

UPDATING THE HARMONIZED SYSTEM:
ITS IMPACT ON THE RULES OF ORIGIN FOR
PRODUCTS

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What information do we have to do the job?

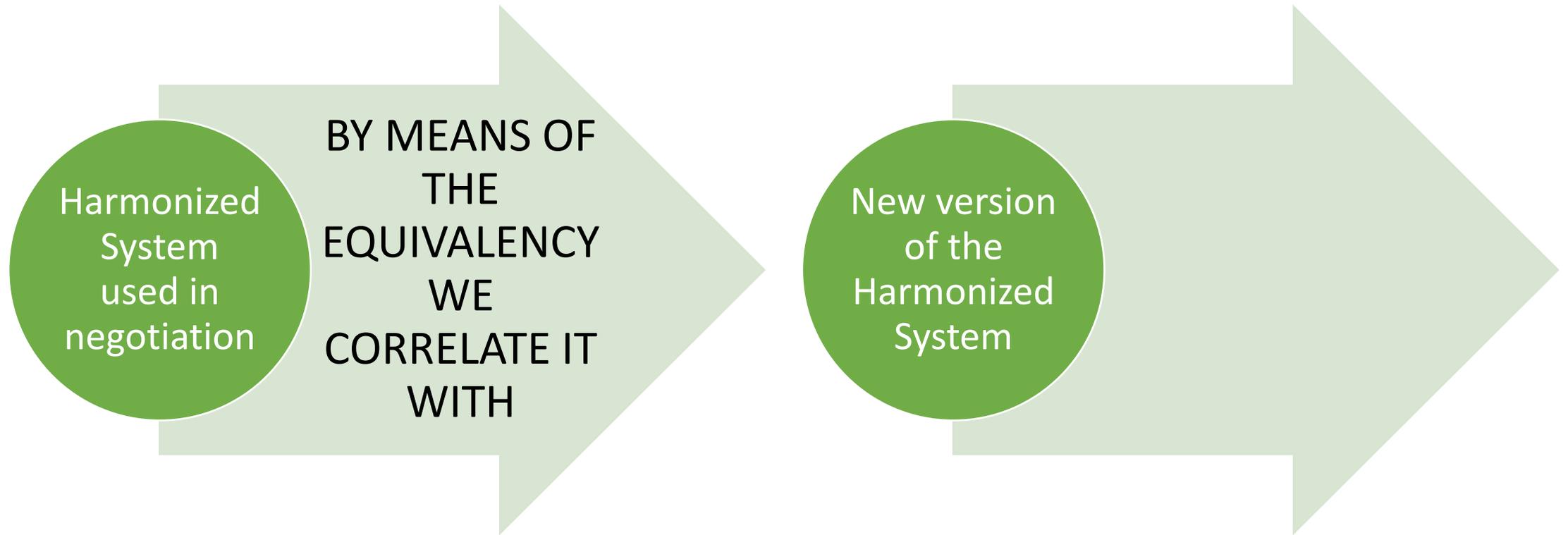
Tables of equivalencies between two successive versions, prepared by the WCO

We have the WCO **GUIDE FOR TECHNICAL UPDATE OF PREFERENTIAL RULES OF ORIGIN**

Does the work that we have to do to adapt the origin requirements involve two successive versions? NO, IT IS BETWEEN NON-SEQUENTIAL VERSIONS.

Are the tables of equivalencies sufficiently precise to enable identification of the inputs involved in the correlation?

Traceability of changes to the HS in the cases of tariffs, safeguards and quotas

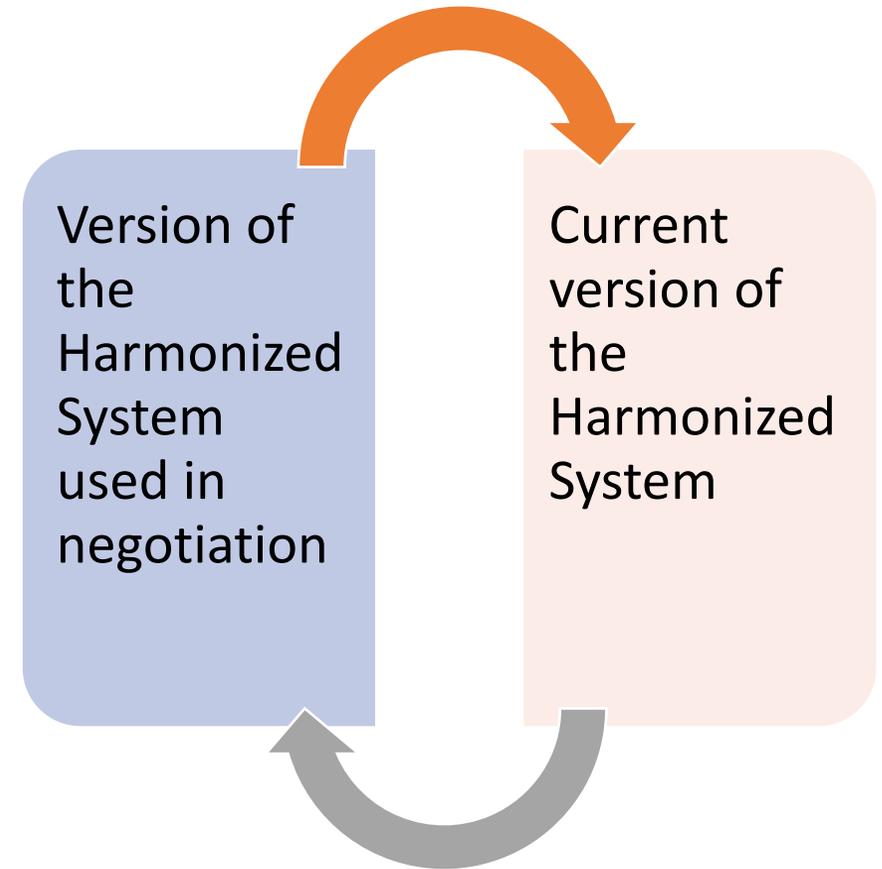


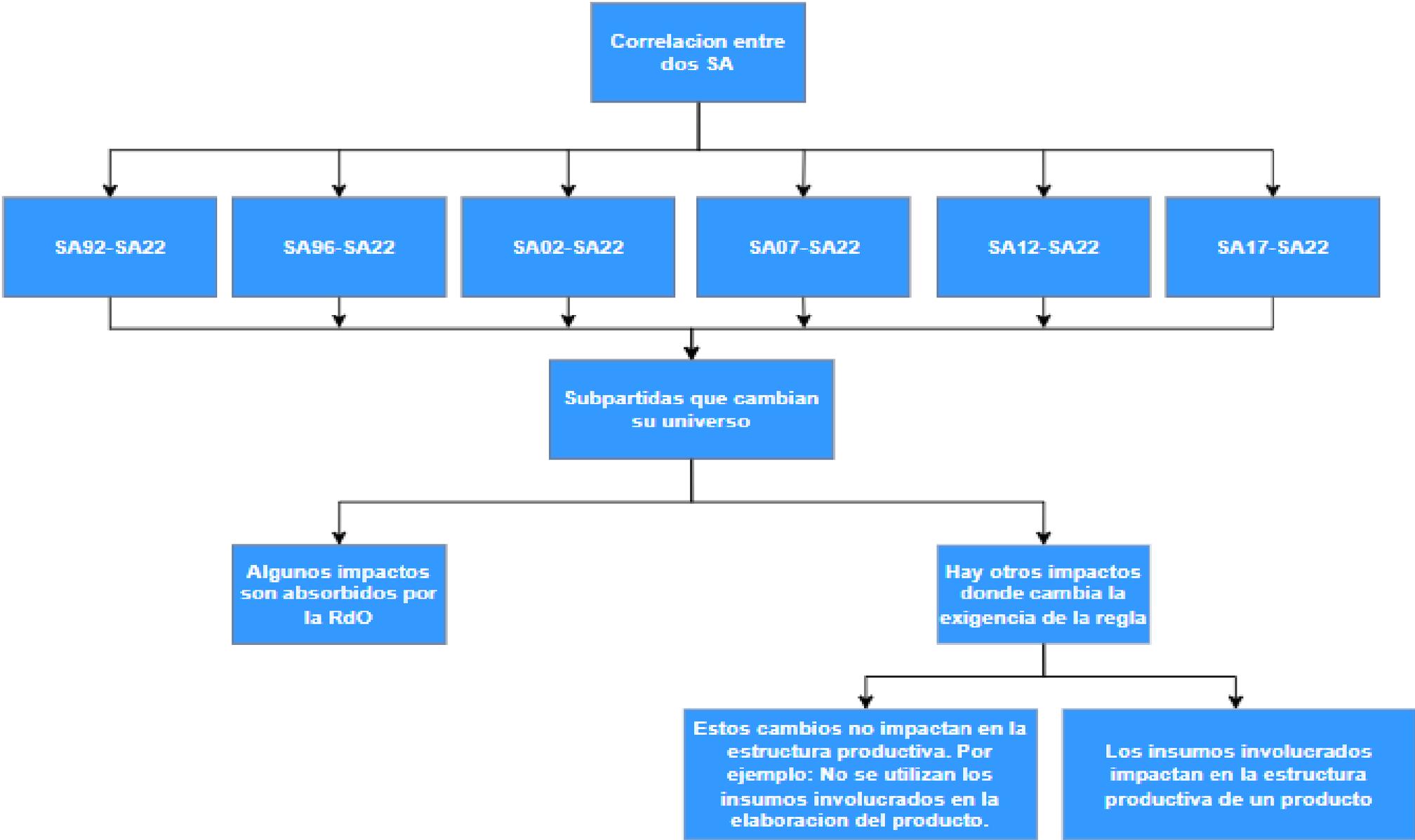
Bidirectional traceability at origin

- Bidirectional traceability: from the most recent version backwards and vice versa

This traceability is essential so that proper allowance can be made for the impact of updating the HS on the rules of origin that:

- use a change in tariff classification
- include two-, four- and six-digit tariff subdivisions in the legal text
- are rules on the value of specified regional content (CPTPP)





Extract from a multiple correlation table

| SA92 | SA96 | SA02 | SA07 | SA12 | SA17 | SA22 |
|--------|--------|--------|--------|--------|--------|--------|
| 121110 | 121110 | 121110 | 121190 | 121190 | 121190 | 121190 |
| 121190 | 121190 | 121190 | 121190 | 121190 | 121190 | 121190 |
| 140210 | 140210 | 140200 | 140490 | 140490 | 121190 | 121190 |
| 140291 | 140290 | 140200 | 140490 | 140490 | 121190 | 121190 |
| 140299 | 140290 | 140200 | 140490 | 140490 | 121190 | 121190 |
| 140310 | 140310 | 140300 | 140490 | 140490 | 121190 | 121190 |
| 140390 | 140390 | 140300 | 140490 | 140490 | 121190 | 121190 |
| 140410 | 140410 | 140410 | 140490 | 140490 | 121190 | 121190 |
| 140490 | 140490 | 140490 | 140490 | 140490 | 121190 | 121190 |
| 200899 | 200899 | 200899 | 200899 | 200899 | 121190 | 121190 |

There are different rules for subdivisions. Which do the operators apply?
China-Peru agreement

| Rules of origin negotiated in HS2007 | | | |
|--|--------------------|----------------------------|---|
| <i>Subheading</i> | <i>Description</i> | <i>Rule of origin</i> | |
| 4408.39 | Other | Change in chapter (CC) | |
| 4408.90 | Other | Change in heading (CH) | |
| | | | |
| | | | |
| Impact of the correlation between HS07 and HS2017/2022 on the scope of the rule of origin | | | |
| <i>Subheading</i> | <i>Description</i> | <i>Equivalency to HS17</i> | <i>Impact</i> |
| 4408.90 | Other | 4408.39 | The products originating from subheading 4408.90 have a stricter rule. (Further headings are banned.) |
| 4408.90 | Other | 4408.90 | |

SEMANTIC PROBLEM OF IDENTIFICATION – Example of descriptors involved in the correlation of subheading 1211.90 (HS22)

2012

- 12.11 and 1211.90 – SIMILAR
- 14 – Vegetable plaiting materials; vegetable products not elsewhere specified or included
- 14.04 – Vegetable products not elsewhere specified or included
- 1404.90 – Other

- 20.08 – Fruit, nuts and other edible parts of plants, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included
- 2008.90 – Other

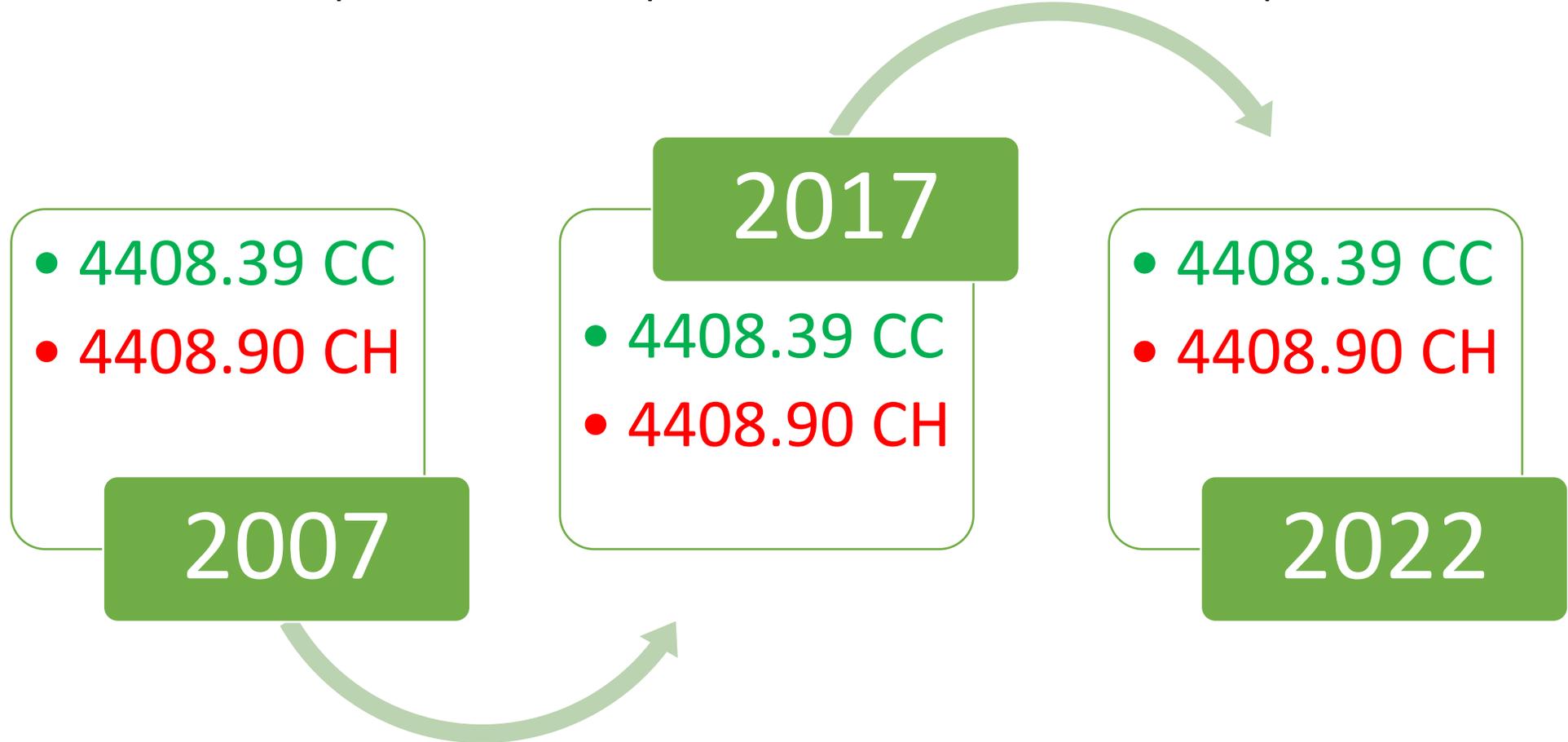
2022

- 12.11 – Plants and parts of plants (including seeds and fruits), of a kind used primarily in perfumery, in pharmacy or for insecticidal, fungicidal or similar purposes, fresh, chilled, frozen or dried, whether or not cut, crushed or powdered
- 1211.90 – Other.

- After correlation, what content of the 2012 subdivisions does subdivision 1211.90 cover?

Question: After the correlation with HS2022, which products from the subdivisions of HS2012 does subheading 1211.90 contain? Will all the operators, entities and authorities be in a position to construct this correlation? Will their interpretations coincide?

How do operators respond to and act on this problem?

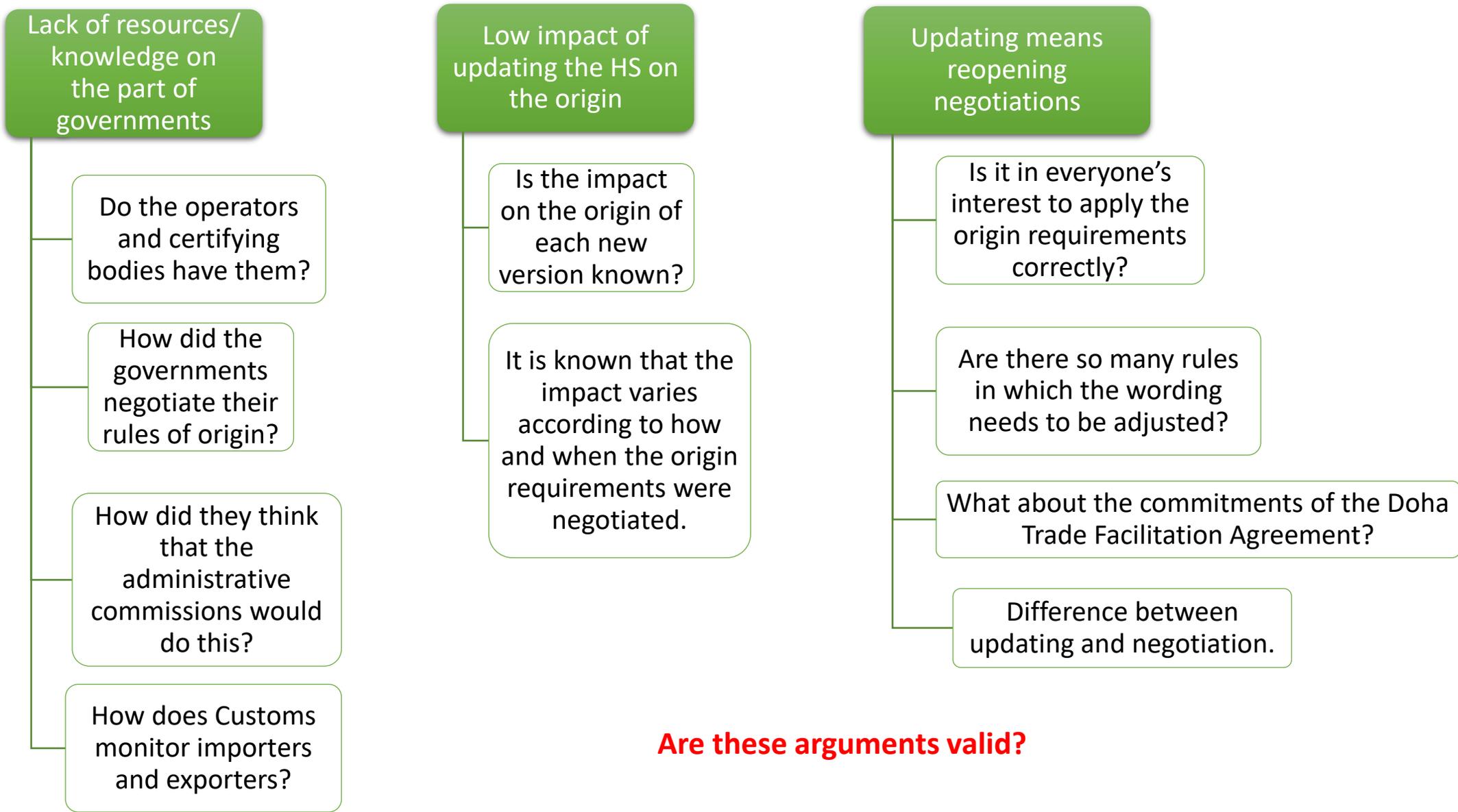


They transpose the rule from the original version to the new version without taking into account the changes occurring within the subheadings.

Current operating context

- People think that the updating of the HS is a Customs issue that has an impact only when the product is being classified, in resolving any tariff issues and determining its tariff, when in actual fact this is just the tip of the iceberg.
- The impact on the origin passes unnoticed, because there is no indication as to the version in which the rules of origin published in the annexes to specific rules are set out.
- The legal text of the rule negotiated for an old version of the HS is applied literally to the subdivision of the new HS in which the product is classified.
- But applying this process is not always feasible.

Some questions about the usual arguments put forward against updating the rules of origin



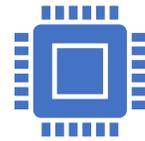
How can we carry out all these processes?



The changes in the subdivisions involved in the rules can be identified by computerized means.



Remember that many of the same products and similar or different products are classified in a single subheading. Each one has its own production structure.



Each one of them **may or may not use** the inputs affected by the update.



The change may absorb the amendment to the HS. The same can happen with the exceptions that the text of the rule provides for, etc.



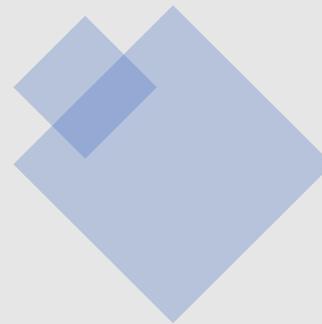
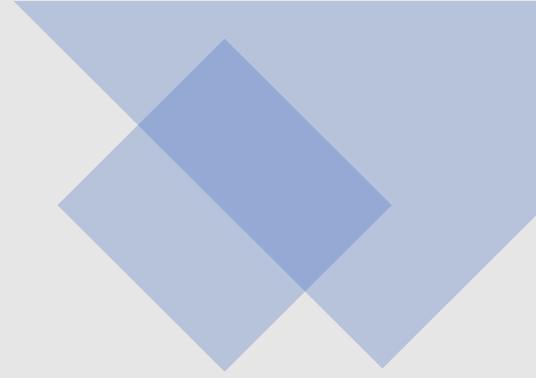
Nevertheless, there will always be a **small number of cases where the official at the place of origin will have to do this.**

Experience of Origen.Digital

- We have software that converts the rules one by one, analysing the changes and impacts and suggesting a formulation.
- The software also generates Excel files with conversion for rows of tariff subdivisions.
- Currently, in the latest version, for the purpose of facilitating the process of the negotiators, the impacts for each kind of issue generated by the change are analysed.
- Hence we now include new queries, through which the analysis can be given a particular slant, compiling the cases per type of issue.
- For this purpose, we determine the total number of rules per type of issue and generate lists giving details of all the subdivisions that make up this total.



Examples of situations
that need to be
addressed in this
process of traceability



First difficulty of the traceability process: equivalence between tariff subdivisions

Cases of “n” subheadings that converge into a single one (example between HS12 and HS22)

- Total number of subheadings involved in this kind of correlation:
- There are 1,359 subheadings from the 2012 Harmonized System that converge into 180 subheadings in the 2022 Harmonized System.

CPTPP EXAMPLE

| SA12 | SA22 | Regla de Origen |
|--------|--------|-----------------|
| 902110 | 902110 | CS |
| 731700 | 902110 | CC |
| 731814 | 902110 | CH |
| 731815 | 902110 | CH |
| 731816 | 902110 | CH |
| 810890 | 902110 | CS |
| 731819 | 902110 | CH |
| 731822 | 902110 | CH |
| 731824 | 902110 | CH |
| 731829 | 902110 | CH |

10 subheadings of HS2012 converge into one in HS2022

THREE SEPARATE RULES OF ORIGIN THAT WE APPLY – THE EFFECT OF ALL OF THEM IS NEUTRALIZED.

Analysing the general rule (change in subheading). Subheadings that change their rule – Korea-India – HS02-HS22

| | |
|---|--------------|
| Number of six-digit tariff subdivisions affected by the correlation (HS02) | 1,585 |
| Number of six-digit tariff subdivisions affected by the correlation (HS22) | 853 |

- Examples of negotiated rules of origin

| | |
|-----------------------|---|
| 8413.11 (HS02) | Change in subheading and regional value content (RVC) 35% |
|-----------------------|---|

| HS02 | HS22 |
|--------|--------|
| 841311 | 841311 |
| 841311 | 852411 |
| 841311 | 852412 |
| 841311 | 852419 |
| 841311 | 852491 |
| 841311 | 852492 |
| 841311 | 852499 |
| 841311 | 852990 |
| 841311 | 854921 |
| 841311 | 854929 |
| 841311 | 854931 |
| 841311 | 854939 |
| 841311 | 854991 |
| 841311 | 854999 |

- This subheading 8413.11 in HS02 expands into 14 subheadings in HS22.

Analysing a case of general rules (change in heading). Headings that change their content and number of subheadings that use them in their rule – ACE58/PER-URY – HS96-HS22

| | |
|--|------------|
| Number of headings that change their content and consequently alter the scope of the rules of origin that use them (HS96) | 280 |
|--|------------|

- Examples of rules of origin affected

| | |
|----------------|---|
| 9018.50 | Change in heading; or where the CIF value of the non-originating materials is not more than 50% |
|----------------|---|

- Number of tariff subdivisions affected

| | |
|--|--------------|
| Number of six-digit tariff subdivisions (subheadings) affected (HS96) | 1,511 |
| Number of six-digit tariff subdivisions affected in correlation with HS22 | 900 |

Number of changes generated by the correlation that are absorbed by the changeover ASEAN Agreement 2007-2022

| | |
|--|--------------|
| Number of subheadings in HS07 of the agreement that have a tariff change in their ROO: | 2,195 |
| Number of subheadings in HS07 with tariff change that are altered by the correlation: | 829 |
| Number of subheadings in HS07 with tariff change, altered by the correlation and where the impact is absorbed by the ROO: | 83 |
| These 83 subheadings are equivalent in HS22 to: | 125 |
| Subheadings in HS07 with tariff change, altered by the correlation and where the impact is NOT absorbed by the ROO: | 746 |
| These 746 subheadings are equivalent in HS22 to: | 968 |

Chapters and headings identified in the requirements of the rules of origin that change as a result of the correlation
 Number of tariff subdivisions that use them – Canada-EU agreement (CETA) HS12-HS22

| | |
|--|-----------|
| Number of chapters identified in the rules of origin (HS12) | 2 |
| Number of headings identified in the rules of origin (HS12) | 45 |

- Examples of rules of origin affected

| | |
|--------------------|---|
| 0201 - 0210 | Production in which all the materials of Chapters 1 and 2 used are wholly obtained. |
| 8450 - 8452 | Change on the basis of any other heading; or Change on the basis of any of these same headings, irrespective of whether or not this also generates a change on the basis of any other heading, provided that the value of the non-originating materials classified in the same heading as the final product is not greater than 50% of the transaction value or the ex-works price of the product. |

- Number of tariff subdivisions affected

| | |
|--|------------|
| Number of six-digit tariff subdivisions affected (HS12) | 445 |
| Number of six-digit tariff subdivisions affected (HS22) | 491 |

Correlations that affect exceptions
CUSMA
Agreement
(Can USA MEX)
HS2012-HS2022

Number of exceptions

| | |
|---|----|
| Exceptions at subheading level that are affected (HS12) | 69 |
| <i>Idem</i> at heading level | 22 |
| <i>Idem</i> at chapter level | 4 |
| Total number of tariff subdivisions (chapter, heading and subheading) affected by the correlation, which are used as exceptions in the texts of the rules | 95 |

Number of subheadings

| | |
|--|-----|
| Number of subheadings in HS2012 on which the above exceptions have an impact | 236 |
| Number of subheadings in HS2022 on which the above exceptions have an impact | 309 |

Chapters and headings with inputs identified in the rules of origin that change and number of tariff subdivisions that use them – EU-CENTRAL AMERICA – HS02-HS22

| | |
|---|-----------|
| Chapters identified in the rules of origin affected (HS02) | 5 |
| Headings identified in the rules of origin affected (HS02) | 38 |

- Examples of rules of origin affected

| | |
|------------------|--|
| 0404-0410 | Manufacturing in which all the materials of Chapter 4 used must be wholly obtained. |
| 2830 | Manufacturing from materials of any heading, except from materials of the same heading as the product. Nevertheless, materials of the same heading as the product may be used, provided that their total value does not exceed 20% of the ex-works price of the product; or manufacturing in which the value of all the materials used does not exceed 40% of the ex-works price of the product. |

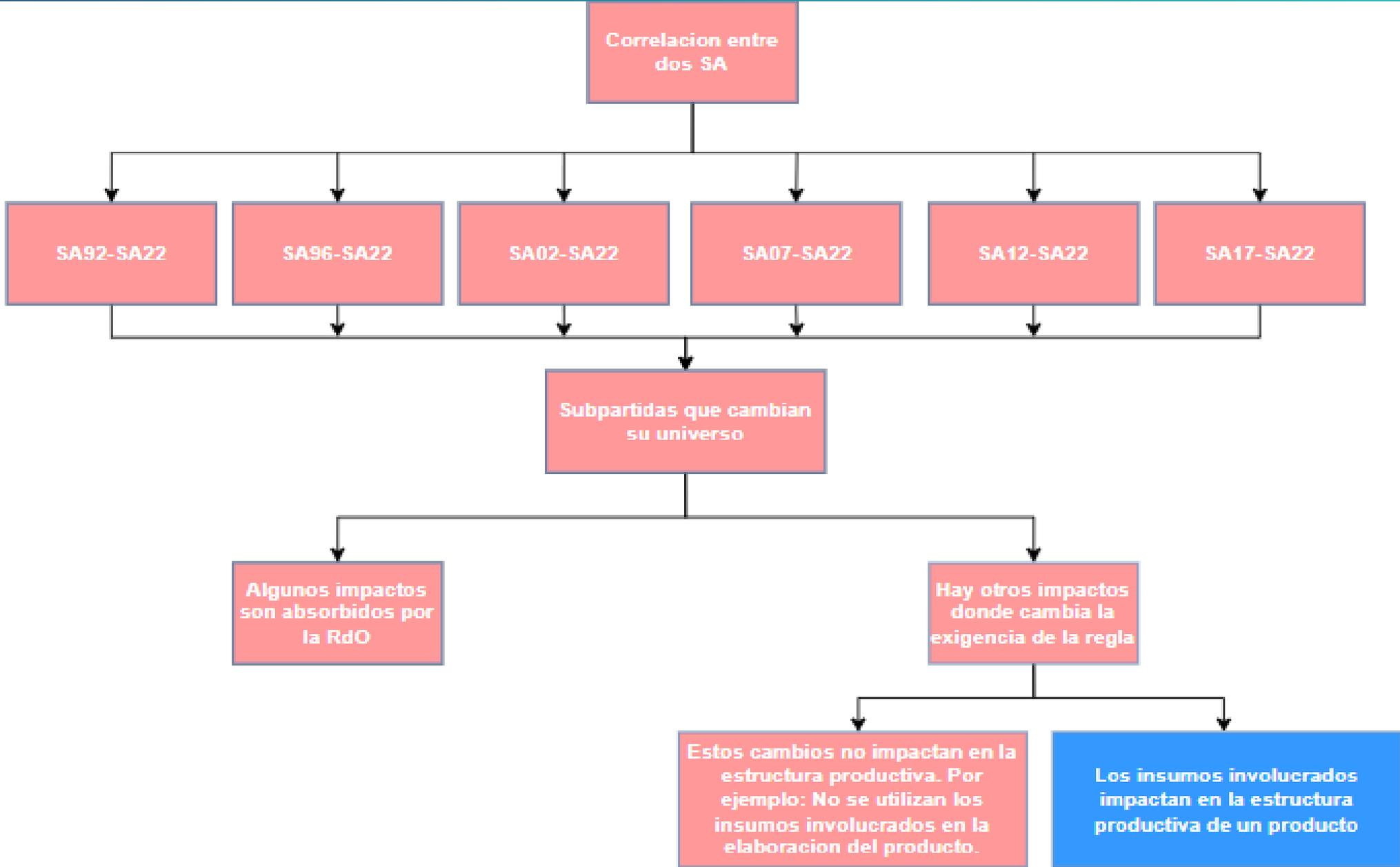
- Number of tariff subdivisions affected

| | |
|--|------------|
| Number of six-digit tariff subdivisions affected (HS02) | 558 |
| Number of six-digit tariff subdivisions affected (HS22) | 655 |

Headings that expand into subheadings which did not previously exist
(CHINA-PERU Agreement) HS2007 to HS2017

| | |
|---|--------------|
| Number of subheadings entitled “other” in HS07 with rule on change in classification | 985 |
| Converted to HS17 generating subdivisions without a rule | 252 |
| Percentage of subheadings entitled “other” in HS17 without a rule | 25.58 |

| HS07 | HS07 description | HS17 | HS17 description | HS07 rule | HS17 rule |
|-------------|-------------------------|-------------|--|------------------|------------------|
| 2921.19 | -- Other: | 2921.12 | -- 2-(N,N-Dimethylamino)ethylchloride hydrochloride | CS | No rule |
| 2921.19 | -- Other: | 2921.13 | -- 2-(N,N-Diethylamino)ethylchloride hydrochloride | CS | No rule |
| 2921.19 | -- Other: | 2921.14 | -- 2-(N,N-Diisopropylamino)ethylchloride hydrochloride | CS | No rule |
| 2921.19 | -- Other: | 2921.19 | -- Other: | CS | CS |



Thank you.

For further questions or requests for
demonstrations of our software,
please contact me at
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