

World Customs Organization Activities during 2010 – 2011

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The WCO – an international forum for discussion, consultation and harmonization of customs policies, practices and procedures.

The World Customs Organization (WCO) is the only intergovernmental organization exclusively focused on Customs matters. With its worldwide membership, the WCO is now recognized as the voice of the global Customs community. It is particularly noted for its work in areas covering the development of global standards, the simplification and harmonization of Customs procedures, trade supply chain security, the facilitation of international trade, the enhancement of Customs enforcement and compliance activities, anti-counterfeiting and piracy initiatives, public-private partnerships, integrity promotion, and sustainable global Customs capacity building programs.

WCO Activities of particular interest to statisticians are (1) conducting research on Rules of Origin, (2) administration of the technical aspects of the WTO Agreements on Customs Valuation, and (3) maintenance of the international Harmonized System goods nomenclature. This paper will summarize upcoming WCO activities in those three areas.

Origin

Rules of origin are laws, regulations and administrative practices to identify the country of origin of internationally traded goods. They are essential because the trade policies of the countries vary and may discriminate among exporting countries (through the application of quotas, anti-dumping actions, countervailing duties to counter export subsidies etc.). The determination of the country of origin is also important for statistical purposes. Furthermore, rules of origin are needed for the application of preferential tariffs granted in preferential trade agreements.

The negotiations for the harmonization of *non-preferential rules of origin*, initiated under the WTO Agreement on Rules of Origin and undertaken by the World Trade Organization, are conducted by the WTO Committee on Rules of Origin in Geneva, and by the Technical Committee on Rules of Origin under the auspices of our organization the WCO in Brussels. As you certainly know, these negotiations are not finalized, meaning that there is no international instrument which operates in this field for the time being. Despite the efforts of the WTO Committee on Rules of Origin to resolve as many open issues as possible, political guidance by the WTO Council of Trade in Goods was warranted in order to complete the harmonization of non-preferential rules of origin. Further technical assistance from the Technical Committee on Rules of Origin in Brussels might be requested by the WTO Committee on Rules of Origin in Geneva to complete the negotiations.

Preferential rules of origin on the other hand are part of the legal instruments of international treaties which are concluded between sovereign states. Although as a consequence there are no international tools in the area of preferential rules of origin. The kaleidoscope of preferential trade agreements with their bewildering range of geographical configurations at regional and extra-regional level containing a "tangle" of rules of origin provisions may cause harmful effects to international trade and presents challenges both to Customs and to the business community which are faced with more and more complex networks of preferential trade relations. Given the central role that customs services play in the management of

preferential rules of origin in most countries, WCO Members agreed to increase the profile of the WCO in the field of preferential rules of origin and a new approach was proposed to support WCO Members and trade interests in improving the understanding and proper application of preferential rules of origin. The WCO Council approved an Action Plan containing a package of measures, such as the launch of a database of preferential trade agreements and its related rules of origin and the establishment of a comparative study on preferential rules of origin. In this way, the WCO Secretariat hopes to provide capacity building services to customs administrations and contribute for a better understanding of preferential rules of origin by the business community.

Valuation

All 153 WTO Member countries are required to apply the WTO Agreement on Customs Valuation as the basis for establishing customs value where ad valorem duty rates apply. This Agreement establishes a customs valuation system that primarily bases the customs value on the transaction value of imported goods, which is the price actually paid or payable for the goods when sold for export to the country of importation, plus, certain adjustments for costs and charges. Currently more than 90% of world trade is valued on the basis of the transaction value method which provides more predictability, uniformity and transparency for the business community.

The Technical Committee on Customs Valuation (set up under the auspices of the WCO) meets twice a year (next Session on 12-16 April 2010) to administer the technical aspects of the Agreement.

The functions of this Committee are as follows :

- examine specific technical problems arising from the day-to-day administration of the Customs valuation systems of Members and to give advisory opinions on appropriate solutions based upon the facts presented. Decisions are issued in the form of Advisory Opinions, Commentaries, Case Studies, Studies, etc., which are published in the Compendium of Customs Valuation;
- furnish information and advice on questions concerning the valuation of imported goods as requested by Members;
- study Customs valuation laws, procedures and practices as they relate to the Agreement;
- develop specific projects within the mandate of the Agreement and the WTO.

Of particular interest to the statistical community are Secretariat activities aimed at ensuring uniformity in the interpretation and application of the Agreement at the technical level which leads to more accurate customs value declarations which are used as the basis for trade value statistics. Ongoing activities include:

- providing service to the Technical Committee on Customs Valuation (organization of meetings, preparation of working documents, reports etc.);
- providing Customs Valuation technical assistance workshops/training courses/seminars for Member Customs administrations at Regional/National level;
- providing capacity building assistance to Members in the establishment of an adequate administrative infrastructure for the implementation of the WTO Valuation Agreement;
- providing technical advice on specific valuation questions to Member Customs administrations on request;

- providing training by way of workshops/seminars/symposiums for the private sector
- developing partnerships with International/Regional Organizations.

Currently, work is being conducted on two areas which potentially have a large impact on the customs value:

Transfer pricing

The OECD's methodology on transfer pricing is used for direct tax purposes as at the basis for ensuring international transactions between related parties are "arm's length". There is a lot of trade interest in seeking greater alignment between these rules and similar rules which exist for checking the acceptability of related party transactions for customs value purposes. The WCO has been working with the OECD to address this highly complex area and possible approaches are currently being considered but will take some time to resolve.

Dutiable Royalties

Large additional sums paid in royalty fees for imported goods are potentially includable in the customs value. The Technical Committee is currently examining a series of typical cases where the application of the Agreement is not clear with a view to issuing guidance in order to provide greater consistency of approach.

Nomenclature

Among all the WCO activities the chief area of interest to statisticians is the Harmonized Commodity Description and Coding System ("Harmonized System" or "HS"). 2010 will mark the Harmonized System's 22nd year in force for many administrations. An international standard naming and numerical coding structure used by more than 200 countries and economies as a basis for their Customs tariffs and for the collection of international trade statistics, the HS serves as the basis for identification of more than 98 % of the merchandise in international trade.

In the interest of promoting uniform application of the HS and keeping its structure up to date, the three nomenclature-related Committees (Harmonized System Committee, Review Sub-Committee and Scientific Committee) meet periodically (twice a year for HSC and RSC; once a year for the SSC). The Committees' fourth HS Review Cycle ended with the WCO Council's acceptance of the Recommendation of 26 June 2009, which contained 220 sets of HS amendments intended to help the HS continue to reflect the complexion of international merchandise trade. The changes, which will take effect on 1 January 2012, comprise :

- (+) 334 additions to the coding structure (including three new 4-digit headings)
 - (-) 174 deletions (of which 96 represented low trade lines and the rest represented lines which were replaced by two or more subdivisions)
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- (+) 160 Net increase in number of HS codes

61 6-digit codes with clarifying text changes (no change in scope)

The majority of additions to the coding structure are subdivisions agreed to in response to a request by the World Health Organization for increased detail to assist in the application of food security programs. Some examples : New detail will result in separate statistics for

species of animals (in particular among marine animals) which appear together in the current HS. The 2012 HS will also provide increased detail in the areas of grasses, grains and spices.

The fifth HS Review Cycle has already begun, and the RSC and HSC are preparing to examine proposals for possible implementation in 2017, but most of the Secretariat and Committee work during the next two years will focus on preparations for implementation of the 2012 HS changes -- within the WCO, customs administrations and among government and private statistical operators. The following activities are already in progress or in planning:

- Publication of the 2012 legal text of the HS (expected during 2010)
- Preparation and publication of correlation tables (2007 – 2012 and 2012 – 2007; expected during 2010)
- Revision and publication of the 2012 HS Explanatory Notes (expected during 2011)
- Revision and publication of changes to the Compendium of Classification Opinions (expected during 2011)
- Training seminars for customs administrations (during 2010 and 2011)
- Training for the private sector (during 2010 and/or 2011)

Other publications, such as the Alphabetical Index and the on-line correlation between the HS and international conventions, are still under discussion. Additionally, the WCO's on-line resource which provides access to the HS, Explanatory Notes, Classification Opinions and Commodity Data Base will continue to be maintained up-to-date.

Although the 2012 HS changes are not as far-reaching as the 354 sets of amendments for the 2007 HS, the Nomenclature activities will be quite resource-demanding during the next two years, and the WCO is committed to providing tools to assist the statistical community to adapt to the upcoming changes in the HS.