

Commodity Classification

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The Historical Background ?

- First Statistical Nomenclature – Brussels in 1913 at second International Conference on Commercial Statistics
- First international Customs nomenclature – Geneva in 1931 – Geneva Nomenclature
- United Nations Standard International Trade Classification (SITC) in 1950
- Customs Cooperation Council Nomenclature (CCCN) in 1974 with 21 Sections, 99 Chapters and 1,241 headings
- Harmonized System (HS) – 1st January 1988

Harmonized Commodity Description and Coding System ?

- An instrument of the WCO with the objective of
 - Trade facilitation
 - Trade statistics
 - Standardization of trade documentation
- Multipurpose Goods Nomenclature
- More than 98% of the world trade
- Implemented Internationally in 1988 by the HS Convention


Updates to HS ?

- 1st 1992 – 5,018 HS Codes
- 2nd 1996 – 5,113 HS Codes
- 3rd 2002 – 5,224 HS Codes
- 4th 2007 – 5052 HS Codes
- 5th 2012 – 5,212 HS Codes
- 6th 2017 - ???

Uses of HS ?

- Levying of Customs duty
- Providing statistics of international trade
- Determination of the origin of goods
- Monitoring of trade in controlled goods (i.e. narcotics, endangered species, etc)
- Facilitating international trade
- Removing trade barriers

Advantages of HS ?

- Uniform and consistent classification
 - Standardized Customs terminology
 - Help in trade negotiations
 - International comparison and analysis of trade figures
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Who is using HS ?

- Governments
- International Organizations
- Manufacturers
- Importers and Exporters
- Shipping Agents
- Traders
- Transporters
- Port Authorities
- Statisticians, etc.

HS Structure ?

- 21 Sections (written in Roman numerals from I to **XXI**)
- 99 Chapters (written in Arabic numerals from **01** to **99**)
 - Chapter 77 reserved for future use
 - Chapters 98 and 99 reserved for special uses by contracting parties
 - Examples
 - Kenya: Chapter 99 for communication services
 - Canada: Chapter 98 for goods declared by returning residents
- 1,224 Headings (4 digits)
- 5,212 Subheadings (descriptions of commodities) (6 digits)

HS Structure: Sections in the HS

- Section I
 - Live Animals; Animal Products (Ch 1-5)
- Section II
 - Vegetable Products (Ch 6-14)
- Section III
 - Animal or vegetable fats and oils and their Cleavage products; prepared edible fats; animal or vegetable waxes (Ch 15)
- Section IV
 - Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes (Ch 16 – 24)
- Section V
 - Mineral products (Ch 25-27)
- Section VI
 - Products of the Chemical or Allied Industries (Ch 28-39)
- Section VII
 - Plastics and Articles thereof; Rubber and Articles thereof (Ch 39 – 40)

HS Structure: Sections in the HS

- Section VIII
 - Raw hides and skins, leather, furskins and Articles thereof ... (Ch 41-43)
- Section IX
 - Wood and articles of wood; ... (Ch 44-46)
- Section X
 - Pulp of wood or of other fibrous cellulosic material; ... (Ch 47 - 49)
- Section XI
 - Textiles and Textile Articles (Ch 50 – 63)
- Section XII
 - Footwear, headgear, umbrellas, sun-umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; Prepared feathers and articles made therewith; artificial flowers; Articles of human hair (Ch 64-67)
- Section XIII
 - Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware (Ch 65-70)
- Section XIV
 - Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin (Ch 70 – 71)

HS Structure: Sections in the HS

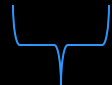
- Section XV
 - Base Metals and Articles of Base Metal (Ch 72-83)
- Section XI
 - Machinery and Mechanical Appliances; Electrical equipment; Parts thereof; sound recorders and reproducers, Television Image and Sound Recorders and Reproducers, and Parts and Accessories of Such Articles Vegetable Products (Ch 84-85)
- Section XII
 - Vehicles, Aircraft, Vessels and Associated Transport Equipment (Ch 86 -89)
- Section XIII
 - Optical, photographic, cinematographic measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; Musical instruments; parts and Accessories thereof (Ch 90 – 92)
- Section XIV
 - Arms and Ammunition; parts and accessories thereof (Ch 93)
- Section XX
 - Miscellaneous Manufactures Articles (Ch 94-96)
- Section XXI
 - Works of Art, Collectors' pieces and Antiques (Ch 97)

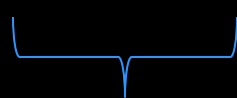
HS Structure: Rational of Sections?

- Articles made of same materials are grouped together
 - Section II: Vegetable products
 - Section XV: Base metals and articles of base metal
- Goods of the same use or function are put together
 - Section XVII: Vehicles, aircrafts, vessels
 - Section XIX: Arms and ammunitions
- The stage of processing or degree of manufacturing of articles are put together
 - Section V: ores, slag and ash
 - Section XV: Base metal and articles of base metal (which are products of the articles in Section V)

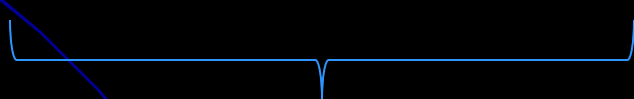
HS Structure: Illustration

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 Chapter level

 Heading level

 Sub-heading level

 National/Regional subheading level

HS Structure: Chapters in the HS

- Next level of sub-division after Sections
- A Section may contain one or more Chapters
 - Section I: has 5 chapters
 - Section III: has 1 chapter

HS Structure: Sub-Chapters in the HS ?

- A subdivision of a Chapter to:
 - **Clarify/underline the differences** between products in the same Chapters
 - To arrange according to the characters and/or **degree of processing**
 - Chapters 28, 29, 39, 63, 71 and 72
 - Examples Chapter 71:
 - **Sub-Chapter I:** Natural or cultured pearls and precious or semi-precious stones
 - **Sub-Chapter II:** Precious metal and metals clad with precious metals
 - **Sub-Chapter III:** Jewellery, goldsmiths' and silversmiths' wares and other articles

HS Structure: Headings in the HS ?

- Denoted by four digit codes
 - Example: 01.01, ... 97.06
- First two digits: Chapter
- Second two digits: Position of the heading within the Chapter
- A heading may be further be sub-divided

HS Structure: Subheadings in the HS?

- Are identified with additional two digits
- Preceded with one or two dashes
- One dash subheadings:
 - Five digits numerical codes (appending one digit to the heading)
- Two dash subheadings:
 - Sub-division of one dash subheadings
 - Six digits numerical codes (appending one digit to the one-dash subheading)
- When heading is not further subdivided: Two zeros are appended
 - Example: 3406.00 Candles, tapers and the like
- When subheading is not further subdivided: One zero is appended
 - Example:
 - 01.01 Liver horses, asses, mules and hinnies (+).
 - 0101.2 - Horses:
 - 0101.21 -- Pure-bred breeding animals
 - 0101.29 -- Other
 - 0101.30 - Asses
 - 0101.90 - Other

HS Structure: National/Regional Subdivision

- Further sub-division of subheadings by Appending 7th and 8th digits
- For National/Regional requirements
- Example:
 - 0104.10 - Sheep:
 - 0104.10.10 ---Pure-bred breeding animals
 - 0104.10.90 ---Other
 - 0104.20 - Goats:
 - 0104.20.10 --- Pure-bred breeding animals
 - 0104.20.90 --- Other

HS Structure: Notes?

- Section Notes
- Chapter Notes
- Subheading Notes
- Defines meaning of particular terms
- Defines respective scopes
- Forms and integral part of the HS
- Commonly known as “legal notes”

HS Structure: Section Notes - Examples

- **Note 1 to Section I:** *“Any reference in this Section to a particular genus or species of an animal, except where the context otherwise requires, **includes** a reference to the young of that genus or species.”*
- **Note 2 to Section I:** *“Except where the context otherwise requires, throughout the Nomenclature any reference to “dried” products **also covers** products which have been dehydrated, evaporated or freeze-dried.”*

HS Structure: Chapter Notes - Examples

- **Note 1 to Chapter 01:**

*“**This chapter covers** all live animals except :*

(a) Fish and crustaceans, molluscs and other aquatic invertebrates, of heading 03.01, 03.06, 03.07 or 03.08;

(b) Cultures of micro-organisms and other products of heading 30.02; and

(c) Animals of heading 95.08.”

HS Structure: Chapter Notes – Examples

- **Note 1 to Chapter 02:**

“This chapter does not cover :

- (a) Products of the kinds described in headings 02.01 to 02.08 or 02.10, unfit or unsuitable for human consumption;*
- (b) Guts, bladders or stomachs of animals (heading 05.04) or animal blood (heading 05.11 or 30.02); or*
- (c) Animal fat, other than products of heading 02.09 (Chapter 15).”*

HS Structure: General definitions

- **Defines the meaning** of particular terms
 - Note 1 to Chapter 4: “The expression “milk” means full cream milk or partially or completely skimmed milk
- **Limiting the scope** of a subheading or heading or the meaning of particular terms
 - Example:
 - Subheading Note 4 to Chapter 27 – “For the purpose of subheading 2710.12, ‘light oils and preparations’ are those of which 90% or more by volume (including losses) distil at 210°C (ASTMD86 method)(American Society for Testing and Materials)
 - Note 2 to Chapter 30 – definition of “modified immunological products”

HS Structure: General definitions

- **Non exhaustive (incomplete)** list of products covered
 - Example:
 - Note 4 to Chapter 33 – “perfumery, cosmetics or toilet preparations” of heading 33.07
- **Exhaustive (complete) list** of goods covered by a heading or group of headings
 - Examples:
 - Note 4 to Chapter 30 – “scope of heading 30.06”
- **Exclusions** (products not covered)
 - Example:
 - Note 2 to Chapter 29 – list of products not classified in Chapter 29 and indication where to be classified
 - NB. Almost all chapters have an exclusion Note!

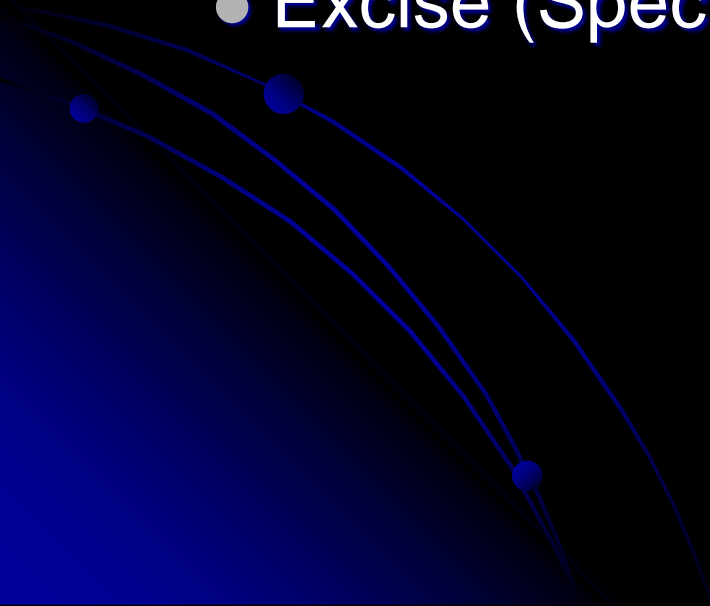
What Tax is payable?

- For levying of duties and levies goods must be classified within HS Nomenclature.
- Classification in accordance with General Interpretative Rules with due regard to the Explanatory Notes (i.e. Official interpretation)
- When divided in to NSD classification down to the lowest hierarchical level
- The classification of goods within the NSD, according to the text of the NSD; most specific text preferred.
- Three dash NSD comparable with Three dash NSD
- Four dash NSD comparable with four dash NSD

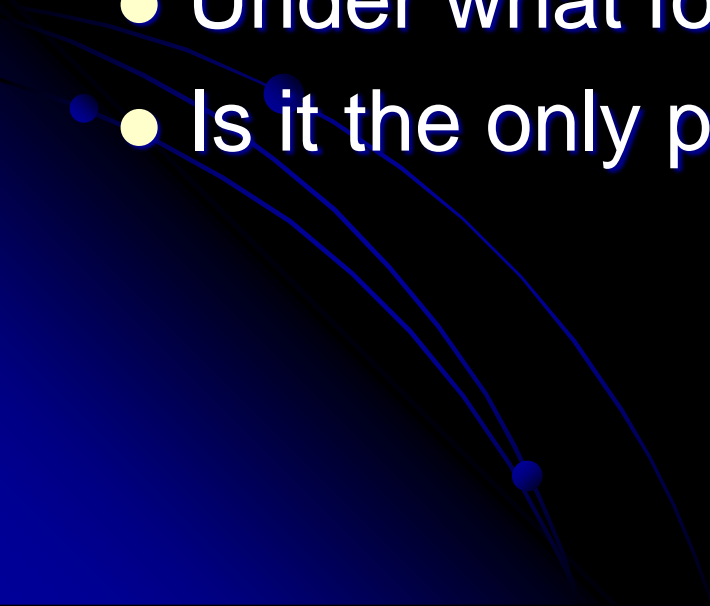
Conditions of Levying Customs Duty

- Shall be levied with the **General / Preferential** Rate
- Value is determined as per Schedule E of the Customs Ordinance
- Calculation as per Formulae given
- When more than one General rate is given: the rate accruing highest amount is applied, unless specified otherwise
- Preferential rate on the satisfaction of the DGC (Rules of Origin)
- Commodities qualifying under “List of Concessions” or “List of Exemptions” shall be levied accordingly. DGC is final authority
- Machinery, plant and equipment, imported disassembled or unassembled ... imported in same / several consignments , on prior approval, are to be classified as the commodity resulting after assembly.
- Customs Duty shall not be levied when “Special Commodity Levy” is imposed.

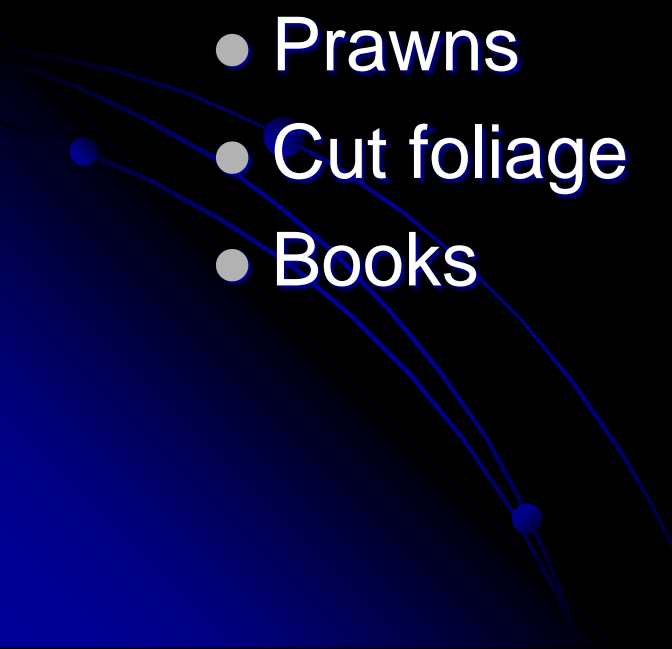
Conditions of Levying other taxes

- Commodities shall be levied with:
 - Value Added Tax
 - Port and Airport Development Levy
 - Nation Building Tax
 - Excise (Special Provisions) Duty
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How to Classify a Commodity

- What is it?
 - What material or substance is it?
 - What is its function or use?
 - Under what form is it imported/exported?
 - Is it the only possible classification?
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Classification: Examples

- HS Classifications of the following?
 - Tea in bulk
 - Betel leaves
 - Fish
 - Prawns
 - Cut foliage
 - Books
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Classification: Examples

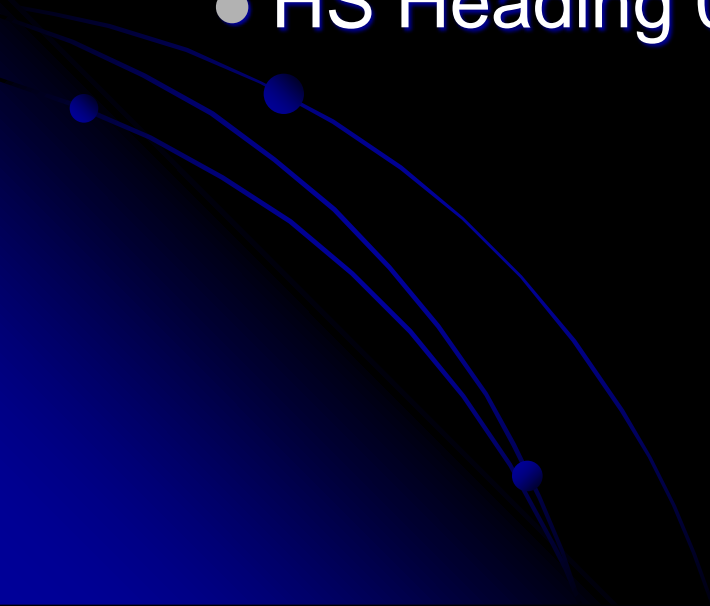
- Tea in bulk?
 - Green Tea/Black Tea?
 - Fermented / Non Fermented?
 - Packing <1Kg, <3Kg, <5Kg, 10Kg?
 - Wholly of Sri Lankan Origin?
 - Certified by Sri Lanka Tea Board?
 - Flavoured / Non Flavoured?
 - HS Heading 09.02

Classification: Examples

- Betel Leaves

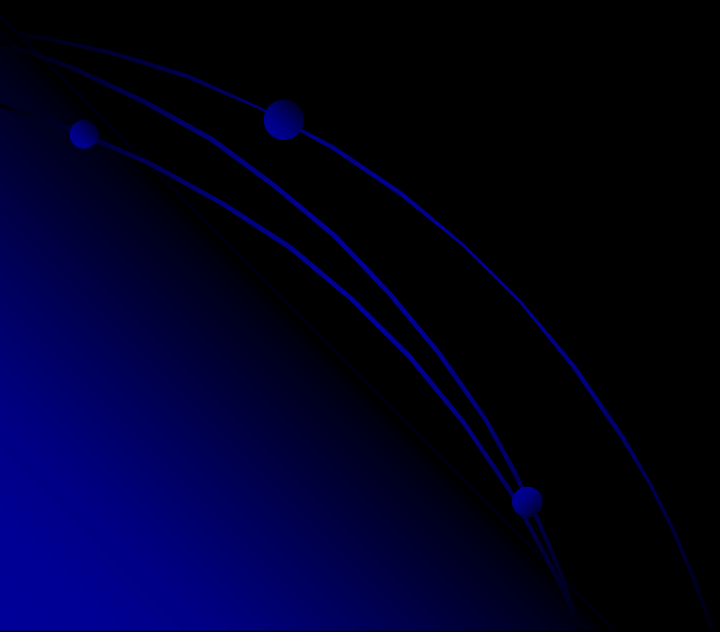
- Vegetable products not elsewhere specified or included
- Chapter Note 1
 - This Chapter does not cover the following products which are to be classified in Section XI: vegetable materials or fibers of vegetable materials of a kind used primarily in the manufacture of textiles, however prepared, or other vegetable materials which have undergone treatment so as to render them suitable for use only as textile materials.
- HS Commodity Code: 1404.90.20

Classification: Examples

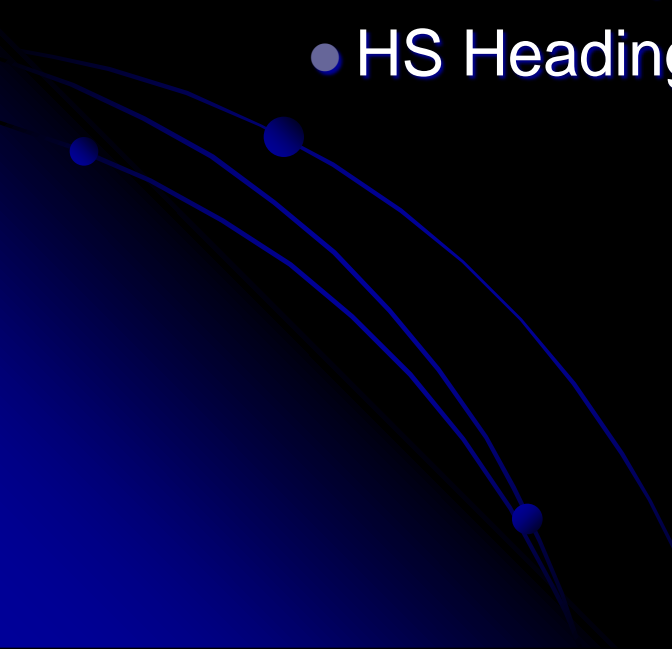
- Fish
 - Live/Not Live ?
 - Fresh / Chilled / Frozen?
 - Dried / Salted / In brine / Smoked / Cooked ?
 - HS Heading 0301 to 0305
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Classification: Examples

- Prawns
 - Frozen / Not Frozen ?
 - Live / Fresh / Chilled ?
 - HS Heading 03.06



Classification: Examples

- Cut foliage
 - With flowers / without flowers ?
 - For ornamental purposes ?
 - Fresh / dried / dyed / bleached, impregnated or otherwise prepared ?
 - HS Heading: 06.04
- 

Classification: Examples

- Books

- Registers / Account books / Note books ...?
- Printed books ?
- Journals / Periodicals ?
- Advertising / Pictures / Photographs ?
- 48.20, 49.01, 49.02 or 49.11

Good Luck

