

INTRASTAT

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Introduction

The method which has been used to compile visible trade statistics for centuries was discontinued at the beginning of this year within the European Community (EC). It is being replaced by a brand new, but basically simple system. An unavoidable consequence is that the press and analysts will be about to lose one of their regular statistics for several months; it will be the middle of the year before the first estimates for 1993 are accurate enough to publish.

This article describes these fundamental changes and explains their implications.

The Former System

The former system produced the trade statistics as a by-product of an administrative system. With only very limited exceptions, the visible trade (import and export) statistics were derived from information declared on Customs documents - an essential feature of the control of goods at borders.

All developed countries use similar systems based on border formalities. Within the EC, Member States had to use common systems and documents as laid down in EC Council and Commission Regulations.

Because they were a by-product of an administrative system¹ designed to collect revenue the statistics were of very high quality. The checks were more vigorous for imports than for exports because there were more revenue implications.

Routine border formalities at EC internal frontiers disappeared at the end of 1992 when the single market was completed. There will therefore be no Customs documents for intra EC trade. A new system for use by all Member States has been prescribed in European legislation. The former system is continuing to be used to measure trade with countries outside the EC.

The New System

The new system² developed by the Community is known as INTRASTAT and comes complete with its own Community logo.



¹ The production of the UK trade statistics is a substantial task: there are some one million items of trade each month.

² The framework of the new system is specified in European Council Regulation 3330/91. Details of the system are specified in three Commission Regulations. Regulation 2256/92 deals with statistical thresholds, Regulation 3046/92 with detailed implementing provisions and regulation 3590/92 with statistical information media. Although these Regulations are directly applicable in Member States some UK national legislation has been enacted under the

The basis of INTRASTAT is a link with the VAT procedures on goods traded between Member States. This link with an administrative revenue collecting system will provide a mechanism for ensuring that the statistics are as complete and accurate as possible.

INTRASTAT is a simple system. Its main features are:

- all VAT registered businesses are required to complete two additional boxes on their, usually quarterly, VAT returns. These record the total values of goods exported to and imported from other Member states³. (In practice in the UK traders have been completing the boxes since the beginning of 1992 to provide essential data to start the new system).
- that larger traders above thresholds are completing more detailed "supplementary" returns at least monthly from January 1993
- that smaller traders below these thresholds are not providing any further statistical information: global estimates will be made from the boxes on their VAT returns
- that the smallest businesses falling below the turnover limit requiring registration for VAT are completely excluded from the system.

The following data⁴ are being collected on the detailed monthly returns due ten working days after the end of the period:

- (a) 8-digit commodity code (from the EC combined nomenclature)
- (b) value for VAT purposes
- (c) delivery terms (ex works, fob, cif, fully delivered etc)
- (d) nature of transaction (sale, lease, etc)
- (e) quantity (net mass in kilogrammes and sometimes supplementary units)
- (f) member state of consignment (imports) or destination (exports)
- (g) presumed mode of transport
- (h) country of origin for imports.⁵

European Communities Act to complete the UK statutory base.

³ In the jargon of the Single Market exports are called despatches and imports arrivals. This article uses the normal statistical terms exports and imports.

⁴ The Council Regulation prohibits the collection of other data on a statutory basis within the system

⁵ This question is voluntary in the UK because it can only be mandatory in certain cases, considered too complex to explain in statistical inquiry.

In addition, on a sample basis, information on transport costs is being collected so that the values for VAT purposes can be converted to a standard definition.

The totals of the values reported on these monthly returns should be reconcilable with the amounts reported in the new boxes on the VAT returns. These checks will be simple and straightforward for most traders and most trade. However for some movements of goods, such as excise goods or those for processing, where the VAT and statistical treatments differ, some extra information will be sought. The checks will be an important control on the quality of data supplied by traders.

Differences Between The Systems

Both providers and users of the statistics will see major changes in the new system. The following are the main differences:

- (a) Movements of goods through EC borders are speeded up with the abolition of most frontier controls.
- (b) The burden of providing the trade statistics is sharply reduced. The cut falls into three parts. First, because of the thresholds in the system, most (three-quarters) traders do not have to provide detailed information about their trade. Second, those who do have to provide detailed data have to supply slightly less information. And third, the information does not have to be supplied on a consignment basis as goods pass through Customs controls but can be submitted at a more convenient time and be aggregated within months; this will largely eliminate delays at internal community frontiers. Traders will however face extra implementation costs while they adapt to the new system. A Business Benefit Analysis suggests that the package of single market simplifications associated with the elimination of frontier controls will cut industries associated costs by 90% and enable them to recoup implementation costs within the first year.
- (c) The commodity codes are cut from 9 digits to 8 digits by eliminating the national 9th digit. Some former 9 digit codes have been added to the 8 digit nomenclature, with some little-used headings removed to make room for them.
- (d) Most transport data is no longer collected. Only presumed mode of transport is in the list of data.
- (e) Results will be available later. Allowing time for traders' monthly returns to arrive will delay results by at least 2-3 weeks, with much longer delays initially.
- (f) Results will be revised. Late or amended returns from traders will make revisions necessary.
- (g) Estimates will be made at the **detailed** commodity level and by partner Member State for trade not covered by statistical returns because of the application of thresholds (an explanation is given in the next section).
- (h) There is a risk that **detailed** data reported by traders will be less accurate. Without the checks inherent in the former frontier controls there are fewer opportunities to find and correct errors. However a programme of regular inspection visits will help to keep such errors to a minimum. The VAT link is designed to ensure that the **totals** remain accurate.

Thresholds

An important feature of the INTRASTAT system is the use of thresholds. The legislation provides for the use of two thresholds with a middle tranche of traders providing simplified monthly information. However the UK is adopting a single relatively high threshold.

In accordance with the Commission Regulation the UK has adopted a threshold of £135,000 per annum for both exports and imports. Thus a trader has to report detailed monthly export data listed in paragraph 10 on supplementary returns when his intra EC exports exceed £135,000 per annum and similarly for imports. This puts about 24% of existing traders above the threshold. The distribution of trade is, however, very concentrated and these traders account for nearly 97% of intra EC trade.

The decision on the appropriate level of the threshold has had to meet competing objectives. On the one hand, the resulting statistics have to be sufficiently accurate to meet the needs of users in Government and industry. On the other, it is necessary to keep administrative costs (including those borne by businesses) to a minimum. The UK threshold strikes a sensible compromise by keeping those administrative costs to a reasonable level but without seriously weakening the quality of the detailed statistics. It will also mean that we have a manageable number of traders in the system with sufficient resources to ensure that they provide accurate returns promptly.

The Commission Regulation requires all Member States to set thresholds so that the results will meet certain quality requirements. This is a relatively simple concept but the details of the Regulation are complex. Trade in 90% of the most used 8 digit commodity headings must be estimated within 5% of its true value. In addition the growth rate of trade in these headings between years must be estimated within specified limits. There are similar requirements on the estimation of the level and growth of trade by partner country.

The UK thresholds are close to the maximum permitted by the quality requirements. They are higher than those adopted in the other major Member States. This is mainly because the others want a different balance between administrative costs and theoretical quality. However the pattern of our trade is also different probably because of the additional transport costs caused by the English Channel.

Estimates will be made of the distribution of trade by traders below the threshold (ie those that only report their trade totals on their VAT returns) by commodity and partner country. The CSO have already published⁶ summaries of studies showing the effect of thresholds on the detailed statistics.

Valuation

The main data collection is based on VAT values. These will usually be different from the conventional free on board (fob) and cost, insurance and freight (cif) used in the valuation of visible trade.

However the INTRASTAT data is being adjusted at a detailed level to the normal fob and cif valuations. The adjustments are designed to produce accurate estimates of total trade and will be only approximate at the level of individual commodities.

Implementation

As detailed above the INTRASTAT system is a simple one which will produce quality statistics at reduced cost. However, because it is so radically different from the present system it will take some

⁶Business Bulletin Statistical Changes in 1992 (Issue 6/91 published 1 February 1991, issue 54/91 published 21 August 1991 and issue 79/92 published 20 November 1992).

months for it to become fully effective. This section deals with implementation in the UK and describes some of the short-term problems.

The UK has put a lot of effort into ensuring that implementation of the new INTRASTAT will go as smoothly as possible. Although much of the European legislation appeared late traders have been given as much advance information about the changes as possible. Almost all traders above the threshold have received individual visits to explain the new system and all will have done very shortly. Customs are encouraging software specialists to develop software for traders to use and a variety of facilities have been developed to encourage the electronic submission of data.

A variety of technical and legal problems have prevented the former and new systems being run in parallel. Therefore the sudden switch to INTRASTAT without a run-in period on 1 January was bound to cause difficulties.

The most difficult area is going to be the checking of returns and making allowance for missing, partial and inaccurate returns. We already know which traders are above the thresholds. Using past information from Customs documents and the two new boxes on VAT returns it has been possible to build up histories for each of these traders. Thus we have a fairly accurate idea of the returns to be expected. Right from the beginning we are therefore testing the validity of returns and raising queries with traders. The best checks however will be between the statistical supplementary returns and VAT returns covering the same period. With VAT returns generally covering three monthly periods these checks cannot be started for a few months.

It is therefore almost certain that the first data will not be ready to publish until June. The CSO plan to issue an aggregate estimate for the first quarter in the balance of payments press notice in June.

Assuming that the data received from traders is reasonably accurate and timely it would then be possible to start to publish detailed monthly figures soon afterwards. Again assuming that response is reasonable these initial delays can be reduced as experience with operating the system builds up. The figures for the first few months of 1993, in particular, may well still be subject to quite substantial revisions after first publication.

Three further factors, are also relevant to the interpretation of the figures particularly over the next few months. First, seasonal adjustment will be more uncertain because of the changes making trends hard to assess. Second, there is a risk of distortion to the figures for December 1992 and January 1993 if the movement or recording of trade is altered by the impending changes.⁷ Third, the recording of third country trade could also be upset if traders use incorrect documentation. As the new data is published it will be accompanied with more detailed advice on these points.

Users of the detailed commodity level statistics will clearly need to be careful when using the new data. Thresholds, valuation, coding errors and non-response could all cause a degree of discontinuity in the series. While the effects should usually be of limited size users will need to be aware of the risk. Feedback on the plausibility of results will be useful to us.

Detailed monthly data will continue to be made available through the Marketing Agents appointed by Customs. CSO will also continue to publish the data. The Business Monitor MM20 Overseas Trade Statistics will be split to cover third country and intra-EC statistics separately. For third countries the publication will be

⁷This happened at the end of 1987 when the present Customs documents were introduced.

monthly and be similar to the present publication except that only 8-digit commodity detail will be shown. For intra-EC trade, at least during 1993, the publication will include quarterly data at the same 8-digit commodity detail level.

The Future

The Commission see INTRASTAT as a transitional system. This is because the method of collecting VAT is due to be reviewed probably by the end of 1996. For the next few years VAT will continue to be levied in the Member State in which the goods are consumed (destination basis). This means that VAT is levied at a zero rate on intra EC exports so that the correct rate can be levied in the destination Member State on arrival. The Commission believe that the aims of the single market will not be fully realised until a seller is able to charge and account for VAT in the same way when he sells to a domestic customer and to a customer elsewhere in the Community. (This is known as the origin basis because VAT on an intra EC export would be levied at the rate in the Member State where the goods originate). If the system of VAT does change then, because of the link, there will have to be some consequential changes to INTRASTAT. It is the UK's view however that the main elements of the INTRASTAT system could continue.

Conclusion

A new system for compiling the statistics of intra EC trade was introduced on 1 January 1993. The new INTRASTAT system links the compilation of the statistics to the collection of VAT on movements of goods between Member States.

The link should ensure that the totals of this trade are measured accurately. However the statistics will inevitably be somewhat less timely and, at the detailed level, less comprehensive and accurate than at present. With the development of the PRODCOM system (a European wide system for collecting production statistics) using the same product classification system it will be possible to link trade and production data much more closely than before. There will be major reductions in the costs and burdens involved in compiling the statistics.

Implementation will cause delays and disruption to the series. It will be the middle of 1993 before a further reliable estimate of our trade with the Community is available.

The UK Government needs comprehensive, accurate and timely trade statistics. Every effort is being made to ensure that the delays and disruptions involved in the switch to INTRASTAT are kept to a minimum.

The introduction of the INTRASTAT system will involve a delay in the availability of statistics on UK trade with other EC Member States. This is due to the need to establish the system and ensure that the statistics are of a high quality before being released. Further information on this delay is given in the special note to editors issued with the monthly Balance of Payments-Current Account press notices issued by the CSO, or can be obtained from Current Account Branch of the CSO. Tel: 071-270 6073 or 071-270 6064.