European Parliament

The economic impact of suspending Schengen

The suspension of the Schengen Agreement and re-establishment of permanent border controls would lead to a restriction of the four freedoms of the Single Market and have a negative economic impact. Estimates show that the costs of rolling back Schengen would – depending on region, sector and alternative trade channels – be between €5 billion and €18 billion per year.

Background

The Schengen Agreement was signed in June 1985 and border checks were abolished among the original member countries in March 1995. It is considered to be one of the most important achievements of European integration. Twenty-two EU Member States are now part of the Schengen area, together with Norway, Switzerland, Liechtenstein and Iceland. Whilst it is an important factor underpinning the four freedoms of the single market – free movement of goods, persons, services and capital – outlined in Article 26 of the Treaty on the Functioning of the European Union (TFEU), Schengen's most visible effect is passport-free cross-border travel throughout the area. The massive migrant influx to Europe, however, is threatening the Schengen area and in particular the free movement of persons. Many EU citizens are increasingly wary of these developments. According to the 2015 Parlemeter survey, Europeans see unemployment (49%) and immigration (47%) as the most pressing challenges confronting the EU. Faced with the size and complexity of the migrant flows, some EU Member States have re-established border controls. While the Schengen rules allows for the temporary introduction of border controls, many politicians and entrepreneurs fear these controls enduring, since that could harm European economies and the process of political integration and Economic and Monetary Union.

The economic benefits of Schengen

There are almost 1.7 people in Europe who work in another Schengen country from that in which they live, and every day some 3.5 million people cross internal Schengen-area borders. In addition, there are some 24 million business trips and 57 million cross-border goods movements within the Schengen area each year.

A number of studies demonstrate that the Schengen area increases the economic benefits of its participating states. Indeed, intra-European trade has increased over time, reaching more than €5 trillion in 2014 (see Figure 1). One 2014 academic study shows that the effects of Schengen on European trade are positive. When two countries are members of the Schengen area, bilateral net trade increases by 0.09% every year. Furthermore, the net increase in immigration between two Schengen countries has a statistically significant impact; a 1% jump in immigration is linked to a 0.09% increase in imports. Another study, from 2011, analysed the sources and size of trade barriers across countries and industries. In the case of Europe, it shows that the Schengen area significantly decreases the trade frictions between trade partners and facilitates cross-country trade integration.

Figure 1: Intra-EU-28 trade – imports and exports in billion euros

Source: Eurostat.

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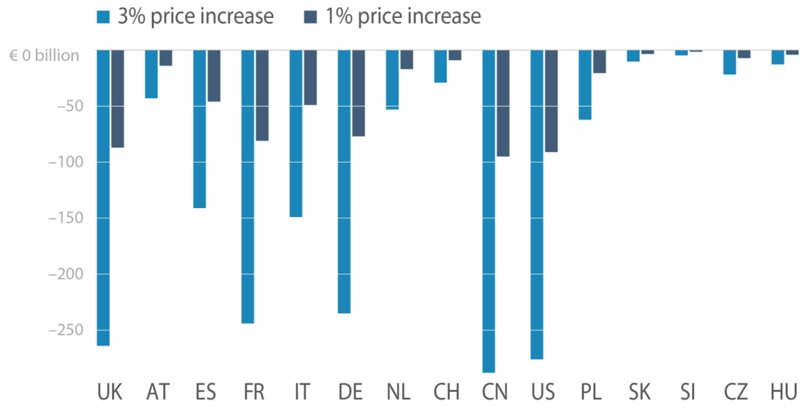
Moreover, the tourism sector benefits from Schengen. According to the European Commission's estimates, Europeans make over 1.25 billion journeys within the Schengen area every year.

The economic costs of 'Non-Schengen'

There are diverging estimates of the effects of introducing permanent border controls in the Schengen area, and the direct and indirect costs to European economies (such as increased import prices and decreased foreign direct investment). According to the Commission, 1.7 million people cross a European border every day to go to their work. Border controls would cost commuters and other travellers between €1.3 and €5.2 billion per year in terms of time lost. In addition, the costs of systematic border checks would amount to up to €7.5 billion in extra costs for road hauliers alone. One example of such an impact is the closure of the Øresund Bridge between Denmark and Sweden. That could lead to €300 million a year in lost business and delays in just-in-time production processes, which rely on reliable and speedy logistics. Permanent border controls would also affect the European tourism industry, with potential losses estimated at between €10 and €20 billion per annum.

Figure 2: Cumulative GDP 'deviation' scenarios (2025), in billion euros



Data source: Bertelsmann Foundation.
(CH: Switzerland, CN: China, US: United States)

While the European Commission calculates the direct costs of 'Non-Schengen' to be between €5 and €18 billion a year, studies from Germany and France, the two largest national economies in the Schengen area, also paint a grim picture. A France Stratégie study commissioned by the French government predicts that permanent border controls would lower French GDP by 0.5% in 2025 compared to today, or by about €10 billion cumulatively. The same study predicts a decrease in trade between Schengen countries by a factor of 10% to 20%. The consolidated GDP of the Schengen area would drop by 0.86%, equivalent to a loss of more than €100 billion overall by 2025. A study by the Bertelsmann Foundation calculates the economic costs of Non-Schengen on the basis of a cautious scenario (border controls would increase intra-European import prices by 1%) and a pessimistic one (an increase of 3%). Germany alone would face additional costs of between €77 and €235 billion in total by 2025 (see Figure 2). The cumulative GDP falls for the EU Member States in the Schengen area would be between €471 billion and €1.43 trillion by 2025. The dissolution of the Schengen area would also hinder trade with important non-European trade partners such as the US and China.

Imperilling the euro and the Single Market?

The European Commission's latest Economic Forecast (winter 2016) lowered its 2016 growth estimate to 1.7% (from 1.8% predicted in 2015), inter alia, due mainly to slower growth in China. The report also says that a long-term reintroduction of internal border controls 'could potentially have a disruptive impact on economic growth'. Pierre Moscovici, Commissioner for Economic and Financial Affairs, added that 'leaving Schengen would be an economic mistake'. The Commission President, Jean-Claude Juncker, said that permanent suspension of Schengen would have far-reaching political and economic consequences. Juncker stated that 'less Schengen means less employment, less economic growth' and that 'without Schengen, without the free movement of workers, without freedom of European citizens to travel, the euro makes no sense.'

While many experts predict a negative impact on GDP growth, some of them disagree about whether dissolution of the Schengen area would really lead to dissolution of the euro. In addition, a suspension of the Schengen rules might have less impact on the freedom of capital or digital services, as they depend more on virtual networks and less on conventional country borders. However, the introduction of permanent border checks might prejudice trans-European mega-infrastructure projects, such as international (high-speed) rail axes, and some of the goals of the European Union's investment strategy.