About the Policy Spotlight

In 2016, the American Chamber of Commerce in Kosovo (AmCham Kosovo) began the publication of the ‘Policy Spotlight’ – a document that aims to focus on different economic policies. This document is also intended to outline the challenges for development of respective policies, in order to pave the way for addressing them. The Spotlight is published on a bi-monthly basis. Whereas this edition places the spotlight on the Stabilization and Association Agreement (SAA) in Kosovo, the following editions will center on other policies that are of interest to the private sector.

Policy Spotlight – Stabilization and Association Agreement (SAA)

This document provides an overview of the SAA in Kosovo, with focus on its structure and its implications on the business sector in particular, and the Kosovo economy in general.

The Stabilization and Association Process (SAP) led by the EU within enlargement policies, has three main objectives:

i. Stabilization and rapid transformation into market economy;
ii. Driving regional cooperation; and
iii. Perspective of membership into the EU.

An integral part of the SAP is the signing process of SAAs between the EU and potential EU candidate countries. The process has been carried forward in the Balkan region as well, with Kosovo being the last to enter into such an agreement with the EU. The following sections of this document focus on the potentials that SAA presents for Kosovo businesses and our economy, concluding with an overview of SAPs and SAAs of the neighboring countries.

Overview of Kosovo-EU SAA

As an international agreement, the SAA determines the official mechanisms and time limits for implementation of all reforms which will progressively align Kosovo with the EU in certain policy fields. Furthermore, the SAA sets the framework of Kosovo relations with EU member states and institutions for the implementation of the SAP until full EU membership is achieved.
The Kosovo-EU SAA establishes a contractual relationship that entails mutual rights and obligations and covers all sectors of business and the economy. It focuses on key democratic principles and core elements that are at the heart of the EU’s single market. Through the SAA -signed on October 27, 2015 - both the Republic of Kosovo and the European Union have agreed to work together towards improvement of the regional cooperation and good neighborly relations. Additionally, parties have committed to continue facilitating the free movement of goods and services, based on common concessions as well as being in full compliance with the General Agreement on Trade and Tariffs (GATT 1994) and the General Agreement on Trade with Services (GATS).

The SAA places special emphasis on the following focal points:

- **Intellectual and industrial property rights**
  In order to guarantee a proper level of protection of intellectual, industrial and commercial property rights similar to that existing in the EU, including effective means of enforcing such rights, Kosovo shall take necessary measures no later than five years after entry into force of the SAA.

- **Free movement of goods and services**
  After the SAA enters into force, the EU and Kosovo will gradually establish a free trade zone within a period of maximum 10 years. Tariffs that will be considered basis for custom exemptions are those of 31 December 2013, excluding if any tariff reduction is applied, in which case reduced tariffs will be taken into account.

- **Protection of competition**
  Two of the main requirements of the SAA in the aspect of institutional development are strengthening of the positions of: (a) Kosovo Competition Authority and (b) Office for State Aid. As regards state aid, regular reporting is required on the aid offered by the state towards private sector or public enterprises, as well as the creation of an aid inventory within 3 years.

- **Public procurement**
  Within 5 years from the entry into force of the SAA, Kosovo is obliged to remove all preferences in public procurement activities for Kosovo companies or EU companies registered in Kosovo, on the basis of non-discrimination and reciprocity. Moreover, Kosovo companies will be granted access to public procurement procedures in the EU, with treatment no less favorable than that towards EU companies (“SAA Between the EU and Kosovo” p. 24, 81, 86,87).

**Kosovo-EU SAA Objectives**

Kosovo-EU Stabilization and Association Agreement (SAA) aims to:

- Support the efforts of Kosovo to strengthen democracy and the rule of law
- Contribute to political, economic and institutional stability in Kosovo, as well as to the stabilization of the region
- Provide an appropriate framework for political dialogue, allowing the development of close political relations between the parties
- Support the efforts of Kosovo to develop its economic and international cooperation, including through the approximation of its legislation to that of the EU
• Support the efforts of Kosovo to complete the transition into a functioning market economy
• Promote harmonious economic relations and gradually develop a free trade area between the EU and Kosovo
• Foster regional cooperation in all the fields covered by this Agreement.

Expected effects in doing business and trade relations

As a result of the SAA-EU agreement, Kosovo and EU will begin with the gradual establishment of free trade area within 10 years, through the removal of trade tariffs and non-tariff barriers. Kosovo businesses will face greater competition in the market and will benefit from the gradual liberalization, given that some products will continue to be subject to custom duties:

• 1,311 products will be liberalized gradually, within a period of 5 years;
• 925 products will be liberalized gradually, within a period of 7 years;
• Custom tariffs will be repealed for 3,023 tariff lines of industrial products; products for which our country lacks production capacities.

The SAA will provide support to the implementation of economic reform with the purpose of strengthening the macroeconomic sustainability and stability, and completing the transition process to a functioning market economy. This will be achieved through approximation of the legislation with ‘acquis communautaire’ harmonization of economic policies with those of the Economic and Monetary Union, and also through the support in strengthening the rule of law. In this regard, Kosovo will have financial and technical support from the EU, which will serve the improvement and completion of the legal framework and also the improvement of the business environment (Çollaku p.40).

All in all, the SAA is expected to have one very important impact in Kosovo economy – that is to improve the ongoing negative trade balance. In attempts to analyze the effects that SAA has had in this regard, the trade exchange between Kosovo and the EU for April-June period in 2014-2016, have been presented. Nonetheless, being a very short period of time, the results might not be as indicative of the actual outcomes for the economy.

SAA’s Initial effects on Kosovo trade balance

Comparing Kosovo’s trade exchange with the EU in the period beginning April and ending June, for 2014 to 2016, the trends are almost the same. While for imports, a steeper increase can be seen from 2014 to 2015, the trend decreases in 2016. Similarly, even though for imports the increase was slower in 2015 compared to 2014, in 2016 we see a decreasing trend.

![Figure 1: Kosovo-EU trade exchange for April-June, 2014-2016](image-url)
In 2014 for the period April-June exports to the EU-28 amounted to 24,595 million euro; in 2015 they amounted to 20,084 million euro ("External Trade Statistics"), whereas in 2016, by the time SAA entered into force, exports increased to 1,562,300. On the other hand, imports in 2014 were 270,858 million but in 2016 they increased to 278,598,543 euro ("Commercial Data Under Tariff Code").

Guide to Exporting to the EU

In order to facilitate trade exchange between EU member states and other countries, the EU Directorate General for Trade has created exporthelp.europa.eu an online export helpdesk for companies to use as a source of information on:

- Custom duties,
- Legal requirements, and
- Rules of origin.

This online tool provides businesses access to a full list of requirements to be fulfilled in order for exports to the member states to be realized. In addition, the site also calculates the import tariffs for specific products, while also specifying any preferential treatment that/if the product enjoys.

In order to be able to have a more substantive market research, this tool also offers information on trade exchange, for specific periods and with all member states.

Following is an illustration on how ExportHelp web page can be used by businesses to facilitate exports.

Step 1: Go to the Export Helpdesk: exporthelp.europa.eu

Step 2: Click on “My export”

Step 3: Fill in the following form, with information on the product code, country of destination, and country of origin.

An example with export of apples from Kosovo to Austria has been used for purposes of this publication.

![My export form](image)

**Step 4: Access the information**

Under ‘specific requirements’, companies have the opportunity to see what member states require for a particular product to enter their country.

In our example, we see that Austria has 8 specific requirements in order for Kosovo apples to be accessible in the market.

Companies can click over each specific request to gain more information on how to meet it, as well as contact information of respective institutions.

**Specific requirements for 08081.080**

- Control of contaminants in foodstuffs
- Control of pesticide residues in plant and animal products intended for human consumption
- Health control of foodstuffs of non-animal origin
- Plant health control
- Traceability, compliance and responsibility in food and feed
- Labelling for foodstuffs
- Marketing standards for fresh fruit and vegetables
- Voluntary - Products from organic production

**Internal Taxes**

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<td>-</td>
<td>Austria, EU</td>
<td>01/04/2016</td>
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Step 5: Tariff Information

Under the tab ‘Tariffs’ companies are able to see the tariff that applies to their product, both erga omnes, i.e. for all non-member states in general, and any preferential treatment for the specific country of origin. For instance, Kosovo enjoys a 0% tariff on export of apples to the EU, as shown below.

<table>
<thead>
<tr>
<th>Code</th>
<th>Product Description</th>
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<th>Conditions</th>
<th>Footnote</th>
<th>EU Law</th>
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<tbody>
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<td>08</td>
<td>Edible fruit and nuts; peel of citrus fruit or melons</td>
<td>0%</td>
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<tr>
<td>0808</td>
<td>Apples, pears and quinces, fresh</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>0809</td>
<td>Cider apples, in bulk, from 14 September to 31 December</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>0809 00</td>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0809 10 80 10</td>
<td>Cider apples</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Step 6: Rules of Origin

Under the ‘Rules of Origin’ tab, information can be found on how to arrange the rules of origin for the product that is being exported, e.g. cumulation, tolerance, derogations, etc.

Challenges and Way forward

While there are two schools of thought on how the SAA will affect Kosovo economy, specifically the business sector, there is a general consensus that if the state institutions do their part in providing a positive environment for growth, then the agreement will serve as a basis for economic development and strengthening of the private sector.

Some key challenges that remain to be addressed by the government:

Access to finance

Currently, Kosovo companies have very limited access to finance, with the whole financial sector being mostly composed of banks and several micro-financial institutions. Even if lending is available, companies face challenges in obtaining purpose-oriented finance. For instance, with regards to the SAA, companies required to increase their production capacities or companies required to obtain standards or quality assurance, should be able to obtain loans that are specifically directed towards that purpose.

Even though the Kosovo Credit Guarantee Fund is a great initiative intended to lessen the risk by covering part of the collateral, hence also playing a role in the decrease of interest rates, there still remains much to be done in order to facilitate access to finance and cash flow in the market, for businesses to be more ready to face the additional market pressures after the SAA entering into force.

Quality Infrastructure

One of the major issues faced by Kosovo producers with regards to exporting to other countries is the lack of standardization and institutionalized quality infrastructure. Research carried out by AmCham Kosovo with domestic manufacturers indicates that one of the main reasons why companies remain reluctant towards investing in quality infrastructure is the high cost of doing so.
Hence, it is important for the government to direct financing and technical assistance in this regard. This is especially considering that not many products can be placed in the EU single market if they do not possess the necessary standards and if they are not produced through quality processes.

Ensuring free and fair competition

Free and fair competition is the cornerstone of a well-functioning free market economy. In this aspect, functionalization of the Kosovo Competition Authority has been brought up as one of the first steps to be undertaken by the government in order for the market forces to cope in a fair and equal environment. Additionally, businesses facing increased competition from EU companies should also be given support (in either technical or financial form).

IPR Related Challenges

In terms of protection of intellectual and industrial property rights, Kosovo is faced with numerous challenges, starting from the limited capacities of responsible institutions such as the market inspectorate. The law on Copyrights and Related Rights has been overlooked in terms of its implementation, and respective institutions are working towards creating a law which will be implemented in practice. The Law on Copyrights and Related is of crucial importance in terms of fulfilling Kosovo’s obligations under the SAA, especially with regards to transposing EU legislation into Kosovo legislation.

Labor Market and Skills Gap

Results of labor market policies undertaken by the Government of Kosovo are not very encouraging. The first pillar of the National Development Strategy 2016-2021, drafted by the Government of the Republic of Kosovo is focused on Human Development, with specific measures on improving employability. Nonetheless, thus far there are no tangible improvements. Businesses continue to reiterate that technical skills are increasingly lacking in the market, hence acting as an impediment to their development, which would in turn help in coping with the market pressures of the EU single market.

Mechanisms available for Kosovo Businesses

In order to address the challenges mentioned above as well as increase competitiveness of Kosovo businesses, the government in cooperation with international donors has started to design specific support mechanisms. In this regard, a consortium of international donors, such as the USAID, SIDA, etc., have joined forces in providing financing for investments in quality infrastructure. The program is designed to assist companies in obtaining the required ISO standards and quality assurance.

In addition, alongside Kosovo’s path throughout the Stabilization and Association Process, is also the availability of the Instrument for Pre-Accession Assistance (IPA) funding. While two rounds of the IPA funds have been successfully carried forward and granted to both different organizations as well as businesses. Following the entry into force of the SAA, Kosovo will again benefit from this instrument targeted to make Kosovo businesses more ready for the EU single market.

All in all, the government has started to take a more active role in addressing these issues, and must continue to do so, especially with regards to labor market, in order for the Kosovo private sector to be strengthened.
The Stabilization and Association Process has already been almost fully completed in all other Western Balkans countries. Following is a summary and general overview of the SAP and SAAs in the regional countries, and the effects that the latter have had in the economies of respective countries.

**SAA in Macedonia**
The Republic of Macedonia is the first regional country that signed the SAA and the first country in which SAA has entered into force. The SAA was signed on 9 April 2001. The implementation of the SAA and the Interim Agreement on Trade and Trade Relations with the EU contributed to the acceleration of development of Macedonia’s economy and its industrial and agricultural production, as well as the increasingly important service provision ("Ten Years of the Enactment of the Stabilization and Association Agreement" p.15).

As shown in figure 2, immediately after it entering into power, in 2004 Macedonian exports to the EU started to increase gradually. As a result, the country has managed to increase exports to the EU by almost four times, from 1,020,999,028 in 2001 to 3,960,425,251 EUR in 2015 ("Export Helpdesk Statistics").

**SAA in Montenegro**
Montenegro adopted the Stabilization and Association Agreement on March 2007. In pursuing fiscal consolidation and improving the business environment, Montenegro has made significant progress in this regard.

Montenegro’s trade is characterized by a lower amount of imports compared to other regional countries, imports which gradually decreased after the SAA was adopted ("Mirror Analysis Summary Report"). From 2006 to 2015, imports increased by 50.8%, after a slight increase in 2007, whereas exports to the EU countries were characterized by fluctuations through years. After the SAA entered into force exports to the EU doubled. Shortly after that, exports started to gradually decrease as shown in figure 3 ("Export Helpdesk Statistics").

**SAA in Serbia**
In September 2013 the SAA between the EU and Serbia entered into force. In 2012, before the establishment of the SAA in Serbia, exports to the EU countries amounted to 9,659,044,139 EUR.
By the time the SAA entered into force, exports to the EU increased by 2.8%. The largest increases of exports to the EU were noticed after 2013 when exports were 10,357,488,597 euro and in 2014 they amounted to 11,167,099,975 euro, which indicates a 15.6% increase from 2012 to 2015, as shown in figure 4. On the other hand, imports in 2012 were 5,053,010,389 euro and they continued to increase year by year. In 2015 they amounted 7,901,355,844 euro ("Export Helpdesk Statistics").

In 2015, indicating a 14.7% increase of exports to the EU, after the SAA entered into force. Imports on the other hand, almost doubled after the establishment of the SAA and they increased by 71% ("Export Helpdesk Statistics").

**Figure 4: Exports for the period 2009-2015**

**Figure 5: Exports and Imports in Albania**

**SAA in Albania**

The Stabilization and Association Agreement in Albania entered into force in April 2009. As regards the economic criteria, Albania made some progress towards becoming a functioning market economy. Albania preserved macroeconomic stability, proceeded with arrears clearance and took steps to improve tax administration and collection. However, economic growth slowed further and the current account deficit remains large, reflecting weak competitiveness. As shown in figure 5, in 2008, the value of Albanian exports to the EU countries was 2,202,689,730 euro and continues to increase to 2,526,861,286 euro
References


