The Single Market Review

EUROPE

SUBSERIES III: DISMANTLING OF BARRIERS

Volume 3:

Customs and fiscal formalities at frontiers

The Single Market Review

DISMANTLING OF BARRIERS

CUSTOMS AND FISCAL FORMALITIES AT FRONTIERS

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EUROPEAN COMMISSION

The Single Market Review

DISMANTLING OF BARRIERS

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SUBSERIES III: VOLUME 3

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This report is part of a series of 39 studies commissioned from independent consultants in the context of a major review of the Single Market. The 1996 Single Market Review responds to a 1992 Council of Ministers Resolution calling on the European Commission to present an overall analysis of the effectiveness of measures taken in creating the Single Market. This review, which assesses the progress made in implementing the Single Market Programme, was coordinated by the Directorate-General 'Internal Market and Financial Services' (DG XV) and the Directorate-General 'Economic and Financial Affairs' (DG II) of the European Commission.

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by

Price Waterhouse

It does not, however, express the Commission's official views. Whilst every reasonable effort has been made to provide accurate information in regard to the subject matter covered, the Consultants are not responsible for any remaining errors. All recommendations are made by the Consultants for the purpose of discussion. Neither the Commission nor the Consultants accept liability for the consequences of actions taken on the basis of the information contained herein.

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List of abbreviations and expressions

These explanations are not legal definitions but working definitions for the purposes of this report.

AAD	The accompanying administrative document which travels with intra-Community cross-border shipments of excisable goods
Arrival	Goods incoming into one EU Member State from another
Cecchini Report	A detailed report on 'The cost of non-Europe', published by the European Commission in 1988
CN	The EU's Combined Nomenclature, used to classify goods for Customs duty and the application of external commercial policy. It is also used to classify goods for the purposes of the Intrastat system
Despatch	Goods consigned from one EU Member State to another, post-1 January 1993
Dual-use goods	Goods which can be used for either warlike or benign purposes
ECSC	European Coal and Steel Community
EC VAT	The cross-border VAT system of EC supplies and acquisitions. This is a third variant on the VAT systems operating in the EU, in addition to domestic VAT and VAT arrangements for third country trade (exports and imports)
EDC	European distribution centre
EDI	Electronic data interchange
E-mail	Electronic mail
EU	European Union. For the purposes of this study, our scope takes in the 12 countries which were Member States at 1 January 1993, excluding Austria, Finland and Sweden. Although in many cases the correct legal term is 'European Communities', we have followed normal practice by using the expression 'EU' throughout, except when referring to cross-border VAT systems where we have adopted the standard expression 'EC VAT'
EUROPROs	A collective expression for the trade facilitation bodies of the Member States
Eurostat	Statistical Office of the European Communities, sometimes also known as 'SOEC'
Export	Before 1 January 1993: goods despatched from an EU Member State to another country, including another Member State After 1 January 1993: goods despatched from the EU to a third country. See also 'despatch'
Free circulation goods	Goods which either originate in the EU or have been imported and all relevant duties paid. They are free to move around the EU without further Customs controls
HGV	Heavy goods vehicle
Import	Before 1 January 1993: goods arriving into an EU Member State from another country, including from another Member After 1 January 1993: goods arriving in the EU from a third country. See also 'arrival'
Intra-Community trade	Trade in goods which are despatched from one EU Member State cross border to a destination in another Member State. Therefore it excludes domestic trade in goods, where the points of despatch and destination are in the same Member State and also excludes exports to countries outside the EU and imports from such countries
Intrastat	The EU system for the collection and dissemination of crossborder statistics, managed by Eurostat and national administrations
IT	Information technology, an umbrella expression for computerization of all kinds
JIT	Just-in-time inventory system, whereby incoming deliveries are scheduled to arrive just in time to replenish outgoing stock before an out-of-stock situation occurs
Maastricht Treaty	The Treaty on European Union signed at Maastricht on 7 February 1992
MNC	Multi-national company or corporation
Non-free circulation goods	Goods which are not in free circulation (see above)
PBIT	Profit before interest and tax, a key company reporting figure
QR	Quick-response system of manufacture and supply
SEM	The single European market
SITPRO	The UK's board for the simplification of international trade procedures, an activity of the Department of Trade and Industry
SME	Small- and medium-sized enterprise
STLSS	Ship-to-line-set-sequence, in which incoming materials are supplied direct to the production line without retaining inventories at the site of production
T1 goods	Goods which are not in free circulation within the EU
T2 goods	Goods which are in free circulation within the EU

Traders	A generic name for companies which consign or receive goods cross-border in the EU. Before 1 January 1993 these would have been referred to as exporters and importers; now they are more correctly termed cross-border despatchers and receivers of goods
VAT	Value-added tax

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We gratefully acknowledge the cooperation and participation of the many European companies – traders and hauliers – who have responded to our survey and assisted us with this study. Without them, it would not of course have been possible. The fact that they have been willing to put together data which took considerable time and effort speaks volumes about their tenacity.

Not all of the respondents have been speaking from the comfort of their offices. Many of them have had to roll up their sleeves, visit their archives and unearth, dig out and count figures from dusty shipping files dating back four years or more.

Other important respondents were the lorry drivers whom we met at a variety of frontiers and truckstops around Europe. They know everything there is to know about the former frontier delays and how they can use their truck better (or not) since these were abolished. We will dine out on their stories for a long time to come.

Last but certainly not least, we are most grateful to the officials of the European Commission, especially those of DGs II, XV and XXI, who have been so eager to work with us in order to obtain the best results possible.

The Price Waterhouse pan-European team carried out this project under the leadership of Damian McCarthy (Irish) as the responsible Partner. Charles Freebury (British) was the Project Manager and Frank Debets (Dutch) was our Results Analyst and Econometrist. The field surveys were carried out by teams based in Price Waterhouse offices in the 12 Member States.

1. Summary

Headline figures...

Estimates based on our survey sample reveal the following results:

- Complying with Customs controls at internal Community frontiers before 1993 could have cost EU traders in the region of ECU 7.5 billion a year, based on 1992 trade levels but expressed in today's money. This represents over 1% of the total value of trade between the Member States.
- This cost may have been reduced to one-third of its 1992 level by the abolition of routine Customs and fiscal controls at frontiers on 1 January 1993, saving Community traders over ECU 5 billion a year.
- However, complying with the transitional EC VAT and Intrastat systems (introduced on 1 January 1993 to meet requirements, previously dealt with through frontier controls) is still highly complex and costly, incurring costs to traders in the region of ECU 2.3 billion a year.
- Respondents accounting for one-third of intra-Community trade (by number of consignments) paid back in the first three months of 1993 the costs they incurred in changing to the new system. This figure rose to over 50% by the end of 1993 but has not yet climbed beyond 80%.
- Respondents generally reduced costs by between ECU 10 and ECU 30 per consignment but many have achieved savings exceeding ECU 100 per consignment. Some have incurred slightly higher costs than in 1992 and a few have incurred substantially higher costs.
- The saving per consignment has been greatest in the Mediterranean Member States and least in the northern Member States. However, when trade volumes are taken into account, Germany, Italy and Spain have been the main beneficiaries.
- Small- and medium-sized companies appear to make slightly smaller savings than larger companies, but the main factor influencing the level of savings is still the Member State.
- The cost to road hauliers of waiting time at frontiers in 1992 may have been in the region of ECU 900 million. Residual waiting times today may still cost around ECU 50 million.
- Half of the haulier respondents were able to achieve increased utilization of their vehicles when the frontier controls were abolished. The total weighted direct saving to European hauliers might be in the region of ECU 370 million. The highest aggregated savings were in the south, because of the longer delays prior to 1993, and between Germany, France and Benelux because of high volumes.

1.1. Objectives

Until the end of 1992, every consignment of goods which was sent from one EU Member State to another had to be stopped at each internal Community frontier for Customs clearance or other Customs controls. Customs declarations had to be completed and presented to Customs. Documents and sometimes the goods were examined. VAT and other taxes had to be accounted for.

On 1 January 1993, all routine Customs and fiscal controls at internal Community borders were abolished. In their place, a new transitional EC VAT system was introduced, together with a

new statistical system, Intrastat. Hauliers no longer encounter routine Customs delays at internal Community frontiers.

1.1.1. Compliance costs for traders

Complying with the intra-Community export, transit and import Customs formalities in force until the end of 1992 added to traders' costs. Each consignment incurred two or three sets of fees paid to Customs agents, together with in-house staff time. Of course, the new systems also incurred costs for traders, mainly the cost of staff time in setting-up and running the new EC VAT and Intrastat procedures.

The principal aim of this study is to determine the difference between the compliance costs to traders of the old and new systems. It was not the purposes of the study to focus on the remaining costs of the transitional EC VAT and Intrastat systems. However, it should be noted at the outset that these transitional systems were seen from their inception as no more than a very imperfect solution. By the very nature of their being transitional, they failed in a number of ways to fulfil the aims of the single market. The simpler, definitive systems originally proposed for 1993 were not, in the end, those which were accepted at the time, and only as we go to press are new proposals being tabled for the definitive systems which, it is widely hoped, will reduce the cost and complexity of compliance down to more reasonable levels.

We also sought traders' views on the efficiency of the current transitional system compared to the former pre-1993 system, on the one hand, and the proposed definitive system on the other, bearing in mind that the transitional system does not by any means fully exhaust the possibilities for improvement.

1.1.2. Ten-year review of Customs procedures

The second objective of the study was to conduct a brief, high-level ten-year review of the impact on traders of developments in Customs procedures, which of course still have to be used for trade with third countries.

1.1.3. Cost savings for road hauliers

The third objective of the study was to estimate the costs incurred by road hauliers prior to 1 January 1993, as a result of the frontier delays which were routinely caused by waiting for Customs clearances. We estimated the direct savings they could make when the controls were abolished.

1.1.4. Consequential effects on European logistics

The final objective was to consider the consequential impact of the abolition of routine border controls on European warehousing and distribution.

1.1.5. Scope

The scope of the study covered intra-Community cross-border trade between the 12 Member States which were members at 1 January 1993 (thus not including the new members, Austria, Finland and Sweden, which acceded to the EU on 1 January 1995). The savings we have estimated are the direct savings to traders arising from the difference in compliance costs and

delays. We have not dealt with consequential savings nor savings to other parties such as public administrations.

1.2. Savings to traders

We obtained detailed information on cost and business volumes from traders throughout the EU, covering 222 usable examples of companies despatching goods to other Member States and 223 examples of companies receiving goods from other Member States, weighted between Member States by their trade volumes with the rest of the EU. Our results may be summarized as follows.

In this report, the term 'billion' means 'thousand million'. While our aggregated estimates are consistent with expectations, it should be borne in mind that they are based on a relatively small sample with highly variable levels of costs and savings.

1.2.1. The bottom line

Based on our sample and the figures available to us, we estimate that the costs of Customs and fiscal compliance for intra-Community cross-border traders are likely to have been dramatically reduced, down to under one-third of their 1992 levels.

The total savings, at 1995 costs but applied to 1992 trade volumes, may exceed ECU 5 billion annually.

This represents a reduction of ECU 5.223 billion, from ECU 7.513 billion to ECU 2.370 billion.

Our estimate of the costs incurred before the abolition of routine frontier controls equates to a little over 1% of total intra-Community cross-border trade turnover at 1992 levels. The reduction therefore represents an estimated saving of two-thirds of 1% of the value of total trade.

However, it may be more meaningful to set such costs against net margin (profit before interest and tax, or PBIT) which is a more significant figure for businesses. If a company achieves a net margin of 10% of its turnover, then a saving which represents two-thirds of 1% of turnover would have the effect of boosting net margin by almost 7%.

1.2.2. An imperfect solution

While our survey findings reveal a cut of two-thirds in the cost of compliance with the formalities under review, this should not conceal the fact that there is still a high residual cost of complying with the transitional EC VAT and Intrastat procedures. This is, simply put, because they are transitional and were recognized by all concerned from the outset as only an imperfect solution, in the absence of agreement or consensus on the original proposals for a replacement for Customs frontier controls.

Therefore, although the focus of this study is on the savings before and after 1 January 1993, and not on the remaining costs of the transitional systems, it is important to recognize that the savings could have been much higher still.

There was in fact a widespread expectation by business that the abolition of frontier controls would result in an abolition of the associated workload. Instead, the inconvenience of the fiscal and statistical burden workload was seen by business as not being abolished, but simply

transferred from frontiers right into their own offices. This was, understandably, perceived by many as a greater personal inconvenience than before, for reasons we describe more fully in this report.

1.2.3. Pay-back of the costs of change

For any one company, the savings accruing on each consignment have to pay back the cost which the company incurred in making the change to the new 1993 systems, before any net gain is actually achieved. Set-up costs for over half of the respondents did not exceed ECU 15,000, which we consider reasonable, although one-third incurred costs exceeding ECU 25,000.

There are very significant differences in the way companies dealt with new systems administratively, and as a result any attempt to average or aggregate these costs has limited meaning. It is more meaningful to look at the individual company, to determine how long it should have taken them to pay back their expenditure on the new systems out of cost reductions in the administration of Customs clearance.

Based on our sample, respondents accounting for one-third of total consignments should have paid back their set-up costs in the first three months of 1993 and those accounting for over 50% of consignments should have paid costs back by the end of 1993.

Thereafter, the curve flattens out and, at the time of publication, four years after the inception of the new system, respondents accounting for 20% of all consignments may still not have paid off their set-up costs. Others, whose costs actually increased from 1 January 1993, of course will never pay them back.

For traders which ship only small numbers of consignments and which have not achieved a high cost reduction per consignment, the pay-back period is a very long drawn-out affair indeed. However, few companies with whom we spoke had either monitored their set-up costs closely or had estimated how long it would take to achieve a pay-back. Most had simply written them off at the time.

1.2.4. The winners and the losers

Most of our respondents reduced their costs after 1 January 1993, but not all. Nevertheless, the proportion of 'winners' to 'losers' is strong at 7:1.

Levels of saving

The levels of savings achieved group themselves into distinct bands. The main band is for those saving between ECU 10 and ECU 30 per consignment.

Then there is a substantial number of respondents which save in excess of ECU 100 per consignment. The main countries in which certain respondents benefited from such high levels of saving are Italy, Spain, Germany and the Netherlands. In Italy and Spain, this was mainly due to the high Customs agency fees incurred before 1 January 1993. In Germany and the Netherlands, the difference almost invariably resulted from disbanding or downsizing the trader's internal Customs compliance department in 1993.

The Member States

The main factor influencing these levels of savings was very clearly the Member State. Traders in the Mediterranean Member States fared best, mainly because their 1992 costs had been highest. Savings per consignment for respondents in the Benelux countries, Denmark and France were rather low, in many cases because the 1992 systems were less costly than elsewhere. The cost differences for Danish respondents were minimal, because of the low costs and high efficiency of their Customs clearance systems.

The Member States which gained the largest aggregated savings will have been those with the largest intra-Community trade volumes and those where the highest cost differences per consignment were found. Based on our sample, Germany, Italy and Spain appear to be the largest overall beneficiaries. Denmark, Luxembourg and Ireland are the smallest, with the remainder falling in between.

The German example is especially interesting. We detail later in the report how, when all German cross-border trade is put together, German cross-border trade appears to have benefited from the highest aggregated savings. This does not mean that individual German traders benefited more than those in other Member States, sometimes the contrary.

The reason for the high aggregated benefit is partly because of the sheer high volume of trade, so that even a small saving per consignment means a large saving for trade as a whole. It is also brought about because it is more common in this Member State than elsewhere for traders to maintain their own specialist Customs departments, which could be down-sized or disbanded after 1992 in line with the drop in Customs workload.

However, adverse reaction to the changeover, more particularly to the new transitional systems, was especially marked in Germany. The need to absorb the new and quite detailed procedures, the high set-up costs and the unexpected ongoing compliance costs all drew fierce criticism at the time and since. The criticism was expressed in the many opinion surveys which were conducted, and our own survey also shows that respondents in Germany, along with the UK, are decidedly cool about the transitional arrangements.

It appears at first sight that these two matters are conflicting and irreconcilable. However, as we point out in our report, we believe that this survey is the first which actually gets down to putting a specific cost on the activities. Many, if not most, of the traders we approached, in all Member States, had not estimated – indeed, had seldom considered – the costs of the old system, the new system or the changeover.

Therefore, it is quite reasonable to expect that the opinion surveys would gain a negative response from those who were expecting radical simplification and received rather less, and this is what happened more or less everywhere in the Community.

It is also significant that the respondents to these surveys were drawn mainly from the financial departments which had to take on the new burden of the transitional systems but had not previously incurred either the burden or the cost of the former system. This was the shipping department's job, who by and large either left it to the financial departments to respond to surveys, or quite often had been disbanded and so were not there to give an opinion.

The two matters are therefore not irreconcilable because opinion was very understandably critical of the transitional systems, while most traders appear to have been more preoccupied with coping with major issues such as recession than with calculating how much the single market had saved them.

The German situation is worth describing as an example. While it represents to a large extent the two extremities, that is, more cross-border trade and more criticism of the new systems than elsewhere, the same features can be found in the other Member States.

Other factors

The size of company made a small difference to the levels of saving per consignment. Small- and medium-sized enterprises fared rather less well than multinationals and larger companies, but the difference was not very significant.

The more significant factor for smaller companies appears to be the length of time it takes to pay back their set-up costs. Where they are located in a Member State with lower levels of savings (i.e. northern Europe) and ship or receive only small volumes of consignments, they appear to find that it takes a great deal of time to pay back, if they ever do.

Traders which used simplified Customs procedures in 1992 achieve generally lower savings than those which did not, because the simplified procedures were less costly and more efficient to manage than the normal Customs procedure. However, some companies, which had maintained their own Customs compliance department until the end of 1992 and then disbanded or downsized it, did achieve good savings because of the reduction in staff costs.

From our responses there seems to be little significant difference between the levels of cost saving for different industries, although wholesalers and retailers fared slightly less well. Traders in excisable goods (alcohol, tobacco, mineral oils) and foodstuffs fared rather better because their pre-1993 procedures were relatively more complex. Nor do the type of transport policy used (own-account versus third-party transport), the proximity of traders to frontiers, or other factors we tested appear to influence the levels of savings significantly.

We have drawn attention to certain special trading circumstances to which normal estimates of costs and savings may not necessarily apply. These include traders having to register for EC VAT in other Member States than their own and those dealing in very specialized types of goods.

Cost increases

In cases where costs have increased, these have usually been relatively small, mainly under ECU 10 per consignment with some a little higher and a few with much higher cost increases. The instances of high cost increases are limited to several in Italy and one each in Germany and the UK. These have been mainly due to the small number of consignments (not necessarily small values or traded by small companies) combined with the need to spend a minimum amount of time on the periodic VAT and Intrastat reporting.

1.2.5. Views on the current systems

Finally, we asked for views on the current systems. Half of the respondents to this question preferred the old 1992 system to the new one. There was a majority of those who preferred the new system in Belgium, France and Italy, a substantial majority in Denmark, Greece, Ireland, Luxembourg, Portugal and Spain, while respondents in Germany and the UK were decidedly cool about the new system.

Over two-thirds of respondents wanted to move on from the transitional to the definitive system. There was a substantial majority in favour of moving on in France, Germany, Italy and Spain, with a majority in all the others except Ireland and Luxembourg (where the sample sizes are too small to draw general conclusions).

1.2.6. Reduction in freight charges

Almost three-quarters of traders responding to our question on whether freight costs had been reduced by the aboliton of frontier controls had not found this to be so. For the remainder, a reduction had been obtained, but in half of these cases, it had to be requested by the trader.

1.3. Ten-year review of Customs procedures

Customs clearance and transit procedures have changed enormously over the past ten years. Clearly the major change for traders is that the procedures which had to be used until the end of 1992 for all international trade are now only used for trade with non-EU countries. The use of Customs clearance procedures was halved overnight, 60 million Customs declarations a year were abolished and 85% of Community Transit movements became unnecessary.

With the accession to the EU of Austria, Finland and Sweden in 1995, the single European market was accordingly further widened.

Another main trend was to standardize and simplify the data which had to be presented to Customs, resulting in, among other things, the introduction of the Single Administrative Document in 1988 and its progressive refinement.

The third trend was to develop and introduce on a progressive basis Customs simplified procedures, especially computerized applications. Alongside these, new and more commercially-orientated procedures were introduced throughout the EU, such as efficient methods of Customs warehousing.

There were also a variety of other important legal and fiscal changes, many of which aimed at applying Customs procedures in a more equivalent manner across the EU.

We discussed the changes with a panel of respondents which represented trade throughout the EU. They welcome the changes which have been made, but want them to go further. They wish to see a greater degree of standardization between the practices of the Member States and the extension of compatible IT applications throughout.

1.4. Delays to hauliers

We looked at the delays experienced by road hauliers in 1992 and whether they could put to use in 1993 the time saved by the abolition of the controls. We interviewed over 200 haulage

companies and drivers and obtained over 500 responses. Interviews were conducted on-the-spot in border regions.

1.4.1. Delays in 1992

By far the highest average delays were reported in the south, on the borders between Spain/Portugal, Greece/Italy, Spain/France and Italy/France. The least delay was reported within Benelux, Benelux/UK and Germany/Denmark. If the total cumulative delay is constructed for examples of long and short routes, it follows than the longest delays to journeys were on routes which were both lengthy and to or from the south.

Some border delays are reported even now, but seldom more than an hour and mainly for traffic moving in or out of Austria, or between Spain and France. This most affects routes from Germany to Italy, Italy to Spain, and others into and out of the Iberian peninsula.

Only about half of the drivers reported that when the Customs controls were removed at internal frontiers they could make use of the extra time by improving their utilization. In the other cases, the main reasons for no improvement in utilization came from the need to take mandatory rest breaks (which were traditionally taken while awaiting Customs), waiting to pick up new loads and delays caused by the closure of roads to heavy goods vehicles in some Member States on certain days.

1.4.2. The cost of delay and the savings in 1993

The total cost to hauliers of frontier delays at the end of 1992 is estimated to have been running in the region of ECU 900 million a year, with current delay costs of ECU 55 million, representing a total reduction approaching ECU 850 million. Only those hauliers able to obtain increased utilization can be said to have actually saved the cost of delay. Weighted total savings in the region of ECU 370 million a year might have been made by these companies.

The greatest total savings appear to have been made at the border crossings from the Mediterranean Member States because of their longer delay times and between Germany, France and Benelux because of their traffic volumes. Costs and savings within Benelux were very low because of the minimal controls prior to 1993 in the Benelux Customs Union.

As with the trader survey, it should be borne in mind that these aggregated figures are based on a relatively small sample size with a quite varied range of responses.

1.5. Consequential effects on European warehousing and distribution

We assembled a number of examples of companies which had found that the abolition of routine frontier controls had, at least to some extent, enabled them to improve the way they warehouse and distribute goods across Europe. Our examples, while not attempting to be exhaustive, illustrate four trends.

The first is a very marked trend towards using single or multiple European distribution centres (EDCs) to cut down the number of different stocking-points across the EU and to deliver direct to the customer instead of through distributors.

The second is the associated trend to re-focus national distributors on their sales and service priorities through replacing local stockholding and administration by an EU-wide system using EDCs.

The third is to exploit the fact that there are now no routine delays at borders, so improving cross-border applications of just-in-time or similar techniques.

The final trend, relevant to all the others, is the increase in the availability of timetabled and express light freight services, making for the reliable delivery times which were always sought by customers but, given the uncertainties of frontier delays, were rather elusive.

1.6. Conclusion

Reducing Customs costs by two-thirds, even though the former cost represented less than 1% of trade values, is a major benefit which cannot be ignored. The reduction has significantly benefited the Mediterranean Member States in terms of cost saved per consignment and the larger Member States because of their trade volumes. It is, however, unfortunate that the pay-back period has been so extended.

Meanwhile, Customs procedures, now only needed for third country trade, continue to develop and become better aligned to commercial needs, although business would clearly like to see an acceleration of EU-wide standardization and computerization.

European road haulage costs have reduced somewhat, although it is by no means always possible to put to good use the hours saved at frontiers. It is more likely that the consequential benefits of new and better ways of distributing goods around Europe, without the hindrance of frontier delays, will be more important.

Overall, despite the remaining frustrations of Customs and fiscal procedures, the changes have clearly been good for Europe.

2. What this study looks at

2.1. The aim of the study

The principal aim of the study was to quantify the cost savings – or otherwise – accruing to traders and hauliers from the abolition of Customs controls at internal EU frontiers on 1 January 1993.

Many surveys have been carried out since that date to test opinions on the abolition of these controls, and especially seeking views on the replacement systems to manage EC VAT and provide statistics on intra-Community trade. However, these surveys have been qualitative rather than quantitative.

This report, we believe, is the first substantial attempt to put a figure on the savings since the forecasts made in the Cecchini Report in 1988.

The terms of reference appear at Appendix A and cover four discrete subject areas:

(a) The first is to ascertain the actual compliance cost saving, if any, achieved by companies which sell and buy goods across internal EU frontiers (we refer to them in this report as 'traders') directly resulting from the abolition of Customs and fiscal controls at internal frontiers. This figure has to be aggregated to the level of EU cross-border trade as a whole.
Costs should have dropped out of the system when it was no longer necessary to pay fees to Customs agents for Customs-clearing every consignment at export and import. However, this gain has to be balanced against the new costs of administering the replacement EC VAT and Intrastat statistical systems.
Although these new operations do not involve procedures at frontiers but in the traders' offices and are usually undertaken by the traders themselves, they still represent a cost in terms of staff time.
It is also necessary to consider the relative weight of the switch-over in regions near to borders and for smaller companies. Views are to be provided additionally on the strengths and weaknesses of the transitional EC VAT and Intrastat systems and on the systems covering the movement of goods subject to excise duty.
This subject area constitutes the main element of the study.

(b) The second area is a ten-year overview of the impact on traders of developments in Customs procedures in the EU, with an assessment of the efficiencies and effectiveness of such developments. Many changes have taken place in this period. Since 1 January 1993, very few of these affect internal EU trade. The impact of these changes on traders has been very significant.

(c) The third area, a further major element of the study, is a review of the costs which road hauliers incurred at internal frontiers prior to 1 January 1993, and an indication of the extent of cost savings they made as a result of not having to stop and clear Customs at such frontiers after this date.
Differences in costs on a variety of routes have to be examined and the results aggregated to EU trade levels. The cost saving is not simply a matter of taking out of their accounts the waiting time at frontiers pre-1 January 1993. It depends on the use to which they can put the time saved, in other words whether increased vehicle and driver utilization is possible.

(d) The final area examines consequential effects on the cross-border logistics aspects of supply chains in the EU, that is warehousing and distribution. This is a progressive and still developing situation. Many business practices have been at least partly influenced by the abolition of routine frontier controls.

The type of trade with which this study is concerned is:

(a) trade in goods, excluding trade in services (whether or not associated with goods);
(b) intra-Community cross-border trade only (excluding goods moving within any one Member State and those moving to or from third countries);
(c) goods which are in free circulation (that is, they originate in the EU or have already been imported and duties paid);
(d) as regards the third area, the haulier cost survey, driver-accompanied road haulage only; and
(e) as regards the Member States, only the 12 Member States which were members on 1 January 1993 (including the eastern *Länder* of Germany, but excluding Austria, Finland and Sweden, which acceded to the EU in 1995).

2.2. Activities at internal frontiers and in the office, before and after 1 January 1993

2.2.1. Before 1993

Each and every consignment of goods had to be held at internal frontiers for Customs controls, for example for:

(a) full export or import Customs clearance (with or without inspection of the goods);
(b) checking of documents and licences, where goods had been cleared for export before arriving at the frontier, or were to be cleared for import beyond the frontier;
(c) checking Community Transit documents and seals.

Full clearance entailed accounting for VAT as well as the provision of the appropriate Customs declaration. For goods subject (or potentially subject) to excise duties or charges under the Common Agricultural Policy (CAP), these charges also had to be accounted for.

A certain amount of residual accessionary charges and procedures remained between Spain and Portugal and the rest of the EU.

There could be some simplification if traders or Customs agents were authorized to use simplified Customs procedures. Also the controls within Benelux were lighter than for other frontiers.

The need to stop and undergo Customs controls at internal frontiers by definition caused some element of delay, with significant congestion at some frontiers, especially road frontiers, either due to the volumes of traffic or to slower clearance procedures at some points.

Most traders out-sourced compliance with Customs formalities to freight forwarders or Customs agents. Freight forwarders in turn either had their own Customs department or engaged third party Customs agents. Traders and forwarders in some Member States were able to make declarations by computer.

Traders using simplified procedures, especially those in Denmark, France, Germany and the United Kingdom, used external agents only for the abbreviated declarations and controls necessary at borders. The rest was normally driven from the traders' accounting systems and they would report directly to Customs, usually on a periodic, recapitulative basis, often on computer-readable media.

In addition to controls for statistical and fiscal purposes, Customs conducted both spot and targeted checks for preventive purposes, for example to control the illegal importation of narcotics or pornography and the illegal exportation of antiques or warlike materials.

Further controls were carried out on identity, entailing checks on passports, identity cards and, for some non-EU nationals, visas. These are not Customs controls but sometimes Customs officers undertake them as agents for the responsible department, as a matter of convenience.

Other controls might be carried out, for example on live animals or hazardous materials.

2.2.2. The single European market changes relevant to this study

As regards shipments of goods, we examine in this study the compliance costs of routine Customs controls on free circulation goods in relation to export, Community Transit and import frontier formalities, which were abolished on 1 January 1993. We do not consider controls at internal frontiers on third country goods not in free circulation (which were also abolished at the same time) nor other controls on goods.

The requirements prior to 1 January 1993 for accounting for taxes and providing statistics on the Customs declaration were met from 1 January 1993 by new systems introduced on that date. Accounting for EC VAT is now done periodically in arrears via the VAT return. Providing statistics on intra-Community cross-border movements is now done by means of a system known as Intrastat, again periodically reporting in arrears. A periodic EC sales list is also required from traders, and some Member States require an EC acquisition list.

The cross-border movement of goods subject to excise duties is now controlled by a special system based on a Directive on the holding and movement of excisable goods. An Accompanying Administrative Document (AAD) accompanies the goods and copies are used by the commercial operators and the Customs administrations for control purposes.

2.2.3. Other single European market changes at frontiers

Customs controls on non-free circulation goods were moved to external frontiers. They are therefore carried out at the time the goods enter the Customs territory and/or at the time when a declaration is submitted to Customs. For example, goods arriving at Le Havre and bound for Spain may be Customs-cleared at Le Havre and then there are no further routine Customs controls on the journey. They will cross the French/Spanish border under the EC VAT and Intrastat systems. Alternatively, such shipments can be placed under the Community Transit system at Le Havre and Customs-cleared, for example, on arrival at the Spanish side of the French/Spanish frontier.

Regulations have been progressively introduced which mean that other controls previously carried out on a national basis are now undertaken at an EU level and at EU external frontiers,

for example, quantitative restrictions such as those under the Multifibre Arrangement for textiles (MFA) and checks for compliance with health and safety and technical standards.

Customs can still conduct targeted, preventive checks at internal EU frontiers on goods and on people who are or might be carrying goods or controlled substances. Other controls, such as on trade in endangered species, coal and steel goods, licensing for dual-use goods, national licensing and internal Community controls such as surveillance under Article 115 of the Treaty, cannot incur routine border stops.

CAP charges on internal EU movements were abolished, as were any residual accessionary charges between Spain and Portugal and the rest of the EU.

Identity controls on people were not affected by the 1 January 1993 changes, although it had been thought during early 1992 that these controls might be abolished at the same time as those on goods. The Schengen Convention has to some extent removed or lightened controls on people moving between some Member States, while EU initiatives under the provisions of the Maastricht Treaty aim at removing these controls eventually.

2.2.4. The practical effect

At frontiers

The removal of routine frontier controls on goods was achieved on time and, apart from a small number of teething problems, has worked very well since.

This has not necessarily changed the habits and practices of, for example, drivers of goods vehicles, who still tend to stop at the same places at the same times for their mandatory meal and rest breaks, at least where their journeys started some distance from the frontier. Before 1 January 1993, such breaks tended to be taken while awaiting Customs at some frontiers where an established truckstop community had grown up.

Customs' preventive controls are aimed at frustrating the efforts of smugglers and fraudsters to bring controlled substances into a Member State, such as pornographic material or narcotics. These controls are still in place, although on a targeted, not a spot check basis.

As regards checks on people, there is in practice little delay at internal frontiers for EU nationals. In some cases there is no delay, for example, between some of the 'Schengen' countries, or for car or road freight drivers passing between certain other Member States. In other cases, such as at airports, controls such as security and identity checks made by airline ground staff take much longer than identity controls by immigration officers or frontier police.

However, it is still quite widely felt as a matter of principle that immigration-related controls should not take place on EU nationals moving within the EU.

In the office

The new systems of accounting for EC VAT and provision of statistics proved immediately unpopular. The EC VAT system was legislated very late, in some cases after 1 January 1993, creating a great deal of uncertainty and confusion. For some time after 1 January 1993, EC VAT

procedures were also very inconvenient for traders with certain specialized types of trade pattern, although some of these procedures have been simplified since.

Undertaking the new procedures in-house brought company managers face-to-face with the administrative inconvenience of procedures with which they previously had no direct experience. Customs compliance before 1 January 1993 was usually out-sourced and its cost allocated to transport charges, either re-charging this to the customer or absorbing it into the cost of sales.

The new system meant loading more work onto existing staff. Alternatively, it meant employing extra staff, which was difficult as personnel budgets were at that time subject to deep cuts because of the recession which had started to bite in Europe.

The fact that Intrastat compliance was usually taken on board by the same financial departments which undertook the EC VAT work meant that finance staff were faced with data which they had not dealt with before and did not understand. The shipping departments who had previously dealt with such data either were no longer involved, or were being downsized and so had lost their erstwhile expertise in such matters.

Many companies paid freight forwarders a through transport charge which included Customs clearance. Because of the re-focusing of attention away from the shipping function, and often the loss of shipping staff, some companies appear to have failed to ensure that their transport costs were actually reduced by the amount of the former Customs clearance fee.

All in all, it is understandable that the new system received such a bad press. It is, however, unfortunate that the compensating benefits of reduced delays and eliminated Customs clearance costs were sometimes overlooked.

2.3. The nature of compliance costs

2.3.1. Traders

Before 1993

Each consignment incurred at least two sets of Customs agency fees, one for export Customs clearance in the Member State of despatch and one for import Customs clearance in the Member State of arrival. Additionally, if the consignment was to be Customs-cleared at a location beyond the frontier of the Member State of arrival, or if it was travelling through another country *en route*, then extra fees would normally be incurred for a Community Transit movement.

Additionally, internal staff costs were incurred by the trader for time spent in supervising the freight forwarder and in attending to Customs' control visits.

We have already noted that some traders in certain Member States used periodic declarations under the simplified procedures which were permitted by those Member States. These traders therefore only out-sourced an initial declaration at the point of entry to the Member State. The remainder was done in-house by their internal Customs department and so the main costs incurred related to staff time and overheads.

Traders in excisable goods incurred higher costs because of additional procedures necessary to cover the movement and duty suspension of these high-revenue, high-risk goods, and because at

that time there was very little EU-level legislation covering the movement and handling of such goods.

Since 1 January 1993

The costs incurred by traders since 1 January 1993 have mostly been in-house staff time costs, because most traders have not out-sourced EC VAT, Intrastat or excise compliance.

Where traders have outsourced, this is typically where their pattern of trade entails registering for VAT in other Member States where they are not directly established. In such cases they tend to use a fiscal representative for EC VAT, incurring fees in respect of the services and, in most cases, certain financial guarantee costs.

The logistics company is sometimes entrusted with Intrastat compliance, for example where it operates a third party distribution centre on behalf of the trader. Fiscal representatives also offer Intrastat compliance services. Service fees are therefore incurred.

Excise traders sometimes use specialist wine shippers or oil product transporters to undertake excise compliance under the handling and movement Directive. The compliance cost may be included in the total transport charge or separated out.

A large investment had to be made by many companies in late 1992 and early 1993 in training and systems upgrades. In the case of smaller companies with simple flows, straightforward product lines and packaged accounting software, this only involved staff training, as the compliance would be quite simple: the EC VAT compliance was usually taken care of by the 1993 upgrade to their computer system, while the Intrastat forms would be quite straightforward.

In the case of other companies, for example those with customized accounting systems and complex flows, there were some significant system changes, with additional investment in (usually) packaged software to produce Intrastat reports. Clearly, the costs of upgrades, training, and management time in making the changes all had to be paid back before any net savings could be realized. The same was true for excise traders in relation to the changes affecting them.

Finally, staff time dealing with Customs' or other authorities' control visits was still incurred. Some control officers, as reported by our respondents, impose more time-consuming and rigid requirements than others.

2.3.2. Hauliers

Before 1993

Hauliers incurred costs arising from the waiting time at frontiers necessitated by having to stop and queue up for Customs controls. The amount of waiting time depended on the amount of traffic, the rigour with which the Customs controls were habitually applied at the frontier in question and the opening hours of the Customs posts on either side of the frontier.

After 1993

Any remaining controls at frontiers are reported to be minimal, but some waiting time and associated cost is still evident. However, the vehicle may still stop at or near frontiers for other reasons. In many cases, drivers used to use the waiting time at Customs to take their mandatory

rest and meal breaks. These breaks still have to be taken, so now it is these that are responsible for the stoppage and not Customs.

In some Member States, heavy goods vehicles are banned at weekends or on Sundays and so the extra round trips cannot be completed in the time available, even though the driver may have available driving time out of his maximum six days per week.

The downturn in business during the recessionary period also meant that the quicker completion of a trip might simply mean a longer wait for the next load.

2.4. Issues to be addressed

2.4.1. Trader survey

(a) What were the costs of compliance in 1992?
(b) What are they now?
(c) Is there a net saving for the individual trader and for the EU trade seen as a whole?
(d) If so, how much was it?
(e) Who were the winners and losers?
(f) What factors have influenced the levels of savings?
(g) How long did it take to pay back the set-up costs?
(h) What are seen as the efficiencies and otherwise of the transitional EC VAT and Intrastat system? Is the new or old system seen as more effective? Would the traders prefer to retain the transitional system or proceed to a definitive system?

2.4.2. Ten-year overview of Customs procedures

(a) What changes took place in EU Customs procedure from 1985 to 1995?
(b) How efficient and effective were the new and developing procedures from the point of view of traders?
(c) What administrative implications do these have for traders?

2.4.3. Haulier survey

(a) What was the cost of delay in 1992?
(b) Did the abolition of frontier controls bring about extra utilization in 1993?
(c) What do we estimate to be the total savings accruing to EU hauliers?
(d) Do these vary by frontier, route and route length?

2.4.4. Consequential logistics effects

How has European warehousing and distribution developed since 1 January 1993, either totally or partly as a consequence of the abolition of internal frontier controls?

2.5. A road-map of the report

Any complex journey needs a good road-map, so we include a brief pathfinder note at this stage, mapping the route through the rest of this report.

Chapters 3 to 6 address the four main areas of the study: the cost impact for traders; the ten-year review of Customs procedures; savings to hauliers; and consequential logistical trends.

Chapter 3 deals with our survey of the cost impact for traders and is the most complex chapter. Following a note of the terms of reference and scope of the trader survey, we describe in some detail the framework of the survey (3.3). This involves details of the costs and cost elements and how they are geared to the number of consignments rather than trade values.

We then consider the net effect of the cost reductions and increases (3.4) and identify the winners and losers.

Costs are then compared (3.5) overall and by Member State. Further analyses by company size and other variables are analysed and commented on. Instances where costs have actually increased are examined (3.6), as are those where costs have decreased by over ECU 100 per consignment (3.7). Special trading circumstances are described (3.8).

We then give our estimate of the aggregate level of cost saving for EU trade as a whole (3.9) and deal with the question of payback of the set-up costs (3.10).

Following this, we analyse respondents' comments on whether they prefer the current EC VAT and Intrastat systems to the 1992 Customs clearance procedure, and on whether they prefer to move from the transitional system to a definitive, origin-based system (3.11).

Finally, we review responses as to whether forwarders' and hauliers' freight charges were reduced after 1 January 1993, and, if so, whether such reductions were obtained before or after the trader had requested them (3.12).

In **Chapter 4**, we review developments in Customs procedures over the past ten years (4.3) and present the views of a panel of traders on key elements (4.4).

We then draw together the main trends for change and the impact they may have on traders generally (4.5).

Chapter 5 deals with the haulier survey. We describe the framework of the survey (5.3) followed by the findings of our field team who interviewed several hundred drivers at or near border crossings throughout the EU (5.4).

We then set out the results of the haulier survey (5.5) and estimate the aggregate direct cost effects on EU haulage trade (5.6). Finally, we make some comparisons between hauliers' and traders' experiences on related transport cost reductions (5.7).

In **Chapter 6**, we illustrate some consequential effects on logistics of the freeing-up of internal frontiers.

Following an overview of the business environment (6.3), we look at the rapid development of European Distribution Centres (EDCs) (6.4), the related aspect of conversion of national distributors into sales agents or commissionaires (6.5) and the possibilities offered by reliable delivery schedules to just-in-time (JIT) and related techniques (6.6).

Finally, we look at the way in which express and timetabled light freight services are developing (6.7) with the breaking-down of the former rigid divisions between 'couriers' and 'forwarders'.

2.6. Related studies

2.6.1. Other impact studies

(a) Results of the Eurostat business survey.
(b) Distribution.
(c) Road freight transport.
(d) Survey of the trade associations' perception of the effects of the single European market.

2.6.2. Other studies

(a) Single European market implementation monitoring report (SITPRO).
(b) Survey on the impact of the transitional VAT regime on European SMEs (DG XXI/Euro Info Centre).
(c) Intrastat – a business perspective (CBI).

3. Cost impact for traders

3.1. Terms of reference

The terms of reference for this part of the study are as follows:

'Review the impact for operators engaged in cross-border transactions of the switch over to the "transitional" VAT system in terms of the impact on administrative and compliance costs, whether carried out in-house or through Customs brokers.

This analysis should indicate the evolution of these costs over the period since introduction of the system.

In addition, the study should provide an indication of the relative weight of the effect of the switch over in trans-frontier regions and for small- and medium-sized enterprises.

The study should provide an overall assessment as to the effectiveness and efficiency of "transitional" VAT and definitive systems for collection of excise duties procedures and pinpoint any remaining shortcomings in administrative procedures.'

3.2. Scope and concept

This chapter deals with a comparison of:

(a) the costs to traders of complying with Customs and fiscal controls at internal EU frontiers immediately prior to 1 January 1993;
(b) the corresponding costs of complying with the transitional EC VAT and Intrastat systems introduced on that date; and
(c) the resulting cost differences.

We examined the costs across the whole sample surveyed and analysed them by a number of variables such as Member State, industry and size of trader.

The savings per consignment were compared with the reported set-up costs to traders of the new EC VAT systems, in order to arrive at an estimate of when the set-up costs had been paid back so that the traders concerned actually began to achieve net cost benefits.

Then the cost findings were aggregated to the levels of EU internal cross-border trade as a whole, recognizing the limitations in accuracy which arise from the small sample size and variations in costs reported.

3.3. Framework of the trader survey

3.3.1. Focus on compliance costs

In this study, we focus only on the direct compliance costs which are incurred by traders, either out-sourced or performed in-house. We make no attempt to quantify other cost impacts which are outside the scope of the study, for example costs to the administrations of the Member States, consequential costs such as opportunity costs, increases (or otherwise) in levels of business and so on.

3.3.2. The first of its kind

As far as we are aware, this is the first study of any size which attempts to put a figure on the compliance cost differences between the 1992 and 1993 systems.

There have, however, been a number of studies over the past 25 years, mostly by national trade facilitation organizations, which have addressed the question of compliance costing in the export/import procedural area. All of them have experienced difficulties of shortage of hard data and statistics on which to base any kind of accurate costing. This situation worsens, the wider the scope of the compliance covered.

We have not made any comparisons with such cost studies in this report. This is not to be taken to mean that they are not valued. They have been immensely worthwhile in drawing attention to a costly but neglected area. We have simply started, as it were, with a clean sheet of paper and an open mind as to whether there are savings and if so, how much.

3.3.3. Key cost elements

Out-sourced in 1992; time costs from 1993

We have already outlined the key cost elements in Section 2.3.1 and we now elaborate on some aspects of these.

It is recalled that, in determining the costs incurred before 1 January 1993, we are looking at external Customs agents' fees in 1992, plus, in the limited case of traders employing simplified procedures, the costs of in-house staff time and supervision. Often, the out-sourced costs could only be identified by checking old invoices from Customs agents and freight forwarders. Occasionally these did not separate out Customs agents' fees, so an estimate was made. It did not help that the only staff who were in a position to know the pre-1993 costs, or to be able to place their hands on them quickly, were often no longer there when we questioned the traders. Their shipping departments had been trimmed or shut down some time ago.

After 1 January 1993, most traders chose to bring the compliance in-house as a supplement to their normal VAT accounting procedures. The Intrastat reporting tended to accompany it, partly by default and partly because of the need to reconcile the two for official audit purposes.

Some traders, especially those whose trade structures meant that they had to register for VAT in Member States where they were not established, out-source EC VAT compliance in those Member States via fiscal representatives and this, of course, was a new external cost.

Nevertheless post-1 January 1993, we are mainly looking at the costs of in-house staff time and supervision.

It was not very difficult to find out how much time staff spent on the new activities, or ascertain their salary levels, but few traders seem to have put a total cost on this function. Although companies tend to allocate total costs to individual departmental functions today more than was the practice in the past, few companies we spoke with appear to cost individual activities down to the level under consideration. Few also tend to allocate a specific figure to take account of overheads and so arrive at the full time costs of their staff.

We have therefore used default values where necessary in order to gross up salary costs into full costs. Starting from the salary costs, inclusive of bonuses and employers' pension contributions, an uplift has been made to take account of employers' national social security contributions. We then added a notional uplift of 85% to the initial salary/bonus/pension cost (excluding employers' social security contributions) to allow for typical overheads.

An uplift of this level is, in our experience often used informally by businesses in a number of Member States to arrive at a working indication of total staff costs. The actual uplift over salary is unlikely to be less than 50%, or more than 100%. Our figure tends to err on the high side, deliberately so, because by so doing it will not exaggerate the net saving made from the abolition of fiscal frontiers. In all our calculations, we felt it more prudent to give a conservative rather than a generous estimate of any savings.

The resulting figure was then adjusted to add into it the costs of typical holiday and sickness absences. Finally, we added an element representing the cost of management and supervision time, for which, where figures were not provided by respondents, we made an uplift of 10%, again a figure informally used as typical in this area. In this way, we arrived at a total activity cost per hour, which could be applied to the time spent.

Relation of costs to trade volume (measured by number of consignments)

It has long been recognized, for example by international trade facilitation bodies, that compliance costs in this sector are more closely related to the number of consignments than to the value of trade or the quantity of items shipped. Broadly speaking, it takes just as long and costs just as much to arrange the formalities for any size of consignment, irrespective of its value.

Therefore, in expressing and aggregating the total costs and savings, the number of consignments is the key figure.

When aggregating figures to EU level, the costs and savings for the total number of consignments, say, from France to Germany has to be counted from the French export/despatches statistics to calculate the export/despatch savings. They must also be calculated from the German import/arrivals statistics to arrive at the corresponding figure for import/arrivals savings on the German side.

However, the availability of statistics on the numbers of consignments to and from Member States is, to say the least, a little patchy. Only a minority of Member States has this data, compiled normally from the numbers of Customs declarations entered in 1992. The corresponding figures for 1993 onwards are not directly available at all, although estimates can be made from data that is available.

Company departments providing information

In most post-1 January 1993 surveys, the main respondent has been the financial department, as it is almost universally responsible for EC VAT and Intrastat compliance. However, in 1992, this department was rarely involved in the Customs compliance and supervision of the Customs agent and freight forwarder. The task was then in the hands of the shipping department or a similar function which also dealt with the transport of the goods.

As a result, such surveys risked some degree of imbalance in their results. Therefore, in this study, we have asked for responses from both the shipping and finance functions. This was especially important if we were to obtain a true picture of the costs incurred and controlled by the shipping department in 1992 compared to those incurred by the finance department since.

3.3.4. What we asked

The trader questionnaire

The questionnaire which we discussed with traders and which forms the basis of the data-gathering in this part of the study is shown at Appendix B.

The way in which we used the questionnaire varied from Member State to Member State. In some, traders preferred to complete the form in their own time following a telephone briefing from us. In others, traders preferred us to complete the form during a telephone interview, either with the form in front of them or without. In some cases, traders preferred a face-to-face interview.

1992 costs

We asked for details of the actual out-of-pocket Customs agency fees for export or import clearance (and fees for arranging Community Transit where applicable) plus details of staff time spent supervising this activity.

Where traders administered the procedures in-house because they used Customs simplified procedures, this showed through in a nil or minimal entry for fees and a more substantial entry for staff time.

Separate data was requested from traders in excise goods in view of the additional formalities they bore.

1995 costs

We asked how long it took staff to administer the relevant procedures, being the time taken to administer the EC VAT element of the periodic VAT return, the EC Sales List and the Intrastat reports. In some Member States, the Sales List is combined with the Intrastat report and also in some Member States, there is an EC Acquisitions List. Added to this, there is the time taken by official queries and audits and special costs for procedures for excise goods.

Set-up costs

We asked for details of the set-up costs attached to making the changes. Some traders were able to record these costs into their main elements, for example, computer system upgrades, training costs, management time and external consultancy fees. Others gave an actual or estimated total. Many had not, until now, estimated how much the change had cost them.

Trade volumes with other Member States by value and volume

A key part of the response was to ascertain the trade volumes in and since 1992, by value and by number of consignments. The latter figure is especially important to help us to:

(a) determine the post-1 January 1993 cost per consignment;
(b) determine the cost difference per consignment;
(c) calculate how long it took that trader to pay back the set-up costs; and
(d) aggregate findings to EU trade levels.

We are grateful to respondents for the time they were willing to spend on retrieving this information, which usually meant visiting archives and counting shipping files.

Reductions in freight costs from 1 January 1993 and whether offered or negotiated

We asked respondents whether their carriers and freight forwarders had volunteered any reduction in freight costs in early 1993 and, if not, whether the trader had asked for any, in both cases as a result of the elimination of frontier controls.

In some cases, traders might arrange with carriers to receive additional or improved services in lieu of a cost reduction and we provided for this response.

Opinions on the 'pros and cons' of the transitional systems

Finally, we briefly sought the view of respondents on the pros and cons of the transitional EC VAT and Intrastat systems. It should be recalled that the transitional systems, although offering undoubted benefits for most traders over the former Customs clearance requirements, are still only an intermediate solution. Therefore they have to be viewed against the possibilities of progressively moving to systems which will place compliance for intra-EU trade between Member States on a more equal footing with that for domestic trade within an individual Member State. Our concluding question therefore gave our respondents the opportunity to express their views on this issue.

3.3.5. Whom we asked

Number and selection of companies

The questionnaires were not distributed at random or in bulk, as we felt that the response rate to such a request for detailed cost information would have been practically nil. To verify this, we tested this method in Germany, receiving a nil response.

Therefore, our team members in the individual Member States approached selected companies and obtained their agreement, usually at a high level, to participate in the study, before beginning to discuss the questionnaire itself.

We obtained 222 usable responses covering exports/despatches and 223 covering imports/arrivals, spread throughout the 12 Member States who were members at 1 January 1993. The target number of respondents in each Member State was determined by reference to the volume of trade of that Member State with the others, and response levels were as follows.

Table 3.1. Number of trader responses

Member State	Export/despatch	Import/acquisition
	Received	Received
BE	27	28
DE	59	57
DK	7	6
ES	13	15
FR	16	18
GR	2	7
IE	6	4
IT	21	20
LU	3	3
NL	35	28
PT	1	3
UK	32	34

Although most respondents were able to provide information on both exports/despatches and imports/arrivals, we had to approach over 750 traders in order to obtain this number of responses. We found that many traders had to decline to take part in the survey because they had neither the time nor the data available. More agreed in principle to participate but found that they were unable to unearth the necessary information. Some did not find enough benefit in it for themselves to justify their time.

We learned much, from those who had to decline, about the trader's approach to compliance costing and the importance they place on this. We have been able to refer to such points in our report.

Product types

We selected examples of traders in those types of product, namely excise goods and foodstuffs, which incurred special costs before and/or after 1 January 1993 because of additional compliance obligations. We did not expect there to be any special difference in compliance costs between other types of product, but we tested this by analysing responses by broad industry type.

We did not obtain examples of such non-standard sectors as would have rather distorted the results, such as traders who ship goods in bulk by the ship-load, with a very untypical and high value per consignment.

Breakdown as specified in the terms of reference

In addition to the breakdown which we have shown by size and industry, the terms of reference asked for information regarding specific types of company, namely:

(a) users of own-account and of third-party transport;
(b) SMEs;
(c) multinational and international companies;
(d) wholesalers and retailers;
(e) traders based near frontiers; and
(f) traders with different patterns of Customs and fiscal compliance.

Our analyses reflect these types.

3.3.6. The trading environment

It will be helpful to bear in mind the trading environment which forms the backdrop to this study. It heavily influenced the trader's perception of the impact of the changes, the nature of the responses and indeed the trader's ability to respond.

The points we mention below were not only culled from the trader responses received and from speaking with traders who eventually had to decline to participate, but also from others whom we have worked with. Therefore we have set these down as informal comments without the possibility of quantification.

Recession

The advent of the single European market on 1 January 1993 and the consequent abolition of routine internal border controls on goods on that date coincided with a very difficult period of recession for businesses across Europe.

The immediate benefit of the abolition of frontier controls was clearly a positive element in a very negative trading environment. However, no doubt because of the relatively small size of the benefit, compared to total costs, and because managers' focus was on larger issues, such as survival, the immediate benefit appeared to receive relatively little acknowledgement from business.

A bad time for learning new tricks

Managers had to devote time and resources to understanding and complying with the transitional EC VAT and Intrastat systems in the middle of the alarming downturn in trade which had brought a tremendous pressure to cut staff, or at least not to increase staff.

This was seen as an extra responsibility imposed on a department which until now had not been involved in such matters, with very little notice (full legislation for EC VAT was not in place until after 1 January 1993). It came at a time when many financial managers also had to undertake their financial year-end formalities.

The significance attached to compliance costs

Once the new systems have been assimilated, the ongoing compliance costs appear to be usually quite small when seen as a percentage of turnover or of the cost of sales. Time-constrained managers cannot be expected to give EC VAT and Intrastat compliance cost control the same priority as the more substantial operating costs.

Additionally, it is difficult to see fiscal compliance adding value to the company's product or service, and so it is likely to remain a very low-key affair – except at times of change.

As to the future, businesses will wish the definitive EC VAT and Intrastat systems to demonstrate further simplifications and cost reduction over the current transitional systems. They will also wish to see compliance for intra-Community cross-border trade become, over time, no more costly or complex than for domestic trade within a Member State.

Businesses will also be concerned that changing from the provisional to the definitive system will cause them to incur a second set of change costs. However, a detailed consideration of this hotly-debated and sensitive topic is outside the scope of our study, except to pass on specific observations given to us by respondents, which we have done later in this chapter.

'1993 is history'

A lot of water has flowed under the bridges of Europe since 1 January 1993. Four years is a long time in business and there have been many other pressures and changes since that date.

Businesses can be excused for regarding the abolition of frontiers and the introduction of the transitional systems as history, therefore of little current relevance to surviving and prospering, therefore not warranting the management attention which is now much scarcer and in more demand than before.

3.3.7. Participation

Survey fatigue

The surveys involved in the 40 or so studies making up the Commission's Impact Survey were not the only ones to confront traders in 1995 and 1996. A great many surveys have been conducted relating, in one way or another, to the single European market and its changes, including the EC VAT and Intrastat issues. We therefore found a high degree of 'survey fatigue' among those whom we approached.

Drop-out rate

We encountered about a 50% drop-out rate on the part of traders, between the stages of agreeing to participate in principle and actually being able to provide enough information for a usable response.

Timing of responses

Our main problem in collecting responses was in elapsed time. It took time for respondents to get together the necessary information, and then later to respond to our validation queries. Participation did not always prove easy for them.

Nevertheless, in the course of time the responses arrived and we are very appreciative of the efforts of all our respondents who put together the rather detailed and unusual information we asked for.

3.3.8. Quality of responses and validation

It was usually not possible to tell, simply from the unprocessed data contained in the completed questionnaires, whether certain information was out of parameter or inconsistent, therefore the bulk of our validation had to be done after an initial computer analysis of the completed and input questionnaires.

Subsequent clarification and additional information sought from respondents then enabled us to finalize the responses, to place increased confidence in the data and to bring the individual results within acceptable parameters.

3.4. Net effect of the cost reductions and increases

3.4.1. Zero savings – until and unless...

Before we proceed to examine the cost findings of our survey, it is appropriate to reiterate that, unless the trader has ensured, in one way or another, that the old Customs agents' fees really do fall out of the picture, he will not have experienced a cost saving and will instead add to his costs.

To achieve the achievable savings, it was necessary to give attention to matters such as the following:

(a) ensure a reduction was made in third-party transport costs from 1 January 1993 where these included Customs agents' fees;
(b) re-deploy shipping staff who no longer had to administer Customs procedures which no longer exist;
(c) control set-up and system costs and ensure that they were amortized;
(d) improve systems of compliance for the transitional EC VAT and Intrastat systems, especially by the use of IT applications; and
(e) compare the time spent in complying with the requirements and visits of officials with the experience of other traders. Some respondents found that certain officials apply their controls and audits very much more rigorously than others.

We now turn to consider the net effect of the cost reductions – and in some cases cost increases – based on the responses we received.

3.4.2. Variations between costs

There were, as expected, some wide variations between respondents' costs, both in 1992 and today. Most, based on our experience, were within the bounds of reasonableness, although, where the cost difference between 1992 and today was more than ECU 100 per consignment, we validated the responses a second time and took a view as to the reasons for the difference.

Nevertheless, we found that the overall profile of our histograms adopted a consistent pattern, from the initial analysis of the first 50 responses through to the final analyses of the full number of responses received. Given that we have to draw conclusions on the basis of a relatively small (although in-depth and closely-validated) sample size, this ongoing consistency was encouraging.

In analysing the cost differences from 1992 to 1995, we first uplifted the 1992 figures (in local currency) to 1995 levels in line with the retail price index and then converted from local currency to ECU. The 1995 costs provided by respondents were converted to ECU at the same rate. To calculate the payback periods, we expressed both the set-up cost and the savings in 1995 terms.

In order to aggregate the savings to EU level, we applied the savings at 1995 levels to the number of consignments shipped in 1992, thus expressing in today's money our estimate of the actual cost benefit of the abolition of fiscal frontiers. Whether such a figure can fairly be seen as an ongoing annual gain is an important issue which we address before proceeding to our consideration of the net cost effects.

3.4.3. One-off or ongoing?

Strictly speaking, it could be said that the reported savings are still being made today and will be *ad infinitum*, not only by traders that have been in business since before 1993, but also by traders that have set up business since then. It is certainly true in theory that, had the single European market not been created, additional charges analogous to the former Customs clearance charges would still be borne by traders.

From a more practical aspect this may not be the view taken by traders. The difficulty lies mainly in the implicit assumption that the old Customs clearance costs would not have changed had they been maintained. It could easily be argued that at least some Member States would have simplified their Customs procedures even if not as radically as Denmark had already done before.

Alternatively, the competition between Customs agents and freight forwarders might very well have led to a downward trend in Customs clearance fees. Traders themselves would have sought to reduce these fees over time as well. It would generally be impossible to give an accurate estimate of what Customs clearance fees would have looked like today, but it seems most unlikely that they would have remained the same or even increased.

Initiatives aimed at yielding ongoing future savings, as we noted earlier, are more likely to be of interest to business if they:

(a) recognize the absolute cost of the transitional system and reduce it further in the definitive system; and
(b) give special attention to the companies whose current costs appear much higher than the norm, so that procedures for their type of business can be effectively addressed.

3.4.4. Initial theoretical estimates of cost effects

In October 1995, at the Commission's request, we modelled in detail some theoretical estimates of cost effects, in order to provide initial (if rather conjectural) indications of the possible findings. While these were not intended to be used in any way as a benchmark, they were at least a starting point.

They also provided a useful test-bed to trial the application of our export/import administration costing techniques to this study. These techniques were originally developed by the City University Business School, London, for SITPRO and subsequently elaborated by SITPRO and by ourselves.

To estimate the 1992 costs, we used the findings of the Cecchini Report as a baseline and uplifted them to end-1992 levels. We then used the above costing techniques to model theoretical estimates of post-1 January 1993 costs.

Our theoretical results showed that there was a possible achievable saving of typically about ECU 40 per consignment for the export/despatch formalities, plus about ECU 34 for those at import/arrival. The two have to be added together to arrive at the total door-to-door saving for the through consignment.

The very tentative calculation in our theoretical model, for the total achievable cost saving to EU trade was in the region of ECU 5.39 billion, compared with the final result from our survey of ECU 5.223 billion.

3.4.5. The winners and the losers

We turn now to the actual results of our survey of traders and examine broadly who were the winners and who were the losers: in other words, which types of company have found their costs reduced following 1 January 1993 and which have found them increased.

Figures 3.1 and 3.2 show the number of winners and losers by country and the ratio of winners to losers. It will be recalled that, throughout our commentary, we use the expression 'despatches' to refer to what was termed, in 1992, 'exports' to other Member States but, from 1 January 1993, intra-Community 'despatches' to other Member States. Likewise, 'acquisitions' refers to goods brought in from another Member State.

The country codes used throughout our analysis are as follows:

BE – Belgium
BX – Benelux
DE – Germany
DK – Denmark
ES – Spain
FR – France
GR – Greece
IE – Ireland
IT – Italy
LU – Luxembourg
NL – Netherlands
PT – Portugal
UK – United Kingdom

Despatches

Overall, the ratio of winners to losers set out in Figure 3.1 exceeds 6:1.

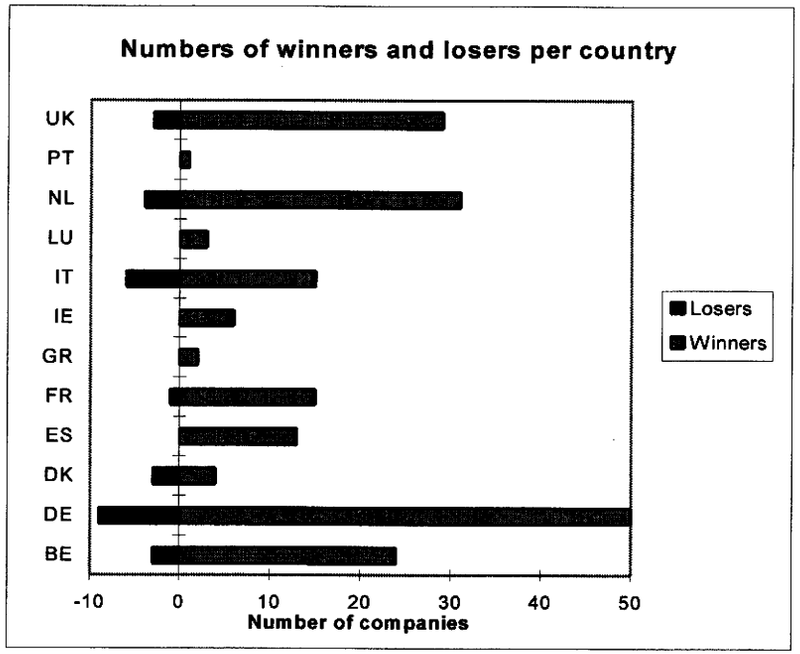
The left-hand graph shows clearly that the winners are predominant in every Member State. The right-hand graph shows that, in some Member States, the ratio of winners to losers is particularly strong. Only Denmark, Germany and Italy emerge as having a weaker ratio of winners to losers than the overall figure.

Acquisitions

The overall ratio of winners to losers in Figure 3.2 is a little higher than for despatches, at over 7:1.

The profile of the number of winners to losers by Member State is similar to that for despatches, but Belgium is added to Denmark, Germany and Italy as having a weaker ratio of winners to losers than the overall figure.

Figure 3.1. Winners and losers by country (despatches)



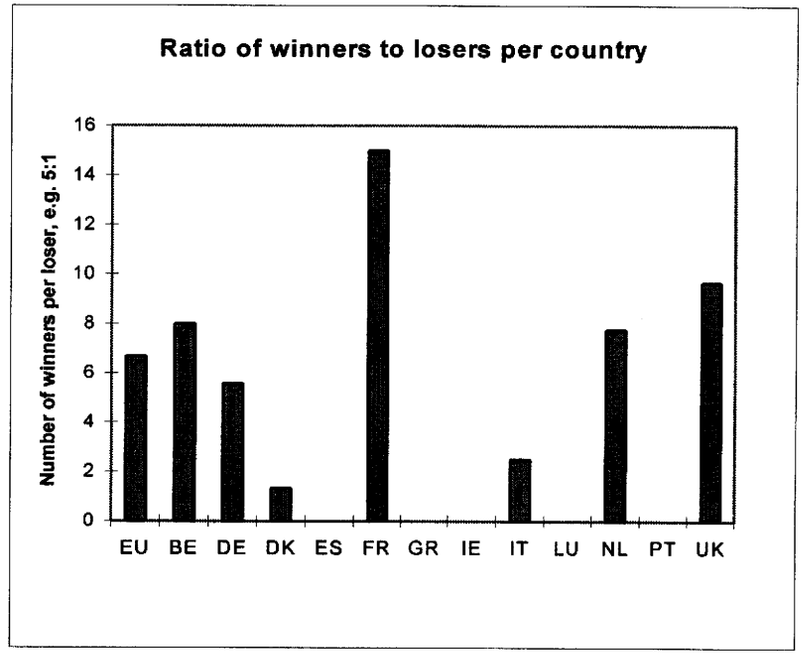
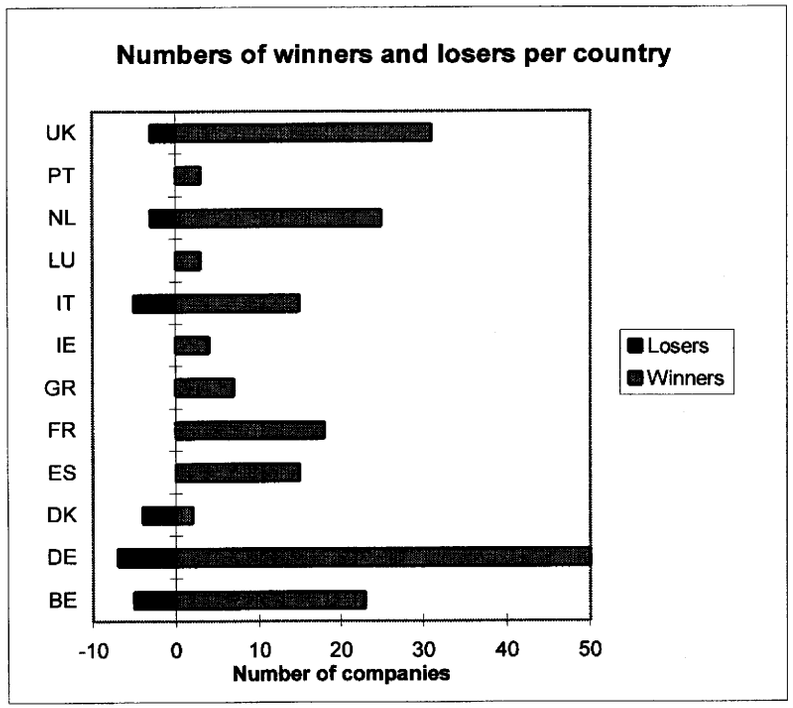
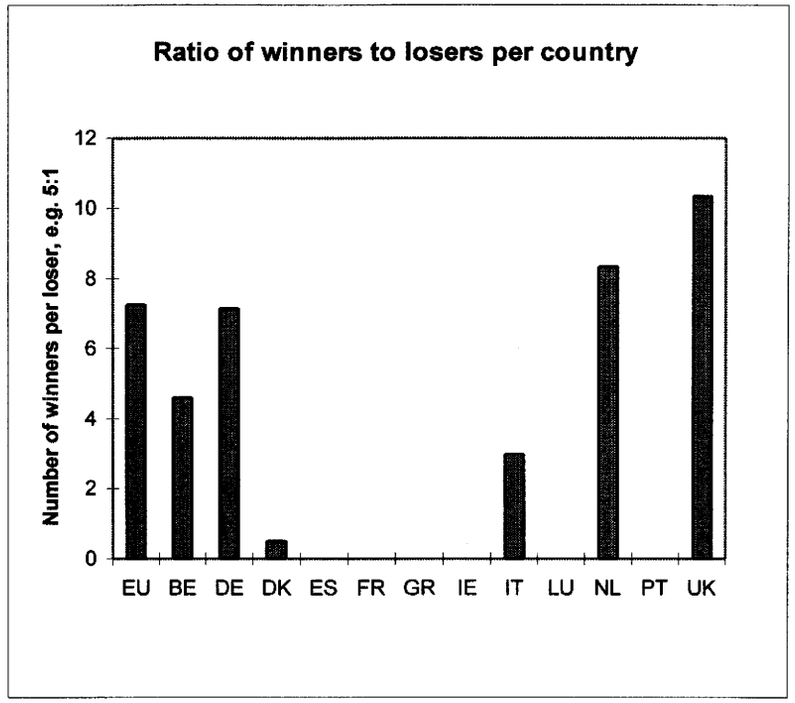


Figure 3.2. Winners and losers by country (acquisitions)





Net effect

The nature and extent of the cost differences are further detailed later in this chapter. The total net effect of the cost differences, aggregated to the level of EU trade at its 1992 levels, is an estimated saving exceeding ECU 5 billion a year – this is further elaborated below in Section 3.9.

3.4.6. SITPRO/EUROPROs survey

An additional comparison may be made with material published in 1995 by SITPRO, in its 'Single European Market Implementation Monitoring Report' giving the results of its three-year series of surveys on, *inter alia,* the transitional EC VAT and Intrastat systems.

In the last of a series of opinion surveys on the transitional systems, SITPRO asked respondents 'Has the removal of frontier checks reduced your consignment costs?'

Although the response to this question was not published in their report, SITPRO has confirmed that out of 100 replies:

(a) 71 responded 'Yes';
(b) 22 responded 'No';
(c) seven said 'not applicable'.

3.5. Cost comparison

3.5.1. Overall findings

Typical cost difference per consignment by Member State

Figures 3.3 and 3.4 show the typical (ie averaged) levels of 1992 and 1995 costs per consignment by Member State, for despatches and acquisitions respectively. All costs in our report are expressed in ECU.

It could be argued that the calculation of these typical figures should exclude any 'outliers' (analysed in more detail in Section 3.7), as such outliers would distort the picture due to their assumed company-specific and extreme nature and there would be no reason to believe that this behaviour would be repeated throughout the full population of traders. However, it could equally be held that there is no reason to believe that outliers are atypical and will not occur in the remaining part of the trader population. Our individual examination of the outliers led us to conclude that such cases are not necessarily untypical of the Member State or trading situation concerned.

The upper graph in each case shows the levels of cost and it can be seen that these varied widely, although cost levels for despatches and acquisitions follow a similar pattern. Respondents in the Mediterranean Member States generally encountered the highest costs in 1992.

Responses to the survey published in the Cecchini Report suggested that the Customs compliance costs in Italy were higher than in any other Member State. In the case of Spain and Portugal, Customs costs also included the need to comply with the requirements of accessionary procedures, because these Member States were still in the transitional period of their accession to the Community.

In the case of Greece, road transport incurred additional compliance costs because of the need to transit third countries *en route* to and from the other Member States. Goods are now routed more commonly via ferries to Italy, although not only for Customs reasons.

On the other hand, 1992 costs in Denmark, Benelux, France, Ireland and the UK were relatively low. Denmark has enjoyed for many years what are probably the simplest Customs procedures applied in any Member State. Benelux, as also pointed out in the Cecchini Report, has always had very competitive rates for Customs agency work and also had the benefit of much-simplified procedures operating within the Benelux region.

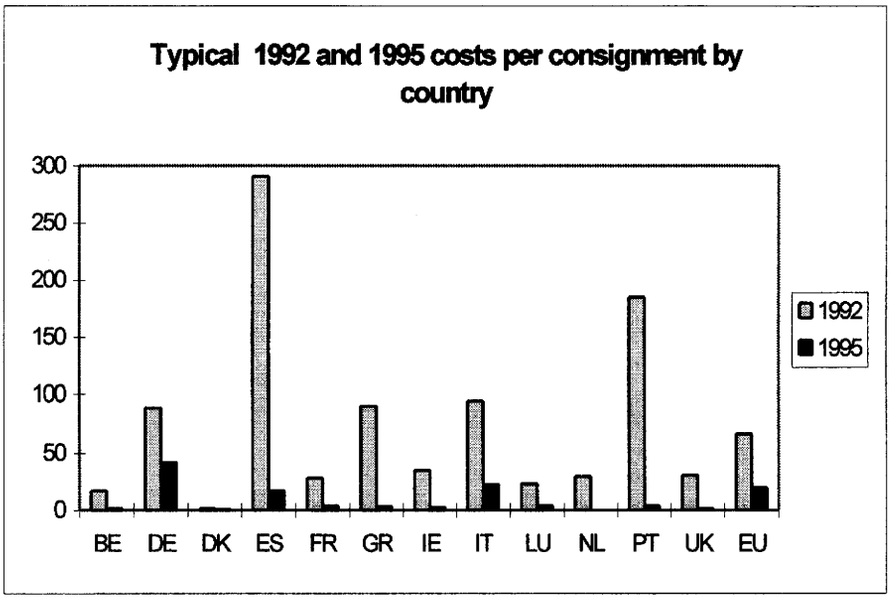
The post-1 January 1993 costs are highest in Germany and Italy. In the case of Germany, this will have much to do with the relatively high staff costs. In the case of Italy, opinions have been expressed that the Italian documentation for EC VAT and Intrastat is more complex than in other Member States, including, for example, an EC acquisitions list as well as the normal EC sales list.

The net typical savings per consignment, shown in the lower table, are higher for the Mediterranean countries and rather low for Denmark, Benelux and France (and, for acquisitions, Germany). Denmark's lack of substantial savings, as we point out later, is very disappointing, although the reason for this is the efficiency of the Customs procedures applied by Denmark. Denmark did not have so much room to apply simplifications to the post-1 January 1993 procedure and this effect shows quite markedly.

It might be said that, if all Member States had simplified their Customs procedures as much as Denmark, the abolition of frontier controls would not have been cost-effective for traders in terms of fiscal compliance. The cost savings, if any, would have been too small to repay the set-up costs of changing to the EC VAT and Intrastat systems.

This would reflect rather badly on the EC VAT and Intrastat systems, by implying that they were less effective and efficient than the (simplest available) Customs procedures which preceded them. However, the point should not be pressed too hard. It is a purely hypothetical scenario, and it does not cater for the wider variations in trader situations which we have encountered.

Figure 3.3. Cost per consignment (despatches)



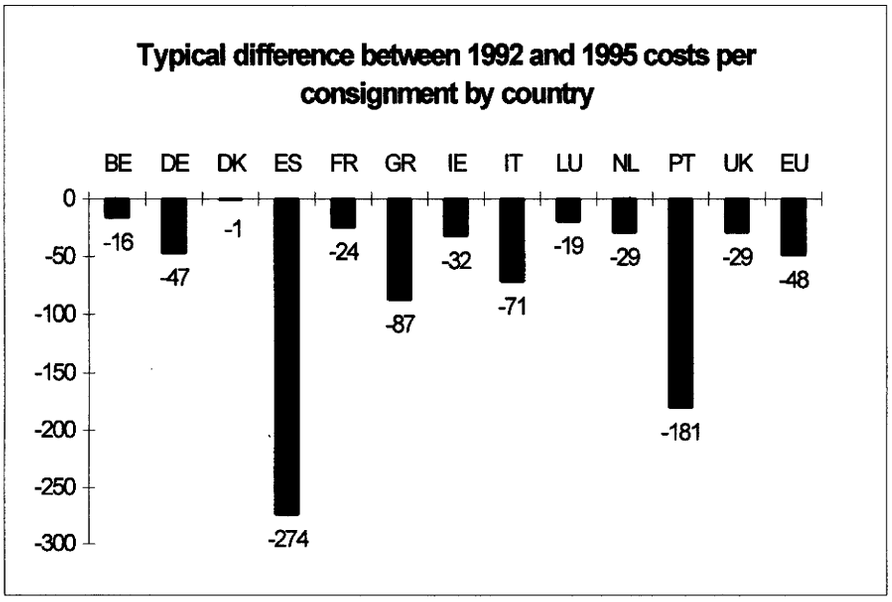
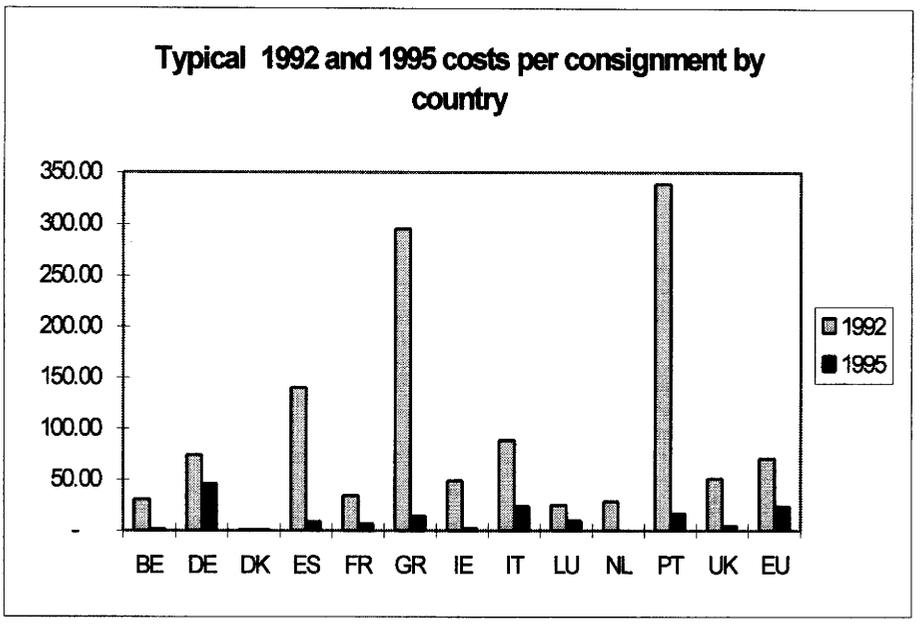
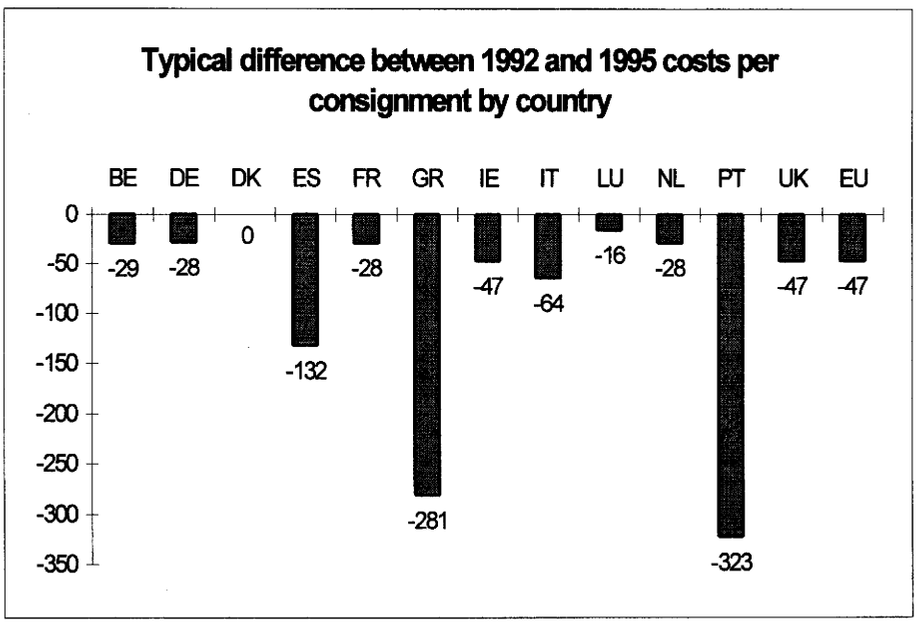


Figure 3.4. Cost per consignment (acquisitions)





Levels of cost difference per consignment

Figure 3.5, for despatches, followed by Figure 3.6 for acquisitions, break down the cost difference in a way which illustrates the individual levels of saving achieved in bands.

These graphs show a logical grouping of the levels of cost saving for all respondents, irrespective of Member State or of other factors. The vertical axis shows the number of responses in a particular category. The horizontal axis shows each category of cost difference. The zero in the centre divides cases where cost savings per consignment have been achieved (grouped to the left) from those (grouped to the right) where costs have increased from 1 January 1993.

The level of saving is expressed in bands, for example '< -10' indicates that the cost per consignment is reduced by up to ECU 10, the next sector, '< -20', means that the saving is between ECU 10 and 20 per consignment, and so on.

The resulting profile, the 'shape' of the graph, is similar for despatches and acquisitions.

It will be seen that the largest concentration is where companies have saved up to ECU 30 per consignment. In this band, there are many who have reduced their costs only marginally and then a larger group who have saved up to ECU 30 per consignment.

There is also a substantial concentration of respondents who have saved over ECU 100 per consignment and these cases are further examined in Section 3.7.

However, a relatively small proportion of respondents incurred higher costs than in 1992. In most cases the higher costs are only marginal, but they do mean than the direct cost benefit is never really evident, especially as those concerned will never pay back their set-up costs. In a very few cases, respondents have incurred much higher costs per consignment since 1 January 1993. The cases of increased costs are discussed in Section 3.6.

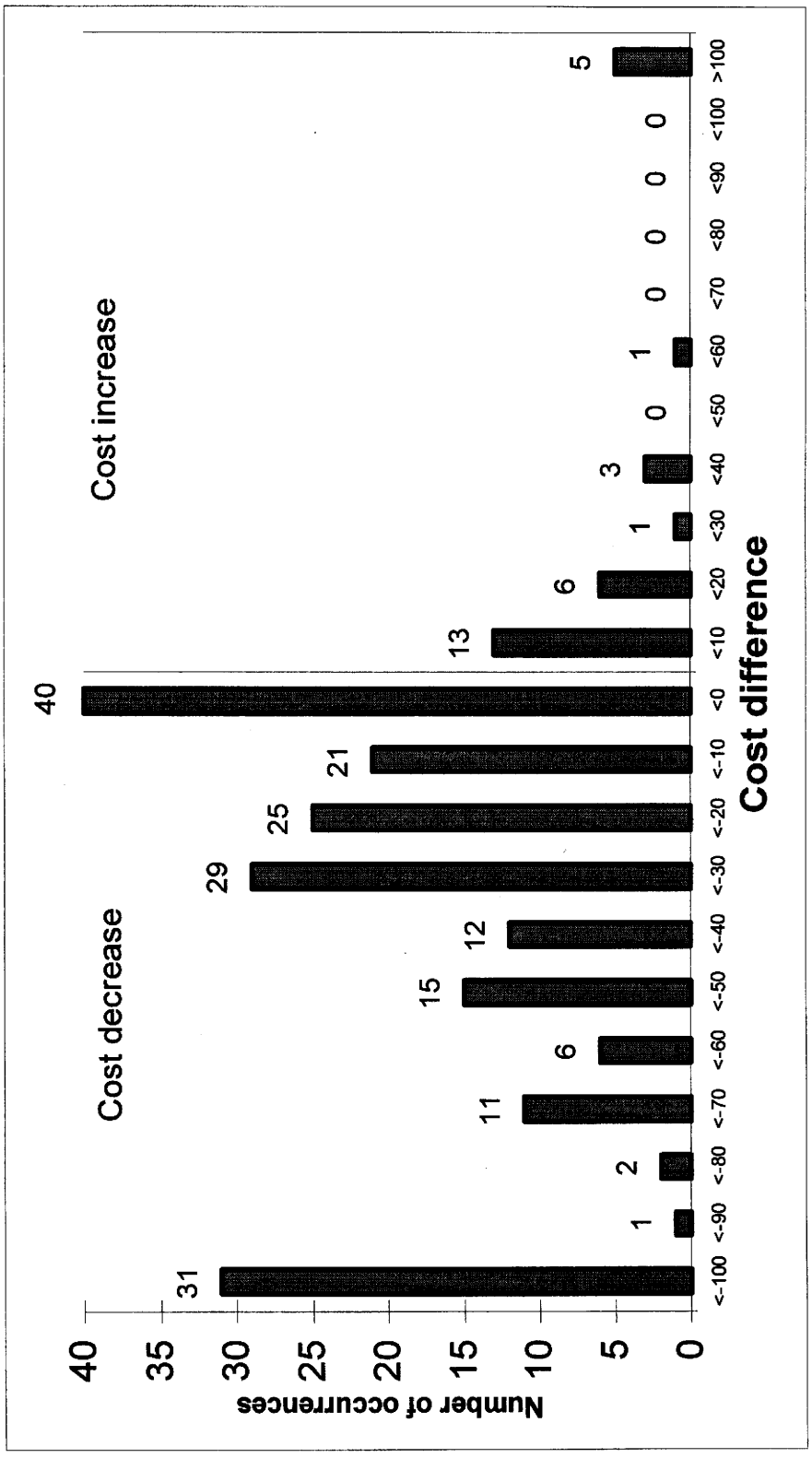


Figure 3.5. Spread of cost reductions in EC12 (despatches)

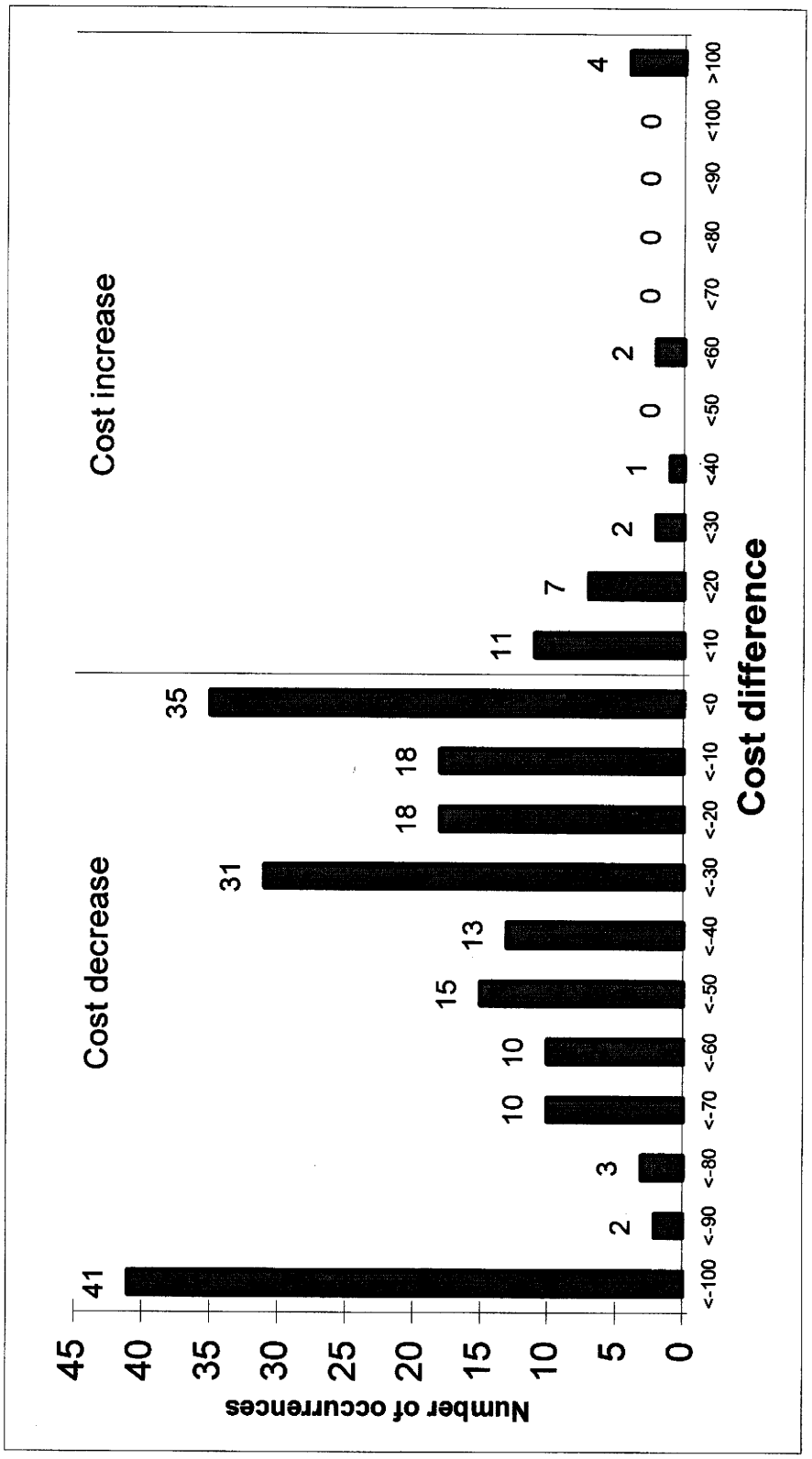


Figure 3.6. Spread of cost reductions in EC12 (acquisitions)

3.5.2. Variations by Member State

Figures 3.7 (see the next three pages) for despatches and 3.8 (on the following three pages) for acquisitions show how the levels of cost difference vary for each Member State compared to the total shown in Figures 3.5 and 3.6.

In each graph, the results for a particular Member State are shown as columns and the vertical axis represents the number of responses for the Member State concerned. The results in each case are superimposed on the graph for the total results (which has been scaled to match). This reveals instances where the pattern of cost savings experienced in a particular Member State varies from that evidenced by the total sample. This approach has also been used to illustrate variations by the other variables analysed later in this chapter.

It is recalled that, in setting our target number of respondents in each Member State, we aimed to reflect the proportionate levels of trade of that Member State with the other 11, hence Germany has a large number of responses while, for example, Greece and Denmark have very few.

Germany's profile is near to that for the total sample, partly because it was the largest sample size due to its high volumes of intra-Community trade. The weighted average saving for Germany (see Figures 3.3 and 3.4) is relatively high because of some strong savings over ECU 100 per consignment, described in Section 3.7.2.

The pattern of despatches for **France** is rather different, showing a predominance of small savings with some much larger examples.

The pattern for the **UK** shifts the trend to the left, towards higher levels of saving, especially for acquisitions, while that for the **Netherlands** does the reverse.

Italy shows a strong trend towards high savings over ECU 100, but some examples of increased costs, with very few respondents following the normal trend.

Belgium has no examples of major saving and its respondents are mainly concentrated in the zero to ECU 40 band.

Spanish respondents showed a marked inclination to save substantially, with none of them encountering increased costs.

Denmark, as has been previously noted, suffers from having less scope for simplification today than it had before 1 January 1993. Respondents' costs were very low before 1 January 1993, much more so than in any other Member State. Although this feature might be peculiar to the small sample of respondents, these companies and our Danish team members consider that such results are likely to be fairly typical of those experienced by Danish companies.

Respondents in **Ireland** showed some good levels of saving, while those in **Luxembourg** showed savings within the typical bands. Those in **Portugal** and **Greece** benefited substantially.

Overall, there were no examples of cost increases in Spain, Ireland, Portugal, Luxembourg and Greece. The most atypical of the overall pattern were the Mediterranean Member States with large savings and Denmark with practically nothing.

Clearly, the Member State is a significant determinant of the level of saving.

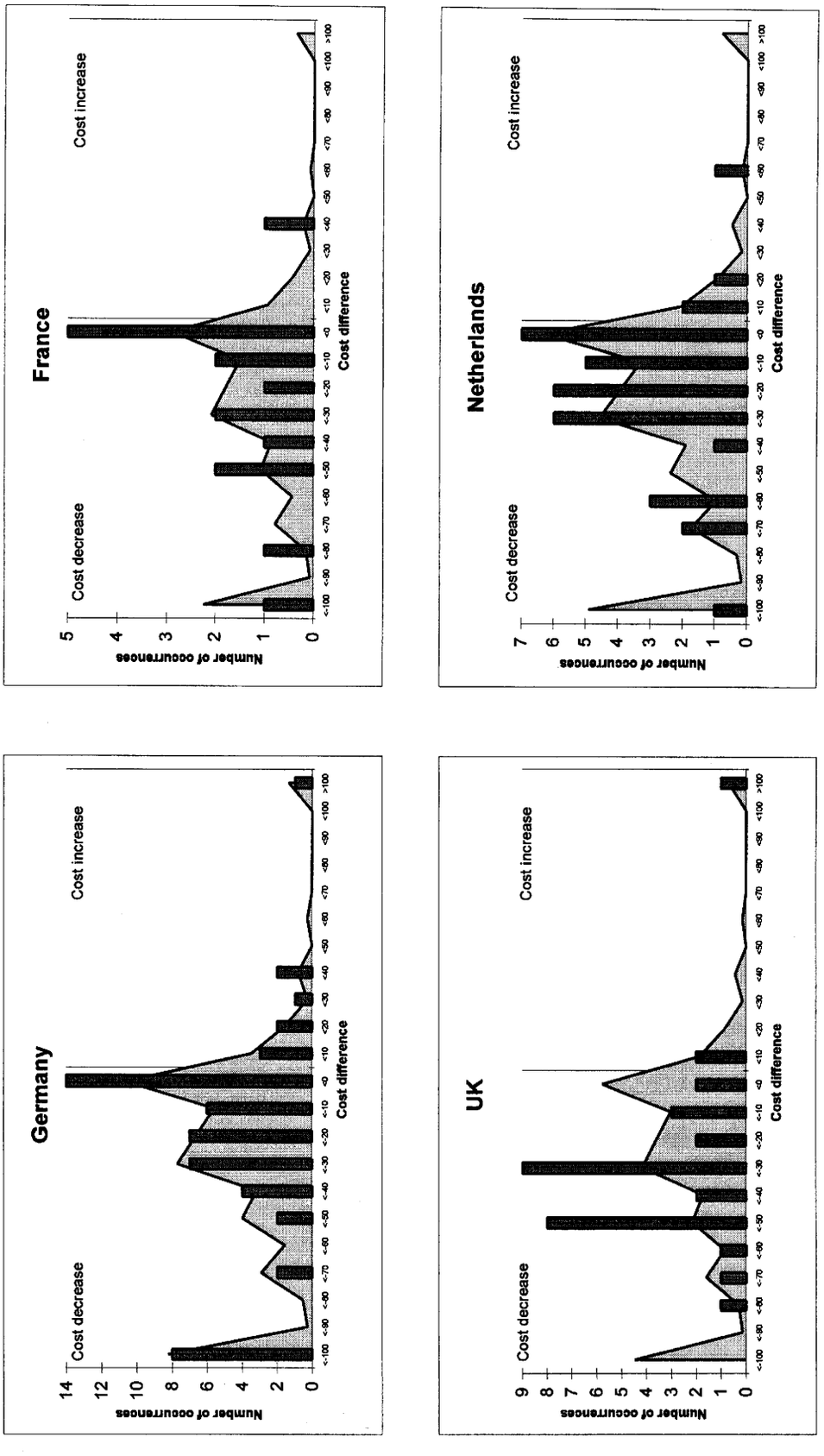


Figure 3.7. Cost difference per consignment in EC12 (despatches)

Figure 3.7. Cost difference per consignment in EC12 (despatches) (continued)

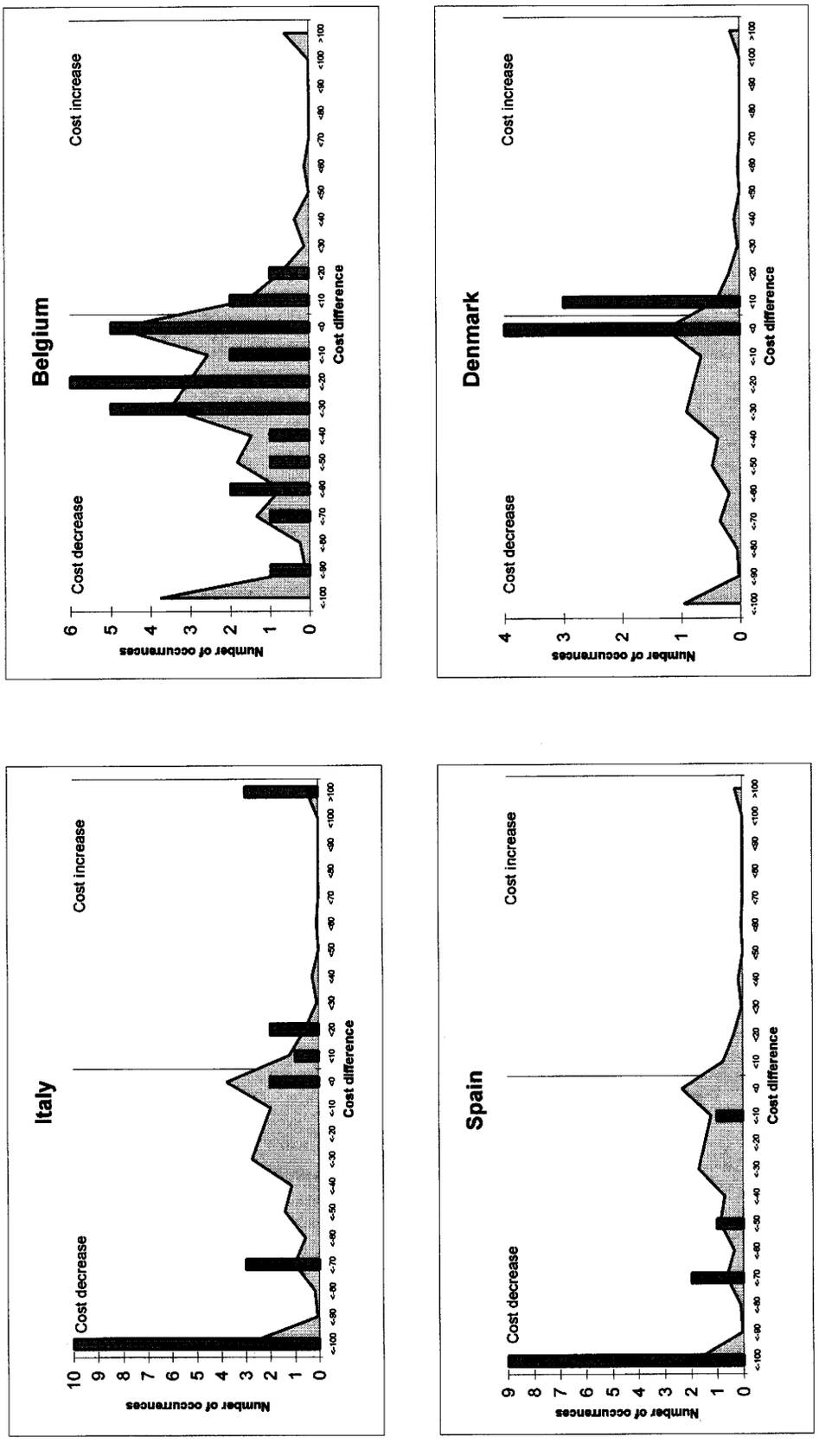
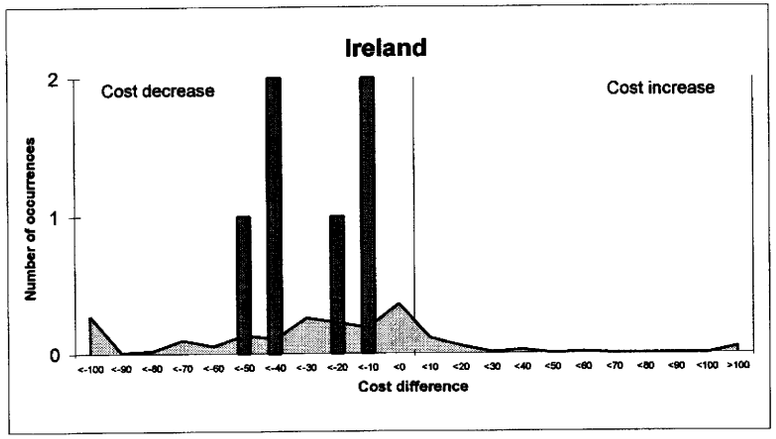
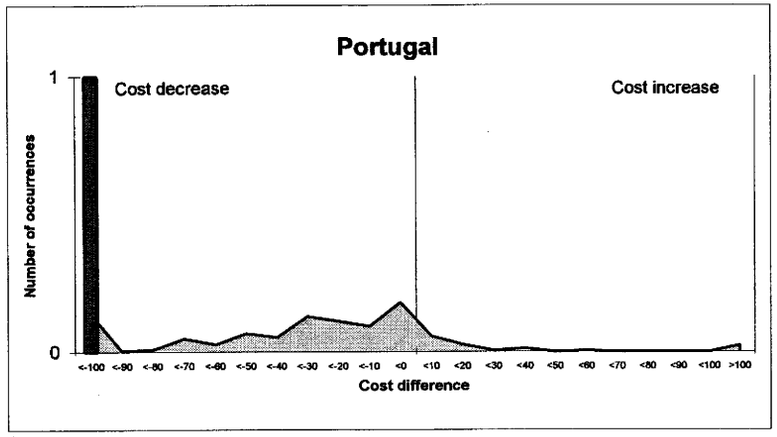
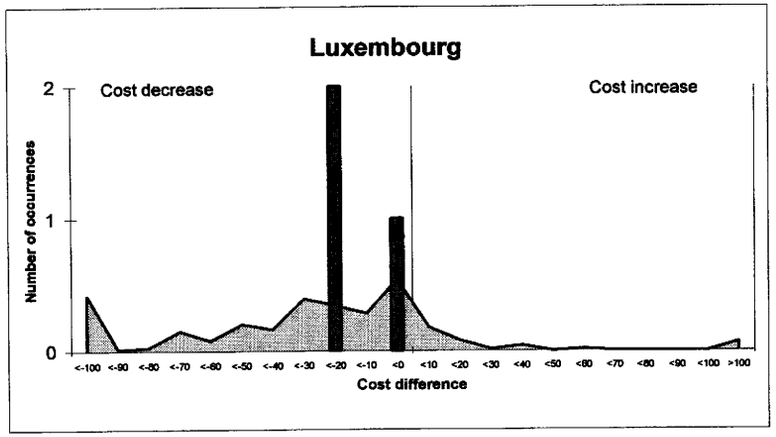


Figure 3.7. Cost difference per consignment in EC12 (despatches) (continued)







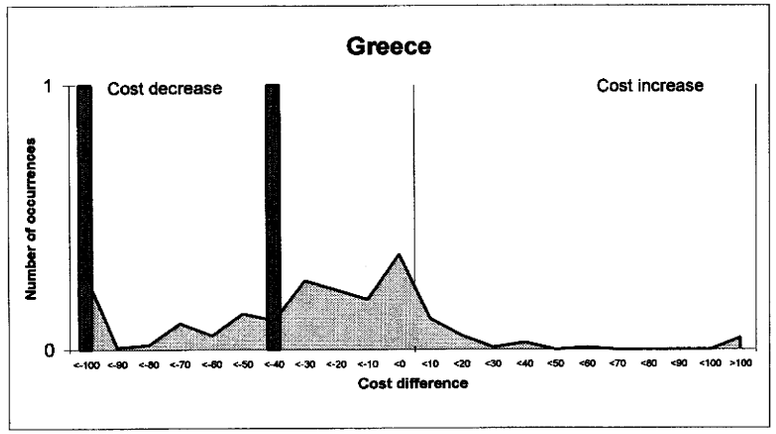
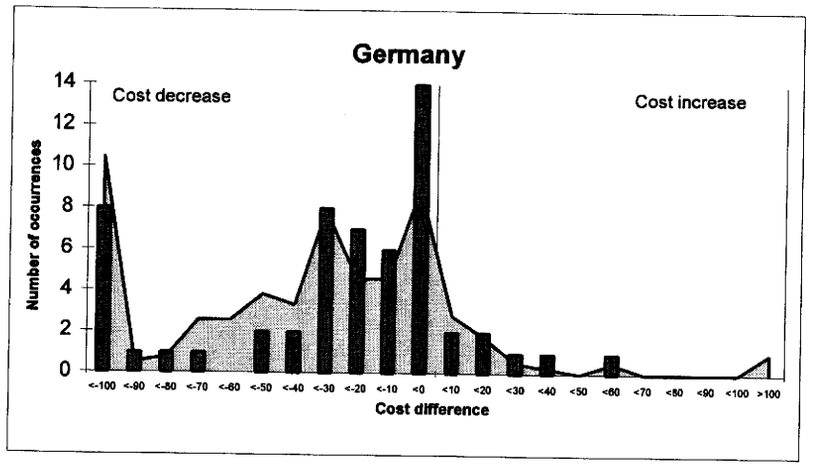
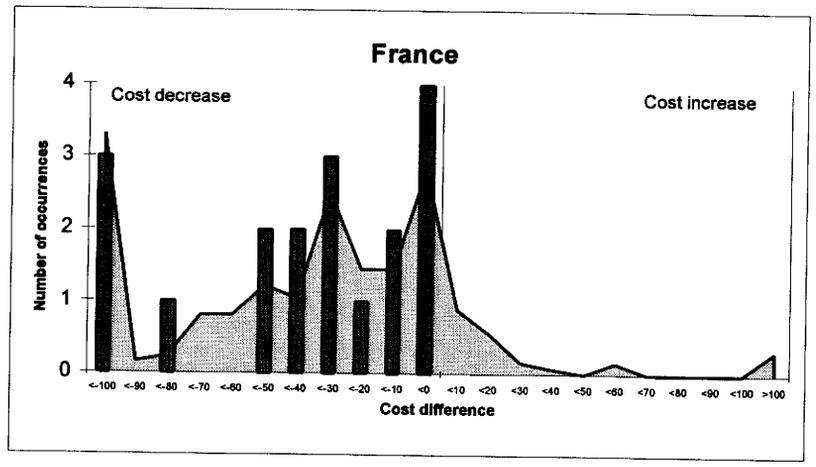
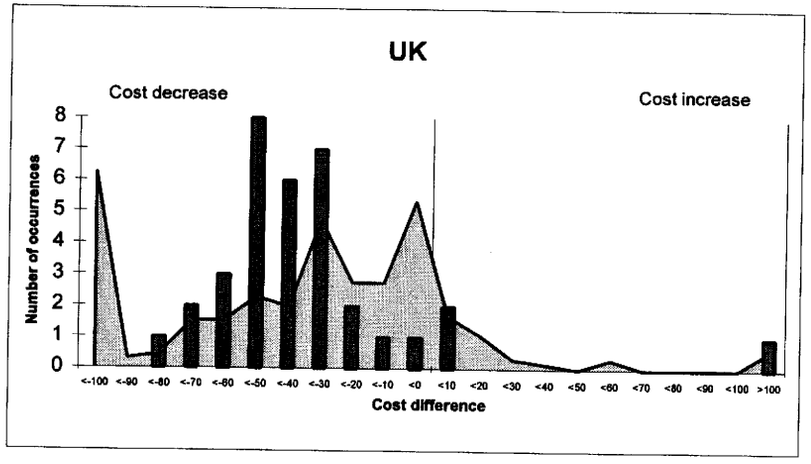


Figure 3.8. Cost difference per consignment in EC12 (acquisitions)







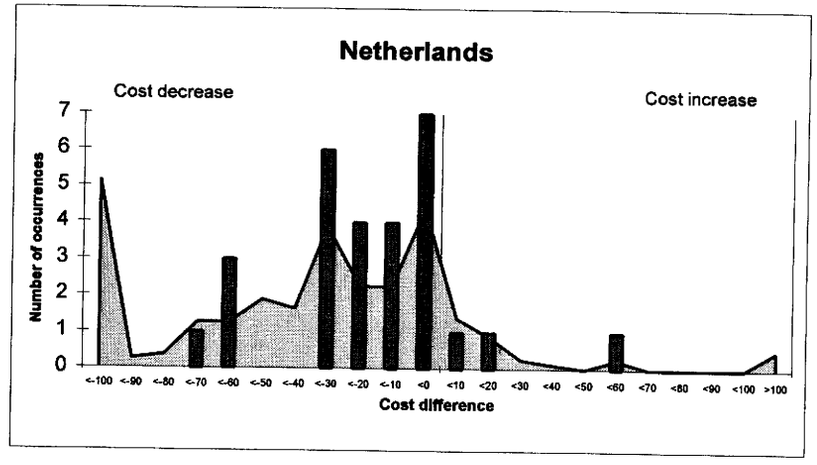
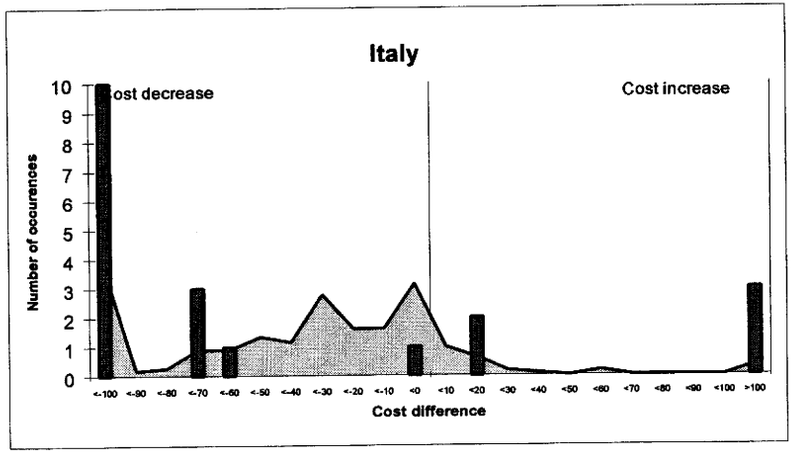
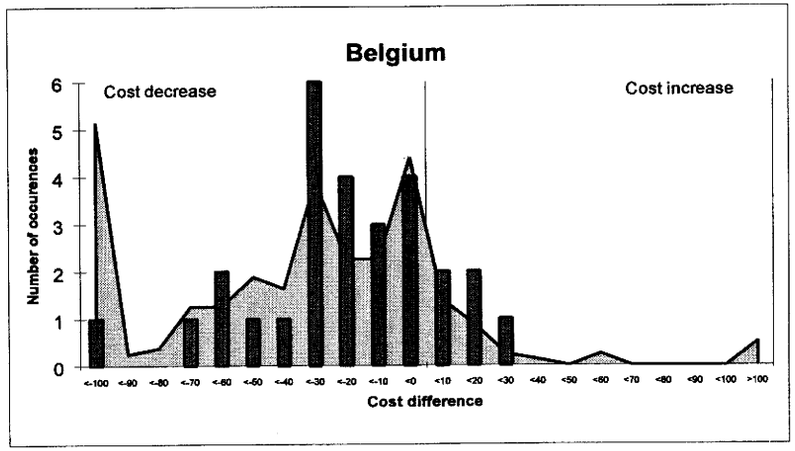
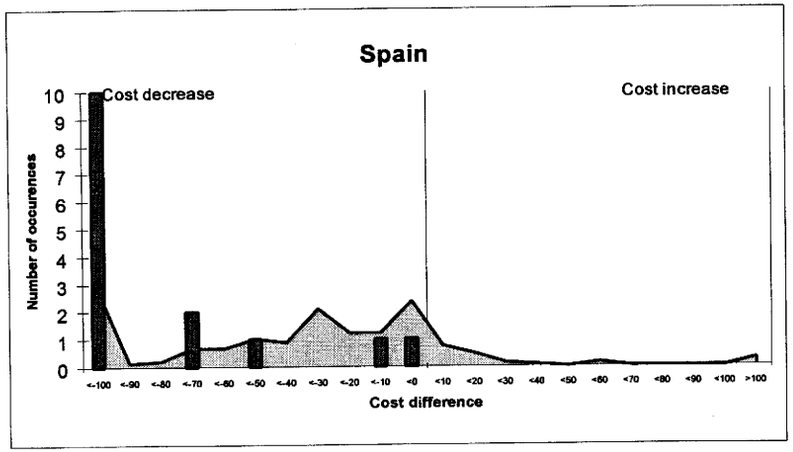


Figure 3.8. Cost difference per consignment in EC12 (acquisitions) (continued)







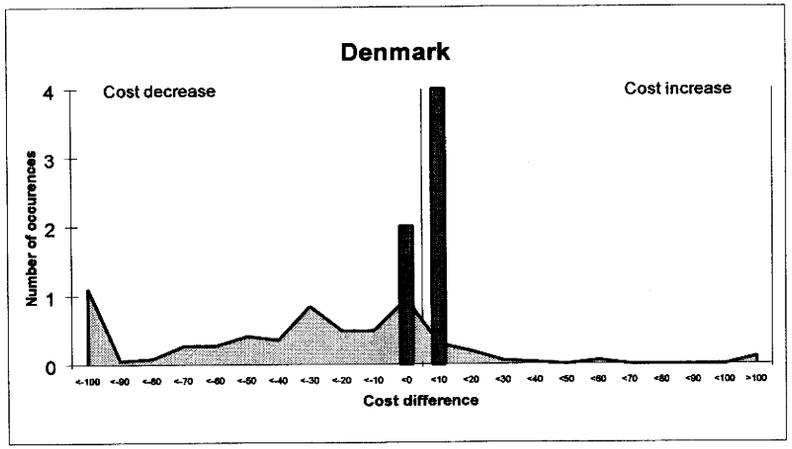
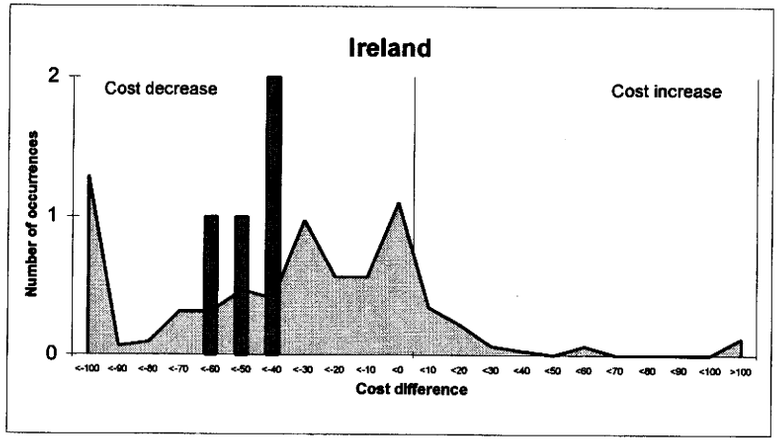
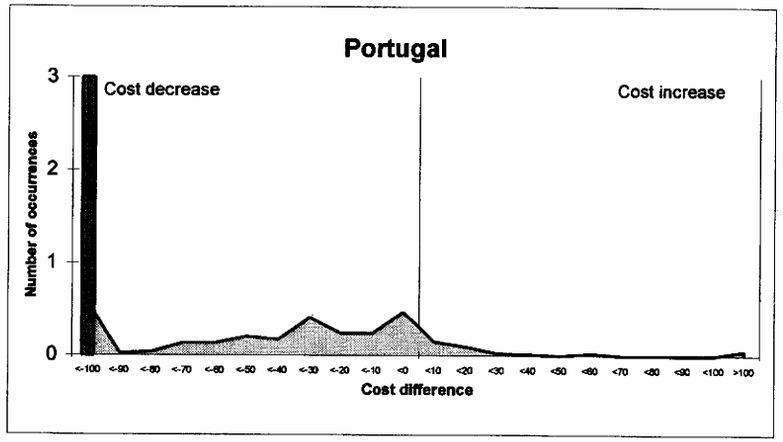
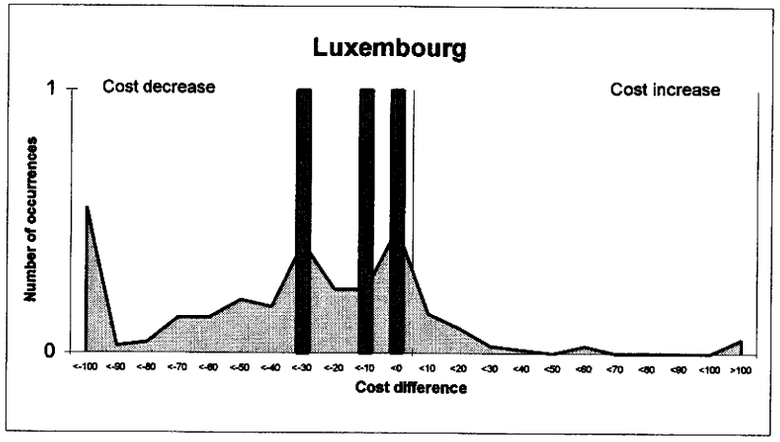
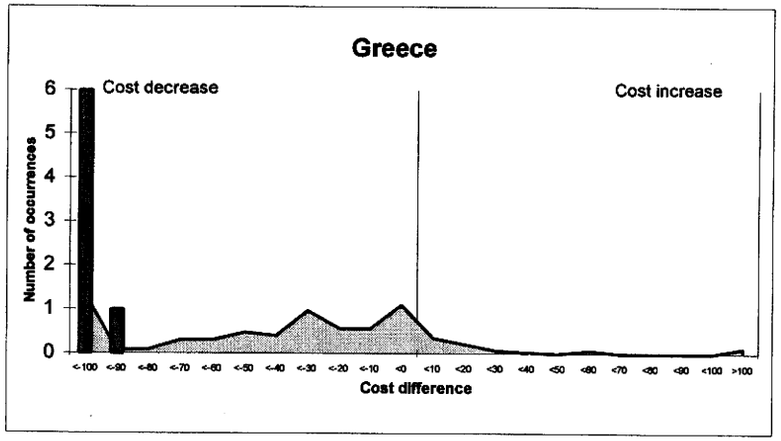


Figure 3.8. Cost difference per consignment in EC12 (acquisitions) (continued)









3.5.3. Variations by size and type of company

We analysed the respondents by size and by whether they undertook wholesale or retail activities cross-border. We asked respondents to classify themselves in one or more of the categories: SME, large wholesaler, large retailer, MNC and other. The orientation of the responses consolidated these into three categories shown in the graphs: SMEs, MNCs/other and wholesalers/retailers.

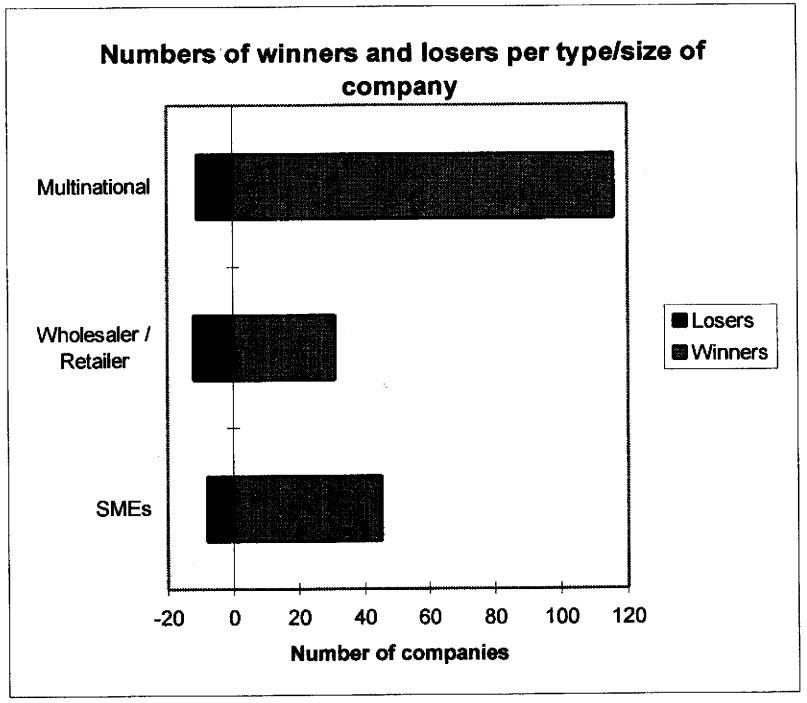
Winners and losers

Figures 3.9 and 3.10 show the winners and losers in each category, for despatches and acquisitions respectively.

The clearest winners were multinational companies with ratios exceeding 10:1 for despatches and almost 10:1 for acquisitions, although most SMEs were also sound winners with ratios of over 5:1 and over 9:1 respectively.

Those involved in wholesaling or retailing did not fare as well as the norm. Their ratios dropped to between 2:1 and 3:1 although there was still a marked predominance of winners.

Figure 3.9. Winners and losers by type/size (despatches)



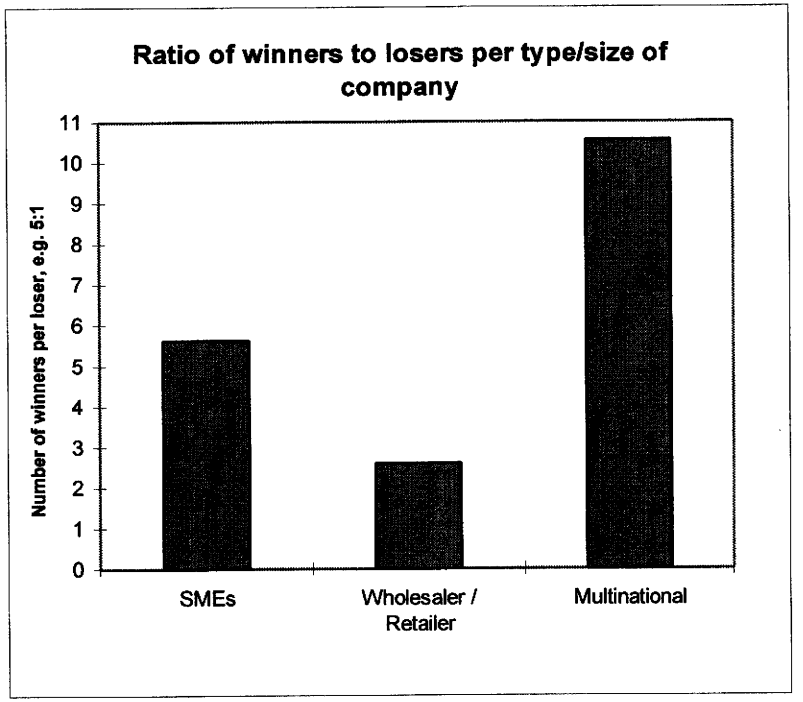
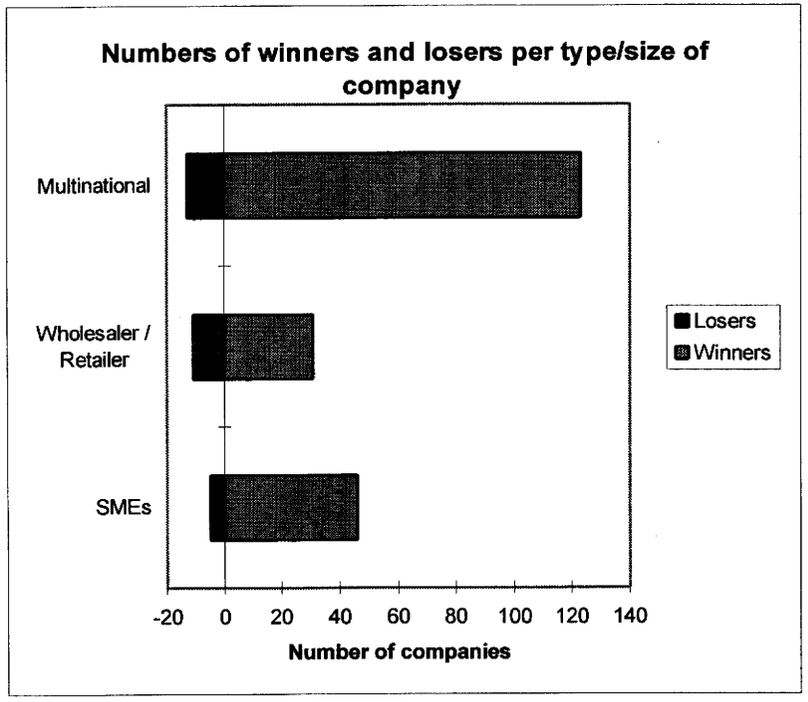
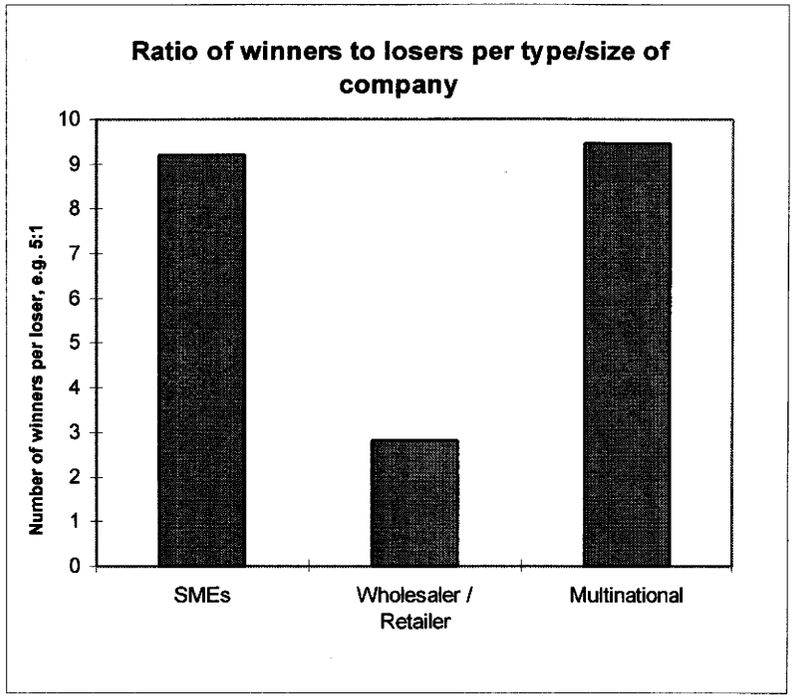


Figure 3.10. Winners and losers by type/size (acquisitions)





Bands of cost difference

The analysis is broken down into bands of cost difference in Figures 3.11 and 3.12.

There is little difference in these bands between SMEs and MNCs. SMEs show a slightly higher incidence of merely marginal savings, or cost increases, and proportionately fewer examples of solid savings between ECU 40 and 80 per consignment. In other words, their profile is slightly shifted to the right. But this is not very marked. MNCs tend to follow the trend for the total sample.

Results from wholesalers and retailers, on the other hand, are shifted quite noticeably more to the right and so show lower levels of savings and more instances of cost increases. There are also fewer examples of large cost savings.

Figure 3.11. Cost difference per consignment by type/size (despatches)

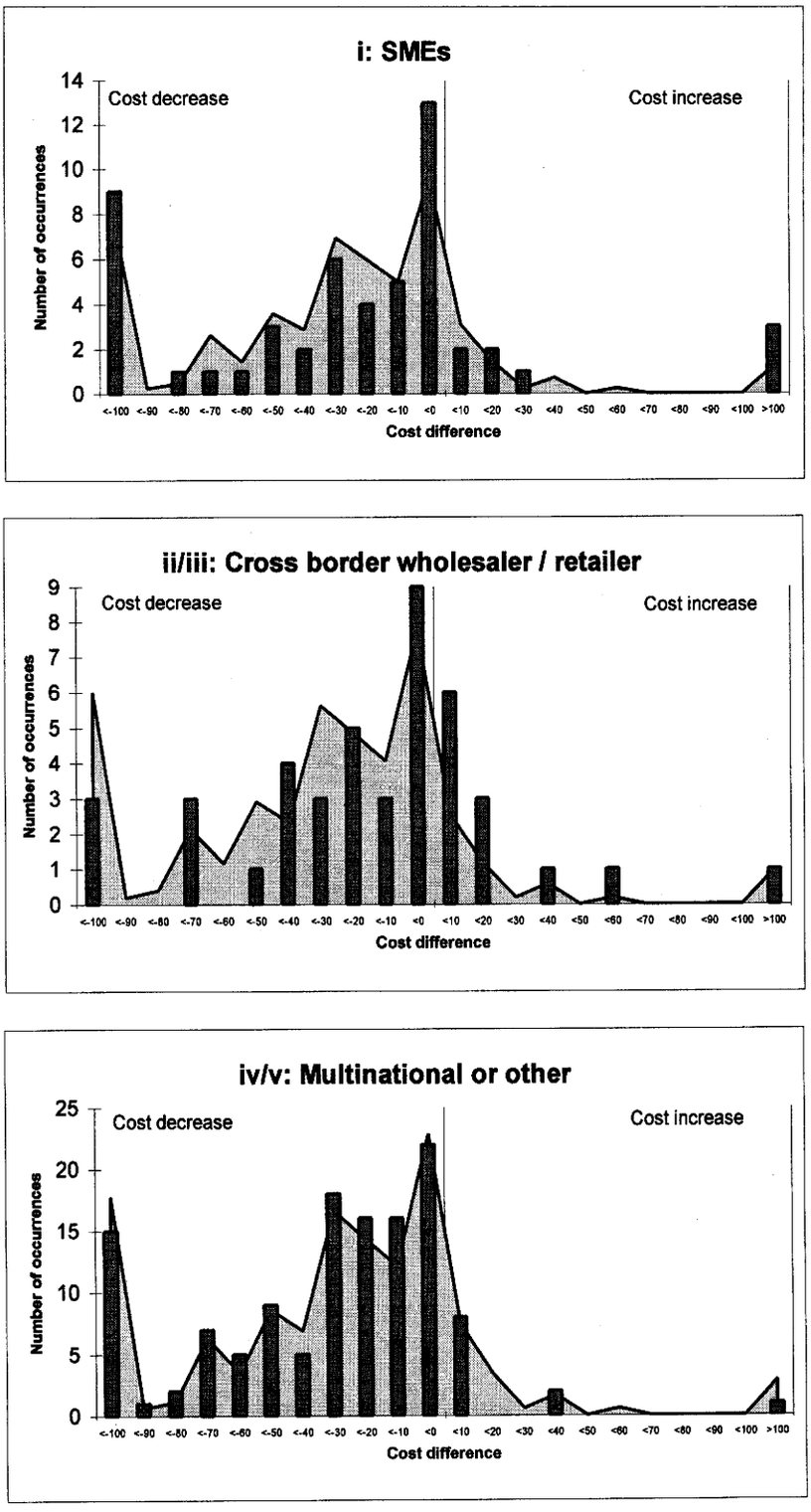
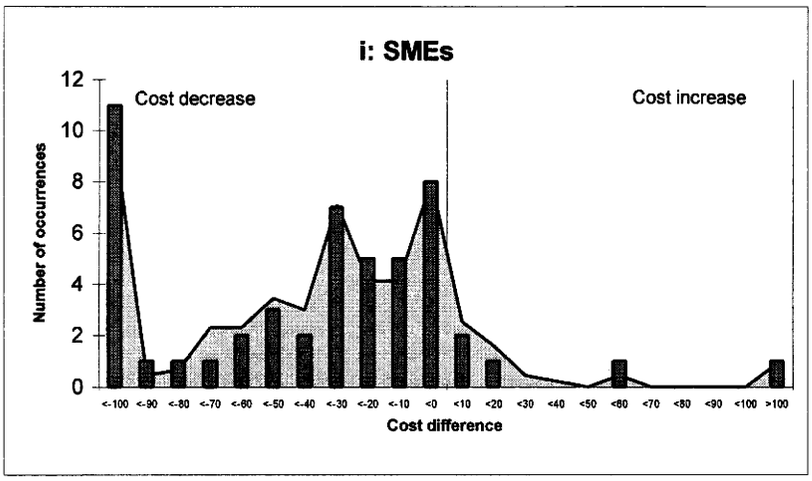
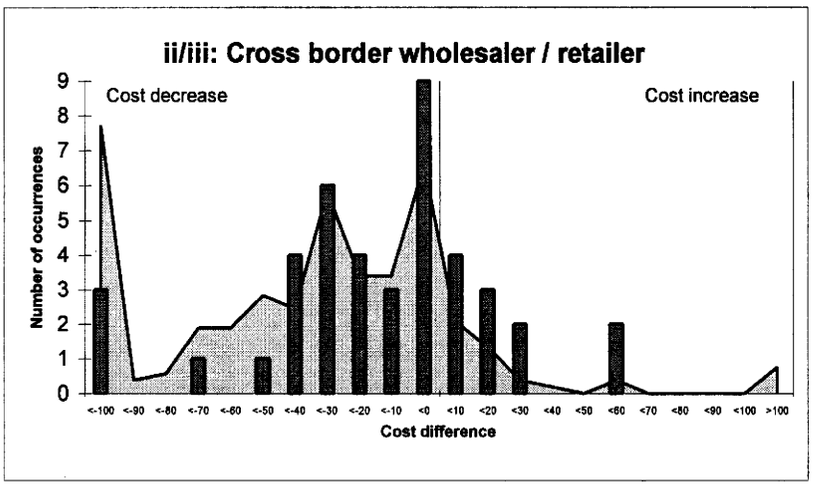
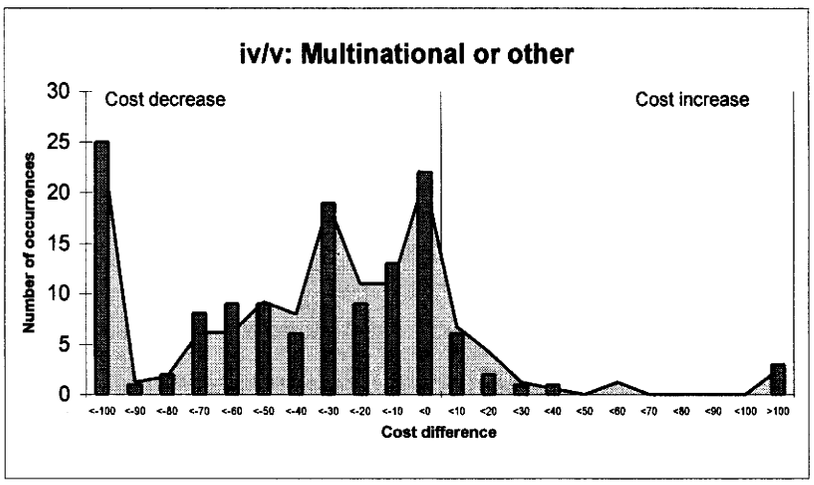


Figure 3.12. Cost difference per consignment by type/size (acquisitions)



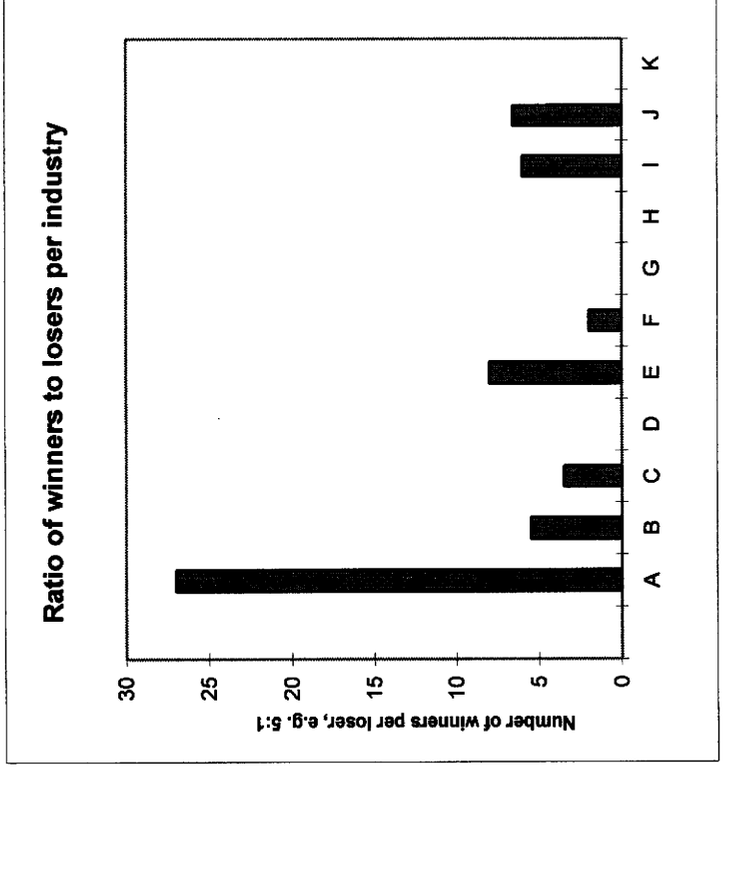




3.5.4. Variations by type of industry

Winners and losers

Winners and losers are shown in Figures 3.13 and 3.14. Certain industries fare better than others, especially in foodstuffs, which is likely to be due to the abolition of intra-Community CAP procedures at the end of 1992. In some cases, however, the sample size is rather small to form a basis for reliable conclusions. An explanation of the industry codes A to K which we have used is given in Figure 3.15.



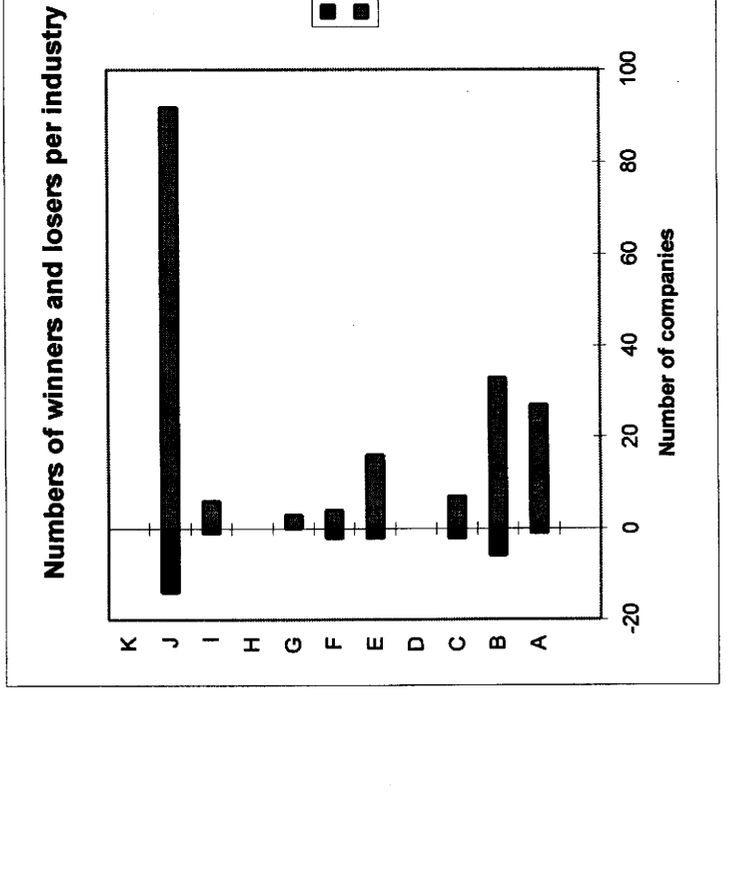
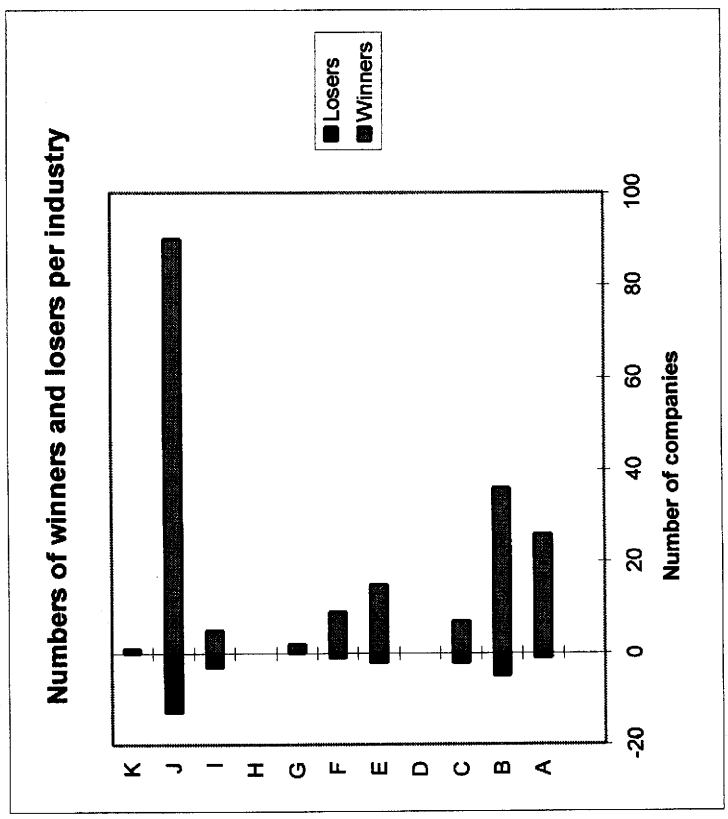


Figure 3.13. Winners and losers by industry (despatches)



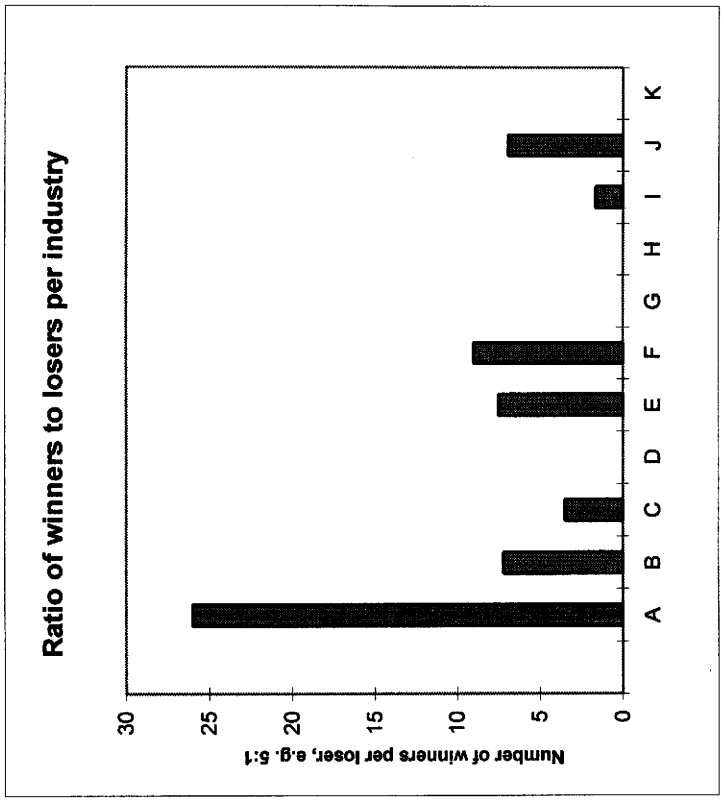


Figure 3.14. Winners and losers by industry (acquisitions)

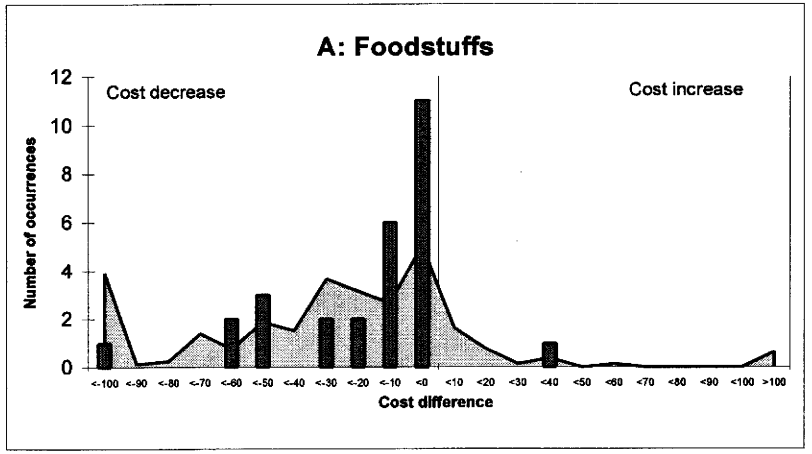
Bands of cost difference

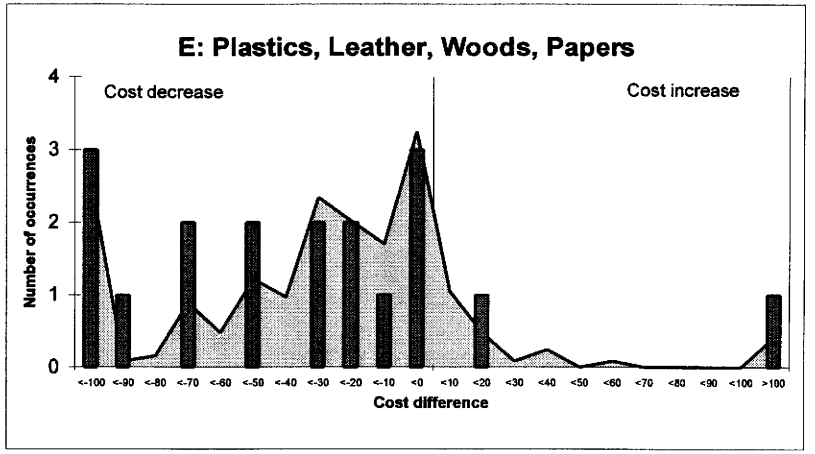
Figures 3.15, for despatches, on the next three pages, and 3.16, for acquisitions, on the following three reveal relatively high bands of savings for plastics, leather, woods, papers and excise goods, and, on the other hand, a mediocre result for foodstuffs, despatches of textiles/footwear and acquisitions of iron and steel. However, the sample sizes for textiles/footwear and iron and steel give rather a small basis on which to draw reliable conclusions.

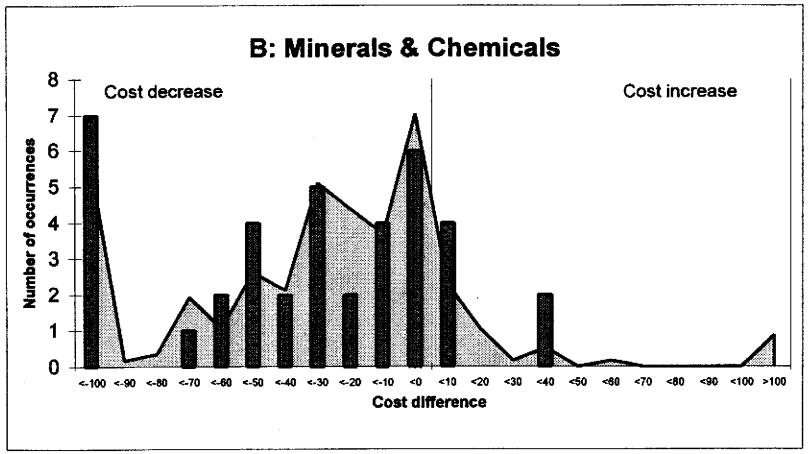
In the case of foodstuffs, it is interesting to note that, while ratio of winners to losers is very high (see previous Figures), the levels of saving achieved are only modest. We would have expected the cost savings in the foodstuffs industry to be greater, bearing in mind the additional procedures under the CAP, intra-Community consignments, which were necessary in 1992 but were abolished on 1 January 1993.

The levels of savings for excise traders are discussed in Section 3.5.6. The results for excise traders in Figures 3.15 and 3.16 only show results for respondents whose primary business is in excise goods. Our review in Section 3.5.6 adds to these a number of other respondents which deal to some extent in excise goods as part of their business, for example, supermarket chains.

Figure 3.15. Cost difference per consignment by industry (despatches)







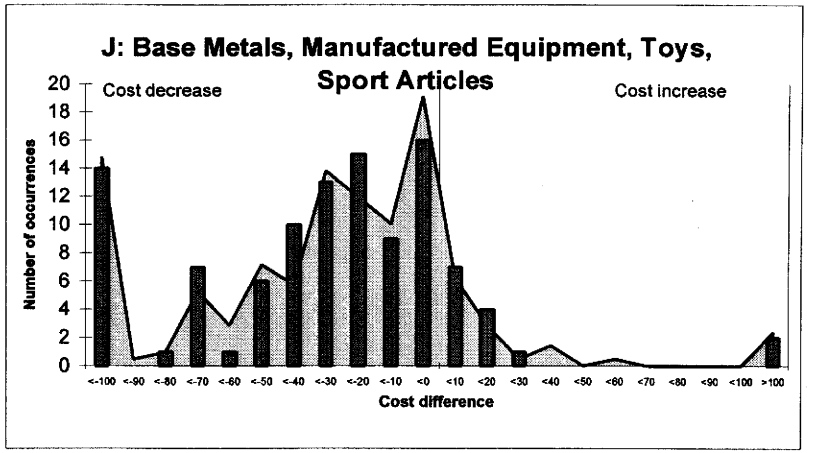


Figure 3.15. Cost difference per consignment by industry (despatches) (continued)

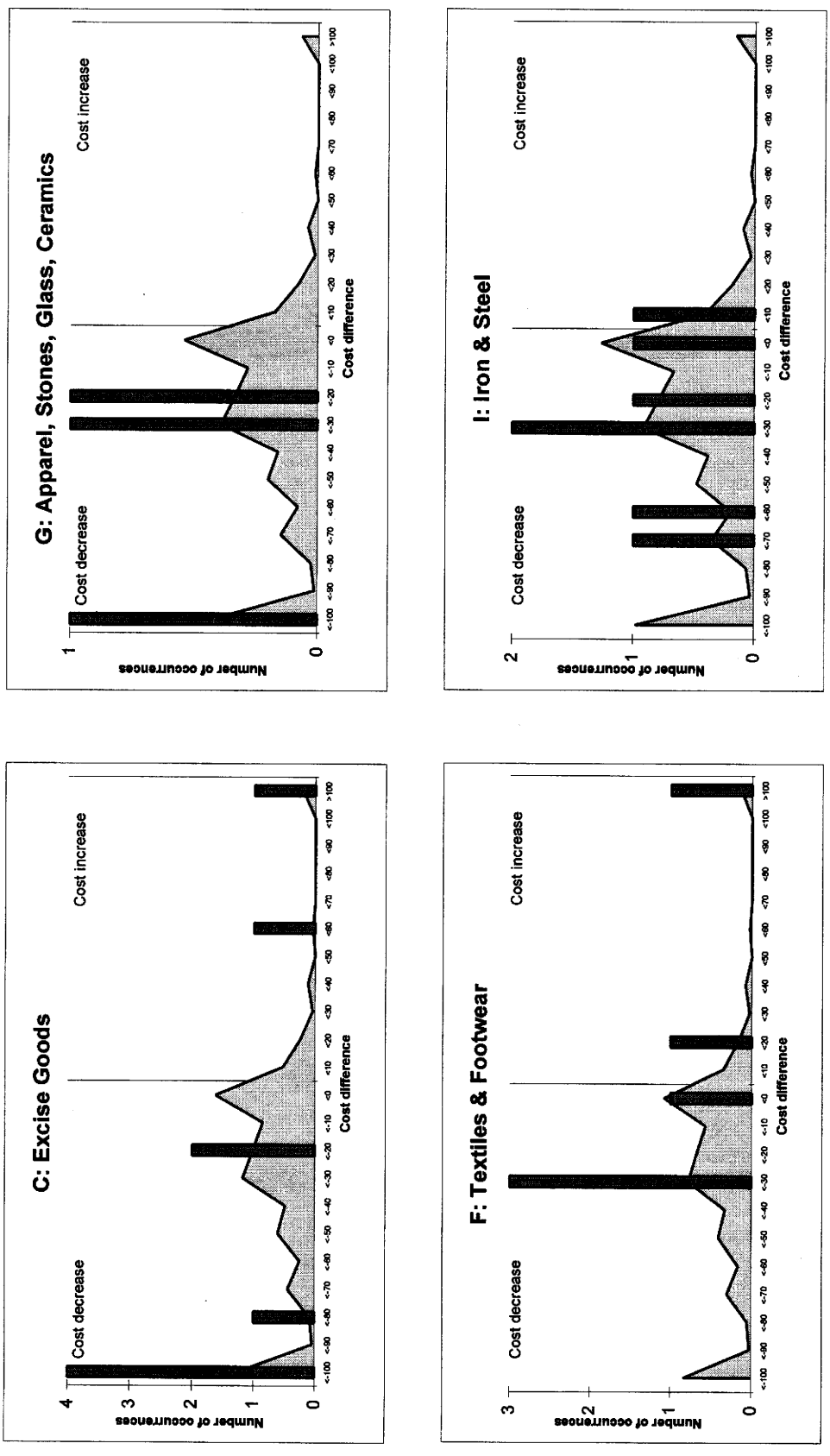
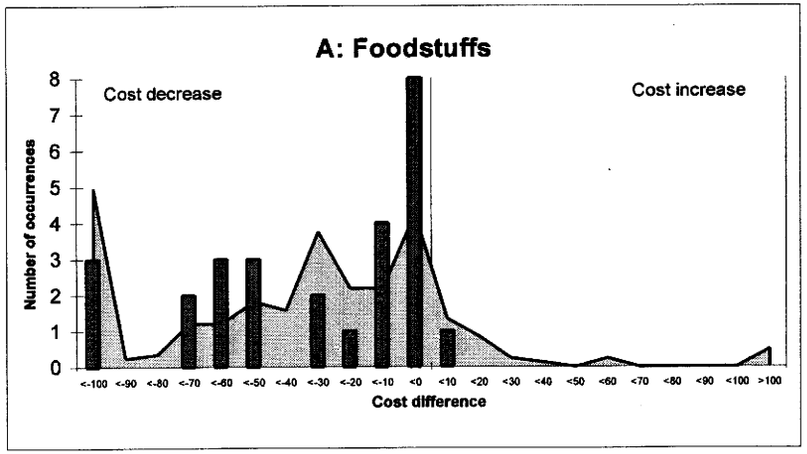
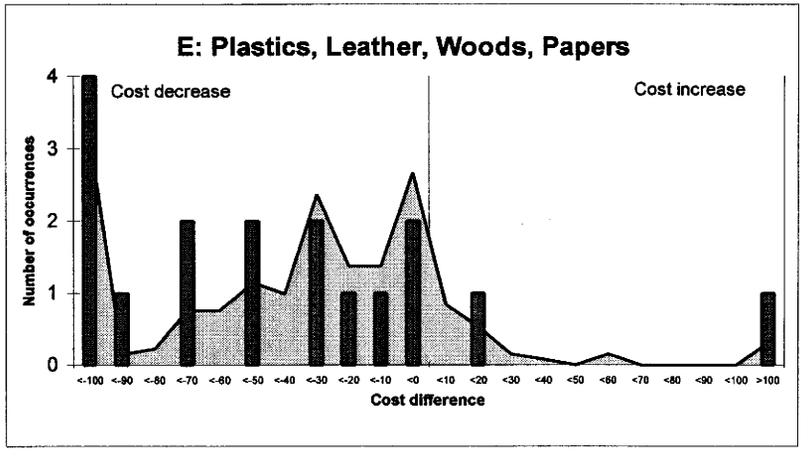
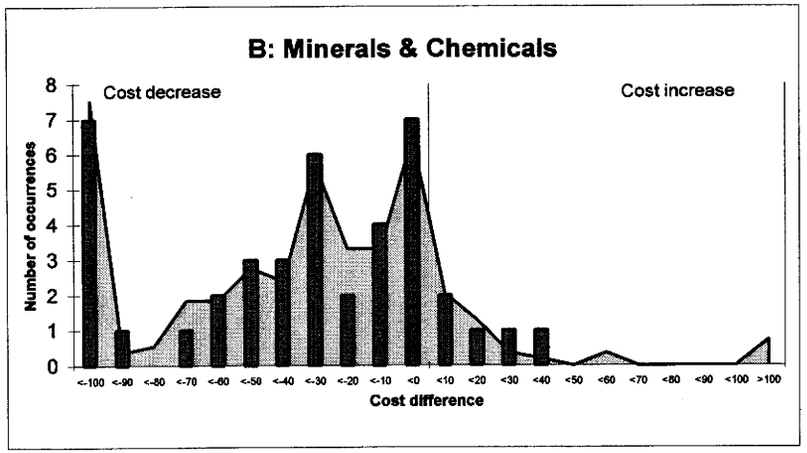


Figure 3.16. Cost difference per consignment by industry (acquisitions)







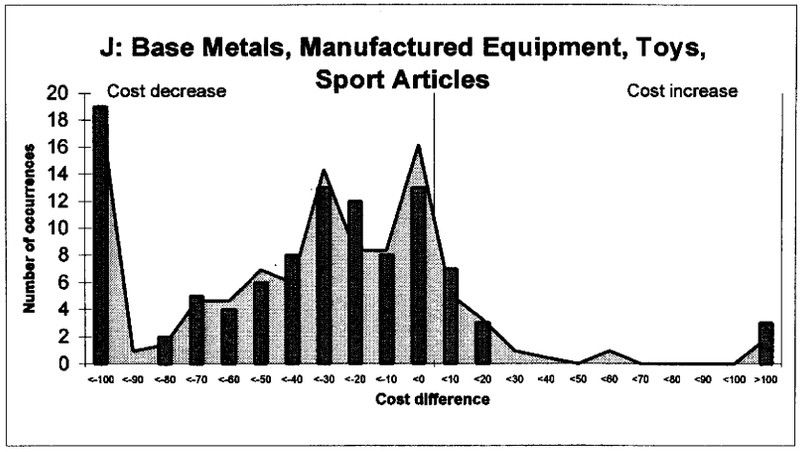
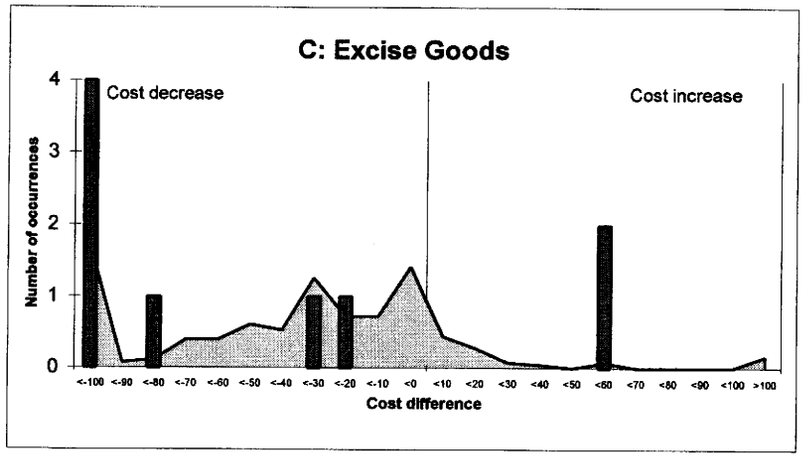
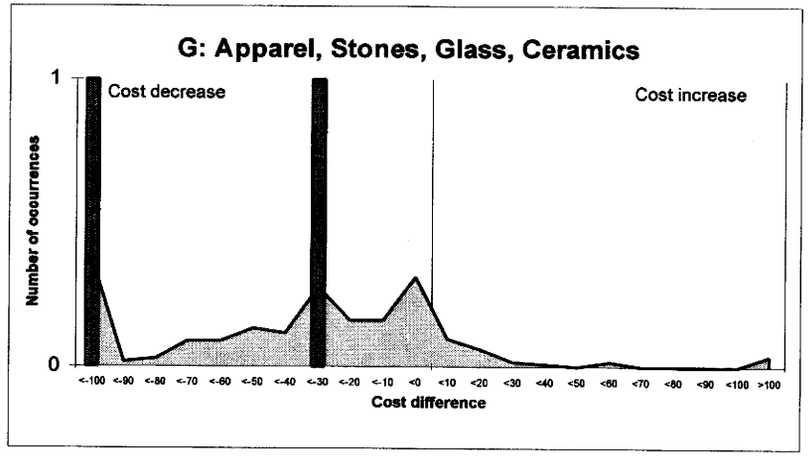
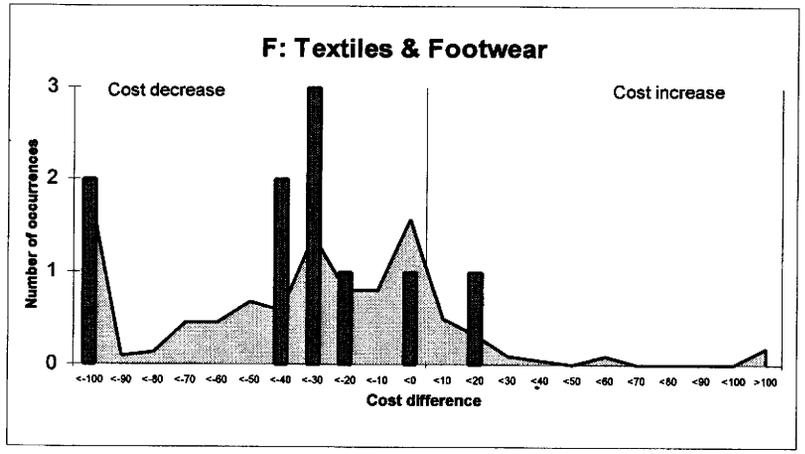


Figure 3.16. Cost difference per consignment by industry (acquisitions) (continued)







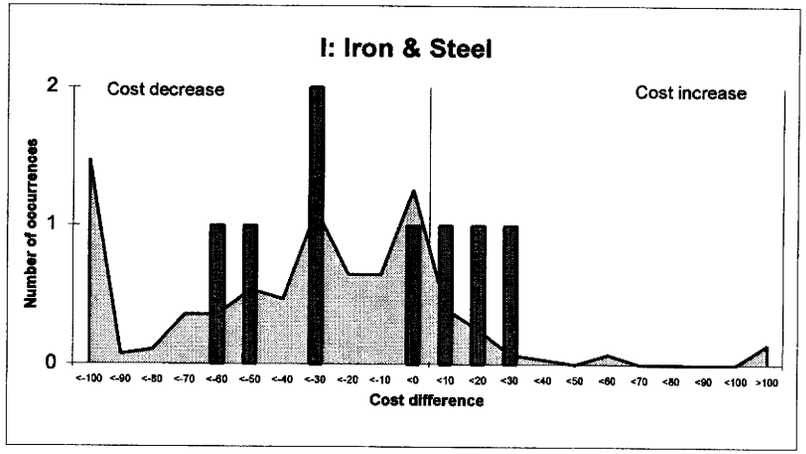
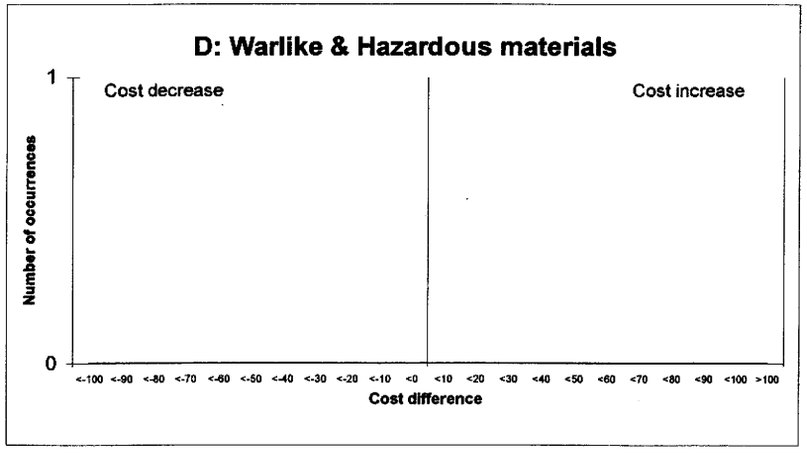
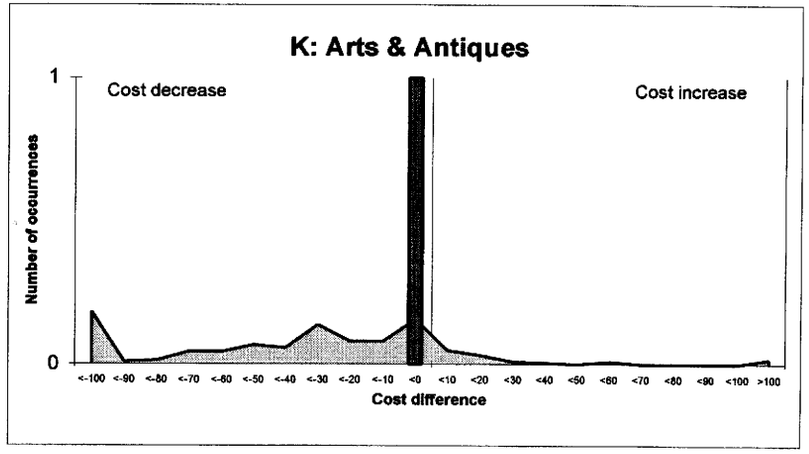
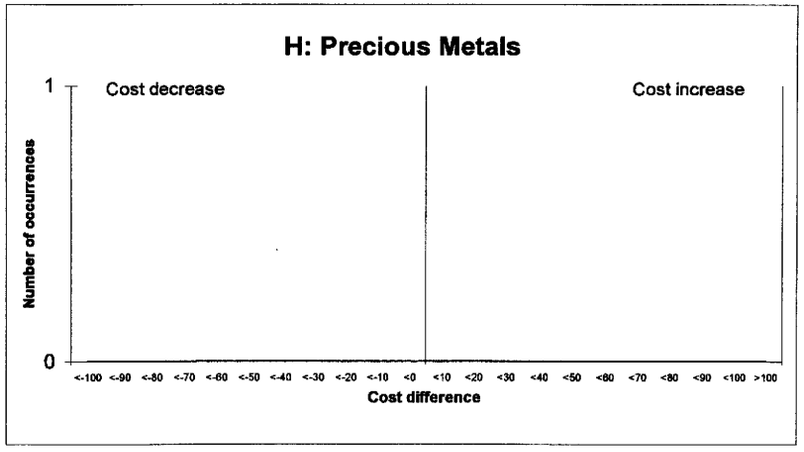


Figure 3.16. Cost difference per consignment by industry (acquisitions) (continued)







3.5.5. Variations by Customs/fiscal operations

We asked respondents whether, in 1992, they used simplified Customs clearance procedures for intra-Community trade. We also asked whether they out-sourced EC VAT and/or Intrastat compliance or attended to both in-house.

The orientation of responses identified five discrete practices:

(a) simplified Customs procedures were used in 1992;
(b) simplified Customs procedures were not used in 1992;
(c) EC VAT **or** Intrastat compliance are out-sourced today;
(d) both EC VAT **and** Intrastat compliance are out-sourced today;
(e) both EC VAT and Intrastat compliance are done in-house.

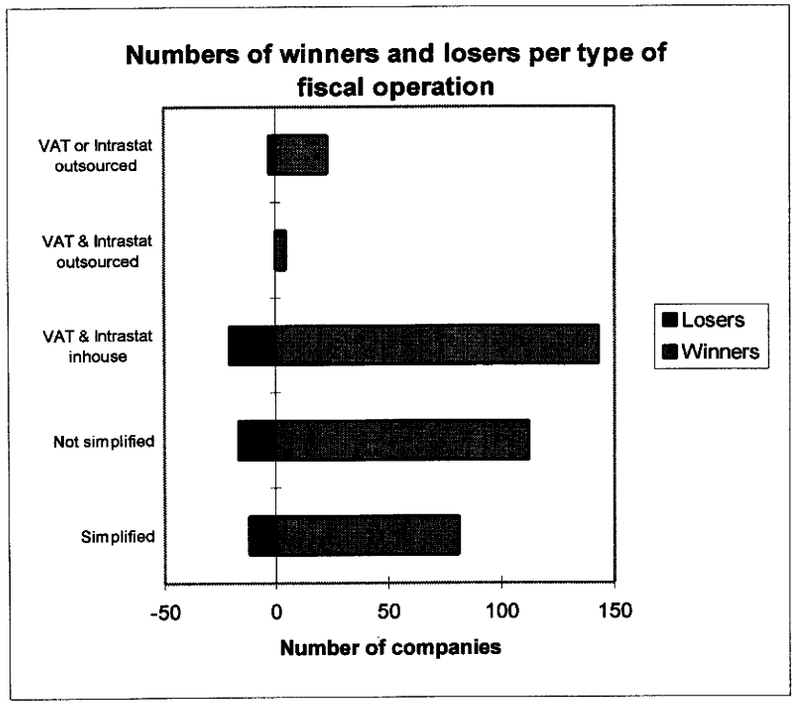
Winners and losers

Figures 3.17 and 3.18 show the balance between the numbers of respondents adopting each of the above practices, and illustrates the winners and losers.

A substantial proportion of respondents used simplified Customs procedures in 1992. Few out-source EC VAT or Intrastat compliance today. Of those who do so, more out-source only one or the other. Very few out-source both EC VAT and Intrastat work.

The ratio of winners to losers for despatches is rather consistent at between about 6.5:1 and 7.5:1, while, for the smallest category (VAT and Intrastat out-sourced), there are no losers although the small sample size for this category make it unwise to draw conclusions. As regards acquisitions, there is a higher ratio of winners to loses where VAT or Intrastat is out-sourced and this must give some food for thought, although the sample size for this category is rather small to be used as a basis for drawing any firm conclusions.

Figure 3.17. Winners and losers by fiscal operation (despatches)



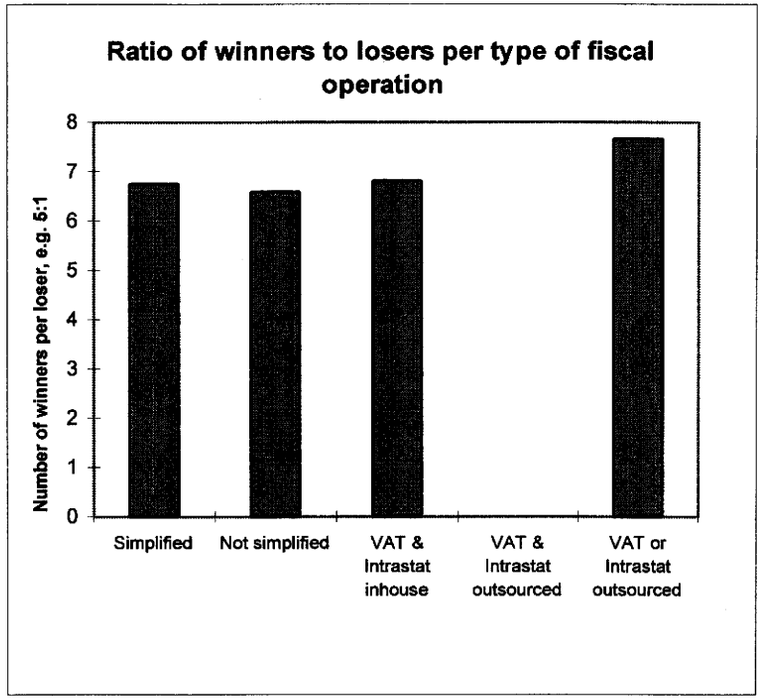
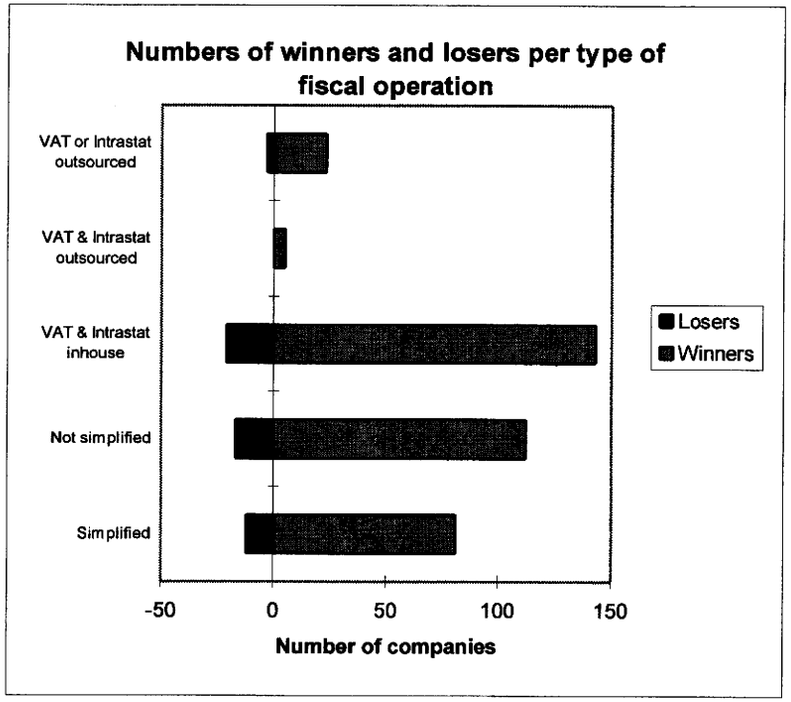
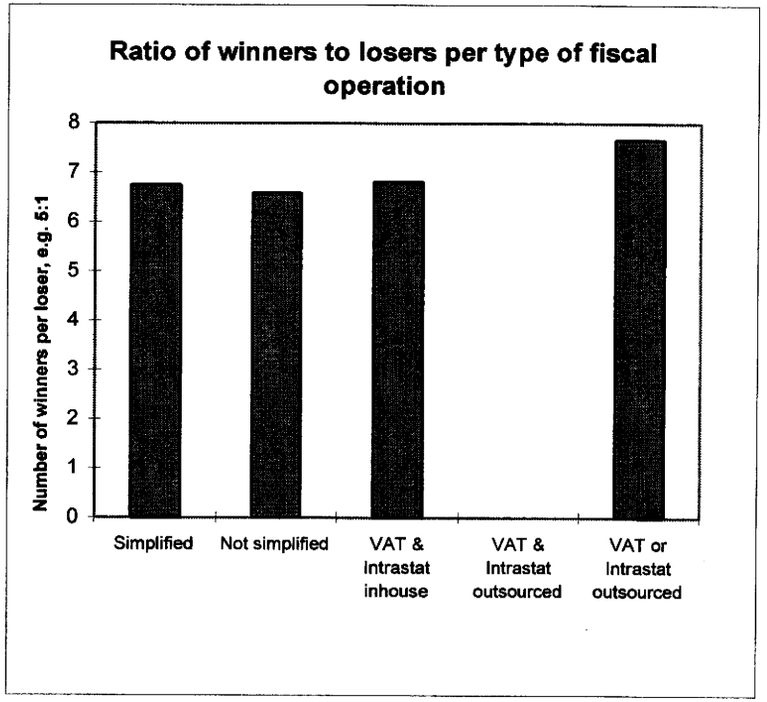


Figure 3.18. Winners and losers by fiscal operation (acquisitions)





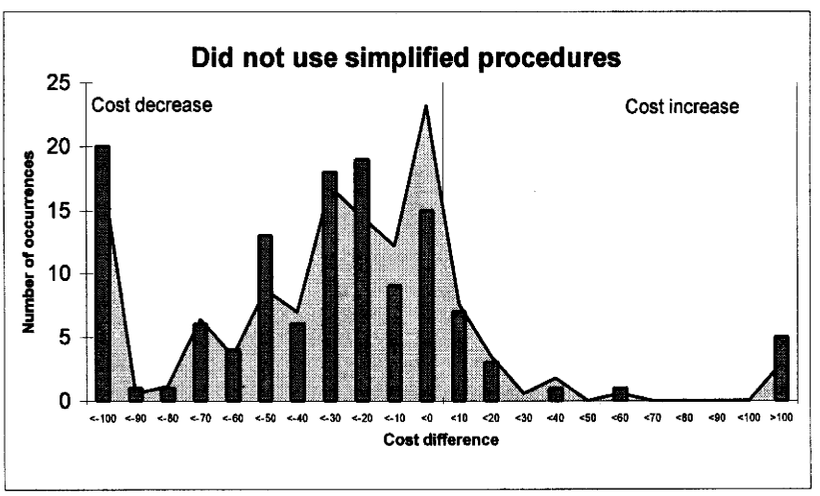
Bands of cost difference

The more detailed analysis of the bands of cost difference is shown in Figures 3.19 and 3.20.

There is a shift to the right for those who used simplified procedures in 1992 and a corresponding shift to the left for those who did not. A similar effect, although not so marked, is coming into play for users of simplified procedures as we have already seen with Denmark's results.

As regards differences caused by whether or not EC VAT and Intrastat compliance is out-sourced, no unusual pattern seems to emerge.

Figure 3.19. Cost difference per consignment by fiscal operation (despatches)



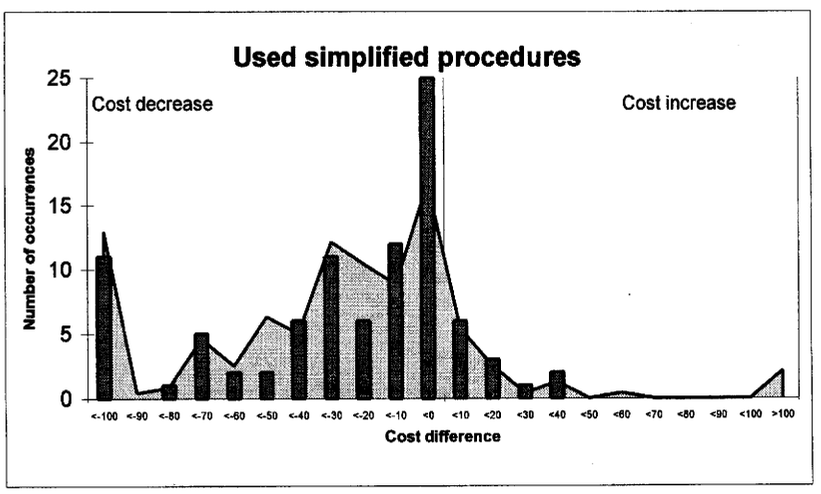
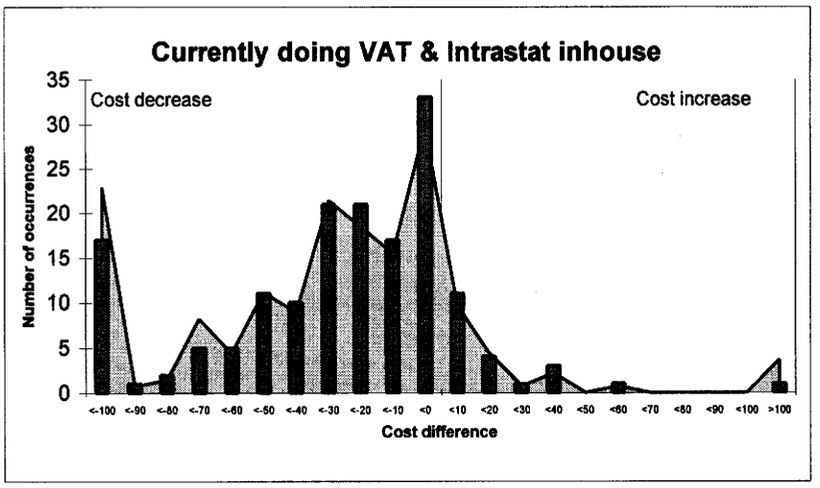
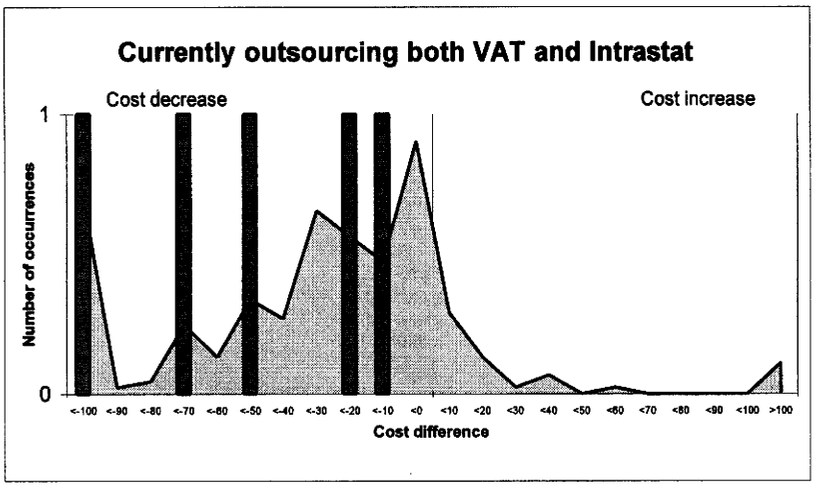


Figure 3.19. Cost difference per consignment by fiscal operation (despatches) (continued)





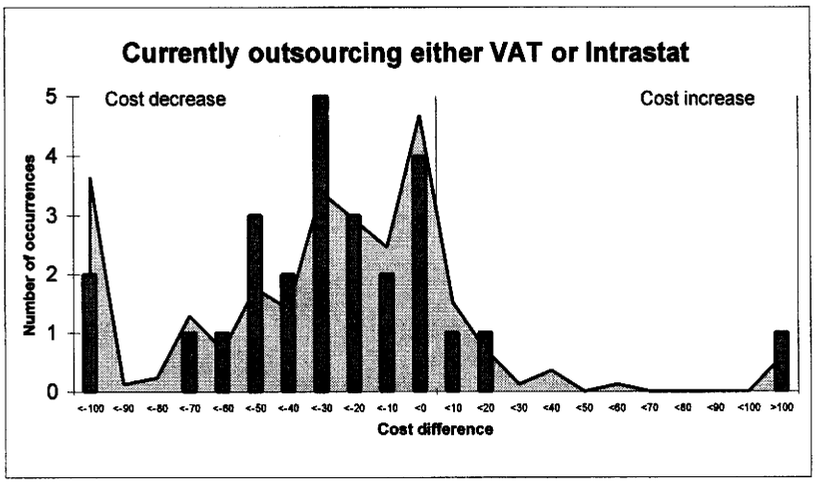


Figure 3.20. Cost difference per consignment by fiscal operation (acquisitions)

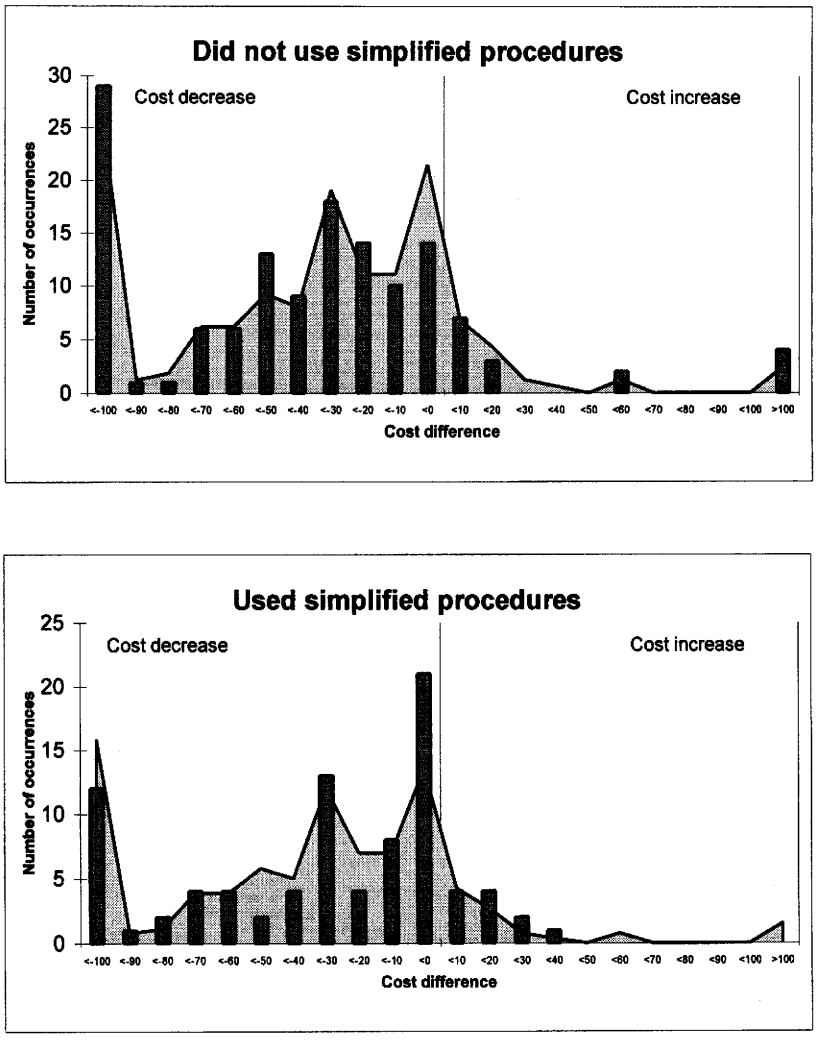
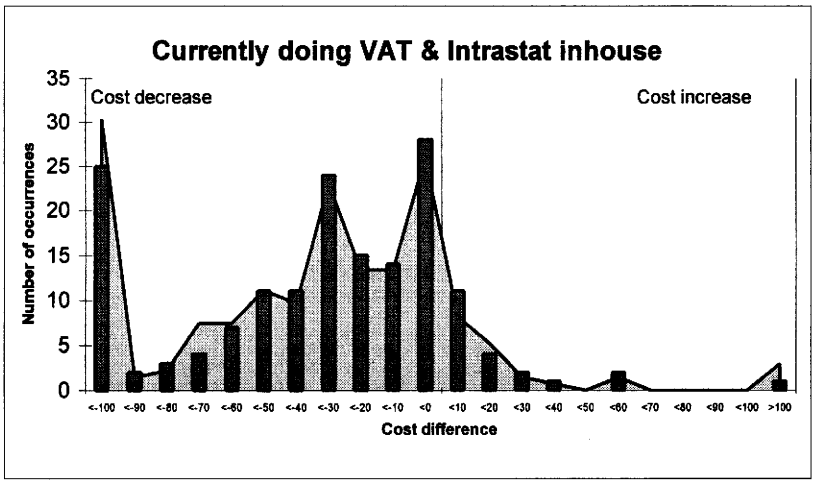
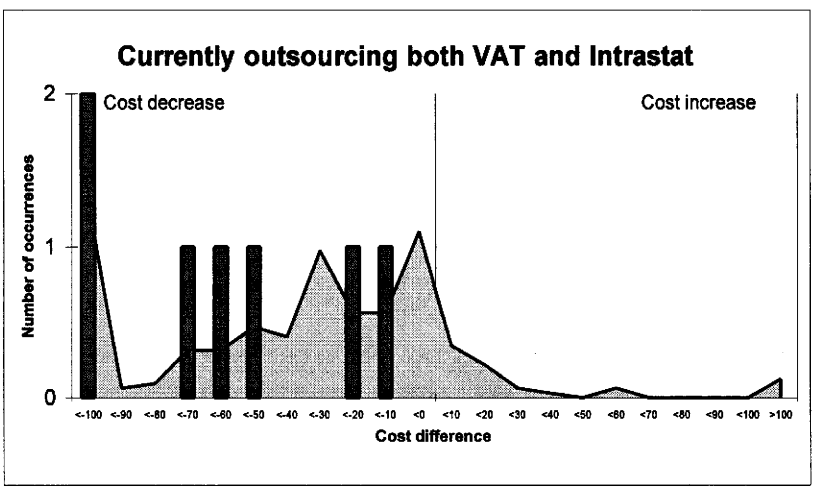
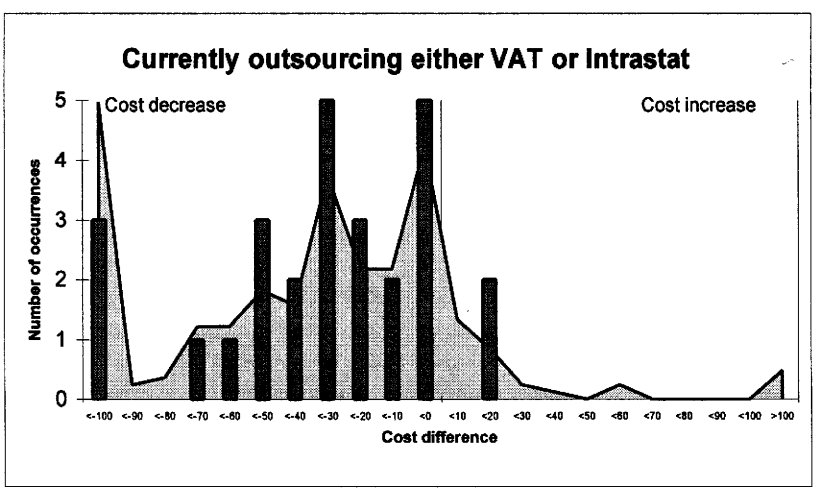


Figure 3.20. Cost difference per consignment by fiscal operation (acquisitions) (continued)







3.5.6. Companies trading in excisable goods

The excise system

Before proceeding to discuss the impact of the 1 January 1993 changes on excise traders, first it will be useful to outline the special procedures which they have to undertake in order to move these goods cross-border. The general logic of the system is as follows.

Excise duties are levied in the Member States on a variety of products. Excise, unlike Customs duty, is essentially a national tax and historically there has been relatively little EU-level legislation.

Until 1 January 1993, cross-border shipments of excise goods, as other goods, were individually controlled under the usual Customs procedures and documentation applicable to cross-border movements. However, with the advent of the single European market, new procedures for moving excise goods between Member States had to be developed on a Community-wide basis, in a way which recognized the special fiscal risks of these goods.

The scope of the 1993 procedures extends to the three main product sectors which are usually subject to excise duties and likely to move cross-border: mineral oils and biofuels, alcohol and alcoholic beverages, and manufactured tobacco. The procedures operate around the principle that, for cross-border movements, the excise duty has to be paid in the Member State of consumption and not that of despatch.

The procedures had to be quite rigorous. The rates of excise duty can be very high in some Member States. There is a strong risk of fraud and theft of such products, especially drinks and cigarettes. Also, the rates of duty vary enormously for some products, with still wine, for example, bearing no excise duty in seven Member States and quite high rates in some others, thus presenting significant risks of cross-border excise evasion.

Another feature of the trade is that, given the high rates of duty and the fact that it is chargeable where the goods are consumed, not where they were produced, it is important for the goods to travel with excise duty suspended.

Procedures today

Against this background, the procedures for moving duty-suspended goods cross-border operate, in brief, as follows.

With the exception of small wine producers, the maker's premises, in which the goods are produced and held prior to despatch, must be authorized as a tax warehouse wherever excise duty is as yet unpaid.

Part of the trader's obligations as a warehousekeeper is to provide a compulsory guarantee to cover the value of the suspended duties during the movement of the goods within the Member State and cross-border. In some cases, the movement guarantee is given by the consignor, transport company, owner of the goods or consignee. The terms under which the guarantee is set are laid down by the Member States concerned under national conditions.

The warehousekeeper has to keep, for each set of premises, accounts of stock and product movements and has to be ready to deal with physical controls (although these are decreasingly

used in those Member States which are transferring to risk- and audit-based control), spot checks and audits of records from the Member States' authorities. He has to monitor his systems, in both production and transport, for losses in production or *en route*. For example, losses during transport, through evaporation or residues left on board, are quite common in the bulk shipment of mineral oil products.

Special marking of excise products is often required, such as banderoles on wine or coloured marking dyes in mineral oil products.

The goods are normally only permitted to move cross-border to another Member State under cover of an Accompanying Administrative Document (AAD), completed by the consignor. Three copies accompany the goods, of which one has to be returned by the consignee. This return copy may first have to be endorsed by the authorities of the Member State of destination. The third copy is kept by the authorities of the Member State of destination, and sometimes the authorities of the Member State of despatch ask for a fourth copy.

Clearly, this seems rather an unwieldy paper-chase, but it was implemented in order to be able to control cross-border movements without the need for frontier controls. In practice, many traders use computerized systems to prepare the document. Also, although there is a set format for this document, commercial documents of a different format may be used instead, if they contain the same information.

Where there are frequent and regular shipments, summary or automated (for example, computerized) procedures may be adopted, if the authorities of both Member States concerned agree to this. The authorities may indeed require the information contained in the document to be sent to them by computerized means.

As for physical controls, packages have to be marked and shipping containers must be sealed where possible.

As regards the requirements for the consignee, this trader has two choices. One alternative is to hold authorization as a tax warehouse. This is very common, as most traders involved in excise goods wish to defer the payment of excise duties as long as possible after they have been received.

The other alternative is for the consignee to be approved as a registered trader, simply to receive excise-suspended goods with immediate accounting for the duty. This would be the case, for example, if the consignee is a retailer receiving goods directly onto the retail premises, for example, a supermarket.

The registered trader operates under simpler procedures than a warehousekeeper, but must still keep accounts of deliveries, be prepared for physical, records- or audit-based controls and possess a guarantee to cover the duty suspended.

Sometimes, the excise formalities in one or both Member States are carried out by third-party warehousing or transport companies, or by tax representatives.

Following delivery of the goods, procedures for the eventual levying and collection of excise duties are determined by Member States individually, but these procedures have to be the same for goods from other Member States as for locally-produced excise goods.

Compliance costs

It follows that there are, broadly speaking, four types of compliance which will incur costs for excise traders:

(a) operating a tax warehouse (either as a consignor or as a consignee);
(b) operating as a registered trader;
(c) funding guarantees; and
(d) managing the AAD.

These costs will either fall in-house, or be incurred through out-sourcing to a tax representative.

The extra compliance, and therefore the extra cost, of handling cross-border shipments depend on the extent to which the above procedures are additional to those necessary for domestic trade and call for additional information on documents, over and above what would be produced for commercial reasons or for EC VAT and Intrastat.

It should additionally be recalled that, apart from the costs of operating the single European market systems, traders also incurred change costs in understanding, training and setting-up new systems.

(a) Operating a tax warehouse

As regards operating a tax warehouse, most aspects of this are the same for either domestic or cross-border trade. The warehousekeeper's authorization also covers both national and cross-border movements. However, detailed procedures are determined nationally by the individual Member State.

In particular, the requirements to keep accounts of stock and product movements (in and out), and to be subject to physical and/or records- or audit-based official controls, are already part and parcel of the excise trader's systems for domestic and commercial reasons. The same applies to the need to monitor for losses in stock and in transit. Although the scenario is hypothetical, it might be suggested that, if excise duty did not exist, traders – especially those dealing in the high-risk consumer goods – would maintain equally rigorous controls for commercial and security reasons.

There appears therefore to be little, if any, additional compliance burden for cross-border movements directly associated with the tax warehouse procedure. However, in Member States where the excisable product is actually subject to a zero rate, it has become necessary to implement a tax warehouse procedure to cover the requirements of cross-border movements, wherever it is desired that the goods should travel excise-suspended.

(b) Operating as a registered trader

The status of registered trader was introduced with the single European market system for cross-border control of movements. Prior to 1 January 1993, the importer did not have to be specially registered, but simply paid excise duties and other taxes at the time the goods were Customs-cleared on entry to his Member State. Many such traders, who had no commercial need to suspend excise duties beyond the time of receipt, find the registered trader route preferable to implementing a tax warehouse.

The procedures which the registered trader must undertake are certainly no more complex than those required from an importer and his Customs agent before 1 January 1993. On the other hand, they are of course more complex than those for receiving duty-paid product from a consignor in the same Member State. Apart from the matter of guarantees and the AAD, the main extra obligation for a registered trader appears to retain accounts of deliveries and be prepared for physical and/or audit controls.

(c) Funding guarantees

This is and always has been a major issue for excise traders. The level, and therefore the cost, of the guarantee reflects, for example, the amount of excise duty suspended, the risk perceived by the guarantor and the period during which the guarantee is outstanding. The guarantor is normally either a bank or an insurance company.

A guarantee provided on behalf of the consigning warehousekeeper, to cover duties during the movement of the goods, is compulsory (even though one for their storage is not mandated under EU law) but the conditions for setting the guarantee are left to individual Member States and of course this also affects the cost. Other parties may lodge such a guarantee, and registered traders have to guarantee payment of excise duty under national provisions.

Methods such as faxing back to the consignor the return copy of the AAD can mean that the guarantee reserve for a particular shipment can be released quite rapidly, theoretically within a very few days of despatch.

It is impossible to generalize, either across companies or across Member States, about typical costs of the guarantee. However, it has to be recalled that such guarantees had to be produced before 1 January 1993, either as Community transit or internal transit guarantees.

The costs to traders of such guarantees can also be expected to vary according to the perception of a guarantor as to the security of the AAD system compared to that of the previous systems in force before 1 January 1993. As this perception will vary from one set of circumstances to another, it is impossible to generalize.

(d) Managing the AAD

The most obvious change to procedure is the AAD system. As this is an additional procedure for cross-border trade in excise goods, it clearly represents an additional cost over and above the EC VAT and Intrastat compliance.

The chief compliance elements of the AAD system appear to be the 'nuisance value' of the paper-chase and the difficulty of putting right situations where, for some reason, the paperwork is wrong or has gone astray and one party or another stands to be out of pocket because of irregularities. For example, if the consignee fails to send back the return copy of the AAD – this seems to be one of the weakest points of the system from the trader's point of view, and something over which the consignor has no direct control – then the consignor can be held liable for the excise duty on the full consignment value, through no fault of his own.

It is impossible, however, to put a typical cost on administering the paperwork and resolving the problems. The main cost would appear to be in handling and marrying-up the paperwork. The actual information which the trader has to enter on the AAD is no more and no different

from what is already required for commercial reasons and for completing his Intrastat reports. However, the data has to be assembled and the forms completed before the movement begins, which clearly adds to the nuisance value.

The provisions made, within the Holding and Movements Directive, for computerization could enable much of the AAD compliance burden to be alleviated and, at the same time, made more reliable.

Responses

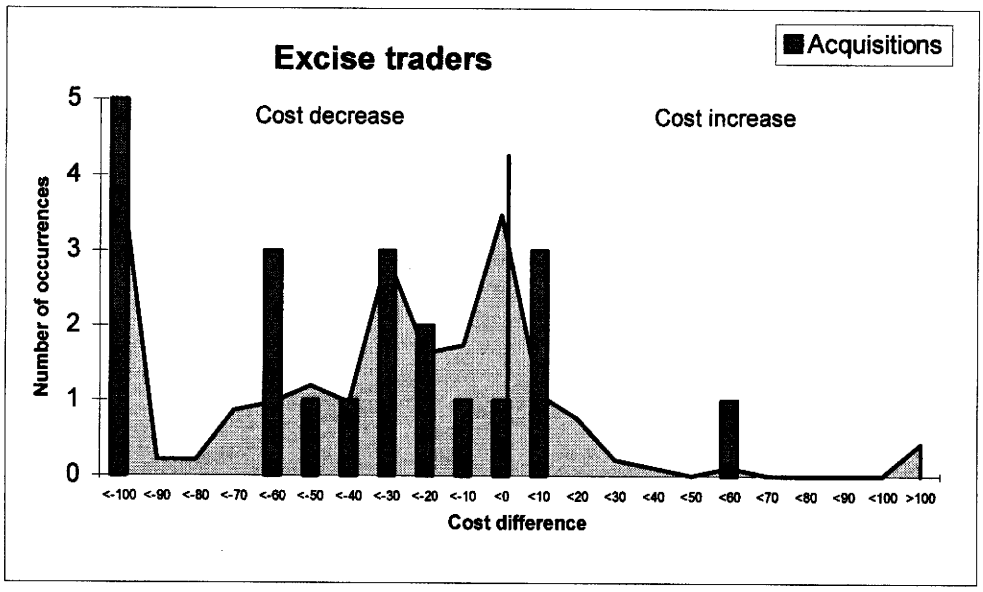
Our responses from excise traders (see Figure 3.21) did not, by and large, draw out significant extra or special costs due to excise procedures, even though we might have expected this.

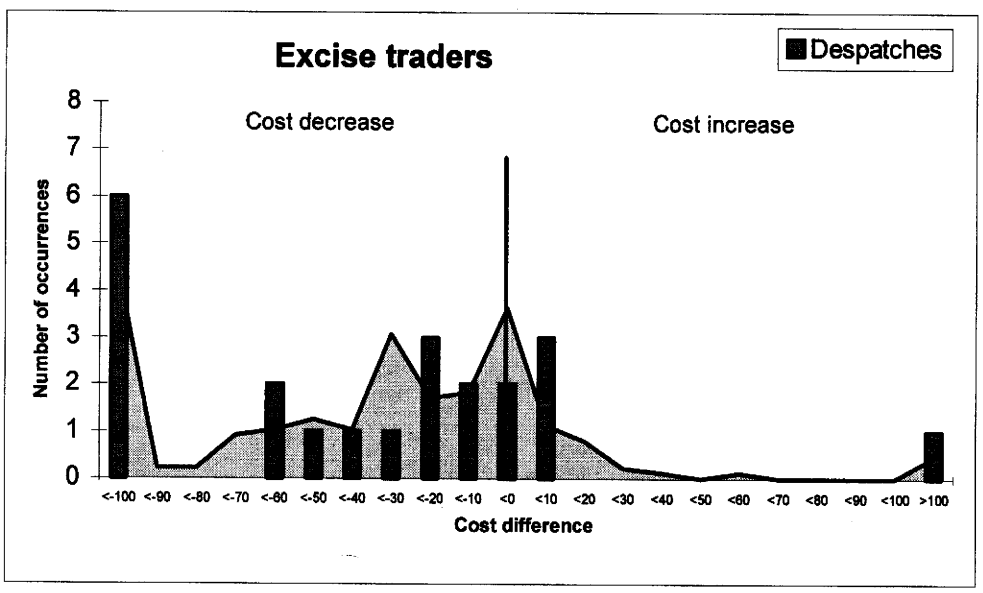
Generally speaking, the extra costs for excise compliance in 1992 tended to show a surcharge on the cost of the Community Transit procedures which had already been adopted for other purposes, while the costs for the current system were shown as minimal.

Such an absence of marked cost differentials may partly be accounted for by the fact that traders dealing in excisable goods have long been accustomed to integrating the necessary specialized compliance within their normal company procedures. However, we cannot rely on this assumption nor on responses to this survey as a basis for claiming that the compliance burden of current cross-border procedures for excise goods is insignificant. A separate specialist review, in more depth and across more sectors, would be necessary for proper conclusions to be drawn.

All we can safely say is that our sample of excise traders appears to have performed well in terms of controlling their compliance costs. Some of them have, however, pointed out the nuisance value and risk of some of the single European market procedures, in particular those relating to the AAD – a matter which is well-known to their trade associations, Member State authorities and the Commission alike.

Figure 3.21. Cost difference per consignment for excise traders



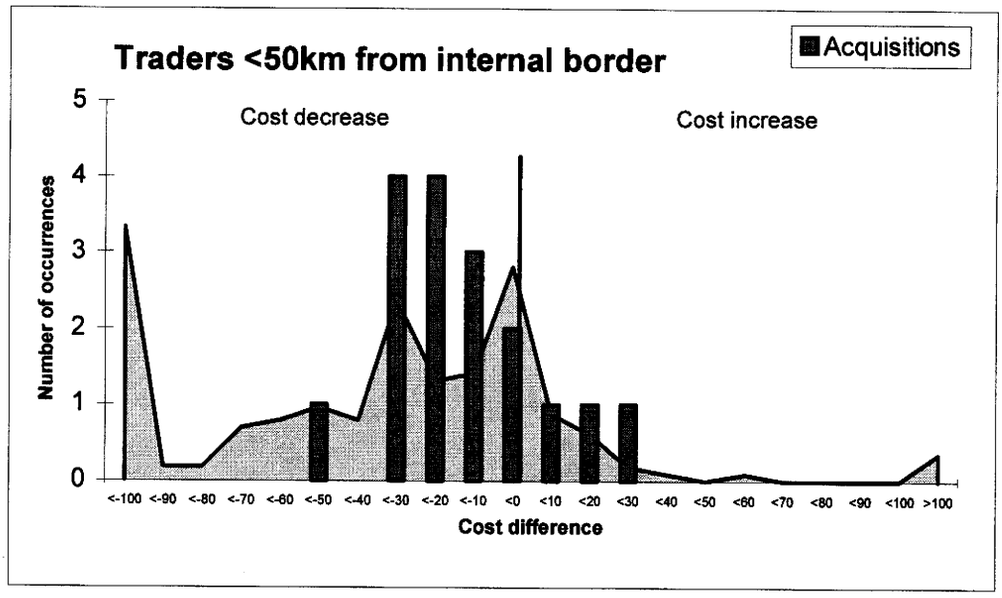


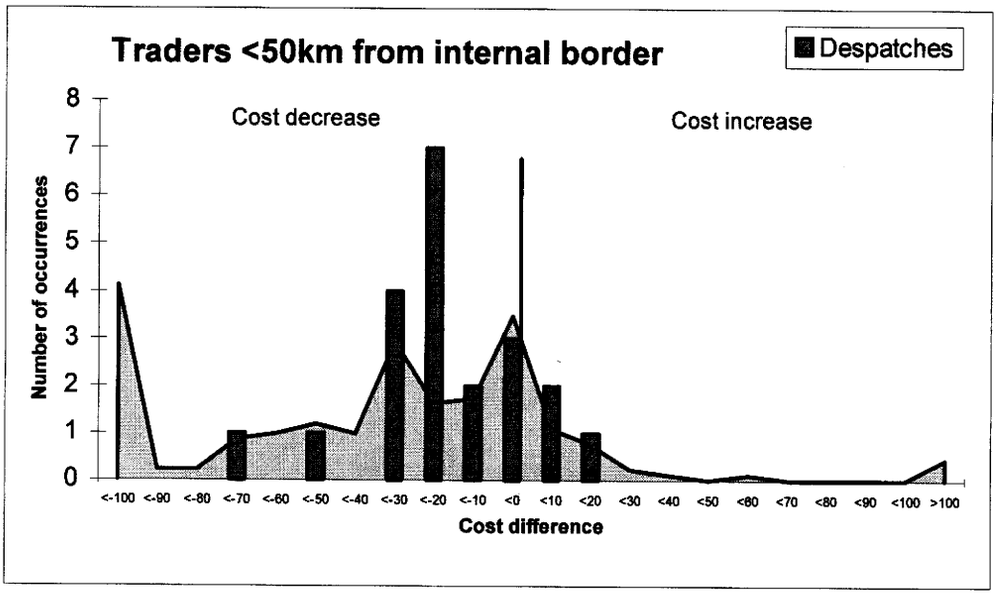
3.5.7. Location in relation to frontiers

The only respondents which set out information drawing conclusions from their proximity to frontiers were located in the Benelux countries. Figure 3.22 shows the bands of savings in their case.

For both despatches and acquisitions, the responses show a closer grouping of levels of savings than for the total sample. However, they do not appear to show a markedly different pattern from the general experiences of respondents in Benelux (see Figures 3.7 and 3.8). It is therefore not appropriate to draw specific conclusions from this result.

Figure 3.22. Cost difference by consignment by proximity to frontiers





3.6. Examination of cases where costs have increased

We carried out additional validation and a separate examination of all responses where costs had increased by more than a small amount. As a result, the following observations can be made for those Member States with such examples.

3.6.1. Germany

In one case, there was an increase of ECU 107 per consignment for despatches. The company concerned used a computer system for the compliance, but the number of consignments was so low, at only two per month, that the proportion of the system maintenance charges apportioned to each consignment accounted for this high figure.

3.6.2. Italy

Two examples of despatches revealed increased costs of between ECU 200 and 300 per consignment.

In one case, sales prior to 1 January 1993 were sold in such a way that the customer attended to and accounted for the Customs compliance. However, since then, the respondent has had himself to attend to the EC VAT and Intrastat compliance. Moreover, his sales have increased fourfold.

In the other case, the cost penalty is due to time spent on the EC VAT and Intrastat compliance, which is reported as equivalent to over six hours per consignment.

The same cause is apparent in one example of acquisitions, with 12 hours per consignment being reported.

In a fourth case, for despatches, costs were higher still. The respondent despatches only a minute number of consignments per year, but nevertheless has to undertake the full EC VAT and Intrastat reporting procedure. The time reported is equal to 43 hours per consignment.

A final example of increased costs in Italy, by a little over ECU 250 per consignment, is where business has dropped dramatically since 1992, while an external agent is used, in addition to internal resources, to compile the EC VAT and Intrastat reports.

Most of the above examples reflect the situation which can arise when a company with relatively small numbers of consignments (even though the values may be high) has to undertake a monthly reporting routine which is relatively complex. The time taken for compliance still seems rather high and the increases appear spectacular. However, it should be noted that such examples were very much in the minority and appear to be accounted for by unusual circumstances. The firm trend among other Italian respondents is for substantially decreased costs.

3.6.3. United Kingdom

In one case a respondent has incurred extra costs of about ECU 150 per consignment for despatches. In this case, in 1992, despatches were generally exported from other Member States and not from the UK direct, therefore the company did not directly incur any Customs compliance costs. Today, EC VAT and Intrastat costs are incurred for this atypical trade pattern,

and the cost, expressed on a per consignment basis, is high because there are few shipments. This is very similar to the first of the Italian examples just quoted.

The same company incurs a slightly higher penalty on its acquisitions. It pays fees to a fiscal agent in addition to its own in-house time, but the value per consignment for acquisitions is untypically high.

3.7. Examination of 'outliers' where savings were high

There were significant numbers of 'outliers' where the savings exceed ECU 100 per consignment.

Figures 3.23 and 3.24 illustrate the relative number and proportion of these by Member State, for despatches and acquisitions respectively.

Following the trend we have seen before, the proportion of outliers is highest in the Mediterranean Member States. Excise (industry 'C') and apparel (industry 'G') traders also seem to fare somewhat better than the norm. As regards the size of company, SMEs fare rather well, but wholesalers and retailers do not.

An individual examination of the outliers revealed the following reasons for their large savings.

3.7.1. Belgium

In one example, very high staff costs existed in 1992 which have now been dispensed with.

3.7.2. Germany

The outliers in Germany divide into two types.

First, there are some examples where the product is very complex and the value per consignment is correspondingly exceptionally high. In such cases, it seems that a great deal of time and effort was expended in 1992 to ensure 'safe passage' through the Customs procedures. Any delay or complications incurred at frontiers for a shipment of such high value would have expensive consequences. These special precautions are of course no longer necessary since the frontier controls were abolished.

Second, there is a significant number of examples where the respondent, in 1992, maintained its own Customs department. Our national teams confirm that this used to be the case in Germany more commonly than in other Member States. Often, but by no mean always, this was because simplified Customs procedures were used, therefore the workload was carried predominantly by the company's own staff. From the beginning of 1993, these staff were no longer needed, at least for intra-Community trade, and so the departments were disbanded, with correspondingly high savings.

3.7.3. Italy

There are a significant number of examples of high costs in 1992 combined with reasonable in-house compliance costs since 1 January 1993, yielding savings between ECU 130 and 250 per consignment. In one case, the Customs agent's fee in 1992 was expressed as a percentage of value; the savings for this respondent have exceeded ECU 1,250 per consignment.

3.7.4. Netherlands

One example, of a company trading in excisable products, reveals savings exceeding ECU 100 per consignment because, in 1992, as well as paying external Customs agents' fees, the company maintained an internal staff team equivalent to two people part-time. After 1 January 1993, this staff time was no longer needed.

3.7.5. Spain

A number of examples revealed savings of several hundred ECU per consignment, for the same reasons as mentioned in relation to Italy, namely high external costs in 1992 replaced by moderate internal costs since 1 January 1993.

Figure 3.23. Outliers (despatches)

(Cost reduction > ECU 100 per consignment)

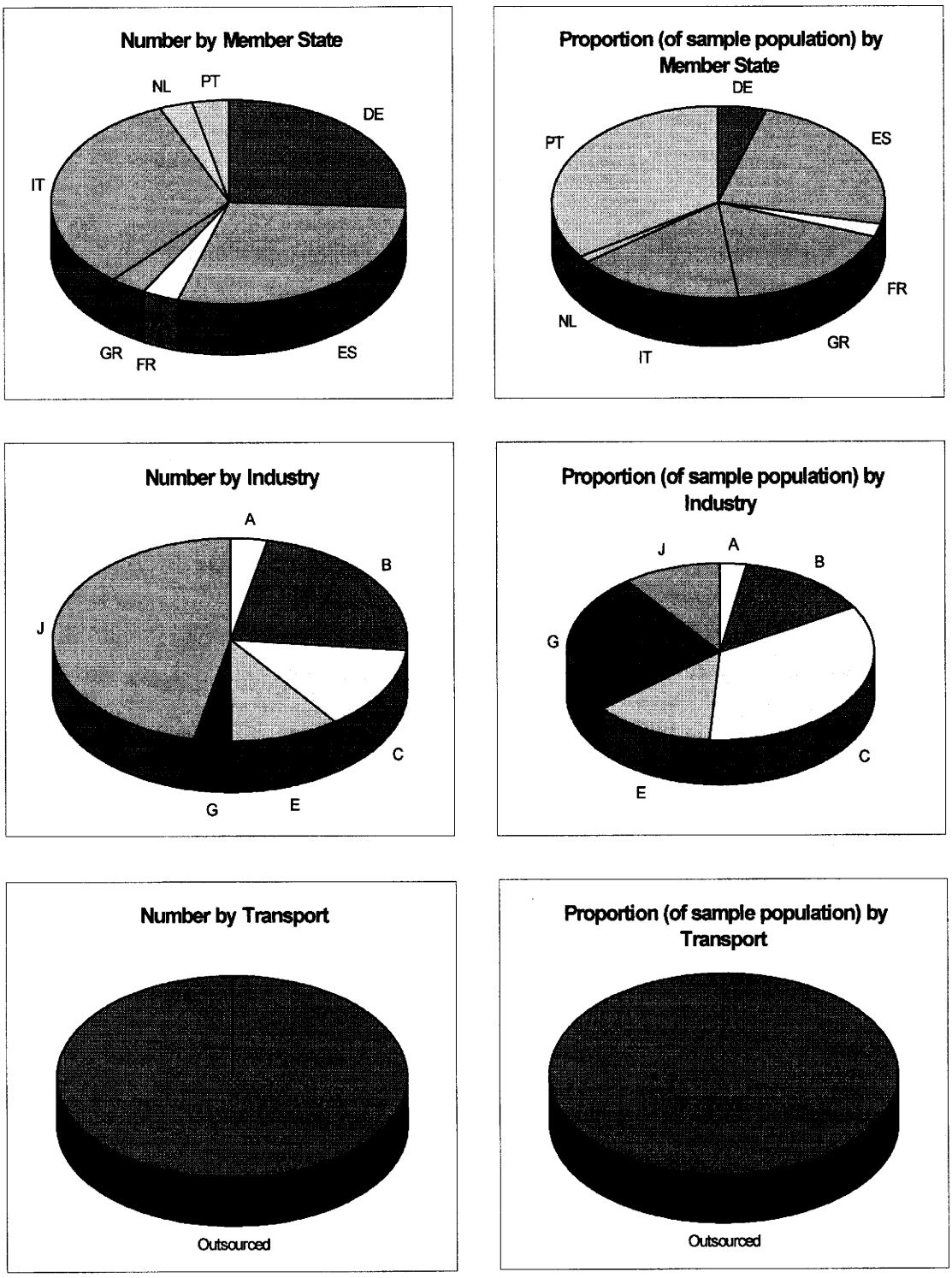
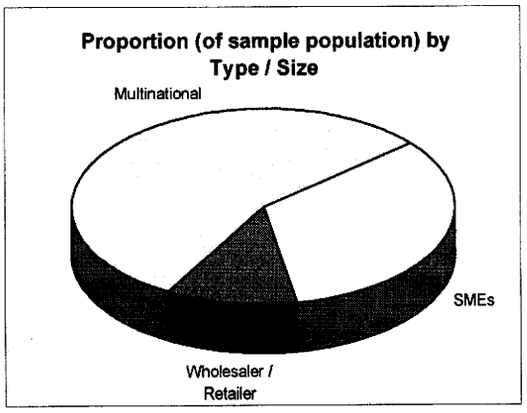
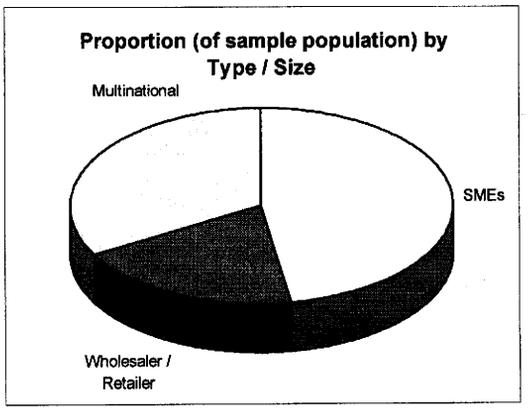
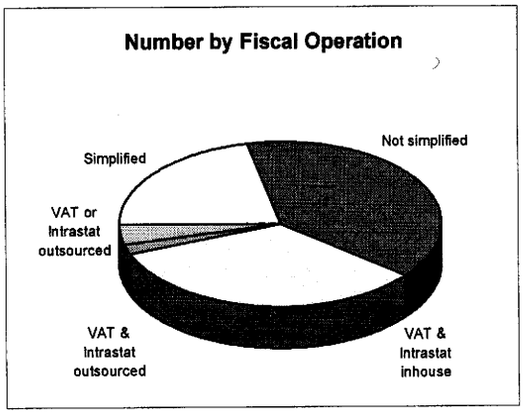


Figure 3.23. Outliers (despatches) (continued)







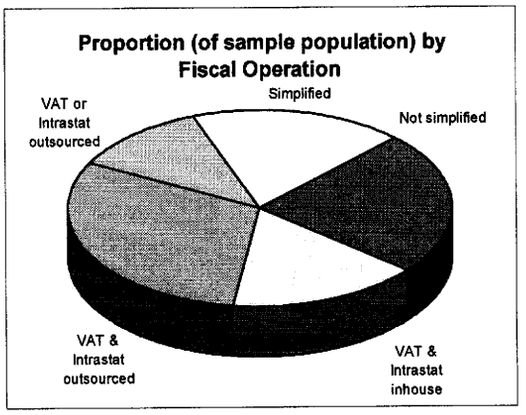


Figure 3.24. Outliers (acquisitions)

(Cost reduction > ECU 100 per consignment)

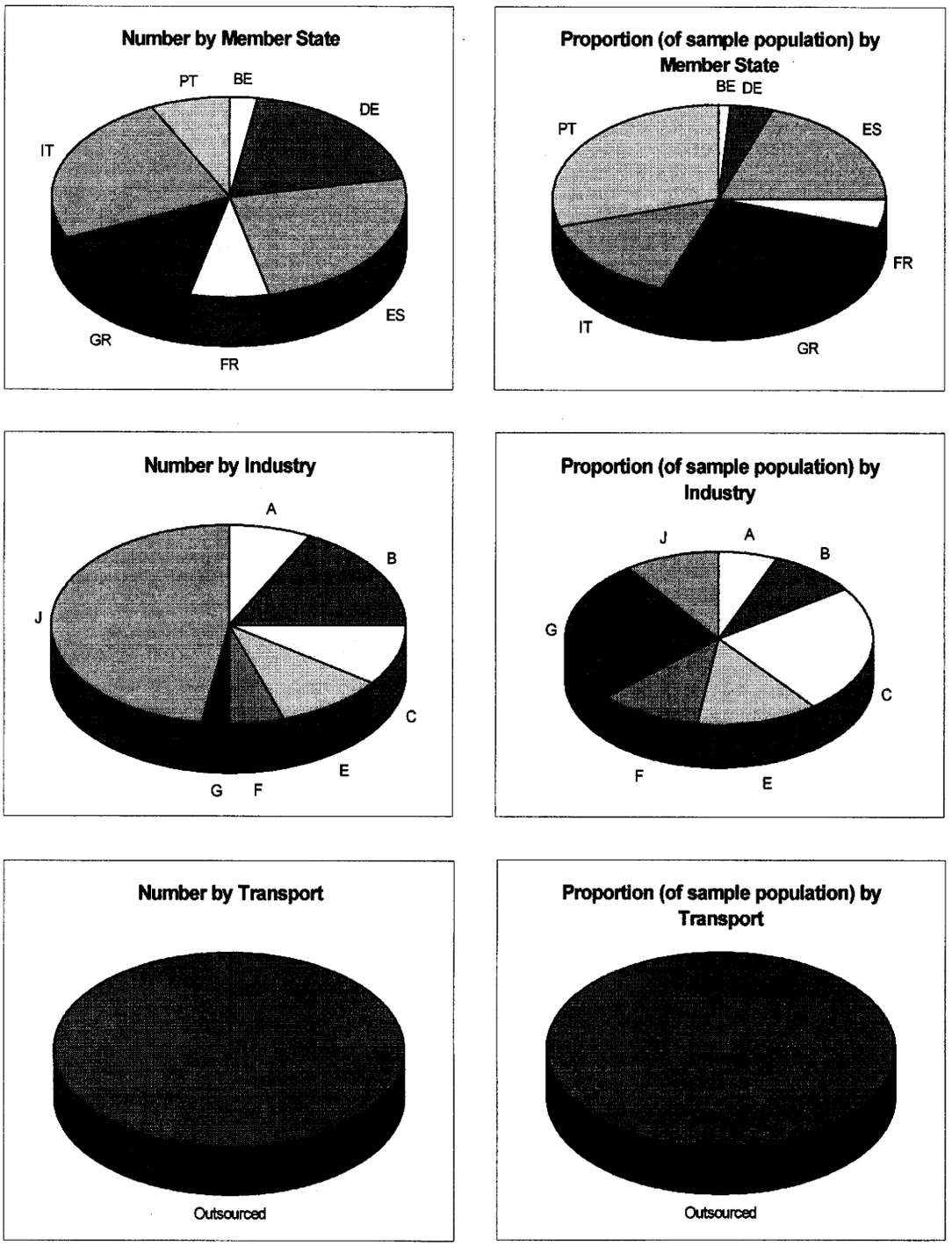
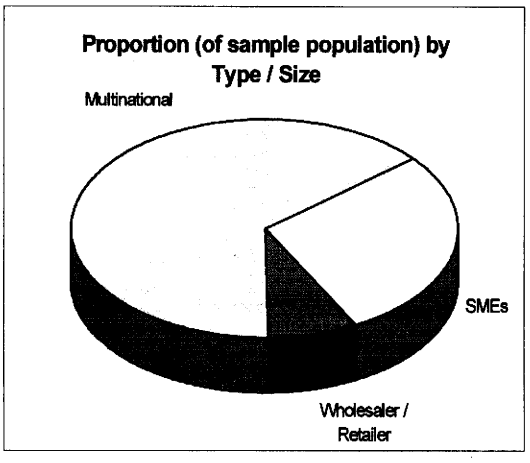
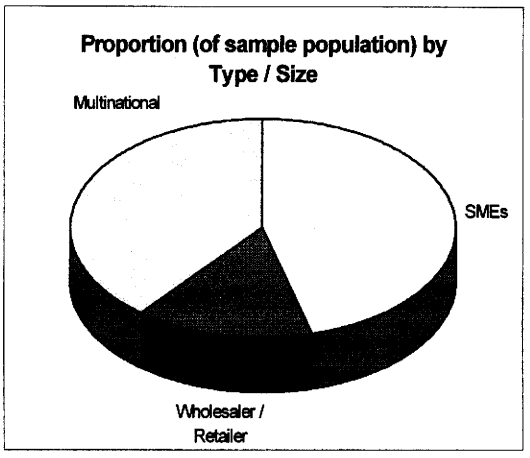
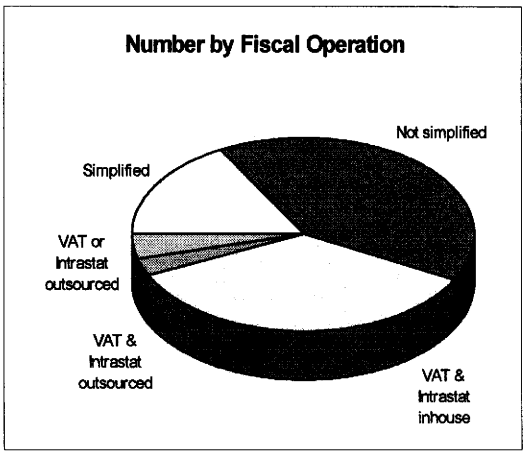


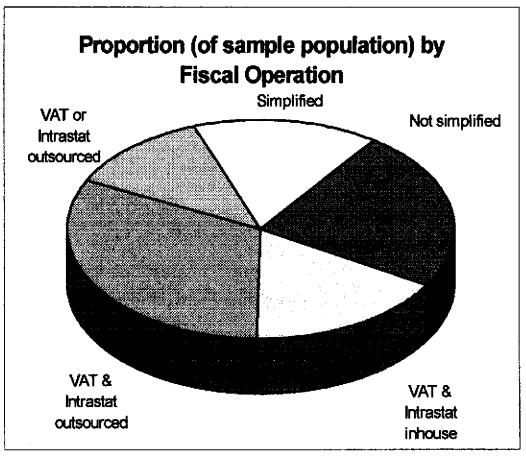
Figure 3.24. Outliers (acquisitions) (continued)

(Cost reduction > ECU 100 per consignment)









3.8. Special circumstances

Certain characteristics of the type of transaction or the structure of the trader's operations may give rise to special circumstances which influence compliance costs and savings. This is because of special complications or difficulties inherent in the type of transaction.

Our estimates of typical costs and savings for traders need to be qualified for traders involved in such non-standard situations as such estimates will not necessarily apply to their own circumstances. Following are examples of special types of business.

3.8.1. Special EC VAT circumstances

Examples are:

(a) the requirement in some cases to register for VAT in a Member State in which the trader is not established – we refer below to transaction types which can give rise to this situation;
(b) the need to aggregate EC VAT data from more than one operating site or unit, for example, some Member States permit group VAT registrations for traders with several operating companies, while in other cases, a trader may operate as a single entity but from different sites, each with their own accounting sub-system; and
(c) the requirement in some Member States for more complex EC VAT administration, for example by requiring a periodic EC Acquisitions List as well as an EC Sales List – although the relative costs incurred for this are reflected in our analysis of the cost differences by Member State.

3.8.2. Special Intrastat circumstances

The first three examples reflect the same situations as the three VAT scenarios just listed.

(a) the requirement to undertake Intrastat compliance in Member States where the trader is not established, but has to register for VAT purposes;
(b) the need to aggregate data from different operating units – this is similar to the corresponding VAT scenario, but can be more complex as it appears to be more frequently the case that individual sites compile the shipping and statistical data required for Intrastat;
(c) the requirement in some Member States for a larger number of data elements than are required in others, and/or to declare for each item a computed statistical value in addition to the VAT value;
(d) unusually large numbers of commodity codes at Combined Nomenclature level, especially when a wide assortment of spares and components is included in a single shipment; and
(e) products for which the CN classification is untypically complex, for example textiles.

3.8.3. Circumstances requiring traders to register in Member States where they are not established

There are quite a number of examples of this requirement, which clearly serves to multiply the compliance requirements for EC VAT and Intrastat:

(a) Distance selling. When a trader sells goods to a non-VAT registered party in another Member State, for example, in mail-order sales to individuals, the trader must register in that Member State if his sales in any one year exceed a set threshold. There are two alternative thresholds, and the Member State of destination can choose which one to apply. In such a case, the VAT registration in the Member State of destination should normally be operated through a fiscal representative (see below) and cannot be administered by the company in-house.

(b) Supply-and-fit. If the trader delivers goods to another Member State and installs them there, this is treated as a supply within the Member State of destination. The trader must register for VAT there if the customer is not VAT-registered. If the customer is VAT-registered, then the trader can require him to account for local VAT using the reverse charge mechanism.

(c) Consignment stock. If the trader moves his own goods to another Member State, from which they are called-off and sold, then a local VAT registration is required there.
This frequently is the case where the trader operates a European Distribution Centre (EDC) into which goods are transferred in bulk, and out of which they are despatched to the customer. If the trader uses the EDC for distribution of imported goods, including cases where the Customs warehouse procedure is used, then the same local VAT registration applies.
Another situation with the same requirement is where a trader ships a large amount of stock in bulk to, for example, the customer's plant, and the customer draws from this stock regularly. The material is sold to the customer as the latter draws on the stock. Typically this could be feedstock or raw materials for use in a chemical or energy generation process.

(d) Sale or return. A consignment of goods transferred to a customer in another Member State on sale or return terms is treated as a transfer of own goods by the sender, who should therefore register for (acquisition) VAT in the Member State of destination. If and when the customer in this Member State subsequently decides to buy the goods, this is treated as a domestic transaction for VAT purposes.

(e) Triangulation. For example, goods are despatched from Member State A to Member State B, but they are sold by A to a company in Member State C, which on-sells them to the customer in Member State B. This procedure caused a great deal of confusion and difficulty at the outset, but has now been resolved without the need for any of the traders to register in any of the other Member States. However, if supplier C is outside the EU, for example, if it is Swiss or Japanese, then it has to register in one Member State or another.

(f) Chain transactions. Where more than three Member States are involved, for example, if goods move from A to B, but the sale is from A to C, then C sells to Member State D, who then sells to Member State B, then this does call for one of the parties, C or D, to register in A or B. Usually, this is done by C registering in A, or by D registering in B, effectively collapsing the VAT chain to a triangle.

(g) Triangular processing. This is the case where a trader sends goods to another Member State for processing and they then go directly to a destination in a third Member State. The 'principal' is the trader in the first Member State, which owns the goods while they are being processed and then sells them to the destination Member State. This principal has to register for VAT in the Member State where the processing takes place, in order to account for the despatch of the processed goods from that Member State.

3.8.4. Fiscal representation

Some Member States permit traders not established there, but which have to register for VAT there, to administer EC VAT procedures remotely from their home Member State, without the need for any local representation.

In such cases, the trader will normally undertake this EC VAT compliance in-house in his home Member State. He will then submit the necessary returns and payments (or claims) to the VAT administration in the other Member State(s) in which he is registered, according to their own particular legal and fiscal provisions.

Clearly, each additional EC VAT registration in another Member State means a proportionate increase in the trader's compliance burden.

In these Member States, the trader concerned may alternatively opt to outsource the compliance to a local fiscal representative. In other Member States, the trader must appoint a fiscal representative.

Such a fiscal representative will usually be a firm of accountants or a freight forwarder. On some occasions, where an EDC is used, it might be the warehouse operator. It could also be a related company of the trader, for example, his local subsidiary or sales agent. In a few Member States there is a form of limited fiscal representation which is a simplified procedure mainly used in the context of EDCs.

The costs charged by a fiscal representative vary enormously and it is not possible to consider the examples given by those of our respondents who use fiscal representatives (see Section 3.5.5) as necessarily typical. Fiscal representation costs however mainly represent the following elements:

(a) a fee in respect of the administrative and book-keeping services performed for the trader by the fiscal representative;
(b) a charge to reflect the fact that, in most Member States, the fiscal representative is held jointly and severally liable for the EC VAT debt. The charge often represents the cost of a guarantee or bond which the trader has to place with the fiscal representative and this can be costly. On the other hand, a warehouse-keeper may be able to consider his lien on the trader's inventory as, to some extent, satisfying any call on his liability; and
(c) in some Member States, a charge to reflect the cost to the fiscal representative of a financial guarantee which he has to give to his VAT administration.

It follows that the cost of fiscal representation is not cheap. It represents one of the more frequent causes of complaint from traders who see it as an expensive 'paper-chase' which, in many cases, does not in fact accrue any net revenue to the VAT administration.

Where an external fiscal representative is appointed, he may also undertake Intrastat compliance for the trader. However, this is not invariably so. Often, the freight forwarder or warehouse-keeper is better-placed to undertake Intrastat formalities, being closer to the shipping and statistical information required in the Intrastat reports.

Sometimes, the trader can more easily prepare the Intrastat reports from his home base and submit them to the different statistical administrations, while using an external fiscal

representative for the VAT compliance. The relative consistency of Intrastat reports between Member States facilitates this, although there is still a significant number of differences in the reporting requirements for different Member States.

3.8.5. Circumstances depending on the nature of the goods

Non-standard situations can arise in such cases as the following:

(a) Excisable goods. These have already been covered in Section 3.5.6.
(b) Foodstuffs subject to controls under the common agricultural policy (CAP). Whereas these were subject to additional frontier formalities and fiscal requirements until the end of 1992, such formalities are no longer required. The requirements for fiscal and statistical reporting of intra-Community movements are now the same as for general goods.
(c) Iron and steel. Goods falling within the scope of the European Coal and Steel Community (ECSC) encounter, to some extent, a similar situation to the above.
(d) Textiles and clothing. National quota controls on many imported products at one time caused a substantial amount of diversion and re-routing which are no longer necessary. On the other hand, the classification of such products is more complex than for most goods and so the Intrastat burden can be higher, as already described.
(e) Dangerous and licensed goods. Controls exercised at frontiers before 1993 on dangerous goods (chemicals, warlike materials, etc.) and on licensable goods (also warlike or dual-use materials, works of art, antiques) cannot now be carried out at frontiers and other arrangements have had to be made where appropriate.
(f) Wet or dry bulk. Traders shipping large quantities of goods in bulk (for example, single consignments of chemicals, basic products or ores despatched by trainload or shipload) and those trading in very high value shipments (such as precious metals or bullion) are in an unusual situation. Although the nature of the EC VAT and Intrastat compliance is the same as for other types of goods, the low number of consignments and the high value per consignment significantly alters the significance of the compliance cost when it is seen as a percentage of value or turnover.

3.9. Aggregate cost effects for Community trade

3.9.1. Results of extrapolation – the bottom line

We took the results from individual respondents and aggregated these to the level of intra-Community cross-border trade as a whole. The method which we adopted for this extrapolation is described later in the section. It should be borne in mind that the results are estimates only, aggregated from a fairly small sample which revealed wide variations in the individual costs and savings encountered.

The results are as follows. The term 'billion', as used here, represents one thousand million.

We estimate that the aggregated savings, expressed in today's money, but applied to the 1992 levels of intra-Community trade, might run at ECU 5.223 billion, that is, broadly speaking, at a level of ECU 5 billion a year.

Compliance costs have been reduced radically by over two-thirds, from ECU 7.513 billion to ECU 2.370 billion.

The total estimated cost difference per Member State is illustrated in Figure 3.25.

These costs in 1992 represented a little over 1% of all intra-Community trade, reducing to 1/3% with the post-1 January 1993 procedures. Trade volumes ran at ECU 697,431 million or 716,663 million (depending on whether the figure for consignments or arrivals is taken).

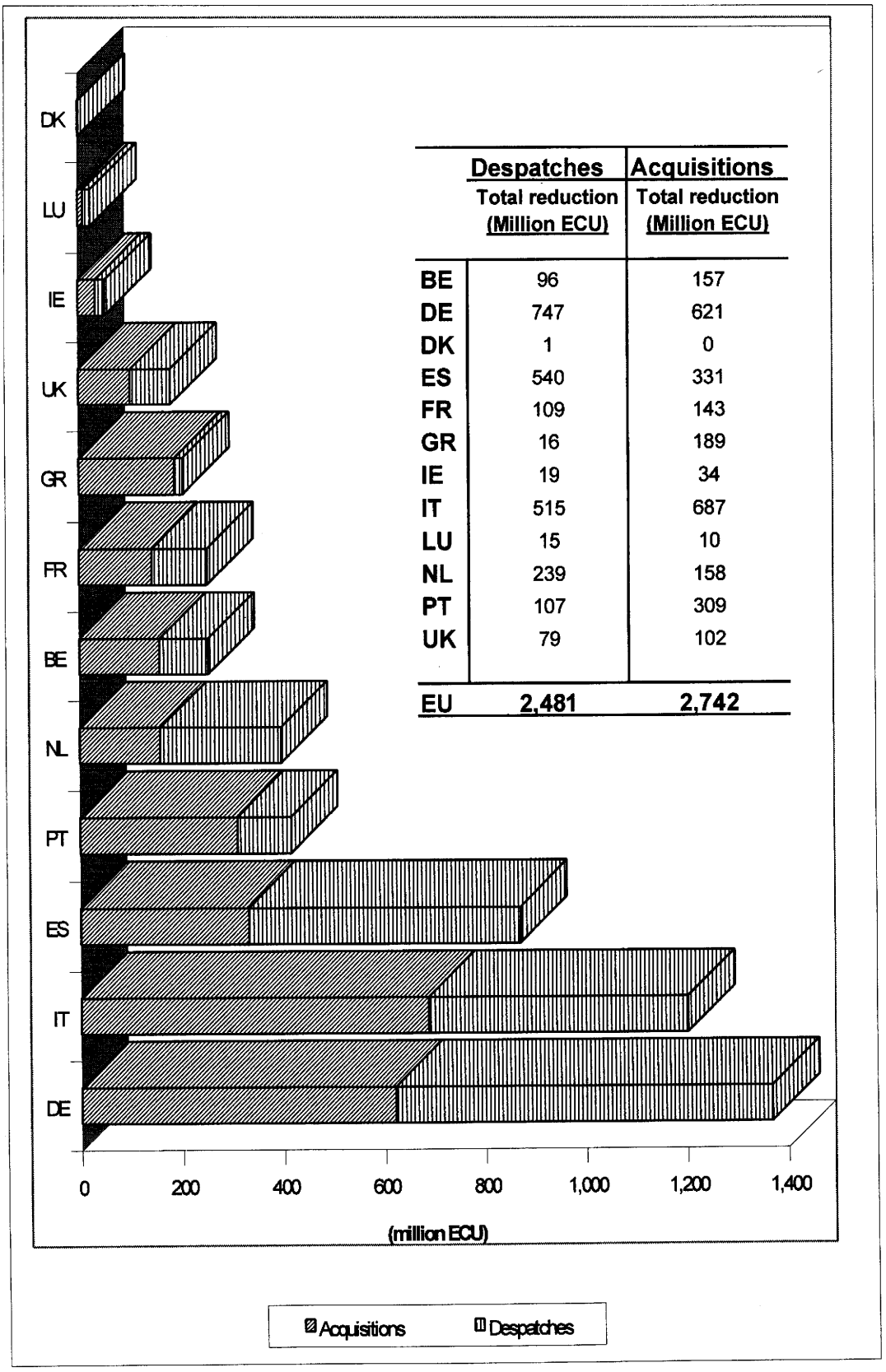
However, when viewed as a percentage of net margin (profit before interest and tax, or PBIT), which is a more relevant measure for commercial companies, these percentages take on greater significance.

An example might be a company achieving a (not untypical) net margin of 10% of turnover. If its 1992 Customs compliance cost represented 1% of turnover, this cost would account for fully 10% of net margin.

If the company was then able to reduce Customs and fiscal compliance after 1 January 1993 by two-thirds, then this saving would work through as a 7% boost to net margin. The otherwise small figures now start to look rather more interesting.

However, before any savings can work through properly to the trader's bottom line, they first have to be used to pay back the set-up costs which were incurred in changing to the 1 January 1993 system. This important aspect is dealt with in Section 3.10.

Figure 3.25. Total cost reduction by Member State



	Despatches Total reduction (Million ECU)	Acquisitions Total reduction (Million ECU)
BE	96	157
DE	747	621
DK	1	0
ES	540	331
FR	109	143
GR	16	189
IE	19	34
IT	515	687
LU	15	10
NL	239	158
PT	107	309
UK	79	102
EU	**2,481**	**2,742**

3.9.2. Note on our costing method

Aggregation versus individual cost effects

Broadly speaking, there are two separate and distinct quantitative outputs to this study. First, there is the average cost of Customs and VAT/Intrastat compliance per consignment, which differs over certain variables as described before. This cost is directly derived from our sample population, and the results indicate a consistent reflection of it across certain categories of respondents.

Second, we have given an estimate of the aggregate cost saving for all traders in the EU at 1992. It is very important to appreciate that this figure has limited accuracy. It is based on a sample size which was necessarily small, in view of the depth of data asked for. The variability of the sample size cost effects is very large: one cannot reasonably assume that the aggregated figure will be closer to its true value than to one of the extremes of deviation.

Approach to aggregation

Aggregation can be done on any appropriate basis. A basis is a quantity, per which cost effects are known within the sample size, and for which a total is known for the whole European population of cross-border traders in 1992. An example would be the number of companies: we know the cost savings per trader from the sample size, and we could use the total number of cross border traders to aggregate the cost saving to a European scale.

However, not every basis is appropriate. In order to provide an accurate aggregated figure, the basis should bear a logical and quantifiable relation to the cost effects. It should be homogenous across the whole population, and most importantly either its occurrence within the sample size should be representative for the whole population, or information should exist to allow weighting this basis on the main explanatory variables.

Although weighting is not necessary for actual aggregation as such, it will usually give a more accurate extrapolated outcome. In our example, the final figure would become more accurate if the saving per trader was expressed per country, and the number of cross-border traders in that country would be used as a weighting factor across the whole of the pre-1993 European Community.

The difference between bases and explanatory variables should be noted. An explanatory variable is a factor that bears a logical relation to the endogenous variable (in our case cost effects) under investigation by explaining it per unit of a possible basis. For example, the use of simplified Customs procedures influences the cost saving per consignment. The number of consignments can then be used as a basis for aggregation. Thus the logical relation between basis and endogenous variable is not causal. A company does not save ECU 10 per consignment because it is trading 200 consignments per year.

A basis will be most accurate for extrapolation if its total quantity is known per category of the most important explanatory variables. Due to the size of the sample, determination of the important explanatory variables has been done on a common-sense basis, rather then by using more theoretical approaches like factor or regression analysis. We need to keep this in mind when evaluating the following possible bases:

(a) Cross-border traders: We know the average total cost saving per trader, and data are available on the number of cross-border traders in the EC in 1992. Although this can thus be used as a basis, questions arise concerning its appropriateness: can the relation between traders and cost effects be deemed logical and quantifiable (e.g. if one company saves ECU 10,000, do ten companies save ECU 100,000?)?

This relates back to a problem with homogeneity and representativity: traders' total savings will differ depending on, for example, their size and the Member State they are established in, and the sample has not been constructed to obtain a representative selection of traders on these bases. As the number of companies has not been split on the basis of all the important explanatory factors (apart from size and Member State, this could include value and volume of trade, transport operations, computer systems, etc.), we conclude that this basis is not very appropriate for aggregation of cost effects.

(b) Value of EC-trade: The saving per ECU of intra-EC trade value can be derived from the sample, and data on total value of cross-border trade are available: hence this can be a basis.

As the sample size has been chosen to reflect value of acquisitions and despatches for each Member State, this basis will be representative for the whole sample. However, the information of trade value was not obtainable for many traders that were analysed. In addition, the figures provided were often very much estimates which may be quite inaccurate. This poses problems for successful aggregation.

An additional problem lies with quantification of the relationship: traders with twice as much value of trade will generally not save twice as much. Given the small sample size it would be difficult to establish an accurate relationship and judge the importance of certain explanatory variables. We therefore also set aside this quantity as a basis for aggregation.

(c) Number of consignments: Both the cost saving per consignment in the sample size and the number of consignments (as a whole and per Member State) are known, hence this is a possible basis.

There is a close and linear link between number of consignments and Customs compliance cost. It seems reasonable to assume that the cost for two consignments is twice the cost for one consignment. In addition, as discussed earlier in this report, the single most important factor influencing costs per consignment is the Member State of establishment.

Data on number of consignments per Member State are known, and a reasonable sample of traders in all Member States (based on value of trade rather than volume, as data on volumes were not available until much later in the project) has been taken. Moreover, consignments are comparable across Europe. Consequently, we have chosen this as our main basis for aggregation.

Once the basis has been evaluated and deemed appropriate, actual aggregation is fairly straightforward. Direct multiplication of the saving per consignment in the sample size by the total number of cross-border consignments in the EC in 1992 would give an accurate total savings figure, if the actual sample size were indeed fully representative of the total population.

This is not quite the case. Member States with high savings have been relatively under-represented, because of differences in average value per consignment and the possibility of a slightly non-representative set of traders agreeing to take part in the study.

Therefore, we need to apply a weighting by number of consignments for each Member State, as supplied to us where possible by the respective Customs administrations and estimated by us for others on the basis of typical consignment sizes, to arrive at the total saving of about ECU 5 billion. As a comparison, a non-weighted aggregation would yield a total saving of about ECU 3.5 billion.

Limitations of the aggregate figure

As we have already emphasized before, the accuracy of the figure for aggregated cost effect depends entirely on the accuracy of the sample size and the appropriateness of the basis and technique used for extrapolation. An exact figure of saving is impossible to obtain, even if one were to ask every trader which was involved in cross-border trade in 1992.

In many instances, other effects serve to obscure the direct effects of the single market on Customs and fiscal compliance costs. For example, people involved have left the company or have forgotten details. As a result, any sample will give inaccurate information, and a smaller sample is not necessarily less accurate than a larger one.

The inaccuracy of basic data will translate directly in inaccuracy of the aggregated figure. The linear extrapolation technique used would not change relative deviation from actual figures if the sample were fully representative. As it stands, one can only guess whether weighting traders' information by the number of similar traders improves or worsens the accuracy of the final figure. The same observations would hold for more complicated extrapolation methods, which have therefore been discarded.

3.10. Pay-back of set-up costs

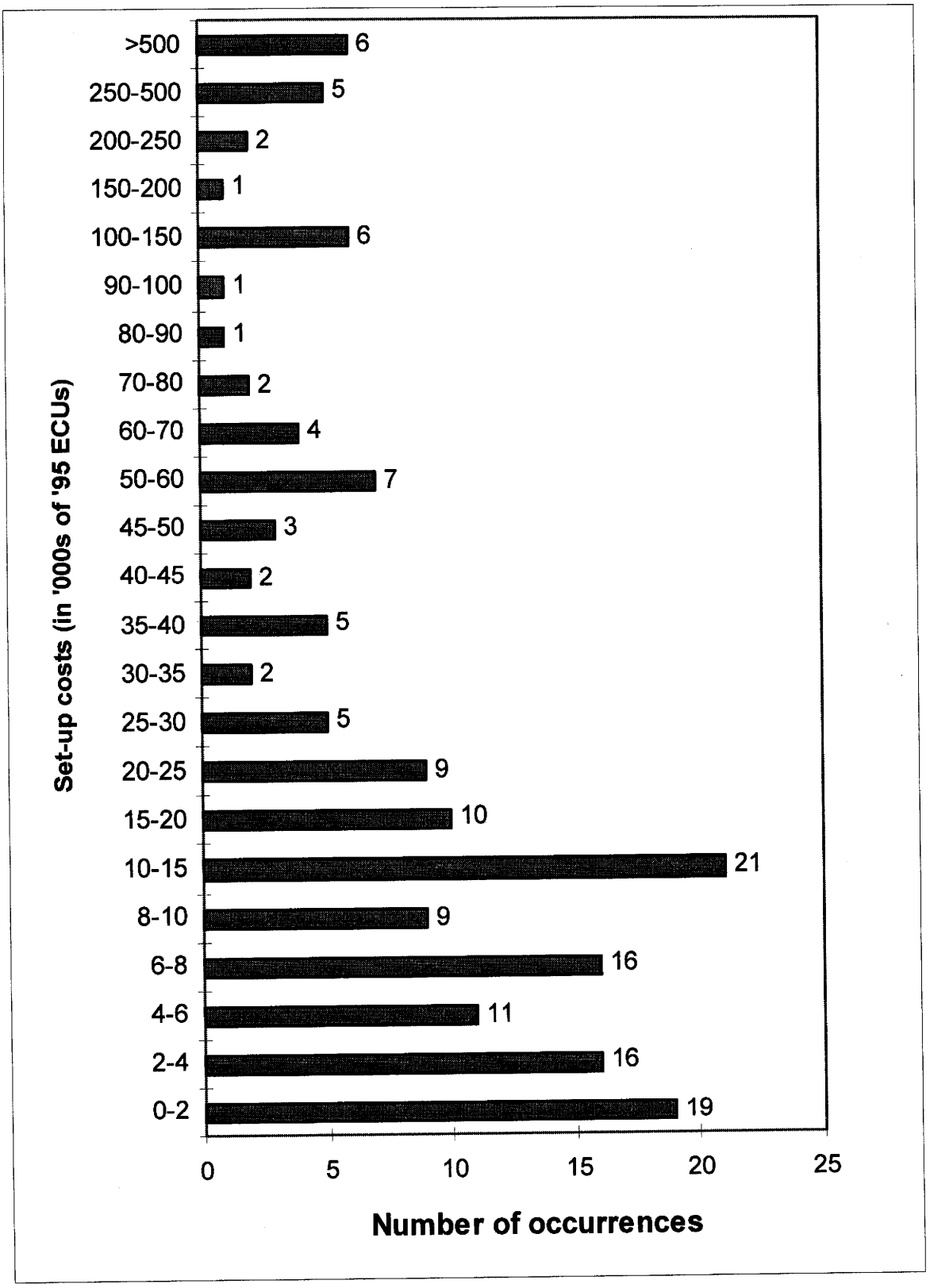
Set-up costs varied widely within the sample size. Many companies had not previously considered their set-up costs for the new VAT and Intrastat systems and some were unable to do so at this distance from the event. The remainder reported very different ways in which this issue had been dealt with. It is therefore difficult to relate the set-up cost to any particular factor and the wide variations led us to conclude that it would not be very meaningful to aggregate or extrapolate them.

Figure 3.26 shows the spread of set-up costs in the sample. It reveals that over half of the respondents incurred set-up costs not exceeding ECU 15,000, irrespective of their size, which we would consider very reasonable. Costs were under ECU 25,000 for more than two-thirds of respondents.

Clearly, the significance of the actual cost to any one company will depend on whether the change has been worthwhile (that is, on the level of savings per consignment) and how significant the set-up costs are compared to turnover.

We analysed the set-up cost responses in a variety of other ways, for example in relation to volume of business, but found no meaningful correlations. The greater concern to business is how rapidly their set-up costs can be paid back, and this is what we now focus on in our analysis.

Figure 3.26. Spread of set-up costs



3.10.1. How the pay-back period is calculated

The set-up costs advised to us by respondents represent the cost of understanding and implementing the EC VAT and Intrastat system. This principally involves:

(a) new computer hardware and software;
(b) other IT costs such as systems integration and data conversion;
(c) training costs;
(d) management time; and
(e) external consultancy fees.

For any one company, pay-back is achieved by the following formula:

$$\text{Pay-back period in months} = \frac{\text{Set-up costs}}{\text{Saving per consignment x number of consignments per month}}$$

3.10.2. Pay-back period weighted by number of consignments

Figure 3.27 shows the pay-back periods for our sample of respondents. Respondents whose costs increased from 1 January 1993 are not included in these graphs as, by definition, they will never recoup their outlay.

The upper graph gives the results weighted by the number of consignments. We have used the numbers of consignments reported by respondents at 1994 levels in order to give a better indication of the pay-back period where it spreads over several years.

This demonstrates, for example, that respondents accounting for one-third of total consignments should have paid back their set-up costs within the first three months. After a year, respondents accounting for over 50% of the total number of consignments should have paid back these costs.

By the time of publication of this report, almost four years on from the beginning of the transitional EC VAT and Intrastat systems, respondents accounting for about 20% of consignments will still not have paid back their set-up costs. Thereafter it takes a great deal of time for the remainder to pay back their costs.

The longer the pay-back period, the more meaningless it becomes. One the one hand, the figures should be discounted over time. On the other hand, the number of consignments reported by respondents often showed an upward trend, counter-acting the discounting effect.

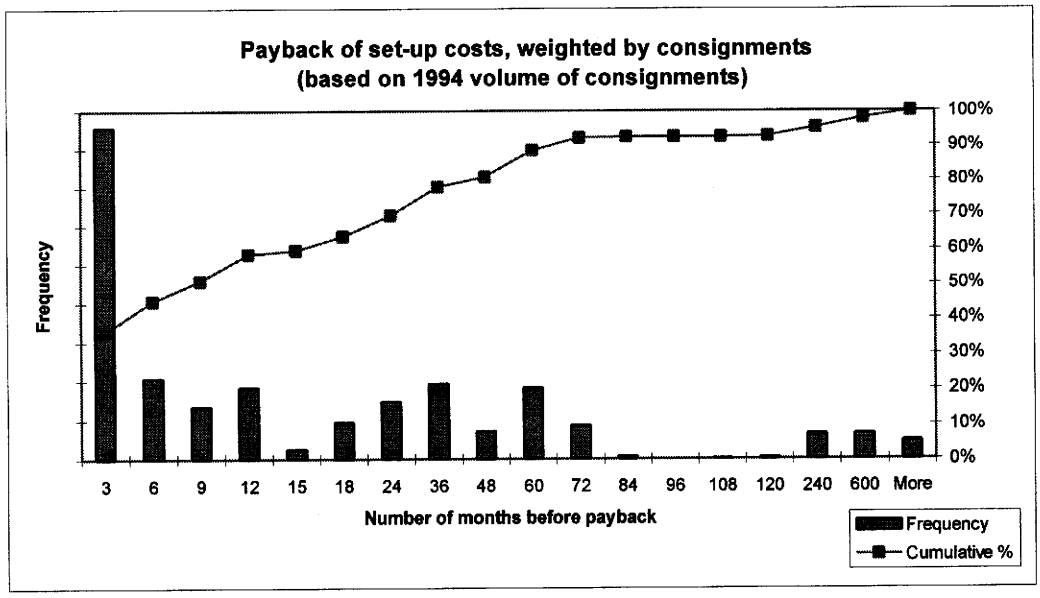
In practice, after two or three years have passed, whether and how much of the set-up costs have been paid back becomes more and more irrelevant to the trader. By this time, he has other things on his mind.

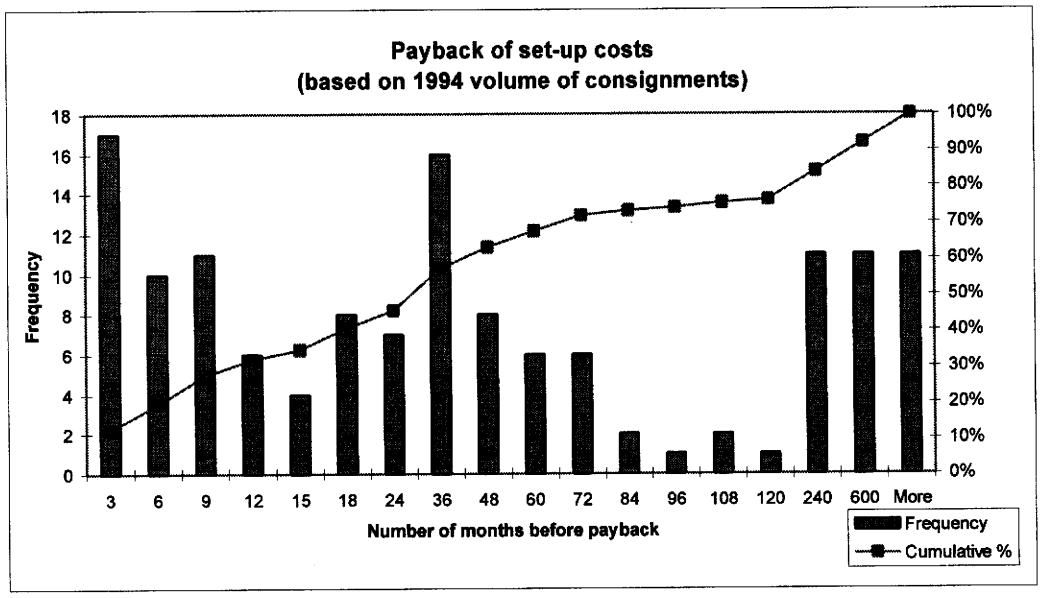
3.10.3. Pay-back period by number of respondents, un-weighted

If we look at this situation simply by the number of respondents who have paid back their set-up costs, irrespective of how large or small are their consignment volumes, then this yields the more spread-out picture, contained in the lower graph. It shows that, after a promising start, there is a large group of respondents which does not pay back their costs until between 18 months and four years after inception of the systems, followed by a very long drawn-out process indeed for the rest.

The respondents which are taking a matter of years to pay back their set-up costs are those which have either a small number of consignments, or only a small level of saving per consignment, or both. It should not be assumed that SMEs are the ones who suffer most because they are the only ones who ship a small number of consignments. This is not so. Many larger companies still ship small numbers of consignments. However, their consignment values are large and so they can bear the costs better than SMEs. Therefore, it is still the SMEs which suffer most from this situation of prolonged pay-back.

Figure 3.27. Pay-back of set-up costs





3.10.4. Pay-back period by Member State

The main determinant of the level of cost saving appeared to be the Member State in which the trader was situated, therefore Figure 3.28 breaks down the payback periods by Member State. It uses the un-weighted figures which we have shown in the lower graph in Figure 3.27, as to use the weighted figures would give too much distortion.

Respondents in all Member States, apart from Germany and Denmark (although figures for Greece are not available) will, on average, have paid back their set-up costs by the time of publication of this report. Traders in Denmark are particularly disadvantaged and are unlikely ever to pay back their set-up costs.

Figure 3.28. Pay-back period by Member State

MS	Set-up '92	Savings '92	Months
BE	894,134	(731,809)	15
DE	2,455,817	(592,939)	50
DK	157,834	(2,419)	783
ES	143,259	(374,010)	5
FR	203,892	(151,943)	16
GR	-	(1,876)	-
IE	127,475	(38,106)	40
IT	264,401	(198,898)	16
LU	122,244	(47,616)	31
NL	3,109,798	(863,177)	43
PT	3,679	(40,443)	1
UK	2,723,055	(830,272)	39
	10,205,590	(3,873,506)	32

3.10.5. Views expressed by traders

Few of the traders which we contacted had calculated their pay-back period. Many had not, until we asked, calculated what their set-up costs actually were. It follows that there is likely to be little specific awareness among traders of whether they are actually saving money now.

However, during the period immediately following the introduction of the transitional systems, complaints from traders about the complication and assumed costs of the switch-over were widely reported. The findings reported in this section may help explain why this was such a sensitive issue, at least for the apparent majority of two-thirds of traders (if our sample is representative) which took more than a year to pay back their costs.

They may also help explain, in part, the comments from traders which have more recently been reported in the context of the move to definitive EC VAT and Intrastat systems, to the effect that they do not welcome the prospect of another set of change costs.

3.11. Opinions on the single European market transitional systems

We invited respondents to comment on:

(a) whether they considered that the transitional EC VAT and Intrastat systems were more, or less effective and efficient than the previous system of individual Customs clearance; and
(b) whether they would prefer to retain the transitional systems, or to move to a definitive, origin-based system of EC VAT.

This issue is important. Although the transitional systems, according to our estimates, incur only one-third of the previous level of compliance costs, they still represent a significant extra cost and complexity when compared to domestic trade within an individual Member State. Traders will no doubt feel justified in looking for a simpler and less costly definitive system. They will also look eagerly to a time when intra-Community compliance costs are reduced to the level of those for domestic trade.

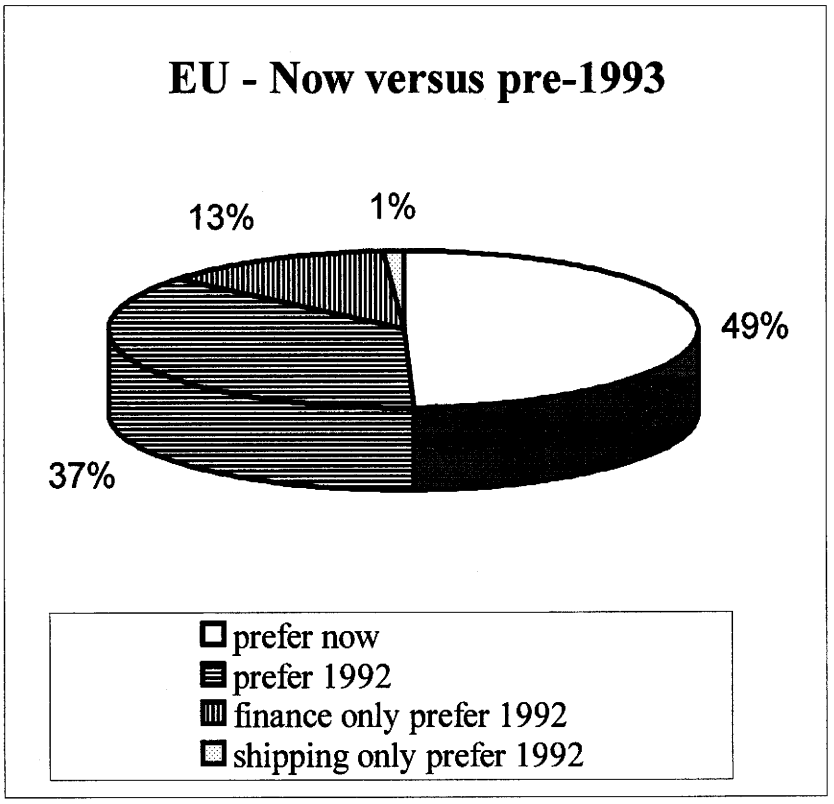
We give below the results of those responding to these questions.

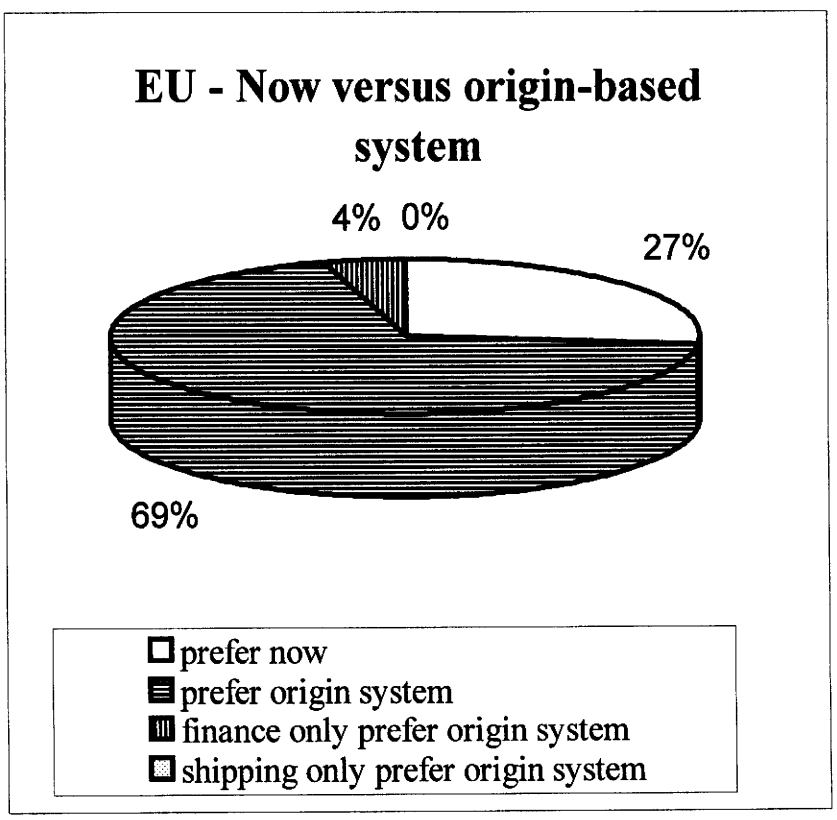
3.11.1. System preferences: current system or 1992 system?

Comparing the present with the past, the upper chart in Figure 3.29 shows the relative breakdown of responses. Respondents are evenly split as to whether they prefer the new or old systems.

In over one-third of cases, both the shipping and financial departments preferred the old system. Adding to this the other respondents from financial departments who preferred the old system brings the total of financial departments preferring this to 50%. Rather less, 38% of shipping departments preferred the old system.

Figure 3.29. System preferences





When this response is broken down by Member State in Figure 3.30, it shows a clear preference for the current system in most Member States:

(a) this is especially strong (two-thirds or more) in Denmark (even though they saved little or nothing), Greece, Ireland, Luxembourg, Portugal and Spain;
(b) Belgium, France and Italy showed a majority in favour of the new system;
(c) rather less than half of Dutch respondents preferred the new system; however
(d) respondents in Germany and the UK were cool about the new system, with only around one-third of respondents preferring it.

Figure 3.30. Current versus 1992 system by Member State

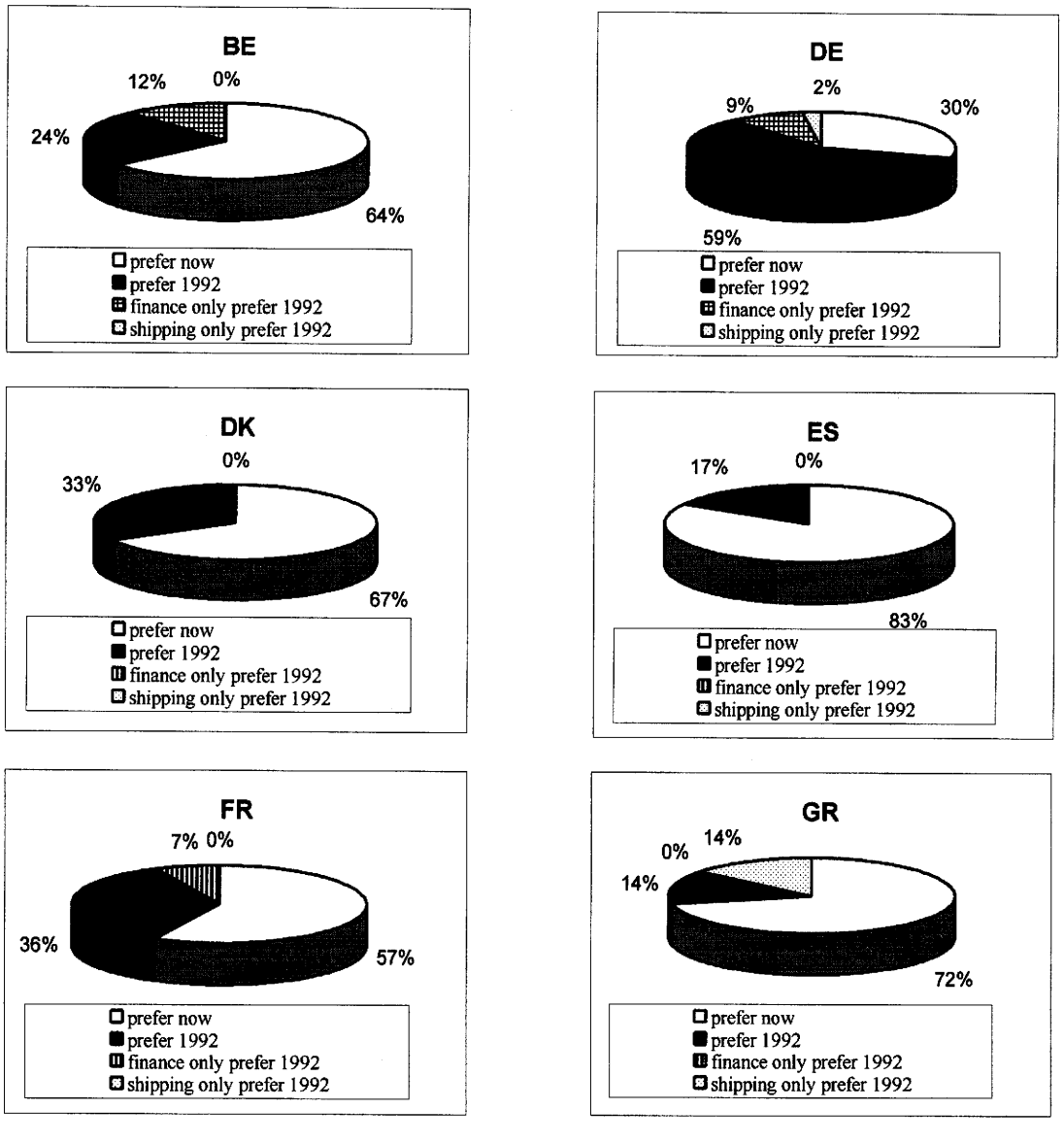
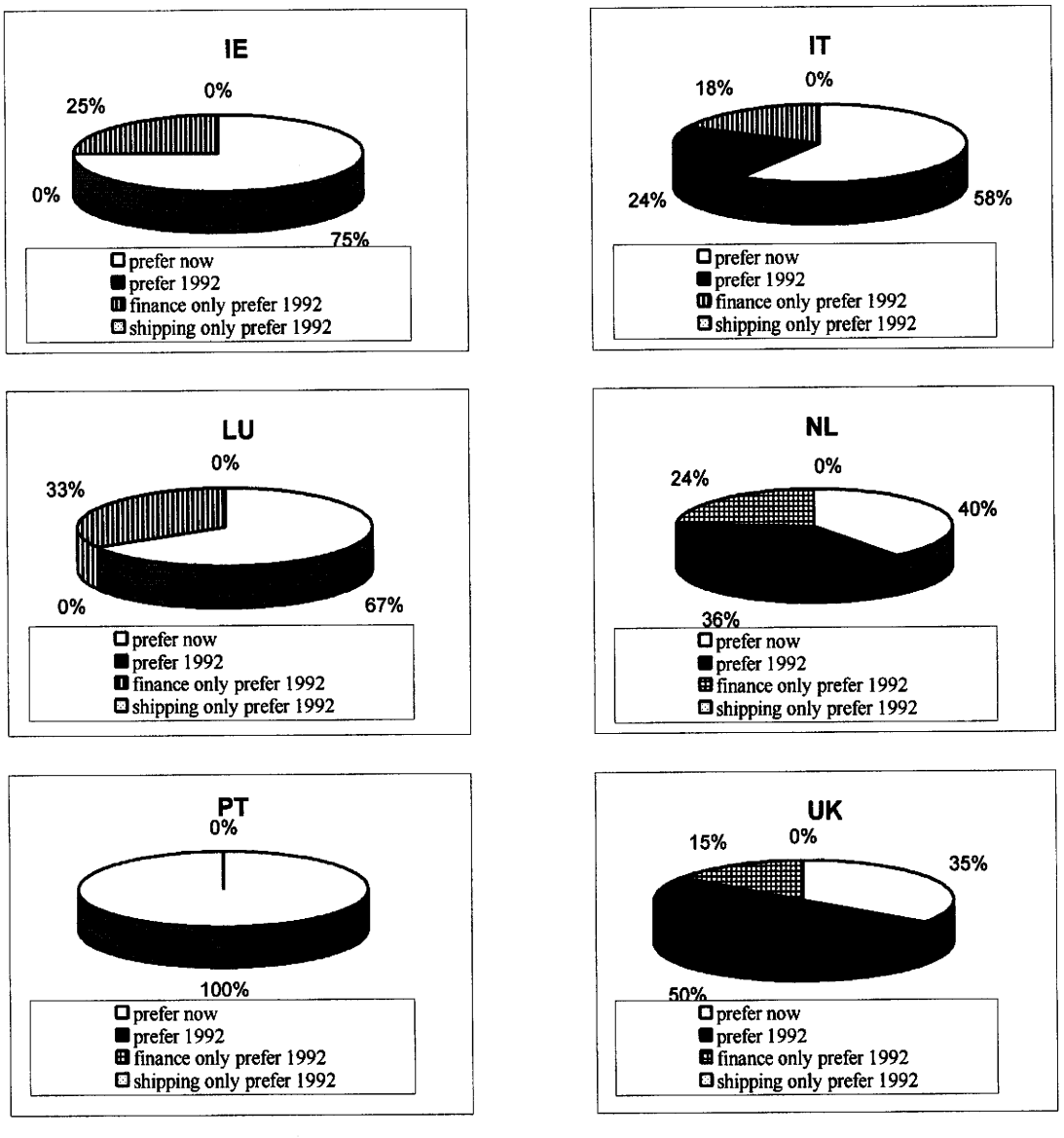


Figure 3.30. Current versus 1992 system by Member State (continued)



3.11.2. System preferences: transitional systems or definitive systems?

Comparing the present with the future, the lower chart in Figure 3.29 shows the breakdown of those preferring to retain the current transitional systems compared with those wishing to move to a definitive origin-based system.

There is a marked preference for the origin-based system, with over two-thirds of respondents wishing to move on and a further 4% of finance departments supporting this. The remaining 27% prefer the current system.

Looking at these preferences in individual Member States in Figure 3.31 shows that there is a similar marked clear majority (that is, of both the shipping and financial departments) of at least two-thirds of respondents wishing to move to a definitive origin-based system in France, Germany and Spain.

At least two-thirds of financial departments in Portugal and the UK supported a move.

At the other extreme, respondents preferring to stay with the transitional system are in the majority in Ireland and Luxembourg (although the sample size is too small for these Member States to draw general conclusions).

Opinion is more closely split in the other Member States, namely Belgium, Denmark, Greece, Italy and the Netherlands, with majorities of less than two-thirds in favour of the definitive systems.

Figure 3.31. Current versus definitive system by Member State

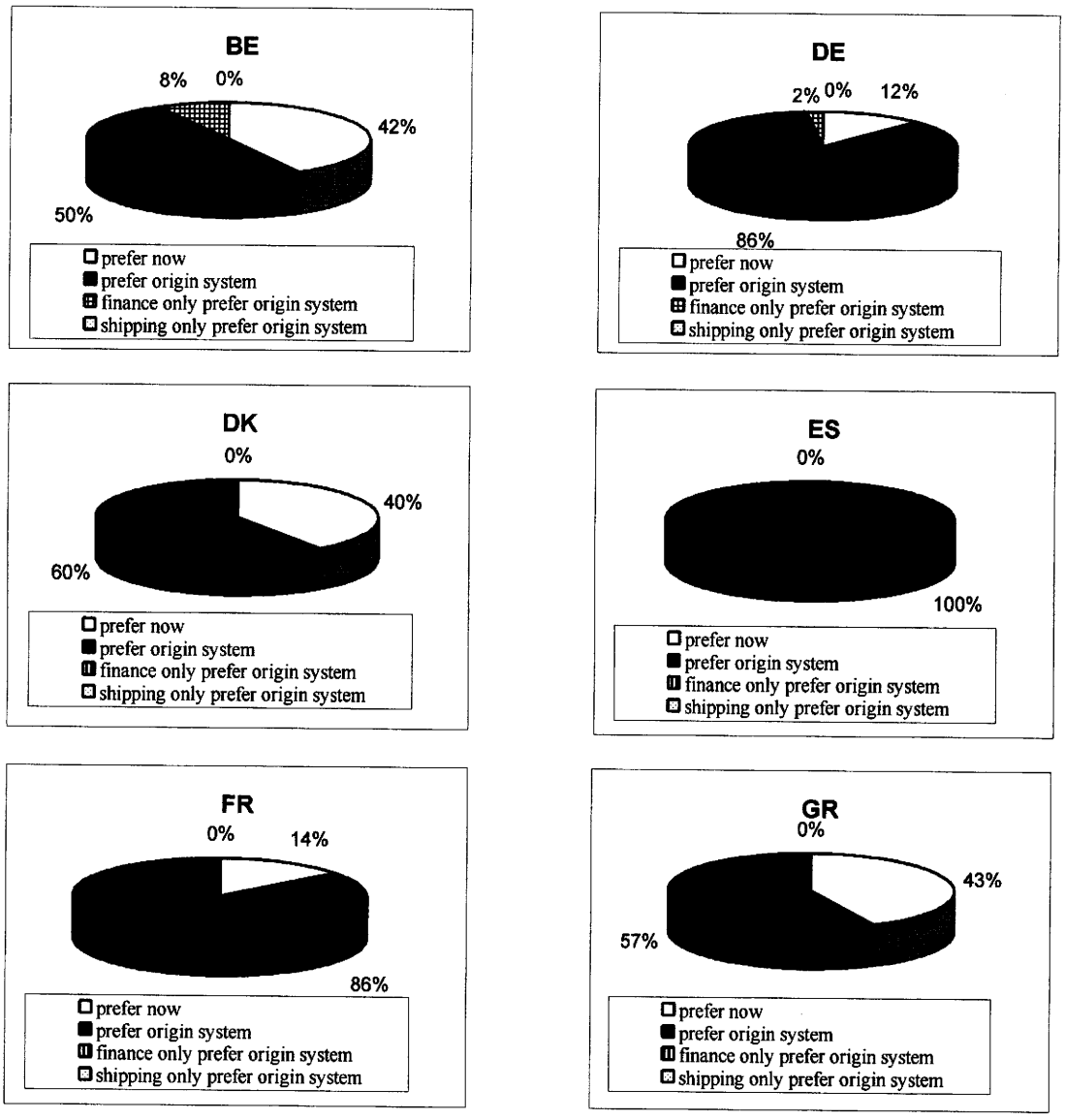
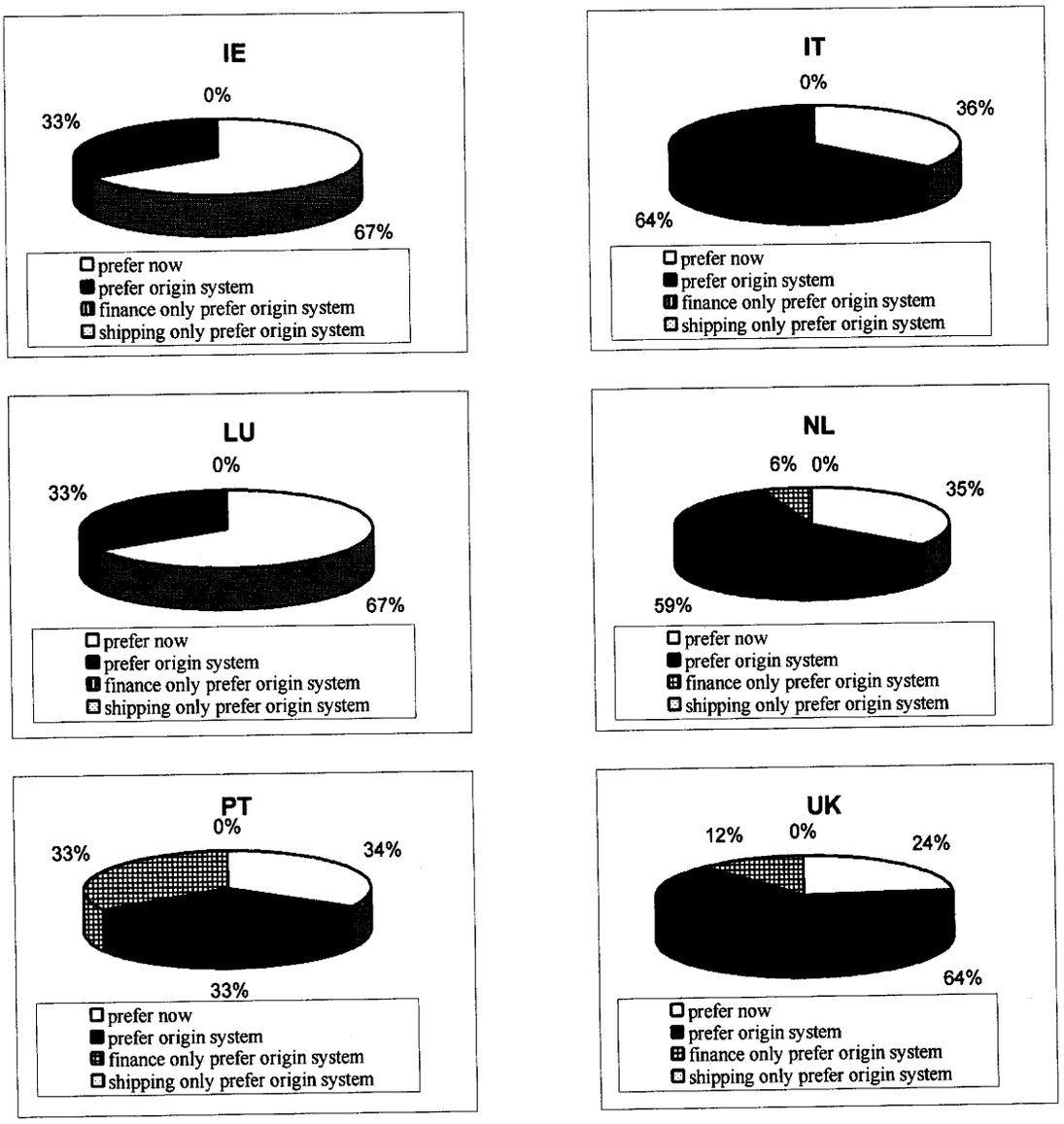


Figure 3.31. Current versus definitive system by Member State (continued)



3.12. Reductions in forwarders' charges for freight costs

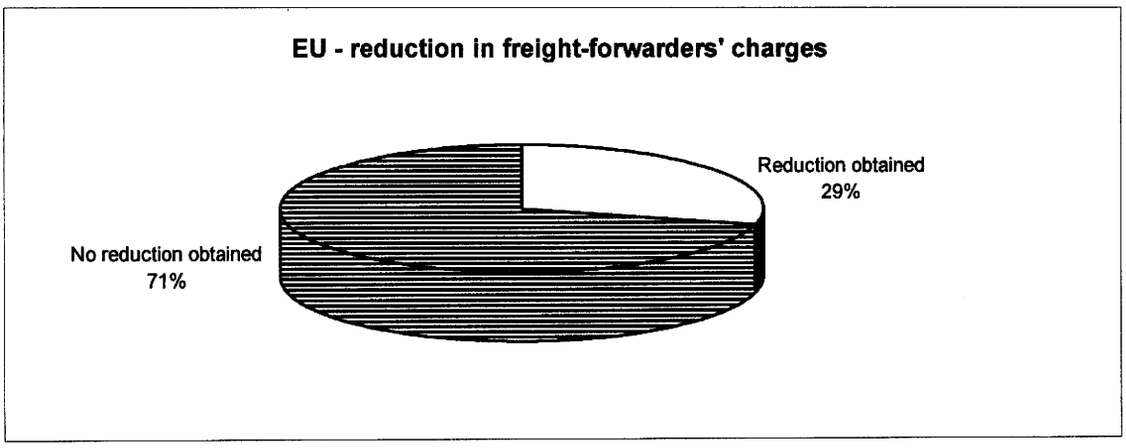
In Chapter 5, we will be examining the extent and nature of the cost reductions achieved by hauliers as a result of the abolition of routine frontier controls.

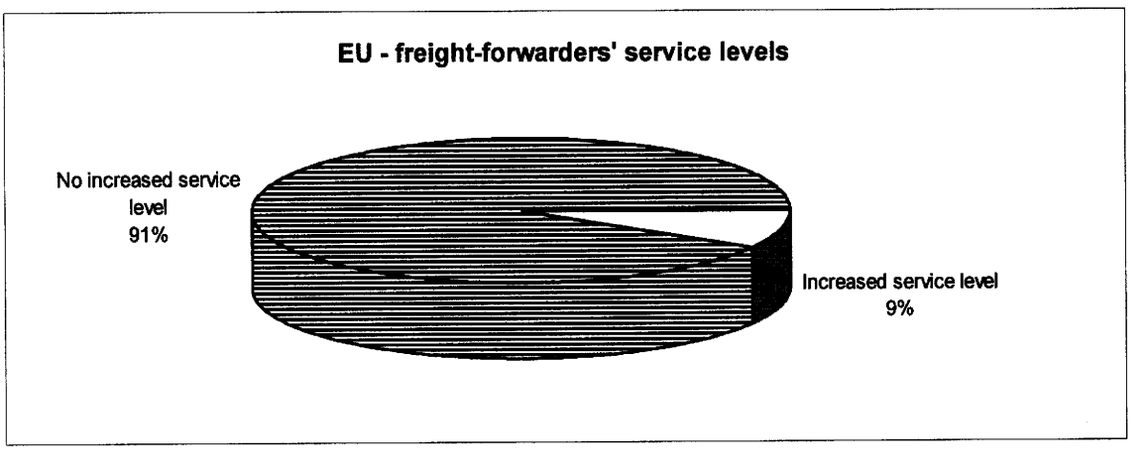
For the present, we look at whether any freight cost reductions were passed on to our trader respondents by their freight forwarders in 1993, as a direct result of the abolition of frontier controls. We exclude freight cost reductions which were brought about by other reasons. Figure 3.32 gives the breakdown of our responses.

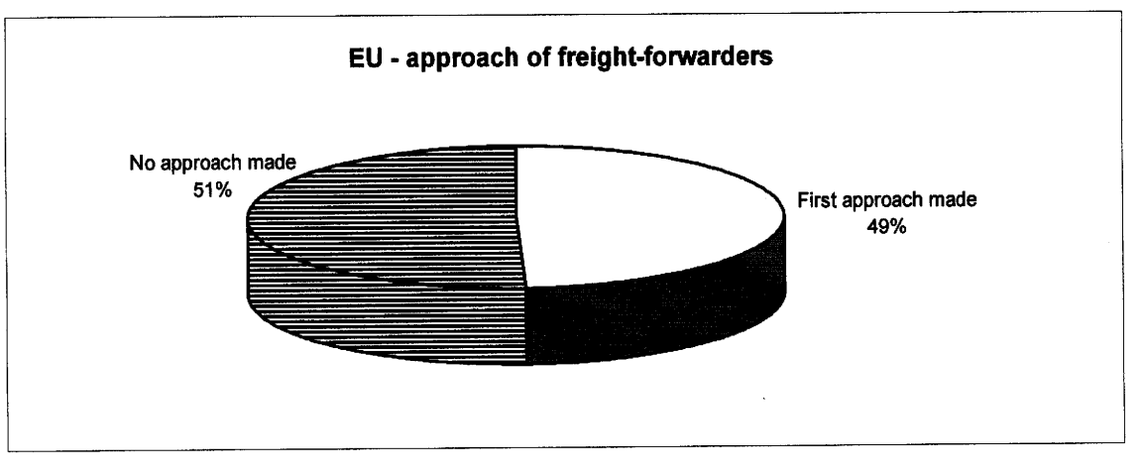
It shows that, in 72% of responses, no reduction was obtained by traders in freight charges as a direct result of the abolition of routine frontier controls. In the remaining 28% of cases, a reduction was obtained. In half of these cases, the reduction was offered pro-actively by the service provider. In the remainder, the first approach was made by the trader.

The provision of increased service levels at the same price is an alternative means of achieving a similar goal and we find that this is often preferred by traders and service providers. However, in less than one in ten cases was such a service improvement obtained by the respondent.

Figure 3.32. Freight forwarders' charges







4. A ten-year review of Customs procedures

4.1. Terms of reference

The terms of reference for this part of the study are as follows:

'Examine the administrative implications for economic operators of changes in Customs procedures and formalities since 1985, whether conducted in-house or through Customs brokers.

The study should provide an overall assessment of the efficiency and effectiveness of these procedures from the point of view of the categories of economic operator.'

4.2. Scope and concept

Our brief review of Customs procedures over the past ten years covers 1985 to 1995, with an occasional look towarads the future. Between 1985 and 1992 it relates to procedures necessary for both intra-Community trade and third country trade. From 1993 it mainly relates to third country trade only.

We have identified the main changes and trends in Customs procedures during the period. Following this, we have set out the consensus views of a small consultative panel representing companies trading across the EU. Finally, we have drawn this together into a summary of the importance of these changes for cross-border traders, in relation to their total Customs and fiscal compliance burden.

4.3. Changes and trends

We describe key changes which have taken place during the period under review. They can be viewed in three categories: procedural change, legal change, and enlargement.

4.3.1. Procedural change

Single Administrative Document (SAD)

Introduced on 1 January 1988 after a period of intensive development, the SAD replaced all the individual forms which were previously used in Member States for the purposes of Customs export and import declarations and Community Transit. The total number of different 'boxes' on Customs forms was reduced from over 150 down to 54 and a good degree of consistency in the individual Member States' requirements for data was achieved.

The use of the SAD was of course discontinued from 1 January 1993 for intra-Community cross-border trade, in favour of the EC VAT and Intrastat reporting systems. It was estimated that this meant the elimination, across the whole EU, of 60 million SADs a year at 1993 levels.

The SAD brings together in one form-set the control, country, transport, fiscal and statistical data required for Customs declarations. Computerized Customs applications which were developed or upgraded by Member States after 1 January 1988 adopted the more consistent set of data presented in the SAD.

A major review was carried out by the Commission in 1995, to determine whether and how greater consistency could be achieved between Member States in the use of those 'boxes' on the SAD which were optional for Member States, that is, were used by some Member States and not by others.

In 1996, new work was begun by the Commission to develop a Message Implementation Guide (MIG) which will reflect in an electronic data interchange (EDI) medium the data used in the SAD. This will facilitate the evolution of consistent computerized links between traders and Customs.

Statistical requirements

The introduction of the SAD brought with it a reduction (and a somewhat greater consistency) in the statistical data required from traders. It constituted a good first step towards the further simplification of statistical data. The Intrastat reports contain (essentially) a cut-down version of the statistical data found in the SAD.

The trend is for a slow reduction in requirements for such statistical data and the adoption of EU-level statistics. As well as continuing work on the statistical requirements of the SAD, work on 'Intrastat II', the more definitive system, is currently proceeding, with further simplification and compliance cost reduction as key factors in mind.

Special procedures for courier and express operators

Some courier and express companies were for some time able to benefit from accelerated or simplified procedures for intra-Community cross-border trade. These procedures disappeared on 1 January 1993 along with other routine Customs controls and this became one of the factors which helped other operators to emulate express service provision, a development which we comment on in Chapter 6.

Computerization of declaration processing

Computerization of the Customs declaration process yields major benefits for Customs and declarants alike in terms of increased accuracy, speed of clearance and reduced costs.

Unfortunately, the systems which have been developed by the Member States, while usually offering excellent efficiencies in themselves, have been developed in quite different ways. It is to be hoped that initiatives being taken at EU level will, in the long term, help to bring these applications closer together in concept, function and compatibility.

Computerized applications which, at the very least, enable declarations to be submitted to Customs electronically and, at best, constitute real-time responsive systems fully-integrated with related applications such as port/airport applications, are in use in most Member States and are being further developed across the EU.

Simplified declaration procedures

The introduction some time ago of simplified declaration procedures in a few Member States enabled traders, for the first time, to become seriously and directly involved in Customs compliance. Such procedures usually entail the presentation of an abbreviated declaration at the

frontier, backed up by the provision of full data with fiscal accounting, periodically and in arrears, say once or twice a month. In some cases, Customs clearance takes place at the premises of the trader either passively or actively.

The simplified procedures are applied in different ways in different Member States. Some offer them to a greater extent than others and with different conditions attached.

The availability of these procedures sometimes had the effect of reducing the net benefit to traders of the abolition of routine frontier controls for intra-Community trade. This is because the cost of compliance before 1 January 1993 was lower when simplified procedures were used and so there was less room for further cost reductions, therefore the net saving after 1 January 1993 was less.

Our Danish responses evidence this. Denmark probably operates the most simplified Customs declaration procedures available anywhere in the EU, and has done so for a long time. The saving for the Danish respondents is consequently only marginal and in some cases their costs are slightly increased. One can understand why this rather takes the edge off the benefit to them of the abolition of controls.

On the other hand, many large companies in Germany operated simplified procedures with computerized periodic declarations for intra-Community trade, managed by their own in-house Customs department. When this department was disbanded or downsized in 1993, the staff and overhead savings were quite substantial, as evidenced in our German responses.

New Customs warehousing procedures

Customs warehousing enables goods to be stored with duty and taxes suspended until the time the goods leave the régime. It is intended principally for non-free circulation goods, offering benefits to traders of cash flow and operational flexibility.

Until 1 January 1992, Customs warehousing was governed by a fairly generally-worded Directive and implemented in quite different ways in different Member States. However, new Regulations were applied from this date and brought a much more standard approach to this important procedure.

Controls for Customs warehousing have progressed over the past ten years or so, from a physical control over the security of the premises and checking of the goods themselves, to a control based on records, especially computerized records. Normal commercial security and accounting applications are now the preferred bases for control. Common storage of free circulation and Customs-warehoused goods is allowed. Identical goods of different Customs status can be stored and despatched without segregation, the correct application of the Customs procedure being controlled from the traders' accounting and inventory systems.

The common use of simplified procedures in Customs warehousing, especially where they enable the goods to be despatched from the warehouse without prior notification to Customs, has meant that storage and delivery of goods kept in a Customs warehouse can be as commercially efficient and give as good a customer response time as for goods which are not. This is a most important aspect of the procedure.

In the Netherlands at least, where it is routine for commercial warehouses to be authorized as Customs warehouses, logistics companies do not normally make an additional charge for goods which are kept under the Customs warehousing procedure as distinct from goods which are not. This is one of the highest compliments which could be paid to the commercial effectiveness of the procedure.

Export controls

Export controls have been applied on a variety of goods, such as warlike materials, high-technology goods, antiques, works of art and restricted goods such as the precursor chemicals which can be used to manufacture narcotics.

One of the most common reasons for export licensing in the past was to monitor high-technology goods which were being exported to certain countries which, for policy reasons, it had been decided should not have access to the goods or technologies concerned. This was monitored by the Co-ordinating Committee on Multilateral Export Controls (COCOM), but following the political changes of the late 1980s and early 1990s in Central and Eastern Europe and further afield, COCOM was disbanded and the control systems were considered to be no longer required.

However, EU legislation was subsequently introduced covering the control of dual-use goods, that is, goods which could be used for either peaceful or warlike applications. A variety of export licensing controls still exists on certain other materials.

Free zones and free warehouses

The system of free zones and free warehouses, in practice giving a simulated 'offshore' environment to certain locations within the EU Customs territory, is generally not now regarded as such a key feature as it was, especially given the facilities offered (at least to non-free circulation goods) by Customs warehousing and other procedures with economic impact.

It mainly served to recognize traditional freeport or analogous facilities such as those in, for example, the old port area of Hamburg and Shannon free zone.

The port areas of Piraeus, Thessaloniki and Heraklion are designated free zones and this has caused some documentary complexity for intra-Community shipments since 1 January 1993, due to a requirement for extra documentation certifying the Community status of free circulation goods passing through the port area *en route* to or from other Member States.

In some Member States, individual free warehouses are designated rather than free zones.

Community Transit

About 85% of Community Transit (CT) documents dropped out of the system on 1 January 1993. Until then, CT was used to cover free circulation goods which moved through another country *en route* from the Member State of export to that of destination. It also covered such goods moving directly from one Member State to another, where the goods were to be Customs-cleared inland and not at the frontier. CT was also used to cover non-free circulation goods and this still applies.

The same basic procedure was also used, as a Common Transit system, to cover goods travelling to other countries with which suitable agreements had been reached, for example, the European Free Trade Association (EFTA) countries. The use of this procedure declined considerably with the accession of Austria, Finland and Sweden to the EU, as Common Transit had been extensively used in for trade with these countries but was of course no longer needed for free circulation goods after their accession to the EU. On the other hand, extension of the system into, for example, Eastern Europe, will once again increase its use.

Shift of controls from national to external frontiers

Additional vigilance and moves towards the equivalent treatment of exports and imports irrespective of the Member State of entry or exit are both features of the shift of controls from internal to external frontiers. These include: controls on technical standards and health and safety, export and import licensing and the administration of other régimes.

4.3.2. Law and tariffs

The Harmonized System and Combined Nomenclature

Introduced on 1 January 1988, the WCO's Harmonized System (HS) commodity classification had the advantages of being acceptable to, and so adopted by, a much wider group of countries than its predecessor. It also began to cater for the classification of the many new and emerging technologies which are the hallmark of the late 20th century.

This system is adopted by the EU in its Combined Nomenclature and since 1 January 1996 the CN classification has been identical for all Member States. It is backed up by a system of Binding Tariff Information (BTI) which essentially means that a classification decision given to a trader in any one Member State holds good for his importations into any EU Member State.

The Community Customs Code

In force since 1 January 1994, the Code has brought together into a single structure the scattered Regulations which previously constituted the EU's body of Customs law.

It consists of a basic regulation, supported by an implementing regulation with many annexes. The basic regulation is rarely amended, the implementing regulation more so, although amendments are settling down into an established and less frequent pattern.

The Code introduced a new way of structuring the legal provisions and some new terminology, but it has made for a far more logical and less disparate approach to understanding and working with the law.

The Generalized System of Preferences

Although the workings of the Generalized System of Preferences (GSP) are a matter of the EU's external trade policy, Customs have to control and administer it for imports into the EU.

On 1 January 1995, the EU's system changed completely to a graduated system for industrial products in which many products from GSP beneficiary countries attract a preferential rate of duty somewhere between zero and the full rate. This rate can change from year to year in some cases.

The Uruguay Round and Customs procedures

Implemented on 1 January 1995, the provisions of the Uruguay Round will affect the administration of Customs procedures. Most of the changes will attain their full impact over the period subsequent to that under review.

However, it is worth noting that the main areas where Customs procedures will be impacted are: progressive reductions in Customs duty over a five-year period (in some cases ten years), the conversion to duties of agricultural import barriers, the dismantling of the quota restrictions on textiles and clothing, revised procedures for anti-dumping, countervailing and safeguard measures, some changes to Customs valuation and import licensing principles, changes in respect of Customs Unions and free trade areas, provisions relating to dealing with state trading enterprises, pre-shipment inspection, and rules of origin.

4.3.3. Enlargement

Accession of Spain and Portugal

Additional accessionary procedures, with the accompanying documentation and some residual duties, were in place until the end of 1992 between Spain and Portugal and the rest of the EU. On 1 January 1993 they were abolished.

Accession of Austria, Finland and Sweden

Because these countries did not have the need for a transitional period in any but a very few specific situations, their accession to the EU on 1 January 1995 meant an immediate participation in the single European market and the abolition of routine frontier controls. The changes were assimilated relatively quickly, even though, as has been seen above, there were some major changes to existing EU procedures at the same time, which only added to the challenge faced by the new members' administrations, traders and freight forwarders.

EU/Turkish Customs Union

This came into effect on 1 January 1996. There were no major structural changes for imports from Turkey into the EU, as EU Customs duties had been abolished long ago on imports from Turkey which either originated there or on which, if imported into Turkey, Turkish duties had been paid and not refunded.

However, until Turkey adopts external commercial policy measures parallel to the EU's (for example, on anti-dumping, MFA and GSP) EU Customs at the point of entry into the EU from Turkey will continue to apply the Community's commercial policy measures to non-Turkish goods.

4.4. Traders' views on areas of change

For selected key change areas, we now reflect some traders' views on the efficiency and effectiveness of such changes. We interviewed a panel of respondents representing trade in most Member States. While their views cannot be taken as representative of traders as a whole, our panel found themselves adopting a consensus on the topics as follows.

We did not include Customs warehousing and express freight services in the scope of the discussions as these subjects have been covered separately in Chapter 6.

4.4.1. Single Administrative Document (SAD)

The panel generally welcome the SAD as a tool to simplify Customs procedures and reduce in-house administrative workload.

Their view of the initial concept of the SAD was to have one document for all purposes with regard to import, export and transit. However, in practice, it appears that SAD was mainly used for CT.

The reason they gave for this is that the Customs authorities in the different Member States did and still do have different requirements with regard to completion of boxes in the SAD. In Germany, for instance, the guidelines for completion of the SAD are contained in a book running to more than 100 pages. Our panel felt that, for SMEs which do not have in-house Customs experts, it is very difficult to handle the complex structure of the SAD. For this reason, most companies outsourced the SAD work to freight forwarders.

Our panel would prefer to see a standardized structure of the SAD in such a way that information to be given should be the same in each Member State. They would also welcome the future implementation of the SAD in other countries outside the EU, for example in the Central and Eastern European countries.

A major problem with regard to the CT procedure, using certain copies of the SAD, is the delay, in the panel's opinion, within the different Customs offices when returning the confirmation copy. Traders are complaining that the return procedure within the three months' period often does not work. However, in more than 90% of those cases, the cause is said to be with the Customs office of destination, which is not able to return the required document in time.

4.4.2. Simplified Customs procedures combined with computerization

Our panel commented that, although the Customs Code includes the possibility for simplified procedures, the procedures are not applied in a standard manner across the EU. A number of IT-supported simplified procedures are available in different Member States, but they are not compatible.

The panel would very much appreciate an EU-wide system. Reference was made to the working document of the EUROPROs with regard to Customs audit-based automated clearance system (CABAC) submitted in 1995. The EUROPROs argue for a common EU procedure based on Customs systems audit, data-processing and automated checking.

The main objective of this procedure would be to allow authorized traders to submit simplified Customs declarations electronically from a single point within the EU, irrespective of the Member State of arrival of the goods. This would also aim to guarantee, subject to preventive controls, that goods will pass unhindered through the external frontier and continue to their destination.

A good example in this context might be the agreement between Germany and Austria. Austria permits application to be made in Germany and settlement to be made in Austria and vice versa.

4.4.3. Export controls

The panel welcomes the introduction of the Community régime for the control of exports of dual-use goods. However, due to separate national restrictions in some Member States, some companies feel that their competitiveness as well as their efficiency may be affected.

4.4.4. The Harmonized System

The introduction of the Harmonized Commodity Description and Coding System in 1988, not only in the EU but more or less world-wide, was welcomed as a major opportunity as it offers almost globally comparable information on Customs classification.

The experience of our panel, however, indicates that in their view, due to different opinions between Customs administrations, even among the EU Member States, there is still much work to be done. It was felt that there were particular difficulties in the field of electronic goods.

It was considered that progress has been made insofar as the Binding Tariff Information (BTI) system has been introduced within the EU. MNCs having subsidiaries in different Member States use this BTI system to their advantage by making applications in those Member States where they can achieve the most favourable decision. This, it was observed, places SMEs without the necessary resource in an unfavourable situation.

Panel members would like to be more involved in classification decisions because of the rapid change in technology. Furthermore they feel that the World Customs Organization should be more deeply involved in those decisions because of the worldwide impact of the HS. In this context they would prefer to see, ultimately, a world-wide BTI system.

4.4.5. Import licensing

On 1 January 1993, when the single European market came into force, numerous national provisions with regard to import controls or products under surveillance still existed. Therefore, it was very much appreciated by our panel that the Council decided to issue common and harmonized rules in order to avoid competitive disadvantages between the different Member States. Generally, the systems are felt to work very well, although some problems still exist with regard to advertising and marketing products in the textile sector which are imported in small quantities.

A specific problem exists with regard to footwear. Certain types of footwear specially designed for a sporting activity or involving special technology are excluded from the quota system. However, the interpretation in the Member States differs on the definition of the given rules. This often results in the fact that the companies importing those goods still choose the most favourable Member State for import clearance, to avoid problems and additional administrative work.

4.4.6. The accession of Austria

The panel felt that this had been a very smooth process. By means of reasonable transition and meaningful adaption procedures, Austrian companies did not have major problems.

It was remarked that the Austrian Customs administration issued in a timely manner the relevant provisions as to, for example, Customs legislation and implementation procedures, the

Community Customs tariff, Customs declaration procedures, export procedures and Customs procedures with economic impact. The common provisions with regard to the opening of special tariff quotas and implementation of transitional procedures were appreciated by Austrian companies.

Austria had entered immediately and smoothly into the benefits of the single European market and abolished routine Customs and fiscal controls at its frontiers, as did the other new Member States. However, our haulier survey shows that delays are still encountered at the Austrian borders for reasons other than Customs controls, apparently more so than at other internal Community frontiers.

Other than this, according to our panel, the overall experience after one year of accession is favourable, as is the reaction of Austrian companies.

4.4.7. In summary

Our panel gave an overall positive assessment of the way in which Customs procedures have developed over the past ten years. However, they want to accelerate the change.

They welcome the standardization which has so far taken place in some legislative measures such as licensing and the Combined Nomenclature, but would like to see a more standardized approach between the Member States.

The panel appears especially anxious to operate in all Member States the standardized, improved Customs procedures which are provided for in the Customs Code but are not yet applied throughout, including the more intensive use of compatible computer networks.

4.5. Summary of the significance of changes for cross-border traders

4.5.1. One trader: three compliance systems

Clearly, the single most important change in Customs procedure for intra-Community traders was the elimination of Customs and fiscal frontiers at internal EU borders on 1 January 1993, the subject of this report.

Any change in basic Customs procedure was significant for intra-Community traders until the end of 1992 because of the continuing requirement for Customs clearance. Most intra-Community traders also export goods to third countries or import from them. Therefore, even after 1993, the way in which they organize themselves and their computer systems will be influenced in part by the Customs procedures required for third country trade.

One of the factors which gave rise to some concern from such traders in 1993 was that, previously, two types of compliance existed for trade flows: international and domestic. Now there are three: international, intra-Community and domestic.

We have mentioned elsewhere in our report the aim that intra-Community compliance should ultimately be the same as for domestic trade. In the meantime, which may be quite an extended meantime, cross-border traders will wish to see their overall compliance burden alleviated by the greatest possible simplification of both the third country and the intra-Community procedures. Where certain procedures or data are common to both, they should

be consistent. After all, traders will use the same suite of computer applications and often the same people to control both trade flows.

4.5.2. Simplification and computerization

Simplified procedures generally take Customs compliance back into the internal operation and computer systems of the trader. In this respect, the effect is rather similar to having taken the EC VAT and Intrastat procedures into the traders' internal systems in 1993, except that the simplified Customs procedures for third country trade are taken on board by the trader deliberately and voluntarily. They are therefore likely to be undertaken with greater forethought and consideration for the cost benefits than often appears to have been the case with EC VAT and Intrastat.

Traders which use simplified procedures for third country trade and also trade intra-Community will, as we alluded above, wish to benefit from the opportunity to integrate somewhat their computerized compliance applications for these two separate trade flows. They will, however, not be able to do this in a wholly satisfactorily manner, because of remaining inconsistencies between the two sets of requirements, and because simplified and computerized Customs procedures are not yet available to the same extent in all Member States. However, a common thread to both is that administrative controls are increasingly moving towards audit-based control of traders' records.

4.5.3. Customs warehousing

Customs warehousing, especially when simplified Customs procedures are adopted, enables a properly integrated approach to be taken to European distribution by traders who deal in both EU-produced goods and third country goods, or use imported materials in the production of their goods. The régime facilitates (again somewhat, it is still not applied in an equivalent manner in all Member States) the rationalization of warehousing across the EU for all such types of goods, as further illustrated in Section 6.4.

The systems for operating a Customs warehouse and the EC VAT and Intrastat systems relating to goods distributed after leaving the warehouse necessarily run alongside each other. They have enough common elements to enable them to begin to be integrated, although as yet, such integration is not commonplace.

4.5.4. Statistics

Turning to other developments, the introduction of the SAD in 1988 mainly affected the forwarders and Customs agents who completed Customs declarations on behalf of traders, and so it did not impact directly on many traders.

Nevertheless, the SAD has had some very substantial indirect and consequential influences on traders. The new consistency of data brought about by the SAD enabled a better application of simplified procedures. Also – and the importance of this should not be overlooked – the development of this relatively consistent data set was a necessary precursor to the Intrastat system. Had it not been done in 1987, it would have had to be done in 1992.

4.5.5. Consistency

As regards law and tariffs, apart from the impact on traders which has been brought about by the nature of the legal measures, the fact that they have tended to work towards a more harmonized Community-wide legal approach has perhaps been the common factor which has had greatest procedural significance for traders.

Increasingly, cross-border traders, especially those which also import goods or components from third countries for destinations across Europe, are regarding Europe as a single territory. Even where there are regional differences due to cultural or marketing factors, this 'Europeanization' is rapidly progressing, from an operational and administrative point of view. The convergence of legislation on matters such as Customs classification, Customs law, quotas and preferential régimes can only serve to support this trend.

Indeed, there appears to be far more consistency in the application of Customs law across the EU than there is in the application of EC VAT systems. This is only to be expected, given that Customs law and external trade policy are Community responsibilities. They are legislated by Regulation directly binding on the Member States and Customs duties accrue to the Community. VAT, on the other hand, including EC VAT, is still, to quite a large extent, a national matter and so is governed by Directives which can be enacted in widely divergent ways.

This point should not be pressed too hard as there are still a large number of inconsistencies in the application of Customs procedures across the EU. The main procedural differences likely to affect traders which have a presence in more than one Member State, and wish to integrate their European Customs applications, are likely to be in the application of the simplified, computerized and Customs warehousing procedures. Some Member States simply need more time to bring their procedures in line with the optimum permitted in the Customs Code and with best practice elsewhere in the Community. Others may still have conceptual or other differences as to how such procedures should be operated.

5. Cost impact for road hauliers

5.1. Terms of reference

The terms of reference for this part of the study are as follows:

'Provide an indication of costs incurred as a result of border delays and the extent of any cost savings resulting from their abolition for a number of intra-Community haulage routes, to be selected by the tenderer.

The selection of routes chosen for analysis should contain routes linking points throughout the whole of the Community, and reflect a balance between long- and short-haul (< 400 km) routes.

In addition to providing detailed breakdown of the relevant costs effects on the selected routes, the study should provide aggregate estimations of any cost effects.'

5.2. Scope and concept

The central objective of this exercise is to provide quantitative estimates of the cost savings on cross-border haulage legs occasioned by the disappearance of frontier controls. We have to estimate the cost to hauliers of frontier delays in 1992 and the cost saving possible after the removal of the controls on 1 January 1993.

This cost saving is not necessarily the same figure as the cost of waiting time at frontiers in 1992. The time saved has to be usable, in other words, greater vehicle and driver utilization must be achieved as a direct result.

For example, if mandatory meal/rest breaks were habitually taken in 1992 while awaiting Customs at frontiers, they still have to be taken either at the same place or elsewhere, even when it is not necessary to wait for Customs at the same time. In such a case, there may be no improved utilization and consequently no direct cost benefits. As one driver put it to us, the only saving for him in such a case is that he does not have to keep looking out of the café window to see if the Customs queue has moved on.

5.3. Framework of the road haulier survey

5.3.1. Reference points

In order to exclude other factors which have changed the pattern of haulage operations and costs between 1993 and today, our comparison has been made between the frontier delays in 1992 and the immediate changes encountered by hauliers in 1993.

This avoids the subsequent distorting effects of, for example, national or EU changes in work and business patterns, cabotage, speed limiters and demand levels, of which there have been many in the four years of the single European market.

5.3.2. Focus on delay in 1992 and utilization in 1993

Our principal questions aim to enable us to identify, at any one frontier or series of frontiers:

(a) the delay in 1992 due to waiting time for routine Customs clearance and fiscal controls (whether or not the driver would have pulled in for mandatory rest breaks or other purposes);
(b) the cost of this delay; and
(c) whether the extra time gained from 1 January 1993 was able to be used.

Better utilization can be expressed in a number of ways, usually one of the following:

(a) more kilometres per month; and/or
(b) more round trips per month.

If better utilization has been achieved as a direct result of the removal of routine Customs frontier controls, then the former cost of frontier delays has been considered as removed.

5.3.3. The questionnaires

We developed an initial, detailed questionnaire which was intended to test the extent of information which was held and could be released to us by hauliers and freight forwarders. This is reproduced at Appendix C.

Approximately 150 freight forwarders and haulage companies were approached with these questions. Almost invariably, we found that either the full data was not kept in a systematic manner, or, more often, the companies approached felt unable to disclose it to us for reasons of commercial confidentiality.

In many cases, freight forwarders had divested their own fleets in favour of subcontractors, or buy capacity on the spot market. They generally did not have access to the data requested. In most cases, it appeared that they had not closely monitored the freight rates charged by their contractors in early 1993 to ascertain whether the charges had been reduced due to the abolition of frontier delays.

We did, however, receive four completed questionnaires which served as a control against the larger number of responses to our main questionnaire.

We then developed our main questionnaire, which is reproduced at Appendix D. It was designed to be capable of being answered by:

(a) a manager of a haulage company, who has experience of the 1992 and 1993 situation, but who does not necessarily have access to costings or is not free to disclose costs to us; and
(b) drivers with similar experience.

Our ability to deliver results on the basis of this questionnaire was dependent on the availability of standard industry data on actual fixed vehicle and driver costs, which we would have to apply to the delay time responses in order to arrive at the necessary estimates of costs and savings.

We assembled industry figures representing fixed costs for the 38-tonne tractor with 12-metre trailer unit which is the workhorse of European road haulage. These included:

(a) depreciation (using fixed line over five years, which gives us the most typical figure for such a unit);
(b) insurance;
(c) vehicle taxes;
(d) driver costs; and
(e) overheads.

These figures were adjusted where appropriate for the different Member States. By definition, the cost of waiting time does not include variable costs, namely fuel, tyres and maintenance. These are all geared to mileage and, if the vehicle is standing, they are not incurred.

We included in the questionnaire a question for fleet managers and owner-drivers, to act as a control, asking them whether our cost figures for waiting time at frontiers appeared about right, too low or too high, and by how much. We also asked such respondents whether and how they estimated the cost of waiting time at frontiers.

5.3.4. What we asked

In the initial, detailed questionnaire, we asked the operators to indicate typical figures for the route, including journey kilometres, journey time and trip costs. We then asked about utilization in 1992 and since. Following this, we asked about vehicle and driver costs, then annual levels of business. These responses included a number of cross-check and validation data.

The main questionnaire focused for each route on the two key areas only:

(a) the delay in hours at frontiers, in 1992 and after; and
(b) whether utilization had been improved.

Those with access to cost data were asked to comment on the standard fixed costs we had developed.

5.3.5. Whom we asked

Forwarders and hauliers

Both questionnaires were addressed to freight forwarders and international hauliers in telephone or face-to-face interviews. Many of the companies which we approached had divested their own fleets and referred us to the contract hauliers which they now use and which we consequently approached.

Drivers

We visited waiting areas and roadside transport cafés on main roads or near frontier crossings in order to interview drivers during their rest breaks. We also carried out interviews at ferry ports and on board ferries where appropriate.

These interviews were carried out in the following areas:

(a) the Dutch/German border region, near and away from borders (drivers do not usually need to rest until they are out of the Netherlands);
(b) the Dutch/Belgian border region (ditto);
(c) the French/Belgian border;
(d) the French/Italian border (at the Mont Blanc Tunnel);
(e) the German/French border;
(f) the German/Danish border;
(g) the German/Austrian border (via telephone interviews);
(h) the Spanish/French border (at Irun and near Perpignan);
(i) the Spanish/Portuguese border;
(j) the Greek/Italian crossing (on board ferries);
(k) the Irish/UK crossing (in port);
(l) the UK/French crossing (on board ferries).

We obtained 520 responses from 220 drivers, as most were able to give information on more than one border or route.

5.3.6. The trading environment

We were able to learn from those hauliers who had declined to take part, as well as from those who did take part, something of the difficult trading environment still faced by the industry, which has been under considerable pressure for a number of years. The following consensus views on the recession and divestment were put forward by managers of haulage companies.

Recession

Recession affects service providers particularly acutely, not the least road hauliers and freight forwarders. They are the among the first to suffer downward pressure on rates and reduced business, directly resulting from the downturn in the activity levels of their clients. They are among the last to recover from both.

This means that hauliers are affected in a similar manner to traders but in some respects to a keener extent, and as a result:

(a) they have to focus on other priorities, mainly survival, for which knowing and controlling the main costs could be the key to survival but in this industry is not always a habitual practice (the demise of numerous such companies in recent times bears witness to this);
(b) to many operators, 1992 is seen as distant history in comparison with the issues they have had to face in the four years since; and
(c) any savings achieved in early 1993 from increased utilization were commonly viewed as quite outweighed by the downward pressure on their rates.

Divestment

The divesting of an owned fleet, which we have mentioned above, has not only been practised by the larger forwarders but by traders, therefore the concept of true own-account or own-fleet operators appears now almost extinct. The colours on the tractor and trailer may be those of the forwarder or trader, but the name in small print on the door is usually not.

Although there are notable exceptions, we appear to be moving into a trading environment of small operators who mainly work on the basis of trying to cover monthly costs by monthly income. Examples given to us included those operating on 'rules of thumb', such as regarding themselves as in profit if they can earn, say, ECU 200 a day or more for each vehicle and driver.

5.3.7. Participation

While most of the companies which we initially approached were unable to provide the detailed information, they were willing to give us general indications of the situation as described above. Those which were able to complete the full questionnaire evidenced a very professional awareness of their operating costs and performance. Others which gave us information for the main questionnaires were able to provide good information for our analysis.

The participation by drivers in frontier regions and on board ferries was excellent. Very few declined to take part and the information, coming as it did first-hand from those who travel the routes daily, was of good quality and in good quantities.

5.4. General impact in border regions

Our findings on the general impact of the removal of routine frontier controls in the main border regions can be described as follows.

These comments have been prepared by our team members, drawn from the different Member States, who visited the border regions and interviewed drivers on the spot. They therefore represent first-hand impressions gained by our team from their face-to-face interviews with drivers as well as from telephone interviews with haulage companies.

The first account, compiled from interviews carried out in the Netherlands, also contains a substantial amount of comment from interviews with Dutch haulage companies as they are particularly thick on the ground in this region.

5.4.1. The Dutch/German and Dutch/Belgian border regions

First, opinions were sought from drivers on how the abolition of internal EC market controls had affected their sector. Second, a number of transport companies and freight forwarders was visited in order to obtain a balance of opinion.

Originally the intention was to visit cafés and truck-stops near the Dutch/German and Dutch/Belgian borders to interview lorry drivers during their breaks. It was however quickly apparent that these regions no longer have many cafés or truck-stops, and the two border areas in question are not the ones that lorry drivers wanted to talk to us about.

The Dutch/German border region

The main characteristic of this border region, or at least parts of it, is that is rather desolate. In most cases the local Customs office had been closed, in some cases it had been moved inland to an industrial zone. As a direct result of this, the vast majority of cafés and truck-stops are no longer in business.

Many drivers do not consider stopping for a break near this border. Either they have just started their trip from inland Netherlands, or they are returning there, or they work for one of the many transport companies which are based very close to the borders (for example at Venlo and Nijmegen). In such cases, drivers will not stop until either well into Germany, at the destination or at home base. Given the heavy road congestion in the Netherlands, drivers do not want to risk arriving late by having an early and not strictly necessary break.

The only drivers one will find near this border are those on the lookout for loads. Most of these appeared to be Eastern European owner-drivers, some of whom had been waiting for some time trying to find a return load.

Queues can still be found on Sunday nights. Roads re-open to heavy goods vehicles (HGVs), and Customs clearance for non-free circulation goods starts at 10 pm on Sundays.

The drivers from which we were able to obtain useful information did not consider that the Dutch/German border had ever been a particularly difficult one. Mostly, Customs clearance did not take more than an hour or so on average. However, especially when going into Germany, the maximum waiting time could be very high due to the thoroughness with which the German authorities like to see problems solved.

The extra time thus gained is not often viewed as substantial enough to improve performance in kilometres or number of trips. However, in some cases, planning can now be tighter on shorter trips, for example from Rotterdam to the Ruhr Gebiet, which has resulted in more round trips per week.

The Dutch/Belgian border region

The Benelux, having enjoyed a Customs union for quite some time, did not have extensive border controls even before 1993. As a result of this, not many drivers used to stop for a significant amount of time at this border. They had often just started their journeys, and what drivers saw as the much more difficult Belgian/French crossing was waiting in less than two hours' time.

French Customs did not start Customs clearance until 6 am. After undergoing clearance, it would usually be too late to get to Paris in good time – especially taking into account waiting times at the *péage* when hundreds of lorries were trying to get through. Drivers would therefore take one leg in the evening from the Netherlands to the Belgian/French border, and try to get Customs-cleared there as early as possible in the morning.

However, there is still a large truckers' community at Hazeldonk (Breda – Antwerp) where lorry drivers on longer legs take an overnight stop. The opinion of most of the drivers interviewed here was that the Dutch/Belgian border is not and has never been a problem. The southern European borders were regarded by them as much more problematic. Any gain of time was

made there, and frequently allows more return trips to be possible. Drivers view this as a combination of more work and more leisure time.

The view from freight forwarders and transport companies

A selection of freight forwarders and transport companies was visited at their own premises for an interview with transport or logistics managers.

Initially, many interviewees found it difficult to make a clear distinction between direct and consequential effects. A whole range of effects was mentioned that are linked to, but not directly a result of the abolition of border controls.

One of the main areas of improvement reported by those interviewed was service, closely linked to planning. Time windows for delivery or pick-up are usually so tight that the uncertainty in pre-1993 border delay times did not allow accurate planning. Either time was wasted when arriving early, or goodwill lost when not arriving on time.

Since 1 January 1993 it has become possible to predict with a high degree of accuracy when a particular shipment should arrive. One haulier remarked that improved deliveries are as much the result of improved information networks.

This, in turn, means that lorries return more quickly and more trips (and hence more kilometres) are possible. Better planning makes it possible to allocate a single lorry to more than one driver, so that total vehicle utilization is maximized. There is also more flexibility in route selection and choosing places to have rest-breaks.

Of the remaining 'border' problems that were mentioned, the most important one noted by those interviewed relates to the closure of roads to HGVs in certain Member States at certain times. Although this is not a problem related to border controls, it still, by definition, manifests itself at borders and is generally mentioned at the same time as other border issues. A request for clear and uniform European legislation on this issue was heard more than once.

Interviewees suggested that controls, *en route*, at truck-stops or on company premises, have increased dramatically since 1 January 1993. It was said that France still carries out a large number of passport controls. An interesting related problem that was mentioned is an apparent shift in theft (of vehicles or contents from vehicles) away from border areas and to hauliers' premises, which has increased security costs.

Although there was no general agreement on the point, groupage seems to have increased and consignment sizes decreased. Some say this is a result of abolition of border controls, others say it is a more general result of changed client demands.

Interviewees in the Dutch haulage business do not seem to have suffered very much from cheaper southern European competition, or at least not as much as they expected. It is generally believed that such competition has been more effective in absorbing market growth and in new areas of transport, rather than replacing existing business. In addition, the increase in business with north-eastern Europe has meant that the balance of road transport volumes has shifted somewhat back to the north again.

Value-added logistics is becoming one of the main selling points for freight forwarders, and, as a result, more and more logistics activities which are high in resource are outsourced to specialists who can meet the clients' needs.

5.4.2. The French/Belgian border region

The delay at the Belgian/French border before 1993 averaged one hour and so the time gained was generally not seen as very significant. Often, it was not possible to use the extra time because of the need to take mandatory rest breaks. Most drivers interviewed were commenting on northbound delay times, hence the responses are a little different in emphasis from those noted in the Dutch/Belgian border region.

Drivers however generally noted an increase in the kilometres driven because they could operate in a more efficient manner. This has not usually been achieved by more round trips, but rather by making longer trips and drop-shipping to several consignees.

Some drivers expressed a preference for the previous method of work. They were able to take a rest while awaiting Customs, in addition to their mandatory rest breaks, while, now, some drivers feel that they are being asked to work longer hours and have no more free time than their mandatory breaks. However, a number of drivers recognized that they now have more leisure time, for example, they arrive home earlier.

5.4.3. The French/Italian border region

Our survey was carried out at the Mont Blanc Tunnel waiting area. Drivers interviewed also responded on their experiences at the Fréjus tunnel. Those willing to respond were predominantly French, although a large number of British drivers were also questioned.

The general feeling is that there has been a significant decrease in the delays which drivers experience at the borders. Delays of six hours to one day appear to have been commonplace, depending on the type of load they were carrying. Most now state that they do not wait at borders, except in cases where they carry hazardous goods (which are restricted through the tunnels) or where they cannot drive on a particular day, for example Sundays and public holidays.

Drivers found utilization difficult to quantify in some cases. Mileage appears to be at least the same as in 1992 with some notable increases, in the region of 1,000 km per week. In many cases this was effected by means of an extra journey per month. Many drivers felt that they could not benefit hugely from the removal of the border controls, as they still had to take the same rest breaks and still had to obey the driving laws of their country. For example, British drivers may only drive through France on a Sunday if they are homeward bound.

In some cases the driver did not always drive the same truck. As soon as he brought the truck back to base, it went out on the road with a different driver, thus increasing the number of days per month that the trucks were actually used.

Mixed opinions emerged in regard to driver utilization. Some drivers said that they have less leisure time then they had before, as they considered the time spent waiting to clear Customs as leisure time. Some felt that they had more time, but they were usually unable to put a figure on

this. French drivers felt that, while they lost the leisure time that they once had at the borders, they now recover it due to the French restrictions on, for example, weekend HGV movements.

5.4.4. The German/French border region

In the opinion of a haulier based on the German side of the border, with whom we had an in-depth interview, the abolition of frontier controls has had no effect on the utilization of driver or vehicle.

The time delay at the frontier before 1993 was up to two hours. Taking into account mandatory rest breaks, waiting time for return loads, repairs of trucks and sickness, the interviewee's opinion was that this extra time has been used up.

This point of view was backed up by the drivers we spoke with in this border region. Their general view was that, if any effect has arisen, it is that the drivers have a little extra free time.

Our main interviewee's reaction to our question on how the German transport buyers' attitude has changed was that the company has not seen any increase in client demands for reductions in the transport rates since 1993. If there has been any, they have been of no significance. It should however be borne in mind that this view may not be representative of German hauliers in general.

5.4.5. The German/Danish border region

We spoke to managers of haulage companies as well as drivers in this area. The same attitude and opinions appear prevalent here as in the German/French border region.

It has to be added though, that according to one of the companies, Danish transport buyers have been more aware of the theoretical possibility of better utilization and have asked for lower transport rates.

Many hauliers said that they do not make money on their transport services, but from additional services such as warehousing and Customs agency. This view tallies with what we have previously heard from various sources. Transport buyers are aware of this fact, and press the hauliers on costs where possible.

The view of those interviewed was that the Danish and German Customs procedures are more efficient than those in southern Europe. If this is so, then the time saving after 1992 is not as important in the north.

5.4.6. The German/Austrian border region

Austria was not a Member State at 1 January 1993, therefore we have not focused heavily on routes to or through Austria during the survey. However, as a comparison, and because of the remaining environmental monitoring controls at the Austrian border, we conducted a number of interviews with hauliers regularly crossing to or through Austria from Germany.

We spoke with six drivers from three companies on the situation at the Austrian borders. We have also received information from three haulage companies and one forwarder specialized in transport of goods through Austria to or from Italy and Greece. It must therefore be borne in

mind that these are the views of such a sample and are not necessarily representative of haulier opinion as a whole.

In 1992, the German/Austrian and the Austrian/Italian borders were external borders, and drivers transiting with goods to or from Italy, Greece were subject to full border controls. The Austrian authorities represented at the borders were reported to carry out a detailed examination of documents, vehicles and goods. On the German side, Customs were reported to be strict, but less so than Austrian Customs.

On 1 January 1995, the German/Austrian and the Austrian/Italian borders became internal borders when Austria joined the EU. Membership has changed the functions and performance of the Austrian Customs authorities. The drivers, the haulage companies and a freight forwarder all confirmed that Customs controls are no longer a problem, and that lorries can pass the borders without any Customs control or examination.

However, interviewees stated that there were still some controls and examinations at the borders as well as within Austrian territory. Certain vehicles are apparently weighed and may be refused entry into Austria. If refused, the lorry must return to Germany or Italy and unload part of the consignment, or board the lorry train.

5.4.7. The Spanish/French border region

The main crossing points are at Irun in the west, and between Barcelona and Perpignan in the east.

As an indication of the change in work pattern at a key border crossing community, the number of Customs agencies in Irun fell from 106 to around 40 after 1 January 1993, with a reduction in employment from over 1,200 to around 100 employees across all the remaining agencies.

Although the flow of traffic crossing the border there has increased dramatically since 1992, the proportion of hauliers which stop for Customs clearance has reduced dramatically, with a corresponding fall in the number of Customs officials at the border.

The remaining business for Customs agents on the Spanish/French border at Irun consists exclusively of clearing consignments bound for Spain, arriving under non-free circulation status from elsewhere in the Community, and originating in a third country. Customs procedures, in general, are reported to take a little longer at Irun than previously. Whereas Customs clearance used to take, typically, 1½ hours in 1992, two hours is said to be more normal for 1996.

Although the border itself at Irun is open 24 hours a day, Customs officials do not work between 13.00 on Saturday and 08.00 on Monday. This was the same in 1992. Hence the longest delay for most drivers passing through this border is on a Sunday. Those drivers who routinely pass through on a Sunday, and whose loads include goods of non-free circulation status for clearance at Irun, have not achieved any time savings since 1992.

In addition, French roads are closed to lorries on Sundays, meaning that France-bound drivers have to wait at the border until midnight on Sunday whether or not they have Customs clearance procedures to go through.

A local Customs agent suggested that most drivers will not have seen any time saving as a result of the abolition of Customs controls, since they used to await Customs during their mandatory rest hours. This was confirmed by several drivers interviewed. However, a large number of drivers interviewed had shown an increase in mileage since 1992.

The frontier between Barcelona and Perpignan operates during the same hours as the border at Irun. This route is more heavily used for agricultural goods, being the 'ruta de la fruta' (that is, for example, for oranges from Valencia).

5.4.8. The Spanish/Portuguese border region

The overall results showed a significant increase in utilization since the changes in January 1993 among Spanish and Portuguese drivers crossing this border. Many drivers typically make one additional return trip per month, for example, Lisbon to Milan or Lisbon to Barcelona.

The borders most often used for Portugal/Spain routes are Badajoz in the south and Vilar Formoso, Chaves and Valença in the north (instead of Bragança).

Small fleet drivers reported a larger increase in utilization on average than drivers from large fleets, often claiming an increase of 100% on pre-1993 mileage. Large fleet drivers typically showed an increase of around 30%. Only five out of 44 drivers questioned had not realized an increase in vehicle utilization.

Obligatory breaks and rest time were only mentioned once as a factor preventing increase in utilization (this rather contrasts with results from Spanish/French border). Some drivers claimed to be covering the maximum kilometres achievable in one month without exceeding tachograph limits.

The haulage market has grown rapidly for operators based in this region, as many Portuguese haulage companies which previously operated only in the domestic territory have entered the international haulage market since 1993. A marked increase in competition has resulted in almost all drivers claiming to work harder and have less leisure time than before, while wage levels have remained the same or even decreased.

Some fleet drivers now claim to earn around half the amount per kilometre that they used to earn in 1992, and independent owner-drivers have to cover more kilometres for the same earnings in order to meet increased costs. These claims are consistent with other findings regarding pressure on rates.

Typical delay times at the Portuguese/Spanish borders appear to have been much higher than at Spanish/French borders. The crossing at Badajoz was generally considered by interviewees to be the worst. In some cases, additional waiting time was incurred because of Customs formalities away from the border, for example, when collecting pre-entry goods from large distribution centres such as Alverca Do Ribatejo, north of Lisbon.

5.4.9. The Greek/Italian crossing

Services between Greece and the rest of the Member States have been examined on the basis of the ferry crossing from Patras to mainland Italy – Brindisi, Bari or Ancona. The route to Ancona currently seems favoured by drivers.

The direct sea or air routes are outside the scope of this part of the study, as we are concerned with driver-accompanied road haulage only. The road haulage route through the Balkans is also outside the scope of the study as the route transits third countries. Its use during the periods under review has also been highly variable because of the security problems in the region.

From our interviews with drivers and telephone conversations with hauliers we found that, with few exceptions, the time of delay at the frontiers after 1 January 1993 has been reduced to zero. The drivers who reported delays after 1 January 1993 refer to reasons other than Customs and similar controls. Before 1 January 1993, an average of ten hours delay was encountered per crossing, for Greek and Italian Customs combined.

Generally, drivers believe that they have increased their utilization after 1 January 1993 by about 40% to 70%. Some of them, especially those making trips to Italy only, have doubled their trips per week or per month.

On the other hand, drivers travelling to the north of Europe have now almost the same number of trips as before 1 January 1993, but their monthly kilometres have increased up to 30 to 40%. This is mainly due to the fact that drop-shipping has become the norm for them on long round trips.

About 50% of hauliers stated that, although now they spend less time at internal EU frontier crossings, some conditions creating delays still exist, in particular, weekend prohibitions on HGVs.

In our additional telephone enquiries and discussions with managers of transport companies, we were told that conditions after 1 January 1993 have greatly increased the competitiveness of small companies and owner-drivers. Conditions now permit them to render services at costs which cannot be matched by larger and more organized companies. This concept was also confirmed during discussions with drivers in port at Brindisi.

In our discussions with Greek drivers, they claimed that they have not received the expected support from the EU which they see as having been enjoyed by drivers in other Member States. Drivers of other nationalities were reluctant to discuss this subject. The nature of such support is outside the scope of this study and so we did not attempt to define it.

5.4.10. The Irish/UK crossing

Services between Ireland and other Member States have been examined on the basis of the ferry crossings from Rosslare to Fishguard, Rosslare to Pembroke, and Dublin to Holyhead.

In all cases significant amounts of time have been saved because of the abolition of the Customs procedures at internal frontiers. Typical savings are reported to be in the order of two hours.

Groupage drivers appeared to have sustained the greatest advantages. Such drivers noted that some ports, especially Dublin, were known for Customs problems, with the result that traffic was often diverted to other ports so as to avoid the delays.

There was a mixed reaction among drivers as to whether they are working more or less than in 1992. The common reaction to the question 'Do you have more or less leisure time?' was 'What leisure time?'.

The time saved by drivers at Customs is now, they report, spent on the road, allowing some drivers to cover more miles per month and to make more round trips. The vehicles appear to cover at least the same mileage as they did in 1992.

Because of the relatively short length of a round trip between Ireland and the UK as compared to the trans-Continental routes, a significant proportion of Irish drivers are making more round trips per week than in 1992 (five per week as compared to four).

In general, drivers could not be highly specific in responses to questions on the utilization of their vehicles. It is worth noting however that the vehicles appear to be used to the maximum. When one driver finishes a trip another driver takes the truck.

Competitive pressures in the market have increased substantially, especially from Northern Ireland hauliers who now bid for work in the Republic of Ireland. Interestingly, a significant number of drivers said that they only recently (in the last two years) began working international routes. Overall it would appear that competition in the market has increased.

5.4.11. The UK/French crossing

Services between the UK and other Member States, in particular France, have been examined on the basis of the ferry crossing from Dover to Calais.

The overall impression from talking to drivers is that various types of changes have been experienced in their operating patterns and utilization since 1 January 1993.

Whether we were discussing with drivers the Calais/Dover crossing or, indeed, any of the other internal EU borders, it became clear that there were now no waiting times. Some drivers played down delays at the borders prior to 1 January 1993 and pointed out that, as far as clearance into the UK is concerned, there were few problems before 1 January 1993. They said that this was especially so for those hauliers who operated the simplified Customs procedure (forwarders' local import control) or where 'fast lane' facilities could be used.

Others noted improvements everywhere, but there was a consensus that the Italian and Greek borders had been particularly difficult.

Many drivers said that their vehicles were completing perhaps one more round trip per month after 1 January 1993. Also, the introduction of the single European market has resulted in some companies re-thinking their strategy. Many drivers reported more drop-offs and pick-ups on round trips than was previously possible.

Others noted an increase in the practice of double-manning vehicles. This allows drivers to take a break while on the road, while the other driver takes over. This is common on long journeys such as to Spain and is used to support and ensure JIT deliveries.

Some companies prefer to use vans rather than the larger tractor and trailer unit. This, it was said, gives greater flexibility for small loads on short journeys. The other feature reported to us is that most vans do not require tachographs and, therefore, the driver can stay on the road for longer. In fact there were complaints from the more seasoned drivers that there is now a larger number of less well-qualified drivers on the road involved in short route operations.

We also spoke with one company which is now using its own domestic fleet for intra-Community trade, whereas they previously relied on third party carriers who could also provide a Customs clearance service.

Most drivers now avoid the Swiss border because of the Customs controls and the gross vehicle weight restrictions. Deliveries to Germany seem to take the 'Belgian corridor'. The main reason for this, according to those interviewed, seems to be concern at being stopped in France and being subject to what they termed a 'trumped-up' fine. Indeed, almost all the drivers that we spoke with who were taking the Belgian corridor route expressed their concerns about spending too much time in France.

This, however, did not prevent their making similar observations about problems with Germany. They also explained that the transport laws relating to HGVs were changing constantly, one citing the requirement to carry a plastic shovel as opposed to an aluminium shovel.

Some whom we interviewed seemed to miss what they would term the 'good old days' prior to 1 January 1993, suggesting that, when they wanted a longer break at some point, they could always put it down to waiting for Customs. In general however, we came away with the impression that most drivers are working harder, although not necessarily earning more. Indeed the practice of double-manning seems to have had the effect of cutting some drivers earnings, in that they are now actually only driving for, say, three days on longer trips as opposed to five days.

5.5. Results

5.5.1. One-off or ongoing?

Benefits accruing directly from the abolition of routine frontier controls were most apparent immediately after the change, but, the more time elapses, the less relevant it is to compare the current situation with the previous system.

The same point applies to our findings from the haulier survey as to those from the trader survey. In Section 3.4.3 we considered whether an ongoing benefit, cost or otherwise, could continue to be argued from a one-off elimination of former costs.

This point perhaps applies all the more to the haulier results, so many other cost pressures and other influences of change have come to bear on the industry since 1993.

5.5.2. Other cost influences

The study, in this series, on Road Freight Transport[1] gives examples of the effects of a number of types of cost change in international transport, including the abolition of border controls.

These and other factors, such as changes in business patterns and levels, made it difficult for our respondents to separate out the continuing benefits of the abolition of Customs controls.

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1 European Commission (1997), *The Single Market Review: Vol. II:5, Road freight transport*, Office for Official Publications of the EC, Luxembourg, and Kogan Page/Earthscan, London.

However, they found no difficulty in focusing on the situation immediately after 1 January 1993. This generally enabled us to keep the other factors out of the way of what was, at least for this study, the nub of the issue.

5.5.3. Border delays before 1993

Figure 5.1 shows the average border delays encountered by respondents in 1992. It is very clear that the delays were far less in northern Europe than at the borders with the Mediterranean Member States.

Figure 5.2 shows responses for the minimum and maximum typical delays, in addition to the average. The maxima were experienced generally because of the opening hours of Customs offices, combined with prohibitions on HGVs at certain times in some Member States.

The average delay in each case is that given to us by respondents and was not calculated from the maxima and minima.

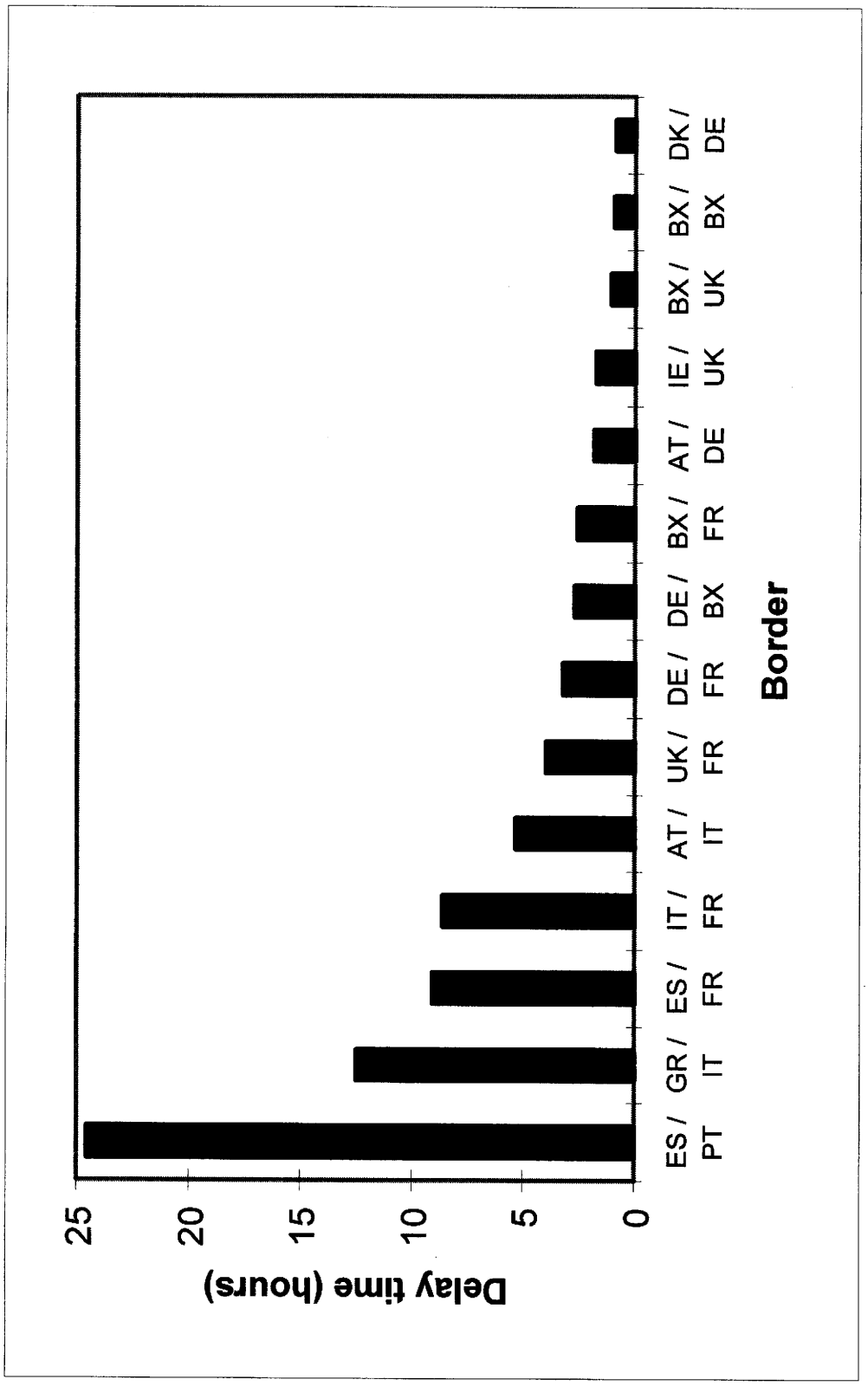


Figure 5.1. Average border delay times pre-1993

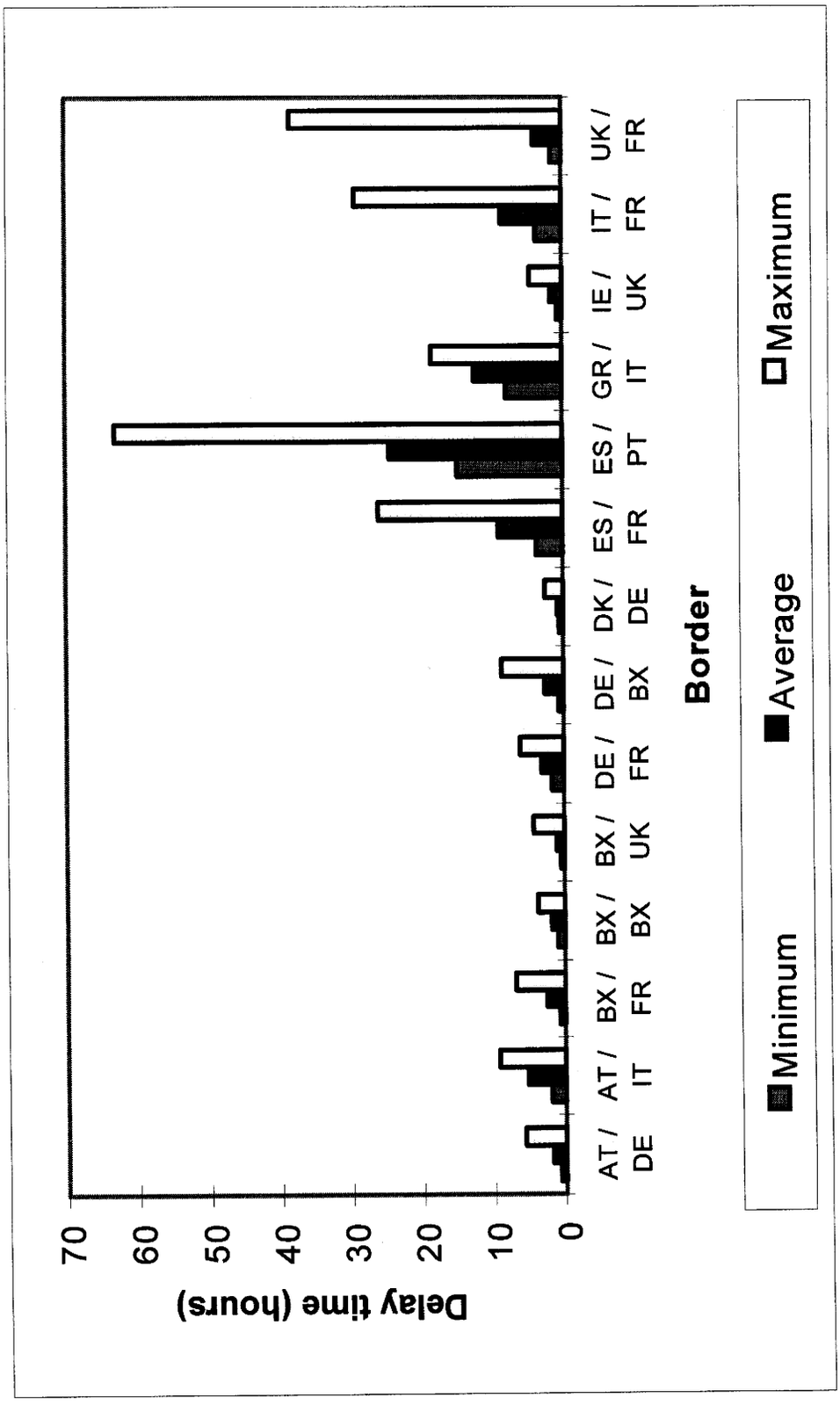


Figure 5.2. Border delay times pre-1993

Figures 5.3 and 5.4 analyse the responses by route. They give examples of the cumulative delays on long routes, such as Portugal to Belgium (No 14) as well as short routes such as Germany to Netherlands (No 20). It is seen that there can be wide variations.

As might be expected, the cumulative delays were far more serious on longer routes. Nevertheless, the main factor in the total delay is not the sheer length of the route but which borders it crosses. Journeys to and from the Mediterranean Member States incurred the longest delays, irrespective of whether they were long or short routes.

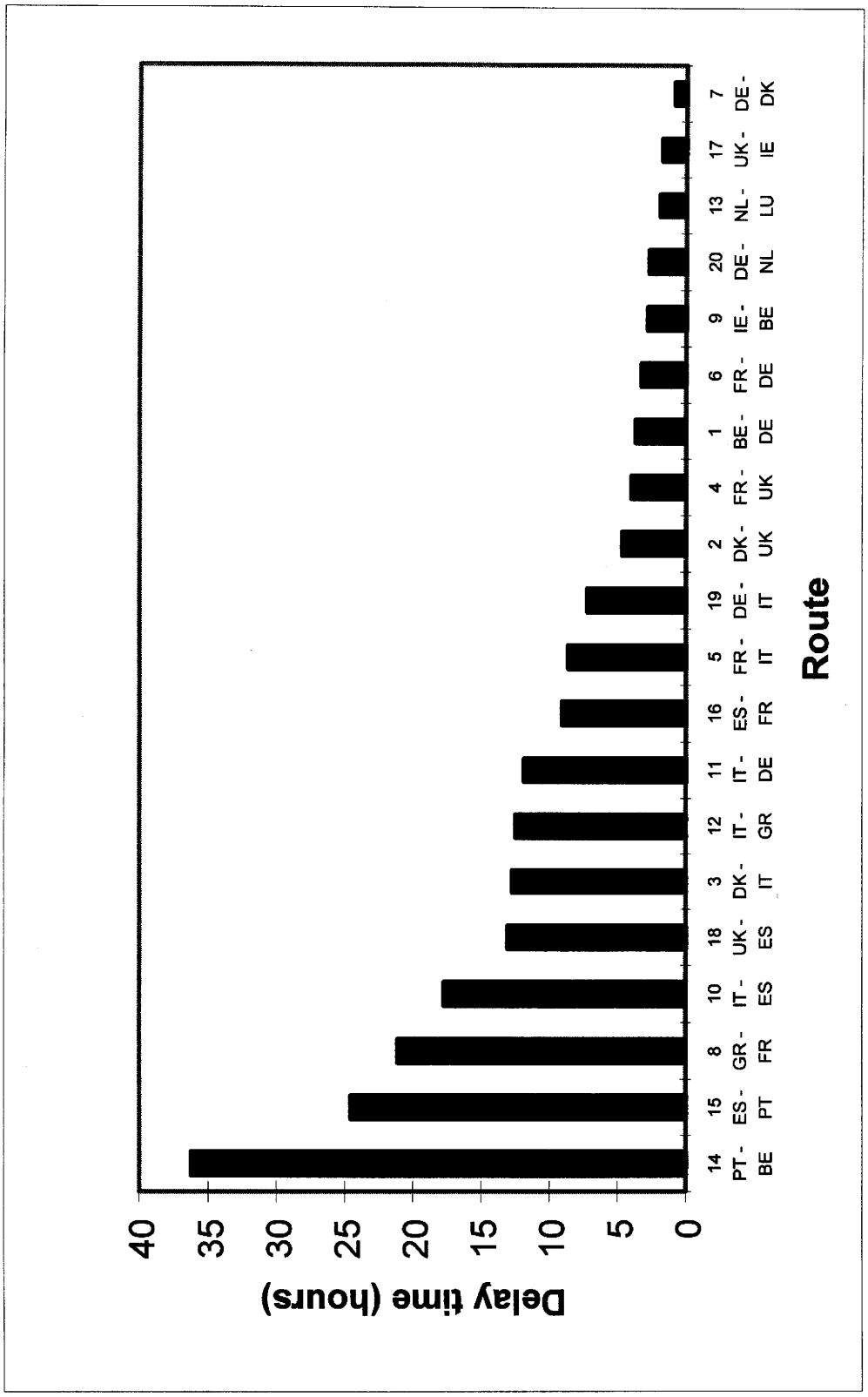


Figure 5.3. Average border delay time pre-1993 by route

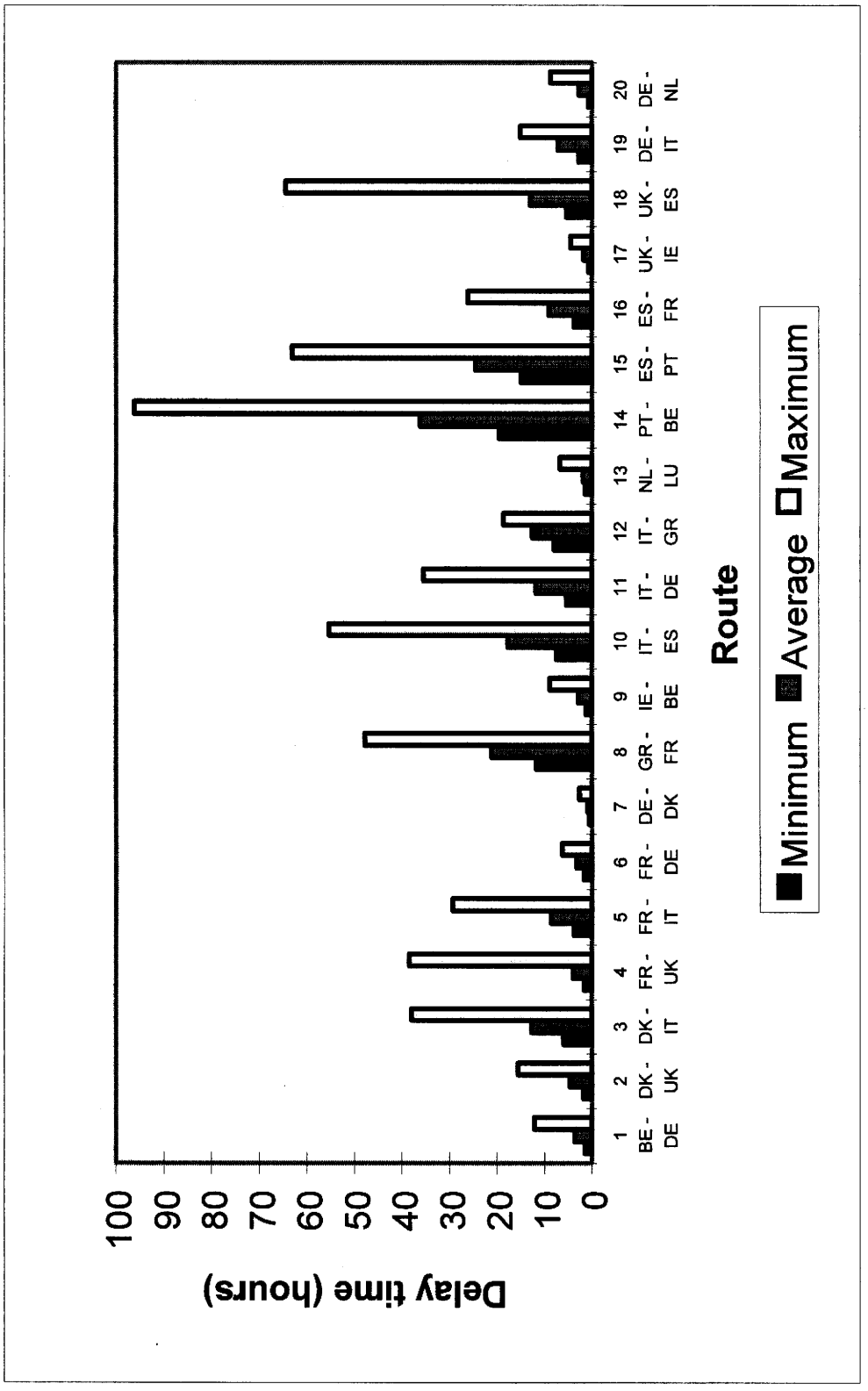


Figure 5.4. Total border delay times pre-1993 by route

5.5.4. Border delays since 1993

Some slight border delays are still experienced today, as shown in Figure 5.5 by border and Figure 5.6 by route. Passport or identity controls still remain at some borders.

The worst remaining delays are reported at the Austrian borders, where hauliers reported that they were due to weighing, stamps and police controls. Under the Act of Accession, Austria is permitted to carry out certain environmental controls as well as the normal passport/identity card controls.

Other reasons given for the delays are:

(a) hazardous goods controls and spot checks at the German/Dutch border;
(b) congestion or sanitary controls at the Belgian/French border;
(c) awaiting cross-channel transport for the UK/Belgian crossing;
(d) congestion, spot checks and internal controls at the Spanish/French border;
(e) controls on fruit, congestion, awaiting ferries and security checks on the Greek/Italian crossing;
(f) spot checks and passport controls on the UK/French crossing.

It should be noted that Customs controls since 1 January 1993 do not take the form of spot checks but are targeted against profiles of possible offenders. However, respondents still perceive them as spot checks.

Figure 5.7 shows the improvements for each border crossing.

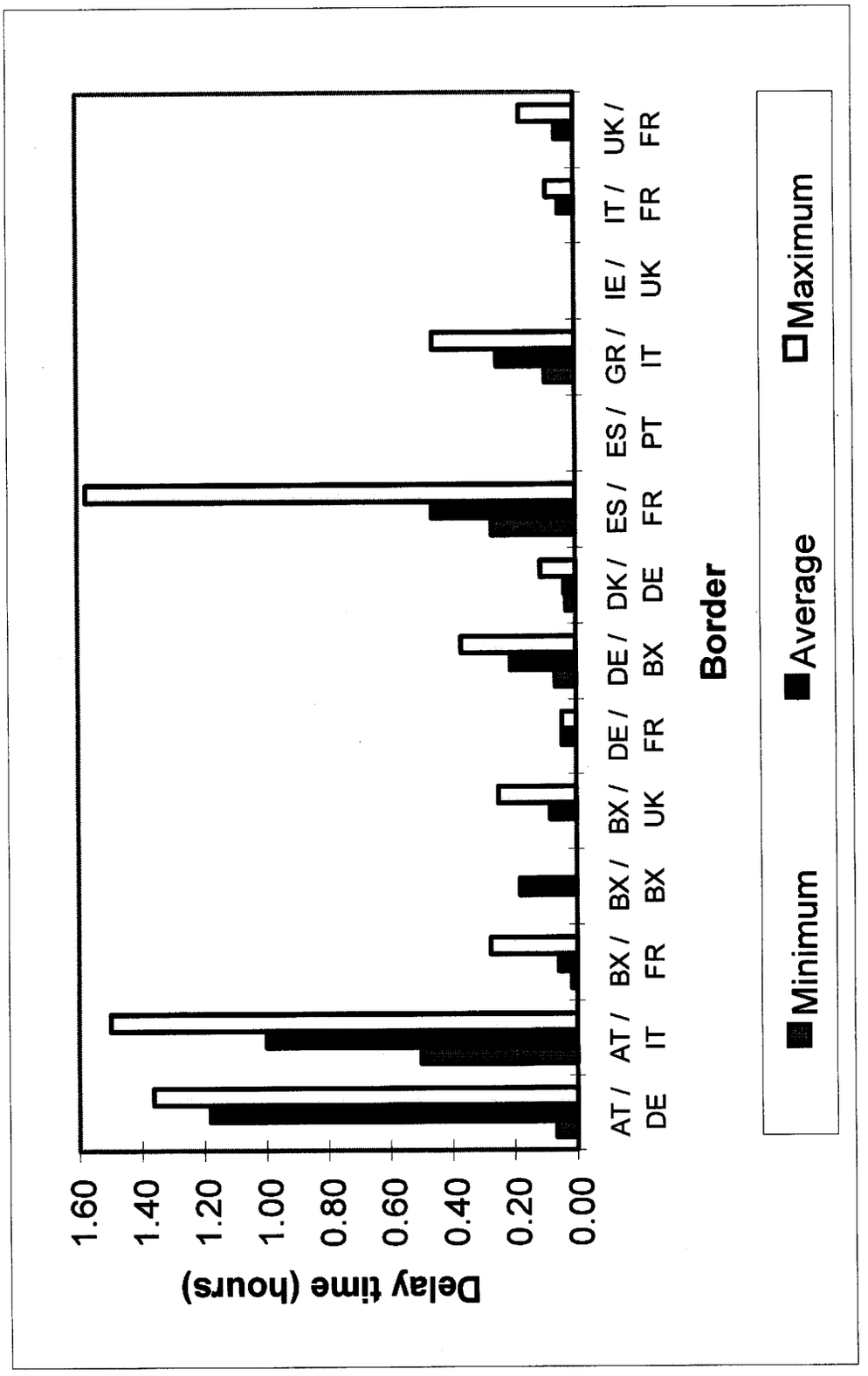


Figure 5.5. Border delay times now

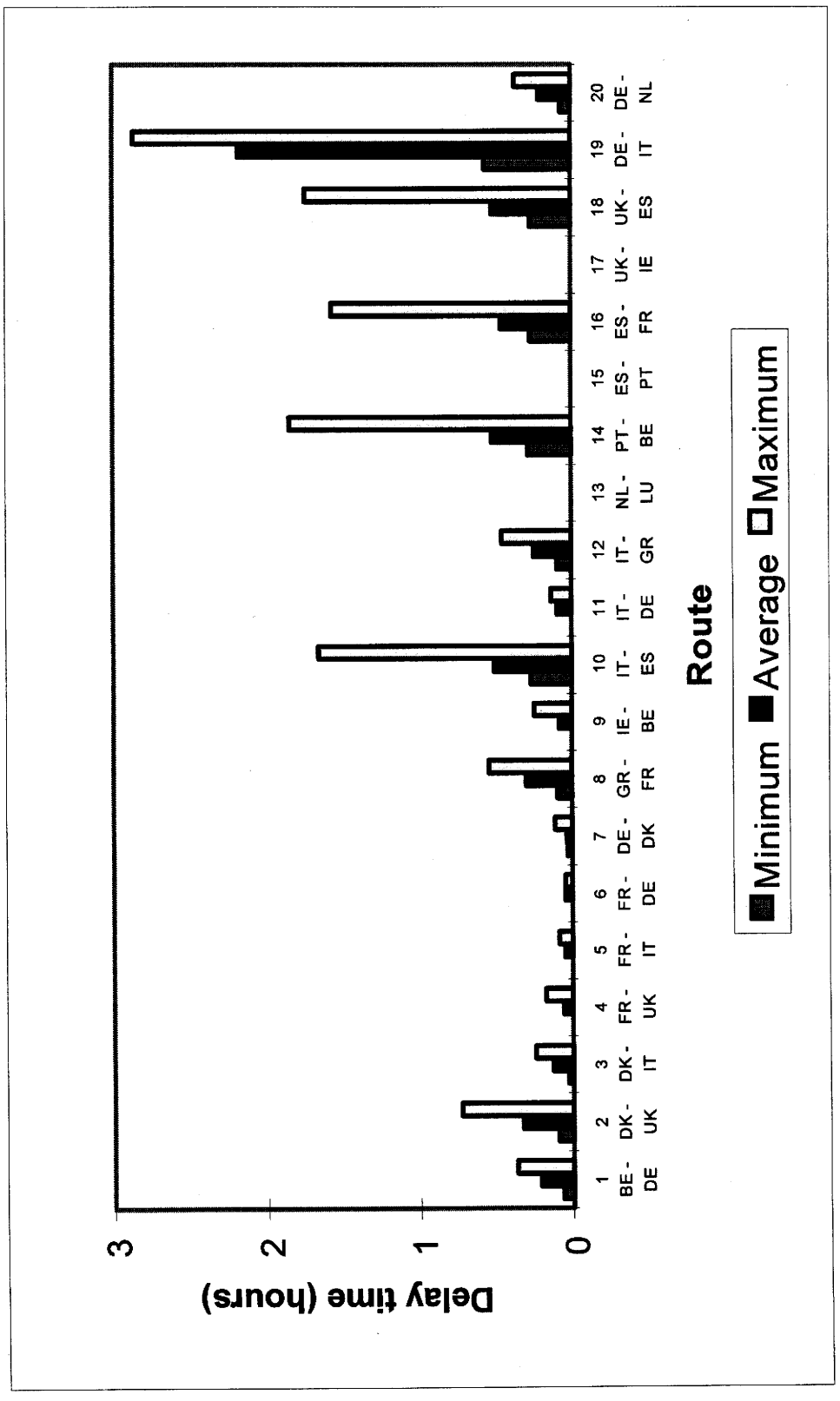


Figure 5.6. Total border delay times now by route

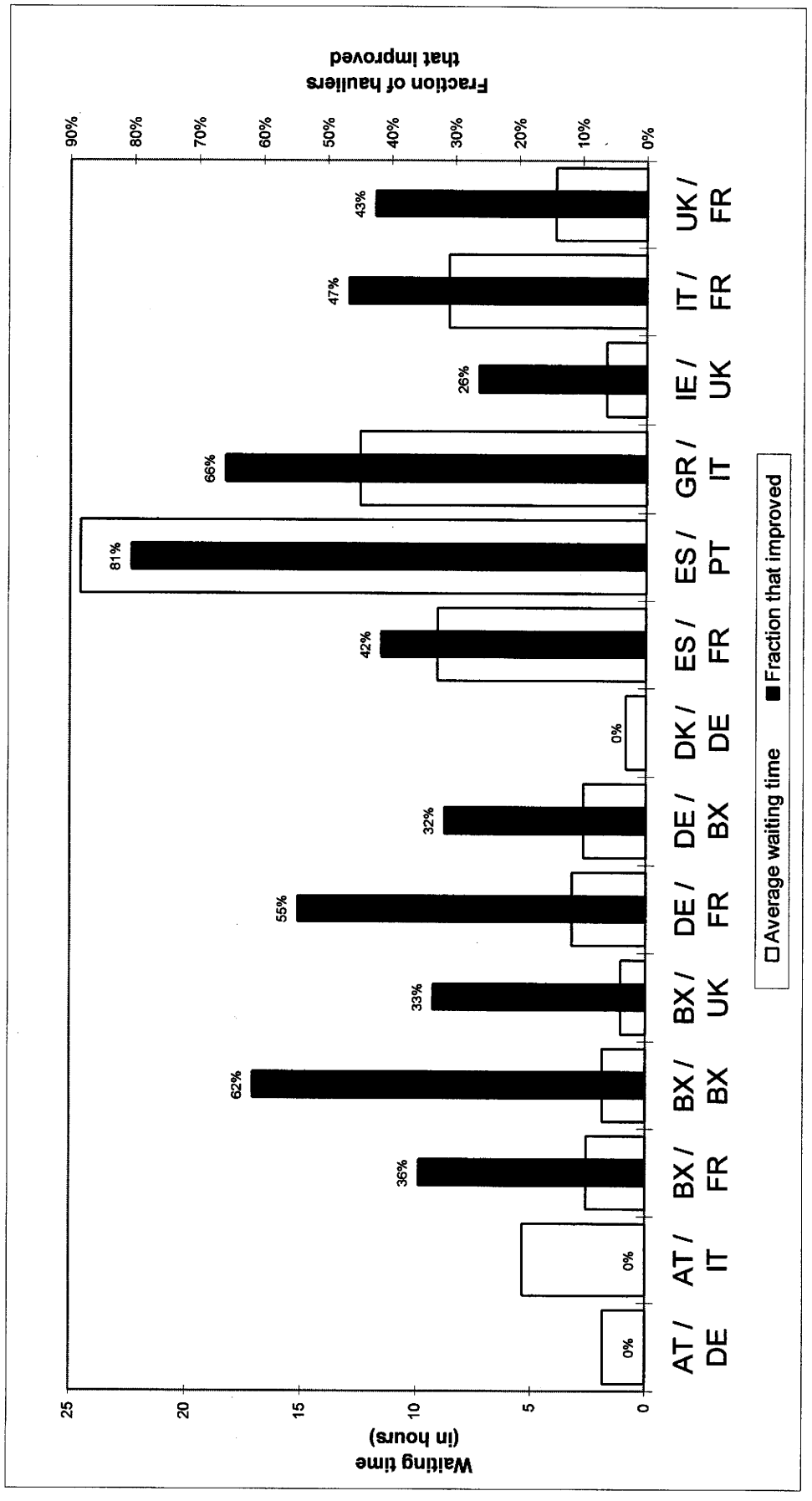


Figure 5.7. Improvements per border crossing

5.5.5. Effects on utilization

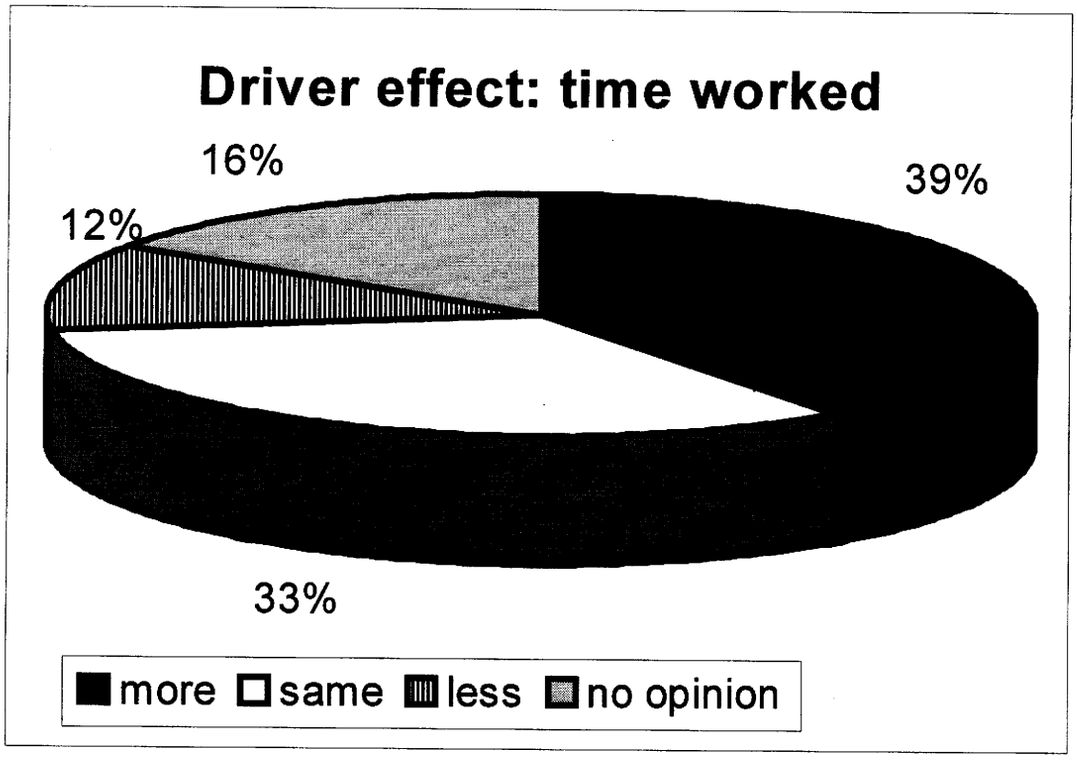
Whether a particular haulier achieved a direct cost saving from the elimination of frontier delays depends on whether it has been possible to increase the utilization of the driver and vehicle. If this has been possible, then the direct cost saving which we address in this study is the cost of waiting time, which has been considered as eliminated.

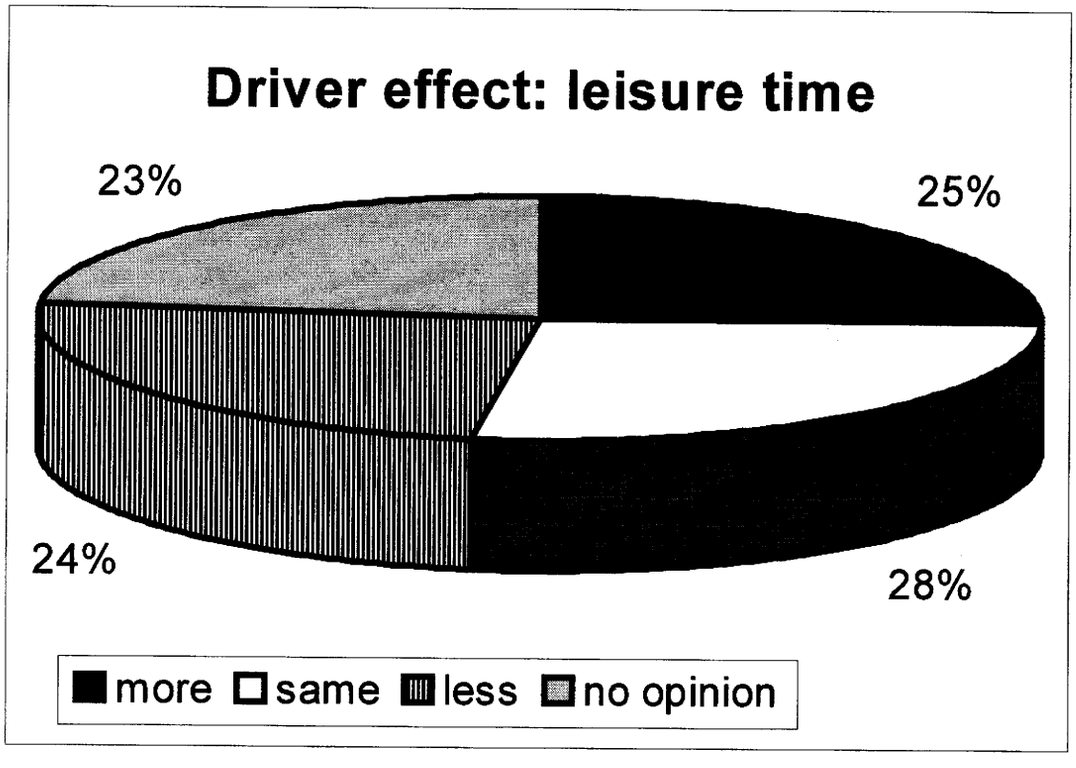
If there is no significantly measurable increase in utilization, then there is no direct cost saving, except for any overtime payments which had to be made to drivers for waiting at frontiers outside of their normal break periods. This factor clearly varies enormously with conditions and so it was not possible to take it into our calculations.

Effect on driver utilization

Figure 5.8 shows that one-third of drivers worked the same hours. One in eight worked fewer and almost 40% worked more. Opinion was evenly divided on whether this gave drivers more, the same, or less leisure time. Some drivers considered that free time during a journey was leisure time, as well as time spent at home.

Figure 5.8. Driver effects





Reasons for non-utilization

In some cases, irrespective of the effect on drivers, hauliers could not achieve greater utilization. This was the experience given in 42% of responses (see Figure 5.10).

The reasons for this are charted in Figure 5.9. It should be noted that some respondents have indicated more than one reason for non-utilization.

Rest breaks were clearly the main reason for non-increased utilization. This is to be expected, as drivers very often took their rest breaks while awaiting Customs, and still have to take them at the mandatory intervals.

The next main reason was that, even where the vehicle arrived at its destination earlier in 1993 than it had habitually done in 1992, it still had to await the return load, for example because it still had to wait for the shipper's factory to open.

Closure of roads to HGVs at certain times of the week was also a major factor in preventing the increased utilization of vehicles.

Then followed a variety of other reasons, mainly congestion and recession, but also:

(a) more opportunity to sleep;
(b) speed limits in Germany;
(c) change in work pattern and type;
(d) route changes;
(e) move to transport by train;
(f) owner-driver works to suit own requirements; and
(g) fixed loading days.

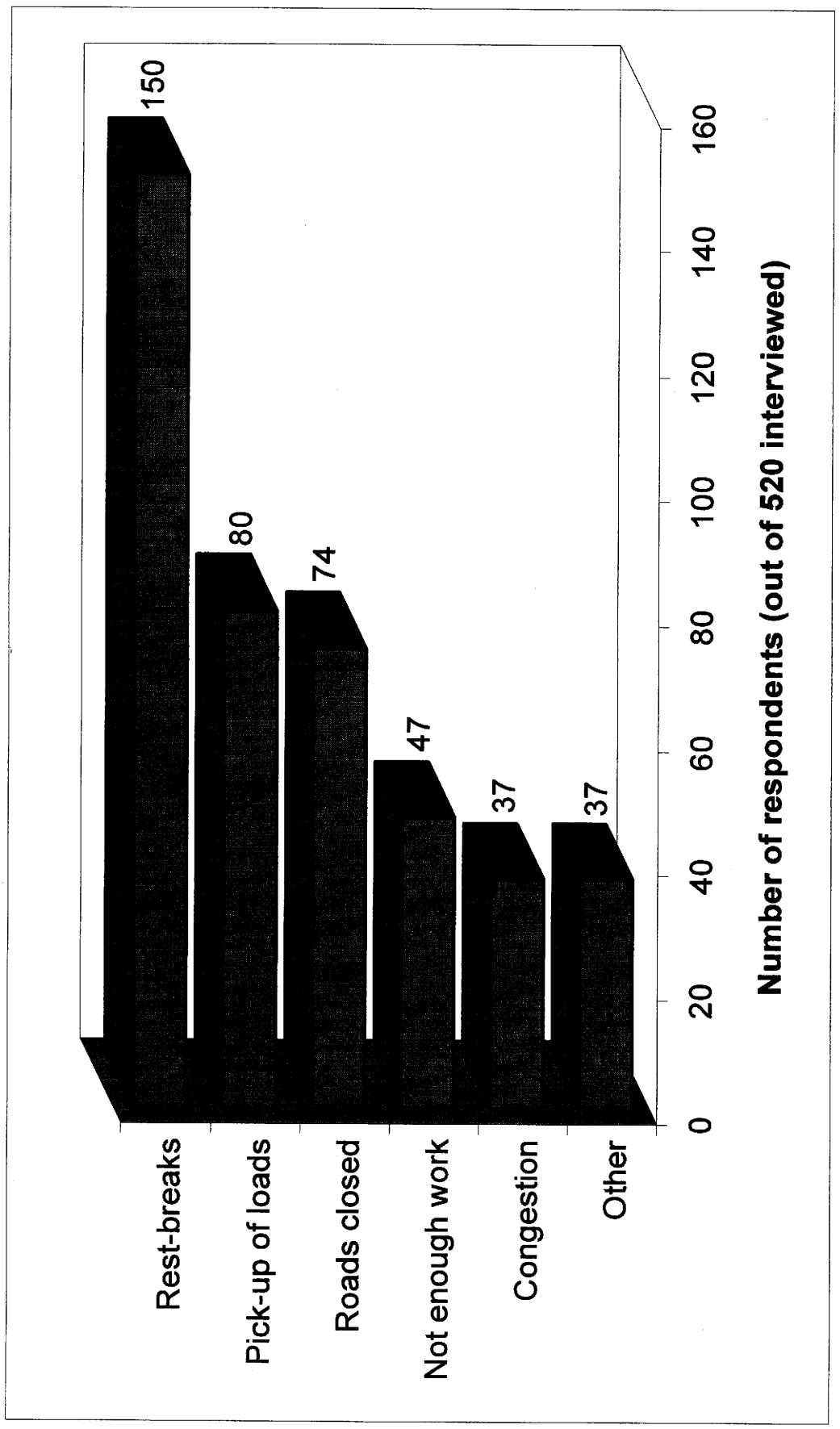


Figure 5.9. Reasons for non-utilization

Increase in utilization

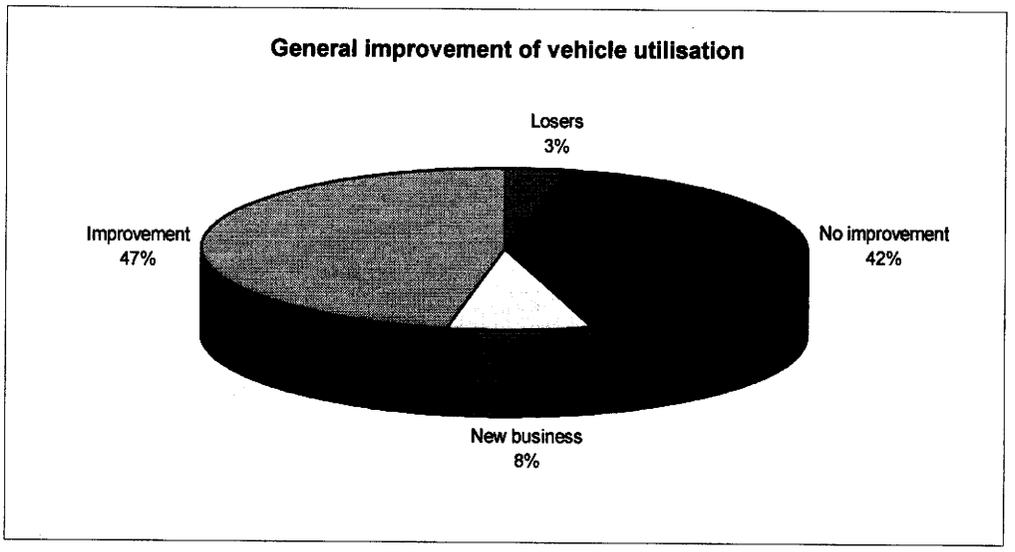
Figure 5.10 indicates the frequency of improvements in utilization.

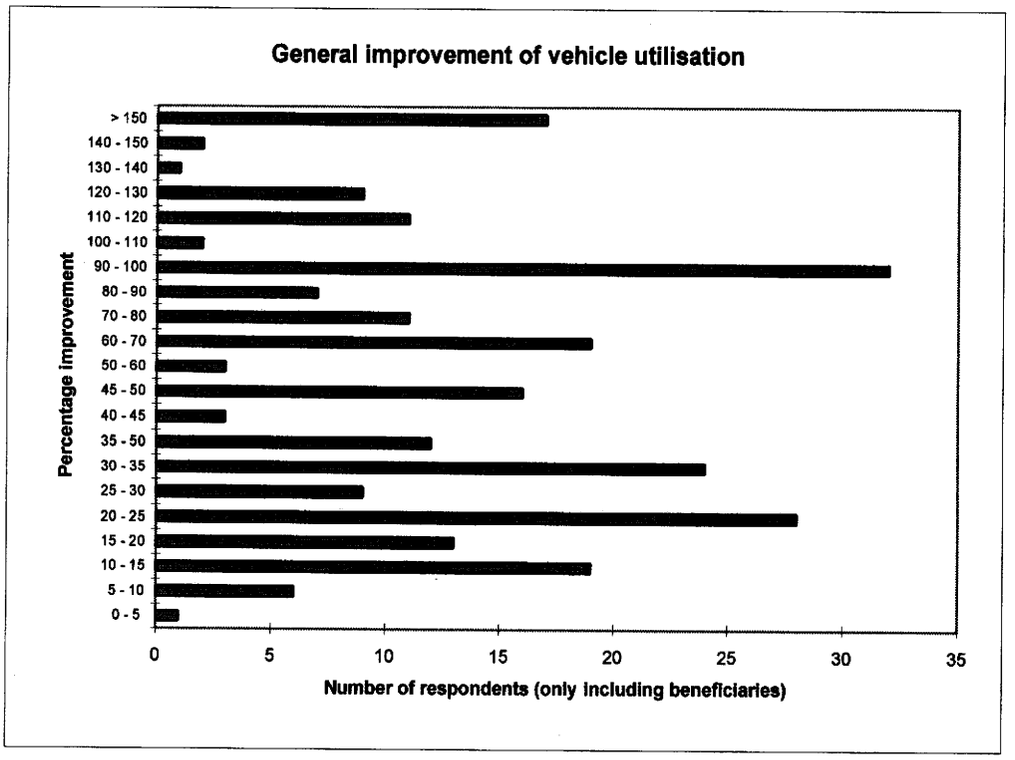
Overall, 47% of responses indicated that utilization had been increased. This is an important figure. It indicates the proportion of trips on which there were direct cost savings – the cost of waiting time at frontiers was eliminated.

A lower figure, 42%, said that they did not achieve greater utilization, to which we add 3% which considered that their utilization decreased, while 8% had only started their cross-border trade in earnest since 1 January 1993.

Broadly therefore, half of the respondents achieved increased utilization, and the other half did not. This accords with the estimate used in the Cecchini Report.

Figure 5.10. Vehicle utilization: general





Levels of increased utilization

Additional, consequential benefits arise from the degree of utilization: the greater the degree of extra utilization, the greater the opportunity for consequential business gains. Although consequential benefits are outside the scope of this study, it is of interest to illustrate the nature and degree of increased utilization according to the experience of our respondents.

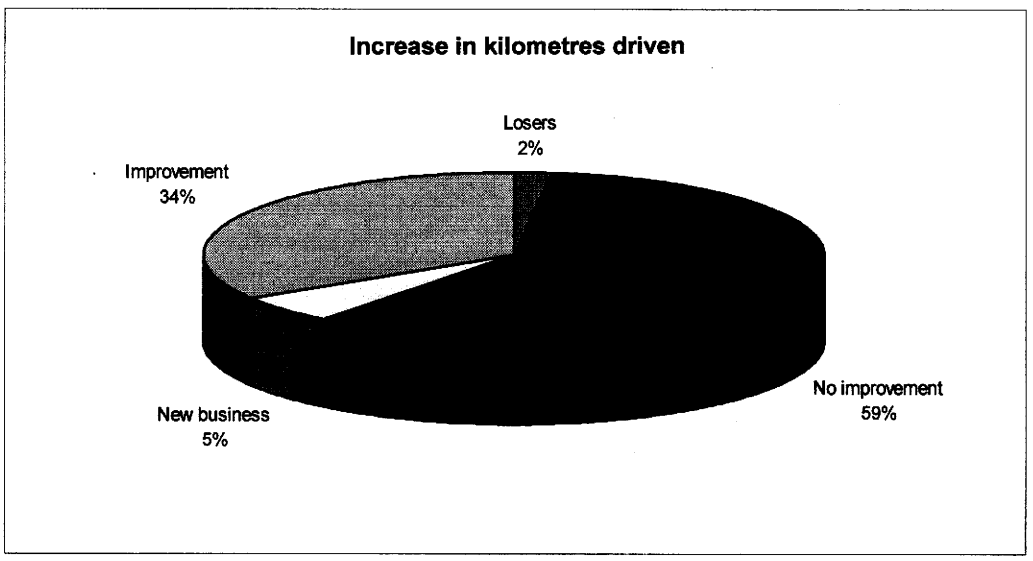
The percentage improvement in utilization, in the lower chart in Figure 5.10, is spread over a wide band, mainly from 10% to 100%.

Figures 5.11 to 5.13 break down the responses in line with the main measures used by respondents, namely:

(a) increase in kilometres driven;
(b) increase in the number of trips per month; and
(c) increase in number of days in which the vehicle is in use.

There is also an interesting comparison to be made when the utilization levels are linked to other factors, as they are in Figure 5.14. For example, this shows that drivers with more leisure time are those who did not demonstrate increased utilization. Those operating on routes across borders where there was a greater delay in 1992 experienced the greatest benefits in increased utilization.

Figure 5.11. Vehicle utilization: kilometres



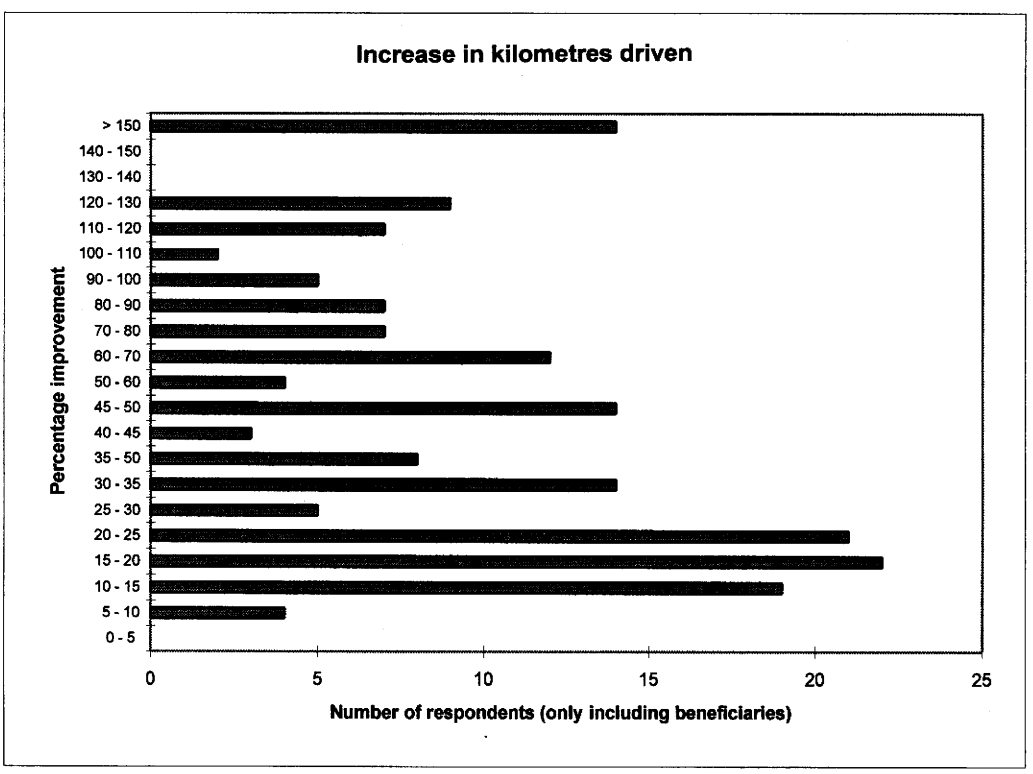
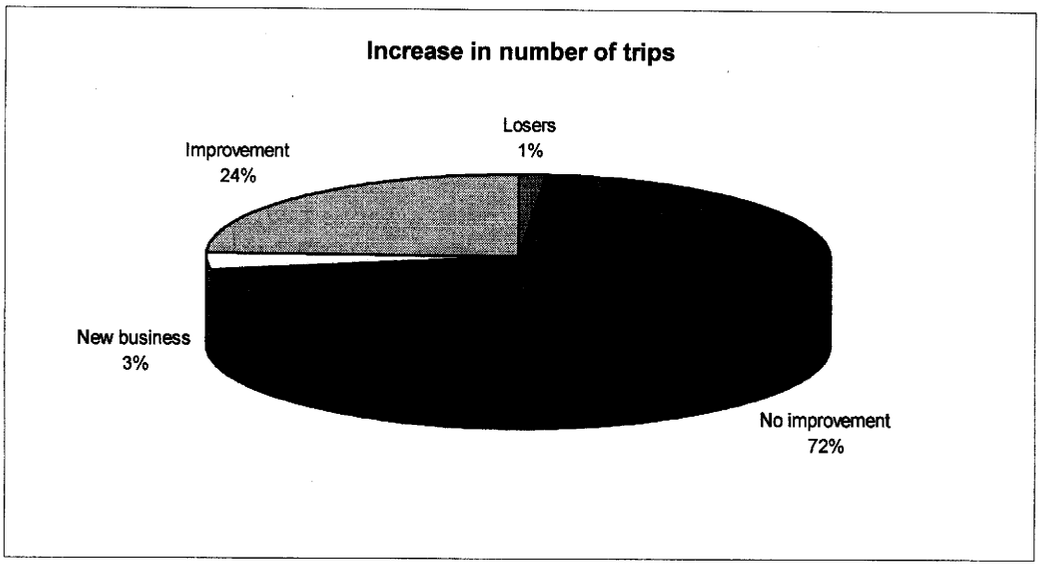


Figure 5.12. Vehicle utilization: trips



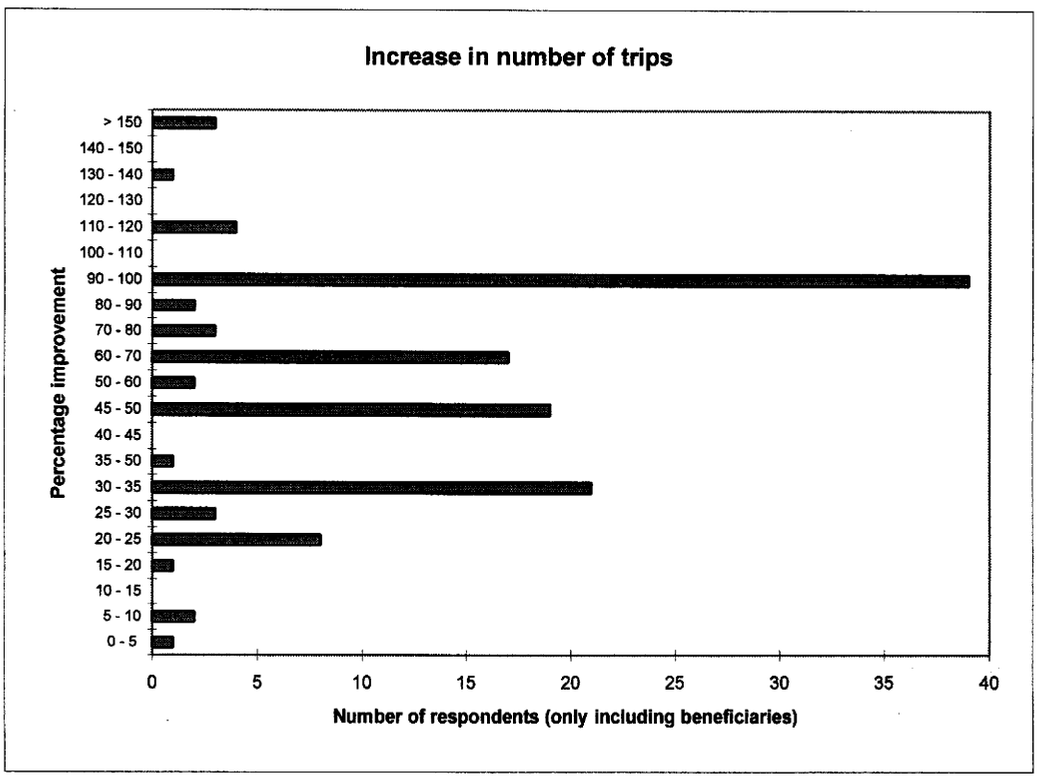
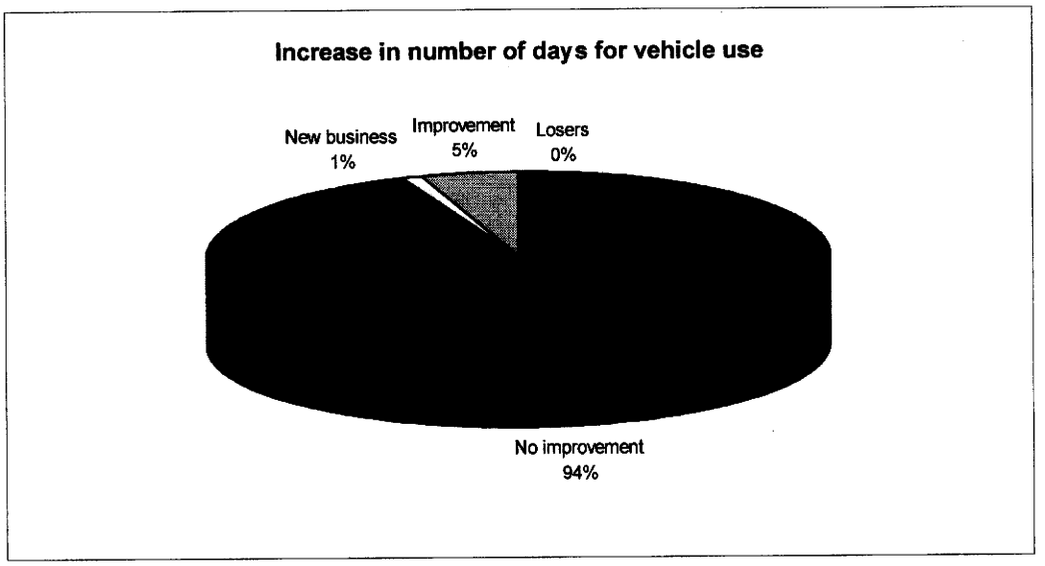


Figure 5.13. Vehicle utilization: days



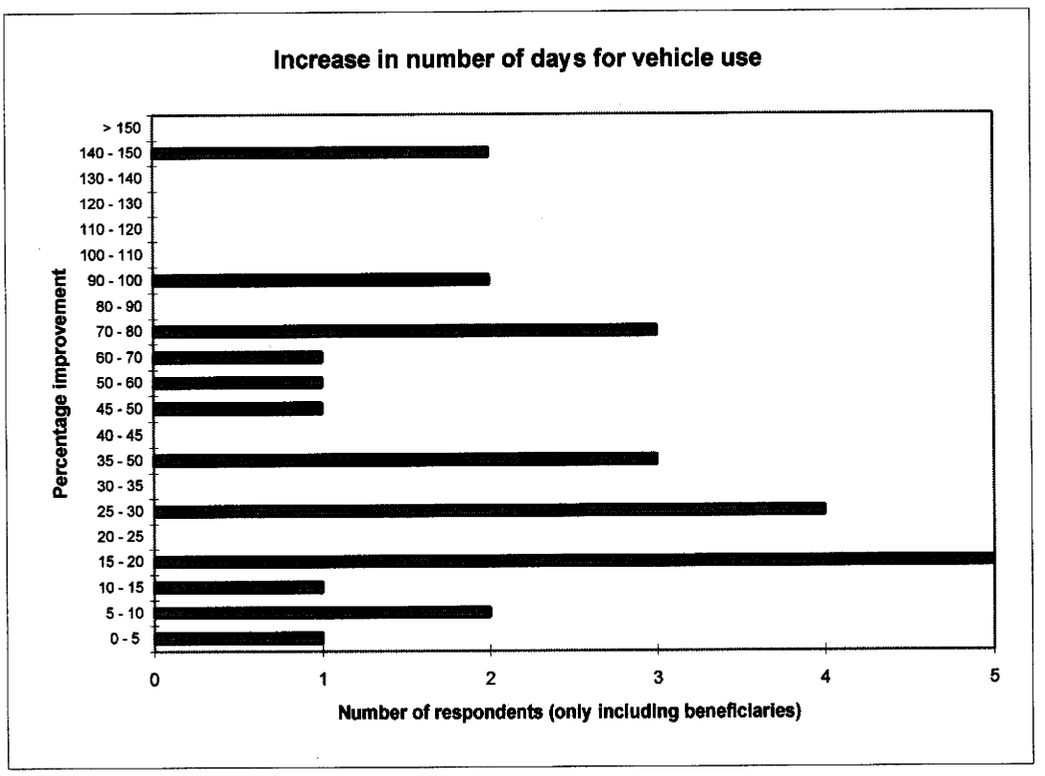


Figure 5.14. Analysis of type of improvement

	Number	Percentage gain	Avg. delay (pre-1993)	Avg. delay (now)	Fraction more work	Fraction more leisure
Full utilization	210	74	13.02	0.05	65%	23%
Part utilization	35	41	8.31	0.12	90%	14%
New business	40	-	-	0.38	-	-
Losers	17	-42	5.27	0.21	35%	69%
No improvement	219	0	4.88	0.22	24%	40%

5.6. The cost effects

5.6.1. The total cost of delay

In Figure 5.15, we have put an estimated aggregate cost on the delays to EU cross-border haulage. We estimate that the total cost of delays at frontiers immediately before the Customs controls were abolished might have been running at over ECU 850 million a year, as shown in the upper graph (expressed in today's money this would be about ECU 910 million).

Taking into account that hauliers still report some delays on some frontiers, the cost of these delays today might be in the region of ECU 55 million. The cost difference is therefore in the region of ECU 800 million a year.

These estimates are based on 1993 volumes, as this would most appropriately represent the volumes moved at the time the single European market was introduced.

The statistics on which we have based our calculations relate to vehicle tonnage. Our survey ascertained delays per vehicle movement. Therefore our results depend on what figure we take as the typical loading per vehicle. The loading is unlikely to be regularly less than 15 tonnes, nor more than 25 tonnes. Our cost estimate is based on an average of 20 tonnes, but the lower graph in Figure 5.15 shows how this cost would vary depending on the actual average loading per vehicle movement.

If the loading were 15 tonnes, this would mean more vehicle movements and a total delay costs exceeding ECU 1 billion a year. If the typical vehicle loading were as high as 25 tonnes, which is practically impossible, the cost of delays would come down to under ECU 700 million. It should be borne in mind that aggregating on such variable factors, combined with the relatively small sample size, will consequently render our estimates somewhat approximate.

Our use of an average 20 tonnes is, if anything, rather high. We have intentionally erred on the high side, as this yields more conservative results for the aggregated delay costs and savings.

5.6.2. The total savings

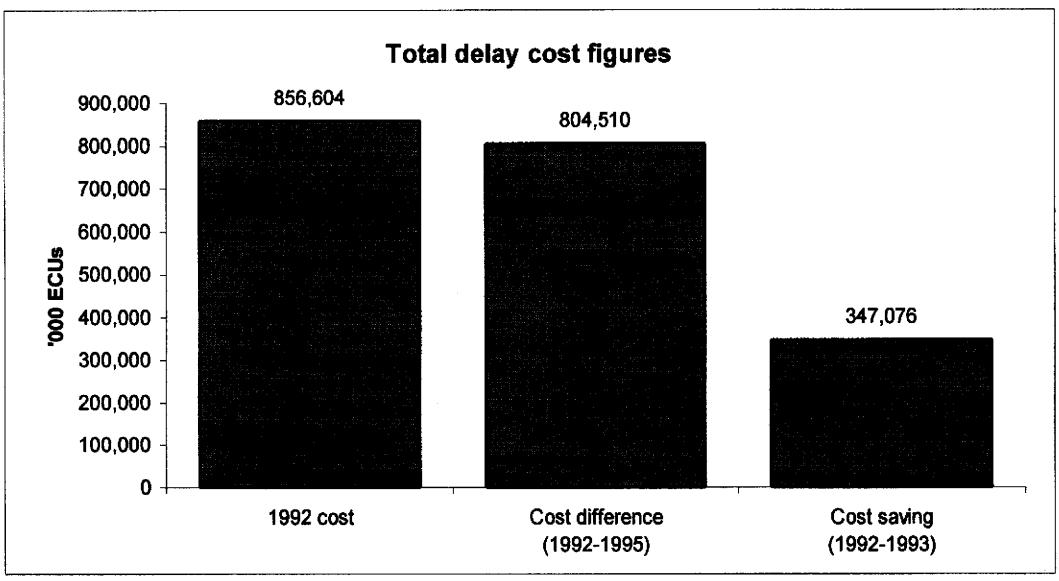
The cost of the pre-1993 border delays can only be regarded as eliminated in cases where improved utilization was achieved as a direct result. It will be recalled that less than half of our respondents said that they had achieved this.

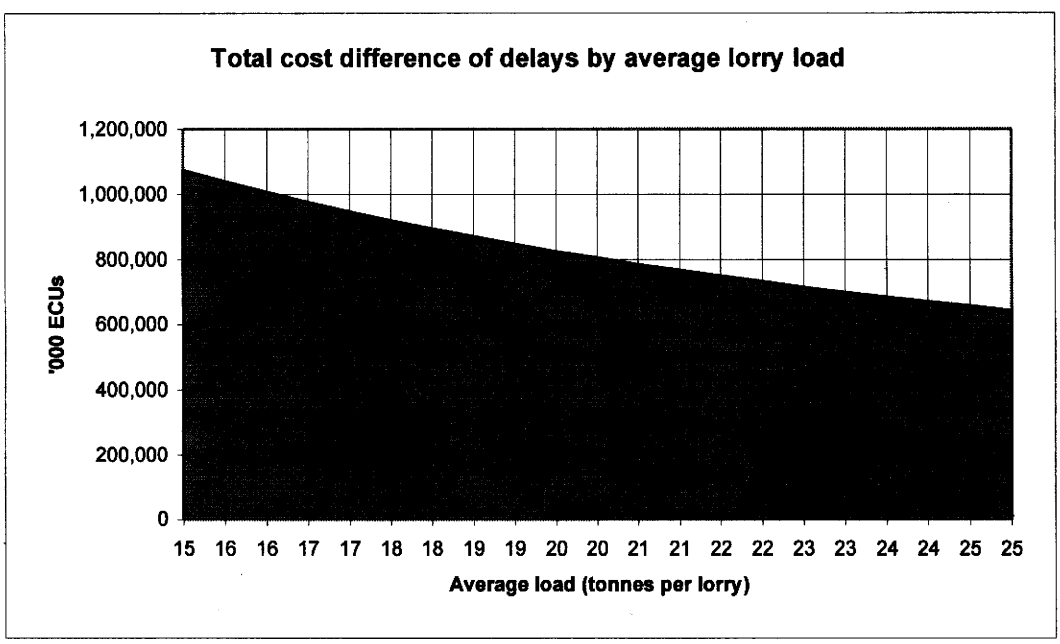
We aggregated this saving for the volumes of traffic crossing each border and on the basis of the delay cost difference of ECU 804.51 million. Our estimate, weighted by border volumes in this way, is that the total saving might have been in the region of ECU 347 million, or, in today's money, ECU 370 million. Taking calculations based on lower or higher average loadings per vehicle, the saving would appear unlikely to be broadly less than ECU 275 million nor more than ECU 450 million.

In round figures, it would therefore seem appropriate to suggest that savings in the region of ECU 370 million might have been achieved.

It should, however, be noted that, taking into account the views of hauliers as to the other cost pressures on their industry, this represents a very small aggregated saving compared to the other changes and cost pressures reported by respondents.

Figure 5.15. Haulier delay costs





5.6.3. The cost of delay by border

Figure 5.16 shows our estimates of the costs of delay by border.

The shaded line graph in the background gives the total tonnages estimated as moved over each border. The left-hand column in each case represents the possible total aggregated delay cost for vehicles crossing that border.

The worst three borders for total, aggregated delay costs were clearly those between Italy and France, Germany and Benelux, and Spain and France.

In the case of Germany/Benelux, this is caused by the huge volumes of traffic crossing this border. In other cases, where there is much less traffic, it is due to the longer delays which were reported to us. In the case of the Spain/Portugal border, the delay cost is relatively high compared with the volume of traffic, for the same reasons.

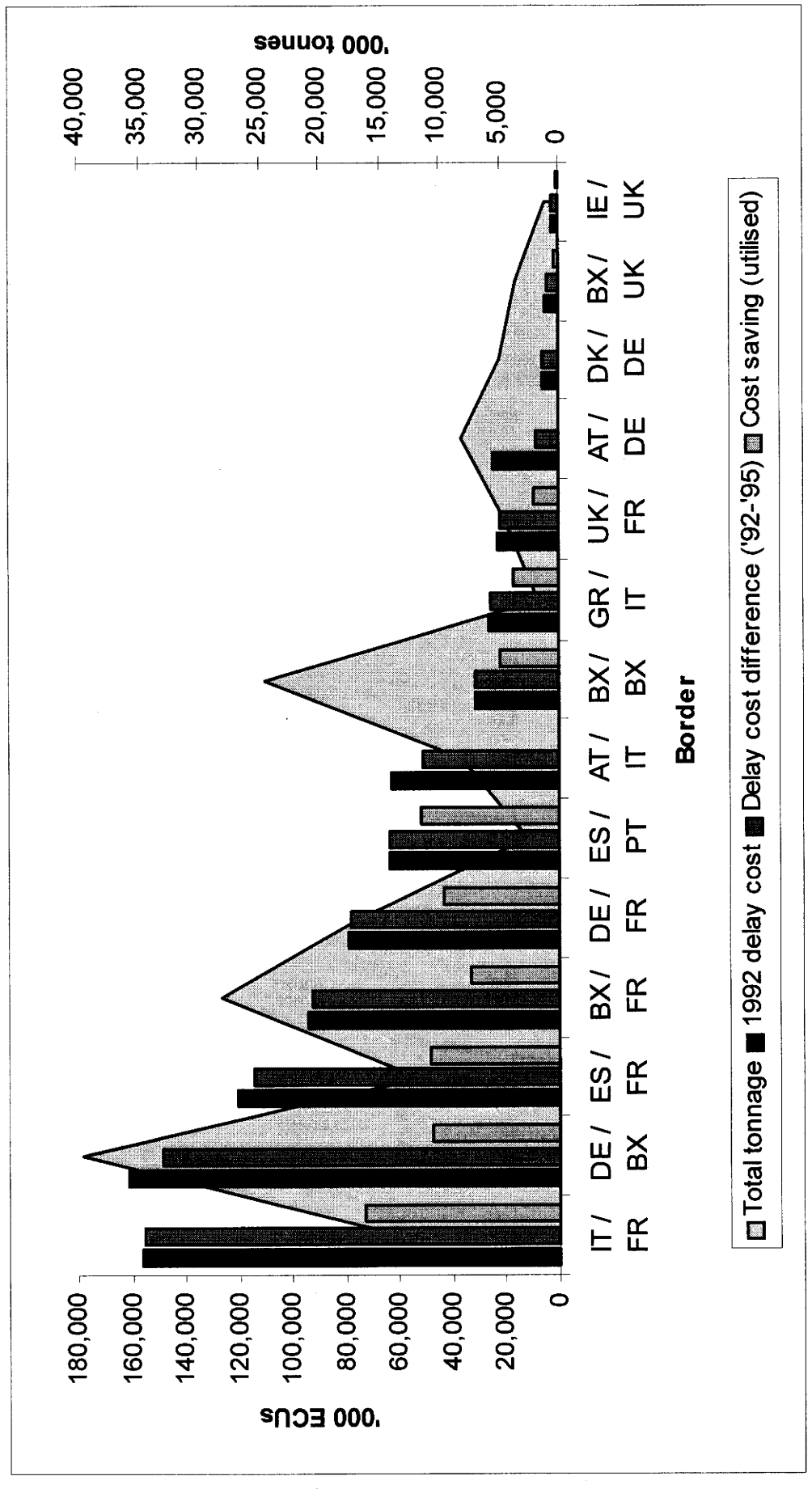


Figure 5.16. Haulier delay costs by border crossing

5.6.4. Note on our costing methods

As with the cost effects for intra-Community traders, a clear distinction has been made between the individual savings (in hours) for all intra-EC borders, and an aggregate cost and achievable saving for cross-border hauliers around the EC. Once again it appears likely that the individual information is more informative to business about the effects of abolition of internal border controls on the road haulage sector than a notional aggregate cost and achievable cost saving figure.

On the other hand, both basic information and aggregation are less complicated than they were for general cross-border traders. A straightforward approach has been used by multiplying average time saving at a border by the total number of trips crossing that border and a fixed cost associated with a waiting vehicle. Total achievable cost saving is simply the sum of the achievable savings on all the individual borders.

The cost saving actually achieved is lower than this, as not all hauliers have found it possible to utilize the extra time available to them after abolition of border controls. The proportion which can achieve better utilization varies per border, and the total achieved savings are simply the sum of all achievable savings, adjusted by the extent of achievement per border.

Data on average waiting times and the extent to which a reduction in these has been utilized can be taken directly from our research, which involved collection of such data at or near borders from several hundred drivers. We have found this data to be more easily obtained and more accurate than information supplied by transport company administrators and freight forwarders. The sample is large enough and appropriately spread over all borders to give us some confidence that it might be representative of intra-Community cross-border road freight.

The fixed cost per hour for a vehicle and driver waiting at a border has been derived from data available in both the academic and business transport community, and has been tested with respondents wherever possible during our field research.

The least accurate data is that relating to the number of trips crossing a particular border. This is derived by dividing the total tonnage crossing a certain border by the average weight of a lorry load. As the latter is by far the most dramatic influence on number of trips, we have shown total cost and saving figures for a range of possible weights of a typical lorry load.

The total tonnage crossing a certain border is taken from statistics listing total exchanges of road freight between any two countries and allocating this to logical routes. We have not included long-distance ferry travel for such movements, and therefore the aggregated figures may be erring slightly on the high side because of this.

However, the proportion of traffic for which route allocation may be ambiguous is so low (less than 5%) that the effect on the aggregated figure can be considered negligible. This is particularly so in the light of the huge effect that a change in average weight of a lorry load has.

It should be noted that the assumed (and possibly high) average figure of 20 tonnes, yielding a correspondingly lower estimate of aggregate cost and saving figures, offsets any eventual over-estimate as a result of the above mentioned determination of the number of trips.

5.7. Comparison with traders' views on cost reductions

In Section 3.12, we examined the extent to which the respondents to our trader survey found that freight forwarders had reduced freight costs in 1993 due to the abolition of routine border controls. Only 28% of respondents had obtained a reduction and half of these had to ask for it. On the other hand, 47% of haulier respondents achieved greater utilization.

It might be concluded that, if our responses were to be typical of the trade as a whole, 47% of hauliers achieved extra utilization but in only 28% of cases was that gain passed on to traders.

However, the reactions we received from the forwarders which we approached for the haulier survey shows that few forwarders had themselves monitored whether their haulage contractors had reduced their freight rates in early 1993.

Also, given the recessionary environment and pressure on freight rates in and since 1993, it is more likely that any direct cost savings from the abolition of frontier controls simply reduced the magnitude of the decline in hauliers' net margin caused by the general downward pressure on rates.

5.8. Other studies

(a) Road freight transport;
(b) Trade Associations' perceptions.

6. Consequential effects on European logistics

6.1. Terms of reference

The terms of reference for this part of the study are as follows:

'Examine indirect consequences stemming from the abolition of fiscal and Customs formalities at internal frontiers such as changes in distribution and inventory logistics (e.g. rationalization of stock-holding and warehousing, switch to "just-in-time" deliveries for trans-frontier deliveries).'

6.2. Scope and concept

The period since 1 January 1993 has been an exciting if challenging time to be involved in European logistics. Many changes in warehousing and distribution practice have come about partly or wholly as a result of the abolition of internal frontier controls.

This chapter contains a high-level illustrated review of some key changes. They tend to be evolutionary and progressive, rather than having an immediate impact like the abolition of frontier controls. New services and new technologies are continually encouraging the more enterprising traders and service providers to push out the boundaries of what is possible.

6.3. Environment

What was originally called 'shipping' or 'physical distribution' became better known over a period of time as 'logistics', but more recently the concept of total 'supply chain' control has come to the fore. The part played in the supply chain function by the logistics elements of European warehousing and distribution has undergone many changes and, it has to be said, improvements.

6.3.1. The trader's viewpoint

From the point of view of the traders using such services, much attention has been devoted to how they can buy logistics services in such a manner as to help reduce two key cost elements: cost of sales and work-in-progress. Non-cost criteria for buying such services have come to the fore since the worst of the recession and have always been relatively important for US companies buying services in Europe. But the fact remains that cost is a key element in logistics.

However, cost is no longer attacked simply by a crude assault on freight rates. It is more a case of re-structuring the whole European supply chain.

At the same time, an additional focus for traders during the period since the inception of the single European market has been on out-sourcing non-core business functions wherever possible. This has not only led to the divestment of trader-owned warehouses and transport fleets, but also it has inclined traders to use logistics companies more as an integrated arm of their own operation than a distinctly separate external service provider.

Globalization in general and the spread of cross-border IT applications in particular have served to bind together increasingly traders' pan-European operations.

6.3.2. The logistics company's viewpoint

From the point of view of logistics companies, many suffered significant loss of income after Customs clearance fees were no longer a part of their business for intra-Community movements following the abolition of routine Customs controls on 1 January 1993.

Many freight forwarders went through very difficult periods or went out of business. Others looked for and successfully offered new services. They capitalized on the traders' need to out-source and turn fixed costs into variable costs, taking steps to arrange their business in a way which would enable it to be more closely integrated with that of their clients.

The growth of European IT network and system capabilities helped to bring about the desired integration, as techniques such as EDI and e-mail enabled pan-European communication and control to become the norm relatively easily. Logistics companies have been prominent in using such techniques to link their networks as well as to connect directly to their clients.

Many logistics companies have grouped together or acquired others in order to offer clients a 'one-stop' service covering both warehousing and onward distribution. A natural adjunct to this was the development, especially in the Netherlands, of value-added warehousing.

6.3.3. Evolution

The abolition of frontier controls has played an important part in this overall, integrated and interdependent collection of change phenomena. In this chapter, we have selected four areas in the development of which the abolition of frontier controls has, to a significant extent, played a part:

(a) European distribution centres;
(b) conversion of national distributors into agents;
(c) cross-border just-in-time techniques; and
(d) timetabled light freight services.

We now give some illustrative examples of companies which have benefited from these changes, with our analysis and assessment.

6.4. European distribution centres (EDCs)

6.4.1. Large alcoholic drinks manufacturer

The ability to deliver goods cross-border quickly and reliably, including those subject to excise duties, is now an important sales and service point which has caused a large number of companies, including this one, to look at how they manage their supply chain.

The spirits sector is driven by the demands of customers around the world and by competitive pressure. It has to react quickly to respond to opportunities.

To achieve these goals and meet customer demands, a pan-European network of EDCs is being built up by this company. Active or planned locations are in north-eastern Spain, northern Germany (supplying the duty-free market), a second north European site and a major hub in the UK. They will be linked with a single information system.

6.4.2. Small consumer durables and consumables

This company has cut its number of warehouses down from 14 to 8 and aims to reduce further to five very shortly. At the same time, it has increased the use of third party contractors to strengthen local expertise and improve efficiency, using the buying power associated with its pan-European traffic volumes. It also has invested in EDI links to those customers and suppliers who desire it.

This company has, however, noted that it can take a long time to introduce changes in supply chain infrastructure, such as opening or closing EDCs and factories. It observes that there may be a danger that, by the time these are operational, they no longer fulfil the needs of the business, such is the pace of development and change.

6.4.3. Garments

A specialist garment company, an SME whose European base is in France, sources garments from the EU, the USA and east Asia. It routes these from source to an EDC in northern France. From here it distributes directly to retail outlets in the Member States, in response to pre-orders and top-ups requested by the retailer direct to the company's European headquarters in Paris.

Invoices are sent to the retailer from Paris, denominated in local currency and in local language, exempt from French VAT where the retailer is outside France as this is accounted for by the retailers as a cross-border acquisition for VAT purposes. If the retailer's acquisitions are large enough to exceed the local Intrastat threshold, then the retailer also completes the Intrastat return.

6.4.4. Importer and re-seller of computer equipment

This company imports computer equipment into an EDC in northern France. From there, it ships to agents in France and adjoining Member States, who in turn deliver immediately to the network of value-added retailers and re-invoice the latter without taking title to the goods.

6.4.5. Manufacturer of integrated circuits

Integrated circuits are manufactured in a number of non-European locations and flown into an EDC at Amsterdam Schiphol, from which they are distributed throughout the EU and other European countries. EC VAT and Intrastat compliance are in the hands of a specialist fiscal agency sub-contracted by the logistics company.

The administrative centre for Europe is in Germany, from which all incoming stock movements and sales order processing are controlled.

6.4.6. Analysis and assessment

There has clearly been a very major increase in the use and development of EDCs and this appears to a large extent to have been triggered by the abolition of frontier controls. Other factors have helped, for example:

(a) the wider availability of efficient simplified procedures for Customs warehousing;
(b) the CE marking and mutual recognition systems for technical standards, because the same basic product can be held in one location and delivered, with little or no national configuration, to any Member State;

(c) growth in value-added services, especially in the electronics and garments sectors. Added value logistics are fast becoming the norm for Community goods and third country goods alike. The warehouse operator finishes or configures goods for the Member State in question, by all kinds of processes from home language leaflets to national alphabet key-caps. Quite complex assembly and testing work is also commonplace. Some warehouse operators are now offering administrative services in addition, including invoicing (using clients' letterhead) and credit control on behalf of clients;
(d) the trend to out-source non-core business functions;
(e) the availability of EDI and cross-border IT networks;
(f) and, one is bound to say, the spur given to logistics companies to replace the lost income from Customs agency work by a new mix of services more appropriate to the single European market era.

Use by SMEs

While EDCs are used by the largest companies, there has been substantial growth in their use by smaller companies. Therefore the services of EDCs offered by third party logistics operators have been one of the most marked areas of development. The SMEs who use EDCs appear, however, mainly to be non-EU based companies, especially those headquartered in the USA.

This is to be expected, as EU-based companies already have a centre from which to distribute their products. Unless their location in the EU is very much off-centre from their main markets and their product is expensive to transport (that is, with a high volume-to-value ratio), their own European base is normally a convenient location to use as their *de facto* EDC.

It can be understood why US exporters relate very quickly to the EDC concept, as they come to the European market with ample experience of inter-state coast-to-coast distribution within North America. In this respect, they have greater experience in a 'single market' frontier-less environment than the domestic EU-based company.

It seems likely that the use of EDCs will continue to grow and that they will be used increasingly by non-EU based companies from, for example, Japan, other east Asian countries and Switzerland, as well as by those from the USA.

Locations

While EDCs have predominantly been based in the Netherlands and, to a lesser extent, in Belgium, we can see their spreading to the south-eastern UK, northern, north-eastern and Mediterranean France, Denmark and Austria. Nevertheless, Dutch EDC operators are still the past masters, with a reputation for professionalism and creative service development which is hard to match.

Belgian locations are becoming very competitive due to the enthusiasm of the administrations and companies involved to exploit Belgium's position and compete strongly with the Netherlands.

A south-east UK location offers good communications, given the advent of the Channel Tunnel, taken together with currently competitive rates for warehousing (given the exchange rate for

sterling while outside the exchange rate mechanism) and continent-bound freight (as the cross-Channel trade imbalance means less freight from the UK and so keener rates).

French locations, broadly in the band from Nord-Pas de Calais across to and south of Strasbourg, offer a good centre of gravity for distribution to the main densities of EU business, with increasingly competitive approaches in the application of Customs procedures and official administration.

Locations in Mediterranean France offer opportunities for secondary EDCs serving the growing markets in the area, together with those in Italy and the Iberian peninsula, something which would not have been efficient or reliable before 1 January 1993, because of the Customs controls at borders in the region.

Denmark has for a long time been a favoured location for pan-Scandinavian distribution. Since the single European market in general and the accession to the EU of Finland and Sweden in particular, it has become increasingly popular. We know of companies which have moved their EDCs from locations such as Hamburg into Denmark in order to exploit this opportunity.

South-western Sweden has, since Sweden's accession to the EU, also become favoured as a region for locating Nordic EDCs.

We should not leave Scandinavia without mentioning the growth of EDC activity in Helsinki, although this is predominantly due to its advantages as an offshore warehousing facility for goods bound for Russia. Traders can use a warehousing facility which is within the EU and where security and service levels are high, but which can deliver to Russian markets quickly and efficiently.

Austrian EDCs have a similar advantage in relation to goods intended for export to the Central and East European countries, and also for incoming goods from those countries, destined for the EU market and beyond. They therefore serve as useful secondary EDCs for companies with such flows of trade.

It should, however, be noted that off-centre locations for EDCs are not to be overlooked in industries where freight costs do not form a substantial part of cost of sales. This is especially so in the electronics sector. Distribution from factories, assembly plants and EDCs in, say, Ireland or the 'silicon glen' region of Scotland is quite feasible for such high-value low-weight products, especially taking into account the concentration of such industry in these regions.

The same can be said, although perhaps to a lesser extent, of regions such as Troyes or Lille in France in relation to textile and clothing distribution, although these locations are also competitively central and this compensates for the higher relative freight cost incurred by such products.

6.5. Conversion of distributors into agents

6.5.1. SME medical electronic equipment

An SME manufacturing specialized medical equipment was purchased from its former parent company and as a result was unable to use the parent's network of national distributors in

Europe. It therefore set up a fresh network of sales agents and commissionaires through its EU markets.

Administration and control, including invoicing, are managed from a European headquarters in the UK, while the goods are distributed via an EDC in south-eastern Netherlands.

This company has stated that, for a company of its size, if it were not for the abolition of the border controls, it would probably be much more costly for them to do business in Europe.

They expect that they would also have had to rely much more heavily on a system of dealers. It would have been far too cost-prohibitive to go to direct operations in all but Germany and the UK, where they have their largest markets.

6.5.2. SME furnishing fabrics

An SME based in the UK markets its own designs of furnishing fabrics. While traditional distributor arrangements are maintained in some markets, the company has changed its methods for certain others in the EU.

In such cases, it delivers from the UK to customers in these Member States, on the basis of sales orders placed by its local sales representatives there. Sales invoices, including local VAT, are printed from a centralized sales order processing and accounting system in the UK. A fiscal agent is used in the destination country to administer EC VAT and Intrastat formalities.

6.5.3. Electronics industry manufacturer

This company uses a third-party EDC located in the Netherlands, from which it distributes throughout the EU and other countries. The company maintains its own European administration centre in Ireland, which has electronic links to its US parent and the parent's sales subsidiaries in other countries, and EDI links to the logistics company which operates the EDC.

Intrastat despatch data, for despatches from the Netherlands after goods leave the EDC, is compiled by the administration centre in Ireland. This file is also used as an input by the Irish administration centre to produce arrivals Intrastat reports for the destination countries.

Customers in the destination countries are invoiced direct from Ireland and a sales agent/commissionaire basis has been adopted.

6.5.4. Analysis and assessment

Maintaining 12 or more separate stocks, one in each Member State, clearly was a very expensive way to do business and one which distracted national distributors from their main aim of selling and servicing goods.

Given the improved availability of competitive and reliable cross-border transport services for small packages, taken together with the reducing need to produce to different technical standards for different Member States, it is easy to see why companies will question the need for the costly duplication of inventory in each Member State.

The trend to focus on core activities also adds support to the argument to take stock out of individual Member States. There is a considerable force of argument in focusing a national

distributor exclusively on sales and service. Indeed, the trend seems to go further, towards buying-out distributors in order to create subsidiaries which will concentrate exclusively on the principal's own product range. Third party distributors normally stock and sell products from a number of principals, some of them offering competing lines.

To remove stock from a local distributor and relocate it hundreds of kilometres away does not always meet with immediate approval locally. There is an in-built desire to be near to the stock and to mistrust a distant third party, and this can only be overcome by good experience. However, evidence shows that separating distribution from selling is the firm trend.

An additional driving force is the tax advantage which can be had from the optimum use of the commissionaire system, which is permitted in some but not all Member States. This is especially attractive to companies based outside the EU and is particularly exploited by US companies.

The conversion of distributors to sales agents or commissionaires is of course enabled and supported by EDC concepts, including value-added logistics where any residual national configuration can be done in the EDC. It is also increasingly made more efficient by the availability of computer systems for cross-border networked sales order processing and invoicing. However, there appears to be as yet still a rather limited choice of truly pan-European business applications in this field, especially small applications suitable for SMEs.

We can see the trend we have described continuing strongly. It makes less and less business sense to operate as a collection of separate countries and more sense to centralize at European level the functions which were previously duplicated in each Member State

6.6. Cross-border JIT, STLSS or QR replenishment

6.6.1. JIT: a large freight forwarder

This company operates in most Member States, specializing in automotive parts and vehicle distribution but also handling other types of freight.

The abolition of frontier controls has enabled the company to work with its principals to implement an integrated and tightly-operated JIT system to deliver materials cross-border between the various plants of its principals. The use of cross-border sectoral and company EDI techniques is also an essential part of the operation of its JIT between Member States.

6.6.2. Analysis and assessment

The prime transport requirement for JIT is reliability and not sheer speed of delivery. This is now possible, in an EU without routine internal frontier controls, and so it makes cross-border JIT a viable reality. It was possible, to an extent, before 1 January 1993, provided that the trader operated good simplified Customs procedures, but the availability of these was limited in some Member States.

Many traders now find that their pan-European inventories can be cut down substantially because the cross-border reliability of arrival time is fully as good as for domestic supplies.

JIT is mainly driven by large companies which manufacture in multiple locations. They require a reliable flow of goods:

(a) between their own plants; and/or
(b) from component suppliers in other Member States.

In the first case, where the company is considering not only its inventory efficiency in the destination Member State but its overall working method in all the countries in which it operates, JIT is part of a strategy which reaches deep into the intra-company cross-border supply chain. This is a huge subject, in which the benefits of cross-border delivery reliability are only one enabling factor.

In the second case, put crudely, JIT could be seen as no more than a means of transferring the cost and burden of inventory from the dominant buyer onto the smaller supplier, who is not in a position to argue. He simply has to keep the stock himself, at his own expense, and feed it through to his customer's call-off.

However, the reliability offered by freedom from Customs border controls can have a benefit to the supplier also – although he can no longer cover up late performance by claiming that his latest delivery is 'held up in Customs'. If the flow is regular and predictable, then deliveries can often be matched to production, so that the supplier company can to some extent be more in control. The supplier can thus extend the benefits into its own production cycles and so deeper into its supply chain management.

6.6.3. Ship-to-line-set-sequence (STLSS)

Extending the JIT logic leads to systems such as STLSS, which is used in some large-scale industries. Inventory is dispensed with altogether – or at least that of the buyer – and goods are delivered in smaller lots direct to the assembly line. This requires not only very reliable delivery times, but also the ability to deliver little and often (little meaning at least a full van-load) with cost-efficiency.

6.6.4. Quick response (QR)

A relatively smaller effect has been generated on QR systems by the abolition of routine frontier controls. Mainly applied in the garments industry, this typically involves a daily analysis of sales ex retail outlets, for example using data incoming from electronic point-of-sale (EPOS) terminals at owned or franchised shops.

Immediate future production is planned on the basis of the incoming data, not only in relation to straight replenishment of stock, but also in relation to which new lines or designs should be given priority in production.

Delivering these, quickly and reliably, to retail outlets is an important part of this system. Retailers are unlikely to have much, if any, back-room storage and the preferred method is to deliver direct to racks and shelves in the retail area.

QR techniques are highly sophisticated and have to be applied in-depth across the whole supply chain, but the basic principles can also be applied in a very simple structure. For example, a supply of blank T-shirts can be maintained from production in Portugal, using continuous or off-peak production, and a regular flow to warehousing in, say, Lille, can be set up to give a constant stockholding there. The T-shirts can be printed locally in Lille in response to the rapidly

changing design demands and delivered quickly to outlets. Again, the ability to move goods cross-border quickly and reliably plays a small but important part in such a system.

6.7. Express and timetabled light freight transport

Finally, we give some examples of logistics service providers which have developed their express and timetabled services following the abolition of routine internal frontier controls.

6.7.1. Air forwarder moves into express business

A large and long-established air freight forwarder has moved into head-on competition with the major integrators (express companies offering an integrated door-to-door service using their own facilities) and with the total logistics service companies. It has done this by timetabling its deliveries in a similar way to the integrators and, particularly, by introducing a global computerized system which enables consignments to be tracked and traced. Terminals can be placed in clients' offices or EDI connections can be made with their own applications.

This company operates throughout Europe as well as elsewhere, but also has established various EDCs in the Netherlands and other European countries.

Unlike most integrators, it does not operate its own fleet of aircraft but buys space on third party carriers. Nevertheless, to all intents and purposes, this difference is not visible to the client and it offers a service which emulates that offered by the traditional integrators.

6.7.2. Integrator moves into EDC and heavy freight

Integrators, for their part, are moving into non-traditional areas in order to be able to offer a 'one-stop-shop' service to clients.

Several integrators have opened EDCs, usually in the Netherlands. One such company has opened an EDC which is located within its existing hub, airside at Brussels Zaventem airport. This company, like some other integrators, also offers fiscal representation, which is part of the service expected of EDC operators, via a third party company.

At the same time, this company offers the possibility of carrying larger consignments than is traditional among integrators, for which it uses a symbiotic collaboration with a large international air forwarder. The integrator uses the air forwarder's capacity for large consignments, while the forwarder uses the integrator's aircraft for small packages.

6.7.3. Freight treated as documents

A large integrator took the initiative on 1 January 1993 to exploit the removal of Customs and fiscal controls at internal EU frontiers by simply extending its existing EU document carrying service to encompass all intra-Community packages including goods. In other words, from 1 January 1993, freight within the EU was treated as documents and was shipped under the same tariff.

6.7.4. Analysis and assessment

A new field of opportunity and competition has clearly been opened up by the abolition of fiscal frontiers, in the area of cross-border express and semi-express timetabled light freight transportation.

The integrators

Before 1993, express timetabled light freight had been the province of the courier companies and integrators, who had established tightly-integrated networks with special arrangements for Customs procedures in many cases.

At the time the single European market arrived, these companies were already developing more into the transportation of semi-express and less urgent light freight. This extended the scope of their original mainstream business, which was to offer express delivery for, typically, documents, packages and computer-readable media.

The freight forwarders

Meanwhile, new opportunities offered by the ability to deliver across the EU unhindered by frontier controls opened up a whole new field of opportunity to freight forwarders.

While the express companies moved into larger consignments and developed semi-express services, some forwarders developed into lighter freight and parcels operations and tightened their networks to offer timetabled services.

The middle ground for which integrators and forwarders are now competing appears to be a prime area for growth in European distribution.

One of the principal elements distinguishing the integrators was that they had their own transport fleet, their own network of offices around the world and a globally networked computer system. Some forwarders have begun to simulate or emulate this infrastructure so that they can offer a similar service to clients, although, unlike the integrators, they rarely operate their own fleet of aircraft.

Most of the larger forwarders, like the integrators, have their own offices in most if not all Member States. Other forwarders have traditionally operated through partnerships with other forwarders. A tightening-up of the partnership arrangement is now evident and some forwarders have been very acquisitive of their partners so as to build up their network of own offices.

IT networks a pre-requisite

A common approach towards implementing a single, or at least, compatible cross-border IT network has become as a key element. Tight control, accuracy and speed of response in track-and-trace, to which the integrators' customers have grown accustomed, are essentials to success in this sector, hence the emphasis on common network policies among partnerships of forwarders. The integrators' customers have also become accustomed to having their own terminal or EDI connection to interface directly with their integrator. Forwarders who wish to compete must emulate or match this if they are to meet expectations.

A large freight forwarder has commented: 'More important' (than investing in depots and fleets) 'is to keep the computer system up-to-date, so exporters can have information about the whereabouts of their goods'. Another states: 'The impact information technology is having on the freight industry is as significant as the advent of the trailer or the container'.

The total solution

A further element into which both the integrators and the forwarders are fast moving is to provide EDC services themselves or by a 'seamless' partnership with warehouse operators, thus enabling them to offer to their customers a single-contract total solution to European logistics: inbound freight, value-added warehousing, administration and outbound freight, all controlled through IT systems linked to clients by EDI.

The future

It will be seen that a number of essentials have had to be put into place before this middle ground of timetabled light freight could be developed seriously and offer a wide range of competition. Abolition of frontier controls is only one of these, but one without which the new services could not, in our view, have been developed successfully.

The trend for the future seems clear. Timetabling of delivery services is now an expected service level and the sector to which it applies appears set to expand from light freight into a wider band of consignment types. EDI connectivity will become the norm for smaller as well as larger companies.

The ability to move across frontiers without delays is now such an accepted part of the structure that it is quite taken for granted.

This, perhaps, is the best compliment that can be paid to the abolition of Customs and fiscal controls at internal frontiers.

6.8. Other studies

(a) Road freight transport;
(b) Distribution;
(c) Trade Associations' perceptions.

APPENDIX A

Terms of reference

Tender specification
Reference no: XV/94/81/A-1
Contract for preparation of a study of the consequences for selected categories of economic operator of the abolition of fiscal and Customs formalities at internal Community frontiers

1. Introduction

In order to comply with the mandate laid down in Council Resolution 92/1218[1] which calls for an overall analysis of the effectiveness of measures taken to complete the Internal Market, the Commission proposes to launch a study to quantify any impact of the abolition of fiscal and Customs formalities, executed at internal frontiers, on the cost of transporting shipments of goods or materials between Member States of the Community.

2. Outline and scope of study

Abolition of frontier controls was highlighted in earlier studies of the impact of the Internal Market programme as one of principal areas in which direct cost savings could be realised (cf. "The cost of non-Europe: Customs Formalities", 1987).

The study is intended to:

a. review the impact for operators engaged in cross-border transactions of the switch over to the "transitional" VAT system in terms of the impact on administrative and compliance costs, whether carried out in-house or through Customs brokers. This analysis should indicate the evolution of these costs over the period since introduction of the system. In addition, the study should provide an indication of the relative weight of the effect of the switch over in trans-frontier regions and for small and medium sized enterprises. The study should provide an overall assessment as to the effectiveness and efficiency of "transitional" VAT and definitive systems for collection of excise duties procedures and pinpoint any remaining shortcomings in administrative procedures;

b. examine the administrative implications for economic operators of changes in Customs procedures and formalities since 1985, whether conducted in-house or through Customs brokers. The study should provide an overall assessment of the efficiency and effectiveness of these procedures from the point of view of the categories of economic operator identified below;

c. provide an indication of costs incurred as a result of border delays and the extent of any cost savings resulting from their abolition for a number of intra-Community haulage routes, to be selected by the tenderer. The selection of routes chosen for analysis should contain routes linking points throughout the whole of the Community, and reflect a balance between long and short-haul (< 400 km) routes. In addition, to providing detailed breakdown of the relevant costs effects on the selected routes, the study should provide aggregate estimations of any cost effects;

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1 OJ C 334/92, 18.12.92

d. examine indirect consequences stemming from the abolition of fiscal and Customs formalities at internal frontiers such as changes in distribution and inventory logistics (eg rationalisation of stock-holding and warehousing, switch to "just-in-time" deliveries for trans-frontier deliveries).

Categories of economic operator

The proposed study is launched with a view to assessing the effectiveness of steps taken to abolish frontier formalities, to quantifying any consequent reductions in the cost of trans-frontier shipments, and to detecting any changes in the organisation of distribution and delivery logistics for the following categories of operator:

- companies engaged in own-account transport;
- for-hire haulage companies;
- courier and express delivery companies;
- clients of for-hire haulage and express delivery companies, and in particular SMEs, in order to determine the extent to which any cost savings have been passed on to end-users of these services;
- large wholesale and retail distribution outlets and multinational purchasing groups.

APPENDIX B

Trader questionnaire

THE ABOLITION OF INTERNAL EU FRONTIER CONTROLS - TRADER SURVEY

Comparison of pre-1993 Customs costs with current EC VAT and Intrastat costs

Prepared by Price Waterhouse for the European Commission

Until the end of 1992, every cross-border consignment within the EU had to be separately cleared through Customs. On 1 January 1993, the internal Customs controls were abolished and the EC VAT and Intrastat systems were introduced instead. This questionnaire will help us to compare the before-and-after compliance costs incurred by traders. It will be the first time that this cost impact of the Single Market has been quantified. The information resulting from this survey will be used by the Commission as part of an extensive review of the Internal Market, and it will help provide a basis for possible improvements. We appreciate your co-operation in this study and invite you to call your Price Waterhouse contact if you need further guidance in completing this questionnaire.

In some cases, information may not be held in your commercial records, or the persons dealing with the procedures in 1992 may no longer be with your company. To take account of this situation, we have identified the most essential items where we need either actual figures or your best estimate - these items are in bold type and this information is necessary for a meaningful analysis. The other, more detailed information, in small type and shaded boxes, should please be provided if you know it or can give an estimate, but if not, the boxes in question may be left blank.

We fully appreciate the confidentiality of some of the information which we request. Therefore, please note that we will not disclose the costs and savings indicated in any way which enables them to be linked directly with your company. Also, your company name will not be disclosed unless you request to be mentioned in any acknowledgements.

Before proceeding to the questionnaire, please indicate the following information:

COMPANY NAME		
MEMBER STATE		
INTERVIEWEES	(1) Shipping function	(2) Financial function
POSITION		
COMPLETION DATE		
PW CONTACT		

This response relates to:

☐ Exports / despatches to other EU Member States
☐ Imports / acquisitions from other Member States

PLEASE NOTE: IN THIS STUDY "EU" AND "EU MEMBER STATES" REFERS TO THE 12 COUNTRIES THAT WERE MEMBER STATES IN 1992 - IT DOES NOT INCLUDE AUSTRIA, FINLAND AND SWEDEN

I TYPE OF COMPANY

(Please tick more than one box in each category if necessary)

Transport operations:

1. ☐ Operating own transport fleet for EU trade (including transport provided by a group member company)
2. ☐ Using third party carriers
3. ☐ Using express services

Size/type:

i ☐ Small or medium sized enterprise
ii ☐ Large wholesaler delivering cross-border to non-owned retail outlets
iii ☐ Large company delivering cross-border to own retail outlets (including franchise)
iv ☐ Multinational corporation
v ☐ Other type of organisation

Customs / fiscal operations:

a. ☐ We are a former user of simplified Customs procedures for internal EC trade
b. ☐ We are a former user of Customs agents; now using a fiscal representative for EC VAT
c. ☐ We are a former user of Customs agents; now using a fiscal representative for Intrastat
d. ☐ We attend to VAT/Intrastat compliance ourselves

II TYPE OF GOODS

What type of goods does your company trade in?

Are these goods subject to excise duty? ☐ yes (please also complete boxes III(5) and IV(6))
☐ no

III COSTS FOR 1992

1. Customs agents' fees	Shipping Dept.	Financial Dept.
1.1 Customs clearance fee charged by agent per consignment (if charged otherwise, eg as a percentage of value, please give information to enable us to reduce this to a per consignment basis)		
1.2 Agent's fee for T2 Community Transit document		
1.3 Percentage of consignments requiring T2 document	%	%

2. Time spent by own staff		
2.1 Checking and controlling customs agent - total time spent in hours per month if known (if no longer known, leave blank)	**hours**	**hours**
2.2 Total time spent with Customs in queries, visits and audits in hours per month	hours	hours

3. Cost of time			
If 2.1 above has been completed, please state 1992 salary, overhead costs and other details as asked for below **of staff who dealt with the activities under 2 above ("Time spent by own staff"). These can be expressed per day, month or annum (whichever is most convenient) - please indicate which one is used.**	per day	☐	☐
	per month	☐	☐
	per annum	☐	☐
3.1 Salary (include all relevant employers' costs, eg actual salary, bonuses, employers' social security costs, employers' pension contributions, other benefits)			
3.2 Overheads (include all relevant costs as normally apportioned eg **pro rata** by floor space, salary or department. Include occupancy costs such as rent, rates, heating, lighting, office equipment depreciation; operating costs such as telecoms, mail, IT costs)			
3.3 Hours worked per week (excluding lunch breaks)		hours	hours
3.4 Annual holidays (including public holidays)		days	days
3.5 Supervisory and management time as a percentage of the above staff cost - we estimate that 10% may be typical		%	%

	Shipping Dept.	Financial Dept.
4. Other costs Any other costs related to the above (please specify)		
5. Excise goods only		
5.1 Additional costs of T1 customs procedures for excise goods carried out by external agents		
5.2 Additional time spent in-house for these procedures in hours per month	hours	hours
5.3 If costs of this time are different from 3 ("Cost of time") above, please state where and how they differ.		

IV CURRENT COSTS IN 1995

1. Time spent by own staff

1.1 VAT Return		
1.1.1 Calculating and entering values of EC despatches/acquisitions (ie only the EC boxes of the VAT return) on VAT Return in hours per return	**hours**	**hours**
1.1.2 Frequency of VAT Return Monthly / Every two months / Quarterly		☐ ☐ ☐
1.2 EC Sales lists		
1.2.1 Time taken to complete the EC Sales list in hours per return (Where used, include the time taken to complete the EC Acquisition listing)	**hours**	**hours**
1.2.2 Frequency of EC Sales list Monthly / Quarterly / Annually		☐ ☐ ☐
	Shipping Dept.	Financial Dept.
1.3 Intrastat Returns **Time taken to complete Intrastat returns in hours per month**	**hours**	**hours**
1.4 Queries and Audits Typical time spent on queries and audits by VAT, Customs and Statistical authorities relating to the above, in hours per month	hours	hours

2. Cost of time of staff dealing with the above

2.1	**Salary (include all relevant employers' costs, eg actual salary, bonuses, employers' social security costs, employers' pension contributions, other benefits)**		
2.2	Overheads		
2.3	Hours worked per day	hours	hours
2.4	Annual holidays	days	days
2.5	Supervisory and management time - we estimate that 10% may be typical	%	%

3. System costs

Running costs, maintenance and upgrades of computer systems required for EC VAT, EC Sales list and Intrastat reporting per month.NB: This does not include start-up costs

4. External costs - if applicable, otherwise leave blank

If you appoint a fiscal agent or freight forwarder to attend to some of the above, please specify:

4.1	**VAT Returns - proportion of fee relating to entering data on EC despatches / acquisitions per return**		
4.2	**EC Sales lists - fee per quarter**		
4.3	**Intrastat returns - fee per month**		

5. Other costs

Any other costs related to the above (please specify)

6. Excise goods only

External costs for 1993 excise system and Accompanying Administrative Document costs per consignment

V SET-UP COSTS INCURRED IN 1992 AND EARLY 1993 FOR EC VAT AND INTRASTAT SYSTEMS

NB: Preferably use figures obtained from the MIS or IT Department if applicable, using the costing principles applied by this department. If you have already calculated your total set-up costs, please show this instead of the individual costs, provided that it includes all of these.

Actual or estimated total, if known:

1. New hardware
2. New software
3. Software upgrading
4. System integration
5. Data conversion costs
6. Training costs
7. Own staff time - Total salary, overheads and management costs
8. External consultancy expenses

VI VOLUME OF TRADE WITH OTHER MEMBER STATES

	1992	1993♦	1994	1995*♦
1. **Value of sales to / purchases from the other 11 Member States** (it may be possible to total the EC supplies or acquisitions on the VAT returns)				
2. **Number of consignments sent to / received from the other 11 Member States** (This may require a count of invoices or shipping files, but it is very important information for us)				
3. **Typical number of lines (ie Customs Commodity Codes) per consignment in 1992, if known** (Most likely known by the staff responsible in 1992; can otherwise be deduced from a sample)				

	1992	1993♦	1994	1995*♦
4. Typical number of lines (ie Customs Commodity Codes) per Intrastat return in 1994 (Most likely known by the staff responsible now; can otherwise be deduced from a sample of returns)				
5. Sales to / Purchases from the other 11 Member States as a percentage of total sales / purchases (domestic and international)	%		%	
6. If you are located within 50km of at least one internal EU frontier, what is the value of the total sales to/purchases from the adjoining EU Member State/States?				

* Do not include Austria, Sweden and Finland
♦ 1993 and 1995 figures are not essential, but will be helpful for us if you can provide them

VII FREIGHT COSTS

1. Did the carriers you use reduce their freight costs in 1993 due to the abolition of frontier controls and delays?

☐ yes
☐ no
☐ not known

2. (i) Did the carriers keep the freight costs the same, but added extra services instead for the same price as in 1992?

☐ yes
☐ no

(ii) If yes, please specify what services

3. Did you make the first approach to the carrier to propose such reductions?

☐ yes
☐ no
☐ not known

4. What level of such freight cost reduction did you receive (as a percentage of total freight cost)?

____ %
☐ not known

	1992	1993	1994	F'cast '95*
5. Total freight costs for shipments to / from other 11 Member States.				

* not including Austria, Finland or Sweden

VIII ADVANTAGES AND DISADVANTAGES OF 1993 SYSTEM

		Shipping Dept.	Financial Dept.
1.	Do you consider that the EC VAT and Intrastat systems are more, or less effective and efficient than the pre-1993 Customs clearance?	☐ more ☐ less	☐ more ☐ less
2.	Why?		
3.	What do you see as the main shortcomings, if any, of the EC VAT and EC Sales list system?		
4.	What do you see as the main shortcomings, if any, of the Intrastat system.		
5.	Would you prefer:		
5.1	To retain the current transitional EC VAT and Intrastat systems?	☐	☐
OR			
5.2	To change to a definitive origin-based system after 1997?	☐	☐

Thank you for completing this questionnaire. Please return the completed form to your Price Waterhouse contact as soon as possible.

If the opportunity arises, would you like your company name to be disclosed for inclusion in any acknowledgements?

☐ yes
☐ no

APPENDIX C

Haulier questionnaire (detailed test version)

Cross-border road haulage in the EU
Comparison of the costs to road hauliers of internal EU frontier delays in 1992 and 1995 on selected routes
Prepared by Price Waterhouse for the European Commission

This is a questionnaire regarding the cost reductions arising from the abolition of Customs controls at internal EU frontiers on 1 January 1993. We have selected 20 cross-border routes, and appreciate your agreeing to take part in respect of the route mentioned below. Please do not hesitate to approach your Price Waterhouse contact if you have any queries. Please also note our undertaking not to disclose information on your individual operating costs on this route, other than the actual delay cost reduction arising from the abolition of Customs controls. Thank you for your co-operation in this study.

ROUTE:	
FRONTIER CROSSINGS:	1
	2
	3

COMPANY NAME	
NAME AND POSITION OF RESPONDENT	
COMPLETION DATE	
NAME AND TELEPHONE NUMBER OF PRICE WATERHOUSE CONTACT	

May we disclose your company name?

(a) as a general participant in this study: ☐ **YES*** ☐ **NO**

(b) linked to this route: ☐ **YES*** ☐ **NO**

*** Please note that, if you reply "yes", your name may be listed in the acknowledgments section of the report published by the European Commission. However, none of the specific information contained in your response will be attached to your name or otherwise accredited to you.**

IMPORTANT NOTE ON THE CONFIDENTIALITY OF INFORMATION PROVIDED TO US:

We fully appreciate the confidentiality of some of the information which we request. Therefore, please note that we will not disclose the individual costs you give us of operating on this route. We will not disclose average operating costs for the route without the permission of all the hauliers participating with information for that route.

We will also only disclose the average cost savings achieved by hauliers for the route you have chosen, arising from the abolition of frontier controls and the consequent elimination of most delays at internal EU frontiers. We will not express these cost savings in a way which may enable your route operating costs to be determined. They will only be used by us to help calculate and validate the cost savings arising from the removal of frontier controls.

Additionally, none of the other information you provide will be disclosed in a way which enables it to be linked directly to your company.

I TYPE OF COMPANY:

1	☐	Own account operator	☐	Third party haulier
2	☐	Mainly full loads	☐	Mainly groupage
3	☐	Express operator		
4	☐	Haulier only, no freight forwarding services offered	☐	Freight forwarder as well as haulier
5	☐	Large operator (> 20 vehicles) ☐ Medium operator (10-20 vehicles) ☐ Small operator (1-4 vehicles)		
6	☐	Company is headquartered or has major depots in one of more of the Member states along this route	☐	Company does not have headquarters or depots along this route (ie cross-trader)

II TYPE OF GOODS:

1 ☐ General T2 status goods
2 ☐ Excise goods
3 ☐ Foodstuffs (CAP) goods

III AVERAGE OR TYPICAL FIGURES FOR THIS ROUTE:

	1992	Current (1995)
Total length of route in km		
Total journey time including frontier delays in hours		
Delays at frontier 1 in hours		
Delays at frontier 2		
Delays at frontier 3		
Total cost of journey per one-way loaded trip (including external costs, eg cost of ferries when used)[2]		
May we disclose the averaged journey costs for this route of the hauliers participating in the study for this route?	☐ Yes	☐ No
Your estimate or calculation of the delay cost at internal frontiers per one-way loaded trip		

[2] Please note our undertaking of confidentiality on page 1 of this questionnaire. We will retain this information relating to your company as strictly confidential and it will not be disclosed outside Price Waterhouse. It will be used by us to help calculate and validate the cost savings arising from the removal of frontier controls. If, however, you are still unable to provide us with these costs, please ensure that the following item is completed, ie your calculation of the cost savings arising from the removal of frontier controls. Please also note the following question, in which we ask if you are willing for us to disclose the averaged journey costs of all the hauliers participating for your route. We will not disclose which hauliers have provided information on which routes.

IV UTILISATION

	1992	Current (1995)
Available vehicle hours per year (ie hours available for use after maintenance, downtime etc)		
Actual time utilisation rate of vehicle (ie vehicle-in-use time) as a percentage of available vehicle hours[3]	%	%
Estimated time utilisation rate of vehicle if it was not required to stop at internal frontiers	%	%
Annual hours worked per driver (excluding holidays, sickness and mandatory rest breaks)	hours	hours
Actual time utilisation rate of driver on this route	%	%
Estimated utilisation rate of driver if the vehicle was not required to stop at internal frontiers (ie not even for passport/identity card checks). Please only give a rough or quick estimate, as this is simply intended to provide an informal comparison of your "ideal world" scenario.	%	%
Number of round trips possible on this route per week (or other period of time if preferred)[4]	.... round trips per	.... round trips per ....

[3] Please note that information regarding utilisation rates will not be disclosed. They are only required in order to validate the cost reductions due to abolition of frontier controls

[4] Information on the possible number of round trips before and after 1993 will be aggregated with that of other operators on this route and the aggregated/averaged data will form part of our published report. We will not disclose individual details of round trips frequencies reported by specific companies.

V YOUR VIEWS ON OTHER ASPECTS OF FRONTIER DELAYS

How do delays to empty legs affect triangular or immediate return load trips?	
Do you have examples of a knock-on effect of frontier delays, such as factory production standstill awaiting materials?	

VI AVERAGE OR TYPICAL VEHICLE AND DRIVER COSTS:[5]

	1992 actuals	Current (1995)
Usual cost which you work with to represent the total "cost per km" of vehicle and driver		
Annual fixed costs per vehicle (including depreciation, leasing, finance charges, tax, licences, insurance etc)		
Annual running costs per vehicle (including fuel and lubricants, maintenance and repair)		
Annual mileage run by vehicle in km	km	km
Annual driver costs per driver (including wages, social costs, pensions and benefits, overheads, subsistence)		

[5] This information will also be retained by us as strictly confidential and will not be disclosed. It will only be used by us to help calculate and validate the cost savings arising from the removal of frontier controls

VII ANNUAL LEVEL OF BUSINESS:[6]

	1992	12 months to Sep or Oct 1995
Number of loaded trips over this route		
Total tonnage hauled over this route		
Percentage of groupage trips		
Percentage which were full loads		
Percentage which were empty legs		
Number of Customs declarations		
Total number of motive units (all routes) ie tractors and rigid vehicles, not trailers		

Notes and comments:

HAULFULL.QUE
2 juin 1997

[6] Please note that we will not disclose this information in any way which will relate it to your company. It is requested solely in order to calculate the cost savings arising from the total traffic on this route.

APPENDIX D

Main haulier questionnaire

Haulier:	☐ Fleet	☐ Owner-driver	☐ Operating in 1992	
Goods:		☐ Subject to customs controls now		

Frontiers		
	1:	
	2:	
	3:	

1. What was the typical delay at the(se) frontier(s) before the Single Market (ie in 1992)?

	Minimum	Average	Maximum	
1:				hours
2:				hours
3:				hours

2. What is the delay now? If there is any delay, why? (eg clearing T1 status goods, security checks, CAP procedures, local controls etc)

	Minimum	Average	Maximum	
1:				hours
2:				hours
3:				hours

Reason: _____

3. How did the extra time created by the abolition of frontier controls affect driver and vehicle?

Driver:	hrs/days
☐More work now than in 1992	per .....
☐Less work now than in 1992	per .....
☐The same amount of work as in 1992	
☐More leisure time than in 1992	per .....
☐Less leisure time than in 1992	per .....
☐The same amount of leisure time as in 1992	

Vehicle:

☐Better vehicle utilisation because:

	Before:	After:
☐ higher monthly mileage/kilometrage:	km/miles per	km/miles per .....
☐ more round trips per month:	per	per .....
☐ used truck for more days a month:	days	days
☐ fewer vehicles for same volume of business:		

☐Not able to use extra time because:

☐still have to take mandatory rest and mileage breaks so journey is no quicker
☐still have to wait as long for pick-up or return loads because of shipper or consignee constraints
☐country closed to goods vehicles at weekends so not enough time for extra trips
☐time savings offset by more congestion on roads
☐not enough business therefore more time spent waiting for work
☐other reasons: (continue overleaf if necessary)

☐Unable to tell because:

☐pattern of business has changed. How?
☐other reasons: (continue overleaf if necessary)

OWNER-DRIVERS ONLY

4. Did you estimate the cost of waiting time at the frontier before 1993?

☐ Yes; the cost I worked out was:

How was this calculated?

☐ No

5. Does the following cost for both vehicle and driver seem to you to be:

ECU ..... per hour
ECU..... per day
ECU..... per month
ECU ..... per year

☐about right
☐too low (should be higher by .....%)
☐too high (should be lower by .....%)

Place of completion By: Date:

Bibliography

1. Other reports in this series (see page ii for full listing of SMR studies):

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   Road Freight Transport
   Eurostat Business Survey Results
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   Confederation of British Industry,
   Centre Point, 103 New Oxford Street
   London WC1A 1DU, UK

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   SITPRO
   Bridge Place, 88-89 Eccleston Square,
   London SW1V IPT, UK

4. Survey on the impact of the transitional VAT regime on European SMEs (Euro Info Centre Network, 1995)

   Euro Info Centre,
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