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# Greening the HS: What are the limits and the alternatives?


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\* **Disclaimer:** The opinions in this presentation are the sole responsibility of the author and shall not be attributed to the WTO Secretariat or the Members of the WTO.

## In this presentation:

1. **Why** are changes needed?
2. **Where** to we currently stand?
3. **What** are the challenges in “Greening” the HS?
4. **What** else to keep in mind?





# 1. Why are changes needed?

**Main point:** Consumers, businesses and governments have an increased interest in protecting the environment

# Consumers, businesses and governments have an increased environmental awareness

- Consumers, businesses and governments increasingly agree on the need to take action to **protect the environment**, including by adopting new policies at the national level and increasing international cooperation (e.g. by negotiating new international standards, agreements or conventions).
- Acknowledgement that **international trade policy** also has a role to play in solving global environmental problems.
- This leads to an increasing demand to monitor and measure international trade on specific products that either **pose a risk** or are considered to have a **positive impact** on the environment.
- The implementation of policies to either **restrict** or **facilitate** trade in products is greatly facilitated by having an internationally agreed way to identify them.

# Why the Harmonized System?

- Because the HS is the “**lingua franca**” of international trade. It is used by Customs and other border agencies to identify the products and regulate trade.
- One of the most powerful trade facilitating measures introduced over the past 30 years (*clear, concise, non-ambiguous*)
- Trade-related information necessary to monitor and assess the impact of trade policies typically relies on data gathered and distributed based on HS codes.



**Note:** Follow this [link](#) for a WTO paper discussing trade data and the HS.



### 3. Where do we currently stand?

**Main point:** Any process for greening the HS should begin by fully understanding how it works and what are its limitations

# HS CODE



01.207



## What is tariff classification?

- A **legal process** undertaken by Customs to determine the correct tariff code for an imported or exported good -> classification has legal consequences.
- **All** physical products can be classified in the HS.
- The tariff classification of a good determines **not only the applicable tariff**, but also the application of import/export licenses, internal taxes, and other requirements and controls.

# The commodity categories in the Harmonized System are based on:



The objective  
characteristics of the  
product being classified



- The process and production methods
  - End-use or intent
  - New / used / refurbished / remanufactured / other conditions
- (Unless they have an impact on the objective characteristics" ...)



# The HS categories have to be applied around the World

Because the HS is applied by more than 200 countries and territories, and classification decisions can be challenged in court, the product categories have to be designed in a way that the objective characteristics can be tested by *all* Customs administrations, and not only by those with the most sophisticated laboratories. Testing capacity varies considerably around the World.

In here



But also in here!



# Despite these challenges, the HS has become greener



**1992**  
(mostly editorial)



**HS  
1988**

**HS96**

**HS2002**

**HS2007**

**HS2012**

**HS2017**

**HS2022**

**Not starting from zero:** several new product categories have been introduced in the HS over the past amendments to give visibility to products or products categories that are relevant for environmental purposes, e.g. “e-waste” and LEDs lightings in HS2022.



### 3. What are the challenges in “Greening the HS”?

**Main point:** There are at least three possible meanings.

# “Greening the HS” has multiple meanings

Based on past exercises and negotiations on the identification of “environmental goods”, there seems to be three possible approaches to “greening the HS”:

1

- Identify products that help to achieve a particular **environmental objective**

2

- Identify products that were **produced in an environmentally friendly way**

3

- Identify products that will be **used to protect the environment** or in a way that can harm it

# 1. By identifying an environmental objective

**Approach 1:** Identify products that help to attain broadly defined environmental goals or objectives (e.g. OECD, APEC, Environmental Goods Agreement)

## Challenges:

- The HS does not specifically identify these products (visibility), so it is necessary to have detailed discussions to define them
- Requires coordination by environmental, customs, and trade experts
- How keep the list relevant and updated (how to have “a living list”?)



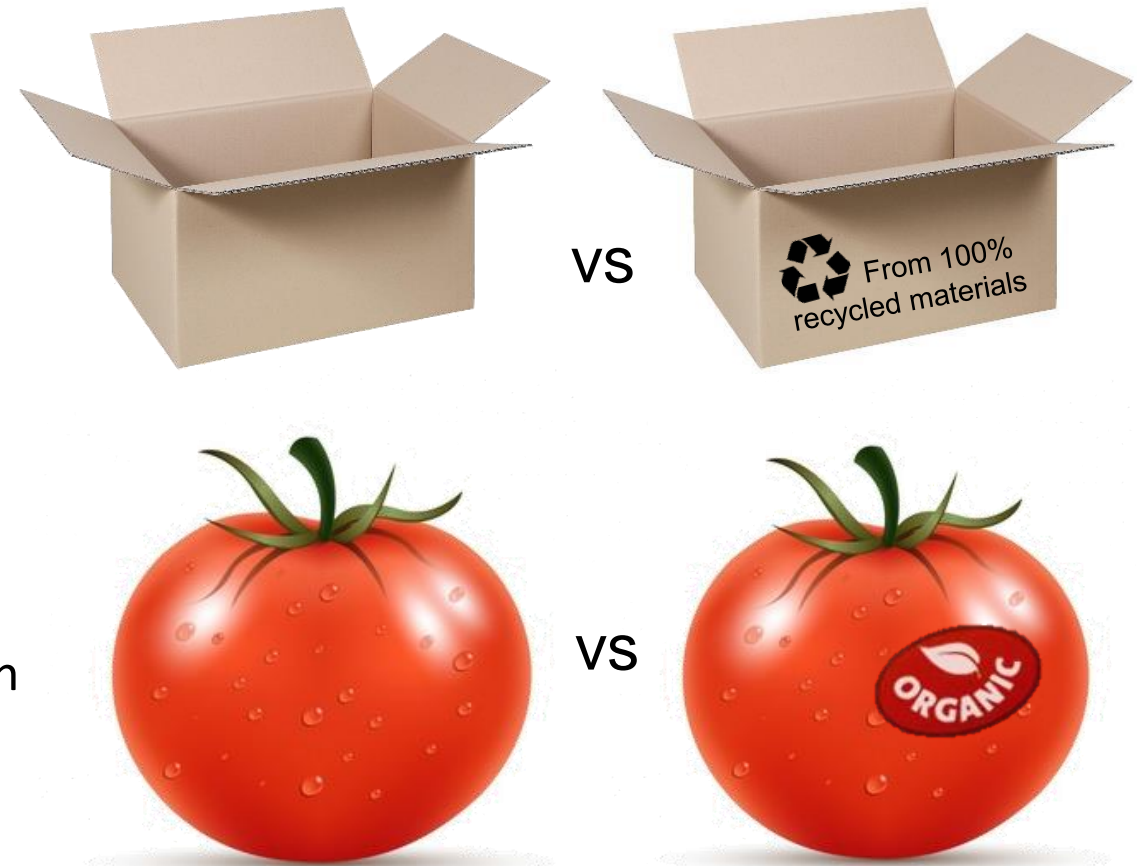
**Note:** For a detailed explanation of these issues, see WTO document [INF/TE/SSD/W/18](#)

## 2. By identifying environmentally friendly production methods

**Approach 2:** Differentiate the products that have been produced in an “environmentally friendly way”; i.e. distinction based on the processes and production methods (PPMs), even if they are not reflected in the product itself.

### Challenges:

- Not easy (or impossible?) for the HS to differentiate the products at the border based on production methods.
- Lack of internationally agreed standards or definitions on what is preferred or environmentally friendly.



**Note:** Some countries have defined these in national or regional technical regulations and are controlled through certification schemes. But there is no international standard and they tend to vary considerably.

# 3. By identifying the end-use or intent of the importer

**Approach 3:** Differentiate the products based on how they are going to be used after importation, i.e. by their “end-use” or “intent”

## Challenges:

- Not easy (or impossible?) for the HS to differentiate the products at the border based on end-use or intent.
- Difficult for customs to control what is the intention when the product is being imported or how it was actually used (post-importation audits) if there is a very large number of importers.



# What about the circular economy?

- Accurate trade statistics are essential for policy making
- Measuring trade statistics in a **linear economy** is already challenging due to the complexity of global supply chains and the diverse range of goods and services involved
- Challenges are **even more pronounced** in a circular economy:
  - The HS is ill-equipped to measure many of these activities
  - Lack of standard definitions and metrics, i.e. it is difficult to accurately track and compare the flow of goods if all stakeholders use different ways of measuring it
    - *Can we get international standards?*
  - Difficult for the current statistical framework to capture the value of intangibles, e.g. of the knowledge, skills, and services needed to reuse, repair, recycle, etc.
  - Additional complexity in terms of how the market operates in a circular economy







## 4. What else to keep in mind?

**Main point:** There are many other tools available, but they have to be designed carefully and take into account other aspects

# Alternatives and complements to greening the HS

While it's true that there is scope to create new product categories in the HS (i.e. to give visibility of certain products), the HS is not enough by itself and it is not well-equipped to deal with demands relating to production methods and end-use.

What else is in the **Green Customs** toolkit?

- 1 • Creating national tariff lines (beyond HS 6-digit) based on national or regional standards; mutual recognition / harmonization of standards; e.g. airworthiness certification scheme (Agreement on Trade in Civil Aircraft)
- 2 • Use **import licenses** regulate importation based on “end-use” coupled with post importation audits (e.g. use relief schemes); since it's resource intensive, easier to apply when there are few importers of that product.
- 3 • Define products and specific treatments **outside of the HS framework**, e.g. like in the ITA Attachment B and the Agreement on Pharmaceuticals (Pharma).



**Also see:** Consolidated list of Pharma products in [JOB/MA/142](#)

# Other considerations

- Circular economy for a country or region **vs** World circular economy?
- Potential contradiction between different environmental objectives and schemes?
- **Bear in mind:**
  - Modern supply chain logistics are *very* complex
    - *Systems must be flexible and take account of the reality on the ground*
    - *Are there other less-trade restrictive measures to achieve the environmental objective?*
  - Role of international cooperation and stakeholder consultation
  - Impact on MSMEs (cost/time/complexity/liabilities)
  - Companies from developing and least-developed countries may need support
    - *For example, to strengthen their quality infrastructure systems so businesses can demonstrate compliance*



# Thank you!

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Interested on these issues?  
You may also want to check:



INF/TE/SSD/W/18

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## TRADE AND ENVIRONMENTAL SUSTAINABILITY STRUCTURED DISCUSSIONS (TESSD)

This factual note has been prepared by the Secretariat at the request of the Coordinators of the TESSD initiative. It does not represent the official position of the WTO or of the WTO Secretariat.

## EXPERIENCES IN THE PROMOTION AND FACILITATION OF ENVIRONMENTAL GOODS AND SERVICES

*Note by the Secretariat*

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BIORES

NEWS ARCHIVE

ENVIRONMENTAL GOODS AND SERVICES (EGS) | BIORES, VOLUME 9 - NUMBER 5

## Options for defining products covered by the Environmental Goods Agreement

3 June 2015

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Groups of WTO members have in the past negotiated tariff-liberalising deals on select goods. What lessons from these talks for a planned EGA?