



The importance of commodity codes in international trade within the EU and beyond

SCM solutions provider AEB International dispels the myths about product classification requirements, importers' obligations and available solutions

Commodity codes are an important component in international trade. And they are complex: Anyone classifying products today must sift through a nomenclature of 21 sections, 96 chapters, and over 5,000 subheadings to find the right code. This is typically a complicated process that requires a high level of expertise.

Incorrect product classification can have severe consequences, so businesses are well advised to incorporate error-minimising measures into their risk management strategy. Support is available from software-based solutions that automate the process of product classification as much as possible.

Cars, machinery, chemical products, and even daily consumer goods such as coffee, food, and textiles: Eurostat (the statistical office of the European Union) reports that total EU-27 trade with the rest of the world (the sum of extra-EU exports and imports) was valued at over £2.4 billion in 2010. These movements of goods were and are monitored by the customs offices in each member state.

This means complying with a host of legal regulations based on the nature of the goods and implementing various import- and export-related measures. To ensure a uniform procedure, all goods are assigned commodity codes. Commodity codes are the key classifier in international trade, and they carry more weight than many suspect. Commodity codes determine the customs duties to which imports are subject, for example, as well as import and export restrictions and documentation requirements.

Entering the wrong commodity code in an electronic customs system can have far-reaching consequences due to the interlinked nature of the system. The commodity code affects not only fiscal matters such as customs duties, value-added taxes on imports, and excise duties but also bans and restrictions, import/export licensing and permit requirements, special foreign trade statistics (supplementary unit), documentation requirements, and the obligation to report certain measures.

One more reason to give some serious thought to the commodity code, index of goods, and Combined Nomenclature (CN): Commodity codes must be reported in conjunction with both the movement of goods within the EU and trade with 'third countries' outside the EU. Moreover, the customs tariff codes play a key role in the authorisation of simplified customs procedures. The Combined Nomenclature is even applicable outside the European Union: Countries such as Turkey that have bilateral trade agreements with the EU also use the CN.

Individual numerals and combinations of numerals in the commodity code have specific meanings and are 'read' by the customs office. In general, exports require an eight-digit commodity code or CN (Combined Nomenclature) code. This is uniform

throughout the EU.

Imports are subject to additional regulations based on national law, such as those governing the value-added tax on imports. That's why imports require a ten-digit (or, in some countries, 11-digit) commodity code known as a customs tariff code. The first eight digits are the same as the commodity code required for exports. The ninth and tenth digits are TARIC subheadings that determine the customs duty levied on certain goods imported into the EU based on their origin. These digits also contain information on EU measures such as anti-dumping regulations, customs exemptions, or customs contingents. The eleventh digit used in some countries, is for domestic purposes.

You can search for the right commodity code in the European Commission's online customs tariff database (TARIC).

Four myths about commodity codes

1. The commodity code is not all that important. We only export.

Unfortunately, it's not at all that simple. Proper classification of goods by customs tariff is the foundation of all import and export processes. This means that product classification is a key component of risk management. Businesses that assign the wrong commodity codes may suffer far-reaching consequences. That's because the commodity code determines the applicability of bans, restrictions, and foreign trade measures such as licensing requirements. The commodity code even determines which documents need to be submitted. Providing the wrong commodity code may result in an unauthorised export or payment of the wrong customs duty. Businesses may overpay their taxes and duties as a result – or worse yet, underpay. Businesses that apply for the status of Authorised Economic Operator (AEO) or authorised exporter are also obligated to document how they manage their customs-related master data.

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. As a result, commodity code updates are regularly announced on October 31st with effect from January 1st. Often, goods are consolidated under a (sometimes new) commodity code or split up into multiple commodity codes. It's also common for CN headings to be discontinued altogether. This requires that you reclassify your goods. It may also result in a need to adjust the authorisation for simplified customs procedures.

What this means for you is that if you fail to update your master data at the start of a new year, you may be assigning incorrect



commodity codes – with the aforementioned consequences. That's why you need to regularly review your master data to make sure your products are properly classified.

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. In smaller businesses, however, it is often an individual with experience and familiarity with the product who manages this task from one central location. But here, as elsewhere, a team with collective knowledge is often a quicker route to success than a solo effort. That's why it can't hurt to bring co-workers on board when it comes to product classification.

4. There isn't any commodity code that matches our products, so there's no point in looking.

Did you know that the commodity code for shoes begins with 63 09 ... if the shoes are used? If the shoes contain asbestos, however, the commodity code begins with 68 12. Orthopedic shoes are classified under 90 21. In short: There is a commodity code for everything. To find out what it is, businesses need to compare the language of the national tariff/EC TARIC to the material attributes. And the remarks appended to the sections,

chapters, headings, and subheadings in the national tariff/EC TARIC are also relevant, as they often describe the details and exceptions that make the difference.

Despite all that, precise classification is a complex task – and not just for used orthopedic shoes containing asbestos. So the rule of thumb is that when two headings apply, choose the more precise. If none of the descriptions matches the goods, choose the heading that is the closest match.

Four reasons to get the facts now

You can see that the eight to eleven numerals that make up the commodity code have quite an impact on businesses.

There are at least 4 reasons to take a good, hard look at the subject of commodity codes:

- 1. Ignorance of the law is no defence.** Commodity codes are the basis for determining import duties, import/export restrictions, and documentation requirements. Misclassification can mean that businesses pay too much tax – if they're lucky! If not, they may be guilty of tax evasion. Misclassification can also result in unauthorised exports with corresponding penalties.
- 2. Businesses seeking AEO status must document their product classification process.** Commodity codes are the central taxonomy of international trade. This means proper product classification is critical, which is why businesses seeking to attain the status of Authorised Economic Operator (AEO) must document their product classification process.
- 3. Ditto if you want to keep your simplified customs procedures.** Businesses that – knowingly or unknowingly – fail to comply with current law run the risk of missing out on simplified customs procedures. Using the incorrect commodity code can quickly lead to delays in the supply chain – often at considerable cost. The wrong eight-digit code can result in an export ban, preventing your goods from shipping. This can be a painful lesson for businesses. Because more than ever before, business success depends on efficiency, flexibility, and on-time performance. And these are precisely the competitive advantages you jeopardise when you lose your special customs privileges.
- 4. Software solutions from AEB.** Electronic customs clearance offers many benefits to businesses. Now there is one more benefit: Software-supported classification. ASSIST4 Classification will accelerate your classification process – and largely automate it. All the necessary sources of information – legislation, EU dual-use list, database links – are just a mouse-click away. Businesses are alerted when new commodity codes come into effect at the start of a new year, and reclassifications based on legacy data are quick and reliable, so you'll never miss another deadline. All product classifications are embedded in a transparent, fully documented workflow. Like all the products in the ASSIST4 series, ASSIST4 Classification can be adapted to meet the specific needs of your business without compromising your ability to upgrade linked applications.