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**BUSINESS CLIMATE
REFORM**

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To: Mr. Mindia Gadaev
Head of the Georgian State Revenue Service

From: Robert Holler
Customs Advisor

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Re: The next critical Customs reform: Valuation

We have just completed providing a three day valuation training class to 20 Revenue Service Customs officers. The officers were generally receptive to the training process and participated quite actively. However, during the course of the training, it became evident that current valuation practices in Georgia need attention. While it is apparent that the Georgian Customs Code follows the requirements of the WTO, the current situation does not allow for the optimization of valuation best practices.

The government of Georgia became a WTO member on June 14, 2000 and must comply with the WTO Agreement on Customs Valuation. Under Article 20 of the agreement, Georgia may request an extension in applying the valuation provisions for a period not to exceed 5 years from the date of entry into force with the WTO. Georgia may request an additional 3 years to apply Article 6 of the agreement (Computed Value.) Regardless, Georgia is required to employ the Transaction Value method to the greatest extent possible. If not possible, four other methods are to be used in a hierarchical approach. **Please note that while a value database may be helpful as a risk analysis tool, the use of a valuation database is not a legal method of valuation.** In fact, the World Customs Organization's "Guidelines for the Use of a National Valuation Database" states that "[database] values may not be used to determine the Customs value for imported goods, as a substitute value for imported goods, or as a mechanism to establish minimum values."

Since valuation under the WTO Agreement is complex and can often be time consuming, we would like to present the following concrete recommendations:

1. The establishment of a post-clearance revision unit whose responsibilities will include the review of various SRS declarations, including Customs declarations and tax compliance. ASYCUDA World is pre-programmed with this routing capability under the "Blue Channel" and it is a commonly accepted practice throughout the world. Customs officers at inland clearance stations with assigned Blue Channel declarations should be absolved of making any decisions on declared value prior to release. Customs officers in the post-clearance revision unit should have the necessary authority to conduct post-release declaration reviews directly with the importer and/or broker. Furthermore, this unit will have the advantage of comparing Customs and tax compliance in its verification.

2. The SRS should request assistance in a “train-the-trainer” program to establish its own experts in the field of Customs valuation as per the WTO Agreement. These trainers would be required to then train Customs Officers and departments in Customs Valuation. They should pay particular attention in training the Financial Police to aid in investigations on Customs fraud or internal investigations. Ironically, current Customs officers are afraid to employ proper valuation methods for fear of an unwelcome investigation by the Financial Police. The trained Customs valuation experts would also be required to conduct periodic training sessions with the importing community on the expectations of Customs valuation. There is no doubt that proper valuation can not be determined without the cooperation of the public.
3. The use of a national database should be limited to the Risk Analysis Subdivision strictly for the purpose of establishing value parameters. These parameters may then be input into ASYCUDA World for proper verification by the post-clearance unit unless an egregious error is apparent at the time of declaration registration. Such a database with parameters may be created using historical ASYCUDA data and statistics.

If you wish, we may elaborate on any of the suggestions or requirements that we have presented. Should you wish to explore any of these options or require further clarification, please feel free to contact us.

I would like to mention that despite these needed reforms, the results of the Valuation Training were quite optimistic. We administered an identical valuation examination of 14 questions prior to the training and after the training. The results of the pre-training examination were dismal with an average score of 25.7% correct. After the training, the average score was 73.6%. This reflects a significant improvement after a brief overview of WTO principles in Customs valuation. It should be noted that the examination was difficult but 3 participants scored 93.8% (13 out of 14).

It is my personal opinion that Georgia has the capacity and drive to be a leading reformer in Customs valuation should it wish to do so. These reforms will take time but they present the best avenue for Georgia to comply with the mandated WTO rules of Customs valuation.

Best regards,

Mark Stomski
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