



Ottawa, September 25, 2013

MEMORANDUM D13-3-3

IN BRIEF

Transportation and Associated Costs

The editing revisions made in this memorandum do not affect or change any of the existing policies or procedures.





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Transportation and Associated Costs

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

Legislation

Sections 44 to 56 of the *Customs Act*:
<http://laws-lois.justice.gc.ca/eng/acts/C-52.6/FullText.html>.

Guidelines and General Information

1. Sections 48 to 54 of the *Customs Act* (the Act) require that the transportation costs of the goods be determined to properly apply all valuation methods. This memorandum defines activities considered to be transportation costs. The treatment of transportation costs, under all methods of valuation, will depend on the establishment of the place of direct shipment. Therefore, a place of direct shipment for the goods must be established. Refer to [Memorandum D13-3-4, Place of Direct Shipment](#).

Definitions

2. The definitions in this section explain some of the words and phrases used in this memorandum.

Cost of Transportation

3. This means freight charges directly associated with the movement of the 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

4. This means expenses that have to do with moving the goods onto or off of a truck, aircraft, train, ship or other means of 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

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

Other Charges and Expenses

6. This includes other costs associated with the transportation of the 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.

7. 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, if gassing is done to ensure that 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.

Packing Costs

8. In order to ensure that packing costs are addressed under the relevant provision of the Act, the importer must confirm if costs for packing are transportation-related. The cost of regular packing which the seller provides to market or to protect the goods is **not** a transportation cost. An explanation on how to handle these charges can be found in the section called "Transportation Costs and the Value for Duty".

9. Charges for packing which a transportation company provides 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 the goods.

10. For example, a bicycle retailer in Montréal buys 100 bicycles from a supplier in Paris, France. The supplier boxes the bicycles and sends them off by truck to an ocean port. At the ocean port, the ocean carrier requires that the boxes 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 that the 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.

11. The list of transportation charges and expenses above is not exhaustive. If costs are incurred that are believed to be transportation-related and which are not listed above, contact the Canada Border Services Agency (CBSA) to obtain advice on the proper treatment of these costs.

Actual Transportation Costs

12. The CBSA does not always require an importer to submit proof of a charge for transportation in a declaration of value for duty. However, if the CBSA requires a confirmation of the amount of a transportation cost, documentation must be submitted which supports the actual amount of the cost incurred. Estimates of the transportation costs are **not** acceptable.

13. These principles were outlined in two decisions issued by the Canadian International Trade Tribunal (CITT). In the “Monark Import-Export Inc. decision (Appeal 3068),” the CITT concluded that only the actual transportation costs could be considered. In the “Consulac Architectural Products Ltd. decision (Appeal 92-157),” the CITT ruled that it was the appellant’s responsibility to prove what were the actual transportation costs, and that estimates were not acceptable. These decisions can be accessed on the CITT Web site at www.citt.gc.ca.

Transportation Rebates and Discounts

14. A transportation company may offer rebates or discounts on their transportation rates, for example, when engaged to transport many shipments over a period of time. As an incentive, the transportation company may offer rebates or discounts on their published rates. The timing of the rebate, either before or after importation, has no bearing on the treatment of transportation costs in a calculation of value for duty. The actual amount of the transportation costs to be included in the calculation must be identified.

Standard Allowances

15. 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. In a calculation of value for duty, a deduction from the price paid or payable of goods for a transportation charge must reflect the actual amount of the charge, and not the amount of a standard allowance. The importer should be prepared to substantiate the amount of deduction by indicating the actual cost of transportation.

16. For example, a Toronto-based company operates sporting goods stores throughout Ontario. The company buys canoes on a C & F (cost and freight) basis from a company in Cleveland, Ohio, for delivery to individual stores. The seller determines that the average transportation cost to any store in Canada is \$100, and charges the Toronto company \$800 for every canoe it purchases.

17. In a calculation of the value for duty of an imported canoe made under the transaction value method, the standard transportation allowance of \$100 would not be an allowable deduction from the price of \$800, because it is not the actual transportation cost of the goods. If, however, the seller provides information demonstrating that their cost to ship the canoes to Ontario is \$.05/km. the CBSA would consider this to be a reasonable basis for identifying the amount of deduction from the price paid or payable for the transportation cost to ship a canoe from Cleveland to individual stores in Ontario.

Transportation Costs and the Value for Duty

18. Transportation costs from the place of direct shipment to Canada are not included in a calculation of value for duty (refer to [Memorandum D13-3-4](#) for information). The paragraphs below address the treatment of transportation costs under the six methods of valuation.

Transaction Value Method (Section 48, Customs Act)

19. All transportation costs paid by the purchaser must be added to the price paid or payable when they are for the transportation of the goods **to** the place of direct shipment to Canada. Under subparagraph 48(5)(a)(vi) of the Act, the transportation costs must be added to the price paid or payable if they are not already included in the price paid or payable.

20. When the transportation costs for the transportation of the goods **from** the place of direct shipment are already included in the price paid or payable, subparagraph 48(5)(b)(i) of the Act allows for their deduction. As previously mentioned, the CBSA may request an importer to provide proof of the actual amount of transportation costs deducted from the price paid or payable. If an importer is aware of a subsequent rebate or discount on the amount of a transportation charge, an amendment to a declaration of value for duty may be required.

21. The Act does not address transportation costs incurred **at** the place of direct shipment. Transportation costs must be categorized as occurring either **to** or **from** the place of direct shipment. Costs incurred at the place of direct shipment in the movement of the goods from the place of direct shipment are considered to be transportation costs from the place of direct shipment. All other costs incurred at the place of direct shipment are considered to be for the transportation of the goods **to** the place of direct shipment.

22. 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 or 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 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 to 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) of the Act and if not already included must be added to 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.

23. For example, a vendor in California wishes to ship 1000 crystal wine glasses from its factory in San Francisco to its customer in Montréal, Quebec. 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 Montréal destination. The company decides to buy special packaging to individually wrap the glasses and cardboard separators to ensure that the glasses are not damaged during transportation. Since this expense represents an overhead cost to the vendor, one would expect that cost to be built into the price of the glasses, but since it is not a transportation requirement, no deduction is allowed for its cost. Alternatively, if the California company bills its customer separately for the extra packing, this amount should be added to the price under subparagraph 48(5)(a)(ii) of the Act.

24. 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 required by the transportation company and are to be treated as a transportation cost. Depending on the circumstances, the Montréal buyer may be able to deduct the cost for these transportation costs, if they are included in the price paid or payable, in a calculation of value for duty made under section 48 of the Act.

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

25. If either the transaction value of identical goods method or the transaction value of similar goods method applies, certain adjustments to the transaction value of identical or similar goods may be made when there are differences in shipping costs between goods accounted for under section 48 of the Act and the identical or similar goods being valued. Adjustments may apply for differences in

mode of transportation or distance travelled to the place of direct shipment. Refer to [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.

26. For example, Company A imports goods and stores them in a warehouse located in Vancouver. As the goods are not sold for export to Canada, they cannot be accounted for under the transaction value method, and a subsequent method of valuation will apply.

27. Company B imports a similar product in approximately the same quantities and at the same trade level as Company A. The CBSA has conducted a review of Company B and determined that value for duty was correctly accounted for under the transaction value method. It is possible to use this transaction value 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 Act).

28. 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 Act indicates that international freight costs from the place of direct shipment can be deducted from the CIF price. There is no need to make an adjustment under subparagraph 48(5)(a)(vi) of the Act, 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 for duty declared by Company B to the CBSA at the time of importation is \$17/unit, and is the amount to which adjustments will be made to determine the value for duty which should be declared by Company A.

29. Company A transports the goods 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 inland cost of getting the goods to location X was \$2/unit higher for Company A. Therefore, the value for duty to be declared by Company A is \$19/unit (the \$17 base amount plus an adjustment of \$2 for differences in the cost of transportation to the place of direct shipment to Canada).

30. 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, these differences must be taken into account when determining the value for duty.

Deductive Value Method (Section 51, Customs Act)

31. Transportation costs may also be deducted under the deductive value method. Deductions are made from the resale price in Canada of the goods for the transportation costs in Canada and the transportation costs from the place of direct shipment. However, these deductions cannot be made if they have already been deducted from the price per unit under the deduction for general expenses. Refer to [Memorandum D13-7-1](#), *Deductive Value Method – Determination of the Price Per Unit*, and [Memorandum D13-7-3](#), *Deductive Value Method – Deductions From the Price Per Unit*, for further information.

Computed Value Method (Section 52, Customs Act)

32. All transportation costs must be added to the cost of production of goods when they are for the transportation of the goods to the place of direct shipment to Canada. These costs do not have to be added if they are already included in the amount for profit and general expenses. Refer to [Memorandum D13-8-1](#), *Computed Value Method*, for further information.

Residual Value Method (Section 53, Customs Act)

33. Adjustments for transportation costs may have to be made when the residual value method applies. 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. Refer to [Memorandum D13-9-1](#), *Residual Basis of Appraisal Method*, for further information.

Additional Information

34. For more information, call contact the [CBSA Border Information Service](#) (BIS):
- Calls within Canada & the United States (toll free):
1-800-461-9999
 - Calls outside Canada & the United States (long distance charges apply):
1-204-983-3550 or 1-506-636-5064
 - TTY: **1-866-335-3237**
 - [Contact Us online](#) (webform)
 - [Contact Us](#) at the CBSA website

REFERENCES

<p>ISSUING OFFICE – Trade Programs Directorate</p>	<p>HEADQUARTERS FILE – 79070-4-3</p>
<p>LEGISLATIVE REFERENCES – Customs Act, sections 44 to 56</p>	<p>OTHER REFERENCES – D13-3-4, D13-5-1, D13-7-1, D13-7-3, D13-8-1, D13-9-1</p>
<p>SUPERSEDED MEMORANDA “D” – D13-3-3, December 10, 1999</p>	

Services provided by the Canada Border Services Agency are available in both official languages.



Printed in Canada