FOODSTUFF: STRUCTURE, QUALITY AND CLASSIFICATION IN INTERNATIONAL TRADE

Elena Andreeva1*

1Russian Customs Academy, Komsomolsky Ave 4A, 140009 Lyubertsy, Russia

*email: ei_eiandreeva@mail.ru

Abstract

The problems of the domestic market provision with the qualitative foodstuff are the problems of the foreign economic activity state regulation of any country. However in cases of ambiguous classification of goods by the Harmonized Commodity Description and Coding System (HS) it is very difficult to define the instruments of regulation which should be applied to concrete goods. In this article the examples of problems arising while classifying the foodstuff illustrate the interrelations of the goods’ structure, quality and place in the product ranges constructed on the basis of the Harmonized Commodity Description and Coding System. The analysis of the most problematic classification cases of the goods that have steady nature of doubtful declaring of the foreign trade code in the HS Nomenclature. These are the following goods: grape wine and goods containing milk fat in the structure.

The analysis of the terminology accepted in the HS Nomenclature of the Euro Asian Economic Union (EAEU) and national standards is provided. Main distinctions and reasons of an ambiguous understanding of separate concepts originated from Russia, Germany, Spain, France, Switzerland etc. are analyzed.

The issue of legitimacy of classification in one commodity position of the HS Nomenclature of the goods made on the basis of milk fat (ice cream) and on the basis of vegetable fats (the frozen desserts) is considered. The lack of uniform approach to such goods classification by the countries- participants of the Harmonized System Convention is revealed. It is proved the necessity of giving extra explanations to the Harmonized Commodity Description and Coding System Addendums to which different measures of state regulations are applied.

Key words: Foreign trade, Goods classification, Ice cream, Butter, Quality, Regulation, Customs payments, Product range.

1. Introduction

Productivity of strategic problems solution of the customs control improvement directed on simplification of customs procedures and assistance to international trade in many respects depends on timeliness of identification and classification of imported goods.

Identification and classification of goods is necessary for implementation of all of the customs operations including taxation, technical regulation, maintaining statistics, etc.

Speaking about the foodstuff classification we will try to understand the international trade as the transformation of goods from a product of human's social activities into the economic category to which measures of state regulation are applied.

This process is considered by the author of the article as the indivisible link between the Harmonized Commodity Description and Coding System and Foreign Economic Activity Commodity Nomenclature (FEACN) of the Euro Asian Economic Union which is constructed on its basis.

2. Goods values

Considering two sides of commodity it is important to note that the use value is a preliminary condition of an exchange value. This means that not every object can be sold but each one has a material basis. It is important to know the basis (chemical composition) for the foodstuff identification and classification for the customs purposes. This chemical composition predetermines its useful consumer properties and the set of these properties is the essence, the expression of the use value which characterizes the material side of the goods.

2.1 The concept of goods in the international trade

In international trade and in customs technologies the concept "goods" is understood as any personal
property moved through the customs border. According to the classical economic theory the goods are the things which participate in a free exchange. In fact it is the product of activity capable to satisfy humans’ requirement and specially made with the purpose of an exchange. In this regard it is possible to claim that financially material side of the goods, its use value is the object of classification in the nomenclature of goods in the foreign trade.

Taking into account this idea it is possible to state that the goods’ nomenclature is the list of use values that have various significance values in the international market. Therefore one them in the goods nomenclature has the individual code others are classified in positions “the other”.

When moving any of the use value through the customs border the instruments of state regulation can be applied to them only when they are identified and they are given the “customs name” (the code in the goods nomenclature) because all the customs operations “are attached” to the goods nomenclature.

### 2.2 Goods identification mechanism

The main questions which arouse during the identification process are: What is it? What it is made of? What it is used for? Are these goods ready to use or they are to be finished? Is it a part of something or an independently functioning object? Are these uniform goods? What role plays its packing?

We will consider the identification mechanism on the example of butter with the following chemical composition (milk fat of - 60%, margarine - 20%, water - 20%). It is necessary for the definition of the goods belonging to a certain classification group in the goods nomenclature by the subsequent consecutive application of the Fundamental Rules of Interpretation (FRI) [1] of the FEACN [2].

Applying the first part of the first Fundamental Rules of Interpretation (FRI 1) [3], it is necessary to investigate the contents (table of contents) of the HS Nomenclature where the names of the sections and groups are specified. The numbers of all the sections and groups where these goods “at first sight” can be classified represent the following “line of products”: section I: 4th group, section III: 15th group, and section IV: 21st group.

It is necessary to apply the second part of FRI1 to this “line of products”. Notes to the allocated sections (I, III, IV) and to the groups (4, 15, and 21) are analyzed for this purpose. If notes don’t exclude the identified goods with the specified consumer properties the commodity positions of the chosen groups are investigated. The choice of the only commodity position is the legally significant action unlike the “line” of sections and groups which is made only for the user’s convenience.

For the reviewed example while making a research of the notes to 4 and 15 groups there are exceptions (by a chemical composition). These goods are excluded from 4 groups because of the existence in their structure of margarine. These goods are excluded from the 15th group because of the milk fat excess. There are no exceptions in the 21st group and there is only one commodity position 2106. Further with the help of FRI 6 the full ten-digit code is defined. For these goods it will be 2106 90 980 4 4 [4].

A sufficient information on a chemical composition of goods has allowed to classify unambiguously the considered goods as the “animal or vegetable fat mix, suitable for the use in food” but not as the “butter”.

The example given above clearly illustrates that fact that the terms accepted in the FEACN often differ from the terms specified in national products standards and also from the commercial and empirical names of these goods.

### 2.3 Problems of goods classification on the customs border

Nowadays there are considerable problems with the goods identification on the uniform customs border. For example it is very difficult to classify the ice cream under the title “ICE CREAM” that is the frozen dessert made on the basis of vegetable fat when it is delivered to the Russian market. The problem of customs control of the imported goods is connected with need of the various interest rate of a value added tax (VAT) application.

In the territory of Germany, Spain, France, Switzerland who are the main suppliers of ice cream to the Russian market the concept “Ice cream” with replacement of milk fat with the fats produced on the basis of phyto-genesis is admissible and possible. The definition of the concept “Ice cream” of these countries includes the ice cream which is understandable to the Russian consumer and desserts on the basis of vegetable fats as well.

However in the FEACN and Explanations to it there are no explanations concerning “the frozen desserts on the basis of vegetable fats”. There is a problem: if it is not an “Ice cream”, what is it?

According to the Russian legislation [5] for the various types of foodstuff and goods for children the value added tax at the tax rate is cut down from 18% to 10%.

In the case under the consideration the milk fat replacement in the quantity of its weight fraction is not more than 50 percent from a fatty phase by the milk fat equivalent provides the other rate of VAT. In fact it is not 10 percent but 18 percent. It is obvious that for these goods it is necessary to bring the clarifications in the classification in the official Explanations to the FEACN.
2.4 Problems of wine identification

The same problems appear at wine-making products identification and classification in the foreign economic activity. During the customs examination the components of wine products which pass into a ready-made product directly from grape raw materials (organic acids, sugar, aromatic substances, etc.) or they are formed directly in the course of fermentation (alcohol, glycerin, acetic acid) are investigated. All these entities can be the indicators of quality and naturalness of grape wines. Thus one of the most “powerful” proofs of the quality and authenticity of grape wine is the content of organic acids.

2.5 Method of a highly effective liquid chromatography

For a long time in Russia one of the main methods for the organic acids definition was the method of a highly effective liquid chromatography and as its option the normal-phase chromatography. This method is based on differential repeated redistribution of substances or particles between the immiscible and moving relatively to each other phases.

As a result it leads to the isolation of the individual components concentration zones of the initial mix of these substances or particles (in our case: wine, apple, dairy, amber, lemon and acetic acids).

This method is reliable and its results are comparable to the results of the biochemical method of the analysis however its shortcoming is its high cost connected with expenses on the column, eluents and expendables purchase.

The alternative to this method is the system of a capillary electrophoresis “Drops” which is offered by the scientific and production company “Lumex”. The electro kinetic phenomena that are the electro migration of ions and other charged particles and electro osmosis are the cornerstone of a capillary electrophoresis. This method allows to analyze ionic and neutral components of various nature with the high expressivity and efficiency.

2.6 Problem of unified terminology absence

However in the presence of the modern equipment the customs authorities have at their disposal the customs declaring process have problems which they aren’t capable to solve. One of them is the lack of the harmonized and uniformly understood terminology in the production sphere of winemaking and in the FEACN.

For example, such concepts as “natural grape wines”, “grape wine material, natural, table, dry, raw”, “table wine material”, “grape mash” have no definition in FEACN. In normative and legal documents (national and international), scientific literature, technologists and commodity researchers reference books various definitions of these terms [6] are given.

It causes a confusion among the participants of foreign trade activities at their classification and due customs payments due determination. It is possible to assume this very fact causes negative judicial practice of the customs authorities in the cases connected with wine and raw wine material classification. In this regard it is important to note that as economic interests of Russia are infringed the Russian side has the need to solve these problems.

3. Conclusions

- Summarizing stated above it is possible to draw a conclusion that the moment of introduction of the Harmonized Commodity Description and Coding System in Russia took place nearly 25 years ago. The experience of its application is gained and the difficulties of its application are systematized.

- It is obvious that there is the proper time to comprehend them and to choose the correct reference points for the priorities solution. One of them is the need in harmonization of the terminology accepted FEACN in the sphere of foodstuff production.

- The uniformed understanding of the terms by all the participants of the foreign economic processes will allow reducing of the number of the customs examinations and to increase the efficiency of the customs control and by that the international trade facilitation will be achieved.

4. References


