WORLD CUSTOMS ORGANIZATION
ORGANIZATION MONDIALE DES DOUANES
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TECHNICAL COMMITTEE ON CUSTOMS VALUATION

-
43rd Session
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+Annexes

O. Eng.

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OTHER BUSINESS

INFORMATION DOCUMENT ABOUT CUSTOMS VALUATION IN GLOBAL VALUE CHAINS

(Item VII (b) of the Agenda)

I. BACKGROUND

1. Following discussion at the 41st Session of the Technical Committee on Customs Valuation (Technical Committee) on a question raised by Uruguay on the valuation treatment of goods in a Global Value Chain (GVC), the Technical Committee agreed to terminate work on this question. Instead, it requested the Secretariat, based on the work conducted to date, to prepare an information document about Customs valuation in GVCs.

2. The Secretariat prepared an information document which was presented to the Technical Committee at its 42nd Session.

3. The Technical Committee recommended including all the illustrations of the draft case study in the information document.

II. SECRETARIAT'S COMMENTS

4. A new version has been prepared taking into account the recommendation. The information paper and the illustrations have been reproduced in the Annex I and II to this document.

III. CONCLUSION

5. The Technical Committee is invited to examine the information paper and decide how to dispose of it.

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GLOBAL VALUE CHAINS – BACKGROUND PAPER
INTRODUCTION

1. The past decades have witnessed a strong trend towards the international dispersion of value chain activities such as design, production, marketing, distribution, etc. For commercial, economic and other reasons, companies have divided their operations across the world, from the design of the product and manufacturing of components to assembly and marketing, creating international production chains which are known as global value chains (GVCs).

2. The OECD website1 provides the following description :

International production, trade and investments are increasingly organised within so-called global value chains (GVCs) where the different stages of the production process are located across different countries. Globalisation motivates companies to restructure their operations internationally through outsourcing and offshoring of activities.

3. This globalisation of the production process aims, through various international companies, to optimize the production of goods in locating the source of inputs in different countries in order to draw all possible benefits in terms of cost efficiency, technology and logistics. In addition, it is increasingly common that countries do not export more exclusively finished products, but they tend to specialize in certain phases of the production process. This has resulted in more movement of goods, either finished or intermediate products. A big proportion of goods subject to international trade presented to Customs are derived from GVCs.

4. It was in this context that the administration of Uruguay submitted its question relating to GVCs for consideration by the Technical Committee. Uruguay presented its case with a simple scenario in which there was a purchase of goods from a supplier abroad. The purchased goods were sent at the request of the buyer to another person abroad for repairs at the cost of the purchaser after which the repaired goods were imported into the country of importation.

5. With the above situation as the basis, the case was extended to cover other situations that are prevailing in the current economic and trade environment as described above. A diagrammatic example of a GVC presented by Uruguay for consideration by the Technical Committee is reproduced in Annex II of this paper.

6. The administration of Uruguay noted that Customs administrations will deal more and more with goods produced from GVCs. Therefore, it was proposed that the Technical Committee conducts a comprehensive analysis of this issue leading to the development of a new instrument of the Technical Committee on this topic.

SUMMARY OF TECHNICAL COMMITTEE DISCUSSIONS

7. The Technical Committee accepted the question related to GVCs submitted by Uruguay as a Specific Technical Question and examined it for successive Sessions from the 36th to the 41st Session. The Members discussed, inter alia, the question of whether the GVC and the valuation of raw materials and inputs really pose a problem for Customs

[1] http://www.oecd.org/sti/ind/global-value-chains.htm

valuation and whether from the point of view of the Agreement, Customs administrations of the importing countries should look at the valuation of the imported product as presented at the time of Customs clearance.

8. After discussions, the questions for consideration by the Technical Committee were summarised as follows;

(a) Is it relevant in the light of the WTO Agreement on Customs Valuation to take into account the Customs clearance of the intermediate imports when determining the value of the final product or should the Technical Committee limit its examination to the valuation of the final product in the country of import, to the extent that all costs incurred throughout the production chain are integrated in its sale price?;

(b) What is the proper method of assessment applicable to intermediate imports? Should the determination of the value of intermediate inputs be carried out separately from the determination of the value of the finished products or should it be linked?

9. The Technical Committee agreed that the provisions of the Agreement and instruments issued by the Technical Committee are adequate to determine the Customs value of either intermediate inputs or final products in their respective country of importation and it was not necessary to issue an instrument to that effect. Instead, it was proposed that the Secretariat produce a document on the topic for information purposes.

KEY VALUATION ISSUES

10. When dealing with transactions related to GVC, similar to the examples in Annex I, the following valuation issues might typically need to be examined :

(a) <u>Sale for export</u>

Has there been a sale for export? This could be a sale of intermediate products or finished products. If there is no sale for export, the alternative methods of valuation are to be used in their sequential order. In this example, there is an effective sale and the transaction value of the imported goods will apply, provided all the other provisions of Article 1 are satisfied.

(b) <u>Conditions of Article 1</u>

When determining whether to apply the transaction value method, it is important to ensure that all the provisions of Article 1 are met.

(c) <u>Related party transactions</u>

A large proportion of GVCs is carried out by multinational companies in which case the related party condition may need to be considered. Subsequently, the provisions of Article 1.2 may apply. However, it should be noted that the related party transaction should not be itself grounds for regarding the transactional value as unacceptable.

(d) <u>Article 8 Adjustments</u>

It is appropriate to identify any element of Article 8 which should be added to the price actually paid or payable. Common elements relevant to GVCs might include assists and royalties and licence fees and Article 8.2 optional adjustments. In the example in Annex II, Diagram C, material S and

11. Design supplied to Company ‘c’ could be considered as an assist in the production of Input R if the conditions of Article 8.1(b) are satisfied.

Further reading : Links to various statements and papers from other international organisations and fora on the topic of GVCs are listed in Annex III.

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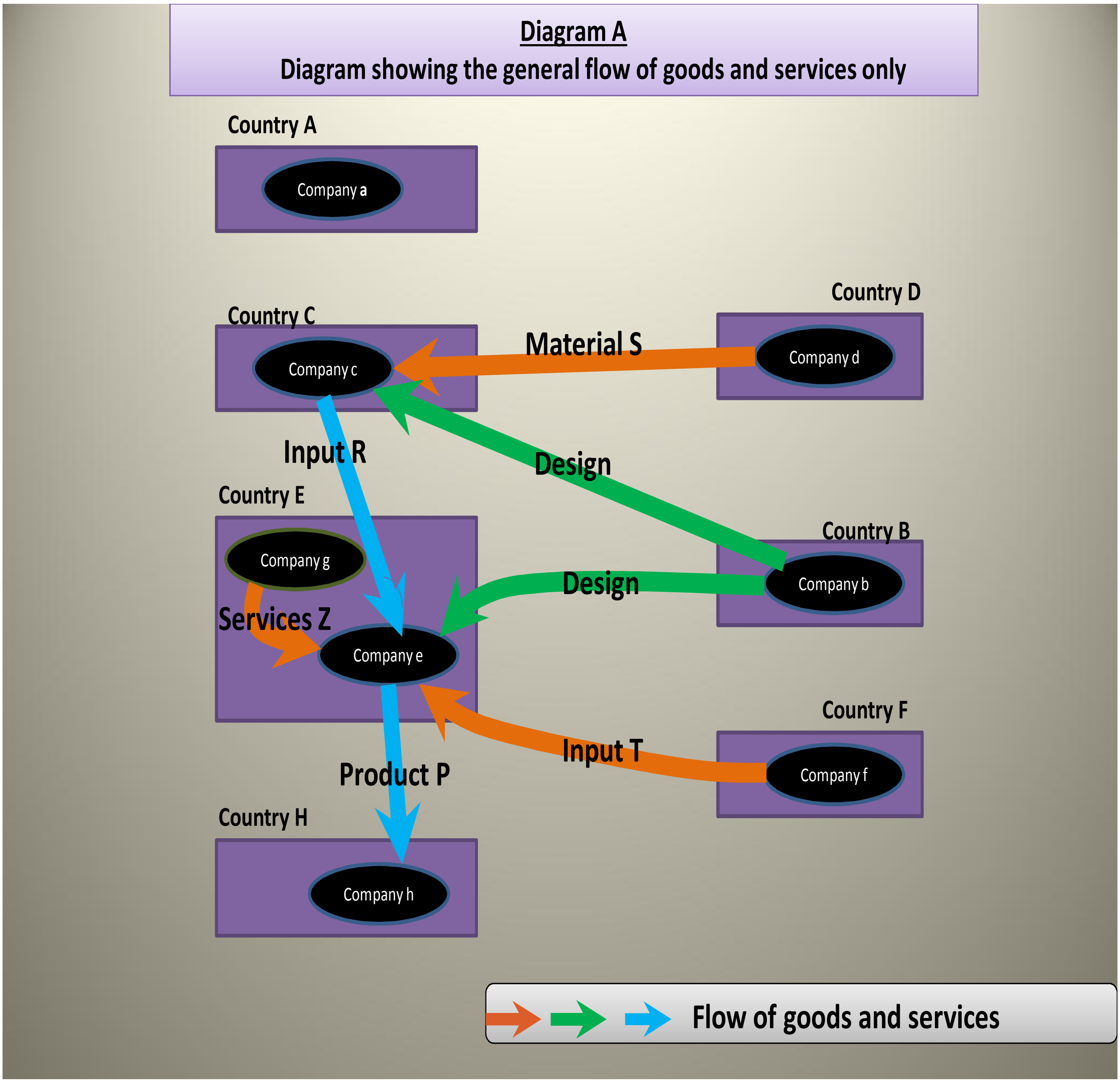
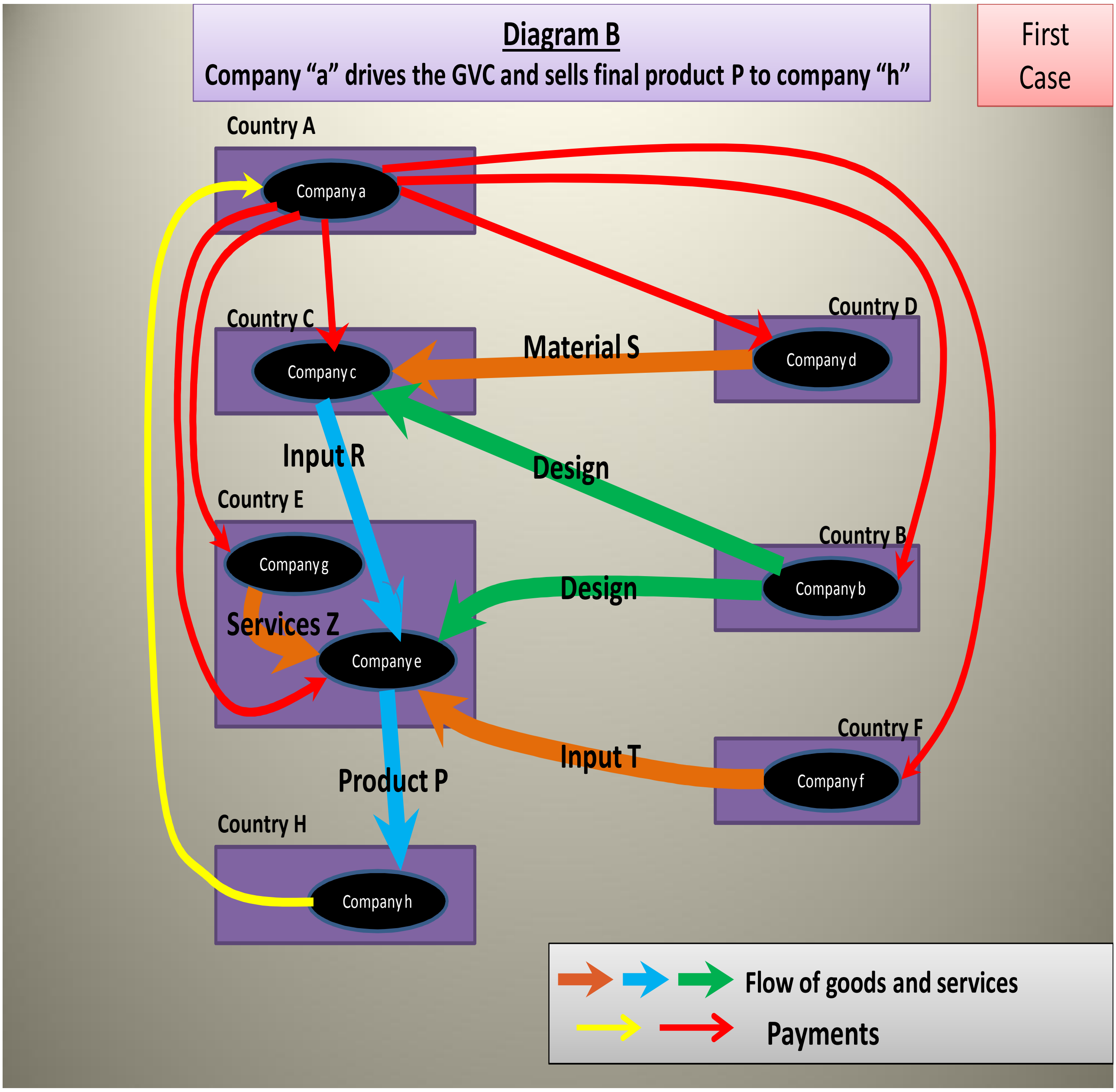
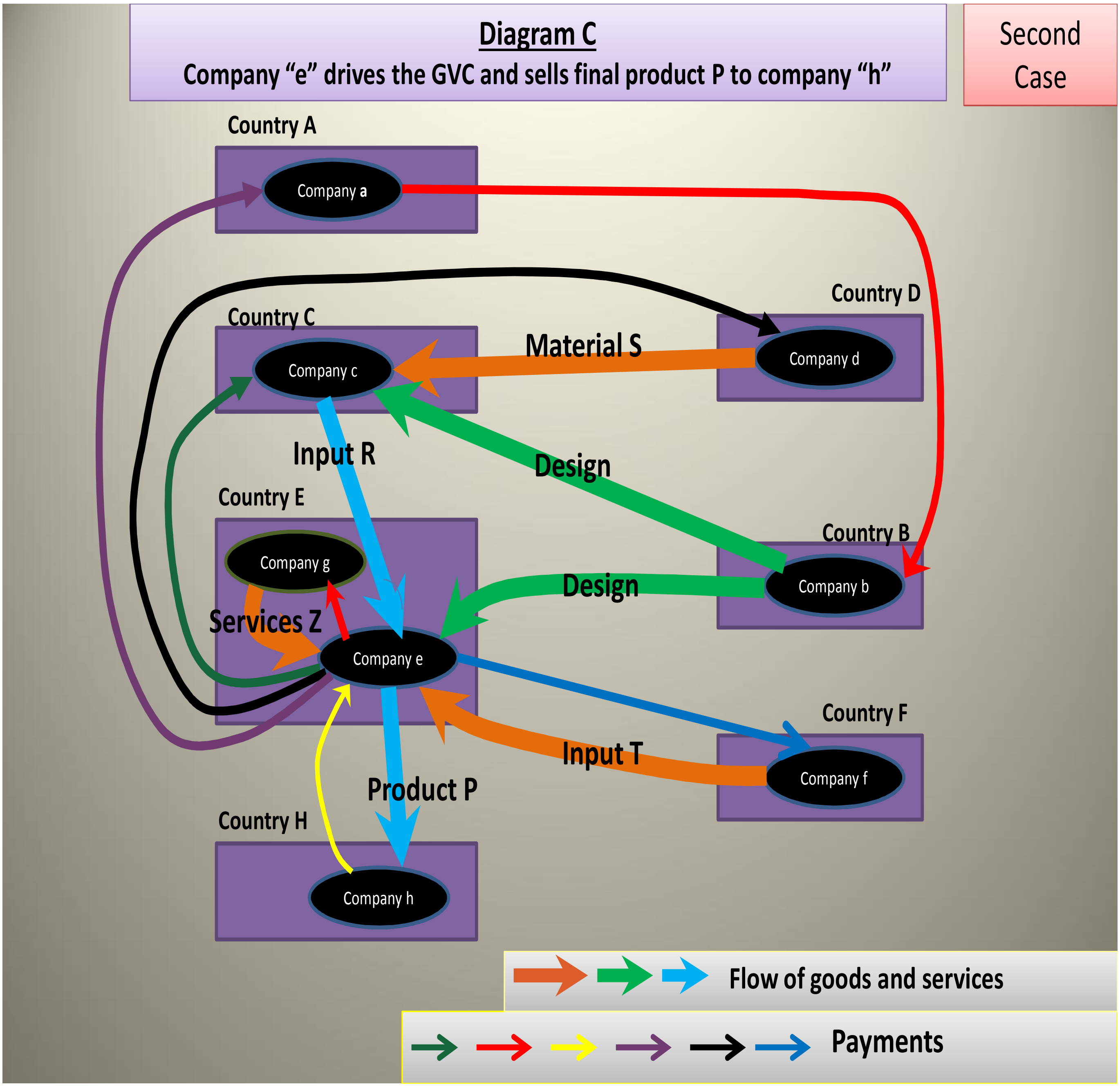


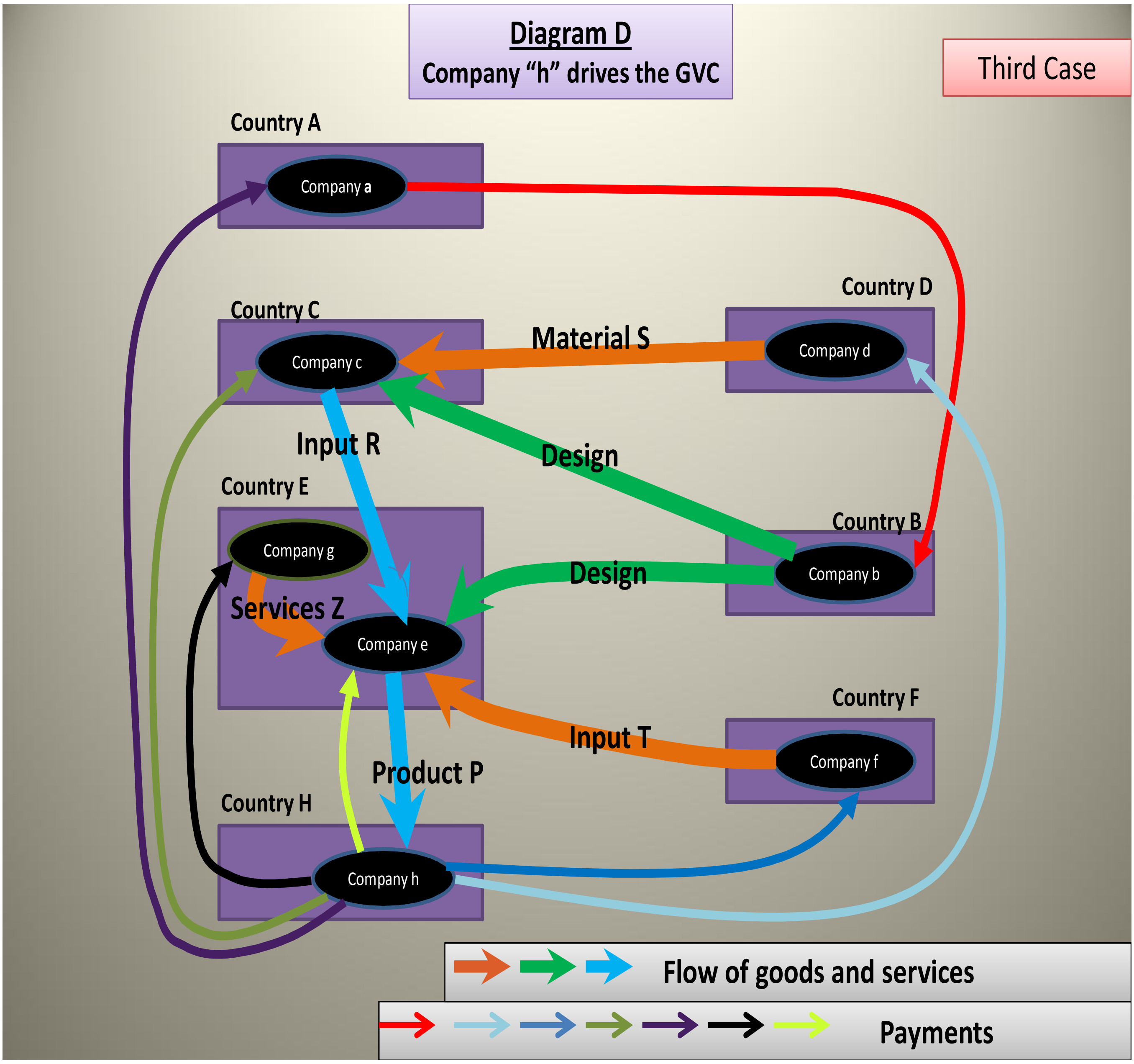
This diagram shows the movement of goods and services that are used in the production of the final product P among the different companies located in various countries.



In this example, Company 'a' drives the GVC.
All payments to the intermediary companies for goods and services supplied are made by Company 'a'.



- The global value chain is driven and organized by company "e" of country E, which sells final product P to importer "h" of country H.
- In this example, company "e" directly purchases from and pays company "a" for the design (carried out by "b", as it is "a" which contracts out this work to company "b"), company "d" for material S, company "c" for the manufacturing cost of input R, company "f" for second input T, company "g" for service.



In the above scenario, Company 'h' drives the GVC and as in the previous examples, the driver pays all the intermediate companies for the goods and services used in the production of the final product P.

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Further Reading on Global Value Chains

The following links on the topic of GVCs provide further background reading :

World Trade Organization (WTO)

- https://www.wto.org/english/res_e/statis_e/miwi_e/miwi_e.htm

- https://www.wto.org/english/res_e/publications_e/aid4tradeglobalvalue13_e.htm

Organisation for Economic Co-operation and Development

- http://www.oecd.org/sti/ind/global-value-chains.htm

Presentation by Private Sector Consultative Group to the SAFE Working Group (see slides 11 to 17) – EN only.

- http://www.wcoomd.org/meetings/facilitationprocedures/safe-working-group/safe_committee/meeting_0013/English/presentations.aspx

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