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DRAFT

4. THE INTRASTAT SYSTEM OF THE EUROPEAN UNION

The Intrastat system is a statistical data collection system on intra-Community trade in goods where data on trade between EU Member States are collected directly from companies.

Intra-Community statistics on trade basically record all physically incoming and outgoing flows between Member States on movable goods, including electricity. Outward flows of goods from one Member State to another are called dispatches and inward flows of goods from one Member State to another are called arrivals. More specifically, dispatches from a given Member State include goods in free circulation which leave the statistical territory of the Member State bound for another Member State. Arrivals in a given Member State include goods in free circulation which enter the statistical territory of the Member State. However, when publishing trade flows in general the same terminology as applied for trade with non-member countries is used: dispatches are called exports and arrivals are called imports.

In line with the 'International Merchandise Trade Statistics: Concepts and Definitions (IMTS, Rev.2)' recommendations, intra-Community trade statistics:

- exclude goods in simple circulation between Member States (goods in transit). This means that Community goods dispatched from one Member State to another, which, on the way to the Member State of destination, pass directly through another Member State or stop for reasons related only to the transport of the goods are not reported. .
- exclude goods dispatched or arriving for a specific purpose and intended for re-dispatch within a specified period and without having undergone any change except normal depreciation due to the use made of them (goods temporarily admitted).
- include goods for inward and outward processing under contract. Goods are valued on the gross basis (i.e. the amount is recorded which would have been invoiced for sale or purchase of the goods).

A trade statistics system based on Customs declarations (e.g. the Extrastat system for Community trade statistics with non-member countries) identifies the above-mentioned transactions by specific Customs procedures whereas for intra-Community trade statistics

appropriated definitions have to be set and to be communicated to the trade operators responsible for providing the Intrastat declarations.

4.1. Historical background

The European Communities formally became a single market on 1 January 1993. As a consequence the statistical system for monitoring trade in goods between Member States of the European Union had to be changed completely. The physical frontiers were removed and all 'customs' checks at the internal borders, including the use of the single administrative document, were abolished for the movement of goods between Member States. The disappearance of this comprehensive and very closely controlled source of information made it necessary to devise a new system which would maintain a satisfactory level of information. Since then a system called Intrastat has been implemented for collecting statistics on the trading of goods between Member States.

One of the first steps of the European Union was to create a tariff union in order to be able to abolish all customs duties on trade between Member States. In 1968 all customs duties and restrictions among the six founding Member States of the Community were eliminated and the common customs tariff - an external tariff which applied to third country goods - was introduced. The 'new export opportunities' created by the abolition of internal tariffs gave a boost to the economies of the Member States. Trade between Member States increased leading to market optimism and investment growth in the Community (between 1958 and 1972 intra-Community trade exploded by a factor of nine).

In 1988 a major step was taken towards the harmonisation of customs procedures applied in Member States. The Single Administrative Document (SAD) was established as a declaration form which replaced 150 separate documents previously used by the Customs Administrations in the Member States. More and more common rules were implemented which went beyond the Customs Union as such - with its common tariff - and were extended to all aspects of trade policy, such as preferential trade, health and environmental controls, the common agricultural and fisheries policies, the protection of economic interests by non-tariff instruments and external relations policy measures. The application of common customs rules at the external borders was planned in such a way that the 27 Customs Administrations of the EU could act as if they were one.

However, free circulation of goods within the Community was still not a reality. Numerous customs border formalities were in existence, for example there were several ways of collecting the Value Added Tax (VAT) and excise duties and because of statistical purposes. Before 1993, all hauliers were stopped at the internal Community borders for 'customs' and tax clearance and even for inspection.

The aim of economic integration without any internal border restrictions became much closer with the single market. It ensures the four basic freedoms: free circulation of goods, persons, services and capital in a frontier-free internal market. This single market abolished the Customs clearance at the Community's internal frontiers for collecting excises/VAT between the Member States. But new fiscal, statistical and other control systems that required no control or documentation at the moment that the goods crossed the internal borders had to be implemented. For statistical purposes the Extrastat system relating to the trade in goods with non-member countries and the Intrastat system relating to trade in goods between Member States was implemented.

4.2. Keeping the Extrastat system for trade with non-member countries

Trade with non-member countries is still collected from the Customs declarations (SAD) which are lodged at the national Customs Administrations in each Member State. Community Customs provisions foresee in general that goods are placed under the export and import procedure in the Member State where the trade operator is established and where the goods can be physically inspected by the Customs Authorities. Therefore, non-Community goods entering the Community may be first placed under Customs supervision (e.g. transit procedures) in the Member State of entry until they reach the Member State of destination where they are released for free circulation within the Community. Community goods which are intended to leave the statistical territory of the Community move also under Customs supervision between the exporting Member State and the Member State of exit – the location from which they physically leave the statistical territory of the Community. These Customs provisions make it possible to compile statistics based on Customs declarations which do not only show imports into and exports out of the Community at a whole, but also allow each Member State to compile their national trade statistics with non-member countries based on Customs declarations lodged at their national Customs Administration.

4.3. The link with the VAT system

As regards the trading of goods between Member States the statistical information is not longer available via customs declarations. However, it was decided to keep a close link to the value added tax system, because reporting of intra-Community movements of goods for VAT purposes is still necessary in each Member State of the Community.

A harmonisation of the tax policy within the EU has not been achieved up to now and Member States are fairly free to choose a tax scheme that they consider the most appropriate one. In the European Union the Value Added Tax system applies more or less to all goods and services that are bought and sold for use or consumption in the Community. VAT is a tax assessed on the value added to goods and services. It is charged as a percentage of price, which means that the actual tax burden is visible at each stage of the production and distribution chain.

Since 1993 the Community has applied a transitional VAT System which maintains different fiscal systems in Member States but without frontier controls. VAT is effectively charged at the rate of VAT which is applicable in the place where the buyer is established ("destination based" system).

In order to abolish completely fiscal frontiers within the EU an "origin based" system, with VAT being charged at the rate in force where the supplier is established should be implemented. This is, however, not yet acceptable to Member States as rates of VAT are too different and there is no adequate mechanism to redistribute VAT receipts to mirror actual consumption.

Under the current EU VAT system, most cross-border transactions in the EU are, therefore, taxed in the Member State of destination of the goods. Rules have been implemented that exempt an intra-Community supply from VAT in the Member State of departure of the goods. In the Member State of destination, there is a taxable transaction, the intra-Community acquisition of the goods. As the VAT due to an acquisition can no longer be paid at a border, the VAT payment is shifted to the VAT return of the person acquiring the goods. Any VAT registered trader (taxable person) is obliged to submit to

his fiscal authority periodic VAT declarations indicating the value of intra-Community acquisitions and recapitulative statements on the value and the partner Member State where exempt intra-Community supplies are made.

To establish a close link between the Intrastat and the VAT system the tax authorities of the Member States are required, at least once every quarter, to transmit to the statistical services a list of VAT registered traders who have made acquisitions (purchases) or supplies (sales) together with the value of these operations. This enables the compilers of intra-Community trade statistics to compare the values of trade (acquisitions and supplies) reported by a company for fiscal purposes with those declared for statistical purposes.

For intra-Community trade statistics arrivals and dispatches of goods moving between Member States are recorded. Although there are some methodological differences between the declarations on intra-Community arrivals and acquisitions and between the declarations on intra-Community dispatches and supplies the reported values should in general be equivalent.

In addition, the list of VAT registered traders provided by the fiscal authorities allows setting up an inventory of intra-Community traders. The maintenance of an up-to-date list of intra-Community operators with their respective company identification data and the value of their intra-EU trade (declared for fiscal and for statistical purposes) is used to identify companies which may be requested to make Intrastat declarations. The information is also used for the purpose of ensuring the timely collection of statistical information, for quality checking and data analysis and for estimates of trade below threshold and for partial or non-response.

This control instrument supports essentially the quality of intra-Community trade statistics.

4.4. A direct data collection system

Beside the data collection on Intrastat declarations two other data sources contribute to intra-Community trade statistics. In some cases non-Community goods under customs supervision of inward processing are reported by Customs authorities for intra-Community trade statistics and additional data sources might be used for specific goods and movements (e.g. ships register, information from grid operators for gas and electricity).

Nevertheless, the overwhelming information on trade is directly collected from trade operators, which send the relevant national administration a summary declaration for the previous month's operations.

Within intra-EU trade statistics any natural and legal person registered for VAT in a Member State and carrying out an intra-Community trade transaction is responsible for providing the information. This condition excludes the recording of trade transaction of private individuals and small companies which are not obliged to be registered for VAT.

Member States have implemented, in addition, a threshold system which allows intra-Community traders not to report on their transaction or provide less detailed information on condition that their total trade value does not exceed a certain amount during the previous or present calendar year.

In order to assure a sufficient coverage the exemption threshold set in each Member State has to guarantee that the major part of trade is collected on Intrastat declarations. At present at least 97% of a Member State's total trade expressed in value has to be declared. The remaining part of trade which is not collected is estimated by using in general the values declared for fiscal purposes. This threshold system exempt currently about 70-80% of VAT registered traders in the EU from reporting on their intra-Community trade.

4.5. The type of survey

The Intrastat system cannot be compared to a typical business survey where only data from a tiny fraction of the population is collected. Similar to a trade statistics system based on customs declarations the Intrastat system collects nearly all relevant observations. Only a minor part of trade below the threshold is not collected but estimated. This estimated trade, however, might be biased, because in particular small and medium-sized companies with their special trading characteristics are exempted. Research whether sample techniques could reduce the number of trade operators declaring for Intrastat and provide better results than the threshold system was not successful. In addition, the comparability of Intrastat data with the administrative records provided by the fiscal authorities allows quality checks which are in general not possible when carrying out sample surveys on enterprise level.

4.6. Comparability with trade data collected on Customs declarations

The independence of Customs requirements allows to a certain extent to define the scope and definitions of trade statistics in a more flexible way and with a better respect of user needs. For example users of trade statistics might be interested in the direct measurement of the change of ownership of goods between residents and non-residents or in trade between affiliates of the same multinational enterprise group or in trade according to the central product classification. However, attention should be paid to the fact that any methodological deviation harms the comparability with trade data based on Customs declarations. Therefore, it was decided to keep for intra-Community trade statistics as well as much as possible the concept and definitions for trade with non-member countries used in the Extrastat system.

As a consequence intra- and extra-Community trade statistics both measure the physical cross-boarder movement of the goods, apply the same detailed product nomenclature (Combined Nomenclature = HS+2), the same periodicity (monthly declarations) and the same valuation principles (CIF/FOB). In addition, intra-Community trade statistics follow as far as possible the recommendation made in the 'International Merchandise Trade Statistics: Concepts and Definitions (IMTS, Rev.2)' in order to maintain also comparability with trade data compiled by non-EU countries.

4.7. Perceived as complex collection system

At present about half a million companies in Europe are responsible for providing information to the Intrastat system. Each month they have to declare, for statistical purposes, their goods deliveries to and from other Member States. The merchandise has to be characterised according to a commodity classification which contains around 10.000 codes (Combined Nomenclature) and for each goods item the value and quantity information have to be provided.

For all trade operators involved, Intrastat meant a lighter workload compared with the previous system before 1993 where any intra-Community trade transaction had to be declared and presented to Customs. But in these times the respondents were often not aware of the fact that their reporting obligations for foreign trade statistics were fulfilled when lodging a Customs declaration. With the introduction of the Intrastat system the statistical reporting burden became apparent.

Since its introduction Intrastat reporting has always been considered burdensome by business communities in several Member States and in some cases also by National Statistical Institutes. Therefore, the Intrastat system has been already subject to significant efforts to decrease the reporting burden for trade operators. Only a reduced data set (8 data elements) compared with Customs data is required for Community purposes, the threshold system was expanded to exempt a larger number of enterprises, the number of nomenclature headings was reduced, and several simplified reporting measures were introduced. In addition, the Community and its Member States supported a lot the development of modern electronic data collection and validation tools which facilitate considerably the reporting for Intrastat. At present around 60 % of declarants use offline and online tools when transmitting Intrastat data.

Despite all the efforts already realised, it is necessary to continue with further substantial simplification initiatives. The strategy of the EU on growth and jobs (Lisbon strategy) aims among other aspects at reducing the administrative burden on enterprises caused by public administration. While the statistical burden accounts for a relatively small part of the total administrative burden in the Member States, the reporting burden based on Intrastat has a significant share of all statistical reporting obligations.

4.8. Ensure data quality

A general framework has been defined to ensure the quality of data collected via the Intrastat system. Quality reporting is mandatory for Member States from the reference year 2005 onwards.

In practice, all Member States must check the validity of the data, before transmission to the Statistical Office of the European Communities (Eurostat). At collection level, statistical authorities should check that all trade operators liable to submit Intrastat declarations have done so. The Intrastat trader register is the basic tool used for monitoring enterprises which are due to submit monthly declarations and for sending reminders to them if no declaration has been received by the deadline.

All records declared should be validated according to an appropriate set of rules. There should be clear identification of the declarant and validity of codes (trade flow, commodity codes, partner countries,...); in addition the accuracy of values and quantities can be checked by comparison with the average unit value (value/net mass or value/supplementary unit) or according to average weights per unit.

Information can be checked, in particular using macro-editing techniques. For instance reliability of aggregates can be checked by comparison with past data. The outlier detection process is also a powerful tool for identifying possible errors and it is recommended that Member States agree on a common set of validity rules.

Intra-Community trade statistics should cover the total trade between Member States. This means that adjustments for missing trade not collected via Intrastat declarations has

to be included. Estimates must be made for the trade below threshold in order to have a complete coverage of trade. Non-response, which means that all or part of the statistical information is missing, is one of the main problems of Intrastat. Similarly to the trade below the threshold, trade data must be adjusted in order to compensate the missing information. In addition, adjustments on the statistical value (part of the Intrastat trade is collected on the invoiced amount) is necessary.

In theory, intra-EU trade statistics should be fully comparable; therefore data should generally be less affected by asymmetries than extra-EU trade statistics. Dispatches from Member State A to Member State B, as reported by A, should be almost equal to arrivals from A into B, as reported by B. Due to a different valuation principle (CIF > FOB), arrivals should be slightly higher than dispatches. However, since the Intrastat system came into operation, bilateral comparisons have revealed major and persistent discrepancies in intra-EU trade statistics. Therefore, comparisons dealing with intra-EU trade statistics have to be made cautiously and should take into account the existence of these discrepancies. The main reasons for the discrepancies are known and are represented by the thresholds, non-response and their related adjustments; statistical confidentiality; triangular trade; time lags in the registration of the transactions; misclassification of goods; or by other methodological differences.

4.9. Institutional Arrangements

To ensure coordination in terms of content, time and method Community statistics relating to the trading of goods between Member States are based on EU Legislation. However, according to the principle of subsidiarity, the Intrastat legislation allows Member States to choose to a large extent their way of implementing the Intrastat system.

The rules for compiling intra-Community trade statistics are laid down in the European Union legislation. This means that the provisions have direct effect in all their elements in the Member States. Individual Member States do not need to pass local laws to bring them into effect and any local laws contrary to the regulations are overruled, as European Union Law takes precedence over the laws of the Member States. Member States therefore have to legislate in the light of, and consistently with the requirements of the provisions laid down in the EU regulation.

Community provisions do not interfere with the compilation methods of national statistics relating to the trading of goods, as long as the data provided to Eurostat are compiled according to the Community concept. However, attention should be paid to the fact that deviation from Community legislation for national purposes normally requires additional national legal provisions.

Member States collaborate and agree conjointly on legal acts relating to Community statistics on the trading of goods. The Commission (Eurostat) has the right of initiative, i.e. to draw up proposals for Community legislation, but the ministers of the Member States represented in the Council of the EU and the European Parliament adopt the legal act. Implementing rules are voted by the Intrastat Committee which represents the national statistical administrations responsible for trade statistics.

The implementation of the Intrastat system has given rise to an institutional reorganization of compiling trade statistics in Member States. Customs administration is playing a predominant role in the production of trade figures when the Customs declaration is the data source and Statistical institutes often only disseminate the data.

The Intrastat system has generated a range of implementation systems in Member States, with different national administrations involved in collecting, processing and disseminating statistical intra-Community trade information. These are most often the national statistical institutes, but also include Custom authorities and, in one Member State, even the National Bank.

4.10. Comparability between Community statistics and National statistics

Common rules (EU legislation) are set for the compilation of Community statistics on intra-Community trade in goods. However, Community statistics, which cover the EU as a whole, and statistics compiled and published by the Member States, are not always directly comparable. Member States may use a national concept at national level but they have to provide Eurostat with harmonised data according to the Community concept.

The principal differences between the Community concept and national concepts are as follows:

- Breakdown by partner country: For arrivals, certain Member States record the country of origin as the partner country, whereas the Member State of consignment appears in Community statistics relating to the same movements.
- Treatment of goods in transit: Some Member States do not record goods, which they consider to be ‘in transit’ in their national figures. This involves, firstly, imports from non-member countries which are cleared in these Member States before being dispatched to other Member States and, secondly, goods from other Member States which are immediately re-exported to non-member countries. These flows are included in the Community statistics under intra- or extra-EU trade, as appropriate. This phenomenon is sometimes referred to as the ‘Rotterdam effect’.

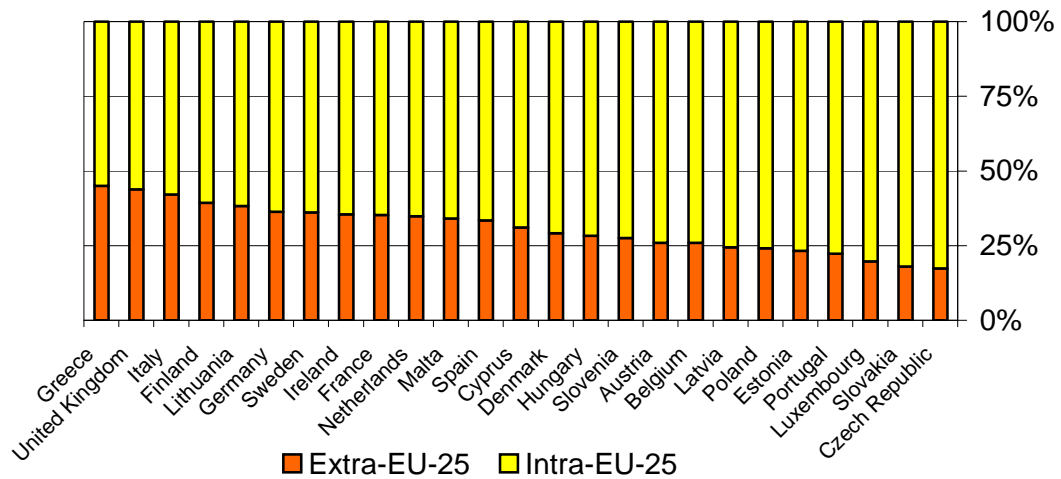
4.11. Achievements and current challenges

The timeliness and quality of national statistics on trade in goods with other Member States are crucial for European economic policy purposes, such as national accounts and the data on aggregate flows between the Euro-area and other EU Member States. Intra-Community trade data help European Companies carry out market research and define their commercial strategy.

When joining the single market Member States in general increased substantially their trade with the other Member State.

The chart below presents that the share of intra-EU trade ranks between 55 % and 80 % of Member States' total trade. (However, the comparison should be taken with caution, because intra-trade is reported according to the partner country of consignment which might overestimate the trade compared to extra-EU trade):

Share of intra-EU trade in 2005



(Source: Comext, Eurostat)

In the near future the Intrastat system will have to focus on further lightening the reporting burden which at same time does not affect the timeliness and quality of data. Under this perspective the following options are examined:

- A better use of administrative data by introducing a shared Intrastat and fiscal data collection system
- An increase of the exemption threshold with a substantial release for reporting companies, in particular small and medium-sized enterprises.
- The implementation of a single-flow system where trade operators report only on dispatches and the corresponding arrivals will be provided by the partner Member State

The collection system based on customs data (trade with non-member countries) is faced with challenges too. Centralised Customs clearance procedures are at present under preparation. They disassociate the lodging of the Customs formalities from the physical presentation of the goods to Customs. Goods may be located in a different Member State - when released for export or import - than the Member State where the customs declaration is lodged. This might lead to a shifting of declaring imports and exports from one Member State to another independently from the location or destination of the goods. This may lead to a loss of the data source for part of the trade of a given Member State. There is also a risk for a given Member State of declaring imports and exports which do not pertain to it

As a consequence the ongoing economic integration process of the Community will make it more and more complicated to allocate trade flows to its Member States.

4.12. How can Intrastat lessons be useful for other customs unions?

The lessons learnt from Intrastat may be useful for those economic communities who are considering further economic integration and discussing similar common market structures as they are already realised within the European Union. The following parameters should be considered:

- The implementation of a statistical data collection system concerning merchandise trade not based on Customs data should only be considered if the economic integration of the Community and its Member States is well advanced. A common external Customs tariff is in general not sufficient.
- A well functioning fiscal (VAT) system in the Member States is essential to keep quality standards for intra-Community trade statistics.
- Member States have to transfer sovereign rights to the supra-national authorities and agree on common binding concepts, definitions and procedures. Keeping national particularities is more difficult.
- Supporting measures are needed for implementing the structural changes in the data collection system. Trade operators and national administration have to be well prepared and assisted during the implementation period. The EU invested more than 55 million Euros (Edicom project) between 1997 and 2005 to encourage the collection, treatment and distribution of intra- and extra-Community trade statistics.