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MINUTES OF THE 107TH/108TH SESSIONS
OF THE CUSTOMS CO-OPERATION COUNCIL
(Brussels, 29 June to 1 July 2006)

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MINUTES

OPENING OF THE SESSIONS

1. The 107th/108th Sessions of the Council were held at WCO Headquarters in Brussels from 29 June to 1 July 2006. The list of participants is reproduced at Annex I.
2. The CHAIRPERSON welcomed the participants, pointing out that over 140 Member delegations and some 40 observer bodies were attending the current Council Sessions. They would be called upon to help the Secretariat and Customs administrations understand and define the tasks ahead for the Organization. He said that, over the past year, through the meetings of the Policy Commission and High Level Strategic Group and thanks to efforts by all concerned, the Organization was in a position to report significant progress on the SAFE Framework of Standards, on capacity building, on the heightened profile and more active role of the WCO and the Secretariat, on issues of governance, on thinking with regard to the role of Customs in the 21st Century, and on sustaining the Organization's technical platform.
3. The Council observed a moment's silence in memory of Customs officers all over the world who had lost their lives during the previous year. The Chairperson paid particular tribute to Mr. Francis Thurania, Commissioner of Kenya Customs and Excise and former WCO Vice-Chair for the East and Southern Africa region, who had tragically died in a road accident on 17 September 2005. Mr. Thurania had been a very active contributor to the deliberations in the Policy Commission, the High Level Strategic Group and the Council.
4. In the course of the Sessions, participants were addressed by the Belgian Minister of Foreign Affairs, Foreign Trade and Development Co-operation, Mr. K. De Gucht. He highlighted the crucial role that Customs administrations had to play in securing the international trade supply chain, whilst ensuring the essential balance between security and trade facilitation. He also recognized the importance of the WCO's work with other international organizations, particularly the Organization for Security and Co-operation in Europe (OSCE) which was currently chaired by Belgium. The full text of the Minister's speech is set out at Annex II to these Minutes.

1. ADOPTION OF THE AGENDA

5. The Agenda set out in Doc. SC0067 was adopted unchanged.

2. APPROVAL OF THE MINUTES OF THE 105TH/106TH SESSIONS OF THE COUNCIL

6. The Minutes of the 105th/106th Sessions of the Council, contained in Doc. SC0066, were approved.

3. REPORT OF THE SECRETARY GENERAL

7. The SECRETARY GENERAL began his report by depicting the WCO as a vibrant Organization, at the heart of the international community's concerns. This was amply demonstrated by the mobilization of its Secretariat, the improved budgetary outlook, the successful introduction of the principles of good governance, its commitment to the Members, its endeavours to achieve broader recognition and its determination to meet the needs of Customs administrations world-wide.
8. With the accession of Honduras, Tonga and El Salvador since the previous Council Sessions, the WCO now had 169 Members, accounting for 98 % of world trade, 60 % of drug seizures and 70 % of seizures of counterfeit goods. Only three of its Members currently had inactive status, whereas ten would be a more normal figure.
9. Whereas on 1 January 1999 the Secretariat had numbered 123 officials and 21 Technical Attachés, the staff complement today, following a policy of restructuring which had generated savings of 3.5 million euros, was that there were just 105 budget posts and support was being provided by 19 Technical Attachés made available to the Secretariat by China, France, Germany, Italy, Japan, Korea, the Netherlands, the Russian Federation, Spain, Sweden and the United States. The Secretary General commended these Members for their contribution, which represented a saving of 2 million euros. He stressed that the WCO currently needed Spanish-speaking and Arabic-speaking Technical Attachés.

Budget outlook

10. The Secretary General alluded to the difficult financial environment (due to the 11-year freeze on contributions, the structural budget deficit and the reduced reserves), before describing the measures implemented in order to attain the Council's objective of a return to a balanced budget.
11. Structural measures had included staff restructuring, reforming the staff pension (Terminal Allowance) scheme, increasing Members' total contributions by 3 % on two occasions, outsourcing certain WCO activities and, finally, containing the General Operating Expenses.
12. There had also been a number of pragmatic measures, namely radical management of staff turnover arrangements, a dynamic policy of seeking additional resources (especially through the organization of events), analysing the appropriateness of outsourcing other activities (such as publications or IT), increased efforts to collect Members' outstanding contributions, and seeking voluntary contributions.
13. The Secretary General went on to point out that while the 2002/2003 budget, both as forecast and as executed, had been in deficit (in particular because of the performance of tasks which had not been budgeted for in the areas of security and facilitation), financial year 2003/2004 had ended in surplus as a result of the measures taken with regard to the Terminal Allowance. 2004/2005 had closed almost in balance despite a forecast deficit of 780,000 euros, and subject to the conclusions of the external auditors, 2005/2006 would show a surplus of more than 500,000 euros.

14. This surplus was attributable firstly to the timely sale of part of the WCO's investment portfolio (resulting in a profit of 1.5 million euros), and also to the fact that both the sale of publications and additional revenue generated by WCO events had been in excess of estimates.
15. There was currently a forecast deficit of more than one million euros for 2006/2007, due in particular to the scheduled departure of certain WCO officials to whom a Terminal Allowance would have to be paid. Some of these officials held senior posts : one elected official, three A5 officials and six A4 officials.
16. The Secretary General nevertheless pointed out that there was no need for concern at this forecast, as the deficit presented was purely theoretical since some of these officials might have their contracts with the WCO extended, in which case the payment of their Terminal Allowances would be deferred. He hoped that, at the Policy Commission session in December 2006, he would be able to report that the budget for the current year would be more or less balanced, and the budgets for 2007/2008 and 2008/2009 would in fact be balanced, thus helping to maintain the Organization's reserves and placing his successor in the best possible position to meet the needs of the membership.
17. After recalling the principle that any proposal to undertake a new programme had to be accompanied by arrangements for financing it, the Secretary General drew Members' attention to the need to avoid complacency : despite the relatively comfortable position in which the WCO now found itself as a result of the significant improvement in its budgetary situation, it would not be sound financial management for the Customs community to draw on the reserves which had been replenished at the cost of so much effort.
18. Turning to the reduction of the United States' contribution from 25 % to 22 %, in steps of 1 % per year with effect from 2007/2008, the Secretary General raised the issue of how to make up this shortfall and suggested that a Working Party be set up, open to all Members concerned by changes to their contributions. The Working Party, to be chaired by the Finance Committee Chairperson, could hold its first meeting as early as September 2006.

Good governance

19. Based on the report by the South African expert, the WCO had implemented all the recommendations adopted by the Council in the area of good governance.
20. However, in addition to the issue of Members' rights and obligations vis-à-vis the Organization, which would have to be looked at again, the setting up of the Audit Committee established by the Council in 2005 was still under discussion because, despite a year's work, it had not been possible to reach a consensus. For this reason, the Policy Commission had decided to set up a group of "wise men", made up of the six Vice-Chairs and, because of his expertise in this area, Canada's Director General of Customs. The group would make a proposal to the Council on how to implement the latter's decision to establish an Audit Committee.

An Organization working on behalf of its Members

21. The Secretary General remarked that the 11 Regional Intelligence Liaison Offices (RILOs), the 15 Regional Training Centres and the 3 Capacity Building Centres demonstrated the extent to which the WCO was working on behalf of its Members.
22. He applauded the success enjoyed by most of the instruments adopted under the Organization's auspices. The Revised Kyoto Convention, for example, now had 47 Contracting Parties as against 38 the previous year; the Istanbul Convention and the Harmonized System Convention now boasted 50 and 121 Contracting Parties respectively.
23. In contrast, there were still only two Contracting Parties to the Convention on Mutual Administrative Assistance in Customs Matters (the Johannesburg Convention), namely Albania and India. It was time to think about the Members' lack of interest in this vital topic, in order to uncover the causes of this failure.

International profile

24. The Secretary General then drew Members' attention to the WCO's higher profile on the international scene, reflected in particular by the fact that many distinguished persons had visited the WCO, including the President of the Republic of Paraguay, Japan's Senior Vice-Minister of Finance, Côte d'Ivoire's Minister of Finance and the President of the European Commission.

The WCO remains at the heart of the international community's concerns

25. Under this head the Secretary General addressed three main themes : trade facilitation, combating counterfeiting and piracy, and the security and facilitation of trade.

Trade facilitation

26. In response to the Members' expressed wish for synergy with the WTO, the WCO had participated in the launch of the negotiations in Geneva, providing instruction and information about WCO instruments. However, it was now up to WTO Member governments to negotiate within that Organization, and the Secretary General therefore called on Member administrations to take over from the WCO in the WTO negotiations. He added that a meeting with the WTO Director-General would be set up early in 2007, to examine partnership possibilities.
27. The time had come to launch the 2007 version of the Harmonized System, and ensuring its implementation by Customs services and by the private sector was the latest challenge facing the WCO, which was ready to tackle the task with the help of a series of instructional tools prepared for the purpose, plus the global launch conference taking place in Brussels on 26 and 27 September 2006, and six regional events. The Secretary General asked Members to take all necessary steps at the national level to ensure the successful implementation of the new version of the Harmonized System.

Combating counterfeiting and piracy

28. The Secretary General stressed that the Summit Declaration from the United States/European Union Summit held on 21 June 2006 had given anti-counterfeiting and anti-piracy measures a high political profile and had made such measures a priority, to be addressed by greater co-operation between Customs administrations, enhanced partnerships with the private sector and the implementation of coercive control measures at the borders. There was every reason to believe that this would be confirmed by the G8 Final Declaration, with G8 due to meet in Saint Petersburg in July 2006 and in Germany in June 2007.
29. It was therefore essential that, with the assistance of a fully-mobilized Secretariat, the WCO should strengthen the position of Customs administrations by means of, in particular :
- an Appendix to the SAFE Framework of Standards, setting out the standards to be implemented in order to combat counterfeiting and piracy;
 - a Customs capacity building kit;
 - an action plan;
 - greater co-operation, in the framework of the existing structures; in this connection a Task Force had been set up to deal with certain specific issues (such as Internet sales, free zones, the powers of Customs officials).
30. The Secretary General then presented the calendar of forthcoming initiatives in this area :
- a Regional Congress on Combating Counterfeiting and Piracy would be held in Bucharest (Romania) on 11 and 12 July 2006, in co-operation with Interpol, the World Health Organization (WHO) and the World Intellectual Property Organization (WIPO);
 - subject to confirmation, a Regional Forum would be held in a Persian Gulf State;
 - a pilot Seminar on counterfeit medicaments and piracy would take place in Dakar (Senegal) in the Autumn of 2006;
 - the Third Global Congress on Combating Counterfeiting and Piracy would take place at WIPO headquarters in Geneva (Switzerland) at the end of January 2007;
 - a Regional Seminar on counterfeit medicaments was scheduled for February 2007 in Baku (Azerbaijan).
31. He also informed Members that he had received numerous requests for initiatives focusing on specific product sectors such as sport, automobiles, mobile phones, etc., and invited them to express their needs in this area.

Security and facilitation of trade

32. The Secretary General informed Members that a Private Sector Consultative Group had been established, and that the High Level Strategic Group had held two meetings : one in Miami (United States) on 10 and 11 October 2005, and the second in Shanghai (China) on 26 and 27 April 2006.
33. The central topic for these meetings had been the SAFE Framework of Standards, the WCO's flagship instrument which was recognized as such by the Customs community : 136 Members had signed the Letter of Intent, 60 Members had completed the Self-Assessment Checklist, and 103 Members had requested a capacity building policy.
34. However the Framework was also, and above all, an instrument reflecting tremendous solidarity within the WCO, co-ordinated by the Secretariat, in the sense that it had given rise to significant financial sponsorship (in the form of voluntary contributions by India, Italy, Japan, South Africa, Sweden and the United Kingdom, amounting to about 700,000 euros), technical sponsorship (through diagnostic missions conducted with the participation of Australia, Canada, Finland, Italy, Japan, Norway, the Russian Federation, Sweden and the United Kingdom), and political sponsorship (through missions conducted by Canada, France, Sweden, the United Kingdom and the United States).
35. The Secretary General then drew Members' attention to two outstanding issues. The first related to the need to ensure that the implementation of the Framework proceeded harmoniously; this could be achieved only through a regional dimension which could be acquired, for example, by holding a regional ministerial meeting. The second was that the Framework needed to be supplemented by, on the one hand, the adoption of a definition of Authorized Economic Operator and the related benefits and, on the other, the preparation of a "road map" on mutual recognition.

The Columbus Programme

36. The Secretary General said he was very proud to see the WCO conducting such a large-scale capacity building programme which, although still in its infancy, had already achieved a great deal :
- at 30 June 2006, 30 diagnostics had been carried out : 17 by the Secretariat and 13 by Members;
 - by 31 December 2006, 83 diagnostics would have been carried out : 36 by the Secretariat and 47 by Members;
 - by 30 June 2007, 103 diagnostics would have been carried out : 52 by the Secretariat and 51 by Members.
37. He made it clear that, with co-ordination and mobilization on the part of the Secretariat, all requesting Members would have had the benefit of a diagnostic by the time of the June 2007 Council Sessions.
38. Nevertheless, the Secretary General noted that there were two important issues to be taken into account. Firstly, it was politically difficult for Member administrations to

justify the wait for their diagnostics, and it had to be determined whether workshops were the right answer. Also, once the stage of developing and adopting an action plan for implementation had been completed, it was necessary to identify the appropriate strategy for seeking the funding required by Members, which should now come to the fore in relations with the donors.

39. Finally, the Secretary General proposed - remarking that this would also be in the interests of the Organization - that support be given to regional structures in the Caribbean and Pacific areas, such as the Caribbean Customs Law Enforcement Council (CCLEC) and the Oceania Customs Organization (OCO), through tangible capacity building activities conducted by WCO Members which were active in those areas, for the benefit of the Customs administrations of non-Members of the WCO.
40. The Secretary General concluded his report by thanking the Chairs of the WCO Technical Committees and the regional Vice-Chairs, without whom the Organization could never have attained its current level of expertise and effectiveness.
41. The CHAIRPERSON thanked the Secretary General for his comprehensive report and indicated that discussions on the points raised would take place under the relevant Agenda items; consequently, the Council merely took note of the Secretary General's oral and written reports.

4. POLICY MATTERS

42. The CHAIRPERSON invited participants to consult the Reports on the Policy Commission's 54th and 55th Sessions (Docs. SP0202 and SP0217), which had taken place in Brussels in December 2005 and June 2006 respectively. Most of the Agenda items discussed at the 54th Session had been further developed and expanded upon at the 55th Session, but there were two issues to be submitted to the Council directly from the 54th Session.

(a) WCO Committee Working Parties

43. The CHAIRPERSON indicated that, at the proposal of the Secretariat, the Policy Commission had agreed to recommend to the Council that the Enforcement Committee Working Party be discontinued, and that the Harmonized System Committee Working Party be maintained.
44. The Delegate of MOROCCO suggested that it might be appropriate to maintain the Enforcement Committee Working Party, as there was much work to be done in the important area of combating counterfeiting and piracy.
45. The CHAIRPERSON pointed out that while this work was indeed essential, it would be carried out by the Enforcement Committee which would, of course, continue to exist unchanged.
46. The Council decided to discontinue the Enforcement Committee Working Party and maintain the Harmonized System Committee Working Party.

(b) Rule of Succession for the post of Secretary General

47. The CHAIRPERSON recalled that one of the few outstanding Governance issues related to the need to lay down a clear course of action to be followed in the event that a WCO Secretary General was unable or unwilling to complete his or her term of office for any reason. The Policy Commission was proposing that the Council adopt a Rule of Succession under which, in essence, the Deputy Secretary General (or, should that post be vacant at the time, the longest serving of the WCO's Directors) would take over as acting Secretary General until the Council appointed a new Secretary General at the following Council Sessions.
48. The Council adopted the Rule of Succession for the post of Secretary General, as reproduced at Annex III to these Minutes.
49. Having dealt with the two issues arising directly out of the Policy Commission's 54th Session, the Chairperson then proceeded to present to the Council, item by item, the key outcomes of the Policy Commission's 55th Session as reported in Doc. SP0217, and in an executive summary of that document which was distributed to delegations.

(c) Security and facilitation of the trade supply chain

50. The CHAIRPERSON pointed out that, following lengthy discussions on this important issue, the Policy Commission had taken note of the Report on the Fifth Meeting of the High Level Strategic Group on Security and Facilitation, held in Shanghai, China in April 2006. Moreover, after detailed discussions on certain key issues, notably the Authorized Economic Operator (AEO) standards and the future of the High Level Strategic Group, the Policy Commission had reached agreement on the text of a Resolution on the SAFE Framework of Standards, which the Council was invited to examine and, if appropriate, adopt.
51. The Delegate of GREECE suggested an amendment to the second paragraph of item 5.2 in the draft Resolution, to reflect the importance of the work to be done in the area of combating counterfeiting. His proposal was that the words "the High Level Strategic Group shall prepare and recommend an Appendix to the SAFE Framework of Standards on the issue of combating counterfeiting" in that paragraph be replaced by "the High Level Strategic Group shall give priority to preparing and recommending an Appendix to the SAFE Framework of Standards on the issue of combating counterfeiting".
52. There being no objections, the CHAIRPERSON indicated that the Council had agreed to amend the draft Resolution accordingly.
53. The Delegate of ARGENTINA welcomed the draft Resolution, including in particular its recognition of the need to consider how best to accommodate small and medium sized enterprises (SMEs) in the context of the SAFE Framework of Standards. The need to include some form of reference to SMEs had come under discussion among Customs administrations at recent gatherings in his region, and Argentina would be willing to contribute information about the very active role played by its SMEs in international trade.

54. The Observer for THE INTERNATIONAL AIR CARGO ASSOCIATION (TIACA) agreed with the point raised by the Delegate of Argentina, adding that in trade terms SMEs were not an underprivileged minority but, numerically, an underprivileged majority. Whereas prior to 9/11 Customs had operated various flexible risk management systems which enabled small businesses to obtain at least some degree of facilitation, more recent incentive systems were much more rigid, tending to exclude SMEs which were unable to comply with a set package of requirements. It was important that this situation be remedied by introducing a more widely accessible system consisting of a series of graduated steps, rather than attempting to adopt a "one size fits all" approach to the SMEs.
55. On the related subject of capacity building, he welcomed the diagnostic study initiative but asked to what extent the various private sector interested parties, including trade, ports, the banks, Customs agents, etc., would be advised of what the diagnostic studies had revealed about their own performances. Customs needed the support of these parties in order to operate effectively, and therefore private sector capacity building efforts were also worth stimulating.
56. The Delegate of ECUADOR said that, as a representative of both a Latin American country and a developing country, he had been particularly pleased by one aspect of the draft Resolution, namely the importance attached to the Columbus Programme. The Secretary General was to be congratulated on his determination to ensure that capacity building was made available to all Customs administrations world-wide. The Delegate of Ecuador also took the opportunity to mention his country's concerns with regard to another issue touched upon in the draft Resolution, namely IPR infringements. Ecuador's National Congress was planning to adopt a law on this subject. Finally, it would be helpful if greater emphasis was placed on technical assistance in the area of Customs fraud, this being one of the biggest problems facing developing countries. COMALEP, the organization for Latin American Customs administrations of which Ecuador was a Member, would also benefit from more technical assistance.
57. The Delegate of SWEDEN, referring to item 4.5 of the draft Resolution concerning the need to enhance the Capacity Building Fund, announced that the Swedish Government had decided to make an additional voluntary contribution of 216,000 euros to the WCO for the conduct of capacity building activities in Sub-Saharan Africa under the Columbus Programme.
58. The CHAIRPERSON OF THE PRIVATE SECTOR CONSULTATIVE GROUP (PSCG) recalled that the Group, comprised of 30 major companies and trade associations, had been set up to advise the High Level Strategic Group (HLSG) and the Secretariat on the implementation of the SAFE Framework of Standards and other matters as needed.
59. The PSCG had submitted a report to the HLSG's April 2006 meeting, containing its recommendations for making the AEO standard a global one, with the ultimate goal of securing supply chains and facilitating trade. Her remarks to the Council would focus primarily on the issues addressed in parts 3 (Authorized Economic Operator) and 6 (Consultation with Private Sector) of the draft Resolution.

60. In general, the PSCG :
- fully supported the WCO in establishing a set of global standards to secure and facilitate global trade;
 - recognized the importance of a common understanding by both Customs and trade of what was required to achieve AEO status;
 - believed that AEO programmes needed to provide for recognition of other international standards where those standards were identical or comparable;
 - believed that AEO programmes should be voluntary, not mandatory, and should recognize various business models and corporate risk assessment procedures;
 - endorsed pilot programmes and other capacity building initiatives;
 - believed that benefits should be tangible, clearly defined, measurable, reportable, and in addition to normal levels of service provided to non-AEOs; and
 - recognized that mutual recognition was one of the benefits which would be critical in securing corporate support for national AEO programmes.
61. The PSCG Chairperson added that the latest version of the AEO standards, reproduced in Doc. SP0218, represented an improvement on the previous draft and thus illustrated the value of close and continuing consultation between the HLSG and the PSCG. The PSCG was pleased that many of the recommendations contained in its report to the HLSG's April 2006 meeting had been incorporated in the latest version.
62. With regard to the new introductory section of the AEO standards, the PSCG suggested that to consider the guidelines contained therein as "baseline guidance" to be supplemented by national AEO programmes might be counterintuitive to the goal of not burdening the trade with different sets of security guidelines.
63. The simplification, harmonization and standardization of procedures and practices remained useful steps towards the removal of security and trade obstacles and towards the reduction or minimization of costs and delays. The PCSG encouraged further discussions as to how the HLSG and the Secretariat envisioned overcoming the admittedly complex issue of mutual recognition and global implementation in the face of divergent national standards.
64. The PSCG Chairperson also indicated that while the PSCG had never been enthusiastic about the inclusion of normal commercial compliance requirements (Sections A, B and C of the AEO standards), it considered the revised version of these sections to be an improvement on prior drafts and therefore acceptable.
65. The PSCG believed strongly that vague language contained in the "Demonstrated Compliance with Customs Requirements" and "Financial Viability" sections would require further clarity for a consistent implementation of the AEO requirements in compliance with the SAFE Framework. In the development of national programmes, it should not be forgotten that the initial aim of the AEO global standards was not to create an automatic mechanism for sanctions, but rather to implement a tool

to protect the AEO programme from abuses. The PSCG recognized that the requirements under these sections could be very complicated as a result of striving for precision or seeking exhaustive global definitions.

66. The PSCG Chairperson indicated that the PSCG strongly supported the ultimate goal of global mutual recognition, seeing this as an essential component of the future success of the implementation of the SAFE Framework.
67. Turning to the part of the AEO standards dealing with “Benefits to the Authorized Economic Operator”, the PSCG Chairperson said that these benefits should act both as an “incentive” for investing in the development of an AEO programme at the national level, and as a “reward” for good performance once accepted into the programme. As indicated in the AEO standards, the benefits should be clearly defined, tangible, meaningful, measurable and reportable. In particular, small and medium sized companies should see immediate, real benefits of building an AEO programme into their margin.
68. The PSCG recognized that the AEO standards was a living, dynamic document, and as such would expect to see improvements in the future as best practices were shared within and among Customs administrations and the private sector. The PSCG, while supportive of the adoption of the AEO standards, believed that additional work needed to be done in collaboration between the HLSCG, the Secretariat and the PSCG. The PSCG looked forward to, and was committed to, providing its business practical advice and perspective to the process of developing and implementing standards for secure trade.
69. The Delegate of the UNITED STATES commended the Organization on its extraordinary response to the changes which had taken place in the political and economic environment, particularly as regards the adoption and implementation of the Framework of Standards. United States Customs and Border Protection would continue its leadership role and its commitment to the WCO and its Members in regard to this important work. The United States had pledged to provide capacity building assistance to support the implementation of the Framework of Standards, and over the past year Customs and Border Protection had been very busy living up to that commitment. Moreover, he was pleased to announce that Customs and Border Protection would be seconding another Technical Attaché to the Capacity Building Directorate, to work on the implementation of the Customs-to-Business Pillar of the Framework.
70. The Delegate of the United States took the opportunity to express his support for both the draft Resolution submitted to the Council by the Policy Commission and the AEO standards as presented. He also supported the continuation of the work of the HLSCG, with its expanded participation and role.
71. Finally, he highlighted the importance of good relationships built on mutual understanding. In an environment of growing international trade and heightened security, he believed that no administration could afford to work in a vacuum. Success would be contingent upon partnerships with other Customs administrations.
72. The Delegate of SWITZERLAND said that, as he had indicated on previous occasions, he had considerable reservations about the Framework of Standards as he believed that the rules incorporated therein were too burdensome for the private sector.

The AEO standards set out in Doc. SP0218, currently under discussion, were too detailed and too complicated. He welcomed the fact that the private sector had been able to present its views to the HLSG at its April 2006 meeting, but having listened to the intervention by the Chairperson of the Private Sector Consultative Group he had to say that her statements were not borne out by his own contacts with private sector representatives. In his experience, the private sector, and SMEs in particular, were highly critical of the proposed AEO standards. He questioned whether every single provision in those standards would really have the effect of improving supply chain security or facilitating trade.

73. The implementation of the AEO standards would be very time-consuming and costly for business, and particularly for SMEs, and at a time when the governments of many countries were attempting to lighten the administrative burden for the private sector, and the WTO also was working towards increased trade facilitation, he was disturbed to see the WCO moving in the opposite direction entirely. Specifically he found the provisions of parts G, H, I and J of the AEO standards to be excessively detailed, and if it was not possible to do away with the standards altogether, then at least those parts should be deleted.
74. Another problem with the AEO standards was that, in his view, even developed-country administrations would find it extremely difficult to implement all of the provisions in an environment of diminishing staff resources. The credibility of the WCO was at stake here, if the Organization continued to adopt rules which its Members might not be able to apply in practice.
75. The Delegate of MEXICO said that excellent work had been carried out on the implementation of the new supply chain security provisions, and IT systems had a particular role to play in this regard. Mexico was honoured to announce that it had been selected to host the 2007 WCO Exhibition and Conference on Information Technology and Communications Technology, and he wished to take this opportunity to invite all Members to attend the 2007 edition of this increasingly important event.
76. The Delegate of RWANDA, in his capacity as Vice-Chairperson for the WCO's East and Southern Africa (ESA) region, commended the Secretariat for its good work and expressed particular appreciation of the pace at which the new Capacity Building Directorate was working to help Members implement the Framework of Standards. He thanked the donor community for assisting the WCO and its Members with the conduct of the diagnostic missions which were so vital in this respect. In May 2006, the Members in the region had decided to establish a Regional Capacity Building Centre in Nairobi, Kenya, and had approved the establishment of a Regional Training Centre in Zimbabwe. The intention was to create centres of excellence in the region in order to build capacity and implement the Framework.
77. The Delegate of KENYA recalled that, earlier in the session, a request had been made for volunteer administrations to pilot the Framework of Standards, and indicated that the Kenyan Administration would like to avail itself of this opportunity. She also welcomed the SAFE Framework initiative, and applauded Sweden's decision to provide further support to Sub-Saharan Africa.
78. Turning to the establishment of the ESA Regional Customs Capacity Building Centre in Nairobi, she said that Kenya, having been named the previous year as the co-ordinator for training and capacity building for the region, had worked tirelessly to

deliver what she hoped would be a role-model capacity building centre, and had placed considerable human and financial resources at the region's disposal in order to bring the Centre into operation. She expressed her Administration's appreciation of the huge support received for this venture from the WCO, the regional Vice-Chairperson and the Members in the region, and thanked the Swedish and the other Nordic Governments for their invaluable contribution, which had included the secondment of a senior advisor to assist the Centre. A great deal still remained to be done, and she called upon the WCO, the membership and the donor community to step up their support for the Centre so that it could deliver on its mandate. This support would be particularly crucial as the Centre readied itself to address the implementation of the recommendations arising out of the diagnostic studies which were currently under way. Finally, the Delegate of Kenya said that she wished to present a gift to the Secretariat to commemorate the formal launch of the WCO ESA Regional Customs Capacity Building Centre.

79. The Delegate of FRANCE expressed his strong support for the intervention made by the Delegate of Switzerland. While he recognized that security concerns would henceforth occupy an important place in Customs missions, it was essential to avoid creating a security bureaucracy which would have a disastrous impact on world trade. The Framework of Standards was worthwhile, but it was not necessarily suitable for all types of businesses; the major multinationals had the resources to cope with it, but international trade was not the preserve of the multinationals alone. A multitude of SMEs were involved, and they did not necessarily have the human and technical resources needed to meet the excessively bureaucratic requirements imposed by the SAFE Framework. There was a risk that SMEs, which were the main drivers of economic and social activities, would be discouraged from international trade. This carried with it the danger of creating a paradoxical situation in which, while tariff barriers were falling and the globalization of trade was becoming a reality, Customs was busy erecting new, security-related barriers and would be criticized for doing so by the economic players.
80. Against that background, he believed that it was important to avoid adopting an excessively standardized approach. A degree of flexibility and pragmatism was needed where the AEO standards were concerned, as he was convinced that, in their present form, they would dissuade most SMEs from even considering applying for AEO status. In these circumstances, he advocated a cautious approach to the proposed standards.
81. The Delegate of SENEGAL joined previous speakers in expressing his appreciation for all that was being done to provide capacity building under the Columbus Programme, and in thanking the Swedish Administration for its continuing commitment to Customs administrations in Sub-Saharan Africa. Moving on to the work of the High Level Strategic Group, of which Senegal was a member, he noted that under the terms of the draft Resolution submitted to the Council by the Policy Commission, the HLSG was to be wound up after one more year. He found this somewhat surprising, as it was recognized that the HLSG had done excellent work and its principal product - the Framework of Standards - was regarded as one of the WCO's finest achievements. There were a number of contradictions here : despite the fact that the HLSG was to be disbanded after one more year, the Resolution extended its competence (to cover counterfeiting) and broadened its participation; moreover, the Private Sector Consultative Group set up to advise the HLSG was to continue in existence. He proposed that paragraph 5.2 of the draft Resolution be amended to state simply that the HLSG would continue with its work.

82. He recognized however that there was a problem where representation was concerned. Many countries which wished to belong to the HLSG were excluded from it. The same problem applied to all of the Organization's specialized groups, and for that reason the number of groups of this kind should be restricted, their spheres of competence should be clearly defined so that they did not replace the WCO's statutory bodies, and the developing countries should be assured adequate representation. One important point here was that the same countries should not be permitted to sit on all of the "restricted membership" bodies.
83. The Delegate of JORDAN said that, in 2005, his Administration had initiated a voluntary self-compliance programme called the Golden List programme, for manufacturers, importers, exporters, transporters, Customs clearing agents and other Jordanian supply chain companies. Companies which were exercising Customs due diligence, had supply chain security procedures in place and had a good compliance history were qualified to join the programme, which had been developed and implemented in partnership with the Jordanian private sector and whose members would qualify as AEOs under the Customs-to-Business pillar of the Framework of Standards. Jordanian Customs also intended to implement the Customs-to-Customs pillar, and was seeking mutual recognition of the Golden List programme with Jordan's trade partner countries. For that purpose, information about the Golden List programme had been circulated to 20 such countries.
84. The Delegate of INDIA joined previous speakers in congratulating the Policy Commission on the draft Resolution it had placed before the Council. The Framework of Standards, which involved a certain degree of modernization of Customs, should help to promote the swift movement of goods which was an important trade facilitation objective. On the subject of modernization, Indian Customs had recently introduced an electronic data interchange system in 34 locations and proposed to introduce it in a further 35 locations in the course of 2006. Indian Customs had also set up a risk management system with an accredited client programme, and would be seeking to co-operate with trade partners in that area. Nevertheless, it was important to recognize that there were wide divergences between countries in respect of supply chain management, Information Technology and the integration of information, and therefore much patience and capacity building would be needed in order to attain the objectives set by the Framework of Standards.
85. The Delegate of India added that while he had not yet had an opportunity to look in detail at the AEO standards set out in Doc. SP0218, he agreed with previous speakers that it was essential for AEO status to produce major, tangible benefits which outweighed the costs and administrative burden, as the success of the system would depend essentially on private sector participation. The Organization would need to proceed gradually with this project, reviewing how the system was working and making changes accordingly. For this reason, he agreed with Senegal that the HLSG had an important role to play in overseeing progress and providing useful input to the Policy Commission. Therefore he saw no logic in terminating its existence after one more year.
86. The Delegate of BRAZIL congratulated the Secretariat and the Customs community on the Framework of Standards, indicating that at its last meeting the Americas region had reaffirmed its interest in promoting the Framework as an essential instrument for developing the modernization of Member administrations. The region had adopted a regional strategy for capacity building which would allow for the sharing

of information in this important area, and had decided to establish two Regional Training Centres, in the Dominican Republic and Venezuela. The Members in the region had also agreed to work together to translate the e-learning modules into Spanish so that more administrations could avail themselves of them, noting that language problems could be a barrier to progress in capacity building.

87. The region had also agreed that the Latin American countries should commit to the Columbus Programme by offering to have officers trained as diagnostics specialists. Brazil, for example, would be sending a Customs officer to the seminar in Peru so that, once certificated, he could be integrated in the WCO pool of diagnosticians.
88. The Delegate of Brazil added that Brazil was one of the countries which had already benefited from a diagnostic mission, and she took the opportunity to thank Canada and the WCO Secretariat for a very useful and well-conducted exercise which had yielded excellent results. In addition to dealing with technical and operational issues, the diagnostic had also analysed the Administration from a more structural standpoint, enabling it to better manage a sustainable modernization process. Brazil was in the process of drawing up an action plan to address the various issues which had emerged from the diagnostic exercise. It was hoped that the Capacity Building Directorate would offer Brazil support in the implementation of the action plan, particularly with regard to the suitability of the plan and the evaluation of the results.
89. Finally, the Delegate of Brazil indicated that, at the Americas regional meeting, a working group had been set up to address IPR issues, which were of great concern to all WCO Members.
90. The Delegate of the RUSSIAN FEDERATION highlighted the importance of the Framework of Standards, indicating that his country's Government had approved a strategy for the development of the Federal Customs Service which would involve the implementation of the standards in both pillars of the Framework of Standards document. As part of the strategy, there were plans to introduce a new system of Customs clearance and control which would comply with the Framework, and the existing Customs legislation would be amended accordingly.
91. The Federal Customs Service had developed a plan for the implementation of the Framework of Standards throughout the territories of the Commonwealth of Independent States (CIS) countries, in consultation with the WCO. In March 2006, a workshop had been conducted by WCO experts at the Russian Training Centre, to help train diagnosticians from the CIS countries. In June 2006, a training seminar had been held at the Training Centre to study the Framework of Standards, for participants from the Kazakhstan, Kyrgyzstan Tajikistan, Belarus and Azerbaijan Customs authorities. Under the Columbus Programme, the Russian Federation was helping the Customs administrations of a number of CIS countries to determine their readiness to implement the Framework of Standards, and was prepared to provide them with further assistance, including the organization of training seminars and the provision of experts to conduct diagnostic missions.
92. Turning to a policy issue raised by previous speakers, the Delegate of Russia said that his Administration, which had been a member of the High Level Strategic Group, considered that the Group's mandate was now fully exhausted and did not believe that it should be extended for more than one year.

93. The Delegate of NEPAL said that given the various constraints faced by the Customs administrations of the least-developed countries, special attention needed to be given to the development of those administrations, through technical assistance, capacity building and similar measures.
94. The Delegate of MOROCCO commended the Secretary General and his staff on the excellent work done, particularly in assisting Customs administrations with capacity building and the implementation of the Framework of Standards. The Moroccan Administration had included in its general strategic plan for the year in progress and the next three years, a number of objectives which were closely based on the Framework. The Administration had drawn up a communications strategy to explain the objectives of the Framework of Standards and the benefits expected to flow from its implementation, which was directed not only at Customs staff but also at economic operators and other national authorities. It was also engaged in a process of categorizing businesses with a view to affording them the best possible Customs processing facilities, in keeping with the spirit and the objectives of the Framework of Standards. This process should lead to the granting of AEO status. Where small and medium sized enterprises were concerned, Morocco's National Agency for the Promotion of SMEs, a State-run body, had agreed to bear part of the cost of the auditing tasks which would need to be performed as part of the process for granting AEO status to SMEs.
95. The initiatives taken by the Customs Administration would be consolidated and supplemented by the results of the diagnostic study to be carried out in October 2006 by WCO experts, and the Delegate of Morocco wished to thank the WCO, the European Union and the donor countries, notably France and Italy, for supporting his Administration in this process.
96. Finally, he took the opportunity to comment on a policy issue raised by the Secretary General during his oral report to the Council, namely the failure of Members to accede to the Johannesburg Convention. He suggested that a body be set up to look into the reasons preventing Members from acceding and propose remedial measures to the Council at its next Sessions.
97. The Delegate of NAMIBIA echoed the Secretary General's request for voluntary contributions from Members. A concerted effort was needed, given that a chain was only as strong as its weakest link and if any administration was prevented by financial constraints from implementing the new programmes, this weakness would spill over to other countries. He expressed his Administration's gratitude to Sweden and, above all, to the Japanese Administration for the initiatives taken to support the Members in sub-Saharan Africa, and urged them to continue with their efforts.
98. Turning to another issue raised by the Secretary General in his oral report, and discussed by the Policy Commission, the Delegate of Namibia expressed concern that the Secretariat would henceforth be playing a smaller role in the WTO trade facilitation negotiations, with the result that Member administrations would have to take over the task of expressing Customs viewpoints through their national WTO delegations. In practice, many Customs administrations were consulted on WTO matters by their Trade and Industry Ministries only at a late stage in the process, when it was too late to influence the national position. He therefore suggested that the Council make a recommendation to national Ministries of Finance, urging them to take trade facilitation issues seriously, bearing in mind that Customs would have to implement whatever

trade facilitation measures might emerge from the WTO negotiations and would be blamed for any failure to do so successfully. Moreover, the Secretariat should not give up its efforts to participate, and should seek other ways to influence the trade facilitation agenda at the WTO.

99. The Delegate of GERMANY agreed with the Delegate of the Russian Federation that, where the future of the High Level Strategic Group was concerned, it would be wise to follow the Policy Commission's recommendation, which was based on a compromise, that the HLSG be discontinued after one more year. He would not contest the quality of the work done by the HLSG, which had been praised by many delegations, but noted that the Group had been established for a single purpose which had almost been achieved. He added that Germany did not consider that the work of the Group in the past had been transparent and representative, or that it had taken account of the interests of all the countries represented in the Council. If the Group were to continue in the longer term, some Members might have to ask themselves whether they felt bound by its outcomes, and this in itself would prevent the swift implementation of the Framework of Standards.
100. The Delegate of FINLAND remarked that the Framework of Standards, being a framework, could not provide a detailed operational code of conduct for Customs or for its clients, the private sector. This did not prevent it from being the WCO's greatest achievement to date. Nevertheless, there was a need for some practical elements, including in particular the AEO concept. Customs' task was to facilitate trade for those companies which were willing and able to follow the rules imposed for international trade, whilst at the same time paying attention to security concerns. Proper risk analysis provided the means of reconciling these two requirements. Interventions by private sector representatives and by some Customs colleagues suggested that there were concerns about a possible increase in bureaucracy in relation to the requirements for AEO status, and this risk had to be borne in mind as the introduction of an excessively burdensome procedure would of course be counterproductive given the aim of facilitation. It was for the private sector itself to indicate how these problems could best be addressed in practice, particularly in relation to SMEs, and for this reason the interface with the private sector was of vital importance.
101. It was also essential, as the Delegate of Namibia had indicated, that Customs issues be taken into account in the WTO trade facilitation negotiations. There was no clearcut answer as to how this could best be achieved, given that Customs administrations generally fell under their national Ministries of Finance, while commercial policy issues, such as trade facilitation, were handled by Ministries of Trade. The Secretariat had done excellent work on this issue with the WTO, and should be encouraged to continue.
102. Finally, the Delegate of Finland noted that capacity building would be the key to the successful implementation of the Framework, but unfortunately there were many problems to be overcome in this area. A good start had been made through the diagnostic missions, which were an effective means of identifying the problems of the individual administrations being studied, but the obvious outcome of diagnosis was that a reform programme be developed to remedy the problems which had emerged. This raised the issue of financing, as reform programmes were likely to be very expensive given the frequent need for advanced IT hardware and software. Co-operation with the World Bank and other potential donors would be of vital importance in this context.

103. All in all, the Delegate of Finland was convinced that the Framework of Standards was an excellent concept on which the WCO would be able to build in the years to come, as an essential starting point for further co-operation in the Customs field.
104. The Delegate of NORWAY said that, in June 2005, the Council had taken a historic decision in adopting the Framework of Standards and organizing the Capacity Building Directorate within the WCO. Moving from guidelines to standards was an important step forward and the programme had experienced a powerful take-off, in good co-operation and co-ordination with a number of Members and international organizations. She expressed her appreciation of the Secretariat's efforts to promote dialogue and co-operation as a means of securing progress with this important issue, both now and for the future.
105. The Delegate of Norway then took the opportunity to focus attention on the importance of diversity and equality in the WCO, noting that it was important for the Organization to operate in accordance with the UN Conventions on the elimination of all forms of discrimination. Therefore the Organization should promote genuine equality, irrespective of gender. Women were recognized as a national resource within the Member States; this fact should be reflected in the WCO's policy and daily work, and this would serve to strengthen the Organization.
106. The Delegate of CHINA congratulated the Secretariat on the excellent achievements of the previous year. The issues of supply chain security and facilitation and capacity building had become priority topics for the Customs community. Through the combined efforts of the WCO and all Member administrations, the Secretariat had achieved tremendous success in this regard, and Customs administrations had played a more pivotal role in international trade. In its capacity as Vice-Chair for the Asia/Pacific region, China Customs had in the past year maximized its efforts to co-ordinate and encourage the efforts of Members in the region to remain abreast of important WCO issues. China Customs' term as Vice-Chair would come to an end after the current Council Sessions, but China Customs would continue to maintain its co-operation with the Secretariat and with other Members and would make every effort to enhance and highlight the leading role of the WCO, as well as promoting the Framework of Standards and doing what it could to help with capacity building in other administrations.
107. The Delegate of PAKISTAN remarked that the AEO programme was voluntary. As it had been stated that the programme was more suited to the larger enterprises, it would seem preferable to allow them to be the first beneficiaries, who would set the standards and demonstrate the benefits to others. Administrations should then strive to create a core group of SMEs to follow in the footsteps of the large enterprises, while moving towards risk management systems so as to ensure greater controls through audit mechanisms. He believed that the HLSG should continue in operation, so that it could adapt the AEO standards to suit the evolving dynamics of the Framework of Standards during the implementation phase.
108. The Observer for SITPRO began by taking up a point made by the Delegate of Namibia regarding the WTO trade facilitation negotiations. During the past year SITPRO had continued to play an active supporting role to the negotiations, through the Boksburg Group which it had created. The next meeting of the Group was due to take place in August 2006 in Zambia. Also, SITPRO had published a guide to the WTO negotiations, which could be found on its Web site.

109. Turning to the subject of AEO status, he said that SITPRO, a PSCG participant, fully supported the statement made earlier by the PSCG Chairperson. He had great sympathy for the views expressed by the Delegates of Switzerland, Finland, France and India in particular. While SITPRO supported the aim of an international standard and agreed that the WCO was the most appropriate forum for this, it felt strongly that there should not be a proliferation of different national and regional AEO requirements which could conflict with each other, as this would multiply the cost of compliance and discourage economic operators from seeking AEO status. The Policy Commission Report suggested that the standards set out in Doc. SP0218, which were already very detailed, could be further supplemented by national requirements, but SITPRO agreed with the PSCG Chair that this was to be discouraged. In fact, it was imperative that where there were national standards, they should be kept to a minimum, otherwise traders, who were already sceptical of the value of AEO status given the cost of compliance, would simply lose interest in the scheme. It was also vital that a WCO set of standards on AEO go no further than was necessary to achieve the twin objectives of security and facilitation.
110. The CHAIRPERSON concluded this item by recalling that the Council was being invited to adopt the draft Resolution on the SAFE Framework of Standards put forward by the Policy Commission. While every effort had been made to achieve an optimum balance of security and facilitation, as well as better interconnectivity between administrations, it was clear that some delegates had reservations about the Framework, and those involved in its further development and implementation needed to take those reservations into account. On a more positive note, a number of delegates had indicated that their administrations intended to move to the implementation phase and one had volunteered to pilot the scheme.
111. Many speakers had mentioned their concerns about the impact of the Framework of Standards and AEO status on small businesses, and it was important that this issue also be taken into account. As far as AEO status itself was concerned, the detailed rules were now available, with additional attachment N to be considered further, and the Council had taken heed of the comments made by private sector representatives on the need to avoid the introduction of a diverse range of requirements. In any event, it was quite clear that the benefits for business would have to outweigh any disadvantages, and be seen to do so.
112. On the subject of the continuation of the mandate of the HLSG, the Chairperson remarked that the provisions set out in the draft Resolution represented a compromise arrived at after considerable discussion within the Policy Commission, and urged the Council to accept them in order to avoid interminable debate. The Council could, of course revisit the issue at its next Sessions.
113. Finally, the Chairperson said that while the observation by the Delegate of Norway on the need to promote diversity, and gender diversity in particular, was not strictly related to the issue under discussion, it should nevertheless be noted for future discussion.
114. Subject to these remarks, the Council adopted the Resolution on the Framework of Standards to Secure and Facilitate Global Trade as recommended by the Policy Commission, subject to an amendment to part (5) of the Resolution in order to indicate that priority should be given to the new Appendix to the Framework of Standards on the issue of combating counterfeiting.

115. The Observer for THE INTERNATIONAL AIR CARGO ASSOCIATION (TIACA) said that he had hoped to propose a small amendment to paragraph 3.6 of the Resolution, which dealt with AEO status. Specifically, he considered that instead of consulting on the implementation of the AEO standards by SMEs, the Secretariat should have been tasked with consulting on the implications of those standards for SMEs, as this would have provided an opportunity for a fresh look at the provisions.
116. The CHAIRPERSON proposed a compromise solution, which was accepted by the Council, under which paragraph 3.6 of the Resolution would begin : “The Secretariat shall consult on the implications of the implementation of the Authorized Economic Operator standards by small and medium sized enterprises ...”.
117. The Resolution, as adopted, is reproduced at Annex IV to these Minutes. The Authorized Economic Operator standards, as adopted, are set out at Annex V to these Minutes.

(d) Customs capacity building

118. The CHAIRPERSON invited the Director, Capacity Building, to give a brief account of the progress made by the new Capacity Building Directorate, focusing in particular on the various capacity building issues raised by speakers in relation to the Framework of Standards.
119. The DIRECTOR, Capacity Building, said that the Directorate had been in operation for six months, during which capacity building had progressed from planning to implementation through the introduction of a number of programmes including, in particular, the Columbus Programme. The aim of this Programme was comprehensive modernization through the implementation of the Framework of Standards, but it served also to prepare Members for the possible outcome of the WTO trade negotiations. The Columbus Programme comprised three different phases : needs assessment, which was currently being conducted and which would lead to the recommendation of a “road map” for the future for each individual Member, implementation, and finally monitoring and evaluation.
120. In response to a point raised by the Observer for TIACA, the Director stressed that all three phases involved partnership with other stakeholders in the process, including the private sector. On the specific question of whether the findings of the diagnostic missions would be reported to interested parties, the Director said it was an important tenet of the diagnostic framework that the report and recommendations arising out of the diagnostic process were owned by the authorities of the country concerned. The Secretariat urged countries to make use of the reports and make them available to those who required the information contained therein, but the decision was left to each individual country. Nevertheless, the Secretariat was analysing all the patterns and trends emerging from the diagnostics and would share that information on a general basis with donors and other interested parties, without providing details relating to any specific country.
121. Progress with the Columbus Programme would continue to be charted region-by-region, for the information of the membership. In fact it was believed that the regional structures of the WCO would assume increasing importance, and the Directorate would continue to work closely with them, given that capacity building could be delivered only on a regional or sub-regional level.

122. Work was also continuing on other WCO capacity building projects, including e-learning, blended training and the train-the-trainer programme, and the WCO's Integrity programmes would need to be integrated into the capacity building and modernization work.
123. After recalling that there had already been much discussion of the important issue of capacity building in relation to the Framework of Standards, the CHAIRPERSON invited the Council to adopt the conclusions proposed by the Policy Commission in this regard.
124. Accordingly the Council concluded that :
- in 2004 it had been visionary for creating the Capacity Building Directorate, and the feedback from the Policy Commission had validated that vision;
 - donors and beneficiaries were contributing to the success of Customs capacity building. The donors' efforts were commendable but they needed to be built on;
 - in order to enhance co-operation and avoid duplication, thought should be given to how the WCO and other donor agencies worked together; also, perhaps Ministers responsible for Customs should be more involved in approving/requesting capacity building assistance.
- (e) Trade facilitation negotiations at the WTO**
125. The CHAIRPERSON noted that the Deputy Secretary General had been keeping a watchful eye on developments at the WTO, and invited him to give a brief summary of the presentation he had made to the Policy Commission on the subject of the trade facilitation negotiations.
126. The DEPUTY SECRETARY GENERAL seized the opportunity to clarify the WCO's role in the WTO negotiations, partly in response to the question raised by the Delegate of Namibia. The stage which involved informing negotiators of the Customs role and the WCO's tools, as well as raising the profile of those tools, had given way to the next stage, during which the legal texts would be developed. As a result of the WCO's efforts, and thanks to the support of Customs administrations, WCO instruments were quite frequently referred to in the proposals put forward to the WTO. However, the negotiation of the WTO legal texts would take place between the WTO negotiators, and this was why the Secretary General had mentioned earlier in the Sessions that the WCO would play a smaller role in the formal negotiations.
127. However, when informal meetings took place, regional groups or individual negotiators often sought the Secretariat's advice about the contents of the proposals or the legal texts, so in that way the WCO continued to be engaged. The content of the Message from the Customs community, adopted by the Council in 2003, remained valid, meaning that Customs should be proactively involved in setting the negotiating stance of each nation. As Finland's Director General of Customs had pointed out, the WTO trade negotiators belonged to their national Trade Ministries, so the WCO, with the WTO, the World Bank and other interested parties such as SITPRO, were now conducting regional sessions to promote dialogue between Customs, the Trade Ministries, the Geneva negotiators and other stakeholders on this issue. Needs assessment was another method being employed to raise the profile of Customs and

the WCO and promote dialogue between the stakeholders. However, in the final analysis Member activism was required within each nation : Customs administrations were expected to influence their national negotiating stance, and the WCO was committed to helping administrations to promote the Customs position in their national contexts.

128. The CHAIRPERSON added that after hearing a briefing on developments in respect of the trade facilitation negotiations in the WTO, the Policy Commission had recommended that :
- the Secretariat should continue its work in building good relations and avoid duplication of effort;
 - there must be greater activism amongst Members in these negotiations;
 - the Secretary General should continue his efforts to make the WCO more visible and better known;
 - the Secretariat should compare any WTO legal text with the relevant provisions of the Revised Kyoto Convention in particular, and inform Members of the results of its analysis and any possible implications;
 - the Secretariat should set up a more active feedback mechanism to receive insights more directly from WCO Members. This could take the form of a newsletter to all Members.
129. The Delegate of SENEGAL said that the Policy Commission's recommendation that there should be greater activism among Members with regard to the WTO negotiations was perhaps not quite correct; it was not the Members of the WCO, i.e., national governments, but their Customs administrations which needed to show more commitment to the negotiations and be more closely involved. He added that if the Council was to adopt the Policy Commission's recommendation as its own conclusion on this issue, then in the French version the reference to "activisme" should be replaced by "engagement" or "activité".
130. On a more general note, the Delegate of Senegal emphasized the importance of capacity building in the context of the WTO negotiations on trade facilitation. It was important that the WCO focus its attention on the application of the Framework of Standards, but it also had to be remembered that capacity building should equip Member administrations to implement the outcomes of the WTO negotiations. He also seized the opportunity to thank the Secretariat's Capacity Building Directorate and the United States Administration for the capacity building assistance they were providing to Senegal.
131. In the course of the Sessions, the Delegate of JAPAN reported that he had just returned from Geneva where he had attended the WTO Negotiation Meetings. The negotiations were in a critical phase in view of the efforts being made to conclude them by the end of the year. He informed delegates that the Director-General of the WTO would be visiting the Heads of key WTO Member States with a view to achieving a breakthrough in the talks.

132. In this regard, he expressed his appreciation for the contributions to the negotiations made by the WCO based on its expertise. He believed that the mutually complementary relationship between the WCO and the WTO would further enhance secure and smooth international trade, leading in turn to further economic and social development. In view of the difficulties encountered in the Doha Round talks, a steady and pragmatic approach on the part of the WCO was indispensable in order to advance world trade.
133. The Delegate of Japan took the opportunity of having the floor to emphasize that at the same time as enhancing trade facilitation, there was also a requirement to ensure security. One of the important elements provided for in the Framework of Standards to achieve this difficult mission was the strengthening of non-intrusive inspection abilities. Given limited human resources, it was important to promote research and development (R & D) on effective inspection machines utilizing advanced technology to detect explosives, illegal drugs, chemical and biological weapons, and radioactive materials.
134. In this connection, the Delegate of Japan explained that his Administration had established an Advisory Body on Customs Inspection Machinery in November 2005 and had compiled a report in early June 2006. A summary document had been circulated for delegates' reference.
135. One of the key recommendations by the Advisory Body was the need to establish a database of advanced technology that could be utilized to develop Customs inspection machinery. To develop and deploy inspection machines effectively and efficiently, the joint efforts of industry, government and academia were vital. Customs administrations needed to ensure that their needs were incorporated in the R & D at the earliest possible stage.
136. It was intended that the database include domestic and international information about advanced technology R & D by academia, government and the private sector, as well as the performance details of products developed by private sector co-operation.
137. It was clear that all parties had to work together to counter terrorism, and it was important to facilitate international information sharing on advanced technology for non-intrusive detection of materials used in terrorist activity, whilst taking account of the need to deal with confidential information. The Delegate of Japan therefore requested broad and generous support for Japan's initiative.
138. In conclusion, the Council decided that :
- the Secretariat should continue its work in building good relations and avoid duplication of effort;
 - there must be greater activism amongst Member Customs administrations in the WTO negotiations on trade facilitation;
 - the Secretary General should continue his efforts to make the WCO more visible and better known;

- the Secretariat should compare any WTO legal text with the relevant provisions of the Revised Kyoto Convention in particular, and inform Members of the results of its analysis and any possible implications;
- the Secretariat should set up a more active feedback mechanism to receive insights more directly from WCO Members. This could take the form of a newsletter to all Members.

(f) Combating of counterfeit and pirated goods

139. At the invitation of the Chairperson, the SECRETARY GENERAL reiterated some of the points he had raised on this issue at the Policy Commission session and during his oral report to the Council. The Secretary General said that it was both important and urgent for the WCO to put forward an appropriate response to this priority policy issue. His first point was that neither the Policy Commission nor the Council had been provided with a comprehensive Secretariat study on the scale of the phenomenon or the latest trends; the information for such a study would have to come from Member administrations, which were therefore urged to submit details of their IPR seizures via the CEN. Indeed, it was universally recognized that Customs administrations had a major role to play in IPR protection, and every effort should be made to mobilize them.
140. Pragmatically, the Organization needed to offer a tangible response, in particular by showing how Customs administrations could be involved in the fight against counterfeiting and piracy. Customs-to-Customs and Customs-to-business co-operation were of vital importance in this context, leading to an obvious connection with the Framework of Standards. Therefore, it had been proposed that an Appendix on counterfeiting and piracy be included in the Framework. The Appendix would be drafted by the HLSG, in consultation with the relevant WCO bodies, and would be presented to the Council for adoption in June 2007. Also, in order to draw together all of the activities to be undertaken by the WCO in this area, the Secretariat would draw up an action plan for the Policy Commission to examine in December 2006, so that it could be revised and supplemented as necessary prior to its presentation to the Council in June 2007.
141. Turning to certain specific issues raised in relation to combating counterfeiting and piracy, the Secretary General said that the sensitive and legally complex question of whether nominal data could be exchanged through the CEN in order to provide an operational basis for new seizures, rather than simply reporting those which had already taken place, had re-emerged during the Policy Commission's discussions. Another issue discussed had been how to finance new WCO initiatives on combating counterfeiting and piracy, and specifically whether funds could be sought from other international organizations and from the private sector concerns which were the victims of counterfeiting and piracy. These issues would be taken up in the Secretariat's submission to the Policy Commission in December 2006.
142. The Delegate of BAHRAIN said that the WCO intended to organize a seminar on this issue in the Middle East, and to its great satisfaction Bahrain had been selected to host this event.
143. The Observer for INTERPOL thanked the Secretary General and his team for the very close and efficient co-operation between the two Organizations, based on a Memorandum of Understanding. This co-operation was essential for effective law

enforcement, and in fact was particularly close where IPR issues were concerned. By way of example, the Secretary General had delivered an excellent speech at the Second Global Congress on Combating Counterfeiting and Piracy, and during the week preceding the Council Sessions Interpol and WCO Secretariat officials had conducted IPR training for Ukrainian Customs. On a more general note, Interpol was convinced, as its Executive Director had indicated at the European Regional Conference in Baku earlier in 2006, that co-operation was essential and, coupled with support in special crime areas, provided the basis for good law enforcement. The Observer for Interpol took the opportunity to thank the Secretary General for the support provided to Interpol in other areas of common interest, notably bioterrorism, stolen works of art and arms trafficking.

144. With regard to this high profile area of work, the Council concluded that :

- the WCO Secretariat should be able to provide the Policy Commission and the Council with a precise analysis of the latest trends in trafficking of counterfeit goods and piracy, to give a clearer idea of the scope of these phenomena;
- Customs administrations should take the lead on this priority issue;
- there was a need to devise specific actions through the development of guidelines (Framework of Standards), better use of the CEN, sharing of best practices in terms of risk analysis, more effective co-operation between the public and private sectors and improving the legislative tools;
- an action plan keeping pace with developments in this form of trafficking was required;
- an analysis, within the framework of the Johannesburg Convention, of the possibility of transmitting nominal data was needed;
- prospects for funding this action plan needed to be explored.

(g) Report of the Integrity Sub-Committee

145. The CHAIRPERSON said that the Policy Commission had been informed that a number of WCO Integrity-related instruments were still in use and were being developed further, and the Integrity Sub-Committee was continuing to carry out good work. There was to be another Global Forum on Integrity, Global Forum V, to take place in South Africa in 2007, following on from Global Forum IV which had been held in Brazil.

146. The Council took note.

(h) Report of the High Level Working Group on Capacity Building, Training and Technical Assistance

147. The CHAIRPERSON said that the Policy Commission had noted that the work of this Group clearly overlapped with that of the new Capacity Building Directorate; in future, the activities of this specialist body would not be the subject of a separate Agenda item.

148. The Council took note.

(i) Harmonized System matters

149. At the invitation of the Chairperson, the DIRECTOR, Tariff and Trade Affairs, reported on a series of HS-related issues which had been discussed by the Policy Commission. Firstly, the HS had undergone yet another review cycle, resulting in the 2007 edition which would come into effect on 1 January 2007. It was hoped that HS Contracting Parties would implement this new version in a more timely and widespread fashion than had been the case with previous editions, and to this end a Conference would be held in September 2006 to launch it. All the necessary supporting documentation would be in place by September; indeed some of it was already available and was on display in the margins of the Council Sessions.

150. The Director then turned to certain policy issues related to the HS which had been under discussion for some time. Firstly, he informed the Council that, with regard to the possibility of amending Article 16.4 of the Harmonized System Convention in order to shorten the period for implementation of HS amendments, the Policy Commission was recommending maintenance of the status quo. Secondly, he invited the Council to note, with regard to discussions on advance tariff rulings taking place in the context of the WTO negotiations on trade facilitation, that the High Level Ad Hoc Group on Harmonized System Matters was examining the possible establishment of an advance tariff ruling system at the WCO, as well as looking more generally at how Member administrations could use advance rulings to enhance predictability and transparency for the benefit of their business communities.

151. In conclusion the Council :

- took note of the forthcoming implementation of the 2007 version of the Harmonized System;
- noted the outcomes of the first meeting of the High Level Ad Hoc Group on Harmonized System Matters, which would continue to examine issues concerning the implementation of HS Committee decisions and the possible establishment of an advance tariff ruling system at the WCO, and would report to the Policy Commission in December 2006;
- agreed that the status quo with regard to the period for implementation of HS amendments should be maintained, with the result that no amendment to the Convention was needed in this respect.

(j) Governance

152. The SECRETARY GENERAL said that the Policy Commission had examined the question of the relationship between WCO Members and the Organization and, more specifically, Members' obligations vis-à-vis the Organization. This issue had already been before the Policy Commission, in December 2005, but had been referred to the Commission's June 2006 session. Discussions on the document presented by the Secretariat had revealed that some Members considered the Secretariat's approach to be excessively bureaucratic, and feared that it might complicate relations between Members and the Organization; they believed that, in a small organization like the WCO, there was no need to introduce a highly formal process in order to deal with purely pragmatic issues. Although the Chairperson had pointed out that the Secretariat proposals were a direct result of the Governance study which the Council had endorsed three years previously, the Secretariat had been asked to reorient its approach and present a new document to the Policy Commission in December 2006.
153. The Council noted that it would receive a further report on this matter from the Policy Commission in a year's time.

(k) Audit

154. On the recommendation of the Policy Commission, the Council :
- took note of the action taken by the Secretariat with respect to the management audit for 2003/2004;
 - took note of the financial audit report for financial year 2004/2005 and the recommendations of the Finance Committee relating to that audit report;
 - acquitted the Secretary General of his financial responsibilities for 2004/2005.

Audit Committee

155. The CHAIRPERSON recalled that, at its June 2005 Sessions and on the basis of the recommendations arising out of the governance process, the Council had decided to set up an Audit Committee and had determined its initial composition (Director General of Belgian Customs, Head of Zimbabwean Revenue Authority, Chairperson and Vice-Chair of the Finance Committee and four members of the Secretariat). It had also laid down a set of Terms of Reference for the Audit Committee. During the year that had since elapsed, it had become clear that there was a certain overlap between the functions of the Audit Committee and those of the Finance Committee. He said that of the 19 functions assigned to the Finance Committee in its Terms of Reference, 2 were governance functions and should ideally belong to the Audit Committee.
156. The Chairperson said that, following a lengthy discussion in the Policy Commission on whether both Committees were in fact needed and, if so, what their respective roles should be, a group consisting of the six Vice-Chairs plus the Delegate of Canada had met to deliberate on the matter and make a recommendation to the Council.
157. The Delegate of CANADA explained that the group had met after the Policy Commission session to look in detail at the functions of the Audit Committee and

Finance Committee, and consensus had been reached on a way forward. This had subsequently been conveyed to the other Members through the regional meetings, at which the consensus had been further strengthened. There was general agreement that there existed a clear difference between, on the one hand, the executive and planning “worlds” and, on the other, post-facto checking procedures and audit. The feeling was that the latter should be the responsibility of a separate independent body. The proposal was that the Audit Committee, established by the Council in 2005, should continue for at least three years in order that its functioning could be evaluated.

158. The FINANCE COMMITTEE CHAIRPERSON thanked the Delegate of Canada for his work regarding the Audit Committee and made several points for delegates to bear in mind when considering the Audit Committee question.
159. Firstly, in 2002 the Council had taken a decision not to create new committees if the work could be carried out by an existing body. Indeed, the South African governance consultant had indicated in his report that the Finance Committee could take on all responsibility for the audits. He asked whether there was a business case for the new Committee, about the costs involved and whether additional secretariat staff might be required, pointing out that nothing had been foreseen in the budget currently under discussion. He questioned whether the Council wished to take powers away from the Policy Commission and Finance Committee and whether that was in line with the Council Convention. In fact, in 2005 the Council had decided to strengthen the role and functions of the Finance Committee. He emphasized that the Finance Committee was an independent body and not part of the Secretariat. Moreover, a modern and efficient control system was already in place for internal control, internal audit and external audit, the latter being conducted by the private sector. For a small organization such as the WCO, he felt that there was already enough bureaucracy. He could not understand the reasons for removing the audits, particularly the financial audit, from the Finance Committee, feeling that this seemed to indicate a lack of trust in that Committee.
160. The Delegate of INDIA said that this was not a question of trust or lack of trust. It was accepted internationally that the audit function ought to be organized independently of the finance function in all accounting and financial systems. The existence of the Audit Committee would not diminish the role of the Finance Committee as the two bodies would be expected to function in a complementary manner, thus rendering the entire management system more effective, more transparent and in line with the principles of good governance.
161. The Delegate of FRANCE said that the Chair of the Finance Committee had made it clear that the Finance Committee was transparent and had fulfilled its defined functions. He emphasized that the entire Organization had a budget of only some 13 million euros. The Secretary General had shown that he had implemented impressive cost-cutting measures and had made structural savings. The introduction of any new Committee inevitably had working and logistical costs and it was therefore important to determine whether the functions were not already adequately covered by an existing body. If that were the case, the introduction of the new Committee would be a waste of resources without necessarily improving the governance of the Organization. He felt that the functions defined could be carried out effectively by the Finance Committee.

162. The Delegate of ANGOLA said that the debate had centred on the financial audits but it needed to be broadened. The internal audit should look at all systems of control and not just financial systems. The Audit Committee should review all recommendations emerging either from the internal audit or from the external audit. Although the Finance Committee was competent to deal with financial matters, it did not have the competence to deal with all the issues that were likely to come out of the audits.
163. The Delegate of the NETHERLANDS supported the views expressed by the Chair of the Finance Committee and the Delegate of France. He felt that the Audit Committee was removing work not only from the Finance Committee but also from the Policy Commission, and that the tasks being assigned to the Audit Committee could be added to the Finance Committee. It was important to avoid duplication of work.
164. The Delegate of CAMEROON held the view that the Council, as the supreme WCO body, had to have the last word regarding management. He was against having a new body to audit the management function, feeling that the Finance Committee had always been effective and rigorous in this respect. He supported the views expressed by the Chair of the Finance Committee and was opposed to the establishment of a new independent and possibly uncontrollable body.
165. The Delegate of IRELAND was concerned that the discussion seemed to be whether there was a need for the Finance Committee or an Audit Committee. She felt that both were required since they had fundamentally different functions; the range of processes that the Audit Committee had to oversee went far beyond those of financial auditing. It was important to remember that organizations evolved world-wide and that Audit Committees featured in all best-practice governance models. An Organization such as the WCO which was proud of itself and its history should be prepared to evolve in this respect.
166. The Delegate of BELGIUM, as Chair of the Audit Committee, felt that it was not appropriate to refer to "old" rules regarding the creation of new working bodies. He emphasized that the Council had decided, at its 2005 Sessions, to establish an Audit Committee and that superseded previous decisions. He also referred to what he saw as confusion between "executive" and "supervisory" or "monitoring" functions. In his view, the Finance Committee had executive powers with a role that could be likened to that of financial director. The Audit Committee, however, was essential to prepare work for the Policy Commission. Audit Committees were now a feature of public and private sector structures and the WCO should take this opportunity to complete the good governance exercise. On the question of cost raised by certain delegates, he said that it would be Directors General who would be working in the Audit Committee and making only limited use of existing Secretariat human resources.
167. At this stage, the CHAIRPERSON recalled the extensive discussions that had taken place in the Policy Commission on the Audit Committee/Finance Committee question. A clear majority had emerged in favour of having the two Committees, though a significant number of Members had been opposed.
168. The Delegate of CANADA said that the different positions had been well explained in the Council debate and that the Vice-Chairs would continue to interact with the regions with the aim of arriving at a consensus decision before the end of the current Sessions. Responding to the intervention by the Delegate of Cameroon

regarding the “uncontrollable” nature of the new Audit Committee, he said that the proposal was for the Committee to report to the Policy Commission.

169. Reverting to the question later in the Sessions, the CHAIRPERSON referred to the decisions taken by the Council in June 2005 regarding the Audit Committee and set out in paragraphs 143 to 145 and paragraph 150 of Doc. SC0066, emphasizing that these were standing decisions.

170. The Delegate of CANADA said that following further detailed discussions and consultations in the margins of the Council Sessions and in regional meetings, agreement had been reached on the following proposal which had the support of a large majority of the delegations :

- The Audit Committee, established by the Council in June 2005, should continue but with a change in its composition.
- The composition of the Audit Committee would be one Director General from each of the six WCO regions or an official who reported directly to the Director General. Each region would also designate an alternate.
- The Secretary General or his designate would be invited to participate as a non-voting member.
- The Audit Committee would meet at least once a year.
- The Vice-Chairs would have responsibility for identifying the separation of functions between the Audit Committee and the Finance Committee, on the basis of a draft proposal to be circulated by Canada.
- Canada would work with the Secretariat to put forward a draft audit plan, and would chair the first meeting of the Audit Committee.
- A finalized proposal for the separation of functions would be submitted to the Policy Commission at its next session.
- The Council would give the Policy Commission the mandate to approve the proposal.

171. The SECRETARY GENERAL thanked the Delegate of Canada for co-ordinating the work on this issue during the Sessions and indicated that he could agree with the substance of the proposal and the suggested way forward.

172. The Delegate of CHINA reported that the Members of the Asia/Pacific region had met and supported the consensus on the way forward regarding the Audit Committee, which should continue its work as laid down by the Council. In accordance with good governance, the Terms of Reference of the Audit Committee and the responsibilities of that Committee and of the Finance Committee should be further discussed and refined to ensure the Audit Committee’s independence and its non-executive functions.

173. The Delegate of NAMIBIA supported the proposal outlined by the Delegate of Canada but sought clarification regarding the composition of the Audit Committee, namely whether the members could be the same as for the Finance Committee.
174. In response, the CHAIRPERSON said that each region needed to choose its representative for the Audit Committee.
175. The Delegate of SUDAN considered that the proposal for the separation of functions between the Finance Committee and Audit Committee should go directly to the Council, rather than to the Policy Commission.
176. In response, the Delegate of CANADA explained that the suggestion to have the proposal approved by the Policy Commission at its next session was intended to speed up the process and hence ensure that the Audit Committee would be operational as soon as possible. If the proposal had to wait until the next Council Sessions, then a whole year would be lost.
177. The CHAIRPERSON added that, at all events, a report would go to the Council and the latter would have the opportunity to make any modifications deemed necessary. He also asked that the proposal to be submitted to the Policy Commission be posted in advance on the Members' Web site so that interested Members could advise their Vice-Chair of any comments they had.
178. At the Chairperson's invitation, the Council approved the following arrangements for the Audit Committee :
- The Audit Committee, established by the Council in June 2005, should continue but with a change in its composition.
 - The composition of the Audit Committee would be one Director General from each of the six WCO regions or an official who reported directly to the Director General. Each region would also designate an alternate.
 - The Secretary General or his designate would be invited to participate as a non-voting member.
 - The Audit Committee would meet at least once a year.
 - The Vice-Chairs would have responsibility for identifying the separation of functions between the Audit Committee and the Finance Committee, on the basis of a draft proposal to be circulated by Canada.
 - Canada would work with the Secretariat to put forward a draft audit plan, and would chair the first meeting of the Audit Committee.
 - A finalized proposal for the separation of functions would be submitted to the Policy Commission at its next session.
 - The Policy Commission was given the mandate to approve the proposal.

- The proposal emerging from the group to be chaired by Canada would be posted on the Members' Web site by the end of November 2006.

179. In conclusion, the Chairperson thanked the current Chair of the Audit Committee, Mr. Colpin (Director General of Belgian Customs), for all his helpful work and for having contributed to the understanding now arrived at under the guidance of the Delegate of Canada and the six Vice-Chairs. He said that a new mandate for the Audit Committee would emerge from the Policy Commission's next session in December 2006.

(I) Strategic Plan for the years 2006/2007 to 2008/2009

180. The DEPUTY SECRETARY GENERAL introduced the Strategic Plan by reviewing the implementation of the current Plan and outlining the Plan for the next year.

181. The implementation of the current Strategic Plan was regularly monitored at WCO monthly management briefings. At those meetings the relevant information was shared at WCO Sub-Directorate management level. Participants at the meeting had felt the need for the structure of the Strategic Plan to be reviewed in order to further improve its content and its strategic functionalities. With the help of an external consultant, the planning for the coming year was more focused on the strategic aspect, with improvement in internal coherence, the measurability of deliverables and associated due dates.

182. In the new Strategic Plan, the Vision, Mission and Value statements directly defined the various Key Result Areas from a longer-term perspective. On the other hand, the WCO work priorities should be reviewed annually, based on the advancement of the implementation of the Strategic Plan, as well as the change in the Customs environment.

183. The WCO annual work plan had been streamlined into one document, absorbing the former Divisional Plans, and comprised more dynamic project-based programmes with clear deliverables and delivery dates, appended to all actions of each individual project.

184. The WCO work plan for 2006/2007 was composed of eleven Programmes that could be categorized into four segments. The first segment covered the three Programmes : "Enhanced security and facilitation of international trade supply chain", "Promotion, development and maintenance of trade facilitation instruments and tools", and "Development, implementation and application of WCO compliance-related initiatives", which would, in principle, be dealt with by the Compliance and Facilitation Directorate.

185. The second segment covered the three Programmes : "Promotion, development and maintenance of Harmonized System", "Implementation and application of WTO Valuation Agreement", and "Introduction and application of Rules of Origin", which would, in principle, be dealt with by the Tariff and Trade Affairs Directorate.

186. The third segment covered the two Programmes : "Provision of capacity building and technical assistance in line with the increased focus on the WCO capacity building strategy", as well as "Integrity-related initiatives", which would, in principle, be dealt with by the Capacity Building Directorate.

187. The fourth segment covered the supporting function for the WCO stakeholders, including Members and Secretariat staff, with the three Programmes : “Promotion of WCO and Customs”, “WCO administration” and “Research and analysis”. This included contacts with stakeholders, publication of the WCO News, strategic planning and audit, and academic research, which would, in principle, be dealt with by the Division of Administration and the Directorates concerned.
188. With regard to costing of the 11 Programmes, the Deputy Secretary General explained that the major change was the reduced budget allocation for the “Enhanced security and facilitation of international trade supply chain” from 7 % last year to 3 % for this year. It reflected the fact that the drafting of the SAFE Framework of Standards had been well advanced and the various components were now pursued under the “Promotion, development and maintenance of trade facilitation instruments and tools”, e.g. the promotion of information technology, and the “Development, implementation and application of WCO compliance-related initiatives”, e.g. the promotion of intelligence and the Customs Enforcement Network, with the allocation of both Programmes increased from 12 % to 15 %.
189. The Programme “Promotion, development and maintenance of Harmonized System” (20 % budget allocation) would shift its focus to the work related to the implementation of the HS 2007 and the promotion of advance rulings. The “Implementation and application of WTO Valuation Agreement” (5 % of allocated budget) would have much focus on valuation control and the relation with transfer pricing. The Programme “Introduction and application of Rules of Origin” (1 % of allocated budget), would provide advice on non-preferential and preferential rules of origin, while waiting for progress in the WTO.
190. The “Provision of capacity building and technical assistance in line with the increased focus on the WCO capacity building strategy” with the largest part (24 %) of the total WCO budget, would support the Columbus Programme and the global training infrastructure. The “Integrity-related initiatives” (2 % of the budget allocation) would support the organization of workshops and Global Forum V on Fighting Corruption and Safeguarding Integrity.
191. While “Promotion of WCO and Customs” and “WCO administration” retained respectively the same budget allocation of 5 %, the “Research and analysis” Programme increased from 2 % to 5 %, reflecting the need to prepare studies and documentation concerning a long-term vision and future role of Customs and sector-specific analysis on origin and valuation.
192. The Delegates of CANADA and ARGENTINA thanked the Secretariat for the new Strategic Plan which showed the allocation of the resources with a clear direction while avoiding unnecessary duplication, especially in the area of capacity building, by taking a horizontal approach. Whilst appreciating the progress made in strategic planning, the delegates encouraged the Secretariat to make further progress in improving the process in order to optimize the positive achievements.
193. The Delegate of CAMEROON said that the issue of capacity building was most important for his Administration and he welcomed the way in which the Programme was now implemented horizontally by using other Programmes to enhance capacity building. He hoped, in this context, that sufficient resources would be secured to

organize the training required in the light of the findings of the capacity building reviews undertaken so far.

194. The Delegate of SUDAN raised the question of whether the Strategic Plan was flexible enough to cope with issues requiring quick and determined action, such as the “Avian flu” problem.
195. The Delegate of BELGIUM pointed out the need for the Secretariat to concentrate more on reporting of the strategic results achieved through the implementation of the Strategic Plan in order to demonstrate its consistency with the objectives and deliverables, as well as feedback from Members and stakeholders. This would be the only way to steadily improve the all-over quality of the delivered work and the client-focused approach.
196. The Delegate of NEW ZEALAND underlined the strategic importance of the updated WCO Vision, Mission and Value statements and urged that these longer-term components of the Strategic Plan incorporate the key messages contained in the discussion paper entitled “A more effective and responsive Customs for the 21st Century”, which had been tabled by the Chairperson and the Secretary General.
197. The Delegate of the UNITED STATES endorsed the Strategic Plan in its proposed form and content, and congratulated the Secretariat on the improved strategic approach. Since his Administration wished to see the implementation of this Strategic Plan meet the WCO’s strategic objectives, the improvement of performance indicators would be vital. He offered to share available internal monitoring/evaluation reports and matrixes regarding the implementation of the Strategic Plan either with the Audit Committee or the six WCO Vice-Chairs.
198. The Delegate of MOZAMBIQUE remarked that the WCO Strategic Plan contained most of the issues which were of interest to national Customs services and wondered how national Strategic Plans for the Africa region could be better integrated, considering the regional needs and particularly the required support for the region.
199. In response to the interventions, the DEPUTY SECRETARY GENERAL explained that the overarching principle in implementing the WCO Strategic Plan was to render service to its clients, basically the WCO Members, but also other stakeholders who were closely co-operating with the WCO or its Members in a co-ordinated fashion. Since the responsiveness of the Secretariat to world events was vital, topical issues such as “Avian flu” were already covered under the “Intelligence function” in the WCO Compliance Programme through circulation of relevant information and promoting co-operation. With regard to measurability, the Secretariat was currently using an IT-based time measurement application in order to capture the costs involved in the different projects of the Plan. Further improvement was envisaged in this regard, including acquiring more feedback from stakeholders. With regard to the costs involved in the capacity building area, he reminded delegates of the fact that almost each technical programme contained capacity building components and the resources at the Secretariat were utilized in a horizontal manner. Through the management control which was carried out internally at Sub-Directorate level, measures had been introduced and would be refined in order to secure synergy in an effort to make the most cost-effective use of resources.

200. With regard to the integration of regional issues and input concerning strategic planning, the Deputy Secretary General referred to the regional approach and assured delegates that issues raised at this level were taken into consideration when the Customs environment was reviewed as part of the improvement and update of the Strategic Plan. The Secretariat was indeed working with its regional structure which was considered an important source of input from Members.
201. The recently discussed strategy for Customs in the 21st Century was clearly identified as a benchmark for the Strategic Plan and some of the key elements had already been incorporated in the Plan. Furthermore, projected research on the future role of Customs could provide additional material for reviewing the longer-term components of the Strategic Plan.
202. Finally, the Deputy Secretary General emphasized that the annually reviewed and benchmarked approach to measure all-over performance against expectations had now become a priority for the Secretariat to further strengthen and improve the implementation of the Strategic Plan. It would contribute to raising the visibility of the value delivered by the projects and actions contained in each Programme.
203. The CHAIRPERSON instructed the Secretariat to take account of the various comments made by delegations. At his proposal, the Council adopted the Strategic Plan for the years 2006/2007 to 2008/2009, together with its Programme-based breakdown as presented in Doc. SP0216. The Strategic Plan is reproduced at Annex VI hereto.

(m) Request by the European Community to obtain Member status

204. At the Chairperson's request, the SECRETARY GENERAL explained that he had informed the Policy Commission of a letter he had recently received from the European Commission's Director General of Taxation and Customs Union (TAXUD), asking that the European Community's request for membership of the WCO be placed on the Agenda for the session. This request had been raised several years previously, but had eventually been left dormant pending a more conducive environment. The Director General of TAXUD had informed the Policy Commission of the reasons why he believed that it was now time to reopen this file, and after hearing his explanations the Policy Commission had asked the Secretariat to prepare a document setting out the possible institutional, legal and financial implications, for discussion at the Commission's December 2006 session.
205. The DIRECTOR GENERAL of TAXUD said that the starting point for the recent request was a unanimous decision by the Council of Ministers of the European Community, taken in 2001, to request that the WCO allow the European Community to become a full Member of the WCO. Following discussions in 2001 and 2002 the matter had been left open for political discussions, and the Community was now requesting that it be placed on the WCO's agenda once again.
206. The Director General wished to make four comments on this new approach by the European Community. Firstly, having the European Community as a Member of the WCO would provide a more accurate reflection of reality than did the present situation, given the extent to which fiscal matters fell under the competence of the European Community; as all WCO Members would be aware, the European Union (EU) was the only large Customs Union in existence anywhere in the world, and

Community Customs legislation was applicable in all EC Member countries and was administered by the European Court of Justice. The Customs Union fell under Community competence, as in fact did trade policy which was the reason why the European Community was a Member of the WTO. The Community was simply seeking equivalent treatment within the WCO.

207. Secondly, over the previous four years the European Community had been working, both internationally and within the EU, on a variety of tasks in which the WCO was also engaged, notably in the areas of supply chain security and combating counterfeiting and piracy. As a result, the EC was in a position to make a constructive contribution to the WCO's activities. It was also noteworthy that the EC was already a Contracting Party to a number of WCO instruments, including the Harmonized System Convention and the Revised Kyoto Convention, and full membership status would be a logical progression given that situation.
208. Thirdly, the Director General said that in institutional terms the accession of the European Community would have very little impact on the distribution of votes, as it would merely mean that in areas where Community competence was clearly recognized, the European Community would exercise the votes of those EU Members which were entitled to vote in the WCO body concerned. No additional votes would be involved.
209. Finally, the Director General recalled that the WCO Secretariat had produced a document covering various aspects of this issue, which had been submitted to the Council in 2002. The European Commission believed that the contents of this document remained largely valid, and continued to hold the view that the best means of dealing with the European Community's request would be to add a paragraph to Article XVIII of the Convention establishing a Customs Co-operation Council.
210. The Delegate of ZIMBABWE looked forward to receiving clarification of the proposed arrangements, especially with regard to voting, bearing in mind that he - and no doubt many other participants in the current Council Sessions - had not been involved in the discussions which had taken place in 2001 and 2002. He also indicated that if the European Union was accepted as a WCO Member, the Council would need to be prepared for similar requests from other economic groupings around the world. For the sake of uniformity, it was important to be clear as to how such requests would be treated.
211. The CHAIRPERSON suggested that discussions on the details of the European Community's request might be premature at this stage; it would seem preferable to await the Secretariat's comprehensive document on the institutional, financial and legal implications, which could perhaps be considered and discussed by the Members at their respective regional meetings in the first half of 2007; such questions as might emerge from the regional meetings should be forwarded to the Secretariat well in advance of the June 2007 Council Sessions, so that a full and informed discussion could be held on the European Community's request at those Sessions.
212. The Delegate of ARGENTINA suggested that in the document which the Secretariat was to prepare, account should be taken of possible implications with groupings such as MERCOSUR in Latin America, for example, which was moving quite rapidly towards the introduction of a Common Customs Code or Customs Union.

213. The CHAIRPERSON agreed that there were different types of regional formations, a few of which already had the status of Customs Unions although they were not similar to the European Community in other respects. In this regard, it was important that the Secretariat document set out all the facts and provide clear advice on the legal issues, so that a full and frank discussion could be held at the next Council Sessions.
214. In conclusion, the Council took note of the request by the European Community for membership of the WCO, and instructed the Secretariat to prepare a document on the institutional, financial and legal implications, taking into account the questions raised in relation to other regional groupings. The issue would be discussed, on the basis of the Secretariat document, not only by the Policy Commission but also in forthcoming regional meetings, to pave the way for a full debate at the 2007 Council Sessions.
- (n) Invitation to host the December 2006 Policy Commission session**
215. At the invitation of the Chairperson, the Delegate of INDIA confirmed that, subject to the approval of the Council, his Administration would like to host the December 2006 session of the Policy Commission.
216. The Council accepted the Policy Commission's recommendation that this invitation be accepted.
217. The Council then approved as a whole the Reports on the Policy Commission's 54th and 55th Sessions.

5. PANEL DISCUSSIONS

(a) A better understanding of the international trade supply chain

218. The CHAIRPERSON introduced this Item by stating that a panel comprised of business representatives would give the Council an outside perspective on the international trade supply chain.
219. The Delegate of GHANA, in his capacity as Regional Vice-Chair, introduced Mr. Matthew Vega, Senior Counsel of FedEx Corporation, for his presentation on the future of the global express delivery industry and the economic impact of the SAFE Framework of Standards.
220. Mr. VEGA began his presentation by commending Customs for its commitment and service in furtherance of supply chain security. He said that the key concept for business was access, with the functional components of access being those of time, space and information. He stated that, today, 20 percent of all goods consumed crossed national borders, and that by the year 2020 that figure would rise to 80 percent. Thus, the world was irreversibly committed to global trade and to fast cycle logistics (FSL) which had the potential to eliminate barriers caused by time and space. The two key ingredients of FSL were the express industry itself, and the use of information technology in formulating advanced supply chain logistics. He then provided an array of statistical information relative to the business of FedEx.

221. He emphasized that access was the catalyst for what he termed the “supply chain revolution”. That revolution had transformed the manner in which retailers and manufacturers fed the needs of their operations, opting for just-in-time supply schemes rather than relying upon extensive inventories. The greater access to goods, services and information was associated with enhanced trade and greater economic growth. Public sector policies should promote the idea of greater access. In particular, national security programmes should take into account the express industry business model which provided for world-wide delivery within no more than two or three days. Global harmonization, interoperability and Single Window concepts also had to be promoted by national governments.
222. Finally, Mr. Vega made the point that advance information was a cornerstone of the express delivery industry. Customs could take advantage of that information and could populate its own advance cargo information systems with this data in order to conduct risk assessments as early as possible and to expedite cargo release procedures.
223. The Delegate of JORDAN, in his capacity as Regional Vice-Chair, then introduced Mr. Barry Saxton, Marketing Director of Barloworld Logistics (South Africa).
224. Mr. SAXTON gave a presentation on supply chains and the impact of globalization. He stated that supply chain and logistics management was not a new concept by any means. However, recent changes had taken place which affected the picture. The invention of the computer had ushered in an era of efficiency and optimization, allowing for a tenfold increase in the value of economic activity. That period had lasted from 1950 until 1990. Beginning in 1990 and continuing today, it was the age of information and technology. The development of the Internet coupled with the period symbolized by the fall of the Berlin Wall had caused a quantum leap in information and technology, which had resulted in global consumerism.
225. The consequence of the global economy was that supply chains had become extended and more complex. There was a continual need to create competitive advantage, and the supply chain was often the only distinguishable and available competitive advantage. Those that mastered the complexity of the global supply chain picture had been shown to achieve sustainable profits 73 % higher than those companies remaining static or using simplistic methods. Over 30 % of global trade was carried out by multinational corporations, and the figure would continue to grow. Global standards and information would facilitate the movement of goods and services in the global market place.
226. Today, most stakeholders were focusing on tactics rather than on strategy. The global market should not be viewed as a threat but rather as an opportunity. For the WCO, this meant there was a need to recognize the speed and intensity of coming changes in the market. Customs should audit their supply chains to identify constraints and bottlenecks. The speed of transactions was an essential element in eliminating bottlenecks, and flexibility and agility were vital. There was a need to work with the companies who had mastered the complexities of the modern supply chain. Creating and supporting global supply chains would not be easy, but with a sense of commitment it was possible to build for the future.

227. The Delegate of CHINA, in his capacity as Regional Vice-Chair, introduced Mr. Fer Van de Laar, Managing Director, Europe Office, International Association of Ports and Harbors (IAPH).
228. Mr. VAN DE LAAR then introduced his topic : The IAPH and Supply Chain Security. The IAPH had some 230 regular members operating out of the leading ports in 90 countries. In 2003, some 60 % of seaborne world trade had been handled by IAPH member ports, and over 80 % of world container sea traffic. The IAPH world was divided into three regions : Africa and Europe; the Americas; and Asia and Oceania.
229. He referred to a recent article which said that many of the large British manufacturers had moved from keeping several months' worth of materials on hand to keeping only what would be needed for the week. "Just-in-time" practices were common now. The new globalization had led to growth in the logistics industry. Businesses were vulnerable to stoppages in the flow of containerized freight. Often necessary components might be moving in different chains, an example of this being aircraft parts : A Boeing 747 aircraft had some 6 million parts produced and shipped from every portion of the globe. Globalization required tremendous co-ordination between transport modes, rendering the job of logistics very difficult. Reliability, transparency and predictability were required for smooth operation. One could also construct a supply chain triangle using security, safety and efficiency as the three components. The "supply chain" was the flow of goods from point to point, together with an accompanying flow of information.
230. Mr. Van de Laar said that the WCO and the ISO played pivotal roles in obtaining reliable and predictable supply chains. In terms of certifying Authorized Economic Operators, Customs should consider the use of qualified third parties, but companies should still be able to request that validation be performed by Customs itself.
231. The CHAIRPERSON thanked the three speakers for their very interesting presentations. The presenters' thinking was on target and they raised thought-provoking challenges about how we see the world.
232. The Delegate of LESOTHO said that the presentations had shown that the WCO was on the right track. He noted that facilitation was integral to business but wondered how important security was for supply chain management from the business perspective.
233. The Delegate of BELGIUM asked how one might integrate information received which covered everything from manufacture to distribution. Who should act to integrate such information ? A company had emerged in Belgium which proposed to integrate and sell this information to Customs. Was this properly a Customs matter or a private-sector matter ? He added that Belgium would conduct supply chain pilot programmes on its own initiative.
234. The Observer for THE INTERNATIONAL AIR CARGO ASSOCIATION (TIACA) stated that containerization had an enormous effect, in addition to the factor of computerization. This point had been brought out by the IAPH. He asked how conscious FedEx was about whether security was focused on threat. He also asked whether FedEx believed that companies would adopt the SAFE Framework of Standards on each continent irrespective of cultural differences.

235. The SECRETARY GENERAL pinpointed interoperability as a future issue of importance and asked how we might go about adapting vertical to horizontal systems. He pointed out that governmental bodies applied regulations, codes, rules and statutes, and asked whether a new legal order might be needed for integrated management. He concluded by saying that he had not heard the word “partnership”, although he had heard the word “trust” used in the presentations. He asked how a system built on trust could be achieved.
236. The Representative of FEDEX, addressing the intervention from the Delegate of Lesotho, explained that the express industry cargo did not fit the trade model. Express cargo was in small packages, high volume and of high value. It moved in a closed loop network. Security procedures were substantial, voluntary and surpassed requirements. Companies needed constantly to be looking for the next technological advancements.
237. In response to the intervention from the Delegate of Belgium, he said that a hybrid system for integrating and managing information would emerge. In addressing the intervention by TIACA, he said that a crystal ball would be required in order to answer the question.
238. The Representative of BARLOWORLD said that the questions had brought out a common theme, namely defining the roles of the WCO and of business. The reality in business was profit. The issue should really be about those few who would not comply. Today, containers moved through multiple channels. Using Nike as an example, he said that the company outsourced everything, so the question which arose was who was responsible for any problems which emerged.
239. Regarding the issue of partnership versus trust, he stated that the private sector had a huge role to play. Business needed to have systems and procedures in order to play in the arena. The supply chain was managed by the buyers of goods. On the security issue, he said that there was a moral commitment to security. In the end, it was all about the need to gain access to information.
240. The Representative of the IAPH stressed that supply chain management was not a new concept and had not started on 11 September 2001. Security, safety and efficiency were all part of supply chain management security.
241. The Delegate of ITALY said that the presenters had provided an external view, and that the most important aspect was information exchange. It was not possible to know all of the players in the supply chain. Italy had a pilot project regarding an approval process for certain accreditations. The future success depended upon effective co-operation with Customs administrations. He pointed out that the European Commission, Member States and the United States were working on information exchange possibilities.
242. The Delegate of ANGOLA said that the important words to emerge were “information”, “time” and “partnership”. Advances in supply chain management would allow Customs to move with business and not just follow business. Co-operation with business was essential.
243. The Delegate of SINGAPORE said that the Single Window concept did aid facilitation, and that harmonization and balance were important. It was important to be

neither too specific, nor too generic. It would be useful to get feedback from business on the path that Customs should follow.

244. The Delegate of ECUADOR spoke of security and facilitation in the supply chain. The Andean countries were endeavouring to draft common Customs Codes because globalization was driving Customs to change. Information technology played a large role in this respect, and the political context was also important. The WCO had an important role in drafting rules.
245. The SECRETARY GENERAL recalled the important decisions which had been taken in respect of security and facilitation of the international trade supply chain, including formation of the Private Sector Consultative Group (PSCG). Indeed, all three speakers came from bodies which were members of the PSCG.
246. The Representative of FEDEX summed up by emphasizing that there were benefits from managing time, space and information. These, managed properly, created their own beneficial cycle in perpetuity. It was essential to believe in globalization, standardization and partnership.
247. The Representative of BARLOWORLD stated that collaboration was important. The WCO could not pass the baton, and needed to co-ordinate in a collaborative sense. The efforts of the WCO and business needed to be consolidated. Communicating regularly about the way forward was the key.
248. The Representative of the IAPH agreed with the foregoing comments and expressed the hope that there would be continued progress.
249. The CHAIRPERSON thanked all the speakers for presenting a different way to view the picture. He summarized that the key message from FedEx was about the importance of time, space and information. Customs was in this, business as well. Some rules were political and some were logistical. There was therefore a need to understand them better.
250. The message from Barloworld was about the pace of change being faster than imagined. It was important to consider change and how we should adapt to it.
251. The IAPH presentation showed that logistics was the Achilles heel of the process.
252. The Chairperson's closing message was that all should embrace the notion of thinking faster and harder about Customs in the 21st Century and he posed the question of whether Customs was keeping pace with the challenges.

(b) Does the advent of new technologies change the approach to training ?

253. The CHAIRPERSON introduced the second Panel Discussion which was to look at how the arrival of new technologies, particularly e-learning, was changing the approach to training.
254. The Delegate of BRAZIL, in her capacity as Regional Vice-Chair, introduced Mr. Nader Nanjiani, the Marketing Programs Manager of the Internet Learning Solutions Group of Cisco Systems. He had worked in the area of e-learning for more than a decade and was the joint author of The Business Case for E-Learning, the

pre-eminent book on using e-learning to achieve organizational productivity gains. At Cisco, he had developed and launched the Cisco Certifications Community - a knowledge-sharing portal with lifelong learning tools for certified individuals.

255. Mr. NANJIANI began by describing how Cisco had derived significant productivity and financial benefits from its e-learning programme, explaining how Internet learning could become a productivity catalyst for an entire office ecosystem. He illustrated this by presenting a pyramidal model that consisted of E-communication (knowledge sharing), E-training (self-paced and modular learning), and E-Assessment (on-line exams and certifications for validating skills).
256. Cisco's e-learning initiative had gathered strength in 2001. Because of the shakeouts in the Internet and telecommunications industries, Cisco, like many technology firms, had had to reduce costs. Training was one area where the costs/benefits ratio had had to be reduced and e-learning offered solutions in that respect. Obtaining the support of Cisco's leadership had been critical to advancing this agenda. In addition, the effort had effectively been launched by the crafting of a mission statement : "Provide the world-wide sales force with the skills and knowledge to effectively achieve Cisco's sales and business objectives. Develop learning solutions targeted at expanding the competency of the Cisco sales force".
257. Mr. Nanjani said that e-learning was critical for learning at Cisco because of the size of the workforce and its partners. Cisco had approximately 10,000 sales persons world-wide in a variety of markets and lines of business. In addition, there were over 110,000 Cisco channel partners in various businesses and levels of partnerships. There had been obstacles to overcome : high amounts of information found in many places; content frequently not organized for the learner; previous efforts not mapped to business objectives; and a lack of development for account managers. However, e-learning provided many potential benefits, including increasing sales productivity and, thus, time for selling; reducing selling cycle time; reducing time to competency; and reducing travel and expenses. In the last analysis of cost savings (for financial year 2003) in the areas of sales, partner interaction, manufacturing/finance/HR/IT, and engineering, Cisco had saved an estimated US\$ 142 million. It was estimated that for every US\$ 1 that was spent on e-learning, Cisco garnered US\$ 16 in return.
258. The Delegate of BRAZIL thanked Mr. Nanjani for his presentation. She praised the example of how e-learning could be used to support training more widely and the potential for significant cost savings. Thus, this approach could be very helpful to Customs administrations globally.
259. The Delegate of HUNGARY, in his capacity as Regional Vice-Chair, introduced Ms. Mia Vanstraelen, the Director of Human Resources Learning, IBM Europe, based in Belgium. Ms. Vanstraelen was responsible for learning, education and training services for IBM Europe and, in that capacity, she led a European team of learning leaders, professionals, instructors, tutors and coaches. The training domains covered were all capabilities required at IBM : from leadership training, sales and marketing training, professional development training to more IT-specific training such as wireless, IT safety and security, operating systems, Linux and database systems and management. Ms. Vanstraelen was also a member of the IBM Learning Team, responsible for defining the learning and knowledge strategy for IBM, the strategic learning plans with the business units, and driving advanced learning architectures and designs into each of the learning and knowledge offerings and curricula.

260. In her presentation, Ms. VANSTRAELEN focused on : how IBM Europe had integrated learning into the HR agenda; innovative learning approaches that had been developed; and professional development supported by the innovative learning solution. Much of this had needed to be done because the workforce was mobile and bifurcated. IBM's basic and fundamental pillars of learning were : (1) a diverse and excellent workforce; (2) workplace flexibility; (3) performance strategy - "pay for performance and measure it"; (4) learning to ensure employees were at the level demanded by clients; and (5) company leaders were able to hold this together by setting the strategy. At IBM, currently 56 % of learning was done by e-learning and this percentage was growing.
261. She described the IBM PARR (Prepare, Act, Reflect, Review) approach. In an example, she posited that a new Customs officer had to learn a new methodology. The Customs officer would begin learning by reading information (Preparing); observing someone who did the work (Act); the employee would then Reflect on what he/she had read and observed; and the organization would then Review if the person was ready to do the job.
262. In the Learning Suite, IBM had designed a structured approach to learning content and resource management. The Learning Suite had several steps : (1) check the employee's understanding; (2) master the basics; (3) try a simulation; (4) study in depth; (5) advice from IBM executives; (6) explore IBM best practices; (7) practice at work; (8) discuss with a colleague; and (9) ask an expert.
263. Ms. Vanstraelen then presented an example of a Customs officer with his/her own development page on the organization's Intranet. The development page listed job skills that the employee needed to have and what level he/she was at. It helped to identify the officer's learning development and learning gaps, and thus laid out how the officer could use a learning roadmap to address these gaps, from both a training and a work perspective.
264. The Delegate of JORDAN congratulated both speakers on their presentations. As a general comment, he said that one of the great challenges that Customs administrations faced in the area of training, particularly e-learning, was the language barrier, and this applied particularly to Arabic. This should be addressed by "arabizing" the e-learning software for the Members of the North of Africa, Near and Middle East region.
265. The Secretary GENERAL thanked Ms. Vanstraelen for her excellent presentation that would be helpful in the further development of the WCO's e-learning programme. On the issue of language, he explained that the WCO's e-learning programme currently existed in two languages since the WCO had two official languages. The WCO now had 250 hours of courses that were normally free for WCO Members. His main concern was how to be in a better position so that e-learning could be better integrated into national administrations. The WCO had reached the stage where it now had to reflect on what had to be corrected to ensure that the approach was rational. He said that hearing from an organization such as IBM with so much experience was very useful.
266. Ms. VANSTRAELEN then made several additional comments. She appreciated hearing about e-learning within the WCO membership and about the special challenges faced by Customs administrations. She recognized the challenge of

language issues and commented that it required investment, essentially to cover translation costs. On the issue of limited resources, she said that training programmes could be undertaken in a scaled-down way without losing the overall philosophy and, thus, progress could be made while spending less. She emphasized that e-learning strategies needed to be in conformity with HR strategies.

267. The Delegate of HUNGARY thanked the speaker for her presentation on this important topic which would be very useful for Customs administrations.

6. TECHNICAL MATTERS

268. The DIRECTOR, Tariff and Trade Affairs, pointed out that preparatory discussions on this Agenda item had been held in a parallel meeting the previous day, which he had chaired. A full record of those discussions is set out in Annex VI to these Minutes.

269. At the preparatory meeting, the reports and work accomplished by the WCO's five technical Committees - Technical Committee on Rules of Origin, Technical Committee on Customs Valuation, Harmonized System Committee, Permanent Technical Committee, Enforcement Committee - had been examined and discussed.

270. The meeting had been attended by WCO Member delegations and by observers from various international bodies. The level of discussion had been high, demonstrating the considerable interest shown by Members in the work of the technical Committees. Participants had underscored the importance of the technical work done by the various Committees, and some delegates wished that there was some means of bringing to the attention of their Directors General the details of the work done, so that they would understand how the objectives of the Organization were being achieved.

271. The Director then presented the results of the previous day's deliberations, Committee by Committee, and as instructed by the delegates who had attended the parallel session he submitted to the Council various matters which required endorsement, adoption or formal approval, or of which the Council was invited to take note.

(a) Rules of Origin (see Annex VII, paragraphs 3 to 14)

272. The DIRECTOR, Tariff and Trade Affairs, recalled that the work done by the WCO in this area was before the WTO, and the outcomes of the WTO's deliberations on that work were awaited. The Observer for the WTO had informed the meeting that considerable progress had been made. However this year, once again, he would simply ask the Council Chairperson to invite the Council to take note of the Report of the Technical Committee's 24th Session.

273. At the invitation of the CHAIRPERSON, the Council took note of the Report of the 24th Session of the Technical Committee on Rules of Origin.

(b) Valuation (see Annex VII, paragraphs 15 to 43)

274. The DIRECTOR, Tariff and Trade Affairs, said that after considerable discussion on Valuation issues, he had been instructed to ask the Chairperson to invite the Council to :

- adopt Advisory Opinion 4.14 on the issue of royalty payments to the licensor in the country of import under Article 8.1 (c) of the WTO Valuation Agreement;
- approve the Report of the 21st Session of the Technical Committee on Customs Valuation;
- take note of the draft Report of the 22nd Session of the Technical Committee on Customs Valuation, which would be submitted to the Technical Committee for approval at its next session; and
- take note of the various Valuation-related developments outlined in the written report by the Chairperson of the Technical Committee on Customs Valuation.

275. At the invitation of the CHAIRPERSON, the Council :

- adopted Advisory Opinion 4.14 on the issue of royalty payments to the licensor in the country of import under Article 8.1 (c) of the WTO Valuation Agreement;
- approved the Report of the 21st Session of the Technical Committee on Customs Valuation;
- took note of the draft Report of the 22nd Session of the Technical Committee on Customs Valuation; and
- took note of the various Valuation-related developments outlined in the written report by the Chairperson of the Technical Committee on Customs Valuation.

(c) Nomenclature and Classification (see Annex VII, paragraphs 44 to 94)

276. The DIRECTOR, Tariff and Trade Affairs, said that he had been instructed to ask the Chairperson to invite the Council to :

- adopt the replacement of two references to deleted HS code numbers in the Recommendation of the Customs Co-operation Council on the insertion in national statistical nomenclatures of subheadings for substances controlled under the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction;
- adopt the completely revised text of the Recommendation of the Customs Co-operation Council on the use of standard units of quantity to facilitate the collection, comparison and analysis of international statistics based on the Harmonized System, and the consequential revoking of the original Council Recommendation of 30 June 2001;

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- adopt the revised text of the Recommendation of the Customs Co-operation Council on the insertion in national statistical nomenclatures of subheadings to facilitate the collection and comparison of data on the international movement of substances controlled by virtue of amendments to the Montreal Protocol on substances that deplete the ozone layer, and the consequential revoking of the Recommendations of 25 June 1999 and of 28 June 2003;
- adopt the corrigendum amendment to the Harmonized System;
- instruct the Scientific Sub-Committee to review its terms of reference to reflect the broader scope and nature of its work. While the Scientific Sub-Committee dealt mainly with HS classification issues, there were other important scientific matters which Customs administrations might wish to refer to the Sub-Committee, and its terms of reference should be expanded to accommodate this need;
- refer eight classification questions back to the HS Committee for re-examination;
- approve the Reports of the 36th and 37th Sessions of the Harmonized System Committee;
- take note of the various HS-related developments referred to in the written report of the Chairperson of the Harmonized System Committee;
- note that issues raised by the Russian Federation on the classification of natural sodium sulphate and the interpretation of crystallization in HS Chapter 25 would be placed on the Agenda of the next session of the Scientific Sub-Committee by the Secretary General; and
- agree that an issue raised by the Russian Federation concerning the application of HS decisions be placed on the Agenda of the next session of the Policy Commission.

277. At the invitation of the CHAIRPERSON, the Council :

- adopted the replacement of two references to deleted HS code numbers in the Recommendation of the Customs Co-operation Council on the insertion in national statistical nomenclatures of subheadings for substances controlled under the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction;
- adopted the completely revised text of the Recommendation of the Customs Co-operation Council on the use of standard units of quantity to facilitate the collection, comparison and analysis of international statistics based on the Harmonized System, and the consequential revoking of the original Council Recommendation of 30 June 2001;

- adopted the revised text of the Recommendation of the Customs Co-operation Council on the insertion in national statistical nomenclatures of subheadings to facilitate the collection and comparison of data on the international movement of substances controlled by virtue of amendments to the Montreal Protocol on substances that deplete the ozone layer, and the consequential revoking of the Recommendations of 25 June 1999 and of 28 June 2003;
- adopted the corrigendum amendment to the Harmonized System;
- instructed the Scientific Sub-Committee to review its terms of reference to reflect the broader scope and nature of its work;
- referred the following classification decisions back to the Harmonized System Committee for re-examination :
 - (i) classification of separately presented outdoor units of compression-type split-system air conditioning machines in subheading 8415.90 (at the request of Argentina, Brazil and Madagascar);
 - (ii) classification of separately presented indoor units of compression-type split-system air conditioning machines in subheading 8415.90 (at the request of Madagascar);
 - (iii) classification of a 3-piece Dinette Set in subheading 9403.60 (at the request of Brazil and Madagascar);
 - (iv) classification of a product containing more than 98.5 % of sodium sulphate in subheading 2833.11 (at the request of the Russian Federation and Madagascar);
 - (v) classification of a product containing more than 99.2 % of sodium sulphate in subheading 2833.11 (at the request of the Russian Federation and Madagascar);
 - (vi) classification of tubes without reagents in subheading 9018.39 (at the request of Madagascar);
 - (vii) classification of tubes with reagents in subheading 9018.39 (at the request of Madagascar);
 - (viii) classification of products called “Admul Datem 1954” and “Multec Data 2520 S” in subheading 2106.90 (at the request of Madagascar);
- approved the Reports of the 36th and 37th Sessions of the Harmonized System Committee;
- took note of the various HS-related developments referred to in the written report of the Chairperson of the Harmonized System Committee;

- noted that issues raised by the Russian Federation on the classification of natural sodium sulphate and the interpretation of crystallization in HS Chapter 25 would be placed on the Agenda of the next session of the Scientific Sub-Committee by the Secretary General; and
- agreed that an issue raised by the Russian Federation concerning the application of HS decisions be placed on the Agenda of the next session of the Policy Commission.

(d) Facilitation/Procedures (see Annex VII, paragraphs 95 to 126)

278. The DIRECTOR, Tariff and Trade Affairs, remarked that after a great deal of discussion, he had been instructed to ask the Chairperson to invite the Council to approve the Report of the 177th Session of the Permanent Technical Committee, and take note of the developments which had taken place in the field of facilitation and procedures.

279. At the invitation of the CHAIRPERSON, the Council approved the Report of the 177th Session of the Permanent Technical Committee, and took note of the various facilitation-related developments outlined in the written report by the Chairperson of the Permanent Technical Committee.

(e) Compliance/Enforcement (see Annex VII, paragraphs 127 to 146)

280. The DIRECTOR, Tariff and Trade Affairs, said that he had been instructed to ask the Chairperson to invite the Council to :

- approve the Report on the Enforcement Committee's 24th Session;
- take note of the draft Report on the Enforcement Committee's 25th Session, which would be submitted to that Committee for final approval at its next session;
- approve the Terms of Reference of the Working Group on Commercial Fraud; and
- adopt the text of the Council Recommendation concerning Action against Customs Commercial Fraud.

281. At the invitation of the CHAIRPERSON, the Council :

- approved the Report on the Enforcement Committee's 24th Session;
- took note of the draft Report on the Enforcement Committee's 25th Session;
- approved the Terms of Reference of the Working Party on Commercial Fraud; and
- adopted the text of the Council Recommendation concerning Action against Customs Commercial Fraud.

282. Finally the CHAIRPERSON thanked the Director, Tariff and Trade Affairs, for his report. On behalf of the Council, he also thanked the Chairpersons of the five technical Committees for the excellent work done during the year.

7. BUDGETARY AND FINANCIAL MATTERS

283. The CHAIRPERSON of the FINANCE COMMITTEE presented the six main points of his report :

Financial situation of the WCO

284. In financial year 2004/2005, despite the efforts of the Secretariat and the Finance Committee it had not been possible to achieve budgetary equilibrium and the reserves had dwindled because of : (i) inflation which had increased the level of expenditure; and (ii) the imbalance in the Terminal Allowance system. The result for 2005/2006 would be distinctly better than foreseen thanks to the savings made by the Secretariat and the gains realized in the course of an excellent year for the stock market in 2005. However, the stock market was unlikely to experience another boom next year.

Audits

285. For the second year, the external financial audit had been conducted by a private firm, the independent auditors WILMET S.A. There had been no objections to the external auditor's detailed report and he had recommended certification of the accounts for 2004/2005.

Contributions

286. The Finance Committee had recommended a 3 % increase in the total contributions in order partially to bridge the gap between budgetary expenditure and contributions voted. The aim was to return to normal budgetary practice, breaking with the freeze on contributions which had lasted 12 years, and to achieve a situation where expenditure was covered by contributions. As an example of this good budgetary practice, the Chairperson of the Finance Committee noted that Interpol had increased the contributions of most of its Members by almost 10 %.

Scale of contributions

287. The United States, which paid a contribution rate of 25 % at the WCO, had indicated a desire to pay, as in the United Nations, a rate of 22 % in all the international organizations to which it belonged. A Secretariat study, carried out at the request of the Finance Committee, had proposed three possible ways in which a reduction in the United States' contribution rate could be absorbed by the industrialized countries and/or the developing countries. The Finance Committee had not been able to reach a consensus on the basis of the report and, in view of the politically sensitive nature of the issue, had proposed the establishment of a Working Group to examine the question of the scale of contributions, starting in Autumn 2006.

Sanctions for delay in the payment of contributions

288. The rate of collection of contributions had improved, but nearly 10 % of contributions voted had still not been paid as of the end of April 2006. The Chairperson of the Finance Committee noted that the Convention dealt with the case of delays in payment for which there was therefore no excuse, but pointed out that Council Decision No. 289 had softened the provisions of the Convention. In 2005, in the course of its work, the Finance Committee had rejected the idea that Members in arrears should be charged interest. At the request of the Committee, the Secretariat had prepared a proposal for stiffening sanctions which provided for a shortening of the period at the end of which, in particular, voting rights could be withdrawn. It was intended that, during financial year 2006/2007, Members would have to familiarize themselves with this new procedure, of which they would be informed at the regional meetings. The Finance Committee had set itself the goal of proposing a final solution to the Council next year.

Terminal Allowance

289. The Finance Committee had endorsed important measures proposed by the Secretariat to limit the deficit in the Terminal Allowance system. However, the first effects of these measures would only be felt in five years' time.

290. Referring to the Finance Committee's future work, the Committee Chairperson said that the Committee would have to deal rapidly with three important issues, namely : (i) the scale of contributions; (ii) the Terminal Allowance system; and (iii) affiliation and the salary system of the Co-ordinated Organizations.

291. In conclusion, the Council :

- adopted the Decision concerning budgetary and financial provisions for 2006/2007 and amendments to the Staff Regulations and Staff Rules and to the Financial Rules (Decision No. 316), reproduced at Annex VIII hereto, which also included the scale of Members' contributions for financial year 2006/2007 circulated during the Sessions;
- approved the establishment of a Working Group on the WCO scale of contributions taking into account the announced intention of the United States Administration gradually to reduce its annual contribution to the WCO budget from 25 % to 22 %;
- approved as a whole the Report of the 83rd Session of the Finance Committee, reproduced in Doc. SF0184.

8. APPOINTMENT AND ELECTIONS

(a) Appointment of a Deputy Secretary General

292. The CHAIRPERSON announced that there were now only two candidates for this post :
- Mr. Kunio MIKURIYA (Japan);
 - Miss Narimane EL CHAARANI (Syrian Arab Republic).
293. After indicative voting had taken place, Mr. K. Mikuriya (Japan) was appointed Deputy Secretary General by acclamation, for a five-year term of office to begin on 1 January 2007.
294. The Chairperson congratulated Mr. Mikuriya on his re-appointment and also expressed appreciation to Miss El Chaarani for having stood as a candidate for the post.

(b) Elections

295. The Chairperson announced that the candidates for the office of Chairperson were Mr. A. BATAYNEH (Jordan) and Mr. T. ERLING (Finland).
296. After indicative voting had taken place, Mr. T. Erling (Finland) was elected by acclamation as Chairperson of the Council for 2006/2007. He thanked his colleagues for their support and paid tribute to Mr. Batayneh. He also paid tribute to the current Chairperson, Mr. P. Gordhan, acknowledging the latter's exceptional leadership over the past few years during which the Organization had succeeded in establishing a roadmap for the future, namely the SAFE Framework of Standards, and in strengthening the position of the WCO on the international stage. Looking to the future, Mr. Erling saw the SAFE Framework of Standards as the compass which indicated the way ahead. Its further development and implementation required the active contribution of all parties. Finally, he said that Customs was essentially a "team" game and it would be in that spirit of working together that he intended to conduct his chairmanship of the Organization.
297. The CHAIRPERSON then announced that following consultations between the Members in the various regions, it was proposed that the Delegates of Canada, Ghana, Hungary, India, Jordan and Rwanda be elected Vice-Chairs for 2006/2007. In the case of Jordan, this required a derogation from Rule 8 of the Council's Rules of Procedure since Jordan had already served as Vice-Chair for more than two consecutive terms.
298. The Council agreed to a derogation from Rule 8 of its Rules of Procedure in order to permit the re-election of Jordan as Vice-Chair, and the above proposals were approved by acclamation.

299. Following consultations between the Members in the various regions, it was proposed that the Council elect as Members of the Policy Commission for 2006/2007 and 2007/2008, the Delegates of Argentina, Germany, Ireland, Italy, Korea (Republic of), Mexico, New Zealand, Singapore and Spain. It was noted that they would serve alongside the Delegates of a number of Members which had been elected to the Policy Commission one year previously, namely Cameroon, Japan, Kazakhstan, Saudi Arabia, Sweden, United Kingdom, United States and Zambia.
300. Following consultations between the Members in the various regions, it was proposed that the following Members be elected to serve on the Finance Committee for 2006/2007 : Australia, Brazil, France, Gabon, Germany, Italy, Japan, the Netherlands, Pakistan, Panama, the Russian Federation, Saudi Arabia, Spain, Switzerland, Uganda, the United Kingdom and the United States.
301. It was proposed that Mr. R. Lüssi (Switzerland) be re-elected Chairperson of the Finance Committee for 2006/2007, and that Mr. P. Ndong Nguema (Gabon) be re-elected Vice-Chairperson for that period.
302. All these proposals were approved by acclamation.
303. The Delegate of AZERBAIJAN raised the question of the representation of Members in important limited-membership WCO bodies, such as the Policy Commission and Finance Committee. He felt that all countries should be given a chance to argue to be represented in such bodies. The importance of a country for the WCO's work should be determined not only by its geographical size or its financial contribution; account should also be taken of its history and current input into WCO work.
304. The Europe region was represented in the Policy Commission and the Finance Committee by a certain number of countries and, in the past, there had been a clear understanding of how this functioned. Today, it was his feeling that no clear understanding existed anymore about the representation in such bodies and that, for example, his country and Russia were now competing with each other for a seat on the Finance Committee. He pointed out that Azerbaijan Customs had a 200-year history and was actively engaged in many Customs activities along the Silk Road. He urged that decisions as to which countries occupied seats in important WCO working bodies be made on the basis of functional considerations.

9. OTHER BUSINESS

WCO instruments

305. In the course of the Sessions, a brief ceremony took place at which the Delegates of JORDAN, MONGOLIA and ZAMBIA signed or deposited their country's instrument of accession to the revised Kyoto Convention.

Competition in respect of the combating of counterfeiting and piracy

306. In September 2005, the Secretary General had launched a competition, open to all WCO Members, to identify Customs administrations which had demonstrated particular excellence in the combating of counterfeiting and piracy. Interested Members had been invited to submit an essay to the Secretariat detailing their efforts and success in the combating of counterfeiting and piracy at national level. Twenty-two administrations had participated.
307. The SECRETARY GENERAL announced the results of the competition. In equal third place were Italy and France. Italy had achieved the best seizure results in the European Union and had also introduced a new highly effective risk analysis system known as "Falstaff". In addition, a series of measures had been taken in Italy to strengthen anti-counterfeiting and anti-piracy legislation. France, for its part, also had extremely effective legislation in this area and counterfeiting was in fact a Customs offence. In addition, both France and Italy had co-operated closely on the combating of counterfeit goods and their joint endeavours therefore merited recognition.
308. In the runner-up spot was the Hungarian Administration which was being recognized, in particular, for having created a specialized unit to combat counterfeit and pirated goods, for having specific reinforced legal competences in this area, and for being very involved in international co-operation to combat counterfeiting and piracy.
309. Finally, the winner of the competition and recipient of the trophy for 2006 was the Republic of Korea. The Korean Administration had developed its own "Spider" risk analysis system and had also recorded a marked increase in the seizures of counterfeit goods. Korea had, moreover, shown particular keenness to co-operate with other administrations in this field and had adopted national legislation which went beyond the WTO's TRIPS legislation. Moreover, Korea now scarcely featured in the statistics as an exporter of pirated or counterfeit products.
310. In closing, the Secretary General said that a further competition would be organized next year.

Resolution in honour of Directors General having recently left their administration

311. The Council adopted a formal Resolution (reproduced at Annex X hereto) in honour of a number of Directors General who had recently left the service of their administrations, to recognize the contribution they had made to the work of the World Customs Organization.

**10. DATE AND PLACE OF NEXT SESSIONS AND CALENDAR
OF MEETINGS FOR 2006/2007**

312. The CHAIRPERSON drew attention to the draft Calendar of meetings for 2006/2007 and said that the 109th/110th Sessions of the Council would be held in Brussels from 28 to 30 June 2007, preceded by the 57th Session of the Policy Commission.
313. Subject to a number of amendments to the draft that had been circulated, the Council approved the Calendar of meetings for 2006/2007, which is reproduced at Annex XI hereto.

CLOSURE OF THE SESSIONS

314. The SECRETARY GENERAL paid tribute to the two Vice-Chairs - Brazil and China - which had completed their term of office, thanking them for their valuable initiatives and assistance. He expressed special thanks to the Heads of the Brazilian and Chinese Administrations, Ms. Clecy Lionço and Minister Mu Xinsheng respectively, for their commitment and skill in co-ordinating and leading the work of two of the largest WCO regions.
315. He also paid tribute to the Deputy Director for Valuation, Mr. Aziz El Kassimy, who would shortly be leaving the Secretariat. Mr. El Kassimy had played an important and reliable role in the sensitive area of valuation, ensuring co-ordination between the WTO in Geneva and the WCO in Brussels in this respect.
316. Finally, the Secretary General paid special tribute to the outgoing Chairperson of the Council, Mr. Pravin Gordhan. Firstly, he paid tribute to Mr. Gordhan as the Chair of the Council and Policy Commission for the way in which he led and managed meetings. It was no easy task to take account of all the divergent views and positions expressed and then to sum up the discussions and draw out the essential points in such a way as to lead the Organization down new and innovatory paths. Thanks to Mr. Gordhan's intelligence, skill, perspicacity and finesse, the level and visibility of the Organization had increased considerably over the past few years.
317. Secondly, the Secretary General paid tribute to Mr. Gordhan as a senior official from a young Republic, the representative of a generation which had actively engaged in the establishing of a democracy. In this respect, Mr. Gordhan had been in the privileged position of being able to create something that did not exist before, to be able to work towards an economic, political and social ideal. Notwithstanding, in his role at the WCO Mr. Gordhan had never sought to champion the cause or achievements of the South African Revenue Service. He had always been guided by a wish for the WCO to be strong, to persevere and to be capable of fighting injustice.
318. Last but not least, the Secretary General paid tribute to Mr. Gordhan the man. He was an extraordinary person who had fought and indeed risked his life for his ideals and, as a result, had experienced difficult times. He had tremendous human qualities, generosity of spirit, warmth and an enthusiasm for achieving objectives. The Secretary General said that it had been a privilege to know and work with Mr. Gordhan. He reassured delegates that Mr. Gordhan would not disappear from the WCO since the

statutes allowed former Council Chairpersons to continue to participate in the Policy Commission. It was important for the Organization that Mr. Gordhan should continue to stimulate, advise and indeed oblige the WCO to move ever forwards.

319. Mr. GORDHAN thanked the Secretary General for his generous words. He had greatly appreciated the opportunity over the past five years to contribute - alongside the Secretary General - to the WCO and to the progress achieved during that period.
320. The CHAIRPERSON then declared closed the 107th/108th Sessions of the Council.

P. GORDHAN,
Chairperson.

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