



COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION

THE FUTURE OF TRANSIT SYSTEMS : INTERIM REPORT

I. The context : a continuous action of the Commission in re-inforcing the efficacy and security of transit systems

Customs transit allows the movement of goods inside the Community and between it and numerous third countries without charging duty and tax normally due at import or applying any supervision measures or restrictions. It does not only allow the simple passage through a given territory. Above all it is an instrument for bringing goods to their place of declaration and, where appropriate, moving goods under a customs suspensive regime about the Community.

Since the origin of the Community the customs transit systems have been essential for the Customs Union and for trade with our partner third countries in the framework of a common trade policy. They are now suffering the consequences of far reaching political and commercial changes in respect of their efficiency and security. This weakness is being exploited and abused by organised crime which creates a considerable threat to public budgets and to legal commerce.

The Commission has underlined the seriousness of this situation and the urgent need to counteract it in its two Communications on fraud in transit dated 29 March 1995¹ and 3 April 1996². The Court of Auditors has underlined in several of its reports some of the malfunctions of the system. The European Parliament found the consequences for the financial interests of the Union so worrying that it set up a temporary Committee of Inquiry on Transit on 12 January 1996. Taking into account financial and economic implications of this question, the Commission also informed the ECOFIN Council on 8 July 1996. This Communication is completely in line with these initiatives.

The last Commission Communication sets out a number of proposed actions to combat fraud while preserving the essential economic advantages offered by transit. Some of these actions are being undertaken and the corresponding measures have been announced. Other actions envisaged have to be the subject of a more global analysis by the services of the Commission in order to have a complete in depth picture of the situation in which transit finds itself. This will allow us to target the reform of these systems in a balanced manner and with full knowledge of what is involved.

II. A framework for work and action : the interim report on transit

Object of the report

The result of this global analysis is contained in the Interim Report on Transit which is annexed to this Communication. It is in the form of a working document of the services of the Commission which represents an essential stage of the reform process. It marks the intention of the Commission not to hide any difficulty or any suggestion and to seek, via the involvement of all the actors in transit in the most open way, the best definition of the transit systems for the future.

That is why the Interim Report undertakes, from a technical point of view, a critical analysis of the difficulties with which transit is confronted and of the suggestions from all parties for improving it, which translates into a preliminary identification of the possible objectives for a future reform and the methods which could be used to achieve this.

Its interim status means it can be used as the factual and open framework for a discussion with all the parties concerned with transit to which it is given. They will have the

¹ COM (95) 108 final, "Fraud in the transit procedure, solutions foreseen and perspectives for the future"

² SEC (96) 290 final, "Commission action to counter transit fraud"

opportunity to debate freely on this basis in order to help the Commission to define, whilst exercising its right of initiative, the framework which should in the end be adopted for the reform of transit.

Contents of the Report

The report, which has six explanatory annexes, is in a framework defined by three fundamentals and gives a technical synthesis of the various contributions given over a period of about a year.

A. Fundamentals

1. Transit at the centre of the Customs Union and trade policy

Transit regimes are essential for the administration and the protection of the internal market, for the special trade relationships that the European Union wishes to keep with the EFTA countries, and for the pre-accession strategy with the central and eastern European countries. In the form of common transit and equally TIR, transit contributes to a new economic integration on a continental scale. Its success with trade shows it is equally a fundamental element for their commercial strategy.

2. Systems in crisis against a background of profound change

The political events in Europe together with the globalisation of the economy in a general context of lower commercial barriers and the multiplication of preferential agreements have permitted a considerable expansion of trade. This has caused an unexpected growth in the need for transit. This situation, combined with a reduction of staff allocated to transit, has overloaded the documentation procedures which are still based on the manual handling of paper. It has weakened the security of the systems and favoured their abuse by criminal organisations and could lead to the loss of important amounts of import duties and national taxes. This financial loss, which concerns the Community budget, with regard to the non-recovery of traditional own resources, but which also, for a large part of the amounts at stake, concerns national budgets, is accompanied by a commercial loss because the goods lost in transit go onto the black market and represent a unfair competition for the legitimate trade and a threat to employment.

3. The efficacy of any transit reform demands the setting up of a framework favorable for management and co-operation

The efficacy and security of the transit systems rely not only upon procedures capable of meeting the needs of trade. They also rely on the same unified and loyal approach to their application and control, which in turn implies permanent co-operation between the various administrations involved, notably on the basis of a better knowledge of the reality of these

systems. It should be obvious that a reform of transit legislation will not have a real effect unless it can depend on :

- . a set of rules, both in the Community and internationally, that is clear and accessible and which ensures the coherence of the transit systems as well;
- . a policy of information and training;
- . the allocation of the necessary resources; and above all
- . a redefinition of the relationship between the customs administrations and their responsibilities for the proper running of the Customs Union.

At least for the Community, some of these preconditions go beyond the strict limits of the transit system, but it is clear that implementation of the "Customs 2000" programme, yet to be adopted, could partially respond to this.

B. A synthesis for debate

In this context, the interim report sets out an **inventory of the problems and the corresponding suggestions** advanced by all the players, contained in a **synoptic table** of five sections :

- the monitoring and writing-off of transit operations in order to have an effective system,
- the surveillance and control measures needed to ensure the security of movements,
- the definition of the roles of the players in relation to the risks generated by transit,
- the quest to obtain an adequate cover for these risks via financial guarantees,
- and a certain number of more general supporting measures essential for the effectiveness of the reforms.

Starting from this **five broad categories of objectives** to be met emerge:

- . an effective management of secure regimes;
- . a close co-operation between customs administrations and between them and the Commission;
- . a permanent, coherent and constructive dialogue between the customs authorities and the trade;
- . clear, coherent and accessible law and instructions
- . well trained customs officers who are properly led and supported and who are aware that they provide an essential contribution to the proper over-all working of the transit regimes.

At the head of these priorities it must again be stressed that only a **rapid and ambitious** computerisation of procedures will really be able in itself to respond to most of the needs for effectiveness and security. This will enable us to master the flow of international trade under transit, and offers us an instrument for real time analysis of the risk inherent in each movement.

III. A tool to be used openly

The Interim Report, in order to achieve its object, which is to fully associate the actors in transit in the redefinition of the rules, will be sent to the customs administrations of the Member States and the partner countries as well as to the trade organisations representing the day to day users of the system.

It is by using the reactions to the Report from all the players and their contributions that the Commission, knowing all the elements, will be able to rapidly define a global action programme both at operational and legislative level. It is only then that the Commission can make further proposals. The Commission also feels that its initiative and that of Parliament, in the framework of its Temporary Inquiry on Transit, should proceed side by side and mutually support each other. This is in any case the approach the Commission will continue to adopt towards its reform of the transit systems.