

Law Offices
Sharretts, Paley, Carter & Blauvelt, P.C.
Seventy-five Broad Street
New York, N.Y. 10004

Phone: (212) 425-0055

Fax: (212) 425-1797

(212) 742-2180

E-mail: customs@sharretts-paley.com

1725 DeSales Street, N.W.

Washington, D.C. 20036

Phone: (202) 223-4433

Fax: (202) 659-3904

2015 GSP Annual Review

Request for Designation of the Following Harmonized Tariff Schedules of the United States (HTSUS) Provisions as Eligible for Beneficial Treatment Under the Generalized System of Preferences (GSP), Docket #USTR-2015-0013

4202.12.20, HTSUS

4202.21.60, HTSUS

4202.21.90, HTSUS

4202.22.15, HTSUS

4202.22.45, HTSUS

4202.31.60, HTSUS

4202.32.40, HTSUS

4202.92.15, HTSUS

4202.92.45, HTSUS

4202.12.2020, HTSUS

4202.22.8050, HTSUS

4202.32.9550, HTSUS

4202.91.0030, HTSUS

4202.91.0090, HTSUS

4202.92.3020, HTSUS

4202.92.3031, HTSUS

4202.92.9060, HTSUS

Petitioner: Michael Kors Holding

Philippines Suppliers: Superl Philippines Inc.
Siglo Leatherware Manufacturing
FPF Corporation
D'Luxe Bags Philippines, Inc.
Desktop Bags Philippines, Inc.

PUBLIC VERSION – CONFIDENTIAL INFORMATION

REDACTED ON PAGES 7 - 10, 13

Dated: October 16, 2015

PUBLIC VERSION

Petitioner

Michael Kors Holdings was established in 1981 by the designer Michael Kors. The company sells branded handbags, footwear, accessories, apparel, watches, jewelry, eyewear and fragrance products worldwide and has approximately 9,000 employees. As a major importer of handbags, accessories, and travel goods, Michael Kors Holdings has a strong interest in obtaining Generalized System of Preferences (GSP) eligibility for textile, leather, and plastic luggage, handbags, small leather goods, and travel bags, which became a possibility by reason of the enactment of the Trade Preferences Extension Act of 2015, since it will enable the company to continue to offer consumers quality products at reasonable prices.

Faced with anticipated increases in pricing due to escalating material and labor costs, granting GSP status to luggage, handbag, small leather goods, and travel bags is needed to allow beneficiary developing countries to remain competitive with the major suppliers and will provide importers with have meaningful alternatives to China, as well as provide needed support to developing countries. In 2014, the combined imports from the Philippines, Indonesia, and Thailand, of all luggage and other articles in heading 4202, HTSUS, represented only approximately 1% of the quantity and 3% of the value of all such imports into the United States, whereas China's shipments represented 87% by quantity and 67% by value. *Source: USITC Interactive Tariff and Trade DataWeb.*

At the same time, there is no danger of market disruption in the United States as a result of granting GSP benefits to imports from BDCs. The luggage, handbag, small leather goods and travel goods industry in the United States has declined drastically over the past 10 years since the vast majority of production occurring outside the United States. *Source: IBISWorld Industry Report: "Global Handbag & Purse Manufacturing, January 2015," at pages 17, 23.* Accordingly, there is no threat to a domestic industry that has already virtually disappeared.

Petitioner is representing the following five suppliers in the Philippines, a beneficiary developing country (BDC) under the GSP program:

Superl Philippines Inc.
Angeles Industrial Park Inc.
Special Economic Zone
Barangay, Calibutbut, Bacolor,
Pampanga, Philippines

Siglo Leatherware Manufacturing
Angeles Industrial Park Inc.
Special Economic Zone, Calibutbut, Bacolor,
Pampanga, Philippines

FPF Corporation
SFB #9 Mindanao Avenue
Fab Mariveles,
Bataan, Philippines

PUBLIC VERSION

D'Luxe Bags Philippines, Inc.
Tarlac Productivity Center
Brgy. Sta. Rosa, Concepcion
2316 Tarlac, Philippines

Desktop Bags Philippines, Inc.
SFB #3 Luzon Avenue
Freeport Area of Bataan
Mariveles, Bataan, Philippines

Product Identification

Set forth below are the products that Michael Kors is sourcing or intends to source from Superl Philippines and would like to have designated GSP-eligible.

- Vanity cases and other cases with outer surface of cotton, not of pile or tufted construction, in subheading 4202.12.20, Harmonized Tariff Schedules of the United States (HTSUS)
- Handbags, with and without shoulder straps, with outer surface of leather, other than reptile leather, valued not over \$20 each, in subheading 4202.21.60, HTSUS
- Handbags, with and without shoulder straps, with outer surface of leather, other than reptile leather, valued over \$20 each, in subheading 4202.21.90, HTSUS
- Handbags, with and without shoulder straps, with outer surface of sheeting of plastic, in subheading 4202.22.15, HTSUS
- Handbags, with and without shoulder straps, with outer surface of cotton, not of pile or tufted construction, in subheading 4202.22.45, HTSUS
- Articles of a kind normally carried in the pocket or handbag, including wallets and similar articles, with outer surface of leather other than reptile leather, in subheading 4202.31.60, HTSUS
- Articles of a kind normally carried in the pocket or handbag, including wallets and similar articles, with outer surface of cotton, not of pile or tufted construction, in subheading 4202.32.40, HTSUS
- Travel bags, including backpacks, tote bags, and diaper bags, with outer surface of cotton, not of pile or tufted construction, in subheading 4202.92.15, HTSUS
- Travel bags, including backpacks, tote bags and diaper bags, with outer surface of sheeting of plastic, in subheading 4202.92.45, HTSUS
- Vanity cases and other cases with outer surface of plastics, structured, rigid on all sides, in statistical breakout 4202.12.2020, HTSUS
- Handbags, with and without shoulder straps, with outer surface of man-made fibers, in statistical breakout 4202.22.8050, HTSUS

PUBLIC VERSION

- Articles of a kind normally carried in the pocket or handbag, including wallets and similar articles, with outer surface of man-made fibers, in statistical breakout 4202.32.9550, HTSUS
- Travel bags, including backpacks, tote bags, and diaper bags, with outer surface of leather, in statistical breakout 4202.91.0030, HTSUS
- Containers, including cell phone cases, with outer surface of leather, in statistical breakout 4202.91.0090, HTSUS
- Backpacks, with outer surface of man-made fibers, in statistical breakout 4202.92.3020, HTSUS
- Travel bags other than backpacks, including tote bags and diaper bags, with outer surface of man-made fibers, in statistical breakout 4202.92.3031, HTSUS
- Other cases, including cell phone cases and similar articles, with outer surface of sheeting of plastic, in statistical breakout 4202.92.9060, HTSUS

Previous Petitions

To the best of Petitioner's knowledge, the reasoning and information provided herein has not been made previously, inasmuch as these products were not eligible for designation under prior law and only became eligible upon the enactment of the Trade Preferences Extension Act of 2015.

Anticipated Benefits

The state of the luggage, handbags, small leather goods and travel bags manufacturing industry in the Philippines has been fairly steady as is evident in the fact that imports in the overall category covered by heading 4202, HTSUS, have been steadily increasing in recent years. From 2013 to July 2015, imports from the Philippines in heading 4202, HTSUS, increased from approximately \$108,159,000.00 to \$279,628,000.00 and from approximately 9,524,000 units to 9,581,000 units.

These increases have been most evident in the shipments of leather handbags, leather travel goods, and leather small leather goods. Quantities in subheading 4202.21.90, HTSUS, the provision for leather handbags valued over \$20, increased by 241.1% and values by 224.6% during January to July 2015, as compared to the same period in 2014. Leather travel goods classifiable in subheading 4202.91.0030, HTSUS, increased in quantity by 138.4% during January to July 2015, from January to July 2014. Finally, small leather goods of leather in subheading 4202.31.60, HTSUS, increased in quantity by 120.7% and in value by 146% during January to July 2015. Another strong segment is man-made fiber handbags. Imports in subheading 4202.22.8050, HTSUS, rose by 204.6% in quantity and 207.7% by value during January to July 2015. *Source:* USITC Interactive Tariff and Trade DataWeb.

Nevertheless, the Philippines' exports to the United States in this industry lag far behind the top suppliers, China, Vietnam, Italy, France and India. In terms of value, the Philippines' exports to the U.S. in 2014 constituted only 1.4% of total imports, and quantities were only 0.4% of the

PUBLIC VERSION

total. *Source:* USITC Interactive Tariff and Trade DataWeb. Despite the evident growth, the Philippine luggage, handbag, small leather goods and travel bag industry faces significant obstacles.

The cost of imported raw materials is rising due to the weakness of the peso to the dollar. This development, coupled with the extremely high electricity costs in the country and higher labor costs, will present difficulties for all manufacturing in the country. In this regard, power costs are the fifth-highest in the world. In addition, with the advent of an increase in the daily minimum wage, labor costs are rising. *Source:* Online Developing Country Sourcing Philippines Sourcing: “Fashion Accessories Industry Overview.” Although the power industry is one of the sectors that is targeted for the Philippine government’s Public-Private Partnership (PPP) programs in 2016, the current situation is difficult for the manufacturing industries. *Source:* U.S. Commercial Service “Doing Business in the Philippines: 2014 Country Commercial Guide for U.S. Companies.” The Philippine government believes that renewal of the GSP will provide incentives for foreign investment in these and other programs. Working on the power infrastructure will in turn lower electricity costs, which will assist the manufacturing industry as a whole.

“(The GSP) provides continued incentives for foreign investors to locate and expand their business in the Philippines,” stated Roseni Alvero, Department of Trade and Industry (DTI) Senior Trade Specialist and Philippine Embassy Commercial Counselor during a recent DTI and Department of Labor and Employment (DOLE) briefing on the U.S. GSP program. She also commented on the expansion of coverage to include travel goods: “Designation or inclusion of new articles such as handbags, luggage, and flat goods will create market opportunity for the Philippine travel good industry.”

Other GSP beneficiary developing countries (BDCs) such as Indonesia and Thailand, which have similar development and shipping patterns to those of the Philippines, also will benefit from the inclusion of these products in the GSP program.

Assessment of GSP Eligibility

The industry sources raw materials from within the Philippines as well as from foreign countries, and cuts and assembles the finished products in the Philippines. Accordingly, these products are clearly “products of” the Philippines, the first requirement for GSP. Even when the raw materials are foreign-sourced, meeting the local content requirement will not be difficult. In this regard, the handbag, small leather goods and travel goods manufacturing process is very labor-intensive and as a result, in many cases, the direct costs of processing alone readily exceed the 35% local content requirement for GSP eligibility.

Moreover, in accordance with the provisions in Section 10.177(a) of the Customs Regulations, 19 CFR §10.177(a), materials produced in the beneficiary country are defined as either:

- (1) Wholly the growth, product, or manufacture of the beneficiary developing country; or
- (2) Substantially transformed in the beneficiary developing country into a new and different article of commerce

PUBLIC VERSION

Inasmuch as the cutting of imported raw materials into defined shapes to be used in the assembly of the finished products in Indonesia constitutes a substantial transformation, forming a new and different article of commerce. U.S. Customs & Border Protection's consistently has held that the cutting to shape of fabric or leather into defined shapes constitutes a substantial transformation. Furthermore, the subsequent complex sewing and assembly operations constitute a second substantial transformation, or a "double substantial transformation," which allows for the inclusion of the cost of the raw materials in the calculation of the local content requirement. *See, e.g.,* HQ 556290 of January 27, 1992; NY G85641 of February 12, 2001.

Accordingly, these products will be eligible for GSP benefits upon designation.

Supplier Information

Please refer to the following pages.

PUBLIC VERSION

Superl Philippines Inc.
 Angeles Industrial Park Inc.
 Special Economic Zone
 Barangay, Calibutbut, Bacolor,
 Pampanga, Philippines

Information	2012	2013	2014
Actual Production	[] pieces per year	[] pieces per year	[] pieces per year
Estimated Increase With GSP	N/A	N/A	[]
Capacity Utilization		[]	[]
Estimated Increase with GSP	N/A	N/A	[]
Planned Investments	N/A	N/A	[]
Employment Figures	[] workers Wage rates confidential – not available	[] workers Wage rates confidential – not available	[] workers Wage rates confidential – not available
Estimated Changes with GSP	N/A	N/A	[]
Total exports	Estimated value of [] exports per year	Estimated value of [] exports per year	Estimated value of [] exports per year
Exports to the U.S.	Estimated value of [] exports per year	Estimated value of [] exports per year	Estimated value of [] exports per year
Cost Analysis	Confidential – not available	Confidential – not available	Confidential – not available
Profitability	Confidential – not available	Confidential – not available	Confidential – not available
Unit Prices	Average unit price of []	Average unit price of []	Average unit price of []

PUBLIC VERSION

Siglo Leatherware Manufacturing
Angeles Industrial Park Inc.
Special Economic Zone, Calibutbut, Bacolor,
Pampanga, Philippines

Information	2012	2013	2014
Actual Production	N/A – factory opened in 2014	N/A – factory opened in 2014	[] pieces per year
Estimated Increase With GSP	N/A	N/A	[]
Capacity Utilization	N/A – factory opened in 2014	N/A – factory opened in 2014	[]
Estimated Increase with GSP	N/A	N/A	[]
Planned Investments	N/A	N/A	[]
Employment Figures	N/A – factory opened in 2014	N/A – factory opened in 2014	[] workers
Estimated Changes with GSP	N/A	N/A	[]
Total exports	N/A – factory opened in 2014	N/A – factory opened in 2014	[] per year
Exports to the U.S.	N/A – factory opened in 2014	N/A – factory opened in 2014	[] per year
Cost Analysis	N/A – factory opened in 2014	N/A – factory opened in 2014	Confidential – not available
Profitability	Confidential – not available	Confidential – not available	Confidential – not available
Unit Prices	N/A – factory opened in 2014	N/A – factory opened in 2014	Average unit price is []

PUBLIC VERSION

FPF Corporation
 SFB #9 Mindanao Avenue
 Fab Mariveles,
 Bataan, Philippines

Note: Monthly figures based on 10-month production cycle

Information	2013	2014	2015
Actual Production	Approximately [] units monthly	Approximately [] units monthly	Approximately [] units monthly
Estimated Increase With GSP	N/A	N/A	Increase to [] units monthly
Capacity	[] units per month	[] units per month]	Capacity [] units per month
Estimated Increase with GSP	N/A	N/A	Capacity to increase to approximately [] units monthly
Planned Investments for GSP	N/A	N/A	Plant – [] Equipment: []
Employment Figures	[] workers Wages: [] per hour.	[] workers Wages: [] per hour.	[] workers Wages: [] per hour.
Estimated Changes with GSP	N/A	N/A	Increase to [] workers
Total exports	Approximately [] units monthly at []	Approximately [] units monthly at []	Approximately [] units monthly at []
Exports to the U.S.	Approximately [] units monthly at []	Approximately [] units monthly at []	Approximately [] units monthly at []
Cost Analysis	----	----	See attached sample cost breakdowns
Profitability	Confidential – not available	Confidential – not available	Confidential – not available
Unit Prices	Average unit price is []	Average unit price is []	Average unit price is []

PUBLIC VERSION

One Vendor, Two Factories:
 D’Luxe Bags Philippines, Inc.
 Tarlac Productivity Center
 Brgy. Sta. Rosa, Concepcion
 2316 Tarlac, Philippines

Desktop Bags Philippines, Inc.
 SFB #3 Luzon Avenue
 Freeport Area of Bataan
 Mariveles, Bataan, Philippines

Information	2013*	2014*	2015*
Actual Production	[] units to Michael Kors	[] units to Michael Kors	[] pieces per year total, [] pieces to Michael Kors
Estimated Increase With GSP	N/A	N/A	[] pieces per year total
Capacity	Not available	Not available	Capacity of [] pieces per year total
Estimated Increase with GSP	N/A	N/A	Estimated to increase capacity utilization to []
Investments in anticipation of GSP	N/A	N/A	[]
Employment Figures	Wages: [] per day	Wages increased mid-year to [] per day	Wages: [] per day, [] workers
Estimated Changes with GSP	N/A	N/A	Foresee []% wage rate increase
Total exports	Not available	Not available	Approximately [] per year total. Estimate [] for 2016.
Exports to the U.S.	[] to Michael Kors	[] to Michael Kors	Approximately [] to the U.S., [] to Michael Kors
Cost Analysis	Confidential – not available	Confidential – not available	Confidential – not available
Profitability	Confidential – not available	Confidential – not available	Confidential – not available
Unit Prices	N/A	Average unit price is []	Average unit price is []

*Figures for 2013 and 2014 are specific to Michael Kors shipments. For 2015, the figures are for all shipments.

PUBLIC VERSION

Conclusion

In conclusion, Michael Kors urges the U.S. Trade Representative to grant GSP eligibility to the requested luggage, handbag, small leather goods and travel bags HTSUS provisions produced in the Philippines. The Philippine manufacturing industry needs the duty free designation in order to strengthen and grow and there is no threat of market disruption in the United States, since the domestic industry is virtually non-existent, having long since experienced globalization. The addition of many of the products produced by Desktop Bags were added to the list of single transformation articles eligible for beneficial treatment under the Haiti HOPE law, as “non-import-sensitive,” confirming the absence of any such threat. Accordingly, the requested action can only provide positive outcomes for the Philippines, the United States, and U.S. consumers.

Petitioner has made a good faith effort to obtain all required information and we trust that what is provided herein is sufficient for acceptance of this petition. Nevertheless, should there be any additional information you require, please contact the undersigned before taking any action. In addition, if we receive any further information from the supplier in the next week we will update this document and forward to your office.

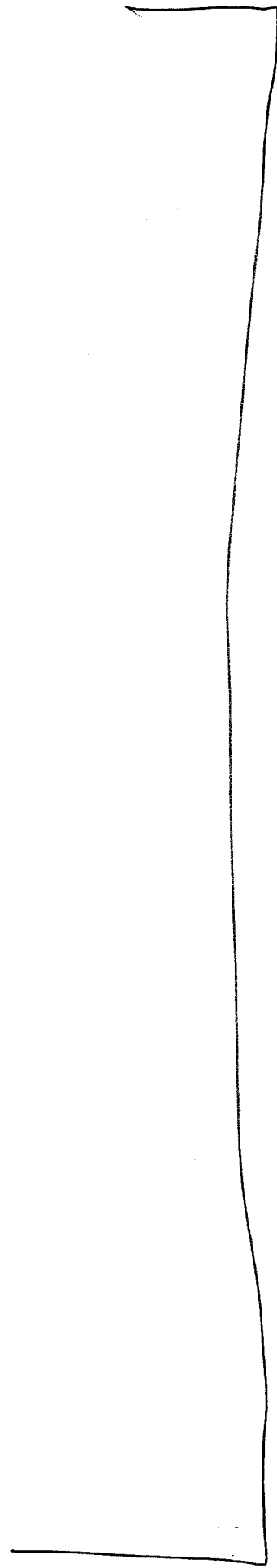
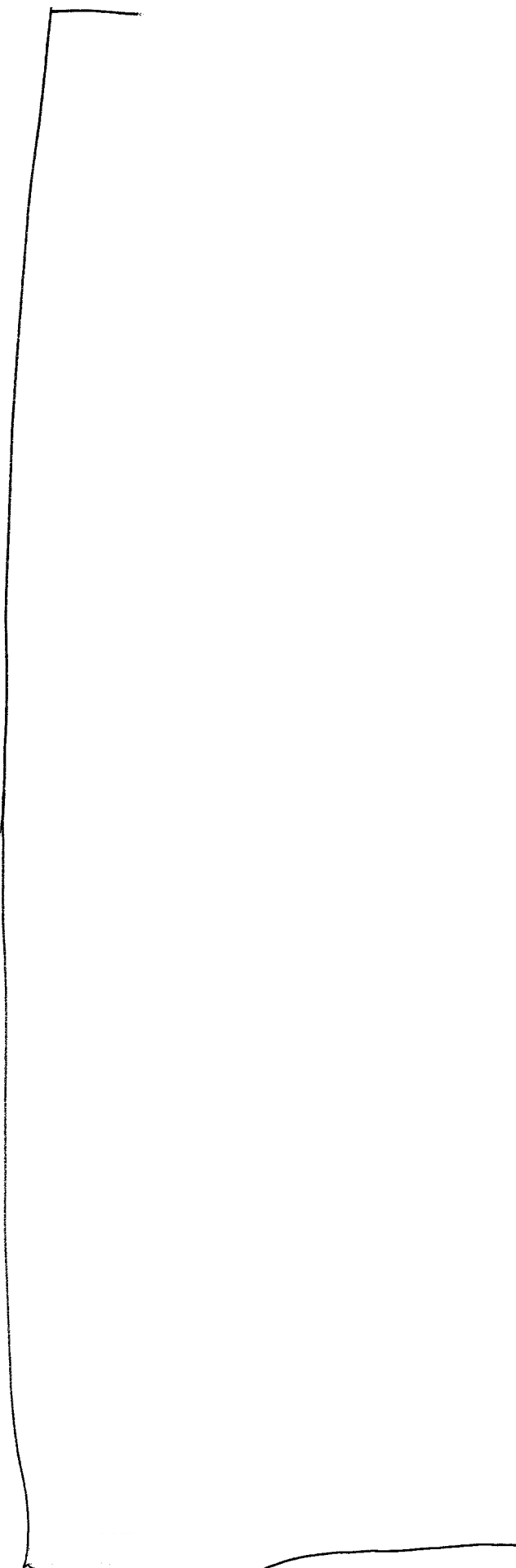
Respectfully submitted,

Allison M. Baron
Attorney for Petitioner
Sharretts, Paley, Carter & Blauvelt, P.C.
75 Broad Street
New York, NY 10004
212-425-0055
abaron@spcblaw.com

Attachments:

- FPF Corporation sample cost breakdowns
- Trade Association letter in support of GSP petition

FPF Corporation Sample Cost Breakdowns



Trade Association Letter

October 14, 2015

The Honorable Michael Froman
U.S. Trade Representative
Office of the U.S. Trade Representative
600 17th Street NW
Washington, DC 20508

Dear Mr. Ambassador:

The undersigned organizations are writing to express strong support for petitions to add travel goods – items like luggage, backpacks, purses, and wallets – to the list of products eligible to be imported duty-free from all Generalized System of Preferences (GSP) beneficiary countries.

The addition of these products will provide important opportunities for U.S. companies to diversify their sourcing, lowering costs and spurring further innovation as the petitions attest. Moreover, these products are considered non-sensitive as Congress agreed to include them in the *Trade Preferences Extension Act of 2015*. Some of the products – such as BlackBerry, smartphone, iPad, and computer cases – did not exist when GSP Program was originally implemented in 1974.

Granting these products GSP eligibility will support the more than 100,000 high-value-added travel goods industry jobs in retail, design, brand management, and distribution here in the United States. GSP status will reduce duty costs, freeing up resources that can be used to increase employment, spur innovation, or promote competitiveness of our member companies.

Duty-free treatment will also translate to lower prices for consumers on such basic, everyday items as purses or children's backpacks. Making such items more affordable will immediately benefit millions of hard working American families.

Adding these products to the GSP will help achieve the statutory goals of the GSP program, which are to promote the advancement of developing countries; promote trade, rather than aid; and promote economic development. Dozens of developing countries stand to benefit. Currently, most travel goods are made in just a handful of countries. Duty-free access will create value-added export opportunities for GSP beneficiary countries, creating jobs, and diversifying their economic growth.

We look forward to working with you and the U.S. International Trade Commission throughout the review process to support consideration and gain approval of petitions seeking to add the Congressionally-authorized travel goods to the GSP program.

Sincerely,

American Apparel & Footwear Association (AAFA)
American Association of Exporters and Importers (AAEI)
Coalition of New England Companies for Trade
Columbia River Customs Brokers & Forwarders Association
Customs Brokers & International Freight Forwarders of Washington State
Customs Brokers and Forwarders Association of Northern California
Emergency Committee for American Trade (ECAT)
Express Association of America (EAA)
Fashion Accessory Shippers Association (FASA)
Gemini Shippers Association
Los Angeles Customs Brokers and Freight Forwarders Association
National Foreign Trade Council (NFTC)
National Retail Federation (NRF)
Outdoor Industry Association (OIA)
Pacific Coast Council of Customs Brokers and Freight Forwarders Association
PPAI - Promotional Products Association International
Retail Industry Leaders Association (RILA)
San Diego Customs Brokers Association
Sports & Fitness Industry Association
Toy Industry Association (TIA)
Travel Goods Association (TGA)
U.S. Chamber of Commerce
U.S. Fashion Industry Association (USFIA)