Five myths about commodity codes and product classification

Commodity codes represent the key classifier in international trade; they determine customs duties, import and export rules and restrictions, and documentation requirements. To ensure uniform procedures, all goods are assigned commodity codes in accordance with the official Combined Nomenclature (CN) – from cars and machinery to pharmaceuticals, food and textiles. Misclassification can have serious consequences, such as over or underpayment of taxes or the loss of special customs privileges.

But assigning goods and materials to the correct customs tariff number is no easy undertaking. It involves sifting through a CN of 21 sections, 96 chapters and over 5,000 subheadings, which is a

time-consuming and complex task requiring high levels of expertise. Disregard for the significance of commodity codes is often based on various wrong assumptions:

1. The commodity code is unimportant. We only export.

Unfortunately, it's not that simple. Proper classification of goods is the basis of all import and export processes and a key component of global risk management. Misclassification can mean businesses pay too much or too little tax, and can result in unauthorised exports and penalties. Exporters are responsible for providing correct commodity codes – they can't simply rely on information provided by an upstream supplier without verification.

2. We've already assigned commodity codes to our products – that should do it.

Sadly, it does not. The number of goods and commodity groups is constantly shifting. Following the annual commodity code updates, products may have to be reclassified or authorisations for simplified customs procedures may have to be adjusted. The only way to ensure regulatory compliance and the smooth flow of goods without delays or penalties is to regularly review and, if required, correct the master data so that all products are properly classified at all times.

3. The responsibility for classifying new goods lies with someone else – it's not my problem.

Large enterprises typically leave the classification of new products to their local entities. This can lead to confusion, particularly when different divisions and sites work with different commodity codes. As a rule, uniformity, transparency and accountability should be the guiding principles of the classification process to ensure company-wide compliance, whether managed centrally, locally, by a team or by individuals.

4. There is no code that matches our products.

Look again, because there is a commodity code for everything. But, special cases complicate the process. For example, the classification of alcohol can depend on the type of packaging, and parts of assembled products may be classified under the finished product rather than the individual component. For a certain measure of legal security, customs authorities provide binding information about commodity codes and product classification guidelines.

5. Commodity codes are country-specific – data in company-wide ERP systems does not help.

Fortunately, this is not the case. Global players can centralise product classification as long as they take national and EU-wide variances into account. The first six digits are identical worldwide. Only the seventh and eighth digits depend on EU guidelines (when it comes to imports, the same applies to the ninth, tenth, and eleventh digits). This simplifies product classification, not only for new products, but also for the annual reclassification process of existing products.

Ignorance is no excuse. Play it safe with AEB software.

Electronic customs management has become essential for global trading businesses, and the right solution makes a big difference by embedding global trade functionality into the wider supply chain management context. Integrated product classification solutions offer tremendous business benefits as part of global customs management: AEB's ASSIST4 Classification accelerates and largely automates product classification processes, and all the necessary sources of information – legislation, EU dual-use list, database links – are just a mouse-click away. Alerting tools offer prompt updates once new commodity codes come into effect, and regular reclassifications of products based on previously approved data make the process quick and reliable. Product classifications are integrated in a transparent and fully documented workflow and, like all products in the ASSIST4 series, ASSIST4 Classification offers flexible customisation options and smooth integration into existing IT landscapes and up and downstream processes.

Clearly, commodity codes can have quite an impact on business. Misclassification can lead to expensive supply chain delays, reputational damage, export bans and penalties. Business success depends on efficiency, flexibility and on-time performance; and these are precisely the competitive advantages that are jeopardised when regulatory compliance is put at risk. It's worth taking a closer look at potentials around global trade management and finding out more about automated product classification and integrated customs management with AEB.

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