

Focus on the review of the Harmonized System

Getting involved enables your proposals to be considered

THE WCO SECRETARIAT is currently rounding off its work related to the implementation of the 2012 version of the Harmonized System (HS) Nomenclature, which mainly comprises updating HS publications and tools, such as the Explanatory Notes, the Alphabetical Index and the Compendium of Classification Opinions.

Having almost finalized this large body of work in readiness for the implementation of HS 2012 on 1 January, it is now time to expressly think about the next revision of the HS Nomenclature – the 5th HS Review Cycle that will lead to HS 2017. In this respect, the WCO would like to encourage users of the HS from both the public and private sector to become involved in the Review Cycle by sending concrete proposals to their national Customs administration or its equivalent.

Keeping the HS dynamic

When a nomenclature remains unchanged – not taking into account the evolution of technology and changes of consumer habits – there is a serious risk of difficulties and disputes arising when classifying products.

An example – from the 4th HS Review Cycle that resulted in HS 2012 – is the creation in the HS Nomenclature of a new heading for hygiene absorbent products, such as infant diapers (napkins), adult incontinence products, feminine sanitary products and the like. These products are classifiable in HS 2007 according to their constituent materials; they may fall in HS heading 48.18, 56.01, 61.11 or 62.09, as the case may be.

However, over the past 40 years, the technology behind these products has evolved from simple knit or woven cloth to cellu-

losic-wood-pulp-based products and super absorbent polymers (SAP) combined with plastics film and textile nonwovens. Absorbent technology continues to evolve rapidly, with various materials from differing HS chapters and headings being combined into composite products, which will likely lead to difficulties in tariff classification in the future. However, as of 1 January 2012, these hygiene absorbent products, of any material, will fall in heading 96.19 in HS 2012.

The 5th Review Cycle

The work on the 5th HS Review Cycle already commenced in November 2009 with a view to making sure that the HS Nomenclature reflects trade needs as we enter the next decade. This revision is expected to be completed by June 2014 and the revised version will enter into force on 1 January 2017, one year before the 30th anniversary of the HS. The WCO manages this process through the Harmonized System Committee (HSC) – representing the Contracting Parties to the HS Convention – and more specifically through its HS Review Sub-Committee (RSC). Each Review Cycle typically lasts five years.

As in previous review cycles, the starting point of the 5th Review Cycle is formed by the left-over items from the last cycle. The possible amendment of legal texts with a view to clarifying the scope of heading 95.06 in respect of sports clothing of textiles, of Chapter 61 or 62, incorporating protective components such as pads or padding in the elbow, knee or groin areas, is one such issue. New issues are also being examined, such as defining the scope of the term “infant” for the purposes of subheading 1901.10, and considering a possible modification of HS provisions for monitors.

Interested parties involved in international trade should send their suggestions for amendments to their national Customs administration or to any other appropriate intergovernmental organization. These bodies can then ask the WCO Secretariat to place the issue on the agenda of the HSC. Normally the private sector makes requests to Customs or the Trade Ministry for amendments to the HS, but in some countries requests are published

for public comment. These requests are then considered by all agencies that may have an interest in the matter, for example, Customs, Finance, Commerce, Trade, Agriculture, Environment, Health, and so on.

The limits of simplification

As in previous Review Cycles, the WCO Secretariat will undertake a review of the HS on the basis of trade statistics with a view to simplifying the HS by deleting low trade volume headings and subheadings.

However, as a consequence of the global financial crisis, international trade volumes (imports and exports) did decline. Since these lower volumes will be reflected in international trade statistics, the Secretariat has invited the HSC to consider whether the same basic ground rules concerning the deletion of subheadings and headings or the establishment of new subheadings and headings – USD 50 million and 100 million respectively – should continue to apply. Therefore, before coming to any conclusions in this connection, the HSC



will monitor what is happening in the global economy in general and in international trade in particular.

It has been advocated that the HS should be simplified significantly due to the downward trend in duty rates, but one must also take into account that the HS is increasingly of interest to many other organizations, particularly those involved in areas relating to the environment, food safety, public health and security. In the past, as agreed by the HS Committee and the Review Sub-Committee, exceptions were almost always provided for thresholds for the following:

- products of social or environmental importance,
- products of importance for developing countries and their economies,
- residual headings or subheadings whose deletion would adversely affect the structure of the HS or lead to classification problems,
- any subheading whose retention was requested by a Contracting Party and endorsed by the RSC.

Possible amendments

Updating the high technology area will be necessary as a result of rapid developments. While some classification problems encountered in the high-tech area were solved in the 3rd Review Cycle (HS 2007), classification of products manufactured by the IT, consumer electronics and telecommunications industries continue to create difficult and complex situations due to the convergence of these industries and the development of new products capable of performing several functions, for example:

- a media player in the form of a handheld, portable video, sound, picture, text, voice and audio recorder, viewer, and player
- so called “Smart phones” having functions such as video recording or reproducing, reception of TV broadcasting, playing video games, wireless internet connection, sending and receiving email messages, etc.

There are also certain sectors of the HS such as pharmaceuticals, chemicals and textiles that might lend themselves to clarification and thus contribute to further simplification of national Customs tariffs and thereby international trade. Simplification also means making the Harmonized System more user-friendly and easier to apply.

Customs administrations should be aware of the areas where they frequently encounter problems and are urged to submit proposals to simplify and clarify the provisions governing classification in such areas. In addition, the WCO Secretariat can also submit to the RSC such problem areas where it frequently receives requests for advice on classification of the goods falling in those areas.

Another consideration for modification of the Nomenclature lies in the fact that very often newly developed products cannot be identified in the structured nomenclature. As an example, the classification of a motor vehicle with a hybrid power system is classified in the category of motor vehicles with spark-ignition internal combustion reciprocating piston engine or with compression-ignition internal combustion reciprocating piston engine (diesel or semi-diesel), as the case may be. The HS does not identify these “green cars”.

Suggestions for amendments welcome

The HS maintenance effort is a priority for the WCO and it encourages WCO Members to follow the on-going revision cycle closely and to send their suggestions, as well as those conveyed to them by the private sector, to the Review Sub-Committee.

After all, the Contracting Parties to the HS Convention will be required, pursuant to Article 16 of the HS Convention, to introduce future HS amendments into their national tariffs within fixed time-limits.

An information sheet explaining the HS review process is posted in the Nomenclature section of the WCO public website.

More information
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