

PRODUCT CLASSIFICATION

'Ignore Commodity Codes at Your Peril'

Commodity codes are the key classifier in international trade, determining customs duties as well as import and export restrictions and documentation requirements. All goods are assigned commodity codes as part of the Combined Nomenclature (CN), including cars, machinery, chemical products, coffee, food or textiles.

Categorising goods and materials with the correct customs tariff number involves sifting through a nomenclature of 21 sections, 96 chapters and over 5,000 subheadings to find the right code. This time-consuming and complex task requires a high level of expertise.

Perhaps that's why commodity codes are frequently disregarded. But misclassification carries a high risk - it can lead to over or underpayment of taxes, unauthorised exports and corresponding penalties, or the loss of special customs privileges. Besides, exporters are responsible for providing the correct commodity code – they can't simply rely on the customs tariff data provided by an upstream supplier without verifying it. So it literally pays to pay attention when it comes to product classification.

It's worth noting a few important facts: following customs authorities' annual announcement of changes to the number of goods and commodity groups in the CN, companies may have to reclassify their products, or their authorisations for simplified customs procedures may have to be adjusted. The only way to ensure compliance with all customs regulations, the smooth flow of goods and the correct payment of duties, is to regularly review and - if required - correct

the master data so that products are properly classified at all times.

Many companies seem to think that there is no commodity code for their product. There definitely is, it's just a matter of finding the right, or most suitable, one. Special cases complicate the matter even more - for example, the classification of alcohol can depend on the type of packaging. Those seeking a certain measure of legal security can contact the customs authorities for binding information about the customs classification of goods.

Large enterprises often leave classification of new products to their local entities. This can lead to confusion, particularly when different divisions and sites work with different commodity codes. Every effort should be made to bring uniformity, transparency and accountability to the process – whether it is managed by a team or an individual.

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 reclassification of existing products at the start of a new year.

Considering the serious implications of misclassification and the general complexity of assigning the right commodity code to all products and their individual components while ensuring regular master data updates and company-wide transparency, businesses should



by Hannah Beckett, Sales Manager, AEB (International) Ltd

take a closer look at their current processes to ensure both regulatory compliance and administrative efficiency.

Powerful software solutions for classification management offer many benefits to businesses: all information sources – 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. With the right software, companies can accelerate and largely automate their classification process, thereby streamlining administrative processes while avoiding penalties, delays and export bans. Tapping into unrealised potential by implementing an integrated solution can help them gain a competitive advantage that is vital in today's global markets, where business success depends on efficiency, flexibility, and on-time performance.