

Memorandum D13-3-3

In Brief

Ottawa, December 10, 1999

SUBJECT

TRANSPORTATION AND ASSOCIATED COSTS (CUSTOMS ACT, SECTIONS 48 TO 54)

1. This Memorandum was updated but it does not contain any policy or procedural changes.
2. The customs treatment of transportation costs, under the various methods of valuation depends on the establishment of the place of direct shipment. See Memorandum D13-3-4, *Place of Direct Shipment (Customs Act, Sections 48 to 54)*.
3. Memorandum D13-3-4, which you may have to consult frequently while reading this Memorandum, is currently being revised. An updated version should be available in the near future. In the meantime, you may continue to refer to the current version.

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Ottawa, December 10, 1999

SUBJECT

**TRANSPORTATION AND ASSOCIATED COSTS
(CUSTOMS ACT, SECTIONS 48 TO 54)**

This Memorandum explains how transportation and associated costs are to be treated under the value for duty provisions of the *Customs Act*.

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GUIDELINES AND GENERAL INFORMATION

1. The valuation sections of the *Customs Act* (sections 48 to 54) require that the transportation costs of the goods be determined to properly apply all methods of valuation. This Memorandum defines the activities which will be considered as transportation costs. The treatment of transportation costs, under various methods of valuation, will depend on the establishment of the place of direct shipment. Therefore, you have to establish the place of direct shipment for your goods. To do so, consult Memorandum D13-3-4, *Place of Direct Shipment (Customs Act, Sections 48 to 54)*.
2. The guidelines and general information in this Memorandum take precedence over any previously issued information on the subject of transportation and associated costs, such as in Customs Notice N-558, *Deductions for Transportation Costs*, dated January 11, 1991.

DEFINITIONS

3. The definitions in this section explain some of the words and phrases used in this Memorandum.

Cost of Transportation

4. This means freight charges directly associated with the movement of your goods such as the cost of moving the goods by truck, aircraft, train, ship, or any other means of transportation.

Cost of Loading, Unloading, and Handling

5. This means expenses that have to do with moving the goods onto or off the truck, aircraft, ship or other transportation. It includes the filling and emptying of reusable commercial freight containers and the costs for lighterage, which is the transfer of goods directly from one ship to another.

Insurance Costs

6. This means the cost of insurance covering loss or damage to the goods while in transit.

Other Charges and Expenses

7. This includes other costs associated with the transportation of your goods. Some of these costs are customs brokers' and freight forwarders' fees, export documentation fees, inspection charges, weight and measurement certificates, warehousing fees, refrigeration charges and fees for the use of temperature recording devices. Demurrage charges, which are charges for failure to load or unload a truck or other carrier within a certain time, are also included.
8. Gassing or fumigation fees are also a transportation cost if they are required by the transportation company to protect the goods, for example, against an infestation by insects. If the gassing charge is **not** for pest control purposes, for example, in the case of tomatoes, if the gassing is done to ensure that the tomatoes arrive at their destination looking "red and juicy," the gassing charge is **not** a transportation cost. The section entitled "Transportation Costs and the Value for Duty" explains how these charges are to be handled.
9. You must ensure packing costs are properly treated. This will require you to determine whether the packing costs are transportation related or not. The cost of regular packing which the seller provides to market or protect the goods is **not** a transportation cost. You will find an explanation on how to handle these charges in the section called "Transportation Costs and the Value for Duty."

10. The cost of packing, which the transportation company requires for your goods to protect the transportation company from damage liability, is a transportation cost. This extra packing is over and above regular packing and is applied to the goods at the loading platform or other place of shipment. Since this extra packing is a requirement of the transportation company, it is a transportation related expense and considered to be another cost associated with the transportation of your goods.

11. For example, you have a bicycle retail store in Montreal. You buy 100 bicycles from a supplier in Paris, France. Your supplier boxes the bicycles and sends them off by truck to an ocean port. At the ocean port, the ocean carrier requires that the bicycles be wrapped in plastic to protect them during the ocean trip. As the plastic wrapping is a requirement of the transportation company, it is considered to be an associated cost of transportation. The boxes your supplier uses to package the bicycles would **not** be considered an associated cost of transportation as they are not packing required by the transportation company.

12. The list of transportation charges and expenses above is not exhaustive. If you have expenses that you believe are transportation related and which are not listed above, you should consult with customs to obtain advice on the proper customs treatment of the charges.

Actual Transportation Costs

13. If you are required by customs to account for transportation costs, you must submit documentation supporting the actual amount of the costs incurred. Estimates of the transportation costs are **not** acceptable. Customs will not always require you to submit proof. However, if they do, it is up to you to provide proper proof for the actual amounts.

14. These principles were outlined in two decisions issued by the Canadian International Trade Tribunal. In the *Monark Import-Export Inc.* decision (Appeal 3068), the Tribunal concluded that only the actual transportation costs could be considered. In the *Consulac Architectural Products Ltd.* decision (Appeal 92-157), the Tribunal ruled that it was the appellant's responsibility to prove what were the actual transportation costs, and that estimates were not acceptable. You can access these decisions on the Tribunal's Web site at www.citt.gc.ca. You can also obtain copies of the decisions by quoting the appeal number and contacting the Tribunal by fax at (613) 990-2439, or at the following address:

Canadian International Trade Tribunal
Records and Mail
15th floor
333 Laurier Avenue West
Ottawa ON K1G 0G7

Telephone: (613) 990-2444 or (613) 990-2446.

Transportation Rebates and Discounts

15. Sometimes transportation companies offer rebates or discounts on their transportation rates. This usually happens because you hire a transportation company to ship many shipments to you over a period of time. As an incentive, the transportation company may offer you rebates or discounts on their published rates. The timing of the rebate, either before or after importation, has no bearing. The actual transportation costs must always take into account these rebates or discounts.

Standard Allowances

16. A standard allowance is a set transportation cost, built into the selling price of the goods no matter where the goods are being shipped. This standard allowance likely does not equal the actual transportation cost of the goods. If this standard allowance is included in the selling price of the goods, it may be difficult to determine the actual cost as it will vary with each shipment. Unless the vendor can substantiate the actual cost of transportation the standard allowance can not be used.

17. For example, you operate a sporting goods store in Toronto. You buy your canoes from a company in Cleveland, Ohio. The actual transportation cost of a canoe varies, depending on the distance between the buyer in Canada and the Cleveland firm. The seller determines that the average transportation cost to any person in Canada is \$100. The selling price of \$800 includes \$100 for transportation.

18. You would not be able to use the standard transportation allowance of \$100 as the transportation cost, because it is not the actual transportation cost of the goods. The seller, however, is able to prove that the costs it incurred to ship the canoes to you in Toronto was \$.05/km. As you are 500 kilometres apart, the total actual cost would be \$25. Customs would consider this \$25 to be a reasonable deduction from the price paid or payable for the transportation cost to ship the goods from Cleveland to your store in Toronto.

TRANSPORTATION COSTS AND THE VALUE FOR DUTY

19. Described below is the way transportation costs are treated under the various methods of valuation. You must determine where the place of direct shipment is. To do so, consult Memorandum D13-3-4, *Place of Direct Shipment (Customs Act, Sections 48 to 54)*.

Transaction Value Method (Section 48, Customs Act)

20. You must include all transportation costs in the price paid or payable when they are for the transportation of the goods **to** the place of direct shipment. Under subparagraph 48(5)(a)(vi) of the *Customs Act*, you must add them to the price paid or payable if they are not already included in the price paid or payable.

21. When the transportation costs are for the transportation of the goods **from** the place of direct shipment, subparagraph 48(5)(b)(i) allows you to deduct them from the price paid or payable. You can only make a deduction for these transportation costs if they are already included in the price paid or payable. As mentioned above, if you are required by customs to provide proof of the transportation cost you have claimed, you must submit proof of the actual transportation costs. Actual transportation costs mean the actual amount of transportation costs incurred. Estimates of the transportation costs are **not** acceptable. Customs will not always require you to submit proof. However, if they do, it is up to you to provide proper proof for the actual amounts. As well, where transportation companies offer rebates or discounts on their transportation rates, you may only claim the actual transportation costs incurred which must always take into account these rebates or discounts.

22. The *Customs Act* does not recognize costs incurred **at** the place of direct shipment. The question of how to treat transportation expenses **at** the place of direct shipment is sometimes raised. Only transportation costs **to** or **from** the place of direct shipment are recognized and all transportation costs must be included in one of these two categories. Therefore, if you have transportation costs which are called "costs incurred at the place of direct shipment," you must determine if they were incurred in the movement of the goods to the place of direct shipment or in the movement of the goods from the place of direct shipment. If they are for the transportation of the goods **to** the place of direct shipment, then you must include them in the price paid or payable. If they are for the transportation of the goods **from** the place of direct shipment, then you may deduct them from the price paid or payable, but only if they are already included in the price paid or payable.

23. As mentioned previously, not all charges which might initially appear to be transportation costs are, after closer scrutiny, found to be transportation costs. For instance, the costs incurred to gas or fumigate goods, other than to protect them against an infestation by insects, are not transportation costs. They represent a vendor overhead to make the goods more marketable to enhance their value and are therefore, properly part of the price paid or payable. Under the transaction value method, these gassing and fumigation charges for aesthetic reasons would be considered to be a payment made by the buyer to or for the benefit of the vendor and therefore, form part of the price paid or payable. As well, the cost of regular packing which the seller provides to market and protect the goods is not a transportation cost. Under the transaction value method, these packing costs are provided for under subparagraph 48(5)(a)(ii) and they must be added to the price paid or payable, if they are not already included in it. These packing costs

cannot be deducted or otherwise excluded from the price paid or payable for the goods, regardless of where they are incurred.

24. For example, a San Francisco company wishes to ship 1000 crystal wine glasses from its factory in San Francisco to its customer in Montreal. The company decides to ship the goods via a commercial carrier and to package the goods in boxes of ten. Although the transportation company does not require that any extra packaging be used, the company knows that if it packages the glasses in the cardboard boxes with tissue paper, most, if not all, of the glasses will be broken by the time they reach their Montreal destination. The company decides to buy special packaging to individually wrap the glasses and cardboard separators to ensure that the glasses do not damage each other during transportation. Since this expense represents an overhead cost to the vendor, one would expect that cost is built into the price, but since it is not a transportation requirement no deduction is allowed for the cost. Alternatively, if the San Francisco company billed its customers separately for the extra packing, this amount should be added to the price under subparagraph 48(5)(a)(ii). This amount is included in the price paid or payable for the goods.

25. Under the transaction value method, the cost of the extra packaging used by the company to prepare the goods for shipment is to be added to the price paid or payable, if they are not already included in the price paid or payable. The commercial carrier however, does require that the boxes be placed on pallets, that air cushioning devices be placed between the pallets, and that special reinforced straps be used to keep the pallets together. The cost of the pallets, air cushioning devices, and the reinforced straps are transportation requirements and are to be treated as a transportation cost. Depending on the circumstances, the Montreal buyer may be able to deduct the cost for these transportation costs, if they are included in the price paid or payable.

Transaction Value of Identical Goods and Similar Goods Methods (Sections 49 and 50, *Customs Act*)

26. If you are using either the transaction value of identical goods method or the transaction value of similar goods method, you may be able to make certain adjustments to your transaction value of identical or similar goods. You may make adjustments when there are differences in shipping costs because of the different types of carriers used. This means that if your goods were shipped by aircraft and the identical goods were shipped by rail, you may be able to make an adjustment. You may also make adjustments for differences in distance travelled to the place of direct shipment. If there are differences in transportation costs for travel from the place of direct shipment, they also may be adjusted. Consult Memorandum D13-5-1, *Application of Sections 49 and 50 of the Customs Act*, for further information on the transaction value of identical goods method and the transaction value of similar goods method.

27. For example, Company A imports goods and stores them in a warehouse located in Vancouver. As the goods are not sold at the time of importation, the transaction value method cannot be used to value the imported goods. A subsequent method of valuation must be used.

28. Company B imports a similar product in approximately the same quantities and at the same trade level as Company A. Customs conducted a review of Company B and determined that the transaction value method was acceptable. It is possible to use this transaction as the basis to determine the value for duty of Company A's goods under the transaction value of similar goods method (section 50 of the *Customs Act*).

29. Company B sells the goods in Canada for an all inclusive CIF (cost of insurance and freight) price of \$20/unit. Company B transports the goods by train to the place of direct shipment, location X, for a cost of \$5/unit. At location X, the goods are re-packaged and warehoused overnight. The next day the goods are loaded onto a truck and shipped to Canada. The cost of transporting the goods to Canada from location X is \$3/unit. Subparagraph 48(5)(b)(i) of the *Customs Act* tells us that we should only deduct the international freight cost from the place of direct shipment. There is no need to make an adjustment under subparagraph 48(5)(a)(vi), which requires that transportation costs incurred to move goods to the place of direct shipment be added to the price paid or payable, since the cost of \$5/unit is already included in the CIF price. Therefore, the value that should be declared by Company B to customs at the time of importation is \$17/unit. The \$17/unit price is the value to which adjustments will be made to determine the value which should be declared by Company A.

30. Company A transports the good by air to location X, the place of direct shipment. The cost of transporting the goods by air is \$7/unit. At location X, the goods are re-packaged and warehoused for one night. The goods are then loaded onto a truck and shipped to Canada. The cost of transporting the goods by truck is \$3/unit. The value declared by Company B (\$17/unit) is the basis which will be used to determine the value for duty for Company A under the transaction value of similar goods. The inland cost of getting the goods to location X was \$2/unit higher for Company A. Therefore, the price paid or payable which should be declared by Company A is \$19/unit.

31. In the above example, the cost of transportation for both companies, from the place of direct shipment, was the same. If there are differences in transportation and/or associated costs from the place of direct shipment, you should also reflect these differences when determining the value for duty.

Deductive Value Method (Section 51, Customs Act)

32. You may also deduct transportation costs when you are using the deductive value method. You may do so when you are making deductions from the price per unit of the goods sold in Canada. Both your transportation costs in Canada and the transportation costs from the place of direct shipment may be deducted from the price per unit. You cannot make these deductions, however, if they have already been deducted from the price per unit under the deduction for general expenses or commissions. Consult Memorandum D13-7-1, *Determination of the Price Per Unit (Customs Act, Section 51)*, and Memorandum D13-7-3, *Deductions From the Price Per Unit (Customs Act, Section 51)*, for further information on the deductive value method.

Computed Value Method (Section 52, Customs Act)

33. You must add all transportation costs to the cost of production for the goods when they are for the transportation of the goods **to** the place of direct shipment. You do not have to add these costs if they are already included in the amount for profit and general expenses. Consult Memorandum D13-8-1, *“Computed Value” Method (Customs Act, Section 52)*, for further information on the computed value method.

Residual Value Method (Section 53, Customs Act)

34. You may have to make adjustments for transportation costs when you use the residual value method. As the residual value method is a flexible application of one of the other five methods of valuation, the treatment of transportation costs should be consistent with the method which has been flexibly applied. Consult Memorandum D13-9-1, *“Residual Basis of Appraisal” Method (Customs Act, Section 53)*, for further information on the residual value method.

ADDITIONAL INFORMATION

35. For more information on transportation costs and the place of direct shipment and how they are treated for value for duty purposes, contact your trade administration services office. You will find the addresses and telephone numbers of the offices in the Appendix.

APPENDIX

TRADE ADMINISTRATION SERVICES OFFICES

Region	Address	Telephone
Atlantic	Station Parklane Centre Ralston Building 1557 Hollis Street P.O. Box 3080 Halifax NS B3J 3G6	(902) 426-7982
Quebec	130 Dalhousie Street P.O. Box 2267 Québec QC G1K 7P6	(418) 648-3401
	400 Place d'Youville Montréal QC H2Y 2C2	(514) 283-6332
Northern Ontario	11th floor 333 Laurier Avenue West Ottawa ON K1A 0L9	(613) 991-0537
Southern Ontario	1 Front Street West P.O. Box 10 Station A Toronto ON M5W 1A3	(416) 973-6413
	26 Arrowsmith Road P.O. Box 2989 Hamilton ON L8N 3V8	(905) 308-8524 (905) 308-8605
	185 Ouellette Avenue P.O. Box 2280 Station A Windsor ON N8Y 4R8	(519) 257-6355
	451 Talbot Street P.O. Box 5940 London ON N6A 4T9	(519) 645-5843
Prairie	Main floor Federal Building 269 Main Street Winnipeg MB R3C 1B3	(204) 983-6395
	Bay 32 - 3033 34 th Avenue N.E. Calgary AB T1Y 6X2	(403) 292-4200 (403) 292-4417 (French)
Pacific	Suite 503 333 Dunsmuir Street Vancouver BC V6B 5R4	(604) 666-6753

REFERENCES

ISSUING OFFICE –

Origin and Valuation Policy Division

LEGISLATIVE REFERENCES –

Customs Act, sections 48 to 54

HEADQUARTERS FILE –

7034-5-33

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D13-3-3, November 13, 1987

OTHER REFERENCES –

D13-3-4, D13-4-7, D13-5-1, D13-7-1, D13-7-3, D13-8-1, D13-9-1

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