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THE ECONOMIC COSTS OF NON-SCHENGEN

WHAT THE NUMBERS TELL US

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EXECUTIVE SUMMARY

Schengen stands for border-free travel and has been a European success story. But the agreement from 1995 has come under considerable pressure from two sides: the unprecedented influx of refugees and the threat of terrorism. A number of countries in the Schengen area have introduced temporary border controls. While it is unclear how these measures would solve the two challenges and whether or not a better European solution to the problem could be found, it is certain that border checks would impose economic costs.

Estimates from different studies show that the largest costs would occur in trade (around €11-47 billion per year). On top of it, there would be costs for commuters, tourism and the actual border controls (each about €5-6 billion per year). All in all, this economic damage of up to €63 billion per year in the Schengen area could threaten the stability of the euro area and undermine the efficiency of the European single market. Moreover, because of the importance of open borders for European integration, ending Schengen might give the impression of a weakened European problem-solving capacity.

Can Schengen be saved? It could be a collective action problem. Schengen benefits everyone. Yet, the individual costs of saving may outweigh the collective benefits. Whenever that is the case, mobilizing a coalition is notoriously difficult. Still, there should be an overlap in interests in avoiding the economic damage so that a powerful coalition could emerge. This pro-Schengen camp should have a strong argument in its favour: Keeping Schengen alive will always be the cheaper option.

INHALTSVERZEICHNIS

The author wishes to thank Philipp Ständer for excellent research assistance.

1. Why Schengen is in danger

Schengen has been a European success story. The Schengen Agreement celebrated its 30th birthday in June 2015. It guarantees the free movement of goods and people, and has been a cornerstone of integration for the European single market and the euro area. But today, the end of Schengen (i.e. Non-Schengen) seems possible. As more and more refugees have sought safety in Europe and terrorist attacks in Paris and Brussels have shaken the continent, several countries in the Schengen area have introduced temporary border controls including Germany, Austria, Slovenia, Hungary, Sweden, Norway, Denmark, and Belgium.

Schengen, as Bertoncini and Vitorino explain[1], is caught in the "cross-fire" of managing the largely uncontrolled arrival of asylum-seekers and detecting terrorist activities because prominent politicians have argued that closing internal Schengen borders could reduce the migrant flows[2] as well as strengthen national security[3]. Statements along these lines have been influential and appear to be widely shared by the public: An opinion poll, which was conducted in spring 2016, suggests that a clear majority in Germany, France and Italy is in favour of keeping the border controls in place for now.[4]

Yet, it remains unclear how breaking up Schengen can solve both challenges effectively. Large and overcrowded refugee camps have been created in response to internal border checks, for example, at the Greek-Macedonian border near the village of Idomeni in March 2016.[5] They have decimated flows but it is unclear whether internal border controls would reduce them permanently.[6] The European Commission casts doubt on whether internal borders could address the migration crisis.[7] Whether internal border controls could indeed prevent terrorist attacks is difficult to answer. There is no conclusive empirical evidence.[8] Other counter-terrorist measures such as strengthening national and cross-national information sharing may be more successful (but lie beyond the scope of this paper). Thus, Schengen has been an important cornerstone of the European Union but has come under pressure because of the migrant flows and the terrorist threat, although it remains an open question whether internal border controls would contribute to solving either of these challenges.

> "FOR THE EURO AREA, A FULLY INTEGRATED SINGLE MARKET CAN HELP TO REBALANCE THE EURO AREA"

There is no doubt, however, is that the break-up of Schengen would trigger widely felt ramifications: The European single market is more efficient without border controls because they hinder market integration. For the euro area, a fully integrated single market also plays another important role: It can help to rebalance the euro area after an asymmetric shock and reduces its vulnerability to crises.[9] Jean-Claude Juncker, the president of the European Commission, warned in November 2015 that without Schengen, the euro would not make sense anymore.[10] This paper focuses on the economic effects of a possible break-up of Schengen. It gives an overview of the different economic costs of Non-Schengen, and compares and interprets estimates. In the final part, it discusses what a successful rescue coalition could look like.

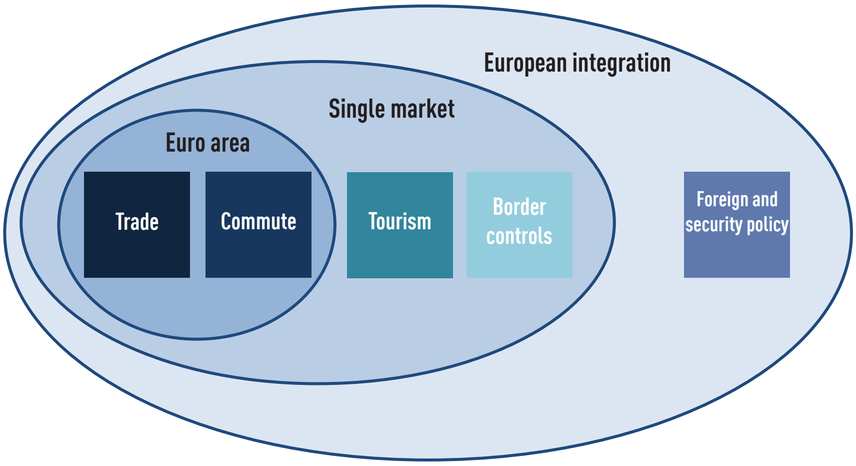
1. Yves Bertoncini and António Vitorino, "Schengen's stress test: Political issues and perspectives", *Policy Paper No. 158*, Jacques Delors Institute, 15 February 2016.
2. For example: A strong proponent of this view in Germany has been Bavaria's minister Horst Seehofer (CSU), who has criticised chancellor Angela Merkel's approach since summer 2015. The Alternative für Deutschland (AfD), a Europe-sceptical party, has run on an anti-refugee platform and gained significant shares in recent state elections in Germany.
3. For example, following the terrorist attacks in Paris in November 2015, president François Hollande announced to seal the French borders before the statement's language was toned down (example taken from Bertoncini and Vitorino, 2016).
4. Christian Wernicke, "Die Mehrheit der Deutschen will nationale Grenzen zurück", *Süddeutsche Zeitung*, 5 April 2016, based on an opinion poll by the Institut français d'opinion (Ifop).
5. See for example: Andrew Byrne, "Frustration turns to desperation at Idomeni migrant camp in Greece", *Financial Times*, 25 March 2016.
6. In addition, a Joint Action Plan with the Turkish president Erdogan to bring back migrants arriving in Greece to Turkey was accepted in the European Council Conclusions of 17-18 March 2016 (European Council, *Conclusions, 17-18 March 2016*, Press Release 143/16, 18 March 2016) and the return of migrants has started. This deal, however, is primarily an example of reinforced external border control.
7. European Commission, *Communication from the Commission to the European Parliament, the European Council and the Council: Back to Schengen – A Roadmap*, COM (2016), 120 final, Brussels, 4 March 2016.
8. The Global Terrorism Database shows that since 1970 the number of people who were killed by a terrorist attack in Western Europe has fallen. There was no turning point in 1995 when the Schengen Agreement was implemented, but starting with the attacks in Madrid in 2004, the number of casualties from Islamic-fundamentalist attacks has increased (the data can be found here: http://www.start.umd.edu/gtd/).
9. For a detailed explanation of the link between single market integration and the stability of the euro area, please see: Anna auf dem Brinke, Katharina Gnath and Jörg Haas, "Growth and euro area stability: The double dividend of a deepened European single market for services", *Background Note*, Jacques Delors Institut - Berlin and Bertelsmann Stiftung, 26 June 2015.
10. Jean-Claude Juncker in a speech at the European Parliament in Brussels on 25 November 2015: "Une monnaie unique ne fait pas de sens si Schengen tombe." The full speech can be read here: European Commission, *Discours du Président Juncker à la Session Plénière du Parlement européen sur les attentats de Paris*, Brussels, 25 November 2015.

2. Putting a price tag on Schengen

"FOUR MAIN AREAS IN WHICH ECONOMIC COSTS WOULD OCCUR: TRADE, COMMUTING, TOURISM, AND BORDER CONTROLS"

Schengen plays an important role for the economy of the European Union. Figure 1 provides an overview of the four main areas in which economic costs would occur: trade, commuting, tourism, and border controls, which includes infrastructure and personnel. The figure highlights the importance of Schengen for the single market and the euro area: Intra-European trade and individuals commuting to work across Schengen borders each day would be heavily affected. Moreover, it would be worrisome for the countries in the euro area because we know from optimal currency area theory[11] that a currency union is less vulnerable to a crisis if goods and services can cross borders without delays and if there is a high degree of labour mobility[12]. In addition to impacting trade and commuting, introducing permanent border checks would make short-trip tourism more expensive and would therefore most likely reduce it. These border checks would also require a new or updated infrastructure and more personnel. They would bind resources that could have been more efficiently employed elsewhere in the single market.

FIGURE 1 ► The economic impact of Non-Schengen for Europe



Source: Author.

Schengen has also played an important role in European foreign and security policy: It matters for the security strategy because some national borders have become common external borders such as the Greek and Italian islands Lesbos and Lampedusa. In addition, Schengen is an important bargaining chip in foreign policy because access to the Schengen area is a valuable good in negotiations.

Taking all effects together, Non-Schengen would most likely have a negative effect on European integration as it reverses prior successes of the European Union and demonstrates painfully that the European member states could not address the challenges together, but rather resorted to suboptimal national solutions. Let us now compare different estimates for each area in which costs would occur, and then add them up to get a comprehensive price tag for Non-Schengen.

11. Robert A. Mundell, "A Theory of Optimum Currency Areas", *The American Economic Review* 51(4): 657-665, 1961.
12. Anna auf dem Brinke and Paul-Jasper Dittrich, "Labour mobility in the euro area: Cure or curse for imbalances?", *Policy Paper No. 159*, Jacques Delors Institut – Berlin and Bertelsmann Stiftung, 1 March 2016.

2.1. Trade

> „LONGER WAITING TIMES MEAN MORE INEFFICIENCY BECAUSE THEY TIE UP RESOURCES THAT COULD HAVE BEEN MORE PRODUCTIVELY EMPLOYED ELSEWHERE"

The largest effect of Non-Schengen would occur in trade, both in intra-Schengen and extra-Schengen trade. Goods worth almost €3 trillion travel across internal Schengen borders each year.[13] If border controls are implemented, this would lead to longer waiting times at the border, and goods within the European supply chains would be delayed. Longer waiting times would mean more inefficiency because they tie up resources that could have been more productively employed elsewhere.

Border controls would be like the introduction of a new tariff on goods crossing the border. To calculate the costs, France Stratégie[14], a French think tank, assumes a 3 percent ad valorem tax on trade. The authors Aussilloux and Le Hir estimate that this tax on trade would cost the Schengen area around €11 billion per year. The Bertelsmann Stiftung[15], a German think tank, assumes two scenarios: an increase in import prices by 1 percent and an increase in import prices by 3 percent for intra-European trade. For the EU24, the authors estimate that Non-Schengen would cost between €47 billion and €143 billion per year.[16] The European Commission has produced some initial estimates which put the costs between €5 and €18 billion per year.

By comparison then, the European Commission numbers are at the lower end and the Bertelsmann numbers at the upper end of predictions. In terms of the Schengen area economy, these estimates range from about 0.8 percent to 2.7 percent of total GDP. The estimates of the Bertelsmann Stiftung are larger/higher because of three reasons: First, the authors calculate the costs for the EU24, which includes the United Kingdom. The United Kingdom is one of the largest economies in the EU but not a member of Schengen. Including countries which are EU members but not Schengen members seems relevant because they are well integrated into the single market and also benefit from the Schengen agreement. Second, they assume a scenario with a three percent increase in intra-Schengen import prices, which is probably too high. CESifo shows that Schengen has reduced the costs of trade by close to 1 percent in the past.[17] Third, the econometric specification of the Bertelsmann Stiftung pays attention to possible feedback effects such as a rise in price levels, which can lead to a loss in competitiveness. The actual costs would therefore probably be closer to the Bertelsmann Stiftungs's lower estimate of €47 billion than to the higher estimate of €143 billion per year.

It is worth noting that the Bertelsmann Stiftung estimates the costs of the end of Schengen to be similar to the costs of a possible Brexit for the UK economy in an earlier study:[18] Leaving the EU could cost the British €313 billion until 2030. In a similar study on Grexit[19] a few years ago, the Bertelsmann Stiftung put the costs for the EU24 of Greece leaving at about €419 billion over the course of seven years from 2013 to 2020. Or to bring in another comparison: The costs of Non-Schengen could be higher than the Greece's government debt, which stood at €317 billion in 2014.[20]

Germany is a good example to pin down the costs for each citizen: It has the largest GDP in Europe and an export-oriented economy. How much would the Germans pay if Schengen no longer existed? The results from CESifo[21] and Bertelsmann[22] suggest that closing the borders would cost between €4 billion and €24 billion per year. The Deutsche Industrie- und Handelskammer (DIHK), the Association of German Chambers of Commerce and Business or the BGA, arrives somewhere in the middle at €10 billion.[23] If each of the more than 80 million German

13. Data from Eurostat for 2014 (variable lfst_r_lfe2ecomm).
14. Vincent Aussilloux and Boris Le Hir, "The Economic Cost of Rolling Back Schengen", *La Note d'Analyse* No. 39, France Stratégie, February 2016.
15. Michael Böhmer, Jan Limbers, Ante Pivac, and Heidrun Weinelt, "Departure from the Schengen Agreement", *GED Study*, Bertelsmann Stiftung, February 2016.
16. The authors present the accumulated losses over 10 years (2016-2015). Here I have divided the numbers by 10 for an annual estimate.
17. Gabriel Felbermayr, Jasmin Gröschl, and Thomas Steinwachs, "Handelseffekte von Grenzkontrollen", *ifo Schnelldienst* 5/2016, 69. Jahrgang: pp. 19-27, 10 March 2016.
18. Bertelsmann Stiftung, "BREXIT could be expensive – especially for the United Kingdom", *Press Release*, 27 April 2015.
19. Bertelsmann Stiftung, "Economic impact of Southern European member states exiting the eurozone", *Policy Brief* #2012/06, June 2012.
20. Data on general government gross debt in 2014 from Eurostat (variable gov_10dd).
21. Gabriel Felbermayr, Jasmin Gröschl, and Thomas Steinwachs, "Handelseffekte von Grenzkontrollen", *ifo Schnelldienst* 5/2016, 69. Jahrgang: pp. 19-27, 10 March 2016.
22. Michael Böhmer, Jan Limbers, Ante Pivac, and Heidrun Weinelt, "Departure from the Schengen Agreement", *GED Study*, Bertelsmann Stiftung, Gütersloh, February 2016.
23. Deutscher Industrie- und Handelskammertag (DIHK), "Wenn die Grenzen schließen, verändert sich unsere Wirtschaftsstruktur", *Daten, Fakten, Argumente: Newsletter* 04, 28 January 2016.

citizen would pay the costs directly, everyone would pay between €50 and €300 each year.[24] In other words, Non-Schengen would reduce disposable income significantly. To conclude, the negative effect of Non-Schengen on trade would be large in magnitude and have the potential to disrupt European economies significantly.

2.2. Commute

Apart from trade, Non-Schengen would make cross-border commuting more difficult and would most likely reduce cross-national labour mobility. It is well known that labour mobility in the European Union has always been lower than inter-state mobility in the United States:[25] While the data show that it has slowly increased over time, imposing border controls could either slow down or reverse that trend. Close to 1.7 million people commuted in 2014 because they lived in one Schengen country and worked in another.[26] They would either have to tolerate longer commuting times each day or look for work elsewhere. Border regions – and in particular those in France, Benelux, Germany and Switzerland – benefit the most from open borders and would be most affected by daily border checks.[27]

How much would the increased waiting time of commuters in the whole Schengen area cost? The latest data are available for 2014:[28] There were 1.67 million Schengen commuters.[29] Assuming that they have to wait 10 minutes to enter and 10 minutes to leave the country where they work, they lose 20 minutes which could have been used productively as working time. This loss in productivity is approximated by the average labour productivity per hour for each destination country.[30] Multiplying the numbers by the average number of workdays in a year, which is 250, the total cost per year would be €5.2 billion for all Schengen commuters[31]. This is the opportunity cost for workers waiting at the border rather than working, assuming that everyone would keep their jobs in the destination Schengen country and not look for work in their home country.

To compare: The possible costs for France have been calculated by France Stratégie. They start their calculation with 350,000 French cross-border commuting workers in 2011, and then assume a 10 minute wait at the border with two crossings a day, €10 per hour as the value of time, and 217 working days per year. In total, they estimate the costs for French commuters to be €253 million per year. The European Commission has estimated the total cost for commuters and other travellers between €1.3 billion and €5.2 billion per year.[32] The comparison shows that the estimate of €5.23 billion lies at the upper end of other calculations but seems plausible.

2.3. Tourism

Non-Schengen would not only make the life of thousands of commuters more difficult but also trouble tourists: Tourism in the form of day-breaks and short trips from one Schengen country to another would also decline. This would not only affect Schengen passports holders but also tourists travelling with Schengen visas.

France Stratégie argues that the number of tourists could shrink by between 5 and 25 percent.[33] The authors look at the French case and provide estimates for the loss of tourists visiting France from Germany, Belgium and Luxembourg, Italy, Switzerland, Spain and the Netherlands based on 2013 data. Assuming that same-day visits decrease by 5 percent and overnight visits by 2.5 percent, the loss in revenue for the French tourism industry would be almost €500 million. The European Commission estimates that tourist nights in total could fall by 13

24. The lower amount is based on the estimates from CESifo, the higher on the second scenario from the Bertelsmann Stiftung.
25. Data from Eurostat and the US Census Bureau show this difference clearly.
26. Data from Eurostat for 2014 (variable lfst_r_lfe2ecomm).
27. Gernot Nerb, Franz Hitzelsberger, Andreas Woidich, Stefan Pommer, Sebastian Hemmer, and Petr Heczko, *Scientific Report on the Mobility of Cross-Border Workers within the EU-27/EEA/EFTA Countries*, Report commissioned be the European Commission: DG Employment and Social Affairs, 2009.
28. Data on commuters by country of destination for 2014 from Eurostat (variable lfst_r_lfe2ecomm), data for productivity per hour for 2014 in USD from OECD, EU-USD exchange rate for 2014 from Eurostat (variable ert_bil), number of working days from www.timeanddate.com/date/workdays.html.
29. Eurostat has no recent data for the following Schengen countries: Greece, Iceland, Lithuania, and Norway.
30. Note that average unweighted labour productivity per hour is €35 in the Schengen area.
31. Excluding those from Greece, Iceland, Lithuania, and Norway for which no data are available. Note that the costs could be higher.
32. European Commission, *Communication from the Commission to the European Parliament, the European Council and the Council: Back to Schengen – A Roadmap*, COM (2016), 120 final, Brussels, 4 March 2016.
33. Vincent Aussilloux and Boris Le Hir, "The Economic Cost of Rolling Back Schengen", *La Note d'Analyse No. 39*, France Stratégie, February 2016.

million each year which would be a reduction in revenue of €1.2 billion.[34] It also adds that the costs for the tourism industry could explode to €10 billion and €20 billion if the common Schengen visa policy was abandoned.

A back-of-the-envelope calculation could go as follows: Border controls would reduce the willingness to go on day trips or short-term trips of up to 3 nights. The total expenditure of Schengen-passport holders on short-term trips to other European countries was €87 billion in 2014.[35] The total expenditure of same-day trips from Schengen countries to anywhere in the world (but given that these are day trips, most of those trips would be to other European countries) amounted to €18 billion in the same year.[36] A 5 percent reduction of both would amount to a total loss of €5.3 billion per year.

The importance of Schengen for the tourism industry is easy to understand, but difficult to quantify because data on tourism is extrapolated from household survey and other samples. For better calculations we would have to know the expenditure per day of same day trips and short-stay trips from one Schengen area to another, as well as the elasticity of potential travellers to waiting time at the border. In terms of magnitude and with the data we have so far, €5 billion seems a sensible ballpark figure.

2.4. Border controls

Re-establishing permanent internal Schengen borders would require investments in infrastructure and personnel. The European Commission notes that the costs for staff at the border would lie somewhere between €0.6 billion and €5.8 billion per year, and that building and maintaining the necessary infrastructure would add several billions more.[37]

To understand how these estimates could come about, a back-of-the-envelope calculation with data from the Canadian-US land border may be helpful: The common land border is 8,900 km long. Estimates suggest that securing the border cost around C$600 million to C$1 billion in 2010[38], which is equivalent to €440 million and €733 million[39] per year. This is only the cost for the Canadian government. The United States probably paid at least the same amount.[40] In total then, US and Canadian taxpayers spent between €880 million and €1,466 million per year on their common border.

It seems plausible that the internal Schengen land borders would need similar border control standards. With the introduction of Schengen, more than 16,400 km of land border controls have been lifted from 1995 until 2011.[41] Thus, the internal Schengen land borders taken together are approximately 1.84 times longer than the Canadian-US land border. If they were to be secured at a similar standard as the Canadian-US land border and given that the borders will be secured from both sides, the costs would roughly amount to €1.6 billion to €2.7 billion. This would include personnel and maintenance of border infrastructure, not building it from scratch. It therefore seems likely that the costs would be higher and close to the upper estimate of the European Commission.

2.5. Foreign and security policy

The end of Schengen would also impose costs for foreign and security policy. Schengen has been an important bargaining chip for European foreign and security policy. Access to Schengen visas is a good that many want and it has been used repeatedly for conditionality.[42] Dismantling Schengen at the time of the Brexit referendum in the United Kingdom, and as long as the euro crisis is not fully resolved, could send strong negative signals to the rest of the

34. European Commission, *Communication from the Commission to the European Parliament, the European Council and the Council: Back to Schengen – A Roadmap*, COM(2016), 120 final, Brussels, 4 March 2016.
35. Data from Eurostat (variable tour_dem_extotw).
36. Data from Eurostat (variable tour_dem_sdvexa).
37. European Commission, *Communication from the Commission to the European Parliament, the European Council and the Council: Back to Schengen – A Roadmap*, COM(2016), 120 final, Brussels, 4 March 2016.
38. Alexander Moens and Nachum Gabler, "Measuring the Costs of the Canada-US Border", Studies in Canada-US Relations, Fraser Institute, August 2012.
39. The Eurostat annual euro to Canadian dollar exchange rate in 2010 was 1:1.3651 (variable ert_bil).
40. Note that US Homeland Security does not publish the costs for the Canadian-US border.
41. European Stability Initiative, "Land borders in Europe. A dramatic story in three acts", *Blog entry*, 12 October 2011. Note that the last enlargement round was in 2011 when Liechtenstein joined.
42. Esther Ademmer, Toman Barsbai, Matthias Lücke, and Tobias Stöhr, "30 Years of Schengen: Internal blessing, external curse?", *Kiel Policy Brief No. 88*, Kiel Institute for the World Economy, June 2015.

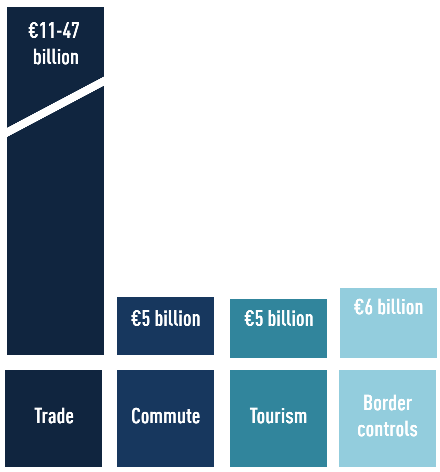
world. In coping with the large inflow of refugees, the end of Schengen would also demonstrate that Europe has failed to act in solidarity in response to the largest humanitarian crisis in its neighbourhood since WWII.

Schengen has come to embody the success of European integration. This can be seen in opinion data: In the Eurobarometer[43] question "Which of the following do you think is the most positive results of the EU?" the 'free movement of people, goods and services within the EU' is together with 'peace among the member states' the most common answer (55 and 56 percent, respectively, in the last survey in autumn 2015. Neither the Euro nor Erasmus is perceived as positive (with 25 percent and 22 percent, respectively). The end of Schengen would therefore send a strong signal that the European integration process and possibly the European Union's influence in the world are weakened.[44] These economic costs cannot easily be quantified but should be taken into account.

2.6. Summary

Taking the most plausible upper-bound estimates, the economic costs of Non-Schengen could amount to up to €63 billion each year. The largest chunk of the costs would occur in trade. The costs for commuting, tourism and the actual border controls would be lower and similar in magnitude. Figure 2 gives an overview of the quantifiable economic costs.

FIGURE 2 ► What Non-Schengen could cost



Source: Author's compilation based on various estimates as cited in text (Aussilloux and Le Hir, 2016; Böhmer et al., 2016; DIHK, 2016; European Commission, 2016; Felbermayr et al., 2016; and own calculations).

Waiting at the border costs time, and time is money: Europe would lose in competitiveness vis-à-vis the rest of the world. Long-term investments could decline. In the end, the costs of Non-Schengen would be paid by everyone in Europe through higher prices and eventually, lower growth. Putting a price tag on Non-Schengen is important to understand the consequences. At the same time, one must be aware of the limitations. The numbers are estimates, there is a lot of uncertainty, and not all the costs are quantifiable. What is clear, however, is that the end of Schengen would have no significant economic gains because resources would be less efficiently allocated in the economies. Non-Schengen would produce no winners.

43. Eurobarometer, *Standard Eurobarometer 84*, Autumn 2015, First results, Fieldwork November 2015, Publication December 2015.
44. See also: Jacques Delors, António Vitorino, Yves Bertoncini et al., "Schengen is dead? Long live Schengen!", *Tribune - Viewpoint*, Jacques Delors Institute, 23 November 2015.

3. Can Schengen be saved?

Before asking whether Schengen could be saved, one has to ask *who* can save Schengen. It could be a classical collective action problem. It is in everyone's interest, yet individual costs to save it may exceed the individual benefits. Still, four groups could come to the rescue.

The first group consists of private businesses which cross the border regularly, and could become less competitive and see their profit margins squeezed. Many business associations have already issued warnings about the devastating effects of breaking up Schengen. The list of businesses which have lobbied in favour of keeping Schengen is long, including car makers like Opel (GM) and Daimler, logistic and delivery companies like DHL, UPS, and TNT, and transport businesses such as ACI Europe or Allgaier Translog. Business associations, such as the DIHK, which represents wholesalers, service providers and exporters, have also joined the Schengen supporters.

Small open economies could form a second group. Even governments like Hungary's, who have been outspoken about their disapproval to accept refugees, could be on board to save Schengen: Small open economies – such as the Netherlands, Belgium, and Hungary – have the most to lose as their economies depend heavily on exports. [45] Because they are small a decline in exports cannot easily be compensated by an increase in domestic demand. Of course, exports matter for all European economies and also the big ones: for instance, Germany has a strong interest in maintaining its competitiveness vis-à-vis the rest of the world.

In general, individual commuters will find it difficult to lobby for their cause but because they are concentrated in the smaller states of the Benelux Union as well as in Switzerland, they may have a chance. They have to demonstrate the importance of Schengen for their daily working life to their governments. Employers who rely on a mobile workforce also benefit from keeping internal borders open. Together they could be a third interest group.

The fourth group could consist of the tourism industry and countries which attract a large number of tourists each year. The top three destinations in Europe for European tourists are Spain, France and Italy.[46] For many smaller countries like Malta, Estonia or Portugal, tourism plays a vital role and constitutes more than 15 percent of GDP.[47] For the tourism sector as well as for government tax revenue, protecting the industry will be crucial.

So there is hope that the coalition to save Schengen could be large and powerful enough. Big and small European countries could be on board, even if they disagree about the allocation of refugees. The private sector has also joined the Schengen supporters. One question will be whether individual commuters and tourists can get their voices heard. The pro-Schengen camp has a powerful argument in its favour: there are cheaper alternatives when it comes to border security. The European Commission[48] has published a proposal for a new European Border and Coast Guard for Europe´s external borders in December 2015, which demonstrates that better border protection can be affordable. This new agency would replace Frontex and have a stronger mandate, for which it would need additional staff (up to 1,000 permanent positions) and technical equipment. All in all, the European Commission estimates that the new initiative would cost €322 million per year from 2020[49], when it is operating at full capacity. The goal is to improve external border security and the management of refugee flows, while guaranteeing the free movement of good and people within the Schengen area.

„SAVING SCHENGEN WILL ALWAYS BE CHEAPER"

Improved external border controls are not free, but they cost almost 200 times less than the economic damage that internal border controls would bring with them. No matter how much Non-Schengen would cost in the end, saving Schengen will always be cheaper.

45. Exports in these countries is larger than 80 percent of GDP as data from Eurostat for 2015 show (variable nama). By comparison, Germany´s exports are equivalent to 47 percent of GDP.
46. Data for 2014 from Eurostat (variable tour_dem_tnw).
47. According to data from the World Travel & Tourism Council.
48. European Commission, "A European Border and Coast Guard to protect Europe's External Borders", *Press release*, Strasbourg, 15 December 2015.
49. European Commission, "A European Border and Coast Guard to protect Europe's External Borders", *Fact sheet*, Strasbourg, 15 December 2015.

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