

## **Harmonisation of Intrastat concepts and definitions as a precondition for Intrastat Simplification**

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Intrastat clearly aims to reduce the burden on companies as far as possible while at the same time guaranteeing a satisfactory quality of statistical data. At present, the harmonisation of methodology and data comparability is a precondition for further simplification of Intrastat.

With the objective of minimising the reporting burden on enterprises, Intrastat has been the subject of a number of simplification measures already in the past.

At the inception of single market in 1993 Intrastat replaced the customs based system. This was a significant simplification in se as instead of filing in customs declarations on every goods traded, only a monthly summary statement with lesser number of data elements needed to be made. Moreover, the large majority of enterprises (around 2/3 initially and mainly the smaller ones) were exempted from reporting altogether.

In the following years, further efforts have been devoted to simplifying the Intrastat system. Exemption thresholds have been raised so that the trade coverage decreased from initial 99% to 97% at dispatch side and 95 % at arrival side (Regulation (EC) No 222/2009 of the European Parliament and of the Council of 11 March 2009). This decrease did not cause a significant drop in data quality. Simplification thresholds have been introduced to further reduce or to do away with reporting obligations for small and medium enterprises (SMEs). Certain statistical data are now specified as optional, so that national statistical institutes (NSIs) are no longer obliged to collect them. In some cases, simplified reporting has been made possible (e.g. for small scale transactions). The Combined Nomenclature has been modernised by reducing the number of subheadings from 10, 606 in 1997 to 9,720 in 2007.

What's more, over the years IT solutions have been developed to automate to a great extent the production, validation and treatment of Intrastat reports. Most Member States have developed web based applications for filing in Intrastat reports which benefited the SMEs. However, throughout the EU between 30 and 40% of enterprises still report on paper, representing between 15 and 20% of trade value.

In spite of these efforts, Intrastat reporting is still considered quite burdensome by business communities in several Member States and in some cases also by NSIs.

Therefore it is necessary to continue with the simplification initiatives. Additional reductions in the number of businesses involved in Intrastat within the system of thresholds and/or their reporting requirements, or supplementary simplifications of the product classification system can bring a supplementary decrease of the reporting burden in the short term. However, a further major reduction of the Intrastat burden requires a quantum leap. That calls for more drastic proposals enabling to substantially reduce the burden, above and beyond what has already been achieved and is further achievable through traditional simplification efforts.

The measures should aim at a reduction of the existing asymmetries in mirror trade, a complete unification of data sets to be collected by the Member States and at the unification of collection and processing practices so that the information used for the compilation of trade statistics in the Member States is of homogeneous nature.

- **Harmonization of data collection and processing systems in the Member States**

At present substantial differences exist between the Member States in their data collection and processing systems. It is necessary to reach a certain homogeneity of these processes to increase the confidence of the Member States in the partner countries statistical data. That is why concepts, definitions, methods, rules and simplifications should be harmonised in different Member States. This does not necessarily imply changing the EU-rules. It can simply mean bringing national rules more in agreement with EU-rules.

- the indicators, which are considered obligatory by Eurostat, should be obligatory in all Member States as well (e. g. If it is an obligation for Member States to send supplementary unit, quantity in supplementary unit and netmass to Eurostat, the Member States should be obliged to collect these data as well and not to adjust netmass, where quantity in supplementary unit is obligatory.)
- the indicators for other administrations (e. g. national bank, national accounts) should be harmonized as well. If these administrations are interested in other detailed data (cheese, wine), they should introduce their own survey
- the invoiced value should be collected only, because it is easy for PSI's to fill it in and for NSI's it's easy to check it. Nowadays some Member States ask only invoiced value other Member States ask both invoiced value and statistical value
- statistical value should not be neither collected nor calculated, because it is a source of erroneous data
- if the statistical value was not collected, the mode of transport on the border would not be needed. Mode of transport is not checkable, is often very incorrect and cannot be provided correctly. This indicator should be collected in frame of transport statistics or statistics of services
- the data on electricity should not be recorded, because there is no unique methodology, how to collect these data
- introduce the delivery terms groups. The Czech Republic has introduced a simplification of delivery terms since 1 January 2009. The delivery terms has been merged into four groups, which is enough to calculate the statistical value. It is welcome by the PSI's.
  - Group K includes the Incoterms delivery clauses under which the major transportation costs are covered by the buyer (EXW, FCA, FAS, FOB)
  - Group L includes the Incoterms delivery clauses under which the seller covers the transportation costs to the port of destination (CFR, CIF, DES, DEQ)
  - Group M includes the Incoterms delivery clauses under which the seller ensures and covers the major transportation costs (DDU, DDP, CPT, CIP)
  - Group N includes the Incoterms delivery clause with the agreed place of goods delivery at frontier and the delivery terms that do not correspond to any of the Incoterms clauses (DAF and a delivery term that does not correspond to any of the Incoterms delivery terms)
- concerning the nature of transaction, we would:
  - exclude inward and outward processing, because they are considered as service (codes 4 and 5),
  - exclude code 3 (3 – The transaction that is not of transitional nature (it is not temporary dispatch), containing transfer of ownership to goods without financial or another compensation (free of charge dispatch/arrival with transfer of ownership rights)
  - not at all provide data on goods up to 20 EUR, if they are reported for example as a spare part of the machine (if a small consignment is dispatched, it can be reported as a small consignment. However if a small consignment is dispatched in connection with a machine for example some spare parts, they have to be reported like regular goods)

- lay down the exchange rate for the conversion of the national currencies to Euro
- Eurostat should explain the EU-methodology to Member States. A so-called "Compiler's Manual" could be very useful. At present there is only a "Guidelines for the Implementation of the Intrastat legislation" in English, which is destined only for National Statistical Institutes but not for the providers of statistical information. These Guidelines are available only in English.
- non-response should be reduced in all Member States. Those states which do not have adequate enforcement tools, should acquire them.
- the use of simplified codes in chapter 99 should be strictly regulated by Eurostat and the exceptions should be abolished.
- study the possibility to change the concepts from a concept of physical flow of goods to a concept of change of ownership, as a measure to deal with the problem of triangulation.

- **Better use of administrative data**

At present, only few NSIs make use of the VAT Information Exchange System (VIES). The VIES database contains information on intra community dispatches for each MS at the level of the enterprises' individual VAT numbers. NSIs should use these data systematically. They could be used in the preparatory phase for the single flow to cross-check information in Intrastat declarations. A closer matching of both sets of data is envisaged as a tool for data quality analysis and possible reduction of asymmetries.

Study work will be performed by the Member States and at European level into the better use of administrative data being reported for other purposes by enterprises (VAT, VIES, accounting)

It will be proposed to merge Intrastat and VAT data collections. Contacts between Eurostat and DG TAXUD have shown that a closer cooperation between statistical and tax (VAT) authorities may have benefits for both. Statistical authorities could improve data quality whereas tax authorities would benefit from earlier availability and greater detail in the data they use to identify and combat VAT fraud. In addition to this, the tax authorities could have the Intrastat data at their disposal, while at present, the tax authorities are not allowed to obtain them. Moreover, merging Intrastat and VAT data collections would simplify the reporting for enterprises while at the same time lower the burden for data collecting authorities and increase data quality. This approach would be in line with the intentions to make more extensive use of administrative data for statistical purposes.

- **Analysis and reduction of asymmetries**

The Member States should continue in close co-operation with Eurostat in analysing the asymmetries. Member States should carry out bilateral studies on detailed product level. In this way reasons of asymmetries could be better identified and their possible reduction will be created. The Regular Mirror Leaflet containing the quantification and analysis of the asymmetries will be published by Eurostat.

- **Misclassifications**

Commodity misclassification and erroneous identification of partner countries are major reasons for asymmetries. However, the possibilities to eliminate them are limited. The increased complexity of international trade is one of the factors leading to difficulties with regard to attributing the trade flows to particular partner countries. Difficulties to identify the proper commodity code due to a lack of expertise or the nature of the product are the main reason for commodity misclassification.

At the same time, the classification of goods for trade statistics represents a significant part of the reporting burden for companies. To ease this burden and to improve the quality of the classification of

commodities, Eurostat in cooperation with the Member States should develop tools, which will help the providers of statistical information to identify correctly the commodity codes. Companies should be assisted as much as possible in the classification of commodities (e.g. help-desk for CN8 problems, software tools for classifying commodities, better availability (price) and lucidity of explanatory notes for CN8 etc.) to avoid misclassification.

Misclassification might also decrease slightly via further simplification of the Combined Nomenclature (CN). However, the room for significant decrease of commodity codes is rather limited due to the needs of customs and businesses for detailed product classification. So at least, the CN 8 nomenclature should be changed as often as the HS nomenclature. (*it means only each 5 years, not each year*).

The CN8 code should be a part of the invoice. It could be a burden for companies but it could improve the data quality.

### **Potential solution for the longer term**

Beyond the short term, further significant reductions of the respondent burden related to Intrastat reporting are not to be expected from additional increases in the exemption thresholds. A majority of codes record a strong deterioration in accuracy with a coverage of 90%. This implies that a long-term solution will have to be found elsewhere.

The Working Group Quality identified a number of other simplification options. Some of these, such as lowering the reporting frequency and reporting on a more aggregated level of the combined nomenclature, were discarded from the outset as not acceptable to users. Other options need to be further analysed, such as the integration of Intrastat and VIES (VAT information exchange system) declarations and the further development of IT tools for automated reporting.

A long-term solution includes:

- the work on asymmetries,
- better and harmonised adjustment methods for trade below threshold. Where no such methods exist, they should be introduced. Where adjustments are limited to total trade figures only, a method should be devised for distributing adjustments to a more detailed level (e.g. HS2 and partner country, later CN8 and partner country), or
- the exchange of confidential data between NSIs to improve quality Regulation (EC) No 223/2009 on the statistical Programmes of the European Communities Article 21.

Among the priority issues to be analysed in this respect are a significant reduction of the asymmetries in the mirror trade flows, a solution for the timeliness problem by developing reliable estimation methods for missing or delayed data and the development of quality checking procedures which would satisfy national needs. Lots of PSI's provide the data according the movement of invoices not according the movement of goods.

In the following years, the MEETS programme (Modernisation of European Enterprise and Trade Statistics) will cover these activities. This programme has become operational since 2008 and is running into 2013. One of its four objectives is to perform study work on the simplification of Intrastat. It will dispose of a budget of EUR 8.965 million to be devoted to this objective.

More specifically, the MEETS programme covers the following actions:

- Studies will be performed by Member States which aim at development of tools and methods for maintaining or improving data quality
- Studies will be performed by Member States which aim at reduction of asymmetries by avoiding misclassifications, by harmonising collection and processing systems, by harmonising rules for the treatment of confidential data etc, by harmonising thresholds and by harmonising methods for CIF-FOB adjustment

Improve and facilitate the data exchange for Intrastat

- Tools and methods for data exchange within a centralised system, validation, error detection, correction, analysis and editorial work should be further developed
- Studies should be performed which focus on legal and technical aspects of data exchange between Member States

In addition, Article 13 of the Regulation No 638/2004 could be adapted in order to deal with quality issues. The power for defining harmonised adjustment methods and measures to reconcile asymmetries of Member States' trade flow data could also be conferred to the Commission in accordance with the regulatory procedure with scrutiny. Furthermore, Article 14 of the Regulation No 638/2004 on Committee procedures has to be amended in order to introduce the regulatory procedure with scrutiny.

The Czech Republic prefers the simplification (mentioned above) to the single flow, because it is easier to simplify and it means smaller intervention into the national statistics than to introduce the single flow.

Unfortunately, most potential simplifications of Intrastat affect the quality of statistical data negatively. It seems inevitable that as a result of simplification data sets would become less complete and certain data may disappear. The political and societal pressure to further simplify the Intrastat system therefore needs to be balanced with the needs of users concerning timeliness and data quality. These aspects are important for macro-users as well as micro-users. Both groups have expressed concerns in connection with the possible simplification of Intrastat. The issue is made more complicated by the fact that these concerns do not necessarily go into the same direction. Whereas the macro-users (i.a. the ECB, National Central Banks, National Account compilers) express the need for high quality aggregated data which are available quickly after the reference period, the micro-users (some Commission DGs, industrial federations, companies) emphasise the importance of the availability of detailed data.

For the Commission, user satisfaction is an important indicator of the quality of Community statistics. It is therefore important that the finally adopted solution strikes the right balance between the needs of respondents and those of users.

Pros (+)

Harmonised rules in all reporting countries should contribute to harmonised data  
Possibility to support implementation by means of common tools  
Space for national variants

Cons (-)

Rigidity to adopt for new requirements; almost everyone has to agree  
Difficulty to find 'fair' criteria for big and small countries (in sample surveys, small and big countries burden is almost equal)