



HARMONIZED SYSTEM
REVIEW SUB-COMMITTEE

NR0277E1

-
26th Session
-

O. Eng.

Brussels, 25 June 2002.

POSSIBLE AMENDMENTS TO THE STRUCTURED NOMENCLATURE TO
HEADING 39.20 TO PROVIDE FOR BANKNOTE SUBSTRATES OF PLASTICS
(PROPOSAL BY THE AUSTRALIAN ADMINISTRATION)

(Item III.A.7 on Agenda)

Reference documents :

NR0245E1 (RSC/25)
NR0265E3, Annex D/8 (RSC/25 – Report)
NC0531E1, paragraphs 76 to 80

NC0580E1
NC0590E2, Annex IJ/18 (HSC/29 – Report)

I. BACKGROUND

1. At its 25th Session, the Review Sub-Committee held a discussion on a proposal by the **Australian** Administration concerning possible amendments to the structured nomenclature to heading 39.20 to provide for banknote substrates of plastic. It was noted that the necessary technical information on the product was not available to support the possible amendments and some doubts were expressed as to whether the proposed classification (i.e., in heading 39.20) was appropriate. The Sub-Committee therefore decided that the classification question should be sent to the Harmonized System Committee for consideration and invited the **Australian** Administration to provide further technical information on the product. Based on the Committee's decision on the appropriate classification and the technical information which would be provided by **Australia**, the Sub-Committee could then take up the issue at its next session.
2. On 12 April 2002, the Secretariat received the following note from the **Australian** Administration providing additional technical information on the product at issue.

Note : Shaded parts will be removed when documents are placed on the WCO documentation database available to the public.

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II. NOTE FROM THE AUSTRALIAN ADMINISTRATION

3. "The bi-axially oriented polypropylene (BOPP) film used for the *Guardian*® substrate is a layered structure of polymers. The film consists of three layers, 97% being the core, and a coating on each side, bound together by fusion. This particular BOPP film is used for banknote manufacture because of its unilateral stretching capabilities in both directions. Distortion in the face of the banknote can occur if the film is stretched only in one direction. It is also favoured for its non-creasing qualities. The film is manufactured exclusively by UCB in Australia.
4. The process of coating the BOPP film to form the substrate is a modified printing process. This process performs a critical function but not a major chemical transformation, although it changes the physical characteristics of the film.
5. The printing involves the use of a chemical mix the composition of which the company is not in a position to provide given the security issues relating to the product. The company has, however, informed this administration that the mix does contain titanium dioxide (TiO₂) to provide a higher opacity to the film.
6. This mix of chemicals that is printed onto the BOPP film allows the coatings to bond to the substrate that in turn provides a surface finish suitable for processing the product through banknote printing equipment.
7. During this coating process the visual security features are added to the substrate. The features will vary but can include magnetic shadows and threads, transparent windows, holograms, and metameric (colour) filters, etc. These features are contracted to a legal design and the substrate cannot be used for any other purpose other than the manufacture of that particular banknote.
8. The process of converting the BOPP film to substrate is reversible in that the layer of chemicals added during the printing process can be removed using a further chemical process. However, the reversal process is partially destructive.
9. The company does not, and will not in the future, make the *Guardian*® substrate available for use in the manufacture of any other products. The company produces other films, which are not polypropylene based, for use in the printing of end products such as share certificates and land title certificates. This limited use of the *Guardian*® substrate is governed by the need to maintain security of the *Guardian*® substrate and the banknote final product.
10. The substrate is made up and traded in the form of sheets with 26 to 60 banknote substrates to a sheet (depending on the size of the banknote), 500 sheets to a ream and 20 to 30 reams to a pallet."

III. EXAMINATION BY THE HARMONIZED SYSTEM COMMITTEE

11. At the request of the Review Sub-Committee (see Annex D/8 to Doc. NR0265E3, (RSC/25 – Report)) and on the basis of the technical information provided by Australian Administration reproduced above, the Harmonized System Committee, at its 29th Session, examined the classification of banknote substrates of plastics.

12. Opening the discussion, the **Australian** Delegate clarified the description of the product given in paragraphs 7 to 14 and 19 of Doc. NC0580E1 by explaining that the coatings applied to the surface of the plastic film were deposited in a single operation by printing. The size and design of the sheets was determined by the size and design of the banknotes to be printed on the substrate. The security features were arranged in prescribed positions on the sheet to ensure that they appeared in the correct position in relation to the final banknotes. These security features were, in his view, not merely incidental to the use of substrate and were essential to the finished banknotes. The substrates could not be used for any other purpose than the manufacture of specific banknotes.
13. Pointing out the differences between the product at issue and a finished banknote, some delegates expressed their doubts as to the classification of the product in Chapter 49 as an unfinished printed article by application of GIR 2(a).
14. In this connection one delegate stated that, in accordance with Note 10 to Chapter 39, printing was allowed for sheets of plastics falling in Chapter 39. The fact that the product had been printed was not sufficient to exclude the product from Chapter 39 by virtue of Note 2 to Section VII, since the printing was minor and the product at issue had not lost the character of the products of Chapter 39. He therefore preferred classification in heading 39.20.
15. However, the Delegate of **Brazil**, while referring to the Explanatory Note to General Interpretative Rule 2 (a), Item (II) (on page 2), stated that the banknote substrates could be considered to be blank notes, not ready for direct use, which could only be used for completion into the finished article. In his view, this product was classifiable in heading 49.07 by application of General Interpretative Rule 2 (a) as an unfinished article. He also agreed with the **Australian** Delegate that the printing operations which the substrate had undergone could not be considered merely incidental to the primary use of the substrate, and argued that the product therefore had to be classified in Chapter 49 by application of Note 2 to Section VII.
16. The **US** Delegate disagreed with the view that the product was classifiable in heading 49.07 by application of General Interpretative Rule 2 (a). The product did not have the essential character of a finished banknote of heading 49.07, as required by General Interpretative Rule 2 (a).
17. The Chairman agreed that the threshold question was whether the printing on the substrate in question was merely incidental to the primary use of the substrate (i.e., in the production of banknotes). When the question was put to a vote, the Committee decided, by 20 votes to 19, that the printing was merely incidental. Consequently, the Committee classified the banknote substrate of plastics in subheading 3920.20, in accordance with Note 10 to Chapter 39.
18. The Committee concluded that it was not necessary to draft a Classification Opinion or to amend the Explanatory Notes to reflect this classification decision, but asked the Secretariat to inform the Review Sub-Committee of its decision (see Item II.2 on the Agenda).

IV. CONCLUSION

19. The Review Sub-Committee is invited to take account of the technical information provided by the Australian Administration and the decision taken by the Harmonized System Committee on the classification of banknote substrates of plastics, when examining this agenda item.
