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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

4202.21.90, 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

4202.12.8030, HTSUS

4202.22.8050, HTSUS

4202.32.9550, HTSUS

4202.92.3020, HTSUS

4202.92.3031, HTSUS

Petitioner: Tory Burch

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

**PUBLIC VERSION – CONFIDENTIAL INFORMATION
REDACTED ON PAGES 2, 7 – 10, 13, 15**

Dated: October 16, 2015

PUBLIC VERSION

Petitioner

Tory Burch is a fashion company established in 2004 (originally known as TRB by Tory Burch) by the designer of the same name. The company sells apparel, shoes, handbags and accessories, watches, home décor, and a fragrance and beauty collection worldwide and has approximately 2,500 employees. With significant importations of handbags, travel goods and accessories, Tory Burch has a substantial interest in obtaining Generalized System of Preferences (GSP) eligibility for textile, leather, and plastic luggage, handbags, small leather goods, and travel bags, which was enabled with the enactment of the Trade Preferences Extension Act of 2015.

If GSP is granted, Tory Burch has plans to move []% of production from countries such as China, to the Philippines in the first year, and anticipates further shifting of []% of production in the following year. Granting GSP status to luggage, handbag, small leather good and travel bag imports will provide importers, including Tory Burch, with the ability to source in countries other than China.

In 2014, imports from the Philippines of all luggage and other articles in heading 4202, HTSUS, represented only 1.4% of the value of all such imports into the United States, while shipments from China represented 67% by value. In terms of quantity, Philippine shipments constituted only 0.4% of total shipments, and China shipments constituted 87%.¹ With anticipated increases in pricing due to a rise in material and labor costs, granting GSP status to luggage, handbag, small leather goods, and travel bags will enable beneficiary developing countries such as the Philippines to remain competitive with the major suppliers, by reason of the duty savings that will ensue.

The luggage, handbag, small leather goods and travel goods industry is a globalized industry, with limited production in the United States, due to the fact that most production has been outsourced. Thus, market disruption in the United States as a result of granting GSP benefits to imports from BDCs, is not a factor.²

Petitioner is representing the following four suppliers located in the Philippines, a beneficiary developing country under the GSP program:

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

¹ *Source:* USITC Interactive Tariff and Trade DataWeb.

² *Source:* IBISWorld Industry Report: “Global Handbag & Purse Manufacturing, January 2015,” at pages 17, 23.

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Superl Philippines Inc.
Building 1, Block 2, Lot 1&4
Angeles Industrial Park, Inc. SEZ
Calibutbut, Bacolor
Pampanga, Philippines

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

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

Product Identification

Set forth below are the products that Tory Burch is sourcing or intends to source from FPF Corporation and would like to have designated GSP-eligible.

- 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
- Brief cases and attache cases with outer surface of man-made fibers, in subheading 4202.12.8030, HTSUS
- Handbags, with and without shoulder straps, with outer surface of man-made fibers, in statistical breakout 4202.22.8050, HTSUS
- 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

PUBLIC VERSION

- Travel bags, including backpacks, tote bags and diaper bags, with outer surface of leather, in statistical breakout 4202.91.0030, 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

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 GSP designation under prior law and only became eligible upon the enactment of the Trade Preferences Extension Act of 2015.

Anticipated Benefits

The Philippine luggage, handbag, small leather goods and travel bag industry is facing challenges due to anticipated significant increases in imported raw materials costs resulting from the weakening peso-dollar exchange rate. This development is exacerbated by the existing high electricity and labor costs faced by factories in the Philippines. Power costs are the fifth-highest in the world and labor costs are rising with the advent of an increase in the daily minimum wage.³ 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.⁴ The Philippine government actively promotes foreign investment in these and other projects and believes that renewal of the GSP will provide further incentives for such investments, which in turn will lower electricity costs thereby assisting the manufacturing industries.

“(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.”

The importance of the luggage, handbags, small leather goods and travel bags manufacturing industry to the Philippines is evident from 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,

³ *Source:* Online Developing Country Sourcing Philippines Sourcing: “Fashion Accessories Industry Overview”

⁴ *Source:* U.S. Commercial Service “Doing Business in the Philippines: 2014 Country Commercial Guide for U.S. Companies”

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imports 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 gains were particularly strong in leather travel goods and handbags, which are continuing to rise. 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. Man-made fiber handbags in subheading 4202.22.8050, HTSUS, have experienced similar increases and rose by 204.6% in quantity and 207.7% by value during January to July 2015.⁵

Nevertheless, in spite of these increases, shipments in 2014 from the Philippines in this product area represent only approximately 1.4% of shipments from the world in value and 0.4% in quantity, and are dwarfed by shipments from China, which has an 87% share by quantity and a 67% share by value. As a result, in order to continue growth in this critical industry and be able to compete with the major shippers, the Philippines needs GSP.

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

In order to qualify for GSP, a product must be a “product of” the beneficiary country and the direct costs of processing plus the cost of originating materials must equal or exceed 35% of the value of the product. Production of the subject products in the Philippines involves the use of raw materials from within the country and from foreign sources. The materials are cut and sewn and assembled into finished products in the Philippines. Thus, the first requirement that they be “products of” the Philippines is satisfied. Moreover, 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.

Even when the raw materials are foreign-sourced and direct costs of processing are below 35%, meeting the local content requirement remains possible. 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

⁵ Source: USITC

PUBLIC VERSION

During the years the GSP has been in effect, U.S. Customs & Border Protection's consistently ruled 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 qualify for GSP benefits upon designation.

Please see the following pages for supplier information.

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

Information	2013	2014	2015
Actual Production	Approximately [] units per year	Approximately [] units per year	Approximately [] units per year
Estimated Increase With GSP	N/A	N/A	Increase to [] units per year
Capacity	[] units per year	[] units per year	Capacity [] units per year
Estimated Increase with GSP	N/A	N/A	Capacity to increase to approximately [] units per year
Planned Investments for GSP	N/A	N/A	Plant – [] Equipment: []
Employment Figures	Wages: [] per hour. [] workers	Wages: [] per hour. [] workers	Wages: [] per hour. [] workers
Estimated Changes with GSP	N/A	N/A	Increase to work force.
Total exports	Approximately [] units per year at []	Approximately [] units per year at []	Approximately [] units per year at []
Exports to the U.S.	Approximately [] units per year at []	Approximately [] units per year at []	Approximately [] units per year 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 []

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Superl Philippines Inc.
 Building 1, Block 2, Lot 1&4
 Angeles Industrial Park, Inc. SEZ
 Calibutbut, Bacolor
 Pampanga, Philippines

Note: Monthly figures are based on a 10-month production cycle.

Information	2012	2013	2014
Actual Production	Approximately [] units monthly	Approximately [] units monthly	Approximately [] units monthly
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	[] workers	[] workers
Estimated Changes with GSP	N/A	N/A	[]
Total exports	Approximately [] monthly	Approximately [] monthly	Approximately [] monthly
Exports to the U.S.	Approximately [] monthly	Approximately [] monthly	Approximately [] monthly
Cost Analysis	----	----	See attached
Profitability	Confidential – not available	Confidential – not available	Confidential – not available
Unit Prices	[] average	[] average	[] average

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

See next page for data.

Information	2012	2013	2014
Actual Production	Not available	Not available	[] pieces per year
Estimated Increase With GSP	Not applicable (“N/A”)	N/A	[] pieces per year
Capacity	Not available	Not available	Capacity of [] pieces per year; utilization is at []
Estimated Increase with GSP	N/A	N/A	Estimated to increase capacity utilization to []
Investments to date	N/A	N/A	[]
Employment Figures	Wages: [] per day	Wages: [] per day	[] workers, Wages: [] per day
Estimated Changes with GSP	N/A	N/A	Anticipated wage increase
Total exports	Not available	Not available	[] per year. Estimate [] for 2016. []% of sales to U.S., []% to China, []% to Japan, []% to EU market
Exports to the U.S.	Not available	Not available	[] to the U.S.
Cost Analysis	Average []% raw materials/[]% labor	Average []% raw materials/[]% labor	Average []% raw materials/[]% labor
Profitability	Confidential – not available	Confidential – not available	Confidential – not available
Unit Prices	Not available	Not available	Average unit price is []

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

Information	2012-2013	2013-2014	2014-2015
Actual Production	Not available	Not available	[] pieces annually
Estimated Increase With GSP Implementation	Not applicable (“N/A”)	N/A	[] pieces annually
Capacity	Not available	Not available	Capacity is [] pieces annually
Estimated Increase with GSP	N/A	N/A	[] capacity utilization
Investments	N/A	N/A	[]
Employment Figures	Wages: [] per day	Wages increased to [] per day	[] workers, Wages: [] per day
Estimated Changes with GSP Implementation	N/A	N/A	Potential wage rate increase
Total exports	Not available	Not available	[]% sales to U.S., []% sales to EU market, Total exports of []
Exports to the U.S.	Not available	Not available	[] annual
Cost Analysis	Average []% raw material/[]% labor	Average []% raw material/[]% labor	Average []% raw material/[]% labor
Profitability	Confidential – not available	Confidential – not available	Confidential – not available
Unit Prices	Not available	Not available	Average unit price is []

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Conclusion

Granting duty relief under the GSP program will provide needed assistance to developing countries including the Philippines, in order to strengthen and increase the luggage, handbag, small leather goods and travel bags manufacturing industry. It will allow these countries to compete with China, the major shipper of this merchandise and, at the same time, will not cause market disruption in the United States, as the domestic industry has already outsourced most production. In fact, many of the products in this area were added to the list of single transformation articles eligible for beneficial treatment under the Haiti HOPE law, as “non-import-sensitive.” Accordingly, we urge the U.S. Trade Representative to designate the requested HTSUS provisions as eligible for GSP treatment.

While Petitioner has made every effort to obtain all required information, if any further information is required in order to accept this petition, please contact the undersigned before taking any action. Furthermore, if we obtain any additional information in the next week, we will forward same to your office.

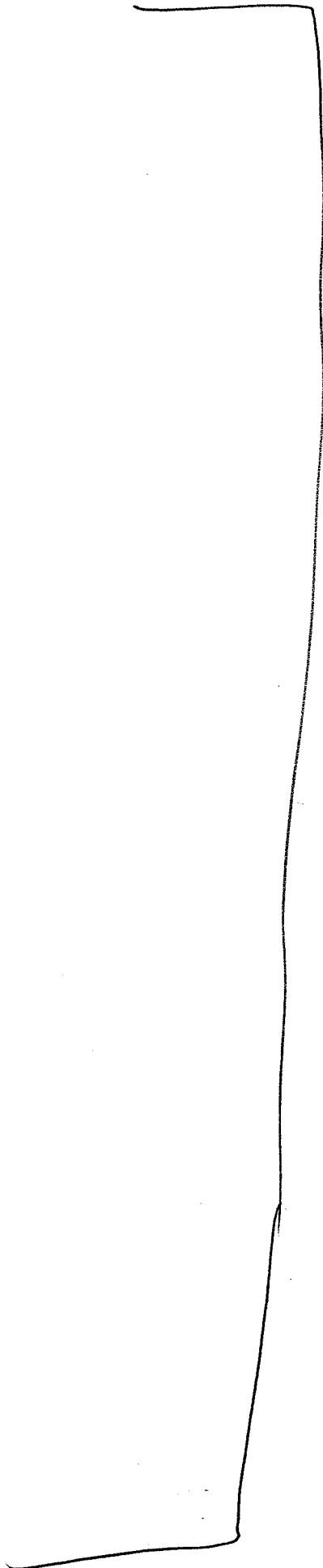
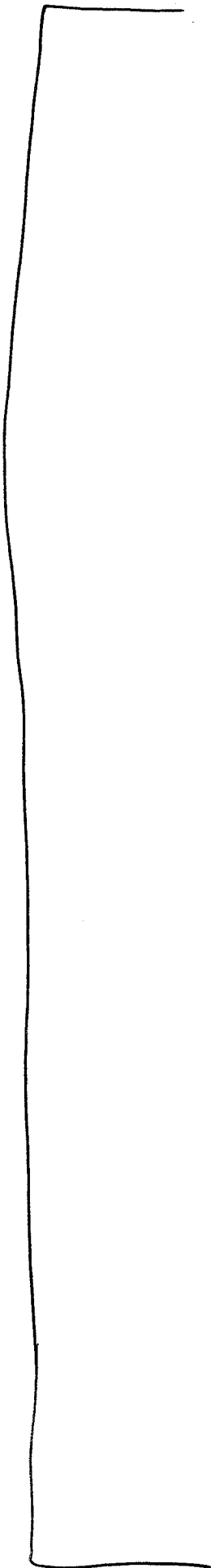
Respectfully submitted,

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Attachments:

- FPF Corporation sample cost breakdowns
- Superl Philippines Inc. sample cost breakdown

FPF Corporation Sample Cost Breakdowns



Superl Philippines Sample Cost Breakdown

