, exporters should review their origin determination processes and ensure that all relevant documents are retained for at least four years, as stipulated in the JEEPA.

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## **Let's talk**

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For a deeper discussion of how this issue might affect your business, please contact:

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