

Guide

Customs Codes

Reducing Your Exposure to Tariffs & Audits

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Global tariffs often fluctuate as international policies shift. During trade disputes and the renegotiation of free trade agreements, these fluctuations can increase dramatically. Having supply chain transparency and the ability to track customs codes allows manufacturers to quickly adapt to sudden tariff fee schedule changes, ensuring they can maintain market access and consistently price raw materials.

The Role of Customs Codes

Most countries use Harmonized Commodity Description and Coding System (HS) codes: the six-digit classification code designed by the World Customs Organization (WCO). These codes are used to classify products being shipped internationally. The U.S. International Trade Commission (USITC) publishes and maintains a 10-digit Harmonized Tariff Schedule (HTS) coding system. In order to clear customs and enter the country, all shipments imported into the U.S. require an HTS code, which includes the six-digit HS code and additional digits that are unique to the country of import and further classify the good. As such, companies must ensure they are using the correct codes when importing products into the U.S.

Every product has a specific customs code in the USITC's database. One small detail in a product, such as the exact capacity of a bucket, or the percentage of plastic or rubber in a glove, can change the specific code assigned to it. In some cases, the distinction between different codes is based on the product composition or internal components.

Customs Codes & Audits

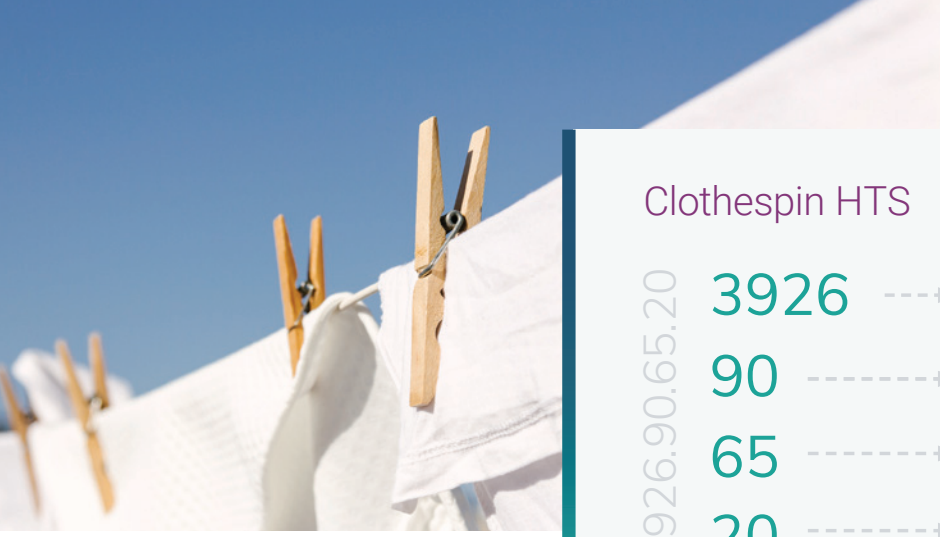
It is important customs codes maintain continuity as specific products are imported. Best practice to ensure consistency is to survey suppliers to collect the correct HTS code. If the same product receives a different code — when a third-party imports a product on your behalf, for example — the shipment may be flagged for a customs audit.

When comparing 2020 to 2021, U.S. Customs and Border Protection reported an increase in the number of trade penalties they issued, and the total amount collected as a result of importer audits nearly tripled from $44.6 million USD to $132.2 million USD. A key component of customs audits is the evaluation of an importer's classification program, including how classifications are made, if they are recorded in a database, and how that information is maintained.

Country of Origin, HTS Codes & Avoiding Tariff Fees

When combined, country of origin (COO) certificates and customs codes are used to identify the current tariff rate for an item. Tariff rates can fluctuate during global trade disputes or free trade agreement negotiations, with shifts in fees tied to a product's COO. By knowing tariff rates for the same product in various countries, manufacturers can strategically purchase raw materials from a country with a tariff exemption and avoid significant financial impacts.

Companies that import finished products from factories or raw materials from countries embroiled in trade disputes will have to conduct greater due diligence in supply chain tracking to determine the proper tariff schedule for a product.



Clothespin HTS

3926.90.65.20

- 3926 — Other articles of plastics and articles of other materials of headings 3901 to 3914
- 90 — Other
- 65 — Clothespins
- 20 — Spring type: Valued over 80 cents but not over $1.35 per gross

The Evolving Trade Compliance Landscape

The Harmonized Commodity Description and Coding System is managed and updated by the WCO, an independent intergovernmental organization with member countries. The Harmonized System is a constantly evolving set of standards, with a WCO mandate to review and update the nomenclature every five years.

The seventh edition of the Harmonized System entered into force on January 1, 2022, introducing significant changes, including 351 sets of amendments resulting in HS codes being retired, added, and modified. To proactively manage trade compliance, tariffs, and profits, manufacturers in many industries must prepare for changes to their products' HS codes.

Although the WCO provides a set of standards for member countries, each country has its own implementation schedule and may choose to modify how they adopt the updates nationally. This means that in addition to WCO changes, businesses must also monitor HS codes at the individual national level when classifying their products.

To keep track of these changes, manufacturers need a systemic approach supported by trade compliance expertise. Without it, they often struggle every five years as the global standards they've become comfortable with change radically — followed by the ripple effect of individual countries implementing the updates at their own pace.

Monitoring Tariff Exemptions

There are often changes to tariffs, partially due to ongoing free trade negotiations and agreements, and in some cases countries may receive exemptions on tariffs. The geopolitical climate is constantly evolving, and businesses must keep a watchful eye in order to proactively manage their profit margins.

For example, the North American Free Trade Agreement (NAFTA) was replaced with the United States-Mexico-Canada Agreement (USMCA), which came into effect in July 2020. Certain tariff exemptions were granted while the three nations were negotiating the terms of the USMCA, which have now expired.

In addition, the Regional Comprehensive Economic Partnership (RCEP) went into effect on January 1, 2022. The RCEP is an agreement to make it easier and more cost-effective for products to move between the 16 member states: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam, China, Japan, India, South Korea, Australia, and New Zealand.

New Tariff Provisions in HS2022?

The HS2022 update rolls out several changes, and in particular updates the system to include nomenclature to describe the new types of products that have been introduced since the HS2017 sixth edition.

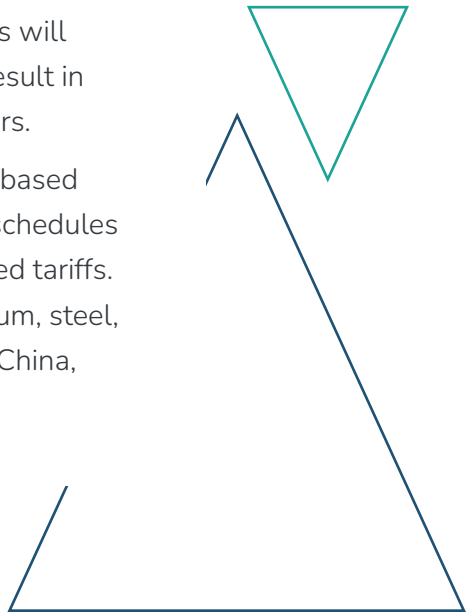
Some of the significant changes include new and clarified tariff provisions for:

- E-cigarettes and vaporizing devices
- Products designed for use in vaporizing devices
- Flat panel displays
- LED-containing products
- Photosensitive devices such as solar cells
- Battery waste
- Unmanned aerial systems (UAS)
- Smartphones

Priorities for Compliance

In order to accurately classify products with customs codes and COO, companies need to establish a chain of custody for goods that can be updated and refreshed annually. To do so, companies should remember these three key points:

1. Establish a chain of custody related to COO for each component used in a product. Assigning classification of origin to a product must be done in compliance with the applicable Rules of Origin, which may result in a COO different from where the manufacturer is located or where the product ships from. As tariffs become more complicated, it is important to ensure the COO is accurate to avoid paying unnecessary tariffs.
2. Specify COO and customs codes in purchase orders and manufacturing agreements. As collecting this information becomes even more critical to calculating duties and tariffs, there will be an increasing expectation that products will include accurate information. If ignored, this could result in import or export delays and frustration for purchasers.
3. Gather up-to-date information on associated tariffs based on COO and customs codes. Use of outdated tariff schedules and free trade agreements can result in miscalculated tariffs. With frequent tariff changes, particularly on aluminum, steel, and products being imported from and exported to China, it is important to use a current tariff schedule when determining fees.





Grow Better With Assent

You can't grow where you can't go. Sustainable business growth needs business continuity, reliable market access, and the data to make both possible.

The Assent Supply Chain Sustainability Platform enables streamlined trade compliance data collection, providing a database of critical intelligence that simplifies the process of analyzing a product's COO and customs classification. Users are able to effectively and efficiently manage their trade classification programs by cross-referencing customs codes with COO certificates. Assent automates the supplier engagement activities often needed to collect the correct product information and reconcile unaligned customs codes when applicable.

By surveying the supply chain to collect relevant customs codes and COO data, Assent's clients are prepared to handle shifts in international trade and can face uncertainty with confidence. To learn more about how Assent can help you, contact **info@assent.com**.



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