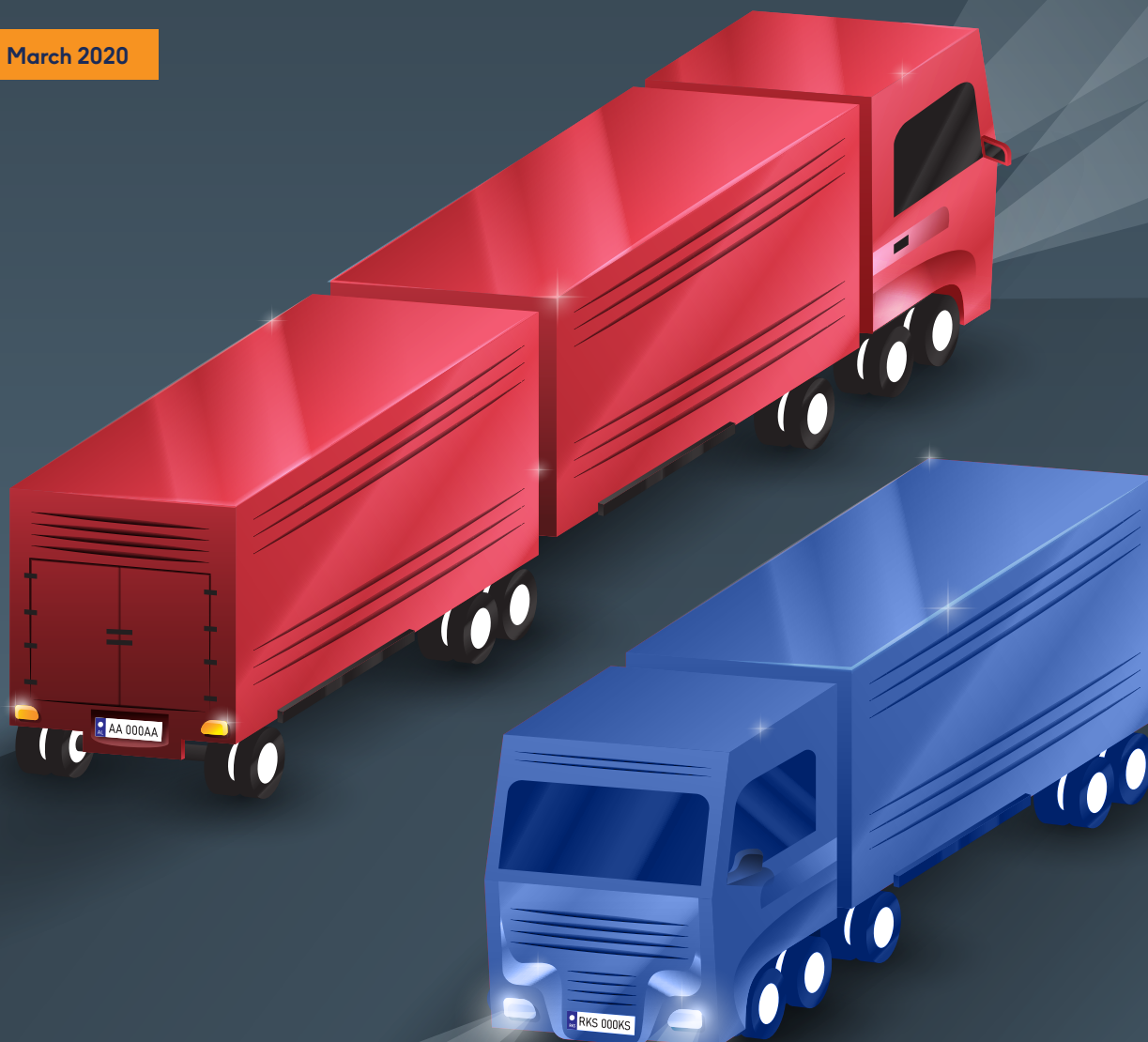


Kosovo – Albania Trade Potential:

Trade Barriers and the Implementation of Bilateral Agreements

March 2020



Kosovo – Albania Trade Potential: Trade Barriers and the Implementation of Bilateral Agreements

MARCH 2020

Financed by:

This study is part of the “Albania - Kosovo, Deconstructing the Idea of Unification - Citizens’ perceptions of Cooperation between the Two Countries”. This project was initiated and is financially supported by the Kosovo Foundation for Open Society - KFOS, and the Open Society Foundation for Albania - OSFA.

Disclaimer:

The findings, opinions and recommendations expressed in this study are those of the authors and institutional contributors. As such, they do not necessarily reflect the views of the Open Society Foundation for Albania, and Kosovo Foundation for Open Society.

Contributors:

Riinvest Institute and GAP Institute

Design and Layout:

Envinion

The original was drafted in Albanian.



Sejdi Kryeziu St. 4/4, Prishtina 10000, Kosovo
+383 38 609 339
info@institutigap.org



Lihdja e Prizrenit St. 56, Prishtina 10000, Kosovo
+383 38 244 320
riinvest@riinvestinstitute.org

Table of Contents

Executive Summary 7

1. Introduction 8

2. Methodology 10

3. Trade regime 12

4. Trade of goods between Kosovo and Albania 15

5. Implementation of trade facilitation agreements 22

6. Trade barriers 25

7. Trade potentials and cross-sectoral trade 28

8. Conclusions 32

Annexes: 33

Executive Summary

This study aims to assess the Kosovo-Albania trade potential, and the identification of trade barriers preventing utilization of such potential. Moreover, it is the first attempt of an analysis on the implementation of trade agreements signed by the governments of Kosovo and Albania which mainly affect the exchange of goods between the two countries. The data collected for this study is representative of the period January, 2004 – September, 2019.

The results indicate that despite the good progress in the implementation of trade agreements signed by the governments of Kosovo and Albania, there are further barriers not regulated by these agreements. There is a growth potential for trade cooperation with Albania in virtually all of Kosovo's export sectors. Thus, the quantity of goods exported to Albania does not accurately reflect Kosovo's export potential to this trade partner. On the other hand, a number of obstacles that are preventing this potential have been identified. These obstacles are mainly of a technical nature, though in some cases they also appear in the form of tariff barriers. The main obstacles identified in this study include overlapping procedures for goods transiting the territory of Albania, payments for scanning of goods at the port of Durrës regardless of their final destination, high road tariffs, reference prices, discriminatory excise duties, additionally required sanitary and phytosanitary documentation, etc. Some of the barriers reported by exporting businesses in Kosovo have only been addressed temporarily after intervention from relevant authorities in Albania, which according to these businesses have then been systematically put back in place. There is also a discrepancy between

the official data reported in Kosovo and Albania on the exchange of goods despite the harmonization of procedures and exchange of information that was foreseen by one of the signed agreements.

In order to better use the economic potential for trade flows between the two countries, this report provides a number of recommendations. As a precondition for a further increase of trade between the two countries, priority should be given to the strengthening of the rule of law, increasing institutional capacities and reducing bureaucratic obstacles. Moreover, both countries should work to further harmonize food related standards, and even certain taxes and excises to help avoid discrimination against the respective trade partner's products. With regard to the functioning of institutions, both governments must make increased efforts to enhance communication and coordination in policy-making and implementation. Finally, a support program should be set up to encourage industries with a potential to increase trade exchanges.

1. Introduction

Albania and Kosovo are important trade partners of each other. For Kosovo, Albania tops in exports and comes fifth in terms of imports. Albania is commercially important for Kosovo also because more than a third of products traded in Kosovo transit through it. Both countries are also signatories of the Central European Free Trade Agreement (CEFTA) which aims to eliminate trade barriers, both tariff and non-tariff. Moreover, Kosovo and Albania were not sufficed with this regional agreement alone, and have signed additional agreements, memorandums and other government decisions that regulate various trade-related issues such as: harmonization of food standards, acceleration of transit procedures, exchange of standards, establishment of common border crossings, cooperation in the field of customs investigations, cooperation in the accreditation of laboratories, etc. The opening of a single Kosovo customs office at the Port of Durrës in Albania represents another joint cause to improve trade relations between Kosovo and Albania. The signing of all these agreements with specific obligations indicates an advance in the trade relations of both countries. However, despite the large number of agreements, Kosovo exports still face trade barriers in the exchange of goods.

The purpose of this study is to conduct a first assessment of the implementation of Kosovo - Albania trade agreements and provide a detailed analysis of the trade barriers that Kosovo businesses face in relation to Albania. This analysis also shows for the

first time the trade exchange between the two countries based on a classification of industries, and an indicative analysis of industrial sectors with growth potential of exports from Kosovo to Albania. It should be noted that this study only shows the perspective of Kosovo in relation to trade issues between Kosovo and Albania¹. Also, this study focuses only on trade in goods, not including trade in services.

To better understand trade issues, the implementation of agreements, and the current level of trade exchange, it is important to understand some factors related to the context of the economies of both countries. Albania has almost twice the Gross Domestic Product (GDP) of Kosovo, and its industry share in GDP is higher too.² According to the European Commission (EC), obstacles to the private sector development in Albania are widespread corruption, frequent changes to the regulatory framework on businesses, and the increase in the number of public-private contracts without adequate competition procedures in public procurement that could increase the influence of the state in the economy. The lack of know-how and the low quality of education puts Albania in a situation where it does not fully utilize its potential for regional integration and export. In addition, the private sector is concentrated around a small number of companies, where 75% of formal employment and 86% of investments in the economy are generated by 5% of businesses. An obstacle to equal competitiveness in the private sector is the informal economy, which accounts for one-third of GDP. Regarding

¹ In tandem with this study, a research study from Albania presenting trade problems in relation to Kosovo will also be published. The study can be found here: <https://bit.ly/3cvB51T>

² World Bank, World Development Indicators, Source: <https://bit.ly/2wvDs4i>

the free movement of goods, Albania has aligned its legislation with the Accreditation and Market Surveillance legislation of the *acquis*, and has fully complied with all EU standards. In taxation, Albania has only partially aligned its excise tax legislation in accordance with the EU.³

Kosovo faces similar problems to Albania. According to the European Commission, widespread corruption, the informal economy, which accounts for close to one-third of its GDP, the lack of a quality workforce, and the slow functioning of the judiciary are obstacles to private sector development in Kosovo too. In addition, the size of the market and the limited demand - partly because of a limited access to export markets in general - is considered a key barrier to private sector development in Kosovo.⁴ Kosovo's GDP per capita is the lowest in the region, while the average wage is the second highest, indicating a low competitiveness of the economy. Another factor preventing competitiveness in Kosovo is the size of businesses, where 99% are small with less than 10 employees. Kosovo has limited access to European standards, whereas the accreditation bodies do not meet the requirements for access to Multilateral European Accreditation Agreements. In the field of customs, Kosovo must further align customs legislation with the EU and abolish discriminatory excise duties on tobacco.⁵ Kosovo also applies a tariff on trucks which enter private terminals to meet the tariff obligations, which is not in line with the EU *acquis*. Kosovo must strengthen its infrastructure to ensure

product quality. Nonetheless, market inspection bodies do not have sufficient capacities for market oversight. Finally, the Law on Consumer Protection, which requests the appearance of flags of the country of origin, is not in line with the EU *acquis*.

This study is organized as follows. The introduction provides a brief chronological description of events that have characterized trade cooperation between the two countries over two decades. The second part shows the methodology of the study, while the third part elaborates on Kosovo's trade regime including all agreements between the two countries affecting trade. In the fourth and fifth parts, the report quantitatively analyzes the data of trade exchanges between the two countries, respectively the challenges in implementing the signed agreements. The barriers identified and their effect on trade between Kosovo and Albania as well as the potential for further increase of trade cooperation are presented in parts seven and eight, respectively. The main findings of the study, as well as the recommendations, are summarized in the final section.

3 European Commission, Albania 2019 Report, Source: <https://bit.ly/2J0g6w2>, pages 47, 50, 51, and 75

4 Riinvest Institute, Kosovo Business Environment 2017, Source: <https://bit.ly/2PyQWTg>

5 European Commission, Kosovo 2019 Report, Source: <https://bit.ly/2KckkwX>

2. Methodology

In order to evaluate the implementation of trade agreements between the two countries, secondary data sources were initially used to identify trade related agreements. Most agreements are not published in the Kosovo Official Gazette, thus relevant institutions in Kosovo have been contacted for access to public documents. In order to measure the implementation of agreements, specific objectives contained in the agreements, totalling 53, were initially identified. The responsibility for the implementation of these objectives is shared on the basis of relevant institutions such as: Ministry of Trade and Industry, Kosovo Customs and Food and Veterinary Agency. After conducting interviews, written questionnaires were sent to these institutions asking about the realization of the objectives with options of “Yes” to realized objectives, “No” - unrealized objectives, and “Partially” - partially achieved objective. In addition to institutions filling out the questionnaire, businesses have also been contacted to see if these agreements are implemented in practice. The final assessment of the implementation of the agreements was made by researchers at GAP and Riinvest Institutes based on information gathered from institutions, businesses and other sources.

Data on trade barriers were collected through secondary as well as primary data. Secondary data were obtained from published reports, while primary data through interviews with business associations as well as businesses which faced such barriers. Some of these barriers have been confirmed through contacts with third parties and consulting the legal basis in Albania, but reports of specific corruption cases are not verified.

Quantitative data on trade exchanges reported by Kosovo and Albania have been collected by Eurostat as a source that provides trade data for both countries over a long period of time. These data are analyzed at the product level or six-digit tariff code, reported according to the combined nomenclature by the harmonized system. Data are then aggregated to the industry level NACE (European Nomenclature for Economic Activities) via conversion based on official correspondence tables for conversion of tariff codes according to UNSTAT UN agency.^{6,7}

The analysis of trade potentials between Kosovo and Albania is based on the methodology of the International Trade Center (ITC), which suggests several study methods for different analytical levels.⁸ One of the methods is based on a gravity model used to study foreign trade at the sectoral level of the industry. Another method that can be used in this context is to evaluate the trade potential through a number of approximate indicators such as the Indicative Trade Potential (ITP) and “Relative indicative trade potential (RITP)”. Such a method is usually preferred for use to analyze foreign trade at the level of traded goods. Since foreign trade determinants in an industrial sector level can differ from the determinants at the level of traded goods, the sector analysis should be coupled with an analysis in the level of traded goods to validate the preliminary sector analysis. For the purposes of this study, ITP and RITP are used to define the indicative connection between the export potential in Kosovo and the import demand in Albania during one year for both levels: sectoral (broken down by industry according to NACE sections and

⁶ UN Correspondence Tables, Source: <https://bit.ly/31jxmXN>

⁷ NACE Rev. 2. Statistical classification of economic activities in the European Community. <https://bit.ly/2pQXPW7>

⁸ Helmers, Christian, dhe Jean-Michel Pasteels. “Assessing Bilateral Trade Potential at the Commodity Level: An Operational Approach.” *International Trade Center (ITC)*, 2006, 10–12. <https://bit.ly/2WgZT7C>.

divisions) and that of individual traded goods. It should be noted that the model assumes that the exports of a country from a given sector of a state also reflects the potential of that sector in that country, while the amount of imports from a given sector of a state also reflects the demand of that country's sector.⁹ However, since ITP and RITP are only indicative indicators of each country's trade potential, they should be taken into account along with other indicators of trade potential. Therefore, to have a clearer picture of trade exchanges at the sector or industry level, this study also uses the Grubel-Lloyd index of the level of cross-sectoral trade cooperation.

ITP is constructed as follows: $ITP = \frac{min(x_{ki}, x_{kj})}{x_{kij}}$, where x_{ki} is the total value of exports from country i to the world coming from the sector or product k , x_{kj} is the total value of imports of country j from the world coming from the sector or product k , and x_{kij} is the total value of exports from country i to country j in the sector or product k . This measure identifies the complementarity of the bilateral market between the importing and the exporting country. A high ITP in a given economic sector or product over one year is a sign that there is a trade potential between the two states in that sector or product. This model also takes into account RITP which is the part of ITP in x_{ki} , or

The analysis of trade potentials between Kosovo and Albania is based on the methodology of the International Trade Center (ITC), which suggests several study methods for different analytical levels.

$RITP = (ITP / x_{ki}) \times 100$. RITP determines, on a percentage basis, the level of indicative potential for trade.

On the other hand, the Grubel-Lloyd index is calculated in the following way:

$$GL_i = 1 - \frac{|X_i - M_i|}{X_i + M_i}$$

X_i - Kosovo exports from sector (i) to Albania

M_i - Kosovo imports to the sector (i) from Albania.

The values of this index can be from 0 to 1, where the higher the index value, the higher the level of trade cooperation in the respective sector.¹⁰

⁹ Ibid, 11.

¹⁰ In cases where the index is 1, the value of imports and exports is identical, while in cases when the index is 0, we have only one-sided trade in that sector.

3. Trade regime

In the early post-war years, the United Nations Mission in Kosovo (UNMIK) established a foreign trade regime aimed at improving Kosovo's economic situation and supporting the post-war reconstruction. The new trade policies would also provide revenues for the Government of Kosovo by imposing a uniform 10% import tariff on foreign products.

On July 7, 2003, the Republic of Albania and UNMIK, on behalf of the Government of Kosovo, signed a free trade agreement. This agreement aimed to improve relations between the two parties and the economic and trade cooperation through the gradual reduction of tariffs on certain types of goods, and ultimately the total elimination of tariffs by January 1, 2009.¹¹ The deal would cover almost all industrial products. Basic tariffs for industrial products from both countries would reflect the tariffs of the most favoured nation principle, and would gradually be subject to further reductions until their complete elimination.¹² The agreement was intended to mitigate barriers to agricultural products as well, but unlike industrial products, agricultural products were to be traded free of customs duties from the beginning of the agreement.

In addition to the trade agreement with Albania, UNMIK also signed bilateral trade agreements with other Balkan states such as Northern Macedonia (2015), Republic of Croatia (2006), and Bosnia and Herzegovina (2006). However, these agreements were annulled when CEFTA entered into force in 2007, which converted these multiple bilateral agreements into a single regional agreement.¹³

The CEFTA agreement intended to gradually eliminate trade barriers by 31 December 2010. Tariffs and reductions recommended by CEFTA were consistent with tariffs imposed through bilateral agreements such as that of UNMIK, on behalf of Kosovo, and Albania. In addition to eliminating the trade barriers in industrial and agricultural products through a network of bilateral agreements between signatories to the agreement, CEFTA aims to also improve the investment environment, increase types of products exchanged, etc.

Kosovo and Albania have continued to enter into trade agreements even after CEFTA membership. To further enhance trade relations, they have signed several smaller agreements in specific trade areas as listed below:

- I. Agreements between the Government of the Republic of Kosovo (RKS) and the Council of Ministers of the Republic of Albania on Cooperation and Mutual Assistance in Customs Matters, signed in 2009;
- II. Agreements between the Government of the Republic of Kosovo and the Council of Ministers of the Republic of Albania on Road Transport of Passengers and Freight, signed on 22 July 2011;
- III. Agreement between the Government of the Republic of Kosovo and the Council of Ministers of the Republic of Albania on the opening of joint customs and border crossing points between the two countries, and joint border control activities, signed on 10 May 2013;

¹¹ Free Trade Agreement Between the United Nations Interim Administration Mission in Kosovo (UNMIK) on behalf of the Provisional Institutions of Self-Government of Kosovo and the Council of Ministers of the Republic of Albania, page 2, Source: <https://bit.ly/2z7aBky>

¹² The principle of the most favoured nation relates to tariffs imposed uniformly for each exporting country and without discrimination.

¹³ Annex 1 to the Agreement on Amendment and Access to the Central European Free Trade Agreement. Consolidated Version of the Version of the Central European Free Trade Agreement (CEFTA 2006). Page 3. Article 1. Source: <https://bit.ly/2ZadU57>.

-
- IV. The Agreement between the Government of the Republic of Kosovo and the Council of Ministers of the Republic of Albania on cooperation to encourage and facilitate trade. The purpose of this agreement was to improve transit through the two countries, in particular to facilitate legal transit, to increase the capacity of transit parties, to efficiently exchange information and documentation on goods in transit, to improve the customs declaration system, and simplify transit procedures, signed on January 11, 2014 for an indefinite duration;
-
- V. Agreement between the Government of the Republic of Kosovo and the Council of Ministers of the Republic of Albania on VAT exemption on imports of books, products similar to books, newspapers, magazines, periodicals and similar press materials published in the Republic of Kosovo and the Republic of Albania, signed on March 28, 2014;
-
- VI. Protocol between the Ministry of Internal Affairs of the Republic of Kosovo and the Ministry of Internal Affairs of the Republic of Albania on the Joint Use of Border Control Equipment, signed on March 23, 2015 for an indefinite period;
-
- VII. Cooperation Agreement between the General Directorate of Standardization of the Republic of Albania and the Kosovo Standardization Agency of the Ministry of Trade and Industry of the Republic of Kosovo on cooperation in the field of standards through the exchange of information and experts in the relevant field, signed on March 23, 2015 and valid until KSA obtains an Affiliate Country status at CEN and CENELEC after prior membership to ISO/IEC. Parties can then continue cooperation as needed through new agreements.¹⁴
-
- VIII. Cooperation Agreement between the Ministry of Finance of the Republic of Kosovo and the Ministry of Finance of the Republic of Albania on Cooperation in the Field of Administrative Investigation as well as Tax and Customs Investigation between the two Parties, signed on June 3, 2016 for an indefinite period;
-
- IX. Agreement between the Ministry of Trade and Industry of the Republic of Kosovo and the Ministry of Transport and Infrastructure of the Republic of Albania on Mutual Recognition of the Road Tachograph Test/Calibration Certificate, which was signed on June 03, 2016 with a duration until the accession of the Republic of Kosovo to the European Agreement;
-
- X. Protocol between the Ministry of Agriculture, Forestry, and Rural Development of the Republic of Kosovo and the Ministry of Agriculture and Rural Development of the Republic of Albania for the bilateral recognition and unification of health certificate templates, veterinary and phytosanitary certificates that will accompany consignments of live animals, products of animal origin and plant products during import, export and transit between the Republic of Kosovo and the Republic of Albania, which was signed on November 26, 2018 for an indefinite duration;
-
- XI. Memorandum of Understanding between the Industrial Property Agency of the Republic of Kosovo and the General Industrial Property Directorate of the Republic of Albania. This memorandum was intended to establish a flexible mechanism which would instruct and ensure cooperation of the two offices in the field of industrial property, which was signed on November 26, 2018, for a duration of five years, with the possibility of renewal of the same duration.
-

¹⁴ Agreements are secured through official requests to the Government of Kosovo by GAP Institute and Riinvest Institute.

XII. Agreements between the Government of the Republic of Kosovo and the Council of Ministers of the Republic of Albania for the conduct of joint procedures of entry/exit controls through three border crossing points: Qafë Prush Gjakova, Vërmica - Morine and Gllloboçica - Borje ;

XIII. Decision to allow customs clearance procedures and physical controls to be carried out by Kosovo Customs officials at the ports of Durrës and Porto Romano and the recognition of licenses by Kosovo customs agencies. This decision was taken by the Government of Albania on November 23, 2018.¹⁵

In the future, if Albania joins the European Union prior to Kosovo, import tariffs from Albania to Kosovo and a significant part of trade issues will be regulated through the Stabilization and Association Agreement (SAA), and not by bilateral agreement. In 2015, Kosovo signed an SAA aimed at economic, legal and political co-operation with European Union countries, which was implemented as of 2016. The SAA also aims to establish a free market cooperation through eliminating customs duties between Kosovo and the EU.¹⁶




15 Decision of the Council of Ministers No. 710, dated 23.11.2018, Source: <https://bit.ly/31NsqkV>

16 Stabilization and Association Agreement Between the European Union, of the One Part, and Kosovo*, of the Other Part. Pages 3-4. Article 1. Source <https://bit.ly/2YXoVlv>.

4. Trade of goods between Kosovo and Albania

According to Eurostat, in 2018 Kosovo's imports reached 3.3 billion Euro while the total amount of exports was only 329.5 million Euro. Table 1 shows that Kosovo's main trading partner during 2018 was Serbia with a total amount of trade flows of 419.9 million Euro, while Albania only comes out fifth with a total value of 270.7 million Euro. The results differ if we look only at exports that show Albania being Kosovo's primary destination for goods with 65.9 million Euro in 2018 (20% of total exports). However, from an imports perspective, Albania ranks as the fifth biggest origin of imports from which Kosovo imported goods worth 204.8 million Euro in 2018 (6.1% of total imports), while Germany topped the list with 391.6 million Euro of imports in 2018 (11.8% of total imports). Even during the period 2004-2018, Albania was predominantly Kosovo's first export destination, while imports from Albania always faced competition from other European countries and China.¹⁷

Table 1. Kosovo's top ten trading partners, based on the value of total goods traded in 2018, in thousands of Euros




RANK	TRADE PARTNER	TOTAL EXCHANGE	 EXPORT	 IMPORT	 TRADE BALANCE
1	Serbia	419,861	32,032	387,829	-355,797
2	Germany	414,890	23,293	391,597	-368,304
3	Turkey	341,529	6,536	334,993	-328,457
4	China	311,881	1,401	310,480	-309,078
5	Albania	270,673	65,873	204,800	-138,926
6	North Macedonia	212,367	41,521	170,846	-129,324
7	Italy	211,259	6,703	204,556	-197,853
8	Greece	125,523	1,492	124,031	-122,538
9	Slovenia	108,784	13,634	95,150	-81,516
10	Poland	90,212	5,041	85,170	-80,129
Total		3,650,829	329,496	3,321,333	-2,991,836

Source: Eurostat

¹⁷ See Annex A. 1. and A. 2.

Table 2 shows that from a regional perspective of CEFTA member states, Serbia is also Kosovo's main trading partner, while Albania comes second. However, from the Kosovo exports side, Albania remained the main destination in 2018. The second place is held by North Macedonia, where goods in a value of 41.5 million Euro (11.9% of total exports) were exported, while Serbia comes third, with goods valued at 32 million Euro (12.6% of total exports) exported. On the Kosovo side of imports, Serbia came first in 2018, from where goods worth 388 million Euro were imported (11.6% of total imports). Albania came second, where goods in a value of 204.8 million Euro (6.1% of total imports) were imported, while North Macedonia came third, with goods valued at 170.8 million Euro (5.1% of total imports) were imported.

Table 2. External trade with CEFTA members 2018, in thousand euros

					
PARTNER	PARTNER	TOTAL EXCHANGE	EXPORT	IMPORT	TRADE BALANCE
1	Serbia	419,861	32,032	387,829	-355,797
2	Albania	270,673	65,873	204,800	-138,926
3	North Macedonia	212,367	41,521	170,846	-129,324
4	Bosna and Herzegovina	76,808	7,688	69,120	-61,432
5	Montenegro	34,645	18,436	16,209	2,227
6	Moldova	486	7	479	-473

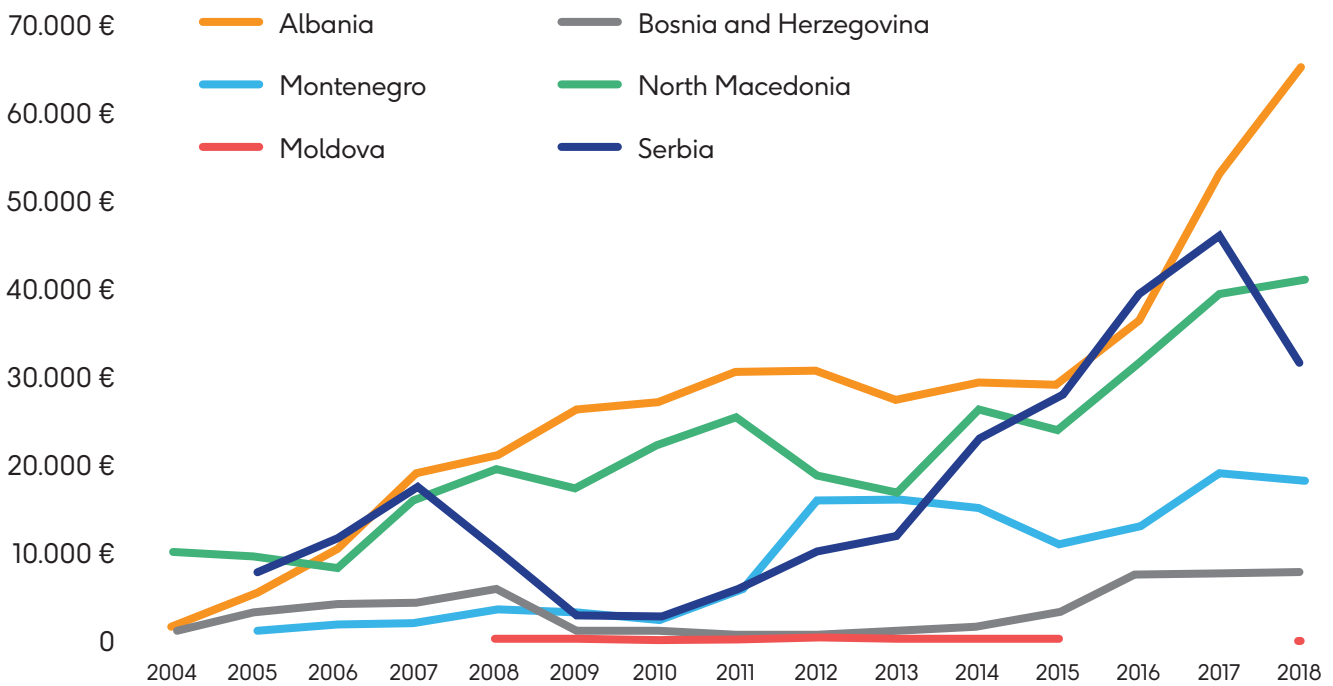
Source: Eurostat

Even from a multi-year perspective, it is clear that with the exception of 2005, 2006 and 2016, Albania was Kosovo's primary export destination (Figure 1). However, Kosovo has consistently imported more from Serbia than Albania.¹⁸ With regard to CEFTA countries, with the exception of Montenegro and Moldova, the trade deficit with other members, especially with Serbia, has steadily increased over the period 2005-2018.¹⁹

¹⁸ See Annex A. 4.

¹⁹ See Annex A. 5.

Figure 1. The main trading partners for export in CEFTA 2004-2018, in thousands of Euro

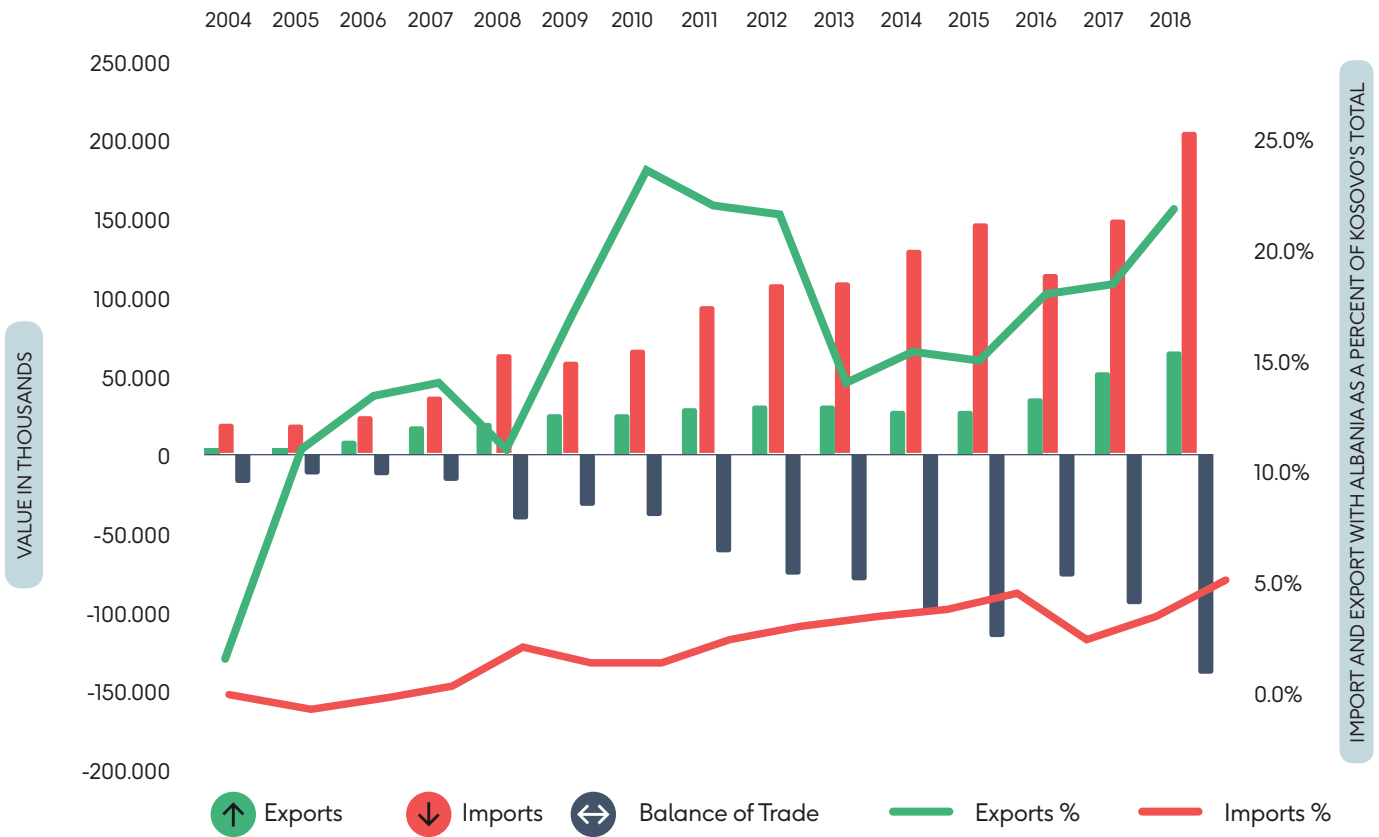


Source: Eurostat

Trade exchange data indicate that Kosovo - Albania trade exchanges have consistently increased in value and as a share in total trade exchanges in Kosovo. In 2005, trade between Kosovo and Albania was relatively low based on the value of goods traded. Kosovo's exports to Albania were about 5.2 million Euro (3.2% of total exports), while in the same year, Kosovo imported goods from Albania worth 18 million Euro (1.9% of imports) resulting in a trade deficit of 12.8 million (Figure 2). In the following years, both parties saw a considerable increase in trade exchanges, with CEFTA membership being one factor for the increase. This is also seen in Figure 2, in the increase in exports in 2008, one year after accession into CEFTA, when Kosovo exported goods worth 21.4 million Euro to Albania (nearly three times more than in 2005), while imports from Albania were valued at 62.3 million Euro (about twice as much as in 2005). It should be noted that during the period 2005-2008, Kosovo's imports from other CEFTA members also increased by 220.9 million Euro, or 48.6%, while exports to other member states increased by 33.1 million Euro or more, namely they doubled. The upward trend of imports from Albania receded in 2016 when Kosovo saw a decline in imports from Albania by 31.5 million Euro, or 21.9% less than in 2015. However, in 2017 imports resurged, and in 2018 they increased by 92.1 million Euro or 81.6% more than in 2016, driven by increased imports of nickel ores, steel bars or cast iron, oil, etc.

Although the trend of exports was positive during most of the period 2005-2018 for both countries, the trade deficit between them has been steadily increasing since 2008. During the year when Kosovo and Albania joined CEFTA (2007), Albania exported 17 million Euros of goods more than Kosovo. By comparison, in 2018 the trade deficit between Kosovo and Albania increased to 139 million Euro, which is eight times higher than in 2007 (Figure 2).

Figure 2. Trade of goods with Albania during the period 2004-2018, in thousands of Euro



Source: Eurostat

Looking at trade exchanges by industrial sectors, in 2018 the major part of the goods traded by both parties belonged to the manufacturing sector of each country. Table 3 shows that approximately 69% of Kosovo goods exported to Albania belong to this sector (Section C), while about 99% of goods imported from Albania are from the same sector. In more detail, the major part of Kosovo’s exports to Albania of this sector come from the production of alcoholic and non-alcoholic beverages, with 19.4% of total exports including products such as beer or water (Division 11), base metal products with 13.8% of total exports, which includes products such as cast iron and steel pipes (Division 24), wheat flour food products (Division 10) with 11.9% of total exports, and manufacturing of rubber and plastic pipe type products and plastic tiles (Division 22) with 7.4% of total exports. On the contrary, the major part of Kosovo imports coming from Albania in this sector were from base metal production, such as cast iron and steel (Division 24), with 49% of total imports, coke production and refined petroleum oils (Division 19) by 15.9% of total imports, and production of other non-metal products such as portland cement (Division 23) with 12.4% of total imports. However, a significant portion of Kosovo’s exports to Albania also belong to the supply of water, wastewater management, and waste management of various product processing (Section E). Table 3 shows that these types of goods comprise approximately 30% of all goods exported to Albania, with the major part coming from scrap and metal waste such as copper or iron etc., and non-metal waste, such as timber or plastics (Division 38).

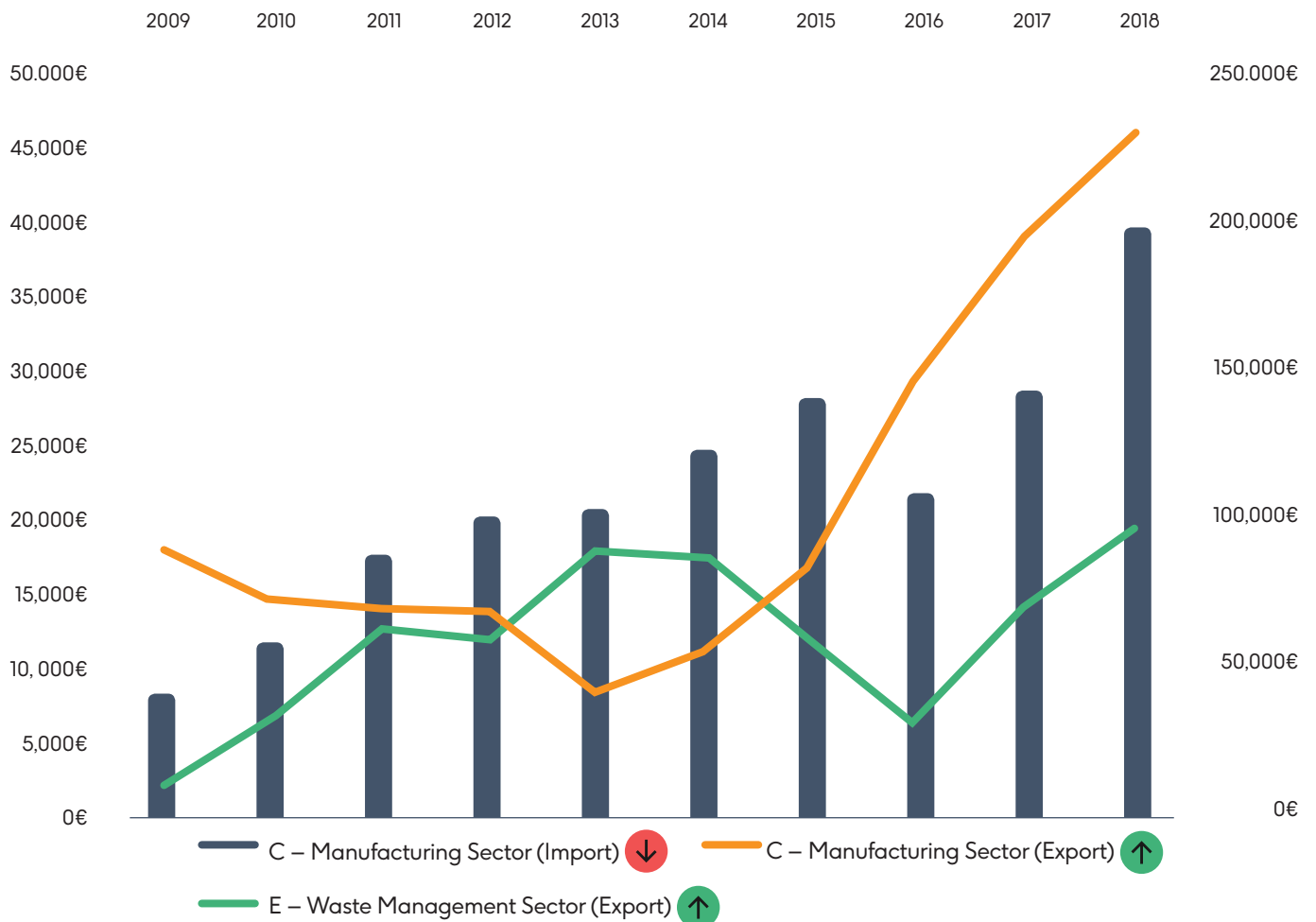
Table 3. Reciprocal trade of Albania and Kosovo in NACE Sections in 2018 2018 (in thousand euros)

NACE Section	NACE Division	Exports from Kosovo to Albania		Imports from Albania to Kosovo	
		in value (Euro)	as % of total exports of section globally	in value (Euro)	as % of total imports of sections globally
A - Agriculture, forestry, and fishery	01 - Agricultural and animal products, hunting and related activities	169.162	0.26	415.136	0.20
	Section A	169.162	0.26	415.136	0.20
C - Production of articles	10 - Production of food products	7,834.757	11.89	19,387.163	9.47
	11 - Production of beverages	12,803.111	19.44	2,858.103	1.40
	19 - Manufacture of coke and refined petroleum products	29.305	0.04	32,591.941	15.91
	20 - Manufacture of chemicals and chemical products	1,350.440	2.05	5,062.318	2.47
	22 - Manufacture of rubber and plastic products	4,903.018	7.44	1,218.639	0.60
	23 - Manufacture of other non-metal products	1,631.649	2.48	25,437.984	12.42
	24 - Manufacture of base metals	9,082.820	13.79	100,271.879	48.96
	28 - Manufacture of various machinery and equipment	1,426.195	2.17	110.968	0.05
	32 - Other production	459.999	0.70	4,788.124	2.34
	Other	5,930.280	9.00	11,185.171	5.46
	Section C	45,451.575	69.00	202,912.290	99.08
D - Supply of electricity, gas, steam and air conditioning	35 - Supply of electricity, gas, steam and air conditioning	350.808	0.53	640.714	0.31
	Section D	350.808	0.53	640.714	0.31
E - Water supply, wastewater management, and waste management	38 - Collection, treatment and disposal of waste; restitution of valuable materials	19,685.813	29.88	1.714	0.00
	Section E	19,685.813	29.88	1.714	0.00
G - Wholesale and retail; trade and repair of motor vehicles and motorcycles	47 - Retail sale of motor vehicles and motorcycles	96.565	0.15	0	0.00
	Section G	96.565	0.15	0.000	0.00
J - Information and communication	58 - Publishing	119.045	0.18	551.653	0.27
	Section J	119.045	0.18	551.653	0.27
R - Art, entertainment, and recreation	90 - Creative, artistic, and fun activities	0.204	0.00	278.139	0.14
	Section R	0.204	0.00	278.139	0.14
	Total	65,873.172	100.00	204,799.646	100.00

Source: Eurostat; Categorization and calculation: GAP Institute and Riinvest Institute

Figure 3 shows that from a longer time perspective, exports to Albania from the manufacturing sector of goods such as beverages, food items, or metal products (Section C) have declined in the period 2009-2013 from 18.1 million Euro in 2009 to 9.4 million Euro in 2013. However, after 2013 exports started increasing and in 2018 their value reached 45.4 million Euro, namely four times more than in 2013. On the other hand, metal and non-metallic waste and scrap exported to Albania (Section E), after a significant increase from 2009 to 2013 at 15.2 million Euro, began to decrease until 2016 with only 7.4 million Euro. Nevertheless, they started to increase again and in 2018 amounted to 19.7 million Euro or 12.3 million more. On the other hand, imports into Kosovo of Albania's manufacturing sector such as base metals, coke and petroleum products, and other non-metallic products (Section C), increased significantly by from 43.4 million in 2009 to 202.9 million Euro in 2019, excluding 2016 which saw a decline in imports of this sector.

Figure 3. Export and import between Kosovo and Albania of the most important goods according to NACE, 2009-2018 (in thousands of Euros)



Source: Eurostat; categorization: GAP Institute/Riininvest Institute

At the level of specific products marked under their individual tariff codes, we find that Kosovo's most exported goods are dominated by base metal items, or their derivatives, such as ferrous residues or aluminum scrap, or metal pipes. Kosovo also exports agricultural products such as wheat flour and potatoes. On the other hand, Kosovo imports mainly basic metal products, such as metal or aluminum rods, and mineral-based products such as petroleum oils, portland cement, or petroleum coke from Albania. Agricultural items such as tomatoes or citrus, as well as sanitary articles are also imported (see table 4).

Table 4. Reciprocal trade of Albania and Kosovo in the most important products traded, 2018 (in thousands of euros)

RANK	EXPORTS FROM KOSOVO TO ALBANIA		IMPORTS FROM ALBANIA TO KOSOVO	
	PRODUCT	VALUE IN EURO	PRODUCT	VALUE IN EURO
1	Ferrous waste	16,844.832	Cast iron or steel rods	87,868.266
2	Malt beer	8,828.737	Petroleum oils	22,237.146
3	Cast iron or steel pipes	7,300.192	Portland cement	22,178.284
4	Waters	2,852.370	Coke and bitumen oil	10,315.523
5	Aluminium waste	2,832.284	Aluminium rods	5,779.514
6	Wheat and meslin flour	2,183.415	Sanitary products	4,734.506
7	Plastic pipes	1,889.938	Tomatoes	3,558.392
8	Potatoes	1,469.655	Other cast iron or steel pipes	3,377.903
9	Plastic tiles	1,233.005	Putty	3,171.759
10	Other cast iron or steel pipes	1,100.508	Citrus	2,114.743
	Total export to Albania	65,873.172	Total import from Albania	204,799.646

Source: Eurostat

5. Implementation of trade facilitation agreements

Kosovo and Albania have signed a large number of agreements, memorandums, and government decisions aimed at facilitating trade cooperation. For this purpose, the following table summarizes the 53 objectives derived from the Kosovo - Albania trade agreements and their implementation status. Most of these objectives (37, or about 70%) derive from the Framework Agreement on Cooperation in Promoting and Facilitating Trade between Kosovo and Albania, signed in 2014. Although there has been good progress in implementing agreements, as we will discuss in the section on trade barriers, there are still obstacles such as: harmonization of assets, internal taxes, rule of law issues, lack of trust between businesses, which have not been addressed in these agreements. Based on the findings, 49% of these objectives have been fulfilled, 36% have been partially fulfilled, 9% have not been fulfilled, and no answer was obtained on three objectives. In this chapter, we have also conducted an analysis of the procedures for the exchanges of goods through the Kosovo office at the Port of Durrës.

Table 5. Fulfillment of objectives as per the Kosovo - Albania trade agreements ²⁰

SOURCE	NO	YES	Partially	No answer
Cooperation agreements in the areas of standardization and accreditation		1		
Agreement on Mutual Recognition of the Vehicle Tachograph Test/Calibration Certificate		1		
Agreement on the recognition of veterinary certificates and products of animal and non-animal origin		6	2	
VAT exemption agreement on books, products similar to books, newspapers, magazines, periodicals and similar press materials published in Kosovo and Albania		1		
Framework Agreement for Cooperation in Promoting and Facilitating Trade	1	14	12	
Framework Agreement for Cooperation in Promoting and Facilitating Trade - Transit issues	3	3	4	
Agreement on joint border-crossing points	1		1	1
Cooperation agreement in the field of administrative, tax and customs investigations				2
Total	5	26	19	3

Source: GAP and Riinvest Institutes, based on assessments of Kosovar institutions and businesses

²⁰ Details on the progress in specific implementation of objectives can be found in Annex B

The lack of regular meetings between the technical groups of institutions, as foreseen by the agreements, is one of the drawbacks that may be related to the problems in the fulfillments of other objectives of the agreements. According to representatives of Kosovo's institutions, reasons for not holding meetings include lack of motivation due to the lack of powers of such groups to solve problems and high dependency on the political level.²¹ Another challenge in implementation is the elimination of arbitrary prices, which have been applied to exports from Kosovo including chocolate and potatoes, although their elimination has been foreseen in agreements since 2014.

Other problems related to the implementation of agreements include duplication of procedures in the transit of products. The weighting of goods conducted in Albania during the transit is not taken into account in Kosovo, and there is a requirement to repeat the procedure in the customs terminal.²² There are also dual procedures in processes such as: starting and ending transits, canceling and activating guarantees when using separate systems in ASYCUDA.²³ All of these procedures cause delays and costs to Kosovo businesses, whether importing or exporting.

In the field of cooperation between the two food safety institutions, objectives have also not been fully achieved in the field of harmonization of standards for food products, cooperation in the field of laboratory accreditation, harmonization of legislation on risk-based controls, and unification of documentation for products of non-animal origin. In addition, Albania has not published a list of business operators, which would be helpful for a rapid flow of products. Failure to comply with these provisions of the agreement has led to a blockade of Kosovo exports to Albania, for products such as flour, milk and eggs.²⁴ Another only partially fulfilled objective, related to the responsibilities of the Ministry of Trade and Industry (MTI), is the harmonization of anti-dumping laws and safeguards on imports.

Operation of the Port of Durrës. The idea of granting the state of Kosovo the right to use a seaport from Albania has been mentioned by the Government of Albania since 2006, initially mentioning the Shëngjin Port.²⁵ Following Kosovo's declaration of independence, the Prime Minister of Albania at the time had reiterated the promise, though the idea was never executed in practice, despite demands from Kosovo institutions.²⁶ The idea of opening a single customs point for Kosovo goods at one of Albania's ports resurfaced in 2015, only this time this was expected at the Port of Durrës.²⁷ This office became operational only in January 2019 and has been welcomed by Kosovo businesses, given that the Port of Durres provides opportunities for faster and cheaper freight traffic to and from Kosovo.²⁸

21 Interview with representatives of the Ministry of Trade and Industry in Kosovo

22 Interview with Railtrans Carrier, Email reply, October 7, 2019

23 ASYCUDA is a customs management computer system used for most foreign trade procedures

24 See the section on non-tariff barriers

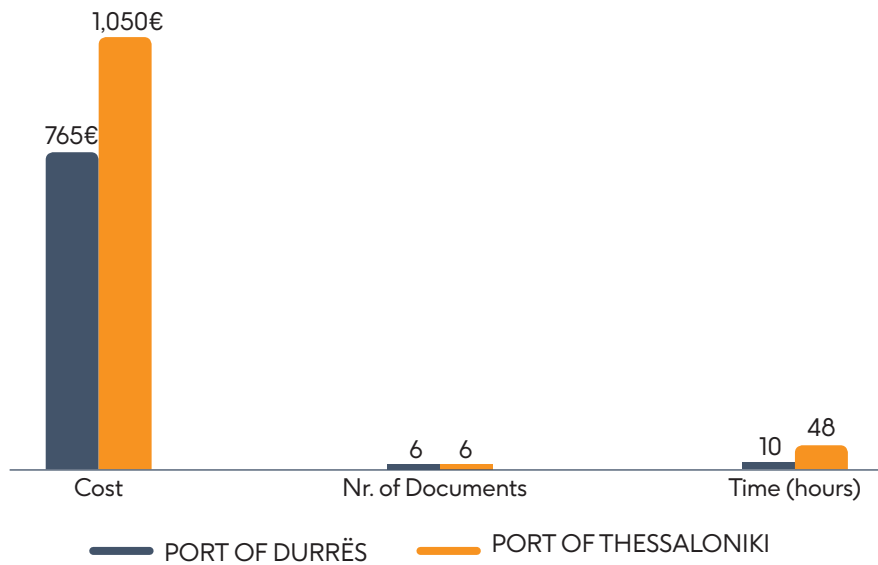
25 Top Channel, Shengjin Port, serving Kosovo, Source: <https://bit.ly/2MgqNr5>

26 Radio Free Europe, what happened to the promise of the use of the port of Shengjin by Kosovo? Source: <https://bit.ly/2odPXxr>

27 Radio Free Europe, Rama and Mustafa - The border, point of unification, not division, Source: <https://bit.ly/33Vj6Nd>

28 Radio Free Europe, Kosovo opens a customs point at the Port of Durrës, Source: <https://bit.ly/2jiLUoi>

Figure 4. Comparison of Durrës and Thessaloniki ports for the transit of goods from Kosovo



Source: Railtrans

Although this customs point was to expedite transit procedures for goods traded in Kosovo, there are still procedural obstacles to its efficient functioning. Initially, decisions taken by the Government of Albania and Kosovo only mentioned the possibility of the passing of transit goods through Kosovo, but made no mention of exports.²⁹ This has caused problems for Kosovo exporters, who could not use simplified procedures for transit export until at least May, when an interpretation of the agreement was to be made by the Albanian side.³⁰

Another problem is the functioning of two parallel IT systems of Kosovo Customs and Albania. Following the signing of agreements, ASYCUDA software in both countries were interconnected, and simplified procedures by customs agencies of both countries could be performed in a single system.³¹ However, both countries continue to run parallel systems, which operated prior to the agreement. The separate system is used more by the agencies in Albania, which causes duplication of procedures - consequently hindering and preventing the movement of goods. Also, the influence of customs officers in the system is greater which leaves room for corrupt practices.

In addition to operating parallel systems, there is a problem with the integrated software system. Kosovo transit through Durrës must undergo a “cross-border” procedure carried out by the Albanian Customs. This procedure involves authorization to receive the payment for the scanner, and closing of the transit on arrival. A fee of 22 Euro is paid for Kosovo transits for customs declaration, although there is no such scanner at all in the Kosovo office in Durrës, and consequently shipments are not scanned. Also, there are often delays by the Customs in Albania, stating that due to technical issues an open procedure by the Kosovo Customs doesn’t appear in their system. Another justification for delays in allowing products to pass through, or to close the transit by the Albanian Customs, is the “high workload”. Customs bribery practices are then used to avoid such delays, which is reflected in higher costs for products shipped to or from Kosovo.³²

29 Government of the Republic of Kosovo, Decision No. 09/76, Source: <https://bit.ly/2DVUqLë>, 21 November 2018

30 Railtrans Carrier Company, Email reply, October 7, 2019

31 ASYCUDA is a customs management computer system used for most foreign trade procedures

32 Railtrans Carrier Company, Email reply, October 7, 2019

6. Trade barriers

Despite the close historical and cultural ties, and the large number of trade agreements signed by Kosovo and Albania, Kosovo companies face various technical or tariff barriers when exporting products to Albania or through transit. Albania ranks second only behind Serbia in terms of reported non-tariff barriers by Kosovo businesses.³³ This data is also in line with a study conducted with exporting businesses from Kosovo in 2018, where Albania ranks second, behind Serbia, in terms of dissatisfaction of Kosovo businesses with the treatment by local authorities.³⁴

The main challenges with Albania as reported by businesses are related to barriers in phytosanitary documentation, reference prices, discriminatory excise duties, scanner payments, and the difficult business environment. Many of the challenges identified with Kosovo exporters have a common denominator, the corruption in various institutional levels in Albania. Kosovo and Albania are yet to establish customs systems, where officials have no discretionary power to prevent the movement of goods. A characteristic of trade barriers with Albania is that they are resolved for a certain period of time and then they resurface systematically.³⁵ Some of the most common obstacles are shown below.

- **Requirements for notarization of phytosanitary analysis.** Another frequent barrier cited by businesses is the requirement from Albanian institutions for each shipment to have a notarized copy of the analysis or an original phytosanitary certificate specific to the shipment. For example, if a Kosovo company receives a phytosanitary certificate for a certain quantity of product and exports that quantity in several lorries, then each of them would have to have a notarized copy of the analysis. No other country in the region, or the European Union, has such a request. This obstacle is encountered by all food products and beverages such as: energy drinks, eggs, chocolates, fruit juices, biscuits, etc.
- **Costs for the scanner.** While exports to other countries should only be included in the customs security scanner unless the system indicates a high security risk such as contraband, trafficking or any other security issue, all exports to Albania should be included in the security scanner. The cost for a each customs declaration is 22 Euro, and according to an estimate, the total cost that Kosovo businesses pay for the scanner is about two million Euro a year. Kosovo companies that have also exported to European Union countries stated that they do not go through inspection procedures for each shipment but only 3-5% of the quantity.³⁶ Some companies have reported having to pay for the scanner even when the scanner was out of order. Also, as mentioned above, despite the opening of the Customs Office of the Republic of Kosovo at the Durrës terminal, goods circulating through Albania have to pay for going through the scanner, though there is no such scanner at the Kosovo Customs point.³⁷ The cost of the scanner has to be paid even for goods that transit through Albania, whether for export or import.
- **Reference prices.** Problems with reference prices were particularly noted with exports of chocolate and potatoes from Kosovo. In the case of chocolate exports, the Albanian Customs set a reference price of 3.3 Euro, contrary to the invoices submitted by the Kosovo exporter. This then reflects on the increase in the payment of value added tax and the cost of the product in the Albanian market, making it more expensive. Although this barrier has not been applied recently, as a result of this and other aforementioned barriers, one Kosovo exporter said to have been highly discouraged and

33 Ministry of Trade and Industry, "Trade Barriers, Trade Facilitation as a Tool to Eliminate Them", April 2018, Source: <http://bit.ly/2VdDJmS>

34 GFA Consulting Group GmbH, Report on BJT Affecting Kosovo Exporters, Source: <https://bit.ly/2lOnuE4>

35 Interview with Trade Department representatives at MTI, July 16, 2019

36 Interview with Astrit Panxha, Director of Kosovo Producers Club, September 6, 2019

37 Interview with Besim Asllani - General Manager at Railtrans, September 23, 2019

its exports to Albania are in decline year by year, though due to geographical proximity, is a very convenient export market.³⁸

- **Cost for the road toll.** As of September 2019, all vehicles must pay a toll on the Milot-Morinë highway. Payments for trucks are broken into two categories - 17 and 23 Euro - depending on the truck capacity.³⁹ All Kosovo exporters have considered this payment to be very expensive, especially comparing it with the road tolls in Macedonia, towards the port of Thessaloniki.
- **Corruption by customs officers.** Some businesses have reported various obstacles by Albania customs officers in cases where they have discretion over certain customs procedures. In order to obtain a bribe, customs officers delay the procedures for hours, and in other cases goods are blocked, on grounds of discrepancies in documentation with the shipment. One of Kosovo's largest beverage companies had such problems with export blockages on grounds of inadequate documentation of the shipment. Without any changes to the documentation or weight, the problem was resolved after the intervention of a business partner in Albania, who had informal connections with institutions.⁴⁰
- **Lack of trust in business partners.** One of the barriers that is not related to the functioning of institutions, is the lack of trust in business partners for product distribution in Albania. According to Kosovo producers, cultural differences have also negatively affected business relations.⁴¹ The lack of trust in citizens of Albania was also found as an issue in a survey conducted with Kosovo citizens, where about 62% of respondents considered Kosovo Albanians to be more trustworthy than Albanian citizens.⁴²
- **Discriminatory excise tax on alcohol.** Unlike Kosovo, the Republic of Albania applies an escalated excise tax on alcoholic beverages depending on the quantity produced within the year by a domestic or foreign producer. For example, the excise tax on beer producers of over 200 thousand hectoliters per year is twice as high as that for producers below this amount, whereas the excise tax on wine producers of over 10 thousand hectoliters per year is three times as high as that for producers below this amount.⁴³ According to exporters of these products, the escalated excise tax makes their products less competitive in the Albanian market due to the existence of a significant number of small producers there.⁴⁴
- **Excise tax on plastic packaging.** Another excise tax applied in Albania is the excise tax on plastic packaging of 35 ALL per kilogram. This tariff barrier has been reported by exporters of chocolate and bottled water, as it affects the increase in the final product price.⁴⁵ In addition, since this excise is only 10 ALL per kg on raw materials for plastic manufacturers in Albania, products imported are discriminated and are less competitive in the market.

Resolved barrier

- **Harmonization of food standards - the case of flour.** On July 15, 2014, the Ministry of Agriculture, Rural Development and Water Administration of Albania (MAFCP) issued an instruction "on the determination of safety indicators of pre-packaged wheat flour, to be sold to the final consumer or for production of other food products"⁴⁶. This instruction regulated the quality and safety of wheat flour for human consumption prepared from common flour and flour producers and importers had until September 30, 2014 to begin implementing the new standards. Among other things, this guideline specified that the minimum protein level should be "12.5% on a dry weight basis". It was this specification which turned to be a reason for blocking Kosovo's exports of flour to Albania. Such blockades continued until

38 Interview with CEO of Kamila Chocolate, September 18, 2019

39 Telegrafi.com, Rruga e Kombit bëhet me pagesë, pagesat për çdo automjet, Burimi: <https://bit.ly/2lNF5p2>

40 Interview with general manager of one of the largest beverage companies in Kosovo, September 16, 2019

41 Interview with NTP Liri, September 18, 2019

42 Research with representative samples conducted in 2018 in Kosovo and Albania by the Foundation for Open Society in Kosovo and Albania

43 Law No. 98/2018 for some supplements and amendments in the Law No. 61/2012, "on Excise Taxes in the Republic of Albania", as amended, Source: <https://bit.ly/2lEi74a>

44 Interview with Astrit Panxha, Director of Kosovo Producers Club, September 6, 2019

45 Law No. 9975, dated 28.7.2008, as amended, on National Taxes, Source: <https://bit.ly/2TI0T25>

46 Instruction No. 12, dated July 15, 2014 Determining the Safety and Quality Indicators of Pre-packaged Wheat Flour, to be Sold to the End Consumer or to Produce Other Food Products

the visit of the then Minister Panariti to the Food and Veterinary Agency (FVA) in Kosovo on October 8, 2014. According to a press release issued by the FVA, the blockade occurred as a result of various laboratory methods for testing flour samples, which then caused “misunderstandings” in the interpretation of the results to the Albanian customs authorities. The export of flour from Kosovo to Albania was blocked even a year ago, but the motive was the lack of aflatoxin (carcinogen substance) tests.

Although according to Article 2, point A of the Kosovo-Albania Trade Agreement, it is emphasized that parties should cooperate to “gradually harmonize legislation and standards in the field of food and non-food safety, plant and animal health of mutual interest”, this was not done by the two states when implementing the directive “on the determination of safety indicators of pre-packaged wheat flour, to be sold to the end consumer or for the production of other food products”. Kosovo has a law that regulates the issue of safety and quality of flour, but there was no legal basis specifying the method of analysis for flour quality related indicators, as regulated in Albania.

During the flour blockade, the Albanian side had also breached the part of the agreement regarding the information and notification to the other party. According to Article 2, point E of the agreement, the parties should cooperate in “establishing mutual information and notification mechanisms in case products do not meet the requirements of security and intellectual property.” In Kosovo, the Food and Veterinary Agency is responsible for the control, verification and inspection of food and raw materials at all levels of the food chain. The FVA CEO said he had not received an official notification about changing the standard of flour quality. Even a representative of the Ministry of Trade and Industry (MTI) of Kosovo stated that the news of such a decision was received by MTI only after raising concerns from businesses.⁴⁷

The harmonization of legislation regarding the measurement of protein in flour occurred just three years after Kosovo’s export blockade to Albania. On March 31, 2015, the Ministry of Agriculture, Rural Development and Water Administration of Albania issued a new administrative instruction, whereby the requirement for minimum protein levels in wheat flour and durum wheat flour was reduced to 9% and 11.5% respectively.⁴⁸ Whereas, the Ministry of Agriculture, Forestry and Rural Development in Kosovo issued such an instruction in August 2017. According to this Instruction, the minimum protein level in flour should be between 9% and 12%, depending on the type.⁴⁹

- **Partial licensing of medicines.** According to data obtained from relevant institutions as well as businesses in the pharmaceutical industry in Kosovo, the number of licensed drugs in Kosovo for businesses from Albania is much higher than the accepted and licensed drugs of Kosovo businesses in Albania. Always relying on these sources, despite the licensing requirement for a larger number of drugs, only a limited number (single-digit) of drugs produced in Kosovo can be exported to Albania.

47 GAP Institute, Harmonization of Food Safety Standards between Kosovo and Albania, October 2014, Source: <https://bit.ly/39wGyUi>

48 Republic of Albania - Ministry of Agriculture, Rural Development and Water Administration of Albania issued an instruction on the determination of safety and quality indicators of pre-packaged wheat flour, to be sold to the final consumer or for production of other food products

49 Instituti GAP, Harmonizimi i standardeve të sigurisë ushqimore në mes Kosovës dhe Shqipërisë, Tetor 2014, Burimi: <https://bit.ly/39wGyUi>

7. Trade potentials and cross-sectoral trade

Table 6 presents ITP and RITP indicators and their components measuring trade potentials between Kosovo and Albania during 2018. If the ITP and RITP of a trading sector are relatively large, there is indicative trade potential between the two countries in that sector. On the basis of the above mentioned criteria, the two sectors with the greatest potential for growth of exports of goods from Kosovo to Albania are goods in the manufacturing sector (section C) and the electricity supply sector (section D). Of the manufacturing sector, a significant proportion (17.6%) of goods exported from Kosovo were destined for Albania. However, only a small portion of imported goods to Albania come from Kosovo (1.2%), which suggests a discrepancy between the supply and demand of products in that sector. This results in an export potential of 212.7 million Euro or in relative terms 82.4% of Kosovo's export to this sector, that could be absorbed by the Albanian market. Of the electricity supply sector, only a small portion of Kosovo's exports belonged to Albania in 2018 (1.5%). The data also reveal an export potential of 23.1 million Euro or in relative terms 98.5% of Kosovo's export in the energy sector that could be absorbed by the Albanian market. The agricultural sector (section A), mining and quarries (section B), retail (section G), and arts and entertainment (section R) are relatively small in terms of value of exported goods, and it can be stated that there is no potential for export growth in those sectors.

Table 6. Trade potential between Kosovo and Albania during 2018

Section by NACE	Kosovo exports globally (in thousands of euros)	Albania's share in Kosovo exports (%)	Kosovo imports globally (in thousands of euros)	Albania's share in Kosovo imports (%)	ITP (thousand euro)	RITP (%)
Agriculture, Forestry and Fishery	782.617	21.6	39,660.863	0.4	613.455	78.4
Mining and ores	25.412	0.0	352.919	0.0	25.412	100.0
Manufacturing	258,208.097	17.6	3,710,725.814	1.2	212,756.522	82.4
Supply of electricity, gas, steam and air	23,448.465	1.5	102,810.809	0.3	23,097.657	98.5
Water supply, wastewater management, and waste management	46,491.382	42.3	41,729.103	47.2	22,043.290	47.4
Wholesale and retail trade; trade and repair of motor vehicles and motorcycles	117.145	82.4	4,446.770	2.2	20.580	17.6
Arts, entertainment and recreation	7.427	2.7	293.828	0.0	7.223	97.3

Source: Eurostat. Categorization and calculation: GAP Institute and Riinvest Institute.

Further, Table 7 analyzes the trade potential at the industrial sector level.⁵⁰ Manufacturing of base metals (Division 24), manufacturing of food products (Division 10), manufacturing of rubber and plastic products (Division 22), manufacturing of products from various metals (Division 25), manufacturing of beverages (Division 11) have the most indicative potential for increased exports from Kosovo to Albania.⁵¹

Table 7. Potentials for trade between Kosovo and Albania of the most important product manufacturing divisions (section C) during 2018

Division	Kosovo exports globally (in thousand euros)	Albania share in Kosovo exports (%)	Albania imports globally (in thousand euros)	Kosovo share in Albania imports (%)	ITP (in thousand euros)	RITP (%)
Core metals	83,730.237	10.85	208,864.099	4.35	74,647.417	89.2
Food products	40,706.112	19.25	555,405.081	1.41	32,871.355	80.8
Rubber and plastic rubbers	31,509.265	15.56	148,644.070	3.30	26,606.247	84.4
Metal products	15,338.037	3.54	99,080.334	0.55	14,794.962	96.5
Beverages	25,738.567	49.74	102,294.974	12.52	12,935.456	50.3

Source: Eurostat

To validate the results of the analysis based on the level of sections and divisions, the level of individual products should also be analyzed. Table 8 presents indicative potentials for increased trade between Kosovo and Albania on the basis of most traded individual products (based on their four-digit HS codes) included in the manufacturing sector or section C and D of the NACE categorization. The most exported Kosovo products to the world and with the highest ITP and RITP in 2018 of Section C were ferro-alloys (7202), cast iron or steel pipes (7306), plastic construction equipment (3925), carbonated water or sweetened minerals (2202), and malt beer (2203). However, the indicative potential for increased trade was the highest for carbonated or mineral water, sweetened or flavored, which according to this analysis could be absorbed by the Albanian market. It should be noted that from Section D, which covers the electricity sector, Kosovo has enormous potential for increased electricity trade (2716) with Albania, which in 2018 was around 23 million Euro that could have been absorbed by the Albanian market.

⁵⁰ The industrial sectors in this table reflect trade exchanges by division into NACE Nomenclature.

⁵¹ Section D is also relevant on the basis of ITP and RITP, however within Section D there is only Division 35, which deals with the electricity supply sector. To avoid repetition, Division 35 is not shown in Table 8.

Table 8. Trade potentials between Kosovo and Albania based on Kosovo's most exported products during 2018

Product	Kosovo exports globally (in thousand euros)	Albania share in Kosovo exports (%)	Albania imports globally (in thousand euros)	Kosovo share in Albania imports (%)	ITP (in thousand euros)	RITP (%)
Ferro-alloys	31,959.829	0.0	4,291.403	0.0	4,291.403	13.4
Cast iron or steel pipes	12,953.439	8.5	8,017.040	13.7	6,916.532	53.4
Plastic construction equipment	11,133.741	3.3	6,319.805	5.9	5,948.946	53.4
Carbonated water	11,106.641	25.7	47,384.593	6.0	8,254.271	74.3
Malt beer	9,029.909	97.8	30,718.430	28.7	201.172	2.2
Electrical energy	23,448.465	1.5	102,810.809	0.34	23,097.657	98.5

Source: Eurostat

In addition to the above ITP and RITP indicators, this study also analyzes in detail the level of trade cooperation between the same sectors/industries in both countries. To assess the level of cross-sector trade of certain products, we have calculated the Grubel-Lloyd index, which is widely used in international trade theory. The highlighted sectors in the table below (sectors with an index value greater than 0.5) indicate that the value of export or import in a given sector does not exceed twice the value of import, respectively export, in that sector. It should also be noted that the table only considers the sectors where the total value of trade between the two countries in the last 11 years is higher than 5 million Euro. Index values presented over the years indicate that cross-sector trade is systematically higher in wood, stone, plastics, beverages, vegetables and cereals products.

Table 9. Grubel-Lloyd cross-sector index

Chapters	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Dairy products, bird eggs, and natural honey	0.28	0.43	0.74	0.33	0.16	0.35	0.93	0.84	0.92	0.81	0.98
Edible greens, and their corresponding roots and tubers	0.39	0.46	0.84	0.58	0.89	0.68	0.48	0.33	0.42	0.32	0.32
Edible fruits and nuts, citrus or melon skins	0.08	0.01	0.02	0.00	0.03	0.02	0.00	0.00	0.01	0.01	0.02
Milling industry products	0.02	0.01	0.00	0.16	0.06	0.01	0.01	0.13	0.01	0.02	0.10
Animal or vegetable oils and fats	0.14	0.41	0.24	0.06	0.01	0.05	0.07	0.91	0.06	0.69	0.51
Preparations from cereals, flour, starch or milk	0.60	0.86	0.84	0.60	0.42	0.23	0.16	0.33	0.40	0.35	0.25
Preparation of greens, fruits or other parts of plants	0.13	0.30	0.60	0.91	0.59	0.48	0.41	0.66	0.96	0.79	0.91
Beverages, alcohols and vinegar	0.71	0.40	0.50	0.72	0.99	0.96	0.91	0.63	0.75	0.54	0.37
Residues and returns from the food industry	0.63	0.00	0.02	0.26	0.02	0.09	0.00	0.00	0.00	0.04	0.02
Salts; sulfur; oxides and stones	0.47	0.44	0.06	0.16	0.04	0.04	0.01	0.05	0.01	0.00	0.01
Ores, slags and ashes	0.01	0.01	0.05	0.00	0.00	0.04	0.84	0.00	0.01	0.13	0.01
Mineral fuels	0.32	0.40	0.52	0.49	0.74	0.00	0.00	0.00	0.02	0.00	0.02
Coloring and tannic extracts	0.47	0.56	0.65	0.44	0.11	0.16	0.25	0.30	0.21	0.21	0.21
Various chemical products	0.11	0.34	0.27	0.53	0.05	0.16	0.73	0.33	0.13	0.03	0.16
Plastics and articles thereof	0.46	0.54	0.96	0.86	0.63	0.53	0.51	0.58	0.64	0.51	0.40
Wood and articles of wood, charcoal	0.41	0.80	0.80	0.80	0.88	0.83	0.92	0.72	1.00	0.99	0.75
Paper and cardboard	0.97	0.94	0.86	0.55	0.29	0.36	0.21	0.40	0.68	0.94	0.88
Articles of stone	0.57	0.67	0.92	0.71	0.71	0.72	0.68	0.77	0.71	0.69	0.87
Ceramic products	0.66	0.54	0.91	0.05	0.02	0.02	0.03	0.01	0.02	0.16	0.12
Cast iron and steel	0.23	0.20	0.34	0.43	0.42	0.50	0.58	0.39	0.24	0.34	0.32
Cast iron and steel items	0.23	0.43	0.89	0.74	0.61	0.64	0.56	0.98	0.43	0.35	0.33
Aluminum and articles thereof	0.77	0.08	0.63	0.40	0.18	0.44	0.67	0.79	0.69	0.57	0.57
Nuclear reactors, boilers, mechanical machinery and equipment, parts thereof	0.09	0.11	0.39	0.31	0.18	0.20	0.07	0.47	0.26	0.41	0.22
Machinery and electrical equipment and parts thereof	0.84	0.35	0.54	0.32	0.20	0.63	0.16	0.05	0.15	0.45	0.61
Furniture	0.36	0.37	0.41	0.17	0.20	0.24	0.19	0.17	0.16	0.37	0.34
Various manufactured items	0.00	0.30	0.46	0.05	0.63	0.56	0.14	0.10	0.08	0.08	0.11

8. Conclusions

The trade partnership between Kosovo and Albania is of particular importance. However, to date this partnership has failed to exploit the potential for the further advancement of this cooperation, which would result in improved overall well-being in both countries. Currently, Kosovo manages to export only a small portion of products to Albania compared to imports from Albania to Kosovo. In 2018, Kosovo exported nearly one-third of the value of goods it imported from Albania. Most exported goods from Kosovo are various alcoholic and non-alcoholic beverages, wheat flour, and steel pipes. On the other hand, goods mainly imported from Albania include mineral based products. The goal of the two countries' memberships in CEFTA was to enhance economic and trade co-operation between them. However, although Kosovo saw an increase in exports to Albania after the agreement entered into force, Kosovo's imports from Albania are many times higher than exports to Albania.

In order to improve trade relations, a number of bilateral agreements have been signed. Their objectives are being partially fulfilled, but some of the trade barriers would not be addressed even if these agreements were fully implemented. Both countries face widespread corruption, lack of legal stability, and poor quality of institutions. These factors then cause the trade potential between the two countries to not be fully realized.

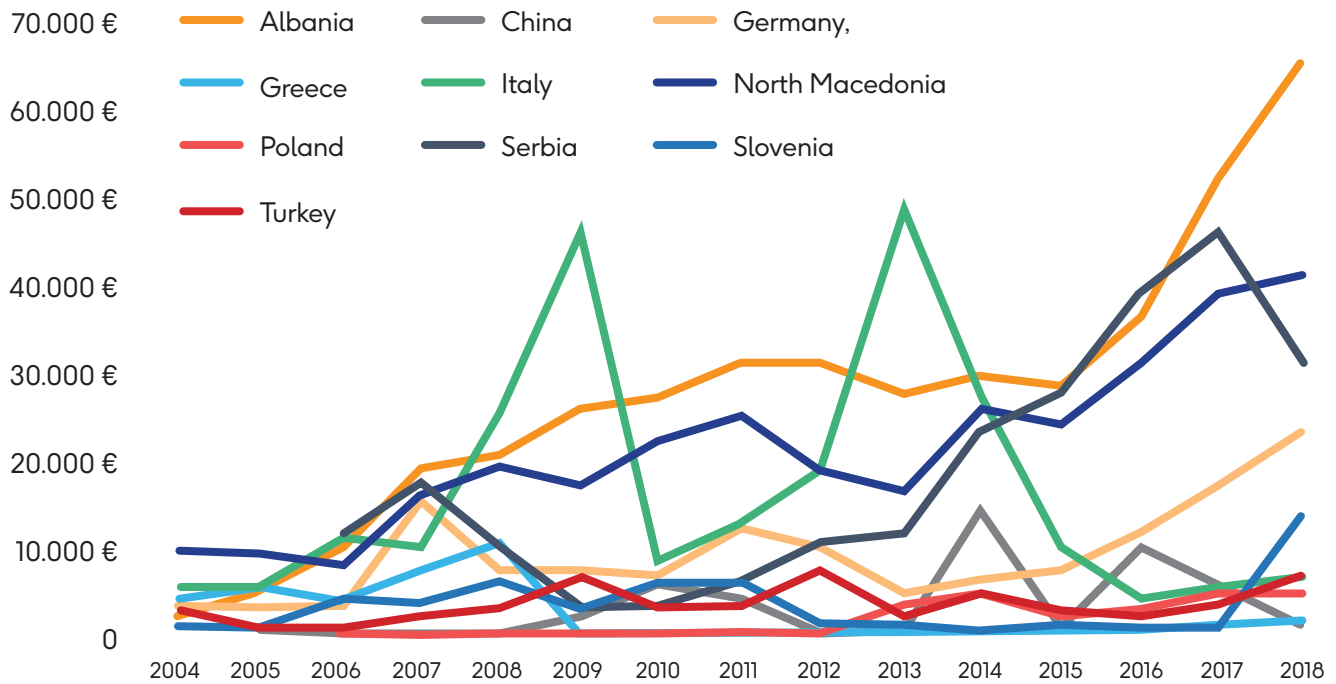
Based on the analysis of indicative potentials for increased trade at the industry level, it is clear that the largest potentials for export growth from Kosovo are in manufacturing, namely base metals, food products, rubber and plastic, manufacturing of various metals, furniture, and non-apparel textiles. On the basis of individually traded products, the highest trade potential with Albania lies with electricity exported from Kosovo.

Based on these findings, GAP and Riinvest Institute recommend the following:

- In order to speed up transit procedures, Albanian Customs should increase its verification capacities for transits from Kosovo to the Kosovo Customs Office in Durrës;
- To reduce corruption at customs points and accelerate procedures, Albanian and Kosovo Customs should eliminate the use of separate systems for transit procedures on the ASYCUDA platform;
- In the area of food safety and to further harmonize standards for food products, increased cooperation in the area of laboratory accreditation, harmonize legislation on risk-based controls and unify documentation for products of non-animal origin is needed;
- To avoid future trade conflicts, anti-dumping laws and safeguards on imports must be harmonized;
- Similar to EU countries, the Albanian Customs should avoid the entry of all goods into the security scanner, and rather carry out risk-based controls;
- Cost of road tolls should be reduced;
- To exploit trade exchange potentials, both countries must work to strengthen the rule of law, enforce contracts, and reduce corruption;
- Joint programs should be established to promote Kosovo-Albania trade exchanges, either through financial assistance or business technical support;
- Agreements should be concluded to harmonize legislation on excise duties or other domestic taxes that have hampered equal competition between the two countries;
- Supportive programs should be developed to support industries with a high trade exchange potential;
- Develop action plans with deadlines and activities at technical level;
- The Government of Kosovo and the Government of Albania should regularly monitor the implementation of the signed agreements and address bottlenecks at the technical and political level.

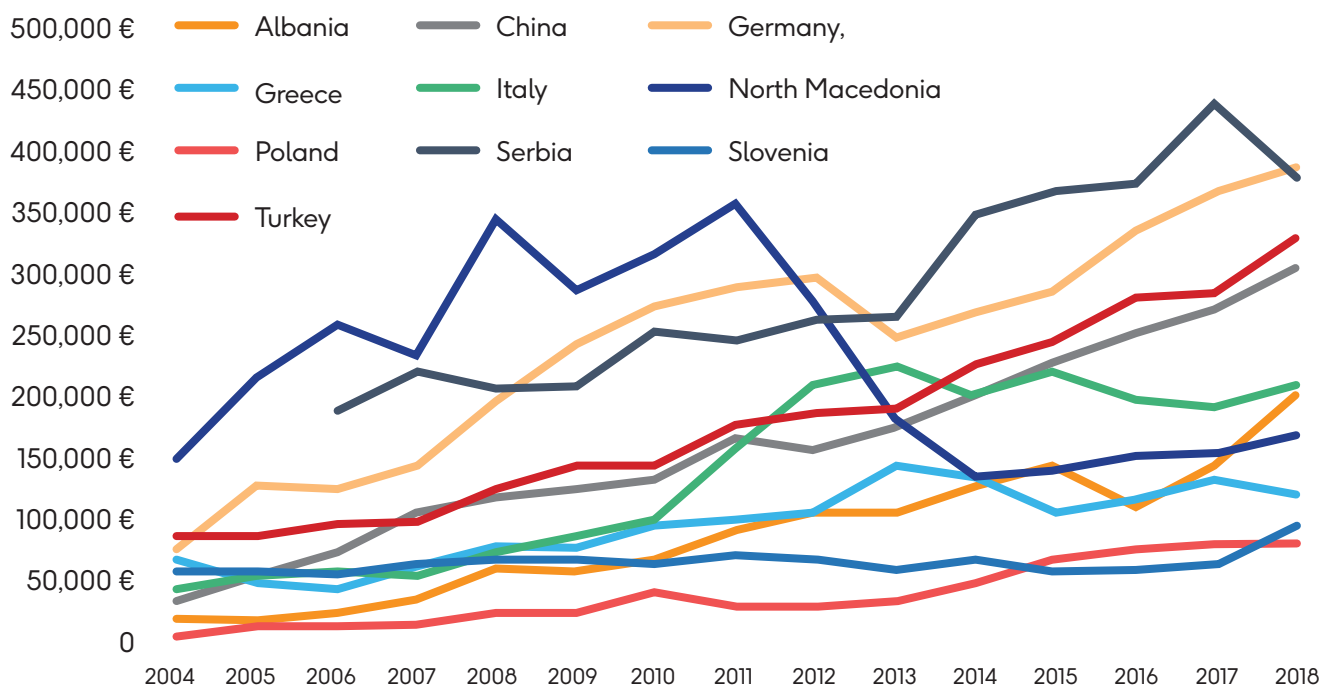
Annexes:

Annex A. 1. Top ten trading partners for exports, based on the value of total goods traded in the period 2014-2018, in thousands of Euro



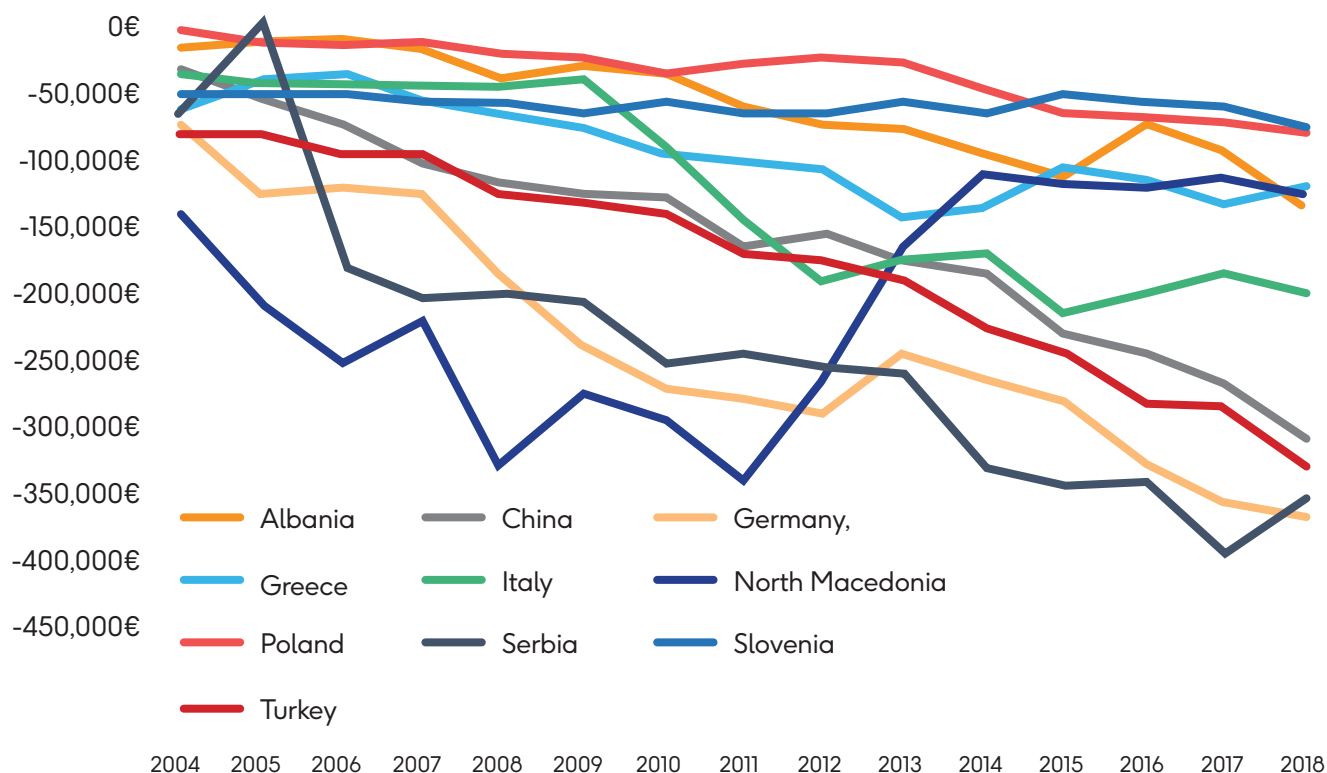
Source: Eurostat.

Annex A. 2. Top ten trading partners for imports, based on the value of total goods traded in the period 2014-2018, in thousands of Euro



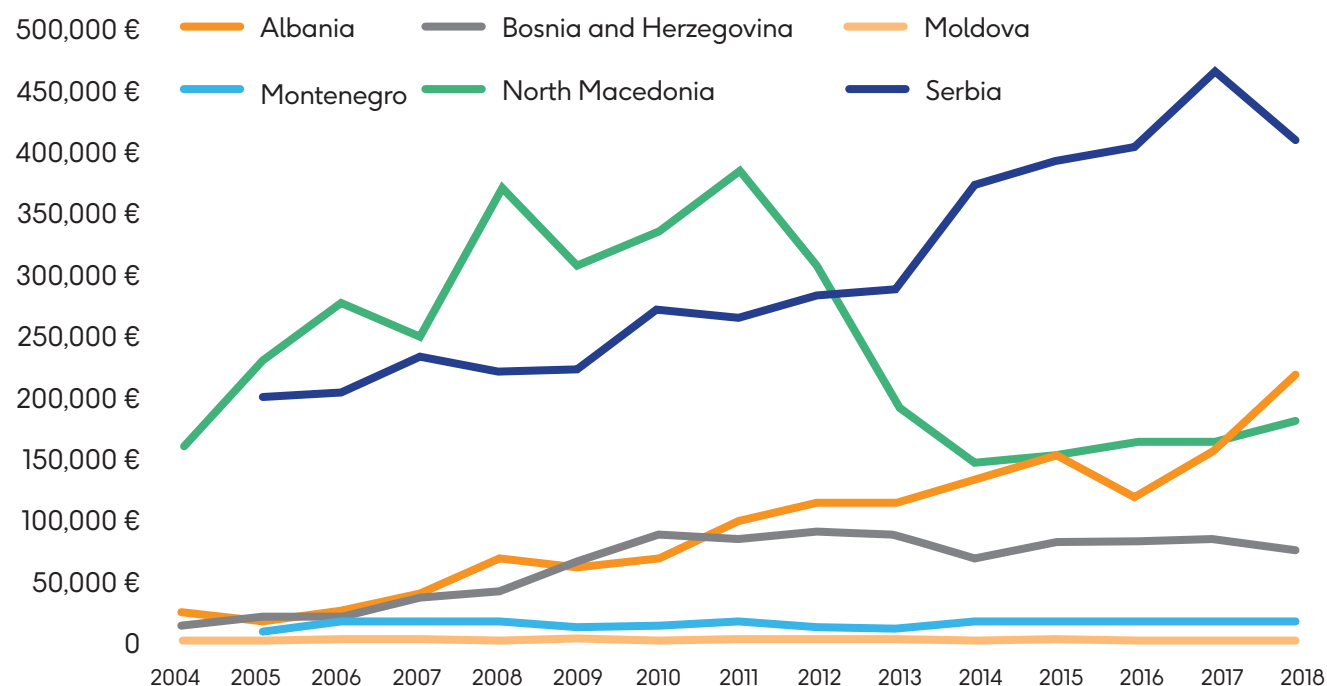
Source: Eurostat.

Annex A. 3. Trading balance with ten main trading partners for trade exchanges, based on the value of total goods traded in the period 2014-2018, in thousands of Euro



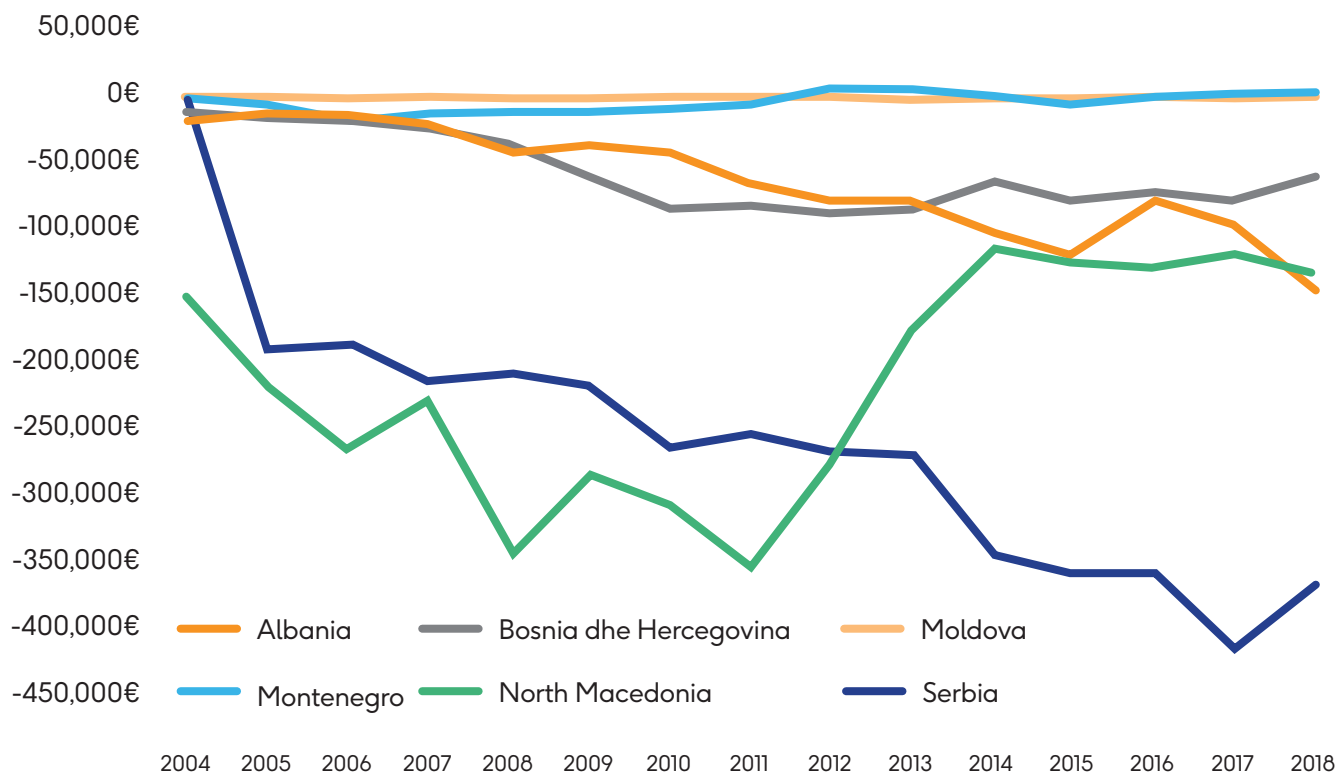
Source: Eurostat

Annex A. 4. Main trading partners for imports to CEFTA, based on the value of total goods traded in the period 2014-2018, in thousands of Euro



Source: Eurostat

Annex A. 5. Trading balance with ten main trading partners for trade exchanges, based on the value of total goods traded in the period 2014-2018, in thousands of Euro



Source: Eurostat

Annex B

Source	Institution	Indicator	Researchers' Assessments (Rinvest and GAP)
Agreement for Cooperation in Promoting and Facilitating Trade	MTI	Is the legislation on safeguards on imports harmonized with the relevant legislation in Albania?	PARTIALLY
		Is the anti-dumping legislation harmonized with the relevant legislation in Albania?	PARTIALLY
		Is the intellectual right law harmonized with the relevant legislation in Albania?	YES
		Are mechanisms for reciprocal informing and reporting on intellectual property legislation established?	PARTIALLY
		Are there information exchanges for the protection of commercial rights and patents?	PARTIALLY
		Are joint working groups established in the area of trade barriers?	YES
		Are regular meetings held twice a year?	NO
Cooperation agreements in the areas of standardization and accreditation	MTI	Are all standards exchanged free of charge between the Kosovo Accreditation Agency and its counterpart institution in Albania?	YES
Agreement on Mutual Recognition of the Vehicle Tachograph Test/Calibration Certificate	MTI	Mutual Recognition of the Vehicle Tachograph Test/Calibration Certificate	YES
VAT exemption agreement on books, products similar to books, newspapers, magazines, periodicals and similar press materials published in Kosovo and Albania	MTI	Mutual VAT exemption on imports for books, related products, newspapers, magazines and periodicals	YES

Source	Institution	Indicator	Researchers' Assessments (Rinvest and GAP)
Agreement for Cooperation in Promoting and Facilitating Trade	AUV	Kosovo has harmonized with Albania standards in the field of food and non-food safety	PARTIALLY
		Kosovo has harmonized with Albania standards in the field of plant and animal health	YES
		In order to exchange information with the Albanian authorities, the following has been harmonized / standardized:	
		a) Information	YES
		b) Documentation	YES
		We have cooperation with Albania in the field of laboratory accreditation	PARTIALLY
		Counterpart institutions exchange documents electronically	PARTIALLY
		We have access to prior information (prior to arrival of the goods) on goods from Albania	YES
		Have the following been harmonized:	
		a) accreditation procedures	PARTIALLY
		b) recognition of compliance results	YES
		Is there mutual recognition of accreditation certificates	YES
		Agreement on the recognition of veterinary certificates and products of animal and non-animal origin	AUV
Joint working groups have been established in the field of sanitary, phytosanitary and veterinary measures	PARTIALLY		
Working groups meet regularly, twice a year	PARTIALLY		
Both sides recognize templates of veterinary health certificates for live animals for slaughter and breeding	YES		
Both parties recognize the models of veterinary certificates for products of animal origin not for human consumption	YES		
Both parties recognize the models of veterinary health certificates of products for human consumption	YES		
Both sides recognize the results of pesticide residue monitoring plans in products of plant origin	YES		
Both parties recognize the phytosanitary certificate template for all products	YES		
The documentation for products of non-animal origin has been unified	PARTIALLY		
Reference laboratory analysis reports are recognized	YES		
The list of food business operators is recognized	PARTIALLY		

Source	Institution	Indicator	Researchers' Assessments (Rinvest and GAP)
Agreement on joint border-crossing points	Kosovo Customs	The "one stop one check" principle is being applied	PARTIALLY
		Joint Experts Committee (JEC) established	
		The JEC holds regular biannual meetings as provided by the agreement	NO
Cooperation agreement in the field of administrative, tax and customs investigations	Kosovo Customs	A contact person has been assigned for customs investigation matters with Albania	
		Joint investigative units have been established with Albania in the area of customs investigations	
Agreement for Cooperation in Promoting and Facilitating Trade	Kosovo Customs	There is an interaction between the electronic systems of Kosovo Customs and Albania	YES
		The Albanian Customs electronic system is interoperable with the Kosovo Customs	YES
		Transit procedures have been harmonized and simplified	PARTIALLY
		Steps have been taken to improve the customs declaration system	YES
		The number of non-electronic exchanges with the Albanian Customs has been reduced	YES
		The exchange of prior information (before the arrival of goods) with institutions in Albania is applied	YES
		Harmonization of risk assessment methodologies for non-food products presenting a safety and health risk has taken place	YES

Source	Institution	Indicator	Researchers' Assessments (Riinvest and GAP)
Framework Agreement for Cooperation in Promoting and Facilitating Trade - Transit issues	Kosovo Customs	A single guarantee for non-food products is used in both countries for transit procedures	PARTIALLY
Framework Agreement for Cooperation in Promoting and Facilitating Trade - Transit issues	Kosovo Customs	Dual transit procedures have been avoided in the following processes:	
		a) weighting and sealing of trucks	NO
		b) transit start and end	PARTIALLY
		c) settlement	PARTIALLY
		d) activation of guarantees	PARTIALLY
		Arbitrary reference prices have been eliminated	NO
Framework Agreement for Cooperation in Promoting and Facilitating Trade - Transit issues	Kosovo Customs	Products have been categorized in order to carry out controls at terminals or commercial premises	YES
		Dealers have been categorized for the purpose of carrying out controls at terminals or commercial premises	YES
		Steps have been taken to develop common modules for risk assessment, joint risk profiling and the creation of information exchange schemes	YES
		Joint trainings have been organized between the two customs	NO

