



CORPORATE TRADE COMPLIANCE

A NAVIGATION TOOL TO ASSIST YOUR ORGANIZATION IN
GAINING AND MAINTAINING COMPLIANCE

HTS Expansion Training

NIFCO AMERICA CORPORATION

tradecompliance@us.nifco.com



NAVIGATING THE HTS

Hello Valued Supplier,

Let's be honest, if trade compliance was a breeze, you would not be reading this training. Instead, you would be working on other documents, preparing for your next meeting, or staring intently at the clock on the wall, vigorously praying that 5 o'clock comes a little sooner. Yet, alas, here you are on a weekday, casually reading about HTS Codes. You do not enjoy this, and that's okay. We can be blunt in your apathy towards classifying products and filing government documents. While many companies view this disinterest as an obstacle, we view it as an opportunity. In fact, it is this candid self-awareness that propelled Nifco America into constructing trainings to make your regulatory life a little less messy and confusing.

Warm Regards,

The Trade Compliance Team

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Producer Responsibility

The producer holds a heightened responsibility of ensuring compliance. The signed certificate that you supply to Nifco may be submitted to U.S. Customs. In as such, any questions arising from your certification will be directed to your company under this potential scenario. Thus, as a supplier, a heightened duty of care will fall upon you. It is for this reason that we are actively seeking to ensure that you, as a valued supplier, do not incur any consequences brought about by noncompliance.

Simply put, U.S. Customs and Border Control can be unrelenting, and recent evidence illuminates that their forceful nature is approaching a new pinnacle of oversight. Put simply, operating without considering your governmental duties can prove debilitating to your business. We do not want you to be bludgeoned with the myriad of consequences that follow regulatory indifference. Consider the video below to further cement this position.

Prologue

So here we are, at the precipice of learning about HTS Codes. If you did happen to click and scroll through our USMCA training packet, you will notice that we provided some basic explanations of how to classify via HTS Code. However, we wanted to be a little more in-depth in our instruction. Consider this training the "Uh-um...what now?" portion of your learning. Thus far you were able to grasp the main points, but now you are engulfed with some of the difficulties and intricacies embedded in the USMCA. Don't worry, this is common with all learning.



For instance, think about when you were just beginning grade school and first embarking on your academic journey. They surely taught you the easiest concepts, such as reading and writing. With that, they further relayed even more base fundamentals like adding in verbs, having a subject, and enlisting certain adjectives. However, most of your sentences were fragmented, convoluted, and downright unintelligible. That is because your first steps towards learning never involve the tricky applications found in the real world. Sure, with that initial first grade literary knowledge, you could read a menu or discern fairly simple instructions. However, it was not until later in life that you could comprehend advanced concepts, read novels, or even understand the ticker tape on a sports network. Currently, you are in that first grade of comprehending the HTS; now it's time to work towards graduation.

Once more, understanding HTS Codes and how they work is a process. We provided you with the basic concepts to get your feet on the ground, and in many ways, that may be enough for the scope of your company. Nevertheless, remember this is the "Um-uh...what now?" provision. But again, do not fret. Uncovering the intricacies of the HTS can be like mapping a group of islands. They all have a level of interconnectivity between each cluster, but they also have some inherent differences.

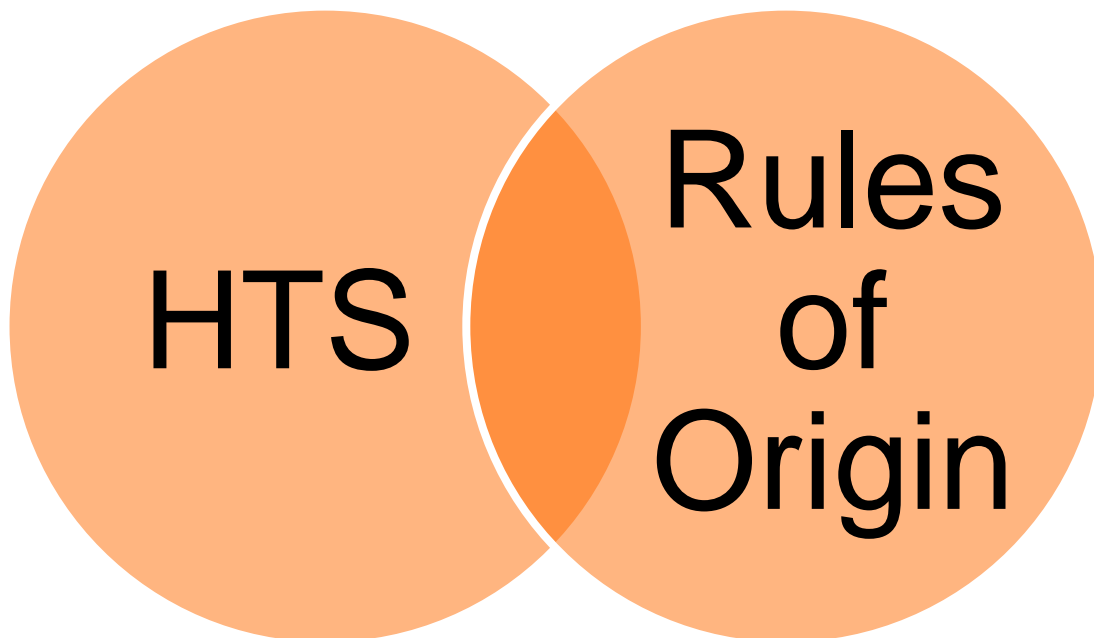


On one shore you are accompanied with the idea of Tariff Shifts, and on the other you are embracing the waves of phraseology deployed throughout each chapter. So, if you find yourself saying those magical words of bewilderment, drop your anchor for a short stay to discover what the HTS Codes have to offer in each location. Eventually, you will have a powerful map, and by such it will begin to feel less like an expedition into the wild and dangerous unknown, and more like a cruise complete with all the trimmings.

CHAPTER ONE

- The Implications and the Benefits -

As with any process on earth, if not done correctly, consequences can result. Unfortunately, as briefly mentioned above, the government loves issuing these consequences. However, on the flip side, if done correctly you can reap hefty benefits. This is because the USMCA, for all its policies and punishments, is meant to ease the taxes and penalties you pay while trading internationally. Specifically, the USMCA is a dance, where the HTS and Rules of Origin are interlocked in a tango of sorts. Both work integrally together to produce monetary benefits for the importer of record. We went through much of this duality and dichotomy in the first training, so we encourage you to return to that document if any questions regarding the pros and cons of classifying are still lingering in the ether. However, in this training, we are just focused on one dance partner in particular: HTS Codes and their more intricate meanings.



CHAPTER 2

- The Puzzle and the Library -

We will not lie to you, classifying by HTS can be a time-consuming process. However, it is not a difficult one. Learning what codes to conjure up can be like a puzzle. Some people love puzzles, others hate them. Regardless, puzzles are not necessarily hard in terms of the ability they require. In other words, a puzzle consisting of 5000 pieces can take eons, but this is not because you do not understand how the puzzle works, or how edge pieces are meant to border the picture, or how they are supposed to fit together. Instead, it is the methodic undertaking that casts puzzles into the realm of what we consider to be "difficult."



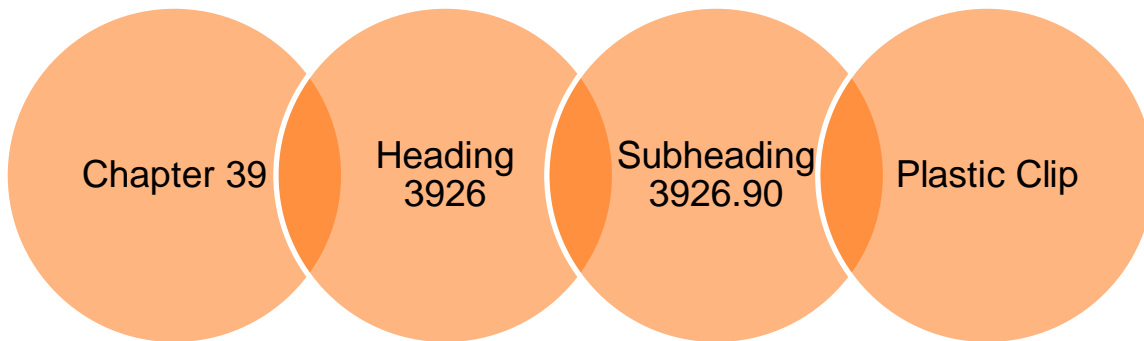
Learning what HTS Codes to employ falls neatly into this category. Here, though, is a point of distinction. Learning what HTS Codes to use is like, as we said, patiently putting together a puzzle. On the other hand, applying the codes is like classifying books in a library. Think of this duality as the "what" and the "where" to the USMCA. Let's use an example to help solidify this concept. Imagine someone hands you a new book. You have never heard of the author, it is written in another language, and you find that there were more illustrations in your automotive manual than in the whole of the novel in your palms. What do you do? Well, first you solve the puzzle of discovering the author. After some research, you find out he is a German author from a quiet village near the Black Forest. Next, you can now surmise that the language of the book is most likely German, but you do a quick check just to confirm. Eureka, it's German! Or should we say, heureka, ist deutsch! Finally, after compiling all of the facts and evidence, you learn that this was an automotive manual for Volkswagens; how ironic. This was the puzzle portion, but now what about the classifying portion? Well, this is easy, you have been taught how to do this at the same time you learned about all those verbs and subjects and adjectives.



The second step of classifying truly is as simple as putting books away in a library. Once you understand the nomenclature and organization required by the librarian, then this step is more procedural than puzzling. In essence, it is just the point in your short literary adventure where you finalize your research. To summarize, your first step is that puzzle of working through the HTS to find what your part is in accordance with the HTS. Then, the second step is just putting it in its proper place. This is why we consider this the "puzzle and the library." Classifying requires finding out the "what" (what is this part) so you can know the "where" (where does it go). Both steps are necessary, but once again, neither is hard.

Employing the two-step model above, let's give weight to this example by using a part to which you are familiar. First, start with the puzzle. Perhaps you are a supplier of plastic clips, and you are at a loss at how all of the pieces of the HTS fit together to quantify the characteristics of your part. Put differently, how is the picture put together? Here you have certain "clues" that serve as your guides. First, is the chapter number, then the full heading number, then the subheading, and so on. Chapter 39 of the HTS regards "Plastics and articles thereof." Next, 3926 relays such products that are considered "Other articles of plastics and articles of other materials." This process continues until you reach the point of most detail. Thus, just like the German automotive manual example provided earlier, you begin with the broadest information and work your way more narrowly until reaching the level of greatest description.

- The Puzzle and the Library -



All of this material is found via the "View" tab of the HTS Website, which we included in the link [here](#). Unlike the CROSS Rulings, which will be explained near the end of this training, the chapter and section notes are legally binding. This is most comparable to a dictionary and its definitions. First you go to the beginning letter of the word, and then you continue to peruse through the pages until you find the term that best matches the message you are attempting to convey. Nevertheless, words do not always perfectly encapsulate the feelings, thoughts, or ideas we are trying to express. Someone claiming they were "scared" is much less impactful than someone saying they were "terrified." The point is that just because a part fits under a chapter, does not necessarily mean that the chapter is the *best fit* for the product. This is why it is imperative to perform a detailed search in accordance with the diagram noted in the USMCA Training, as well as in this training, to ensure a proper classification.

Finally, on this note, on the figure below we label one side as required, and the other as helpful. As we mentioned in the first training, U.S. Customs only requires the first six digits on the official documents. However, going out to the full 10 digits better ensures a correct classification. This is most akin to your grade school math homework. The answer is usually all that is required to gain the points on the exam. On the other hand, if you were able to "show your work," you had a greater chance of garnering the points if ever the teacher questioned your answer. In the same way, the last four digits act as the justification for your work. So, if U.S. Customs questions the validity of your classification, you are better equipped to answer their inquiry.



- The Puzzle and the Library -

Now with the puzzle portion complete, you pivot to the second step of classifying the product. This is truly the simplest step because you have already completed the groundwork required. Herein, all you are doing is placing the book on its proper shelf. While this is simple, this portion of HTS has significant implications. What happens if you classified it incorrectly? Will someone ever be able to find the book? Will someone be charged a late fee because the librarian thinks it was never returned? You are probably thinking at this juncture, "yes, I get it, there can be consequences if I don't do this right." The reason for the redundancy, however, is because of the simplicity of the process. It sincerely is not the long, arduous task that other trainings may have proscribed for it in the past. In its base form, classifying is truly the two-step process described here. However, there is a weariness to this simplicity because the margin of error becomes smaller when the tasks become smaller.



Think of this like brushing your teeth every day. In the scheme of your life, this daily task is not too bothersome. You maybe sing happy birthday to yourself why you scrub away at your pearly whites, then quickly floss and use mouthwash before curling up in bed. What happens, though, if you *never learned* how to brush your teeth? Of course, as an expert teeth cleaner such as yourself, that thought seems ridiculous. On the flip side, I am sure you can recall when someone first told you how important it was to brush twice a day. Usually, when that person in your life instructed you on brushing, they did so with a warning. "If you do not brush your teeth, you will end up like your grandma and have no teeth at all! Now you don't want that now, do you?"

Brushing your teeth is not difficult, but the margin of error is small. If you only brush half your teeth, or do not use enough toothpaste on the bristles, then you will suffer the consequences of tooth decay. On top of this, when you eventually visit the dentist, they will have to either extract your teeth or drill into a tooth that you would much rather stay perfectly intact as it is. In this scenario, we are the instructor imploring you not to end up like the "toothless grandma." On the other side, the government acts as the dentist, and if they see a tooth full of decay, they will not hesitate to pluck it out. So, while the redundancy reaches realism, think once more about how simple it would be if you just chose to "brush your teeth." By classifying each part as they come through your system, you avoid all of the problems associated with failing to do so in the long run.

CHAPTER 3

- The General Rules of Interpretation -

If you ever have gone on a cruise, you may have encountered a port that was not exactly like the postcard. For example, you may dock on an island abounding with lush greenery that brushes up gently against the bright, blue allure of a Caribbean skyscape. However, your eyes cascade down the mountainous terrain and fall harshly upon a dilapidated village forcefully thrust against the landscape. Rather than being the tropical paradise promised in the brochure, the island appears to be a dystopia with a thin coat of Polynesian paint.



For those opening the General Rules of Interpretation (GRI) this may be the sultry shock you were not expecting. There is nothing “general” about an 646-document looming on your computer screen. It is this type of instant disappointment and angst that causes many to jump back on the cruise ship and hide away in the onboard casino. In the same fashion, running away from this destination can be a gambling of sorts. In essence, when you forsake the place you are meant to go, you are betting against the veracity of U.S. Customs and Border Control.

However, this is not the poultry port you may have initially perceived. If you persist past the unwelcoming façade, you will find that the island is in fact teeming with beauty and abundant nature. Well, let’s be honest, we do not anticipate that you will view the GRI with this kind, and interested, eye. Nevertheless, take comfort in knowing that you do not have to worry about the second page of that document. Or the third, or the fourth. In fact, for the GRI, you do not have to even consider the 645 daunting pages after the first. That’s right, for our purposes the *first page* is all that you need. We have provided that document, and that wonderful first page, [here](#).

The point of this long analogy is to indicate a crucial facet of government documents such as this: they are long, boring, redundant, and unnecessarily convoluted. Understand that the drafters of these documents are experts in the field. Therefore, they can become engrossed in their own phraseology and knowledge. In an effort to elaborate, they intimidate. However, like the training you have glossed through thus far, we are attempting to simplify these materials as much as possible. And at first blush, the GRI may seem to be the most difficult of the HTS materials thus far. Nevertheless, it is not the ferocious monster it appears to be, as we have already illuminated. Now let’s pivot to the content rather than the context. So open the GRI link above so that you may follow along with the information below.

WORK CHRONOLOGICALLY

The first major tenet of the GRI is to understand that you must complete the training chronologically. This is as simple as it sounds. Specifically, you work down the first page of the GRI in order. If you find that your part does not fit snugly into Section 1, then move to Section 2. In addition, understand that you must also work through each subsection. In other words, you cannot skip from 2(a) to 2(c). Again, to reiterate, you must go in order.

GRI SECTION 1

Section 1 of the GRI states that if an item is *specifically called out* in the HTS, then you must refer to that chapter in particular. “Specifically called out” is a phrase of import. It is not saying that a metal screw is “specifically called out” when the chapter heading says metal screw. Instead, it is asking, “is

- The General Rules of Interpretation -

it specifically called out to the greatest level of detail?" For example, is it made of stainless steel and of a 3.5 mm width?

This examination is always your starting point. Consider this the "Go" square in Monopoly. You always start at this portion, and must move around the board. Even when you do not directly land on Section 1, you still have to pass over it. Thus, if something is specifically called out in the HTS, you land on that point. But even if it is not wholly called out, you still pass through the point. The only way this does not occur is if you are in "Jail." Not following the HTS can surely feel like that painful metaphor, so just "Pass Go" and hopefully you will collect more than \$200 dollars.

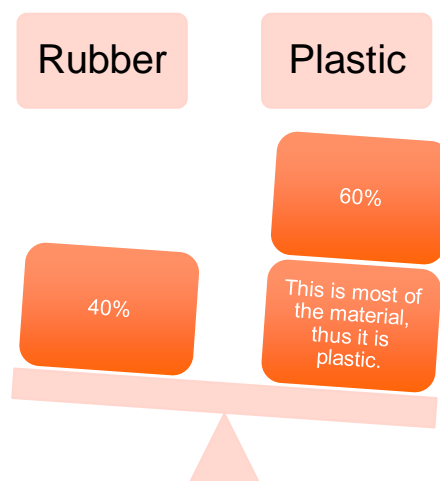
GRI SECTION 2(a)



Any IKEA customer has endured the frustrating process of piecing together furniture. When you open the box, you are likely to find nuts, bolts, some metal hinges, and then some wood or composite boards. Everything in the box is disassembled and sitting loosely in that package. Yet, despite the disassembly, the label on the outside still reads "Storage Cabinet." Section 2(a) claims that you may classify items in the same manner. Even though an item may be provided in parts and pieces, the GRI asks, "what is the essential character?" Just as with the box from IKEA, the state of disassembly does not undermine the fact that the items, when assembled, form a cabinet. In the same way, what happens if some screws are missing from the box? Or perhaps even the boards themselves? Does the label on the box change from a cabinet to something else? Again, the answer is that the item is still a cabinet, even when disassembled and missing pieces from the box. Once more, this is the basis for Section 2(a) of the GRI. If one of your products is disassembled this does not define the essential character of the product, and thus does not change its label.

GRI SECTION 2(b)

This section hinges upon the same tenets of Section 2(a) but instead of assembled goods, it pertains to materials. Thus, this is not really an explanatory provision, but instead one aimed at including your raw material products. However, with raw materials, there can be some level of inherent complexities. One example of such is with blended materials. Consider a mix of 60% plastic and 40% rubber. What gives the material its essential character in that scenario? Well, this is rather simple, it is the part that dominates the formula. Hence, in that hypothetical, the product should be classified as a plastic resin.



- The General Rules of Interpretation -

GRI SECTION 3(a)

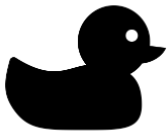


As with the general underpinning of the HTS, specificity is key. This provision calls out that tenet in particular. Essentially, when a product falls into two different heading types, it is better to pick the more specific heading. This is rather simple in practice. Think of a toy car versus a brand-new convertible. Let's say both of these have rubber tires. Hypothetically, what would be a better classification for the toy car? One that states, "rubber tires; toys," or, "rubber tires; other"? The former is a much better fit for the product, so that should be the classification employed.

In addition, this section echoes the fundamental essence of Section 2(a) regarding issues of greater content. When dealing with blends and composites, you must classify the portion that comprises the higher content percentage. Think of this like a cotton and polyester blend. If a shirt is 90% polyester and 10% cotton, it should be classified as a polyester blend. This is true even if the shirt were 51% polyester and 49% cotton. For again, the greater content always rules.



GRI SECTION 3(b)



Remember how this chapter began: work chronologically. Therefore, if you find yourself unable to classify on any level up until this point, you should next examine the essential character of the good. As a refresher, essential character is just asking, "what is the product?" In other words, it follows the "if it looks like a duck, and quacks like a duck..." line of thinking.

GRI SECTION 3(c)

Throughout this training, we have done our best to preach the simplicity of this HTS methodology. Well, now we reach the height of that simplicity. Under 3(c), when all is lost and you are still unsure of the proper code after working through all the steps above, just pick the highest number. Yes, that's right. If you are in a complete gridlock between using 3926.90 and 8708.29, then use the latter. Nevertheless, this is ONLY to be used when all else fails. So, when you are stranded in the sea of indecision, and your flares run out, your rations are low, and the raft is sinking, that is when you enlist 3(c).

Let's play around with that oversimplified example. Perhaps the item you hold is specifically called out in the HTS Code. If that is the case, such as it was in the video above, you just look for the chapter, heading, and subheading, then continue scrolling down until you have run out of details by which to classify. But what if it was a different part, and that part was not specifically called out? Then peruse through the chapters and chapter notes to see if it is called out. If not, then you move off of GRI Section 1. Next you take a gander at 2(a) and so on and so on until you ensure your product is classified properly.

EPILOGUE

Still lost and struggling to find your way? Then hop over to the ICP for problems that entail the complicated, the confusing, and the convoluted. This is essentially a list of all the things that make classifications a little more difficult than usual. The link for that page is below.

Also, would you like a little guidance on how parts may have been classified in the past? Take a look at how the agency has ruled on similar goods. Please note, these decisions are not binding on anyone but the party mentioned in the ruling. In essence, if your friend received a parking ticket on a certain day, that does not mean you will also receive a ticket if you do the same thing tomorrow. While it is a good indication of what may occur, it is not entirely determinative of your future.