



HARMONIZED SYSTEM
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O. Eng.

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CLASSIFICATION OF BANKNOTE SUBSTRATES OF PLASTICS

(Item IX.18 on Agenda)

Reference documents :

NR0245E1 (RSC/25)
NR0265E2, Annex D/8 (RSC/25 – Report)

I. BACKGROUND

1. At its 25th Session, the Review Sub-Committee examined a proposal by the Australian Administration concerning the possible amendments to the structured nomenclature to heading 39.20 to provide for banknote substrates of plastics. The Australian Delegate clarified his administration's proposal, indicating that the actual product was a bi-axially oriented polypropylene (BOPP) film which had undergone some further processing (such as a coating process which would not allow the coating to be removed without damaging the basic material). He informed the Sub-Committee that he was prepared to provide further technical information and to review the proposed wording to describe the product at issue.
2. Another delegate indicated that the information available in the working document was not sufficient to support the idea of creating separate provisions for these commodities. He further expressed doubts as to whether the proposed classification (i.e., heading 39.20) was appropriate, and suggested, asking for the HS Committee's view on this point.
3. The suggestion to refer the classification question to the Committee was supported by the EC Delegate. However, he favoured, at least for the time being, the status quo, given the fact that (i) the necessary technical information was not available and (ii) the volume of trade was apparently not sufficient to warrant a separate provision for these products. He informed the Sub-Committee that the EC Combined Nomenclature included a separate subdivision for BOPP film, although without any reference to its possible use.

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4. The above views were supported by yet another delegate, who stated that the product at issue might be used for other purposes as well, in the near future. The end-use indication might, therefore, be too restrictive, although he could accept a flexible approach vis-à-vis the description. He also questioned whether polypropylene was the only polymer used in this respect.
5. In conclusion, the Chairman invited the Australian Administration to provide the Secretariat with necessary technical information with a view to sending the classification question to the Committee for consideration. Based on the Committee's decision on the appropriate classification and on the technical information to be provided by Australia, the Sub-Committee could take up the issue at its next session.
6. On 12 April 2002, The Secretariat received the following note from the Australian Administration providing technical information on the product at issue.

II. NOTE FROM THE AUSTRALIAN ADMINISTRATION

"Technical Information

7. The 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.
8. 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.
9. 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.
10. 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.
11. 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.
12. 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.

13. 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.
14. 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.

Classification

15. The Australian Administration considers the goods described as polypropylene substrate, taking into account the terms of Note 10 to Chapter 39, fit the terms of heading 39.20 as being “Other plates, sheet, film, foil and strips of plastics, non-cellular and not reinforced, laminated, supported or similarly combined with other materials”.
16. Note 10 to Chapter 39 defines the goods of 39.20 and 39.21 applying to “plates, sheets, film, . . . whether or not printed or otherwise surfaced-worked, . . . but not further worked . . .”.
17. The critical issue in Note 10 to Chapter 39 is that it allows goods that have been printed or surface-worked to be classified to 39.20. The processes involved in transforming the BOPP film to the *Guardian*® substrate clearly involves the polypropylene film being printed. In addition during this same process the film has had a range of security features added, which are also permissible under Note 10 as having been “surfaced worked”. It is normally considered that surface working gives a product features and designs which is what occurs in the process of converting the film into the *Guardian*® substrate.
18. However, the Australian Administration would contend that the film has not been “further worked” which Note 10 does not allow.”

III. SECRETARIAT COMMENTS

19. With regard to the description of the *Guardian*® substrate, further to the technical information from Australia (as set out in paragraphs 7 to 14 above), the Secretariat wishes to recall the description provided in paragraphs 7 and 8 of Doc. NR0245E1 :

“The BOPP film undergoes further processing in that a modified printing process applies several specialised coatings to its surface, while at the same time adding security features that will ultimately form part of the finished banknote. These features go well beyond the traditional watermark and metallic thread that are found in many banknote papers.

This process of converting the BOPP film into the *Guardian*® substrate does not change the chemical properties of the film, however it does alter the physical look and feel to a point that is no longer recognisable as BOPP film, but is more akin to the final banknote it will become.”

20. Note 2 to Section VII stipulates that except for goods of heading 39.18 or 39.19, plastics and articles thereof, printed with motifs, characters or pictorial representations, which are not merely incidental to the primary use of the goods, fall in Chapter 49. Hence, both Chapters 39 and 49 should be considered for the classification of the *Guardian*® substrate.

Chapter 39

21. The Secretariat is of the view that in Chapter 39 two headings 39.20 and 39.21 merit consideration.
22. Note 10 to Chapter 39 provides that plates, sheets, film, foil and strip of headings 39.20 and 39.21 can be printed or otherwise surface-worked. Heading 39.20 refers to other plates, sheets, film, foil and strip, of plastics, non-cellular and not reinforced, laminated, supported or similarly combined with other materials. The Explanatory Note to heading 39.20 (last sentence, penultimate paragraph, page 740) states that minor surface treatments such as coloration, printing (subject to Note 2 to Section VII), vacuum deposition of metal are not to be regarded as reinforcements or similar combinations for the purpose of this heading.
23. Products which have been reinforced, laminated, supported or similarly combined with materials other than plastics are excluded from heading 39.20 to heading 39.21 (Explanatory Note to heading 39.20, third paragraph, page 740).
24. From the information provided by the Australian Administration the Secretariat understands, that coating applied onto the BOPP film by a modified printing process is aimed at (i) changing the physical characteristics of the film, (ii) providing higher opacity to the film, (iii) providing a surface finish suitable for processing this film through banknote printing equipment, and (iv) adding the visual security features of particular future banknotes.
25. However, from the description given in paragraphs 9, 10 and 19 above, the question is raised whether it was only a chemical mixture which has been deposited onto the BOPP film by printing, or the film has been printed and then subsequently coated by another material (to which reference is not made). This could be a crucial point for the determination of the appropriate heading in Chapter 39.

Chapter 49

26. Taking into account Note 2 to Section VII and the fact that some visual security features of a particular banknote (such as magnetic shadows and threads, transparent windows, holograms or colour filters) are added onto the product at issue, classification in Chapter 49 should be considered. Prior to classification, the question whether the security features are not merely incidental to the primary use of the goods should be resolved.
27. In Chapter 49 headings 49.07 and 49.11 merit consideration in the Secretariat's view. Heading 49.07, *inter alia*, includes banknotes. The *Guardian*® substrate is presented in the form of sheets of a size prepared for 26 to 60 banknotes, and includes the security features of a particular banknote. In this state, the product already bears some characteristics of the finished product. If the security features and the form of presentation give the *Guardian*® substrate the essential character of finished banknotes, it should be classified in heading 49.07 by application of GIR 2 (a) as an unfinished article. If GIR 2 (a) does not apply, the product at issue could fall in heading 49.11, which includes other printed matter, including printed pictures and photographs (printed motifs being not merely incidental to the primary use).

28. However, to facilitate the discussions, the Secretariat has once again contacted the Australian Administration with a view to obtaining more information on the distribution of the security features on the sheet, such as whether they are arranged randomly on the whole sheet, or regularly in prescribed contracted positions respecting the size and exact positions in which particular banknotes will be printed.
29. The Australian Administration is therefore requested to clarify the description of the product as regards to the questions raised in paragraphs 25 and 28 above and to provide a sample, if possible, in order to facilitate examination of the classification of this product by the Committee.
30. In conclusion, the Secretariat considers that classification of the product at issue in heading 49.07 as unfinished banknotes (by application of GIR 2 (a)) should be considered first, since they could be considered as having the essential character of banknotes (special features, etc.). Moreover, the term banknotes as used in heading 49.07 is not restricted to those made of paper only. If the Committee decides not to follow this approach, classification in heading 49.11 might be appropriate, since the coating (which includes the specific features and which is applied by printing) may give the product the character of printed matter (application of Note 2 to Section VII). Finally, if the Committee considers that the latter Note does not apply, classification in heading 39.20 might be appropriate.

IV. CONCLUSION

31. The Committee is invited to examine the classification of the *Guardian*® substrate, taking into account the information received from Australia and the comments of the Secretariat above.
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