

MEMORANDUM

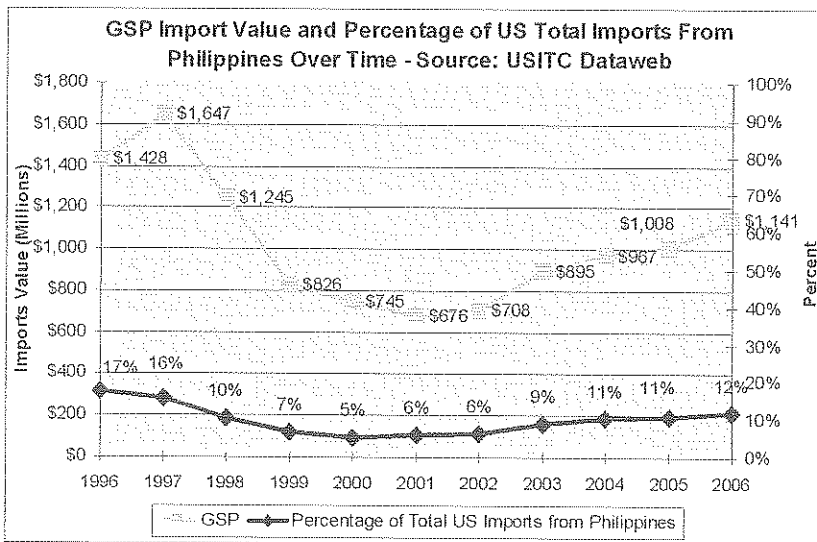
TO: Brian Campbell
FROM: Ben Feinberg
RE: GSP in the Philippines
DATE: April 19, 2007

In 2006, the United States imported \$1.14 billion from the Philippines under the Generalized System of Preference's duty-free designation, a 13.2% increase from 2005. This represented about 12% of total Filipino imports, which are valued at \$9.6 billion. This was a 5% increase from the total value of imports in 2005.¹

History of GSP in the Philippines

The Generalized System of Preferences was expanded to include the Philippines in 1992. According to Xinhua, total exports in 1992 under the U.S. GSP system expanded to \$1.05 billion from \$821.6 million in 1991.² The GSP program made such a big impact on the Filipino economy that in 1993, "at least 53 percent of Philippine exports to the U.S. enter the market duty-free either because of the GSP program or the most favored nation (MFN) status."³ Xinhua reports that GSP rose to \$1.3 Billion in 1995.⁴

Beginning in 1996, the United States International Trade Commission has more accurate statistics available on their online database. These statistics show a significant drop off towards the end of the Clinton administration and pre-9/11



Bush administration, bottoming out in 2001 at \$676 million.⁵ However, in December 2001, President Bush met with President Arroyo and, as part of a military/economic package to support the war on terror, pledged to increase GSP duty-free imports from the Philippines to \$1 billion.⁶ GSP duty-free imports from the Philippines have

¹ USITC Dataweb

² Xinhua, June 20, 1993, "Philippine exports to U.S. up 28 percent in 1992"

³ Xinhua, March 5, 1993, "Manila to continue enjoying U.S. preferential tariff rates"

⁴ Xinhua, February 26, 1996, "Philippine exports to be hurt by US budget impasse"

⁵ USITC Datweb

⁶ Manila Standard, May 14, 2003, "Gloria to seek more tax perks from US"

been on the rise since 2001, currently at \$1.14 Billion. The biggest increases occurred for the following products which accounted for a total of \$368 million of GSP increases (79% of net change and 52.1% of total increases)⁷:

Major Beneficiaries of Bush-Era GSP Expansion in the Philippines				
HTS #	Details	2001	2006	Change
8544300000	INSULATED IGNITION WIRING SETS & WIRING SETS FOR VEHICLES, AIRCRAFT AND SHIPS	\$81,561,657	\$193,728,698	\$112,167,041
1701111000	CANE SUGAR, RAW, IN SOLID FORM, NOT CONTAINING ADDED FLAVORING OR COLORING MATTER, NESOI, DESCRIBED IN ADDITIONAL U S NOTE 5 (CHAP. 17) & PROVISIONAL	\$36,540,970	\$92,017,228	\$55,476,258
9031808085	OTHR MEASUR/CHECK INST NSPF	\$144,807	\$46,582,970	\$46,438,163
8544519000	CONDUCTOR:OTHER >80 & <=1000V	\$31,440,456	\$56,752,724	\$25,312,268
8501106060	ELECTRIC MOTORS OF AN OUTPUT OF 18.65 W OR MORE BUT NOT EXCEEDING 37.5 W, DC, EXCEPT BRUSHLESS	\$5,500	\$22,043,353	\$22,037,853
9013101000	TELESCOPIC SIGHTS FOR RIFLES NOT DESIGNED FOR USE WITH INFRARED LIGHT	\$10,881,406	\$26,813,854	\$15,932,448
2921196090	ACYCLIC MONOAMINES AND THEIR DERIVATIVES, NESOI	\$0	\$14,002,225	\$14,002,225
8536509065	SWITCHES F/ELEC CIRCUITS, OTHR	\$37,035	\$13,782,877	\$13,745,842
8529109000	ANTENNAS/ANTENNAS REFLECTOR, OH	\$596,921	\$14,152,889	\$13,555,968
7006004050	GLASS OF HEADING 7003-05, BENT, EDGEWORKED, ENGRAVED, DRILLED, ENAMELED OR OTHERWISE WORKED, NOT HAVG AN ABSORBENT OR REFLECTING LAYER, NT FRAMD NESOI	\$93,783	\$13,319,049	\$13,225,266
3823192000	INDUSTRIAL MONOCARBOXYLIC FATTY ACIDS DERIVED FROM COCONUT, PALM-KERNEL OR PALM OIL	\$7,490,137	\$20,454,210	\$12,964,073
8503009520	PARTS OF MOTORS (OTHER THAN STATORS AND ROTORS UN DER 18.65W FOR GOODS OF HEADING 8501)	\$3,043,688	\$14,720,608	\$11,676,920
7307215000	STAINLESS STEEL FLANGES, MACHINED, TOOLED OR OTHWISE PROCSD AFT FRGNG	\$198,795	\$11,778,667	\$11,579,872
			Increases from these products	\$368,114,197

⁷ The difference between net change and total increases is this: net change is the difference between GSP in 2006 and GSP in 2001, where as total increases is the sum of all positively growing GSP products in 2006 minus the sum of all positively growing GSP products in 2001. In other words, total increases is a measure of where the growth in the GSP is coming from, ignoring the decreases. Total increases were \$706 million, where as total decreases were \$240 million, resulting in a net change of \$465 million

CNL Waivers

The Philippines imports several commodities on GSP with waivers to Competitive Needs Limits (CNL). CNLs are limits imposed so that once a country develops a sufficient amount of trade in that commodity it is released from the GSP system, to give duty-free advantages to other developing countries. However, waivers can be obtained to allow a commodity from a specific country to stay on the GSP duty-free list, even with an exceeding amount of CNL. As of August 4, 2006, the Philippines has CNL waivers on the following commodities:⁸

	HTS 8-Digit Description	Year of Action
17011110	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	1989
17011105	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to gen. note 15 of the HTS	1989
17011120	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	1989
20089915	Bananas, other than pulp, otherwise prepared or preserved, nesoi	1989
29157000	Palmitic acid, stearic acid, their salts and esters	1989
29159010	Fatty acids of animal or vegetable origin, nesoi	1989
38231920	Industrial monocarboxylic fatty acids or acid oils from refining derived from coconut, palm-kernel, or palm oil	2005
46021016	Baskets and bags of rattan or palm leaf other than wickerwork	1989
46021018	Baskets and bags of vegetable material, nesoi	1989
46021080	Basketwork and other articles, nesoi, of vegetables materials, nesoi	1989
84022000	Super-heated water boilers	1994
85279095	Reception apparatus for radiotelegraphy, radiotelephony, radiobroa dcasting, nesoi	1997
85443000	Insulated ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships	1991
90328960	Automatic regulating or controlling instruments and apparatus, nesoi	1997
96131000	Cigarette lighters and similar lighters, gas fueled, not refillable, for the pocket	1989

Four of the commodities (highlighted in bold) that have CNL waivers are part of the top twenty beneficiaries of GSP duty-free imports (see table below). While the Philippines have been granted CNL waivers for all of these commodities, there is only one commodity that the Philippines has been graduated from the GSP on: Guavas, mangoes, and mangosteens, dried (08045080).⁹ In 2005, the Philippines petitioned to waive the CNL on dried guavas and mangos, but it was unsuccessful.¹⁰

⁸[http://ustr.gov/Trade_Development/Preference_Programs/GSP/CNL_Waivers_Current_Waivers_to_GSP_Competitive_Need_Limitations_\(CNLs\).html](http://ustr.gov/Trade_Development/Preference_Programs/GSP/CNL_Waivers_Current_Waivers_to_GSP_Competitive_Need_Limitations_(CNLs).html)

⁹ <http://hoidocs.usitc.gov/docs/tata/hts/bychapter/0701gn.pdf>, Page 15

¹⁰ http://ustr.gov/assets/Trade_Development/Preference_Programs/GSP/asset_upload_file401_9601.pdf, Page 2

One different kind of CNL waiver is a *de minimis* waiver, which grants excess of CNL maximum percentage if the total value of world imports of that commodity is less than \$18.5 million. The Philippines received three of these in 2005 on insulated beverage bags (42029204), exposure meters (90274000) and fish hooks (95072040).¹¹ These new waivers enable GSP duty-free treatment to continue on \$10.8 million worth of imports.

Graduation attempt 2006

In 2006, the United States decided to review the eligibility of several countries to the GSP program. These countries, it was argued, had become major beneficiaries of GSP duty-free imports and were dominating the system, while other less developed countries were being edged out. The countries up for review included Argentina, Brazil, Croatia, India, Indonesia, Kazakhstan, the Philippines, Russia, Romania, South Africa, Thailand, Turkey and Venezuela.¹² In review of the effects that this change could have, the USTR called for statements from any organizations with interests in these countries.¹³ Almost every petitioner opposed the graduation of the Philippines from the GSP, with the exceptions of the Tile Council of North America and the American Watch Association, which argued that the Philippines was ready to be graduated, primarily because it was receiving tax breaks that it did not need, and that gave it a deeper competitive edge over less developed countries.¹⁴

One of the most well represented industries in the petitions was the jewelry industry. Sunstone, Inc. (sterling silver jewelry wholesaler) and Roman Company (fashion jewelry wholesaler) submitted a joint petition which noted that "Sunstone and Roman combined, import approximately 70% of our jewelry from India, Philippines, Romania, and Thailand."¹⁵ The Fashion Jewelry Trade Association also submitted a petition, which predicted eminent doom for everyone if GSP was eliminated in the Philippines: "Such price increases could adversely affect the sales of fashion jewelry for our members and the retailers they supply. This action could precipitate a loss of business and therefore a loss of tax revenue to our government. There could also be a loss of jobs in the United States. This would also result in a loss of tax revenue to state and the federal government. In addition there could be an increase in unemployment benefits and public assistance expense."¹⁶

Another well represented industry was the wiring industry. Lear Corporation makes automotive interiors, and imports wire harnesses¹⁷ from the Philippines, and while it is not currently using the GSP program, it plans to use it soon. Lear maintains three manufacturing facilities in the Philippines that produce wire harnesses for North American consumption. It estimates that GSP savings would total to \$1.5 million per year for the company.¹⁸ Sumitomo Electric Wiring Systems and K&S Wring Systems, Inc. also import wire harnesses from the Philippines, produced by International Wiring Systems (Phils.) Corporation (IWSPC) at its manufacturing facility in San Miguel, Tarlac City, the Philippines, and by Pilipinas Kyohritsu, Inc. (PKI) at its facility in the Batangas region of the Philippines. These two corporations note

¹¹ http://ustr.gov/assets/Trade_Development/Preference_Programs/GSP/asset_upload_file401_9601.pdf, Page 7

¹² Journal of Commerce, "Is it death for GSP?", September 18, 2006

¹³ http://ustr.gov/assets/Document_Library/Federal_Register_Notices/2006/August/asset_upload_file105_9726.pdf

¹⁴ http://ustr.gov/assets/Trade_Development/Preference_Programs/GSP/2006_GSP_Public_Comments/asset_upload_file300_9788.pdf, Page 68

¹⁵ Ibid 1

¹⁶ Ibid 46

¹⁷ HTS 8544.30.00

¹⁸ Ibid 68

that if GSP is not continued for them, there will be an added 5% customs duty, which may cause them to shift their sourcing patterns.¹⁹ The Motor and Equipment Manufacturers Association also argued that loss of GSP in these countries would make American car companies less competitive in the world market.²⁰

One other industry that had several petitioners were those concerned about cane sugar imports.²¹ The American Sugar Alliance noted that the GSP totals to a savings of approximately \$2 million on sugar imports.²² The National Confectioners Association and Chocolate Manufacturers Association argued that the GSP system is actually too small, and needs to be expanded. They note that only one third of sugar entering the country from developing countries (using their definition of the term) enter duty free.²³

Most other companies many the argument that if GSP was not continued, they would be forced to shift production from the Philippines to China or Vietnam. These companies include Pier 1 Imports, CamelBak LLC and Dong-In Entech (which makes hands-free hydration packs)²⁴, and the Whistler Group (Radar Detectors). Other companies that petitioned to keep GSP in the Philippines included Hitachi Global Storage Technology (disk drives), Calico Brands (cigarette lighters), Twin Rivers Technologies (oleochemicals)²⁵, PPG Industries, Inc and Transitions Optical.

Changes to the GSP due to the 2006 Extension

The commodity that was the greatest beneficiary of GSP duty-free imports from the Philippines was insulated ignition wiring sets, and wiring sets for vehicles, aircraft and shifts. GSP duty-free imports in these commodities were valued at \$193.7 million, which is approximately 17% of total GSP duty-free imports and 3.2% of world imports of ignition wiring sets.²⁶ However, this commodity is due to have its waiver revoked this year.²⁷ This change is caused by new provisions in the GSP law from its extension to 2008. The law has provisions that change the terms on which a CNL waiver can be held. According to these modifications, the waiver can be revoked if the commodity has had that waiver for five or more years *and* has an appraised value higher than 1.5 times the appraised value maximum²⁸ (which is \$130 million in 2007 and increases by \$5 million each year²⁹). In other words, since the total imports of insulated ignition wiring sets (total imports valued at \$359 million) are greater than \$195, and since the waiver is over 5 years old, it will likely be revoked this year.

Major Beneficiaries of GSP program

Other important Filipino commodities that receive GSP Duty-free status include cane sugar, conductors, telescopic sights for rifles, and unmounted spectacle lenses. These statistics are provided for the top twenty 2006 GSP duty-free imports below:

¹⁹ Ibid 101

²⁰ Ibid 26

²¹ HTS 1701.1110

²² Ibid 78

²³ Ibid 23

²⁴ HTS 4202.92.04

²⁵ HTS 3823.19.20 - Imported \$17 million of in 2005 (19 million in 2004)

²⁶ USITC Dataweb: HTC #: 8544300000

²⁷ http://ustr.gov/assets/Trade_Development/Preference_Programs/GSP/asset_upload_file628_10598.pdf Page 26

²⁸ <http://thomas.loc.gov/cgi-bin/query/F?c109:6:./temp/~c109W5bTk6:e1042344>:

²⁹ http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=browse_usc&docid=Cite:+19USC2463

Top 20 Beneficiaries of GSP in the Philippines

Description	HTC #	GSP Imports Value	Percent of Total GSP	Total World Imports	Percent of Total World Imports	World Rank
INSULATED IGNITION WIRING SETS & WIRING SETS FOR VEHICLES, AIRCRAFT AND SHIPS	8544300000	\$193,728,698	16.97%	\$6,029,250,000	3.21%	3 (Mexico makes 71%)
CANE SUGAR, RAW, IN SOLID FORM, NOT CONTAINING ADDED FLAVORING OR COLORING MATTER, NESOI, DESCRIBED IN ADDITIONAL U S NOTE 5 (CHAP. 17) & PROVISIONAL CONDUCTOR.OTHER >80 &=<=1000V	1701111000	\$92,017,228	8.06%	\$691,066,000	13.32%	2 (DR makes 16%)
OTHER MEASUR/CHECK INST NSPF	9031808085	\$46,582,970	4.08%	\$1,311,231,000	3.55%	5 (Japan, Germany, Canada and UK make up 60%)
TELESCOPIC SIGHTS FOR RIFLES NOT DESIGNED FOR USE WITH INFRARED LIGHT	9013101000	\$26,813,854	2.35%	\$80,254,000	33.41%	2 (China makes 35%)
SPECTACLE LENSES OF OTHER MATERIALS, UNMOUNTED	9001500000	\$23,978,864	2.10%	\$384,013,000	6.24%	5 (Mexico, Japan, Thailand and China make 70%)
ELECTRIC MOTORS OF AN OUTPUT OF 18.65 W OR MORE BUT NOT EXCEEDING 37.5 W, DC, EXCEPT BRUSHLESS	8501106060	\$22,043,353	1.93%	\$160,996,000	13.69%	4 (Mexico, Japan and China make 50%)
INDUSTRIAL MONOCARBOXYLIC FATTY ACIDS DERIVED FROM COCONUT, PALM-KERNEL OR PALM OIL	3823192000	\$20,454,210	1.79%	\$84,190,000	24.30%	2 (Malaysia makes 70%)

Top 20 Beneficiaries of GSP in the Philippines

Description	HTC #	GSP Imports Value	Percent of Total GSP	Total World Imports	Percent of Total World Imports	World Rank
PARTS OF MOTORS (OTHER THAN STATORS AND ROTORS UNDER 18.65W FOR GOODS OF HEADING 8501)	8503009520	\$14,720,608	1.29%	\$447,188,000	3.29%	8
ANTENNAS/ANTENNAS REFLECTOR, OH	8529109000	\$14,152,889	1.24%	\$272,890,000	5.19%	6
ACYCLIC MONOAMINES AND THEIR DERIVATIVES, NESOI	2921196090	\$14,002,225	1.23%	\$54,618,000	25.64%	2 (China makes 27%)
SWITCHES F/ELEC CIRCUITS, OTHR	8536509065	\$13,782,877	1.21%	\$1,304,469,000	1.06%	10
GLASS OF HEADING 7003-05, BENT, EDGEWORKED, ENGRAVED, DRILLED, ENAMELED OR OTHERWISE WORKED, NOT HAVG AN ABSORBENT OR REFLECTING LAYER, NT FRAMD NESOI	7006004050	\$13,319,049	1.17%	\$140,688,000	9.47%	3 (Thailand and China make 50%)
OTHER IMITATION JEWELRY OVER 20 CENTS PER DOZEN PIECES OR PARTS	7117909000	\$13,025,910	1.14%	\$239,651,000	5.44%	4 (China, Thailand and India make 80%)
BASKETS AND BAGS OF VEGETABLE MATERIALS, NESOI, WHETHER OR NOT LINED	4602101800	\$11,917,419	1.04%	\$86,242,000	13.82%	2 (China makes 77%)
STAINLESS STEEL FLANGES, MACHINED, TOOLED OR OTHERWISE PROCSD AFT FRGNG	7307215000	\$11,778,667	1.03%	\$83,248,000	14.15%	2 (India makes 30%)
NON-ELECTRIC LAMPS AND LIGHTING FITTINGS EXCEPT OF BRASS	9405504000	\$11,380,588	1.00%	\$410,516,000	2.77%	3 (China and India make 81%)
POWER SUPPLIES, OTHER, RECTIFIERS	8504409540	\$11,276,834	0.99%	\$420,613,000	2.68%	6
ACTIVATED CARBON	3802100000	\$11,071,325	0.97%	\$76,083,000	14.55%	2 (China makes 33%)

Top 20 Beneficiaries of GSP in the Philippines

Description	HTC #	GSP Imports Value	Percent of Total GSP	Total World Imports	Percent of Total World Imports	World Rank
ELECTRICAL APPARATUS, NESOI, EQUIPPED WITH TWO OR MORE APPARATUS FROM HEADING 8535 OR 8536, FOR A VOLTAGE NOT EXCEEDING 1,000 V	8537109070	\$10,056,345	0.88%	\$2,564,863,000	0.39%	14

Sub-total of Top 20	\$632,856,637	55.44%	\$16,508,355,000
Others	\$508,610,389	44.56%	
Total	\$1,141,467,026	100.00%	

SOURCE: USITC
DATAWEB