

## LEGAL FOUNDATIONS OF COMMODITY CLASSIFICATION AND ADVANCE RULINGS OF CUSTOMS AUTHORITIES AS A FACTOR IN REDUCING TRANSACTION COSTS IN FOREIGN TRADE

**A'zamov Otabek Usmonjon o'g'li**  
4th-year cadet of the Customs Institute

**Abstract:** the article examines the impact of legal certainty in commodity classification and the institution of advance rulings issued by customs authorities on the economic effectiveness of foreign economic activity. The author considers classification not merely as a legal and technical procedure for assigning goods to codes of the Commodity Nomenclature of Foreign Economic Activity (CN FEA), but also as an instrument for managing fiscal risks, time losses, logistical delays, and compliance costs borne by participants in foreign trade. On the basis of materials relating to Uzbekistan, the provisions of the Harmonized System, the rules of the Customs Code of the Republic of Uzbekistan, and contemporary international approaches, the article proposes a model in which an advance classification ruling and digital verification of commodity characteristics serve as key factors in reducing transaction costs and increasing the predictability of customs administration.

**Keywords:** commodity classification; CN FEA; Harmonized System; advance ruling; customs administration; foreign economic activity; transaction costs; digitalization of customs; interpretation of tariff headings; customs risks.

In the context of the accelerating fragmentation of global supply chains, the importance of accurate tariff classification of goods is increasing markedly. For an importer or exporter, a commodity code is not a formal element of the customs declaration, but a parameter that determines the amount of customs payments, the set of applicable non-tariff requirements, the speed of release, and the depth of subsequent control. Therefore, even a single classification error is transformed into a set of additional costs which, by their nature, extend far beyond one customs operation.

The classical interpretation of the influence of commodity classification on foreign economic activity is usually confined to the fiscal dimension. In the contemporary trade environment, however, such an interpretation is no longer sufficient, since a classification decision simultaneously affects the logistics cycle, the stability of contractual relations, insurance costs, the probability of disputes with customs authorities, and the quality of statistical information used by both the state and business

for decision-making. In this sense, classification becomes an element of the trust infrastructure in foreign trade.

The materials of the diploma research uploaded by the user make it possible to identify, on a well-grounded basis, two methodological cores of the problem: first, the content of the General Rules for the Interpretation of the Harmonized System, without which uniform application of the CN FEA is impossible; and second, the institution of the advance ruling, which provides ex ante legal certainty in relation to disputed tariff positions. These provisions deserve to be reconsidered in the format of an article with a different logic of presentation, namely through the prism of transaction costs and the manageability of trade risks. [1]

In economic literature, customs procedures are usually considered part of the institutional conditions of foreign trade. If this approach is broadened, commodity classification may be defined as an economic variable that determines the regime under which a commodity gains access to the market. It is precisely the CN FEA code that determines the applicable duties, licences, prohibitions, technical regulation measures, statistical categories, and, in certain cases, the regime of preferences. Consequently, the accuracy of classification directly affects the aggregate circulation costs of goods. From a theoretical perspective, classification errors create several types of costs. The first group consists of direct monetary losses: additional payment of duties, recalculation of VAT, penalties, fines, costs of laboratory testing, and legal support in a dispute. The second group is time-related: delayed release of cargo, transport downtime, disruption of delivery schedules, storage costs, and loss of commercial opportunities. The third group is strategic in nature and manifests itself in the reduced predictability of foreign trade operations, which is particularly sensitive for enterprises with a high share of imported components.

The economic significance of classification decisions increases in sectors where goods have complex multi-component characteristics, are rapidly updated technologically, or contain features that make it possible to assign them to several headings at the same time. Under such conditions, classification can no longer rely solely on the name of the goods in the invoice; it requires a detailed verification of functional purpose, composition, degree of processing, technical parameters, and specific features of the set or configuration. It is precisely here that the advance ruling becomes a rational instrument for reducing uncertainty. [2]

The legal foundations of commodity classification in Uzbekistan are based on a combination of international and national norms. The international foundation is the Harmonized Commodity Description and Coding System, administered by the World

Customs Organization; the current HS 2022 edition has been applied in global trade practice since 1 January 2022. The national Commodity Nomenclature of Foreign Economic Activity of the Republic of Uzbekistan, version 2022, entered into force on 1 January 2023 and is directly based on the updated Harmonized System. [3][4]

The Customs Code of the Republic of Uzbekistan establishes that the CN FEA is used for the state regulation of foreign economic activity, tariff and non-tariff regulation measures, and the maintenance of customs statistics. The Code also details the procedure for maintaining the nomenclature, the rules for classifying goods, and the status of customs authorities' decisions on classification matters. In this way, the legislator links the technical nomenclature with the practical functions of fiscal and statistical management of foreign trade. [5]

A particularly important role in the institutional design is played by the chapter on advance rulings. The Code provides for the possibility that customs authorities may issue an advance ruling concerning the classification of goods, and a request, provided that sufficient information is available, is considered within twenty days. At the same time, an advance ruling is valid for one year from the date of its adoption, unless it is amended, withdrawn, or annulled; information on such rulings is also subject to disclosure, except for information protected by law. [5]

From the standpoint of international standards, this model corresponds to the logic of the WTO Trade Facilitation Agreement. Article 3 of that Agreement requires Members to issue advance rulings within a reasonable and specified period of time, enabling traders to understand in advance the regime governing the circulation of goods and to plan their costs. Accordingly, the institution of advance rulings in Uzbekistan should be assessed not as a secondary service, but as an element of fulfilling international obligations and, at the same time, as a mechanism for building trust between business and customs authorities. [6]

The uploaded graduation thesis describes in detail the logic of applying the General Rules for the Interpretation of the Harmonized System and the CN FEA, which makes it possible to use this material as a conceptual basis for further analysis. In practical terms, the GRIs form a kind of procedural architecture of classification: from the text of a heading and the relevant notes to the assessment of unfinished goods, multi-component composition, sets put up for retail sale, packaging, and, ultimately, specification at the subheading level.

However, even formally impeccable knowledge of the GRIs does not guarantee an identical result if the information base concerning the goods is incomplete. For this reason, the problem of classification in the twenty-first century is closely connected

with the quality of the digital description of goods. The more precise the digital footprint - technical passports, specifications, catalogues, photographs, laboratory reports, and information on composition and functionality - the lower the probability of choosing an incorrect code. In this logic, customs digitalization should be understood as an instrument for reducing classification uncertainty, not merely as a means of accelerating document circulation.

International practice also confirms that digital systems are effective when they are embedded in a legal and methodological environment. UNCTAD reports on ASYCUDA emphasize that automated customs systems produce the greatest effect when national regulation is simultaneously aligned with the international standards of the WCO and the WTO. This is especially important for the classification function, because any automation without a high-quality description of goods and transparent rules of interpretation is capable only of reproducing errors more quickly. [7]

**Table 1. Channels through which the accuracy of commodity classification affects the costs and outcomes of foreign economic activity**

Source: compiled by the author on the basis of the provisions of the Customs Code of the Republic of Uzbekistan, WCO and WTO materials, and empirical evidence from customs administration. [5][6][7]

<b>Channel of influence</b>	<b>Mechanism of action</b>	<b>Type of costs</b>	<b>Effect for the FEA participant</b>	<b>Managerial response</b>
Fiscal	Change in duty rate and tax base	Direct monetary costs	Additional payments, refunds, fines	Advance ruling; internal classification control
Non-tariff	Incorrect application of licences, permits, and prohibitions	Regulatory costs	Clearance delay; refusal of import/export	Verification of the code against relevant regulatory measures
Time-related	Additional requests, examinations, and disputes	Logistics costs	Cargo and transport downtime	Preparation of a complete technical dossier for the goods

<b>Channel of influence</b>	<b>Mechanism of action</b>	<b>Type of costs</b>	<b>Effect for the FEA participant</b>	<b>Managerial response</b>
Contractual	Disruption of delivery deadlines and contract terms	Commercial costs	Loss of counterparties and penalties	Preliminary agreement on codes in contractual documentation
Statistical	Distortion of the commodity structure of foreign trade	Information costs	Low quality of analytics and forecasts	Unification of practice and publication of rulings
Reputational	Increase in adjustments and disputes	Behavioural costs	Higher level of distrust on the part of customs	Compliance and specialized staff training
Technological	Insufficient digital description of the goods	Operational costs	Input errors and ambiguity of classification	Electronic catalogues and attribute verification
Judicial and legal	Appeal of decisions and defence costs	Legal costs	Growth of transaction costs	Pre-trial dispute resolution mechanisms
Macroeconomic	Inaccurate classification of foreign trade flows	Systemic costs	Budget losses and distortion of commodity policy	Unified methodology and risk-oriented monitoring

The presented matrix shows that classification has a multiplier effect on the performance of foreign economic activity. One and the same incorrect decision on a code can simultaneously trigger recalculation of payments, delay release, distort statistics, and increase the probability of subsequent post-clearance control. Consequently, the assessment of the economic effect of correct classification should be built not only around budget revenues, but also around the reduction of aggregate transaction costs in the private sector.

The linkage between an advance ruling, the digital profile of a commodity, and the uniformity of practice is of particular importance. If even one of these elements is absent, the system begins to transfer interpretation risks to the participant in foreign economic activity. Under such conditions, even formally transparent legislation does not provide sufficient predictability, and an entrepreneur is forced to include in the cost of an import-export operation an additional premium for regulatory uncertainty.

The economic value of accurate classification becomes especially visible amid large-scale growth in foreign trade turnover. According to the National Committee on Statistics, Uzbekistan's foreign trade turnover in January-December 2024 amounted to USD 65,934.0 million, including exports of USD 26,948.2 million and imports of USD 38,985.8 million; the negative trade balance reached USD 12,037.6 million. By the end of January-December 2025, total foreign trade turnover had increased to USD 81,166.8 million, exports to USD 33,812.3 million, and imports to USD 47,354.5 million. [8][9] The growth of the absolute scale of trade means that even a small share of erroneous classification generates a significant macroeconomic effect. If disputed or incorrectly determined codes are concentrated in goods with a high customs value, technological complexity, or mixed functionality, their impact on payments, clearance time, and statistics increases many times over. Therefore, as trade expands, the issue of classification accuracy ceases to be narrowly technical and becomes part of the policy aimed at increasing the competitiveness of the national economy.

For Uzbekistan, this is especially important in the context of the increasing share of machinery, equipment, chemical products, complex industrial goods, and services related to the digital economy. It is precisely in such commodity groups that interpretation errors most often arise because the commercial name of a product does not coincide with its tariff description, and because of differences between the marketing function of a product and its legally relevant classification features. Consequently, as imports become technologically more complex, the role of advance rulings and laboratory verification will continue to grow. [8][9][10]

**Table 2. Uzbekistan's foreign trade context and institutional parameters affecting the significance of classification decisions**

Source: compiled by the author on the basis of data from the National Committee on Statistics of the Republic of Uzbekistan, Lex.uz, the WCO, and the WTO.

[3][4][5][6][8][9]

<b>Indicator</b>	<b>2024</b>	<b>2025</b>	<b>Economic significance</b>	<b>Conclusion for classification policy</b>
Foreign trade turnover, USD million	65,934.0	81,166.8	Growth in the scale of operations increases the cost of an error	Unification of practice for disputed codes is required
Exports, USD million	26,948.2	33,812.3	Expansion of the export base increases requirements for procedural predictability	Ex ante rulings on complex goods are needed
Imports, USD million	38,985.8	47,354.5	Growth in imports increases sensitivity to duties and non-tariff measures	Classification accuracy affects cost price
Balance, USD million	-12,037.6	-13,542.2	More expensive imports increase the importance of the correct code	Classification errors make inbound supplies more expensive
CN FEA version of Uzbekistan	HS-based 2022	HS-based 2022	Stability of the nomenclature requires high-quality application	Training on HS 2022 changes is needed
International basis	HS 2022	HS 2022	A common language of world trade	Synchronization with WCO decisions is required

<b>Indicator</b>	<b>2024</b>	<b>2025</b>	<b>Economic significance</b>	<b>Conclusion for classification policy</b>
Advance ruling	20 days for consideration	20 days for consideration	Reduces uncertainty before importation	Business should use it more actively
Validity period of the ruling	1 year	1 year	Creates a planning horizon for the contract	A register and public availability of practice are needed
International standard	TFA Article 3	TFA Article 3	Supports transparency and predictability	Digitalization of submission and monitoring of requests is required

A comparison of 2024 and 2025 demonstrates that the institutional importance of classification increases in proportion to the growth of trade turnover. Whereas under conditions of a small volume of trade an isolated error may remain local, with turnover exceeding USD 80 billion its impact assumes a systemic character. This concerns the budget, the business climate, the resilience of supply chains, and the quality of statistical observation of the structure of exports and imports.

This leads to an important practical conclusion: the effectiveness of foreign economic activity depends not so much on the formal existence of the CN FEA as on the quality of its application. Where business receives a binding classification ruling in advance, and the customs authority has digital data on the goods and a transparent methodology of interpretation, the level of uncertainty decreases. As a result, time losses are reduced, the speed of release increases, the collectability of payments improves, and the number of subsequent disputes declines.

The first direction of improvement is associated with the transition from a reactive model of customs control to a preventive one. In practice, this means that customs authorities should expand the scope of advance rulings for goods with complex technical characteristics, while business should treat this instrument as an element of mandatory contract planning. An advance ruling is beneficial for both parties: for the

state, it ensures the uniformity of law enforcement; for the participant in foreign economic activity, it provides predictability of costs and timeframes.

The second direction consists in developing a register of classification rulings and analytics on disputed tariff positions. The openness of rulings, directly provided for by the Customs Code, may become the basis for forming a quasi-precedential practice in which a bona fide participant in foreign economic activity can see in advance how customs authorities interpret particular technological goods. Such transparency reduces information asymmetry and improves the quality of preparation of customs declarations. [5]

The third direction is connected with the digital standardization of commodity descriptions. Under contemporary conditions, a text invoice alone is clearly insufficient for stable classification; it is necessary to form a unified set of attributes: material, functionality, field of application, degree of readiness, composition of the set, packaging, photographic images, product passport, catalogue data, and, where necessary, a laboratory profile. The more standardized the set of characteristics is, the lower the probability of divergence between the declarant and customs authorities.

The fourth direction concerns personnel and methodological policy. Today, a commodity classification expert must combine knowledge of the GRIs, an understanding of the technical properties of goods, skills in working with digital data, and the ability to evaluate a commercial description in terms of legally significant features. Consequently, the professional development of customs officers and business specialists should be built not only around the text of the CN FEA, but also around case studies on complex multi-component goods, HS updates, and WCO practice.

Finally, the fifth direction is the integration of the classification function into the overall trade facilitation agenda. World Bank and WTO reports consistently show that transparent procedures, predictable decisions, and the reduction of administrative uncertainty produce a direct economic effect: they reduce delays, lower the cost of trade operations, and increase trust in customs. Therefore, the improvement of commodity classification should be assessed by the final result - the reduction of aggregate costs and the acceleration of the foreign trade cycle. [6][11][12]

## **Conclusion**

The analysis carried out makes it possible to conclude that commodity classification for customs purposes in contemporary foreign trade performs a much broader function than the simple coding of commodity flows. It determines the fiscal regime of a transaction, affects the set of permit requirements, shapes the time parameters of the release of goods, and ultimately influences the competitiveness of a participant in

foreign economic activity. For this reason, the legal certainty of classification decisions should be regarded as an independent factor in increasing the effectiveness of foreign economic activity.

For Uzbekistan, where the growth of foreign trade turnover is accompanied by a growing need for predictable and technologically advanced customs administration, the institutional role of advance rulings is acquiring special significance. The existence in the Customs Code of clear rules on the time limits for considering a request, the validity period of a ruling, and the publicity of relevant acts creates the necessary legal foundation. The next stage is to transform this foundation into a functioning economic mechanism for reducing transaction costs through the digital standardization of commodity data, the broader use of advance rulings, and the unification of law enforcement practice in relation to disputed CN FEA codes.

### **References**

1. Materials of the graduation thesis of cadet O. Azamov on the impact of commodity classification for customs purposes on the effectiveness of foreign economic activity. User file.
2. World Customs Organization. (2022). HS Nomenclature 2022 Edition. Brussels: WCO.
3. World Customs Organization. (2021). The 2022 edition of the Harmonized System Nomenclature is now available online. Brussels: WCO.
4. President of the Republic of Uzbekistan. (2022). Resolution No. PP-460 'On the introduction of the Commodity Nomenclature of Foreign Economic Activity of the Republic of Uzbekistan, version 2022'.
5. Republic of Uzbekistan. (2016, as amended in 2024-2026). Customs Code of the Republic of Uzbekistan.
6. World Trade Organization. (2014). Trade Facilitation Agreement, Article 3: Advance Rulings. Geneva: WTO.
7. UNCTAD. (2024). ASYCUDA Report 2024: Innovation for a Changing World. Geneva: United Nations.
8. National Committee on Statistics of the Republic of Uzbekistan. (2025). Foreign trade turnover of the Republic of Uzbekistan, January-December 2024.
9. National Committee on Statistics of the Republic of Uzbekistan. (2026). Socio-economic situation of the Republic of Uzbekistan, January-December 2025.
10. World Bank. (2015). Policy and Performance in Customs: Evaluating the Trade Facilitation Agreement. Washington, DC: World Bank.

11. World Bank. (2025). Trade Facilitation Support Program: Annual Report 2025. Washington, DC: World Bank.
12. WTO. (2018). Background note on advance rulings under the Trade Facilitation Agreement. Geneva: WTO.