

FACTORS AFFECTING CUSTOMS VALUATION: ETHIOPIAN IMPORTERS' VIEW



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Contents

CHAPTER ONE	1
INTRODUCTION	1
1.1 BACKGROUND OF THE STUDY	1
1.2 STATEMENT OF THE PROBLEM	3
1.3 OBJECTIVES OF THE STUDY	5
1.3.1 General Objective	5
1.3.2 Specific Objectives	5
1.4 SIGNIFICANCE OF THE STUDY	5
1.5 SCOPE OF THE STUDY	6
1.6 LIMITATION OF THE STUDY	6
1.7 ORGANIZATION OF THE STUDY	6
CHAPTER TWO	7
LITERATURE REVIEW	7
2.1. INTRODUCTION	7
2.1.1 Why custom valuation is necessary?.....	7
2.1.2 Legal framework for customs operations and enforcement issues	7
2.2. METHODS OF DETERMINING CUSTOMS VALUE	10
2.2.1 Transaction value method	11
2.2.2. Transaction Value of Identical Goods (Article 2).....	15
2.2.3. The transaction value of similar goods (article 3).....	17
2.2.4. Deductive Value or method 4 (article 5).....	17
2.2.5. Computed value method (Article 6).....	19
2.2.6. Residual Valuation Provision/ the fall-back value (method 6)	19
2.3. CUSTOMS VALUATION AND TRANSFER PRICING	20
2.3.2. Transfer pricing reason or methods	21
2.4. CUSTOMS VALUATION PROBLEMS	22
2.5. SMUGGLING AND VALUATION PROBLEMS	23
2.6. TRADE FACILITATION AND MODERNIZING CUSTOMS ADMINISTRATION	24
2.7 RULE OF ORIGIN (ROOs)	26
2.8. HARMONIZED COMMODITY DESCRIPTION AND CODING SYSTEM	27
2.9. CONCEPTUAL FRAME WORK	28

2.10 HYPOTHESIS	29
CHAPTER THREE	31
RESEARCH METHODOLOGY & RESEARCH DESIGN	31
3.1. RESEARCH APPROACH	31
3.2 RESEARCH DESIGN	31
3.3 . DATA SOURCES	32
3.3.1. Primary Source of Data.....	32
3.3.2. Secondary Source of Data.....	32
3.4 SAMPLE DESIGN	32
3.4.1 Population	32
3.4.2 Sampling and Techniques	33
3.5 INSTRUMENT OF DATA COLLECTION.....	35
3.6 METHODS OF DATA ANALYSIS	35
3.7 RELIABILITY AND VALIDITY TEST OR ANALYSIS	36
3.8 Ethical consideration.....	36
CHAPTER FOUR.....	38
DATA ANALYSIS AND INTERPRETATION OF RESULTS.....	38
4.1 INTRODUCTION	38
4.2 DEMOGRAPHIC DATA PRESENTATION AND ANALYSIS	38
4.3 ANALYSIS OF MEAN.....	40
4.4 ANALYSIS OF FREQUENCY.....	47
4.5 CORRELATION ANALYSIS.....	52
4.6 REGRESSION ANALYSIS	55
4.7 DISCUSSION.....	61
CHAPTER FIVE	64
SUMMARY, CONCLUSION AND RECOMMENDATION	64
5.1 SUMMARY	64
5.2 CONCLUSION.....	65
5.3 RECOMMENDATIONS.....	66
5.4 SUGGESTION FOR FURTHER STUDY	67
REFERENCES	68

ACRONYMS

ACV	Agreement on Customs Valuation
BDV	Brussels Definition of Value
CVA	Customs Valuation Agreement
EAC	East African community
ECVS	Ethiopian Customs Valuation System
EEC	European Economic Community
ERCA	Ethiopian Revenue and Customs Authority
GATT	General Agreement on Tariff Trade
IMF	International Money Fund
MNE	Multinational Enterprise
OECD	Organization for Economic Cooperation and Development
TV	Transaction Value
TVM	Transaction Value Method
UN	United Nation
WCO	World Custom Organization
WTO	World Trade Organization

List of Figures

Figure 2.1. Conceptual frame work of customs valuations.....31

List of Tables

Table 3.1. Sample size for different size of population at a 95% level of certainty	34
Table 3.2 Reliability statistics.....	36
Table 4.1 Demographic profile of respondents.....	39
Table 4.2 Statistics of mean of tariff related question effect on custom valuation	40
Table 4.2.1 ANOVA Table that shows individual significance of tariff related issues.....	41
Table 4.3 Analysis of pricing impact on custom valuation	42
Table 4.4 Analysis of procedure impact on importers during custom valuation	43
Table 4.5 Analysis of custom valuator's expertise level impact on custom valuation..	44
Table 4.6 Analysis of custom valuator's character effect on custom valuation.....	45
Table 4.7 Analysis of physical inspection on custom valuation.....	46
Table 4.8 summary of overall custom valuation determinants.....	46
Table 4.9 interpretation of correlation size	52
Table 4.10 correlation of independent variables with dependent variable	53
Table 4.11 Model Summary/ R square value	56
Table 4.12 F ratio statistics of significance table of ANOVA ^b	56
Table 4.13 Multicollinearity Coefficients ^a	57
Table 4.14 Beta Coefficients ^a	58
Table 4.15 summary of the overall outcome of the research hypothesis.....	59

ABSTRACT

The purpose of this study was to assess the factors that affect Ethiopian importers during customs valuation made at Customs branch office of Ethiopian Revenue and Customs Authority. The main problem was the focus of government for controlling and collecting revenue by ignoring elements that affects importers during customs valuation. There was a gap in assigning price for customs valuation and the procedures importers has to pass through. The main methodologies followed to make this research were causal research design. Five independent variables were selected and analyzed how they affected customs valuation. Before starting the actual study items or questionnaire were tested by Cronbachs' alpha and passed the minimum 0.70 by scoring 0.871. On ward to these the actual survey were started by collecting data from importers or their representative freight forwarders through questionnaire from 370 respondents. These data were tabulated in to SPSS soft ware for statistical analysis. The output was analyzed by mean, frequency, correlation and regression analysis. The major finding found out from the survey result was price assigned to the imported items were fictitious price than the transaction value presented by importers. The procedures importers have to pass through during valuation were also distressing for most of importers. Controlling mechanism of customs authority was explained by importers as traditional and worrying them during physical inspection. The impact of pricing systems, procedures during customs valuation, physical inspection made during customs valuation, and experience or proficiency of customs valuator impact on importers in customs valuation were significantly affected them. Tariff classification and character of customs valuator were not significant and as a result null hypothesis were accepted. Based on these, recommendation was made in such a way that the pricing and procedures customs authority follow has to be changed to alleviate the problems encountered by importers.

Key words: *Customs valuation, Tariff, Pricing for valuation, Procedures during valuation, Inspection, valuator's proficiency*

CHAPTER ONE

INTRODUCTION

The chapter presents the research problems, the objectives of the study, its significances, scope and limitations, and the organization of the paper. Accordingly, in section 1.2 research problems are discussed. In section 1.3 the objectives of the study are shown. The significances, and the scope and limitations are explained in section 1.5 and section 1.6 and 1.7 respectively. Finally, the organization of the study is presented in section 1.8.

1.1 BACKGROUND OF THE STUDY

Custom valuation plays great role in custom clearing process as well as in modern trade facilitation. What do we mean by custom valuation? D. Wulf and B.Sokol (2005) defined customs valuation “as the determination of the amount upon which the rate of duty is calculated”. Most import tariffs are based on *ad valorem* duties, that is, a rate expressed as a percentage of the value of the imported goods. “Custom valuation standard is needed both at local and international level to ensure that the correct duty is levied and a level playing field exists for all importers. It is also needed to enhance transparency and predictability of international transaction”(Wulf and B.Sokol, 2005, P.156).

Standard custom valuation contributes in time saving during valuation. The time spent to clear imported goods is the concern of every importer. This is because of the costs associated with storage cost at custom, demurrage to be paid and sales lost if not cleared out on time. Reducing the time requirement for clearance depends on custom valuation of goods and affects the movement of goods at port or custom office.

Uniform international trade is facilitated through Custom valuation. S. L. Sherman and H. Glashoff (1988) explained the advantage of uniform valuation rate of duty and value of goods. “Rates of duty are typically established on an *ad valorem* base (*ad valorem* is Latin for ‘on the value’)-for example, a 10% on the value of goods”. It thus becomes necessary to establish the value of the goods in order to determine what duty to assess. Some articles have a well

established commercial value in particular markets, but more often the proper price or value is very uncertain. Price varies from time to time, from place to place, from brand to brand, and also according to the quantity purchased and many other factors, including such considerations as how long the parties have been doing business with each other (Sherman and glashoff 1988, p.51).

Customs valuation is a major feature, and concern, of modern customs tariff systems. It is important not only for the assessment of customs duties, whether for purposes of generating revenue or as a means of encouraging and protecting domestic industry but is also a significant element in a variety of other aspects of international trade such as trade facilitation, statistics, taxes and other charges levied at importation as well as in the application of preference systems (EAC custom valuation manual, 2010).

Custom valuation contributes also for trade facilitation. Harmonized system is a base for standardized valuation to achieve facilitated trade system. World Trade Organization (2002) states that a unique feature of the harmonized system was to be used as the basis for customs tariff as well as international trade statistics nomenclatures. It was widely recognized that, in addition to the benefit of trade facilitation and analysis of trade statistics, adoption of the harmonized system would help ensure greater uniformity among countries in customs classification and enhance their ability to monitor and protect the value of tariff concession in GATT (WTO, 2002, p 124).

Custom valuation provides initial control benefits. According to East African Community (EAC, 2010) custom valuation manual the benefits of custom valuation is “viewed as it gives initial control to confirm whether the declaration of value has been completed fully and correctly, the required supporting documents are appended thereto, the details of the declaration of facts about the value correspond to the supporting documents, the entry is subject to any customs rulings, the declared value is realistic in the light of the commercial practices of the industry and identical or similar goods”.

J. M. Jovanovich (2002) mentioned the contribution of customs valuation as not to be an obstacle to international trade, simplicity, ease of trade, uniformity and avoid arbitrariness and protectionism through valuation.

Customs valuation systems generally followed one of two conceptually different approaches: those based on a ‘notional’ concept of customs value, and those based on a ‘positive’ concept. The ‘notional’ concept was represented by the convention on the valuation of goods for customs purposes in 1950, commonly known as the Brussels Definition of Value (BDV). Under the BDV, imported goods are valued based on their normal price, that is to say the price which would fetch at the time when the duty becomes payable on a sale in the open market between buyer and seller independent of each other. Customs valuation officials would consider the buyer’s actual invoice price paid for the imported goods, but were free to reject it in favor of the notional open market price for goods of same kind. A ‘positive’ system custom value was generally based on the actual price paid by the buyer for the goods, rather than an abstract or fictitious or notional price that might be paid under perfect competitive market conditions (Rosenow and O’Shea, 2010, P.6-8).

From my experience and importers I mate for discussion about customs valuation of Ethiopians case, all were complaining customs valuation for different reasons. One of my friends Ephrem Mersieahazen who import cars were extremely had complained on custom valuation appeal system and duty rate high variation for similar models of cars. The other guy who imports furniture (Emerald Furniture) told me that he is suffering most of the time higher duty rate of more than his expectation because of the description of the furniture he import slightly vary from the data base price of the customs authority. In general there were different complains related to customs valuations were heard here and there from importers.

1.2 STATEMENT OF THE PROBLEM

“Customs valuation practices are subject to the WTO Agreement on Customs Valuation (ACV), which mandates that the customs value of imported goods, to the greatest extent possible, should be the transaction value, that is, the price paid or payable for the goods” (Wulf and B.Sokol, 2005). He also explain that valuation fraud is frequently reported as a major problem in developing countries, and many of them still find that implementing the ACV presents one of the most challenging aspects of customs work. “Valuation work is practically difficult in some countries in which the reliability of commercial invoices tends to be poor, and where trade

undertaken by the informal sector and in second-hand goods is significant” (Wulf and B.Sokol, 2005).

Customs valuation method used to determine value will directly affect the amount of tariff duties collected on a particular import item. Due to this, “customs valuation has historically been ‘a jealously guarded function of government with regard to international trade.’ For many countries the discretion given to customs authorities in valuing trade for the imposition of tariffs and duties has been an important source of revenue. This is more so in developing countries which are often characterized by shallow tax bases” (F.A. Albuero 2006).

The problem of valuation is difficult. R. Bahala (2008) stated the difficulty of yielding one solution or right answer for true value. Whether it is a taxing authority assessing property , an executor dealing with a family business or a businessman setting the price of a new product, there is simply no one way to determine the “true” value of something. Nor does a ‘true’ value exist somewhere out there if only we could find it. The problem is compounded in designing a customs valuation code, for the valuation formula must fit every kind of merchandise, every kind of transaction and every country (Bahala, 2008, P.551).

Ethiopian customs proclamation No. 859/2009 article 33 provides the customs value of imported goods to be the price actually paid or payable for the goods. However, Ethiopian Revenue and Customs Authority (ERCA) is still using the minimum and referenced price data base custom valuation system, which is an alternative method taken in to account after applying article 33.

The basic problem comes in to being if the base for valuation is not fair and neutral system that treats every importer equally; otherwise, the importers face many challenges. It should not be arbitrary or fictitious custom value if ERCA wants to provide greater uniformity and certainty. Custom valuation should be based on simple and equitable criteria consistent with commercial practices. From time to time importers were showed their distressed .As explained in the introduction above last paragraph importers were complained for different reasons related to customs valuation at Ethiopian Revenue and Customs Authority. Therefore, the main purpose of this study is to investigate the factors that affecting Ethiopian importers during customs valuation at customs authority.

1.3 OBJECTIVES OF THE STUDY

1.3.1 General Objective

The general objective of this study was to assess the factors that affecting Ethiopian importers during customs valuation.

1.3.2 Specific Objectives

This research project attempted to achieve the following specific research objectives:-

- To identify the major factors that affect importers during the procedures of customs valuation.
- To assess the characters of customs valuator impact on customs valuation and how it affects importers adversely.
- To assess price assignment system on items for valuation that affects importers.
- To analyze how the experience or proficiency of customs valuator impact customs valuation.
- To identify inspection or physical examination problems during custom valuation process while enhancing the objective of trade control.

1.4 SIGNIFICANCE OF THE STUDY

In view of the importance of valuation to the correct assessment and application of customs duty, due concern should be given to collect revenue. Particularly, in developing country like ours, custom valuation is a basic source of revenue for the government in the form of tax and duty compared to developed countries which is for control purpose than revenue. To simplify procedures and facilitate trade, customs valuation plays great role. Good custom procedure and rules helps importers to be treated fairly and equally. In the absence of transparent procedures and rules of valuation importers are not secured to import goods.

Importers have to be clear in advance how much to pay duty for goods before they actually import the goods. In this regard Ethiopian customs valuation system has a lot of operational problems and lacks transparency for every importer. This study were identified the problems in customs valuation system and forwarded suitable remedial actions in order to alleviate the

problems. The outcome of this research project would hopefully provide substantial information to Ethiopian revenue and customs authority to alleviate the observed problems.

In addition, the finding would help others stakeholders and academicians who have an interest to assesses others area of customs administration.

1.5 SCOPE OF THE STUDY

The study has focused on the factors that impacted customs valuation and the effects on Ethiopian importers during importing of items from abroad through Addis Ababa air port customs branch office, Mojo customs branch office and Addis Ababa kality customs branch office. The study was limited to custom valuation practice and its impact on Ethiopian importers. Trade facilitation related to valuation system was not addressed in this study. It is not the intention of this paper to study the general custom valuation system and customs modernization. Rather it focuses on the challenges faced by importers as a result of customs valuation problems.

1.6 LIMITATION OF THE STUDY

This research was limited in its design of cross-sectional. It would have been good and more reliable if the survey were taken more than one time. According to the ICT directorate of Ethiopia Revenue and customs authority majority of importer or more than 80% of importers have been importing through Mojo, Kality and Air port customs branch office. The sample size was constrained to only these customs branch office. It would have been good and made the study more reliable if those remaining 20% in up country were included in the sample.

1.7 ORGANIZATION OF THE STUDY

This paper is organized into five chapters. The first chapter provides introduction, background, statement of the problem, as well as objectives, significance, scope and limitations of the study. In the second chapter the relevant literature that support the study are reviewed followed by the presentation of methodology in the third chapter. Chapter four deal with data presentation, analysis and interpretation; while summary, conclusions and recommendations are made in the last chapter five of the paper.

CHAPTER TWO

LITERATURE REVIEW

2.1. INTRODUCTION

In this section customs valuation necessity and legal framework of customs operation were discussed as introductory. Methods of determining customs valuation has been discussed in detail following the introduction. Customs valuation and transfer pricing, customs valuation problems, smuggling and valuation problems, modernizing customs administration, rules of origin, harmonized and commodity description as well as coding system were discussed respectively. Finally conceptual frame work and hypothesis were drawn from the literatures.

2.1.1 Why custom valuation is necessary?

J. Nakagwa (2005) as translated by Bloch and cannon (2011) stated that “when imposing tariffs, the customs authorities of a country determine the applicable tariff rate for a given product by first identifying the item in the tariff schedule under which a product is classified (tariff classification), then determining the product value as the basis of assessment for the products to which ad valorem tariff rates apply which is custom valuation”. Customs valuation is necessary or must first be established in order to calculate the amount of duty payable.

2.1.2 Legal framework for customs operations and enforcement issues

It is normal to think from importers side to look for a system which would facilitate business by making customs valuation as simple and predictable as possible. If this kind of system were put in to practice, it would help to prevent valuation from being used as a method of assessing custom duties on an arbitrary or discriminatory basis. According to S. L. Sherman and H. Glashoff (1988) “the General Agreement on Tariff and Trade (GATT) customs valuation code has become the first world wide system of customs valuation, since its first entry in force on July 1, 1980. This GATT code establishes the uniform system of valuation by all countries”. However, uniform system of valuation does not mean uniform value for merchandize nor uniform customs duties. This is because the price the supplier and buyer agreed up on varies based on the shipment volume and different factors. The uniformity woks only to the system applied.

“To promote a harmonized and uniform understanding of the meaning of the GATT code in all countries, continuing effort were made by national and international and others stakeholders” (Sherman and Glashoff, 1988, P.52). “The principles of customs valuation should be fair, non-discriminatory, and consistent with commercial practice laid down prior to 1980 by GATT was made dissatisfied countries as these rules were general and subjective” (C. Key, 2004). These dissatisfaction brought trade agreement Act of 1979 which came to effect in 1980 according to C. Key (2004) “with the aim to relieve business community of complexity, delays, and surprises in increased duties which occurred under the prior valuation law”.

R.E. Mshomba (2009) explained that GATT was “formed from part of international trade organizations in 1947 by twenty three countries signing the original treaty establishing it”. In addition, “participation in GATT was extended to colonies of GATT members (to all their colonies in African with the exception of Morocco), under article XXVI:5” (Mshomba, 2009, P.6). Thus, impliedly almost all African countries were part of GATT from its establishment.

According to World Trade Organization (2009) “as of December 2007 General Trade Agreement (GATT) were come to in force by 197 countries”. From this figure we can observe that GATT valuation is a worldwide valuation agreement to those countries that have signed.

“The international conventions on the simplification and harmonization of customs procedures (entered in to force in 1974 and revised in June 1999) was developed to standardize customs policies and procedures worldwide” (D.Wulf and J. B.Sokol, 2005, P. 51-52).

According to IMF (2003), in 1979 the GATT multilateral trade negotiations known as the “Tokyo Round” took place in Geneva, representing one of the most significant trade policy events. International Money Fund (IMF) as edited by Michael Keen(2003) stated that “one of the results of these negotiations was the adoption of the Agreement on the Implementation of Article VII of the GATT, establishing a positive system of Customs valuation based on the price actually paid or payable for the imported goods”. In this article it is intended to provide a fair, uniform, and neutral system of valuation of goods for Customs purposes, conforming to commercial realities and outlawing the use of arbitrary or fictitious Customs values. “The Agreement recognizes that Customs valuation should as fair as possible, be based on the actual price of the

goods to be valued, which is generally shown on the invoice. This price, subject to certain adjustments, is known as the Transaction Value” (IMF, 2003).

“A protocol to the 1979 Agreement, deemed to form an integral part thereof, contained provisions concerning special problems and trading needs of developing countries, permitting them to flexibly apply the Agreement” (EAC 2010). “This has become Annex III of the GATT 1994 Valuation Agreement. The Agreement entered into force in 1981” (EAC, 2010).

“The multilateral trade negotiations were called the Tokyo-round because the decision to enter upon them was taken in Tokyo in 1973 by 103 countries from all over the world” (Pagter and V.Raan 1981). They also stated that the reason for the convention in Tokyo was “the result of initiatives taken by the USA, the European Economic Community (EEC) and Japan, who had already in 1972 agreed to look for new ways of lessening international trade barriers” (Pagter & V.Raan, 1981).

“The Uruguay Round of GATT Negotiations was finalized in December 1994. It did make several changes to the existing GATT and the Agreement on the implementation of Article VII, one of which was the creation of World Trade organization (WTO) which came into force on 1st January, 1995” (IMF 2003, P.84).

C.Key (2004) presented “the ‘Mode Act’ in 1994, which altered the relationship between customs and the importers by shifting to importers the legal responsibility for declaring the value, classification, and rate of duty applicable to entered merchandise”. After this Act the role of verification made at entry to produce record were changed significantly and traditional entry records were no longer have to be produced. “The importer is expected to declare through electronic media with customs in every aspect of importing operation. In this system the customs rely on post entry review and audits” (Key, 2004). The act put responsibility on importers to care in declaration and valuation matters.

The Brussels Definition of Value (BDV)

From the work of Goorman and Wulf (2005), Tenkir Seifu (2009) cited that “the first international standard based on the GATT valuation principles, the Brussels Definition of Value (BDV), was introduced in 1950. The BDV is based on the concept of ‘normal price’ – the price that the goods would obtain under open market conditions between unrelated buyers and sellers under specified condition of time and space”. According to East African Community (EAC) customs valuation

(2010), “the factual deviations from ‘normal price’ were fully taken into account where the declared value was higher than the listed value”. This method caused a lot of dissatisfaction among business people, “as price changes and competitive advantages of firms were not reflected until the notional price was adjusted by the customs office after certain periods of time” (EAC, 2010, P.8). New and rare products were often not captured in the lists, which made determination of the ‘normal price’ difficult. These were the major disadvantages of the BDV in determining the Customs value of imported goods. By applying this system of valuation which has scarcely any relation to the price actually paid, it was not fair to the traders. It was clear that a more flexible and uniform valuation method was needed which would harmonize the systems of all countries.

2.2. METHODS OF DETERMINING CUSTOMS VALUE

United Nations studies by the Asia-Pacific Research and Training Network on Trade (2008) “found out that the importance of efficient and transparent customs valuation processes has long been recognized and has led WTO members to sign a separate agreement on the implementation of GATT Article VII, commonly referred to as the WTO Customs Valuation Agreement (CVA)”. “The CVA is based primarily on the transaction value method (TVM), i.e., value is assessed based on the value indicated in the invoice provided by the trader” (UN, 2008). In fact, the CVA is specifically intended at facilitating trade, considering information provided by the trader as the basis for valuation. Whenever possible the transaction value should be primary taken as the basis for the calculation of customs value according to GATT article VII. However, CVA or the Code contains a total of 6 different methods (articles I up to and including VII) in a hierarchical relationship to each other. Therefore, in addition to transaction value methods the code allows for five other methods to be considered Customs having doubt about the invoice value provided. The lists are:

1. The transaction value of the imported goods (art. 1);
2. The transaction value of identical goods (art. 2);
3. The transaction value of similar goods (art. 3);
4. The deductive value (art. 5);
5. The computed value (art. 6);
6. The flexible valuation method (art. 7).

“Only if the customs value cannot be determined under the provisions of the first method, starting with method number 1, the next methods may be tried. An exception to this rule is formed by the importers right to request the order of application of methods 4 and 5 be reversed (art. 4)” (D.Pagter and R.V.Raan 1981).

2.2.1 Transaction value method

I. What is transaction value?

Based on article 1 World Custom Organization /WCO (2015) defines the transaction value as “ the price actually paid or payable for the goods when sold for export to the country of importation” which will be increased or decreased according to a number of provisions found in article 8, and subject to the conditions set out in article 1 are met.

What is actual value? Daniel C.K. Chow and Thomas J.Schoenbaum (2010-11) defined it as “the value that should be the price at which, at a time and place determined by the legislation of the country of importations, such or like merchandise is sold or offered for sale in the ordinary course of trade under fully competitive conditions”.

In addition, the following items will be added to the price paid or payable if they are not included in the price. These cost according to Raj Bhala (2008) are : -

- *The packaging cost incurred by the buyer.* Key (2004) defines packaging cost “as a cost of all containers and coverings of whatever nature and of packing, whether for labor or materials, used in placing merchandise in condition, packed ready for shipment”.
- *Any selling commission incurred by the buyer.* According to article 1(a)(i) the term buying commission is defined as ‘fees paid by importer to the importers’ agent for the service of representing abroad in the purchase of the goods being valued. Buying commission is not included in the price paid or to be paid. Jovanovich (2002) cited “commentary 17.1 of the technical committee on custom valuation provision on guidance in relation to buying commission”. The commentary addresses the question of what evidence would be necessary whether a fee paid by the buyer is a buying commission. The guidance mentioned element

of the existence of agency contract between agent and buyer and documentary evidence, such as purchase order, letter of credit, correspondence etc.

- *The value of any assist.* European Economic Community (EEC, 2015) clarify the notion of any assist as “ Items sometimes known as assists may be supplied, directly or indirectly and free or at a reduced cost, by the buyer for use in the production and sale of the goods”. The value of all assist might not be included in the price paid or payable. EEC (2015) includes the value of the following, apportioned as appropriate: “a) materials, components, parts and similar items incorporated in the imported goods; b) tools, dies, moulds and similar items used in the production of imported goods; c) materials consumed in the production of the imported goods; and d) engineering, development, artwork, design work, and plans and sketches (other than research and preliminary design sketches) carried out elsewhere than in the Community and necessary for the production of the imported goods”.
- *Any royalty or license fee that the buyer is required to pay as a condition for the sale.* Raj Bhala (2008) explained that “whether a royalty or license fee is dutiable will depend on the circumstance and have to be decided on case by case basis”. The following right applies to royalty or license fee to valuation duty. This are: “originals or copies of artistic or scientific work, original or copies of models and industrial drawings, model machines and prototypes and plant and animal species (Bhala 2008)”.
- *The proceeds of resale.* The value of any part of the proceeds of any subsequent resale, disposal or use of the imported goods that accrues, directly or indirectly to the seller.

The transaction value has to fulfill the under listed conditions to meet article one. The conditions to be met according to Pagter and Van Raan (1981) are:-

- a) Restrictions as to the use of the goods by the buyer.
- b) Conditions or considerations for which no value can be determined.
- c) The proceeds of any subsequent resale or use of the goods by the buyer accruing to the seller.
- d) A possible relationship between buyer and seller.

Based on article 8 deduction can be also considered. The determinant value for duty is the importers net price at time of importation. “The discount shown on the invoice is excluded and the net amount payable is the purchase price and the value for customs purposes. On the other hand, if the discount is in the form of rebate payable at a later date if certain conditions are met, it will be included in the transaction value” (Walsh T.J. 2003).

Article 8 states also about transportation and related charges of transaction value. This article provides that “each member shall provide for the inclusion in or exclusion from the custom value, in whole or part, of the following: a) the cost of transport of the imported goods to the port or place of importation; (b) loading, unloading and handling charges associate with the transport of the imported goods to the port or place of importation; and (c) the cost of insurance” (WCO, 1996).

A) The price actually paid or payable

The price means the agreed up on amount or value by the parties for specific sales of goods. Thus, price is primarily a term of sales consensus by the seller and buyer. “If the relevant transaction is not a sale but rather a gift or a lease or a loan or a capital transfer in kind or a movement of property by a single owner from one place to another, there will not be a price permitting the establishment of transaction value” (Herman and Glashoff , 1988, P.71).

B) Direct or indirect payment

Article 1 state that the payment need not necessarily take the form of a transfer of money and may be made directly or indirectly. The activities enumerated in article 8 allow that the payment may be made by the buyer to a third party in order to settle a debt the seller owes to this third party. If the buyer acts in accordance with obligations in the contract of sale, then these payments are included in the price actually paid and therefore included in the customs value. Juan M. Jovanovich (2002) cited the work of Sherman which explains that “the only requirement is that the goods or service must have an agreed price”.

An indirect payment means as expressed by C. Key (2004) “would include the settlement by the buyer, in whole or in part, of a debt owed by the seller, or where the buyer receives a price reduction as a means of settling a debt owed him by the seller”. If the buyer made activities such as advertizing by its own account it will not be considered an indirect payment to the seller even though it may benefit the seller. “The cost of such activities will not be added to the price actually paid or payable in determining custom value of the imported merchandize” (Key, 2004, P.52).

Non-confirming goods

a) Defective goods

It is those goods shipped by the seller not based on the contract of sales agreement. Any duty should be refunded or remitted if the goods are rejected or re-exported as a result of non-conformance.

b) Damaged goods

This is a situation in which the goods shipped are conform but damaged in transit before clearing customs. In this case transaction value is based on unit price for some remain undamaged part of the items. However, in case of the risk is the responsibility of the buyer, full price will be paid by the buyer.

c) Shrinkage

“The effect of shrinkage, evaporation, and other such forms of natural and foreseeable loss depends on the agreement of the parties”(Sherman and Glashoff, 1988, P.89). If the full contract price is to be payable or if the unit price applies to the remaining will be the base of transaction value based on the parties agreement.

Factors those are irrelevant under transaction value

a) High or low price

“The price agreed by the parties cannot be rejected simply because it is high or low. If it is commercially acceptable to the parties, it is to be accepted by custom for valuation purposes” (Sherman and Glashoff, 1988, P.105). Lower price may suggest that there is a possibility of under invoice or an unofficial indirect payment.

- b) Whether terms are freely offered
Free competition theory or generally available in the market place is used under the code for the transaction values to be applied.
- c) Basis on which price is arrived at
How the price was arrived at is not relevant for the transaction value. It is enough that the parties are agreed on the price to be paid or payable rather than how they arrive at that price.
- d) Time or place price is established
Where or when the price was agreed upon is irrelevant under transaction value. A shipment of rotary oven from Italy to Ethiopia may be priced on the basis of a contract entered into five years ago, even though prices have risen very much in the interim.
- e) Subsidies and state trading
“Where the seller is state-owned, or where a privately-owned seller is subsidized by his government, the resulting price may be artificially low. These prices are nevertheless to be accepted as a basis for transaction value unless subject to adjustment or rejection on other grounds”(Sherman and Glashoff, 1988).

2.2.2. Transaction Value of Identical Goods (Article 2)

A. Why transactional value of identical goods?

Transaction value can be rejected on the basis of failing one or more of the terms and condition under article 1 or when “customs had doubts regarding the truth or accuracy of the declared value which were conveyed to the importer and Customs’ doubts remained after due consultation process was followed” WCO(2015).

“When the transaction value cannot be determined, then an attempt will be made to appraise the imported goods under the transaction value of identical merchandise method” Baj Bhala(2008). Identical goods or merchandise is defined as: “(i) The same in all respects including: physical characteristics, Quality, and Reputation, (ii) Produced in the same country as the goods being valued; and (iii) Produced by the producer of the goods being valued” EAC(2010).

B. Commercial level and quantity adjustments

According to EEC (2015) commission regulation No. 2454/93 “in establishing the customs value under the identical goods method, a sale at the same commercial level and in substantially the same quantity should be used to establish the customs value”. In the case of there is no such kind of sale exists, a sale of identical goods that takes place under any one of the following three conditions can be used: “(a) a sale at the same commercial level but in different quantities; (b) a sale at a different commercial level but in substantially the same quantities; or (c) a sale at a different commercial level and in different quantities” (WCO, 1996, P.9). What is the same commercial level mean? Even though, there is no precise definition was offered by code or technical committee of customs valuation, Sherman and Glashoff (1988) enlighten that “the commercial level of the importer may be reflected both by his seller (manufacturer, sole exporter, or other trader) and by his customers (manufacturer, sole distributors, retailers or final consumers)”.

C. Exported at or about the same time

“The identical goods should have been sold for export to the same country of importation, but they need not have been sold at the same time as the goods being valued. Furthermore, they need not be imported at the same time. The only condition is that the identical goods have been exported at or about the same time” (Pagter and Van Raan, 1981.P.36). At or about the same time “should be taken to cover a period of time as close to the date of exportation as possible, with in which commercial practice and market conditions which affect the price remain the same” (Sherman and Glashoff, 1988, P.204). The stability or volatility of the goods price is the most important. Customs might probably tend to accept longer period if other transaction is not available for comparison in current time.

D. Lowest of several values to govern; importer’s access to information

“In establishing the customs value under the identical goods method, precedence should be given to a transaction value for goods produced by the same person” EEC (2015) No.2454/93. Where the comparison is not possible, then a transaction value for goods produced by a different person may be used. Article 2.3 states that in case of more than one transaction value of identical goods is available; the lowest value is taken to determine the customs value of the imported goods.

Only those customs values of identical goods determined under the transaction value method can be used in establishing the customs value under the identical goods method.

2.2.3. The transaction value of similar goods (article 3)

The transaction value of similar goods method is closely similar with transaction value of identical method. The difference is that custom value takes in this case the transaction value of similar goods rather than identical goods like in the previous case. However, transaction value of similar goods or merchandize is taken for custom value only if transaction value of identical cannot be found or does not exist.

“Similar goods mean goods which, although not alike in all respects, have like characteristics and like component materials which enable them to perform the same functions and to be commercially interchangeable” (Pagters and Van Raan 1981). With regard to the quality of the goods, their reputation and the existence of a trademark Pagters and Raan (1981) “considered them as a major factors to be taken in to consideration and regarding the similarity of goods of different trademarks, it will especially be necessary to consider the commercial interchangeability”.

With the exception to definition and application order, the discussion of the different elements of this method is similar with the transaction value of identical goods or merchandize.

2.2.4. Deductive Value or method 4 (article 5)

If the transaction value of imported goods either identical or similar cannot be determined, then deductive value is calculated for the merchandise or goods being appraised. Deductive method is the fourth method for appraisal unless the importer designates computed value method as the preferred method of appraisal.

The customs value is then found by deducting a certain number of costs incurred after importation. According to EEC (2015) regulation #. 2454/93 “the price is subject to the following deductions: (i) either the commissions usually paid or agreed to be paid or the additions usually made for profit and general expenses in connection with sales in the Community of imported goods of the same class or kind. These include the direct and indirect costs of marketing the goods in question; (ii) the usual costs of transport and insurance and

associated costs incurred within the Community; and (iii) the customs duties and other taxes payable in the Community by reason of the importation or sale of the goods”.

The deductible amount should whenever possible be based on data supplied by or on behalf of the importer. Article 5 covers three situations, depending on whether the goods: *a)* are sold in the condition as imported at or about the time of importation; *b)* are sold after some time has passed, or *c)* are sold after further processing.

A. Goods resold in condition as imported

The general approach of deductive value under article 5.1 is the resale price for which the imported goods or identical or similar imported goods are resold in the condition as imported. The buyer to whom the goods are resold has to be a person who is unrelated to the sellers of the goods based on the provision of article 5.1(a). The focus is not the relationship between exporter and importer but it is the relationship between two persons in the country of importation.

B. Time of resale

The same article 5.1(a) states that the resale transactions must take place at or about the time of importation of the goods being valued. The resale may have been concluded before or after the importation of the goods being valued. Sherman and Glashoff (1988) explain the reason for allowing resale price of identical or similar products to be applied was “to avoid as far as possible any delay of valuation until the imported goods being valued are resold”.

C. Goods resold after further processing

Maybe the goods or identical or similar goods are not sold in the condition as imported but possibly some further processing can be added on it. In that case the price at which the goods are sold after further processing may be taken as a basis, subject to three conditions according to Pagter and Van Raan(1981): “a) only the price, after processing, of the imported goods may be taken into account, and not the price, after processing of identical or similar goods; b) this line of approach may only be followed at the request of the importer; c) this method will generally not be applicable if the goods lose their identity as a result of the processing, or if they are such a small part of the processed product that application of this method is not feasible”.

“The price, after processing, against which the goods are sold in the greatest aggregate quantity to persons not related to the seller, is again decisive. As regards the loss of identity, since it is impossible to give a general rule it will be necessary to decide on a case by case basis if that has happened”(Pagter and Van Raan, 1981, P.41).

2.2.5. Computed value method (Article 6)

The computed method is used as next basis of appraisalment. This method is used where the seller is the actual producer of the goods and has access to all information relating to the production of the imported goods. The customs value is determined by calculating the sum of the following elements: “i) the cost or value of materials and fabrication or other processing employed in producing the imported goods; ii) an amount for profit and general expenses. The direct and indirect costs of producing and selling the goods for export which are not included under (i) above would constitute such an expense. This amount should equal that usually reflected in sales of goods of the same class or kind as the goods being valued which are made by producers in the country of exportation for export to the Community; and iii) the cost of transport and insurance of the imported goods” (Raj Bhala, 2008, P.563).

2.2.6. Residual Valuation Provision/ the fall-back value (method 6)

Different books name this method in different names in addition to residual and fall-back valuation. Two major naming are permitted and prohibited variations in methods of valuation and Flexible valuation method.

The code advises us to use the first five methods in sequential order. But in exceptional circumstances it may not be possible to determine the customs value of imported goods under any of the above valuation methods. In such circumstances, the value may be determined by applying, in a flexible manner, whichever of those methods most readily enables calculation of the customs value. For example, let us see the situations where the above method may not fit. Transaction value method cannot be applied in case of lease. No transaction value of identical or similar goods (method two and three) can be applied in case of there is no identical or similar goods imported. Deductive value method cannot be applied in case of no goods are resold in the country of importation. And lastly computation value cannot be applied when the manufacture is unknown or refuses to disclosure of cost data to foreigners.

If there is no one methods of the previous five methods are not applicable, “the customs value should be established by means of the flexible valuation method” Sherman and Glashoff, 1988, P.235). Based on article 7.1 the customs value shall be determined by “using reasonable means consistent with the principles and general provision of this agreement and of article VII of the GATT and on the basis of data available in the country of importation”.

According to Sherman and Glashoff (1988) it is intentional that the provision of article 7.1 of the GATT “is extremely broad and vague, so as to give a maximum of flexibility, while the principal guidelines which should apply within these broad limits are laid down in the notes. Pagter and Van Raan (1981) explain that the note to this article clarifies what is meant by this vague wording and put two important conditions:- “a) Customs values determined under the provisions of this method should, to the greatest extent possible, be based on previously determined customs values; b) Making use of 'reasonable means' is to say that the previous five methods should again be tried consecutively, but this time with a reasonable flexibility”.

Prohibited methods

Article 7.1 prohibits customs from using:

- i. ‘The selling price in the country of importation of goods produce in such country’,
- ii. ‘a system which provides for the acceptance for customs purposes of the higher or two alternative values’
- iii. ‘the price of goods on the domestic market of the country of exportation’
- iv. ‘the cost of production other than computed values which have been determined for identical or similar goods in accordance with the provisions of article 6’
- v. ‘the price of the goods for export to a country other than the country of importation’
- vi. ‘minimum customs values’
- vii. ‘arbitrary or fictitious customs values’

2.3. CUSTOMS VALUATION AND TRANSFER PRICING

2.3.1. What is transfer pricing?

World Customs Organization(2015) explain transfer pricing meaning as “When a Multinational Enterprise (MNE) group establishes itself in a new market by incorporating or acquiring a local

subsidiary or establishing a branch, the local subsidiary or branch generally engages in transactions with other members of the group. As a result, a significant portion of international trade is estimated to be taking place between members of MNE groups, with estimates ranging from one-third (UNCTAD, 1999) to as much as 60 percent (OECD, 2013)”.

2.3.2. Transfer pricing reason or methods

According to East African Community (EAC) customs valuation manual (2010), transfer pricing has the following characteristics and benefits for MNE group. These are:-

- A. Transfer is characterized by minimization of a MNE's tax liability to a single economy. This is generally achieved by adjusting the declared Customs value of the imported goods in order to maximize any related tax benefits. If a country's Customs duty rate is lower than its corporate tax rates, an overstatement of value of the imported goods occur in order to gain an overall revenue/tax liability advantage for that MNE.*
- B. The main objective is to maximize profitability within the group as a whole and transfer pricing is the consequence of the means to reach this target. By taking advantage of the differences in tax rates (e.g. Customs and corporation tax), MNE's in practice might distribute their taxation liability to reduce their overall tax burden and/or Customs revenue collected at a national level in some countries.*
- C. The MNE will benefit from transfer price by minimizing or maximizing the "price" of the imported goods in order to take advantage of the most favorable tax/duty rate.*

For transfer pricing purposes, “the Organization for Economic Cooperation and Development (OECD, 1995) has provided an international standard for direct taxation authorities, that is, national tax offices” (EAC,2010). “This standard requires that the determination of a corporate tax liability in each taxing jurisdiction is based on “arms length price” incurred” (EAC, 2010). “An arm’s length price is the price which would have been agreed upon between unrelated parties engaged in the same or similar transaction under the same or similar conditions” (Jovanovich, 2002). Since when related enterprise deal with each other, the transfer price agreed up on between them “do not reflect the market forces and arm length principle, the tax liabilities of such enterprises and tax revenues of the host countries can be distorted” (Jovanovich, 2002, P. 11). To avoid such

distortion, OECD member's countries have applied the arm's length principle as standard. According to EAC (2010) the transaction value of MNE can be accepted if "the circumstances surrounding the sale shall be examined and the transaction value shall be accepted provided that the relationship did not influence the price".

2.4. CUSTOMS VALUATION PROBLEMS

"Evasion of duty through undervaluation or mis-description of imports is an acute problem for administrations in developing countries" (IMF, 2003). Of course, the rules established by WTO regarding valuation of imported goods we discussed in previous section 2.1 up to 2.3 has to be adhered by all member countries, but according to James T. Walsh (2003) "coming to terms with its provisions of agreement has often proved problematic, since they include the introduction of modern principles of tax and customs administration, such as self-assessment". IMF (2003) cited the GATT article which explains modern principles of tax and customs administration as next. "Importers or their agents complete the customs declaration, including the value and tariff classification of the goods, and calculate the duties and taxes owing. The custom administration verifies the information to the extent necessary (i.e., selective verification based of risk-assessment techniques". I think it is obvious that reducing trade barrier will benefit any country. On the other hand, the basic problem is how customs administration controls fraud during valuation, and has to be managed systematically. "Developing countries are deeply concerned with revenue loss" (Wulf and Sokol, 2005). Particularly developing countries like in our case Ethiopia, relatively in which high rate of duties are collected through import duty or valuation is a serious case and looks paradox with trade facilitation or avoiding trade barrier. Because of the high rate of duties and others ad valorem taxes in this developing countries Walsh (2003) states that "it is often exacerbated by a generally poor level of tax compliance and a tenancy for many importers to deliberately maintain poor records, and the existence of special relationships with suppliers". To show the importance of revenue collected by government and the difference duty levied by developed and developing countries Michael Keen (2003) presented the following by citing various issues of IMF (2003): "In Africa, more than one third of total revenue still comes from trade taxes, whose relative importance actually increased over the 1990s. Elsewhere in the world there is a clear down trend, but reliance still remains high: one-fifth of all revenues in Asia and the pacific and one-quarter in middle east". Peter J. Williams (2008) presented the duties of

tariff collected by different countries which varies from smallest tariff 5.8% in the case of Chinese up to 26% in the case of Nepal.

Walsh (2003) also argues that custom valuation “apart from the obligation to generally ensure the content of the agreement, implementation requires members to make specific provision in their national legislation for the following”:

- i. Right of appeal. GATT article 11 requires that the legislation of each member provide a right of appeal, without penalty, to the importer or any other person liable for the payment of customs duty in connection with the determination of customs value. Article 11.2 provides that a final right of appeal to a judicial authority must be available. There should be an independent body to review and give fair response to the importers in case of any complaints. “an importer not satisfied with the determination of customs value by a regional office should have the right to have the determination reviewed at headquarters” (Walsh,2003). If again the importers is not satisfied with this then there should have been the right to appeal to a judicial authority.
- ii. Release of goods before final determination of customs value. Article 13 requires members to make provision in their legislation to allow importers to withdraw their goods from customs control in situation where the final determination of customs value is delayed. “Where necessary, a guarantee in the form of a surety or a deposit could be taken to cover the potential liability for customs duty as determined by the customs administration” (IMF, 2003).
- iii. Time of currency conversion. Usually payments for imported goods are described in a currency other than that of importation. The payment is mandatory to be converted to the currency of importation with equivalent amount of exchange rate. Article 9.2 of the agreement allows members to choose between the time of exportation or importation as the basis for converting currencies.

2.5. SMUGGLING AND VALUATION PROBLEMS

“Smuggling is defined as importation or exportation contrary to the law and without paying duties imposed by the law” (Webster’s Dictionary). Keen (2003) state that, “undervaluation of imports is a form of smuggling, even though it does not involve the physical concealment of

associated with the term”. “Low tax payer compliance and administrative inadequacies in customs make it difficult to effectively check under invoicing. Under invoicing becomes attractive to the importer because of the high level of taxes levied at the import stage” (Wulf and Sokol, 2005). Customs face the challenge of enforcing domestic taxation because of the risk of dealing with smuggling. Why smuggling occurs? Keen(2003) states that “smuggling problems occurs often when countries raise tax rates far above the rates in neighboring countries, thereby increasing both the incentive and opportunity for smuggling”.

Biman C. Prasad (2007) cited the work of Filmer (2003) that he “reported the views of trading community that there is a threat at declaring a higher value and delaying clearance to extract illegal payments from the traders”. Prasad (2007) also quoted the work of Ghimire et al. (2005) that “reports under invoicing of goods, discretionary power of customs officials and limited data base for value appraisal as the major problems of customs valuation.

Toward better customs valuation practices Wulf and Sokol (2005) advise that “there should be a number of policies and approaches that could lead to better customs valuation practices in developing countries. These would also protect revenue, provide for increased transparency, and minimize interference with trade flows”.

2.6. TRADE FACILITATION AND MODERNIZING CUSTOMS ADMINISTRATION

Biman C. Prasad (2007) “based on case studies and private sector surveys conducted in five Asian countries (Bangladesh, China, India, Indonesia and Nepal) on the need and priorities of trade facilitation measures under negotiations at WTO, ESCAP (2006) identified customs valuation as the main trade facilitation-related concern of the private sector in those countries.

To bring better valuation practices as well as to tackle the under invoicing or otherwise evading duties, modern customs administration has to consist of designing and implementing overall customs modernization program. According to Wulf and Sokol (2005) custom valuation “does not operate in isolation from the overall customs operational and management system and the ability to effectively undertake a valuation function is directly related to the administration’s overall quality”.

As Andrew Grainger (2008) quoted WTO (1998), trade facilitation is defined as “The simplification and harmonization of international trade procedures where trade procedures are

the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade”.

The following recommendations shows trade facilitation under GATT article V, VIII and X as cited by Andrew Grainger the work of WCO (2002):

Trade facilitation recommendations under Article V:

- i. accept commercial documents (e.g. invoice and transport documents) instead of mandating formal regulatory declarations*
- ii. set simple and clear procedures for identifying consignments*
- iii. ensure non-discrimination of goods*
- iv. use of international agreements; and, a commitment to regulatory cooperation*

Additional trade facilitation recommendations under Article VIII:

- a. regulatory fees ought not exceed expenses*
- b. standardization and simplification of customs and trade documents*
- c. coordinated intervention and convergence of regulatory controls*
- d. simplification of governing trade procedures*
- e. the Single Window concept*
- f. use of risk management techniques*
- g. use of information technology*
- h. common data models*
- i. time guidelines for border clearance*
- j. adherence to international customs conventions*

Additional trade facilitation recommendations under Article X:

- i. accessible publication of procedures and requirements*
- ii. active provision of information*
- iii. procedures for advance and binding rulings*
- iv. fair and efficient appeal and tribunal procedures*
- v. use of memoranda of understanding between regulatory bodies and traders*

The World Custom Organization (WCO) is an organization who is responsible for trade facilitation within the customs world. Grainger (2008) states that “the WCO has drafted numerous instruments and recommendations that contain trade facilitation principles”. He cited

some examples which include “the Kyoto Convention which first came into force in 1974, followed by the Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures adopted in 2006 (WCO, 2006). Another, relatively recent instrument that makes direct reference to trade facilitation principles is the Framework of Standards to Secure and Facilitate Global Trade adopted in 2005 (WCO 2005)”. “The WCO is also the home for the Harmonized Commodity Code Description and Coding Systems, and in cooperation with the WTO, the WCO also helps ensure consistency in the technical interpretation of valuation rules and non-preferential origin rules” (Grainger, 2008).

Custom valuation is directly related to trade facilitation because of the “great concern to traders, as non-transparent valuation mechanisms - typically combined with inefficient or even absent advance ruling mechanisms - lead to uncertainties regarding the profitability of each trade transaction” (UN/ESCAP, 2007).

2.7 RULE OF ORIGIN (ROOs)

Rule of origin is defined as “those laws, regulations and administrative determinations of general application applied by any member to determine the country of origin of goods provided such rules of origin are not related to contractual or autonomous trade regimes leading to the granting of tariff preferences going beyond the application of paragraph 1 of article I of GATT 1994” (Chow and J. Schoenbaum, 2010-2011). What do ROOs do? The two types of rules of origin non-preferential and preferential rules of origin can explain what can be done by ROOs.

According to WTO (2009) “non-preferential ROOs are used to distinguish foreign from domestic product and to determine the ‘official origin’ for the purpose of establishing anti-dumping and countervailing duties, safe-guard measures, origin marking requirements, and/or discriminatory quantitative restrictions or tariff quotas”. A preferential rule of origin on the other hand defines “the condition under which the importing country will regard a product as originating in an exporting country that receives preferential treatment from the importing country”.

Certificate of origin is one of mandatory document required at customs office of Ethiopian revenue and customs authority during valuation. The purpose of this certification is “to put in place a mechanism for ensuring that preference are granted only to originating goods and to

establish a system of checks on the accuracy and veracity of claims for preferential treatment” (WTO, 2009). Wulf and Sokol (2005) recommend the best approach to the design of rule of origin as:-

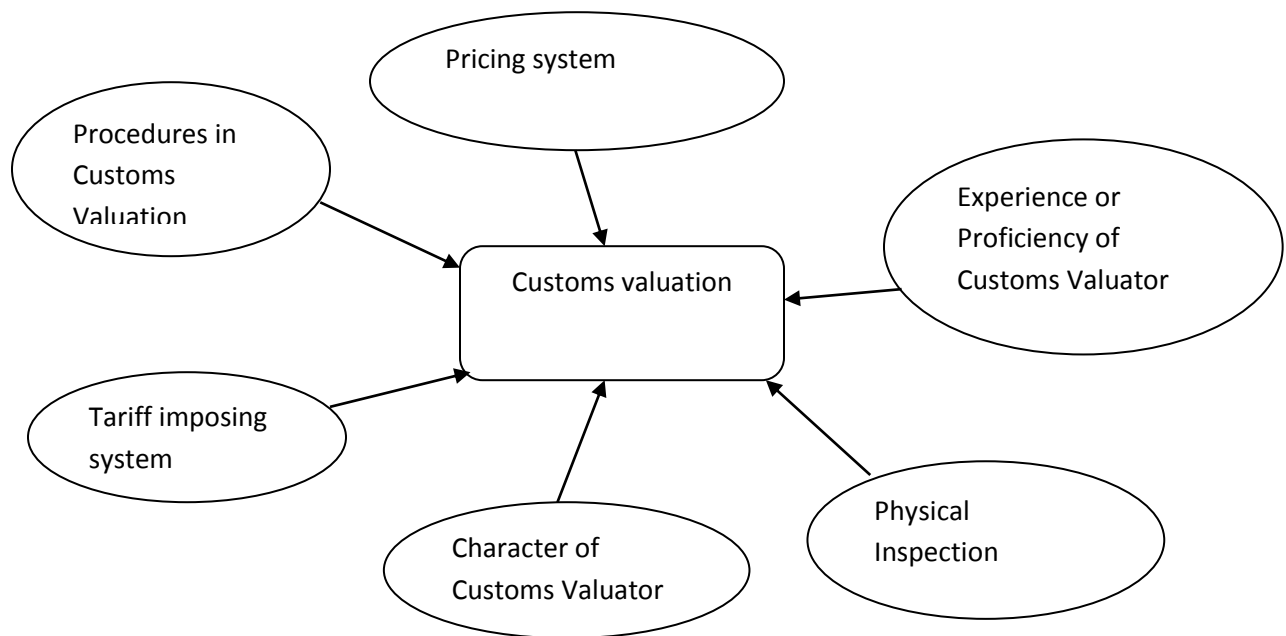
- i. Should be simple but precise, transparent, predictable and stable. Rules of origin should avoid or minimize scope for interpretation and administrative discretion.*
- ii. Should be designed to have the least trade distorting impact and should not become a disguised non tariff barrier to trade.*
- iii. As much as possible the rules should be consistent across products and across agreements.*

Based on bilateral agreement, countries might have agreement with each other tax exemptions. In this case certificate of origin play a great role with minimum cost. The other use of ROOs is its protections content. To explain this protection content WTO (2009) states that “ the economic justification for ROOs is to curb trade deflection to avoid products from non Regional Trade Agreement (RTA) members being transshipped through a low tariff RTA partner to a high tariff one”.

2.8. HARMONIZED COMMODITY DESCRIPTION AND CODING SYSTEM

According to WTO (2001) “contracting parties to GATT 1947 had used different nomenclatures in their customs tariff before adopting the convention on the harmonized commodity description system which is called ‘Harmonized System or HS code’ drawn up by the customs cooperation council in Brussels”. A unique feature of the Harmonized system stated by WTO (2001) “was that it was to be used as the basis for customs tariff as well as international trade statistics nomenclatures”. In addition to the benefits for trade facilitation and its use for trade statistics, it has a great contribution in making uniformity among countries particularly in custom classification and for tariff purpose.

2.9. CONCEPTUAL FRAME WORK



Own source ,2016

Figure 2.1. Conceptual frame work of customs valuations

The current practice of valuation steps by Ethiopian Revenue and Customs Authority (ERCA) are following.

1. Registry to customs data base through software of customs (ASYCUDA++) by authorized transitor or freight forwarding agent of importer. Here the transitor will register on custom authority database the following:
 - Assign HS code of each items
 - Assign tariff to each item based on tariff classification.
 - Make necessary assessment on the format of the customs authority ASYCUDA++ software or data base.
2. Payment is made based on the assessment by transitor or freight forwarding agent of importers to ERCA .
3. All necessary documents will be presented to customs branch. At this point the following documents are presented by importer through transitor and checked by customs officials:-
 - License

- Chamberized commercial invoice
 - Certificate of origin
 - Bill of loading
 - Bank permit
 - Packing list
 - Others necessary permission document in case of special tax exemption.
4. Physical examination or inspection.
 5. Authorized assigned assessor from customs authority make assessment based on the information from physical examiner and documents presented to the custom office.
Points to be checked here by the assessor are:-
 - Checks the commercial price offered by importer against the data base price.
 - Examine the description of goods, qty, unit etc
 - Check the HS code and tariff classification proposed by the transitor.
 - Recheck the entire necessary documents fulfillment.
 6. Assign price. The major points seen under assigning price are the following.
 - If the transaction value is rejected, data base price will be applied and the importer will pay additional payment.
 - If the transitor might made or used lower tariff classification code instead of higher tariff code to favor the importer the customs assessor change and make new price of tariff.
 - Calculate storage price
 - Calculate demurrage if demurrage is to be paid
 7. Clearance of good for release will be given by assessor.
 8. Finally declaration and removal will be given to importer if all requirements are fulfilled.

2.10 HYPOTHESIS

Based on the literature reviewed the following hypothesis were made.

H1 : Tariff imposing system has significant influence on customs valuation.

H2: Pricing system significantly affects customs valuation.

H3 : Physical inspection significantly influences customs valuation.

H4 : Customs valuation procedures significantly influences customs valuation.

H5 : Character of customs valuator significantly influences customs valuation.

H6 : Experience of customs valuator significantly influence customs valuation.

CHAPTER THREE

RESEARCH METHODOLOGY & RESEARCH DESIGN

This chapter deals with how the research was conducted to achieve the study objective. Based on this it consists, research approach, research design, data source i.e. primary as well as secondary, sampling design, instrument of data collection, methods of data analysis, validity and reliability test and ethical consideration.

3.1. RESEARCH APPROACH

C.R.Kothari (2004) defines research methodology “as a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically”. This research method explains the methodological consideration or philosophy of research methods to understand the factors that affect importers during customs valuation at Addis Ababa Air port customs branch office, Mojo custom branch office and at Kaliti customs branch office. Philosophy of research methods is explained by R. B. Burns and R. A. Burns (2008) as “a paradigm which is a particular method of viewing the world, a framework of assumptions that reflect a shared set of philosophic beliefs about the world which places strict guidelines and principles on how research should be conducted”.

On the basis of positivist view and constructivism paradigm, this research were conducted quantitatively to ensure that the methods and principles of science are applied and also conducted qualitative to explore the complexity of behavior which might not investigated through quantitative method.

3.2 RESEARCH DESIGN

According to Krishnaswamy, Sivakuma and Mathiraja (2006) the research design phase “deals with the detailing of procedures that will be adopted to carry out the research design”. “A research design provides a frame work for the collection and analysis of data. A choice of research design reflects decisions about the priority being given to a range of dimensions of the research process” (Bryman and Bell, 2007). Royer and Zarlowiski (2001) stated research design as “a various components of a research project are brought together: research questions, literature

review, data, analysis and result and also explained the quality of a design is partly a question of the overall logic of the research approach taken, and partly of how coherent its various component are”. Cooper and Emory (1995) stated the essentials of research design, first, as a plan for selecting the resources and types of information used to answer the research question, second as a framework for specifying the relationship among the study’s available and third, as it is a blue print that outlines each procedure from the hypothesis to the analysis of data”. This study designs the “causal research design”. Causal research also called explanatory research is the investigation of cause and effect relationships in order to determine causality; to observe variation in the variable that is assumed to cause the change in the other variable and then measure the changes in the other variable using statistical methods. It enables us to understand the very nature of what we are actually looking at it.

3.3 . DATA SOURCES

3.3.1. Primary Source of Data

Primary sources or data refers to “information obtained first hand by the researcher on the variables of interest for the specific purpose of the study” (Sekaran and Bougie, 2009) which can support and strengthen the study. Individuals provide when interviewed, administered questionnaires, or observed. Such type of source of data is believed to be more reliable compared to secondary one. This survey was gathered from importers who import through Bole air cargo and Kaliti and Mojo branches customs office and their agents.

3.3.2. Secondary Source of Data

Secondary data refers to information gathered from sources that already exist. In addition to the survey study, the researcher was also collected from secondary sources such as reports and studies of Ethiopian Revenues and Customs Authority (ERCA).

3.4 SAMPLE DESIGN

3.4.1 Population

A population can be defined as “a full set of cases or all people or item (unit of analysis) from which a sample is taken” (Saundes, Lewis and Thornhill, 2003) with the characteristics one wishes to study. Sekaran and Bougie,(2009) refers population as “the entire group of people,

events, or things of interest for which the researcher wants to make inferences((based on sample statistics). Accordingly, the population of this research was consisted of importers who imported through air cargo at Addis Ababa air port, Mojo customs branch office and who import goods through kaliti customs branch office. From ASYCUDA++ the principal source of data in ERCA under the control of IT directorate shows that the number of importers who imported in 2015G.C through Addis Ababa Air port, Addis Ababa Kaliti branch office and Mojo branch office were 8,048, 9,513 and 8,996 respectively. We have to note that the importer who imported thorough Addis Ababa air port might be the same importer who import through Kaliti branch custom office or Mojo customs branch office. Therefore, we should not add this number to get the total population instead it is better to take the average population is about ten thousand. It is observed from the data that the population is too large. ASYCUDA++ the principal source of data shows that more than 80% of the importers are importing through these three customs branch offices. Since majority of importers import in these premises custom branch office and due to financial constraint and time limitation data was collected from these population.

3.4.2 Sampling and Techniques

The basic idea of sampling according to Cooper and Emory (1995) is “that by selecting part of the element in a population, conclusion may be obtained about the entire population”. According to Kothari (2004) a sample design is “a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample”.

Determining sample size is a very important issue “because of sample that are too large may waste a lot of time, money and other resources; while sample that are too small may lead to inaccurate result” (Kothari, 2004). Therefore, while deciding the size of the sample parameters and cost to dictate must be taken into consideration. “There has been considerable debate over what constitute an acceptable sample size with no single and definitive rule to define appropriate sample size” (Flynn and Percy, 2001). Different author have suggested different sample size as appropriate. The sample size of this research was decided in consideration of the following scholar’s contention.

Table 3.1. Sample size for different size of population at a 95% level of certainty (assuming data are collected from all cases in the sample).

Margin of error				
Population	5%	3%	2%	1%
50	44	48	49	50
100	79	91	96	99
150	108	132	141	148
200	132	168	185	196
250	151	203	226	244
300	168	234	267	291
400	196	291	434	384
500	217	340	414	475
750	254	440	571	696
1000	278	516	706	906
2000	322	696	1091	1655
5000	357	879	1622	3288
10000	370	964	1936	4899
100000	383	1056	2345	8762
1000000	384	1066	2395	9513
10000000	384	1067	2400	9595

Source: M. Saunders, P.Lewis and A.Thornhill,(2003)

It can be concluded from this scholars sample size calculation at 5% margin of error for infinite population is 384. With this assumption and scholar sample size calculation this research was taken sample size of 370 importers from the above population indicated.

The most important aspect of a probability sample we observe from different authors is that it represents the population. “In spite of its advantages, not all business research uses probability sampling. Some informational needs do not require the precision and generalizability of probability samples and may not justify the time and expense of probability sampling” (B.Buns and A. Burns, 2008). This research used non-probability sampling technique of purposive sampling technique for the main reason that the target populations of importers are not exactly known/ too large or big with the requirement of equality of being chosen among them. Since the

importers pass through similar type of procedures most of the time during import, the researcher believed that non probability sampling technique was viable option in addition to the previous reason. Therefore, purposive non probability sampling was employed to the 370 questionnaire respondent in this study.

3.5 INSTRUMENT OF DATA COLLECTION

Data collection is most important to every research. According to Ibert, Baumard, Donada and Xuereb (2001). “Through data collection process researcher accumulates empirical material on which to base their research”. Krishnaswamy, sivakumar and Mathirajan (2006) explains that many methods and procedures have been developed to help in acquiring data and each of these is suitable in specific situation and of source or type of data. They also argue that too much dependence on one method is not desirable and favor different method of data collection to eliminate or minimize bias, and to achieve greater reliability through corroborating others. The different methods or tools for data collection options we have according to Krishnaswamy, sivakumar and Mathirajan (2006) are observation, questionnaire, interview and projective technique. For this particular research, questionnaire was used for importers because of their largeness in number. On the top of that observation at customs branch office was put in to practice for greater reliability of data.

3.6 METHODS OF DATA ANALYSIS

In order to analyze the data that were collected from respondents the researcher used different analysis method. This research was employed quantitative as well as qualitative method of data analysis. For quantitative part descriptive statistics in the form of frequency and mean was used to describe the demographic variable of the respondents. In addition for all items part mean, frequency, correlation and regression analysis were employed. The survey result and analysis of the data was presented and interpreted in table. SPSS version 20.0 software was applied to analyze the collected data. Qualitative approach was used to analyze the data that was secured through observation.

3.7 RELIABILITY AND VALIDITY TEST OR ANALYSIS

A. Reliability

A. Field (2009) explained reliability as “a means that measure (in this case questionnaire) should constantly reflect the construct that it is measuring”. “Reliability refers to the consistency and stability of findings that enables findings to be replicated” (Burns, 2008). “Cronbach’s Alpha is very useful in developing attitude scales and questionnaires as the alpha level (or reliability) indicates if the items are measuring the same construct. Items that are not measuring what the rest are can be identified and deleted” (Burns, 2008). Cronbach’s Alpha Should be over 0.70 to produce a reliable scale and any scale less than this alpha coefficient should be eliminated according to Burns (2008). Table 3.2 reliability statistics of survey result showed that Cronbach’s alpha 0.781 which was statistically reliable scale.

Table 3.2 Reliability statistics

Cronbach’s Alpha	Number of items
0.871	31

Source : own survey result, 2016

B. Validity

“Whilst reliability relates to the accuracy and stability of a measure, validity relates to the appropriateness of the measure to assess the construct it purports to measure” (Field, 2009). To make the study valid the researcher used different techniques such as preliminary survey to ensure the measurement and assessment of the real situation. The content of the items were also analyzed with the help of experienced freight forwarding peoples and literatures related to customs valuation. Moreover, to make valid and predictive the outcome of the study, the researcher distributed personally each questionnaire by communicating and convincing all respondents the purpose of the study.

3.8 Ethical consideration

When questionnaires were distributed the researcher informed respondents on the introduction part of the paper about the title and objective of the study. Besides, to develop respondents

confidence they were informed that their responses will be kept confidentially and the information uses only for academic purpose.

To avoid misunderstanding and problems related with questionnaires in acquiring information from importers the researcher had designed the questionnaires in clearly and understandable manner in Amharic as well as English language.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 INTRODUCTION

This chapter presents the data analysis, interpretation of results and discussion of the research findings. Based on pre plan of research design, methodologies, and tools applied the data was collected from 370 respondents. The data analysis was made using statistical package for social science (SPSS v. 20). In order to make the collected data suitable for analysis, all distributed and collected questionnaire were screened for completeness.

To up hold the quality of the finding, the researcher distributed each questionnaire by himself to importers or their representative transitor by clarifying the objective very well. As a result few incomplete questionnaires were received back. The number of these incomplete questionnaires was 11 and removed from the survey data as error. To substitute these questionnaires additional questionnaire was distributed to make complete the sample size of 370. Data analysis, discussion and interpretation of the results are presented in the following subheadings: presentation of demographic data and frequency of respondents, analysis of mean, analysis of correlation and regression coefficient.

4.2 DEMOGRAPHIC DATA PRESENTATION AND ANALYSIS

Observing the demographic trend or characteristics of sample population before starting the data analysis is useful to make the analysis more meaning full for the reader. This part of the questionnaire requested limited amount of information related to personal and demographic status of the respondent.

The purpose of demographic analysis in this research is to describe the characteristics of the sample such as the number of respondents, range of age, proportion of males and females in the sample, educational status and their understanding of proclamation number 859/2009 which describe about custom valuation rule and regulation. Accordingly, these variables were summarized and described in table 4.1 below.

Table 4.1 Demographic profile of respondents

Variables		Frequency	Percent	Valid Percent	Cumulative Percent
Age of respondent	18-29	186	50.3	50.3	50.3
	30-40	134	36.2	36.2	86.5
	41-50	40	10.8	10.8	97.3
	>50	10	2.7	2.7	100.0
	Total	370	100.0	100.0	
Sex of respondents	Male	228	61.6	61.6	61.6
	Female	142	38.4	38.4	100.0
	Total	370	100.0	100.0	
Educational status	12 complete	67	18.1	18.1	18.1
	Diploma	175	47.3	47.3	65.4
	Degree	124	33.5	33.5	98.9
	master and above	4	1.1	1.1	100.0
	Total	370	100.0	100.0	
Proclamation No.859/2009 know how status	excellent understanding	24	6.5	6.5	6.5
	very good understanding	90	24.3	24.3	30.8
	good understanding	152	41.1	41.1	71.9
	Satisfactory	61	16.5	16.5	88.4
	I have no idea	43	11.6	11.6	100.0
	Total	370	100.0	100.0	

Source: own survey result, 2016

In terms of age, table 4.1 shows that the age group 18-29 took the highest percent with 50.3% of the respondents and the age group of 30-40 respondents followed the previous group with 36.2%. These two groups compose more than 86% of the respondents. It implies that majority of importers or their representative transitor who deal with custom valuation process and practice are young. About 11% of adult respondents constitute 40-50 and the remaining insignificant age group of respondent is old age of more than 50.

With regard to gender of the respondents, the table shows that male respondent outnumbered female respondents (male 61.6%, female 38.4%). Figure 4.1 shows the graphical presentation of gender with age group as follow.

Educational back grounds of the respondent were also assessed. Out of total respondent the highest composition was of those having diploma holders which are 47.3%. With 33.5% bachelor degree holders follow secondly. The number of 12 completes constitute 18.1%. The number of second degree and more are very few with 1.1%. The education status shows us that majority of importers are diploma and below. In terms of their knowledge about the proclamation number 859/2009 which is rules and regulation of the country custom valuation, 41% of majority of the respondents have good understanding and 24.3% have very good understanding. Those who have excellent knowledge about the proclamation constitute only 6.5%. Those who understand satisfactorily the proclamation compose 16.5% and those who have no idea about the proclamation that they are governed by with regard to custom valuation are 11.6%. It is expected from all importers to know the rules and regulation of custom valuation. The result shows us that the number of those who have no idea about the proclamation is not small from the expectation of every importers has to know this proclamation.

4.3 ANALYSIS OF MEAN

Mean tell us the points about which items have a tendency to cluster. Such a measure is considered as the most representative figure for the entire mass of data (Kothari,2004). The mean indicates to what extent the sample group on average agrees or does not agree with different statement. The lower the mean, the more the respondents disagree with the statement and the higher the mean shows more respondents are agree with the statement. Based on this assumption statistics of mean for all questions will be analyzed.

i. Effects of Tariff related issues on customs valuation

Table 4.2 Statistics of mean of tariff related question effect on custom valuation

Items related to experience of valutors	N	Mean	SD
Tariff classification	370	3.38	1.291
Tariff amount imposed on items are not known in advance most of the time.	370	3.23	1.349
Fees and charges levied on import are unreasonable.	370	3.78	1.320

Source : own survey result, 2016

As per table 4.2 the list of items comprising tariff effects on customs valuation, the mean score for item “fees and charges levied on import are unreasonable” scored the highest with the mean score of 3.78. The mean score for the two remaining items “tariff classification problems and tariff amount imposed on items are not known in advance most of the time” are almost similar with mean score of 3.38 and 3.23 respectively. These means shows us that importers encounter problem with tariff related issues during custom valuation. ANOVA table 4.2.1 below also confirms us that these three items of tariff related issues are individually significant.

Table 4.2.1 ANOVA Table that shows individual significance of tariff related issues

Tariff related items significance with DV			Sum of Squares	df	Mean Square	F	Sig.
overall performance of customs valuation * Tariff classification	Between Groups	(Combined)	5.928	4	1.482	3.299	.011
	Within Groups		163.963	365	.449		
	Total		169.892	369			
Overall performance of customs valuation * Tariff amount imposed on items are not known in advance most of the time.	Between Groups	(Combined)	12.854	4	3.213	7.469	.000
	Within Groups		157.038	365	.430		
	Total		169.892	369			
Overall performance of customs valuation * Fees and charges levied on import are unreasonable.	Between Groups	(Combined)	9.125	4	2.281	5.179	.000
	Within Groups		160.767	365	.440		
	Total		169.892	369			

Source : own survey result, 2016

ii. Impact of pricing on custom valuation

Pricing is a core dimension of custom valuation. Because of the pricing is core dimension for custom valuation, relatively more items (8 items) was put to the respondents to assess every point that has to be considered during pricing. Table 4.3 shows the outcome of these eight items analysis of mean and standard deviation.

Table 4.3 shows that “big price is considered as right price by customs officials” scored the highest among the list of items related to pricing for custom valuation with the mean score of 4.49. The second large mean score with 4.40 is “in case of slight description difference, customs officials charge higher price to be on safe side”. With the exception of item “customs valuation practices are not guided with adequate directives and working manual to avoid arbitrary or fictitious price” mean scored of 3.68 the others are more than mean score of 4.01. This clearly shows us that all items or question with regard to pricing system for custom valuation has fundamentally affected Ethiopian importers. In addition, Appendix 1 of ANOVA table also confirm that all individual items are statistically significant.

Table 4.3 Analysis of pricing impact on custom valuation

Price related items	N	Mean	Std. Deviation
base price value is higher than the actual value of imported goods	370	4.22	1.003
data base price valuation method reject the “actual price” of imported goods	370	4.28	1.028
The price charged for demurrage and storage is not reasonable	370	4.08	1.066
Customs valuation CD/data base price is not updated timely	370	4.01	1.136
Big price is considered as right price by customs officials	370	4.49	.811
In case of slight description difference, customs officials charge higher price to be safe side	370	4.40	.915
Customs valuation practices are not guided with adequate directives and working manual to avoid arbitrary or fictitious price	370	3.68	1.288
Penalties for minor breaches of customs regulations are big and unreasonable	370	4.24	1.025
Valid N (listwise)	370		

Source : own survey result, 2016

iii. Analysis of procedure effects on importers during customs valuation

The other major dimension that affects customs valuation is the procedure used during custom valuation. Table 4.4 displays the result that shows the importers agree with the statement or items “Appeal procedure is too long and discouraging” and “Customs officials in the appeal committee fear each other to give solution for appeals by importers” are the highest mean score of 4.27 and 4.25 respectively. With the exception of two items all have scored mean above 4.02. The lowest mean score is item “Customs valuation practice is open for the value judgment of the valuator than specific rules and regulation” with 3.61. Even the minimum score from the group is big figure. In general the result shows us that importers are agreeing with all statement procedure issues put for them. Appendix 2 of ANOVA table in addition, confirms that each individual item is significant.

Table 4.4 Analysis of procedure impact on importers during custom valuation

Procedure related items	N	Mean	SD
Simplified procedure is not available for customs valuation	370	4.09	1.051
There is no automated procedure for electronic payments of fees and duties	370	4.02	1.167
Appeal procedure is too long and discouraging	370	4.27	.956
Customs officials in the appeal committee fear each other to give solution for appeals by importers	370	4.25	.977
Effective ruling procedures and applications for valuation are not available	370	3.95	1.136
Customs valuation system is not based on objectively stated procedure and criteria	370	4.02	1.118
Customs valuation system applied is not create fair play ground among importers	368	4.02	1.097
There is no uniformity between inter branch custom valuation system	370	4.11	1.075
Customs valuation practice is open for the value judgment of the valuator than specific rules and regulation	370	3.61	1.327

Source : own survey result, 2016

iv. Proficiency /knowledge of qualified staff of customs official effect during customs valuation

As per table 4.5 below, the list of items comprising custom valuator proficiency or expertise level, mean score for item “Most of Customs valuation officers lack professionalism on import transaction” scored the highest mean of 4.09. The item with “new untrained officials are assigned mostly for customs valuation” scored the second large mean with 3.91. Lastly item with “Majority of Customs valuation officials have no adequate experience” scored 3.66. Therefore, we can see that the proficiency or expertise level of customs valuator has effect on custom valuation.

Table 4.5 Analysis of custom valuator expertise level impact on custom valuation

Items related to experience of valuator	N	Mean	Std. Deviation
Majority of Customs valuation officials have no adequate experience	370	3.66	1.289
New untrained officials are assigned mostly for custom valuation	370	3.91	1.161
Most of Customs valuation officers lack professionalism on import transaction	370	4.09	1.172
Valid N (listwise)	370		

Source : own survey result, 2016

v. Character of custom valuator effect on customs valuation

Character of custom valuator affects custom valuation in two ways. For example, if custom valuator asks bribe to impose lower custom duty or taxes in favor of importer the custom value government receive from custom valuation will be small. On the contrary if custom valuator ask bribe and if importer refuse to give the money, the valuator will impose higher tax and duty rate for custom valuation. If every item has fixed amount of duty or tax rate for custom valuation we will not talk about the character of custom evaluator at custom. Based on this assumption three

items were put for respondents. The following table 4.6 shows that, importers agree with the statement “Customs officials will not serve equally without any discrimination and impartiality during valuation” with the highest mean score of 3.73. The second mean score of item “Custom officials complicate minor issues to get benefit out of it” is 3.51. For the item “most of the time customs officials ask bribe during custom valuation” has scored 3.18 mean. The result shows that the character of custom officials affects importers negatively during custom valuation.

Table 4.6 Analysis of custom valuator character effect on custom valuation

Character of customs valuator related items	N	Mean	Std. Deviation
Most of the time customs officials asks bribe during valuation	370	3.18	1.281
Custom officials complicate minor issues to get benefit out of it	370	3.51	1.254
Customs officials will not serve equally without any discrimination and impartiality during valuation	370	3.73	1.206
Valid N (listwise)	370		

Source : own survey result, 2016

vi. Effect of physical inspection on custom valuation

As per the output of the mean of response shown on table 4.7 below, large mean are 4.26 and 4.18 respectively for item “Complex controlling mechanism takes unreasonable time for the inspection of imported items valuation” and “Traditional inspection mechanism incurs importers additional expense”. The others remaining mean of items are also more than the minimum score of 3.52. The result indicates that all items of physical inspection related statements are agreed by importers as it affects them during custom valuation.

Table 4.7 Analysis of physical inspection on custom valuation

Inspection related items	N	Mean	Std. Deviation
Complex controlling mechanism takes unreasonable time for the inspection of imported items valuation	370	4.26	.907
Physical inspection is open to the value judgment of inspector	370	3.97	1.042
Traditional inspection mechanism incurs importers additional expense	370	4.18	1.016
Physical inspection system has created bribery and others corrupt practice	370	3.52	1.271
Valid N (listwise)	370		

Source : own survey result, 2016

vii. Summery result of all the six determinant dimension of custom valuation

Table 4.8 summary of overall custom valuation determinants

	N	Mean	Std. Deviation
Tariff imposed for customs valuation	370	3.46	.949
pricing effect for custom valuation	370	4.17	.635
procedure effect in custom valuation	368	4.04	.704
Experience/proficiency of customs valuator	370	3.88	1.016
characters of custom valuator	370	3.47	1.030
physical inspection for custom valuation	370	3.98	.742
Valid N (listwise)	368		

Source : own survey result, 2016

4.4 ANALYSIS OF FREQUENCY

Appendix 4 attached shows all frequency for all items. Based on this appendix the frequencies of every item are analyzed.

A. Tariff related issues

Response for question “Tariff classifications are not easy and simple to understand for valuation” are agreed by 40.3%, disagreed by 25.9%, strongly agreed by 20.3%, strongly disagreed by 8.4% and undecided response with 5.1%. The result shows that majority of respondent with 60.6% are in line with the agreement of the statement. The number of not agreed with the statement is also considerable figure.

Response for tariff amount imposed on items are not known in advance most of the time are 37% agreed, 29.7% disagree, 18.9% strongly agreed, 11.1% strongly disagreed and 3.2% are undecided. Even though, the majority are agreed with the statement the result show us that the number of not in agreement with the statement are significant.

The other tariff related item fees and charges levied on import are unreasonable has got response of 38.9% strongly agreed and 30.3% agreed. The remaining about 20% and 10.3% is in disagreement position and undecided respectively.

Therefore, in general we can observe from the result that majority of the respondents are in agreement for the tariff related question put for the respondents and underestimated number or amount are in the opposite of the question.

B. Pricing related response of custom valuation issues.

Response for item ‘base price value is higher than the actual value of imported goods’ are 48.9% strongly agreed, 36.5% agreed and the remaining few are disagree, undecided and strongly disagree. For question ‘data base price valuation method reject the “actual price” of imported goods’ response are 53.8% strongly agree, 33.2% agree and the others 13% remaining are responded as disagree, undecided and strongly disagree. The result for both questions shows us that importers are not handled by transaction value for customs valuation.

The price charged for demurrage and storage is not reasonable is strongly agreed by 45.4%, agreed by 31.4%, 10.8% each by disagree and undecided, and 1.6% strongly disagree. Customs valuation CD/data base price is not updated timely is strongly agreed by 41.6%, agreed by 35.9%, disagreed by 10%, undecided by 8.1% and strongly disagreed by 4.3%. The results show us that the price charged for demurrage and storage as well as the database price not updated timely has fundamentally affected the importers.

Big price is considered as right price by customs officials is strongly agreed by 62.2%, and agreed by 30.5% which both compose more than 92%. The result shows that almost customs valuating officials are in bias true price with big price.

In case of slight description difference, customs officials charge higher price to be on the safe side is strongly agreed by 58.4%, agreed by 32.4%, disagreed by 4.2%, undecided and strongly disagreed by 2.2% each. Here also the result shows that higher price imposed on importers.

Customs valuation practices are not guided with adequate directives and working manual to avoid arbitrary or fictitious price is strongly agreed by 33.5%, agreed by 33.2%, disagreed by 19.7%, undecided by 7.3% and strongly disagreed by 6.2%.

Penalties for minor breaches of customs regulations are big and unreasonable is strongly agreed by 51.6%, agreed by 33.2%, undecided and disagreed by 5.9% each, and strongly disagreed by 3.2%. This show that the payment importers pay for minor breaches of regulation is big and unreasonable.

In general, all price related questions put for the respondent response shows that importers are facing challenges during pricing for customs valuation.

C. Procedures impact on importer during customs valuation

Simplified procedure is not available for customs valuation is agreed by 46.8%, strongly agreed by 39.2% and the remaining 14% are undecided, disagreed, and strongly disagreed. There is no automated procedure for electronic payments of fees and duties is strongly agreed by 43%, agreed by 37.3%, disagreed by 10%, strongly disagreed by 5.4% and undecided by 4.3%. The result shows that the procedures importers have to pass through for custom valuation is not automated and simplified.

Appeal procedure is too long and discouraging is strongly agreed by 50.8%, agreed by 36.2%. The sum of the total respondent who agreed with the statement constitutes 87%. Customs officials in the appeal committee fear each other to give solution for appeals by importers is strongly agreed by 51.6%, agreed by 32.2%. Again this also composes 83.8% of major respondent who agreed with the statements. Therefore, the result shows us that appeal system during valuation is challenging for importers.

Effective ruling procedures and applications for valuation are not available is agreed by 43.5%, strongly agreed by 35.7%, disagreed by 7.6%, undecided by 7% and strongly disagreed by 6.2%. Customs valuation system is not based on objectively stated procedure and criteria is strongly agreed by 41.9%, agreed by 36.2%, disagreed by 11.6%. Responses for these two questions result show us that there are weak ruling procedures as well as non clear criteria for custom valuation system.

Customs valuation system applied is not created fair play ground among importers is strongly agreed by 40%, agreed by 38.1%, disagreed by 10%, undecided by 7%, and strongly disagreed by 3.5%. There is no uniformity between inter branch custom valuation system is strongly agreed by 44.3%, agreed by 38.6%. The remaining about 17% is undecided and those who disagreed with the statements. So we can see from the result that customs valuation system is not uniform from branch to branch and not created fair play ground for all importers.

Customs valuation practice is open for the value judgment of the valuator than specific rules and regulation is agreed by 33.2%, strongly agreed by 31.6%, disagreed by 16.8%, strongly disagreed and undecided by 9.2% each. From this result we can observe that majority of the respondents have believes that customs valuation practice is open for value judgment of valuers. In fact the numbers of respondents who do not agree with this statement are not undermined.

D. Expertise's of customs valuator impact on custom valuation & importers

Majority of Customs valuation officials have no adequate experience is agreed by 35.9%, strongly agreed by 31.6%, disagreed by 20.5%, strongly disagreed by 6.5% and undecided by 5.4%. The result shows us that more than 65% are in agreement with the statement and 27% of

respondents are in the opposite with the statement. We can guess from this that there are more numbers of custom valuator who are not expert or proficient enough compared to proficient.

New untrained officials are assigned mostly for custom valuation is agreed by 43.5%, strongly agreed by 34.9%, disagreed by 11.9%, strongly disagreed by 5.4% and undecided by 4.3%. The result shows that more than 75% agree with the statement.

Most of Customs valuation officers lack professionalism on import transaction is strongly agreed by 48.1%, agreed by 33%, disagreed by 9.2%, strongly disagreed by 5.4%, undecided by 4.3%.

In general we can observe from the result that expertise's assigned for custom valuation are not capable enough to satisfy importers expectation during customs valuation.

E. Character of customs valuator effect on importer during customs valuation.

Most of the time customs officials ask bribe during valuation is agreed by 39.2%, disagreed by 21.9%, strongly agreed by 13.5%, strongly disagreed by 13% and undecided by 12.4%. The result shows that majority of respondents are asked for bribe by customs valuator.

Custom officials complicate minor issues to get benefit out of it is agreed by 43%, strongly agreed by 21.1%, disagreed by 15.7%, undecided by 10% and strongly disagreed by 9.7%. Customs officials will not serve equally without any discrimination and impartiality during valuation is agreed by 42.4%, strongly agreed by 28.6%, disagreed by 11.4%, undecided by 10% and strongly disagreed by 7.6%. In general we observe from the result that the character of customs valuator is affecting majority of importers negatively.

F. Impact of controlling on importers during custom valuation

Complex controlling mechanism takes unreasonable time for the inspection of imported items valuation is agreed by 45.7%, strongly agreed by 45.1% and the remaining less than 10% are on the disagree and undecided position. The result shows importers are highly affected by complex controlling mechanism for customs valuation process.

Physical inspection is open to the value judgment of inspector is agreed by 48.1%, strongly agreed by 32.4%, undecided by 7.8%, disagreed by 7.3%, and strongly disagreed by 4.3%. The

result shows more than 80% believe that physical inspection is open for the value judgment of customs valuator.

Traditional inspection mechanism incurs importers additional expense is strongly agreed by 46.5%, and agreed by 38.4%. These constitute 84.9% which shows the mechanism is traditional and make the importers to incur unnecessary cost.

Physical inspection system has created bribery and others corrupt practice is agreed by 36.2%, strongly agreed by 24.9%, disagreed by 14.9%, undecided by 14.6% and strongly disagreed by 9.5%. The result shows that more than 55% believes that the physical inspection system has created bribery and others corrupted practice. In fact the figure of those disagree with the statements are not undermined.

G. Overall performance of customs valuation

Overall performance of customs valuation practice by Ethiopian revenue and customs authority is unsatisfactory is strongly agreed by 60.8%, and agreed by 35.7%. The result shows more than 95% of importers are unsatisfied with the custom valuation practice or system of Ethiopian revenue and customs authority.

4.5 CORRELATION ANALYSIS

“Correlation is the degree of correspondence between variables. This implies the relationship is mutual or reciprocating, but we do not include in our concept of correlation any proposition that one thing is the cause and the other the effect” (B.Burns & R.Burns, 2008). Based on this definition, this study employs correlation analysis to investigate the strength of the relationship between the studied variables.

The general symbol for the correlation coefficient is ‘ r ’. So a perfect positive relationship ($r = +1.00$) indicates a direct relationship. An r of -1.00 indicates a perfect negative relationship. R.Burns and B.Burns (2008) stated the general guide line for correlation as indicated in the following table 4.8 below.

Table 4.9 interpretation of correlation size

0.90–1.00	Very high correlation	Very strong relationship
0.70–0.90	High correlation	Substantial relationship
0.40–0.70	Moderate correlation	Moderate relationship
0.20–0.40	Low correlation	Weak relationship
0.00–0.20	Slight correlation	Relationship so small as to be random

Source: B.Burns and R. Burns, 2008.

Form several correlation indexes developed, this study used the most widely used Pearson product moment correlation.

Table 4.9 correlation coefficient shows that the six factors measuring customs valuation were all positively correlated with overall performance of customs valuation within the range of 0.113 up to 0.482. With the exception of tariff imposed for customs valuation significant at $P < 0.05$ all the others are significant at $P < 0.01$ level.

A further look in to each factor indicate that the six independent variables i.e. tariff imposing effect on custom valuation ($r = 0.113$), pricing system impact on custom valuation ($r = 0.441$), procedure impact during customs valuation ($r = 0.482$), experience/proficiency of customs valuator effect on customs valuation ($r = 0.408$), customs valuator's character effect on custom valuation ($r = 0.303$), and physical inspection impact on customs valuation ($r = 0.404$) are

important determinants of custom valuation performance and significant to show importers challenge during valuation.

Table 4.10 correlation of independent variables with dependent variable overall performance

		overall performance of CV	Tariff imposed for CV	pricing for CV	procedure effect in CV	experience of customs valuers	characters of custom valuator	physical inspection for CV
overall performance of customs valuation	Pearson Correlation	1	.113*	.441**	.482**	.408**	.303**	.404**
	Sig. (2-tailed)		.030	.000	.000	.000	.000	.000
	N	370	370	370	368	370	370	370
Tariff imposed for CV	Pearson Correlation		1	.193**	.179**	.053	.170**	.109*
	Sig. (2-tailed)			.000	.001	.311	.001	.036
	N		370	370	368	370	370	370
pricing for CV	Pearson Correlation			1	.528**	.335**	.147**	.289**
	Sig. (2-tailed)				.000	.000	.005	.000
	N			370	368	370	370	370
procedure effect in CV	Pearson Correlation				1	.360**	.269**	.345**
	Sig. (2-tailed)					.000	.000	.000
	N				368	368	368	368

experience of customs valuators	Pearson Correlation					1	.354**	.421**
	Sig. (2- tailed)						.000	.000
	N					370	370	370
characters of custom valuator	Pearson Correlation						1	.437**
	Sig. (2- tailed)							.000
	N						370	370
physical inspection for CV	Pearson Correlation							1
	Sig. (2- tailed)							
	N							370

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Source : own survey result, 2016

Regarding the relationship between independent variables, the above correlation table 4.9 shows that majority of the independent are correlated at $P < 0.01$ and at $P < .05$ significant level and some of independent variables have no correlation. To see one by one, tariff impact during customs valuation has significant correlation with pricing, procedure and character of custom valuator at $p < .01$ and at $p < .05$ with physical inspection. Tariff impact has no significant correlation with experience of customs valuator. Pricing impact has significant relationship with all of the independent variable with the significance level of $P < 0.01$. Procedure is also significant with all independent variables with significance level of $P < 0.01$. Experience of customs valuator effect has significant correlation at $P < 0.01$ with all independent variable except tariff which there is no

correlation between them. Character of customs valuator has significant correlation with all independent variable with $P < 0.01$ level. Lastly, physical inspection is significant at $P < 0.05$ with tariff and with all others independent variables significant at $P < 0.01$ level.

4.6 REGRESSION ANALYSIS

“The technique of regression allows the researcher to make predictions of the likely values of the dependent variable from known values of independent variable in a simple linear regression or multiple linear regression” (R. Burns & B. Burns, 2008).

The regression model presents how much of the variance in the measure of customs valuation or criterion variable is explained by the underlying dimension of predictors of custom valuation model. This study made assessment on multicollinearity first task before starting a multiple regression, the presence of high correlations between independent variables, by inspecting a correlation matrix of the independent variable, as in table 4.12. Variance inflation factor (VIF) should be less than 10 (Myers 1990) and tolerance should be more than 0.2 (Menard, 1995). Table 4.12 display the result of VIF less than 1.6 and tolerance of more than 0.2. Based on this it is possible to conclude that there is no multicollinearity effect or none of the inter correlations are sufficiently high to cause concern.

Model summary table 4.10 is the first important table, because it explains the significance as well as how much percent of variation in customs valuation is happened by independent variables. Multiple correlations R of +0.687 represent the combined correlation of all the independent variables. Adjusted R^2 tells us that 42.5% of the variation in customs valuation can be explained by variation in the six independent variables taken together. This leaves 57.5% unexplained.

In the ANOVA table 4.11 we have the F value of 33.575 which is significant with $p < .001$. This informs us that the six independent variables taken together as a set are significantly related to the dependent variable. The chance of obtaining these results assuming the null hypothesis to be correct is less than 1 in 1,000. The multiple correlations are therefore highly significant.

Table 4.11 Model Summary/ R square value

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.687 ^a	.472	.425	.515	.472	33.575	6	361	.000

a. Predictors: (Constant), physical inspection for CV, Tariff imposed for CV, pricing for CV, characters of custom valuator, experience of customs valulators, procedure effect in CV

Source : own survey result, 2016

Table 4.12 F ratio statistics of significance table of ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	60.639	6	10.107	33.575	.000 ^a
	Residual	108.665	361	.301		
	Total	169.304	367			

- a. Predictors: (Constant), physical inspection for CV, Tariff imposed for CV, pricing for CV, characters of custom valuator, experience of customs valulators, procedure effect in CV
- b. Dependent Variable: overall performance of customs valuation

Source : own survey result, 2016

Table 4.13 Multicollinearity Coefficients^a

Model		Collinearity Statistics	
		Tolerance	VIF
1	Tariff imposed effect during CV	.935	1.070
	pricing system impact during CV	.677	1.476
	procedure effect in CV	.651	1.537
	experience of customs valuers impact on CV	.720	1.388
	characters of custom valuator impact on CV	.750	1.333
	physical inspection impact on CV	.696	1.436

a. Dependent Variable: overall performance of customs valuation

Source : own survey result, 2016

In order to see the contribution of factors that shape customs valuation, regression analysis of overall performance were employed. Table 4.14 provides the result of multiple regression analysis beta coefficients and significance.

Table 4.14 Regression Result/ Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	1.543	.232		6.644	.000
	Tariff imposed for CV	-.009	.031	-.012	-.282	.778
	pricing for CV	.219	.055	.205	3.994	.000
	procedure effect in CV	.234	.050	.243	4.649	.000
	experience of customs valuers	.105	.033	.157	3.170	.002
	characters of custom valuator	.056	.032	.084	1.730	.084
	physical inspection for CV	.143	.046	.156	3.089	.002

a. Dependent Variable: overall performance of customs valuation

Source : own survey result, 2016

The strength of each predictor (independent variable) influencing the criterion (dependent variable) can be investigated via standardized beta coefficient. The regression coefficient or beta explains the average amount of change in the dependent variable that is caused by a unit change in the independent variable. The large value of beta coefficient an independent variable has the more important determinant in predicting the dependent variable.

R-square value indicates only the variance in the overall customs valuation performance as it is explained by independent variables. When we look at the detail to what extent each independent variable influence the dependent variable, procedure effect, pricing system impact, experience of custom valuator impact, physical inspection effect on customs valuation, and character of customs valuator were found to be determinant of customs valuation performance in their descending order.

Regression result table 4.14 reveals the significant regression coefficients, namely, pricing system impact on custom valuation at $P=0.000$; procedure impact during custom valuation at $P=0.000$; experience of custom valuator impact on custom valuation at $P=0.002$; and physical inspection impact on customs valuation at $P=0.002$. Tariff imposing system and character of custom valuator were not significant. These significance levels tell us that four variables uniquely contribute to the regression equation, thereby making a significant contribution to the prediction, but tariff imposing and character of customs valuator does not.

Since, coefficient of predictor variables are statistically significant at less than five percent for pricing effect, procedure effect, experience of customs valuator and physical inspection impact, alternative hypothesis related to these dimension were accepted. Tariff imposing effect and character of customs valuator were not significant and as a result null hypothesis related to these dimension were failed to reject.

Table 4.15 summary of the overall outcome of the research hypothesis

Hypothesis	Result	Reason
Ho: Tariff imposing system has no significant influence on customs valuation. H1: Tariff imposing system has significant influence on customs valuation.	Ho: fail to reject H1: rejected	$\beta=-0.012$, $p> 0.05$
Ho: Pricing system is not significantly impact customs valuation. H1: Pricing system significantly impact customs valuation.	Ho: rejected H1: accepted	$\beta=0.205$, $p< 0.05$
Ho: Customs valuation procedures do not significantly influence customs valuation.	Ho: rejected	$\beta=0.243$, $p< 0.05$

H1: Customs valuation procedures significantly influence customs valuation.	H1: accepted	
Ho: Physical inspection does not significantly influence customs valuation. H1: Physical inspection significantly influences customs valuation.	Ho: rejected H1: accepted	$\beta=0.156,$ $p < 0.05$
Ho: Character of customs valuator does not significantly influences customs valuation. H1: Character of customs valuator significantly influences customs valuation.	Ho: fail to reject H1: rejected	$\beta=0.084,$ $p > 0.05$
Ho: Lack of experience of customs valuator does not significantly influences customs valuation. H1: Lack of experience of customs valuator significantly influences customs valuation.	Ho: rejected H1: accepted	$\beta=0.157,$ $p < 0.05$

Source : own survey result, 2016

4.7 DISCUSSION

Major findings are laid out in this section and the result of this research is elaborated further more.

Customs valuation is viewed critically by government or Ethiopian revenue and customs authority as well as by importers. Customs valuation is critical for government from the view point of collection of customs duty and taxes. However, it is critical for importers from the need to pay the minimum possible duty and taxes amount to maximize their profit. Customs valuation criticality is not only about how much duty or tax is to be set on goods or item but how the practice or application of customs valuation impact negatively or suitable for importers are a fundamental issue in customs valuation. Based on these assumptions this study tried to investigate major factors that affects importers during customs valuation. In previous section, the six predicting dimension of customs valuation was taken and analyzed. Now we discuss the elaboration of these predictor and criteria variable in terms of mean, correlation and regression.

The mean and frequency analysis of tariff related items has shown us that all were significant and high mean value. In fact Harmonized System (HS) code specify tariff classification in well understand manner. But it is not very clear for all imported items. That is why the question was put for respondents and the result showed majority of the respondents were not clear with the classification of tariff. In addition significant numbers of respondents responded tariff imposed amount was not known ahead of importing goods. We can imagine from this result that importers are getting affected during customs valuation. All tariff issues were significantly correlated with customs valuation overall performance. However, when we look at regression analysis we fail to reject at 5% error the null hypothesis that propose tariff imposing system has no significant influence on customs valuation. The regression analysis result shows that the impact of tariff related issues on customs valuation are not significant.

Pricing system was also analyzed and the result showed us that all items were significant and each mean value was very high. Importers are extremely disparate with pricing system of Ethiopian revenue and customs authority. The transaction values importers come with are mostly rejected and the higher price is imposed on them. This is the most challenging for importers during customs valuation. The analysis result showed also that in case of slight errors by

importers they are charged too much price. They are not penalized equivalent amount for their mistakes. The analysis result showed that the data base price previously CD price, currently called Ethiopian customs valuation pricing system (ECVS) is not updated timely. Importers want to make assessment for valuation based on current market price than old price. Importers assume that old price or database price is higher than the current market price. We can understand this from the first question response of actual price or transaction value rejected by customs authority is almost 90% of respondents. Of course, in case of customs authority data base price is lower the importers are benefited. But from the result we can observe that they want to be valued based on current market price. The result showed absence of adequate directives and guiding manual has also significantly affected importers during customs valuation. All price related issues put were correlated significantly with overall performance of customs valuation. Coefficient of 'r' was 0.441 with customs valuation. When we look at regression of pricing system, it is significant at $P < 0.01$. The result showed that pricing system affected fundamentally Ethiopian importers during customs valuation.

The procedures importers has to pass through during customs valuation has also important role. The analysis result showed that all procedures related items were significant with customs valuation. Importers look for simplified procedures. But the analysis result shows that there are no simplified procedures available for customs valuation to alleviate importers challenge related to procedural impact. There is no networked structure for electronic payments to simplify and avoid wastage of time and related costs. Appealing procedures in case of dissatisfaction by customs valuation is discouraging according to the result. Again the result also shows majority of the respondent believe that there is no effective ruling procedure for customs valuation. About 80% of the respondents agreed that customs valuation system applied by the authority were not created fair play ground for importers. If there was transparent procedure for everything there will be no such kind of dissatisfaction by importers or they will not be affected by procedure effect during customs valuation. Even with in inter branch for example, Mojo custom branch office, kality custom branch office or air port customs branch office has different customs valuation procedures which is confusing for importers and challenging to convince customs valuator that they were served in that procedure in other branch of customs office. The other most devastating element of customs valuation is that most of importers were believe that

customs valuation practice and procure is open for value judgment of customs valuator. With regard to procedures correlation with overall performance of customs valuation it is significant and 'r' value is 0.482. Regression analysis of procedures shows that it is significant with 'p' value less than 0.01. The result shows that the impact of procedure is very great on importers during customs valuation.

The other predicting dimension was experience of customs valuator impact on importers during custom valuation. Proficiency of customs valuator was significant impact on importers during customs valuation. The result showed that 67% of the respondents were believed that customs valuation officials have no adequate experience to made customs valuation. In addition 77% of the respondent also confirmed that new untrained customs officials are assigned to the position. Majority of respondent believe that customs officials are not professionals. The proficiency or experience of customs valuator issues were correlated significantly with overall performance of customs valuation. Correlation value is 'r'=0.408 and significant at 'p' less than 5%. The regression analysis result also showed 'p' is significant at less than 0.05 levels.

Character of customs valuation was analyzed as impact of customs valuation on importers. With regard to correlation this dimension was significant with overall performance of customs valuation. When we come to regression we fail to reject the null hypothesis because the error term was 8%. In fact if 'p' value was 10% it would have been significant. So from the result we reject the alternative hypothesis.

Lastly we look at physical inspection prediction of the impact on importers during customs valuation. 90% of importers were upset with the complex controlling systems of customs authority. In addition about 80% of respondent believe that physical inspection is open for the value judgment of the customs valuator. Traditional inspection systems overwhelmed about 85% of importers. 50% of the respondent believe that physical inspection system has created bribery and others corrupt practice. Impact of inspection was correlated significantly with overall performance of customs valuation with 'r' value of 0.404. Regression is also significant at 'p' less than 0.01levels. Therefore, alternative hypothesis were accepted.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

This study was intended to investigate factors that affect importers during customs valuation. To do this, research proposal was prepared in three different topics of chapters. Based on research questions and hypothesis, questionnaire were prepared and organized in a manner that helps to investigate the intention of the study. Six dimension variables were prepared to investigate the factors that impact Ethiopian importers during customs valuation. These predicting variables were tariff related issues, pricing system effect during customs valuation, procedure that affects the importers while customs valuation is done, experience or proficiency of customs valuator impact on importers during customs valuation, character of customs valuator effect on importers during valuation and lastly physical inspection impact were analyzed to see the variance they put on the criterion variable.

Demographic characteristics were primarily analyzed before starting the analysis of predicting variables and criterion variable. Under this demographic profile age of respondents, sex of respondents, educational status of respondents and the knowledge of respondent with regard to proclamation number 859/2009 which describe about customs valuation rule and regulation were analyzed.

After the analysis of the demographic characteristics, all items or questionnaires were analyzed by mean one by one. In addition, each item was also analyzed through frequency and the interpretations of the result were described under the items. The significance was tested by ANOVA and all of the items were significant. Correlation analysis was made to investigate the relationship between independent variables or predictors as well as the dependant or criterion variable. The result showed moderate correlation relationship for most of the variables. Following these the inferential statistics were done by regression analysis. Multicollinearity effect was done primarily and there was no concern with this regard from tolerance as well as VIF points of view. Model summary of ANOVA table showed that 42.5% of the variance was explained by the model. F ratio was high and also significant at 'p' less than 0.01level.

Hypothesis was tested and four dimensions of predictors variable were significant at 'p' less than 0.05 and the others two dimensions tariff and characters of customs valutors were not significant to reject the null hypothesis.

5.2 CONCLUSION

This conclusion is made based on the analysis and interpretation stated in previous chapter four. In this study the researcher has identified the result of the study output and arrived at conclusion by relating the research objectives and hypothesis inferred. By analyzing the empirical data the following has been concluded.

- The researcher conclude from the frequency result that most of the importers were upset by tariff amount imposed on goods, fees and charges levied on imported transactions and tariff classification.
- There is rejection of actual price presented by importers and customs authority set its own higher price base value during customs valuation.
- Higher price is considered as right price by customs officials and these made distressed the importers when they buy from international market at lower price.
- Data base price was not updated timely.
- Importers are troubling in case of slight description difference, customs officials charge them higher price to be on the safe side.
- Importers are badly in need of adequate directives and working manual to avoid arbitrary or fictitious price.
- Customs authority is penalizing importers for minor breaches of customs regulation.
- Simplified procedure and automated electronic payment of fees and duties were not available.
- Appeal procedure is too long.
- Peoples in appeal committee were fear each other to give solution for importers complains.
- Importers are not enjoying effective ruling procedures and application for customs valuation.

- There is no uniformity of customs valuation between inter branches.
- Customs valuation practice is open for value judgment of customs valuers.
- Importers are unhappy with customs valuator experience and professionalism.
- Large numbers of importers were asked bribe by customs officials and minor issues were complicated by customs official to get benefit out of it.
- Customs officials were not serving equally without discrimination in the eyes of majority of importers.
- The inspection mechanism is traditional and also open for value judgment of the valuator.
- Inspection practice was open for corrupted practice and inducement.

5.3 RECOMMENDATIONS

Based on the analysis made in previous chapter and conclusion made in the above, the following recommendations are stated.

- Tariff amount imposed on goods, fees and charges to be levied on imported transaction has to be clearly set by customs authority for every item.
- The data base price currently called Ethiopian customs valuation System (ECVS) has to be based on the manufacture price market of country of origin. This solves that customs authority will not unnecessarily distrust the invoice of importers and made them trouble during customs valuation.
- The big price consideration as right price by customs officials is very wrong assumption. Neither big price nor small price is right. The right price is the price at competitive market we get.
- Data base price has to be updated timely based on the competitive market price.
- Putting high charge simply to be on the safe side by customs officials is totally upsetting for importers. What is recommendable is following guide lines set by world customs organization in case of such kind of circumstance.
- Customs authority has to put adequate directives and working manual to avoid arbitrary or fictitious price.

- Rather than penalizing for every minor breaches of customs regulation it is better understand why and how breaching of the rule was happened and taking the necessary correction.
- Availing simplified procedure and automated electronic payment of fees and duties will save cost and time of importers.
- Appeal procedure has to be shorten and responsive on time.
- Peoples in appeal committee should not fear each other to give solution for importers complains.
- Importers have to enjoy effective ruling procedures and application during customs valuation to benefit importers by facilitating and also benefit the government for more collection of duties and taxes.
- There should be uniformity of customs valuation between inter branches.
- Customs valuation practice should not be open for value judgment of customs valuers. Rather it has to be lead by clear rules and regulation.
- Importers have to be satisfied with customs valuator experience and professionalism.
- Customs authority has to work for avoiding bribe asked by its employee.
- Customs officials' has to serving equally without discrimination all importers.
- The inspection mechanism has to be modernized and close for value judgment of the valuator.
- Inspection practice should no room for corrupted practice and inducement.

5.4 SUGGESTION FOR FURTHER STUDY

The present study used only importers who import through air port, Mojo and kality customs branch office. Future study should consider expanding to all of the country customs branch office. Moreover, this study has focused on customs valuation effect and it didn't go to analyze further trade facilitation related to customs valuation. Therefore, the researcher suggests that the future research has to consider these two points.

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