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GLOBAL HS CODES ARE A NECESSARY COMPONENT OF EVERY IMPORT

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With every import or export comes at least one question: What is the correct [Harmonized System](#) (HS) code associated with that product? Even with standards accepted by more than 200 member countries that participate in the World Customs Organization (WCO), the answer to that question is far from simple. But cost-efficient and effective solutions for the challenges of classifying and shipping products among countries do exist.

HS codes revisited

Each tangible product has an HS code, and depending on the country of import, it is typically an 8- or 10-digit code that starts with the 6-digit standard heading established by the WCO. The HS is organized logically by economic activity or component material into 21 sections, which are subdivided into 96 chapters. The 96 HS chapters are further subdivided into approximately 5,000 headings and subheadings. The result is a lengthy list from which to choose; for example, the U.S. tariff includes descriptions for around 16,000 HS codes.

An HS code is required for import declarations and is used to identify the appropriate duty rate and possible application of additional duties, such as those for anti-dumping. In a variety of countries, it also establishes which licensing requirements apply to the import. In addition, HS codes are used for reporting and statistical use, to identify status of products, etc. All in all, the HS code is critically important in clarifying the classification of goods and duties that apply to them.

Challenges of determining HS codes

To have duty rates and compliance answers instantaneously available, a company's complete catalog would have to be classified for all possible import countries without any guarantee that the classified product will actually ship to any or all of those countries. That's especially challenging for companies with a large catalog that ship to multiple countries and whose customers want to know total landed costs before making a purchase.

Another potential challenge is uncertainty over whether local authorities will accept classifications provided by a company. The costs to obtain definitive approval from local authorities on HS codes prior to shipping can add up. They can amount to at least \$400 per binding tariff information, not counting staff time and possible payment for external assistance.

Considering those challenges, it is clear that a solution that requires less upfront investment but still allows for proper total landed cost estimates and compliance indications can be nothing short of

creative. That is, unless the WCO and its members recognize each other's HS codes or apply a global HS system through to 10 digits.

Even with global 6-digit headers, products still are often classified completely differently depending on their location of origin. Even the first digits can be different between countries. For example, one of the recurring themes when it comes to classifying under different headers is whether to classify parts by their individual characteristics or simply as "part of" the car, machine, TV set or anything else it is used in. Going through official channels to sort out issues requires a significant amount of money and time.

Solutions to mitigate risk

The route to complete certainty is lengthy and expensive, and not a practical option for web stores, e-commerce companies or sellers with high turnover in SKUs. However, correct tariff classifications are critical in some instances: when disputes are expected because previous customs opinions have differed from internal classifications, when stakes are high because possible classifications have vastly different duty rates, and when product prices are high and duty rates are applicable. In those cases, applying for a Binding Tariff Information (BTI) decision is the recommended route.

For other instances, there are ways to inform customers, mitigate risks and be cost-efficient when obtaining the appropriate classifications for large volumes of products shipped to numerous countries.

First, tell customers you're providing an advice and estimate scenario, not a definitive answer on the classification. Even if you're committed to a Delivered Duty Paid (DDP) model, and the landed costs risks effectively fall back on the seller, risks can be limited by including a feedback loop on actual duties paid to compare against estimates. In that case, incorrect classifications can be corrected and discrepancies regarding future duties paid can be avoided.

Another easy way to reduce efforts is to group products and SKUs. Items with the same description, characteristics and material composition are very likely to be classified identically. For example, a women's round neck 100 percent cotton t-shirt is classified identically regardless of size or color. If there is an emblem or logo on the shirt, the HS code is the same no matter what the logo is. Focus initially on product groupings that need more attention because of higher volumes, higher values or a history of misclassifications. Tackling those groups first will pave the way. In similar fashion, use earlier mappings; new versions of an existing product don't usually need new classifications. Be smart and reuse codes where possible. Of course, a critical review of re-used HS codes is needed before you apply them.

Use available tools, or be creative and develop some. Some vendors, carrier services and even partners may have solutions at a reasonable price. They will likely have ready-to-go mappings available, access to the tariffs of the relevant importing countries, and tools to further speed up classifications. Or ask a broker, carrier or importer to provide HS codes that were used and compare them to the ones you have on file. Adjust as needed and review if similar products exist and also need adjustments.

Lastly, account for HS code updates. Legislative updates may render classifications invalid and classification advisories may be a cause for reclassification. In both instances, reclassification for the involved countries and products is required. Local customs authorities or specific companies that collect global trade content can assist in identifying such updates.

To support your classification needs, it's important to remember that shortcuts are bad, focus is good, and expertise doesn't hurt.

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