



Policy Reform Monitoring

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RA 9135 and its IRRs: Some Progress But Needing a Second Look

I. Introduction

RA 8181 was enacted in 28 March 1996 to shift the basis for determining imports' dutiable value from Home Consumption Value (HCV) to Transaction Value (TV). It amended the Tariff and Customs Code of the Philippines and mandated that the change in valuation be effected by 01 January 2000, in compliance with the country's World Trade Organization (WTO) commitments. To help stakeholders with the changes, the law also provided that duties and taxes of imported goods would, until 2000, be based on export value – or the export price of the subject goods in their home country.

HCV is the good's fair market value in its home country. TV is the real value paid for the good by the importer.

It was later found, however, that some provisions of the law were inconsistent with the WTO Valuation Agreement (See Appendix 1). The Philippines is a signatory to this Agreement. More importantly, RA 8181 lacked mechanisms to discourage the inaccurate declaration of import values. This was disturbing as a TV regime meant relatively loose border control measures. The TV system is based on a self-assessment policy where the importers, rather than the Customs officials, are responsible for computing for duties and taxes. Although this facilitated trade, lawmakers believed that the system placed too much trust on the credibility of importers, which raised the risk of inaccuracy in import valuations.

RA 9135 – "An Act Amending Certain Provisions of Presidential Decree No. 1464, Otherwise known as the Tariff and Customs Code of the Philippines, As Amended, and for other Purposes."

RA 9135 was enacted on 27 April 2001 to rectify the inconsistencies between local customs laws and the WTO Valuation Agreement, and to establish a Post Entry Audit (PEA) system. The latter was based on an international best practice of discouraging inaccurate import value declarations by authorizing the Bureau of Customs (BoC) to review import documents within three years of importation. RA 9135 was also passed to establish the foundation for the implementation of PEA. It imposed stiff sanctions against violators, whether importers, customs brokers or BoC employees.

RA 8181 – "An Act changing the basis of dutiable value of imported Articles subject to an Ad Valorem rate of duty from HCV to TV."

II. Background

RA 9135 was implemented for two main reasons: to rectify RA 8181's WTO-inconsistent provisions and to discourage importers from declaring inaccurate import values. It has the following salient points (see Appendix 1).

- 1. It deleted the provision on the mandatory application of published values, which was seen as a form of setting minimum customs values.** The WTO Secretariat believed that Section 1, paragraphs 21 and 22 of RA 8181, which applied published values of imported goods for computing customs duties, violated the WTO Valuation Agreement.
- 2. It institutionalized the PEA system.** RA 9135, in keeping with international best practices, mandated the adoption of a PEA system. It authorized the BOC to conduct PEAs through new provisions requiring record-keeping, compliance audit or examination of records, scope of the audit documents in foreign language, records to be kept by the BOC, penalties for the failure to pay correct duties and taxes on imported goods.
- 3. It removed the limitations on the BoC's rights under RA 8181.** RA 9135 reworded Section 1, paragraphs 10 and 11 of RA 8181 to comply with the WTO agreement that expressly gave customs administrators the right to verify the truth or accuracy of customs documents.
- 4. It removed the 25% surcharge on the bond paid to secure the release of the good whose final valuation has been delayed.** It reworded Section 1 paragraph 23 of RA 8181. Legislators deemed this surcharge as an arbitrary customs value, which is prohibited by the WTO.
- 5. It gave the government compulsory acquisition rights.** The law empowered the government to acquire imported goods with questionable valuations. The law hoped that this provision would curtail import undervaluation.
- 6. It defined statutory offenses of officials and employees.** The law, realizing the threat of corruption in the BoC, provided stiff penalties against guilty employees. These provisions supplement the various laws against corruption in the country.

A great deal of effort has gone into the law's implementation since RA 9135 was enacted. This assessment hopes to determine whether the law is already creating the conditions for achieving its objectives. It also seeks to review the BoC's success in implementing RA 9135, the PEA system and the strategy that the BoC is considering in implementing the system.

III. Assessment of RA 9135

RA 9135 has helped the country abide by the WTO Valuation Agreement. It is still too early to render judgment, however, on its impact on BoC collections.

- 1. Revenue impact.** While an empirical assessment of the revenue impact of RA 9135 is not feasible at this time, a study released in January 2000 by the Philippine Institute for Development Studies (PIDS) predicted that the shift from EV to TV would reduce government revenues in the near term. As trade facilitation improves, however, more imports would expand the BoC's revenue base. More accurate value declarations, moreover, should reduce revenue leakage and help the government raise more funds. Using data provided by the Societe Generale de Surveillance (SGS), the report estimated that shifting to TV in 2000 (the first TV year) would result in a 3.3% (assuming high import elasticity) to 5.2% (with low import elasticity) decline in government revenue. SGS is a firm hired by the Philippines to render inspection, testing and system certification services.
- 2. Impact on discouraging inaccurate value declaration.** It is also too early to tell whether the PEA system has been successful in discouraging inaccurate import value declarations. The institutional systems are still being set up, including the PEA Group (PEAG), which was institutionalized by EO 160 in January 2003.

IV. Assessment of RA 9135's IRRs

The implementation of some of RA 9135's provisions and the strategy for implementing the PEA system still need to be reviewed and strengthened to ensure that the law meets its objectives. Below are Customs orders issued to implement RA 9135, and our comments on each issuance.

1. CAO 5-2001 issued in 16 November 2001 to serve as RA 9135's IRRs.

The IRRs cover all provisions of RA 9135 except Sections 5, 7 and 14. While the IRRs for all of these sections should eventually be issued, the need to issue the IRRs for Section 14 appears more immediate as it enumerates the prohibited acts of BoC employees. (See Appendix 2). While it may be argued that the Civil Service rules, along with other laws like RA 3019 or the Anti Graft and Corrupt Practices Act, cover similar provisions as those contained in Section 14, issuing the latter's IRRs would be a good way of showing the BoC's political will to police its ranks.

Sections 5 and 7 pertaining to the disposition of assets acquired by the BoC are minor provisions that their absence in CAO 5-2001 may not be considered critical.

- 2. CMO 37-2001 issued in 07 December 2001 to revise the cargo clearance procedure at the BoC in line with the provisions of RA 9135.** This CMO addresses the procedural changes in line with the shift in

customs valuation methodology. The procedures highlight the requirement that all import duties should be based on the TV of imported goods. Two concerns regarding CMO 37-2001 need to be noted:

- a. **Reliance on the VRIS needs to be reviewed.** Rule IIIB of the CMO requires the BoC to validate declared import values from the previously accepted transaction values collected by the Value Reference Information System (VRIS). While the CMO stresses that the VRIS data should not replace TV, this tends to happen and runs counter to the RA 9135's mandate that import duties should be based on TV. To ensure the release of their shipments, importers either agree to the VRIS value or pay informal facilitation fees imposed by unscrupulous employees.
 - b. **Need for the VCRC to be transparent.** Importers refer their valuation complaints to the Valuation and Classification Review Committee (VCRC) – a unit entirely composed of BoC employees. In order to avoid questions of transparency in the future, it may be worthwhile to consider expanding the VCRC's membership to include the private sector, non-government organizations and other similar groups.
3. **CMO 1-2002 issued on 2 January 2002 to provide the procedure for determining the administrative liability and the corresponding penalties of non-compliant importers.** This order outlines the procedures that the PEA unit needs to follow in filing administrative cases against importers and brokers who, during a PEA are found to have failed in keeping the necessary records as mandated by RA 9135. It also outlines the procedures for filing similar actions against importers who have paid the wrong amount of taxes.
 4. **CMO 2-2002 issued on 2 January 2002 to establish the record keeping and PEA guidelines that importers and brokers need to follow.** This order enumerates the following instances in which PEA would be undertaken: when the firm is selected by a computer-aided risk management system (CRMS), when errors in the import declaration are detected and when firms voluntarily requested to be audited.
 5. **CMO 3-2002 issued on 2 January 2002 to outline the procedural flow that importers must follow during protest cases.** The order states that the Court of Tax Appeals (CTA) is an importer's last recourse during value assessment disagreements. The importer may proceed to the CTA, should he feel that the Collector of Customs, the Commissioner of Customs and the Secretary of Finance have not heard his complaint properly. The Secretary of Finance reviews the cases only if the Commissioner of Customs renders a decision that is adverse to the government.

6. **EO 160 issued on 6 January 2003 to create the PEA Group (PEAG).** EO 160 created the PEAG and provided for its composition, functions and appropriation. The PEAG replaced the interim PEA Office.

V. Value assessment system and strategy

RA 9135 and its IRRs include six methods (see Appendix 3) by which import values can be determined in the Philippines. The preferred method is to use TV as basis for duties and taxes. Five other methods are, however, allowed when TV is difficult to determine. This provision, although consistent with the WTO valuation agreement, appears problematic, possibly creating opportunities for rent seeking. Anecdotal evidence suggests that dishonest personnel can and do question the TV declarations to give the employee a chance to seek undue facilitation fees.

In a recent review, the AGILE team at the BoC made some of the following observations on the Bureau's valuation assessment system (see Appendix 4). Rent seeking behavior can happen at any stage in the flowchart where BoC personnel signatures are required.

1. **Reliance on ACOS is decreasing revenue collections.** The BoC exercises valuation control through the Automated Customs Operations System (ACOS) – a system developed and deployed by the BoC, based on the United Nations Conference on Trade and Development customs software called ASYCUDA. ACOS is a selectivity system that determines which imported cargoes should be examined, allowed to pass without examination or subjected to documentary check. The ACOS, however, uses a moving average valuation system that is highly susceptible to repeated undervaluation. The use of a tolerance allowance (allowing deviations from the current range of values by a certain rate: plus or minus a certain percentage) lowers the moving average further. Lower valuation translates directly into lower revenues for the BoC.
2. **Outdated and predictable selection criteria.** The BoC also uses the VRIS to challenge value declarations not hit by ACOS' screen. The VRIS contains information on prices secured from ACOS and other viable sources, i.e. intelligence reports, industry feedback, and the like. The VRIS data are, however, not regularly updated, casting doubt on the BoC's ability to verify the accuracy of value declarations. The subjective nature of some of the VRIS input also creates opportunities for rent seeking behavior. There is anecdotal evidence that VRIS data can be changed.
3. **Insufficient differentiation of Tariff headings.** The VRIS uses very general tariff headings in classifying imports. This causes confusion at the BoC because it allows, and in some cases, requires customs personnel to determine the sub-classification on their own. The tariff heading for watches, for example, does not differentiate high-end brands such as

Rolex, from mid-end brands like Seiko. This causes losses from mistakes and corruption.

4. **Relationship between importers/brokers and BoC personnel.** Much of the BoC's border control measures break down because of the tight relationship between importers/brokers and some BoC employees. Such relationship causes severe revenue leakage because of accommodations given by corrupt BoC employees to their favored clients, such as reducing dutiable import values and allowing imports to come in under a different tariff heading.

Implementing the TV system under the current border control set up is difficult for two main reasons: acquaintance between importers/brokers and BoC personnel and insufficiency of data to validate declared TVs. Global best practice makes use of Information Technology (IT) to solve these problems. BoC officials claim, however, that financial constraints prevent them from improving the BoC's IT system in the near term. The following short-term solutions might be worth considering:

1. **Isolate BoC personnel from importers and brokers.** Corruption caused by the tight relationship between importers and brokers can be minimized through the following:
 - a. The BoC could segregate Customs premises into zones for employees on one hand, and importers and brokers on the other. Violation of this scheme could be considered a serious infraction to show the BoC's political will. There are areas in the BoC that are currently off limits to non-BoC personnel, yet anecdotal evidence shows that this rule is not being followed.
 - b. Direct contact between importers/brokers and BoC personnel could be reduced or prevented. Where contact is unavoidable, however, randomly assigning brokers and importers to BoC personnel should be practiced. These meetings could also be recorded to discourage cheating.
2. **Insufficiency of data to validate declared TVs.** This problem is difficult and expensive to solve at this point. It is believed, however, that this problem should not have been present under the TV system. The WTO valuation agreement stressed that the other valuation methodologies could only be used if the TV could not be ascertained. It is observed that the BoC readily jumps to Methods 2 and 3 in validating the TV, by using ACOS and VRIS. In fact, the process flow suggests that the TV is being doubted at the outset – this is the reason why there is demand for a better ACOS and VRIS.

To date, a super green lane facility (SGL) allows imports to move easily through the border. Out of the thousands of importers who are currently

operating in the country, however, less than 70 have been SGL certified so far. The benefits of SGL notwithstanding, SGL importers are still being subjected to ACOS verification.

If the system is to be faithful to the spirit of RA 9135, it may be worthwhile to consider making the SGL the rule rather than the exception. The BoC is apparently treating SGL benefits as a privilege that importers need to qualify before they can get these benefits. This appears inconsistent with the self-assessment policy of RA 9135, which apparently suggests that importers should, on the onset, be assumed to be honest and be given SGL treatment. All doubts should be resolved at the PEA.

The BoC may consider imposing border control measures through random selection. This may improve transparency and mitigate rent-seeking activities.

VI. Assessment of the PEA system and Implementation designs

The shift in import valuation from HCV to TV has created the demand for a method to ensure importers' compliance with trade regulations. RA 9135, in response to this need, has instituted the PEA system, which is based on a global best practice associated with the TV mechanism.

1. **The PEA system.** PEA examines importers from an account-based perspective, rather than on the basis of individual transactions under conventional border control. The PEA is expected to improve traffic through the border. The system adheres to the following philosophies:
 - a. The PEA realizes that importers can make mistakes. It is also a deterrent for non-compliance.
 - b. The new trading environment demands a shift from documentation analysis and evaluation to "Information Analysis". Risk management techniques and e-commerce should assist in determining problem areas.
 - c. PEA can better assess the accuracy of import documents as it gives a broader picture of importers' documentation and inventory management. It is better than doing single transaction reviews at the border.
 - d. Post Entry Audit is complementary to other forms of compliance verification and trade facilitation procedures such as the SGL and ACOS.
2. **Classification of importers.** To help think about the customs declaration process, importers can be broadly classified into four groups, based on their a) honesty and b) care in completing import documents. They can be compliant (I), negligent (II), grossly negligent (III) or fraudulent (IV). This

classification is derived from Section 16 of RA 9135, which enumerates the penalties given to deficient importers.

Table 1
Classification of Importers

	Honest	Dishonest
Careful (no mistake)	I. Compliant	III. Fraudulent
Careless (with mistakes)	II. Negligent	IV. Grossly Negligent

Note: Based on on Section 16 of RA 9135

Honest Importers. The top 1,000 importers that contribute about 80% of collections are generally considered to be honest. They are, apparently, also the regular importers and multinational corporations which have credibility to protect, and who have every intention to comply with customs regulations. Honest importers could either be compliant or negligent.

- **Compliant importers.** These are the honest importers who take extra care in filling up their import declarations. Being honest and careful, these importers are said to be logical candidates for getting a super green lane (SGL) certification. The SGL certified importers are assured of a relatively fast processing time, compared to regular lane importers.
- **Negligent importers.** These importers are honest, but are careless with their import declarations. RA 9135 defined them as those who, without actual knowledge or disregard of the rules, have failed to file correct statements. Negligent importers, like compliant importers, have every intention of filing the correct import declarations. They just make mistakes.

Dishonest importers. Dishonest importers can be classified as either grossly negligent or fraudulent. There is currently no empirical evidence to show the tax leakage caused by dishonest importers, but informal estimates peg them at around 25% of potential revenue.

- **Grossly negligent importers.** RA 9135 differentiated between negligent and grossly negligent importers based on their intent to commit the mistake. Grossly negligent importers make mistakes with prior knowledge of the facts and with disregard of customs valuation rules. In other words, these importers are dishonest but are not sophisticated enough to cover their crimes with sufficient documentation. Because of the element of intent, the law treats them more harshly than negligent importers.

- **Fraudulent importers.** Fraudulent importers are difficult to identify. They are dishonest, but are careful enough to cover their trail with falsified documents. They are also called technical smugglers because they smuggle their goods through formal means. Because of the nature of the crime, this category of importers is given higher fines and is punished with up to eight years imprisonment.

3. **Assessment of the PEA implementation design.** The current PEA system is designed to depend on a selection methodology based on risk management and profiling. Given limited resources, the PEA needs to be properly focused on the most risky importers from the point of view of misdeclaration and impact on government revenue. The following discussion lists down possible problems that may weaken the effectiveness of the PEA system.

- Risk of getting into a GIGO situation.** The current risk management design is reliant on the BoC's existing database, which is not dependable. This could lead the PEA to a garbage-in garbage-out (GIGO) situation, to the detriment of the government. PEA may be more effective if the selectivity check were based on a purely random selection process. This would reduce the probability of collusion between the PEA officers and the importers and increase the transparency and credibility of the BoC. It would also worthwhile to consider maintaining importers that have already been audited, as candidates in the next audit round. This could mitigate doubts that the PEA is merely a rubber stamp for illegal activities.
- Biased random selection methodology.** The BoC plans to use a stratified random sampling method for selecting the importers to be audited (see Appendix 5). This may not be ideal given the inadequacy of BoC data. The current design is to randomly choose from a pool of importers made up of volunteers (60%), SGL importers (10%) and importers tagged by the BoC intelligence unit as risky (30%). This sharing was apparently arrived at arbitrarily. It may be difficult to believe therefore that stratified random selection would work in favor of deterring inaccurate value declaration. In the absence of adequate data, the BoC may consider applying a pure random selection methodology in the mean time.
- PEA may be targeting the wrong importers.** PEA was designed to make importers compliant but it is targeting large importers, which according to consensus are generally honest. But honest importers may not be ideal candidates for PEA because the first class of importers is already compliant while negligent importers make mistakes that by definition are unintentional.

PEA is seemingly more appropriate for minimizing the activities of grossly negligent importers. This group is normally composed of

those who collude with BoC employees to undervalue their imports, or misdeclare their goods. The PEA could be effective in curtailing their activities in so far as grossly negligent importers have incomplete or tampered documents. Weak political will could be the only barrier that would prevent the PEA from doing a successful audit.

In the absence of adequate IT support to distinguish between the types of importers in practice, however, the BoC may consider implementing pure random selection methodologies in the meantime.

- d. **Audit is importer focused.** There are three parties to the importing process: importers, brokers and the BoC, yet the PEA system confines its audit to the importers alone. Broker audits are only being done to support it. In fact, while Section 10b of the law mandates that the BoC "shall" audit brokers to validate audits of their importer clients, Subsection IVF4 of the IRR only says, "may". This is curious because it would be more logical to audit brokers every time importers are being audited because brokers presumably have all the documents needed to conduct a successful PEA. As with the case of improving corporate governance - where financial auditors are required to inform the Securities and Exchange Commission of any findings of fraud or losses not publicly reported by a client - company, it may also be worthwhile to consider mandating brokers to report import irregularities to the BoC.

VII. Conclusion and Recommendations

RA 9135 has brought the country closer to international standards for customs valuation. Its amendments of RA 8181's WTO-inconsistent provisions have reduced the country's risk of entering into expensive legal actions with trading partners. Its implementation, however, still needs to be improved to allow for better trade facilitation and to protect collections. The BoC's strategy regarding the implementation of border controls and the PEA system should also be reviewed. Shifting to TV will improve import facilitation, but border control procedures and PEA are necessary accompanying measures to ensure that facilitated trade does not come at the expense of collections.

The BoC's paradigm, as a possible option, should shift to one that allows all imports to move easily through the border, from one that screens all imports, no matter how small or legitimate they may be. This paradigm ideally assumes that all importers are trustworthy and that their declared value is accurate. This objective is better facilitated by an improved IT system, but the country's financial problems may hinder the latter's feasibility in the near term. The BoC may therefore consider applying border control measures more transparently and randomly, and administering control with little or no contact between BoC personnel and importers and brokers - until appropriate IT support is in place. The consistency between the current border control system and the spirit of the law should also be reviewed. The former had

been in use prior to RA 9135, and it appears undependable as it relies on inaccurate software that is fed with inaccurate data.

If implemented properly, PEA can ensure importers' compliance with customs rules and regulations. But to ensure that this authority would not be abused nor questioned, the BoC may consider improving the transparency on PEAG operations.

International experience on PEA implementation shows that combining random selection with risk management would ideally improve PEA. This experience is however, premised on a reliable IT system, which feeds into the risk management methodology. Since local IT support at the BoC remains unreliable, however, it may be worthwhile for the BoC to consider conducting the PEA on a pure random selection basis in the near term. Risk management tools could be applied as soon as the proper e-commerce facilities are in place.

Appendix 1: WTO-Inconsistent Provisions in RA 8181

Section 1, paragraphs 21 and 22

"The correct dutiable value of the imported goods referred to above shall be ascertained by the Commissioner of Customs from reports of revenue or commercial attaches or other Philippine diplomatic officers and from such other sources of information as may be available to the Bureau of Customs. Such values shall be established and published by the Commissioner of Customs from time to time, and such values shall be binding upon the importers and the Bureau of Customs until changed and new value or values are similarly established and published."

"Values shall be published in at least one (1) newspaper of general circulation and other publications readily available to the public. Any importer or other interested party who is dissatisfied with the published value shall have fifteen (15) days from the date of publication of such published value the opportunity to file a protest on the questioned value and the Commissioner of Customs shall resolve the protest within fifteen (15) days from receipt of such protest either by amending the published value or retaining the same. Whatever his decision may be must likewise be published."

Section 1, paragraphs 10 and 11

"Where the Commissioner of Customs has reason to doubt the truth or accuracy of the declaration or particulars or documents provided in support of declared value of the importation, he may require the importer to give further explanation thereof and to submit additional documents or other evidence to show that the declared value represents the total amount paid or payable for the imported goods."

"If after receiving the explanation of the importer the Commissioner of Customs still has reasonable doubt as to the accuracy of the declared value, the Commissioner of Customs may proceed with the alternative methods specified hereafter, as follows:..."

Section 1, paragraph 23

"If in the course of determining the dutiable value of imported goods, it becomes necessary to delay the final determination of such dutiable value, the importer may secure the release of the imported goods upon the filing of a bond which shall solely be in cash, in an amount equivalent to the imposable duties and taxes on the imported goods in question plus twenty-five percent (25%) thereof, conditioned upon the payment of customs duties and taxes for which the imported goods may be liable: Provided, however, that goods the importation of which is prohibited by law shall not be released under any circumstance whatsoever."

Appendix 2: Section 14 of RA 9135

SEC. 14. Section 3604 of Part 3, Title VII of the Tariff and Customs Code of the Philippines, as amended, is hereby further amended to read as follows:

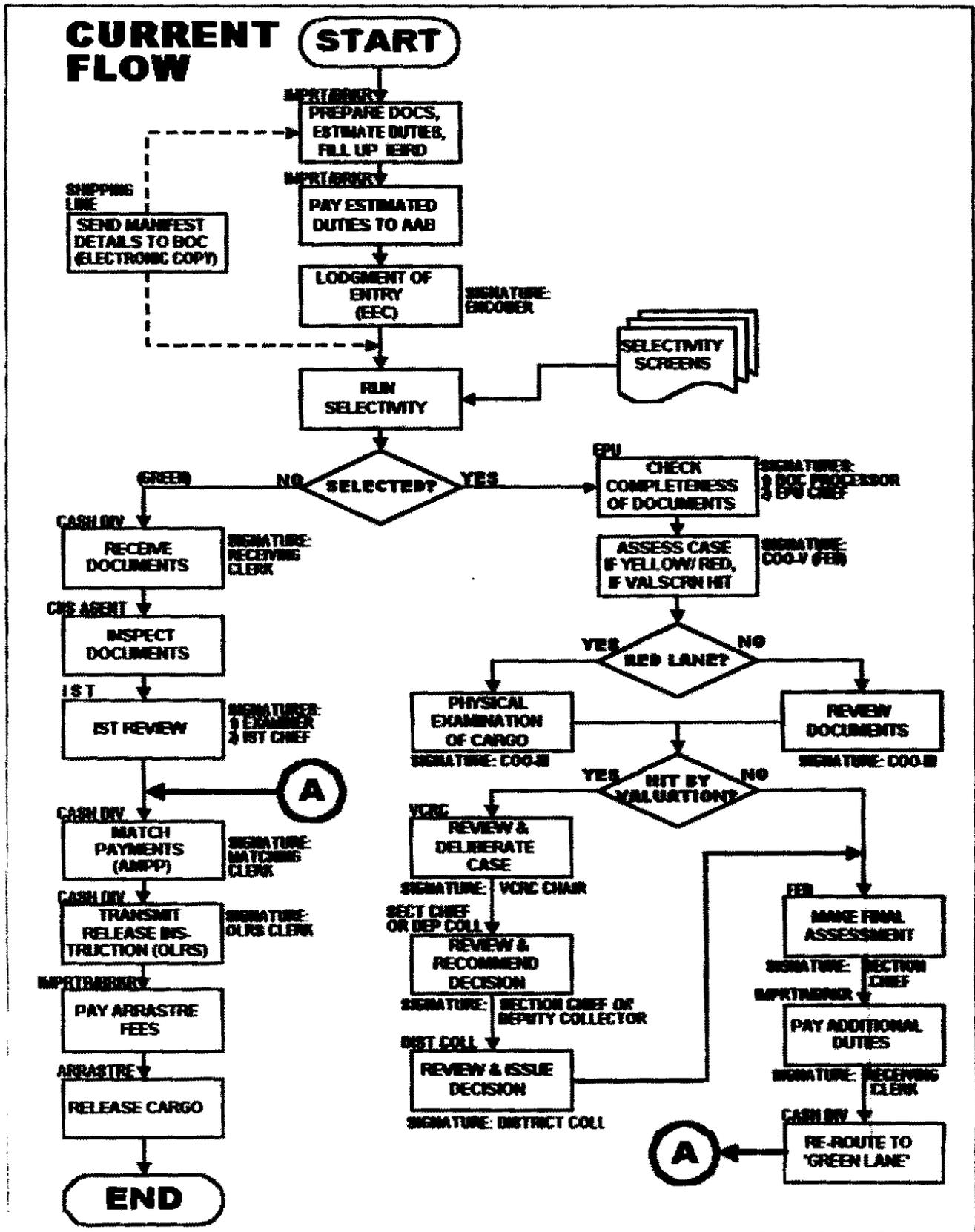
"SEC. 3604. Statutory Offenses of Officials and Employees. - Every official, agent or employee of the Bureau or of any other agency of the government charged with the enforcement of the provisions of this Code, who is guilty of any delinquency herein below indicated shall be punished with a fine of not less than Five thousand pesos nor more than Fifty thousand pesos and imprisonment for not less than one year nor more than ten years and perpetual disqualification to hold public office, to vote and to participate in any public election:

- (a) Those guilty of extortion or willful oppression under color of law;
- (b) Those who knowingly demand other or greater sums than are authorized by law or receive any fee, compensation, or reward except as by law prescribed, for the performance of any duty;
- (c) Those who willfully neglect to give receipts, as required by law for any sum collection the performance of duty, or who willfully neglect to perform any of the duties enjoined by law;
- (d) Those who knowingly demand other or greater sums than are authorized by law or receive any fee, compensation, or reward except as by law prescribed, for the performance of any duty;
- (e) Those who willfully make opportunity for any person to defraud the customs revenue or who do or fail to do any act with intent to enable any person to defraud said revenue;
- (f) Those who negligently or designedly permit the violation of the law by any other person;
- (g) Those who make or sign any false entry or entries in any book, or make or sign any false certificate or return in any case where the law requires the making by them of such entry, certificate or return;
- (h) Those who, having knowledge or information of a violation of the Tariff and Customs Law or any fraud committed on the revenue collectible by the Bureau, fail to report such knowledge or information to their superior official or to report as otherwise required by law;
- (i) Those who, without the authority of law, demand or accept or attempt to collect directly or indirectly as payment of otherwise, any sum of money or other thing of value for the compromise, adjustment, or settlement of any charge or complaint for any violation or alleged violation of law; or
- (j) Those, without authority of law, disclose confidential information gained during any investigation or audit, or use such information for personal gain or to the detriment of the government, the Bureau or third parties."

Appendix 3: Valuation Methods Under RA 9135

- Method 1: Transaction Value (TV).** TV is the price actually paid or payable for the goods. It is adjusted to account for other relevant costs such as transport costs, assists, royalty or license fees, post importation costs, commissions.
- Method 2: Transaction Value of Identical Goods (TVI).** The TVI is determined based on the transaction value of goods that were sold under similar circumstance. The goods being compared should also be commercially identical in all respects i.e. they are produced in the same country by the same producer, of the same quality and reputation, and of the same physical characteristics.
- Method 3: Transaction Value of Similar Goods (TVS).** The TVS is determined based on the transaction value of similar goods sold for export to the same country of importation and exported at or about the same time as the goods being valued.
- Method 4: The Deductive Method.** This method determines the dutiable value from the unit price at which the imported goods or identical or similar goods are sold in the Philippines. This price is then adjusted to deduct the relevant financial items that normally go into cost margin computations.
- Method 5. The Computed Method.** The computed method determines the taxable import value from the costs of production of goods. It is usually used where the importer and supplier are related. The customs value is built up based on the sum of the cost or value of materials and fabrication or other processing used in producing the imported goods. These costs include delivery costs, insurance and handling, assists, containers and packing, proceeds of any resale, an amount for the producer's profit and general expenses. This method is usually difficult and is therefore rarely used.
- Method 6: The "Fall - Back" Method.** This method is used when the value cannot be established using any of the previous methods described earlier. Where possible this is achieved by adapting Methods 1 - 5 flexibly to fit sales in unusual circumstances which would otherwise qualify to use a specific method.

Appendix 4: Current Import Process Flow at the BoC



Appendix 5: PEA Sampling Methodology

