



HARMONIZED SYSTEM
REVIEW SUB-COMMITTEE

NR0326E1

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26th Session
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O. Eng.

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POSSIBLE MODIFICATION OF HEADING 85.42 AND NOTE 5 (B)
TO CHAPTER 85 (PROPOSAL BY THE US ADMINISTRATION)
(Item III.B.8 on Agenda)

I. BACKGROUND

1. On 15 July 2002, the Secretariat received the following new proposal from the US Administration.

II. PROPOSAL BY THE US ADMINISTRATION

2. "The United States submits the following proposals regarding electronic integrated circuits and microassemblies currently provided for under Note 5 (B) of Chapter 85 and heading 85.42 of the Harmonized System.

Chapter 85. Note 5. Paragraph (B).

3. Delete the phrase "and microassemblies". Delete paragraph (B) (c) to Note 5 of Chapter 85.

Chapter 85. Note 5. Paragraph (B) (a).

4. Paragraph (B) (a) to Note 5 of Chapter 85 is modified to read as follows :

"(a) Monolithic integrated circuits in which the circuit elements (diodes, transistors, resistors, capacitors, interconnections, etc.) are created in the mass (essentially) and on the surface of a semiconductor or compound semiconductor material (for example, doped silicon, gallium arsenide, silicon germanium, indium phosphide) and are inseparably associated;"

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

File No. 2938

Heading 85.42.

Delete the phrase "and microassemblies".

Heading 85.42. Structured nomenclature.

The structured nomenclature of heading 85.42 is deleted and the following new subheadings are inserted :

8542.10	-	Cards incorporating an electronic integrated circuit ("smart" cards)
	-	Other :
8542.61	--	Processors and controllers (whether or not incorporating any other functions)
8542.62	--	Memories
8542.63	--	Converters
8542.64	--	Clock and timing circuits
8542.69	--	Other
8542.90	-	Parts

Explanation

5. Under the existing texts, heading 85.42 provides for "electronic integrated circuits and microassemblies". The text of heading 85.42 is defined in Note 5 to Chapter 85 to cover "monolithic integrated circuits," "hybrid integrated circuits" and "microassemblies".
6. Microassemblies are obsolete technology. For that reason it is proposed that the term be deleted from the Harmonized System.
7. The definition of monolithic integrated circuits (Note 5 (B) (a) of Chapter 85) is incomplete insofar as it mentions only one of the semiconductor materials that currently are used to produce integrated circuits. The proposed text reflects current technology.
8. The existing structured nomenclature of heading 85.42 distinguishes between the various types of integrated circuits by reference to their objective characteristics and the manner in which they are produced. This has caused administrative difficulties, because it is difficult for Customs officers to determine by visual inspection how the goods were manufactured.
9. Furthermore, the structured nomenclature that became effective on 1 January 2002 provides distinctions that are not statistically useful. The current structured nomenclature contains distinctions based on method of production. However, integrated circuits are marketed and sold on the basis of their function, not their construction. Since exporters and

importers are more likely to know an integrated circuit's function than its method of construction, categories that reflect function would be both more easily administered and more statistically useful.

10. These proposals are not intended to alter the scope of heading 85.42 in relation to other headings. For example, the proposed heading does not include chips mounted on boards. Such assemblies will continue to be classified as parts for the goods for which they are intended.

11. The following explanations illustrate kinds of integrated circuits that would be classifiable in each of the new subheadings, and could serve as the basis for a revised Explanatory Note to heading 85.42 :

8542.61 - Processors and controllers : Processors are circuits that contain a control unit and an arithmetic logic unit. Controllers contain the circuitry to run a peripheral device. *Examples include integrated circuits that are known as :*

Microprocessors
Microcontrollers
Programmable logic devices
Digital signal processors

8542.62 - Memories : Circuits that perform the function of holding data for analysis/processing or instructions to be executed. *Examples include integrated circuits that are known as :*

PROM
SRAM
DRAM

8542.63 - Converters : Circuits that change one set of codes, modes, sequences, or frequencies to a different set. *Examples include integrated circuits that are known as :*

Analog to Digital / Digital to Analog Converters
Frequency Converters
Multiplexers

8542.64 - Clock and timing circuits : Circuits that generate electrical pulses to synchronize computer operations. *Examples include integrated circuits that are known as :*

CPU Clocks
Computer Realtime Clocks

8542.69 - Other : Circuits that perform functions other than those named above. *Examples include integrated circuits that are known as :*

Amplifiers
Filters

12. Trade in the products of heading 85.42 continues to increase dramatically, as integrated circuits are being used in more and more kinds of products. As the following US import data demonstrate, international trade in the proposed categories most certainly meets the criteria for the creation of new subheadings in the Harmonized System (we have no separate data for each of the last three categories, but US imports alone clearly account for well above the minimum \$50 million threshold).

	DESCRIPTION	1999 US IMPORTS (US\$)
8542.61	PROCESSORS AND CONTROLLERS	\$ 16,175,000,000
8542.62	MEMORIES	\$ 13,175,000,000
8542.63	CONVERTERS	\$ 11,620,000,000
8542.64	CLOCK AND TIMING CIRCUITS	
8542.69	OTHER	

III. SECRETARIAT COMMENTS

13. Due to its recent arrival, the Secretariat has reproduced the US note without comment. However, it would like to draw the Sub-Committee's attention to Agenda Item III.B.5 (EC proposal to amend Chapters 84, 85, 90 and 95), which also covers heading 85.42.

IV. CONCLUSION

14. The Sub-Committee is invited to take account of the US proposal when it examines this agenda item.
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