CDC Software

# Commodity Classification

## Commodity classification in international trade.

Commodity Classification is a critical component of any import or export compliance program. All importers are required to report the right classification of the imported products so the correct duties and taxes can be levied on the shipment. Similarly, all exporters are required by law to ensure they meet export control requirements for shipment of dual use goods and file accurate commodity codes when exporting products.

This white paper primarily reviews the issues and challenges companies face in ensuring that the right commodity classification is used in their export and import documentation. It then lists some capabilities that should be considered in a software solution. These capabilities can streamline this process while reducing the risk of shipment delays for importers and missed shipment dates or fines and penalties for exporters.

**Abstract**
Commodity Classification is a critical component of any import or export compliance program. The United States, as most other countries, has implemented two different Commodity classification systems, the Export Control Classification Number (ECCN or ECN) classification for exports and the Harmonized Tariff System (HTS or HS) classification for imports and exports.

**About the Author**
Mr. van de Heetkamp has 15 years management experience in trade consultancy, global trade software, and global trade product development, with both public and venture-backed technology companies. His experience spans multiple countries and continents. At CDC TradeBeam, he is responsible for all trade compliance related consultancy, data collection, and managed services. In addition, he qualifies and assists product improvement and development.

Prior to joining CDC TradeBeam, Mr. van de Heetkamp worked as a consultant for one of the big four consultancy companies. Throughout his career, Mr. van de Heetkamp has been active with various industry organizations, including a Vice President position at the Professional Association of Exporters and Importers (PAEI), and has been a speaker at conferences including the World Customs Organisation (WCO), ABA and Tax Executive Institute conferences. His publications include articles on landed costs, general compliance, and origin management. In the Summer of 2011 his book 'Origin Management' will be published. Mr. van de Heetkamp earned his Masters degree in International Economics from the Erasmus University in Rotterdam, the Netherlands.

## Introduction

Managing the product master and properly classifying each item requires detailed knowledge of the organizations products, a healthy understanding of the HTS and ECCN codes and their associated regulations and rulings, and how to apply them to the products. A good solution should help guide the user to appropriately classify, update, and manage their products.

In addition to accuracy and ease of use, a globally accessible product master is the basis for many other global trade management functions. From a classification perspective, the global parts master and classification tools should provide users with the latest HTS codes and product records and avoid the need for multiple data entry points (i.e. HTS codes for a particular product should only be available in a single location and if they need to be changed, they should be amended according to a specific process and visible to all relevant parties). Even with an industry-leading premier solution and managed service, users must create a classification support process that is consistent, repetitive, and transparent for all users and jurisdictions.

## Classification Scope and Challenges

The United States, as most other countries, has implemented two different Commodity classification systems, the Export Control Classification Number (ECCN or ECN) classification for exports and the Harmonized Tariff System (HTS or HS) classification for imports and exports.

- All products imported into the U.S. require a HTS number. The HTS classification is a globally standardized numerical method of classifying traded products and is used by customs authorities around the world to identify products for the application of duties and taxes. The first six digits of the HTS code are typically identical for each product throughout countries, and additional digits are added to the HTS number by local governments to further distinguish products in certain categories.
- Most products exported from the U.S. also carry a Schedule B number. The Schedule B is a 10-digit code built upon the first 6 digits of the HTS code.
- Exports from the U.S. also require that the ECCN is determined prior to shipment. The ECCN represents a specific commodity defined by the U.S. Bureau of Industry and Security's (BIS) Export Administration Regulations Commerce Control List (CCL) and is used to determine U.S. export licensing requirements based on the destination country, end user, and end use of the product.

Because each country requires import and export classification of products in accordance with their local legislation, a global corporation must manage multiple classification codes for each commodity involved in international trade.

## Solution Requirements

The following software solution capabilities ensure that classification information supporting export and import processes is accurate. The requirements are in two areas: providing classification content and managing the product master.

## Classification Content

- **Classification trees for supported countries:** The solution should provide HTS, ECCN/ECN, and export schedule classifications in a tree structure, with easy lookup capabilities within the classification tool.
- **Country-to-country HTS comparison tools:** The solution should allow a user to easily search and compare complete HTS codes for various countries, and where possible retain logic to further simplify international classifications.
- **Audit Trail:** The solution must facilitate an audit trail. Historical tracking of changes made to the classification, the storage of classification notes, etc., are all required to be able to respond quickly when customs authorities request further information.

- **HTS update reports:** The solution should provide reports that inform users of the HTS codes that are no longer valid (or will no longer be valid after a certain date) and potential new HTS codes, etc. Such information is critical for ensuring that all products traded by a corporation will continue to be classified correctly. This is particularly important now that the U.S. International Trade Commission (USITC) has released a final report detailing their modifications to the Harmonized Tariff Schedule of the United States (HTS), which took effect on January 1, 2012.
- **Reports – General:** The solution should provide reports that provide users insight into classification history and that can assist in identifying inconsistent classifications.

## Managing the Product Master

- **Global Access:** The product master has to be globally accessible and provide users worldwide with a common process for classification and classification updates. Access should be hierarchical, for example users may have read access only, or have access to edit particular fields only.
- **Working with other Systems:** The Product Master will work in conjunction with ERP and shipping systems. The Product Master has to be able to work effectively with those systems, and be capable to receive batch uploads and 'communicate' with other systems.
- **Managed service:** While an organization can use internal resources to keep its classification content current, externally-sourced content, preferably delivered as a managed service, can be used to ensure the necessary classifications are available on time. It can ensure consistent, cost-effective access to accurate information. In addition, the company may want to outsource the classification work itself—allowing the external team appropriate access to a software solution can assist in reducing costs and ensuring that all internal and external parties follow the same process, submit the right data, and classify with the same level of accuracy.

In summary, Commodity Classification is one of the most important components of a sound global trade management program. It is needed for current regulations such as AES filings, import declaration, and new regulations including ISF 10+2. Just as importantly it can be used to leverage other strategic programs such as Free Trade Agreements. Because of this, companies who successfully manage their commodity classifications are well positioned to manage new regulations and compete effectively in the global marketplace.

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