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Subject: Towards WCO modernization: Reforming the World Customs Organization

Following the approval by the Council (ECOFIN) at its meeting on 18 June 2021, Delegations will find in the Annex a document entitled "Towards WCO modernization: Reforming the World Customs Organization", with a view to its submission by the EU for discussion at the Customs Co-operation Council of the WCO to take place on 24-26 June 2021.

EU submission**Towards WCO modernization***Reforming the World Customs Organization***1. INTRODUCTION**

The World Customs Organization (WCO) has more than 180 Members representing more than 98% of world trade. It is the only global organisation involving administrations competent in customs matters and, as such, has a broad customs mandate. The WCO plays a key role in shaping *international standards, recommendations, tools and instruments* in support of Members' national customs legislation and practices. By promoting a predictable and transparent customs environment, the WCO contributes to the economic and social well-being of Members. The WCO is also a platform for the *exchange of best practices and experience* and for developing common solutions to new challenges and opportunities that arise from an ever-changing international trade environment. The WCO also provides tailor-made *technical assistance and capacity building* where requested to support national Customs reforms and modernisation.

Along its existence, the Organization has been effective in dealing with its **“core business”**, which include in particular commodity classification, valuation, rules of origin, compliance and enforcement, trade facilitation, capacity building, performance measurement and the development and maintenance of standards, tools and instruments that are widely used and provide the basis for the application of customs duties and procedures, such as the Harmonised System Convention on classification of goods. In this context, the WCO addresses a significant number of topics relevant and important for Customs, but also related to the international trade environment, such as the Revised Kyoto Convention on the simplification and harmonization of customs procedures.

Although the WCO is a well-established and recognised international customs organisation, many WCO Members have nevertheless signalled the need for organisational changes within the WCO, which has prompted some Members to put forward governance proposals. Some initiatives have already been implemented while others are being addressed by the relevant WCO bodies (i.e. the Audit Committee, the Policy Commission or the Council), in the framework of the WCO Strategic Plan. This constitutes a good starting point to build upon in order to further reform and modernise the WCO in a more structured manner, with the objective of increasing its dynamism and effectiveness. A widespread perception among many WCO Members is that the Organization needs revitalising to be able to respond to the challenges of the 21st century.

The objective of this submission is to initiate a debate on a more comprehensive reform and modernisation of the WCO, to identify possible building blocks and main areas of reform, and to suggest possible steps towards a WCO strategic reform process.

A reform of the WCO would have as *objectives to:*

- *make the Organization a more effective and efficient actor for the promotion of safe, secure and licit trade,*
- *support customs policies world-wide that address global issues,*
- *contribute to sustainable development,*
- *remain fit for purpose in the digital world.*

In addition, the reform would support specific customs policy initiatives, which aim to enhance resilience and sustainability of supply chains and legitimate trade, as well as to support the improvement of the capacities of Members' customs administrations in the digital and green transition era. This would be consistent with strategies to strengthen the multilateral framework, such as in the WTO, and place the WCO as an influential player among multilateral organisations.

2. A DIAGNOSTIC FOR A WCO REFORM

Since its establishment in 1952, the WCO has never been subject to a comprehensive reform. A number of proposals for modernization have been addressed in the past, but a more comprehensive and coherent approach should be taken. The international context and the challenges that Customs have to face nowadays are very different from those that existed at the time when the WCO was established.

There are three main **arguments that justify** a reform of the WCO:

- Firstly, it is important to ensure that the WCO is able *to respond to more systemic and strategic challenges* such as the rapid changes in today's world and customs environment (e.g. e-commerce and other areas identified in the draft 2021-2024 Environmental Scan), increase in illicit trade, and the promotion of sustainable development. The current COVID-19 pandemic has showed the need for Customs to react swiftly and adapt to new situations, i.e. the facilitation of cross-border movement of situationally critical medicines and vaccines.
- Secondly, the *decision-making process* for “core business” subjects (international standardisation/harmonisation) is often very complex, in particular due to the multiplicity of working bodies involved and of layers for decision-making, which makes achieving progress challenging and time-consuming.
- Thirdly, the Audit Committee has identified in its 2020 Report a number of risk areas¹ that affect the WCO's ability to deliver and perform as an *efficient organisation*. Some of the risks areas are broader and systemic, and concern the continuity of the Organization as such, as well as its international standing amongst other international organisations.

¹ The Audit Committee has identified several risks that it qualified as being in a “red category”, which need to be addressed:

- Loss of WCO influence.
- Politicisation of the Organization.
- Lack of consideration of technical committees.
- Poor involvement of Members.
- Inadequate implementation of relevant tools.
- Poor prioritization of topics.

While some of these issues have already been identified by the Audit Committee, others go beyond. In future, new issues may emerge in case of more in-depth studies to be arranged in the process of the WCO reform.

It is acknowledged that there are *challenges* that may need to be taken into account, as in any strategic reform process, such as the need for consensus among Members, especially if amendments to the founding WCO Convention should prove necessary, and the diversity and very wide membership of the Organization. However, the opportunities offered by an initiative to reform the WCO outweigh the risk of inaction.

3. CONSECUTIVE STEPS TOWARDS A WCO STRATEGIC REFORM

A three-step approach is proposed as consecutive steps towards the WCO strategic reform, of which the first one would be to *define the WCO's longer term priorities and thus go far beyond the three years cycle of the Strategic Plan*. The establishment of long-term priorities could imply some organisational changes and also have resources implications.

The following steps are suggested:

STEP 1: Greater focus and clarity of the Organization’s strategic priorities

The definition of *clear and well defined strategic priorities* of the Organization would be the first step towards the WCO reform. It would be essential that *strategic priorities be limited to only a few*, based on what is considered most relevant and essential to Members.

The WCO currently carries out numerous different activities at the same time. While the current activities of the WCO are subordinated to 10 “strategic initiatives”, their progress and effectiveness are challenging to identify, given that the same issues are often dealt with in various working bodies at the same time.

The need for prioritisation of activities has been highlighted by many Members over recent years and has been identified as one of the red category risks areas (“Poor prioritisation of topics”) by the Audit Committee. The scope of the activities and the number of working bodies make the whole Organization increasingly complex and affects the visibility of the overall picture of the Organization. This is even more challenging for customs stakeholders.

The combination of increasing ambitions and limited resources should prompt the WCO to prioritise its tasks more.

The WCO “core business” should remain the main and undisputable priority for the Organization. Capacity building and technical assistance should remain a priority to facilitate and support Members in implementing the Organization’s “core business” tools and instruments. This being said, the scope of the “core business” also needs to be updated to correspond to present and – more importantly – future challenges.

Beyond the “core business” and recognising that strategic initiatives change over time, the following ***future-oriented WCO strategic priorities*** appear to be ***the most compelling***:

A. Digital Customs and Data Analysis

This area has already been recognised by the WCO. Its importance has nevertheless been further strengthened by the consequences of the COVID-19 pandemic. Virtual customs officers are no longer a fiction. Automatic customs clearance based on risk management and profiling based on big data analytics is a fact in the daily work of many Customs administrations. The WCO should further reflect on what increasing digitalisation means for the declarative process and how new technologies, such as block chain, affect that process.

A challenge for the WCO and its Members is to address their increasing interest to exchange customs information in order to improve the effectiveness of controls as well as for trade facilitation and enforcement purposes.

There are two areas that are of particular relevance for Digital Customs and Data Analysis for the coming years:

E-commerce

The WCO adopted in December 2020 the final elements of its Framework on cross-border E-commerce Package that is key to determine the role of Customs in e-commerce. The dynamic shift in the international trade model and the huge increase in the popularity of e-commerce, in particular during the COVID-19 pandemic, show the relevance of this issue. This concerns the changing purchase and payment methods, changes in the international supply chain, new methods of fraud, etc.

The topic of e-commerce will remain crucial for Customs for years to come, and the WCO should provide the instruments for its Members to be able to control the ever increasing volumes in e-commerce in the most effective way (e.g. information sharing, simplifications on valuation and classification, etc.).

Exchange of customs information

Customs rely on information to manage risks and to carry out controls more effectively and efficiently to protect safety and financial resources and to facilitate legitimate trade. Such information primarily comes from the economic operators, declaring goods or movements to Customs and from controls or audits performed or investigations conducted by Customs.

The question has often been raised whether the effectiveness of controls would improve if Customs from the importing countries had access to key information from the exporting countries. For the time being, available information is underexploited as it is generally not shared beyond the context of case-by-case mutual administrative assistance.

A reflection could be launched in the WCO to identify more concretely, on the basis of the experiences or needs of WCO Members, the purposes of exchanges of information between importing and exporting countries, the type of information which may be relevant, the means to exchange it, and the legal framework under which those exchanges could take place.

Particular attention will though have to be given to the protection of commercial confidentiality and personal data.

B. Customs for climate and environment

Climate and environmental issues are of increasing concern for many Members across the world. The protection of the global environment is an ever increasing challenge, and one where Customs can play an active role. That role should be further enhanced and embedded more concretely in the WCO tools and instruments.

To ensure that Customs globally becomes one of the driving forces in protecting the environment, the WCO could broaden its strategic focus on areas such as:

- Environmentally-friendly customs administration (e.g. waste sorting, renewable energy, etc.).
- Exploring whether Customs can support the environmental agenda through the HS classification system.
- Reduction of truck queues at borders (reduced CO2 emissions).
- Enhanced efforts to combat environmental crime through customs operations and further coordination of international organisations measures.
- Improved control of product standards, prohibitions and restrictions (e.g. energy efficiency of machinery products).
- Potential role of Customs in support of reducing carbon leakage and emissions.
- More training to fight against smuggling of environmentally dangerous goods.

C. **Single Window (SW) and Coordinated Border Management (CBM)**

To meet the objectives of this initiative, the WCO will need to define modalities for enhanced cooperation between Customs and partners' competent authorities, and develop interoperable solutions where beneficial and appropriate. The increased digitalisation of customs and non-customs regulatory formalities applicable to international trade opens new opportunities to improve digital cooperation.

Within this initiative, effective implementation of Single Window projects is of utmost importance. Single Window initiatives should not be reduced to the mere digitalisation of data submitted for customs clearance, but constitute a new governance model amongst different government agencies intervening at the border. Information submitted once, but shared – within the limits of relevant legislations and approaches – amongst customs authorities and other border authorities would allow increasing the efficiency of physical controls of goods at the border. WCO Members may seek to combine the Single Window with solutions for market surveillance and import control. This will allow both trade facilitation and more digital and transparent controls. In this context, the Single Window component is particularly relevant for future improvements, including the ones in the coordinated border management area.

Single Window projects may help better coordination among government agencies. CBM/SW solutions based on interagency cooperation has also proven important during the COVID-19 pandemic (control of medical supplies, smooth clearance of vaccines and medical devices, etc.). This positive example confirms the ability of government agencies to cooperate in a closer manner, which can be applied more broadly, and not only in crisis situations.

While the Single Window and CBM are not new concepts within the WCO, and its tools and instruments are being developed and updated, further progress in this regard is required. In today's global environment, WCO Members are increasingly developing and improving their national Single Window models. More exchanges of national and regional practices on Single Window would allow WCO Members to pursue more coherent and interoperable cross-border Single Window approaches in future.

In the long-term perspective, there is a need to explore the next levels of a Single Window model. A Smart Border Crossing (based on e.g. integrated scanning systems, “No-Stop-Shop” automated control, clearance of automated trucks, cross-border track and tracing systems, etc.) and linking of different Single Window concepts could be future-oriented projects.

The 2017 World Trade Organization (WTO) Agreement on Trade Facilitation represents the most extensive effort at trade facilitation and customs reform under the WTO. In accordance with Article 10(4) of that Agreement, WTO Members are to endeavour to establish or maintain a single window. The WCO must demonstrate its prominent role in this regard: this is important for all WCO Members and for the visibility of the Organization in the global trade community.

STEP 2: Good governance methods in the management of the Organization

Customs play an increasingly important role in an ever-changing environment characterized by the constant growth of threats and the scarcity of resources. This requires that institutional processes (structures and decision-making processes) meet the needs of society while making the best use of the resources at their disposal. To enhance good governance, the WCO should, in addition to a strategic vision, be guided by values such as *objectivity, transparency, accountability, responsiveness, inclusiveness, effectiveness and efficiency, and gender neutrality*.

Having identified the WCO strategic priorities, the governance methods - including working structures and methods - and resources should be addressed. This will be a second step (building block) towards the accomplishment of a WCO strategic reform.

The discussion on WCO Governance has been ongoing for many years now. There is nevertheless a need to undertake this task in a more decisive structured manner, as opposed to the current ad hoc approach.

The allocation of financial and human resources should not be a short-term (annual) automatic allocation, but a more long-term evaluation and strategic decision.

In the context of clear strategic priorities, new options may be explored in the following areas, in particular:

- (a) addressing the red category risks,
- (b) updating the working methods, increasing the coherence to address the topics in the different working bodies in order to improve their efficiency,
- (c) reviewing the WCO working bodies in order to avoid duplication and consider their possible reduction,
- (d) reviewing the efficiency of activities on the basis of qualitative key performance indicators, and
- (e) reviewing the WCO Secretariat recruitment and appointment processes.

Other aspects that could appropriately be considered are e.g. scope of regional cooperation, applying enhanced intersessional working practices through interested WCO Members, monitoring of the WCO instruments implementation (benchmarking, peer reviews, etc.), scope of the Customs Performance Measurement mechanism, recruitment procedures for technical officers and experts, possibility of the ISO standards implementation, Satisfaction Level Survey, assessment of the use of face-to-face meetings versus virtual meetings, etc.

The WCO should pay particular attention to keeping its business continuity concept up to date in the light of the lessons learned from the Covid pandemic.

STEP 3. Sustainable funding for the functioning of the Organization

With a modernised WCO, a sustainable funding mechanism must be provided. Results of the first two steps may lead to the conclusion that revision of the current funding mechanism is necessary. It is expected that limited strategic priorities, as well as good governance and improved working methods, will provide for a better and more efficient use of the WCO resources. The Audit Committee acknowledges that this is a risk area that needs to be monitored. While the economic forecasts generally anticipate that the COVID-19 pandemic will leave little lingering damage for advanced economies, it is noted that economic recovery risks to be imbalanced across the globe. To ensure long-term sustainability of the organisation, it will in any case be necessary to examine the funding mechanism of the WCO as a third step of the reforming process.

A wide-ranging reflection should be launched on the basis of the experience of other international organisations.

In order to launch a reform of the WCO, WCO Members are invited to support this initiative and to engage in the further development of this process, which should be in the interest of the Organization and its Members as well as of external stakeholders.

Subject to the endorsement of the Council to initiate a WCO reform, concrete actions should be included in the WCO 2022-2025 Strategic Plan, or earlier where possible. ***The WCO reform could be a separate strategic initiative*** under the *Organizational Capacity* perspective of the Strategic Plan.