

Trade within the European Union

Overview

The European Economic Community and the European Union into which it evolved, is a customs union. There are no custom duties on good passing between European Union Member States. Custom duties arise when goods are imported into the European Union or when they are released into free circulation from a customs control process.

In 1993, the Single European Act came into full force creating a single European market without frontiers. The European Communities was renamed the European Union. This meant the removal of all duties and restrictions as well as procedural barriers and checks by customs administration at internal frontiers.

On 1st January 1995, the European Union was further expanded to include Austria, Finland and Sweden. On 1st May 2004 the European Union expanded to include another eight countries in Eastern Europe as well as Malta and Cyprus. Romania and Bulgaria became full members in 2007.

Trade between European Union States is fundamentally different to trade with countries outside the EU. Within the European Union, most goods are in free circulation and they can be moved across borders without any special taxes or paperwork, subject to only to excise, licensing and inspection requirements that apply in relation to some narrow categories of goods.

Movements of goods in the EU are called "acquisitions" when received in one EU state from another and "dispatches" when sent from one EU state to another. The terms "import" and "export" are used when goods are moved in and out of the European Union.

Acquisitions from other European Union countries are not subject to custom duties. However, VAT and excise duty may apply. If goods traded with EU states exceed an

annual value of £270,000.00, it is necessary to complete an Intrastat (statistical) declaration.

If goods are received from inside the EU by a business, the VAT value and details must be entered in the firmsq VAT return. The VAT can then be reclaimed, if the goods are supplied by a business in the UK.

Free Circulation of Goods

Goods in free circulation can move freely throughout the European Union. "Free circulation" in the European Union is a crucial concept. Goods which have been wholly produced or originate in the European Union are in free circulation. Imported goods, on which all import formalities have been complied with and on which any custom duties and other charges have been paid and not reclaimed, are also in free circulation.

Once goods are put into free circulation in one European Union State, they can generally move freely throughout the European Union without further customs charges or control. Goods originating in the EU are in free circulation unless a common agricultural policy export refund or other refund has been claimed on them. The Single Administrative Document, which is used throughout the European Union and European Free Trade Area countries, assists in proving the status of goods.

There are various procedures under customs legislation under which goods can be suspended from customs duty liability under certain conditions. The goods are not in free circulation, until the relevant procedures are followed to release them. Under certain conditions, goods may be processed or dealt with in the EU and then re-exported, without ever being in free circulation.

Some Controls Remain

Although the Single European Union Act removed frontiers between EU States, VAT, excise duty, certain health controls and statistical collection of information may take place upon movement of goods between European Union States. See our chapter in relation to licences on particular types of goods such as defence goods, cultural items, chemicals, and medicines.

Special considerations apply in respect of animal health and food safety. See our chapter in relation to the considerations that apply in this field. VAT is no longer charged at EU frontiers. However there are special VAT rules in relation to trade within the EU. There are obligations to make statistical returns. Excise goods raise particular considerations. See our chapters on these issues.

This Guide is intended as an overview and broad outline of the matters covered in it. Its purpose is to inform and raise awareness. We are happy to offer specific legal advice on particular circumstances. This Guide should not be relied on as a substitute for comprehensive legal advice with reference to the particular circumstances.

While we have taken care in the preparation of this publication, we do not accept legal liability as a result of any reliance placed on anything in this Guide. The reader should rely only on specific legal or taxation advice.