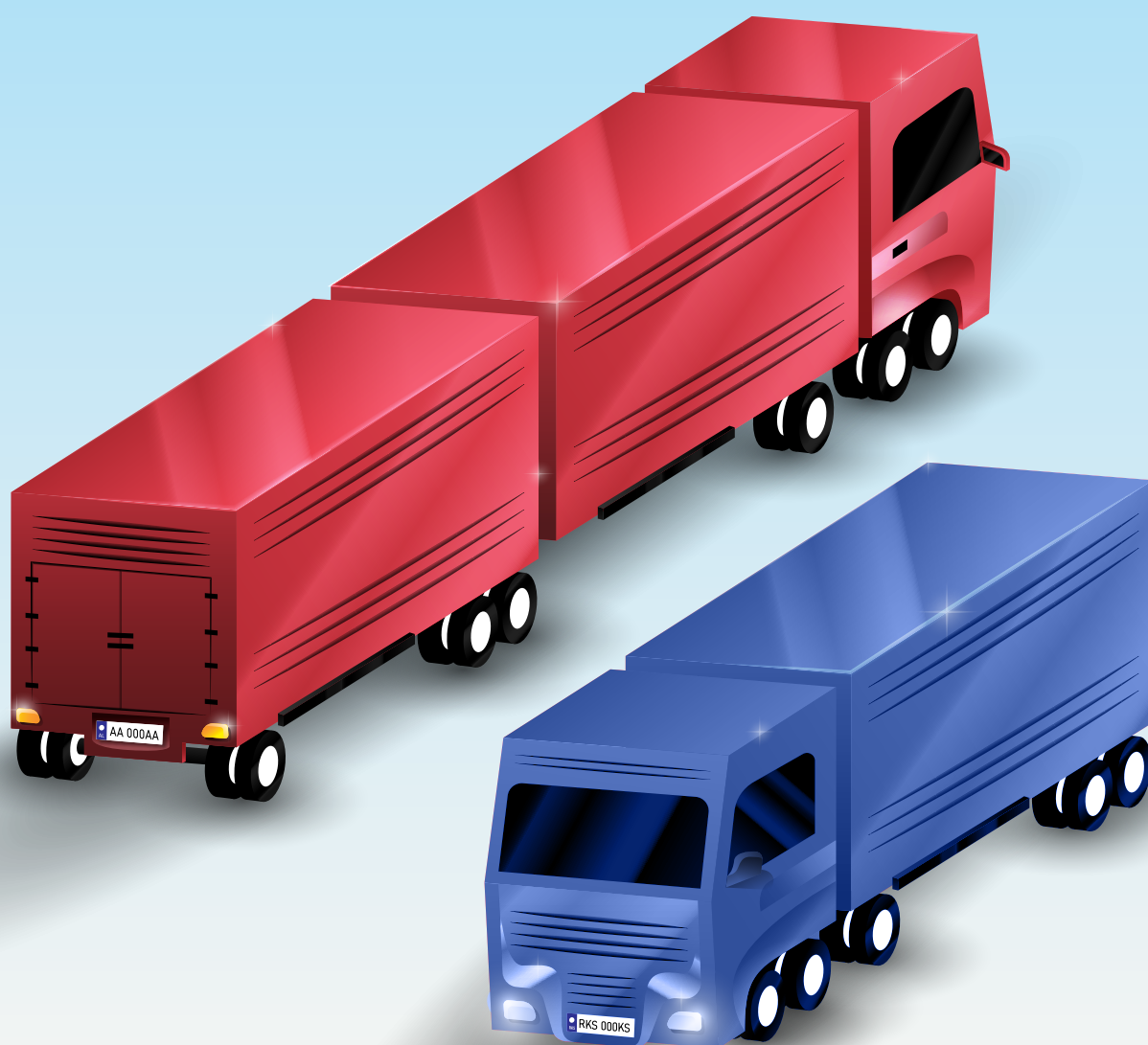


POLICY MEMO

Trade agreements and barriers between Kosovo and Albania



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POLICY MEMO

Trade agreements and barriers between Kosovo and Albania

Albania and Kosovo are important trading partners to each other. For Kosovo, Albania tops in exports and comes fifth in terms of imports. Albania is important for Kosovo also because more than a third of products traded in Kosovo transit through it. On the other hand, Kosovo is also an important partner for Albania, being the only country with which it has a trade surplus. Despite a growing trade exchange and efforts to deepen economic cooperation through numerous agreements, the potential to further increase trade exchanges for both countries remains untapped, and trade barriers are still hampering economic integration between them.

The aim of the two studies conducted in this framework by **GAP Institute** and **Riinvest Institute for Developmental Research** for Kosovo, respectively, as well as by and for **Albanian Center for Competitiveness and International Trade (ACIT)** Albania, is to promote and accelerate economic and trade integration between Albania and Kosovo, raise the awareness of policy-makers, institutions and the business community involved in the process of eliminating the existing trade barriers, on the untapped potential and priority areas.¹ For this purpose, studies were focused in several aspects, including: a) a statistical analysis of trade data between the two countries, and an in-depth study of untapped trade potentials; b) ;

b) identification of trade barriers based on findings from interviews with representatives of businesses, as well as in-depth interviews with representatives of institutions involved in drafting and monitoring policies for encouraging economic cooperation between the countries; c) an in-depth monitoring of the level of implementation of bilateral agreements between Albania and Kosovo. In addition, the studies include a series of concrete recommendations to facilitate the development of trade and economic integration between the two countries, which are summarized at the end of this document.

This document summarizes the findings and recommendations of both studies, integrating the perspectives of both Albania and Kosovo. These studies are part of the project “**Albania - Kosovo, Deconstruction of the idea of unification through joint regional initiatives**”. This project was initiated and financially supported by **Open Society Foundation for Albania (OSFA)** and **Kosovo Foundation for Open Society (KFOS)**.

¹ Find the study from the perspective of Kosovo here: <https://bit.ly/2VGkgcS>, and the Albanian perspective here: <https://bit.ly/2VNASzh>

Trade and untapped potential

Despite an increase in trade flows and economic cooperation between the two countries in the last ten years, the two economies exhibit structural weaknesses which hamper the utilization of the goods exchange potential. One of the main problems is the high concentration of trade, where only 4 product groups hold over 80% of trade flows between the two countries. This has also proven to be unsustainable over time, undermining the competitiveness of economies and investments.

Between the categories that are traded, there is great untapped potential due to disadvantageous costs and barriers. Thus, there is an opportunity to double the trade exchanges, in terms of Albania's potential to export to Kosovo in sectors such as agricultural processing and food industry, handicrafts, wood and glass products, plastic and metal processing, etc.

For Kosovo's exports to Albania, the two sectors with the highest potential for growth are manufacturing of goods and electricity supply. Production of base metals, food products, rubber and plastics, various metals, production of beverages, have the most indicative potential for higher export from Kosovo to Albania.

The potential is even greater and more sustainable for specialization of economic cooperation and increased competitiveness, through the consolidation of the value chain through cross-sector exchanges. Index values presented over the years indicate that cross-sector trade is systematically higher in wood, stone, plastics, beverages, vegetables and cereals products. There is untapped potential in this type of trade especially in areas such as agricultural processing, chemical and cosmetic industries, production of items with plastic and paper packaging, metal processing, etc.



The two sectors with the highest potential for growth are manufacturing of goods and electricity supply.

Identified issues

Economic operators conducting their trade between the two countries reported a significant number of trade barriers. Both countries face widespread corruption, low levels of education and industrial development, high informal economies, etc. The notable lack of trust, as ascertained by the relevant administrations, often creates blockages and delays in the development of trade. This is also reflected in the mutual non-recognition of some of the basic documentation and certifications that accompany the process. It should be noted that lack of trust was also reported between businesses in both countries. All of these factors are also barriers to trade. The main issues businesses face in exchanges between the two countries are shown below, in no particular order:

- Discriminatory excise duties on some products;
 - Failure to utilize the facilitated procedures for Kosovo exporters in the port of Durrës;
 - 22 Euro scanning fee in Durrës (about 2 million Euros per year, although the scanner is not in operation at the Kosovo Customs Office in the Port of Durrës);
 - Failure to publish reference prices and application of prices case by case;
 - Limitation as a result of not applying and benefiting from the rules of origin.
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- Corruption in relevant customs administrations;
 - High transport costs, also burdened by road tolls;
 - Requirements for notarization of phytosanitary documentation;
 - Customs clearance practices: duration and frequent and excessive inspections;
 - High scanning fees, parking fees, weighting, etc., all above effective costs;



The notable lack of trust, as ascertained by the relevant administrations, often creates blockages and delays in the development of trade.

Implementation of agreements

Although a series of agreements have been signed between the two countries, their implementation still faces significant issues and challenges. The political will, expressed occasionally by the two governments in joint meetings, has not been satisfactorily translated into concrete actions and significant facilitation of trade barriers, some of which have been identified above.

To measure the implementation of trade agreements signed by Kosovo and Albania, 53 concrete objectives/obligations arising from the Kosovo-Albania trade agreements have been identified. Based on the findings, 49% of these objectives have been fully achieved, 36% have been partially achieved, 9% have not been achieved at all, and no answer was obtained for three objectives.

The main partially implemented objectives are:

- Failure to hold regular technical level meetings as a result of the high dependence on the political level;
- Avoiding arbitrary prices;
- Dual procedures in the transit of products - weighing conducted in Albania does not

apply in Kosovo, etc.;

- Obligations in the field of harmonization of standards for food products;
- Cooperation in the field of laboratory accreditation;
- Harmonization of risk-based control legislation;
- Unification of documentation for products of non-animal origin;
- Avoiding dual controls;
- Inability to use the Port of Durrës by Kosovo Customs in terms of exports;
- Lack of transparency with the non-publication of information online.



49% of these objectives have been fully achieved, **36%** have been partially achieved, **9%** have not been achieved at all, and no answer was obtained for three objectives.

Recommendations

Many of the problems with the bilateral trade relations are related to an essential element of the state and governance, such as rule of law, contract enforcement, reduction of corruption, etc. In addition, taking into account the findings from the analysis and opinions of businesses, a number of concrete recommendations have been formulated by experts involved in the two studies. The proposals focus on specific issues as well as the strategic approach that the two governments will need to adopt to further develop trade and integrate the two countries economically. The main objectives of the recommendations are to ensure implementation of agreements, elimination of barriers and utilization of existing potentials. For this purpose, it is recommended as follows:

1. To establish a stable bilateral structure, with political and technical representation, with a clear mandate and obligation to monitor and accelerate the implementation of agreements, elimination of barriers and following other steps towards economic integration;
2. To draft a strategy and action plan for trade and economic integration, incorporating the existing and new agreements, to maintain coherence and maximize impact;
3. To sign new agreements for the harmonization of tax and excise legislation;
4. To eliminate the existing barriers for setting up and establishing businesses in both countries;
5. To establish joint instruments (such as the Joint Investment Fund), with the aim of supporting common development policies, especially in the sectors which consolidate the value chain, as well as in categories that have a competitive potential in the region and beyond.
6. To supplement the decision on the use of the Port of Durres by Kosovo Customs for export, rather than only imports.

