

Circular No. 04/2006-Customs Duty, Dated; 12th January 2006

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F.No.467/79/2005-Cus.V

Government of India
Ministry of Finance
Department of Revenue
Central Board of Excise & Customs CBEC

12th January, 2006

Sub:- Computation of freight of time chartered/daughter vessel and its inclusion in the assessed value as extended cost of transportation – decision taken in the Chief Commissioners of Customs Conference on Valuation held at Mumbai on 1.10.05 and Board meeting dated 28.11.2005 – reg.

While both imported crude and finished petroleum products are transported to Indian coasts in larger vessels on voyage charter basis (CNF/FOB), Industry charters certain vessels on time charter basis mainly to be used to lighter bigger vessels bringing the cargo from foreign ports. The mother vessels which bring the cargos usually cannot be berthed at almost all the

ports in India and hence required to be lightered partly/fully. There is no set pattern for movement of time charter vessels and they operate in zig-zag fashion depending on the requirements and sometimes carry cargoes for multiple ports in the same voyage and the cargo size is also not predetermined. The payment to time charter vessel is not on voyage basis but on monthly hire basis. In addition to the charter hire, the industry bears the cost of bunkers and the port charges for these vessels. Consequently, the actual transportation cost for any particular voyage cannot be directly identified.

2. The issue regarding computation of freight of time chartered/daughter vessel and its inclusion in the assessable value was taken up in detail by the committee headed by Shri R.K.Chakraborti, the then Member (L&J), and it was held that the freight of daughter vessel would have to be treated as extension of freight and not as part of landing charges. It was also suggested that the same should be calculated on normative basis on the World Scale Norms. The World Scale gives the rate in terms of US\$ PMT annually for a standard vessel of capacity 75000 MT between two geographical points whose co-ordinates in terms of latitudes and longitudes are available with World Scale Organisation (WSO), and for different sizes of vessels and for different months, the rate can be determined after applying a multiplying factor (monthly average freight rate assessment) arrived on the basis of market trends world over.
3. Rule 9(3) of Customs Valuation Rules require addition of freight, insurance, loading, unloading and handling expenses on the basis of objective and quantifiable data which are available in the form of independent and objectively calculated WS rates and AFRA (Average Freight Rate Adjustment).
4. The above issue was discussed in the Chief Commissioner's Conference held on 1st October 2005 at Mumbai. The conference agreed that the recommendations of the Shri R.K.Chakraborti Committee should be accepted and that pending cases of assessment should be finalized as per the two alternative methods of computation of cost of transportation for daughter/time chartered vessel. The first option which is based on the World Scale rates duly adjusted on the basis of AFRA rates should be followed wherever the World scale rates are available for the transportation between high seas and respective minor ports in India. In cases where the World Scale Freight Rate Index is not available, the cost element required for arriving at the freight rate may be based on the benchmarks used by the World Scale Association. In both cases, Wharf age and transshipment charges should be added to

arrive at the total freight. It was also made clear that the data in respect of these calculations should be submitted by the respective importers to the satisfaction of the assessing officer. Accepting services by the Cost Accountant's may also be considered by Account the respective Commission rates depending upon the extent of complexity of the cases.

5. The matter has been considered by the Board and it has been decided that all pending cases involving lighter age charges would be finalized on the basis of World Scale Rates and AFRA wherever available. In case of minor ports where WSO rates along with AFRA are not available, the concerned Commissioners should direct the shipping companies to get the WSO rates fixed.
6. All pending provisional assessments should be finalized accordingly.