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Benefits of Stabilization and Association Agreement in Agriculture

(Case Study)

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Introduction

Agriculture plays an important role in Kosovo's economy. It is the main contributor to the national GDP, namely it is estimated to be around 11.9% of GDP for 2014. Approximately 60% of the country's population lives in rural areas and their livelihood directly or indirectly is dependent of the agriculture sector. Agriculture is the largest private employer, accounting for about one-fifth of total employment, although employment is mainly informal. About 90 percent of the population has land for cultivation, and 55% have their own cattle. In addition to economic aspects, Kosovo's support to agriculture has an important social dimension, namely dispersing in a form of a safety net for a large portion of its population. (Source: KAS, MF, MTI).

Notwithstanding this sector's stable growth ever since the independence, the overall balance of trade with agricultural products is mainly negative. Imports of agricultural products remain relatively high, accounting a 10% of total imports. Out of that amount, 30% is composed of food and agricultural products. Kosovo is one of the largest food importers per capita in Europe. The reason for this being the fact that agriculture sector remained semi-existent and faced different and interrelated challenges that reduce competition and prevent the sector from achieving its production potential. While being an important economic sector of Kosovo, agriculture is full of systematic challenges which need to be addressed in order to use its competitive and growth potentials (Source: KAS, MF, MTI). Based on the National Development Strategy 2016-2021 (OPM, Kosovo), agriculture is currently (still) characterized by low overall productivity, mainly due to the following reasons:

- land division (fragmentation) with an average of 2 hectares (often disbursed in seven smaller parcels, thus aggravating the economies of scale;
- Outdated agricultural technology, and lack of agricultural knowledge/modern skills of farmers and agro-processors;
- lack of diversification of agricultural products;
- Lack of investments in the irrigation systems and lack of participatory irrigation management system;

- The limited access and particularly high credit cost and investment capital partially reflect the high informality and incapability to achieve collateral value (e.g. due to shortcomings in property rights regarding availability and reliability of land owner's documents and maps);
- Limited processing facilities, including the lack of storing, packaging and transporting facilities;
- Limited application of food and hygiene safety standards;

Necessary measures

A necessary and urgent measure for addressing such challenges is to ensure that the planned increase of agricultural subsidies is exclusively directed to initiatives aiming to increase productivity. Moreover, based on the EU's Strategy on Agriculture 2020, Kosovo has planned a range of objectives for the development of agriculture, such as: production of healthy food, sustainable development of natural resources and climatic actions and balanced territorial development of rural areas. Support schemes shall directly contribute to:

- **Increase of productivity** – by implementing measures in accordance with the Program for Agricultural and Rural Development, the Government aims to contribute to the increase of productivity, efficiency and effectiveness, use of new technologies and the replacement of old ones. Increase of quality and security standards by investing in agro-processing, after the entry into force of the SAA.
- **Re-orienting current policies** – by promoting new priority cultures, competitive advantage, and organic agriculture;
- **Diversification activities** – development of rural tourism and other activities, in addition to collecting and cultivating medicinal and aromatic plant and non-wood forest products and their placement into EU markets.
- **Transfer of innovation and knowledge** in agriculture, forestry and rural areas, and capacity building of public administration in implementation of programs for rural development;

Budget allocation to the measures under the first pillar for 2016 is 50% of the total budget for grants and subsidies. Implementation of these measures is in accordance with the Common Agricultural Policy, taking into consideration that in the EU budget appropriations for direct payments are divided 73% for direct payments, and 27% for other activities. Implementation of

these activities foreseen for the economic reform program of 2016 will have a direct impact on the growth of agricultural production and processing, creation of new jobs and supporting existing ones.

Moreover, this measure will have a direct impact on improving the livelihood in rural areas, by implementing rural diversification projects, and including local action groups. In general, upon the entry into force of the SAA, implementation of such measures will have a direct impact on economic development.

The Stabilization and Association Agreement (SAA) between the EU and Kosovo, signed last year and now adopted by the European Parliament (EP), is expected to enter into force in June this year.

The agreement stipulates that in the first phase, the custom charges shall be removed for a total of 2 thousand and 564 processed agricultural products with the exception of meat, vine and sugar products. Whereas with regard to industrial products, namely vehicles and machinery, custom duties are scaled for the upcoming seven years, and the same shall be exempted of custom duties only after expiration of that period of time.

SAA produces two types of substantive and procedural effects. Material effects includes customs duties, which will be entirely removed for a portion of goods, namely the goods not included in the annexes, taking into consideration that the Stabilisation and Association Agreement contains nine annexes and five protocols.

The SAA Agreement is divided into three chapters: Industrial chapter (including vehicle and machinery) agricultural products, and fishery as a special field.

This agreement allows the European Union products to enter Kosovo with a zero percent charges or with a scaled tax, which declines over the years, but which also favours Kosovo's economy, because allows Kosovo producers to export to a significantly larger market in the European Union.

Agricultural products have a progressive custom duty deduction scale. This is the material effect of the SAA. In the first year, as calculated, it is foreseen a decline in custom tax revenues of EUR 24 million. (Source: MF, KC).

Some of the agricultural products, such as potatoes and milk products are among the agricultural products on which EU shall remove custom charges upon the entry into force of the SAA. Whereas, regarding beef products, the EU shall affix a custom charge of 20 percent applicable for exports from Kosovo to EU.

There are 14 important agricultural products which we have sufficient capacities to produce, such as: milk, potatoes, wine and some other products. These products shall, from the moment the SAA enters into force with the exception of wine, have 0 percent custom charges for export into EU market. Whereas, there will always be a 10 percent custom fee for the import of such products. All of these products are protected from import, because they aren't negotiated at all, whereas with regard to export, EU shall, from the moment of the entry into force of the SAA, reduce custom charges to zero percent for all agricultural products with the exception of meat and wine.

This agreement is a very important step in economic and trade aspects. The agreement is asymmetrical, meaning that all domestic products shall have full access to the EU market, with the exception of those negotiated by virtue of a quota. However, even those containing a quota are still in favour of our products.

Access of European Union products shall be liberalized in a form of a transitional 5 years, 7 year and 10 year period. In principle, Kosovo negotiated these products as follows: all products for which Kosovo currently has potential to, or produces, or will have the potential to produce within a mid-term period, are protected from EU imports in 5 years, 7 years and 10 years periods.

Agricultural products – imports

- i) Kosovo shall, from the entry into force of the SAA, abolish custom duties for 1,044 out of 2,564 EU agricultural products. Whereas 164 agricultural products of the EU have already been exempt from custom duties under the Law No. 04/L-163 on Goods Exempt from Custom Tax and Goods with Zero Rate of the Custom Tax.
- ii) 256 sensitive agricultural products (180 agricultural and 76 processed agricultural products) that are important to Kosovo farmers shall be protected for 7 years (*fruit juices such as: apple, mango, strawberries, plum juice etc., as well as jams and marmalade, potatoes, flour, meat and poultry, and cheese*).

- iii) Kosovo custom charges for import of **coffee** and coffee products (**for roasted and decaffeinated coffee**) from the EU shall be gradually reduced over a **5 year period** and **for caffeine coffee** (both roasted and unroasted) over a **7 year period**.
- iv) 14 products were nonnegotiable and therefore were not included in the agreement, meaning that Kosovo custom duties shall remain the same, namely (10%) on those products (which mainly include *milk products and cream, yogurt, potatoes, apples, wine*)

Potatoes (unprocessed), **milk** (and some milk products such as cream and sugar free and fruit free yogurt) and **grape wine** are not included at all in the agreement because of their importance to domestic producers. Therefore, the custom duties shall remain at 10 % for these products. (For other types and by-products of these products, the fee shall be alleviated gradually within 5 and 7 years respectively).
- v) 12 very important products for Kosovo's agricultural production (8 agricultural products, and 4 processed agricultural products) shall be protected for 10 years (*milk products, fruits and vegetables, water, beer and wheat products*).
- vi) Upon the entry into force of the agreement, Kosovo shall abolish the custom charges for 487 fish products. Whereas for 1 fish product (mackerel) Kosovo custom fee shall be removed gradually within a 5 year period, and for another fish product (certain **trout** products) **the fees shall be removed gradually over a 7 year period**.

Export to EU

- vii) Custom duties shall be removed completely (as of the entry into force) for **agricultural products** (a total of 2,564 agricultural, processed agricultural and fish products), **with the exception of meat, wine and sugar products**.
- viii) Upon the entry into force of the agreement, the EU shall remove custom duties **for all meat products** (both fresh and frosted) with the exception of "baby beef". For animal products under Chapter 7 and 8 of the Combined Nomenclature (different leather products), in which the "ad valorem" tariff (20%) and the specific rate duty (20%) are applied, the exemption includes only the "ad valorem" tariff.

- ix) For **baby beef** products, the EU shall affix a custom tax “ad valorem” at 20% and specific duty (preferential tariff) of 20 % which will be applicable for export from Kosovo to EU within the annual quota limit of 475 tons (expressed on body weight).
- x) EU shall remove custom tariffs for types of **coffee** containing caffeine, upon the entry into force of the agreement
- xi) **Potato** and **milk** are among agricultural products for which the EU shall remove custom tariffs upon the entry into force of the SAA.
- xii) Export to EU of fresh **grape wine** and "**sparkling wine**" is exempted from custom tariffs to the limit set by the quota. The quota for grape wine is 40,000 hectolitres, and the quota for "sparkling wine" is 10 hectolitres.¹
- xiii) **Trout and Carp**: The quota is applied. The EU custom tariff shall not be applied for amounts under 15 tons of trout per year. The quota for carp is 20 tons per year. The EU custom tariffs shall be applied for any amount exceeding the above.

Gradual reduction means:

Gradual reduction for 5 years

Entry into force	Year 2	Year 3	Year 4	Year 5
Year 1				
80 % of the base tariff	60 %	40 %	20 %	Tariff shall be removed

¹ Import shall be conducted upon the presentation of a certificate and accompanying document issued by an official body bilaterally recognised, who will be placed on the list to be drafted jointly by the parties.

Gradual reduction of the fee for 7 years

Entry into force Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
90 % of the basic tariff	80 %	70 %	50 %	30 %	10 %	Tariff will be removed

Gradual reduction of the fee for 10 years

Entry into force year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
100 % of the basic tariff	100 % of the basic tariff	90 % of the basic tariff	80 %	70 %	60 %	50 %	30 %	10 %	Tariff will be removed

Note: 90% of the basic tariff refers to Kosovo's custom tariffs applicable on 31 December 2013. The tariff at that date was 10%, so when it is said that it will be reduced for 90% it implies a 9% reduction and so on.