



**World Customs
Organization**

THE HS AND THE CIRCULAR ECONOMY

Gael Grooby

Deputy Director, Tariff and Trade Affairs Directorate,
World Customs Organization

WTO Trade and Environmental Sustainability Structured
Discussions (TESSD) Informal Working Groups - Circular
Economy

5 October 2022

WCO and the Circular Economy



The Circular Economy (CE) is under active discussion at the World Customs Organization

Work is being undertaken to produce a *“Study report on the implications to Customs administrations of the transition to a Circular Economy”*

Identifying Trade



A major challenge for developing a robust CE is the ability to monitor, assess and quantify the emerging trends of circular trade flows.

Accurate and granular data is still missing for most commodities.

The HS is critical to the identification of commodities in trade, so is part of the solutions to this challenge.

The HS and the CE



Currently the HS:

- provides very limited data that is of use in measuring the depth of the CE;
- rarely distinguishes between new or used goods and doesn't distinguish whether products are made from virgin or recycled materials; and
- many products with a high potential in circularity are not identifiable in the international trade statistics, being either grouped with other goods, or not separated by lifecycle stage.

The HS - future friend of the CE?



Yes.

There is a desire among many governments to move towards a more circular economy and this will carry over into proposals for the HS – *but there are significant difficulties to address.*

Issues to be confronted



There are problems that hinder the making of new CE provisions in the HS.

Most stem from the simple fact that Customs works at the border.

Hence the HS uses **observable or testable characteristics of goods at the time of presentation at the border** to define their scope.

An example



- **How do we identify at the border whether something is, or is made of, recycled materials?**

There is generally a lack of global standards, definitions or tests to reliably identify virgin or recycled status for many materials.

An absence of standard metrics for measuring the recycled content of a product also poses difficulties.

Global certifications accepted by all members do not exist.

Even where certifications do exist, an HS classification can not normally be defined by a standard that may change independently of the HS and thereby change the scope of the classification.

Another example



- **How do we verify at the border a status that is defined by the post-border intent?**

Goods for recycling, refurbishment, remanufacturing or repair ... this is a statement of intent.

If future codes used this as a criteria, how can this be verified at the border? What is to prevent such goods from being falsely classified and being either:

- destined for either illegal dumping or burning (environmental crime plus revenue fraud), or, conversely,
- being merchantable goods for trade as presented (revenue fraud)?

The post-border compliance and enforcement required could place an unsustainable drain on the resources, financially and practically, of Customs administrations in some countries.

So how can we overcome these problems and others?



Part of the solution is global agreement on definitions, standards, and requirements to better define goods and concepts that are part of the circular economy.

Engaging in consultations and discussions at the national level with the national Customs administrations and, through them, with the WCO Harmonized System Committee and Review Sub-Committee on circular economy measures so that solutions can be explored.

Embracing a multi-pronged solution to tracking, identifying and recording trade in the CE: some needs are best addressed by the HS, others may need different mechanisms (certifications, permits, statistical codes, post-border concessions, etc.) and some a mixture of measures.

The Exploratory Study of the HS



The WCO has launched an *Exploratory Study on a Possible Strategic Review of the Harmonized System (HS)*.

This two-year study, launched in September, is intended to look at the overall health of the HS, and its level of adaption to the changing needs of trade and trade policy. It is tasked with evaluating if there are potentially feasible strategic changes to the HS, or its tools, that could help the HS to better meet both the needs of today and the opportunities of tomorrow, and to report to the WCO Members on such possibilities.

This study gives the opportunity to look closely at whether the HS could be better adapted to give greater support to trade policy, including in relation to the environment and the circular economy.

Input to this review may assist in making the HS better adapted to these needs. The WCO will update the WTO in the coming weeks on how its Members can contribute their views and ideas to this work.



**World Customs
Organization**

Gael Grooby

Deputy Director Tariff and Trade Affairs

