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The Harmonized System Coding

By Lalith Edirisinghe

Identifying the correct HS code has been perceived as a kind of tacit skill of some specifics in the past. With the implementation of ENS-Entry Summary System (or AMS- Advanced Manifest Submission to Customs authorities) it became a buzz word in the industry because even the customer service personnel are now compelled to familiar with HS codes at least for commodities that are commonly transported. Therefore, in addition to those who are directly involved in commercial trading shipping lines also need to be very cautious about the accuracy of the HS (Harmonized System) Codes that are declared by the respective exporters. Accordingly, more awareness of the real mechanism of the HS coding system is essential by the professionals to with respect to the broader perspectives of facilitating a free world trade

The Harmonized System is a structured nomenclature comprising descriptions of goods that are set out under 4-digit classification numbers. These are called headings in which most of these headings are further subdivided into 5- and 6-digit subheadings. It is important that the shipping line/exporter provides the acceptable goods description and Valid HS code as mentioned by World Customs Organisation (WCO) – 6-digit code.

The HS code has been viewed as just a 'number' by most of the stakeholders in Logistics, Transport, and supply chain industry. However, the beauty is that this code reveals many vital information about the commodity that you declare and only those who could visualize the internal mechanism may be able convert the number (data) into information.

The HS code information is in addition to all other relevant information required to process the shipment. It is an international standardised system of names

and numbers for classifying traded products developed and maintained by the World Customs Organisation (WCO).

The HS is designed to provide a method for classifying all goods in international trade thus it is vital that those who deal with ENS/AMS submission have a clear understating about classifying the goods under the HS Nomenclature correctly.

Given flow chart explains the process that usually follow in classifying goods. (Page no.19)

Traditionally shipping lines totally depended on cargo declaration (Especially in the context of containerization where the cargo is described as "Shippers load and count"). According to the rule pertaining to advanced manifest provides that "Customs must receive from the carrier the vessel's Cargo Declaration, Customs Form, or a Customs approved electronic equivalent, 24 hours before such cargo is laden aboard the vessel at the foreign port.

The AMS (or commonly known as 24 Hour-Rule) has been implemented by U.S. Government in the wake of 9/11 attacks. Accordingly, with effect from December 2002 Ocean carriers/ NVOCC's (Non Vessel Operating Common Carrier, if registered for it) should transmit electronically cargo manifest data to customs 24 hours in advance. If not transmitted at least 24 hours prior loading at port of loading into U.S.Customs' system "AMS", high fines will be imposed by CBP (U.S. Customs and Border Protection). The EU regulation which came later is also very clear and strict on the rules for submission of Entry Summary Declarations (ENS) or as it is often termed - The EU Advanced Manifest regulation.

In order to meet the requirement for detailed cargo description, the Harmonized System Nomenclature (commonly known as HS code) is a valuable supplement to the general cargo description. Most importantly the accuracy of HS Coding helps eliminating the risk of customs rejections and/or delays consequently end up with very serious penalties and demurrages etc.

Shipping Lines therefore, cannot process any Shipping Instructions (SI) without mention of the appropriate main HS code for each item for shipment. (For example, shipments to or via European Union (EU) and Turkey). While this declaration is technically a responsibility of the exporters, practically shipping agents used to struggle when submitting these documents due to incomplete cargo details and the common industry practice of eleventh hour booking confirmations by exporters and NVOCC. Therefore the Documentation or Customer service staff in the shipping line/agent office should be knowledgeable in HS Nomenclature in order to expedite the booking process while eliminating risks of potential customs penalties.

Competence in Cargo classification

It is evident from the process flow chart that classifying goods under HS is a complicated exercise. Therefore the staff should undergo a training from highly qualified resource panel from the Customs and Border Management authorities. Such competent staff may effectively contribute in the booking process which is a real value addition to the exporters' supply chain. In today's highly competitive exporter driven market shipping lines/agents can build their competitive edge through such domain knowledge. CINEC Maritime Campus in Sri Lanka offer special training courses on Customs and Border Management procedures in consultation with senior specialists in customs. In order to provide exporters a reliable and competitive service while mitigating the potential risks associated with shipments with respect to customs declarations it is essential to develop competence in HS Coding system by the customer service officers at shipping lines/agents offices.

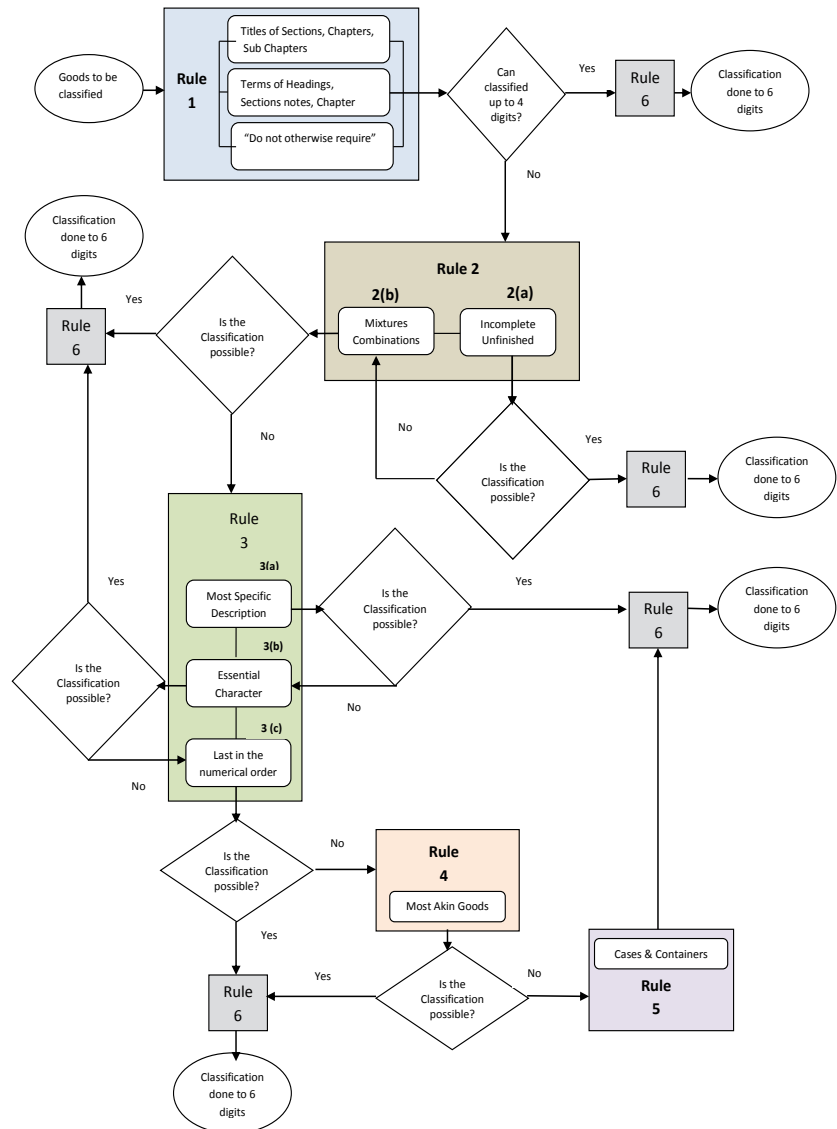


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Expert's comments about the article

Convention on Harmonized Commodity Description and Coding System is one of the conventions adopted by the World Customs Organization (WCO) for the uniform classification of goods across the globe in the international trade. Although, it was initially introduced by the WCO to be used by the member countries for the Customs purposes, soon it became a useful tool for many other industries such as banking, shipping & Logistics, insurance etc.

The Process Flow Chart for Classification of Goods



2012 -Designed by Lalith Edirisinghe ©

The Process Flow Chart for Classification of Goods designed by Lalith Edirisinghe is an innovative approach to simplify the process of understanding of The HS Codes. The General Rules for the Interpretation (GRI) of Harmonized Commodity Description and Coding System is the primary guideline for the classification of goods. This Process Flow Chart clearly demonstrates the sequential application of six rules given in the GRI. Hence, I am convinced that this article shall be of immense value to the students as well as all those who are working in the supply chain especially in Shipping & Logistics to acquire in-depth knowledge of the coding system. I am thankful to Lalith for developing this flow chart and congratulate him for being innovative in academic field.