



HARMONIZED SYSTEM
REVIEW SUB-COMMITTEE

-
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O. Eng.

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POSSIBLE AMENDMENTS TO THE STRUCTURED NOMENCLATURE TO
HEADING 39.20 TO PROVIDE FOR BANKNOTE SUBSTRATES OF PLASTICS
(PROPOSAL BY THE AUSTRALIAN ADMINISTRATION)

(Item III.B.8 on Agenda)

I. BACKGROUND

1. By its letter of 14 December 2001, the Australian Customs Service presented a proposal to amend the structured nomenclature to heading 39.20 to provide specifically for banknote substrates.

II. NOTE FROM AUSTRALIA

2. "As part of the Harmonized System (HS) Third Review, the Australian Customs Service requests that consideration be given to specifying plastic banknote substrates in its own right within the structure of the HS Nomenclature.
3. The particular goods that have given rise to this request are a polymer product known as Guardian® substrate, of which one of the main ingredients is bi-axially oriented polypropylene (BOPP) film. Guardian® substrate is the polymer product on which Australian banknotes are now printed.
4. It is argued that banknotes made from Guardian® substrate are much superior to traditional paper notes because they are :
 - Secure against counterfeiting;
 - More durable over a longer period of time;

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- Cleaner as they are non-porous and non-fibrous and therefore do not retain dirt and moisture;
 - Machine friendly, being excellent in all types of automatic teller machines, counting machines and sorting machines; and
 - Recyclable into other plastic products at the end of their useful life.
5. Apart from **Australia**, which has completely converted from paper to plastic banknotes, it is understood that polymer banknotes have also been issued in a dozen or so other countries, including New Zealand, Singapore, Bangladesh, Brunei, China, Indonesia, Thailand, Malaysia, Taiwan, Papua New Guinea, Romania, Northern Ireland and Brazil.
6. Although BOPP film is a product that can be used for a number of applications, including for packaging and for labelling, this administration has been advised that the BOPP film used in the manufacture of **Guardian®** substrate is of a very unique nature, and is produced only by a **Belgium** based company called **UCB** Films. The company also has production facilities in **England** and **Australia**.
7. 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.
8. This process of converting the BOPP film into **Guardian®** substrate does not change the chemical properties of the film, however it does alter the physical look and feel to a point that it is no longer recognisable as BOPP film, but is more akin to the final banknote it will become.
9. **Australia** has classified the **Guardian®** substrate within subheading 3920.20.
10. Although **Guardian®** substrate is the product that has given rise to this issue, it is not envisaged that any HS amendment exclude other types of polymer substrates used for banknote purposes. It is anticipated that in addition to **Guardian®** substrate, other products using different base polymers will enter the banknote market within the next few years.
11. **Australian** Customs data indicates that **Guardian®** substrate to the value of \$US 3,7 millions has been exported during the two year period 1 July 1999 to 30 June 2001. This administration is unaware of any similar product being manufactured and subsequently traded elsewhere.
12. Whilst it is conceded that the above figure is well short of the \$US 50 millions per annum requirement for the creation of a HS subheading, the goods are nevertheless an emerging technology, and it therefore provides an opportunity for the Harmonized System Review Sub-Committee to be proactive to change.
13. Should the Sub-Committee agree that an amendment is appropriate, **Australia** suggests that as the goods are a polypropylene substrate, the issue could be resolved by the insertion of a 6-figure subheading within the 5-figure subheading 3920.2. Although the wording would need be based on the end use of the product, there are many examples of such terminology within the HS Nomenclature.

14. **Australia** therefore proposes that subheading 3920.2 be subdivided as follows :
- “ 3920.21 -- Substrates designed for use as a base for banknote manufacture
3920.29 -- Other”.

III. SECRETARIAT COMMENTS

15. The Secretariat agrees that developments in industry should be reflected in the Harmonized System, if possible. It understands that the product at issue (i.e., film of bi-axially oriented polypropylene (BOPP)) is neither printed nor in the form of banknotes, but is the starting material for the production of banknotes (“bi-axially oriented” means that the polypropylene film is stretched in both the machine direction and the across machine direction). BOPP film is, however, also used for other purposes, in particular in packaging and labelling applications.
16. The **Australian** Customs Service has indicated that the film is of a very unique nature (see paragraph 6 above), but has not provided the technical data necessary to distinguish the type used for the production of banknotes from those used for other purposes. Instead, it suggests referring to the end use, claiming that there are many examples of such terminology in the HS (see paragraph 13 above). The Secretariat has some doubts about the appropriateness of this approach. First, the HS Nomenclature provisions are normally based on the physical characteristics of the commodities and not on their (actual) use. Classification according to the actual use of a commodity would not only result in different classification decision (and, consequently, blurred statistics), but would certainly increase the number of disputes. Second, the HS does not use the expression “used for” in legal texts, but uses the expression “of a kind used for”, which expression (i) does not preclude the use of the commodity for other purposes, and (ii) presupposes that the product concerned has certain characteristics. Since the film at issue apparently does have specific characteristics, the **Australian** Administration is invited to provide the technical information on the type of BOPP film used for the production of banknotes.
17. With respect to the actual wording suggested, the Secretariat understands that the term “substrates” is used by **Australia** as a synonym for “film” or “foil”. To be consistent with the heading text and the provisions of Note 10 to Chapter 39, the Secretariat suggests using the term “film” or “foil”, rather than using the term “substrates”. The Secretariat also suggests simplifying the reference to the intended use, by using the expression “of a kind used for the manufacture of banknotes” (French : “des types utilisés pour la fabrication de billets de banque”), thus avoiding the necessity to identify the various criteria laid down in the text proposed by **Australia** (i.e., “designed”, “for use” and “as a base of”).
18. Finally, the Secretariat considers that there is no need to amend the Explanatory Notes to heading 39.20. However, if the Sub-Committee agrees, a Subheading Explanatory Note could be created describing the characteristics of the products of proposed subheading 3920.21, once the technical information has been received from **Australia** or other interested parties.
19. Taking into account the observations in paragraphs 15 to 18 above, the Secretariat has prepared an alternative text proposal (Option 2), which is set out in the Annex to this document for consideration by the Sub-Committee, together with the **Australian** proposal (Option 1).

IV. CONCLUSION

20. The Review Sub-Committee is invited to consider the proposal by the Australian Customs Service to provide separately for substrates for the production of banknotes in heading 39.20, taking into account the Secretariat observations in paragraphs 15 to 19 above. The proposed amendment and the alternative proposal of the Secretariat are set out in the Annex to this document.

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