



HARMONIZED SYSTEM
REVIEW SUB-COMMITTEE

-
26th Session
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NR0270E1
(+ Annexes I and II)

O. Eng.

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POSSIBLE DELETION OF HEADINGS/SUBHEADINGS
WITH A SMALL VOLUME OF TRADE

(Item II.3 on Agenda)

Reference documents :

40.367 (RSC/14)	41.817 (RSC /17)
40.470, Annex E/1 (RSC /14 - Report)	41.920, Annex C/1 (RSC /17 - Report)
40.413 (HSC/18)	42.100, Annex F/1, paragraphs 66 à 69 (HSC/21 - Report)
40.600, Annex E/1 (HSC /18 - Report)	42.233 (RSC /18)
40.806 (RSC /15)	42.491 (RSC /18)
40.902 (RSC /15)	42.500, Annex C/1 (RSC /18 - Report)
40.920, Annex C/1 (RSC /15 - Report)	42.750, Annex E (HSC /22 - Report)
41.100, Annex E/1 (HSC /19 - Report)	NR0027E1 (RSC/19)
41.332 (RSC /16)	NR0045E2, Annexes C/1 and D/11 (RSC/19 – Report)
41.458 (RSC /16)	NC0017E1, paragraphs 95 to 98 (HSC/23)
41.478 (RSC /16)	NC0090E2, Annexes F/1, paragraphs 94 and 95, and N/19 (HSC/23 – Report)
41.576 (RSC /16)	NR0091E1 (RSC/21)
41.580, Annex C/1 (RSC /16 - Report)	NR0101E2, Annex D/1 (RSC/21 – Report)
41.600, Annex D, paragraph 87 (CSH/20 - Report)	NC0182E1, paragraphs 10 to 13 (HSC/25)
41.802 (RSC /17)	NC0250E2, Annex F/1, paragraph 6 (HSC/25 – Report)

I. BACKGROUND

1. The Harmonized System Convention, in its Preamble, considers that the Harmonized System should be kept up-to-date in the light of changes in patterns of international trade. In order to enable the Review Sub-Committee to examine the Harmonized System from the standpoint of trade statistics, the Secretariat received on 3 May 2002 from the United Nations Statistics Division (UNSD), world totals for 109 countries for imports by HS codes for the years 1997 to 2000.

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2. The methodology used by UNSD to arrive at the totals, was as follows :
 - (i) Reported imports data was taken as the first input;
 - (ii) If reported data was not available for a given country (or area) and a given year, data for an adjacent year for that country (or area) was added. Adjacent is defined as not more than two years apart (so 1998 data can be used for the year 2000, but 1997 data cannot be used); and
 - (iii) If reported and adjacent years data were not available for a given country (or area), the cumulative total of the trading partners exports was taken as equivalent to the imports of that country (or area).
3. At its 17th Session (Doc. 40.260, Annex E/6), the HS Committee agreed that threshold figures (volumes of annual trade) should be applied for the creation of new headings and subheadings and for the deletion of those having a low volume of trade (US \$100 million (for headings) and US \$20 million (for subheadings)). It also acknowledged that there were circumstances under which exemptions from these threshold figures should be considered. The general consensus was that goods of environmental and social concern and subject to controls under international Conventions, should fall in this category. Another favoured area for considering exemption was with respect to goods of special interest to developing countries such as those important from a regional standpoint.
4. The Committee also agreed that headings and subheadings exempted from the threshold figures should be subjected to review (during each HS review cycle) for deletion of those provisions which were no longer important from the trade or monitoring standpoint.
5. With regard to the deletion of HS subheadings having a low volume of trade, it was suggested that the practice followed during the last review cycle to retain the subheadings for which deletion was objected to by any administration should be continued. The Committee was, however, generally of the view that retention of such subheadings should be based on sufficient justification.
6. With regard to the trade data period, on the basis of which retention or deletion of HS headings or subheadings should be considered, the general view of the Committee was that a three-year period would be appropriate.
7. At its 25th Session (March 2000), the Committee adopted the Review Sub-Committee's conclusions regarding the increase of the threshold for the deletion or creation of subheadings from US \$20 million to US \$50 million.

II. SECRETARIAT COMMENTS

8. At its 19th Session, the HSC endorsed the cases for exceptions to the threshold criterion (US \$100 million for four-digit headings and US \$20 (now 50) million for subheadings) put forward by the Review Sub-Committee, namely :
 - Products of social or environmental importance (waste, CITES products, etc.);
 - Products of importance for developing countries;
 - Headings and subheadings (particularly residual ones) whose deletion would adversely affect the structure of the Harmonized System or lead to classification problems;

- Subject to the Sub-Committee's agreement, any codes whose retention is requested and duly substantiated.

9. At its 21st Session, the HSC endorsed the following additional principles adopted by the Review Sub-Committee :

- Retaining **four-digit** headings where, on account of a trade volume of over US \$20 (now 50) million, it is necessary to replace the deleted heading by a new six-digit subheading with equivalent scope to the heading deleted;
- Retaining codes amended in 1996, where there is insufficient data;
- Retaining codes whose trade volume is continuing to rise significantly such that the threshold criterion was reached in 1996 or may be reached in 1999 or 2000;
- Retaining codes for which an amendment has been proposed as part of the present review cycle;
- Retaining residual headings and subheadings;
- Not, as a matter of course, retaining codes requested for retention, but introducing a flexible procedure which, insofar as possible, takes account of the needs of Contracting Parties;
- Envisaging deletion of **four-digit** headings with a low trade volume where the content of the heading can be transferred to a residual heading or to another existing subheading.

10. In the light of these instructions and taking into account the increase in the threshold for six-digit subheadings from US \$20 million to US \$50 million, the Secretariat has prepared this document and has listed the headings and subheadings which do not meet the threshold criteria during one of the years 1997 to 2000. These are set out at Annexes I and II hereto. In addition, these annexes include comments by the Secretariat vis-à-vis :

- the period during which low trade volume was reported (see paragraph 12 below);
- those headings and subheadings the structure of which does not allow deletion (see paragraph 13 below); and
- goods of social or environmental concern (see paragraph 14 below).

Threshold of trade volume

11. The 2002 edition of the Harmonized System has 1,244 four-digit headings and 5,224 six-digit subheadings compared with 1,241 headings and 5,113 subheadings in the 1996 edition. Deletion of the less used headings and subheadings is an important mechanism to maintain the size of the Harmonized System at manageable level.

12. The data received from UNSD reveals that 124 four-digit headings and 728 six-digit subheadings show trade volumes lower than the thresholds set, during one or more of the years reported. However, the Secretariat would suggest deleting only those headings and subheadings for which (i) the trade volume has not reached the threshold for three or more years during the reporting period (see also paragraph 6 above) and (ii) the average trade volume during the four reported years is lower than the thresholds set (see column "Average / Moyenne" in the annexes). These headings and subheadings are indicated by the letter "A"

in the column "Observations" in the respective annexes. It should be noted, however, that codes for headings having no subdivisions, are not listed in Annex II, but are included in Annex I together with the other headings which are candidates for deletion.

Cases to be exempted from the threshold figures

13. As indicated in paragraph 9 above, residual headings and subheadings with low trade volume should be retained. If the trade volume of the other subheading(s) at the same level also does not reach the threshold, the Secretariat suggests deleting all subheadings concerned at the same level. The Secretariat also suggests retaining those headings or subheadings the deletion of which would entail further amendments elsewhere in the structured nomenclature of the heading involved or in the Chapter concerned. These cases have been identified by the letter "B" in the column "Observations" in the annexes.
14. A number of headings and subheadings refer to commodities which are to be monitored because of other international agreements, or are of concern from a social or environmental point of view. These headings and subheadings, which should not be deleted despite their possible low trade volume, are indicated by the letter "C" in the annexes.
15. With respect to the commodities which are of special interest to developing countries (see paragraph 8 above), the Secretariat must leave it to them to indicate which of the listed headings or subheadings should be retained.

Headings and subheadings to be deleted

16. Taking into account the Secretariat's observations above, 27 headings and 274 subheadings could be deleted. These headings and subheadings are identified **in bold** in the annexes to this document.
17. The codes referred to in the annexes are those for the 2002 edition of the Harmonized System. Since the reported data is based on the 1996 edition, the Secretariat has adapted the codes concerned and, where necessary, has indicated that (i) the data provided includes certain elements which are no longer covered by the 2002 code, or (ii) the data refers only to a part of the coverage of the 2002 code.

III. CONCLUSION

18. The Sub-Committee is invited to examine whether or not the HS headings and subheadings for which there is insignificant volume of trade, identified in Annexes I and II to this document, should be deleted.

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