Responding Successfully to WCO 2017 HS Reform

Enabling a Plan of Action to Streamline the Transition
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On January 1, 2017, World Customs Organization (WCO) Harmonized System (HS) reform went into effect for many locations. Importers, exporters, manufacturers and Logistics Service Providers (LSPs) must review the HS classification of goods to be compliant.

In order to succeed, the methodology that a company deploys to make the transition is of critical importance given the scope and complexity of the changes. With today's electronic and interconnected systems, an item-by-item and/or country-by-country review can be a large undertaking. Since item and trade data can be locked in Enterprise Resource Planning (ERP) solutions, ecommerce systems or other platforms, the task of updating to HS 2017 further increases in complexity.

Although the move to HS 2017 is extensive, meeting the challenge with the right solution is critical to minimize risk and boost productivity. In order to effectively move to HS 2017, companies must unite two factors including:

1. **Accurate trade content** – Manually reviewing the individual modifications to each national tariff schedule would be a significant drain on available resources.

2. **Augmenting trade compliance expertise with better tools** – Since classification is subjective, trade compliance expertise is never going out of style. Placing the right tools into the hands of expert classifiers is critical to reduce labor and risk as well as increase visibility, automation and collaboration.

In addition, businesses are thinking strategically about HS 2017. They are viewing the switch as an opportunity not only to reclassify and review the impact to existing item classifications, but also as a mechanism to improve long term efficiency. Leading companies are implementing systems that can handle the challenges of moving to HS 2017, better collect data from stakeholders, more effectively populate ERP systems, reduce duty spend and increase overall efficiency.

**In a Rush? Read This:**

The impact of HS 2017 is substantial. Companies require mechanisms that can effectively transition affected items and serve as a springboard for long-term efficiency.
What is HS 2017 & Why It Matters: A Quick Overview of the Basics

For the layman, it is essential to understand the fundamentals of HS 2017 Reform at a high level, and to appreciate its importance in regard to international trade.

The Harmonized System is an international classification standard developed by the World Customs Organization and is in active or anticipated use by 207 customs administrations worldwide. Both the public and private sectors use the HS as the primary means to identify and classify products. The HS standard helps to improve the flow of goods, better communicate, ensure customs rules are properly followed and confirm that proper duties and taxes are remitted at the national level.

Individual countries must respond to WCO 2017 HS Reform by updating tariff schedules, trade agreements and other government regulations. However, these updates will not all happen simultaneously across the globe. Every business with affected items must act by reviewing tariff codes, duty rates, and customs data for hundreds, thousands or even tens of thousands of items in their parts master databases or ERP systems. These items must be updated for every country where business is transacted on the effective date each country activates its changes. Improper tariff classifications and customs documentation can also cause shipments to be delayed at the border.

In addition, HS 2017 will impact a vast amount of business data and strain already limited global trade compliance resources. With more than 230 amendments, the move could trigger a chain reaction of thousands of country-level amendments, creating even more updates to enterprise-wide business systems.

In a Rush? Read This:

Systems that can streamline the process of populating ERPs with updated HS 2017 codes are critical to maintaining compliance.

Beyond HS 2017: Bringing Clarity to Compliance

The periodic occurrence of HS 2017 is an ideal opportunity to implement better systems to manage item classification. Businesses can use the transition to not only review items that are impacted by the reform, but are utilizing the move to:

1. Deploy systems that can ‘revalidate’ existing, fully-qualified codes and apply previous classifications to other countries.
2. Streamline daily research processes through access to robust databases of global trade data.
3. Provide ERP solutions, e-commerce platforms and other systems with accurate HS codes and duty rates.
4. Institute procedures to demonstrate reasonable care, support classification determinations and reduce duty spend.
What Is Changing & Why

The Harmonized System was designed to be dynamic and adaptable over time to reflect modernization. The HS convention allows for the system to be updated on a four-to-six year cycle.

In regard to HS 2017, the WCO acknowledges several items of note including:

1. The need to introduce new subheadings for specific chemicals
2. A requirement for amendments as a result of changing international trade patterns
3. The need to keep pace with technology and remove outdated products

Environmental and social issues of global concern are also featured in the 2017 amendments, particularly the use of the HS as the standard for classifying and coding goods for food security, and the early warning data system of the United Nations’ Food and Agriculture Organization.

Chapter three of HS 2017 contains a large volume of amendments. In particular, there will be more specific descriptions for species of fish and crustaceans, mollusks and other aquatic life. These changes are anticipated to improve the quality and precision of trade data for impacted goods. The WCO expects that the modifications will help monitor worldwide economic trends for commodities in chapter three. In addition, new subheadings have been created for the separate identification of certain wood species. With deforestation of particular concern, it is essential to better manage these materials at the item classification level.

HS 2017 also features new subheadings for specific chemicals controlled under the Rotterdam Convention and ozone depleting substances controlled under the Montreal Protocol. Other amendments have resulted from changes in international trade patterns. These include the deletion of several subheadings due to the low volume of trade in specific products, the need to separately identify certain commodities in either existing or new headings and recognize advances in technology where possible. Finally, a number of amendments aim to clarify descriptions to ensure uniform application of the HS.

In order to successfully transition to HS 2017, the nuances of the changes must be communicated throughout the international supply chain. Although the WCO has published 6-digit codes, HS correlation tables must also be closely scrutinized at the national level.

In a Rush? Read This:

It’s important to realize HS 2017 is more than simply changing a few HS codes. It is a significant overhaul of the foundation of global trade.
HS 2017 & Its Global Imperative

The impact of HS reform can have a cascading impact on standards and processes, and studying an example can reveal the scope of the changes created by modifying one HS code for one country. On January 1, 2017, HS Code 8702.10 is going to be updated to introduce further detail on engine power.

A search on the Descartes Customs Info™ website reveals that 8702.10 is contained in over 80 trade documents on the U.S. side alone. 35 different U.S. Binding rulings also reference 8702.10 and may be influenced by the change. In addition, there are 2 fully qualified HTSUS codes within 8702.10. These are slated to be deleted and substituted by the 3 additional codes being added: 8702.20, 8702.30 and 8702.40.

Multiple U.S. government agencies reference HS Codes in their regulations. It is anticipated that some regulations, requirements, licenses and permits may be affected by HS 2017; however, the scope of the changes cannot be wholly determined until each of the various government agencies adapts to HS 2017 and fully updates their corresponding regulations. This is especially the case with the continued connectivity of 47 Partner Government Agencies (PGAs) within the U.S. Automated Commercial Environment (ACE) single window to government initiative. Some of the PGAs within the ACE initiative include:

- Agricultural Marketing Service (AMS)
- Alcohol and Tobacco Tax and Trade Bureau (TTB)
- Animal and Plant Health Inspection Service (APHIS)
- Drug Enforcement Administration (DEA)
- Environmental Protection Agency (EPA)
- Fish & Wildlife Service (FWS)
- Food and Drug Administration (FDA)
- National Highway Traffic Safety Administration (NHTSA)
- National Oceanic and Atmospheric Administration, National Marine Fisheries (NMFS)
- And others

For example, 8702.10 is subject to requirements under the Department of Transportation and the U.S. Environmental Protection Agency. Compliance professionals, especially those already heavily burdened with the complexities of moving toward systems of record such as ACE, require solutions to transition to HS 2017 during this critical time period.

On the trade agreement side, there are 15 U.S. trade agreements, including NAFTA that incorporate the HTSUS into their regulations, including 3 newer trade agreements (i.e., Korea-U.S. Free Trade Agreement (KORUS), U.S.-Colombia Trade Promotion Agreement (CPTA) and U.S.-Panama Trade Promotion Agreement (TPA)) that went into effect after the previous WCO HS update on January 1, 2012. Here too, every HTSUS code affected by HS 2017 will trigger a chain reaction of changes within the regulations of these trade agreements. For example, 6 U.S. trade agreements include references to fully qualified codes impacted by the changes to HS 8702.10.
The impact of HS 2017 is global and affects businesses in the EU and worldwide. For example, a search on Descartes Customs Info™ revealed 6 different EU Binding Tariff Information (BTI) documents containing HS code 8702.10. There are currently 8 fully qualified HS Codes within 8701.90. However, with 8701.90 scheduled to be deleted, none will remain valid and all will change to different HS codes.

Likewise, there are 10 different EU trade agreements incorporating the HS into their regulations. Every HS code affected by HS 2017 could trigger a number of changes to trade agreements.

Governments also have two distinct challenges to overcome when adapting WCO HS reforms to their country tariffs, trade agreements, and other governmental regulations. First, there is the obvious work of modifying guiding documents to incorporate the changes. Second, and sometimes more challenging, are the political procedural requirements required to enact the modified documents into law.

**HS 2017 & ERP Systems**

Business affected by HS 2017 must ensure that ERPs are updated at the same time that each customs administration modifies its tariffs, trade agreements and regulations, for every country where business is transacted. For multinational companies, this is not a one-time event. Each customs administration and government agency operates on its own release schedule.

In addition, businesses may have a number of items in a range of databases, spreadsheets and systems affected by HS 2017 that require reclassification. The customs data stored in enterprise systems may need to be revised at various times according to the release schedules of each country where it operates, the trade agreements it participates in and the government agencies it is governed by.

Companies should identify all items affected by HS 2017, compare 2011 and 2012 duty and tax rates for each country of import, and confirm there were no impacted items. Technology or systems that can jumpstart a review of changes is of critical importance to operational efficiency.

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**In a Rush? Read This:**

Business affected by HS 2017 must ensure that ERPs are updated at the same time that each customs administration modifies its tariffs, trade agreements and regulations, for every country where business is transacted.
### Worksheet: Enabling a Plan of Action

With the extensive impact that HS 2017 updates will have on a range of processes, it is essential that businesses prepare for the transition in a systematic manner. A suggested plan of action should include the need to:

1. Assign a **Project Leader** and provide active executive support.

2. Identify all **Global Trade Content** affected by HS 2017 and leverage automated screening services to identify current HS classifications scheduled to be changed.

3. Pinpoint any **Enterprise Resource Planning** systems, ecommerce platforms or databases that are impacted by HS 2017, and determine the expertise level needed to update the databases.

4. Note all **Trading Partners** that require accurate customs data to support global business including suppliers, forwarders, carriers and brokers.

5. Name all **Government Agencies** reviewing imports or exports and pinpoint HS codes governed by each.

6. Identify all **Trade Agreements** that apply, review all certification documents on record, determine the time needed to update trade agreement qualifications and documentation.

7. Determine the **Implementation Timeline** for each task in steps 2 through 6.

8. Assign the **Personnel** needed to accomplish each item.

9. Allocate the **Budget** and resources required to accomplish the job within the timeline established.

10. Create a **Communication Plan** to notify all internal and external stakeholders to keep them apprised of the coming changes.
Conclusion: The Methodology & Technology Matters

Market leaders are thinking about HS 2017 strategically, and as an opportunity not only to reclassify and review the impact to existing item classifications, but also as a mechanism to institute meaningful operational changes. They are communicating the importance of the reform to C-level personnel and securing executive buy-in as to the importance of the updates.

Leading businesses also recognize that a manual review of each national tariff schedule would be inefficient given the cascading effects of the changes to multiple countries, systems of record, trade agreements and other governmental regulations. Since the scope of HS 2017 is considerable, it is critical to ensure that the right technology platform and trade content are in place to offset the challenges posed by the transition.

Businesses are seeking systems or solutions that can easily deliver updated trade information via multiple methods to mirror operational requirements. Some companies may find that a simple web-based delivery system is adequate, while others may require a more robust online workbench that can jumpstart updated codes to multiple countries, and still others may need comprehensive system-to-system connectivity.

The key here is to meet the challenge with the right solution to minimize risk and boost productivity. The methodology that a company chooses to make the transition is of critical importance to streamline processes and to help businesses achieve long-term success.

Data Corner: HS 2017 By the Numbers

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About Descartes Customs Info™

Descartes helps maximize the value of trade data by helping organizations work smarter. Our suite of solutions help to improve efficiency, increase visibility and achieve higher trade compliance rates, while reducing risk and duty spend. From fueling ERP systems with trade content, streamlining automation, improving classification processes, driving ecommerce solutions and more, the Descartes Global Trade Content solutions unite systems and people with the trade information they need to help power international commerce and improve compliance.

With a vast database relating to regulations, rulings, duties and more, Descartes Customs Info helps clients minimize trade barriers. Some of the world’s largest international ecommerce sites also leverage our powerful data resources to provide customers with more accurate landed cost information, improve the online shopping experience, add to overall compliance and reduce operating costs. Multinational shippers, customs brokers, third-party logistics providers (3PLs), freight forwarders, multimodal carriers, compliance professionals and others use Descartes Customs Info to help build and maintain complex classification databases for their global operations.

Our solutions can help businesses transition to HS 2017 via a number of systems and platforms. Options include:

- **Descartes Customs Info™ Reference**, an online subscription service to better demonstrate reasonable care and support classification determinations.

- **Descartes Customs Info™ Manager**, a web-based classification and duty management workbench to manage compliance down to the SKU, part or item level. Our solution includes our powerful ‘Revalidator’ tool to quickly implement HS 2017 changes for multiple countries.

- **Descartes Customs Info™ Application Content**, a solution to power global trade by streaming data into ecommerce and ERP platforms.

**Descartes can help companies quickly and easily transition to HS 2017 via a number of flexible options. Ask Us More.**
About Descartes

Descartes (Nasdaq:DSGX) (TSX:DSG) is the global leader in providing on-demand, software-as-a-service solutions focused on improving the productivity, performance and security of logistics-intensive businesses. Customers use our modular, cloud-based solutions to route, schedule, track and measure delivery resources; plan, allocate and execute shipments; rate, audit and pay transportation invoices; access global trade data; file customs and security documents for imports and exports; and complete numerous other logistics processes by participating in the world’s largest, collaborative multimodal logistics community. Our headquarters are in Waterloo, Ontario, Canada and we have offices and partners around the world.

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