

Exporting to the United States

USING CLASSIFICATION CODES FOR TRADE

This guide aims to equip the reader with a better understanding of product classification codes, as used in export trade to the United States. Classification codes are an important component of international trade transactions and must be correctly specified before goods can enter the commerce of another country.

While product classification codes are based on an internationally harmonized system, for international trade purposes the classification codes are unique to each country. For example, the classification codes used by an African AGOA beneficiary country will differ from the codes used by United States importers; exporters in AGOA-eligible countries wishing to contract with buyers in the U.S. should therefore be familiar with the **U.S. classification code for their respective products**, as these are used by the U.S. buyer when clearing goods through customs in the U.S. While HS codes represent a commonly used classification standard, national codes used in international trade are in turn subject to national standards, derivatives and prerogatives.

The harmonized system (HS) classification codes

The **Harmonized System (HS)** - formally known as the Harmonized Commodity Description and Coding System - is a standardized numerical method used to classifying traded products, and is administrated by the World Customs Organization (WCO). The HS code is updated every five years, for example in response to new products or to better differentiate existing products.

Customs authorities around the world base their classification standards on the global HS coding nomenclature, and use this to identify products, assess duty rates, gather statistics etc. While HS codes comprise 6 digits, involving a common harmonized standard, national authorities usually extend this by adding a further 2-4 digits, for national trade-related classification purposes.

The United States system is known as the **Harmonized Tariff Schedule (HTS)**, a 10-digit coding architecture that utilizes the international 6-digit HS, and adds additional 4 digits for tariff classification, statistical and other purposes. The HTS was adopted by Congress in 1989, replacing the former tariff schedules with this new, uniform version. The HTS (also known as Schedule A codes) is updated more regularly than the 5-year cycle of the HS. Updates can impact traders.

Roleplayers in classification

WCO	The World Customs Organisation (WCO) sets the universal classification standard and manages the HS coding system
USITC	The United States International Trade Commission (USITC) administers the U.S. tariff schedule and national HTS codes
CBP	U.S. Customs and Border Protection (CBP) enforces the code in the customs process

Structure of the United States HTS code: an example

Global and U.S. HTS codes have four components, namely the Chapter (first 2 digits), the Heading (4-digits) which dictates the specific category within a Chapter, the Sub-heading (6 digits) which defines product sub-categories and comprises the full H.S. code, followed by the U.S. HTS Sub-heading (8 digits) and statistical suffix (10 digits).

08	CHAPTER Edible fruit and nuts; peel of citrus fruit or melons
0805	HEADING Citrus fruit, fresh or dried
0805.50	SUB-HEADING (HS CODE) Lemons (<i>Citrus limon</i> , <i>Citrus limonum</i>) and limes (<i>Citrus aurantifolia</i> , <i>Citrus latifolia</i>)
0805.50.20	SUB-HEADING (HTS) Lemons
0805.50.2010	STATISTICAL SUFFIX Certified organic



Types of classification: Which one do exporters to the United States use?

The U.S. uses two classification schedules for international trade, each based on the HS code. The direction of trade (whether goods are entering or leaving the U.S.) determines which schedule to use. While many codes overlap, there are differences.

IMPORTING INTO THE UNITED STATES

U.S. imports use the **HTS** classification system. Codes comprise 10 digits based on the 6-digit HS, followed by 4 digits which further describe or differentiate the product in specific detail (composition, primary characteristics, function, material etc.). Goods shipped to the U.S., including those produced in AGOA eligible countries, **must utilize the correct 10-digit HTS code when cleared for import into the U.S.** The U.S. HTS schedule and online tools may be used to establish the correct HTS code.

EXPORTING FROM THE UNITED STATES

10-digit **Schedule B codes** must be used when exporting from the U.S. (these are administered by the U.S. Census Bureau).

The importance of using the correct HTS code

International shipments must include relevant classification details for the products being consigned. Each product has a unique classification code.

Classification codes play many important roles, including statistical record keeping of international trade transactions, assigning any applicable import duty or other charges, determining possible preferential market access, the application of trade remedies by governments (e.g. anti-dumping duties on incoming goods, imposed by the importing country), managing specific trade restrictions, and for other purposes. It is important that the correct classification codes are used.

When exporting goods to the U.S., traders need to bear in mind that the **United States' HTS classification code** must be used when these goods are eventually cleared through U.S. customs, and that this code generally differs from the code used in the exporting country.

Consequences of misclassification

Correctly classifying a product can be complex, and may sometimes appear open to interpretation. Nevertheless, misclassification of goods can result in a number of adverse consequences, including:

- **Over or under-payment of import duties**
- **Penalties for non-compliance**
- **Delays in the clearance of goods**
- **Fines and other penalties for the importer**
- **The importer may hold the exporter liable**
- **Failure to benefit from preferential market access programs such as AGOA**
- **Customs authorities may dispute the information provided**
- **Special audits and investigations by customs authorities**
- **Possible loss of any preferential trader status**
- **Seizure of goods by customs authorities**



Classification responsibility and liability

The importer or the importer's appointed agent clears the goods through U.S. customs, and the correct classification is primarily the importer's responsibility. It is important for the exporter to assist the importer in this respect, including through the provision of accurate information. This also makes business sense: it forms an important part of a commercial business relationship where the clearance of goods can happen smoothly, but also provides other important information, for example to help determine whether the goods qualify for duty-free market access under AGOA preferences, enhancing a product's competitiveness.

Product classification codes on commercial invoices

Although most countries do not specifically require the full classification code to appear on commercial invoices (it is still needed for the import clearance process), some countries insist on HS classification codes being included when goods are shipped. This can also provide greater clarity, speed up payment, and streamline customs processes. There can be some downsides though, especially if a mistake is made. Shipping experts sometimes advise to use the 6-digit HS code for invoicing purposes, in consultation with the buyer, as these are universally recognized, and not subject to national classification rules used in the import clearance process.

How to determine the correct classification code for goods shipped to the U.S. market: some tips and pointers

- ▶ **Know your product:** its characteristics, component materials, size, how it is made, what it is used for, its commercial, common or technical designation, and other relevant facts;
- ▶ If, as a producer or exporter, you are new to HS/HTS classifications, begin by identifying the relevant chapter, and work in segments to locate the relevant 4-digit heading, sub-heading and so forth;
- ▶ **Use freely available tools** to assist in this process: download the relevant HTS Chapter from the USITC website, and complement this search using online tools with the relevant keywords, bearing in mind that keywords must also appear in actual classification descriptions when conducting a search, and that many products would be classified under respective 'Other' sub-headings and may not be found in simple keyword searches;
- ▶ Consult the **HTS Chapter notes** since these provide important guidance and clarifications, as well as the **General Rules of Interpretation (GRI)** - all available from the USITC website;
- ▶ **Consult an expert** - for example a knowledgeable freight forwarder, or a U.S. Commercial Service agent (part of the U.S. International Trade Administration);
- ▶ Consult the Customs and Border Protection (CBP) agency's **Customs Rulings Online Search System database (CROSS)** for previous rulings on matching products, or as a last resort, apply for a new **electronic classification ruling** from the CBP agency.

Useful web resources



Download HTS Schedule (PDFs)



bit.ly/HTS-PDF

Searchable HTS schedule



bit.ly/HTS-SEARCH

CBP Trade Division



bit.ly/CBP-TRADE

CBP Guide on HTS Classification



bit.ly/CBP-GUIDE

Searchable CROSS database



bit.ly/CBP-CROSS

CBP Electronic Ruling requests



bit.ly/ERULINGS