



Statement of Angus McRae

Chairman Broadbent, Members of the Commission, thank you for the opportunity to appear at this important hearing. My name is Angus McRae, I am the Head of Supply Chain at Coach, Inc., a New York based company known worldwide for its high quality handbags, luggage, backpacks, wallets and other travel goods. I am here today in support of adding all product lines under review as eligible for duty-free treatment for all beneficiary developing countries, or BDCs, under the Generalized System of Preferences, or GSP program.

Coach, Inc. is a New York-based brand operating in both North America and targeted international markets. Founded in 1941, Coach now operates retail locations in the U.S., Japan, Europe, China, Singapore, Taiwan, Malaysia and South Korea. Coach also sells wholesale into leading department stores and other specialty retailers around the world.

Coach was proud to participate in three private-sector coalitions that petitioned for duty-free access for travel goods subheadings recently made eligible by the Trade Preferences Extension Act of 2015. Coach participated in petitions filed by the Backpack, Sport and Travel bag Coalition, the Handbag Coalition, and the Pocket Goods Coalition. I would refer the Commission to the business-confidential versions of these petitions for detailed information on Coach sourcing. My comments today will not include any business confidential information.

The Coach brand is one of the most recognized fine accessories brands in both North America and in targeted international markets, where it has a rich heritage of pairing exceptional leathers and materials with innovative design. We offer premium lifestyle accessories to a loyal and engaged customer base and provide consumers with fresh, compelling and innovative products that are extremely well made, at an attractive price. Our product offering uses a broad range of high quality leathers, fabrics and materials.

Adding these goods to the GSP program would allow Coach to move away from a dependence on China and move to a more secure and balanced sourcing strategy. Duty-free would allow Coach to lower costs, which in turn will allow us to create more fashion forward products, selling at more affordable price points to our customers, and enabling an expansion and growth of our business.

Coach has a significant U.S. employment base, employing almost 8,200 people in the United States. The company is headquartered in New York, and we maintain a large distribution center in Jacksonville, Florida, where products are imported from several Asian countries, assorted and shipped throughout the U.S. and Canadian markets.

We utilize a flexible, cost-effective global sourcing model, in which independent manufacturers supply our products, allowing us to bring our broad range of products to market rapidly and efficiently. Coach currently manufactures in both BDC and non-BDC countries, including China, Vietnam, Philippines, India, and Thailand. At this time, Coach also maintains what we believe

may be one of the largest U.S. production capabilities for accessories in the United States – where we execute our prototype sample development for overseas manufacturing. We also create small specialty items, and service customer repairs and refurbishment of Coach product within our New York City and New Jersey facilities.

In the travel goods, accessory market, I am not aware of any commercially meaningful production in the United States. Simply put, travel goods and accessories have not been made in the United States for many years. Coach at one point considered attempting to establish our own U.S.-based production facility to complement our sourcing through third party factories overseas. The idea proved to be unworkable, with labor costs alone averaging six to ten times more than the labor costs overseas.

While production in the United States is not possible, all other aspects of our business occur in the United States. From our headquarters in New York, we design, develop and market our product, and our retail stores are established throughout the country. Coach product is imported into the United States, stored, shipped, and sold here in a broad range of sales channels, including Coach-branded stores, however the number of employees quoted doesn't include the jobs supported in other sales channels, for example department stores, nor in the suppliers and service providers we utilize in our business.

Like many travel goods producers, in the late 1990s we began to invest in China. This trend continued into the 2000s until we were almost wholly dependent on China. The move was driven by the efficiency of the China market and low labor costs, combined with the end of the quota system on many textile travel goods.

Approximately six years ago, Coach began to strategically examine other sourcing options, as depending on a single sourcing country did not provide Coach with any flexibility to prevent disruptions in our supply chain. These could be economic or environmental, like a sudden change in currency exchange rates, strikes, or a natural disaster near a manufacturing facility.

Coach began to move production from China to Vietnam, but quickly added several GSP BDCs, including the Philippines and now Thailand. We also expanded the products we sourced from India. While Coach has sourced men's wallets from India for over fifteen years, we now source men's bags, womens wallets, belts and other leather products.

While I will not reveal business confidential information in this hearing, I would refer members of the Committee to the business confidential versions for more specifics on the products we source from these countries. We currently source many Coach product lines by HTS subheading from GSP BDCs. Coach currently sources 18 of the 28 10-digit subheadings currently under review by the Commission from BDCs today. Duty free for these items would provide a tremendous benefit to Coach, enabling us to expand production in these markets, and grow our American retail business. Products under the other 10 tariff subheadings could also be shifted to BDCs if duty-free is granted.

I want to take a minute to discuss why it is so vital to allow U.S. companies like Coach to utilize all GSP eligible countries and not limit this benefit to the least developed BDCs or LDBDCs. First,

China's dominance of this market is so significant, approaching 90 percent of the imports of these items by quantity, that there is plenty of opportunity for all BDCs to benefit.

More importantly, for Coach, our products are known for high quality manufacturing with frequently changing designs, materials, and features to address fashion requirements, with constant pressure to be delivered within shorter and shorter time frames.

While many GSP BDCs have lower labor costs than China, they have significant costs in other areas that work against them. Coach often makes significant and ongoing investments in facilities and worker training. In the past, Coach has helped to invest in equipment upgrades at partner factories, and to develop management tools such as automated costing and supply management communications tools. In addition, materials, including high quality textiles and leather and other component materials are not available within these markets and must be imported, adding to lead times and costs. In order to balance these factors, duty-free access would allow us to more aggressively push into GSP countries.

Although these countries offer a lower labor rate, these necessary large initial investments in facilities and training would require a duty reduction into the United States to justify and balance the competitive advantage of the Chinese facilities.

In Coach's experience, it often requires an eighteen month investment to bring a factory outside of China up to Coach's basic quality control standards, and two and a half year to meet the requirements of high quality fashion items. Coach will send our own staff to lead the training of the factory, both of management and the workers. In addition, Coach generally pays for materials to be imported to these facilities for this training period. In an LDBDC, this timeframe could be significantly longer, and often times these factories are not able to produce to our standards at needed efficiency levels, nor with flexibility to change products frequently.

For this reason, Coach does not believe that many LDBDCs will be able to meet our specific needs in the short to medium term. Coach often sources its bags in smaller runs that vary greatly from season to season, and our sourcing strategy requires not only the ability to be competitive in the market segment where we compete, but also to deliver high quality with the fashion requirements previously mentioned. Coach believes that LDBDCs will be able to compete for other segments of the travel goods and accessory market, for example long production runs of more basic products, such as school backpacks or other basic bags. In time, and with the improvement of infrastructure and availability of some basic materials many of these facilities will likely expand to more complex items and move up the value chain.

In particular, Coach views the Philippines, a GSP BDC, as a major sourcing partner with the potential to grow immediately. Philippines-based factories are capable of producing bags that meet Coach's needs. Coach has continued to develop its sourcing options within the Philippines and hopes to expand into other GSP eligible countries if duty-free opportunities emerge through this process. Coach estimates that it would shift the majority of its production currently taking place in China to a point where we rely on China for no more than 10 percent of our sourcing of travel goods within a few years.

Adding these travel goods subheadings to GSP would benefit Coach's U.S. employment. Our U.S. employees are involved in all aspects of the design, marketing, and retail of these travel goods. Simply put, lowering costs will allow us to import more and sell competitively to consumers. At the same time, Coach could diversify its sourcing to hedge against disruptions affecting one or several current suppliers. In addition, lower costs in GSP BDCs would allow us to lower our direct-to-consumer prices, making Coach more competitive in online sales, an area we have not previously pushed due to the significant price competition.

I strongly urge you to recommend that all travel goods subheadings currently under review be made duty-free under the GSP program.

Thank you, and I would be happy to answer any questions.