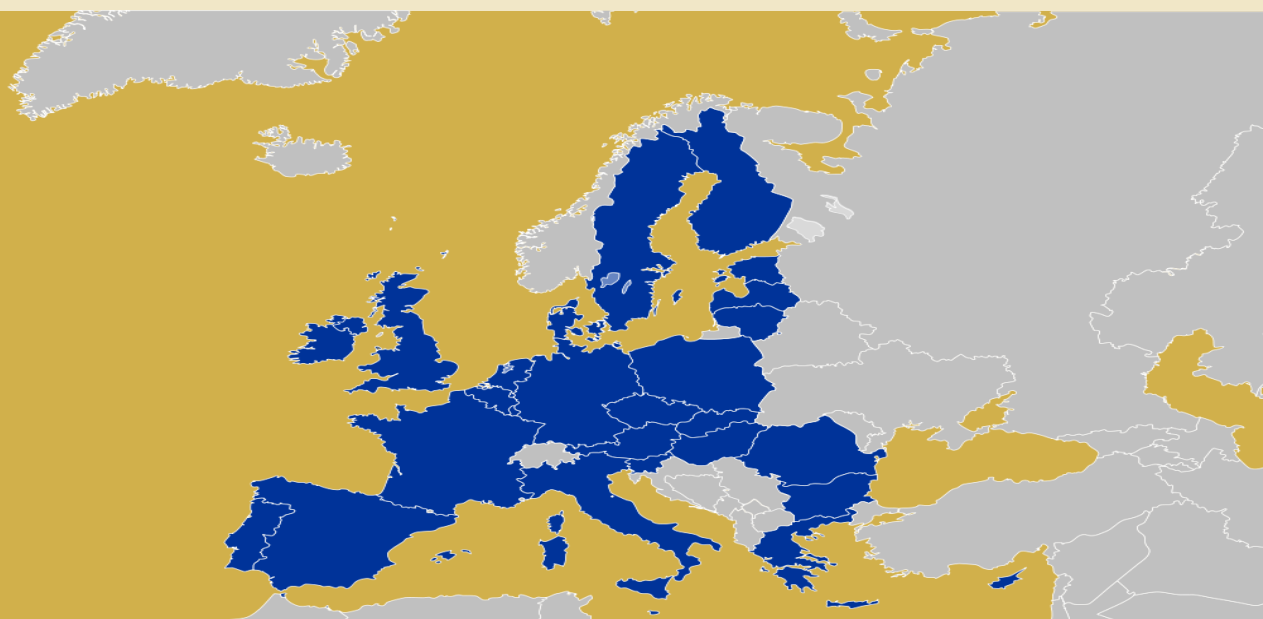


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The Trade Impact of the Kosovo-EU Stabilization and Association Agreement: An assessment of outcomes and implications



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The Trade Impact of the Kosovo-EU Stabilization and Association Agreement: An assessment of outcomes and implications

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THE TRADE IMPACT OF THE KOSOVO-EU STABILIZATION AND ASSOCIATION AGREEMENT: AN ASSESSMENT OF OUTCOMES AND IMPLICATIONS

I. INTRODUCTION

The European Union fashioned the Stabilization and Association Agreement (SAA) instrument exclusively for the Western Balkan countries in order to address their European perspective and potential.¹ The process strongly ties the explicit offer of future membership with certain objectives and conditions that these countries have to reach. The agreement aims to anchor economic, political and administrative reforms in exchange for increased integration.² More precisely, the agreement mainly seeks to boost economic cooperation by establishing a free trade zone as well as supporting the stabilization of the political, social and economic situations in the targeted country.³

Kosovo is one of the last Western Balkan countries not to sign an SAA agreement with the European Union. Until now, the EU has signed SAAs with Macedonia, Croatia, Albania, Montenegro, Serbia and Bosnia and Herzegovina. Each agreement identified common economic and political objectives, encouraged regional cooperation, and established a free trade area between EU and these countries to adapt to their specific situations.⁴ While the existing SAAs were tailored to individual countries, they, however, are very similar and share the same objectives. The SAA, which will cover several issues of mutual cooperation between Kosovo and EU, will benefit the former in many different aspects. It will be the first contractual agreement between EU and Kosovo; an agreement which requires commitment of both parties regarding the course of action detailed in the SAA. In addition, Kosovo will be able to liberalise trade with all EU member states, strengthen regional cooperation by aligning its political and economical preferences with other states, and implement its most suitable institutional framework to address the external competition.⁵ Finally, the agreement will open up new grant and funding opportunities for Kosovo.

Even though the SAA's remit is very broad, ranging from political dialogue to regional cooperation, and from free movement of goods to mutual cooperation in justice and home affairs, this policy report will specifically consider its trade-related aspects and the possible implications on Kosovo's economy. More precisely, this policy report will focus on how the liberalization and harmonization with the relevant EU regulations and rules will affect Kosovo's effort towards growth and socio-economic development. The report therefore aims to analyse closely the overall welfare effects that SAA might have on Kosovo's economic situation and its impact on the sensitive and more vulnerable sectors, industries and products. The analysis

¹EC: 'Enlargement, Stabilization and Association Agreement', available at: http://ec.europa.eu/enlargement/policy/glossary/terms/saa_en.htm.

² Group for Legal and Political Studies (2013), 'Readying Kosovo for SAA Negotiations: A blueprint of achievements, slow reforms and the path ahead', Policy Analysis No. 02/2013.

³ EC: 'Enlargement, Stabilization and Association Agreement', available at: http://ec.europa.eu/enlargement/policy/glossary/terms/saa_en.htm.

⁴ See the Stabilisation and Association Agreement between EU and Western Balkan countries (Croatia, Macedonia, Albania, Montenegro, Bosnia and Herzegovina and Serbia).

⁵ Group for Legal and Political Studies (2013), 'Readying Kosovo for SAA Negotiations: A blueprint of achievements, slow reforms and the path ahead', Policy Analysis No. 02/2013.

conducted from the existing SAAs shows that methodologies for market-access liberalization would be similar or closely related to those of the Western Balkan countries. This provides an opportunity for Kosovo to identify its sensitive sectors and products and their special treatment as well as prepare a detailed plan for the delayed phase-in periods, and request lower pace of tariffs and exclusions from full free trade when applicable.

This policy contribution is crucial not only because of its relevance – the SAA negotiations between EU and Kosovo have already started - but also because it can guide both parties throughout the negotiation process regarding the trade related aspects. The remainder of this policy report is divided into four sections to provide this guidance. Section II will look at trade relations between Kosovo and EU member states. Moreover, this section will concentrate on the products most affecting Kosovo's imports and exports. Section III will concentrate on existing SAAs and their possible reflection on Kosovo's SAA. It will especially focus on the SAA provisions regarding industrial and agricultural goods as well as anti-dumping, safeguards and SPS measures. Section IV will concentrate on the impact that previous SAAs had on the regional trade and such scenarios possible impact on Kosovo's trade. Section V will conclude the report and discuss policy implications based on general findings. These findings can be used as guidelines for negotiations between Kosovo and EU, especially for those on trade. Apart from highlighting the possible preferences in trade between EU and Kosovo, this section will provide solutions on how to improve the current trade situation by concentrating on the development and restructuring of the domestic production.

II. TRADE RELATIONS BETWEEN KOSOVO AND EUROPEAN UNION

Kosovo performed poorly during the last decade in trade indicators. In the first eight months of 2013, Kosovo recorded a trade deficit of 1,391,970,000 EUR.⁶ During the period from 2001 to 2012, Kosovo's trade deficit increased gradually from 673,941,000 to 231,509,000 EUR. Accordingly, imports, exports and coverage ratios—imports covered by exports—have increased gradually during the same period.⁷ The table below details Kosovo's trade performance during the period 2001-2013.

⁶ Kosovo Agency of Statistics, available at <http://esk.rks-gov.net/ENG/external-trade/publications>

⁷ Kosovo Agency of Statistics, External Trade statistics, available at: <http://esk.rks-gov.net/ENG/external-trade/publications>

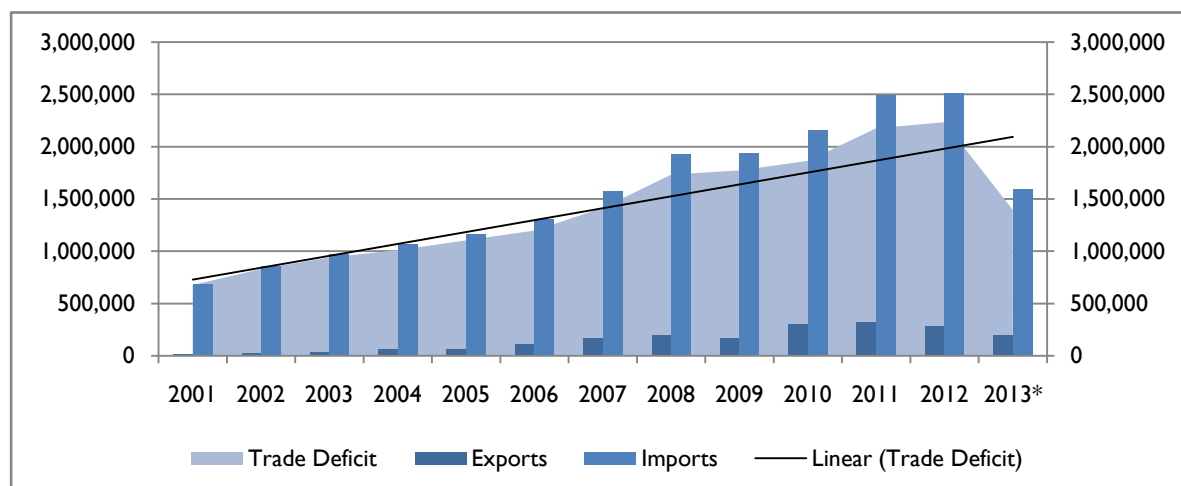
Table 1: Exports, imports and trade balance for 2001-2013

Year	Exports	Imports	Coverage Ratio (%)	Trade Deficit (% of GDP)
2001	10,559	684,500	1.5	/
2002	27,599	854,758	3.2	/
2003	35,621	973,265	3.7	/
2004	56,567	1,063,647	5.3	34.58
2005	56,283	1,157,492	4.9	36.67
2006	110,774	1,305,879	8.5	38.49
2007	165,112	1,576,186	10.5	41.75
2008	198,463	1,928,236	10.3	46.62
2009	165,328	1,935,541	8.5	43.42
2010	295,957	2,157,725	13.7	45.01
2011	319,165	2,492,348	12.8	48.44
2012	276,100	2,507,609	11.0	45.58
2013*	199,139	1,591,108	12.5	/

Source: Adapted from KAS and CBK; Figures are in (000 €). *Figures for 2013 are from January – August

As shown in Table 1, Kosovo’s exports from 2001 to 2012 gradually increased, respectively from 10,559,000 to 276,100,000 EUR. On the other hand, regardless of the assumption that some of the imports were replaced with domestic products, from 2001 to 2012 imports gradually increased to 2,507,609,000 EUR in 2012.⁸ As illustrated in Fig. 1 (below), imports experienced a much steeper growth than exports, which led to high trade deficits and low coverage rates throughout the years. In 2010, Kosovo recorded the highest coverage ratio of 13.7 per cent, followed by a decrease in the subsequent years.⁹ These trade indicators—the low coverage ratios and large trade deficits—demonstrate the poor economic situation of Kosovo.

Fig 1: Relation of exports and imports, 2001-2013



Source: Adapted from KAS; Figures are in (000 €). *Figures for 2013 are from January – August

⁸ Government of Kosovo (2012), ‘Action Plan on negotiation of the Stabilisation and Association Agreement’, Dec 2012

⁹ Kosovo Agency of Statistics, External Trade Statistics from 2001-2012.

Another alarming indicator characterizing Kosovo's poor economic situation is the large share of trade deficit to total GDP on yearly basis, starting at 34.5 per cent in 2004 and gradually increasing to 45.58 per cent in 2012 (see Table 1). In 2011, the trade deficit equalled almost half of total GDP at 48.44 per cent.¹⁰ Having in mind these poor economic indicators, the SAA with Kosovo will likely lead to a gradual increase of exports in the medium term which will slow the pace of increasing trade deficit and will increase the coverage ratio. Moreover, the SAA will likely incentivise Kosovo's producers to implement all the international standards and use the preferences enclosed in the agreement, by closely collaborating with institutions, since their adoption leads to an increase of production and profit.

In terms of regional distribution, European Union plays an important role on Kosovo's trade activities. The EU has given Kosovo a preferential treatment in trade since 2000. These preferences, known as the Autonomous Trade Measures (ATM), abolished the existing custom duty access for the majority of products exported from Kosovo to EU market. More precisely, according to ATM preferences, Kosovo could export its goods to the European Union market '*free of custom duty*' which led to a gradual increase of exports towards EU.¹¹ However, these autonomous preferences were suspended in 2011 and then extended again until December 2015, as the Commission proposed.¹² This procedural process of extending the ATM led to Kosovo's exporters paying custom duties of 1-22 per cent during 2011 until the ATM preferences were reinforced again from 2012.¹³ Hiccups like the ATM suspension, can only be overcome by a contractual agreement between EU and Kosovo requiring the commitment of both parties. The signing of the SAA would create this well-built relationship. Moreover, the SAA will pressure businesses and institutions to collaborate in order to adopt international standards and enhance their production processes to further increase the share of Kosovo's exports in the EU market.

Such efforts are important as the EU market constituted a considerable share of Kosovo's external trade since 2000.¹⁴ In 2013, Kosovo's imports from the EU accounted to 1,591,108,000 EUR while its exports were considerably lower and covered only 12.5% of imports. During the same year, Kosovo's imports only with EU member states accounted for 41.56 % of total imports, from which only 11.7 % were covered by exports to EU member states. Large shares of Kosovo's external trade with the EU member states were recorded also during the period 2005-2011.¹⁵ The table below details the trade activities of Kosovo with EU member states and other countries for the period 2005 – 2011.

¹⁰ GDP figures were retrieved from Central Bank in Kosovo whereas the trade deficit from KAS.

¹¹ Ministry of Trade and Industry, 'Lack of Autonomous Trade Measures (ATM) in 2011: Impact on the Kosovo EU trade'

¹² European Union Office in Kosovo, '**Autonomous Trade Measures with Kosovo re-enter into force**', available at: http://eeas.europa.eu/delegations/kosovo/press_corner/focus/2011/120104_atm_en.htm.

¹³ Ministry of Trade and Industry, 'Lack of Autonomous Trade Measures (ATM) in 2011: Impact on the Kosovo EU trade'

¹⁴ European Union Office in Kosovo, '**Autonomous Trade Measures with Kosovo re-enter into force**', available at: http://eeas.europa.eu/delegations/kosovo/press_corner/focus/2011/120104_atm_en.htm.

¹⁵ Kosovo Agency of Statistics, Export and Import by countries 2005-2011, available at: <http://esk.rks-gov.net/ENG/external-trade/tables>.

Table 2: Exports and Imports of Kosovo with EU, Western Balkans and other countries

Year	EU member states		Western Balkans		Other	
	Exports	Imports	Exports	Imports	Exports	Imports
2005	21,621	431,977	29,852	440,334	4,810	285,181
2006	42,108	449,833	51,745	536,254	16,921	319,792
2007	69,370	572,904	67,500	579,574	28,242	423,708
2008	93,974	701,982	61,534	717,640	42,955	508,614
2009	71,275	755,004	53,482	692,465	40,571	488,072
2010	131,811	825,745	69,601	802,480	94,545	529,500
2011	136,648	946,557	83,107	873,408	99,410	672,383
Total	566,807	4,684,002	416,821	4,642,155	327,454	3,227,250

Source: Adapted from KAS; Figures are in (000 €)

It should be noted that Kosovo's exports and imports with the EU member states from 2005 and onwards have increased steadily (see Fig. 2). In 2011, the EU market accounted for almost half of Kosovo's exports—42.8 per cent to be precise—and 37 per cent of imports. The majority of exports went to Italy, Germany and Belgium, while most imports came from Germany, Italy, Greece and Slovenia.¹⁶ It is worth mentioning that Kosovo's exports in 2011 did not decrease even though the ATM preferences were suspended for Kosovo exporters. More precisely, the exports to EU market in 2011 increased by exactly 3.67 per cent.¹⁷ Furthermore, according to the report conducted by Ministry of Trade and Industry, interestingly enough, the suspension of ATM preferences did not affect negatively Kosovo's exports.¹⁸

The shares of Kosovo's exports and imports within Western Balkans countries amounted to 26 per cent and 35.04 per cent respectively; Albania and Macedonia received the majority of exports, while Serbia and Macedonia provided the majority of imports. Additionally, trade with other countries constituted of 31.14 per cent of exports and 26.9 per cent of imports, the majority being with China and Turkey.¹⁹

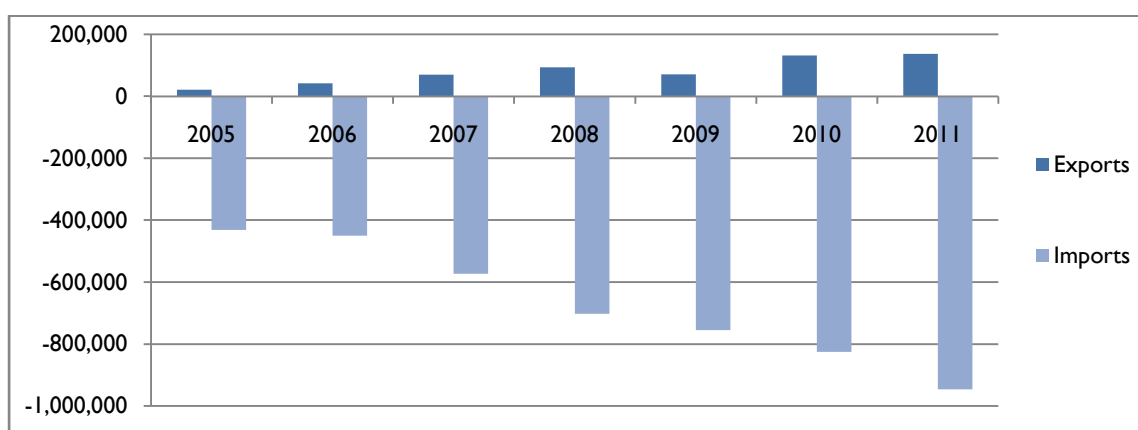
¹⁶ Kosovo Agency of Statistics, Export by countries 2005-2011, available at: <http://esk.rks-gov.net/ENG/external-trade/tables>.

¹⁷ Ibid.

¹⁸ Ministry of Trade and Industry, 'Lack of Autonomous Trade Measures (ATM) in 2011: Impact on the Kosovo EU trade'

¹⁹ Kosovo Agency of Statistics, Export and Import by countries 2005-2011, available at: <http://esk.rks-gov.net/ENG/external-trade/tables>.

Fig 2: Exports and Imports of Kosovo with EU, 2005-2011



Source: Adapted from KAS; Figures are in (000 €)

Regarding trade by industries, as classified by the Standard International Trade Classification (SITC), Table 3 shows the exports and imports of Kosovo from 2005-2011 in each industry. Kosovo's major exports are the products classified in the *manufactured goods classified chiefly by material* and products classified as *crude materials, inedibles except of fuels*, with 46 per cent and 27.6 per cent of total exports respectively from 2005-2011.²⁰ Products categorized as *manufactured goods classified chiefly by material* include leather and rubber manufactures; cork and wood manufactures including furniture; paper and paperbound and their articles; textile yarn, fabrics and made-up articles' non-metallic mineral manufacturers; iron and steel; non-ferrous metals; and manufactures of metals.²¹ Products categorized as *crude materials, inedible, expect fuels* include hides, skins and furskins; oil-seeds and oleaginous fruits; crude rubber, cork and wood; pulp and wastepaper; textile fibres and their wastes; crude fertilizers and materials; metalliferous ores and metal scrap; and crude animal and vegetable materials.²²

²⁰ Kosovo Agency of Statistics, Export and Import by SITC in value 2005-2011, available at: <http://esk.rks-gov.net/ENG/external-trade/tables>

²¹ Department of Economic and Social Affairs (2006), 'Standard International Trade Classification', Revision 4, United Nations, Series M No. 34/Rev. 4

²² Department of Economic and Social Affairs (2006), 'Standard International Trade Classification', Revision 4, United Nations, Series M No. 34/Rev. 4

Table: 3 – Exports and Imports of products classified by the SITC, 2005-2011

		2005	2006	2007	2008	2009	2010	2011
Food and live animals***	Exports	5,076	8,526	14,215	14,684	14,550	18,710	17,552
	Imports	206,183	228,336	272,443	336,901	323,764	354,396	413,054
Beverages and Tobacco***	Exports	2,754	2,785	3,887	5,808	5,088	5,368	8,097
	Imports	65,679	73,439	91,333	110,462	87,284	102,099	114,472
Crude materials, inedible, except fuels*	Exports	26,852	42,904	53,513	45,582	38,341	73,944	81,108
	Imports	23,486	24,528	36,421	40,801	44,298	65,897	86,309
Mineral fuels, lubricants and related materials***	Exports	1,721	8,540	12,576	8,313	7,213	10,845	16,229
	Imports	182,381	217,116	258,356	343,537	282,766	339,225	452,498
Animal and vegetable oils, fats and waxes***	Exports	143	247	/	23	76	100	45
	Imports	9,932	13,940	15,524	20,152	15,994	17,346	19,292
Chemicals and related products***	Exports	1,327	1,386	1,356	2,389	2,421	2,426	4,174
	Imports	115,956	137,780	156,484	183,523	193,694	205,055	256,657
Manufactured goods classified chiefly by mater***	Exports	6,678	31,885	50,689	104,909	84,111	165,993	168,766
	Imports	220,165	264,818	307,628	361,977	372,622	421,836	488,804
Machinery and transport equipment***	Exports	8,829	8,940	22,697	10,727	7,847	9,745	16,162
	Imports	234,273	232,228	294,302	362,637	436,205	439,861	422,316
Miscellaneous manufactured articles***	Exports	2,895	5,561	6,180	6,027	5,680	8,735	6,902
	Imports	99,438	112,694	143,656	168,187	178,874	202,580	226,544
Commodities& transactions not classified else in SITC***	Exports	8	/	/	/	/	91	131
	Imports	/	/	40	60	39	9,432	12,401

Source: Adopted from KAS; Figures are in (000 €). ***, * - represent the trade deficit sensitive and not sensitive products

On the other hand, Kosovo's smallest exports fall into the category of *animal and vegetable oils fats and waxes* (animal oils and fats, fixed vegetable oils and fats, crude, refined or fractionated and processed animal or vegetable oils and fats) and in the category of *commodities and transactions not classified elsewhere* (postal packages, special transactions and commodities not classified according to kind; coin, other than gold coin, not being legal tender; and non-monetary gold).²³ These two groups constitute less than one per cent of total exports from 2005 to 2011. The category of food and live animals constitutes 7.11 per cent of total exports from 2005 to 2011, implying that this sector is underdeveloped and cannot compete in the

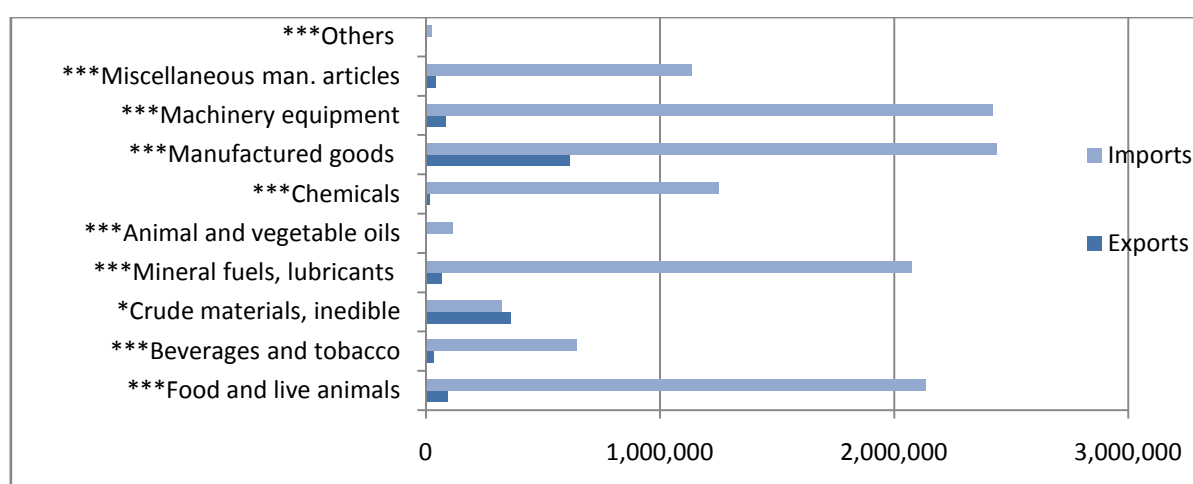
²³ Kosovo Agency of Statistics and Department of Economic and Social Affairs (2006), 'Standard International Trade Classification', Revision 4, United Nations, Series M No. 34/Rev. 4.

international markets if Kosovo's institutions do not employ the necessary protective and other reforms and measures to tackle this problem.²⁴

Regarding imports, during the 2005-2011 period, the demand has been generally dominated by food and live animals with 17 per cent; mineral fuels, lubricants and related materials with 16.5 per cent; the category of manufactured goods classified chiefly by material with 19.4 per cent; and the category of machinery and transport equipment with 19.29 per cent. These four categories constitute 72.19 per cent of total imports from 2005-2011.²⁵

This being the trade background, it is important to note that during the last decade, Kosovo has continuously tried to solve the issues of trade deficit across all industries. The low coverage rates in each industry, as shown in Fig. 3, represent Kosovo's poor economic state and its transitional status. Industries that contributed the most to the trade deficit for the period of 2005 and onwards are the machinery and transport equipment with 20.78 per cent, food and live animals with 18.16 per cent and the industry of minerals, fuels and related materials with 17.88 per cent, as shown in Fig 3.²⁶

Fig 3: Total (2005-2011) Exports and Imports of products classified by the SITC



Source: Adopted from KAS; Figures are in (000 €). ***, * - represent the trade deficit sensitive and not sensitive products

Other industries that contributed to the trade deficit, albeit with smaller shares, include manufactured goods, chemicals and related products, and miscellaneous manufactured goods, with 16.23 per cent, 11 per cent and 9.7 per cent respectively. The only industry that did not record a cumulative trade deficit from 2005-2011 was the industry of crude materials, inedible (except fuels).²⁷ All other sectors should be protected and only liberalized after transitional periods pass since all of them are trade-deficit sensitive.

²⁴ For more on the SITC categorization see: 'Standard International Trade Classification', Department of Economic and Social Affairs, Series M no. 34/Rev. 4.

²⁵ Kosovo Agency of Statistics, Export and Import by SITC in value 2005-2011, available at: <http://esk.rks-gov.net/ENG/external-trade/tables>.

²⁶ Kosovo Agency of Statistics, Export and Import by SITC in value 2005-2011, available at: <http://esk.rks-gov.net/ENG/external-trade/tables>.

²⁷ Kosovo Agency of Statistics, Export and Import by SITC in value 2005-2011, available at: <http://esk.rks-gov.net/ENG/external-trade/tables>.

III. THE EXISTING SAAs AND THEIR POSSIBLE REFLECTIONS ON KOSOVO

In 2012, the European Commission declared Kosovo 'largely ready' to start the Stabilization and Association Agreement negotiations after taking some measures regarding the rule of law, trade, public administration and protection of minorities.²⁸ The Commission advised Kosovo to enhance reforms and their implementation in specific areas (rule of law, judiciary, public administration, electoral reform and the Assembly, human and fundamental rights, protection of minorities, trade and internal market issues, phytosanitary and veterinary issues), as these would dictate the pace of negotiations.²⁹ After the Council committed to examine Kosovo's progress in addressing the above-mentioned priorities, the Commission proclaimed Kosovo ready to open the negotiations on an SAA.³⁰ SAA negotiations between EU and Kosovo started in October 2013 and are scheduled to end by mid-2014. According to the EU enlargement commissioner, Štefan Füle, the negotiations between Kosovo and EU will finish by the next spring, implying that the process of negotiations will last only six months.³¹ Even though there is no specific timeframe during which this process has to be completed, all other negotiations with Western Balkan countries lasted between one and three years. Considering the broad spectrum of components to be negotiated and the SAA's importance towards Kosovo's future, a period of six months seems insufficient. The significant matters to be discussed, especially the free movement of goods, could receive short shrift and lead to unsatisfactory results. However, according to the Deputy Minister of Trade and Industry, Kosovo is ready to open the negotiations, including on the free movement of goods. He also added that due to many frequent interactions with the Commission, there are not many contestable issues to prolong negotiations; thus, a period of six months is sufficient for negotiations considering Kosovo's readiness towards this process.³² This seems more as a political conclusion rather than a rational policy, however.

Based on the EU directives and suggestions, the Ministry of Trade and Industry (MTI) has fulfilled the short-term conditions to prepare Kosovo for negotiations. Since Kosovo's market is very small at around 1.8 people, Kosovo's starting position in negotiations is to liberalise as few products as possible and to protect every product for which a sound reason exists. Kosovo is disadvantaged in negotiations by the inability to pose higher duties, since trading partners consider the actual applied duties (10 per cent) as the maximum for future negotiations. The process of identifying the list of products for negotiations—not sensitive, not really sensitive but deteriorating, sensitive but improving and very sensitive—apart from MTI inputs, included the preferences of business associations in Kosovo, the comments of the Kosovo and American Chambers of Commerce and the contribution of the Business Alliance of Kosovo. Consultations with think tanks and other civil society organizations were totally dismissed, however. The

²⁸ European Commission (2012), 'Communication from the commission to the European Parliament and the Council on a Feasibility Study for a Stabilisation and Association Agreement between the European Union and Kosovo', Brussels, Oct 2012.

²⁹ European Commission (2012), 'Communication from the commission to the European Parliament and the Council on a Feasibility Study for a Stabilisation and Association Agreement between the European Union and Kosovo', Brussels, Oct 2012.

³⁰ European Commission (2013), 'Joint Report to the European Parliament and the Council on Kosovo's progress in addressing issues set out in the Council Conclusions of December 2012 in view of a possible decision on the opening of negotiations on the Stabilisation and Association Agreement', Brussels, April 2013.

³¹ Balkan Insight (2013), 'Füle warns Kosovo of 'difficult' SAA talks, available at: <http://www.balkaninsight.com/en/article/fule-expects-saa-talks-with-kosovo-to-end-in-spring-2013> (accessed 16/08/13)

³² Personal Communication with Deputy Minister of Trade and Industry, Mr. Bernard Nikaj, 08/10/2013.

identification of products for protection was based on specific criteria such as products that experienced a constant increase of exports since 2005, products that recorded at least 50,000 EUR of exports, products that contributed the most to trade deficit and, amongst others, each product that affected the budget. These criteria seem reasonable.

Free movement of goods, movement of capital and workers within the European Union market represent the foundation of the Free Internal Market. This implies that goods are traded among the EU member states and SAA assignees without any barriers. However, once the trade barriers are removed, there is a set of procedures that each country should follow in order to provide security to customers regarding the products in the market. Such a security is built through mutually recognised standards, market examinations and control procedures implemented by all the Member States as well as other SAA assignees. Hence, in order for such rules and procedures to be respected and equally implemented in each EU member state and SAA assignees, there needs to be financial and administrative investments. Kosovo has to undergo the same administrative and financial investments right after the negotiations are concluded. The existing SAAs detail all the provisions, procedures and rules to establish progressively a free-trade zone area between the EU and Western Balkan countries in Title IV: Free Movement of Goods, which is divided in the section of Industrial Products, Agriculture and Fisheries, and Common Provisions. The goods characteristics laid in these sections in the SAAs of the Western Balkan countries (Macedonia, Croatia, Albania, Montenegro, Bosnia and Herzegovina and Serbia) are pursuant to the Article XXIV of the GATT 1994 as well as the Understanding and Interpretation of Article XXIV of GATT 1994.³³

A) Industrial Goods Provisions under the existing SAAs: Implications for Kosovo

Existing SAAs regulate the trade regimes of industrial products in Chapter I of Title IV (Free Movement of Goods), where it is stated that the partner country “**shall abolish import duties, charges and quantitative restrictions on industrial products, upon entry into force of the Agreement.**” Nevertheless, this rule does not refer to all industrial products, since these countries have identified their sensitive sectors for which the removal of import duties is phased in over time, implying that sensitive sectors and products will be liberalized gradually after the entry into force of the Agreement, specifically three to ten years afterwards, as shown in Table 4.

³³ GATT (1986), ‘The text of the General Agreement on Tariffs and Trade’, Geneva, July 1986

Table 4: SAA Concessions on Industrial Products for Western Balkan countries

Western Balkan Countries	SAA (Annex)	Transitional Period
Macedonia	Annex I & II	10 years
Albania	Annex I	5 years
Bosnia and Herzegovina	Annex Ia	2 years
	Annex Ib	3 years
	Annex Ic	5 years
Croatia	Annex I	3 years
	Annex II	5 years
Serbia	Annex Ia	3 years
	Annex Ib	4 years
	Annex Ic	5 years
Montenegro	Annex Ia	3 years
	Annex Ib	5 years
Kosovo	(not sensitive and somehow sensitive)	Remove duties and introduce concessions
	(sensitive but improving)	5 years
	(most sensitive)	Preferably 10 years optional : 7-8 years

Source: The SAAs between EU and each Western Balkan country

In *Macedonia*, the most sensitive industrial products were to be liberalized progressively within ten years whereas in *Albania* it was to be done within a period of five years after entry into force of the Agreement; the former being the longest transitional period among Western Balkan countries. Croatia, Serbia, Montenegro and Bosnia and Herzegovina divided their sensitive industrial products into different annexes, each giving a different transitional period based on the level of sensitivity. *Croatia's* import duties for the industrial products listed under Annex 1 and 2 in the SAA were to be progressively liberalized in three and five years, respectively. *Serbia's* import duties for the industrial products listed under Annex 1 (a, b and c) in the SAA were to be progressively liberalized in three, four and five years, respectively. *Montenegro's* import duties for the industrial products listed under Annex IA and IB in the SAA were to be progressively liberalized in three and five years, respectively. Finally, *Bosnia and Herzegovina's* import duties for the industrial products listed under Annex 1 (a, b and c) in the SAA were to be progressively liberalized in two, three and five years, respectively. Having said this, the most common transitional period for liberalizing the import duties of *sensitive industrial products* of Western Balkan countries was within a period of 5 years. This being said, the EU follows a strategy of asymmetric transition towards countries with different levels of development by granting them different periods of liberalization, such as in the case of Western Balkan countries. Since the free movement of goods seems to be the EU's prime economic focus, Kosovo should undertake viable commitments and therefore negotiate the longest possible transitional period for the sensitive industrial products, a period of 10 years.

The process of sensitive product/industry identification is crucial and should concentrate on specific criteria such as: a) the level of tariff protection, b) the role of specific products in GDP as well as in the trade with EU, c) the fiscal effects, d) the role of specific products/industries in the regional dimension, and, e) the ability of some specific products/industries to employ socially-excluded society groups. Hence, Kosovo increases its chances to protect its most sensitive sectors and to adapt to the increasing competition if granted the longest transitional

period (10 years). According to the impact assessment, almost all the non-agricultural products are categorized as sensitive and very sensitive; hence they need to be protected by proposing 7-8 and 10 years transitional periods. The removal of trade barriers of not sensitive and somehow sensitive products,³⁴ due to their high exports in relation to imports, would not harm these products. However, as shown in the table 4, some kind of concessions should be proposed and used as leverage during the negotiations.

Having in mind its poor economic situation, Kosovo, during this transitional period, should strengthen its position in the domestic market as well as enhance its strategies and implement the needed standards to ensure the global competitiveness of its industrial products. It should be noted that Kosovo's economy is heavily dependent on imports, which generate budget revenues through tariffs rather than provide protection towards domestic industries. However, even if tariffs are not considered as high protection towards local industries (set at a flat rate of 10 per cent ad valorem with an exception of a zero per cent tariff), it is necessary that they continue as long as possible for some existing manufacturing and future infant industries. Moreover, a long transitional period would provide Kosovo some time-leverage in creating the necessary tax reforms in order to replace governmental revenues lost due to the free trade area, which according to the Minister of European Integration, the head of the SAA negotiation group, will be around 20 million euro per year.³⁵

Except for the import duties, all the export duties and other charges having equivalent effect shall be abolished upon the date of entry into force of the Agreement between the EU and Kosovo. Following the date of entry into force of the Agreement, the Western Balkan countries are not entitled to introduce new export duties or measure having equivalent effect, nor shall they increase the existing export duties. These standstill clauses in the existing SAAs, which might apply to Kosovo as well, would not affect the exports of Kosovo since EU has granted ATM preference towards Kosovar products exported to EU market since 2000. However, such preferences created by EU on unilateral basis can be unilaterally removed by EU as well, as happened in 2011. The SAA therefore would provide a very important formal step in the process of removing uncertainty and institutionalizing relations between Kosovo and EU.

B) Agricultural Goods Provisions under the existing SAAs: Implications on Kosovo

In existing SAAs, the trade regimes of agricultural and fishery products are regulated in Chapter II of Title IV (Free Movement of Goods). Article 26 in Chapter II, in the existing SAAs with the Western Balkan countries, states, ***“On the date of entry into force of this Agreement, the Community or the Partner country shall abolish all quantitative restrictions and measures having equivalent effect on imports of agricultural and fishery products originating in the partner country or Community”***. However, same as with the industrial products, this rule does not refer to all the agriculture and fishery products, since these countries have identified their sensitive products for which the removal of import duties is phased in over time, from two to six years, subject to the sensitivity of products identified by the partner country, as shown in Table 5.

³⁴ Not sensitive products: (raw hides, skins and leather, -pulp of wood, paper and paperboard, -wool, fine or coarse animal hair, horsehair yarn and woven fabric) and somehow sensitive products: (-impregnated, coated, textile articles, -cooper and articles thereof and – lead and articles thereof).

³⁵ KosovaPress, 'Çitaku: Kujdes, jemi nën vëzhgimin e BE-së!', available at: <http://www.kosovapress.com/sq/politike/citaku-kujdes-jemi-nen-vezhgimin-e-be-se-3703/> .

Table 5: SAA Concessions on Agricultural Products for Western Balkan countries

Western Balkan Countries	SAA (Annex)	Transitional Period
Macedonia	Annex Iva	Immediately upon entry into force of the Agreement (duty free for unlimited quantities)
	Annex IVb	3 years (zero-duty tariff within tariff quotas)
	Annex IVc	3 years (within tariff quotas).
Albania	Annex IIa	Immediately upon entry into force of the Agreement (duty-free for unlimited quantities)
	Annex IIb	5 years
	Annex IIc	Immediately upon entry into force of the Agreement (duty-free within tariff quota)
Bosnia and Herzegovina	Annex IIIa	Immediately upon entry into force of this Agreement (duty-free for unlimited quantities)
	Annex IIIb	2 years
	Annex IIIc	4 years
	Annex IIId	6 years
	Annex IIIe	Immediately upon entry into force of this Agreement (duty-free within tariff quota)
Montenegro	Annex IIIa	Immediately upon entry into force of this Agreement (duty free for unlimited quantities)
	Annex IIIb	5 years
	Annex IIIc	5 years (import duties will be reduced up to 50% percent)
Croatia	Annex Iva	Immediately upon entry into force of this Agreement (duty free for unlimited quantities)
	Annex IVb	Immediately upon entry into force of this Agreement (duty free within quota)
	Annex IVc	Duty-free for unlimited quantities 1 year after entering into force of the Agreement.
	Annex IVd	5 years (progressively eliminated within quotas)
	Annex IVe	5 years (progressively reduced up to 50% for unlimited quantities)
	Annex IVf	5 years (progressively reduced up to 50% within quotas)
Serbia	Annex IIIa	Immediately upon entry into force of this Agreement (duty free for unlimited quantities)
	Annex IIIb	6 years (reduced and/or eliminated as specified for each product in Annex IIIb)
	Annex IIIc	6 years (reduced as specified for each product in Annex IIIc)
	Annex IIId	6 years (reduced as specified for each product in Annex IIId)
Kosovo	Annex (not sensitive)	Immediately upon entry into force of this Agreement (duty-free for unlimited quantities or within tariff quota)*
	Annex (sensitive)	Preferably 7 or 8 years; Optional 5 years (reduced and/or eliminated within quotas as specified for each product)
	Annex (very sensitive)	10 years (reduced and/or eliminated as specified for each product in the Annex)

Source: The SAAs between EU and Western Balkan countries. *-According to the Impact assessment study, none of the agricultural products have been categorized as not sensitive

For instance, *Albania's* SAA has classified the agricultural products into parts a, b and c of Annex II, the import duties of which were to be liberalized immediately upon entry into force of the Agreement, within 5 years, and within a specified quota respectively. *Bosnia and Herzegovina's* import duties for the agricultural products listed under parts a, b, c, d and e of Annex III in the SAA were to be liberalized immediately upon entry into force of the Agreement, within two years,

within four years, within six years, and within a specified tariff quota respectively. *Macedonia's* import duties for the agricultural products listed under parts a, b and c of Annex IV in the SAA were to be liberalized immediately upon entry into force of the Agreement, within three years with a zero-duty tariff within tariff quotas and three years within tariff quotas, respectively. *Montenegro's* import duties for the agricultural products listed under parts a, b and c of Annex III in the SAA were to be liberalized, respectively, immediately upon entry into force of this Agreement, within five years, and with import duties reduced by up to 50 per cent within five years respectively. *Croatia* listed its agricultural products under parts a, b, c, d, e and f of Annex IV. The import duties for products listed under Annex IV(a) were to be immediately abolished for unlimited quantities at the date of entering into force of the Agreement, while for those under Annex IV (b), the import duties were to be abolished within quotas. Import duties for products listed under Annex IV(c) were to be abolished for unlimited quantities one year after entering into force of the Agreement. Import duties for products listed under Annex IV(d) were to be progressively eliminated within quotas within five years. The custom duties of the agricultural products under the Annex IV (e and f) were to be progressively reduced up to 50% within a period of 5 years for unlimited quantities (e) and within tariff quotas (f). Finally, *Serbia* has grouped its agricultural products under parts a, b, c and d of Annex III which correspond to different custom liberalization periods. Custom duties for products under Annex III (a) had to be abolished for unlimited quantities immediately upon entry into force of the Agreement. Custom duties (ad valorem and/or specific duties) for products listed under Annex III (b) had to be either reduced or eliminated within a period of six years in accordance with the timetable for each product specifically. Custom duties (ad valorem and/or specific duties) for products listed under Annex III (c) and (d) had to be reduced to specific percentages within six years as specified in these two parts of Annex III.

According to Table 5 and the Impact Assessment, Kosovo needs to protect all of its agricultural products since they are categorized as very sensitive and sensitive but improving. Hence, the agricultural products should be liberalized within a seven-to-ten-year period as specified in the table. If any of these products would fall into the category of not sensitive products, they should be liberalised immediately upon entry into force of this Agreement.

Regarding wine and spirit products as well as custom duties on fish and fishery products, each country either detail their specific arrangements in the Protocol and/or Annex within the SAA or in separate agreements. The table below shows in details the method of each country regarding the arrangements of the aforementioned products.

Table 6: SAA Concessions on Wine and Spirit and Fishery products for Western Balkan countries

	Wine and spirit products	Fish and fishery products
Albania	Protocol 3	Annex III
Bosnia and Herzegovina	Protocol 7	Annex IV
Montenegro	Protocol 2	Annex IV
Croatia	Separate Agreement	Annex V
Macedonia	Separate Agreement	Annex V
Serbia	Protocol 2	Annex IV

Source: The SAAs between EU and Western Balkan countries

The specific treatment of agriculture in international trade regulations stems from the fact that all governments share a common concern regarding the stability and development of their rural sector as well as its protection from external competitors. Developed countries, which still have sensitive sectors to protect, as well as developing countries fear that opening up their agricultural

markets gradually constrains their governments' ability to protect their agricultural producers. Hence, the process of opening up trade of farm products, especially in countries where the government closely controls the sector, usually happens at a very slow pace. As elaborated, the special treatments with which the agriculture products are characterized in existing SAAs range from exclusion from the tariff reduction schedule to import restrictions within a quota over a transitional period. As it is portrayed in the Annexes of the SAAs, not all the agricultural products of Western Balkan countries had to be fully liberalized which gives Kosovo an opportunity to exclude as many products as possible even after the full implementation of the Agreement.

Having in mind that trade deficit in Kosovo has been constantly deepening due to large imports and very few exports, most of the Kosovo traded products are considered as trade sensitive. This group pertains to almost all agricultural products.³⁶ Kosovo should therefore negotiate the transitional periods for the liberalization process on strategically important goods (very sensitive and sensitive) and their pace of tariff liberalization as well as deliberately decide which agricultural products/sectors can be fully excluded from the free trade, based on the Western Balkan experiences, even after the full implementation of the Agreement. According to the Deputy Minister of MTI, during the negotiations Kosovo will try to negotiate a ten-year transitional period, especially for the agricultural products since they are considered as products with competitive and production capacity.³⁷ Apart from negotiating the liberalization of sensitive agricultural products, the SAA will enable Kosovo to negotiate individual quotas for specific products, such as wine, in order to be able to export to the EU market.³⁸ The negotiations for such quotas require accurate production data for the individual quota. Such quotas will incentivise the Kosovar business to continue their production, thus increasing exports.

C) Anti-dumping, safeguards and (phyto)sanitary measures

Anti-dumping, in particular contingent protection, has become one of the major debates in the international trade relations. Dumping represents a situation of international price discrimination, where prices of certain goods are lower in the importing country than the price in the exporting country. Having said this, the anti-dumping measures are the major commercial defence of the European Union. All the existing SAAs with Western Balkan countries state that each partner country has committed to align its legislative framework to the Community acquis regarding anti-dumping measures. Having analysed all the existing Agreements, the Article regarding the dumping provisions for each Western Balkan country have the same structure, detailed under Title IV (Free Movement of Goods), Chapter III (Common Provisions). They contain the following provisions:

1. *None of the provisions in this Agreement shall prevent any of the Parties from taking trade defence action in accordance with paragraph 2 of this Article and Article 41.*
2. *If one of the Parties finds that dumping and/or countervailable subsidisation is taking place in trade with the other Party, that Party may take appropriate measures against this practice in accordance with the WTO Agreement on Implementation of Article VI of the GATT 1994 or the WTO Agreement on Subsidies and Countervailing Measures and the respective related internal legislation.*

³⁶ MTI (2013), Technical Assistance to Further Development to Kosovo's Trade Policy: Preparing Kosovo for the trade aspects of the Stability and Association Agreement negotiations with the EU', April 2013

³⁷ Personal Communication with Deputy Minister of Trade and Industry, Bernard Nikaj; 08/10/2013

³⁸ Personal Communication with Deputy Minister of Trade and Industry, Bernard Nikaj; 08/10/2013

It has been argued that anti-dumping measures facilitate the process of liberalization and enable a smooth flow of trade in goods. Countries, especially developing ones, use these measures to defend their domestic industries against material injury. Hence, the SAA between EU and Kosovo should include the anti-dumping measures, in accordance with the WTO standards, in order for Kosovo to act against dumping especially in those cases when there is genuine material injury to the competing domestic industry. However, upon the expiring of the full implementation of the transition period, the anti-dumping measures should be abolished. According to the legal department on MTI, the current Law No. 03/L-097 on Anti-Dumping and Countervailing Measures is in accordance with the WTO provisions and requirements. However, within this year, the law will be amended and harmonized with the EU *acquis*, particularly with the EU regulation no. 1225/1999 on protection against dumped imports from non-members of EC and with EU regulation on protection against subsidized products from non-members of EC.³⁹

To note, countries use *safeguard measures* as temporary restrictions on trade (e.g. tariffs or quotas) in order to protect their domestic industry from foreign competition. In cases when imports of specific goods increase so substantially as to threaten the domestic industry, the respective country can use the safeguard measures to restrict the imports of those goods.⁴⁰ Hence, the safeguard measures allow the contracting parties to temporarily suspend and/or exempt commitments in exceptional circumstances. By using such measures, which only apply to unforeseen circumstances, countries ensure a way out from the delicate situations and, in turn, preserve their markets.

Western Balkan countries negotiated that the safeguard measures, as detailed in Table 7, be included on their SAAs due to their importance and function as countervailing duties. Kosovo should also insist to include the safeguard measures in the Agreement in order to protect its domestic industries from high imports flowing from the EU market. On contrary to the Law on Anti-Dumping and Countervailing Measures, the Law on Safeguard Measures on Imports does not need to be amended as it is in accordance with the WTO provisions.⁴¹ However, according to Kosovo's Action Plan, even though the safeguard measures are in place, there is a need to intensify the current reforms and implement them in practice on a larger scale especially since Kosovo largely depends on imports.⁴² Hence, by achieving the full implementation of these measures, Kosovo will likely manage to use the safeguard measures for a maximum period of three years (in *exceptional circumstances* for a period of 5 years maximum) in order to protect the domestic industry by restricting the large increase of imports from EU market to Kosovo.

³⁹ Personal communication with Mr. Rexhep Bllaca, Head of the Legal Department, Ministry of Trade and Industry, 13/11/2013

⁴⁰ Chad P. Bown and Meredith A. Crowley (2003), 'Safeguards in the World Trade Organization', available at: http://people.brandeis.edu/~cbown/papers/bown_crowley_kluwer.pdf

⁴¹ Personal communication with Mr. Rexhep Bllaca, Head of the Legal Department, Ministry of Trade and Industry, 13/11/2013

⁴² Government of Kosovo (2012), 'Action Plan on negotiation of the Stabilisation and Association Agreement', Dec 2012

Table 7: SAA Safeguard Measures for Western Balkan countries

SAA	SAA Safeguard measures
EU-Albania	<p>Cause: increased quantities of imports which cause or threaten – serious injury to the domestic industry and/or – serious disturbances in any economic sector.</p> <p>Measures: suspension of the further reduction of any applicable rate of duty or the increase of the rate of duty.</p> <p>Extent of measures: what is strictly necessary to remedy the problem</p> <p>Timeframe: maximum of 1 year; in <i>exceptional circumstances</i>, up to a total of 3 years.</p>
EU-Bosnia Herzegovina	<p>Cause: increased quantities of imports which cause or threaten – serious injury to the domestic industry and/or – serious disturbances in any economic sector.</p> <p>Measures: suspension in the increase or in the reduction of the margins of preference.</p> <p>Extent of measures: what is strictly necessary to remedy the problem (not be higher than the basic duty)</p> <p>Timeframe: maximum of 2 years; in <i>exceptional circumstances</i> may be extended for a further period of 2 years</p>
EU-Croatia	<p>Cause: increased quantities of imports which cause or threaten – serious injury to the domestic industry and/or – serious disturbances in any economic sector.</p> <p>Measures: suspension of the further reduction of any applicable rate of duty or the increase of the rate of duty.</p> <p>Extent of measures: not in excess of what is necessary to remedy the difficulties.</p> <p>Timeframe: maximum of 1 year; in <i>very exceptional circumstances</i>, maximum of 3 years.</p>
EU-Macedonia	<p>Cause: increased quantities of imports which cause or threaten – serious injury to the domestic industry and/or – serious disturbances in any economic sector.</p> <p>Measures: suspension of the further reduction of any applicable rate of duty provided by the Agreement or the increase of the rate of duty.</p> <p>Extent of measures: not in excess of what is necessary to remedy the difficulties.</p> <p>Timeframe: maximum of 1 year; in <i>very exceptional circumstances</i>, maximum of 3 years.</p>
EU-Montenegro	<p>Cause: increased quantities of imports which cause or threaten – serious injury to the domestic industry and/or – serious disturbances in any economic sector.</p> <p>Measures: suspension in the increase or in the reduction of the margins of preferences provided by the Agreement up to a maximum limit corresponding to the basic duty</p> <p>Extent of measures: what is necessary to remedy the problems</p> <p>Timeframe: maximum of 2 years; in <i>exceptional circumstances</i> may be extended for a further period of 2 years.</p>
EU- Serbia	<p>Cause: increased quantities of imports which cause or threaten – serious injury to the domestic industry and/or – serious disturbances in any economic sector.</p> <p>Measures: suspension in the increase or in the reduction of the margins of preferences provided by the Agreement up to a maximum limit corresponding to the basic duty.</p> <p>Extent of measures: shall not exceed what is necessary to remedy the problems</p> <p>Timeframe: maximum of 2 years; in <i>exceptional circumstances</i> may be extended for a further period of 2 years.</p>
EU- Kosovo	<p>Cause: increased quantities of imports which cause or threaten – serious injury to the domestic industry and/or – serious disturbances in any economic sector.</p> <p>Measures: suspension in the increase or in the reduction of the margins of preferences provided by the Agreement up to a maximum limit corresponding to the basic duty</p> <p>Extent of measures: shall not exceed what is necessary to remedy the problems.</p> <p>Timeframe: maximum of preferably 3 years (optional 2 years); in <i>exceptional circumstances</i> may be extended for a further period of 2 years.</p>

Source: The SAAs between EU and Western Balkan countries

Sanitary and Phytosanitary measures are conformity assessment and requirement procedures that protect the human or animal life/health from additives, toxins, contaminants, or disease-carrying organisms in food or feed), protect human life or health from diseases carried by animals or plants, as well as protect the animal or plant life from pests, or disease-carrying

organisms.⁴³ Hence, it is crucial for government to take measures against SPS risks in order to protect the market.

Having in mind their importance, the SPS measures are becoming an important part of the international trade relations. By being based on objectives and neutral grounds, the SPS measures enable to create a balance between the free trade and food safety, and animal health policies. In particular, the SPS measures adopted should reduce the trade barriers without jeopardizing the ability of the importing country to impose and enforce SPS measures needed to protect the animal, human and plant life.⁴⁴ Hence, governments should adopt such measures since the SPS requirement might pose a significant market access barrier for food and agricultural products. Such a negative impact mostly affects the developing countries with lower compliance capacity like Kosovo. According to a study regarding the Kosovo National Integrated Border Management Strategy, the budget limitation led to insufficient available inspectors (veterinary and phytosanitary inspectors) to carry out proper import inspection.⁴⁵ The European Commission underlined lack of capacity and facility for phytosanitary and veterinary import management as one of the problematic areas in which Kosovo has to show progress.⁴⁶ The Deputy Minister of Trade and Industry, Mr. Nikaj, acknowledged this, stating that Kosovo will negotiate its position regarding the phytosanitary standards and the respective transitional period during which these standards have to be met.⁴⁷ This would put a lot of pressure on Kosovo's institutions as well as on businesses which are part of this process. Since SPS standards are the main reasons why Kosovo cannot export anything of 'animal origin' to the EU, they should be one of the priorities for Kosovo in order for exports to increase and meet the international requirement, especially since Kosovo has a large potential to export products of animal origin such as poultry meat, eggs, and animal skin.

IV. SAA EFFECTS ON REGIONAL TRADE AND ITS IMPLICATIONS ON KOSOVO'S TRADE

Opening up markets on a preferential basis can be beneficial for countries whose economic conditions are stable, as shown by the welfare gains of some of the Western Balkan countries. On the other hand, the market liberalization might lead to welfare losses, as well as damages for both producers and consumers if the economic conditions of the partner country are unsatisfactory. The effect of an SAA depends on the ability of the partner country to implement all of the needed standards, increase its competitiveness of the domestic products and stimulate exports while promoting economic growth. The arrangements in the SAAs do not put Western Balkan countries in a more advantageous situation than their Central and Eastern European

⁴³ Basic Rules for Imported Goods – Kosovo , accessed (11/11/2013) ,available at:

http://ceftatradeportal.com/kosovo/images/stories/Permits_and_Licenses/P2M6E1.3.pdf

⁴⁴ Denise Prévost (2010), 'Sanitary, Phytosanitary and Technical Barriers to Trade in the Economic Partnership Agreements between the European Union and the ACP Countries', ICTSD EPAs and Regionalism Programme, Issue Paper No. 6.

⁴⁵ Kosovo National Integrated Border Management Strategy, (2006), available at: <https://www.cimicweb.org/cmo/ComplexCoverage/Documents/Kosovo/Background%20Documents/Border%20Management.pdf>

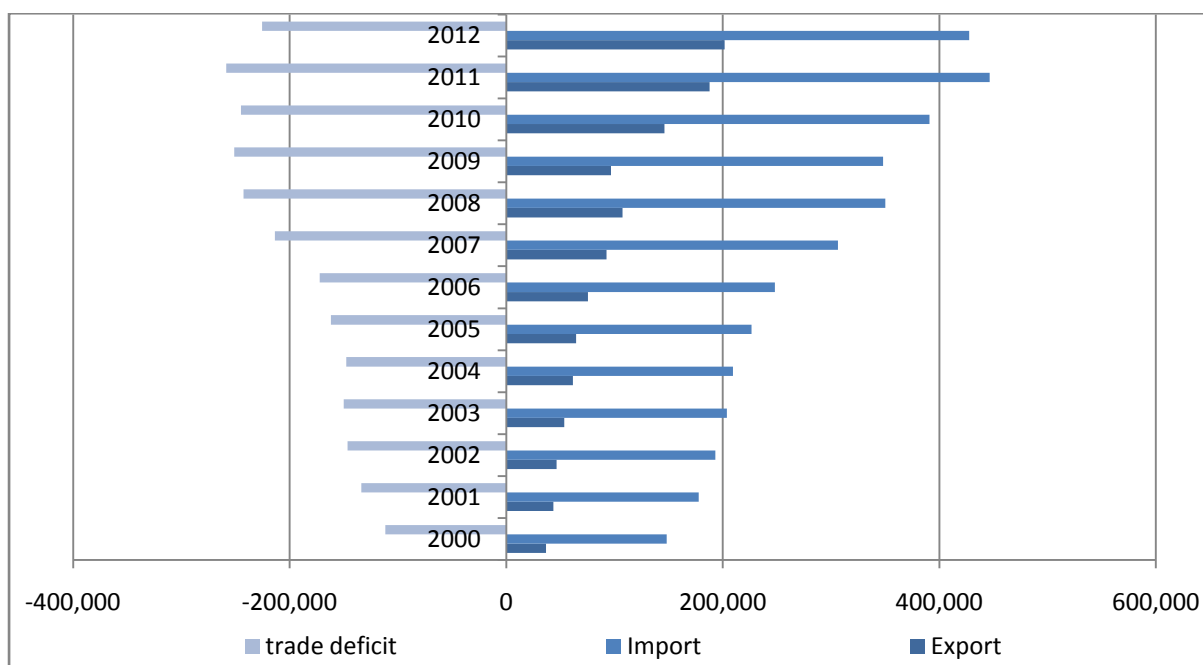
⁴⁶ European Commission (2012), 'Communication from the commission to the European Parliament and the Council on a Feasibility Study for a Stabilisation and Association Agreement between the European Union and Kosovo', Brussels, Oct 2012

⁴⁷ Personal Communication with Deputy Minister of Trade and Industry, Bernard Nikaj; 08/10/2013

counterparts; however, the agreement does treat the former ones more favourably during transitional periods, regarding the EC access in their respective markets.⁴⁸

Having analysed the external trade accounts of the Western Balkan countries, one can see that, after the agreement has been signed, exports and imports tend to gradually increase between the partner countries and the EU. In the case of Albania, since 2006 when the agreement was signed up to 2012, the export and imports experienced a gradual increase.⁴⁹ It should be noted that the trend line of the gradually increasing exports was less steep than that of imports, implying that during this period the imports have been increasing at a faster pace, as shown in Fig. 4. Consequently, this implies that the trade preferences in the Agreement did not increase the coverage rate of imports with exports, hence, the trade deficit deepened further. The products which contributed mostly to the trade deficit of Albania, in general, before and after the Agreement were: a) machineries, equipment and spare parts, b) food, beverage and tobacco, c) minerals, fuels, and electricity, d) construction material and metals, and e) chemical and plastic products.⁵⁰

Fig. 4: External trade accounts between Albania and EU, 2000-2012



Source: Adopted from the Statistical Institute – Albania. *All the figures are in LEK (000)

Whereas during the period of 2000-2006, the exports and imports of Macedonia increased at a low rate (see Fig 5), the Macedonian exports and imports with the EU experienced a faster increase from 2007 to 2011 with exception of 2009. This is known as the trade creation effect.⁵¹ In comparing the trade deficit of Albania and Macedonia, one can see that the latter, after signing the Agreement, experienced a gradual and steady increase of trade deficit compared to

⁴⁸ David Phinnemore (2003), 'Stabilisation and Association Agreements: Europe Agreements for the Western Balkans?' *European Foreign Affairs Review* 8: 77–103

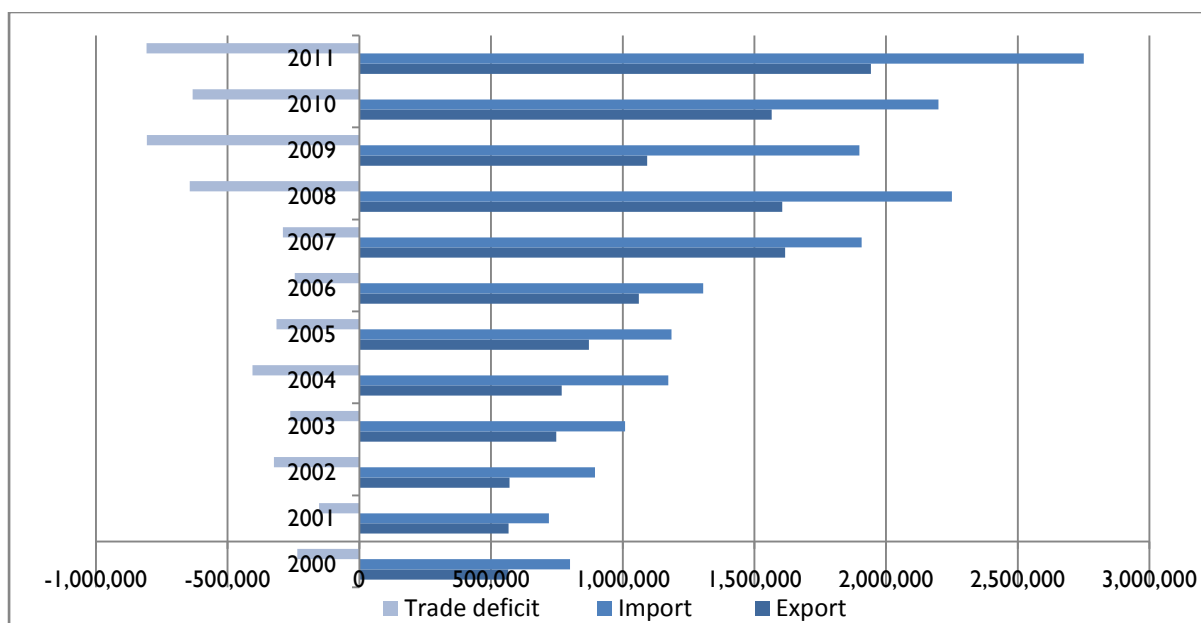
⁴⁹ Albanian Statistical Institute: Foreign Trade Figures, available at: <http://www.instat.gov.al/al/themes/tregtia-e-jashtme.aspx?tab=tabs-4>

⁵⁰ Adopted from the Statistical Institute of Albania: Foreign Trade according to products (1993-2012)

⁵¹ Katerina Tosevska (2007), 'Analysis of the Effects of the Stabilization and Association Agreement over External Trade of the Republic of Macedonia', *International Trade and Finance Association Working Paper* 10

the former. The products that contributed the most to Macedonia's trade deficit from 2005-2012 were: a) minerals, fuels, and electricity, b) crude materials and inedible, c) machinery and transport equipment, and d) food and live animals.⁵² In the categories of beverages, tobacco, and miscellaneous manufactured articles, Macedonia recorded a trade surplus. On the other hand, Macedonia's coverage rates with EU member states are much more satisfying than those of Albania, with an average of 71.90 per cent and 31.2 per cent respectively.⁵³

Fig. 5: Export and Imports between Macedonia and EU, 2000-2011



Source: Adopted from the State Statistical Office – Macedonia. *The figures from 2000-2003 are in \$ (000); The figures from 2004-2011 are in € (000)

As elaborated, Albania and Macedonia in general experienced an increase of imports and exports after signing an SAA with the EU. However, the Agreement preferences do not always lead to such scenarios since the effect of SAA depends on the ability of the partner country to exploit such preferences as well as on its economic situation. Prior to signing the agreement in 2007, Montenegro's exports and imports with EU members increased steadily from year to year. However, in 2009, exports and imports decreased substantially followed by a moderate increase. Products which contributed mostly to the trade deficit of Montenegro, from 2005 to 2009, were: a) machinery and transport equipment, b) minerals, fuels, and electricity, c) food and live animals and d) miscellaneous manufactured articles.⁵⁴ The average coverage rate of Montenegro for the period 2005-2011 was close to that of Albania than that of Macedonia at 32.07 per cent.⁵⁵

⁵² Adopted from the State Statistical Office – Macedonia: Export and imports by the sections and divisions of the SITC REV 4, 2005-2012

⁵³ State Statistical Office – Macedonia, 'Commodity exchange trade by countries', available at: <http://makstat.stat.gov.mk/pxweb2007bazi/Database/Statistics%20by%20subject/Foreign%20Trade/Commodity%20exchange%20trade%20by%20countries/Commodity%20exchange%20trade%20by%20countries.asp>; See also the Albanian Statistical Institute: Foreign Trade Figures, available at: <http://www.instat.gov.al/all/themes/tregtia-e-jashtme.aspx?tab=tabs-4>

⁵⁴ Statistical Office of Montenegro, 'Foreign Trade – Annual Releases', available at: <http://www.monstat.org/eng/page.php?id=460&pageid=171>

⁵⁵ Statistical Office of Montenegro, 'Foreign Trade – Annual Releases', available at: <http://www.monstat.org/eng/page.php?id=460&pageid=171>

On the other hand, Serbia, after signing the SAA in 2008 until 2012, experienced a gradual increase of imports and exports. It should be noted that exports increased substantially from 2009-2010, followed by a moderate increase in the subsequent years.⁵⁶ Serbia's average coverage rate of imports by exports during this period amounted to 57.5 per cent. Moreover, since 2004, Serbia's exports of agricultural and industrial products to the EU outweighed the imports of these products from the EU.⁵⁷

Fig. 6: Export and Imports between Montenegro and EU, 2005-2011



Source: Adopted from the Statistical Office of Montenegro – Monstat. *All the figures are in € (000)

According to the impact assessments conducted by the Ministry of Trade and Industry in Kosovo, the SAA preferences will lead to an increase of imports and exports, in the short and medium term.⁵⁸ This implies that Kosovo's trade deficit will likely deepen further if economic conditions and competitiveness do not improve. Kosovo's institutions should start prioritising and protecting specific sensitive sectors and industries as well as liberalizing all those products, such as machinery, that induce higher productions costs. Hence, Kosovo should not follow the trade policy of collecting budget revenues through tariffs as it currently does, but should transform tariffs into a protective mechanism for domestic industries. This needs a gradual tax-system reform.

As an average finding, trade balance of some of the Western Balkan countries and their performance throughout years might have been triggered by factors outside the SAA provisions and preferences. Hence, in order to analyse how the liberalization of trade with the EU might have affected the country's overall welfare and sensitive sectors/industries one should analyse the empirical findings as well as difficulties faced by these countries.

The results suggest that full liberalization of trade between EU and Serbia, for instance, would lead to welfare gains in sectors that have been strongly protected against imports from EU

⁵⁶ The Delegation of the European Union to the Republic of Serbia: Serbia – EU total Trade, available at: <http://www.europa.rs/en/srbija-i-evropska-unija/eu-serbia-trade/serbia-eu-total-trade.html>

⁵⁷ Mario Holzner and Valentina Ivanić, (2012), 'Effects of Serbian Accession to the European Union', *Panoeconomicus*, 3, pp. 355-367

⁵⁸ MTI (2013), Technical Assistance to Further Development to Kosovo's Trade Policy: Preparing Kosovo for the trade aspects of the Stability and Association Agreement negotiations with the EU', April 2013

as well as in sectors in which Serbia has specialised, such as the agriculture and food industries.⁵⁹ Such empirical findings were also presented by a study for Albania where the full EU liberalization would lead to welfare gains of 1.53 per cent of GDP.⁶⁰ However, in the case of Serbia, the overall net welfare effect of full liberalization would be negative due to the tremendous loss of tariff revenues.⁶¹ This scenario might characterise Kosovo as well since its economy heavily depends on the imports generating budget revenues through tariffs. Moreover, empirical evidence on Kosovo suggests that the net welfare effect of trade liberalization would be negative due to substantial losses in tariff revenues amounting to 71.2 million euro.⁶² According to trade impact assessment, full liberalization of import duties on EU products will worsen the trade deficit and will cause a loss of 8.13 per cent in state revenues.⁶³ The most affected products would be vehicles, plastics and equipment (boiler machinery and mechanical appliances), whereas products inducing the highest revenue losses would be tobacco and its substitutes, vehicles and equipment (tools, cutlery, base metals, spoons and forks).

Besides tariff revenue losses, studies show that SAA might negatively affect other factors and spheres of the economy. In the case of Macedonia, the results suggest that the SAA asymmetrical preferences did not improve Macedonia's position in the international market, nor did they strengthen the competitiveness of its exports.⁶⁴ In addition, the results suggest that SAA preferences in Serbia will cause a drop of consumer prices as well as a decline of market and producer prices of the domestic goods.⁶⁵ Overall, according to the results, SAA negatively affects the output as well as employment of the partner countries. However, in the case of Albania, the results imply that SAA would lead to an output expansion, albeit inconsistently across various sectors, that would positively affect employment.⁶⁶ Hence, the SAA, being contingent on the economic situation of the partner country, affects each country differently. In Kosovo's case, according to the impact assessment, the liberalization of trade between EU and Kosovo would not significantly affect the output or employment.⁶⁷

Except for the benefits that trade liberalization brings to partners countries—increase of exports, greater variety of products, welfare gains, output expansion, etc.—the SAA's implementation might bring negative consequences due to the opening of the domestic market as well as from the increased EU market competition. In this context, more significant and with more detrimental influence on trade are the various non-trade barriers stemming from the Agreement, such as the enterprise reconstruction, social programmes and their financial

⁵⁹ MTI (2013), Technical Assistance to Further Development to Kosovo's Trade Policy: Preparing Kosovo for the trade aspects of the Stability and Association Agreement negotiations with the EU', April 2013

⁶⁰ Yiannis Zahariadis (2007), 'The Effects of the Albania-EU Stabilization and Association Agreement: Economic Impact and Social Implications', ESAU Working Paper 17

⁶¹ Mario Holzner and Valentina Ivanić, (2012), 'Effects of Serbian Accession to the European Union', *Panoeconomicus*, 3, pp. 355-367

⁶² Mario Holzner and Florin Peci (2012), 'Measuring the Effect of Trade Liberalization in Kosovo', The Vienna Institute for International Economic Studies, Working Papers 85

⁶³ MTI (2013), Technical Assistance to Further Development to Kosovo's Trade Policy: Preparing Kosovo for the trade aspects of the Stability and Association Agreement negotiations with the EU', April 2013

⁶⁴ Katerina Tosevska (2007), 'Analysis of the Effects of the Stabilization and Association Agreement over External Trade of the Republic of Macedonia', International Trade and Finance Association Working, Paper 10

⁶⁵ Mario Holzner and Valentina Ivanić, (2012), 'Effects of Serbian Accession to the European Union', *Panoeconomicus*, 3, pp. 355-367

⁶⁶ Katerina Tosevska (2007), 'Analysis of the Effects of the Stabilization and Association Agreement over External Trade of the Republic of Macedonia', International Trade and Finance Association Working, Paper 10

⁶⁷ MTI (2013), Technical Assistance to Further Development to Kosovo's Trade Policy: Preparing Kosovo for the trade aspects of the Stability and Association Agreement negotiations with the EU', April 2013

implications, quality and ecological standards and their adoption costs and high unemployment—especially considering Kosovo’s current high unemployment rate.⁶⁸ Overcoming all of these barriers is a crucial goal for each partner country in order to fully grasp the benefits enclosed in the Agreement. The empirical results suggest that the partner country, Albania, could additionally gain 0.46 per cent of GDP if it would fully harmonise its legislation to the *acquis* and modernize its standards.⁶⁹ Hence, Kosovo, in order to improve its position in the domestic market as well as in the foreign one, should improve its production processes, accept and harmonize all the standards with those of the EU market, strengthen its competitiveness, meet the necessary criteria and measures to enhance exports (e.g. sanitary/phytosanitary measures) and adapt to the needs and tastes of the global market. Such standards, some of them mandatory and others voluntary, represent the blueprints for partner countries to overcome all the posed obstacles which, in turn, would generate economic growth.⁷⁰

Kosovo’s institutions should therefore play a crucial role on advertising and raising awareness regarding the advantages and possibilities of promoting products in EU market as well as meeting all of the necessary requirements during the granted transitional periods. Macedonia is one of the Western Balkan countries which, after signing the SAA, did not increase its agricultural exports to the EU market even though it was granted a transitional period of ten years.⁷¹ The main reason is the low usage of preferences by Macedonian producers who blame the government for not disseminating detailed information. Having in mind the crucial importance of the agricultural sector in Kosovo, as well as its production capacity, Kosovo should use the transitional period granted to agricultural products wisely and try to enhance its agricultural exports by meeting all necessary requirements and international measures. This should be a priority for Kosovo having in mind that almost all agricultural products have been categorized by the Ministry of Trade and Industry as sensitive or very sensitive products.⁷²

V. THE WAY FORWARD

This policy report explores the possible economic impacts stemming from the Stabilization and Association Agreement. Drawing on the existing Stabilization and Association Agreements between Western Balkan countries and European Union, this policy report has identified the key trade-related provisions that might apply to Kosovo’s case, as well as their potential implications and impact on growth, trade and production.

As elaborated in this policy report, the Agreement encloses many benefits tailored to the partner country, in this case Kosovo, which, in order to be fully utilized, should be followed by institutional reforms and policies as well as by a series of promotional initiatives. On the other hand, the SAA implementation might have negative consequences stemming from the opening of the domestic market as well as from the increased competition from the EU market. To make the most of the SAA, Kosovo’s institutions should implement the following measures:

⁶⁸ Mario Holzner and Valentina Ivanić, (2012), ‘Effects of Serbian Accession to the European Union’, *Panoeconomicus*, 3, pp. 355-367

⁶⁹ Yiannis Zahariadis (2007), ‘The Effects of the Albania-EU Stabilization and Association Agreement: Economic Impact and Social Implications’, ESAU Working Paper 17

⁷⁰ European Commission (2013), ‘Working document on standards & trade of agricultural products’, Directorate-General for Agriculture and Rural Development, Brussels

⁷¹ Katerina Tosevska (2007), ‘Analysis of the Effects of the Stabilization and Association Agreement over External Trade of the Republic of Macedonia’, International Trade and Finance Association Working, Paper 10

⁷² MTI (2013), Technical Assistance to Further Development to Kosovo’s Trade Policy: Preparing Kosovo for the trade aspects of the Stability and Association Agreement negotiations with the EU’, April 2013

1. Kosovo's main economic policy is to collect budget revenues through imposed tariffs since its economy is robustly dependent on imports. Having said this, Kosovo should gradually change its economic policy by using the tariffs to prioritise and protect specific sensitive sectors and industries instead of to collect budget revenues alone, as this would lead to economic growth and sustainability.
2. Since the free movement of goods represents Kosovo's primary economic focus, Kosovo should undertake viable commitments and therefore negotiate the longest possible transitional period for sensitive products, a period of 10 years. Special emphasis should be given to the transitional periods of agricultural products due to their production capacity and potential development. Kosovo's institutions should use wisely the transitional period granted to agricultural products by trying to enhance its agricultural exports through meeting all the necessary requirements and international measures. Moreover, the longest transitional period would provide Kosovo some time leverage in establishing the necessary tax reforms in order to generate governmental revenues to replace budget losses resulting from the free trade area.
3. Having in mind its poor economic situation as well as its small market, Kosovo's starting position during the trade negotiations should be to protect as many products as possible for which a sound reason can be provided and liberalize a limited number of products, especially those that induce higher production costs such as machinery (wherein technological investments should be made) and products that Kosovo will likely never have the potential of producing.
4. The process of identifying the sensitive products/industries is crucial for the future economic development of the partner country. Hence, Kosovo, during this phase, should concentrate on some specific criteria such as the level of tariff protection for each product, the role of specific products in the GDP as well as in the trade with EU market, the implication of fiscal effects, the role of specific products/industries in the regional dimension, and amongst other, the ability of some specific products/industries to employ the socially-excluded society groups.
5. The Stabilization and Association Agreement will enable Kosovo to negotiate individual quotas for specific products in order to be able to export also to the EU market (the global quota). The negotiations for such quotas require accurate production data as to correctly specify the individual quota. Such quotas will incentivise Kosovar businesses to continue their production, increase the exports by filling the individual and the global quota. Hence, Kosovar producers should provide accurate production information in order to assist institutions in negotiating the correct individual quotas for specific products.
6. After the conclusion of negotiations, Kosovo has to undergo administrative and financial investments in order to fully grasp the benefits enclosed in the SAA. More precisely, once the trade barriers are removed, Kosovo should exercise market examinations and control procedures, strengthen its position in the domestic market, enhance its strategies and implement the necessary standards. These steps will provide security to customers regarding the products in the market and will ensure the global competitiveness of Kosovo's products. Kosovo should also adopt the mutually recognised standards, such as the technical regulation—mandatory standards—and other standards—voluntary ones. These standards include the food safety, plant and animal health regulations, environmental regulations, processing methods, marketing standards and labelling regulations, regulations for organic products, animal welfare standards, fair trade standards and among others social standards.

7. Having in mind that Sanitary and Phytosanitary measures are the main reasons why Kosovo cannot export anything of 'animal origin', they should be one of the priorities for Kosovo in order to increase exports and meet international requirements, especially since Kosovo has a large potential to export products of animal origin.
8. Kosovo should pay attention to the non-trade barriers stemming from the Agreement that might have a significant and detrimental influence on trade. Such barriers include enterprise reconstruction, social programmes and their financial implications, quality and ecological standards and their adoption costs, and high unemployment costs. Overcoming all of these barriers should be a crucial goal for Kosovo and its institutions, in order to strengthen its competitiveness, meet the necessary criteria and measures to enhance exports (e.g. sanitary/phytosanitary measures) as well as adapt to the needs and tastes of the global/EU market.

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Policy Reports are lengthy papers which provide a tool/forum for the thorough and systematic analysis of important policy issues, designed to offer well informed scientific and policy-based solutions for significant public policy problems. In general, Policy Reports aim to present value-oriented arguments, propose specific solutions in public policy – whereby influencing the policy debate on a particular issue – through the use of evidence as a means to push forward the comprehensive and consistent arguments of our organization. In particular, they identify key policy issues through reliable methodology which helps explore the implications on the design/structure of a policy. Policy Reports are very analytical in nature; hence, they not only offer facts or provide a description of events but also evaluate policies to develop questions for analysis, to provide arguments in response to certain policy implications and to offer policy choices/solutions in a more comprehensive perspective. Policy Reports serve as a tool for influencing decision-making and calling to action the concerned groups/stakeholders.