



HARMONIZED SYSTEM
COMMITTEE

-
32nd Session

NC0735E1

O. Eng.

Brussels, 8 September 2003.

REPORT ON THE LAST MEETINGS OF THE POLICY COMMISSION (49TH SESSION)

AND THE COUNCIL (101ST AND 102ND SESSIONS)

(Item II.2 on Agenda)

Reference documents :

NC0655E2 (HSC/30 - Report)

NC0658E1 (HSC/30 – Corrigendum to NC0655E2)

NC0730E2 (HSC/31 – Report)

SP0121E1 (PC/49)

SP0126E1 (PC/49)

SP0128E1 (PC/49)

SP0133E2 (PC/49 - Report)

SC0050E1 (Minutes of the 101st/102nd Sessions of the Council)

I. BACKGROUND

1. The Policy Commission held its 49th Session in Brussels from 23 to 25 June 2003. The Council held its 101st and 102nd Sessions in Brussels from 26 to 28 June 2003.
2. The Report of the Policy Commission can be found in Doc. SP0133E2 and the Minutes of the Council in Doc. SC0050E1. The discussions and conclusions of the Policy Commission and the Council on issues relating to the Harmonized System are summarised in the following paragraphs.

II. REPORT OF THE POLICY COMMISSION

Secretary General's Report

3. The Secretary General's written report set out the developments since the Council's last sessions on the work relating to the WCO Strategic Plan with regard to the Harmonized System.

Note : Shaded parts will be removed when documents are placed on the WCO documentation database available to the public.

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4. In his oral report, the Secretary General informed the Policy Commission that the introduction of Spanish as a working language for the HS Committee had been effected in accordance with the decisions taken by the Council, i.e., with no impact on the WCO budget. Discussions were under way with regard to the possibility of adding Arabic as a working language for the Origin and Valuation Technical Committees.

Interim Report of High-Level Working Group on Harmonized System Matters

5. The Director, Tariff and Trade Affairs, presented this specific Agenda Item on the basis of the working document (Doc. SP0128E1). He summarised developments with regard to the High-Level Working Group on HS Matters, which had been established by the Policy Commission and the Council in 2002 in response to an Australian proposal for a fundamental review of the Harmonized System.
6. He recalled that a broad mandate had been given to the Working Group, which was to examine the procedural issues relating to the Harmonized System, many of which had been examined by various bodies of the WCO in the past with mixed results, and to make recommendations to the Policy Commission. He reported that the Working Group was made up of a select group of executives familiar with the Harmonized System from all WCO regions and the private sector. The issues that the Working Group was examining were : (1) improving the HS Committee decision-making process; (2) improving compliance and transparency at the national level; (3) outreach to increase participation by the developing world; and (4) trade facilitation measures.
7. He further reported that two meetings of the Working Group had been held and one additional meeting would be needed to finalise its recommendations, which would be presented to the Policy Commission in December 2003. He expected that those recommendations would range from procedural changes and guidance to the Secretariat, to amendments to the HS Convention (e.g., with regard to reservations to an HS Committee decision). Assuming that the Policy Commission approved the recommendations, the HS Committee would then be asked to develop them in detail for implementation.
8. The Chairperson concluded that the Policy Commission took note of the interim report of the High-Level Working Group on HS Matters and looked forward to its final report in December.

Strategic Plan for the Years 2003/2004 to 2005/2006

9. The Deputy Secretary General presented the revised Strategic Plan for 2003/2004 to 2005/2006 (Doc. SP0126E1). He noted that at the 47th Session of the Policy Commission in June 2002, it had been agreed that the Secretariat would conduct a review of the WCO's current strategic planning process and documentation. The Secretariat had conducted the review in the third quarter of 2002 and, as a result, a number of recommendations for change to the structure and content of the Strategic Plan had been presented to the Policy Commission at its session in Istanbul in December 2002. The changes proposed had been approved.
10. This new Strategic Plan had therefore been prepared in accordance with the Policy Commission's decisions and following consultation with the six Vice-Chairpersons.

11. The Deputy Secretary General explained that the new Strategic Plan included :
- a summary of the annual Environmental Scan under the heading “Customs Environment”;
 - a revised Vision Statement which might be periodically reviewed to reflect changes in the strategic priorities of the Organization;
 - a revised and simplified Mission Statement;
 - six Key Result Areas;
 - a series of Organisational Priorities for 2003/2004; and
 - three supplementary Divisional Plans that were much more detailed and were designed to give effect to the high-level strategies outlined in the Strategic Plan. They included :
 - a brief description of Divisional responsibilities;
 - a series of Activities closely aligned with the Key Result Areas and Priorities articulated in the Strategic Plan;
 - a series of qualitative and quantitative performance indicators for each of the Activities, together with the responsible parties and expected time-frames; and
 - provision for the Secretariat to estimate the expected resources that were to be allocated to each Activity.
12. The Deputy Secretary General noted that the new approach ensured that the longer-term strategic direction and focus of the Organization was clearly articulated in a relatively brief high-level document, whilst ensuring that the more comprehensive, operationally focused detail necessary to ensure effective implementation, monitoring and review of the Strategic Plan was contained in a more practical and accessible series of supplementary documents.
13. He concluded by emphasising that the changes were designed to increase the Strategic Plan’s clarity, relevance, flexibility and strategic focus. They would also assist the Secretariat and Member administrations more accurately to plan, monitor and evaluate the Organization’s performance against the agreed Vision Statement, Mission Statement, Key Result Areas and Annual Priorities.
14. A delegate commented that he was very impressed with the new format and content of the Strategic Plan, but suggested it could be further improved if it also contained a short statement outlining the WCO’s core values. Other delegates applauded the Secretariat’s efforts to simplify and improve the quality and relevance of the Strategic Plan at the same time offering three suggestions for additional items to be included in the text, and a suggestion for improving the Priorities section of the Plan.

15. The Chairperson proposed a change to the Key Result Areas to incorporate a theme that had been discussed earlier in the Policy Commission's session, namely the need to continually build the capability of the WCO to meet its objectives.
16. In conclusion, the Policy Commission :
- endorsed the new Strategic Plan and the changes that had been made to the planning process and documentation; and
 - recommended that the Strategic Plan be amended to accommodate the changes suggested.
17. The revised text was reproduced at Annex V to Doc. SP0133E2.

III. DECISIONS TAKEN BY THE COUNCIL

18. The Council continued with its practice of examining nomenclature and classification questions as well as other technical matters first in a preparatory session, which was held in parallel with the main Council sessions on topical questions. The results of the preparatory discussions were then presented to the plenary session for the formal adoption by the Council.

Reports of the Harmonized System Committee

19. The Chairperson of the Harmonized System Committee presented the Reports of the 30th and 31st Sessions of the Committee (Docs. NC0655E2 and NC0730E2).
20. On the basis of the recommendation of the preparatory meeting, the Council in plenary session :
- adopted the draft Recommendation concerning ozone-layer depleting substances as set out at Annex L to Doc. NC0730E2;
 - at the request of the Delegations of **Cameroon**, **Greece** (on behalf of the **EC**), the **United States** and **Japan**, referred back to the HS Committee, for re-examination, the following classification questions in respect of which reservations had been entered and which had been referred to the Council in accordance with Article 8.3 of the HS Convention :
 1. Classification of concentrated milk with added sugar (requested by **Cameroon**).
 2. Classification of the "Palm V" presented as a set with cradle and installation software (requested by **Greece** on behalf of the **EC**).
 3. Classification of the "PlayStation 2" (requested by the **Japanese** Administration).
 4. Classification of the "Media Composer 1000" (requested by the **United States**).

5. The decision that “photocopying” is not limited to the projection of an image onto a photosensitive surface and that present heading 90.09 covers digital copying (requested by the United States and Japan).

- approved the Reports of the 30th and 31st Sessions of the Harmonized System Committee; and
- took note of the various HS-related developments referred to in the written report of the Chairperson of the Harmonized System Committee.

21. At the preparatory session, the Observer for the World Trade Organization (WTO) provided information on WTO developments relating to the Harmonized System. Among other things, she informed the Council that, in the tariff negotiations under the Doha Development Agenda, the Chair of the Negotiating Group on Market Access for Non-Agricultural Products had proposed in the draft modalities paper that, as part of the modalities, negotiations be conducted based on HS 1996 and the result be scheduled on the basis of HS 2002. Members wishing to conduct negotiations on the basis of HS 2002 should submit correlation tables between HS 1996 and HS 2002.

22. In response to the above, the Director, Tariff and Trade Affairs, commented that changes to the Harmonized System sometimes complicated the negotiations that were ongoing. At the same time, in looking at the overall situation, there were 81 Contracting Parties and a number of additional countries that were using HS 2002, bringing the total number of countries using HS 2002 to close to 100. It was important for the WTO negotiations to reflect that reality and the fact that the results of the negotiations would have to be implemented in terms of HS 2002 for the vast majority of countries.

23. The Observer for the Common Market for Eastern and Southern Africa (COMESA) informed delegates about its progress with regard to the implementation of HS 2002. COMESA was urging all its Members to use HS 2002 and the COMESA common tariff, when adopted next year, would be based entirely on HS 2002.

24. The Director, Tariff and Trade Affairs, sought clarification regarding whether the adoption of the COMESA common tariff placed an obligation on its Member administrations also to implement HS 2002 in their national tariffs. He understood that COMESA Members would still have to take action to adopt HS 2002 nationally.

25. In response, the Observer for COMESA confirmed that it had become legally binding on all COMESA Members to adopt HS 2002 and that COMESA would assist its Members in their national implementation of HS 2002.

26. The Delegate of Australia stated that his Administration was supportive of the review process and would continue to support a proactive HS reform process. With regard to reservations, Australia was of the view that the delays involved when reservations were referred to the Council outweighed the perceived benefits gained, specifically because the Council, as a matter of course, did not examine the technical merit of the issues and simply referred them back to the HS Committee for further consideration. Australia would therefore continue to support the referral of reservations directly back to the HS Committee (the fast-track procedure) rather than via the Council.

27. The Director, Tariff and Trade Affairs, noted that expediting the reservation procedure was one of the issues being examined by the High-Level Working Group on HS Matters. He agreed that the Council's role in the reservation process was purely administrative and that the reservation process almost acted as a delaying tactic. He expected that the High-Level Working Group would make some recommendations to propose possible amendments to the HS Convention in this regard to the Policy Commission.

Report of the Secretary General

28. In his report to the Council, the Secretary General referred again to the introduction of new working languages, including in particular the use of Spanish in the Harmonized System Committee, thanks to the support of the Mexican and Spanish Customs Administrations, which had made it possible to arrive at a suitable budgetary and human-resource solution enabling all the Spanish-speaking Members to benefit from Spanish translation - which was also now available at the Council Sessions - thus allowing them to participate more intensively in the work. Discussions were in progress for the use of Arabic as a working language in the Technical Committee on Rules of Origin and the Technical Committee on Customs Valuation, and a funding solution was being sought in consultation with the Vice-Chairperson for the North of Africa, Near and Middle East region. The intention was to reach a financial arrangement similar to that employed in the case of Spanish. The Secretary General took the opportunity to thank the Inter-American Development Bank for agreeing to provide financial support for the introduction of Spanish. As had been decided by the Council, the introduction of new working languages was taking place with no impact on the WCO's budget.

Report of the Policy Commission

Interim Report of High-Level Working Group on Harmonized System Matters

29. The Council took note of the interim report of the High-Level Working Group on Harmonized System Matters and looked forward to its final report in December 2003.

Strategic Plan for the Years 2003/2004 to 2005/2006

30. The Council adopted the new Strategic Plan, the top level of which was reproduced at Annex IV to Doc. SC0050E1. The successful completion of the Third HS Review Cycle was listed as one of the WCO's priorities for 2003/2004. The Divisional Plans were contained in Annex V to Doc. SP0133E2, which included specific HS activities.

Election of a new Director of Tariff and Trade Affairs

31. In addition to re-electing Mr. Michel Danet as Secretary General, the Council elected a new Director of Tariff and Trade Affairs – Mr. Chriticles Mwansa of Zambia. Mr. Mwansa is currently the Director General of Zambian Customs and will take over his new responsibilities on 1 January 2004.

Departure of Mr. Holm Kappler

32. At the preparatory session of the Council, the Delegate of **Turkey** remarked that Mr. Holm Kappler, the Director of Tariff and Trade Affairs, would be leaving the Secretariat in about six months. He was concerned about the future of the work regarding tariff and trade

affairs and he wished success to the new Director. Having worked with Mr. Kappler in the Tariff and Trade Affairs Directorate for more than four years, he believed that Mr. Kappler's strong technical background, management skills and excellent leadership were well known both inside and outside of the Organization.

33. Mr. Kappler thanked the Delegate of **Turkey** for his kind words. He said that he did not want to think about his departure yet since there was still a lot of work left to do before he would hand the reins over to the new Director. It was a privilege for him to work for the WCO and he enjoyed every moment of it. Although it would be difficult to leave the WCO, he believed that it was time for a change for himself and that it was good to bring new leadership to the Organization.
34. At the plenary Council Sessions, the Secretary General paid tribute to Mr. Kappler. Mr. Kappler had been the first Director to have responsibility for three of the most sensitive areas of WCO work, namely the Harmonized System, Valuation and Origin. Mr. Kappler had handled these subjects with considerable skill and competence. He was an excellent manager and leader of a team who also had many personal qualities, including loyalty, a sense of humour, openness and efficiency. The Secretary General wished Mr. Kappler and his wife every happiness and success on their return to the United States.
35. Mr. Kappler thanked the Secretary General for his kind words. He said that his five years in post had passed very rapidly and it had been both an honour and a privilege to serve as Director. He had always been conscious of the fact that the Organization comprised over 160 Members and he had endeavoured to provide a comparable service to all those Members. His three areas of responsibility - classification, origin and valuation - were of particular relevance to developing countries where the collection of Customs revenue was crucial to their wellbeing. He had always appreciated the fact that both the Harmonized System Committee and the Technical Committee on Customs Valuation took decisions that had real-life Customs and trade consequences and a practical application.
36. Mr. Kappler said that he was particularly proud of the fact that during his term of office there had been a broadening of the working languages used for the Harmonized System to include Russian and now Spanish; there had been an opening up of the work through partnership with the international trade community; and many WCO working documents were now being made available to the public.
37. Finally, he wished his successor, Mr. Mwansa, all the best in his new functions.

IV. CONCLUSION

38. The Harmonized System Committee is invited to take note of the above developments in the Policy Commission (49th Session) and the Council (101st and 102nd Sessions).
