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OVERCOMING BARRIERS TO BUSINESS AND NORMALIZATION
(Research of the Economic and Legal Framework for Doing Business between Serbia and Kosovo)

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INTRODUCTION

The Policy Paper “Overcoming barriers to business and normalization – Research of the economic and legal framework for doing business between Serbia and Kosovo” was prepared by the Forum for Ethnic Relations (FER) as part of the project “Economic Environment of Serbian Community in North Kosovo” supported by the Heinrich Böll Foundation’ Office for Southeastern Europe in Belgrade, in 2015, 2016 and 2017.

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The purpose of the Research and Policy Paper is to identify the existing barriers to doing business between Serbia and Kosovo and formulate recommendations for improving the business environment. The identified barriers, suggest the following:

- Examining and analysing Kosovo laws that regulate establishment, doing business, tax and other obligations of the companies, farmers and cooperatives relevant for the Serbian community in Kosovo (with an emphasis on North Kosovo where the “transition” to the Kosovo system is more acute);
- Examining laws and other regulations in Serbia (i.e. degrees) who regulates the status and doing business of the companies, including in the majority Serbian communities;
- Identifying established customs and identifying barriers for doing business of:
 - “Serbian companies” registered under the Kosovo law in doing business within Kosovo and Serbia,
 - “Kosovo” companies in doing business with companies in Serbia – barriers they are facing in doing business with third countries that are due to incomplete or unclear Serbian/Kosovo legislation;
 - companies registered in Serbia that are doing business in Kosovo or would like to “independently” operate in Kosovo – recommendation for lifting the barriers,
- Analysing CEFTA Agreement, the way it is implemented between Serbia and Kosovo; recommendation for implementation of the Agreement;

- Determining relations between local self-government authorities in municipalities with Serbian majority in respect to giving incentives and supporting doing business, criteria for funds distribution and providing information to entrepreneurs about the conditions for doing business in respective municipality under Kosovo law;
- Policy of relevant Kosovo Ministries towards entrepreneurs and farmers in majority Serbian municipalities; access to information about possibilities of getting subsidies, and support to business development from the available funds of Kosovo Government; access of the laws and relevant documents in Serbian language;
- Analysis of the implementation of the agreements reached under the auspices of Chambers' of Commerce of Kosovo and Serbia cooperation ;
- Recommendations for improving of communication between entrepreneurs and business people with the respective governments and /or local municipalities in order to lifting barriers;
- Proposing ways of providing adequate information to the business people about the conditions, obligations and responsibilities in order to enable successful and profit oriented business endeavours; i.e. option: to establish an innovation centre to enable the direct communication with business people, provide technical assistance and link them with respective institutions, located in Gračanica and North Mitrovica.

For the Research and Policy Paper, the FER engaged experts from Kosovo who analyzed the economic and legal framework in Kosovo and conducted a survey/interviews with business people and representatives of companies in Kosovo without North Kosovo, and experts from Serbia and North Kosovo, who analyzed the results of the dialogue in Brussels and normalization process, economic and legal framework in Serbia and North Kosovo and conducted a survey/interviews with business people and representatives of companies in Serbia and in North Kosovo.

Based upon available data on active companies which have business connections with Kosovo, a representative sample of companies and relevant institutions was made and they were contacted by e-mail and/or by phone. The sample was made taking into account the value of their regular exchange with Kosovo in 2015 and 2016 (based upon available data of the Customs Administration of the Republic of Serbia), and also taking into account equal territorial representation of companies and different scope of activities.

The methodological basis of the Research was a specially prepared questionnaire which was sent to 140 companies in Serbia; organized were also interviews with companies in Serbia and Serbian companies in Kosovo, as well as with relevant institutions. Out of the 140 businesses in Serbia, 61 answered the questionnaire, of which 10 were from Belgrade, 12 from Vojvodina, 29 from Central and South Serbia (including Preševo and Bujanovac), and 10 from Raška District (Raška, Novi Pazar and Tutin). The field Research included 31 interviews with the companies.

With the aim of making adequate conclusions, in-depth interviews were conducted with relevant institutions in Serbia: Customs Administration (Ministry of Finance), Veterinarian Directorate (Ministry of Agriculture and Environmental Protection), Border Phyto-sanitary Inspection (Ministry of Agriculture and Environmental Protection) and Office for Kosovo and Metohija of the Government of Serbia. The analysis also took into account the primary data collected on-site at customs checkpoints (the office in Vranje), namely at the joint crossing post Končulj. Main source of secondary data are selected databases of the Statistical Office of the Republic of Serbia, Chamber of Commerce of Serbia, Customs Administration and the World Bank.

For the analysis of the legal and regulatory framework we used applicable laws, regulations, decisions and rulebooks.

The applied approach enables insight into the real situation in the field and it contributes to better informing the business community on requirements for doing business in Kosovo. By improving communication between businesses on the one hand, and relevant institutions on the other, the business environment can be significantly improved.

The following technical names will be used in the Policy Paper:

"Kosovo" in the sense defined by Brussels Agreement: Designation "Kosovo is without prejudice to status and is in line with the UN Security Council Resolution 1244 and the Opinion of the International Court of Justice on the Kosovo's Declaration of Independence ."

"North Kosovo" is a region located north of the Ibar River, composed of four Serb-majority municipalities: Zubin Potok, Leposavić, Zvečane and North Mitrovica. The notion of "North Kosovo" in this Policy Paper is not the same as the notion of "North Kosovo" officially used in Kosovo, which refers to broader region composed of the Albanian-majority municipalities: Mitrovica, Srbica i Vučitrn, in addition to four Serb-majority municipalities.

PART I: NORMALIZATION AND IMPROVEMENT OF POLITICAL AND MACROECONOMIC CONDITIONS FOR DOING BUSINESS BETWEEN SERBIA AND KOSOVO

(Dušan Janjić, PhD)

1. The Brussels Dialogue in support of the improvement of economic cooperation between Serbia and Kosovo

The EU facilitated dialogue between Serbia and Kosovo (the Brussels dialogue) moves along the path determined in the *UN General Assembly Resolution 64/298* of October 2013 with the aim to bring about the normalization of relations between the people, national communities and Serbia and Kosovo, which requires a number of reforms and change to be implemented in Serbia and Kosovo. The normalization process aims at achieving peace, security and stability in the Western Balkans, and promoting cooperation and European integration to improve living conditions for all people by adopting the European standards (the *EU acquis*).

In reality, it is a long journey made of many steps that need to be taken by both sides, and normalization does not relate only to the normalization of relations *between* Serbia and Kosovo, but also a “normalization” of Serbia and Kosovo. This only confirms that normalization is a complex process in which a solution must be found for a multitude of interrelated issues, including those inherited from the past and those arising from the Brussels dialogue and normalization process itself (*Janjić, 2015*).

The normalization process, in turn, facilitates the adoption of political and business decisions on cooperation as an important element of economic development and overall normalization of Kosovo and Serbia.

The economic systems of Serbia and Kosovo were developed as a subsystem within a single economic system of the former Yugoslavia. Thus, despite significant changes, there are many similarities and interdependence between these two economic systems. This facilitates trade and economic cooperation, based on economic interests of equal partners.

Numerous meetings have produced 28 agreements and a number of "agreed conclusions", action plans, technical protocols, etc. (commonly referred to as the “Brussels Agreement” or "Brussels Agreements". Until May 2017, of all agreements, only four have been totally implemented. Although, the result achieved is rather modest, it has improved the Serbia-Kosovo relations that are still far from being satisfactory.

Even though the Brussels Agreements do not specifically focus on the economy, they create preconditions for economic development and intensive networking of businesses. For this Policy

Paper, most important agreements reached in the framework of the technical dialogue is the freedom of movement of people and goods, supported by agreements on integrated border management, customs revenue collection and VAT and customs stamps. A *Development Fund for North Kosovo* (hereinafter referred to as the Fund) was established as a side result to promote the socio-economic development of North Kosovo. The implementation of the agreements allows the establishment of EU standards that support the normalization between Kosovo and Serbia and creates the preconditions for elimination of barriers to faster economic development of Kosovo, including North Kosovo (*A 'Peace Treaty', 2012: 6, 8, 10*).

1.1. Freedom of Movement was established by the “agreed conclusions” in the fifth round of the dialogue on 2 July 2011, and on 2 December 2011 the *Operational Conclusions* related to the implementation of this agreement were harmonized. The aim of the agreement is to enable free travel within and through the territories of Kosovo and Serbia. The implementation of the agreement began on 26 December 2011.

The main points of the agreement are: the use of ID cards issued in Kosovo, driving licenses, vehicle registration plates, car insurance and new procedures for travelling in the two territories. In the process of implementation of the Agreement, the Government of Serbia passed a series of acts and has taken a number of actions in an effort to regulate the issue of vehicle insurance. After many efforts, agreement was reached and its application started in August 2015. The KS vehicle plates and ID cards are still not introduced in North Kosovo for the ethnic Serbs. They use Serbia’s vehicle plates and do not pay vehicle insurance fees. This situation is a violation of the agreement of freedom of movement, which explicitly stated that vehicle plate arrangements would be applied from 11 November 2011. In the implementation of this agreement, the Government of Kosovo has decided to apply the so-called soft approach. (*Kosovo 2014*).

Belgrade rejected Prishtina’s request to enable unhindered movement for the vehicles with RKS license plates in central Serbia, i.e. that those license plates are not replaced by temporary (“proba”) plates upon crossing the administrative boundary line. In addition, Priština requested that the use of personal documents issued by the “Republic of Kosovo” be allowed upon crossing the administrative boundary line. With respect to the freedom of movement, Belgrade insists on the use of vehicles with “RP” license plates in North Kosovo, including the Kosovo Morava

Basin Region for license plates owned by the Serbs whose vehicles were not re-registered. Belgrade also rejects to stop issuing ID cards in police departments temporarily relocated from Kosovo to central Serbia. (*Izveštaj, 2016:13*). For its part, Prishtina insists that Serbia has seriously damaged the freedom of movement between two states by arresting two citizens in the border-crossing point between Kosovo with Serbia. Nehat Thaçi, director of regional police directorate in Mitrovica was arrested on 29 September 2016 and was detained on remand for more than one month under arbitrary grounds. Hilmi Kelmendi was arrested on 28 October 2016 and was released after a week. Kosovo asserts that Serbia has tendencies to illegally expand its jurisdiction in war crimes issues with no grounds. Kosovo asked EU to draw attention on this serious matter and on the fact that Serbia still prevents third country citizens to enter Serbia from Kosovo (*Brussels Agreement, 2016:21, 21*). The EU has generally supported Prishtina's assessment that Serbia further on does not allow third country citizens to enter Serbia from Kosovo; the agreement on plates for vehicles belonging to citizens from North Kosovo is not respected; deadlines and the essence of obligations to ensure freedom of crossing the bridge over Ibar River in North Mitrovica have also not been respected. (*Non paper of the EEAS and European Commission Services on the state of play regarding Chapter 35: Other Issues*).

A more visible progress in the implementation of the agreement on integrated border management took place at the end of April 2013. The first passengers with Kosovo identity cards began to travel through Serbia on 1 May 2013. Two border crossings, Mutivode and Mučibaba, linking Kosovo - Kosovo Pomoravlje with "Preševo Valley", were put into operation. In April 2015, it was agreed to open two more border crossings (between Kosovska Kamenica and Medveđa and Leposavić and Raška).

On 11 September 2014 in Brussels, the working group of Serbia and Kosovo agreed to allow persons who have identity cards issued by Kosovo to use additional border crossings when in transit, such as the Belgrade airport "Nikola Tesla", and crossing to Bulgaria and Macedonia. At the end of 2014, the agreement was extended to Kosovo passports, so that the Serbian Ministry of Internal Affairs issued provisional documents to owners of these passports for passing through Serbia. Crossings to Croatia and particularly important crossings to Hungary or the Schengen area were also included. After this the freedom of movement of people was improved. A

collateral result of the implementation of the agreement on freedom of movement was an increased number of illegal migrants from Kosovo, i.e. the number of "false asylum seekers" from Kosovo trying to get asylum in the EU.¹

First half of 2015 saw immigration boom of Albanians from Kosovo. On 11 February 2015, the EC indicated that the number of illegal migrants from Kosovo who are seeking asylum without any grounds in the EU had increased by 40 percent in 2015, which exceeded the number of immigrants from Syria and Afghanistan. The increasing number of citizens of Kosovo who are heading towards the EU is a consequence of the lack of economic development, lack of development policies and jobs, but also the result of the overall crisis (*Grdžaliju, 2014*). There is room for an investigation on the involvement of organized crime and corrupt police officers and other officials. This testifies to the fact that Kosovo and Serbia did not establish an efficient system to manage migrations, that Serbia and the EU did not establish effective cooperation although Serbia has borders with four EU countries and is also on the borders of Schengen (with Hungary) which a big number of illegal migrants cross.

1.2. An agreement on the ***Integrated Border Management (IBM)*** was reached during the 8th round of negotiations (30 November-2 December 2011). Its implementation started as of 10 December 2012. This was a major breakthrough concerning a highly delicate and controversial issue - borders. The issue of the borders was of special importance for Kosovo's territorial integrity and sovereignty, increased collection of customs duty revenues and establishing control over smuggling and trafficking in human beings and goods (*Kosovo 2014*). For Serbia it was a "bitter pill" to swallow as reality prevailed over the political desire. Serbia also needed to establish control over the movement of people and goods, to address smuggling and large-scale illegal trade in goods, and to increase VAT and customs duty revenues. As regards the implementation of the IBM agreement, on 22 December 2011, the Government of Serbia adopted a series of regulations including a *Technical Protocol on the implementation of the conclusions reached in the IBM dialogue*, dated 2 December 2011. The *Technical Protocol* was

¹ In only two months at the beginning of 2015, more than 50.000 Albanians left Kosovo, among which 6.000 high school students. Media in Prishtina cite that since the middle of 2014, between 60.000 and 100.000 people have left Kosovo. This means that in the period October 2014 – February 2015 approx. 150.000 Albanian immigrants entered the EU zone, of which more than 120.000 have passed without any control (*Jovanović, 2015; Zečević, 2015*).

concluded by Serbia and Kosovo's representatives at the meeting held in Brussels with the facilitation of the EU, on 23 February 2012.

IBM was originally a Serbian proposal made to deflect pressure to accept Kosovo customs officials at the northern gates by bundling them into an "integrated" presence including EULEX and Serbian officials. The IBM agreement was met with sharp political opposition from Kosovo Serbs, which was expressed through political statements, gatherings and blocking of roads and border crossings. These protests took place throughout 2011 and 2012. The basic idea of political leaders from North Kosovo who led the protests (and one part of the authorities in Belgrade) was to postpone the acceptance of the agreement as long as possible. This was justified by non-recognition of the territorial integrity of Kosovo and postponement of institutional and territorial separation of North Kosovo from Serbia. This shows that the conflict over customs and IBM agreement was just one manifestation of dissension between Serbia and Kosovo over sovereignty. Behind these protests there were also endeavors to extend as much as possible in which extra profits are made due to unpaid excises and customs fees, as well as to smuggling. In the end, although being an initiator, Serbia has therefore under pressure from the U.S.A. finally accepted the IBM, as did Kosovo. (*Serbia and Kosovo, 2013: 15*).

Kosovo has nine border crossings of which six are with Serbia: Brnjak, Jarinje, Merdare, Mutivoda, Bela Zemlja and Mučibaba. As part of the technical dialogue between Kosovo and Serbia, in 2011 and 2012 an agreement was signed, and then a technical protocol on joint border management. Serbia is late in fulfilling its obligations, and instead of the end of October 2012, all crossings were finally open in March 2013. The phase of the agreement, which includes construction of permanent facilities at the crossings, was not concluded up to 2017. The construction of permanent facilities which started in 2013 was entrusted to the *European Progress* project. It was funded jointly by the EU and the Government of Sweden, and implemented by the United Nations Office for Project Services (UNOPS) and the Department for Contracting and Financing of EU funded projects of the Serbian Ministry of Finance. The marking of points on the basis of the agreed co-ordinates, which will serve as reference points for the construction of permanent facilities at customs crossings, is regarded as success achieved by the mixed Group for the Implementation of the Agreement (which consists of representatives

of Serbia, Kosovo and the EU). In 2017, the EC, however, decided to "remind" Serbia on the unfulfilled commitments under the IBM agreement, namely: that Serbian side is satisfied with temporary facilities and does nothing to construct permanent facilities at the crossing points; not established effective control "for an alternative roads" and crossing points to keep people and goods entering and leaving Kosovo without full registration and control); effective control on the "alternative roads" and crossing has not been established, so that people and goods enter and exit Kosovo without full registration and control.

(Non paper of the EEAS and European Commission Services on the state of play regarding Chapter 35: Other Issues).

Prishtina states the progress made in 2016 Kosovo in designing and constructing two new crossings, while Serbia has failed to comply with the part of IBM agreement. Mutual Legal Assistance (MLA) implementation has not been satisfactory because Serbia is delaying the responses to Kosovo requests and violating the agreement through applying unilateral stamps and issuing identity cards by police departments of the Ministry of Interior of Serbia temporarily relocated from Kosovo (*Report, 2016:14, Brussels Agreement, 2016:23*).

Trade growth was supported by the implementation of the Central European Free Trade Agreement (CEFTA). ²

For the time being, trading goods is the only form of economic cooperation between Serbia and Kosovo. In the past three years only 11.4% of Kosovo's imports are covered by exports, and these exports mostly include metals and metal products, products from other minerals, food products, beverages, tobacco, textiles, rubber and herbal products. Exports are mainly directed toward Italy, Albania, Macedonia and Germany, and most imports come from Macedonia, Germany, Serbia and Turkey.

²In fact, in 2006 Serbia effectively recognized Kosovo as a separate customs territory by signing of the Central European Free Trade Agreement - CEFTA 2006 (*Law on Ratification of the Agreement on Amendment of and Accession to the Central European Free Trade Agreement - CEFTA 2006, Official Gazette - International Treaties, No 88/2007*). UNMIK was then a signatory party, because the foreign trade policy was under UNMIK's jurisdiction and the EU as a Pillar IV.

As regards trade, Serbia exports to Kosovo goods in the value of 428.5 million (2016) which ranks Kosovo as Serbia's tenth partner, but when it comes to imports from Kosovo it is only the 58th ranking partner because in the period under survey imported were goods in the value of 17.1 million euro (*Infomacija o AP Kosovo i Metohija, Centar za regionalnu saradnju i inicijative. Privredna komora Srbije, 2016*).

The negative trade balance, in addition to the previously mentioned gray economy and black market, is an aggravating factor for the development of Kosovo's economy. In addition, the low competitiveness of Kosovo's manufacturing and export oriented mainly on raw materials have a negative impact on the economy's prospects. Kosovo is a member of CEFTA, and since 2009 it has become a member of the World Bank and the International Monetary Fund. The trade regime in Kosovo is neutral and simple, but without an increase in productivity and competitiveness, trade liberalization alone is not sufficient to reduce the trade deficit.

1.3. Customs revenue collection and customs stamps

After Kosovo's declaration of independence in 2008, the role of UNMIK was marginalized and authorities in Kosovo took over the authority for foreign trade policies and introduced customs documents featuring the "Republic of Kosovo" insignia. In response to this, the Customs Administration of Serbia refused to allow entrance of any type of goods with such accompanying documents into the territory of Serbia. Since then, the goods continued to enter Serbia through re-export via Montenegro and Macedonia with those countries' customs documents and an indication of Kosovo origin. (*Monitoring, 2013: 11, 12*).

The Mission of the European Union in Kosovo (EULEX) was established and in keeping with the United Nations Plan UNMIK's authorities were partly transferred to EULEX, including issues relating to customs and border crossings in North Kosovo. A customs post was established in southern Mitrovica. This was an indication that Kosovo was not functioning as a unified customs territory, because the customs territory of Kosovo was divided on the territory south and north of Ibar River. This is what made North Kosovo *de facto* a free trade zone with big problems in the field of monitoring of the flow of goods (*Monitoring, 2013:11, 12*). It has

become a “haven” for trade with no record-keeping, or customs duty and VAT fraud, and smuggling and revenue collection without contributions to the state budget. Such an environment allowed smuggling, organized crime and corruption to flourish. Well-established Albanian-Serb networks, nevertheless smuggle goods, free of duty and tax. The trade supports a criminal elite that, while small in the regional context, is still large enough to dominate North Kosovo (*Perspective of Northern Kosovo, 2013*).

The agreement on Customs Stamps was reached on 2 September, 2011. The conclusions stated that the parties agreed to “ensure free movement of goods in accordance with CEFTA”. The implementation of the agreement on Customs Stamps began in September 2011, initially by the Kosovo side. Later on, Serbia adopted Kosovo stamps.

A general assessment of implementation of the regime of free movement can be characterized as positive, because undoubtedly an increasing number of people are practicing their rights, thanks to the fact that Kosovo adopted new legislation, improved procedures and raised the level of administrative and organization capacity of the customs service. The exchange of customs data between Serbia and Kosovo is carried out within the “Systematic Electronic Exchange of pre-arrival Data” (SEED) program.

Regulations of the Government of Serbia annulled some of the barriers to trade. For example, establishment of the integrated system of border management lessened the time and manipulative expenses of the trade of goods to Free on Board (FOB) buyer in southern Kosovo, to about 3-5 hours.

Implementation of the IBM agreement, as well as the Agreement on Customs Revenue and VAT has increased the legal flow of goods between Serbia and Kosovo. Products from Serbia mostly sold in Kosovo are food and beverages, chemicals and chemical products, agricultural products, petroleum products, etc., while Serbia mostly buys from Kosovo base metals, recycling, food and beverages etc. Regulation of the Government of Serbia from 16 September 2011 reintroduced suspended VAT for gas, crude oil, automobiles and mobile telecommunications in North Kosovo, which radically lessen the grey flow of gas and crude oil by up to 90 percent, while the

trade flow of automobiles and services of mobile telecommunication of providers like *Telenor* and *MTS* ceased to exist as “the privilege for the citizens of North Kosovo”; These regulations have also terminated the monopoly status of large producers from Serbia, which through their dumping of practices and prices, (lower on average by 30-40 percent), directly exported their products in the North Kosovo without excises and VAT (*Monitoring, 2013: 15*); (*Monitoring, 2013. 15*). A visible result is the increased revenue from direct fees (*Izveštaj, 2015: 19; Kosovo 2014, 2014*). There are a lot of open issues related to the trading goods between Serbia and Kosovo that need to be addressed, such as, the so-called “border insurance”, as well as payment operations, printing instructions and documents in all languages; there are still unequal conditions regarding trading with north and south part of Kosovo.³

Non-integrated payment operations in Kosovo and lack of direct payment operations between Serbia and Kosovo are big obstacles to free flow of goods and people; solution to this problem is also a precondition for suppression of corruption and for normalization of business cooperation, particularly foreign trade between Kosovo and Serbia. The present model of payment operations between Serbia and Kosovo was established by the *Law on provisional performance of certain payment operations in the territory of the Federal Republic of Yugoslavia*; it is a financial burden and is additionally destabilizing the business operations. It allows for the possibility to make payments for business operations in Euros, but the foreign currency must the next day be sold to a bank authorized for business transactions with foreign countries; on the next day this bank must sell the foreign currency to the National Bank of Serbia which, then, in the following two days will pay the equivalent RSD amount to the commercial bank which shall pay the next day the amount to the person which has the seat in Serbia and had earned that amount. In order to improve transactions and ensure legal security it is necessary that the Ministry of Finance initiates changes to the 2001 Law and the instructions, as well as its own instructions and also the relevant instruction of the National Bank of Serbia. One of the biggest obstacle to the system of payment operations between Serbia and Kosovo is that banks in North Kosovo have not been incorporated into the Kosovo payment system for many years, . The fact that there are no Bank

³ Some goods are exempt from VAT, while the insufficiency of administrative and supervisory institutions means that goods without VAT and customs, are merely being recorded at the administrative checkpoints Jarinje and Brnjak and transported to the north part of Kosovo: favoring the existence of the gray market channels with Kosovo.

guarantees or secured liabilities towards buyers in southern Kosovo, makes business operations difficult. In consequence, payment operations with Kosovo are extremely expensive and are being treated as foreign trade; requiring the conversion of the euro into the dinars at the middle exchange rate, which has a negative impact on competitiveness of companies from Serbia in the Kosovo's market.

It is time to open and discuss the issue of mutual claims between Serbia and Kosovo. Since 2001, Serbia has been making regular loan payments for Kosovo companies inherited from the SFRY. In fact, Serbia has taken over 858 million euro of Kosovo's debt to foreign creditors of Kosovo as public debt. It is a debt to the World Bank, Paris and London Club of creditors, the Bank Council of Europe Development (CEB), the European Investment Bank (EIB), the European Company for the Financing of Railroad Rolling Stock (Eurofima), the Government of Kuwait, unresolved debt to Libya and clearing debt towards Czechoslovakia.

Since 2002 until 31 December 2014, Serbia has repaid part of Kosovo's debt of 547.95 million euro, as follows: in respect of principal 154.76 and interest 393.19 million. Given that for the period 2015 - 2041 years, a loan will become due that only on the basis of the principal amounts to 351.26 million euros (*Srbija i dalje otplaćuje kosovke dugove, "Politika", Beograd, 20 januar 2015*), it would be good for the budgets and economies of Serbia and Kosovo to resolve this issue as soon as possible. This also applies to mutual claims on other grounds: privatization, energy, telecommunications, property, life, pension, social and health insurance, etc.

Having "clean accounts" can only strengthen the trust, facilitate agreements and promote economic cooperation as well as trust between people. This is why it is important to find a model, outside the succession model, which would allow for these issues to be resolved.

In practice, it is most often highlighted that trade in agricultural products and livestock is made more difficult because EULEX insists on compliance with EU rules, whilst many products from Serbia do not meet EU standards required in Kosovo. Namely, only 6 out of 30 slaughterhouses in Serbia meet EU requests. This shows that this sector in Serbia is not yet ready for EU integration, so that state bodies, the Chamber of Commerce of Serbia and other associations of

agricultural producers should devote efforts to an as urgent as possible removal of this deficiency. This is in the interest of development of agriculture and livestock farming in Serbia itself, because thus they will be able to go the Kosovo market as well as the broader market like the EU. This is relevant for Kosovo because about 60% of its population is rural, and agriculture accounts for 25% to 35% of the total employment, and agricultural arable land accounts for about 53% of the entire territory. However, agriculture accounts for only 12.9% of GDP. Agricultural production is largely of mixed type, utilizing very old, traditional methods and is very inefficient. Livestock has almost disappeared, farm machinery is damaged, and production equipment is obsolete.

In North Kosovo, there is great potential for the development of all types of agriculture. The potential is still insufficiently used primarily due to a low level of education of farmers, fragmented agricultural land, insufficient or very poorly maintained irrigation systems, limited capacity for processing and marketing of agricultural products.

Animal husbandry, like agriculture, is faced with the difficulty of obtaining raw materials, insufficient application of animal husbandry technology, poorly developed infrastructure and outdated approach. In order to move from the individual to highly efficient production it is necessary to invest in specialized farms, mini-farms, which have self-sustaining resources; it is necessary to establish a network of control and veterinary care, as well as to search for solutions through associations of farmers.

Customs bodies of Serbia and Kosovo made significant progress in the implementation of the procedure for free exchange of goods and in introducing a simplified procedure based on invoices. The goods are usually waiting at the crossings 15 minutes to one hour in the season, and at Brnjak and Rudnica crossing two hours in the season. Single customs declarations and the use of the Kosovo round customs stamp are still the biggest issue. However, there is still no instruction of the relevant ministries on the implementation on a special procedure linked to a control of exchange of goods with Kosovo (based on the *Decree on the requirements for trading goods with the Autonomous Province of Kosovo and Metohija*, "Official Gazette of RS", No.

86/2010 and the *Decision on determining goods which require certain documents in case of import, export or transit* “Official Gazette of RS”, No. 32/2015.

Belgrade states that the Agreement on Customs Stamp is fully implemented (*Izveštaj, 2016: 11*), while Prishtina reports that the illegal stamps are still used with inscriptions “Carinarnica Priština (Prishtina Custom’s branch) under the Niš Customs Branch in Serbia (*Brussels Agreement, 2016: 21*). These violations are being duly reported to the EC. As regards the customs and customs stamp, according to the EC, in the spring of 2017 Serbia still did not redistribute the customs staff in line with Kosovo regulations nor does it issue customs documents as it committed itself to do, on 17 January 2013. (*Non paper of the EEAS and European Commission Services on the state of play regarding Chapter 35: Other Issues*).

1.4. Interim Fund for Economic and Infrastructural Development of North Kosovo

The establishment of the Development Fund was agreed on 17, January 2013.⁴ The Development Fund is managed by the Office and the Board of Directors consisting of a representative of the Government of Kosovo, the Serbian municipalities and the EU, i.e. EU Special Representative. Decisions on capital investments and infrastructure will be adopted by consensus, but if that is not possible, the vote of the EU representatives is decisive. Decisions on capital investments and infrastructure will be adopted by consensus, but if that is not possible, the vote of the EU representatives is decisive.

The Development Fund enables the establishment of European standards that support the process of normalization of relations between Kosovo and Serbia. Therefore it has an important role in

⁴ The Kosovo government has proposed an amendment to the law on the Kosovo budget for 2013 in order to carry out the agreement. According to the amendment: “All public money collected from goods imported by businesses registered in northern Mitrovica, Zubin Potok, Leposavić or Zvečan, and are destined for consumption in these municipalities, upon entering into Kosovo through customs points Jarinje (gate 1) or Brnjak (gate 31) are required to be sent to the Development Fund and separately identified and accounted for in the KFMIS, are hereby appropriated to the Development Fund that is to be established by the EUSR in Kosovo in a commercial bank.

the context of resolving the Kosovo status issue. By way of this agreement, the EU continues to view Kosovo as a single customs zone, while Kosovo Serbs from the north will start paying customs duties, tariffs and VAT.

Belgrade and Prishtina report the total inflow to the Development fund is 11 million euro, of which the northern municipalities have been allocated over EUR 4.4 million from the Fund on two occasions (*Izveštaj, 2016: 17; Brussels Agreement, 2016: 25*).

The success of the Fund's activities and its impact upon the development of North Kosovo is measured by the number and quality of realized projects, namely whether they play the role of the "driving force" of intensive development. For the time being, the necessary transparency of the Fund's activities has not been achieved, so that it is necessary to establish independent monitoring over the legality and effectiveness of financing from the Fund.

2. Improvement of economic conditions toward normalization

Until now, the implementation of what was agreed has not produced satisfactory results when it comes to improving mutual cooperation or improving business. One of the important factors which emerges as an obstacle to mutual business is the existing macro-economic surrounding. This relates to limitations in the process of building a Kosovo economic system, as well as to the business ambience in Serbia which is under influence of the politically unsolved issue of the status of Kosovo.

History teaches us that the process of transforming a once unified economic system into two independent economic systems is neither quick nor easy. It can be made easier if, like in the case of the former Czechoslovak federation, there is a political consensus on "separation" and if there is a genuine desire to establish a new, broader and more efficient system like the EU system. In the case of former Yugoslavia, and particularly in the example of Serbia and Kosovo, there was no consensus on "separation"; rather, separation occurred through conflicts which included also ethnically motivated violence, and there is also no sufficiently strong political determination for cooperation. Also, the EU appears in two roles: first, as an active actor in the creation of the

separate Kosovo economy (as the IV pillar within UNMIK) where the political will, namely Serbia's resistance, was not respected and an internal Kosovo political consensus was not built; second, both to Kosovo and Serbia the EU, i.e. the "European future", is offered at a moment when EU itself is facing the impact of serious economic crisis and tendencies to close for new members and the labor force, particularly from candidate countries. All this makes the "carrot" EU neither fresh nor as attractive as it used to be during the nineties of the previous century, when The Czech Republic and Slovakia joined the European integration as members of the Višegrad Group. Now the new hope for Kosovo and Serbia is based on regional cooperation in the Western Balkans; however, in the Western Balkans there is we have at work an implosion of the political and security environment. Judging by all parameters what has to be done is to organize all economic and other capacities "upwards", from Kosovo and Serbia, and to use regional and European instruments only to support reforms in individual countries.

Since the beginning of reforms being implemented in Kosovo since 1999, and in large part thanks to foreign donations and remittances, Kosovo's economy recorded signs of progress: the growth rate of gross domestic product since 2007, is over 2% or 4.5% on average; the "eurization" has helped in maintaining low inflation rates as well as the creation of budget surplus, and its orientation towards development.

Kosovo's and Serbia's economy are one of four European economies which, in the period 2008 - 2012 was spared the consequences of the global financial crisis, that is, the consequences appeared later in the form of absence of investments, rise of unemployment, deepening poverty, massive outflow of employable population, primarily to the EU, and so on. In this aspect, Kosovo and Serbia are in a similar position. This delayed impact of the crisis and its heightened socio - economic manifestation testifies to the low intensity of trade and financial exchanges with the countries affected by the crisis, and the low level of economic activity. ⁵

According to the World Bank report, the rating of Kosovo in terms of starting a business has recorded a steady growth: it is ranked 96th, but that is not enough to encourage investors.

⁵A low level of economic activity is evidenced by the structure of Kosovo's GDP, where remittances account for about 14%, donor assistance to about 10%, industry 22.6%, agriculture 12.9% and as high as 64.5% of the value is created in the service sector.

Attracting investments is unfavorable due to: unfinished privatization process, difficult access to capital, especially for micro, small and medium enterprises; dominance of commercial banks in the Kosovo financial system, the capital market being in the early stage of development; despite the low costs and high mobility the labor has weak educational structure; favorable tax environment can not compensate for the negative effects of the poor conditions in the energy sector, which leads to frequent power failure.

With a poverty rate of 29.7% and the gross national income of 1,760 euro per capita the economy of Kosovo is one of the weakest in Europe. The Corruption Perceptions Index ranks Kosovo at the 111th place out of 176 (according to the *Transparency International*). Interplay of corruption and organized crime is weakening the already weak state yielding the absence of the rule of law. All of this is significantly increasing the risks and costs of business operations, but also of life in Kosovo

The lack of economic activity has resulted in the highest unemployment rate in the region, which is around 45%; this is increasing the shadow economy and the emigration trends of younger population, (which has seen a strong trend of 2014 and 2015), and it also increases the volatility of the internal social and political scene. This is well illustrated by continuous political blockades within Kosovo which the frequent elections did not overcome.

In this Policy Paper the conditions for doing business in and with municipalities with a majority Serb population: Leposavić, North Mitrovica, Zvečane and Zubin Potok, or “North Kosovo” are particularly scrutinized, because these municipalities are in a specific political and economic situation which may be characterized as a “zone between two systems”.

Regarding these municipalities, the lack of administrative and economic integration in the system of Kosovo on the one hand, and the lack of effective support measures from Serbia for the sustainable development of the economy in these municipalities on the other, additionally impedes economic conditions. Only 20% of local companies traded outside the limited market of these four municipalities, while 75% of registered business entities have no legal status that would allow operations in the whole territory of Kosovo. Among other things, this complicates

the planning of municipal budgets and funds required for the operation of local enterprises (Gavrilović, 2015:8).

Ever since the Milošević's era until May 2015, Belgrade has led a policy of budgetary support to economic activities in Kosovo, particularly in enclaves inhabited by Serbs. Also, through state interventions various public and private companies were directed toward financing the Serbs and maintenance of the so-called parallel institutions. Since 2005, this primarily financial support was reduced to the territory south of the Ibar River, and since the proclamation of Kosovo's independence in 2008, (due to the narrowing of the area of political influence in Kosovo and consequences of the crisis on the Serbian economy), this type of support was also reduced in the north of Kosovo. As part of the reform efforts the Serbian government is trying to change this approach and support only those projects and institutions that can realize a self-sustainable development. This approach was announced at the round table "The Region of Success", held on 29 May 2015, organized by the Office of the Government of Serbia for Kosovo and Metohija. The basic idea of this approach is adaptation to the newly created circumstances. For example, the establishment of the so-called *daughter companies* that would be registered in Kosovo, according to the laws of Kosovo, and their operations supported by the state of Serbia. One form of support is that for each employee in Kosovo, the company would be released from contributions for an employee in Belgrade or for each 1 euro sold in Kosovo to receive an additional 30 cents in Serbia and so on. Apart from a few projects related to construction and communal projects, there were no other projects of greater significance. A few companies moved their businesses to North Kosovo, but primarily with the aim to avoid paying VAT and electricity which has not to be paid there. In the meantime, all companies from North Kosovo were taken over by KTA (Kosovo Trust Agency) and in 2017 they should be privatized pursuant to the model "Spin off". Some of the cost-efficient companies were taken over by the local communities and interim management was introduced which mainly stopped production and sold the equipment and buildings. One of the examples for this bad practice is metal processing factory Lola Ribar from Lešak (Leposavić municipality).

In the period 2015–2017 it was visible that corruption is additionally rising and that the link between organized crime and politics is strengthening. This creates a bad environment both for

future investors and employers who are conducting business activities and are not involved in this “circle” which enjoys strong support within the Serbian Government. In this period the activity of the Chamber of Commerce of Kosovo also faded away. Due to all this, employers and companies owned by Serbs or from North Kosovo act beyond any organized system that could protect their interests and provide better conditions for doing business.

The total economic and social framework indicates the necessity for change and reform; however, at the same time it is not favorable in this regard. This indicates that the process of the Brussels dialogue and normalization will be accompanied with a number of risks related to economic and social life. From there come controversial signals: one group of signals, which encourage development and promotion of normalization, and another group of signals which complicate dialogue and normalization and make them more difficult. This indicates that the key role of the economic, political and state leadership is crucial and that the pace and quality of the solution depend on their capacities. One of the biggest challenges is accelerated completion of the privatization process.

On the basis of UNSC Resolution 1244, administration in the territory of Kosovo was entrusted to the UN Interim Administration Mission on 10 June 1999, which is acting under the authority of the Resolution and in accordance with the *Regulation on the Authority of the Interim Administration in Kosovo* and the *Regulation on the Law applicable in Kosovo* issued by the UN General Assembly in 1999, implements the privatization process in Kosovo. The *Regulation on the Law Applicable in Kosovo*, established that the applicable law was the *Regulation of the Special Representative of UN Secretary General* and the laws that were in force in Kosovo until 22 March 1989,⁶ as well as laws that came into force after that date, provided they are not discriminatory on any grounds, and if they are in accordance with internationally established standards for human rights.

⁶ This provision relates to the privatization of socially owned companies in Kosovo that took place after the adoption of the amendments to the Constitution of Serbia in March 1989 provided those procedures were discriminatory, and the same rule applies to the socially owned companies that were registered again and integrated. It is a fact that after the Assembly of the AP of Kosovo on 23 March 1989 (after the vote whose procedural validity is a subject of controversy) approved the amendments to the Constitution of FRY (which were adopted in the Serbian parliament five days later, limiting the autonomy of the autonomous regions), laws with discriminatory provisions were passed

By means of the Regulation of June 2002, the Special Representative of the UN General Assembly established the Kosovo Trust Agency (KTA), an independent body, whose authority is to administer public and socially owned enterprises, as well as companies established by such enterprises

The KTA's jurisdiction included registered companies whose effective control is in the territory of Kosovo, as well as assets that such enterprises have in the territory of Kosovo (if it is located in Kosovo and if it is managed independently of the assets located outside of Kosovo as of 10 June 1999). In addition to the above, under the jurisdiction of KTA were also industrial and trading companies which were, based on the decision of the Special Representative of the UN Secretary General, entrusted to the interim administration of UNMIK (which does not affect their future status and does not restrict natural and legal persons to prove their right to property), public utilities in municipalities, as well as land and real property owned by municipalities, postal and telecommunication enterprises, air, road, and rail transportation enterprises, and businesses in the field of agriculture and veterinary medicine, forestry and rural development.

Regarding the former social enterprises, which under the Serbian Law on Ownership Transformation have been transformed into another form of ownership, this transformation is considered to be legally valid only if it was made before 22 March 1989 or after that date only if carried out in accordance with the applicable law and non-discriminatory manner. The process of privatization was carried out by the KTA, authorized to establish shareholding subsidiary companies and transferring assets to them, and liquidating social enterprises – the so called *spin-off* privatization model. In this way, the KTA has formed the so-called *new companies*, new joint-stock companies to which it transferred only "healthy" capital of the company, while liabilities remained in the old company, which is liquidated. Revenues from privatization are directed to the Privatization Fund, established with the primary goal to settle all potential property claims as well as claims of creditors, including former employees, who are entitled to a fifth of total revenue. The Privatization Fund is managed by KTA (now PAK – Privatization Agency of Kosovo); it is not a budget beneficiary and it is not aimed at development. The privatization process in Kosovo is legally grounded on the following acts: the *Regulation* on the

establishment of the Kosovo Trust Agency and its powers; the *Regulation* on the establishment of the Appellate Panel of the Special Chamber of the Supreme Court of Kosovo on disputes arising in connection with the privatization process and the administrative rules governing its operation; the *Regulation* on the change of the right to use immovable socially-owned property; as well as internal documents of the KTA which further define the above acts. The *Regulation* on the change of the right to use immovable socially-owned property amends the right to use immovable property registered in the name of socially owned enterprises, that has been transferred to branches of socially-owned enterprises, into the right to 99 year-lease (including the right to possession, use, sublease, even to introduce a mortgage, but not to transfer, except in case of inheritance for individuals, and some types of succession for legal persons, similar to *leasehold* in the tradition of the Anglo-American legal system). The introduction of 99 year-lease has to some extent cleared certain objections by Belgrade and representatives of the Kosovo Serbs that UNMIK exceeded its managing powers by freely disposing of property. After adoption of the Constitution of Kosovo, the Privatization Agency of Kosovo (hereafter the “PAK”) was established as the successor of the Kosovo Trust Agency (which is not recognized by the Serbian Government). Out of eight PAK offices, three are located in the area inhabited predominantly by Serbs (Štrpce, Leposavić and Gračanica).

2011 was a particularly important year for the privatization related legal framework in Kosovo. In that year, three laws were adopted: the *Law on the Kosovo Trust Agency*, the *Law on the Special Chamber of the Supreme Court of Kosovo* and the *Law on Reorganization of Certain Enterprises and Their Assets*, the so called *Trepča Act*, which provides for the establishment of public-private partnerships and concessions.

In the course of the privatization process almost 70% of socially-owned enterprises have been privatized. While the privatization of state-owned enterprises started in 2010, and is being carried out extremely slowly, especially in the northern part. Privatization revenues of about 650 million euro have been “frozen” in the Privatization Fund due to unresolved ownership structures. Some estimates state that there are between 50 and 60 thousand claims for damaged or illegally obtained property in Kosovo.

In terms of contribution to the economic development of Kosovo, the privatization process has been criticized due to selection of the *spin-off* privatization model, sales effectuated at much lower prices, and because the international community has applied the "universal" standards, without any adaptation to local needs and circumstances

Serbia, on its part, is contesting the privatization process in Kosovo emphasizing that its claim to ownership of the socially-owned and state-owned enterprises is not being respected. Also, Belgrade is expressing a concern for the rights of the Serb community in Kosovo. However, the aspirations of Serbia to the right of ownership of the socially-owned and state-owned enterprises in Kosovo are brought into question by Prishtina and international representatives due to the lack of a clear definition of the titular holder of the socially-owned property. Also, the actors in the privatization process in Kosovo have worked very hard to ensure legal completeness of privatization, and the respect of property rights. It is necessary to ensure a better investment climate and transparent privatization. The fact that there is a strong public opposition to the arrival of investors from Kosovo to Serbia and those from Serbia to Kosovo, creates concern. In order to stop this trend, it is necessary to vigorously tackle corruption at all levels, to strengthen the rule of law and to ensure expertise and effectiveness of public administration.

3. Areas of priority for improving the normalization of doing business between Serbia and Kosovo

3.1. Improvement of road infrastructure

Although Kosovo is not on the route of the pan-European corridors it is linked with them via corridor VIII - the "Ibrahim Rugova" highway, which connects Prishtina and Tirana, and there are ongoing works linking Priština with Skopje and Corridor X (Tirana - Prishtina - Niš). Regarding the north, Kosovska Mitrovica is located at the crossroads of trade routes between north and south - the main road that crosses lake Gazivode links Kosovska Mitrovica with Montenegro and the Adriatic Sea. The main Prishtina-Mitrovica road connects the north with the rest of Kosovo and is currently in the phase of reconstruction, (financed from a loan from the *Saudi Development Fund*). Despite capital investments in road infrastructure since 1999, the road

network in the north is underdeveloped, and because of its topographical characteristics does not provide fast connection with the region.

Railway connection between Kosovo and Serbia and Macedonia is in place, but not with Albania and Montenegro. Since the autumn of 2013, Serbian Railways again service the line Belgrade - Kraljevo - Kosovska Mitrovica, while the line from Mitrovica is still serviced by the "Kosovo Railways". Since May 2014 transportation exists only to Zvečane. This is justified by the damage caused by the floods and torrents of May 2014.

In the context of the technical dialogue, on several occasions in 2014 and 2015, and through the mediation of two chambers of commerce, Serbian Railways and Kosovo Railways discussed the possibility to establish train service. Two obstacles were identified which prevent the smooth functioning of the railway transportation: 1) the railroad that goes from Prishtina to Kosovska Mitrovica and leads to Kraljevo via Lešak is technically correct and can be put into operation, but the two parties have not reached agreement on the responsibility for the management & maintenance of the railroad from south Mitrovica to the crossing with Serbia, and on the status of employees of Serbian Railways; 2) another branch railroad that connects Niš, Doljevac, Prishtina and Kosovo Polje was partially destroyed during the war in 1999 - the Merdare tunnel collapsed and a part of track is missing near Podujevo is missing. The *European Bank for Reconstruction and Development* recently approved the extension of a loan to the Government of Kosovo for the rehabilitation of railway lines from Kosovo Polje, Prishtina to the crossing with Serbia. Serbian Railways made a financial assessment of the investment needed to reconstruct the Merdare tunnel. In accordance with the directives of the EU, during 2011 Kosovo restructured the railways and separated the enterprise engaged in infrastructure (INFRAKOS) from companies that are engaged in operations (InfraTrain).

Kosovo has two national airports (in Đakovica and Podujevo) and one international in Prishtina, which was given over in 2010 to Turkish - French consortium to be managed for the next 20 years. The national airline is "Kosova Airlines", flies to eleven destinations, with direct flights to cities in Albania, Croatia, Slovenia, Austria, Switzerland, Germany, France, Sweden, Norway and Turkey.

In order to utilize this potential for improving the freedom of movement and economic cooperation between Serbia and Kosovo, and by this also for strengthening their economies and normalizing their relations, it is necessary to implement all agreements reached within the Brussels dialogue and cooperation projects for construction of the road and railroad infrastructure, as well as to restore air traffic between Belgrade and Prishtina, which is now negotiated within the Berlin process.

3.2. Energy sector

The main source of energy in all Kosovo is electricity. In spite of the significant potentials (Brown coal (lignite) deposits, which are estimated at between 11 billion and 14 billion tons, are one of the richest in Europe) for electricity production, Kosovo has serious problems in meeting the growing electricity needs and is forced to import between 10 and 15% of total electricity needs.

Energy systems of Serbia and Kosovo were developed within the framework of a single Yugoslav state. These systems have natural sources of energy: coal, oil, gas, water, and share geographic location of Serbia for transit of electricity, oil and gas. Only by connecting the power systems of Kosovo and Albania via a 400 kV power line can that system gain in importance as a transit potential. Existing energy systems are not able to meet the challenges and uncertainties in ensuring a secure energy supply for its consumers. Since energy security can be only be ensured through cooperation in the region, it is necessary to identify the possible forms of cooperation between the energy systems of Serbia and Kosovo. With development of economy and raising standards of both systems (Kosovo and Serbia), the need for purchase electric power will grow. It is therefore important to establish transit from Serbia to Kosovo via a 400kV line. At this moment this line is important for Kosovo because it creates the possibility for electricity supply from the free market. As for Serbia, this route will gain on importance after completion of the 400 kV transmission line Kosovo - Albania. All transit for the supply of electricity to Kosovo and Albania will go through Serbia's network, which means the collection of transit fees.

Of the total electricity produced, 90% is produced by the Kosovo Energy Corporation KEK, "Kosovo A", which is built using Soviet technology of the 1960s, and "Kosovo B", built in the 1980s. Both power plants use coal to generate electricity, and since "Kosovo A" is a big polluter

of the environment some parts were decommissioned, while complete shutdown is planned to be carried out by 2017. It is planned to construct a new power plant - TPP "New Kosovo", also known as "Kosovo C ". In order to meet the requirements of the EU standards, Kosovo will have to significantly increase the use of renewable energy. That means that 20% of the energy must come from renewable sources, wind energy production must be increased by 20% and carbon dioxide emissions reduced by the same percentage.

The *Energy Arrangement*, governing future relations between the Transmission System Operator of Serbia (EMS) and the Electricity Transmission System and Market Operator of Kosovo (KOSTT) was initialed in Brussels on 08 September 2013, within the framework of the political dialogue.

The *Arrangement* provides that the EMS should support the efforts of KOSTT in becoming a member of the ENTSO-E Association and in becoming a separate control area, Prishtina, in turn, would facilitate registration of two new companies to deal with the wholesale electricity trade and the supply and the distribution services. Even though Serbia claims it fulfilled all obligations and signed the interconnection agreement with KOSTT, but only under the condition that ElektroSever Ltd. first obtains the license for power supply and that it becomes operational (*Izveštaj, 2016:8*), the European Commission states that Serbia has failed to sign the interconnection agreement that would support the efforts of KOSTT in becoming a member of the ENTSO-E Association (*Non paper of the EEAS and European Commission Services on the state of play regarding Chapter 35: Other Issues*).

After years of a bitter dispute between Serbia and Kosovo over the electricity supplier to North Kosovo, the two countries reached an agreement reached in 2013. In accordance with this agreement, the company “Elektrokosmet” will be transformed into a supplier and distributor of electricity for four municipalities in North, under Kosovo legal framework. However, Serbia did not equip this company with necessary means and staff; it did not sign commercial agreement with the still existing “Elektrokosmet” (*Non paper of the EEAS and European Commission Services on the state of play regarding Chapter 35: Other Issues*).

KOSTT will reconnect the 110 kv lines to Valač and take full control over the Valač substation on the border between Serbia and Kosovo. With this, KOSST will gain full control over the transmission system of Kosovo. Kosovo Energy Corporation (KEK) should also takeover “Gazivode” HPP (38 KW) which generates about 2 percent of total power in Kosovo. Prishtina and Brussels assessed that this has not yet happened because Serbia has not assigned the management of the hydroelectric power plant Gazivode (Kosovo Report, 2016: 9; *Non paper of the EEAS and European Commission Services on the state of play regarding Chapter 35: Other Issues*).

All previously said bespeaks that the signed agreements indicate that progress has been achieved in the energy sector, but that in practice this progress is blocked (*Brussels Agreement Implantation, 2015: 16*). At the same time, Serbia is facing a hearing with the regional energy regulator, the Energy Community, concerning what Kosovo claims is the theft of 5 million euro a year from Kosovo in tax revenues. Kosovo also maintains that Serbia’s energy operator is leveling illegal fees, costing Kosovo energy consumers 10 million euro a year and raising the price of electricity by 20 percent. According to Kosovo officials only the KEK has licenses to supply electricity across Kosovo’s territory, and users of electricity should not be making payments to “*Elektrokosmet*” or EPS. On its part, Serbia and EPS claim that EPS was not breaking the treaty and that it lost 100 million euro in unpaid bills in North Kosovo, due to the fact that people had not been paying their electricity bills for 10 years.

The implementation of the Brussels agreement can significantly contribute to mutual relations and cooperation in the long run. Cooperation should be based on the economic interests of equal partners; commercial agreements on exchange / purchase / transit of electricity and commercial agreements on gas pipeline construction and use / transit / sale of gas.

3.3. Mining and Metal Processing, Mechanical and Construction Industry

An important potential for Kosovo's economic growth of Kosovo and economic cooperation between Kosovo and Serbia are abundant mineral resources.⁷ The obstacle to this is unfinished privatization process. Most metallurgical industry plants in Kosovo of the Yugoslav era do not exist anymore, or are replaced by smaller ones, while several large plants have been privatized. Today the metallurgical industry is comprised of about 80 companies that have a total turnover of about 80 million euros (of which only two are large - former "Zastava - Ramiz Sadiku" today "Kosova Steel Group," and "Ferronikel" in central Kosovo), employ around 2,500 people and exporting products to 15 countries.

In the metal processing industry in Kosovo, the vast majority of companies are engaged in primary production and processing of metals (forgings, reinforcement, roof trusses, etc.), production of sheet metal, wrought iron, stairs and other building components, HVAC equipment, tools and machine equipment etc. Since Kosovo is importing metal goods worth about 180 million euro, there is a great potential for development, which can be of particular importance for North Kosovo.

Within the engineering industry the following plants play important roles: shock-absorber plant in Priština, and in North Kosovo, roller bearings plant "Prva Petoletka" in Leposavić; machinery, parts and components plant "Lola-Fot" in Lešak; tool manufacturing plant "Lola" in Gazivode and "Gradac" plant from Brnjak (which manufactures solar panels and springs).

In recent years the construction industry has become one of the most important sectors in the Kosovo economy. It represents an important economic potential for Kosovo, bearing in mind the need to build new housing and road infrastructure. Cement plant Sharrcem, owned by the Greek Titan Group.

4. Regional cooperation (chambers of commerce)

⁷ Kosovo has the fifth largest lignite deposits in the world. Also, the launch of exploitation of rich deposits of lead, zinc, silver and magnesium would contribute to the increase of employment and economic growth.

Pursuant to the *Agreement on Regional Representation* (the Agreement), according to Belgrade, the Republic of Serbia has been making a continuous effort to intensify all forms of regional cooperation, and that in the past previous, the representatives of the PISG in Prishtina were enabled to participate in numerous regional conferences and forums, noting that the Agreement on the Establishment of the Western Balkans Fund was signed on 13 November 2015 (*Izveštaj, 2016:14*). Prishtina agrees that good progress has been achieved with regard to this issue and at the same time states that Serbia continues with obstacles to Kosovo's membership in international organizations, and in particular UNESCO (*Brussels Agreement, 2016: 24, 25*). On the side of EU, it is observed that Serbia sometimes obstructs Kosovo's effective participation in regional initiatives, but in general does not prevent regional cooperation and Kosovo's taking part in it (*Non paper of the EEAS and European Commission Services on the state of play regarding Chapter 35: Other Issues*).

The conference on the Western Balkans and priorities for future development in the light of EU accession, which was held in Berlin on 28 August 2014, activated many important issues primarily focused on investments, infrastructure, competitiveness, transparency and predictability of the business environment. This was the beginning of the so- called "*Berlin Process*" which led to active participation of the governments and business associations (chambers of commerce). Within this process, many very important projects related to road and railway networks have been agreed; in particular the investment projects in energy security and ensuring greater level of skills, professionalism and transparency in the fight against corruption.

Organization and acceleration of the so-called "Berlin Process" was enabled through the discussions on the implementation of the *Action Plan for Western Balkans 6* (WB6 Action Plan) that was reached at the Western Balkans Summit Vienna on 27 August 2015.⁸ Most important results of this forum were: the establishment of a Chambers of Commerce Investment Forum for Western Balkans (CCIF WB); support to the inclusion of the presidents of chambers of

⁸ The Western Balkans Summit in Vienna was attended by Johannes Hahn, the EU Commissioner for European Neighborhood Policy and Enlargement Negotiations; Prime Ministers of the Western Balkan countries and EU member states as well as ministers of economic affairs; representatives of international investment institutions (European Investment Bank, European Bank for Reconstruction and Development and the World Bank); Representatives of investors from the EU and representatives of chambers of commerce of the Western Balkans and the EU.

commerce in the work of the National Investment Commissions (NIC); the establishment of a joint forum of chambers of commerce of the Western Balkans for the programming of regional projects in the areas of infrastructure, energy and power efficiency; secondary vocational education and lifelong learning; investments in green technologies, anti-corruption, availability of sources of funding; the Regional Vocational School - RVS) based in Kosovo; the Forum for innovation and excellence and others.

For the immediate improvement of the economy, great importance is placed on the initiatives for the formation of a consortium of regional construction companies for a joint appearance on third markets; the development of regional long-term strategy for the Western Balkans for agricultural research and innovation and the development of agricultural information center. Also, projects for the improvement of electricity and gas infrastructure and a set of projects for the construction of road and railway infrastructure along Corridors VIII and X. It is estimated that the total value of the agreed projects in Vienna is around 550 million euro.

To improve the economy and create conditions for regional cooperation between Serbia and Kosovo the following projects are particularly important: the construction of the highway between Niš - Priština - Tirana, and between the Black Sea - the Adriatic Sea; conceptual solution for utilization and modernization of the railway line Niš - Doljevac - Merdare - Priština; electrification of railway routes X (Lapovo - Kraljevo - Kosovo Polje - Uroševac - Skopje; and the re-establishment of the air traffic.

The importance of implementation of projects within the Balkan Six, apart from the immediate benefits in linking countries in the region, has long-term effects of raising the importance of the Western Balkan markets and investments in the region for the European and other investors. From a political and institutional standpoint, this program requires frequent meetings and joint work of politicians and governments which, among other things, can lead to the harmonization of legislation, as well as institutional and procedural solutions.

Regular cooperation between companies, business people and their associations is of major importance.

In the mid-2013 started Cooperation between the Chamber of Commerce of Serbia and the Chamber of Commerce of Kosovo started in mid-2-13, with Eurochambers as the intermediary. In time, the initial intermediary role of Eurochambers was reduced to receiving regular information of the Chamber of Commerce of Serbia and the Chamber of Commerce of Kosovo on progress achieved in their cooperation.

The aim of this cooperation is to link the business communities, namely to begin dialogue on reaching a number of agreements which should enable normalization of business operations and the creation of conditions favorable for mutual investments.

Until now the chambers held 17 joint meetings. The topics of discussion were issues related to free flow of goods and services, improvement of customs cooperation, harmonization of phyto and veterinary certificates, as well as certificates for releasing for circulation medication and medical devices. The two chambers in cooperation with the two Veterinary Administrations, from Serbia and Kosovo, initiated harmonization of veterinary certificates and they are now working on harmonization of certificates for pork, beef, mutton, poultry and meat products, milk and dairy products. Apart from unimpeded trade in dairy products, the harmonization of these certificates will enable also companies from Serbia and Kosovo to have joint investment into milk processing and thus ensure joint products which will be competitive in the Western Balkan market; this should ensure employment for all citizens, which is also one of the preconditions for good cooperation between Serbs and Albanians. Only by promoting regional economic relations, harmonizing and linking the markets of goods, services and labor force is it possible to ensure lasting development, increase employment, and enable companies to link for the purpose of jointly appearing at regional and other fairs.

As stated above, the two chambers cooperate also as intermediators for the establishment of railroad, postal and air traffic between Belgrade and Prishtina, but until now no visible results were achieved. The cooperation in this area resulted in signing the Agreement on Cooperation in the Sector of Electromechanical Engineering and industry of building material (*Izveštaj, 2016: 21*).

Since the signing of the Brussels agreement implying the establishment of the Kosovo legal system in the entire territory, hence also in the four municipalities in the north, entrepreneurs and companies had to reregister their businesses pursuant to Kosovo legislation. Gradual introduction of controls at crossings, and compliance with the Brussels agreement as one of the preconditions for integration of Serbia into the EU – compliance being measured, inter alia, by the progress achieved in implementation of Chapter 35 – placed the entrepreneurs from Serb communities into an unenviable position. Being almost fully dependent on Serbia's institutions, market and financing the businessmen from Kosovo are facing new business procedures and costs for their implementation. This is a new situation and therefore it is necessary to establish an association which will represent the interests of Serbian businessmen first of all in regard to Kosovo institutions and international organizations, and shall serve as a representative organization which will ensure services and advice necessary for doing business in new circumstances. Such an association – if it will gather a representative number of entrepreneurs and farming households and ensure contact with suppliers, distributors and available funds for support to economic development – may be a significant instrument for economic empowerment of the community.

The cooperation of the two chambers of commerce as applied today, and particularly the intensity of this cooperation, would not be possible without overt or implicit support of the governments in Belgrade and Prishtina and the dialogue between the chambers. It was demonstrated that the existence of “parallel dialogue” which is complementary to the “official” political process unfolding in Brussels may serve for testing certain important solutions for the improvement of relations and solving everyday problems of citizens. The fact that meetings are organized without being in public spotlight but in consultation with political actors, enables them to reach full comprehension of fields in which there are disagreements and find proposals and solutions.

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PART II: ECONOMIC RELATIONS BETWEEN KOSOVO AND SERBIA

Olivera Ceni Bardiqi

1. Introduction

Kosovo is still facing a very large trade deficit, especially for trade in goods. Companies of Kosovo are facing difficulties in international trade aspect, this is a fact coming out from the lower level of exports participating in the regional level from our companies.

Kosovo export products are facing the biggest challenge from the Serbian authorities, mostly related to trade barriers against export-import of agricultural and some non-agricultural products from Kosovo, but also when Kosovo products are in transit through the territory of Serbia since they don't recognize Kosovo exporters and importers. The barriers are of different nature: Nontariff Barriers, Technical Barriers to Trade and Sanitary and Phyto-sanitary Standards/Measures.

The barriers to goods in transit affect a considerable number of Kosovo companies when importing from other countries, including EU member states, or exporting in there.

All above mentioned issues have been addressed during meetings of the Subcommittee on TBTs and NTBs in CEFTA, and even by the Joint Committee, which is the highest level for such issues in CEFTA. Kosovo Chamber of Commerce has also addressed this issue on daily basis with the business community in Kosovo and with foreign investors through the DIHK-CEFTA project. The business community had an extensive campaign to overcome the political barriers. Unfortunately, no sustainable solution could be found.

The promotion of exports is perceived as a top priority policy by the Government of Kosovo and, in that context, CEFTA 2006 provides a unique framework to strengthen economic and trade relations with all neighboring countries, on equal bases, without any discrimination. Today, within CEFTA, Serbia is one of the Kosovo's major trade partners. Considering these facts, the barriers that are raised by the Serbian side against Kosovo goods may damage seriously Kosovo's trade and the general economy.

2. Legislative overview

After the war, Kosovo first trade policy regime was based on UNMIK unrealistic perception based on trade policy from the period of Yugoslavia, without taking into consideration interests of Kosovo economy (without providing protection for any specific sector while negotiating this agreement). CEFTA agreement was negotiated by UNMIK on behalf of Kosovo. Such a choice was strongly commended for its liberal stance, simplicity and seeming neutrality (in fact, it can be shown that in terms of "effective rates of protection" a uniform

nominal rate is far from neutral, however). Soon, exceptions were introduced for some products. The actual Law on External Trade (No. 04/L-048) was adopted in 2011 and complemented by a series of laws addressing trade-related issues.

Trade in goods and a service has been liberalized, and negotiations to liberalize trade in services have been recently concluded. The first rounds of negotiations focused on professional services – these are rather sensitive services, because they relate to the movement of persons and the mutual recognition of diplomas. The negotiations were supported by an EU Trade Policy Project, which permitted the development of a trade in services (TIS) database that provides key information on trade flows, companies, legislation, partners' rules and so-called offensive and defensive positions – a very unique tool indeed.

Implementation of this agreement has been accompanied with difficulties for Kosovo due to obstacles made by Serbia and Bosnia and Herzegovina (BiH). This was due to non-acceptance of anything originating from Kosovo institutions including custom stamps, hence, blocking any export of Kosovo to the market in Serbia and the transit goods from Kosovo through the territory of Serbia. With regards to BiH as it does not recognize the state of Kosovo it also does not recognize the origin of goods and therefore treats Kosovo exports as goods from any other country with which they have no trade agreement.

Kosovo is an open economy. The foreign trade is dominated by imports; the level of export is small resulting in high trade deficit. Generally, the Kosovo economy is not operating to its potential and in particular the export sector.

1.1. Kosovo legal framework / laws in regard to trade:

Law No. 04/L-005 on Amending on Amending and Supplementing the Law no. 2004/18 on Internal Trade

This Law regulates requirements for the development of internal market trade, wholesale, retail sale, auction, and mediation in trade, restrictive practices and protection measures for the development of trade activity, illegal competition, supervisory measures, administrative measures, and punitive provisions.

The internal market in Kosovo is unique and is governed by this Law. Furthermore the law highlights, all persons engaged in commercial activities shall be treated without any discrimination or privileges and in accordance with the provisions of this Law; unfair competition by traders is prohibited; except when determined by law, central and local bodies

may not by law or other regulations restrict the right to participation in the market, prohibit free market competition or create unequal positions for certain traders and consumers.

This law is equal to all interested groups, but depending on the situation, the government has the power to apply restrictions in conducting trade activity. Namely:

“The Government may, by special act, temporarily restrict conduct of trade activity in cases of: a. elementary and natural disasters when there is or may be inflicted disruption in trade, in supplying the population, or disruptions in the region that jeopardize residents' health and safety, b. considerable disruption in the internal market such as: lack of reproductive goods for production, processing and for ensuring the livelihood of residents, c. war state or imminent threat of war, d. where there is a threat to the supply of, raw material or material of strategic importance”.

The Government shall determine the restrictions on the conduct of trade activity under Paragraph 1 of this Article, only if disruptions cannot be avoided by other measures, or if needs cannot be met from the goods reserve, imports or other measures of economic policy.

For details see: www.kuvendikosoves.org

Law No. 04/L-048 Law on External Trade

The purpose of this Law is to define the general rules for the exercise of external trade between persons settled within and out of the territory of Kosovo in compliance with the best International practices. Activities of external trade may be carried out by natural and legal persons, while trade for commercial purposes may be carried out only by persons registered for carrying out the economic activity in Kosovo.

Public authority or normative acts cannot impose restrictions, prohibitions or conditions in any external trade activity, to damage or impose conditions on the ability or the right of every resident or non-resident to include or perform external trade activities, unless in cases when this Law defines specifically or allows otherwise. Furthermore, a public authority or normative act cannot impose such measures that produce specific, restricting and prohibiting requests, unless this Law defines specifically or allows otherwise.

However, the law allows the state level institutions to apply restricting measures on the exercise of trade: *“If the provision of this Law requires or authorizes the imposition of protection measure that otherwise it would be in contradiction with Article 4 of this Law, Government of Kosovo shall, when it is necessary, normative act on initiation of such restricting measure; with the condition that, any such restricting measure initiated in this way should be in compliance with*

the following criteria: 1.1. it must be clearly authorized by and consistent with the concerned provision of the this Law; 1.2. it must be clearly related to and clearly necessary for the achievement of the purpose specified in such provision; 1.3. its type and scope must be limited to the minimum necessary to achieve such purpose; 1.4. its implementation shall be done in the manner that creates the least possible interference and imposes the least possible burden on external trade activities and the general freedom of economic activity; 1.5. it shall not be contrary to any international agreement that is binding on Kosovo”.

A protection measure may not negatively affect the performance of a contractual obligation existing at the time such restrictive measure is adopted unless the achievement of the purpose of such restrictive measure would be more than insignificantly jeopardized by the performance of such obligation.

A restrictive measure shall be repealed, or its scope thereof shall be reduced as and insofar as the reasons justifying its existence or scope of application cease to exist or otherwise become irrelevant.

For details see: www.kuvendikosoves.org

Law No.03/L –232 on the Trade of Strategic Goods

This law regulates the activities of the state institutions of Kosovo in the field of export, import and transition of strategic goods and services, control, supervision, rights and obligations of parties taking part in the business activities from this field for the end user. Pursuant to the Law, the Ministry is responsible institution that performs control of strategic goods, and dose administrative works for the commission. In order to implement paragraph 1 of this Article, the Ministry establishes the respective unit for Strategy Control.

Respective unit organization, field of action, and fictionalization shall be regulated through sub-legal acts which will issued by Minister.

The Government with a proposal by the Ministry, through a Decision adopts the list of non-military lethal goods for commercial purposes.

The Ministry issues export or import licenses for every export or import separately. The license, is issued with duration up to six (6) months. With a proposal by Commission, the Minister through a sub-legal acts defines the form and content of license.

Export and import of the strategic goods and services is done based on the license issued by the Ministry, with the approval by the Commission.

The license for export is required even when there is export of goods which are not defined by the provisions of this Law, but when the Ministry has informed the exporter.

For details see: www.kuvendikosoves.org

Kosovo also has adopted laws that facilitate trading for local and international businesses. Further are elaborated some related-laws:

Law No. 03/L-097 on Anti-Dumping and Countervailing Measures

This law establishes the legal basis for the imposition of anti-dumping measures on or with respect to an imported good that has been exported to the customs territory of Kosovo at a price that is below its normal value if the importation of such good into the customs territory of Kosovo is causing material injury to the concerned Kosovo Industry.

This law also establishes the legal basis for the imposition of countervailing duties on an imported good that is benefiting from one or more specific subsidies granted, directly or indirectly, by a foreign government or public authority for the manufacture, production, export or transport of such good if the importation of such good into the customs territory of Kosovo is causing material injury to the concerned Kosovo Industry.

Any such measure or duty shall only be imposed after the conduct of a procedure that complies with the procedural requirements established by or pursuant to this law. The terms of any such measure or duty shall comply with the applicable substantive requirements established by or pursuant to this law.

For details see: www.kuvendikosoves.org

Law No. 02/L-123 on Business Organizations

The purpose of the Law is to: a) specify the types of business organization through which business activity may be conducted in Kosovo; b) establish, for each type of business organization, the applicable registration requirements; c) set forth, for each type of business organization legal provisions with respect to its legal capacity and structure and its rights and obligations and those of its owners, managers, directors, legal representatives and third parties; and d) otherwise establish legal provisions that promote and facilitate the orderly and efficient creation, operation and dissolution of such business organizations. It is specifically provided that the present Law is limited in scope and does not establish rules or regulate matters falling within the scope of other primary normative acts. Without prejudice to the generality of the foregoing, it is specifically provided that rules governing the licensing and regulating of the activities of a business organization and the accounting, financial reporting and labor and employment practices of business organizations are not within the scope of the present Law.

For details see: www.kuvendikosoves.org

Law No. 04/L-220 on Foreign Investment

The purpose of this law is to protect, promote and encourage foreign investment in the Republic of Kosovo, to provide foreign investors with a set of fundamental rights and guarantees that will ensure foreign investors that their investments will be protected and treated with fairness in strict accordance with the accepted international standards and practices.

For details see: www.kuvendikosoves.org

1.2. Institutions and implementation of normative acts

Kosovo has the “Law on External Trade”, Law No. 04/L-048, which is into force since December 2011. As mentioned above, UNMIK signed the CEFTA Agreement in 2006 on behalf of Kosovo, and the countries that didn’t recognize Kosovo still report and try to politicize the issues with UNMIK mandate. Furthermore to the case, UNMIK mandate is very formal and that is causing a lot of confusions in regard to the topic. Ministry of Trade and Industry is in charge for the well-implementation of the agreement, in line with the Ministry of European Integration, Ministry of Agriculture, Forestry and Rural Development, Ministry of Foreign Affairs and Ministry of Economic Development.

However, Ministry of Trade and Industry of Kosovo is the leading institution in the implementation of the agreement and other relevant laws in regard to Free Trade and Economic relations.

1.3. Implementation of the CEFTA Agreement – current situation and prospects

The experience of Kosovo with CEFTA since the beginning has not been very positive due to political animosities persisting in the region. Serbia and Bosnia and Herzegovina don’t recognize Kosovo and its documentations issues by Kosovo institutions. Even though continuously there are ongoing efforts to solve the problem, Kosovo exports to above mentioned countries do face a lot of barriers.

There is a general opinion especially within the business community that CEFTA agreement will not produce the expected benefits for Kosovo and only other regional countries are going to benefit and to become competitors.

Sometimes, the public institutions of Kosovo, claim that the process of adhering to CEFTA was not well thought, and the decisions were taken without and analysis or any impact assessment.

The purpose of CEFTA is creation of rules and mechanisms by which foreign trade is governed in the region. These rules have been harmonized with the principles of the EU and WTO. Experience gained in the trade with the region will make Kosovo's products competitive for the EU market and wider. Another purpose of CEFTA is a creation of an attractive regional market which would create new opportunities for domestic businesses or foreign investors. This dimension is particularly important for Kosovo, as FDI are of paramount importance in improving competitive position of Kosovo industries in foreign markets (Trade Policy, MTI, 2009).

Key factors of success of the CEFTA Agreement:

- High level political commitment and coordination, preferably at the level of Prime Ministers
- Holistic approach as all the areas are directly related to higher economic policy objectives such as competitiveness and investment
- Strong dialogue with private sector regulated and institutionalized.
- Beneficiary driven technical assistance and donor coordination

Expected results:

- **Create a region which is:**
 - free from any systemic market access barriers,
 - trade facilitated higher than WTO TFA standards,
 - trade in goods and services are liberalized
 - mutually recognized documents, procedures, programs once EU alignment is reached
 - free from trade defense measure
 - no competition distortions and restrictions in public procurement
 - high quality pre-litigation and strong dispute settlement
 - part of cumulation zones in PEM and having full cumulation and duty drawback
 - applying the same MFN with the EU common external tariff
 - strong involvement of private sector in regional policy making

Kosovo did not benefit much from the above mentioned achievements due to its political status mostly and lack of willingness of the economic partner countries to help in improving the economic performance and development.

3. Problems identified in the economic relations between Serbia and Kosovo

Non-tariff barriers (NTBs) are in the focus of discussions within CEFTA; they are related to sanitary and phyto-sanitary measures, technical standards, and complex border-crossing formalities and procedures. In that context, it is worth mentioning the use of NTBs by Serbia against Kosovo, they may not always correspond to “objective factors” (MTI, 2016).

Non-tariff Barriers (NTBs) refer to policy measures other than the ordinary customs tariffs, which can potentially have an economic effect on international trade in goods, changing the quantities traded, or prices, or both (*for more detailed data, see UNCTAD, 2013*). In other words, as underlined by *Deardorf and Stern (1979)*, NTBs do comprise all the measures other than tariffs that restrict or otherwise distort trade flows.

A basic difficulty in approaching NTBs is that they are defined by what they are not and not by what they are. NTBs consist of all barriers to trade that are not tariffs.

Examples of NTBs are: Rules of Origin, Sanitary and Phyto-sanitary Standards, Measures or Conditions, Technical Barriers to Trade, Import Licenses, Restrictive Licenses, corrupt practices and/or lengthy customs procedures and additional requests for trade documents like various licenses and certificates (MTI 2016⁹).

Since 4th of December 2008, Serbia and BiH blocked the export of goods from Kosovo, as well as using their territory for transit purposes. This blockade occurred after Kosovo changed its customs stamps replacing UNMIK with Kosovo, because for Serbia and BiH, changing the stamp was against the CEFTA agreement.

This blockade caused a decrease in exports in 2008 for 9.8%. Companies from Kosovo faced with this problem had to use third countries in order to integrate in regional market. But this alternative means over-loaded procedures, time consuming and higher exporting costs. Apart from local businesses, international investors are too affected from this blockade. We assume that one of the reasons that discourage foreign investors to invest in Kosovo is because they have it difficult to export their products in the region. Foreign investors most likely would better invest in a country from where they can easily export in all CEFTA member states. As we mentioned above CEFTA enlarges the market for Kosovo from 2 million to 20 million consumers and this is a very strong factor in attracting foreign investors. However, since 2007, foreign investment didn't increase; in fact they decreased even more. Noncompliance of the CEFTA agreement is one of the main reasons that caused the decrease in foreign investments.

Trade barriers imposed by Serbia against Kosovo products are:

1. Transit issues

⁹Personal interview, Ms. Sytrime Dervisholli, Trade Department Director, Ministry of Trade and Industry

Since 2008 many Kosovo company are regularly facing with the problem of transit while importing from EU countries and crossing through Serbian territory at the different borders point their trucks are stopped. Even though, the Kosovo companies possesses all the relevant documentation, they are also asked to provide with an import license that is issued by Serbian Food and Veterinary Agency or Ministry of Agriculture. Sometimes, SPS certificate are required for transit and not recognized by Serbia, even though the certificate has been issues by EU authorities. Considering this, the transit is almost not allowed. Companies are usually forced to go back and use another route through Romania, Bulgaria and Macedonia thus arriving in Kosovo. As long as it waits there, additional costs are caused in terms of time and money.

2. Technical Barriers to Trade / Import license

Since March 2013, a company from Kosovo cannot export waste paper to Serbia. Since then it was not allowed to continue further claiming that the importing company does not have the license from the Ministry of Environment in Serbia to import these goods from Kosovo. The requirement to obtain that license was introduced when the authority responsible to collect import duties was given to Customs of Serbia and not Tax Administration. The Serbian importer was told that the license is issued for imports that come from countries, since Kosovo is considered part of Serbia; they do not issue a license for the importation of waste paper from Kosovo.

Having faced this barrier, the company from Kosovo opened a business in Macedonia. Through this company, they exported waste paper through Macedonia to Serbia in the form of re-exportation. Yet again, the company re-exports to Serbia through Macedonia in the consignment documents it says that the origin of the commodity is Kosovo.

3. Barriers to trade – Serbian Law on Technical Requirements for Products and Conformity Assessment / The certificate of conformity /Article 13

Serbia has adopted a Regulation on Electrical Equipment designed for use within certain voltage limits transposing EU Directive 2014/35 / EU. The Serbian authorities, when transposing this Directive into their own regulation, have also introduced national provisions, Chapter 4, Articles 13, which should have been forwarded to the CEFTA countries in accordance with „*Regulation on the manner of providing information and notification of technical regulations, conformity assessment and standards*“. These provisions pose barriers to the marketing of products for which the abovementioned Regulation applies, not only for Kosovo but also for all CEFTA countries.

Based on Article 6 paragraph 1 of the Law on Technical Requirements for Products and Conformity Assessment ("Official Gazette of RS", No. 36/09), Minister of Economy brought "Regulation on electrical equipment intended for use within certain voltage limits". The Ordinance was published in the "Official Gazette of the Republic of Serbia", no. 25/2016 from 03/09/2016. It entered into force on March 17, 2016, and it is applicable from 1.7.2017.

The article 13 says as follows: Before placing electrical equipment on the market, the manufacturer, its agent or importer for the electrical equipment, in accordance with the procedure set out in Annex 3 - Certification of conformity, which is enclosed herewith and makes an integral part thereof, provides a certificate of conformity or a copy of the records of the issued certificates of conformity of the conformity assessment bodies, which is called to perform a conformity assessment of electrical equipment with the safety objectives of Article 5 and Annex 1 of this Ordinance (hereinafter called the body). The certificate of conformity or a copy of the records of issued certificates of conformity referred to in paragraph 1 of this Article does not provide for electrical equipment for which the safety requirements regulated by specific technical regulations, which in terms of requirements in relation to risk of electrical hazards calling for application of this Regulation.

The certificate of conformity is valid for the same type and / or model of the same manufacturer of electrical equipment for five years from the date of its issuance.

4. Specific problems by economic activities

Before elaborating Kosovo companies point of view regarding the survey implemented for the aim of this paper and identified barriers in trading with Serbia, we will give some numbers in regard to CEFTA region and in particular to Kosovo.

Trade has played and should continue to play an important role for a nation development. Especially foreign trade with regard to the growing exports has its significant role. Trade is facilitated in the beginning by the bilateral agreements between the countries and later on with the free trade agreements. South Eastern Europe is now part of the Central European Free Trade Agreement (CEFTA).

After the CEFTA signatory our region became more competitive and our economies became more open on the terms of export to GDP ratios or to export plus import ratios.

Moving forward exports are supposed to go up with investment recovering and macroeconomic balances stabilizing and further improving.

In the case of Kosovo, since 2008 until 2015, the exports have increased for 84 percent, exports of goods by 53 percent and export of services by 100 percent. GDP during this time has been growing by 3.7 percent per year in real terms.

Intra-CEFTA growth has been strong in the initial period after the break out of the 2008 crises. (CEFTA 2015 Brochure). Growth of exports depends on the supply conditions in the small open economies. Trade within CEFTA is however dependent on demand in the respective economies. Because of that, intra-CEFTA trade is not growing as much as with the EU. However, benefits from the CEFTA agreement have to come. As it was promised CEFTA is not only about tariff and non-tariff barriers free trade, but also the possibility for regional promotion, especially attracting investments.

At the regional level, based on the CEFTA secretariat survey, about one third of the company leaders know very well about CEFTA and its role. Kosovo companies declared to one of the most informed in the regional level about the CEFTA agreement.

While in the regional level the main three obstacles are 1. “Unawareness of CEFTA possibilities”, 2, “Insufficient information of responsible body about what CEFTA is and what opportunities it offers for businesses” and 3. “Insufficient promotion of the advantages and disadvantages of trade in CEFTA parties”, the case of Kosovo is somehow different.

Kosovo companies have declared to meet other obstacles in regard to the CEFTA agreement implementation; “export/Import procedures, “incentives”, “agreement is not implemented as agreed”, “transportation” are the main barriers. Kosovo businesses also need further support in promoting advantages and disadvantages of trade in CEFTA parties followed by a largely need on improving the infrastructure and solving transportation issues.

Export/import procedures were mentioned as one of the biggest obstacles by the Kosovo companies. Further to the study, businesses were asked to give their opinion in regard to improvements made in the last years in the CEFTA region, considering the agreement; about 68 percent of the Kosovo companies interviewed said that in the last 10 years export/import procedures have however improved; about 14 percent said this improve was significant and only 1 percent said procedures worsened. Furthermore 100 percent of Kosovo companies participating in the survey said that *governmental measures*, had impacts in worsening export/import procedures. In the other side, same companies said that for improvements the impact was given also by the opportunities provided by the existence of CEFTA (33 percent); alignment with the EU laws (63 percent) and the government measures (71 percent).

Kosovo Team aiming to identify main problems has conducted a survey with exporting companies in CEFTA, respectively in Serbian market.

Asking companies whether they have problems in obtaining the documentation accompanying the goods when export / import / transit. From the interviewed companies 6 out of 13 said they are not asked for extra documentation. However, remaining companies stated that they are asked for a very specific permissions and certificates, conformity certificates, certificates on the quality

of the product and laboratory tests. More problems are to be mentioned here coming from the Customs authorities, i.e. when the product is “cheap” (has a low price), customs ask for the company confirmation, even after getting the confirmation they value the products differently and the tariffs are very high. Some companies also mentioned the biggest problem to be the request from the Serbian authorities to change the truck/transport plates in order to cross the border, which in one hand is extra cost and in the other hand is a wasting time for the companies. Political influences seem to still keep businesses in the difficult positions while trading in the cross-borders. Due to the above mentioned problems some of the businesses out of the meeting minutes stated that they also are considering either changing the trade corridor with Serbia (even transit) or in the worst cases to close the business. Both alternatives are costly; however, businesses do not find any other alternative.

Companies stated that in addition to the mandatory documents that accompany the goods when export / import / products they are required to present certificates of origin issued by Serbian authorities (which is illogical), veterinary certificates and phyto-sanitary certificates. Here comes another trade barrier, which in all its purpose is to once again politically impose problems to Kosovo traders. Kosovo government, Chambers of commerce, civil society and other relevant factors have been asking the political level to somehow step aside from the free trade opportunities and not influence free trade agreements despite the political problems Kosovo and Serbia are facing. There is no specific data in the context, however in Kosovo only in 2016 more than 2500 companies are closed, which allows us based on the inputs coming from the survey to somehow attribute this to the regional trade barriers imposed to them.

About 80 percent of the interviewed companies declared they encountered a situation at the crossings to be really problematic. Some of the documents were not recognized or even asked for extra observations (samplings), lack of communication skills by the police officers at the border, phyto-sanitary inspections (since the certificates are not recognized by the Serbian authorities), etc. This brings back once again the miserable reality in regard to trading barriers imposed to the manufacturers. In some of the cases businesses also mentioned the lack of qualified people being in charge in the border procedures. Some very optimist businesses stated that all these barriers could be solved with a little effort of both sides.

When asked *“whether service and inspection at the administrative crossings are coordinated and whether their working hours adjusted”*, about all of them stated they wait too much in the crossing-border, they are not coordinated and they lack staff and other technical support, sometimes the inspections are double-standard applied which directly impacts the company in regard to the market and competition.

From the companies interviewed none of them mentioned any case of double collection of excise duties and VAT, whereas the cost calculation still is a problem, however. Complimentary to this none of the companies declared to have seen any violation of the CEFTA agreement in the

crossing-border. Only one of all the interviewed companies stated that this violation is faced on daily basis due to the non-recognition of the documents, since the car/truck plates are not recognized, extra certificates required, etc.

In regard to the issue with the treatment of transit goods across Serbia, the companies participating in the survey stated when crossing transit Serbia territory, the problems become bigger, since they do not recognize Kosovo documents, or they ask for more documentation for Kosovo exporters, delays in the administrative crossing, they ask the description in the documentation to be in Serbian and not only in English, generally they do not recognize our transportation documents. Some of the interviewed companies stated that the same products are not treated equal when import/exported through Serbia. Kosovo businesses do not face any problem when they import, but the problem comes only when they try to export our goods (even transit). One company mentioned the improvements made in the last years: "Problems are solved compared to the previous times, we have less delays and less request for extra certificates, however there is still room for improvements". Another company mentioned the problem of facing higher costs since they cannot work with local operators due to above mentioned problems.

A very promising finding from the survey is that none of the companies are facing any problems with the payment of the claims, especially in connection with insurance operations (bank guarantees, credit insurance, etc.). This segment appears to be well regulated and well-functioning.

About 90 percent of the exporting companies participating in our survey stated both Kosovo and Serbia have inadequate infrastructure which causes a lot of losses for the exporters. As for their opinion most of the delays are caused because of the inadequate infrastructure in the waiting border-crossing lines. One of the companies goes beyond and says that even the investors are demotivated due to the inadequate infrastructure. Companies of both sides are trading in a non-competitive environment.

In regard to the unfair competition 11 out of 13 companies mentioned it being a real disadvantage for them. As example they take the negative discrimination coming from the competition of the biggest companies, and products treated equally even though they don't meet any criteria, favoring some of the companies in the border (which leads to a better positioning in the market for the biggest companies and kills the smaller exporters).

In regard to other barriers which were not included in the questionnaire, businesses mentioned negative discrimination for internal investors compared to foreign investors, law on public procurement, development plan, high interest rates and difficulties in obtaining loans, etc.

Concluding the questionnaire and the individual opinions of the business community of Kosovo exporting companies, we can see that most of the barriers are more politically than economically, as well as lack of investments from both sides in improving infrastructure and quality of life, better economic policies, better implementation of the CEFTA agreement etc.

As stated below with a small step a lot of things can positively change.

5. Kosovo trade with Serbia

Kosovo exhibits very large trade deficits with Serbia. Such a situation partly reflects the fact that Kosovo does not impose any specific trade barriers against Serbian products, which results in the accumulation of lasting imbalances at the expense of Kosovo. Regarding this, different types of barriers to trade are used against Kosovo on a rather regular or systematic basis, against agricultural and non-agricultural products. Considering the evidence, it can be said that part of the trade deficit of Kosovo *vis-à-vis* Serbia seems to be explained by the imposition of different types of barriers such as NTBs, TBTs and SPS, including transit related issues, against Kosovo products, in particular agro food ones.

In fact, when considering agricultural and non-agricultural products trade between Kosovo and Serbia, there are just a few products that Kosovo is able to export to Serbia and a broad range of products is imported from Serbia – products on which Kosovo does not apply unnecessary restrictive barriers.

As it can be seen, for the very few products that Kosovo exports to Serbia, Serbian customs, sometimes following the instructions of other state bodies, such as for instance the Food and Veterinary Inspection, impose different types of barriers on Kosovo exporters, compared with the large amount of products that Serbian companies export to Kosovo and on which Kosovo authorities do not impose restrictive measures. (MTI, 2016)

6. Issues with Serbian institutions

Considering Serbia, many testing procedures and requirements, and lengthy inspections processes, had a large negative impact on Kosovo agricultural firms. Thus, quite often, Kosovo companies have been confronted with unexpected obstacles raised by the Food and Veterinary Agency of Serbia, increasing the costs of border crossing in terms of time lost and money, which makes the products of Kosovo much less competitive on Serbian markets.

Considering developed countries, for large producers, there is no problem in complying with most SPS and TBT requirements, whereas, for medium size and small producers in developing

or transition countries such as Kosovo and other CEFTA members, it is more complex and meeting all SPS standards and overcoming TBTs often require much time and resources, which is not easily affordable for many firms.

In this regard, the non-recognition of existing product quality certificates issued by official bodies (i.e. sanitary, phyto-sanitary and veterinary certificates for agro-food products) may become a serious barrier to trade. This is a problematic issue caused by Serbia against Kosovo products.

Overall, what matters is that Serbia is showing an obvious lack of consistency because the requirements that have to be met by Kosovo products change over time, which contradicts the CEFTA 2006 rules.

Some of the answers provided by the companies of Kosovo are given below as examples to illustrate the above statements:

Case 1	
Company Name	ELKOS GROUP
Reporting Party	KOSOVO
Party Applying the Measure	SERBIA
Date of Application of the Measure	April 16, 2015
Sector	Agriculture
Product	Products with Animal Origin
Problem Category	Transit issue
Problem Description	
Kosovo company “ELKOS GROUP” is regularly facing with the problem of transit. The last case has happened on April 16, 2015. This company while importing from Poland products with animal origin, when reaching at the border point “HORGOSH” their truck was stopped. Even though, the Kosovo company possessed all the relevant documentation, they were also asked to provide with an import license that is issued by Serbian Food and Veterinary Agency. Considering this, the transit was not allowed. They have waited 48 hours, and then the company was forced to go back and use another route through Romania, Bulgaria and Macedonia thus arriving in Kosovo on April 20, 2015. As long as it waits there, additional costs are caused in terms of time and money. This company imports 5 to 7 times per week and, is always facing with the transit problem and they always are forced to go back and use other option.	

Means of addressing the issue	<i>CEFTA mechanism</i>	The last case has not been inserted into the MABD. Next cases of this nature will be inserted. The issue of transit is becoming a very problematic issue, this due to the fact that cases are repeatedly happening and, have been addressed and discussed many times during subcommittee meetings on NTBs and TBTs and joint committee meeting as well.
	<i>Bilateral meetings</i>	The transit issue has been even raised during bilateral meetings organized by Kosovo and Serbian chambers of commerce.
Response from Party Applying the Measure		No response for this case
Status		Pending Issue

Case 2		
Company Name		NORA TRADING
Reporting Party		KOSOVO
Party Applying the Measure		SERBIA
Date of Application of the Measure		Present
Sector		Agriculture
Product		Oilcake and other solid residues
Problem Category		Transit issue
Problem Description		
There is also a case of a rather permanent nature affecting transit, namely the lack of sanitary inspectors in duty at the border crossing point Vrška Čuka. A Kosovo company was importing agro-food products from Bulgaria through this border point. However, considering the absence of inspectors at the border, the company is forced to use alternative routes, which entails additional costs in terms of time and money. In these contexts, alternative routes have to be found in order to avoid transiting through Serbia.		
Means of addressing the issue	<i>CEFTA mechanism</i>	The last case has not been inserted into the MABD. Next cases of this nature will be inserted. The issue of transit is becoming a very problematic issue, this due to the fact that cases are repeatedly happening and, have been addressed and discussed many times during subcommittee meetings on NTBs and TBTs. it has been addressed even in the Special Joint Committee meeting, but no positive reactions have been detected so far from the Serbian side to remove the recurring

		barriers of transit nature.
	<i>Bilateral meetings</i>	The transit issue has been even raised during bilateral meetings organized by Kosovo and Serbian chambers of commerce.
Response from Party Applying the Measure		No response for this case
Status		Pending Issue

Case 3	
Company Name	NARA
Reporting Party	KOSOVO
Party Applying the Measure	SERBIA
Date of Application of the Measure	December 19, 2013 to present
Sector	Industry
Product	Waste paper
Problem Category	Technical Barrier to Trade / Import license
Problem Description	
<p>On March 19, 2013, “NARA company” from Kosovo was exporting a shipment of waste paper to Serbia, the importing company from Serbia was TEHNOPAPIR D.O.O. Once the shipment was in the Serbian part, it was not allowed to continue further claiming that the importing company does not have the license from the Ministry of Environment in Serbia to import these goods from Kosovo. Although, the Kosovo company had realized exports before and has never been required such a license. The requirement to obtain that license was introduced when the authority responsible to collect import duties was given to Customs of Serbia and not Tax Administration. The Serbian importer TEHNOPAPIR, was told that the license is issued for imports that come from countries, since Kosovo is considered part of Serbia, they do not issue a license for the importation of waste paper from Kosovo. Having faced this barrier, NARA opened a business in Macedonia under the name DIDI PAK. Through this company, they exported waste paper through Macedonia to Serbia in the form of re-exportation. Yet again, the company re-exports to Serbia through Macedonia, in the consignment documents it says that the origin of the commodity is Kosovo.</p>	

Means of addressing the issue	<i>CEFTA mechanism</i>	The last case has not been inserted into the MABD. Next cases of this nature will be inserted. This issue has been raised in the last subcommittee meeting on NTBs and TBTs
	<i>Bilateral meetings</i>	N/A
Response from Party Applying the Measure		N/A
Status		Pending Issue

Case 4	
Company Name	FRUTEX
Reporting Party	KOSOVO
Party Applying the Measure	SERBIA
Date of Application of the Measure	Present
Sector	Agriculture
Product	Golden Eagle/Energy Drink
Problem Category	SPS
Problem Description	
<p>Kosovo exporting company “FRUTEX” is regularly facing with the problem of lack of phyto-sanitary inspector at “Dheu i Bardhë” (Bela Zemlja) border checkpoint. The inspectors are present at that border point only twice in a week, which means that Kosovar company could export through this border only when the inspectors are present there. This forces the Kosovo company that after waiting there to go back and use the border crossing at Merdare for exporting its products which creates additional cost in terms of time and money. Then when the company shipment arrives at Merdare, additional testing analyses are required by Serbian phyto- sanitary inspector to be done again. Most of the time additional analyses are requested for each shipment which takes about 7 to 10 days.</p>	

Means of addressing the issue	<i>CEFTA mechanism</i>	The issue of lack of phyto-sanitary inspector, and testing analyses have been addressed and discussed many times during subcommittee meetings on NTBs and TBTs, yet no permanent solution is found.
	<i>Bilateral meetings</i>	Furthermore, this issue has been even raised during bilateral meetings organized by Kosovo and Serbian chambers of commerce.
Response from Party Applying the Measure		No response for this case
Status		Pending Issue

Case 5	
Company Name	OAZA
Reporting Party	KOSOVO
Party Applying the Measure	SERBIA
Date of Application of the Measure	Present
Sector	Agriculture
Product	Milk
Problem Category	SPS – Transit issue
Problem Description	
Kosovo company “OAZA” is an importing company of milk and milk products from Republic of Slovenia respectively, from the milk producer so called “ALPSKO” or Ljubljanske Mlekarne. In order to reach the final destination the company has to cross from the country of origin of Ljubljana, to Croatia, Serbia and then to Kosovo. Upon arrival to the Serbian territory of the checkpoint, the transporter is stopped and asked to provide an importing license to be issued by the Ministry of Agriculture, respectively Food and Veterinary of Agency of Serbia. The concern is that in order to obtain that license it takes too much time and it should be repeated (obtained) every six months. The Serbian transporter should apply on behalf of the Kosovo company to obtain it. During the May of this year many trucks were stopped at that boarder and have waited for 5 days just because of this license. So, this barrier is repeated too many times and most of the time additional costs are crated.	

Means of addressing the issue	<i>CEFTA mechanism</i>	To be addressed during the subcommittee meeting on NTBs and TBTs.
	<i>Bilateral meetings</i>	
Response from Party Applying the Measure		No response for this case
Status		Pending Issue

Case 6

Explanatory Memo regarding the case of trade barrier imposed by Serbia on Kosovo Exporter Company FLUIDI.

Kosovo Company "FLUIDI" for quite a long time is faced with a persistent trade barriers imposed by the Serbian authorities. The latest case was filed by February 4, 2016 at the border crossing "Dheu i Bardhë" (Bela Zemlja) considering the fact that the company due to its very bad experiences it had previously with Serbia, it was required during the export of the juice product "Jaffa Champion" in the banners (stamp) of the product to place (put) "imported from APKIM" (see annex). Department of Trade under the Ministry of Trade and Industry has contacted the company concerned and received information and arguments as follows:

The company " FLUIDI" had started exporting to Serbia after the war and until now. In early 2014 they exported to Serbia and in the Customs Terminal "Zavarivač" in Presevo they had encountered problems with the address of the manufacturer. Serbian customs officers have not accepted the text of the manufacturer notes that it is produced and filled "Fluidi" 60000 Gjilan Kosovo, but should be declared as follows: "*Uvoz iz AP KiM*" Uvoznik Fluidi doo Preševo, otherwise the goods/product will go back to Kosovo. In that case, for the whole amount/goods being in the truck they were forced to the customs terminal in Preševo Zavarivač to put the stamps with the inscription *Uvoz iz AP KiM*.

Such barrier was present and continues to appear consistently. The company mentioned claims that their exports to Serbia are approximately 1 truck in 10 days. Last export repeated with the same barriers occurred on 04/02/2016 which could not be realized because the Kosovo Customs at the border point "Dheu Bardhë" (Bela Zemlja) refused to export goods with a stamp stating *Uvoz iz AP KiM*.

In this case the action of the Kosovo Customs is fair and in accordance with the terms and conditions of Kosovo. Actions taken by the Serbian authorities are obstacles to Kosovo exporting

companies and also they are not compatible with the free movement of goods in accordance with the CEFTA agreement and the agreement reached in Brussels with EU mediation.

Trade Department of the Ministry of Trade and Industry which is the CEFTA Contact Point, such cases had raised earlier, but a permanent solution is not provided by the Serbian side, because the same barriers are repeated every time, in this case also to the company “Fluidi”. The Trade Department was informed by the representatives of the Ministry for Dialogue that addressed the case in Brussels, but is not offering any solutions. Based on recent experiences with Serbia, while addressing the barriers of different nature, the answers from the Serbian side were completely political in nature, and no effort or willingness to find solution.

7. Proposals for enabling easier and faster exchange of goods and services

The Research indicates that the arguments and efforts to find ways to remove barriers faced by specific companies of Kosovo in doing business with companies in Serbia were unsuccessful. The barriers continue to create additional costs for local companies in terms of time and financial resources, and consequently prevent to compete in the market. In this regard, the Minister of Ministry of Trade and Industry recommends reciprocity measures against Serbia, mainly preventing entrance of the same products originating from Serbia, into the Kosovo’s market.

In order to reduce technical barriers to trade, CEFTA signatories should negotiate and sign an Agreement on Conformity Assessment and Acceptance of Industrial Products not only amongst themselves, but with the EU, too. Therefore, the signing of an Agreement between the EU and the CEFTA countries will contribute to the automatic and mutual recognition of the results from product testing, which are currently the biggest technical barrier to trade. Mutual non-recognition of the conformity assessment for industrial products leads to increased costs and double checks at border crossings. Hence, in order to have these non-tariff barriers removed, the chambers support the signing of these agreements.

The lack of internationally recognized accreditation and certification bodies and the lack of certified laboratories and institutions are the reasons why it is impossible to implement the CEFTA Agreement consistently. Positive examples in this part are the Agreement on Phyto-sanitary Cooperation and Agreement on Food Safety and Veterinary Medicine between Serbia and Macedonia; Agreement on Cooperation in the field of plant health care, the Agreement on Cooperation in the field of veterinary medicine and the mutual recognition and acceptance of evidence proving that the prescribed conditions for food and the livestock feed of plant have been fulfilled, mixed/combined origin between Montenegro and Serbia, as well as the Protocol on mutual recognition of documents issued by accredited bodies and facilitation of bilateral trade in goods between Bosnia and Herzegovina and the Republic of Serbia. These protocols should be signed by all CEFTA parties. In that view, CEFTA members to sign multilateral/plurilateral

agreements in the fields of standardization, accreditation and metrology that will affect the rapid harmonization of technical regulations, standards, accreditation and metrology between the CEFTA parties.

The activities on establishing the risk analysis system have been intensified in all CEFTA parties. It is a fact that most parties from the region do not use the control procedures based on risk analysis. For this reason, the frequency of checks is high, including the costs and time needed for their conducting. In order to reduce the number of checks, costs and time and facilitate regional trade, we would recommend the establishment and/or improvement of the risk analysis system in the CEFTA parties.

Conclusion

In light of recent "developments", it is essential for all CEFTA members to continue to examine the problems related to trade barriers, within the mandate of CEFTA, and adopt specific measures to overcome barriers that cause significant losses, and enhance the effects of political measures in order to shorten the time it takes to resolve the issue after being reported by the company.

8. References

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Web sites:

Kosovo Chamber of Commerce www.oek-kcc.org

Ministry of Trade and Industry www.mti-ks.org

Kosovo Customs dogana.rks-gov.net

Kosovo Agency of Statistics ask.rks-gov.net/en/kosovo-agency-of-statistics

CEFTA Working Groups Meeting (personal interviews)

9. Appendices

1. Trade statistics between Kosovo and Serbia

7.2 Eksporti sipas destinacionit Izvoz prema nemeni Export by destination

1000 Euro

Viti Muaji	Gjithsej	28 vendet e BE_së	CEFTA	EFTA	Vendet tjera evropiane	Vendet tjera jo evropiane	Vendet nga Azija	Të tjera
Godina Mesec	Ukupno	28 EU countries	CEFTA	EFTA	Other countries of evropian	Other countries non europan	Countries of Asia	Other
Year Month	Total	28 zemalja EU	CEFTA	EFTA	Ostale evropske zemlje	Ostale evropske zemlje	Zemlje iz Azije	Ostalo
2012-01*	19.205	8.029	4.879	1.770	485	0	3.939	102
2012-02	15.790	8.806	3.270	214	195	0	3.200	105
2012-03	24.179	10.557	8.551	702	1.475	55	1.156	1.683
2012-04	20.830	8.560	7.624	355	1.329	10	1.459	1.493
2012-05	25.134	9.184	13.934	409	1.024	0	33	552
2012-06	30.245	12.851	9.751	4.761	1.628	32	64	1.159
2012-07	25.800	13.357	8.299	345	808	52	1.898	1.041
2012-08	20.901	8.018	8.022	274	862	10	3.106	610
2012-09	22.678	6.580	8.521	2.709	981	57	3.111	719
2012-10	25.584	8.341	11.032	471	953	10	2.744	2.034
2012-11	24.467	8.361	8.923	355	1.011	16	3.476	2.326
2012-12	21.287	7.137	7.463	2.785	630	22	1.972	1.277
2012	276.100	109.782	100.268	15.149	11.380	264	26.157	13.100
2013-01	21.500	9.585	7.551	234	473	50	3.210	397
2013-02	22.692	9.561	7.427	508	802	10	2.811	1.574
2013-03	23.110	10.079	7.708	532	663	37	2.874	1.217
2013-04	27.820	10.090	9.633	2.128	577	31	2.932	2.428
2013-05	27.264	10.853	8.742	417	428	21	2.681	4.122
2013-06	26.387	9.872	8.968	389	827	0	2.405	3.927
2013-07	27.138	10.368	9.826	528	836	16	934	4.628
2013-08	23.228	9.602	9.344	359	533	80	2.775	534
2013-09	24.897	8.045	10.149	479	552	35	4.000	1.637
2013-10	26.198	10.039	9.560	387	584	7	3.060	2.561
2013-11	21.825	10.539	7.749	916	596	0	122	1.902
2013-12	21.860	9.796	7.856	335	641	52	2.440	741
2013	293.919	118.429	104.514	7.213	7.512	339	30.243	25.669
2014-01	20.520	8.743	8.440	385	710	0	2.005	237
2014-02	22.072	11.364	8.557	460	629	89	688	284
2014-03	23.129	8.982	10.867	411	435	3	2.193	239
2014-04	24.456	7.423	11.573	999	1.008	19	2.705	729
2014-05	23.687	9.936	9.339	722	1.126	57	2.266	242
2014-06	27.150	10.223	12.121	747	1.525	15	1.422	1.096
2014-07	34.045	11.328	12.429	2.609	526	6	6.429	719
2014-08	33.064	6.000	10.986	721	886	43	13.693	735
2014-09	29.536	9.266	11.180	717	786	100	7.181	307
2014-10	29.653	5.712	11.923	823	982	63	9.017	1.133
2014-11	30.809	5.278	10.329	1.083	1.012	107	11.522	1.478
2014-12	26.433	3.632	9.399	404	816	1	10.964	1.217
2014	324.553	97.885	127.143	10.081	10.440	504	70.085	8.415
2015-01	26.355	10.036	6.348	1.031	1.250	7	5.914	1.769
2015-02	23.336	9.465	6.647	571	470	105	4.357	1.721
2015-03	26.338	7.660	9.807	644	702	32	5.105	2.387
2015-04	27.708	8774,8	10499,5	774,6	816,3	84,6	6.049,8	708
2015-05	27.340	9.700	10.313	724	532	1	4.095	1.975
2015-06	30.445	10.604	12.453	1.227	1.138		3.077	1.946
2015-07	36.633	14.694	14.505	1.324	1.072	54	2.842	2.142
2015-08	28.312	8.472	12.040	969	636	22	3.250	2.923
2015-09	24.417	7.530	10.875	988	354	1	3.534	1.136
2015-10	27.128	8.028	12.105	1.296	615	5	2.770	2.308
2015-11	23.721	6.421	9.832	1.184	649	58	4.054	1.524
2015-12	23.573	4.706	8.348	1.016	1.005	104	4.250	4.144
2.015	325.306	106.091	123.771	11.749	9.240	474	49.297	24.683
2016-01	22.275	5.462	5.461	895	778	108	1.051	8.520
2016-02	24.082	6.919	8.159	1.100	579	144	2.117	5.065
2016-03	25.579	5.525	10.462	1.264	1.077	133	2.350	4.768
2016-04	23.039	6.023	9.773	1.281	684	192	269	4.817
2016-05	27.098	5.307	13.313	1.680	617	261	547	5.373
2016-06	30.339	6.510	15.856	1.819	659	134	643	4.719

Burimi: ASK, Seria 3 - Statistikat Ekonomike, Statistikat e tregtisë së jashtme

Izvor: ASK, Serija 3 - Ekonomske Statistike, Statistike spoljne trgovine

Source: KAS, Series 3 - Economic Statistics, External trade statistics

The exports according to destinations countries

		2014		2015		Diff. Net Kg	Diff. Value (+ -)	% Net Kg	% Value (+ -)
		Net Kg	Value	Net Kg	Value				
1	Albania	111,542,824.55	29,797,599.28	100,654,460.45	29,242,537.53	▼10,888,364.10	▼555,061.74	▼9.76%	▼1.86%
2	Serbia	66,215,559.39	23,235,860.42	79,795,679.50	27,933,445.39	13,580,120.11	4,697,584.97	20.51%	20.22%
3	Macedonia	75,257,711.02	26,138,135.23	83,875,473.87	24,400,586.82	8,617,762.85	▼1,737,548.42	11.45%	▼6.65%
4	India	6,347,202.00	18,035,751.78	12,348,560.00	24,153,329.05	6,001,358.00	6,117,577.27	94.55%	33.92%
5	Italy	11,747,569.13	27,681,478.16	5,624,492.25	10,194,918.00	▼6,123,076.88	▼17,486,560.16	▼52.12%	▼63.17%
6	Montenegro	17,000,308.01	15,392,443.23	16,562,994.15	11,187,245.30	▼437,313.86	▼4,205,197.93	▼2.57%	▼27.32%
7	Switzerland	7,160,613.14	9,239,416.26	4,429,997.27	10,881,928.17	▼2,730,615.87	1,642,511.91	▼38.13%	17.78%
8	Austria	4,527,966.07	6,161,867.19	4,444,312.07	11,988,176.23	▼83,654.00	5,826,309.04	▼1.85%	94.55%
9	China	41,494,038.70	14,130,031.69	2,273,851.54	167,886.16	▼39,220,187.16	▼13,962,145.53	▼94.52%	▼98.81%
10	Germany	5,545,623.55	5,739,780.03	5,481,988.74	7,393,996.53	▼63,634.81	1,654,216.50	▼1.15%	28.82%
11	Belgium	1,246,291.49	232,546.30	4,626,527.09	9,808,866.51	3,380,235.60	9,576,320.21	271.22%	4,118.03%
12	Bulgaria	6,995,796.10	3,211,420.91	7,945,036.73	5,904,828.97	949,240.63	2,693,408.06	13.57%	83.87%
13	Turkey	10,650,258.95	4,399,515.48	3,796,996.25	2,967,250.24	▼6,853,262.70	▼1,432,265.23	▼64.35%	▼32.56%
14	Poland	10,405,051.08	4,387,480.48	5,051,286.22	2,306,698.56	▼5,353,764.86	▼2,080,781.92	▼51.45%	▼47.43%
15	South Africa			2,408,911.30	5,497,342.13	2,408,911.30	5,497,342.13		
16	Bosnia And Herzegovina	1,744,495.72	1,801,380.38	3,162,180.37	3,391,653.11	1,417,684.65	1,590,272.73	81.27%	88.28%
17	Croatia	3,708,513.67	2,204,031.31	5,109,369.44	2,590,785.96	1,400,855.77	386,754.65	37.77%	17.55%
18	France	318,445.90	429,762.44	933,487.20	2,508,616.58	615,041.30	2,078,854.14	193.14%	483.72%
19	Lithuania	150,931.28	2,543,482.31	6,445.26	378,630.00	▼144,486.02	▼2,164,852.31	▼95.73%	▼85.11%
20	Czech Republic	274,024.00	2,453,631.60	146,084.73	271,660.65	▼127,939.27	▼2,181,970.95	▼46.69%	▼88.93%

7.4 Importi sipas vendit të origjinës

Uvoz prema zemlji porekla

Imports by country of origin

1000 Euro

Viti Muaji	Gjithsej	28 vendet e BE së	CEFTA	EFTA	Vendet tjera evropiane	Vendet tjera jo evropiane	Vendet nga Azija	Të tjera
Godina Mesec	Ukupno	28 EU countries	CEFTA	EFTA	Other countries of european	Other countries non european	Countries of Asia	Other
Year Month	Total	28 zemalja EU	CEFTA	EFTA	Ostale evropske zemlje	Ostale evropske zemlje	Zemlje iz Azije	Ostalo
2012-01	132.169	50.663	39.082	1.180	9.889	4.651	9.913	16.791
2012-02	125.288	50.974	31.768	1.364	8.820	4.718	10.510	17.134
2012-03	201.787	82.378	60.403	2.209	16.606	7.570	14.319	18.301
2012-04	217.228	87.405	71.052	2.151	20.604	9.270	11.443	15.302
2012-05	231.670	95.720	74.563	2.298	19.276	6.180	19.535	14.098
2012-06	217.942	98.588	62.050	2.562	17.429	7.451	18.189	11.671
2012-07	234.393	108.053	72.076	2.801	17.741	9.223	15.659	8.840
2012-08	239.945	100.959	80.573	1.042	18.827	9.104	16.762	12.678
2012-09	257.619	102.112	84.627	3.311	21.013	8.493	21.870	16.193
2012-10	222.478	93.457	69.378	2.853	20.529	10.552	15.800	9.909
2012-11	212.627	86.423	67.998	2.791	20.441	6.671	15.167	13.135
2012-12	214.464	93.418	59.085	1.922	18.116	9.425	17.100	15.397
2012	2.507.609	1.050.151	772.657	26.482	209.292	93.309	186.268	169.450
2013-01	139.675	56.470	37.112	920	11.086	5.469	11.330	17.289
2013-02	156.357	74.347	37.997	1.438	12.349	5.614	14.403	10.211
2013-03	195.264	87.894	52.920	2.434	16.223	5.239	17.547	13.007
2013-04	205.808	95.019	57.267	1.626	20.888	5.530	15.020	10.458
2013-05	213.742	95.940	59.128	1.815	20.312	8.337	17.855	10.355
2013-06	222.408	105.863	61.006	2.111	19.488	8.832	16.317	8.791
2013-07	229.680	101.989	67.751	2.319	20.162	9.179	19.841	8.438
2013-08	228.174	99.548	69.054	1.263	15.524	10.852	16.156	15.777
2013-09	210.447	94.844	60.552	1.802	17.864	8.727	18.081	8.577
2013-10	218.821	92.171	62.608	2.074	16.831	11.566	19.255	14.316
2013-11	206.056	85.747	56.695	2.168	19.858	10.558	17.607	13.422
2013-12	223.931	95.015	54.143	1.965	22.076	12.374	20.998	17.359
2013	2.450.363	1.084.847	676.233	21.935	212.662	102.275	204.410	148.001
2014-01	129.951	51.420	35.357	1.680	11.184	10.061	13.052	7.197
2014-02	158.308	67.266	42.125	2.643	15.153	10.024	13.852	7.245
2014-03	202.490	87.354	57.179	2.702	22.124	9.009	14.755	9.367
2014-04	205.804	88.522	57.458	3.226	22.462	9.961	14.215	9.961
2014-05	228.681	92.371	61.115	2.348	27.271	11.321	23.172	11.081
2014-06	215.767	89.930	60.981	2.438	22.010	11.216	19.838	9.355
2014-07	237.714	103.092	64.457	2.736	22.937	14.146	19.151	11.196
2014-08	241.600	109.084	72.128	3.973	19.291	7.910	19.600	9.614
2014-09	246.820	105.587	69.230	3.124	23.892	10.981	24.187	9.819
2014-10	234.996	100.707	71.717	1.879	21.134	6.073	22.050	11.436
2014-11	211.232	87.464	64.764	3.030	19.548	5.115	20.797	10.514
2014-12	224.869	96.881	63.816	2.668	21.505	5.867	21.107	13.025
2014	2.538.232	1.079.679	720.328	32.446	248.511	111.682	225.775	119.811
2015-01	137.162	55.582	36.960	2.382	11.261	5.745	16.538	8.693
2015-02	163.879	67.978	52.157	1.708	12.967	3.300	17.047	8.722
2015-03	198.176	82.094	61.949	2.688	20.327	4.159	19.268	7.691
2015-04	223.881	96.790	70.727	2.155	22.178	4.302	18.034	9.695
2015-05	237.705	96.957	72.090	2.818	24.883	10.252	19.466	11.239
2015-06	238.031	101.167	70.998	2.131	23.258	6.151	24.514	9.812
2015-07	246.012	108.413	67.782	2.529	22.980	6.752	24.340	13.215
2015-08	245.227	103.322	70.687	1.616	24.435	8.206	23.710	13.251
2015-09	230.852	96.112	71.927	2.029	21.028	6.226	22.568	10.962
2015-10	242.006	103.151	68.620	2.540	22.537	7.761	25.409	11.988
2015-11	218.269	92.279	63.055	1.669	23.269	6.949	21.283	9.765
2015-12	253.667	109.027	62.402	1.687	30.734	10.252	26.195	13.369
2015	2.634.867	1.112.871	769.356	25.952	259.857	80.055	258.372	128.403
2016-01	132.627	57.335	31.190	963	13.408	4.836	16.036	8.859
2016-02	193.688	83.430	50.771	2.322	19.110	6.807	19.183	12.065
2016-03	235.521	98.881	63.986	1.941	28.380	5.608	24.433	12.292
2016-04	250.709	104.949	69.405	2.498	28.489	11.574	20.446	13.348
2016-05	238.101	103.994	64.391	2.038	26.674	5.548	24.441	11.015
2016-06	247.233	105.483	65.105	2.465	29.527	8.799	25.984	9.870
2016-07	240.941	107.414	61.614	2.215	22.832	6.659	30.733	9.474
2016-08	270.471	109.322	76.913	1.133	28.411	17.761	25.803	11.129

Burimi: ASK, Seria 3 - Statistikat Ekonomike, Statistikat e tregtisë së jashtme

Izvor: ASK, Serija 3 - Ekonomske Statistike, Statistike spoljne trgovine

Source: KAS, Series 3 – Economic Statistics, External trade statistics

Top places from where products are imported

		2014		2015		Value (+ -)	% (+-)
		Net Kg	Value	Net Kg	Value		
1	Serbia	1,069,925,137.97	358,125,432.72	1,079,124,021.49	372,079,292.50	13,953,859.78	3.90%
2	Germany	103,327,646.57	271,584,636.82	116,027,362.26	289,023,328.59	17,438,691.78	6.42%
3	Turkey	133,940,740.86	230,831,460.75	160,994,009.23	246,154,007.85	15,322,547.10	6.64%
4	China	106,236,486.31	201,708,830.01	113,409,682.91	229,658,540.74	27,949,710.73	13.86%
5	Italy	239,267,314.85	202,107,749.36	283,686,113.88	225,114,117.19	23,006,367.83	11.38%
6	Macedonia	398,356,075.47	138,450,288.57	472,229,785.11	142,405,760.52	3,955,471.95	2.86%
7	Albania	687,119,803.33	125,485,312.65	734,374,094.82	143,650,194.60	18,164,881.95	14.48%
8	Greece	245,656,877.77	137,162,558.78	247,578,487.37	109,938,755.28	▼27,223,803.50	▼19.85%
9	Bosnia And Herzegovina	107,028,115.00	63,345,903.07	139,392,485.21	75,236,973.84	11,891,070.77	18.77%
10	Croatia	71,144,978.80	62,993,366.45	87,804,902.45	69,692,747.16	6,699,380.71	10.64%
11	Slovenia	45,848,854.45	66,633,811.36	41,061,007.96	58,458,153.43	▼8,175,657.93	▼12.27%
12	Poland	18,917,582.12	55,226,360.04	22,642,946.31	69,308,801.87	14,082,441.83	25.50%
13	United States	73,971,291.10	62,467,475.89	17,228,791.40	37,273,337.08	▼25,194,138.81	▼40.33%
14	Bulgaria	48,723,562.21	47,138,118.04	59,330,555.76	46,346,002.69	▼792,115.35	▼1.68%
15	Brazil	27,328,935.47	39,544,148.24	26,931,861.49	37,883,671.32	▼1,660,476.92	▼4.20%
16	Austria	33,840,437.31	35,642,336.16	39,983,054.70	40,301,838.92	4,659,502.76	13.07%
17	Romania	34,193,541.94	27,838,170.66	41,301,928.13	30,494,119.22	2,655,948.57	9.54%

PART III: IMPROVING THE BUSINESS ENVIRONMENT AND ECONOMIC RELATIONS BETWEEN SERBIA AND KOSOVO

(Findings of a Research conducted in Serbia)

Boban Stojanović, PhD and Zorana Kostić

1. Summary

Strengthened economic ties between Serbia and Kosovo are a precondition for full freedom of movement for people and goods. The foreign trade balance between Serbia and Kosovo shows that not all advantages offered by the vicinity of the two markets have been exploited.

In order to make use of all potentials in economic cooperation with Kosovo, the Research was focused on identification of general and specific problems faced by companies. Finding a sustainable political solution is time-consuming, and in economic terms big losses are evident. Since many of the preconditions necessary for a normal market communication are lacking, businesses should pressure the legal and regulatory framework and institutions with the aim to intensify economic cooperation. Field Research indicated that the liberalization of trade and harmonization of rules regulating the exchange of goods would be favorable for both Serbia and Kosovo.

In order to improve the business environment it is necessary to identify and register the barriers to business operations. Considering the identified general and specific problems which legal persons in different fields of business are facing, it has been suggested how to solve these problems. The Research offers insight into the real situation, it draws attention to ways in which trade is restricted and suggests how to eliminate barriers in order to realize the main intentions of the CEFTA agreement.

General problems:

- Insufficiently harmonized regulations between Serbia and Kosovo. As regards the situation in the field, shipments to and from Kosovo are treated like regular export, i.e. import, whereas this *de facto* status is not supported by the Serbian legal framework.
- Kosovo is not part of the National Transit Procedure of Serbia. The main principle of the transit customs procedure is to enable the merchandise to move from one customs office to another, within the same or some other customs territory, without collecting duties and other fees which are applicable to imported or exported goods, without applying trade policy measures, provided all requirements in regard to seals, deadlines, guarantees and the like have been met. Transit is “national” when the procedure relates only to the customs territory of Serbia.
- Lack of good quality road infrastructure is an obstacle to efficient business operations and rationalization of costs.

- Narrow and technically insufficiently equipped administrative crossings.
- Slow movement of vehicles, big crowds and delays.
- The construction of new administrative crossings Rajetići/Izvor and Kapija/Vrapce has been delayed, as well as improvement and reconstruction of the existing administrative crossings (Merdare).
- Infrastructural problems at joint crossing points related to the level of equipment of premises for the inspection services. Premises at the crossing are not technically equipped for carrying out administrative duties.
- Working hours are only partially harmonized. Services work only on specific days during the week, thus causing a lot of waiting and delays.
- There is no direct communication between national services at administrative crossings. Relevant services have slow communication taking place with a third party as intermediary, and with “Kosovo” having unequal treatment in bilateral talks. The Serbian side insists on status neutral documents.
- Complicated telephone communications due to the fact that Serbian mobile operators cannot operate in the entire Kosovo territory.
- For payment operations it is necessary to convert foreign currency into RSD, which results in huge negative foreign exchange differences. Transactions are treated like currency payments to foreign countries; invoices may be issued in any convertible currency, with foreign currencies being calculated according to a rate specified on the day on which the import was realized.
- Problems regarding the time needed to obtain a phyto-sanitary certificate for each shipment. The main reason is the small number of phyto-sanitary inspectors present on the spot, which additionally slows down the movement of goods.
- Non-recognition of authorizations related to Serbian plant varieties. Import of plant varieties from Serbia is often banned and blocked. The Kosovo side exercises pressure upon exporters and requests them to have the varieties, plantations and pesticides registered pursuant to Kosovo regulations, which implies strict criteria identical to those in the EU. Having in mind that Serbia does not have the status of a full-fledged EU member yet, this is a source of additional problems and difficulties.
- Veterinary certificates issued by institutions in Serbia for internal circulation are not recognized by institutions in Prishtina and the veterinary certificates are slowly harmonized. Kosovo is refusing to implement harmonized veterinary certificates and this is one of the non-tariff barriers through which the market of Kosovo is closing for the goods from Serbia. Data obtained in the Research reveal that an agreement was reached, but the implementation has not started yet.
- The movement of hazardous materials is based on a complex procedure and special driving licenses for drivers and transportation vehicles. Serbia is a signatory to the *European Agreement concerning the International Carriage of Dangerous Goods by Road, ADR*), and according to government authorities there is also reciprocity in the carriage of dangerous goods. According to the findings, although Kosovo is not party to the ADR, at the end of

April 2016, an Agreement was reached on mutual recognition of certificates related to carriage of dangerous goods by road (gas and oil), between Belgrade and Prishtina, by which reciprocal measures were revoked.

- Movement of excise goods is impossible because they are labeled with mandatory excise stamps with an inscription “Republic of Kosovo”. Excise stamps are recognized on the basis of reciprocity, which limits the circulation of excisable goods (“lobby products”) of Serbian origin.
- An atmosphere is created which stimulates alternative trade channels. Illegal flows are a big problem. It is estimated that illegal low constitutes as much as 50% of the legal flow. Grey economy is present to a big extent. Construction timber and gravel are often stolen, forests are cut and fuel is smuggled in secret reservoirs of cargo trucks.
- Implementation of concluded agreements. The CEFTA agreement has not been fully implemented because the Kosovo side is introducing technical, tariff and non-tariff barriers (for instance, barriers for construction blocks from Serbia).

Recommendations:

- ❖ The key proposal for finding solution to identified problems is to respect more the economic criteria in political negotiations for the normalization of relations.
- ❖ A more explicit expression of will to find solutions to problems and more operational cooperation between the highest government authorities are necessary for free movement of goods between Serbia and Kosovo.
- ❖ It is necessary to further strengthen the institutional capacities and increase the efficiency of relevant institutions with the aim of creating an environment that will discourage alternative trade channels.
- ❖ All identified tariff and non-tariff barriers which violate the CEFTA agreement and limit free trade should be revoked (like, for instance, fees for construction blocks)
- ❖ Procedures related to export or import of goods should be simplified in terms of administrative requests. It is necessary to additionally relax and harmonize the necessary export documentation (revoke the certificate of food safety, fully harmonize veterinary certificates, simplify the certificate of origin of goods).
- ❖ Link two economies and establish cooperation between chambers of commerce of Serbia and Kosovo through organization of fairs, B2B meetings, roundtables and other types of business communication. Chambers of commerce can make an invaluable contribution by being proactive in linking companies in Serbia and Kosovo which are willing to comply with a legal framework. Strategically, it is important to have a business partner and have good cooperation with big distributors in order to achieve a successful placement of Serbian brands in Kosovo.
- ❖ It is necessary to strengthen the capacity of inspection service in order to cover all crossing points (number of inspectors is insufficient).

- ❖ The big potential of the Kosovo market should be used more efficiently. The vicinity of the market and recognizability of Serbian products enable an increase of competitive advantages which often are not so recognizable in case of more distinguished markets.
- ❖ The potential of Serbian economy in north Kosovo should be emphasized.
- ❖ Registration of lines for transport of passengers should be considered through an agreement of relevant institutions in consultation with interested carriers.
- ❖ Full harmonization of veterinary certificates and enabling a free movement of animal products (first of all meat and dairy products) to the market of Kosovo. This problem requires a systemic approach.
- ❖ It is necessary to harmonize the permitted concentration of aflatoxin in milk as soon as possible in order to satisfy the need of consumers in the region.
- ❖ A more successful implementation of reached agreements and coordinated action of relevant authorities regarding certification and registration.
- ❖ Efforts should be made to create international packaging for the entire region. The packaging should be adapted by replacing Serbian letters: š, č, ć, đ, dž, to enable easier export to the EU market).

Non-tariff barriers are the biggest problem for establishing the normal, unimpeded exchange. They significantly limit the placement of Serbian products, which have a long tradition and are recognizable in Kosovo. The Kosovo market has a big potential and is marked by the domination of the tertiary sector. Problems have piled up because the Kosovo's market was closing for products from Serbia, but also because there is no system of institutions in Kosovo through which the movement of goods could be tracked. The introduction of different non-tariff barriers distorts the competitiveness of products from Serbia. Considering the volume and structure of foreign trade exchange between Serbia and Kosovo, free trade and elimination of barriers would be favorable for both Serbia and Kosovo.

Appendices

Table 1: Key economic indicators for the period 2012-2018

SERBIA	2012	2013	2014	2015	2016	2017	2018
Real rate of GDP growth	-1.0	2.6	-1.8	0.7	2.5	2.8	3.5
Inflation, consumer prices	7.3	7.7	2.1	1.9	1.3	3.2	3.5
Public debt dug	49.2	52.6	64.1	69.9	71.4	70.9	72.7

(% GDP)							
Export of goods (% GDP)	26.5	30.7	31.9	34.5	36.1	38.6	39.1
Import of goods (% GDP)	44.3	42.8	44.3	46.6	47.0	49.4	49.5
Net export of services (% GDP)	0.4	0.9	1.4	2.2	2.7	3.1	3.2
Trade balance (% GDP)	-17.5	-11.2	-10.9	-9.9	-8.2	-7.7	-7.2
Current account balance (% GDP)	-11.6	-6.1	-6.0	-4.8	-4.2	-3.9	-3.8
Remittances (% GDP)	6.1	6.3	5.6	6.3	5.9	6.0	5.8
Foreign direct investments (% GDP)	2.4	3.8	3.7	5.5	4.9	4.4	4.4
Unemployment rate	24.0	22.1	19.2	17.7	16.8	15.9	16.9
GDP per capita (USD)	12,790.8	13,400.3	13,436.2	13,671.4	14,047.0	14,561.3	15,377.9
KOSOVO	2012	2013	2014	2015	2016	2017	2018
Real GDP growth rate	2.8	3.4	1.2	3.9	3.6	3.9	3.7
Inflation, consumer prices	2.5	1.8	0.4	-0.5	0.0	0.3	0.5
Public debt (% GDP)	8.2	9.0	10.6	13.1	14.3	15.9	17.3
Export of goods (% GDP)	5.6	5.5	5.8	5.6	5.2	5.3	5.4
Import of goods (% GDP)	46.3	43.1	42.8	42.1	44.4	45.3	46.6
Net export of services (% GDP)	46.3	43.1	42.8	42.1	44.4	45.3	46.6
Trade balance (% GDP)	-34.3	-31.6	-31.0	-30.3	-31.6	-32.1	-33.0
Current account balance (% GDP)	-7.5	-6.4	-7.9	-9.1	-11.4	-12.6	-14.2
Remittances (% GDP)	12.0	11.7	12.5	13.0	13.4	13.8	14.3
Foreign direct investment (% GDP)	4.5	5.3	2.7	5.6	3.7	4.5	5.2

Unemployment rate	30.9	30.0	35.3	32.9	32.9	35.3	35.3
GDP per capita (USD)	3,600.7	3,877.2	4,053.6	3,560.9	3,623.8	3,683.4	3,728.7
<i>According to World Bank data and projections</i>							

Source: World Bank Group (2016). *South East Europe Regular Economic Report No.10: Resilient Growth Amid Rising Risks*. Available at: www.worldbank.org

In Table 1 presents an overview of key economic indicators of Serbia and Kosovo in the period 2012–2018; these indicators show the situation and perspectives for the promotion of macro-economic environment. The analysis is significant in view of the need to improve the economic environment and to point at the need to eliminate barriers for businesses.

In its annual reports, the World Bank assesses the quality of the business environment in 190 countries. Table 2 presents the ranking and score of Serbia and Kosovo pursuant to the *Doing Business* report in 2017 and changes compared to 2015. Pursuant to the subject of the Research, the table presents the indicators that are used to measure and keep track of the cross-border trade. Table 2 shows the list of the necessary documentation, the average time needed to collect the import/export documentation and realize the import/export, as well as import/export costs in Serbia and Kosovo.

Table 2: A comparative overview of the business environment in 2017 according to *Doing Business*

	KOSOVO	SERBIA
Measuring quality of the business environment		
Doing business 2017 Rank	60/190	47/190
Doing business 2016 Rank	66/189	59/189
Doing business 2015 Rank	64/189	68/189
Doing business 2017 Score	68.79	72.29
Doing business 2016 Score	66.22	68.41
Doing business 2015 Score	66.11	65.25
Cross-border trade		
Doing business 2017 Rank	51/190	23/190
Doing business 2016 Rank	71/189	23/189
Doing business 2015 Rank	70/189	23/189
Doing business 2017 Score	85.93	96.64
Doing business 2016 Score	78.97	95.08
Doing business 2015 Score	78.97	95.08

Indicators for 2017		
Time needed for export (hours)	42	4
Export costs (USD)	137	47
Preparation of export documentation (hours)	38	2
Costs for export documentation (USD)	127	35
Time needed for import (hours)	16	4
Import costs (USD)	83	52
Preparation of import documentation (hours)	6	3
Costs for import documentation (USD)	42	35
SERBIA		
Export documentation: CMR transport document (waybill), invoice (5 copies), customs export declaration, customs transit declaration T1, EUR.1 certificate of origin, packing list, <i>parking receipts</i> .		
Import documentation: CMR transport document (waybill), import customs declaration, transit customs documentation, EUR.1 certificate of origin, invoice (5 copies), packing list, <i>parking receipts</i> .		
KOSOVO		
Export documentation: Bill of lading (B/L), CMR transport document (waybill), invoice, customs export declaration, customs transit declaration T1, EUR.1 certificate of origin, certificate compliance with ISO standards, production certificate		
Import documentation: CMR transport document (waybill), invoice, customs import declaration, EUR.1 certificate of origin, packing list.		

Source: World Bank Group, Doing Business. Available at: www.doingbusiness.org

Legal and regulatory framework for exchange of goods with Kosovo

The legal and regulatory framework applied to exchange of goods with Kosovo is based on the following documents:

- Regulation on special conditions for the circulation of goods with Kosovo.
- Regulation on Enforcement of the Law on VAT in the territory of Kosovo for as long as the UN Security Council Resolution 1244 is effective
- Regulation on Enforcement of the Law on Excise Duties in the territory of Autonomous Province of Kosovo for as long as the UN Security Council Resolution 1244 is effective

- Article 309 of the Customs Law (*Official Gazette of RS*, Nos. 18/2010 and 111/2012) – provisions of this Law are applied also to the exchange of goods with Kosovo for as long as the UN Security Council Resolution 1244 is effective
- Provisions contained in rules related to foreign currency and taxes.

Article 309 of the Customs Law also specifies that its provisions shall apply *mutatis mutandis* to circulation of goods with Kosovo for as long as the UN Security Council Resolution No.1244 is effective with the aim to ensure orderly and uniform conduct its.¹⁰ Circulation of goods with Kosovo is organized in the following way¹¹: when the goods from Kosovo arrive outside Kosovo the person who brought the goods shall submit to the relevant customs authority at the administrative line the transit document by which the goods are directed to the customs posts of destination for further customs processing. The customs (transit) declaration is filled out pursuant to Articles 6 and 7 and 14 of the Rulebook on the form, content, manner of submission and filling out the declaration and other forms within the customs procedure.¹² At the customs post of destination the customs declaration is filled out pursuant to Articles 12, 13 and 14 of the mentioned Rulebook, in case that the Unified Customs Document (UCD) for release for free circulation, temporary import, active refinement, re-import, processing under customs control, customs warehousing and destruction of goods was submitted. The customs authority checks compliance with all required terms, including the bank guarantee, and calculates and charges the import fees where customs debt occurred. Goods arriving from Kosovo to Serbia are released for circulation with VAT calculated and paid pursuant to the Law on Value Added Tax. For excisable goods coming from Kosovo to Serbia, excise duties are charged pursuant to the Law on Excise Duties. The customs authority controls the submitted declaration to check whether the accompanying documentation is harmonized pursuant to the CEFTA agreement. In case of goods subject to for mandatory prior approval of the authorized inspection service, such goods shall be allowed to enter Serbia only if such permission had been issued. Foreign goods shipped from Kosovo to Serbia are subject to paying customs fees, other import duties, excise duties and VAT. For shipment of goods with preferential origin, compliance is established pursuant to Annex IV (Protocol on the definition of the notion “goods with origin” and methods of administrative cooperation) of the CEFTA Agreement 2006.¹³ The mentioned procedure may be applied only at customs posts authorized to certify the preferential origin of goods.

Since 1 November 2004 the Customs Administration of the Republic of Serbia began to accept foreign ATA carnets that are applied in compliance with international customs conventions, and within the World Customs Organization. Holder of the ATA carnet, which is the synonymous passport for goods, may be only the domestic legal or natural person. ATA carnet is issued for

¹⁰ Customs Law, *Official Gazette of RS*, No. 18/2010 and 111/2012.

¹¹ Ruling of the Customs Administration 148-03-030-01-473/2013 of 18.12.2013.

¹² Rulebook on form, content, way of submission and filling in the declaration and other forms in customs procedure. *Official Gazette of RS*, No. 29/2010...109/2013.

¹³ Law on Ratification of Agreement on Amendments and Adhering to CEFTA 2006. Available at: Law on Ratification of Amendments and Accession to the Central European Free Trade Agreement – CEFTA 2006. Available at: www.pks.rs

goods which will be temporarily exported from Serbia, and then again imported in unchanged condition. Pursuant to the Convention on Temporary Import, the customs service in the territory of temporary import has the liberty to assess which document for the temporary import will be accepted in a given case. The ATA carnet is envisaged also for transit through a country which is member of the ATA system. The number or quantity of each item must be reasonable and adequate to the purpose of import. Data of the Chamber of Commerce of Serbia illustrate that the ATA carnet is not issued for consumable goods (food, beverages), goods intended for processing or repair, for advertising material to be distributed at fairs or exhibitions in the territory of temporary import and for equipment which will be used for industrial production or packing of goods, or for exploitation of natural resources, for construction, repair or maintenance of buildings, for removal of earth and similar works, for exhibitions organized for private purposes in shops or business premises with the aim to sell foreign goods.¹⁴

The ATA carnet is an international customs document which enables temporary import between countries. With the ATA carnet the goods circulate without customs clearance for a period of one year within a customs territory of a country which has accepted the convention on temporary import, also without filling in national customs documents paying customs duties or depositing funds, which is part of regular procedure for temporary export/import. The ATA carnet is issued by the Chamber of Commerce of Serbia pursuant to public authority vested in it by the Customs Administration, i.e. the Ministry of Finance. The ATA international chain of guarantees gives reciprocal guarantees to customs authorities that customs duties and fees in case of incorrect usage will be paid, so that the Chamber of Commerce of Serbia is not in the position to guarantee for the goods shipped under cover of the ATA carnet to the customs territory of Kosovo. It is also important to note that no signatory country can use the ATA carnet in regard to territory of Kosovo.

The ATA carnet does not work in the territory of Kosovo:

- Kosovo represents a customs exclave, namely a separate customs territory which is not within the ATA system (it functions in the customs territory of Serbia),
- Kosovo is not a signatory to the Istanbul Convention, namely it is not a member of the World Customs Organization,
- Checkpoints/administrative crossings are not listed as customs offices authorized to act upon the ATA carnet.

Attempting to ship goods to Kosovo covered by the ATA carnet would be prejudicial to the status of Kosovo, which would not be allowed by the customs authorities of Serbia.

“The TIR carnet is a customs transit document that simplifies customs formalities in international transportation of goods. Supervision and procedures related to modes of transport, containers and goods under the TIR carnet regime is regulated by the Convention on

¹⁴ Chamber of Commerce of Serbia. Available at: www.pks.rs

International Transport of Goods Under Cover of TIR Carnets. TIR is designed to maximally facilitate the international movement of goods under customs seal. The system guarantees the transit countries cover customs duties and taxes in case of abuse (smuggling) The TIR system offers advantages for all links in the chain of international transit transport of goods: reduces transport costs by reducing formalities and delays in transit; facilitates movement in transit using standardized regulation and documentation; goods moving across international borders with minimal disruption and stops; there is no need for a deposit (guarantee) on the borders of transit countries; guaranteed payment of customs and tax duties in case of abuse (50,000 USD); only proven carriers are allowed to use the TIR carnets, which increases safety; reduced need for physical control of goods in transit; system facilitates customs control and supporting documentation.¹⁵ Instead of documents specified in the TIR Convention and ATA, the Unified Customs Document is used convention at customs points with Kosovo – namely, a written customs declaration which is submitted in sets of 8 or 10 pages required for the application of regulations related to the customs procedure. Apart from this, for goods leaving the customs territory of Serbia the document C2 is also used; this document enables temporary export. For the return of temporarily exported goods the document C6 is used.

Goods which are not of a commercial nature – carried by natural persons, as passengers - are reported to the customs authorities and subject to payment of customs duties, other import related fees, excise duties and VAT. In case of passengers who are beyond doubt transiting the customs territory of Serbia to reach Kosovo, the goods for their personal use (household items) which they are carrying with them, are granted relief from customs duties and other import fees. The Regulation on Enforcement of the Law on Excise Duties in the territory of Kosovo for as long as UN Security Council Resolution 1244 is effective¹⁶ determines the ways in which this Law shall be implemented (*Official Gazette of RS*, Nos. 22/01, 73/01, 80/02, 80/02-suppl.law, 43/03, 72/03, 43/04, 55/04, 135/04, 46/05, 101/05-suppl.law, 61/07, 5/09, 31/09, 101/10, 43/11, 101/11, 93/12 119/12 and 47/13) in Kosovo in the period in which UN SC Resolution 1244 is in force. Where the excise debtors from Serbia are directing excise goods for circulation to Kosovo, the excise duties shall not be charged if these goods are carried to Kosovo. A verified copy of the Unified Customs Document serves as proof that the excise goods were carried to Kosovo. It confirms that excise goods left Serbia for Kosovo, along with excerpts from the business account of the excise debtor proving that money from the business account of the receiver of excise goods was transferred to the account of the excise debtor (supplier of excise goods). Excises for goods shipped from Kosovo for circulation in Serbia are calculated and paid pursuant to the Law.

¹⁵IK Speditor d.o.o. Available at: www.ikspeditor.rs/

¹⁶Regulation on Enforcement of the Law on Excise Duties in the Territory of the Autonomous Province of Kosovo and Metohija for as long as UN Security Council Resolution 1244 is effective, *Official Gazette of RS* Nos. 111/13, 6/14.

- Article 2 of the Regulation on special terms for exchange of goods with Kosovo¹⁷ specifies that goods traded between the Serbia and Kosovo must be declared to the relevant customs authority at the control post.

- Article 6 of this Regulation specifies that in case of goods conveyed from Kosovo to Serbia, customs documents are submitted to the customs authority filled out in pursuant to the customs regulations; whereas Article 13 of the Regulation envisages that provisions of legislation related to foreign trade, foreign currency and taxation are also applied to the customs procedure for the exchange with Kosovo. The Decision on Determining Goods for Import, Export or Transit for which Certain Documents are required¹⁸ envisages in this regard the mandatory submission of import/export documentation issued by the line ministries. The Customs Administration implements the Foreign Trade Law and the Decision also in case of control of circulation of the goods from Kosovo. For circulation of goods from Kosovo, participants in customs procedures submit to the customs authorities documents determined in the above regulations except in case of circulation of goods which are subject to phyto-sanitary, i.e. veterinary and sanitary control. In case of such goods exchanged with Kosovo, the difference is that instead of the document approving the import of plants, pesticides or fertilizers, or the common veterinary entry document, minutes of performed controls issued by the phyto-sanitary i.e. veterinary inspection, must be submitted.¹⁹

Pursuant to the Instruction of the Ministry of Agriculture and Environmental Protection, the Plant Protection Directorate and Veterinary Directorate control the circulation of goods which are transported from or delivered to the territory of Kosovo and are subject to phyto-sanitary or veterinary inspection. Until 2012, the Certificate on internal circulation applied to all goods shipped to Kosovo. However, today all goods entering from third countries and directed to Kosovo must be accompanied with status-neutral documents. The goods enter the territory of Kosovo through joint crossing points and are subject to inspection control which should confirm that the goods did not remain in Serbia.

Research findings

For the purpose of providing a general picture of the conditions, manners and obstacles to free movement of goods to the market of Kosovo, the problems, limitations and ways in which goods can cross the administrative line have been analyzed. A representational sample of enterprises is

¹⁷Regulation on special terms applied to exchange of goods with the Autonomous Province of Kosovo and Metohija. *Official Gazette of RS*, Nos. 86/2010, 61/2013, 111/2013 and 17/2014.

¹⁸Decision on Determining Goods for Import, Export or Transit for which Certain Documents are Required, *Official Gazette of RS*, No. 32/2015.

¹⁹ Ruling of the Customs Administration, Sector for customs operations and procedures 148-03-091-03-533/7/2016 of 2 November 2016.

classified according to the official classification of activities of the Statistical Office of the Republic of Serbia.²⁰

Institutions and implementation of normative acts

According to the statement of the Customs Administration, the territory of Kosovo is a *customs exclave*. Even though the customs posts on the administrative line with Kosovo are not viewed by Serbia as border crossings, the integrated border management is applied, which implies coordinated cooperation of all services (customs, police, veterinary and phyto-sanitary controls, inspection services). Since 2013, business operations with Kosovo have been within the jurisdiction of the Customs Administration, and all regulations applicable to other countries are applied. In other words, goods for Kosovo are subject to same regulations as in case of goods from any other country. The only difference is that there is no inscription “Republic of Kosovo” on the documents and stamps. Instead, it is written “AP Kosovo and Metohija” or just “Kosovo”, in accordance with the wording accepted in the CEFTA Agreement.²¹ The technical agreements impose obligations regarding the customs stamp. In this regard one of the problems relates to the Customs Office in Prishtina which has been dislocated to Nis. This is one of the points of Chapter 35 of the Negotiating Framework with the EU.

There is no double taxation at customs posts, because the goods from Serbia are exported without VAT, which is later paid in Kosovo. Goods from Kosovo are imported without VAT, which is subsequently paid in Serbia pursuant to applicable rates. Excise goods enter at crossings determined by the relevant authorities. There is no possibility for double payment of excise duties because excise products are exempt from excise when exported. All revenues collected by the Customs Administration (taxes, excises) go directly to the budget of the Republic of Serbia. The Republic of Serbia is charging all duties in accordance with the Customs Agreement, while the allocation of financial means from the Fund for the Development of North Kosovo is directed to majority Serb municipalities in north Kosovo. Since October 2015, over EUR 4.4 million was allocated through the Fund (municipality Severna Mitrovica around 1.3 million, municipality Leposavić around 1.1 million, municipality Zubin Potok around 1 million and municipality Zvečane 950,000). Out of a total of EUR 8.3 million some EUR 6.6 million were distributed to the mentioned municipalities as support to their socio-economic activities.

²⁰Statistical Office of the Republic of Serbia, available at: webzrzs.stat.gov.rs, according to the Regulation on Classification of Activities. *Official Gazette of RS* No. 54/2010, 4 July 2010.

²¹ Government of the Republic of Serbia, Office for Kosovo and Metohija and Office for the Coordination of Affairs in the Process of Negotiation with the Provisional Institutions of Self-Government in Prishtina (2016). *Izveštaj o napretku u dijalogu Beograda i Prištine (za period oktobar 2015 – april 2016.)*, p.11-17.

The Customs Administration has introduced simplified procedures since October 2010. The legal ground for simplifications is Article 101 of the Customs Law. The Customs Administration approves the following simplifications:²²

- Simplified procedure for declaration of import goods in the premises or areas of the recipient or, in the case of export goods, in the premises or areas of the supplier (the so-called “in-house clearance”). It means that companies may declare goods to be placed under the customs procedure without being obliged to deliver goods to the customs post; the declaration is sent electronically to the customs office and the goods are in the premises of the holder of approval.
- Simplified procedure based on invoice is a procedure in which instead of the regular customs declaration an invoice is submitted to the customs authorities which contains all data required for placing the goods under the customs procedure.

In case of regular exports, goods sent to the territory of Kosovo are customs cleared in internal customs offices pursuant to typical customs procedures applied to export to any other country. There is increasing application of simplified customs procedures at administrative crossings. When goods are entering the territory of Serbia from Kosovo, such goods are directed to internal customs offices for customs clearance; there are also simplified procedures which are applied at administrative crossings.²³

“At the customs crossings Končulj and Merdare a procedure is conducted for releasing goods for free circulation within simplified procedures based on invoice and until now there have been no problems in the implementation of these procedures. Typical waiting time excluding the holiday season is about 15 minutes, and in the holiday season up to one hour. Presently there is no prevention of circulation during the border procedure. In the last few years problems occurred in regard to certification of customs documents (the form used for temporary import/export of goods carried by natural persons who are crossing the border, as well as verification of the unified export declarations) with a round customs stamp of the Customs Office of Prishtina. In such case, the Customs Administration of Prishtina requests the Unified Customs Document for further customs procedures, regardless of the suggestion to check the data using the so-called SEED application. The problem is overcome by certifying the documents (which are acceptable for Prishtina) with a facsimile and signature of the customs officer.

Customs checkpoints Rudnica and Brnjački Most are authorized for releasing goods for free circulation, but only for foreign goods in passenger transport and to a very small extent. Natural persons who do not want to undergo the customs procedure are allowed to return certain goods to the territory of Kosovo. For customers from the southern part of Kosovo, vehicles with goods

²²Ruling of the Customs Administration, Sector for finances, investments and legal affairs 148-IV-401-01-805/2015 of 22 September 2015.

²³Ruling of the Customs Administration, Sector for finances, investment and legal affairs 148-IV-401-01-805/2015 of 22 September 2015.

under transit procedure are kept for about two hours because in such case the administration in Prishtina is carrying out clearance procedures at the very crossing points; this procedure envisages that first the relevant office in Prishtina has to be informed. Circulation of specific goods was not prevented, except for a ban introduced at the beginning of 2016 on circulation of vehicles with ADR certificate, which was later revoked. Also, during the summer period there was a ban on circulation of cattle due to the lumpy skin disease which was later also revoked.”²⁴

The harmonized phyto-sanitary certificate is successfully applied at all administrative crossings at which commercial transport is taking place (Rudnice/Jarinje, Merdare, and Končulj/Bela Zemlja). Costs of phyto-sanitary examinations are calculated pursuant to the pricelist of the laboratory analysis.²⁵ Each shipment is subject to payment of fees, and funds collected from examinations, controls and analysis go to the budget of the Republic of Serbia. As regards phyto-sanitary control, the problem is the ban on exports of seeds, planting material and pesticide originating from Serbia; this problem is due to the fact that Kosovo legislation enables import of these goods in compliance with EU standards.

The border inspection is carrying out veterinary and sanitary control of import and transit of live animals shipments, products of animal origin and animal feed at certain border crossing. The Rulebook determining types of goods which are subject to veterinary and sanitary control and the manner in which they shall be examined at the border crossings gives a list of live animals and products which are subject to veterinary and sanitary control when entering Serbia.²⁶ Pursuant to applicable legislation, there are over 50 groups of products and a number of models of the veterinary certificate.²⁷ One thing in common for all models is that they are issued as a status-neutral document in the Serbian and English languages. During the negotiation process the first merchandise groups that were harmonized were those with the biggest share in circulation. Veterinary certificates for live animals were harmonized (except certificates for breeding cattle). This applies first of all to cattle for slaughter, which make for as much as 80% of trade. Harmonized veterinary certificates became operative on 1 March 2016. Harmonization of certificates for milk and dairy products as well as certificates for meat and meat products is pending. It takes one day to obtain the veterinary certificate if all required analysis are submitted. The issued certificate is bilingual, in Serbian and English.

²⁴Ruling of the Customs Administration, Sector for customs operations and procedures, 148-03-091-03-533/7/2016 of 2.11.2016.

²⁵ Decision on amount of fee for phyto-sanitary examinations, *Official Gazette of RS*, No. 113/2013.

²⁶Rulebook on kinds of shipments subject to veterinary and sanitary control and the manner in which control is carried out at border crossings, *Official Gazette of RS*, No. 56/10.

²⁷Veterinary certificates to be harmonized: veterinary and health certificate for shipment of consumable eggs to Kosovo, veterinary certificate for domestic cattle (including the types *bubalus bubalis* and buffalo and their hybrids) for breeding purposes and/or fattening after delivery to Kosovo, health certificate for delivery of meat from domestic pigs to Kosovo, certificate for shipment of meat products/processed gizzards, bladders and intestines to Kosovo, health certificate for delivery of meat from domestic cattle to Kosovo, health certificate for delivery of poultry meat to Kosovo, veterinary health certificate for delivery to Kosovo of dairy products produced from milk of cows, goats and buffalos for human feed, and veterinary health certificates for delivery to Kosovo of domestic sheep and goats for breeding purposes and/or fattening.

Import and transit of animal shipments, products of animal origin, food of animal origin, animal feed, by-products of animal origin and related objects is based on the “Decision on veterinary and sanitary requirements for import or transport of shipments“, issued by the Ministry of Agriculture and Environmental Protection, Veterinary Directorate, pursuant to Article 124 of the Law on Veterinary Matters. The validity was extended from three to six months in April 2016. Shipments for the territory of Kosovo are not sampled when entering the territory of Serbia for laboratory checking and are not subject to the classical procedure. Hence, this procedure is an additional facilitation and not a trade barrier. Prishtina is requesting that the validity period of the import/export document shall no longer be a condition for release of domestic products – meat and meat products and milk and dairy products – to the market of Kosovo; for this to be realized it is necessary that the minister of agriculture issues a decision or instruction by which the validity period of the document issued by the Veterinary Administration is fully revoked. If full revocation is not possible it is necessary to apply the best practice regarding the validity period, according to the case in question: 1) goods transiting from members of the European Union to third countries, 2) circulation of goods within the CEFTA region (for instance, Macedonia or Montenegro), and 3) movement of goods from members of the EU (Croatia or Slovenia) to companies in the territory of Kosovo.

Implementation of the CEFTA agreement

After the EU market, CEFTA is the second biggest export market by importance for companies in Serbia. Members of the CEFTA are traditional export markets on which products from Serbia are very recognizable. Some of the main characteristics of the CEFTA agreement are: maintaining and gradually expanding the level of trade liberalization, harmonized trade policies among the members, increased transparency and reduced bureaucratic procedures for exports to the CEFTA zone, harmonization of procedures related to sanitary and phyto-sanitary standards elimination of non-tariff barriers to trade etc. The CEFTA market is significant for the economy of Serbia having in mind the surplus (around EUR 2.12 billion in 2016) in foreign trade exchange. Specifically, the total value of Serbian exports to the CEFTA zone was EUR 2.84 billion in 2016. On the other hand, import from CEFTA members to Serbia was EUR 715.1 million. CEFTA is the antechamber of the European Union and in order to achieve full trade liberalization among its members all companies should get better linked.

Exchange between Serbia and Kosovo is regulated by the Agreement on Free Trade concluded between Albania, Moldova, Bosnia-Herzegovina, Montenegro, Serbia, Macedonia and UNMIK on behalf of Kosovo pursuant to UN SC Resolution 1244. This agreement stipulates general duties regarding trade in all goods. Classification of goods is made in accordance with the *Harmonized customs tariff and export and import regimes* applied in Europe. The Agreement envisages the revocation of quantitative limitations, customs duties and other duties for exports and imports of goods in trade relations among countries in the region, as well as that new

limitations shall not be introduced. The Agreement deals with technical barriers to trade, trade in services, investments, public procurement, protection of intellectual property, arbitration in case of disputes, rules on origin of goods, cooperation of customs administrations, rules of competition and state assistance, as well as rules on protection.²⁸

Since Kosovo is member of the CEFTA Agreement (which on behalf of Prishtina was signed by UNMIK), when goods have the certificate of origin, provisions of the CEFTA Agreement apply. This means that when the sender of the goods has privileges based on the CEFTA Agreement, no customs duties are paid for such goods, but other duties have to be paid (VAT, excises, etc. The preferential customs rate is 0% and in such case it is necessary to submit proof of preferential origin of the goods as envisaged by the Agreement.

Analysis of answered questionnaires and in-depth interviews

The study contains the analysis of filled in questionnaires and in-depth interviews; answers received from the companies and institutions from Serbia were systematized. For the purpose of Research a total of 140 mails were sent to companies in Serbia; 61 companies sent their answers to questions from the questionnaire. The representative sample comprised companies from Belgrade (10), Vojvodina (12), Central and South Serbia (29, including Bujanovac and Preševo) and 10 from Raška District. The selection of companies was based on the territorial criterion and type of activity, as well as on the official Customs Administration's answer on major exporters and importers.

Specific problems of companies by type of activity

- ***Sector: Agriculture, Forestry and Fishery***
Field: Growing annual and biennial plants

Activity: Growing annual and biennial plants (growing of cereals, except for rice, leguminous and oleaginous plants)

When exporting to Kosovo, companies from Serbia which produce cereals, leguminous and oleaginous plants are facing the following problems:

- It is necessary to register the varieties with Kosovo institutions because they do not recognize the existing registration in Serbia.
- Unfair competition. Protected are local processing businesses, and the Kosovo processors pressurize customers not to buy goods from Serbia.
- Reduced circulation and low price of wheat in 2016.

²⁸Chamber of Commerce of Serbia, available at: www.pks.rs/

- Small number of phyto-sanitary inspectors in the field is additionally slowing down the circulation of goods.

- ***Sector: Processing industry***

- ***Field: Food production***

Problems faced by companies from Serbia which produce and sell food products in Kosovo:

- *Voluminous export documentation.* For export of food products to Kosovo required are the following documents: invoice, packing list, phyto-sanitary certificate, veterinary certificate and certificate of quality for the product. These are issued by authorized institutions, and shall not be older than six months. If the goods are exported to FYROM, namely if they transit the territory of Kosovo, apart from the mentioned documents it is necessary to also have the security certificate. The export of food products to the EU market is realized without the mentioned certificates. Specifically, the exporter issues the document which guarantees that the goods are safe in terms of health and which is sufficient for exporting to the EU market.
- *Obtaining and harmonization of documentation.* This relates, first of all, to the EUR.1 certificate of origin of goods and the veterinary certificate which is different for the internal and international circulation.
- *Time and costs related to obtaining export documentation.* It takes one to two days to obtain the necessary documents. For each export, the documents cost EUR 100, i.e. each invoice must have a phyto-sanitary certificate, a veterinary certificate and the analysis of the quality of product. Goods are invoiced in Euros, and the certificates are controlled by the Kosovo side at the crossings.
- *The declaration and marking of products* may be one of the barriers to unimpeded crossing. Companies use the formulation “distributor” on the declaration of the product, and not “exporter”. The designation “Kosovo” is acceptable if it is not preceded by the word “Republic”.
- *Temporary blockade.* A one-time ban on import of animal goods lasted for one year.
- *Collection of claims* is periodically impeded (impossible), due to insolvency of debtors. Collection of claims through out-of-court collaterals (blank bill) or enforcement based on credible documents is impossible once the debtor is blocked due to forced collection.
- Due to afore mentioned facts, the export of food products to the EU market is simpler because it requires less documents and is cheaper when compared with the export of goods to the market regulated by the CEFTA Agreement.

Payment operations with Kosovo functions by making payments mainly in advance and from the bank accounts, whilst in cases where payments are made in cash, these are most often illegal. As regards competition and conduct of competitors, major competitors for Serbian companies are local producers and companies in the neighborhood.

- ***Sector: Processing industry***
Field: Food production

Branch: Processing and conservation of meat and meat products

Most of the companies in the meat industry in Serbia do not export their products to the Kosovo market. Processed meat from Serbia is neither present in big quantities in north Kosovo. As the main reason mentioned are problems regarding harmonization of veterinary certificates, which has a discouraging impact upon business activities. Those who decide to export lasting and semi-lasting meat products to the Kosovo market are facing the following problems:

- The major barrier is the non-harmonized veterinary certificate which is necessary for the circulation of goods of animal origin and is a mandatory part of the export documentation.
- Since July 2016 fresh meat and grilling meat is not exported to Kosovo, because in force is a ban on export of meat to this market. The situation regarding the cattle's lumpy skin disease had caused a temporary ban of cross-border and partly also internal circulation of beef. However, the ban on exports to north Kosovo applies both to pork and beef, and the result was that trucks were stopped in the intermediate zone. As regards the ban of exchange with other countries in the region, companies were informed on this by the Veterinary Directorate's document; as regards the ban of export to Kosovo they received an oral on-site information from the veterinary inspectors.
- In order to realize the import, the customer must be registered with the institutions in Prishtina and must have the license to import meat. The goods are directly delivered to shops in north Kosovo, and payments were made in RSD.
- The sanitary examination is paid for each invoice at the administrative crossing (around EUR 60). Importers (shops) are associating and importing using one invoice in order to reduce costs for the sanitary examination of the goods.
- It is the practice that the exporter from Serbia pays VAT instead of the importer, and afterwards, during the business operation, the amounts are returned, which additionally complicates the procedure. For all goods, VAT is 19%.
- It cannot be predicted how long the trucks are going to be kept there; when they are going to cross is unpredictable and uncertain. These goods have a short shelf life, and they are allowed to wait only for up to two or three days.
- Customers from north Kosovo have a problem because they must obtain the documentation from authorities in Prishtina. There are frequent changes of the documentation and the import license.
- Kosovo has closed its market for Serbian goods of animal origin which can be found only in traces. The consequence is that the market of Kosovo has been given away to exporters from Slovenia, FYROM and Montenegro. The market imposes as mandatory to obtain the Halal certificate, which makes the export more expensive but does enable a bigger market.

The voluminous export documentation comprises: invoice in RSD without VAT, issued in the Serbian language, producer's specification, proof of origin of cattle, Unified Customs Document, CRM and certificate of quality of goods. The main problem with the placement of processed meat to the market of Kosovo is the lack of a valid and harmonized veterinary certificate. Companies are fully ready for placements to the Kosovo market having in mind the high quality of products, health and safety requirements, business operations pursuant to HACCP principles and respect for international quality standards ISO 9001, IFS and Global Gap. As regards exports to the EU market or other countries signatories of the CEFTA Agreement (FYROM), companies have no difficulties.

- ***Sector: Processing industry***
Field: Food production

Branch: Production of ready to use animal feed

Exported goods: concentrates and cattle feed.

Key problems:

- *Functioning of the payment operations.* It is necessary to convert foreign currency to RSD, which results in big negative exchange differentials because they amount to around EUR 1 per ton of goods.
- *Cattle feed is exported without VAT.* The Kosovo side introduced a tax for concentrates, but not for cattle feed.
- *High transportation costs.* Total costs are EUR 80-100 on the Serbian side, and around EUR 150 on the Kosovo side, depending on the type of goods.
- *Insufficient number of phyto-sanitary inspectors at the administrative crossings.*

- ***Sector: Processing industry***
Field: Food production

Branch: Production of vegetable oils and animal oils and fat

There are Serbian products in the Kosovo market but companies from this branch often cannot find an adequate business partner in the North of Kosovo. There is no intensive cooperation, and the goods are mainly delivered to Albanian trade chains. This is a market with a big potential which should be made use of in the forthcoming period.

Exported goods: edible oils, margarine, vegetable fat, mayonnaise and delicacies based on mayonnaise.

Key problems:

- *Non-harmonized veterinary certificate.* According to the representative of importers, if the merchandise is coming from Serbia, the Kosovo side requests the veterinary certificate for

the foreign market and treats the goods like foreign goods. At crossings, veterinary certificates are required although they are not mandatory for products containing less than 51% substance of animal origin (mayonnaise and margarine). Such practice, apart from Kosovo, exists also in Bosnia-Herzegovina.

- The requested documentation (certificate of origin, certificate of health compliance and the set of laboratory analysis) has to be obtained for each individual export. The Certificate of health compliance is obtained from authorized laboratories, and the rest of documentation is prepared in the company.
- *Establishing the origin of the goods.* It is necessary to ensure the origin of the goods at the customs terminal for every individual import, which is additionally complicating the procedure. Controls carried out by relevant services are too frequent.

There is no negative experience with the services. Payment operations function without problems, goods are invoiced in EUR without VAT and afterwards the importer is paying VAT in the amount of 17% i.e. 7%, depending on the type of product (oil or margarine).

- ***Sector: Processing industry***
Field: Food production

Branch: Production of dairy products

Institutions in Serbia consider Kosovo as an integral part of Serbia and export from Serbia to the territory of the Province is not possible. For the entrance of dairy products to the market of Kosovo the Veterinary Agency of Kosovo requests the export certificate issued by the Veterinary Directorate of the Republic of Serbia. However the relevant institutions in Serbia do not issue such licenses because they consider Kosovo to be part of their territory.

- Too expensive analysis of dairy products which have a short shelf life.
- There is no harmonization of the export documentation and certificates accompanying the goods of animal origin are not recognized. There is dispute over the veterinary certificate accompanying the goods.
- The allowed concentration of aflatoxin in Serbia and the countries in the region is not harmonized. Since it is only Serbia which deviates in regulations in regard to the surrounding, it is necessary to harmonize the allowed concentrations of aflatoxin as soon as possible in order to be able to satisfy the needs of customers in the region (since 1 July 2014 the level of aflatoxin in Serbia was reduced by 10 times, from 0.5 to 0.05 micrograms per kg, which is in accordance with EU standards).

Companies have businesses in Macedonia and Albania and this is how most frequently dairy products are placed to Kosovo. The placement of dairy products to the CEFTA market is accompanied with frequent changes in procedures, frequent return of documentation for corrections etc.

Disabling exports of food products of animal origin to Kosovo, which lasts since 2009, limits the business of the companies in this branch and is a big problem demanding a systemic solution. In order to eliminate the existing barriers, it is necessary to harmonize regulations and competences.

- ***Sector: Processing industry***

- Field: Food production***

- Branches: Production of mill products, starches and starch products; Production of bakery products and pastas***

Companies from the Raška District which produce mill products and sell them in Kosovo are facing the following problems:

- The Kosovo side requests the goods to have the Kosovo Certificate of health compliance, although companies own Serbian certificates and the Serbian HACCP.
- In order to run their business in north Kosovo, companies must register a Serbian and a Kosovo import company. Thus one and the same company is importing (from the Serbian side) and exporting (from the Kosovo side).
- Due to double registration, there is double payment of taxes and registration of workers.
- The Kosovo side requests the certificate – export number for the third country.
- Non-harmonized work of services at the crossings (for instance, if north Kosovo should be entered on Saturday, the papers must be verified on Friday).
- The CEFTA Agreement is violated because customs duties are paid for products which had been produced in Serbia.
- Big corruption of services at administrative crossings (monthly costs due to corruption are around 500 EUR).
- Political pressures for the realization of public procurements.

- ***Sector: Processing industry***

- Field: Food production***

- Branch: Production of other food products***

Exported goods: confectionary, candies, chocolates, pastry, flips. Companies cover both North and South Kosovo

- In the preceding period one of the problems was the declaration on the products, but this was successfully solved. In overcoming this problem of key importance was cooperation with distributors in Kosovo who obtain the adequate declaration.

Companies had no other problems when exporting confectionary to the Kosovo market.

- ***Sector: Processing industry***

- Field: Production of beverages***

Exported to Kosovo are: packed mineral water, non-alcoholic refreshment beverages and other bottled water, fruit wines, fruit brandies and liqueurs.

Companies operating in this sector face the following specific problems:

- Excise stamps are not recognized. In order to avoid direct business with Kosovo, the goods are transported through Albania and are often subject to double excise duties. All big companies in Albania have daughter companies in Prishtina, and this is a way in which goods can be exported and placed on the Kosovo market.
- What is carried out is no classical customs export, but rather keeping records and producing the customs declaration.
- It was common practice to require an additional document on origin which was not easy to obtain.
- Introduced are temporary blockades of exports which last one to two months. During the blockades, additional analyses and examinations are made which is additionally complicating the export procedure.
- Payment operations. Goods are invoiced in foreign currency, but payments are made in RSD. The National Bank of Serbia makes conversions at a rate which leads to big exchange differentials and losses.
- Campaigns in Kosovo against purchase of Serbian products

- ***Sector: Processing industry***

- ***Field: Production of tobacco products***

Export of cigarettes to the Kosovo market is limited and subject to special procedures and movements. The main problem is non-recognition of excise stamps. Tobacco factories in Serbia are finding their way to place cigarettes on the Kosovo market through exclusive distributors from Albania. Such practice stimulates illegal channels and movement of excise products and makes huge losses for the budget of the Republic of Serbia.

- ***Sector: Processing industry***

- ***Field: Textile production***

- ***Branch: Preparation and weaving of textile fibers***

Companies operating in this branch are exporting to Kosovo mostly woolen yarn. At the moment exported is only the intermediate product, but there are capacities also for production and export of finalized products made of wool. Demand for woolen yarn is big, because it is used in the production of calottes.

Exports to Kosovo differ from exports to other countries because they require additional verification of documents at the administrative crossing as proof that goods are carried out from Serbia. Only greasy wool is subject to inspection, by which the animal origin of merchandise is

highlighted and this requires a veterinary certificate. Washed wool is considered to be contaminated and it is not subject to control and inspection.

This goods have preferential origin and the export is realized along simplified procedures. This means that for invoices of up to EUR 6,000 it is not necessary to have the EUR.1 certificate, but only make a statement on the invoice that the goods are of Serbian origin. The statement is obtained from all suppliers. Problems in this field relate first of all to intensive competition of Turkish producers, who are present in Kosovo. In Kosovo, there is big interest for this type of goods from Serbia because they are recognizable, of high quality and competitive in terms of price.

- ***Sector: Processing industry***

Field: Wood processing and products made of wood, cork, straw and brushwood and Production of furniture

Wood processing companies and furniture producers in Central Serbia have no specific problems when placing their products on the Kosovo market. However, companies from Raška District which produce furniture and sell it in Kosovo are facing the following problems:

- Apart from mandatory documents required for passing through the administrative crossings, Kosovo institutions demand a special document, “certificate of production”.
- Arbitrary valuation of the goods by the customs officer (the values are decided upon personal assessment).

- ***Sector: Processing industry***

Field: Production of cooking coal and oil derivatives

The main problems of oil companies and companies producing oil and lubricants:

- Obtaining the statement on origin, to prove that the goods are of Serbian origin. Detailed documentation accompanies the verification of the EUR.1 certificate.
- Harmonization of the license to handle hazardous material with the Kosovo side.
- Working hours of inspection services at administrative crossings are not sufficiently harmonized, so there is quite a lot of waiting and delays.

There is no double charging of excise duties because the goods are invoiced at their basic price without VAT, without excise and without fees for mandatory reserves of oil derivatives. Payment operations run without problems, because payments are mainly made in advance.

- ***Sector: Processing industry***

Field: Production of chemicals and chemical products

Branch: Production of basic chemicals, artificial fertilizers and nitrogen compounds, plastic and synthetic substances; Production of paints, varnishes and similar coatings, graphic inks and mastics; Production of pesticides and chemicals for agriculture

Key problems:

- Payment operations. Foreign currency inflow from Kosovo is accompanied with long waiting hours and big foreign exchange differences accompanying the calculation.
- It is difficult to find a carrier.
- Invoice statements are often disputed.
- Competition applies dumping policies.
- The Kosovo side is charging transportation separately, regardless of the real price thereof.
- Irregularities in public procurement most often in north Kosovo.

Products from this group are present in the entire Kosovo market. Companies from Serbia are doing business with distributors in Kosovo, which is to a great degree facilitating the placement of goods. There are no significant differences in regard to placements to the EU and CEFTA markets. There are no problems with the export documentation or obtaining certificates. Before 4-5 years the problems were bigger because of the practice to send the documentation through the hauler and after that it was necessary to wait for the documentation to be returned; but this practice was abolished. Correspondence related to the customs stamp (there was no access stamp), and this has been successfully solved now. When placing their products on the market, companies had no negative experience with relevant institutions.

- ***Sector: Processing industry***

- Field: Production of basic pharmaceutical products and pharmaceutical preparations***

A big number of companies from Serbia do not export medicines to Kosovo because of complicated and vague procedures, as well as big uncertainties regarding export procedures. However, pharmaceutical products and pharmaceutical preparations from Serbia are present in Kosovo. In practice, to the territory of Kosovo are delivered medicines and medical devices which are subject to centralized public procurement carried out by the National Health Insurance Fund for the purpose of covering the needs of institutions within the network for the territory of Kosovo. From Kosovo is organized commercial import of medical accessories, supplements and cosmetics.

The Research indicates that an agreement was reached on a status-neutral certificate of pharmaceutical products (SPP), which will enable registration of Serbian producers, medicines and medical devices with the Kosovo Medicines Agency. The form of the mentioned certificate was determined by the Conclusion of the Government of Serbia of 4 September 2015 and was forwarded to the Ministry of Health. By the same Conclusion, the Government of the Republic of Serbia adopted also the Report on the agreement on commercial circulation of medicines and medical devices with Kosovo which was reached within the technical dialogue between Belgrade and Prishtina with EU as intermediary. Namely, on 15 September 2015 the Ministry of Health forwarded the Conclusion to ALIMS for realization, and on 23 September 2015 ALIMS established the SPP form which was forwarded to the producers.

After the initiative of the Ministry of Health of the Republic of Serbia, the Customs Administration issued a recent announcement by which the procedure was facilitated in terms of collecting and submitting the necessary documentation for export customs clearances. However, the procedure for obtaining import licenses from Prishtina is further on complicated and long-lasting; these licenses are necessary for customs clearance of goods which are imported to the territory of Kosovo.

- Apart from mandatory documentation for export/import it is also necessary to obtain: attests for medicines, framework agreement or contract with health institutions to which the goods are delivered, CE and EC certificates. It should be noted also that certain goods are subject to different treatment in terms of customs tariffs (for instance, in Serbia it is a supplement, and in Kosovo a medication; in Serbia it is a herbal tea, and in Kosovo a medication).
- Medications marked with a Serbian stamp cannot enter Kosovo.
- Since the goods are imported on the basis of special import licenses received in Prishtina, the import is declared as a donation of the National Health Insurance Fund and is thus relieved from customs duties and taxes by Prishtina. It is often necessary to have also the statement of the Fund that the imported goods are really an object of donation which cannot be obtained in the required form through a simple procedure. The import license issued by the Ministry of Health of Kosovo is relieved from all customs duties, VAT and fees because it is humanitarian import by nature.
- At administrative crossings on the Kosovo side the goods intended for customers in Kosovo are examined, in summer up to 6.00 p.m. and in winter to 4.00 p.m. due to the lack of technical conditions for a 24-hour work.
- Every import to Kosovo implies depositing bank guarantees or financial guarantees in the amount of 30% of the merchandise value until the completion of the customs procedure.
- Producers in Serbia, particularly the pharmaceutical sector, do not issue certificates on the origin of goods.
- Transit of medicines and consumable medical material, as well as re-export, are carried out only at the terminal Interevropa in Prishtina for the entire Kosovo. This is the only hauler agent with capacities for a sanitary-technical storage of goods.
- Collection of claims is a big problem in Kosovo, as well as the insurance of business operations through bank guarantees and insurance of claims.
- There is unfair competition. Companies from Kosovo owned by Albanians have always advantage, which is particularly obvious in case of goods.
- Competitors apply dumping prices.
- Irregular procedures of public procurement.

- ***Sector: Processing industry***
Field: Production of rubber and plastic products

The object of import to Kosovo is rubber footwear. There are no problems in collecting the documentation; problems exist with non-recognition of documentation at administrative crossings. Payment operations function without problems and payments are mostly made in advance. In order to sell and place the goods on the market, the distributor comes to the factory to take the goods and to complete there the entire procedure with customs declarations and invoices. As regards conditions for competition in the market for rubber footwear, producers from Turkey and China are in terms of prices often more competitive. However, the quality of products is the basic competitive advantage of Serbian products.

The subject of import from Kosovo are rubber-technical goods that can be used in industries like: civil engineering, metal industry, automobile industry, mining, as well as in agriculture and in everyday life. Imported are mostly rubber conveyor belts. Generally speaking, it can be said that there are no specific problems in this branch when it comes to import from Kosovo.

- ***Sector: Processing industry***
Field: Production of products from other non-metal minerals
Branch: Production of construction material made of clay

Companies from this branch are among the biggest exporters in Serbia according Customs Administration's data. Placement of goods from brickyards on the market of Kosovo has been a problem since 2010. A solution to this problem would be of significance, since over 70% of production is export oriented and the survival of companies in this branch depends on exports. For export purposes the sales prices are determined at a level below the real costs, which results in significant losses. Therefore, the companies will be forced to completely stop their exports to this market because the tariff and non-tariff measures applied by Kosovo institutions make further business operations impossible.

Barriers to movement of thermal blocs can be associated with dumping, but the battle against dumping prices must be carried out in a different manner. During the technical dialogue of representatives of chambers of commerce held a technical dialogue and considered the revocation of barriers to import of construction blocks to the territory of Kosovo for a three-month period, but this has still not happened. It could be heard that mentioned measures were selectively applied by the Kosovo side and that they do not apply to foreign investors who run business in Serbia.

Tariff and non-tariff barriers:

- Customs services in Kosovo apply administrative measures by which duties calculated at the crossings Merdare and Kondžulj are based on an amount significantly above the sales price written down in the invoice. Import costs are thus significantly rising and the price of the

product becomes non-competitive in regard to the price of producers from Kosovo. This was particularly so in the period from 2010 to July 2016.

- Favoring and protecting producers of construction blocks from Kosovo through protectionist measures by the Kosovo institutions (for instance, for the customs terminal is introduced a fee in the amount of 2 cents per product unit).
- Unjustified implementation of anti-dumping procedures against brickyards from Serbia.
- Free movement of goods is impeded through valuation based on referential instead of real customs bases which take into account sales prices of construction blocks. Concretely, at the crossings Merdare and Kondžulj VAT for goods from Serbia was calculated using the basis which was significantly above the real sales price written down in the invoice (for instance, instead of EUR 0.15 per unit of product, the basis was EUR 0.29). Such practice, which was revoked and replaced with a new one, was aimed at making the goods more expensive and thus non-competitive.
- Revoked was also the fee for insurance of trucks which transport goods from Serbia to Kosovo, which was paid in the amount of EUR 280 per month per truck, which was additionally burdening the sales price of construction blocks in the Kosovo market.
- There is a negative practice in regard to calculating the transport price, namely a higher base is applied than is the real one used to calculate VAT (for instance, instead of EUR 200 real costs, recognized are EUR 300).
- On 1 July 2016 a temporary measure was introduced for construction blocks from Serbia, a fee of 2 cents per product unit, and therefore the price of this merchandise increased 12%. So, the attempt to solve the problem by no longer calculating VAT according to the higher levels has failed, since the fee was introduced. This temporary measure created an even greater problem.
- The customs terminal is paid EUR 40, which additionally increases the price of goods. This problem is particularly expressed in case of sand because the truck with sand has a relatively low value.
- The Kosovo side introduces blockades lasting more months.
- Decisions by Kosovo institutions, on the basis of which the Kosovo customs authorities apply the mentioned measures, are not transparent or available.
- It raises concerns that there are new players emerging in the market and that the market with big potentials is being lost.

Such practice is contrary to the essence of the CEFTA Agreement, which does not apply when the goods reach the border, because the imposed duties increase the price of construction blocks by at least 10%. The mentioned measures are significantly increasing import costs and the price of goods in the group ceramic products from Serbia, by which producers from Serbia become non-competitive in relation to same products made by Kosovo producers. These barriers do not exist in case of transit through Kosovo, for instance to Macedonia, and applies exclusively to construction blocks (but not to roof tiles). There is no room for reciprocal measures, having in

mind that construction blocks are not imported to Serbia. As regards cement, Serbian cement factories were not competitive in terms of price on the Kosovo market due to their high prices and cement factories from Albania were offering roof tiles in Serbia at lower prices.

- ***Sector: Processing industry***
Field: Production of computers, electronic and optic products
Branch: Production of instruments and appliances for measuring, testing and navigation

From this branch, LED displays are exported to Kosovo. Companies have no problem in obtaining documentation because it is identical as in case of all other countries. Imported products made by Serbian companies for the time being do not have serious competition in Kosovo. In most cases, they refer to specific requests of customers for appliances.

- ***Sector: Processing industry***
Field: Production of other transport means
Branch: Production of other means of transportation

The Research did not identify any specific problems regarding export of products from this branch. Exported goods are communal vehicles and hydromechanics equipment. The export procedure for Kosovo is identical to the one applied to countries of the European Union.

- ***Sector: Processing industry***
Field: Production of machinery and equipment not mentioned elsewhere
Branch: Production of other general purpose machinery

Delivery of goods to Kosovo is legally not treated as export, namely Kosovo is considered to be domestic and not foreign territory. However, the factual situation is completely different and the circulation of goods requires complete procedures for border crossing. Therefore it is necessary to obtain complete import documentation. Submitted are standard documents (invoice, EUR.1, etc.), so there are no problems to obtain the documentation.

Exported goods: stoves, cookers and boilers operating on solid fuel, pellets, gas and electric power. Imported from Kosovo are boilers and boiler equipment.

Problems:

- Payment operations are a problem because it is necessary to make conversions to RSD and then again purchase foreign currency. This results in big exchange differentials. However, the collection of claims is covered by a valid bank guarantee.
- For export/import is envisaged a comprehensive administrative procedure.

- A significant factor is the will of relevant services at the crossings. There is a practice that when the vehicle arrives for “red-examination” after 5.00 p.m. that the procedure is postponed for the next day.

Companies mainly cooperate with verified customers and thus protect mutual interests.

Sector: Wholesale and retail trade

Field: Non-specialized wholesale

Activity: Non-specialized wholesale in food, beverages and tobacco

Companies from Raška District operating in non-specialized wholesale in food, beverages and tobacco in Kosovo face the following problems:

- Long waiting hours at the crossings due to hauler’s unconscionable conduct and untimely announcement of crossing of the goods.
- Problems in addressing the invoice (no invoice with the inscription Republic of Kosovo may cross the administrative border). According to the CEFTA Agreement, the invoice has to be addressed to Kosovo, which in this case is often not respected.
- Trucks arriving at the crossing are kept up to two days for the purpose of detailed examination which results in the change of carrier’s price.
- Bad communication between the carriers and drivers whilst in Kosovo; there are no Serbian mobile phone operators, only Albanian ones.
- Downturn of prices by new and smaller businesses which are not registered for wholesale business.

Companies importing alimentary products from Kosovo are facing the following problems:

- The imported product is subject to big analyses carried out in Kragujevac. In Serbia, analyses from Kosovo are not recognized, partly because of non-harmonization, partly due to lack of trust in analyses made in Kosovo.
- Phyto-sanitary inspection does not work during weekends. There is no third shift for the phyto-sanitary inspector so that this causes waiting.
- Goods are slowly passing the administrative crossing; there are long waiting hours and procedures.
- Problems with unfair competition—goods are transported by people who do not have a registered company (natural persons are working for themselves and do not pay any fees).
- Problems with payment operations: foreign currency from Kosovo is sold at lowest rates, foreign currency from adequate accounts cannot be used to pay the exporter from Kosovo (foreign currency must be bought from the National Bank, regardless of possessing the foreign currency), commission for transactions are 20-30 EUR. This fact leads us to the conclusion that for the realization of the harmonized exchange of goods between Serbia and Kosovo it is necessary to secure significant financial resources.

- **Sector: Wholesale trade in agricultural products and animals**
Activity: Wholesale trade in cereals, crude tobacco, seeds and animal feed

Companies from Raška District trading in grain in Kosovo are facing the following problems:

- Long waiting hours at border crossings, particularly at the crossing Jarinje.
- Payment of customs duties at the customs terminal in south Mitrovica, so that goods would be sold in Central Kosovo, which makes it impossible for the goods to be directly distributed in north Kosovo.
- Violation of the CEFTA Agreement, because there are customs duties to be paid on corn and wheat.
- Problems in collection of claims from clients in Kosovo and no possibility for on-site interventions.

- **Sector: Wholesale and retail trade; repairing motor vehicles and motorcycles**
Field: Wholesale, except for trade in motor vehicles and motorcycles

Branch: Other specialized wholesale trade

From Kosovo are imported: coal, ferrous metallurgy, profile pipes, metal sheets, semi-carbonate boards and industrial wheels. In view of the multiyear experience in the business, companies do not have problems when obtaining documents required for the import of mentioned products. The obtained documents are recognized at administrative crossings. There is no negative experience with double charged duties, or the calculation of transportation costs. However, the slow passing of trucks at administrative crossings increases the costs above the realistic level.

- **Sector: Transportation and warehousing**
Field: Land transport and pipeline transport

Activities: City and suburban passenger road transport

Road transportation of freight (construction material)

Transport of hazardous and non-hazardous waste

Carriers from Serbia comply with instructions and the official standpoint proclaimed by relevant state authorities and do not take licenses from institutions in Prishtina on the basis of which they would be able to organize unimpeded transport of passengers. However, having in mind the circumstances, registered transport lines in Serbia are maintained only up to the administrative crossing with Kosovo. Hence, regular lines do exist, but are not operational. The reason for this lies in the fact that domestic carriers register the lines with Serbian institutions, which the institutions in Prishtina do not accept. In order to realize transportation in the territory of Kosovo, it is necessary to have the license of institutions in Prishtina. The analysis of demand showed that passengers have a big interest for lines linking towns in Serbia with towns in

Kosovo. Having this in mind, some of the carriers registered lines in Kosovo. Serbian carriers with headquarters in north Kosovo, registered pursuant to local regulations, can obtain the license from our authorities and organize transport of passengers. Domestic carriers are facing competition from carriers from Kosovo, who are registered with institutions in Prishtina, and whose lines are treated like domestic ones. However, it does happen that some of the carriers opt for cooperation. Most frequently is used the crossing Jarinje.

Problems encountered by carriers:

- Obtaining licenses from relevant institutions in Kosovo (Ministry of Transport).
- Mutual non-recognition of licenses issued by relevant institutions in Serbia and in Kosovo.
- There are no guarantees regarding safety of passengers, drivers and vehicles.
- The Kosovo side insists on reciprocity and does not allow an increase in the number of lines.
- Transport is possible only as a service, and in partnership with carriers who have registered lines in Kosovo.
- Carriers are requested to have original documents (license) at any moment, whilst the copy verified with the notary is not recognized as a valid document by the Kosovo transport inspection. Apart from this, necessary are also verified schedules with double stamps.
- Unfair competition. Taxi services are using stops registered for busses for the transport of passengers.
- Domestic carriers have developed the market and are forced to share the market and demand with the competition which does not have sufficient capacities to transport passengers and is most often implementing low prices for their services.
- Business operations of domestic carriers are restricted and made difficult for them; the problems are not solved and therefore they have big losses.
- The situation in the field confirms that the transportation of passengers within legal frameworks is limited.

There are established schedules registered in Serbia and the desire to do business in Kosovo considering the potential of the market. There is no waiting at the crossings, services work 24 hours. The work of the police on the roads was commended.

Companies from the Raška District operating in city and suburban road transportation of passengers to Kosovo are facing the following problems:

- Usurpation of property of companies in Kosovo (bus stop in Leposavić)
- Multi-year debts of the mining complex Trepča to carrier companies for their services
- Unfair competition, private carriers – mainly unregistered for this business
- Lack of road infrastructure at crossings
- Vans are taking over the passengers, and their companies do not pay contributions and fees,

- Impossibility to conduct business operations south of the Ibar River; although even prior to 1999 in Serbia there were registered lines to Prishtina, they cannot be used (safety problems, plates).

As regards transportation of the construction material, i.e. sand, there are special requirements regarding the transportation vehicle which did not exist in the previous period. Besides, Kosovo Customs charges EUR 80 per truck with sand and requires special accompanying documentation. The Serbian side charges EUR 20 for the customs terminal. All this makes the export more expensive and the exchange more difficult. Total costs per truck with sand are around EUR 100, which is much considering the low price of sand in the market.

Regarding transport of hazardous and non-hazardous waste, there are problems in obtaining documents on origin, licenses from institutions in Kosovo and documents accompanying special transportation vehicles.

- ***Sector: Transportation and storage***
Field: Road freight transport and reallocation services
Activity: Other activities related to transport

Companies from Raška District transporting goods to Kosovo are facing the following problems:

- Problems in addressing the invoice to Kosovo/Prishtina vs. Republic of Kosovo,
- Non-recognition of documents – phyto-sanitary certificate issued by Kosovo institutions is not recognized in Serbia, although it should be harmonized,
- Phyto-sanitary inspection in Kosovo operates upon call,
- Collection of claims,
- Lack of local labor force,
- Value of goods is based on the arbitrary assessment of the customs officer,
- Unannounced and unregistered in the system when transiting through Kosovo to Albania,
- No network at Brnjak crossing,
- Obtaining CEMT transportation licenses, rather than using individual licenses for the business operations.

- ***Sector: Transport and storage***
Field: Road transport and pipeline transport
International, internal hauling and public storage facilities

Haulers have their role in the organization of transport, customs intermediary role and storage of goods. The most exported goods are confectionary products, whilst the object of temporary import to Kosovo where most frequently: packaging, pallets and crates.²⁹

Key problems faced by haulers:

- Obtaining certificates on origin of goods.
- Collection of laboratory findings and certificates of quality.
- Non-recognition of health certificates.
- Inadequate and non-harmonized declaration on goods. Products are returned for necessary linguistic changes.
- Excise products are not transported. There are authorized customs terminals for the crossing of excise products.
- Invoices for the re-export are addressed to the “Republic of Kosovo” and hence the vehicle with goods cannot cross the border.
- A selection is made when a certain type of goods is subject to customs clearance, so that haulers have bigger transportation costs for completing their documentation and complying with the prescribed procedure.
- Transit through Kosovo is accompanied with the introduction of additional certificates by Macedonia which requires certificates on origin for each individual export.
- Work of inspection services. This relates first of all to the frequency of sampling for the purpose of control, because it is necessary to make analysis for every export.
- Mistrust among partners on the Serbian and Albanian side.
- Waiting at the crossings is often exceeding the time necessary for transport to the final destination, which is significantly increasing transportation and storage costs.
- Security is not at an enviable level and often it is not possible to find carriers to Kosovo.

The question on whether it is easier to export goods to the market of CEFTA or the EU, the answer was that due to the lack of linguistic barriers and easy negotiating with the services, it is easier to do business on the CEFTA market. Procedures for the transportation of goods are identical in the European Union and in the CEFTA market. Commended were the work of the Customs Administration, development of electronic communication, simplified procedures which imply that trucks shall not be opened at the crossings but that risk control is systemic. Goods are transported without examination, namely only **subsequent controls of samples are made. Transport of non-hazardous material (books)** is harmonized and regulated.

²⁹ According to data from the customs Administration of the Ministry of Finance of the Republic of Serbia, temporary import is a customs procedure within which foreign goods are used in the country under the condition they are again exported in unchanged form except for non-typical reduction of value due to their use. No customs tariffs are paid for temporarily imported goods or they are paid at a reduced rate and measures of commercial policies are not applied to such goods (foreign policy limitations), unless separate regulations do not specify otherwise. Available at: www.carina.rs

Conclusion

The Research has been conducted with the aim to analyze possibilities for improving business operations between Serbia and Kosovo and to harmonize procedures for obtaining certificates and documents accompanying the goods. There is a positive trend on the Serbian side, considering that exports from Serbia to Kosovo are by far bigger in volume and with a more favorable structure. First of all, goods exported from Serbia are of a higher level of processing in comparison to the goods imported from Kosovo. Progress in improving conditions for doing business is evident. This is primarily a result of: 1) efforts by relevant institutions to simplify and facilitate export procedures, 2) improved information and communication system, and 3) simplified customs procedures. This means specifically that the company which meets required criteria (bank guarantee, debt free, goods transported in adequately equipped vehicles etc.), is authorized to issue the necessary export documentation. Besides, there is no double taxation or paying of excise and transactions with Kosovo are treated as payment in foreign currency to other countries. In the first half of 2016, contentious issues related to integrated border management (IBM)³⁰ were successfully resolved:

- Simplified electronic correspondence between the Customs Administration of Serbia and the Customs of Kosovo since it is now realized only through the *EU IMB Facilitation Office*, without the intermediary role of the Ministry of Interior of the Republic of Serbia.
- Full implementation of the SEED system started, which enables systematic electronic exchange of data between the Customs Administration of the Republic of Serbia and the Kosovo Customs for all type of goods which are crossing the administrative line.
- After receiving the official confirmation from the European Union that procedures under Mutual Legal Assistance were changed, these cases were further dealt with by the Ministry of Justice of the Republic of Serbia.
- Harmonized certificate of pharmaceutical product (CPP). Relevant institutions in Prishtina have issued first decisions on registration to drug producers for the purpose of releasing for circulation medicines in the territory of Kosovo.
- Since 21 September 2015, the Republic of Serbia has started to issue entrance/exit documents and temporary plates for vehicles “proba“ (temporary), with the validity of 60 days and with the possibility of multiple crossing at joint crossing points.
- At the joint crossing point Mutivode customs officers of both sides work seven days a week, from 8:00 a.m. to 8:00 p.m.
- Veterinary certificates for live animals are harmonized (except in case of breeding cattle) became operational on 1 March 2016. Harmonization of certificates for milk and dairy products is pending, as well as certificates for meat products.

³⁰ Government of the Republic of Serbia, Office for Kosovo and Metohija and Office for the Coordination of Affairs in the Process of Negotiation with the Provisional Institutions of Self-Government in Prishtina (2016), *Izveštaj o napretku u dijalogu Beograda i Prištine (za period oktobar 2015-april 2016)*. p.15.

- The harmonized phyto-sanitary certificate has been successfully implemented at all administrative crossings at which the commercial transport takes place (Rudnica/Jarinje, Merdare and Končulj/Bela Zemlja).

One of the problems that has not been solved is the inadequately determined customs basis for charging duties on construction thermal blocks. Namely, when the custom basis is established pursuant to the transactional value the result is a significant increase in product price and the reduction of the products' competitiveness. Besides, contrary to regulations and practice within CEFTA and the EU, products which apart from their vegetative ingredients also contain a certain (minimal) percentage of animal ingredients are required to have a veterinary certificate related to mixed products. Such practice is additionally slowing down the process of exchange and increasing the price of the product. There is also the problem with delivery of non-hazardous waste which relates first of all to paper, glass and metal waste. Companies from north Kosovo cannot trade in Kosovo unless they are registered with relevant institutions in Prishtina, and businesses from north Kosovo cannot import products from Serbia without having an adequate license issued by Kosovo institutions. Also, entrepreneurs from north Kosovo, who are not registered with the competent authorities, can sell their goods only to end customers because they are not in the fiscal system of Kosovo³¹.

Communication between Serbian and Kosovo inspection services does not take place directly, but through EULEX as intermediary. In order to achieve further harmonization, meetings of the two sides with EULEX as intermediary are organized in Brussels every three months, whilst the activities related to harmonization and normalization of relations are further carried out on a monthly basis. However, further progress in the process of harmonization is unpredictable and it can be said that the solution for existing problems depends on the will and success of communication. Relevant authorities do not act in accordance with the government policies. The implementation of unilateral decisions, introduction of tariff and non-tariff barriers, and negative practice inflict great losses to companies.

They significantly limit the placement of Serbian products, which have a long tradition and are recognizable in Kosovo. The Kosovo market has a big potential and is marked by the domination of the tertiary sector. This can be an opportunity for the Serbian production sector. The problems identified during the Research make it impossible to untap the full potential in economic cooperation with Kosovo. Considering the volume and structure of exchange of goods between Serbia and Kosovo, liberalization of trade and harmonization of rules which regulate the circulation are in the interest of both sides. It is necessary to further increase institutional capacities and efficiency of relevant institutions with the aim to create an environment which shall discourage alternative trade channels.

³¹ Government of the Republic of Serbia, Office for Kosovo and Metohija and Office for the Coordination of Affairs in the Process of Negotiation with the Provisional Institutions of Self-Government in Prishtina (2016). *Izveštaj o napretku u dijalogu Beograda i Prištine (za period oktobar 2015-april 2016)*. p.18-19.

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PART IV: NORTH KOSOVO - RESEARCH RESULTS

Sonja Radenković PhD and Milena Banović

Specific problems in different branches

- ***Sector: Wholesale and retail trade***
Field: Retail trade in pharmaceutical products
Branch: Retail trade in pharmaceutical products in specialized shops – pharmacies

Pharmacies are facing big problems in North Kosovo:

- Medications from Serbia now cannot be imported from Serbia, except as humanitarian aid
- Humanitarian aid arrives in Kosovo Polje 3-4 times a year, and waits as much as one month to be distributed.
- Medications distributed as humanitarian aid from Serbia are negligible both in terms of quantities and assortment (only from the positive list).
- Until 1 June 2014 medications could cross administrative crossings by paying customs fees envisaged for foreign medication (for instance, insulin) and non-medication. Medication from Serbia (from the positive list) could be imported duty free.
- Since 1 June 2014 it is not possible to import medication even if customs fees are paid.
- Institutions from Prishtina request the pharmacies to have a license which would enable them to acquire medication only from Prishtina's positive list, without medication produced in Serbia.
- The license from Prishtina is very expensive and amounts to several thousand Euros annually, which the pharmacies themselves cannot pay.
- Because they have to pay big amounts for customs fees, which the Fund of the Republic of Serbia does not recognize, pharmacies in North Kosovo got into debt in regard to wholesale pharmacies from Serbia, which they cannot pay without assistance from the Serbia.
- The registered intermediary for procurement of medications in North Kosovo, Farmalogist, also cannot import medications from Serbia.
- Institutions from Prishtina do not make a difference between private and state pharmacies.
- List of medications from Prishtina are much shorter when compared to lists from the Serbia.

- ***Sector: Transport and storage***

Field: Postal operations

Branch: Postal activities of the public service

Companies from North Kosovo providing postal services are facing the following problems:

- All those who drive a PTT van must have international licenses, change their residential addresses (Serbia) and have a vehicle registered in a town in Serbia (Vranje).
- The van is stamped at the crossing and is undergoing customs control in the southern part of Kosovska Mitrovica. The van must not stop anywhere.
- The maximum value of goods which may be sent from Serbia is EUR 2,000
- If the user makes electronic payment, the shipment is confiscated at the customs point and the user must pay the customs fees when taking over the goods.
- It is not allowed to import books from Serbia.
- Books from countries which recognized Kosovo are directed to the southern part of Kosovska Mitrovica and can be overtaken there.
- If the sender from Kosovo sends goods to Serbia, and they are returned, such goods cannot “enter” Kosovo but must be taken over in Serbia.
- Letters are being opened.
- Clients whose goods were seized receive the information “Given over to authorized body”.

• ***Sector: Processing industry***

Field: Production of paper and cardboard products

Branch: Production of corrugated paper and cardboard and paper and cardboard packaging

Companies in North Kosovo producing and selling cardboard packaging are facing the following problems:

- Registration of the company in compliance with the Kosovo system.
- No payment of taxes and fees, passive company in the tax administration.
- Raw material is procured exclusively from South Kosovo, and the supplier brings the material to the company.
- In order to deliver the material, the supplier is removing his registration marks (KS or RKS).
- Monopoly in procurement of material; one company is operating in this business and if the material is out of stock it is necessary to wait, due to which activities slow down.
- In Serbia there are many companies which produce and sell cardboard for processing, but due to high customs fees and long waiting at crossings, material is procured exclusively from the South.

- Problems in business transactions with the South arise due to unregulated traffic infrastructure, request for Kosovo registration marks, Kosovo vehicle license.
- Local self-government has no understanding for the need to support private companies and expand capacities.
- Business operations are limited only to North Kosovo.

- ***Sector: Wholesale and retail***

Field: Retail trade in other house appliances in specialized shops

Branch: Retail trade in furniture, lighting equipment and other household utensils in specialized shops

Companies in North Kosovo trading in furniture are facing the following problems:

- Double registration, pursuant to the Serbian and the Kosovo system. Double taxation – bad market competitiveness in terms of prices.
- In order to import goods from Serbia to Kosovo payments must be made in EUR through the Kosovo Bank. The transfer is treated as an international one so that for each transaction the commission is higher (same amount of commission for the transaction of EUR 20 or EUR 2.000)
- In order to be exempt from paying VAT the companies from Serbia must write down on the invoice: VAT exempt pursuant to Articles 61 and 3 of the Regulation on Enforcement of the Law on VAT (*Official Gazette of RS*, No 111/13).
- The Regulation relates to “Autonomous Province of Kosovo and Metohija”, but Kosovo employees on the administrative crossing do not recognize such type of documentation and use a correction fluid to erase the inscription “Autonomous Province of Kosovo”.
- Although the customs’ working hours are until 12.00 p.m. at the administrative crossing Brnjak the license under which the goods may cross can be obtained only until 6.00 p.m.
- Employees at administrative crossings give an arbitrary valuation of the distance in km from the supplier to the buyer in Kosovo and calculate 10% VAT for such arbitrary assessment.
- Also, employees often make arbitrary assessments in the process of customs clearance regardless of the value written in the invoice.
- In case that the same invoice contains goods from producers in Serbia (domestic goods) and a foreign producer, employees at administrative crossings clear the goods as if all items were of foreign origin (double customs clearance).
- When the taxes are paid pursuant to the Kosovo system, the tax administration does not recognize costs related to water, electricity, telephone, transportation because these costs are still not paid to the relevant Kosovo bodies. When the amount of taxes is calculated only the rent is accepted as a valid cost. Therefore, in tax forms are mainly presented revenues, and not the expenditures. When calculated in this way, the tax basis is much higher than the real one.

- The company uses the electronic payment system but the customs authorities do not recognize and do not enable this type of payment. Therefore, customs duties are paid exclusively in cash, at the administrative crossing.
- Employees individually round up decimals in the invoice, by which they in fact increase the value of the imported goods which at the annual level represents a higher unnecessary expenditure.
- There are not many competitors as regards production and sales of furniture, but the competitiveness in regard to price is bad due to high costs.
- A big problem is the linguistic barrier, companies in North Kosovo lack information on changes in legal norms and obligations of relevant Kosovo services, which are mainly in the Albanian language. Tax forms and rulebooks are exclusively in the Albanian language (attached).

- ***Sector: Wholesale and retail***

Field: Retail trade in other goods in specialized shops

Branch: Retail trade in clothing in specialized shops

Retail companies from North Kosovo trading in clothing in specialized shops are facing the following problems:

- The terminal works until 6.00 p.m., which results in big crowds and waiting times.
- Apart from customs duties additional fees are also paid.
- 10% loss for the customs.
- Complaints about goods must be made in Raška.
- Since a year and half ago they had to register their companies pursuant to the Kosovo system.
- Although a brand is from Serbia, material is imported, so that customs duties have to be paid for most of the products. They apply the rule that a minimum of 50% labor must be from Serbia and arbitrarily establish that the percentage is lower, so they calculate the customs duties.
- Dualism (2 companies: In the Kosovo system and the Serbian system). When goods are bought from Serbia, companies are doing business with the Serbian company.

- ***Sector: Wholesale and retail***

Field: Non-specialized wholesale trade

Branch: Non-specialized wholesale trade

Wholesale companies in North Kosovo operating in non-specialized trade are facing the following problems:

- Dual registration pursuant to the Serbian system and the Kosovo system.
- Obtaining documentation for exemption from customs duties on the Kosovo side – mainly unsuccessful.

- For goods in the value of up to EUR 6,000 sufficient is the invoice, and over EUR 6,000 it is necessary to have additional documentation.
 - The administrative crossing Brnjak as no phyto-sanitary inspection. Although the customs' working hours 24/7 the crossing is possible if clearance is completed until 6.00 p.m., which is the end of working hours of the office in Prishtina which issues the necessary licenses under which the goods may cross.
 - The employee y calculates mainly individually the VAT for transportation costs except where the transport is carried out by the company which is the producer of the goods. The distance in km is also calculated on an individual basis and arbitrarily by the employee, and it constitutes 10% of the total calculated assigned transportation costs.
 - The road infrastructure at the crossing Brnjak is poor - there are mainly no signals of mobile phone operators so that communication is almost impossible.
 - Problems are due to unfair competition, mainly authorized distributors for goods of Serbian origin, for which they obtain documentation on origin of goods and on the basis of this documentation they are exempt from paying VAT.
 - Producers from Serbia do not issue documents on origin of goods to retail or wholesale importers from North Kosovo (individually and arbitrarily).
 - Prices in the North are not competitive due to double fees, customs duties and taxes.
 - If foreign goods are procured from suppliers in Serbia, there is double customs clearance: for the first time when the goods enter Serbia, and the second time when the goods enter Kosovo. Re-export is impossible.
- ***Sector: Wholesale and retail trade***
 - Field: Retail trade in information-communication equipment in specialized shops***
 - Branch: Retail trade in computers, peripheral units and software in specialized shops***

Companies in North Kosovo trading in computers, peripheral units and software in specialized shops are facing the following problems:

- Double registration, pursuant to the Serbian system and the Kosovo system. Double costs, double accounting.
- Unknown is harmonization of works of offices at administrative crossings. Leaning upon experience with suppliers and drivers and their knowledge of rules and procedures with the aim to reduce time spent in for the goods to cross.
- Double customs clearance because the goods are of foreign origin, re-export is not possible. No relaxations from the state.
- Frequent changes to tax rates, without advance information by the relevant services.
- Linguistic barrier, disrespect of use of the Serbian language as one of the official languages. Legal norms and changes are exclusively in the Albanian language (attached).

- Employees do not have Kosovo registration marks and vehicle licenses pursuant to the Kosovo system and therefore they cannot operate in South Kosovo.
 - It is equally not possible to sell the goods in the South by paying customs duties at administrative crossings (the money goes to the Fund for the development of the North, and not to the budget of Kosovo. In order to make business operations possible in the South, the goods must be submitted to customs clearance at the terminal in south Mitrovica, where it is necessary to have more documents and the customs costs are higher).
 - The franchise was obtained from the company Fly Fly travel from Serbia; the franchise is treated like an international one and is requested to have documentation and registration as requested for foreign operators.
 - Presently there is no fiscal cash register for any registration.
 - Problems are caused also by dual documents for import of goods, for the Serbian side and the Kosovo side.
 - Unfair competition, hidden monopolies, particularly in case of public procurement.
 - Legal procedure contests the free market (the Development Fund for North Kosovo vs terminal).
- ***Sector: Transportation and storage***
Field: Land transport and pipeline transport
Branch: City and suburban land transportation of passengers

Companies engaged in city and suburban land transportation of passengers are facing the following problems:

- 51% ownership of the Republic of Serbia, 49% employees. All employees are registered with the National Employment Service and are receiving the Kosovo supplement in the amount of RSD 11,000.
- They have a regular schedule approved by the relevant ministry of the Republic of Serbia and the international vehicle license.
- They are not registered in the Kosovo system and have no Kosovo registration marks, so they are not able to run business operations in the South.
- Up to now they had one visit by the Kosovo Trust Agency which offered re registration to the Kosovo system some ten years ago.
- They are facing the problem of not being able to import tires and other spare parts because the Kosovo border police at the administrative crossing does not recognize the registration pursuant to the Serbian system and they ask for the customs duties to be paid.
- Since 2005 they have not been able to enforce the final judgment of the court according to which they were entitled to collect a multi-million amount from Trepča Holding. The National Bank of Serbia does not give information on the case, although pursuant to law they are obliged to do so.

- Problems are due to unfair competition by private carriers, who also often do not have registered companies or schedules approved by the relevant ministry. The relevant Republic inspection does not react to such cases or complaints.

- ***Sector: Transportation and storage***
Field: Land traffic and pipeline transport
Branch: City and suburban land transportation of passengers

Companies from Gračanica operating in city and suburban land transportation of passengers are facing the following problems:

- Registration only pursuant to the Kosovo system, previously it was dual registration.
- Necessary documents and working licenses are not harmonized between Serbia and Kosovo, namely Serbia does not accept documents issued by Kosovo and vice versa.
- Individual interpretation of regulations and rules by employees at the administrative crossings issued by official Kosovo institutions.
- The Kosovo Tax Administration issues arbitrarily defined penalties - there are pending court proceedings against the tax administration.
- Poor infrastructure at administrative crossings, small crossing capacities, often long waiting times.
- Unfair competition, big number of private entrepreneurs, mainly unregistered and without valid working licenses.
- Poor communication with institutions, small number of Serbs and persons speaking Serbian in Kosovo institutions, disrespect for official writings in three languages, discrimination of economic operators in every respect.

- ***Sector: Transportation and storage***
Field: Road traffic and pipeline traffic
Branch: City and suburban land transportation of passengers

Companies from Brezovica engaged in city and suburban land transportation of passengers are facing the following problems:

- Kosovo registration.
- Tax applications in Albanian, no knowledge of the language.
- Serbia and Kosovo mutually do not recognize documents and working licenses.
- Employees at administrative crossings individually interpret the regulations, rules and documents although they had been issued by authorized institutions.
- Unprofessional and arrogant conduct in regard to passengers and drivers.
- Problems related to Serbian telecommunication networks and operators in the South.
- Favoring Albanian companies for passenger transport particularly in case of public tenders.

- Unfair competition, presence of a number of unregistered carriers.
- ***Sector: Transportation and storage***
Field: Printing and printing services
Branch: Other types of printing

Companies in North Kosovo operating in graphics industry are facing the following problems:

- Goods are procured in smaller quantities in order not to be subject to customs clearance
- Manifold fees are collected, so that the goods are not competitive in the market
- Public procurements are organized, but are not respected, there is no legal system protecting us, job is obtained mainly based on acquaintance.
- ***Sector: Wholesale and retail***
Field: Non-specialized wholesale trade
Branch: Wholesale trade in food, beverages and tobacco

Wholesale companies in North Kosovo trading in food, beverages and tobacco are facing the following problems:

- Phyto-sanitary controls can be performed until 6.00 p.m.
- The truck with an assortment of various products cannot cross the administrative crossing (imported can be the whole truck with one product).
- Implementation of the CEFTA agreement is a matter of employee's good will. For instance, customs charges are levied on Serbia-made milk chocolate filled with coconut which is imported, whereas pralines, which are also made in Serbia, are customs cleared.
- Goods stay at the administrative crossings due to different reasons: the producer is asked to present additional analyzes for certain products; requested is a paper on the origin of goods, which cannot be obtained because the exporter in Serbia, due to the small quantities of purchased goods, is not issuing such document.
- Transportation costs are arbitrarily calculated (regardless of same distances in km, transportation costs are differently estimated).
- Public procurements are non-transparent and often the documentation is used only to satisfy the conditions of the tender.

In the course of informal conversations all those interviewed declared that corruption is one of the big problems at the crossings, where they have to give money to the employees in order to accelerate the procedure and get the goods to cross the administrative crossing. Also, the majority of them declared to have been forced to use illegal channels for the import of goods in

order to avoid customs clearance for goods from Serbia and all this with the aim to be competitive in the market.

Recommendations for the improvements in circulation of goods and services in North Kosovo

- Establishment of electronic payments between Serbia and Kosovo with the aim to reduce costs of conversion of foreign currencies and banking transactions.
- Introduction of the third shift for phyto-sanitary inspections at administrative crossings.
- Disabling double customs clearance when goods of foreign origin are imported from Serbia to Kosovo.
- Allocation of more financial resources from the Development Fund for North Kosovo for businesses in North Kosovo in order to encourage the expansion and strengthening of capacities of companies (not only the infrastructure).
- All templates/documents available in the Albanian and Serbian languages in accordance with the Kosovo Constitution.