

The alternative methods in Customs Valuation

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Rules on Customs valuation

- Part 1 of the agreement on implementation of Article vii of the General Agreement on Tariffs and Trade
- 7 rules -6 methods
- Rules are embedded in Article 1 to 7
- Methods are explained in Articles 1-3 and 5 to 7
- Article 4 speaks on the option of reversing the order of application of Article 5 & 6 at the request of the importer

The principal method

- General introduction to the article vii of GATT
- *“The primary basis for customs value under the agreement is “transaction value”*
- *“Members of the agreement ,recognizing that the basis for valuation of goods for customs purposes should ,**to the greatest extend possible**, be the transaction value of the goods being valued*

Why alternative methods?

- No sale involved
- Sale subject to certain restrictions (other than permitted)
- Sale subject to a condition for which no value can be determined
- Non availability of objective and quantifiable data
- Related party transactions where value has been influenced
- Customs authorities still have reasonable doubts

What are the alternative methods?

- Transaction value of Identical goods method (Article 2)
- Transaction value of similar goods method (Article 3)
- Deductive value method (Article 5)
- Computed value method (Article 6)
- Fall back method (Article 7)

Sequential application

- *Annex 1. General note 2.*

“where the customs value cannot be determined under the provisions of Article 1, it is to be determined by proceeding sequentially through the succeeding Articles to the first such Article under which customs value can be determined. Except as provided in Article 4 it is only when the customs value cannot be determined under the provisions of a particular Article that the provisions of the next Article in the sequence can be used”

Identical goods method

■ Article 1

Price actually paid
or payable on the
goods imported

Article 2

Price is based on
another transaction,
value which has been
previously accepted

Identical goods

- **Must be**
 - Identical to the imported goods
 - **Produced** in the same country
 - Exported at or about the same time
 - Same quantity and commercial level
- **Must have the same**
 - Characteristics
 - Quality
 - Reputation
- **Minor differences in appearance are acceptable**



Identical Goods

- Article 15.2
 - Not Identical if they incorporate assists under article 8.1 (b) (iv)
 - If not produced in the same country it is not considered identical
 - Can be produce of a different person only if none are produced by the same person

Similar goods method

❑ Like the identical goods, it must be

- Similar to the imported goods
- Produced in the same country
- Exported at or about the same time
- Same quantity and commercial level
- Lowest if two or more

❑ Must have

- Like characteristics
- Like component materials
- Enabling to perform the same function
- Be commercially inter changeable



Similar goods method

- Article 15.2 (like identical goods)
 - Not similar If they incorporate assists under article 8.1(b) (vi)
 - Must be produced in the same country
 - Can be produced by a different person if none are produced by the same person
- Certain points to note
 - Similar goods may not be alike in all aspects
 - Close examination of the industry is required
 - Quality of the goods, reputation, existence of a trademark are some factors to be considered

Adjustments for level and quantity

- If no previous TV at the same commercial or quantity level exists but a TV at different commercial or quantity level exists adjustments can be made.
- Paragraph 3 of the commentary 10.1 (need and the circumstances for adjustment)

“However if there are differences in commercial level and quantity it will then be necessary to determine whether the price or value is affected by those differences. It is important to bear in mind that the mere existence of a difference in commercial level or quantity would not of itself require that an adjustment be made; an adjustment will be necessary only if a difference in the price or value results from a difference in commercial level or quantity and then the adjustment must be made on the basis of demonstrated evidence which clearly establishes its reasonableness and accuracy. If this requirement cannot be met, the adjustment cannot be made”

Deductive value method

- Based on the unit price at which the imported identical or similar goods are sold at the greatest aggregate quantity, at the first commercial level after importation, to persons not related to the seller, where the sales takes place at or about the same time of the imported goods being valued.
- The principle; *If post importation costs can be deducted from the importers resale price the net amount will reflect the value of the goods at the border*
- Deductions from unit price
 - Commissions for selling agent
 - Profit and general expenses
 - Transport costs
 - Insurance
 - Duties and taxes

Deductive value Method

- Certain other factors to be taken into account
 - There must be a resale of identical or similar goods, (of the goods imported,) in the country of importation
 - Such goods when sold should be in the same condition as it was first imported
 - Any sale in the country of importation to a person who supplied product assists as mentioned in Article 8.1 (b) should not be used

Option for change of order between deductive and computed value methods

- Article 4
- Order of application of the deductive and computed value method may be changed at the request of the importer.
- Why would you think an importer opt to do this?

Computed value method

- Based on cost of production of the imported goods
- The sum of
 - Cost of materials
 - Cost of fabrication
 - General Expenses
 - Profit
 - Cost of value adjustments
 - Cost of Transport and Insurance
- Rarely used method

Fall back method

- “Fail safe” where other methods cannot be used
- Value determined by “Reasonable means”

Notes to Article 7

“Customs value determined under the provisions of Article 7 should to the greatest extent possible, be based on previously determined Customs values”

The methods of valuation employed should be those laid down in Articles 1 to 6 but applied with reasonable flexibility”

Prohibitions in determinations of Customs value under Article 7

■ Article 7.2

value should not be determined based on

- Local selling price of goods produced in the importing country
- Higher of the two alternative values
- Price of goods in the domestic market of the country of exportation
- Based on cost of production other than by computed value method
- Export prices to third countries
- Minimum Customs values
- Arbitrary or fictitious values

Any questions?