January 2018

Mandatory provision of 6-digit HS code will not solve issue of poor data

European Express Association (EEA) position on the requirement to provide a 6-digit Harmonised System Code (6-digit HS Code) as part of the Entry Summary Declaration (ENS) at the first point of entry in the EU

What is the issue?

In May 2016, the EU started the application of the Union Customs Code (UCC). The UCC includes a requirement for carriers to submit a higher level of detail for advance data for a security and safety risk assessment[1]. This data must be submitted prior to the arrival at the first point of entry in the EU. The major change that has taken place is the requirement for a 6-digit numerical code which is a code describing the type of goods in a shipment, in addition to description of these goods as was required prior to the implementation of the UCC.

Why should this new requirement be changed?

- The Commission proposed this change without clarification or evidenced justification citing poor data quality particularly bad goods descriptions. Even if this was correct in certain instances, the requirement to provide a 6-digit HS code will not address the issue of poor data; a poor goods description will lead to a poor HS code.
- The change to the Customs Union from 1 January 1993 created two borders for countries within the EU; security risk is assessed by the first point of entry into the Union before loading on an aircraft destined for the EU, and again before arrival in the EU. The first point of entry also runs risk analysis for safety purposes, (EU wide prohibitions and restrictions). For this security and safety risk assessment, a goods description has proven more effective than the proposed 6-digit code. If the final destination of the shipments is in a second Member State, that Member States completes risk analysis for safety and security including their own national prohibitions and restrictions. Accordingly, where there is no immediate threat to life and limb (the large majority of cases), it is the final Member State who will control suspect goods.
- Suspect shipments are often identified by inconsistencies in descriptions given by the shipper. Identifying these anomalies in our global IT systems has enabled the express industry to support Customs to identify IPR and other non-compliant shipments. For the express industry such profiles have been 100% effective in identifying suspect shipments in the global supply chain. Forcing traders to filter out these anomalies and use the HS code will mean that valuable intelligence indicators will be lost.

What is the impact?

- Translation of goods description into 6-digit HS code at such an early point of time needs manual intervention by specialized customs clearance agents. This increase will require the classification

[1] CDR (EU) 2015/2446 of 28.07.2015 Annex B- Title 1 – Chapter 3 – Column F3a – line 6/14

The European Express Association · Square de Meeûs 35 · B-1000 Brussels · Belgium
Tel: +32 2 230 05 45 · Fax: +32 2 230 57 06 · Email: customs@euroexpress.org · Web: www.euroexpress.org

of millions of additional shipments per year at a potential cost to industry of 185 million Euros[2]. The impact on other economic operators still needs to be assessed and added to that amount. In addition, shipments of negligible value[3] and transit shipments remaining on board did not need an HS code for fiscal clearance in the EU in the past, but are subject now to the new requirements. Today, complex import shipments with multiple items and multiple HS codes are, upon arrival in the customs office of the country of destination put in temporary storage awaiting the detailed instructions from the importer related to which HS codes to be used. How will we have to deal with these situations?

- This change in the law will cause fundamental change to current working practices in international trade as the EU will oblige the sender of a shipment destined to the EU, to provide a 6-digit HS code, without apparent benefit.

What does the EEA suggest?

- That the law be changed to make the provision of a 6-Digit HS Code optional to the economic operator as stated in Annex 30A of the past Customs Code Implementing Provisions.
- The Express carriers want to build on the success of the earlier pilot to fight terrorism and work in partnership with the EC and Member States to seek ways of exploiting our business model and data capabilities for safety and security purposes. Based on our experience with some EU Member States, we are confident that we can identify solutions that improve risk management for authorities whilst minimizing the impact on legitimate trade.
- During the recent pilot project on PLACI (Pre-Loading Air Cargo Information), access was provided to the supporting documents relating to the shipments that were tested. Access to digital images of supporting documents such as invoices and certificates of origin, are successful in closing 99.9% of queries raised during the ongoing testing of ACAS in the USA. As access is an essential part of the PLACI process, it can also be used where an ENS is queried during a risk analysis for security and safety purposes at the first point of entry to the EU.
- Given the considerable cost that this fundamental change of the new and/or updated processes and requirements for security and safety will have in total for EU trade with the rest of the globe, the EC's proposal must include an impact assessment, something that we hope would be supported by the European Parliament, Member States and other Directorate-Generals on this matter. Such an impact assessment shall be done for each of the new requirements, including the

[2] In February 2015, the European Express Association (EEA) made an assessment of the expected costs associated with the introduction of a mandatory HS Code. The cost calculation follows a baseline methodology focusing on the additional cost of the volume which today does not require a customs declaration with an HS code. The methodology aggregates the volume of additional shipments (by number) that would be affected, multiplied by an average customs clearance cost per shipment.
The figure does not account for other potential costs associated with IT, service changes, and staffing. Specifically, it does not take into account any cost associated with providing the HS code earlier in the process than currently. The figure is thus conservatively-derived and additional cost impacts can be expected.
Final figures were collected and aggregated in confidence by the Secretariat of the EEA. Given the confidentiality of this information to the individual companies concerned, no breakdown of the cost can be provided.

[3] Non-document Consignments below a value of 22 Euro.

introduction of the HS code, avoiding the introduction of costly processes which do not bring added value.

Proposal

1. The preferred option is that the description of the goods remains the main requirement and that the requirement for a Commodity code should become optional.
2. This being said, express carriers would like to strengthen cooperation with customs and other relevant authorities to enhance risk assessment. As an alternative to the mandatory cleansing and classification of shipments, there is the opportunity for risk analysts to utilize data and documentation submitted by shippers to identify suspect shipments based on the sharing of information on risk parameters. Electronic copies of this documentation are available at the same time that data is transmitted to EU Customs.

   This proposal will give customs a more effective instrument to ensure descriptions and data is of sufficient quality to perform a risk assessment by going back to the operator and requiring a better description and/or require access to electronic images of data and documentation.

   Furthermore, in this way, operators have an incentive to provide high quality data because if they do, the risk assessment will not delay the shipment. It also avoids the risk that the quality of HS codes provided will decrease because a code will simply just be assigned at origin to get it through the system (the system will accept any existing HS code whether the number is correct or not).

   The Commission argument of the necessity of a HS code for increased automation of the security and safety risk assessment is counterproductive as cleansing of data (and assigning an HS code implies cleansing of data), reduces the quality of the risk assessment. Human judgment has to remain a key factor in safety and security risk assessment. A risk assessment for safety and security purposes is too important to reduce it to putting numerical codes through an IT system. There can be no automation for the sake of automation.
3. The express industry welcomes the opportunity to work in partnership with the Commission and Member States to ensure that the risk assessment process is as effective as possible. The express industry will provide a 6-digit HS code where available.

The European Express Association (EEA) *is the representative organisation for the express industry in Europe. The express industry is a fast-growing business sector which not only provides vital services for the European economy, but which also plays a large role in making the global marketplace a reality. Integrators, such as DHL, FedEx, TNT and UPS connect over 90% of the world in 72 hours. Express delivery services are used to deliver around €4 trillion worth of goods, equivalent to 16% of European business' sales revenue, projected to increase to over 20% by 2020. The industry specialises in time-definite, reliable transportation services for documents, parcels, and freight. It allows European business to rely on predictable, expeditious delivery of supplies, thereby enabling them to attain and maintain global competitiveness. The express industry directly employs over 250,000 people across the EU and supports a further 579,000 indirect jobs in Europe through the supply-chain (Oxford Economics, 2011).*

The European Express Association · Square de Meeûs 35 · B-1000 Brussels · Belgium
Tel: +32 2 230 05 45 · Fax: +32 2 230 57 06 · Email: customs@euroexpress.org · Web: www.euroexpress.org