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EXTERNAL TRADE: TRANSACTION VALUE

(Memorandum prepared by the Secretary-General)

1. The Economic and Social Council at its fifteenth session endorsed a recommendation of the Statistical Commission by adopting the following resolution:1/

"The Economic and Social Council

"Taking note of the work done by the Statistical Commission at its fifth, sixth and seventh sessions, and of the comments received from governments and specialized agencies, on the subject of definitions and methods for external trade statistics,

"Taking note that the use of the principle of the 'transaction value' as defined in the Report of the Statistical Commission (seventh session), would substantially improve the accuracy, usefulness and comparability of external trade statistics for international purposes,

"Recommends that the governments of Member States, wherever possible, follow this principle:

"(a) By using 'transaction values' in the compilation of their national statistics of external trade; or

"(b) Where national practices are based on f.o.b. valuations of imports or other valuations, by endeavouring to provide supplementary statistical data based on this principle."

1/ 469(XV)B, E/2419

54-00782

2. The Commission and the Council recommended that the transaction value should be used in valuing all imports or exports, whether or not these are of a commercial nature. The Commission, in paragraph 37 of the Report of the seventh session[2/] attached importance to the use of a theoretical or notional transaction value in cases where the relationship between the importer or exporter is such that no real transaction value is involved. In paragraph 38 of the Report, the Commission indicated that, when supplementary statistical data based on the transaction value are provided, they should be calculated at least by group totals of the Standard International Trade Classification.

3. Following this recommendation letters were sent to all Member States to ask whether the provision of data based on transaction value presented any serious difficulties. On 16 December 1953 replies had been received from 38 countries; most countries reported that the methods they use in valuing goods entering external trade conform closely with those recommended by the Council. Some countries, however, encountered difficulty in accepting the recommendations of the Commission. Summaries of the descriptions countries have given of their valuation practice are contained in Annex I to this paper.

4. Since a number of the countries which have recently provided information on their methods of valuation are parties to the "Convention on the Valuation of Goods for Customs Purposes" drawn up in Brussels on 15 December 1950, and since the valuation of goods for customs purposes almost inevitably determines the valuation of goods for statistical purposes, the differences between the transaction value for imports and the value as defined by the Convention will briefly be discussed. The relevant parts of the Definition of Value contained in annexes to the Convention are quoted in Annex II to this paper.

5. The Convention prescribes that in levying duty the value of goods shall be essentially their <u>open market value in the importing country at the time when the duty becomes payable, excluding customs duty and import taxes</u>.[3/]

2/ E/2365.

3/ In "Principles for Statistics of External Trade", E/CN.3/142 para.39 "resale value" was discussed. It differs from "open market value" in that the latter excludes customs duty and import taxes which are included in the former.

(Convention: Annex I, article I and first paragraph of Annex II, note 5). This definition includes importer's profit and other costs incident to sale on the wholesale market of the importing country which are all excluded from the c.i.f. transaction value.

6. It has, however, been indicated by several parties to the Convention that in practice the c.i.f. transaction value (invoice value including insurance and freight to the frontiers of the importing country) is normally accepted as the dutiable value by customs officials. From the practical point of view there are good reasons for this apparent conflict between what is actually done and what is legally required. On the one hand the maintenance of a complete schedule of the local open market prices which form the basis of the legal requirement constitutes a task which the Customs is seldom equipped to carry out. The transaction value, on the other hand, is usually obtainable directly from the commercial documents accompanying the import.

7. In these circumstances, the persistence of legal requirements at variance with the aims of administrative practice can only be explained by regarding the legal requirements as a kind of reserve power which is used only for enforcement purposes, i.e., to compel importers to declare the true transaction value. From the point of view of enforcement there is little doubt that the local open market price of a disputed consignment of goods is more easily determinable for a local court or tribunal than the transaction value since the latter may involve the evidence of foreign persons or the checking of documents which may be outside the jurisdiction of the courts of the importing country. Added to this is the fact that the local open market price in the importing country will usually be higher than the transaction value.

8. The apparent conflict between the legal definition of value and the value actually recorded by customs is therefore seen as a compromise between legal necessity on the one hand, which requires a criterion which national courts or tribunals can apply, and administrative convenience on the other, which requires, for use in the vast majority of cases, a valuation procedure based on available documents.

9. Where this compromise is actually in effect, it has, however, sometimes the unfortunate consequence that the description of valuation given in official statistical publications is the legal definition rather than the one which really

determines the nature of the figures. In order that users of the statistics may not be misled into thinking that import figures differ from the c.i.f. transaction value, because they contain importer's profits and other domestic charges, when the figures in fact approximate the c.i.f. transaction value very closely, further information is required as to the actual content of the data.

10. Because of the circumstances described in paragraph 9 above, the Commission may wish to recommend that governments as far as possible include in descriptions of their import statistics, besides the legal definition of value, also a summary of the administrative procedures normally used to arrive at value figures.

11. The views summarized in the annex to this paper indicate that the methods of adoption of the transaction value in certain countries will require further examination. Study is also required of methods of obtaining supplementary data relating to transaction value where countries are not at present able to adopt the transaction value for national purposes.

ANNEX I

AUSTRALIA

Australia uses for its imports and exports alike the transaction value f.o.b. at the place of shipment. The government of Australia feels unable, with the existing data, to re-value individual import items of the SITC on a c.i.f. basis.

However, investigations are being made with the object of subdividing by groups of the SITC the overall estimate which is currently made of insurance and freight on all imports.

BELGIAN CONGO and RUANDA URUNDI

For imports the c.i.f. transaction value is used. For exports the value is for most products based on prices fixed by the customs authorities and for the rest the value realized in the country of destination, less cost of transportation etc., from the Belgian Congo or Ruanda Urundi.

BELGIUM-LUXEMBOURG

Export valuation is based on transaction value as defined by the Statistical Commission. In the case of imports the value is determined in conformity with the provisions of the Brussels Convention of 1950 on valuation which is discussed in the paper to which this Annex is attached.

Values are computed at the Benelux frontier rather than at the frontier of Belgium-Luxembourg.

CANADA

The practice adopted in Canada for valuation, both for imports and exports, is the transaction value at the point of original shipment of the goods. In many cases the "point of shipment" of imports is not on the border of the exporting country and "the point of shipment" of exports is not on the border of Canada.

Most goods transported by rail or other common carrier between the United States and Canada are moved on "through rates" covering the full transportation between the originating point and the destination. The amount of transportation to the border is consequently not known by the shipper and could usually only be obtained after special inquiry to the transportation company. This special situation connected with trade across the border between Canada and the United States places special obstacles in the way of estimating freight and insurance on a commodity basis. It is stated that during recent periods, there have been more than 300,000 individual entries of goods per month in the case of imports alone.

However, for balance of payments purposes, Canada is able to estimate transportation costs satisfactorily on a global basis by obtaining information on certain movements from the transportation companies. Accounting records of the transportation companies furnish the total transportation cost of certain international movements of goods. Canada is also able to estimate the transportation costs on a few bulk commodities like petroleum, coal and grain where there is sufficient homogeneity or concentration of movement to make this practicable.

In view of the circumstances described above, the government of Canada would have difficulty in following the recommendation of the Council.

CEYLON

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

CHILE

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

COLOMBIA

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

COSTA RICA

Imports are valued at transaction value.

Exports are also valued at transaction value except for some commodities, such as bananas, for which a theoretical transaction value is based on the sales price in the United States.

DENMARK

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

ECUADOR

The practice adopted in Ecuador for valuation of imports is the transaction value at the frontier of the exporting country. Thus imports are valued on an f.o.b. basis. Data on insurance and freight are available which could be used to estimate c.i.f. value for total figures but not for individual commodities.

Exports are valued at transaction value.

EGYPT

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

FRANCE

Export valuation is based on transaction value. For imports the valuation is according to the Brussels Convention of 1950 discussed in the paper to which this annex is attached.

Sometimes there may be variation in the price of goods between the date of purchase and the date of importation into France. If the price of goods has increased subsequent to the date of purchase, the buyer need not, if there was normal delay in transport, revise the price shown in the bill. In such cases the declared value is the transaction value. But no decision has been taken yet as to procedure in the case when there is a decrease in the price of goods subsequent to the date of purchase.

GERMANY, WEST

Transaction value c.i.f. for imports and f.o.b. for exports is adopted.

For goods on commission or consignment which are sold immediately after being imported, the sales return is the basis for computing the frontier value; for other goods on commission or consignment, computation of the frontier value is based on the price which is assumed to be realized for the goods at the place of destination. Commission, freight, insurance and other charges from the German frontier to the place of destination including duties such as import duties, turnover, equalization tax, etc., are deducted.

In other cases where invoice price is not available, e.g., goods for contract processing, the market value at the place of destination less import duty, turnover, equalization tax and other internal charges such as freight, insurance and other charges from the frontier to the place of destination is taken as frontier value. Where no market value can be ascertained or where such a market value is not suitable for computing the frontier value, the frontier value is estimated. These estimates are later revised and the revised values, if they deviate from actual value by 5 per cent or more, are reported to the agency where declarations are filed.

GREECE

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

GUATEMALA

Imports and exports are valued f.o.b. For imports the value is the f.o.b. transaction value; for exports the value differs from the transaction value in that it excludes certain export taxes. It is possible to estimate the c.i.f. transaction value for total imports and the f.o.b. transaction value for total exports, but these estimates cannot at present be made for individual commodities.

HONG KONG

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

ICELAND

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

INDIA

In theory, the rule adopted for valuation of imports and exports is the real value system, i.e., wholesale market price in India less trade discount, but in practice imports are valued according to transaction value c.i.f., and exports are valued according to transaction value f.o.b.

IRAN

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

IRELAND

The law states that imports shall be valued at their "resale value" which may be obtained as the c.i.f. transaction value "adjusted" to include the profit of the importer plus costs incidental to sale in the wholesale market in Ireland. This rule is similar to that given in the Brussels Convention and is discussed in the paper to which this annex is attached.

In the case of parcel post imports, the value of dutiable goods is assessed on an arbitrary basis. However, in future, sampling methods are expected to be applied to assess the value of these goods on a more realistic basis. As regards parcel post imports of non-dutiable goods, the value is estimated by the application of the average value per package of a sample to an estimate of the total number of parcels. Arbitrary valuations are also used in relation to gifts imported through parcel post.

Exports are valued at the transaction value. Blood stock horses are shipped on a temporary basis sometimes without change of ownership. Problems of valuation such as those raised by these shipments are, according to the Irish Central Statistical Office, dealt with in a realistic manner which in principle accords with the recommendations of the Council.

ITALY

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

JORDAN

For imports there is little difference between the valuation system practised in Jordan and the transaction value as defined by the Commission.

The Director of Statistics of Jordan states that for exports the difference between the transaction value and the value currently used is so great that it will not be possible at present to adopt the transaction value for exports. It may be possible to revise the system of valuation at a later date when the present customs laws are revised.

KENYA-UGANDA-TANGANYIKA

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

MALAYA

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

MAURITIUS

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

NETHERLANDS

Export valuation is based on transaction value as defined by the Statistical Commission. In the case of imports the value is determined in conformity with provisions of the Brussels Convention of 1950 on valuation which is discussed in the paper to which this annex is attached.

In the case of goods imported from the third countries via the territory of the Union of Belgium-Luxembourg, the c.i.f. value does not include freight and other charges covering transport through the territory of this Union. This is in accord with the Benelux-Customs Convention and the Brussels Convention.

NETHERLANDS ANTILLES

At present imports are recorded f.o.b. The recommendation of the Council is being taken into account in a revision of the system now in use.

NEW ZEALAND

Beginning in the year 1952, the valuation for imports is according to the current domestic value (c.d.v.) of the goods when sold for cash in the ordinary course of business for home consumption in the principal markets of the exporting country at the date of shipment (prior to 1952 an additional 10 per cent was added for duty purpose). This valuation generally approximates to f.o.b. It is not identical with f.o.b. due to additional costs of packing and internal freights incidental to delivery f.o.b. and also due to different export and domestic price levels as a result of taxes, subsidies, commodity controls, etc.

Beginning 1952 actual transaction value c.i.f. is also recorded for each shipment. If the shipment contains several commodities the freight and insurance are not apportioned by commodity.

Both current domestic value and c.i.f. value figures for large commodity class totals and the grand total of imports are published (beginning with the year 1952) in the Monthly Abstract of Statistics. It is anticipated that c.i.f. values by countries will later be available and that when the SITC is adopted, group totals on both current domestic and c.i.f. valuations may be availab le But it is stated that it may not be possible to give c.i.f. transaction values for items or sub-items of the classification.

For exports, transaction value is adopted "so far as possible" but in the case of exports on consignment the "theoretical transaction value" based on prices at the time of shipment are not always adjusted, after the sale of the goods exported, to conform to true transaction values.

NIGERIA

The practice adopted in Nigeria for valuation is the transaction value for both imports and exports with the exception that in the case of imports by air, only a quarter of the air freight is included in the c.i.f. value.

However, it is proposed to record the full transaction value of all imports by air as from January 1954.

NORWAY

The transaction value is used for exports and for most imports. The customs value for goods rated ad valorem differs from the transaction value when the goods are sold at a price lower than the common wholesale price for such goods on the inland market of, or for export from, the country of purchase at the time of purchase.

In such cases the customs value is based on the higher price. The same principle is applied when the actual freight charges are lower than the common freight.

The Central Bureau of Statistics does not find it feasible to base the import statistics on the transaction value in those few cases where it differs from the customs value. However, it will be possible to make use of the transaction value for all imported goods when the Brussels Convention on Valuation is ratified by Norway and adopted by the customs authorities.

PAKISTAN

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

PHILIPPINES

Import valuation is according to the transaction value of the goods at the frontier of the exporting country rather than at the frontiers of the Philippines. The following are the difficulties encountered by the country in implementing the recommendation of the Council:

(a) According to the rules and regulations of the government, importers are required to declare the value of goods on the f.o.b. basis and the ad valorem tax is levied upon the f.o.b. valuation.

(b) It is not desirable to make a change in import statistics which will make it appear that prices of imports have risen.

For exports the value excludes wharfage tax, internal revenue tax, forest charge, royalty, standardization fees, etc. This, according to the Bureau of Census, is done to protect or encourage the industries concerned and thus suit the economic needs of the region and changes will therefore be difficult to make.

The Bureau of Census feels that it will not be possible for the Philippines to implement fully the recommendations of the Council.

SOUTHERN RHODESIA

The Director of Census and Statistics states that for the present the Central African Territories can do no more towards using the transaction value than adopt c.i.f. values at the first port in Africa for overseas imports and "free on rail" values in other cases. Transaction values could, however, be estimated in respect of broad classes of goods.

SWEDEN

The transaction value is used for exports. For imports the valuation is according to the Brussels Convention of 1950 which is discussed in the paper to which this annex is attached.

SWITZERLAND-LIECHTENSTEIN

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

TRINIDAD AND TOBAGO

Imports and exports are valued at transaction value. The Central Statistical Office points out that a few anomalies may exist in the valuation, but the values recorded approximate fairly closely to the transaction value as defined by the Commission.

TURKEY

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

YUGOSLAVIA

The methods used in valuing goods entering external trade conform closely with those recommended by the Council.

ANNEX II

Convention on the Valuation of Goods for Customs Purposes[1/]
(Brussels, 15 December 1950)

Annex I

Definition of Value

Article I

1. For the purposes of levying duties of customs, the value of any goods imported for home consumption shall be taken to be the normal price, that is to say, the price which they would fetch at the time when the duty becomes payable on a sale in the open market between buyer and seller independent of each other.

2. The normal price of any imported goods shall be determined on the following assumptions

(a) that the goods are treated as having been delivered to the buyer at the port or place of introduction into the country of importation; and

(b) that the seller will bear all costs, charges and expenses incidental to the sale and to the delivery of the goods at that port or place; but

(c) that the buyer will bear any duties or taxes applicable in the country of importation.

Article II

1. A sale in the open market between buyer and seller independent of each other pre-supposes

(a) that the price is the sole consideration; and

(b) that the price made is not influenced by any commercial, financial or other relationship, whether by contract or otherwise, between the seller or any person associated in business with him and the buyer

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1/ Convention establishing a Customs Co-operation Council signed at Brussels on 15 December 1950.

or any person associated in business with him (other than the relationship created by the sale of the goods in question); and

(c) that no part of the proceeds of the subsequent re-sale, use or disposal of the goods will accrue either directly or indirectly to the seller or any person associated in business with him.

2. Two persons shall be deemed to be associated in business with one another, if, whether directly or indirectly, either of them has any interest in the business or property of the other or both have a common interest in any business or property or some third person has an interest in the business or property of both of them.

Article III

When the goods to be valued

(a) are manufactured in accordance with any patented invention or are goods to which any registered design has been applied; or

(b) are imported under a foreign trade mark or are imported for sale under a foreign trade mark,

the normal price shall be determined on the assumption that the value of the right to use the patent, design or trade mark in respect of the goods is covered by the price.

Annex II

(Interpretative Note No. 5 to the Definition of Value)

The object of the definition of value is to make it possible in all cases to calculate the duties payable on the basis of the price at which imported goods are freely available to any buyer in the open market at the port or place of introduction into the country of importation. It is a concept for general use and is applicable whether or not the goods are in fact imported under a contract of sale, and whatever the terms of that contract.

But the application of the Definition implies an inquiry into current prices at the time of valuation. In practice, therefore, when imported goods are the subject of a bona fide sale, the price paid or payable on that sale can generally be considered as a valid indication of the normal price mentioned in the Definition. This being so, the price paid or payable can reasonably be used as a basis for valuation, and Customs authorities are recommended to accept this price as the value of the goods in question, subject

(a) to proper safeguards aimed at preventing evasion of duty by means of fictitious or colourable contracts or prices; and

(b) to such adjustment of the contract price as may be considered necessary on account of circumstances differentiating the contract from the national concept embodied in the Definition of Value.
