

The 100% tax



Is it helping or hurting
Kosovo's economy?

The economic impact of the 100% tax on
Serbia and Bosnia and Herzegovina's products

May 2019

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Executive summary

Since 2008, when Kosovo declared its independence, Kosovo and Serbia continue to have trade and political tensions between them. Since 2011, Serbia has allowed imports from Kosovo but continuously presented trade barriers to Kosovo exports. For this reason, and because of the threats to its national security, in November 2018, the Government of Kosovo imposed a protection tariff measure, initially set at 10% and later at 100% for all products originating in Serbia and Bosnia and Herzegovina (BIH) imported in the country. The imposition of such tariffs violates provisions of the Central Europe Free Trade Agreement (CEFTA), but, due to war threats made by Serbia towards Kosovo, the CEFTA agreement allows the application of protection measures, including the application of extra custom duties.

Within five months of the imposition of the 100% tax, imports from Serbia decreased by 88% (160 million), while imports from BIH decreased by 83% (24 million). In the period November 2018 – March 2019, imports in Kosovo continue to increase compared to the previous year. Greatest beneficiaries during this period were states like Slovenia, Israel and Turkey, which increased their exports to Kosovo.

Despite the decrease of imports from Serbia and BIH, Kosovo's trade deficit has increased. Although certain local businesses could benefit from the protection measure, data shows that the processing industry has not accelerated in either generation of new employment or volume of work. All this leads to the understanding that local producers have not managed to use the opportunity that the tax was meant to provide. On the other hand, food prices in Kosovo were by 5.3% higher in the period during which the tax is applicable (November 2018 – March 2019) than in the same period of previous years. Lacking substitute of imports for certain domestic products, local producers increased their prices after the 100% tax became applicable. Other reasons that could have affected price increases are increased costs for raw materials and increased costs for imported products.

There are suspicions that products without visible labelling, such as cereal, are being registered and imported through other countries of the region, such as Bulgaria, Croatia, North Macedonia and Albania. Such actions harm local consumers as products continue to be imported at a higher price due to increased transport costs.

Bearing in mind the numerous trade barriers that Serbia imposes to Kosovo, the harm caused to Kosovo businesses could be greater than the benefit from removing tariffs and implementing the CEFTA agreement. Being that the commitment to implement CEFTA is also enshrined in the Stabilization Association Agreement (SAA) signed between Kosovo and the European Union, Kosovo should try to renegotiate the CEFTA agreement with other signatory parties.

1. Introduction

On 6 November 2018, the Government of Kosovo decided to impose a 10% protection measure against products originating from Serbia and Bosnia and Herzegovina (BIH) imported in the country.¹ The tariff excluded products of international brands (trade marks) produced in these two countries. The decision seemed not well thought because the tariff released some international brand products, but other products of the same brands did not enjoy such relief.² Fifteen days later, the Government strengthened the measure by increasing the tariff to 100%. In addition, the Government forced the Kosovo Customs to prohibit the entrance into Kosovo with inscriptions that are not compliant with the official description in the Constitution of the Republic of Kosovo.³ This decision was taken one day after Kosovo's failure to ensure Interpol membership, which according to Kosovo Government came as a result of Serbia's campaign.⁴ The reason behind this decision was the continuous violation of the Central Europe Free Trade Agreement (CEFTA) by Serbia and Bosnia and Herzegovina against Kosovo, but also because "Serbia is also threatening the national security."⁵ One month later, on 28 December, the Government of Kosovo decided to also apply the 100% tax on international brands originating from Serbia and BIH.⁶

According to Kosovo Customs, on average the annual value of imports from Serbia reaches 400 million and from BIH around 80 million. Until 2017, Serbia led the list of countries from which Kosovo imported. In certain food categories, Kosovo imports up to 95% of the merchandise from Serbia.⁷ Considering the high level of Kosovo's dependability on import of goods with Serbian origin, the imposition of the 100% tariff represents a great impact on local consumption process and domestic production. Although the decision was expected to have a great economic impact, the Government of Kosovo has not presented any preliminary analyses on the effects of such tariff. Noting the economic and social significance of the tariff, GAP Institute analyzed the tariff's short-term economic effects. Specifically, this analysis evaluates the effects of the tariff on domestic production, consumption prices and trade.

To assess the impact on foreign trade, the analysis uses regular import and export data from the Kosovo Customs. For this reason, two comparative periods were used: before and after the 100% tax. The pre-tax period covers the months from November 2017 to March 2018, while the post-tax period covers the period November 2018-March 2019. Data related to food consumption prices are published by the Kosovo Statistics Agency (KSA). To measure the distance between the world index of food prices and Kosovo index of food prices the International Monetary Fund's (IMF) Primary Commodity Prices Index was used. The index was converted from dollar to euro prices, with the average currency exchange values published by the IMF. Data on turnover and employment by the processing industry were obtained from the Kosovo Tax Administration (ATK).

¹ Office of the Prime Minister of Kosovo. Decision 74. Source: <https://bit.ly/2FJHLMH>

² In this analysis, terms tariff, tax or protection measure have the same meaning and refer to the 100% tax.

³ Office of the Prime Minister of Kosovo. Decision 76. Source: <https://bit.ly/2FJHLMH>

⁴ Office of the Prime Minister of Kosovo, Statement of the Government of the Republic of Kosovo. Source: <http://bit.ly/30bRy5c>

⁵ Office of the Prime Minister of Kosovo, "Prime Minister Haradinaj: 100% measure against Serbia caused by the blockage of our country from enjoying its CEFTA granted rights." Source: <http://bit.ly/2H3SAr0>

⁶ Office of the Prime Minister of Kosovo, Decision 06/82, 28 December 2018, Source:

⁷ Ministry of Agriculture, Forestry and Rural Development. Analysis of Imports, Exports and Production of Cereal in Kosovo. Page 6. Source: <https://bit.ly/2DKYtc3>

2. Regulation of trade between Kosovo and Serbia 1999-2018

Since 1999, legal regulation of trade cooperation between Kosovo and Serbia changed a number of times. Legal regulation of the relation between the two countries can be divided in three periods:

- **1999-2008.** Being that Kosovo was part of the Federal Republic of Yugoslavia (FRY) until 1999, trade between Kosovo and Serbia was considered internal trade. The removal of the FRY administration from Kosovo marked the end of customs administration of Kosovo under that trade regime. Although Serbian administration left Kosovo in June 1999, UNMIK did not establish border custom controls until 3 September 1999. In the first year of its operation border customs were only placed in the border crossings with Albania and Macedonia, while no custom taxes were collected in the border crossings with Serbia and Montenegro, in order not to endanger the violation of Resolution 1244. Import taxes were set at 10%, with some exclusions on medicinal and agricultural products. Taxation of products from Montenegro and Serbia started in 2011, with the adoption of UNMIK Regulation on value added tax.⁸ However, import taxes were only collected for countries other than FRY, although Kosovo and FRY did not have a free trade agreement.⁹

In 2001, Serbia introduced the application of a 5% tax on its products exported to Kosovo. This tax was introduced as a consequence of the difference between the VAT and sales tax scales in Kosovo and Serbia and was annulled in 2005 after the laws were amended. On the other hand Kosovo exports to Serbia paid the full sales tax of 20%. Considering that products produced in Kosovo were considered local products for the Serbian state, only excise taxes were applicable with no custom taxes.¹⁰

- **2008-2011.** In July 2017, Kosovo and five other countries of Western Balkans become signatory parties to the Central Europe Free Trade Agreement (CEFTA). The ratification of this agreement was signed by UNMIK and UNMIK represented Kosovo in this agreement. CEFTA established a free trade zone which and, among other, abolished all custom taxes for import and export of goods.¹¹ Kosovo's representation by UNMIK was considered acceptable for Serbia, being that it respected Resolution 1244, hence Serbia continued to normally trade with Kosovo until the declaration of its independence. After the declaration of Kosovo's independence, in December 2008, Kosovo embarked on the replacement of custom stamps containing UNMIK symbols with those containing symbols of the Republic of Kosovo.¹² For this reason, Serbia and BIH blocked Kosovo exports for over two and a half years, until September 2011. To counter this decision of Serbia and BIH, Kosovo established reciprocity measures on 20 July 2011, namely two and a half years after its exports were blocked.¹³

⁸ International Alert, "Regulation of trade across conflicted areas", April 2015, Source: <http://bit.ly/2ApE83y>

⁹ World Bank, "Kosovo, FR Yugoslavia Medium – Term Public Expenditure", Source: <http://bit.ly/2Tamëa>

¹⁰ Predrag Bjelic, "Trade Between Kosovo and Serbia", April 2015, Source: <http://bit.ly/2ApE83y>

¹¹ CEFTA, Annex 1 to the agreement on amendment of and accession to the Central European Free Trade Agreement, Articles 1 and 8, Source: <http://bit.ly/2C4ILIV>

¹² GAP Institute, "Kosovo in CEFTA: to be, or not to be?", March 2011, Source: <http://bit.ly/2EIXbyP>

¹³ International Alert, "Regulation of trade across conflicted areas", April 2015, Source: <http://bit.ly/2ApE83y>

- **2011-2018.** In March 2011, the technical dialogue between Kosovo and Serbia commenced, and regulation of the movement of goods was one of the topics up for discussion.¹⁴ Through this dialogue, on 2 February 2011, Serbia acknowledged Kosovo custom stamps with the sign “Kosovo Customs”. Recognition of said stamps by Serbia resolved the trade problem between Kosovo and Serbia, and the blockage was removed on 15 September of that year.¹⁵
- **November 2018.** Kosovo Government imposes a 10% tax on products originating in Serbia. Two weeks later, the tariff is increased to 100% and continues to remain in force on the date of this report.

3. Does the tax violate the CEFTA agreement?

CEFTA was signed in 1992 and its implementation started in 1994. Initially, member states of this agreement were Poland, Hungary, Czech Republic and Slovak Republic. The purpose of the agreement was to mobilize common efforts for EU membership through free trade between said countries.¹⁶ Upon EU accession, EU members left the agreement, with its current members being: Kosovo, Serbia, Montenegro, Bosnia and Herzegovina, Moldova and Albania. Other than the obligation to terminate custom tariffs, the agreement’s objectives include:

- Elimination of barriers and facilitation of free movement of goods in transit;
- Provision of conditions for equal competition in products with trade impact;
- Provision of assistance to members in the process of European Union integration;
- Advancement of conditions for the promotion of investments, including foreign direct investments¹⁷

Commitment to implement this agreement by Kosovo is stipulated in its Stabilization Association Agreement, signed with the EU.¹⁸

The agreement’s signatory parties are also bound to undertake all measures to fulfill obligations and accomplish the objectives set in the agreement. Also, parties shall strive to resolve all disagreements in cooperation or through the Joint Committee. Said committee comprises representatives of all member states and oversees and administers the implementation of the agreement. The Committee deliberates and decides on issues related to cases regulated in the agreement, and gives

¹⁴ Office of the Prime Minister: “Deputy Prime Minister Edita Tahiri: No agreement reached in the first round of dialogue between Kosovo and Serbia, but there is progress in discussed topics,” Source: <http://bit.ly/2PduSfy>

¹⁵ European Union, “Press statement EU facilitated dialogue: Agreement on Customs Stamps and Cadaster”, Source: <http://bit.ly/2IrRZ5K>, 2 September 2011

¹⁶ CEFTA, “History of CEFTA”, Source: <http://bit.ly/2vc8dHs>

¹⁷ CEFTA, Annex 1 to the agreement on amendment of and accession to the Central European Free Trade Agreement, Articles 1 and 8, Source: <http://bit.ly/2C4ILIV>

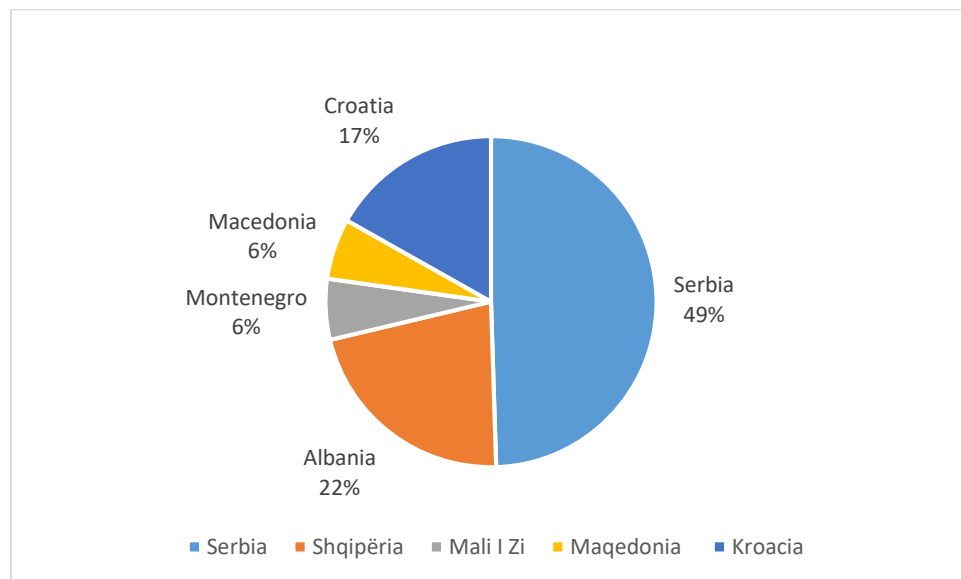
¹⁸ Office Gazette of the Republic of Kosovo, Law No. 05/L-069 on Ratification of the Stabilization-Association Agreement between the Republic of Kosovo on one side, and the European Union and European Atomic Energy Community, on the other.

recommendations on other matters.¹⁹ In the event that parties are unable to resolve matters through this committee within 90 days, they may recourse to arbitration.²⁰

However, there are certain situations in which obligations under the CEFTA agreement can be waived by member states. According to Article 18, item 2C of the agreement “nothing in this agreement prohibits parties from taking measures considered necessary to protect national interest or implement national policies or international obligations taken in time of war or other international turmoil what comprise threat to war.” Considering that the Prime Minister of Serbia had threatened Kosovo with war in the event of establishment of the Kosovo Army, pursuant to this article, Kosovo is justifiably waiving CEFTA agreement obligations, including the application of custom taxes on products originating in Serbia.²¹

Serbia violated the CEFTA agreement in its relation with Kosovo, by imposing non-tariff barriers. Article 13 of the agreement envisages removal of trade barriers between member states. According to a report of the Ministry of Trade and Industry of Kosovo, most common trade barriers reported from Kosovo businesses (around half of the barriers) pertain to export of products in Serbia (image 1). According to this report, Kosovo businesses also have problems with custom procedures, technical trade barriers, certificates and bureaucracy. Also, it was reported that local producers are harmed from agricultural and industrial products imported from Serbia under price ‘dumping’ arrangements.²² The latter practice is also in contradiction with CEFTA objectives.²³

IMAGE 1. TRADE BARRIERS, BY COUNTRY



Source: Ministry of Trade and Industry

¹⁹ CEFTA, Article 40,

²⁰ Ibid, Article 43

²¹ Deutsche Welle, “Kosovo wants an army, Serbia threatens”, accessed on 7 May 2019, Source: <http://bit.ly/2H7EGWd>

²² Dumping policies refer to cases when one country exports a product with a lower price to a foreign importing market (e.g. Kosovo) than the price in the exporter’s internal market (e.g. Serbia).

²³ Ministry of Trade and Industry, “Trade Barriers, trade facilitation as means for their elimination,” April 2018, Source: <http://bit.ly/2VdJmS>

Different studies show that when trade agreements are in place, countries use non-tariff measures to protect domestic products competing with imported goods.²⁴ Empiric studies show that such measures negatively impact trade exchange, especially of exports of developing countries.²⁵ This because they increase the cost of production and this comprises a hindrance for export, especially for smaller firms. Hence, non-tariff measures in the category of sanitary and phytosanitary services diminish the export potential of a given firm by 4%, and decrease the number of exporting firms by 8%. Also, said barriers increase the possibility of a firm abandoning an export market by 2%. On the other hand, firms that continue to export increase their prices by 6-9%, while their sales may decrease by up to 43%.²⁶ All these findings suggest that the harm caused to Kosovo businesses by the numerous Serbian trade barriers imposed on Kosovo could be greater than the benefit from the removal of tariffs under the CEFTA agreement.

4. Impact of the 100% tax on trade

Each year Kosovo imports 400 million euro worth of goods from Serbia and around 80 million euro worth of goods from Bosnia and Herzegovina. Together, imports from these two countries comprise around 17% of the overall Kosovo imports. After the imposition of the 100% tax on products originating in Serbia and BIH, import of goods from these two countries fell drastically by around 90%. However, despite this, latest data from Kosovo Customs show that the trade deficit increased by 5.4%. From November 2018 when the tax was imposed to March 2019, total imports reached 77 million euro, which is 6.4% higher than the amount imported in the same months one year earlier.

4.1 Imports from Serbia

Kosovo's trade with Serbia is at a higher level than with any other country, in terms of both import and export. Up to 2017, products of Serbian origin had the highest participation in Kosovo's overall export. For years domestic products were insufficient to fulfill all internal consumption needs. As a result, Kosovo continues to have a high level of dependability on import of food products. Table 1 describes the categories in which Kosovo is more dependent on Serbian goods.

²⁴ Claustre Bajona and Josh Ederington, "Domestic Policies, Hidden Protection and the GATT/WTO", 2009

²⁵ Disdier et al. (2008), "The impact of regulations on agricultural trade: evidence from the SPS and TBT agreements", *Amer. J. Agr. Econ.* 90(2)

²⁶ Fontagne et al., "Product Standards and Margins of Trade: Firm Level Evidence", *Journal of International Economics*

TABLE 1. KOSOVO'S DEPENDABILITY ON IMPORTS FROM SERBIA IN 2017, BY PERCENTAGE

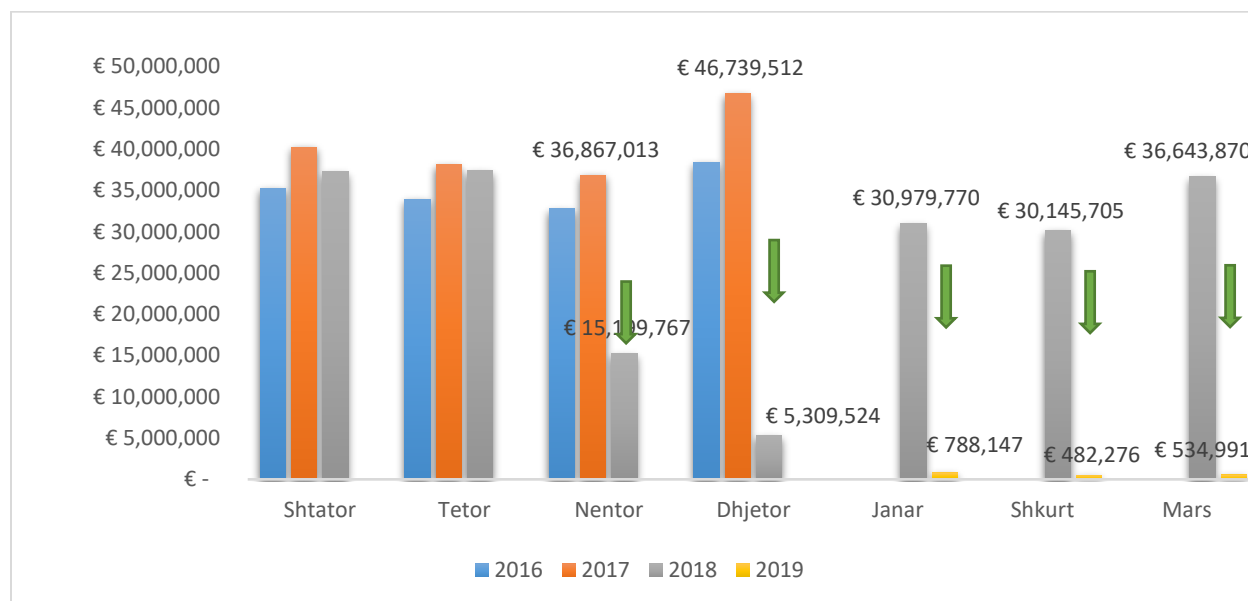
Chapter	Description	Total Kosovo imports	Imports from Serbia	Serbia's participation in overall imports
No. 10	Cereal	€31,697,476	€26,280,498	83%
No. 23	Remains and returns from food industries, animal food	€18,735,977	€11,644,703	62%
No. 22	Beverages, alcohols and vinegars	€75,150,175	€41,016,016	55%
No. 15	Animal or plant oil and fat	€27,903,307	€14,495,162	52%
No. 17	Sweets and sugars	€35,316,122	€20,910,653	59%
No. 01	Live animals	€10,873,269	€ 7,535,299	69%
No. 74	Copper and copper materials	€8,551,992	€ 4,762,112	56%
No. 32	Paint and tan extracts	€34,130,744	€10,135,005	30%
No. 48	Paper and cardboard	€40,894,464	€13,299,232	33%
No. 11	Molar industry products; malt; starch	€10,821,558	€6,353,649	59%
No. 34	Soap, organic agents	€34,889,832	€7,780,886	22%
No. 31	Fertilizers	€15,953,774	€1,741,110	11%

Source: GAP Institute, based on data from Kosovo Customs

One of the essential products imported from Serbia in large quantities is cereals. In 2017, Kosovo imported overall 31.6 million euro worth of cereals, of which 83% came from Serbia (Annex 1). There is a significant dependence in other categories as well, including meat, food remains used as animal food, alcoholic and non-alcoholic beverages, different oils and sweets.

After the introduction of the tax, within five months imports from Serbia decreased by 88%, or by 160 million euro less than the same months of the previous year. Image 2 presents the decreasing trend of imports by month.

IMAGE 2 TOTAL VALUE OF GOODS IMPORTED FROM SERBIA IN MONTHS BEFORE AND AFTER THE TAX



Source: GAP Institute, based on data from Kosovo Customs

After the introduction of the tax in November 2018 there is a noticeable decrease of imports from Serbia, which continued in the following months as well. In the first month after the introduction of the 10% tax, there was a slight decrease of imports. Upon increase of the tax to 100%, there is a more visible impact on the imports of December 2018, which decreased by 90% (41 million euro) compared to those of December 2017.

Customs data show that upon tax introduction, the import of products in which Serbia had a higher participation was vastly replaced with import from other countries. Table 2 shows that after the introduction of the tax, import of cereals continued relatively on the same level. Diminished imports from Serbia were replaced with imports from other countries of the region. Biggest beneficiaries in this category were Bulgaria and Croatia, with imports from these countries growing by over 2,000%. There are grounded suspicions that unlabeled Serbian products, such as cereals, are being registered and subsequently imported from other countries of the region, such as Bulgaria, Croatia, North Macedonia and Albania²⁷. Such actions harm domestic customers, as the same products continue to be imported, but at a higher cost, due to increased transport expenses.

²⁷ Minister of Trade, Tourism and Telecommunications in the Government of Serbia, Rasim Ljajic. Source: <https://bit.ly/2J0E9Yd>

TABLE 2. IMPORT OF PRODUCTS WITH HIGH DEPENDABILITY FROM SERBIA, BEFORE AND AFTER THE TAX AND REPLACEMENT OF THE IMPORT ORIGINS

Chapter	Description	Pre-tax (November 2017-March 2018)	Post-tax (November 2018-March 2019)	Change	Post-tax replacement of the import origin 100%	
No. 10	Cereals	€14,358,962	€14,123,620	-1.6%	Serbia - 87%	Bulgaria+24933%, Croatia +2078%
No. 23	Remains and returns from food industries, animal food	€7,910,667	€6,229,507	-21.3%	Serbia - 88%	North Mac.+468%, Bulgaria +308%
No. 22	Beverages, alcohols and vinegars	€25,291,480	€25,675,950	1.5%	Serbia - 50%	North Mac.+282%, Albania + 34%
No. 15	Animal or plant oil and fat	€12,568,222	€10,578,943	-15.8%	Serbia -90%	Croatia +522%, North Mac.+398%
No. 17	Sweets and sugars	€11,514,877	€10,714,179	-7.0%	Serbia -91%	France +4256%, Poland +765%
No. 01	Live animals	€5,029,070	€8,697,122	72.9%	Serbia -97%	Romania +16030%, Czech R.+974%
No. 74	Copper and copper materials	€3,104,677	€3,444,164	10.9%	Serbia -91%	Bulgaria +2193%, Turkey 923%
No. 32	Paint and tan extracts	€8,859,662	€9,438,312	6.5%	Serbia -87%	Turkey +65%, Albania +64%
No. 48	Paper and cardboard	€15,947,154	€17,161,484	7.6%	Serbia -84%	Albania + 221, North Mac.121%
No. 11	Molar industry products; malt; starch	€3,221,844	€4,190,976	30.1%	Serbia -89%	North Mac. +8065%, Albania +289%
No. 34	Soap, organic agents	€13,982,377	€12,437,011	-11.1%	Serbia -92%	Italy +48%, Poland +27%
No. 31	Fertilizers	€7,143,351	€5,989,174	-16.2%	Serbia -94 %	Hungary +438%, Greece +149%

Source: GAP Institute based on data from Kosovo Customs

Despite the high tariff, a small number of products continue to be imported from Serbia. Some of the most imported products after the tax are alcoholic and non-alcoholic beverages, electricity, gas, petroleum products, various chemical and construction materials. Such products seem to be more difficult to replace.

For some months after the introduction of the tariff there was no visible lack of Serbian products among retailers. This because trade companies claimed to have sufficient stock to supply retail shops with

Serbian products for some months, while on the other hand upon placement of flags²⁸, consumers started consuming less Serbian products anyway.²⁹ Doubts on whether the existing products on retailers' shelves are a result of extended stock or contraband will be clarified in the following months when all claimed remaining stock should be depleted.

4.2 Imports from Bosnia and Herzegovina (BIH)

Bosnia and Herzegovina is another important trade partner for Kosovo. However, compared to Serbia, Kosovo is less dependent on imports from BIH. In 2018, products originating in BIH participated in Kosovo imports with around 2%. Table 3 presents categories in which Kosovo has a significant dependency on goods originating in BIH.

TABLE 3. KOSOVO'S DEPENDABILITY ON IMPORTS FROM BIH IN 2017, BY PERCENTAGE

Chapter	Description	Total Kosovo imports	Imports from BIH	BIH participation in total imports
No. 72	Steel and iron	€161,765,124	€32,224,618	20%
No. 16	Foods prepared from meat, fish or crustaceans	€27,338,391	€7,668,988	28%
No. 4	Dairy products, eggs, natural honey	€44,978,449	€5,580,550	12%
No. 44	Wood and wood articles, wood coal	€76,614,613	€6,183,841	8%
No. 30	Pharmaceutical products	€66,369,649	€2,935,223	4.4%

Source: GAP Institute, based on data from Kosovo Customs

Although Kosovo's dependency on BIH imports is relatively small, products imported from this country are of great significance for three rather competitive sectors in Kosovo: construction, dairy production and wood processing³⁰. To date, steel and iron are the products imported most from BIH. This because, BIH is home to 'ArcelorMittal', one of the largest global companies for steel and iron exports. Therefore, tariffs in these products may increase prices in Kosovo's construction sector, especially once the construction season gets under way. For example, the price of steel tin imported in

²⁸ Administrative Instruction on the definition of the form, contents and utilization of the product origin flag. Source: <https://bit.ly/2EtUFTQ>

²⁹ Interview with the general manager of one of the retail shop networks

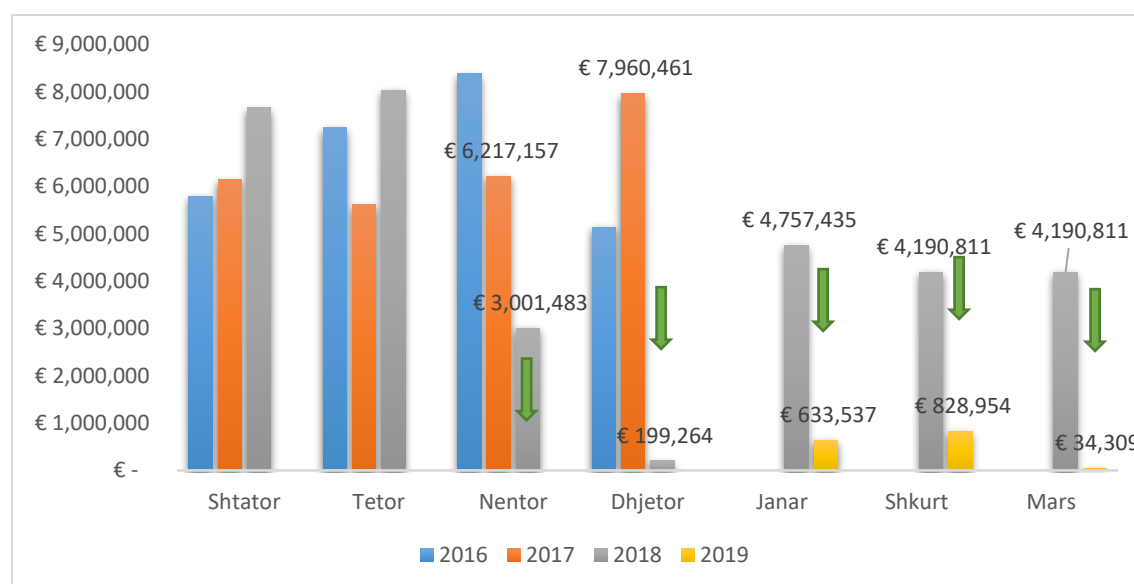
³⁰ Ministry of Trade and Industry – Potential Export Markets. Source: <https://bit.ly/2IFfëAg>

the period January – March 2018 is 0.84 euro per net weight, while the price for the same period of 2019 was 1.20 euro (increased by 44%)³¹.

Two other important sectors for Kosovo's economy are the dairy and wood processing sectors. In recent years, Kosovo has increased its regional competitiveness in these two sectors. Thus, lack of imports, or increase in the price of imports in these products as a consequence of the tariff, would provide an opportunity to domestic producers to expand their market.

Within five months after the imposition of the tax, imports from BIH diminished by 83%, or 24 million euro. Image 3 presents the decreasing trend, compared to the same months of the previous year.

IMAGE 3 TOTAL VALUE OF GOODS IMPORTED FROM BIH BEFORE AND AFTER THE TAX



Source: GAP Institute, based on data from Kosovo Customs

One small quantity of food products made from meat and dairy continue to be imported from BIH even after the tax is imposed. On the other hand, the quantity not imported from BIH is purchased from other countries. Market orientation from BIH to other countries is presented in Table 4. The most important category is that of steel and iron, in which BIH lost 93% of the market, when compared to the same months before the tax was imposed. The market lost by BIH was replaced by imports mostly from Turkey and Greece.

On the other hand, the import of dairy products was expected to be lower after the tax, and the lack to be replaced with domestic production. However, data from the Customs show that although import of

³¹ Comparison of GAP Institute, based on data from Kosovo Customs.

such products from BIH diminished by 80%, the value of imports in this sector has increased by 7.3% after the orientation of the market towards Croatia and Poland.

TABLE 4. IMPORT OF PRODUCTS WITH GREAT DEPENDABILITY FROM BIH BEFORE AND AFTER TAX, AND REPLACEMENT OF THE IMPORT ORIGIN

Chapter	Description	Before tax (November 2017-March 2018)	After tax (November 2018- March2019)	Difference	Replacement of origin after 100% tax	
No. 72	Steel and iron	€76,221,273	€75,492,965	-1.0%	BIH -93%	Turkey +642%, Greece +259%
No. 16	Foods prepared from meat, fish or crustaceans	€9,784,421	€9,855,083	0.7%	BIH -37%	Germany +115%
No. 04	Dairy products, eggs, natural honey	€18,043,063	€19,354,671	7.3%	BIH -80%	Croatia +132%, Poland 60%
No. 44	Wood and wood articles, wood coal	€24,939,564	€24,537,737	-1.6%	BIH -86%	Bulgaria +541%, Romania +67%
No. 30	Steel and iron	€30,754,108	€29,734,290	-3.3%	BIH -89%	Finland +117098%, Denmark +177%

Source: GAP Institute, based on data from the Kosovo Customs

Trade data show that despite the risk Kosovo faces in terms of high dependability on imports from Serbia and BIH, trade companies managed to replace the countries of origin of imports within a short time. This shows that Kosovo is flexible as regards provision of goods from other countries of the region, despite the fact that this is often accompanied with a higher cost.

Table 5 presents greatest losers and beneficiaries of the 100% tax. This table includes all import sectors. Data shows that within five months of entry into force of the tax, some 160 million euro less were imported from Serbia and 24 million euro less from BIH, when compared to the same period of the previous year. The measure benefitted countries like Slovenia, which had an increase of exports towards Kosovo of 125% (34.3 million euro), Israel with 659% (17.4 million euro) and Turkey with 34% (37.2 million euro).

TABLE 5. IMPORT OF PRODUCTS WITH GREAT DEPENDABILITY FROM BIH BEFORE AND AFTER TAX, AND REPLACEMENT OF THE IMPORT ORIGIN

Origin	Before tax (November 2017- March 2018)	After tax (November 2018- March 2019)	Difference in %	Difference
Serbia	€181,375,871	€22,314,705	-88%	€ - 159,061,165
BIH	€28,448,999	€4,697,547	-83%	€ - 23,751,452
Israel	€2,644,890	€20,081,039	659%	€ 17,436,149
Slovenia	€27,386,150	€61,754,120	125%	€ 34,367,970
Turkey	€108,587,640	€145,814,624	34%	€ 37,226,985
North Mac.	€56,821,247	€80,039,038	41%	€ 23,217,790
Albania	€52,515,508	€79,172,638	51%	€ 26,657,130
Greece	€47,824,186	€71,642,372	50%	€ 23,818,187
China	€113,649,300	€130,827,631	15%	€ 17,178,331
Hungary	€13,247,468	€20,837,398	57%	€ 7,589,930
Bulgaria	€26,739,799	€36,341,455	36%	€ 9,601,656
France	€17,651,002	€25,478,951	44%	€ 7,827,950

Source: GAP Institute, based on data from the Kosovo Customs

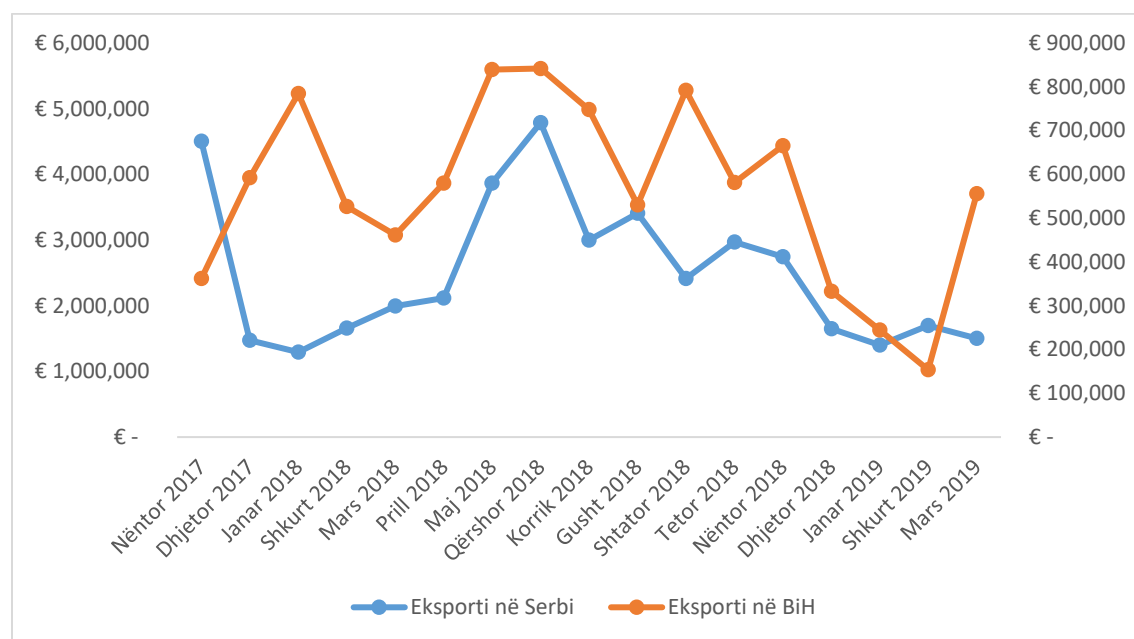
4.3 Export

Despite the numerous non-tariff barriers Kosovo continues to face in years, Serbia and BIH continue to remain important partners to Kosovo in terms of exports. In 2018, these two countries were the destination of around 40 million euros of Kosovo exports. 10% of Kosovo exports are destined to Serbia and 2.3 to BIH.

The introduction of the 100% tax was thought to start a new trade war that will make the export of Kosovo products even more difficult. However, data of the Kosovo Customs and Ministry of Trade and Industry (MTI) show that no such phenomenon is occurring. Other than the non-tariff barriers that Serbia and BIH have placed for Kosovo exporters, there is no other intensification of difficulties for them since the imposition of the tax. Image 4 presents the export of Kosovo goods destined to Serbia and BIH. Data reveal no decrease of exports in the months since the imposition of the tax. Also, the

department of trade in MTI confirmed that there were no additional complains from Kosovo exporters regarding any added barriers from Serbia and BIH during the period covered by the added tax.³²

IMAGE 4. DATA ON EXPORT TO SERBIA AND BIH IN 2017 AND 2018



Source: GAP Institute, based on data from the Kosovo Customs

5. Impact on domestic production

Considering that Kosovo has a high degree of dependability on food products and raw materials imported from Serbia and BiH, introduction of tariffs comprised a risk for certain companies importing raw materials from these countries and an opportunity for others that were competitors of Serbian and Bosnian products.

Data from Kosovo Customs, presented in tables 2 and 4 above, show that almost the same value of products continue to be imported after the tax as well, leaving not much space for domestic production. The main difference lies in the change of import origins, and in most cases in higher prices. The import of live animals is an example of Kosovo's high dependency on imports from Serbia (69%). However, table 6 shows that after the introduction of the tax, the weight of different live animal types imported is actually higher than before the tax. The origin of imports changed from Serbia to Czech Republic and Romania (Table 2). Another competitive product is construction materials. During January-March 2018, 83.6 million euro worth of net steel and iron were imported, while in the same period of 2019 imports reached 88 million.

³² Meeting with Sytrime Dervisholli - MTI, 19 April 2019.

TABLE 6. WEIGHT OF LIVE ANIMALS IMPORTED IN THE MONTHS BEFORE (NOVEMBER-2017-MARCH 2018) AND AFTER (NOVEMBER 2018-MARCH 2019) THE TAX

Imports	Weight imported before the tax	Weight imported after the tax	Difference
Heifers for reproduction	88,220	235,190	167%
Cattle for slaughter	186,530	296,765	59%
Heifers for slaughter	67,466	61,697	-9%
Cows for slaughter	760,643	805,920	6%
Bulls, calves for slaughter	1,156,948	1,741,837	51%
Other	14,041	12,309	-12%

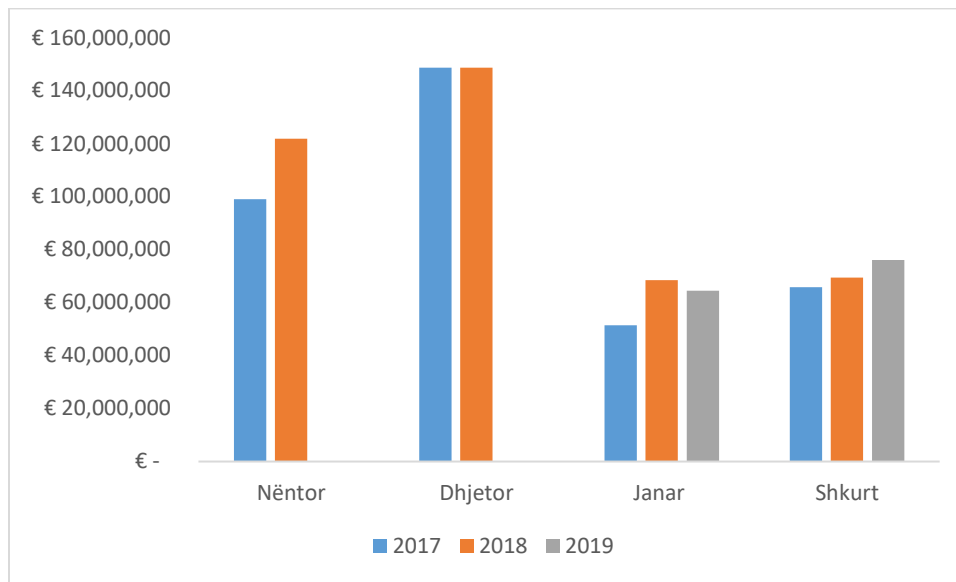
Source: GAP Institute, based on data from the Kosovo Customs

According to the Kosovo Statistics Agency, in comparison to the previous year, the volume of production industries in the last three months of 2018 decreased by 3.6%, while the number of employees diminished by 2.6%.³³ In lack of data on industrial production in the first quarter of 2019, we analyzed data of the Kosovo Tax Administration regarding declaration of turnover and number of employees. Therefore, it should be born in mind that said data do not include informal business activities.

As regards turnover statements, we see that in December 2018, when the tariff for imports from Serbia and BIH was applicable, the processing industry declared an almost similar level of business activity in comparison to the same period of the previous year, while in November, when the tax was only 10%, this industry declared a 23% increase of turnover, in comparison to December of the previous year. In the period January – February 2018 (period with no protection measure), businesses declared a 18% turnover increase compared to the same period of the preceding year, while in January-February 2019 (period with protection measure), the declared turnover increased by only 2%.

³³ Kosovo Statistics Agency, “Short-term industry statistics, Q4 2018”, Source: <http://bit.ly/2PëRFDë>

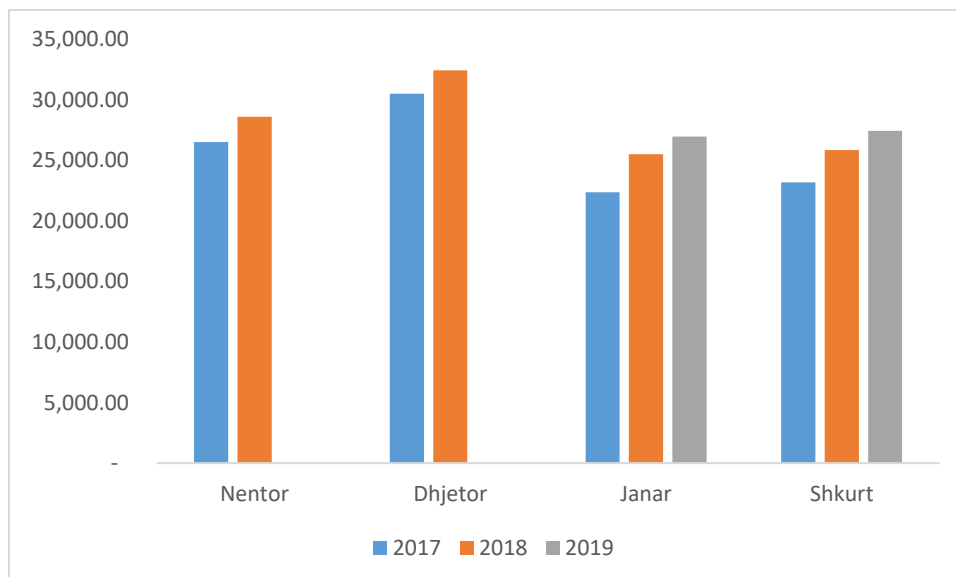
IMAGE 5. TURNOVER STATEMENT IN PROCESSING INDUSTRIES



Source: Kosovo Tax Administration

In terms of the number of employees, there was a normal incremental trend and there seems to be no effect in accelerated generation of new jobs. For example, in January-February 2018 (period with no protection measure), businesses declared an increase of 13% in terms of the number of employees (compared to the preceding year), while in January-February 2019 (period with protection measure) the number of employees increased by only 6% in compared to the previous year.

IMAGE 6. NUMBER OF EMPLOYEES REGISTERED IN KTA



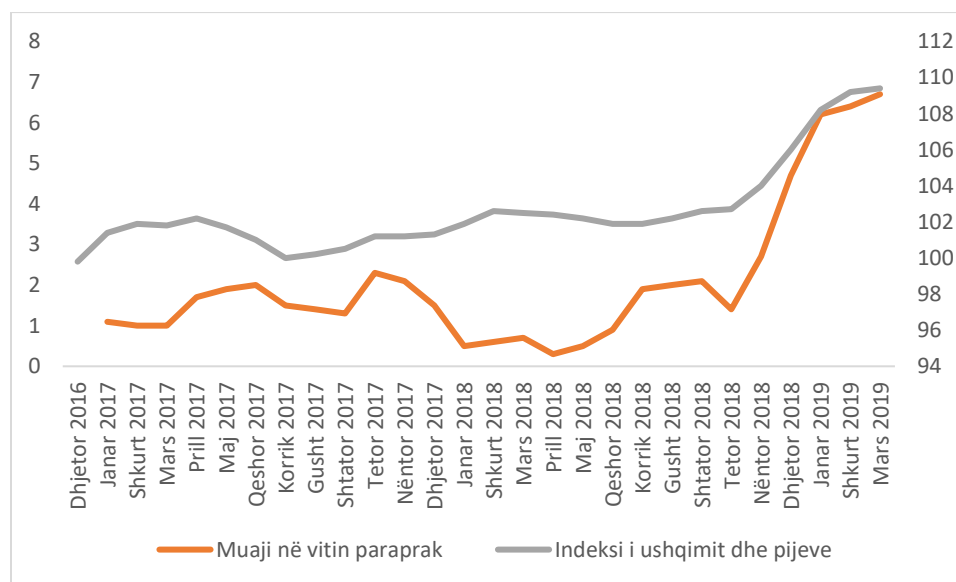
Source: Kosovo Tax Administration

6. Effects of the excise in food and non-alcoholic beverage consumption prices

In 2018, prices in Kosovo marked the highest increase among countries of the region.³⁴ Considering that most imports from Serbia are food products, below we analyzed if the tax affected an increase of food prices in Kosovo. Also, food and beverages comprise the main cost of Kosovar families – namely 40% of their expenses.³⁵ Increased prices in this consumption category are especially problematic for families in social assistance, which spend almost their entire family budgets on food and can therefore deepen poverty.

Analyzing prices in the period January 2017 – March 2019, as presented in image 7, it is visible that from November, when the tariff protection measure of 10% for products originating in Serbia was introduced, the food index reached the highest value in the last two years. On average, food prices were 5.3% higher in the period covered by the applicable tax (November – March 2019) than in the same period of the preceding year. In lack of replacement products for certain domestically produced goods, local producers have increased their prices upon introduction of the 100% tax.³⁶ Other reasons that may affect increased prices include higher cost of raw materials and increased cost of imported products.

IMAGE 7. INDEX OF PRICES OF FOOD AND NON-ALCOHOLIC BEVERAGES IN KOSOVO



Source: Kosovo Statistics Agency

Increased prices may have been a consequence of increased prices of food in international markets or increased prices of petroleum. For this reason, we measured the difference between price and beverage indexes in the world and in Kosovo. This indicator has similarly reached the highest point in December 2019, which suggests that the tax can be one of the reasons for an accelerated increase of consumption

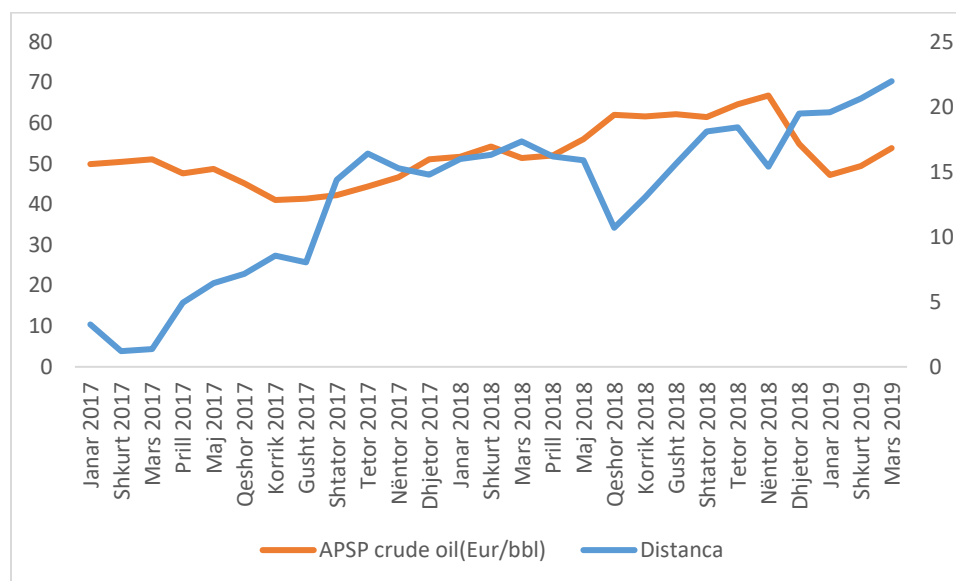
³⁴ World Bank, “Western Balkans Regular Economic Report No.15: Reform Momentum Needed”, Source: <http://bit.ly/2XIRrfj>

³⁵ Kosovo Statistics Agency, “Results of the Survey of Family Budgets 2017”: Source: <http://bit.ly/2E5qUBF>

³⁶ Interview with the general manager of one of the retail shop networks in Kosovo, April 2019

prices in Kosovo. Also, petroleum price trends seem not to be the factor that can explain this indicator's incremental trend, bearing in mind that in the preceding months (May 2018 – January 2019) we had periods with higher petroleum prices that did not result in such a high difference.

IMAGE 8. DIFFERENCE BETWEEN FOOD AND BEVERAGE PRICES GLOBALLY AND IN KOSOVO



Source: GAP Institute calculation based on data of the International Monetary Fund and Kosovo Statistics Agency

7. Conclusion

Since 2008, when Kosovo declared its independence, Kosovo and Serbia have had a tense trade and political relationship. Although the issue of border management and annulment of trade tariffs, trade between Kosovo and Serbia continues to face non-tariff barriers and obstacles and is characterized by political tensions. With the execution of CEFTA agreement, Kosovo has taken on itself obligations to annul trade tariffs, however, due to the threat of war by Serbia to Kosovo, the agreement does not prohibit Kosovo from taking any measures to preserve its national interest, including the imposition of new tariffs.

Since the introduction of protection measures (November 2018 – March 2019), imports from Serbia and BIH have drastically decreased. Despite decreased imports from these two countries, Kosovo's trade deficit has increased. Data from the Customs show that similar values continue to be imported, replacing merely the country of origin from Serbia and BIH to other countries, leaving very little space for replacing imported products with domestic production. Data does not show any accelerated increase of the processing industry in Kosovo, in terms of either production or generation of new employment. All this leads to the understanding that domestic producers have not managed to utilize the envisaged opportunities provided by the tax. On the other hand, greatest trade beneficiaries during this period seem to be countries like Slovenia, Israel and Turkey.

As regards the impact on consumption prices, the tariff may have significantly increased consumption prices of food, which comprises the main expenditure in the Kosovars' consumer basket. Taking this

into consideration, maintaining this tax for a longer period may effect increased poverty. Some of the reasons that may have affected increased food product prices include: lack of competition for certain products, increased cost of raw materials for domestic businesses and increased cost of transport and prices of imported goods.

On the other hand, the 100% tax does not resolve trade problems with non-tariff barriers faced by Kosovo businesses exporting to Serbia. Empiric studies show that these barriers can become greater obstacles than tariff barriers which were annulled with entry into force of CEFTA. For this reason, other analyses have to be made to review whether Kosovo is economically benefitting from this agreement in terms of its relation with Serbia. Since the commitment to implement CEFTA is now enshrined in the Stabilization Association Agreement signed between Kosovo and the European Union, there is an opportunity to renegotiate the agreement with other member states.



GAP Institute is a Think Tank established in October 2007 in Kosovo. GAP's main goal is to attract professionals to create an environment of professional development and research, as seen in similar institutions in Western countries. This also provides Kosovars with opportunities to research, develop and implement projects in order to advance the Kosovo society. Priority for this Institute is the mobilization of professionals to address the country's economic, political and social challenges. GAP's main goals are to fill the gaps between government and citizens, and between problems and solutions.

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