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Potential Export Markets

March 2015



MINISTRY FOR FOREIGN
AFFAIRS OF FINLAND



*Empowered lives.
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Potential Export Markets for Food Processing, Agriculture, Wood Processing, Con- struction Materials, Tourism and Artisanal Crafts Sectors

March, 2015

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LIST OF ABBREVIATIONS

AMCHAM	American Chamber of Commerce
APHIS	Animal and Plant Health Inspection Service
ATP	Autonomous Trade Preference
BiH	Bosnia and Herzegovina
CAP	Common Agricultural Policy
CBP	Customs and Border Protection
CEFTA	Central Europe Free Trade Agreement
CEN	European Committee for Standardization
CENELEC	European Committee for Electrotechnical Standardization
CET	Common External Tariff
CIF	Cost, Insurance, and Freight
CPR	Construction Products Regulation
EC	European Commission
EFTA	European Free Trade Association
ENS	Entry Summary Declaration
EORI	Economic Operator Registration and Identification
EU	European Union
EXS	Exit Summary Declaration
FDA	Food and Drug Administration
FDI	Foreign Direct Investment
FSIS	Food Safety and Inspection Service
FTA	Free Trade Agreement
FYRoM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
IARM	Institute for Accreditation of the FYRoM
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
IPCC	International Plant Protection Convention
ISO	International Organization for Standardization
ISPM	International Standard for Phytosanitary Measures
MAFRD	Ministry of Agriculture, Forestry and Rural Development
MARA	Ministry of Agriculture and Rural Affairs
MFN	Most Favoured Nation
MHF	Mass Housing Fund
MINFAL	Ministry of Food, Agriculture and Livestock
MRL	Maximum Residue Levels

NAFTA	North American Free Trade Agreement
OMB	Office of Management and Budget
PE	Permanent Establishment
POP	Persistent Organic Pollutants
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals
SAA	Stabilization and Association Agreement
SAD	Single Administrative Document
SCT	Special Consumption Tax
SITC	Standard International Trade Classification
TSE	Turkish Standards Institution
UK	United Kingdom
U.S.	United States of America
USDA	U.S. Department of Agriculture
VAT	Value Added Tax
WCO	World Customs Organization
WPM	Wood Packaging Material
WTO	World Trade Organization

1. INTRODUCTION

The purpose of this document, produced in the framework of the United Nations Development Programme (UNDP) “Aid for Trade” project in cooperation with the Ministry of Trade and Industry of Kosovo¹, is two-fold: i) to assess the potential for increased exports in the sectors of agriculture, food and drinks, construction materials, wood-processing, handicrafts and tourism; and, ii) to identify market access rules, regulations and procedures for Kosovo exports from the above-mentioned sectors in four key markets for Kosovo – European Union (EU), Central Europe Free Trade Agreement (CEFTA) region, the United States (U.S.) and Turkey.

It should be emphasized that this document is not analytical or prescriptive – in other words, it does not aim at providing policy recommendations for how to improve certain aspects of the policy regime related to exports. This document is descriptive and is intended to aid existing and prospective exporters in their quest to export products from Kosovo successfully to foreign markets.

This document should be seen as another contribution from UNDP to Kosovo’s export promotion efforts in the context of the broader strategy to develop the competitiveness of Kosovo’s economy and create conditions to encourage the development of a diversified, high-productivity and high-value-added economic base.

The six sectors mentioned above were selected on the basis of a study of the economic potential of the Southern Region (Prizren and environs) conducted by the “Aid for Trade” project. The study assessed the potential for earnings, revenue generation and exports of a number of existing economic activities. Based on those findings and a review of Kosovo’s trade exchanges with other countries by categories of goods, the current study identified the EU, the CEFTA region, the U.S. and Turkey as markets with potential for Kosovo exports. The main reason why these countries are the most important for Kosovo in terms of potential for exports is related to a combination of the following factors: their geographical proximity, their market size, Kosovo’s participation in free trade agreements or other trade instruments with them, political and cultural links (including the presence of diaspora), etc.

The rest of this report is organized as follows. The first part of the document lays out the stage by providing some background information about Kosovo’s existing trade regime and policies, as well as trade exchanges with the outside world. The focus is on those product categories which Kosovo is already exporting the most and on those countries with which Kosovo has free trade arrangements or close economic links. The second part provides an overview of the import regime of the identified markets (EU, CEFTA region, U.S. and Turkey). This part describes the main rules and regulations that are applied in each market – including the documents which are necessary for imports, import duties and taxes, technical regulations, environment regulations, rules of origin, etc. The third part focuses on the key identified sectors – agriculture, food and drinks, construction materials, wood-processing, handicrafts and tourism – and provides an overview of those sectors and the potential for exports.

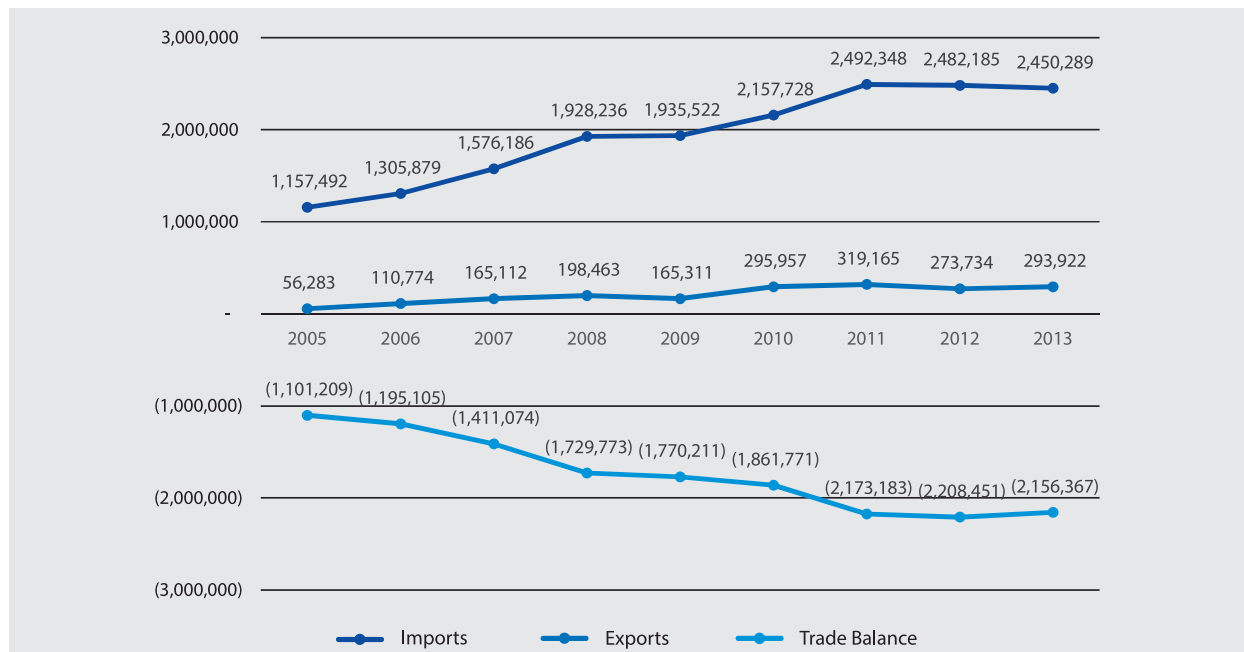
¹For UNDP, all references to Kosovo in this document are made in the context of UN Security Council Resolution 1244 (1999).

2. TRADE EXCHANGES

After the 1999 conflict, Kosovo's economy started from scratch and the level of international trade was at disfavour. With an almost non-existent manufacturing industry where almost all consumption goods were imported, at that time Kosovo "exported", almost, only cash.

The persistent negative trade balance is one of the most serious economic problems in Kosovo since 1999. Kosovo's trade deficit widened constantly over the last decade, reaching the highest level at over €2.2 billion in 2012, which is equivalent to 45% of its GDP. Although exports increased annually on average by roughly 23% from 2005 to 2013, compared to average increase of imports by 10% over the same period, the gap is still too high (Figure 1). On average, exports covered only 11% of imports in the last decade with a slightly increasing trend over this period. Total value of Kosovo exports during this nine-year period reached almost €1.9 billion.

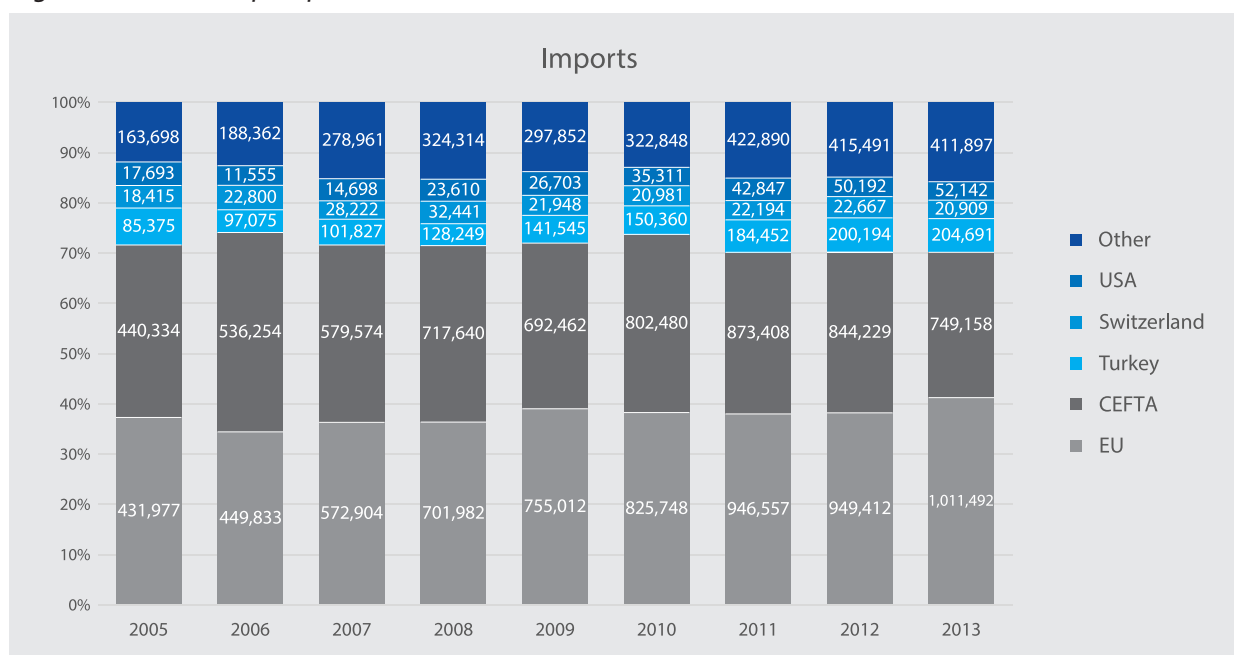
Figure 1. Kosovo's trade exchanges ('000 Euros)



Source: Kosovo Agency of Statistics, 2014

Kosovo's main trading partners are EU countries as well as countries in the region (CEFTA member countries). Currently Kosovo imports from 130 different countries of five different continents. However, as the Figure 2 below shows, Kosovo imports mostly from EU and CEFTA member countries with a share of more than 70% of total imports. Another important trading partner when it comes to imports is also Turkey. On average 7% of total Kosovo's imports come from Turkey. Imports from Switzerland and the U.S. as two strategic partners are still low – during the last decade, on average 3% of total imports originated from these two countries.

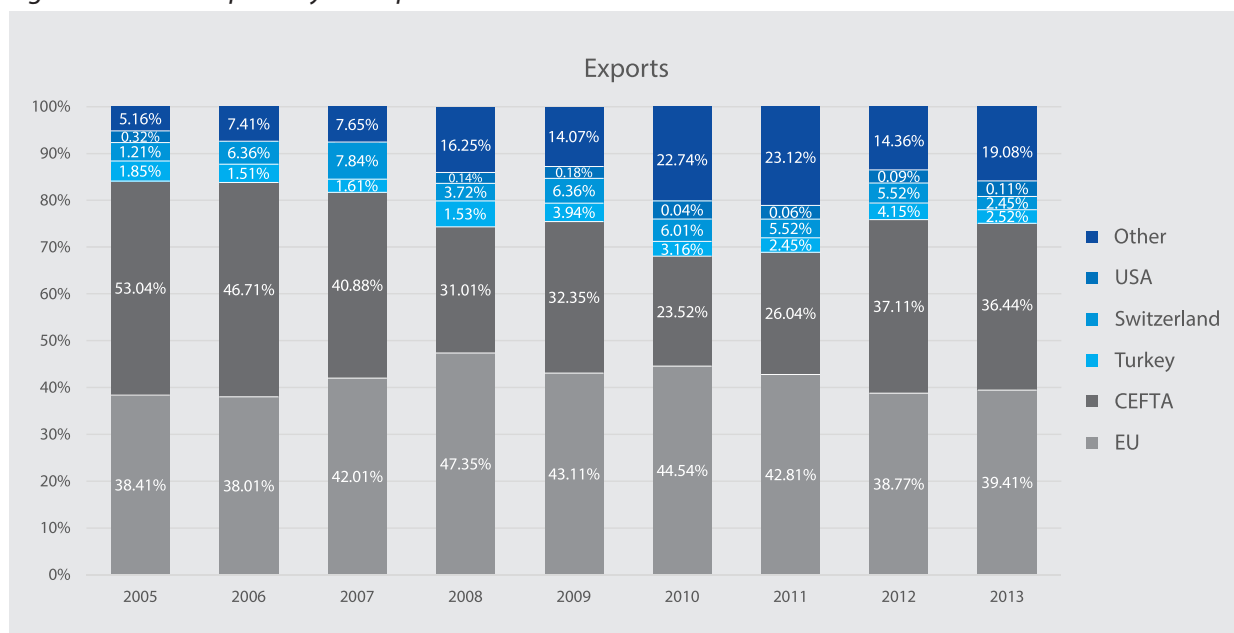
Figure 2. Kosovo's import partners



Source: Kosovo Agency of Statistics, 2014

Similarly to imports, Kosovo exports are also oriented towards the regional countries as well as EU countries, mainly due to the trade agreements that are in place. On average 80% of goods “made in Kosovo” are exported to EU and CEFTA member countries. Switzerland is Kosovo’s sixth largest export market; on average 5% of total Kosovo exports during the period 2005-2013 were destined for the Swiss market. This may be attributed to the large concentration of Kosovar diaspora in this country. It is estimated that roughly 25% of total Kosovo diaspora (over 700 thousands) live in Switzerland).² There is an increasing trend of Kosovo exports toward Turkey, reaching the highest level in 2012 with total value of €11.3 million or 4% of total exports.

Figure 3. Kosovo exports by trade partners



Source: Kosovo Agency of Statistics, 2014

²Kosovo Human Development Report (2014), UNDP

3. TRADE REGIME

Kosovo has adopted a broad trade policy strategy that is based on export promotion and competitive import substitution. To meet these goals, several policy objectives have been pursued. They include the integration of Kosovo into regional and EU markets and a customs regime and duties which seek to facilitate domestic production and exports. Furthermore, projects to promote the competitiveness of Kosovo's products have also been pursued.

Customs tariffs are relatively low and conducive to the development of domestic production. The adoption of a simple flat customs rate of 10% for most goods renders implementation simple and affordable. In order to facilitate domestic production, a number of raw materials and capital goods used in industrial and agricultural production have been exempted from customs duties. This measure is an instrument to increase the competitiveness of the fledgling domestic industries. Furthermore, customs and Value-added Tax (VAT) exemptions provided for the import of essential raw materials and capital goods have also been introduced. Finally, the new customs code provides sufficient instruments to minimize the administrative costs related to external trade.

Kosovo's Customs Code has established several trade facilitation instruments. It is fully EU and World Customs Organization compliant in all aspects (taxation, procedures and offences). In the part dealing with customs powers and offences, it also complies with Human Rights standards. The customs system is based on the EU model of a modern Customs Administration, where taxes, powers, offences, guarantees and procedures with economic impact are set out by law (Customs Code), while the Customs Service is tasked to implement and enforce the day to day reality.

The Code establishes several new instruments to facilitate trade, and is therefore a cornerstone for the future trade policy:

- *Bonded Warehousing*, providing the possibility to store imported goods under customs control without having to pay any duties until goods are released for sale in domestic market or re-exported to other markets.
- *Inward Processing Relief*, providing the possibility of importing foreign goods with the total conditional exemption from customs duties and taxes, processing them and then re-exporting them.
- *Processing under customs control*, providing the possibility of importing foreign goods and have them processed under customs control, and subsequently released the processed goods into free circulation by assigning them a different customs-approved treatment.
- Other important instruments such as *transit, temporary admission, and binding information*.

Kosovo currently benefits from nonreciprocal duty-free trade to the EU market under the EU Autonomous Trade Preference (ATP). Under this Agreement, quantitative and qualitative restrictions remain in force for a very limited number of goods. In addition, Kosovo has a free trade agreement with Southeast European countries, under CEFTA, which provides Kosovo exporters with duty-free access to more than 520 million consumers. Furthermore, approximately 3,500 different products from Kosovo are eligible to enter the U.S. duty - free under the Generalized System of Preferences Program. However, considering the geographic distance between the two, the value of Kosovo exports towards the U.S. market remains symbolic. Another Free Trade Agreement that opens a large market for Kosovo exporters is the one with Turkey. These trade agreements will be further elaborated in the following sub-sections.

3.1. Central European Free Trade Agreement (CEFTA)

Upon signing the Stability Pact Memorandum of Understanding (MoU) in late 2002, Kosovo started participating in the meetings of the Stability Pact Working Group on Trade Liberalisation and Facilitation. The central aim of Kosovo's participation in this initiative was to sign Free Trade Agreements (FTAs) with the signatories of the MoU, contribute to the removal of non-tariff barriers to trade (NTBs) and improve its trade relations with the parties thereto. Between 2003 and 2007 Kosovo negotiated and concluded bilateral FTAs with Albania, Former Yugoslav Republic of Macedonia (FYRoM), Bosnia and Herzegovina (BiH) and Croatia. At the end of 2006, Kosovo joined the enlarged CEFTA and all the bilateral FTAs were folded under this agreement.

CEFTA is the most important free trade agreement Kosovo has negotiated and signed to date. It opens for trade the regional market consisting of Albania, BiH, FYRoM, Montenegro, Moldova and Serbia. Some of the characteristics of the CEFTA agreement are:

- Builds on a previous network of bilateral FTAs in the region (Kosovo had bilateral FTAs with Albania, FYRoM, BiH and Croatia).
- Fully conforms to the rules and procedures of the World Trade Organization (WTO).
- Maintains and gradually extends the degree of liberalisation and co-operation.
- Harmonises the substance of trade policy to increase transparency, enhance predictability and cut red tape.
- Harmonises procedures related to Sanitary and Phytosanitary Standards and Technical Barriers to Trade and ensure their proper implementation.
- Includes provisions on modern trade policy issues, notably with regard to rules and regulatory convergence in goods and services and other trade-related issues.
- Provides a framework to allow for continuing co-operation and gradual liberalisation, in particular as concerns new issues such as services, [and a framework to allow for common rules on investment.]
- Includes clear and effective procedures for dispute resolution and a mechanism to improve all parties' compliance to the agreement and to WTO rules, including compliance by those parties not yet members of the WTO.
- Provides for a suitable institutional framework to manage the agreement and review its efficient implementation [covering for instance the role of Depository, Joint Committee, expert and other bodies, future role of trade working group, etc].

The main expected benefits of Kosovo's participation in the CEFTA agreement are:

- Increase of trade and direct investment, by lowering trade barriers and improving transparency for business.
- Facilitation of the administration of trade and trade-related regimes, thereby making better use of limited resources.
- Improved adherence by all parties to the trade liberalisation provisions contained in the relevant rules and procedures of the WTO.
- Efficient mechanism for resolving trade disputes between the parties.
- Further development of relations with the EU and improved integration into the international trading system (subsequently WTO).

3.2. EU Autonomous Trade Preference (ATP)

Currently, Kosovo enjoys non-reciprocal, customs-free access to the EU market as stipulated by the EU Autonomous Trade Preference Regime. For a small range of goods, such as wine and beef, quantitative restrictions remain in force. Although the EU is offering vast market opportunities, Kosovo's producers are presently not taking full advantage of this arrangement. Given this opportunity, there should be more local products that conform to EU standards and requirements and could therefore successfully compete in the EU market. Kosovo completed negotiations with the EU on the Stabilisation and Association Agreement (SAA), which represents an important milestone in Kosovo's European integration process. Through the implementation of the agreement, the EU and Kosovo will gradually establish a bilateral free trade area where free movement of goods, services and capital are mutually guaranteed. Kosovo will align its legislation with EU rules regarding competition, public procurement, intellectual and industrial property rights, and consumer protection and working conditions. Although the main benefits of the agreement will be of a political nature, the conclusion of the SAA will further consolidate Kosovo's position in the EU market and increase opportunities for exports and investment.

3.3. Free Trade Agreement with Turkey

In 2013, Kosovo concluded a Free Trade Agreement with Turkey which largely opens the Turkish market to industrial and agricultural goods of Kosovo origin, mainly as result of the phasing out of customs duties across the board for most categories, but also following the removal of non-tariff barriers, especially in the agricultural sector.

3.4. U.S. Generalized System of Preferences (GPS)

Since 2008, Kosovo has been included in the U.S. Generalized System of Preferences, a program that cuts U.S. tariffs for many imports from developing countries, with an emphasis on light manufacturing, minerals, building materials, and certain agricultural products. In 2012, the U.S. renewed its GPS for Kosovo, which enables a considerable number of Kosovo products to be exported to the U.S. without import duties.

4. POTENTIAL EXPORT MARKETS

4.1. European Union

4.1.1. Overview

The EU is the largest economy in the world with a GDP of over €13 trillion in 2013. Moreover, the EU is the largest exporter and importer of goods and services, presenting immense trade opportunities for exporters from Kosovo who are able to satisfy consumer preferences and meet the EU product standards and requirements.

The EU is a single market, which means that goods, capital, services, and people can move freely among the member countries. The EU single market is underpinned by a Customs Union through which the 28 member countries form a single territory for customs purposes. This means that:

- No customs duties are paid on goods moving between EU countries;
- All apply a common customs tariff for goods imported from outside the EU;
- Goods that have been legally imported can circulate throughout the EU with no further customs checks.

Eighteen out of 28 Member States of the EU use the Euro as their currency. Denmark, Sweden and the UK chose to remain outside the Eurozone, while other recently-admitted EU members must fulfil certain economic criteria before they can adopt the single European currency. In the Eurozone, trade is helped by not having any currency differences to deal with amongst most members.

Key Facts

- **The EU is the largest economy in the world.** Although growth is projected to be slow, the EU remains the largest economy in the world with a GDP per capita of €25,000 for its 500 million consumers.
- The EU is the world's largest trading block. The EU is the world's largest trader of manufactured goods and services.
- The EU ranks first in both inbound and outbound international investments.
- The EU is the top trading partner for 80 countries. By comparison, the US is the top trading partner for a little over 20 countries.
- The EU has 500 million consumers looking for quality goods.
- The EU is the world's largest single market with transparent rules and regulations.
- The EU has a secure legal investment framework that is amongst the most open in the world.
- Competition among exporters in the EU market is fierce because the EU is the most open market to developing countries in the world.
- The average applied tariff for goods imported into the EU is very low. More than 70% of imports enter the EU at zero or reduced tariffs.
- The EU's services markets are highly open and the EU has arguably the most open investment regime in the world.

4.1.2. Relations with Kosovo

The EU is Kosovo's most important partner, both politically and economically. Kosovo's aspiration is to join the EU and it has repeatedly confirmed its determination to make progress on its European agenda. EU integration has been the driving force for reform in Kosovo. Kosovo participates in the EU's

Stabilisation and Association Process for the Western Balkans.

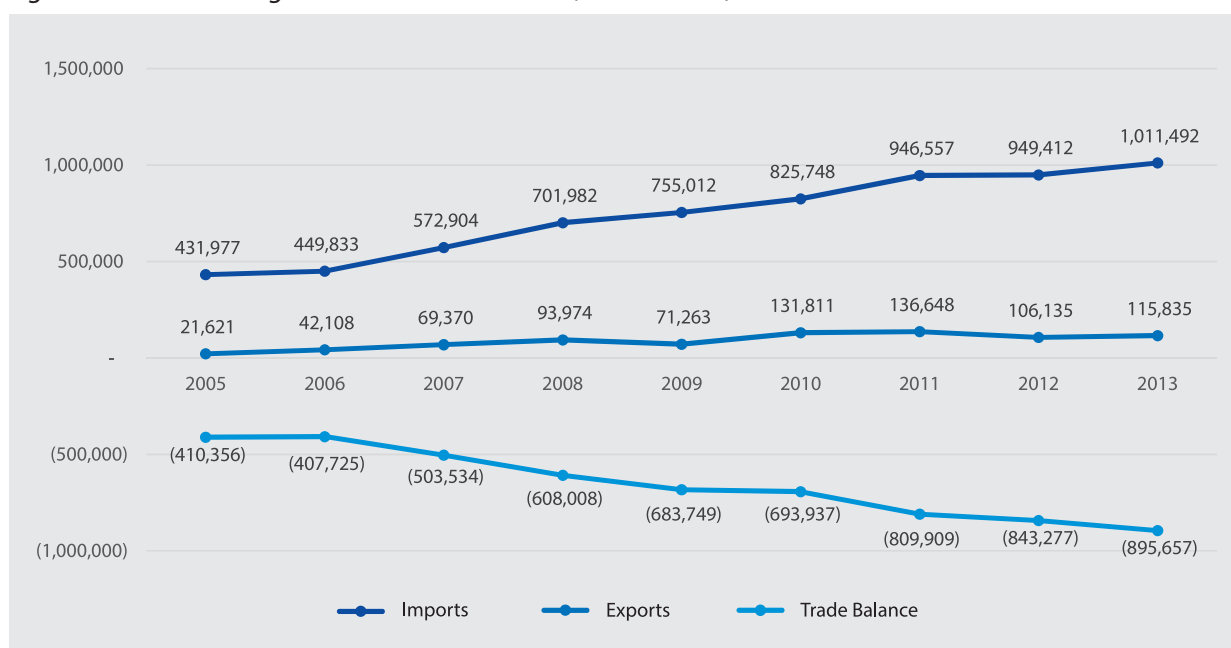
The EU- both its Member States and its institutions, notably the European Commission - plays a prominent role in the reconstruction and development of Kosovo.

- 23 of the 28 EU Member States recognise Kosovo as an independent state
- The EU is present in Kosovo through:
 - » The EU Office in Kosovo
 - » EULEX
- The EU Member State Embassies and Liaison Offices
- 18 EU Member States maintain a representative office in Kosovo and numerous non- governmental organisations from EU member states are active in Kosovo.
- Kosovo maintains diplomatic missions in 13 EU Member States.

As noted earlier, Kosovo enjoys non-reciprocal, customs-free access to the EU market as stipulated by the EU ATP regime since 2000.

Kosovo exports to the EU have grown more than 5 times, from about €20 million in 2005 to €115 million in 2013. At the same time, imports have more than doubled from about €400 million to more than €1 billion. Given the small export base, the trade deficit during this period has expanded and now stands at about €900 million (see Figure 4). This staggering trade deficit is a reflection of the lack of competitiveness of domestic products which have a hard time competing in the EU market despite the favourable terms of trade that the EU has accorded Kosovo through the ATP regime.

Figure 4. Trade Exchange with the EU 2005-2013 (in '000 Euros)



Source: Kosovo Agency of Statistics, 2014

Kosovo has completed the negotiations with the EU on the Stabilisation and Association Agreement (SAA), which represents an important milestone in Kosovo's European integration process. Through the implementation of the agreement, the EU and Kosovo will gradually establish a bilateral free trade area where free movement of goods, services and capital are

mutually guaranteed. Kosovo will align its legislation with EU rules regarding competition, public procurement, intellectual and industrial property rights, consumer protection, and working conditions.

4.1.3. Market Overview

4.1.3.1. Food Processing

The EU is by far the major world player in both imports and exports of food and drinks. In 2011, the EU exported roughly €76 billion and imported roughly €63 billion worth of food and drinks products, which resulted in a positive trade balance of €13 billion. In 2012, EU exports increased by 13% compared to 2011, while imports remained almost unchanged. 'Vegetables and fruit' and 'fish and crustaceans' are the two largest product groups of food imports. Vegetables and fruit make up over a quarter of imports. Well over half of these imports consist of fresh or dried fruit and nuts, with fresh and frozen vegetables making up around one sixth. Turkey is the main origin for fruit and nuts, followed by the U.S., Brazil and South Africa. Turkey, the U.S. and South Africa chiefly export fresh fruit and nuts to the EU, whereas Brazil's largest category is fruit and vegetable juices. The next largest imported product group is fish and crustaceans. Half of this value is made up of fresh and frozen fish, while crustaceans make up one quarter. The largest growth rate in imports in the last decade has been recorded for cereals and cereal preparations. In the area of food and drinks, the Netherlands, United Kingdom and Germany are the three largest importers in the EU, whereas the biggest exporters to the EU are Brazil, Argentina and the U.S.

4.1.3.2. Agriculture

The EU is the second largest producer of agro-food in the world and produces a large variety of products, consisting mostly of wheat, coarse grains, potatoes, sugar, wine, beef, pork, poultry, fruits, and dairy products. The leading food producing nations include France, Italy, Spain, Germany, the Netherlands, and the UK. The EU employs a Common Agricultural Policy (CAP) to increase productivity, ensure a reasonable standard of living in agricultural communities, stabilize markets, secure supplies, and provide reasonable prices for consumers in EU countries.

With average combined imports and exports annually of about €170 billion, the EU is the world's foremost trader of agricultural products, and indeed the world's largest exporter of all goods and services, and the biggest market for more than a hundred countries. The EU is the largest importer of agricultural products in the world. In 2011, the value of EU agricultural imports increased to approximately €98 billion. The EU's agricultural trade is almost in balance: a 1% deficit on total trade was recorded in the three years between 2008 and 2010. The EU is the leading importer in the world, with a wide variety of imports: 54% of imports are final products, 27% are intermediate ones and 19% are commodities. By origin, Brazil is by far the EU's largest supplier of agricultural goods (14% of the total share), followed by the US (9%), Argentina (7%) and then China (4.6%), Switzerland (4.4%) and Turkey (4%). *The EU is also the largest importer of agricultural products from developing countries. Given the degree of duty and quota free access that the EU has given to Kosovo, the EU market presents great opportunities for Kosovo agriculture exporters.*

4.1.3.3 Wood Processing

European furniture manufacturing presents great opportunities for Kosovo. Within Europe, Germany is the largest furniture producing country, representing over 27% of the total EU market, followed by Italy (22%), France (14%) and the UK (10%). Of the new EU countries in Eastern Europe, Poland is the

largest furniture producer followed by the Czech Republic and Romania. The cost pressure on furniture manufacturing in Western Europe is high, and the price of wood is a critical factor. *EU companies look to Eastern Europe for lower-priced raw wood materials. German manufacturers have tended to shift to Poland, while many Italian manufacturers have opted for Slovenia.* A second strategy to reduce cost is outsourcing the production of semi-finished and finished furniture components. Transportation costs play a key role here, given Kosovo's geographical proximity to the EU markets. In both cases opportunities for exports to the EU are good for Kosovo. One particular area in which Kosovo businesses could carve a niche is in the outsourcing of furniture components or semi-finished products.

Furniture components would need to be developed in close cooperation with furniture manufacturers in Europe. Furthermore, Europe has the potential to be an important market for Kosovo hardwood exports, such as staircases, flooring, doors and frames.

4.1.3.4. Construction Materials

The construction sector generates 10% of GDP in the EU and provides 20 million jobs. France and the United Kingdom have the largest construction sectors in the EU, the former accounting for a 17% share of the EU market, while the United Kingdom's share is 16%.

The construction industry in the EU is in its thirteenth year of continuous and uninterrupted growth. According to leading market experts, the continuously high demand in the residential construction sector, as well as the civil engineering sector, will lead to growth rates of 3% per cent in the total construction output among the countries of the European Union. The EU policies for buildings aim at an integrated approach, covering sustainability, in terms of energy and resource efficiency, health and safety issues. There is a large market to cover, including the newly built buildings and renovation of the existing building stock.

Given its dynamic and growing construction sector and geographical proximity, the EU presents great opportunities for Kosovo companies to enlarge their scope of activities by entering the EU construction market in the construction materials segment.

4.1.4. EU. General Import Procedures

EU has very complex import regulations and procedures, which reflect the policy diversity of all its member states. The best source of information on EU's import regime and regulations is the Export Helpdesk which can be found here: <http://exporthelp.europa.eu/thdapp/index.htm>. This resource contains detailed and comprehensive information about a wide variety of aspects related to the process of exporting to the EU market. The following section contains selected information which is considered as most essential to exporters.

EU Customs Code

The EU Customs Code is the set of all the rules covering customs matters in trade with non-EU countries. These rules ensure that customs practices in all EU countries are uniform and transparent.

Registering as an economic operator (EORI number)

The Economic Operator Registration and Identification (EORI) number is a unique identifier, assigned by a Customs authority in an EU country to all economic operators (both companies and individuals) engaging in activities covered by EU customs legislation. Exporters established outside the EU will be assigned an EORI the first time they lodge:

- a customs declaration
- an entry summary declaration (ENS)
- an exit summary declaration (EXS)

Operators use this number in all communications with any EU customs authorities where an EU-based identifier is required, for example in customs declarations (<http://exporthelp.europa.eu>).

Entry Summary Declaration (ENS)

The entry summary declaration contains advance cargo information about consignments entering the EU. It must be lodged at the first customs office of entry to the EU by the carrier of the goods (by the carrier of the goods, although in some cases it can be done by the importer-consignee, or a representative of the carrier or importer) - even if the goods are not going to be imported by the EU. The deadline for lodging the ENS depends on the mode of transport carrying the goods:

- Container maritime cargo: at least 24 hours before loading commences in the foreign port
- Bulk maritime cargo: at least 4 hours before arrival
- Short sea shipping: at least 2 hours before arrival
- Short haul flights (less than 4 hours): at least by the actual time of take-off of the aircraft
- Long haul flights (4 hours or more): at least 4 hours before arrival at the first airport in the customs territory of the EU
- Road traffic: at least 1 hour before arrival.

The ENS requires information contained in documents originating with the exporter (bill of lading, commercial invoices, etc.). Exporters should make sure these documents reach the party responsible for lodging the declaration in time.

Documents for customs clearance

The documents you will need for customs clearance are:

- Commercial invoice
- Customs value declaration
- Freight documents
- Freight insurance
- Packing list.

Customs approved treatments

When goods arrive at the customs office of entry to the EU, they are placed in temporary storage under customs supervision (no longer than 45 days in the case of goods carried by sea, or 20 days in other cases) until they are assigned one of the following customs approved treatments or uses:

1. *Release for free circulation* - Goods are released for consumption once all the import requirements have been met:
 - all applicable duties, VAT and excise duties have been paid
 - all applicable authorisations and certificates (e.g. for quotas, health requirements, etc.) have been presented.
2. *Transit procedure* - When goods are moved between customs offices in different EU countries, customs clearance formalities can be transferred to the customs office of destination.
3. *Customs warehousing* - Imported goods can be stored in specially designated facilities, and duties,

- taxes and formalities suspended until the goods are assigned another customs approved treatment.
4. *Inward processing* - Goods can be imported into the EU, without being subject to duties, taxes and formalities, to be processed under customs control and then re-exported out of the EU. If the finished products are not finally exported, they become subject to the applicable duties and formalities.
 5. *Temporary importation* - Goods can enter the EU without payment of import duties, provided they are intended for re-export without undergoing any change. The maximum period for temporary import is 2 years.
 6. *Entry into a free zone or warehouse* - Free zones are special areas within the EU customs territory where goods can enter without payment of customs duties, VAT and excise duties, and without other import formalities until they are either assigned another approved customs treatment or re-exported. Under this procedure, goods may also undergo simple operations such as processing and re-packing.

Customs declaration - Single Administrative Document (SAD)

Goods are placed under a customs approved treatment or use the Single Administrative Document (SAD). The SAD can be presented to the customs authorities by the exporter or a representative, either electronically (each EU country has its own system) or by delivery directly to the premises of the customs office.

The SAD covers the placement of any goods under any customs procedure (Export, import, transit where the new computerised transit system (NCTS) is not yet used, warehouses, temporary import, inward and outward processing, etc.) whatever the mode of transport used. The SAD aims to ensure openness in national administrative requirements, rationalize and reduce administrative documentation, reduce the amount of requested information and standardize and harmonize data.

Value for Customs purposes

Most customs duties and VAT are expressed as a percentage of the value of the goods being imported. Customs authorities define the value of merchandise for customs purposes based on its commercial value at the point of entry into the EU: purchase price plus delivery costs up to the point where the goods enter the customs territory. This value does not always have to be the price stated on the sales contract and may be subject to specific adjustments.

4.1.5. Tariffs, Duties, Quotas and Rules of Origin

Value Added Tax (VAT)

VAT is a harmonised tax within the EU and consists of a common structure, a uniform basis of assessment and minimum rates established by EU countries. It is levied on the importation of goods and usually charged when customs clearance procedures take place in order to be released for circulation.

However, when the goods are exported to one EU country but are intended for use or consumption in another, they can be placed under a VAT suspensive arrangement, through which VAT is charged in the EU country of destination and not at the entrance. Import VAT payments are dealt with in the same way as customs duties. Taxable persons must fill in and submit to customs the Single Administrative Document, which must include the goods value, place of origin, consignee, destination, price, weight, etc.

Suspensive Arrangements and Free Zones

Imported goods can be placed under one of the customs arrangements listed below. VAT will not be charged until the goods are removed for home use.

- Goods placed in temporary storage;
- Goods under *inward processing relief* (duty suspension system);
- Goods placed in customs warehousing or free zones;
- Temporary importation;
- Transit procedures;
- Free Zones in which goods are free of VAT, and import duties and charges.

Taxable Amount

The taxable amount is the total sum actually paid or payable for supplies. The taxable amount is the invoiced price, including taxes, duties, levies and charges, excluding the VAT itself, and incidental expenses such as commission, packing, transport and insurance costs charged by the supplier to the purchaser or customer. Taxable transactions are subject to the rates and regulations approved by the EU country to which the goods or services are supplied. Each EU country can fix its own rates, but they cannot be less than 15%. Countries also apply reduced rates not lower than 12% (the “parking rate”) for some goods or services.

Excise duties

EU countries apply excise duties to mineral oils, tobacco, alcohol and alcoholic beverages. The rates set by the EU are minimum rates. EU member states can set tax rates that may not be less than the minimum levels of taxation prescribed by the EU Directives. The taxable products are **subject to excise duty upon their production** (wherever in the EU) or *upon importation* (from non-EU countries). However, the excise duty is **only payable upon release for consumption**. If the product is imported by an EU country but transported to and supplied to another EU country, excise duties are due in the EU country where the products will eventually be consumed or used. Excises duties paid on alcoholic beverages can be claimed back, subject to certain conditions and in specific cases, such as when goods are finally exported to non-EU countries.

Tariffs and Quotas

Under the ATP, Kosovo can export to the EU up to two million litres of wine per year, free of duty and on a first come, first served basis. If Kosovo exporters export more than two million litres of wine in the EU within the year, then Kosovo may have access to common quota of Western Balkans, which is three million litres. All Western Balkan countries have individual quotas for the wine export. Baby beef is also - under this agreement - subject to tariff quotas.

Rules of Origin for Kosovo

There are two different types of Rules of Origin: preferential and non-preferential. The Rules of Origin are used to determine if a product exported from Kosovo may be considered as sufficiently linked to Kosovo and therefore originating there to the purposes of receiving from the EU the tariff preference granted to Kosovo.

Additionally to the specific rule of origin attributed to the product, the producer must verify that the

operation that was carried out in Kosovo goes beyond the minimal operations listed in the specific set of rules of origin related to Kosovo (i.e. packaging, simple cutting, simple assembling, simple mixing, etc.). If the production carried out in Kosovo is one of those listed and nothing else was made there (i.e. no material was produced or transformed), then the product cannot be considered as originating from Kosovo even if the rule of origin attributed to the product was fulfilled.

The ATP establishes the following rules for Kosovo exports to the EU:

- *Tolerance* is fixed at 10% of the ex-work price of the product for all products, except for textile and clothing, for which specific tolerance will apply.
- *Cumulation* - Bilateral cumulation is applied, which means that materials originating in the EU may be used as materials originating in Kosovo.
- *Direct transport* - Evidence of the direct transport will have to be brought to the customs authorities of the importing country.
- *Duty drawback* - Duty drawback is authorised.

Proofs of Origin Kosovo

Under the rules of origin applicable to Kosovo, in order to benefit from the preferential duty rates, products originating in Kosovo must be accompanied by either:

- a movement certificate EUR1 issued by the Kosovo Customs
- an invoice declaration by the exporter.

For consignments of products originating in Kosovo valued €6,000 or less, any exporter can fill out a declaration. Proof of origin remains valid for 4 months.

4.1.6. Technical and Environmental Requirements

4.1.6.1. Technical requirements

Goods exported to the EU must meet the EU technical requirements to protect consumers. The main requirements concern safety, technical standardisation, packaging and labelling.

Product Safety

Manufacturers and distributors must:

- Supply products that comply with the general safety requirements;
- Inform consumers of the risks that a product might pose and any precautions they should take;
- Notify the relevant national authorities if they discover that a product is dangerous and cooperate with them on the action taken to protect consumers.

Technical standardisation

The EU encourages its member countries to adopt harmonised technical standards, which are drawn up by three bodies:

- European Committee for Standardisation (CEN)
- European Committee for Electrotechnical Standardisation (CENELEC)
- European Telecommunications Standards Institute (ETSI).

Procedures to assess the conformity of products to the essential requirements (conformity assessment)

are carried out by the manufacturer or a third party. Notified bodies in each EU country are responsible for conformity assessment when a third party is required.

“CE” marking indicates that a product complies with all the applicable essential requirements and has passed the relevant conformity assessment procedure. The national authorities in the EU countries are responsible for market surveillance to ensure that products meet the requirements to be placed on the EU market. Surveillance can consist of document checks and/or physical inspections. Kosovo manufacturers who wish to sell their products in the EU can appoint an authorised representative established in the EU to act on their behalf. They are responsible for designing and manufacturing products that comply with all applicable requirements and for carrying out the required conformity assessment procedure.

Packaging

Packaging marketed in the EU must meet both environmental and health requirements. In particular, wood packages (cases, boxes, crates, etc.) must go through one of the approved treatments and bear the corresponding mark.

Labelling

Exports must comply with EU labelling requirements, intended to protect consumers' health, safety and interests and provide product information - content, composition, safe use and special precautions, etc. The EU Ecolabel or 'Flower logo' may be awarded to products that help improve the environment and provide consumer guidance on their environmental impact. Exporters may apply for the Ecolabel to the relevant authority in the EU country where the product will be placed on the market.

4.1.6.2. Environmental requirements

Goods exported to the EU must meet the EU environmental standards to protect consumers and the environment. The main requirements apply to chemicals, ozone-depleting substances, fluorinated greenhouse gases, endangered species and waste.

Chemicals

Exports of certain dangerous chemicals into the EU are subject to controls for certain hazardous chemicals and pesticides. Also, EU policy aims at eliminating or minimising the use of persistent organic pollutants (POPs). A system for the registration, evaluation, authorisation and restriction of chemicals (REACH) sets requirements for the export of chemicals and products containing chemicals. REACH sets restrictions on the use of dangerous substance or substances that may be released from the articles (e.g. office and school supplies, textiles or electronic components). Certain product groups, such as food ingredients or pharmaceuticals, are exempted from REACH. Before chemicals can be placed on the EU market, they must be classified, labelled and packaged.

Plant protection products and biocides

In the EU, plant protection products must be authorised before they can be placed on the market, as must many of their component ingredients. Biocides (i.e. disinfectants, preservatives, non-agricultural pesticides, nautical anti-fouling products, etc.) must meet specific requirements. If you want to export wood preserving paints or antifouling to the EU, you have to make sure that your products are allowed on the market according to the EU legislation on biocides. Main requirements include a list of allowed

substances and authorisation of the product. Please note that, in practice, the requirements for the placing on the market of biocidal products are not completely harmonised yet in all EU countries.

Endangered species

The trade of specimen of certain (endangered) listed animals, plants, or products containing material from these species (e.g. leather articles, handicrafts, jewellery, flowers, plants, furniture, and antiques) is prohibited or restricted. For specimen of other species, the import is under certain circumstances allowed but only if the shipment is accompanied by official documentation: (re-) export permits, import permits, or import notifications. Specimens of endangered species (and parts or derivatives) entering the EU must be accompanied by permits and certificates.

Waste

EU policy requires all waste entering the EU to be authorised in advance and notified to the authorities. All packaging placed in the EU market must meet basic requirements regarding composition and recoverability. These requirements aim to prevent the production of packaging waste, to promote the reuse of packaging (recycling or other forms of recovering packaging waste), and as such to reduce the final disposal of such waste. In particular, packaging must be of minimal value and weight, contain minimal quantities of hazardous substances (especially heavy metals), be suitable for reuse, recovery and recycling and labelled to indicate its composition (to facilitate collection, reuse and recovery).

4.1.7. Sector Requirements

4.1.7.1. Food Processing and Agriculture

General Requirements

The food legislation of the EU defines the following principles:

- It is not permissible to market a product if it is dangerous, this is, if it represents a health risk or is not fit for human or animal consumption.
- Within all stages of the agro-food chain, business operators must be sure that all food and feed products comply with the requirements established in the respective legislation.
- Traceability of all food, feed, or animals that are destined to human consumption, and any substance that is added to food, needs to be established for all stages of production, transformation, and distribution.
- If an operator suspects that a feed or food that has been imported, produced, transformed, manufactured or distributed represents a danger for human or animal health, he/she must immediately withdraw it from the market and notify the competent authorities and users.

Maximum Residue Levels (MRL) for Pesticide

Thousands of maximum residue levels (MRL) for pesticide/commodity combinations have been established at the Community level. Where no Community MRL has been established, each Member State has the prerogative to define the maximum limits if they consider that these products present risks.

Marketing Regulations

Marketing standards are norms that serve as legal instruments and that define a common criterion for the classification of fruits and vegetables with different commercial classes in the EU.

Food Additives

Food additives are defined as “any substance not normally consumed as a food in itself and not normally used as a characteristic ingredient of food whether or not it has nutritive value”. Food additives are added intentionally to food for a technological reason in the manufacture, processing, preparation, treatment, packaging, transport or storage. Directive 89/107/CE defines all additives that can be used in food manufacturing and defines the categories of additives that can be used in the manufacturing or preparation of food products. It also defines the labelling requirements for food additives.

Contaminants

Contaminants are substances that have not been intentionally added to food and are present as a result of any of several production, manufacture, processing, preparation, treatment, packing, packaging, transport, storage stages or environmental contamination. The EU has measures to minimize contaminants in food through the prohibition of the sale of products containing contaminants in unacceptable quantities, and particularly at a toxicological level. It requires that contaminants must be kept at the lowest reasonable level using correct practices during all the stages of production, transformation, preparation, treatment, conditioning, packaging, transportation, and storage. It has also established a Community list of tolerance limits, analytical detection limits, reference sampling, and analytical methods.

Organic Products

Council Regulation EEC 2092/1991 defines the requisites on organic production of agricultural products and indications. It applies to products that carry or will carry indications referring to organic production methods. To the effects of this regulation, a product shall be considered organic if it carries indications referring to the organic production methods, where in the label, advertising, or commercial documents, the product or its ingredients are described in terms suggesting to the purchaser that the product or its ingredients have been obtained in accordance with the rules of production.

Novel Food and Food Ingredients

Products or ingredients that have not been used significantly for human consumption within the EC must be authorized before they can be placed on the market. For categories of food and ingredients that are considered novel, exporters are required to request an export permit.

Labelling

Directive EC/13/2000 defines the label requirements established by the EU Member States. This directive demands a general labelling for all products. Additionally, the EU has established specific regulations depending on the type of product or for specific products.

- **General Labelling** - The information in the label should be presented in the language of the Member State in which the product is going to be sold. The legislation includes the possibility to include multiple languages in order to allow the product to be marketed in different countries. With regards to the measurement units, the use of the metric system is obligatory.

- **Health claims** - All claims that assign certain properties to the food relative to the prevention or treatment of diseases are expressly prohibited in the current EU labelling norm. Due to this obligation, several of the Member States have implemented their own legislation.
- **Labelling for nutritive properties in food products** - The Council Directive 90/496/EEC on nutrition labelling for foodstuffs, as amended by Commission Directive 2003/120/EC, defines "nutrition labelling" as any information appearing on labelling and relating to energy value and the following nutrients: protein, carbohydrate, fat, fibre, sodium, vitamins and minerals listed in the Annex of Council Directive 90/496/EEC.
- **Other labelling requirements** - Besides the norms for general labelling requirements, health claims, and nutritional content, the EU has defined a series of additional requirements that apply to specific product types.

4.1.7.2. Export Requirements for Food Processing and Agriculture

EXPORTERS OF FRESH PRODUCTS	EXPORTERS OF PROCESSED PRODUCTS
Exporters of fresh agricultural products must comply with the following norms:	Exporters of processed products must comply with the following norms:
Guarantee that the products comply with all the food safety requirements.	Guarantee levels of food safety by implementing HACCP procedures.
Apply systems and procedures that permit traceability.	Apply systems and procedures that permit the traceability of ingredients and food products.
Assure that the products meet all EU phytosanitary requirements.	Comply with all labelling requirements.
Be sure that the products comply with the maximum permissible pesticide residue limits allowed in food.	Comply with the general directives regarding material and objects that may enter in contact with food.
Comply with marketing norms.	Comply with the normative for food additives.
Be sure that all wood packaging complies with International Standards for Phytosanitary Measures No. 15.	Comply with the normative for food contaminants.
Identify the taxes that the product needs to pay at the time of importation.	Be sure that all wood packaging complies with International Standards for Phytosanitary Measures No. 15.
Identify the existence of import quotas to the EU that could affect the importation of their product.	Comply with the requirements for organic products if the products will be sold under this denomination.
Register their trade mark, in case that there is interest in selling their product under their own brand.	Identify the taxes that the product needs to pay at the time of importation.
Comply with the requirements for organic products if the products will be sold under this denomination.	Identify the existence of import quotas to the EU that could affect the importation of their product.
	Register their trade mark, in case there is interest in selling their product under their own brand.

4.1.8. Wood Processing

There are measures in EU member states for solid wood packaging material used for the importation of objects of all kinds from all countries. The relevant provisions of the EU Plant Health Directive are based on the FAO International Standard for Phytosanitary Measures guidelines for regulating logs, timber (sawn and chips) and wood packaging material in international trade. Wood packaging material which is subject to these measures includes packing cases, cases, boxes, crates, drums and similar packing, pallets, box pallets and other load boards, and pallet collars. Wood packaging material not actually in use but imported as a consignment must meet the same rules that apply to sawn wood of the same genera or species.

Exporters of products containing timber, paper or wood fibres into the EU need to be aware of the new EU Timber Regulation. Similar to initiatives in the US and Australia, the EU is now applying legal instruments to curb illegal logging which is a key contributor to climate change and can also severely impact local communities. In effect as of March 2013, the regulation requires businesses to have a system in place that effectively prevents illegal timber products from entering into the EU.

The details of the EU Timber Regulation are yet to be defined. However, some key requirements are clear.

Exporting businesses need to:

- Have a 'due diligence' system in place to assess and minimise risk of illegal wood entering their supply chain
- Have access to adequate information about their suppliers and products
- Carry out risk assessments to determine the risk of illegal timber entering at any point in their supply chain
- Take appropriate measures to mitigate identified risk

Products covered by the EU Timber Regulation are:

- Sawn wood
- Wood chips
- Plywood
- Fibreboard and particleboard
- Manufactured wood products
- Packaging
- Carton and paper.

There are national quality standards for furniture, which should not be neglected. For example, durability standards have been established relating to the resistance of products – surface resistance to dry heat, cold liquids and contracting movements.

Wood packaging materials must be treated and marked according to the Food and Agriculture Organization's International Plant Protection Convention International Standard for Phytosanitary Measures (ISPM) 15 "Guidelines for regulating wood packaging material in international trade". Under ISPM 15 treatment can be either by heat (HT) or by fumigation with methyl bromide (MB). Treated wood must be marked and this mark should include the ISO two letter country code, a code identifying the wood packaging producer, and a treatment code.

Deliveries from developing countries generally have a long distance to go before reaching their destinations; therefore, it is very important that close attention is paid to water-resistant and solid packaging. Furniture items can easily be damaged in transit by dampness or mishandling and must therefore be packed carefully and securely.

4.1.9. Construction Materials

The European construction sector is subject to various national and European regulatory requirements and standards concerning energy consumption, environmental risks and impact, health and safety, quality of products, etc. These requirements and standards are costly for companies in the sector in terms of administration.

The Construction Products Regulation (CPR) covers seven basic requirements with regard to product standards for construction works, as follows.

- Mechanical resistance and stability
- Safety in case of fire
- Hygiene, health and the environment
- Safety and accessibility in use
- Protection against noise
- Energy economy and heat retention
- Sustainable use of natural resource.

Products that comply with European legislation are free to circulate in the market. The CE marking is a declaration that the product conforms to all applicable provisions and that the appropriate conformity assessment procedures have been completed.

Assessment methods are specified in harmonised European standards for products. They are to be applied by the manufacturers when declaring the performance of products and the national authorities when specifying requirements. Labelling and classes introduced in the standards help users choose the products most suitable for their intended use in construction works. A European technical assessment is issued for construction products not covered or not fully covered by a harmonised standard. It includes the performance to be declared and all technical details necessary for verification of the constancy of performance.

Energy-related products used in the sector, such as windows, heaters and ventilation systems, account for a large proportion of the energy consumption in the EU. The eco-design directive provides a coherent framework of requirements for taking into account all the environmental impacts of a product. As such, eco-design measures enhance product quality and environmental protection and facilitate the free movement of goods. The EU Ecolabel helps identify products and services that have a reduced environmental impact throughout their life cycle, from the extraction of raw materials through to production, use and disposal. Greener, more environmentally friendly, products of high quality available around the world are listed in the Ecolabel catalogue. The regulation on Registration, Evaluation, Authorisation and restriction of Chemicals (REACH) is relevant for construction products that use recovered substances, such as metals, aggregates and glass. The main objectives of the regulation are to ensure a high level of protection of human health and the environment from the risks that can be posed by chemicals, the free circulation of substances on the internal market and the enhancing of competitiveness and innovation.

4.2. CEFTA Countries

4.2.1. Albania

4.2.1.1. Political and Economic Overview

Albania gained the EU candidate status on 24 June, 2014. Its application for membership to the EU on 28 April, 2009, was an important landmark for a country that 20 years ago had emerged from a communist rule as one of the poorest, most isolated, most repressive and most inscrutable in Europe. Moreover, Albania's transition to a democracy and a market economy had been launched under challenging circumstances during a period of extreme instability in the Western Balkans. The conclusion of the Stabilisation and Association Agreement with the EU in 2006 showed that Albania is willing to move forward in the integration process, and since then progress has been made on many fronts.

Albanian citizens were also granted visa-free travel to the Schengen Area at the end of 2010. However, tremendous roadblocks still lie ahead for Albania on its road to full EU membership. The country shows some severe internal problems that could slow down the process of modernization. Corruption still remains a big challenge and is damaging the country's economic potential. Nevertheless, before the global financial crisis, Albania was one of the fastest-growing economies in Europe, enjoying an average annual real growth rate of 6%, accompanied by rapid reductions in poverty. However, after 2008, the average growth rate halved and macroeconomic imbalances in the public and external sectors emerged. The pace of growth was also mirrored in poverty and unemployment: between 2002 and 2008, poverty in the country fell by half (to about 12.4%) but in 2012 it increased again to 14.3%. Unemployment increased from 12.5% in 2008 to 16.9% in 2013, with youth unemployment reaching 26.9%.³

The recovery to growth rates above 3% in 2011 moderated in 2012 and 2013, reflecting the deteriorating situation in the Eurozone and the difficult situation in the energy sector. Real Gross Domestic Product (GDP) growth dipped to a low point of -2.3% in the third quarter of 2013. Although a rebound is expected, growth is also expected to stay below the country's potential over the medium term.

4.2.1.2. Relations with Kosovo

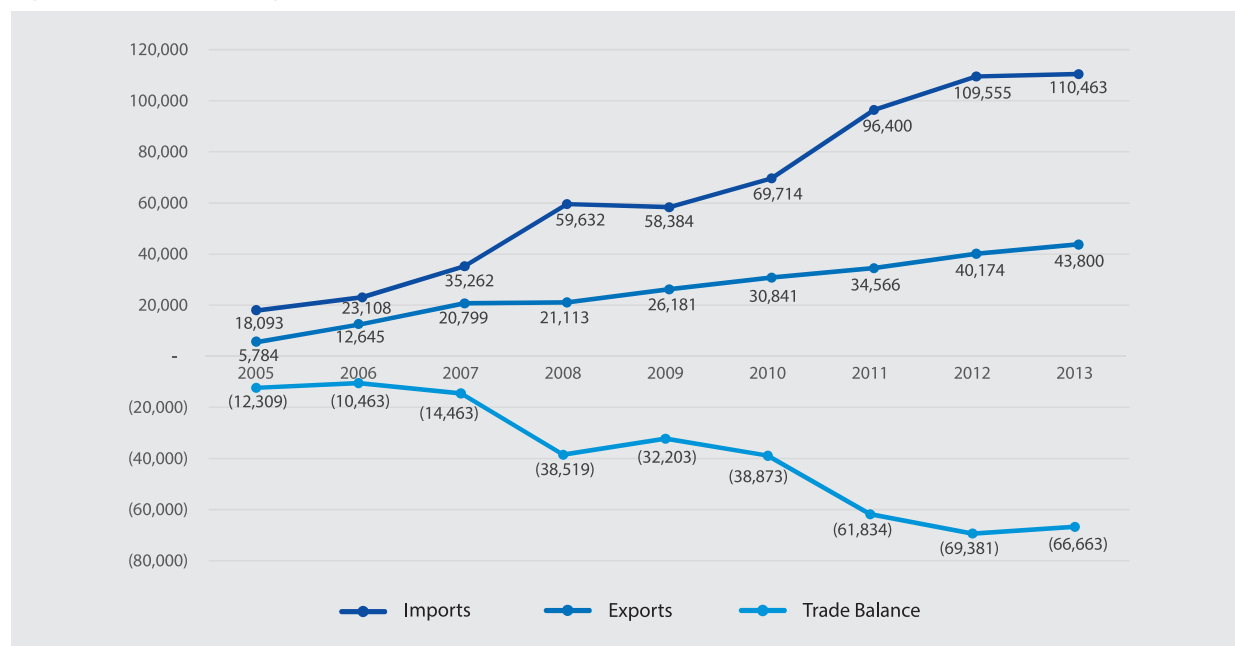
Albania is one of the biggest trading partners, especially when it comes to exports. Trade exchanges between the two have constantly increased since Kosovo joined CEFTA.

In addition to CEFTA, Kosovo and Albania have signed other bilateral trade facilitation agreements in order to abolish non-trade barriers and further increase trade exchanges between them. As a result of this cooperation, 42% of total Kosovo exports toward CEFTA countries were exported to Albania during the last three years, whereas 14% of total imports from CEFTA members over the same period were coming from Albania.⁴

³World Bank <http://www.worldbank.org/en/country/albania>

⁴Kosovo Agency of Statistics – External Trade Statistics 2011 - 2013

Figure 5. Trade Exchange with Albania 2005-2013 (in '000 Euros)



Source: Kosovo Agency of Statistics, 2014

During the 2011–2013 period, Kosovo exports to Albania reached almost €120 million or 40% of its total exports. Only in 2013 Kosovo exported €43.8 million or approximately 40% of total last year's exports to Albania. Top exported commodities (8-digit SITC) in 2013 include scrap with 40% of exports in 2013, wheat flour with 17%, iron or steel and non-alloy steel with roughly 8%, and potatoes, water and beverages, totalling 9% of last year's exports.⁵

Similarly, imports from Albania have more or less the same structure. Roughly 65% of total imports in 2013 were metal scrap and cement, amounting to €71.5 million. The rest of top imports include petroleum bitumen, building bricks, fresh vegetables, etc.

On average, 38% of imports from Albania were covered by exports during the last three years, keeping the trade deficit with Albania between €60 and 70 million.

4.2.1.3. Market Overview

Food Processing

The food industry in Albania has achieved remarkable and sustainable development in recent years and it is now an important branch of the economy, although it still does not form an essential part. In 2009, the food and beverage industry generated roughly €223 million, which represents about 20% of manufacturing output or 1.1% of GDP. It has been a fast growing sector, at an average of about 24.8% a year, starting in 2000. Despite a significant increase of turnover of 6.6 times in 2009 compared to 2000, it has experienced a decline by 10% compared to 2008. In 2009, the food and beverage industry was made up of 2,547 enterprises (33.6% of all manufacturing enterprises), 78% of which operate in the bread and flour industry; 11% in the dairy sector, 6% in beverages and 5% in meat, fish, fruit and vegetable processing. Most of these enterprises are privately owned, small or medium sized and located in the capital city, Tirana. In 2009, the food and beverage industry employed roughly 7 thousand people (or 14% of the manufacturing labour force) and labour productivity is growing over time. The level of

employment and the number of enterprises in this sector increased by 1.7 and 2.1 times between 2000 and 2010, respectively. The development of different sectors varies and investments in fixed capital are unstable from year-to-year. Dairy and meat processing especially have made large investments to assure compliance with standards.

According to the Ministry of Agriculture, Food and Consumer Protection of Albania,⁶ the agro-processing industry accounts for 24.4% of total estimated production (prices of 2006) from agriculture and agro-industry. The biggest increases were in enterprises producing tinned fruits and vegetables, refined oils, dairy products, bread, sweets, biscuits and wine. Only a small volume of agricultural raw materials are sold to agro-processors, many of whom prefer to use higher quality imported raw materials with reliable supply chains and a sufficient volume of products. This includes vegetable oil for bottling, grapes for wine production and meat and vegetables for tinning.

Agriculture

Albania has a structural deficit in all major agricultural commodities such as cereals, fruits, oilseeds, poultry, meat and sugar. These sectors are typically organised through traditional family farming systems, and in some cases require extensive processing. Total consumer expenditure for food and beverages is more than a half of the total family expenditures. Since 2005, organic food production went from 0.11% down to 0.05% of the total agriculture land in spite the fact that organic products have become more popular and expensive commodities in developed countries.

Albania's agricultural sector continues to face a number of challenges, however, including small farm size and land fragmentation, poor infrastructure, market limitations, limited access to credit and grants, and inadequate rural institutions.

The low productivity, combined with poor internal transportation infrastructure, lack of quality controls for both inputs and outputs, under-developed marketing channels (due to lack of marketing know-how and poor market information) and an under-developed food processing industry, leads to Albanian agriculture being highly uncompetitive. However, agriculture remains one of the largest and most important sectors in Albania. Agriculture is a main source of employment and income – especially in the country's rural areas – and represents around 20% of GDP while accounting for about half of total employment.

Wood Processing

During the communist period, wood processing was one of the most successful industries in Albania. Today this industry as well as many others, faces a series of problems, and depends on various factors which influence the technical and economic indicators of the industry in many different ways.

Wood processing industry in Albania is made up of dozens of large companies and hundreds of small and medium enterprises, spread throughout the country. Almost 70% of these companies deal with manufacturing of furniture, 18% of them deal with production of saw lumber, and the rest of them deal with manufacturing of doors, windows and of other products.

Manufacturing of furniture is based mainly on the use of wood panels and medium-density fireboard.⁷

Construction Materials

During the period 1990-2000, the construction industry in Albania was the most profitable business sector. This industry was estimated to contribute up to 16% to the total GDP of the country in 2000.⁸

⁶Ministry of Agriculture, Food and Consumer Protection of Albania, Albanian Agriculture Fact Sheet (2011)

⁷Çausi and Marku (2013)

⁸Albania - Building Construction Sector Study And Pipeline Development (2002)

This situation continued also during the last decade where the activity in the Albanian construction sector has proved to be one of the most important sources of economic growth, comprising 13-14% of its GDP.

However, the cost of imported construction materials, mainly steel structures, has impeded construction activity in Albania, a country on the cusp of positive economic change. Gaps in the domestic steel industry have made it harder to improve transportation infrastructure. New commercial and residential developments have been limited. In the recent years, the situation is changing, as the nation's leading domestic supplier, "Konstruksione Metalike", increases its production capacity and upgrades its technological capabilities, with the help of the International Financial Corporation (IFC). Konstruksione Metalike Company is the only domestic producer that can compete with imported products, with cutting, welding, painting and finishing capabilities.⁹ Cement production is also an important segment in the construction industry. The overall cement production capacities are constantly increasing due to the recent investments in all major cement plants in Albania.

4.2.1.4. General Import Procedures

Each product imported must bear a description of the product in Albanian for foodstuffs, and in Greek, Italian or English for non-food products. The certification of a product is not regulated very much. It is obligatory to describe the sanitary characteristics of food or medical products. The Albanian Directorate of Accreditation is the Institution in charge of granting and verifying certifications. Note also that since 1990, Albania has followed the rules of the EU and the WTO.

The documentation to be presented includes the following: a quality certificate, a certificate of analysis, a certificate of origin and the purchasing invoice or purchasing contract.

Upon going through Customs, one must fill in a declaration of the goods. The Customs agent controls the goods and calculates the customs duty.

Albanian Customs Regime

Placing in free circulation regime. Goods placed in free circulation, with a level of reduction or zero import duty, due to their particular/special use, will remain under customs supervision. This supervision shall end when the conditions for the level of reduction or zero rate of duty cease to exist, when goods are exported or destroyed, or when goods are used for purposes other than those provided for the implementation of level reduction or zero rate of duty, provided that the relevant obligations are paid.

The Temporary Permit Regime enables into the customs territory of Albania, the total or partial relief from import duties and without being subject to commercial policy measures, to the non-Albanian goods intended for re-export without having undergone any change except depreciation due to their use.

Inward Processing Regime refers to a customs procedure where goods imported to Albania, or of Albanian origin, are manufactured or processed and then re-exported from Albania in the form of compensating product. The inward processing regimes allow producers to import raw materials or semi-processed products, exempt fully or partially from customs duties, and to manufacture/process and re-export the finished compensating products. The original imported product may or may not be distinguishable from the finished product.

The outward processing regime applies to Albanian goods temporarily exported from the country for being processed outside the country and re-imported in the form of compensating products, into the

⁹IFC and Construction Materials: Helping Expand Infrastructure (2008)

territory of Albania. The re-imported compensating products will be released for free circulation fully or partially exempted from import duties.

The warehousing regime allows storage in a custom warehouse of:

- Non-Albanian goods not subject to custom duties,
- Albanian goods, when the provisions in force, in cases of their warehousing in customs, require the application of measures regarding the export of these goods.

A customs warehouse may be public or private:

- Public warehouses are used to store goods by any interested person;
- Private warehouses are used to store goods by warehouse operators only.

Transit Regime refers to the circulation of goods from one customs point to another in the territory of Albania of:

- Non-Albanian goods not subject to custom duties and import duties,
- Albanian goods subject to export procedures.

This regime can be also applied on circulation of goods to another territory in cases of:

- a signed international agreement,
- it is accompanied by a transport document released in the territory of Albania.

The regime of processing of goods under customs control allows the import of non-Albanian goods exempted from custom duties; their utilization in operations that cause the change of their nature, and then placement in free circulation of the products obtained as a result of these operations, once the relevant import duties have been fulfilled.

Temporary admission is applied to goods that will not be released into free circulation immediately and are held temporarily in a warehouse until they are put in another customs regime. The warehouses are premises that have been approved by the Customs Authorities. The storage time in these areas shall be no more than 5 days for goods of road and railway transport and no more than 10 days for the goods of maritime transport.

4.2.1.5. Tariffs, Duties, Quotas and Rules of Origin

Albania is a member of the WTO since September, 2000. By joining the WTO, Albania had to align its trade legislation with international and WTO rules.

Custom tariffs apply on the Combined Nomenclature of Classification of Goods. This Classification is in compliance with the EU Combined Nomenclature of Classification of goods. The tariff system is very simple. The most-favoured-nation tariff system applicable is: 0%, 2%, 5%, 6%, 10% and 15%. Albania levies customs duties on the c.i.f. (cost, insurance and freight) value of imports. Imports into Albania are subject to 20% value-added tax (VAT), which is assessed on the CIF (cost, insurance and freight) value of an imported shipment plus applicable duty.

Under FTAs, Albania applies preferential import tariffs for CEFTA parties, EFTA parties, EU Member States and Turkey. In case of industrial products (chapters 25-97 of Classification of Goods Nomenclature) the tariff is 0%, while for agricultural products they are, as set out in the relevant agreements.

4.2.1.6. Technical and Environmental Requirements

Standards

Albania, in large part, has adopted standard regimes developed in other Western countries. Application of Albanian standards is mainly voluntary unless specifically provided otherwise in law. The General Directorate of Standardization - DPS is responsible for developing and administering Albanian standards. Approved technical regulations are published in the Official Gazette.

The conformity assessment body is the General Directorate of Metrology (GDM), whereas the Albanian Accreditation Directorate (AAD) is the single national accreditation body to assess, in concordance with internationally agreed standards.^{10 11}

Rules of Origin

Preferential and non-preferential origin is applied for goods from specific countries. Preferential origin is provided for the goods originating from those countries that have fulfilled specific criteria in order to benefit from preferential tariff treatment. Tariff preferences include: zero customs duty, zero tariff or reduced tariffs within quotas. Preferential tariff treatment is given to all CEFTA member countries.¹² The Criteria for determination of the product origin requires for goods to be either wholly obtained or sufficiently processed, beyond the minimal operations.

Wholly obtained goods are considered mineral products, fruits and vegetables, live animals, etc. Goods that are not fully obtained are considered sufficiently processed if certain criteria for non-originating goods are fulfilled. Specific rules are set out in each trade agreement document which usually specifies the amount of processing of non-originating goods in order to obtain the origin.

Documents that prove the origin of goods are:

- EUR1, EUR1 (CEFTA), EUR-MED
- Declaration of Origin, Invoice Declaration (CEFTA)
- Certificate of Origin Form A
- Certificate of Origin.

Labelling

Labels must contain information that conforms to international standards. Labels must be printed in a language that most Albanians can understand, such as Albanian, Italian, or English.

Prohibitions and Restrictions

Import, export and transport of radioactive materials and nuclear materials are subject to strict rules. Customs monitor whether imports, exports and transports are in accordance to these rules. This relates mainly to the monitoring of licenses for import, export or transit issued by the Radiation Protection Commission.¹³

¹⁰GDM webpage <http://www.dpm.gov.al>

¹¹AAD webpage <http://www.dpa.gov.al>

¹²The list of Preferential tariffs in Albania is available at http://www.dogana.gov.al/sites/default/files/origjina/Tarifa_Preferenciale_2014.pdf

¹³Albanian Customs webpage www.dogana.gov.al

4.2.1.7. Sector Requirements

Food Processing and Agriculture

Food Safety regulation - Albania is a member of the Codex Alimentarius Commission and a correspondent member of the International Organisation for Standardization (ISO).

The new Law on Food (2008) determines the conditions for production, processing, conservation, distribution, control and marketing of food products used for consumers. Albania has made progress in aligning its legislation, policies, and capacity with European standards in most areas but not yet in agriculture and veterinary/phytosanitary control.

Quality Control - In 2009, the National Food Authority was established in order to bring production standards to the EU level. Veterinary and phytosanitary regulations included sanitarian controls are imposed and monitored by the Ministry of Agriculture (MoA). For imported food and agro-products, license must be received from the food quality and inspection directorate at the MoA. Under the Instrument for Pre-accession Assistance (IPA) of the EU, Albania is supported financially for the implementation of food safety standards as GMP, HACCP or ISO. ALBINVEST, a governmental body, plays an important role and has a €5 million program for offering grants up to 50% of the costs to the establishments, which are ready to implement such systems.

Tariff quota for agricultural products originating in the EU and Turkey are applicable.¹⁴ Since such quota does not apply for products originating from Kosovo, it might put Kosovan firms at a relative advantage compared to these countries.

Wood Processing Industry

Imports of certain endangered species of animals and plants (or parts or derivatives made thereof) in developed countries are subject to compliance with the wildlife regulatory measures. Such measures are applicable in EU countries, too. However, Albania does not impose any similar measure for wood processing products. In addition, Albania does not impose ISPM15 regulations for wood packaging material.

¹⁴The full list of products is available at http://www.dogana.gov.al/sites/default/files/origjina/Tariff_quota_agricultural_products.pdf

4.2.2. Former Yugoslav Republic of Macedonia (FYRoM)

4.2.2.1. Political and Economic Overview

The Former Yugoslav Republic of Macedonia (FYRoM) is an upper middle-income country that has made great strides in reforming its economy over the last decade. The country has made significant development achievements, but more efforts across a range of areas are still needed to generate economic growth that puts people to work in the country and improves living standards for all.

From 2.3% in 2011, real GDP of FYRoM declined to 1.8% in 2012, and grew to 2.7% in 2013 on the back of construction and exports. According to the World Bank, real GDP growth in FYRoM is estimated to reach 3.3% in 2014.¹⁵

The central government and public sector debt in terms of GDP remained moderate at 35.8% of GDP and 43.2%, respectively, in 2013. While the central government debt is projected to remain stable, public sector debt is set to rise rapidly - reaching 49% by 2016 as State Owned Enterprises will account for a significant share of debt.

The government published a medium-term fiscal framework in September of 2013 which foresees a decline of the government deficit in the medium term from 4.1% in 2013 to 3.5% in 2014, 3.2% in 2015, and 2.6% in 2016. In 2013, FYRoM was once again ranked among the top reformers worldwide according to the Doing Business report and accession to the EU nonetheless continues to be an anchor for reform in nearly every area of the government. The authorities are harmonising national legislation with the EU *acquis communautaire* and have made specific achievements in procurement, transport policy, customs union, taxation, and statistics.

Overall, legislation is aligning the country's policies closer with the EU, but further work is essential for the enhancement of administrative capacity for legislation implementation and enforcement.

The FYRoM has FTAs with Albania, BiH, Bulgaria, Croatia, Kosovo, Moldova, Romania, Serbia, Montenegro, Slovenia, Turkey and Ukraine. To encourage trade, customs duties are set at minimal rates of 1 to 2 percent. In February 2001, FYRoM signed a Stabilization and Association Agreement (SAA) with the EU. A critical component of the SAA is a preferential trade agreement, which allows products to enter the EU duty free from FYRoM. The agreement also provides for a gradual (10- to 12-year) reduction of duty rates for EU products. The country also has a treaty with the European Free Trade Association (EFTA).

4.2.2.2. Relations with Kosovo

Kosovo and FYRoM have signed a Free Trade Agreement in 2005 to facilitate trade opportunities.¹⁶ Both of them have contributed towards an intensive foreign trade relationship with each other. Figures from 2009 show that FYRoM exported slightly more in Serbia than in Kosovo or other neighbouring countries, around €246 million in Serbia and €219 million in Kosovo. Since 2010, Kosovo is the main destination of FYRoM exports as compared to other regional countries such as Albania, Serbia, Bosnia and Herzegovina, Croatia and Montenegro.

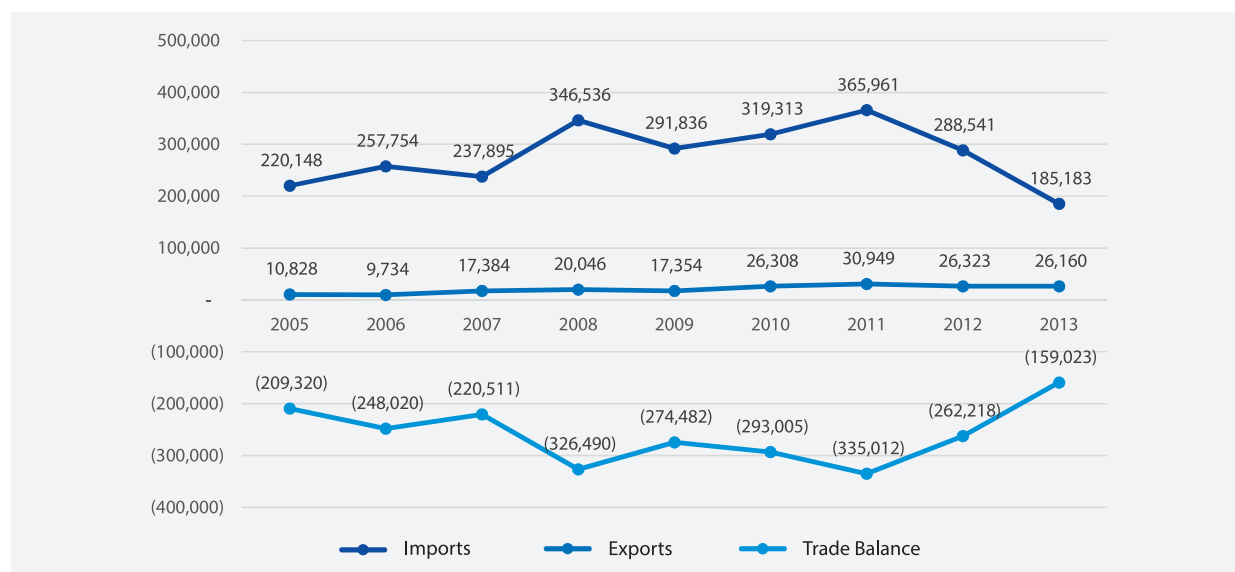
Based on the data from the State Statistical Office of FYRoM, 2013 marks the lowest value of exports to Kosovo (around €208 million), while the highest value is reported in 2011 (around €396 mil). In terms of export partners, Kosovo is listed the fourth (after Germany, Bulgaria and Italy), while as an import partner, Kosovo remains at the bottom of the list of sources to import from.

¹⁵Information available at the following link, p.7:

http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015a/pdfs/GEP2015a_chapter2_regionaloutlook_ECA.pdf

¹⁶FYRoM is the only country to date that has a bilateral agreement with Kosovo to recognise the Motor Third Party Liability Plus Policies (a simplified form of the green card arrangement) which has helped Kosovo's population to extend their free movement area by motorised vehicles, given that to this day, Kosovo remains outside the Green Card Bureau of Brussels.

Figure 6. Trade Exchange with FYRoM 2005-2013 (in '000 Euros)



Source: Kosovo Agency of Statistics, 2014

On the other hand, Kosovar exports to FYRoM never exceed €26 million. Exports peaked in 2011 at €25.8 million, with the lowest values at €6.7 million in 2009, which shows the huge trade deficit between the two.¹⁷

4.2.2.3. Market Overview

Food Processing

Despite the lack of publically available data regarding the nominal values of food and drinks production, based on the 2014 Statistical Yearbook of the FYRoM,¹⁸ the production of food and beverages has constantly grown since 2010.

Compared to 2010, production of food has grown by 5%, 22% and 20% in 2011, 2012 and 2013, respectively. A dissimilar trend is observed in terms of beverages where the production was lagging by 14% and 6% in 2011 and 2012 and only in 2013 grew by 1% as compared to 2010.

In terms of opportunities for Kosovar businesses, this might be interpreted as a sign that in terms of food production, there might be some margin for exploration but the market shows signs of saturation, while for beverages, probably there is only some niche market which has to be identified.

Agriculture

Agriculture is an important sector in the FYRoM's economy. The gross value added of the primary agricultural production accounted for 8.9% of GDP for 2008, achieving a growth rate of 7.1% compared to a previous year. The production of fresh and quality raw agricultural products in the country is a good base for the development of the food-processing sector, as well as for food facility construction. This industry has a strong reputation for quality food products and excellent access to regional and wider markets. The main products are: fruits, vegetable, wine, sheep and goat cheese. The share of food processing industry is 6% of GDP, covering about 12,000 employees and contributing with 11% of total employment in the manufacturing sector.

According to the "FYRoM in Figures" report,¹⁹ plant production in the period between 2003 and 2013 is

¹⁷Data on commodity exchange of the FYRoM by economic groups of the countries, available from: http://makstat.stat.gov.mk/pxweb2007bazi/Dialog/varval.asp?ma=02Nt_mk_2013_12_ZemjiEkgr_2013_ang&ti=Commodity+exchange+of+the+Republic+of+Macedonia+by+economic+groups+of+the+countries+for+the+period+01%2D12%2E+2013+preliminary+data&path=../Database/Statistics%20by%20subject/Foreign%20Trade/Commodity%20exchange%20trade%20by%20countries/&lang=1

¹⁸Statistical Yearbook of the FYRoM. Available from: http://www.stat.gov.mk/PrikaziPublikacija_1_en.aspx?rbr=485

¹⁹Macedonia in Figures (2014). Available from: http://www.stat.gov.mk/Publikacii/MakBrojki2014_en.pdf

characterised by a decrease in the sub-sector of cereals, whereas an increase was noted in the number of fruit-bearing trees such as apple trees.

Wood Processing

The situation regarding the publically available data regarding Wood Processing is similar to Food and Food Processing sector. The only thing that can be deduced from the 2014 Statistical Yearbook of the FYRoM is that this industry is quite far from reaching 2010 levels of production. Compared to 2010, 2011 lags behind by 15%, 2012 by 14% and 2013 by 36%. This shrinkage of the sector in terms of levels of output may indicate that the market is saturated.

This means that wood processing enterprises from Kosovo should probably look for other markets for their goods and services, rather than the ones in the FYRoM.

Construction Materials

Construction has been a big contributor to the GDP creation in the FYRoM. According to the aforementioned report FYRoM in Figures, the values of construction works in FYRoM as reported for the years 2003, 2008 and 2013 display a staggering increase (23% increase for the first period and 143% for the last period) which in nominal values means that from roughly €97 mil invested in 2003, the figure reached €290 mil in 2013. The main economic area to receive this investment was transport infrastructure and the second largest was apartment building blocks. Given that Kosovo has some capacities to meet requirements from these two particular aspects, perhaps it can prove beneficial for Kosovar entrepreneurs to target transport infrastructure and apartment construction companies as potential partners for export.

4.2.2.4. General Import Procedures²⁰

Customs Valuation

The primary basis for customs valuation is the official list maintained by the Customs Directorate. Each item is assessed at its "appropriate" price, and the taxes are levied based on a governmentally determined fair market price, regardless of the actual price paid. The dutiable value is assessed on CIF. The following duties, taxes and other charges as laid out in the next section need to be paid to clear the product through FYRoM Customs.

Import Documentation

Service providers are not subject to customs regulations, but foreign trade transactions are subject to a documentation fee of 1%. A certificate of origin, commercial invoice, bill of lading and shipper's export declaration are required for all imported products.

Import Licenses

The Ministry of Economy is responsible for issuing import licenses. The decree divides product items into several categories for the purpose of licensing. While obtaining a license for most products is a formality, for other goods, such as pharmaceuticals and military hardware, licenses are more difficult to obtain. The Ministry of Health is responsible for issuing import licenses for medical equipment. The Ministry of Health's Commission for Imports of Pharmaceuticals is responsible for issuing licenses for pharmaceuticals.

²⁰More information available at: <http://countrycodes.boomja.com/index.php?ITEM=10720>

Temporary Entry

Products may be exported to FYRoM on a temporary basis. The rules on temporary imports are outlined in the Regulation for Application of the new Law on Customs (Official Gazette No. 21/1998). In general, a company must post a bond for the goods upon entry; this bond is refunded when the goods exit the country.

Certain temporarily imported products are exempt from customs duties: raw materials processed in FYRoM and re-exported; infrastructure equipment produced by foreign contractors; and office equipment for foreign firms.

4.2.2.5. Tariffs, Duties, Quotas and Rules of Origin

Duties

Duties depend on the good being exported. Generally, customs duties apply to almost all products exported to FYRoM. Tariffs range from 0 to 60%; the average is 10%. The lowest duty rate of 0% is applied to products such as materials for the textile industry. Food items, such as fruits and vegetables, cereals and beverages, require an even higher rate of 60%. Tobacco is also included in this category. The duty is assessed on the CIF of goods.

Import Tax

There is an import tax on coffee, cigarettes, petrol and alcoholic beverages.

Value-Added Tax (VAT)

The VAT is a European type of sales tax that is applied at all stages of production of a good, including export/import transactions. The VAT for FYRoM is 18%, with 5% on most retail food products and production equipment. The VAT is also assessed on the CIF plus the amount paid on duties.

Excise, Consumption and Luxury Taxes

In addition to the customs tariff, there is an excise tax on several luxury goods, including alcohol, cars, coffee, tobacco and mineral oils. Special legislation concerning automobiles exists requiring that an excise tax of 7.5%, regardless of the car's engine capacity, be applied.

Quotas

In FYRoM, quotas on goods such as tobacco, wine and various fruits are applied; a total of 130 items are subject to the quota system. Quotas are allocated to importers via public tenders. Automobiles older than six years may not be imported.

Labelling and Marking Requirements

Labels must contain the following information: quality, ingredients, quantity, manner of storage, transport, use, maintenance, country of origin and a "best-before" date. The above information must be in Macedonian language.

Rules of Origin

All goods exported to FYRoM have to meet the elements of: Tolerance, Cumulation, Direct Transport, Duty Drawback, Vessels Conditions, and Product Specific Rules as applicable.²¹

4.2.2.6. Technical and Environmental Requirements

Laws and regulations

FYRoM legislation stipulates establishment and application of adequate and reliable procedures regarding the requirements for general safety of products, the manner of prescribing technical requirements, as well as the mutual recognition principles for compliance with foreign documents and markings.

The key legislation includes the following laws: Law on Product Safety, Law on Metrology, Law on the Control of Articles of Precious Metals and Law on Accreditation.

Technical requirements standard

The regulation stipulates certain requirements for specific products, which could refer to:

- Minimal substantial requirements which should be fulfilled by the products;
- Procedure, manner and conditions for evaluation of the products in compliance with prescribed requirements;
- Conditions to be fulfilled by the authorities that take part in the compliance evaluation procedure;
- Type of accompanying documents when products are being released on the market or in circulation;
- Obligation and manner of marking products;
- Reference to standards and other technical specifications;
- Format and content of the technical documentation, as well as manner and record keeping period; and
- Protective clause and reporting procedure.

The procedures description

The technical regulations are adopted by the Minister of Economy or the minister authorised by law as competent authority for affairs regarding production, market and releasing certain products or group of products into free circulation. When importing a product subject to this regulation, the importer must ensure that the product is compliant with prescribed technical requirements.

Evaluation of the compliance with technical requirements could be done by the authorised legal entities. The Minister of Economy issues such an authorisation, based on criteria for accreditation in accordance with the Law on Accreditation. The authorised entities have the power to issue compliance certificates upon written applications by the interested legal or natural persons.

The FYRoM acknowledges the foreign compliance documents and markings issued in accordance with the international agreements signed and ratified by the FYRoM.

²¹More information available at:

http://exporthelp.europa.eu/thdapp/display.htm?page=cd%2fcd_RulesOfOriginMacedonia.html&docType=main&languageId=en

Authorities monitoring and control

The monitoring and control over the enforcement of the provisions from the Law on Products Safety is done by the State Market Inspectorate, State Sanitary and Health Inspectorate, as well as some other official inspection authorities.

The monitoring and control of the accredited authorities for compliance evaluation is done by the Institute for Accreditation of the FYRoM (IARM). IARM decides on the accreditation manner and procedure for establishing the competences of the compliance evaluation authorities, as well as control over the compliance with the accreditation requirements.

The Bureau of Metrology is an authority at the Ministry of Economy in charge of the implementation of the Law on Metrology and the Law on the Control of Articles of Precious Metals. The Bureau of Metrology inspects the compliance with the metrology standards by the vehicles and other types of goods and issues export/import permits for these types of goods.

4.2.2.7. Sector Requirements

Food Processing and Agriculture

Food safety in the FYRoM is regulated according to two laws:

1. Law on Food Safety of Foodstuffs and Products and Materials in Contact with Foodstuffs (2002); updated with the
 - a Amendment Law to the Law on Safety of Foodstuffs, Products and Materials in Contact with Foodstuffs (2007); and
2. Law on Food Safety No. 157/10 (2010).

The purpose of the law on food safety (2010) is to ensure high levels of protection of health of people and protect the interest of customers when it comes to food items.

This law, and its amendments 53/2011 & 1/2012, are a national food safety framework legislation and provide overall legal basis for food hygiene rules, specific rules for products of animal origin, control rules and specific rules for control of products of animal origin. Jointly they set the legal basis for implementation of the categorization or the restructuring of the legal persons- business operators with food of animal origin according to the criteria and requirements of the European Union.

Competent authorities to supervise the implementation of the laws are:

- the Ministry of Health – Food Directorate;
- the Ministry of Agriculture – Food and Veterinary Agency; and
- the Laboratories – Faculty of Veterinary Medicine (Skopje); Public Health Institute Laboratories (with network of 10 regional laboratories); State Phytosanitary Laboratories.

The Food and Veterinary Agency is authorised to conduct official controls of the food for people and animals. In order to be able to export any food items, be that of animal or non-animal origin, an approval from the Food and Veterinary Agency has to be obtained.

Labelling and packaging - Articles 29 and 30 of the Law 157/10 regulate that food for people and/or animals has to be properly packaged and the labels should indicate clearly the contents of the food.

This law explicitly prohibits any insinuations on the packaging that the content (food) can heal illnesses.

Construction Materials

The construction sector in the FYRoM is regulated by the Spatial and Urban law which has had a number of amendments as indicated by the law numbers: 51/05, 137/07, 91/09, 124/10, 18/11, 53/11, 144/12 and 55/13. The law limits involvement of foreign construction companies in construction activities by making it mandatory to register legal entities within the country, which then become domestic companies despite the fact that the founder is foreign.

According to the Law on construction materials (no. 39/06, 86/08, 47/11 and 136/11), the following requirements have to be met by construction materials: provide mechanical stability; offer fire protection; provide hygienic and health protection for the environment; be safe to operate; offer acoustic isolation; and save energy in terms of temperature preservation.

The law does not regulate the materials to be used, and perhaps this is an opportunity Kosovar businesses that are involved in production of construction materials should seek to explore.

4.2.3. Montenegro

4.2.3.1. Political and Economic Overview

Montenegro is a small country with an economy that is dependent on tourism, related services, and metal processing. The lack of economic diversification and the dependence on external financing generate vulnerabilities that can lead to severe collapses of production and GDP during recessions, as was the case in 2009.

Montenegro's economy is slowly transitioning to a market system, but the state sector remains large and additional institutional changes are needed. Unprofitable state-owned enterprises, especially the "Podgorica Aluminium Plant", the country's largest exporter, weigh heavily on public finances.

Montenegro maintained its own central bank, adopted the Deutsche Mark, and then shifted to the Euro - rather than the Yugoslav dinar - as official currency, collected customs tariffs, and managed its own budget.

The 2006 dissolution of the loose political union between Serbia and Montenegro led to separate memberships in several international financial institutions, such as the European Bank for Reconstruction and Development. In January, 2007, Montenegro joined the World Bank and International Monetary Fund (IMF). Montenegro became the 156th member of World Trade Organization in December, 2011. The European Council (EC) granted candidate country status to Montenegro at the December 2010 session. Montenegro began negotiations to join the EC in June, 2012, having met the conditions set down by the European Council, which called on Montenegro to take steps to fight corruption and organized crime.

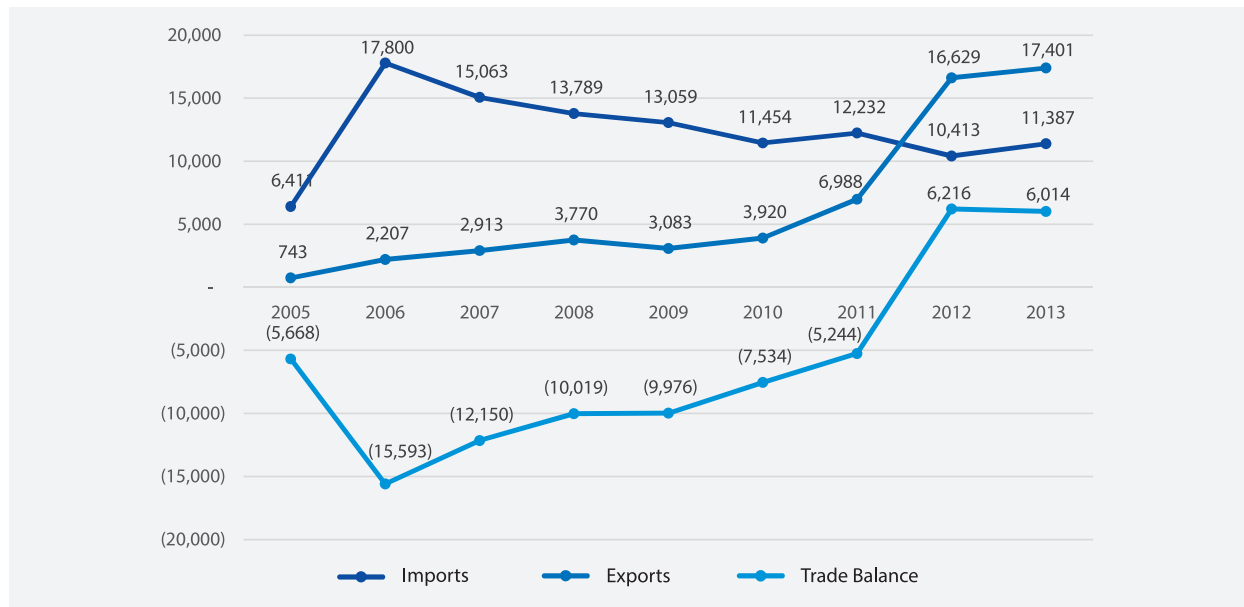
Unemployment and disparities in regional development, especially in the north, remain key political and economic problems. The global financial crisis had a significant negative impact on the economy, due to a credit crunch, a decline in the real estate sector, and a fall in aluminium exports. The Government of Montenegro increased value added tax (VAT) from 17% in 2012 to 19% in 2013 and raised income tax rates from 9% to 15% for those earning over €480 a month. In 2013, the government also retrenched by freezing pensions and limiting salary increases for public enterprises and members of the parliament.

4.2.3.2. Relations with Kosovo

Kosovo and Montenegro have nurtured good relations. This is supported with the trade figures where Kosovar exports to Montenegro display a constant growth over the period 2005-2013. Furthermore, Kosovo managed to achieve a positive trade balance with Montenegro by the end of 2011 and increased that positive gap in the two subsequent years. Montenegrin exports to Kosovo were around €10 million in 2012 and increased to around €11.3 million in 2013, while Kosovar exports to Montenegro for the same period, remain in excess of €17 million in 2013, thus generating a positive trade balance.

Another fact worth mentioning, especially given that tourism is a major contributor to Montenegro's GDP, is that there is no account for tourist turnover figures for Kosovo.

Figure 7. Trade Exchange with Montenegro 2005-2013 (in '000 Euros)



Source: Kosovo Agency of Statistics, 2014

4.2.3.3. Market Overview

Food Processing

Based on the 2013 Statistical Yearbook of Montenegro, the production of food and beverages has constantly decreased since 2010.²²

The production of food has been decreasing continuously: by 10% between 2009 and 2010; 5% between 2010 and 2011; and slightly less than 1% between 2011 and 2012. In terms of beverages, the situation appears to be more stable with indications of slight upwards trend, for the period (2010-2013) as the consumption in 2011 was higher (at € 20 million) compared to 2010 (at € 18 million), it increased again in 2012 (at €21 million) before dropping slightly in 2013 (at €20 million) compared to 2012.

Agriculture

Given the geographical layout and the landscape of Montenegro, it can be said that there is no comparative advantage that this country enjoys with respect to agriculture. The gross value added of the primary agricultural, forestry and fishery accounted for 7.9% of GDP in 2011 and 7.4% in 2012 (but it is safe to assume that this contribution is more fishery and forestry than agriculture).

Sales of agricultural products (excluding fish) for the years 2010, 2011 and 2012 are roughly €6.5 mil annually, while purchase of the same articles for this period are around €9 mil, €16 mil and €19 mil, respectively.²³

These figures indicate that there is an opportunity for Kosovar farmers to export to Montenegrin markets which, given its proximity gains in importance.

Wood Processing

The situation regarding the publically available data regarding wood processing is similar to the Food

²² Available from: http://www.monstat.org/eng/publikacije_page.php?id=103

²³ Available from: http://www.monstat.org/eng/publikacije_page.php?id=1159

and Drinks sector. The only thing that can be deduced from the 2013 Statistical Yearbook of Montenegro is that this industry has had some volatility in the production for the period 2008-2012. It basically shrunk the whole period except for the spike in 2010 and 2011 when it grew (4.5% in 2010 as compared to 2009, and 34.6 % in 2011 as compared to 2010). In 2012, the industry shrunk by 35.4% as compared to 2011.

This means that wood processing enterprises from Kosovo probably should look for other markets for their goods and services, rather than the ones in the Montenegro.

Construction Materials

The construction sector in Montenegro has constantly shrunk since 2008. The value of finalised construction works was around €412 mil in 2008, whereas in 2012 it reached the value of €257 mil. These figures can be interpreted as an indication of saturation of construction market in Montenegro, thus Kosovar entrepreneurs can perhaps find some niche markets but other than that, there seems to be little scope for export of construction materials and services to Montenegro.

4.2.3.4. General Import Procedures

Goods imported from abroad, for which exemption from payment of import duties is not provided, is custom cleared in regular customs procedure. A party in customs procedure does not have to participate directly, instead, it can authorise a representative, or customs agent who will present the party before the customs authorities.

Cross-border points can send the goods of transit declaration to the customs offices in the interior where regular customs procedure shall be conducted. The following documents shall be submitted to the customs office where the goods are being cleared: import customs declaration; invoice and other commercial documents; transport documents; certificate issued by competent authorities, or approval (license) for import, if determined for certain type of goods.

Import declaration - Goods that are imported have to be accompanied by an import declaration. Customs declarations shall be submitted: in written; electronic data transfer (where technical possibilities are provided for and where usage of such means is authorized by the customs service); or verbally.

Single Administrative Document (SAD) is a regulated form and used as a written customs declaration. It has to be signed and contain all information necessary for the application of the regulations regulating the import of goods. Generally, it is completed by a person authorized for representation by entering data about: purchaser of goods, import regime, the country of origin of goods and the country of payment, date of transfer of the goods across border, means of transportation, price, gross and net weight in kilograms, etc.

Customs declarations may be submitted only by an authorized person who is able to place the goods for inspection or to ensure insight in the goods to a competent customs authority, together with all documents required for the purpose of implementation of the rules regulating the process the goods are declared for. The person applying for customs declaration has to have a seat or residence in Montenegro.

The customs office, for the purpose of controlling the customs declarations it receives, can:

- examine the documents included in the customs declaration and the documents attached to the declaration;

- request the person applying for customs declaration to submit other documents for the purpose of verifying the accuracy of the particulars in the declaration;
- examine the goods and take samples for analysis of the goods or for further examination.

The transport of the goods to the place of inspection and sampling as well as the handling of goods necessary for the inspection or sampling are performed by the person applying for customs declaration or it is performed on his/her responsibility. The costs arising from this are borne by the person applying for declaration.

4.2.3.5. Tariffs, Duties, Quotas and Rules of Origin

Duties

Duties depend on the good being exported. Generally, customs duties apply to almost all products exported to Montenegro. Tariffs range from 0 to 30%, but, there can be additions on €/kg basis, which will increase the original duties even though these are usually capped.²⁴ The lowest duty rate of 0% is applied to products such as materials for the textile industry. Food items, such as fruits and vegetables, cereals and beverages, require an even higher rate of 60%. Tobacco is also included in this category. The duty is assessed on the Cost Insurance Freight (CIF) basis of the good.

The World Trade Organisation WTO bound rate for agricultural products is 14.79% and 4.44% for industrial products. The most favoured nation (MFN) average applied rate was 5.79% in 2013, while for agricultural products it was 14.09% and for industrial products 3.35%.

Import Tax

There is an import tax on cigarettes, alcoholic beverages and vehicles and their parts. The cigarette excise tax in Montenegro has a specific excise tax component, determined as an amount per 1,000 pieces, and an ad valorem excise tax, determined as a percentage of the retail price of the category of cigarettes with the most popular price. Regarding the minimum taxation of cigarettes, Montenegro's excise legislation requires that excise taxation be at least 110% of the total excise (specific and ad valorem) of the cigarettes with most popular price. Excise duty rates on alcohol and alcoholic beverages are the following: for beers: € 5 per content of alcohol by volume per hectolitre (hl) of beer; for still wines: € 0 per hl of wine; for sparkling wines: € 35 per hl; for non - sparkling fermented beverages: € 0 per hl, for sparkling fermented beverages: € 35 per hl, for intermediate alcoholic beverages.²⁵ Vehicles are subject to tax of €10/ccm³ to €50/ccm³ depending on size. Amount to be paid depends on value, model, year, cubic centimetres and accessories.²⁶

Value-Added Tax (VAT)

The VAT for Montenegro is 19%, with a reduced rate of 7% on some of the most basic food items (bread, drinking water), textbooks and newspaper and few other items.²⁷ The VAT is assessed on the CIF plus the amount paid on duties. There is the farmer's flat rate of 5% and there is a list of items exempt from VAT (e.g. official postal services, education, health and welfare, etc.).

Labelling and Marking Requirements

Given that Montenegro is in the process of joining the EU, labelling and marking requirements, as most of the laws and regulations in the country are in line or being brought in line with EU laws and regulations. As an example, labelling and marking requirements of food products are defined by the EC 178/2002 regulation.

²⁶Importing personal property. Available from: <http://webportal.atlasintl.com/Customs%20Docs/montenegro.pdf>

²⁷For a more detail list of items: <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/vat-gst-essentials/Pages/montenegro.aspx#1>

Rules of Origin

All goods exported to Montenegro have to meet the elements of: Tolerance, Cumulation, Direct Transport, Duty Drawback, Vessels Conditions, and Product Specific Rules as applicable.²⁸

4.2.3.6. Technical and Environmental Requirements

Laws and regulations

The Law on Technical Requirements for Products and Conformity Assessment, Law on Standardisation, Law on Metrology, Law on Accreditation and Law on General Product Safety and the by-laws passed on their basis consist the legal grounds for the adoption and implementation of the technical legislation. Such legislation transposes all European principles in the horizontal sense, while the vertical legislation that applies to certain groups of products shall be gradually harmonised within the competent ministries.

Technical requirements standard

In accordance with Article 30 of the Law on Foreign Trade, conformity with the technical regulations applied in Montenegro may be prescribed as a requirement for the import of goods. The technical regulation in this sense determines the required criteria for marketing goods in order to protect the security, life, health and safety of people, plants and animals and environmental protection. Technical regulations are applied regardless of the origin of goods and may encompass at least one of the following elements:

- Technical requirements to be met by the products that are delivered to the market;
- Requirements for the safety of the product in use;
- Regular and extraordinary controls of the products in use;
- Requirements for packaging and labelling;
- Obligations of suppliers of products on the market;
- The conformity assessment procedures;
- Requirements to be fulfilled by conformity assessment body;
- Conformity certificates and technical documentation necessary for proving the compliance of product that must be made available to the competent bodies (instructions, data, etc.);
- Mark and manner of marking of the product.

The procedures description

Products may be delivered or placed on the market for use only if, in accordance with the prescribed technical requirements, their conformity has been assessed according to the prescribed procedure, and if they have been marked pursuant to regulations.

If the conformity assessment body finds that the product meets the technical regulations, it issues a conformity license to the prescribed technical requirements. Documents confirming the conformity of products to the prescribed technical requirements are as follows: a certificate, report on the product testing and a declaration of conformity. The certificate and the report on the product testing are issued by the conformity assessment body. The declaration of conformity is provided by the manufacturer, or the supplier of the product confirming the following:

- The manufacturer, or the supplier of the product conducts the control of all activities concerning

²⁸More information available at: http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/article_784_en.htm#albania

the product safety;

- The product possesses the adequate documentation on testing that undoubtedly guarantees the product conformity with technical requirements; and
- The manufacturer or the supplier assumes the liability for the product safety.

The technical regulation specifies the products for which the supplier, prior to their marketing or utilization, is obliged to do as follows:

- To provide the application of conformity assessment procedure;
- To issue, or provide the adequate conformity document;
- To develop and provide the maintenance of the technical documentation within the prescribed scope, form and time limits;
- To provide the labelling of a product with the prescribed marks of conformity.

Prior to marketing or utilisation of the product which conforms to the technical regulations, it is labelled with the conformity marks, as follows:

- 'CE' marking;
- 'E' marking for homologation of vehicle parts;
- Other markings in accordance with the technical regulation.

Authorities monitoring and control

Montenegro does not perform the inspection control at the border. Customs authority will postpone the release of a product into circulation for three days and inform the competent inspection authority about this decision. The release is postponed if the customs authority in the customs procedure determines that certain products, or a group/series of products, have certain characteristics which raise justified suspicion of posing serious health and safety risk for consumers, or that products do not comply with the prescribed documents or that they have not been properly marked.

Regarding market supervision, depending on the risk assessment, market inspectors take samples of the products and send them for testing to the conformity assessment bodies. Also, inspectors can request removal of irregular labels on the product, prohibit or restrict placing on the market, or order withdrawal of non-compliant products from the market and take other measures.

If during the inspection supervision it is determined that products conformed with technical regulations yet they may jeopardize the public interest, especially the safety of life, health of human, animal and plant, environment and property, the competent inspection body shall take measures to withdraw those products from the market, or prohibit or limit their delivery to the market.

4.2.3.7. Sector Requirements

Food Processing and Agriculture

Legal framework - The main law governing safety of food in Montenegro is the Food Safety Law No 40/11 promulgated in 2011. As the name of the law suggests, this law regulates the basis and principles for assuring the high level of protection of human life and health and consumers' interest, and requirements for production and circulation of safe food and feed.

In determining whether food is safe, the following, as detailed in article 23 of the law, should be taken under consideration:

- Fulfilment of prescribed requirements in each stage of production and circulation, and requirements for handling, keeping and displaying of food prior to sale to the consumer, as well as the requirements for preparation and consumption of food in accordance with its intended use;

- Information provided to the consumer, including information on the label and conformity thereof with the producer's specification, or other information generally available to the consumer concerning the prevention of harmful effects on human health from a particular category of food.

Authorities responsible for enforcing the law are:

- Ministry responsible for agricultural matters (hereinafter referred to as: the Ministry of Agriculture);
- Ministry responsible for health matters (hereinafter referred to as: the Ministry of Health);
- State administrative authority responsible for veterinary matters;
- State administrative authority responsible for phytosanitary matters.

Labelling and Marking - Food or feed must be labelled and marked in production and circulation. Data contained in the declaration and marks must correspond to the data specified in the producers' specification and requirements prescribed in this Law and regulations issued based on this Law.

Declaration or mark must contain the data which enable traceability of food or feed, raw materials, material and substances which are being incorporated in food or feed, food-producing animals and final products, in all stages of production and circulation. Declaration shall not contain the data assigning medical characteristics to food or feed.

Declaration or data presented in the declaration for food or feed being placed in the circulation must be written in the language officially used in Montenegro.

Detail requirements for content, type of the data and manner of their presentation in the declaration, as well as manner of labelling of food of plant origin at the primary production level, food of animal origin, composite food and feed shall be prescribed in the regulation issued by the Ministry of Agriculture, or in the case of food of plant origin after primary production, composite food and other food in the regulation issued by the Ministry of Health.

Wood Processing

Montenegro has started to implement International Standards for Phytosanitary Measures No. 15 (ISPM 15) since 2010. Description of the mark for the wood packaging material (WPM) is prescribed by "Rulebook on Phytosanitary Measures for Wood Packaging Material in International Trade"²⁹ The official mark shall contain: IPPC – symbol of the International Plant Protection Convention; ME - ISO code of the state; unique number of three digits established by the Phytosanitary Administration to the commercial entity, legal entity or entrepreneur entered in the Register; abbreviation of procedure applied for treatment of wood packaging material (HT). Mark referred to in paragraph 1 of this Article is of rectangular shape, it must be readable, consistent and intransferable, put in a visible place, when it is possible, on two opposite sides and it can be of red or orange colour.

Construction Materials

Construction materials in Montenegro are governed by the Law on Spatial Development and Construction of Structures. The objective is the regulation of construction of structures which shall create conditions for structures to be built in accordance with law and other regulations, standards, technical normative and quality norms in the field of construction of structures.

According to the EC screening report,³⁰ Montenegro intends to align its legislation with the Construction Products Regulation (EC) No. 305/2011. The Ministry of Sustainable Development and Tourism of Montenegro is the competent ministry. The ministry has prepared the necessary legislation to align the sector with the Construction Products Regulation No. 305/2011.

Montenegro foresees that implementing legislation will be adopted one year after the entry into force of this legislation. Implementation will be carried out by the Administration for Inspection Affairs, in cooperation with the coordinating body for market surveillance. Montenegro currently has no plans to set up conformity assessment bodies in this area.

²⁹The rulebook can be obtained from the following site:

<https://www.ippc.int/countries/montenegro/ispm15/implementation-ispm15-montenegro>

³⁰Available from: http://ec.europa.eu/enlargement/pdf/montenegro/screening_reports/20131002_screening_report_montenegro_ch01.pdf

4.2.4. Serbia

4.2.4.1. Political and Economic Overview

Serbia has passed through a period of dramatic change during the previous fifteen years. The impact of the international financial crisis and numerous rounds of elections have slowed down necessary structural reforms in the country. However, more recent trends point to a move toward greater fiscal responsibility and a reengagement on critical issues such as state owned enterprise reform, financial sector reform, and public sector efficiency.

Serbia started membership talks with the EU in January 2014, after making some progress of both political and economic reforms.

Serbia has pursued these reforms while struggling to recover from the impact of the international financial crisis which led to a 50% spike in poverty and a similar jump in unemployment in the country. As in many countries, the challenge in Serbia is translating a tenuous economic recovery into jobs and poverty reduction in a tight fiscal environment. As a result, Serbia needs to become more competitive and increase productivity.³¹

According to the World Bank data, growth in Serbia for 2013 was 2.6%, and is expected to decline to just 1% in 2014, reflecting the impact of fiscal tightening, lower inflow of investments, and the ongoing fragile situation in the domestic and international financial sectors. More robust growth rates of around 2-3% are forecasted over the medium term.

Serbia's main exports are cars and other products from the automotive sector. Automotive exports have become the most important sector following significant investments from Italian car producer, FIAT. Almost 90% of all Serbian exports go to Europe - 55% to the EU and about 33% to the CEFTA countries. Exports of services are also gaining in importance, reaching 10% of GDP in 2013.

The economy relies on manufacturing and exports, driven largely by foreign investment. After renewing its membership in the IMF in December 2000, Serbia continued to reintegrate into the international community by re-joining the International Bank for Reconstruction and Development (IBRD) and the European Bank for Reconstruction and Development (EBRD). Serbia has made progress in trade liberalization and privatization, but many large enterprises - including the power utilities, telecommunications, natural gas, national air carrier, and others - remain in state hands.

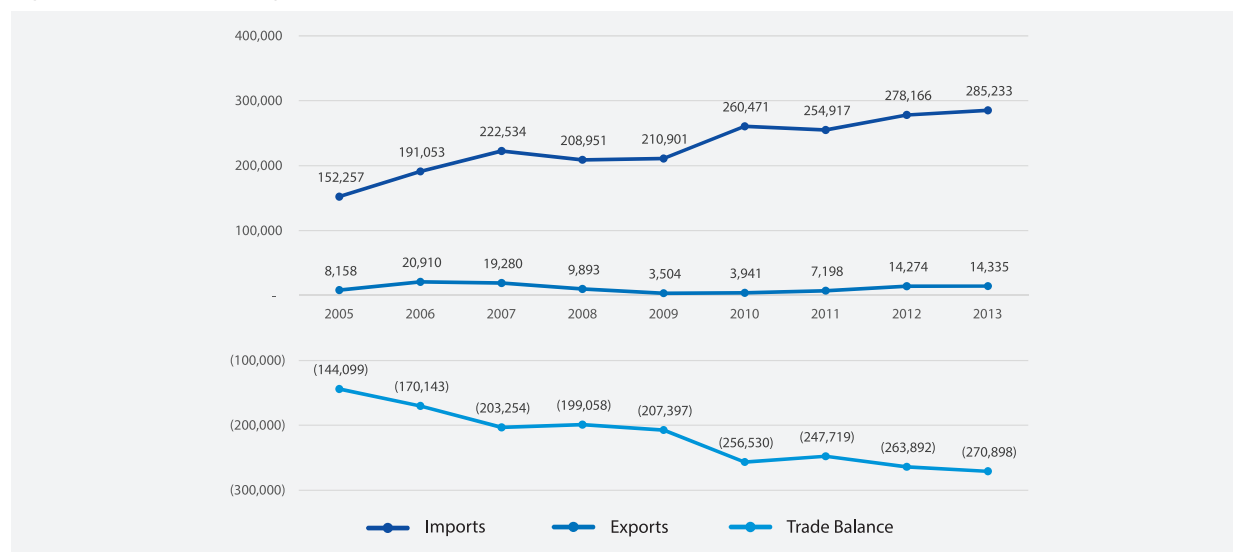
Serbia has Free Trade Agreements with the EU (under a SAA), Russian Federation, Turkey, EFTA countries, CEFTA countries, Belarus and Kazakhstan.

4.2.4.2. Relations with Kosovo

Trade exchanges between Serbia and Kosovo are constantly increasing, especially after 2007 when Kosovo joined CEFTA. Of all CEFTA members, Serbia is the second largest exporter in Kosovo after FYRoM. During the last three years, imports from Serbia accounted for 36% of total imports from CEFTA countries or 11% of total Kosovo imports, reaching the total amount of nearly €820 million of goods imported. The situation is different when it comes to Kosovo exports. During the same period Kosovo exports in Serbian market were approximately €36 million.

³¹World Bank <http://www.worldbank.org/en/country/serbia/overview>

Figure 8. Trade Exchange with Serbia 2005-2013 (in '000 Euros)



Source: Kosovo Agency of Statistics, 2014

The main products imported from Kosovo include: beverages, pastrycooks' products, wheat, flour, construction materials, etc. On the other hand, Kosovo exports mostly include construction materials (cement only) and scrap metals.

It is worth noting that in 2012, compared to 2011, Kosovo exports to Serbia doubled (from €7 million to €14 million). The value of goods exported slightly increased in 2013, too. Due to geographic proximity as well as the free trade agreement that is in place, trade exchanges between Kosovo and Serbia are expected to further progress.

4.2.4.3. Market Overview

Food Processing and Agriculture

The food processing industry in Serbia has developed and shown strong growth during the years of transition. One trend in the food industry is the expansion of conglomerates, which are active in several sectors. Food made in Serbia is present all around the world.³²

From January 1, 2014, under the SAA, tariffs for most agricultural and food product imports from EU into the Serbian market were reduced from approximately 23% to 0%. Only a few strategic agricultural and food products will continue to have duties (averaging approximately 3.2%).

Agriculture is still one of the most important industries of the Serbian economy. According to Serbian Agriculture Ministry data, this industry employs 10% of the overall workforce and accounts for 21% of Serbian GDP. Moreover, agricultural products account for 26% of total Serbian exports. Out of 5.2 million hectares of agriculture land, 85% is privately owned and 15% belongs to public cooperatives or the government. According to the Serbian government, 83% of Serbian agricultural lands are farmland. Harvest yields account for 57% of the total agricultural production, while cattle breeding accounts for 33%. Vineyard and orchards account for 5% and 4%, respectively.

Approximately 60% of the harvest products are made up of cereals and only 18% consist of vegetables. Wheat is the most important cereal with a throughput ranging between 2 and 2.5 million tons per year, and a cultivation area of over 650,000 hectares land yielding on average 3.5 ton/hectare. Corn is the second mostly cultivated cereal with nearly 2 million ton per year and a yield of 4.5 ton/hectare.

³²Eastern Europe and Central Asia Agro-Industry Development Country Brief – Serbia, FAO, 2012

Sugar beet with an overall production of 35 ton/hectare is another important Serbian crop. Sunflower cultivation areas extend over 170,000 hectare of land, yielding a production of 300,000 tonnes/year and 1.7 ton/hectare.

Considerable yields are also coming from the fruit sector, especially apples and plums, although there has been a recent decrease both in local consumption and exports. Viticulture is quite spread over the whole country with an average production of 380,000 ton table grapes and wine grapes. Beans cultivation covers a surface of 50,000-hectare land, yielding 1.1 ton/hectare for a total production of 60,000 tons per year. Potato cultivation covers an area of approximately 100,000 hectare for a total production of 800,000 ton/year.

The export of agricultural products is dominated by fruits, grain, sugar beverages, products from fruits and vegetables, grain-based products, various fruits products and vegetables.

Wood Processing

Forestry and wood processing industry traditionally occupy a significant place in the Serbian economy. The total forest area in Serbia of 2.25 million hectares or 29% of the territory, is ranking Serbia as a medium wooded land. The total volume of forests is 363 million m³, while the annual increase is 9 million m³. By ownership, 53% of forests are state-owned, whereas the rest is private..

According to the Chamber of Commerce and Industry of Serbia, more than 2,000 companies are currently engaged in this industry, employing more than 20 thousand employees.

Wood processing industry is export-oriented and is continually recording surpluses in foreign trade. Total exports in 2012 amounted to approximately €348 million, whereas imports reached €273 million. Products of primary processing phases account for 50% of exports and furniture for 50%.

Construction Materials

The emerging local real estate market, together with the free trade agreements, mainly with the Russian Federation, has driven the dynamic development of the domestic construction industry. The possibility of exporting building materials from Serbia to the Russian market duty free, makes the country attractive for foreign investors. This opportunity has already been recognised by leading multinational construction companies and producers who have established their production facilities in Serbia in order to export to the customs union of Russia, Belarus and Kazakhstan. Over the last decade, more than 25 global companies have invested approximately €900 million in the Serbian construction industry, significantly lowering the unemployment rate. Austria is the origin of more than 40% of these investments, followed by Germany, France, and Greece. Since the construction industry was adversely impacted by the world crisis, in 2010, the Serbian Government prepared several investment incentives in order to contribute to the sector's recovery. As a result, the construction industry in Serbia in 2011 recorded a 17% increase.

4.2.4.4. General Import Procedures

Non-domestic goods may be imported into the customs territory of Serbia through the customs border crossings at the time when they are open for circulation.

Circulation of goods which are subject to phytosanitary, veterinary or other prescribed control are allowed only through border crossings, which in accordance with appropriate rules, are designated for entrance and exit of such goods.³³

³³Serbian Customs Administration, 2014. Webpage of Customs Administration.
<http://www.upravacarina.rs/en/BusinessCommunity/CustomsProcedures/Pages/default.aspx> [Accessed on 31 August 2014]

Goods brought imported into the customs territory of Serbia are, from the time of their entry, subject to customs supervision and may be subject to customs control by the Customs authority.

Goods shall remain under customs supervision for as long as necessary to determine their customs status.

In-road transportation, goods are presented to the border customs authorities immediately after they have entered the customs territory. The person bringing the goods into the customs territory of Serbia, or the person responsible for the carriage of goods, is required to declare the goods and convey them by the route specified by the Customs authority and in accordance with its instructions to:

- The customs office or to any other place approved by the Customs authority; or
- A free zone, if the goods are to be brought into that free zone directly: by waterway or air, or by land without passing through another part of the customs territory where the free zone adjoins the land frontier between Serbia and a third country.

All goods intended to be placed under a customs procedure shall be covered by a declaration for that customs procedure. Domestic goods declared for an export, outward-processing, transit or customs warehousing procedure shall be subject to customs supervision from the time of acceptance of the declaration until the time they leave the customs territory, or are destroyed, or the declaration is invalidated.

The declaration shall be made:

- In writing;
- Electronically, if technically feasible and subject to authorisation by the Director of the Customs Administration; or
- Orally or by means of any another act whereby the holder of the goods expresses his wish to place the goods under a customs procedure, where such a possibility is provided for under the regulation in force.

Customs declarations in writing are to be made on a form corresponding to the official specimen prescribed for that purpose, i. e. on a single administrative document (SAD) form which is lodged by a declarant.³⁴

4.2.4.5. Tariffs, Duties, Quotas and Rules of Origin

Serbia has officially lifted barriers to imports and exports. However, some taxes are still applied. Non-tariff barriers in the form of import quotas are established with the aim of protecting national industries. The government has adopted the Regulation on Harmonisation of the Custom Tariff Nomenclature for 2014. Customs tariff apply on this nomenclature and are harmonized with the EU nomenclature. Customs duty ranges from 1% to 30%, depending on the good as well as its origin due to the trade agreements that are in place. The full list of ten digits goods and respective duty is published in the Serbian Customs Administration webpage.³⁵

Serbia is more protective of its agricultural goods compared to its non-agricultural ones. Origin of goods is one of the customs instruments affecting customs treatment of imported goods. Preferential origin confers preferential treatment to goods being imported, which results in reduction or elimination of import duties.

³⁴A customs declarant is any person making a customs declaration whether on his own behalf or on behalf of another person

³⁵[http://www.carina.rs/en/Zakoni%20engleski/Regulation%20CT2014%20107%20119%202013%20%2064%2073%202014%20\(2\).pdf](http://www.carina.rs/en/Zakoni%20engleski/Regulation%20CT2014%20107%20119%202013%20%2064%2073%202014%20(2).pdf)

Proofs of Origin

Under the rules of origin applicable in Serbia, in order to benefit from the preferential duty rates, products originating there must be accompanied by either:

- A movement certificate "EUR1" - issued by the Serbian Customs Authority. The exporter applying for the certificate should be prepared to submit documents proving the originating status of the products concerned;
- An invoice declaration by the exporter.

4.2.4.6. Technical and Environmental Requirements

Standards

The Institute for Standardisation of Serbia is recognized by the Law on Standardisation as the only national standards body in Serbia. This Institute is responsible for developing and adopting standards (which are considered voluntary under the law). Certain standards with mandatory application that had been adopted prior to 1996 became voluntary in 2009 or were converted where appropriate, into technical regulations. The specific legislative framework for voluntary standardisation is in place and fully operational.

Product Certification

In Serbia, a product may be placed on the market only if:

- It conforms with the prescribed technical requirements,
- Conformity was assessed according to the prescribed procedure;
- It is marked in accordance with the regulations; and
- It is accompanied with the prescribed documents of conformity and other prescribed documentation.

Labelling

The Rulebook on "Declaration and Labelling of Packed Food" regulates labelling requirements for packed foods designated for the consumer or public food consumption in Serbia. According to this regulation, a label must be present in both retail and bulk packaged foods and must indicate the following: expiration date, type and content of food additives, type and content of added vitamins, minerals, and other ingredients added to enrich the product's nutritional value. All foods are required to have the label in Serbian language.

Environmental Regulations

The Law on "Environmental Protection" governs import and export requirements of all imported goods and/or materials which may cause any risk to human health and environment in general.

Serbia has also adopted the Law on Genetically Modified Organism (GMO) which restricts production, imports and commercial growing of GMO crops in Serbia. The law regulates only basic conditions for the use of GMOs in closed systems and deliberate release into the environment.

4.2.4.7. Sector Requirements

Food Processing and Agriculture

Food Safety Regulation - The Law on Food Safety represents is one of the main agricultural laws in Serbia. It governs all aspects of production, circulation, control and consumption of food, general conditions for ensuring safety of food and feed, rights and responsibilities of persons performing food and feed businesses, early warning system, hygiene and quality of food. The purpose of the law is to ensure a high level of protection of life and health of consumers, and interests of consumers while ensuring efficient functioning of food trade.

Quality Control - The Ministry of Agriculture inspects the quality of food until the moment the food is distributed to retail shops. Visual checks of products (almost everything that is considered to be a food) and additional safety checks are done, using laboratory testing on basic ingredients. Visual checks involve product identification (origin, type, quantity), determining if labelling and packaging requirements have been met, and checking for the necessary statements containing the importer's name and address, the product's general appearance, taste, flavour, presence of residues, colour, structure, checking if the transportation requirements have been met. Quality control of imported products can be done after the import procedure has been completed and prior to retail distribution on the market. Inspection can be done also after the retail distribution in the store.

Wood Processing

Serbia acts in accordance to ISPM15 for importing of wood packaging material. ISPM15 is The International Standard for Phytosanitary Measures, publication number 15 - Regulation of wood packaging material (WPM) in international trade.

This standard describes phytosanitary measures that reduce the risk of introduction and spread of quarantine pests associated with the movement in international trade of wood packaging material made from raw wood. Wood packaging material covered by this standard includes dunnage but excludes wood packaging made from wood processed in such a way that it is free from pests.

Construction Materials

The Rule book on "Radioactivity Control of Goods during the Import, Export and Transit" regulates methods and procedure of radioactivity control during import, export and transit of construction materials in Serbia. Dose rate measurements are required for construction materials.³⁶ According to the article 10 of the above-mentioned rule book, identification of the radionuclide by gamma spectrometry is also required for construction materials.

³⁶Dose rate is the dose absorbed in unit time and indicates the amount of radioactive dose.

4.2.5. Bosnia and Herzegovina (BiH)

4.2.5.1. Political and Economic Overview

Today, BiH is a EU potential candidate country moving toward alignment with the EU's acquis requirements. Between 1998 and 2008 BiH experienced strong growth, with GDP increasing by over two thirds in real terms and poverty dropping from nearly 20% to around 14%.³⁷ Banking reform accelerated in 2001 as all the Communist-era payments bureaus were shut down; foreign banks, primarily from Western Europe, now control most of the banking sector.

Despite this strong economic performance, the onset of the global financial crisis in late 2008 is having an ongoing negative impact on the country's economy. The economy rebounded in 2011 - growing by 1% after a deep recession in 2009 caused GDP to contract by 2.9% - before returning to recession in 2012.

Strengthening public finance, improving the business environment in the country, and advancing the institutional and labour market reform agenda are among the areas where BiH could make notable progress in fostering job creation and growth in the medium term.

Over the last four years, BiH has been a "blend country" - utilizing resources from the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD), as well as the Global Environmental Fund.

Konvertibilna Marka - the national currency introduced in 1998 - is pegged to the euro, and confidence in the currency and the banking sector has increased. BiH's private sector is growing and foreign investment is slowly increasing, but government spending remains high because of redundant government offices at the state, entity and municipal level.

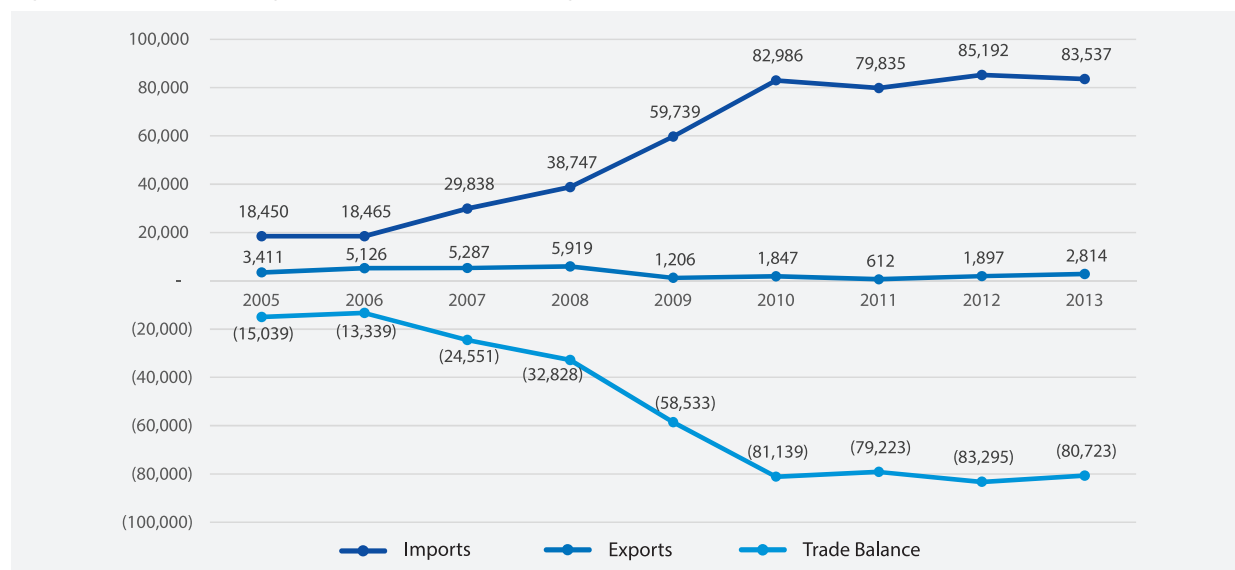
The privatization process has been slow, particularly in the Federation where political division between ethnically-based political parties makes agreement on economic policy more difficult. A sizeable current account deficit and high unemployment rate remain the two most serious macroeconomic problems. BiH became a full member of the CEFTA in September 2007. Significant progress in implementing structural reforms will be needed if the country is to achieve faster economic growth than what is currently foreseen.

4.2.5.2 Relations with Kosovo

Trade exchanges between BiH and Kosovo are constantly increasing. Kosovo exports toward Bosnian market doubled in 2013 compared to the year before. In 2013, Kosovo exports to BiH reached €2.8 million compared to €83.5 million of imports (see Fig. 9).

³⁷World Bank, 2014. World Bank website
<http://www.worldbank.org/en/country/bosniaandherzegovina/overview> [accessed on September 3, 2014]

Figure 9. Trade Exchange with Bosnia and Herzegovina 2005-2013 (in '000 Euros)



Source: Kosovo Agency of Statistics, 2014

The main Kosovar exported commodities to Bosnian market include rubber and beverages. On the other hand, Kosovo imports mainly meat, milk and other dairy products, petroleum bitumen, medicaments, etc., from BiH.

4.2.5.3 Market Overview

Food Processing

The food industry is an important sector in the economy of BiH, both for assuring food security for the country as well as for preventing a further increase in trade deficit. The food processing industry has been utilizing only about 10% of its capacity. Currently, the food processing industry in BiH encompasses those companies engaged in the manufacture and processing of food and beverages for human consumption, including meat, milk, fruit, vegetables, sugar, oil and tobacco, as well as prepared feeds for animals and fowl. All previously mentioned production capacities are still limited and cannot satisfy even local consumption requirements. In light of this, there still room for further development and enlargement of the food processing sub-sector, following the augmentation and development of primary production.

The food and beverage industry in BiH forms a large part of the economy, comprising 2.7 % of its GDP. In 2009, the food and beverage industry generated €21 million or about 23.6 % of the total value added by manufacturing industries, with 13.2% annual growth. The food and beverage industry employs almost 15,000 people (or approximately 16% of the total manufacturing labour force). Since 2006, employment in the sector has been growing on average by 1.7% annually. Currently, there are about 1,200 enterprises operating in the food and beverage industry (or about 6% of all manufacturing enterprises), most of which are private small- or medium-scale enterprises.

Agriculture

The existing structure of agriculture in BiH is characterised by small-sized farms and the privatization of big state-owned companies is seen as an opportunity for further agriculture development. Permanent grassland dominates, accounting for over 50% of all agricultural land in Serbia, arable land occupies

approximately 45%, and permanent crops approximately about 5%.³⁸

Poor financial resources needed for the modernization of all segments of agricultural production (replacement of outdated technologies and equipment; upgrading of the existing structure of agriculture sector, etc.) is one of the main limitations on faster development of this sector. BiH has a long tradition of collecting medicinal and aromatic herbs and beekeeping accounts for 1% of the total agricultural production. The share of livestock in total agricultural production is estimated at 50%. Fish farming is already developed, especially trout and carp fishing. The most important fish species in the aquaculture sector in BiH are salmonid species, cyprinid species, marine species, and molluscs.

Wood Processing

BiH forestry provides reliable resource base (volume, species, quality) related to the supply of various high quality raw materials (beech, oak, ash, pine and fir, as well as walnut, apple, cherry etc.), to the wood processing industry. „Bosnian beech” is particularly famous worldwide, due to its high quality. Almost 80% of BiH forests are owned by the state. According to BiH Foreign Investment Promotion Agency officials, BiH wood industry is well-known for the quality of the following products:

- All types of furniture (softwood and hardwood, wood-based panels, solid wood, bedding, mattresses, cushions etc.);
- Wood constructions, carpentry and joinery products (windows, doors, cabinet makers);
- Engineered products (tool bodies, handles);
- Prefabricated houses;
- Parquet panels;
- Plywood, veneer, sawn lumber, planed and dimension stock, wood panels;
- Wood containers, wood package ware and boxes;
- Pallets, load boards, tool bodies and handles;
- Decorative products and ornamentals.

The most exported products are seats and wood parts, furniture for dining rooms, bedrooms and other wooden furniture. Forestry products (mostly lumber) are mainly exported to: Italy, Slovenia, Serbia, Croatia, Austria, Germany and Egypt.

Construction Materials

BiH has abundant natural resources such as forestry, stone, gravel (aggregates), sand, clay and metal ores. These provide adequate support to a whole range of building material producers located in clusters around most of the centres of population. Currently, most building materials are readily available in BiH.

Quarrying and mining is the primary source activity for much of the building material industry. Sand, gravel and clay deposits offer ready-to-use materials, while quarries provide stone, gypsum and lime. The mining industry provides bauxite for aluminium production and iron ore for iron and steel products. The cement producers in BiH are dependent on the quarrying sector. Currently, their market is that of the local industry where they have no competition from importers as it is too expensive to transport cement from abroad. Although the local demand is expected to rise as new construction increases, local manufacturers are seeking to expand the market for cement to neighbouring countries.

Plastics - Styrofoam insulation panels are produced in BiH and mostly exported to Serbia.

³⁸Food and Agriculture Organization of the United Nations, “Eastern Europe and Central Asia Agro-Industry Development Brief – Bosnia and Herzegovina”.

Waterproof bitumastic roofing and damp course materials and polythene-based ground sheeting are also made in BiH.

4.2.5.4. General Import Procedures

Customs Regime

The Unified Customs Document is the standard customs application form used for import and export procedures. Only hard copies of the form are accepted by the Customs; downloaded versions cannot be used for lodging entry.

The Law on Customs requires that goods exported to BiH are accompanied by a:

- Customs declaration;
- Commercial invoice;
- Certificate of origin;
- Airway bill or bill of lading; and
- Any required certificates for quality control.

Customs Valuation

Customs valuation is based on the transaction value of the price actually paid or payable for the goods when sold for export to BiH. The system of customs valuation in the Law on Customs Policy is fully compatible with WTO rules.

Temporary Entry

Products may be exported to BiH on a temporary basis. The rules on temporary imports are contained in the Law on Customs Policy of BiH. Goods entering BiH under this regime may be fully or partially free of customs duties and must not sustain any changes except for the nominal loss of value due to use. The maximum period for temporary entry is 12 months. BiH has also signed the ATA Carnet Convention for allowing temporary export of goods.³⁹

Temporary exports may (i) be fully or partially free of customs duties; (ii) not undergo any changes; and (iii) only enter the country for a maximum of 12 months.

Free Trade Zones

BiH currently contains eight free trade zones: Sarajevo, Vogosca, Visoko, Herzegovina Mostar, Lukavac, Mostar Jugoistok, Kiseljak, and Orasje.

4.2.5.5. Tariffs, Duties, Quotas and Rules of Origin

Customs duties on all commodities imported into the customs territory of BiH are paid ad valorem at rates of 0, 5, 10 and 15%. The tariff rate averages 5.1%. These rates apply to all goods originating from countries that have concluded an agreement with a Most Favoured Nation clause with BiH or from those countries that apply the same clause on the commodities originating from BiH. Duties depend on the good being exported. The duty is assessed on the CIF of the good. Tariffs are set in accordance with WTO regulations, although BiH holds only observer status in the WTO. Exemption from customs duties is granted for goods that are being used for commercial/promotional purposes including goods

³⁹An Admission Temporaire/Temporary Admission (ATA) carnet is an internationally recognised document for the temporary importation of eligible goods.

used and/or consumed at trade fairs including samples, printed materials (brochures, catalogues, price lists, photographs, videos, etc.), equipment, machines and other products that are being displayed at trade fairs, and various items of insignificant commercial value. BiH accepts ATA Carnets for commercial samples, exhibitions and fairs, and professional equipment.

Value Added Tax is charged at a fixed rate of 17% for all imported goods and services. Excise tax applies to oil derivatives, tobacco, beverages including beer, wine and coffee. A charge of 1% of the customs value on imported goods for customs record keeping is also applied.

Certificates of Origin are not generally required as long as the country of origin is stated on the commercial invoice. Usually the EUR1 Movement Certificate must be used to support claims for preferential duty rates.

4.2.5.6. Technical and Environmental Requirements

Standards and Quality Control

The Law on Foreign Trade Policy (Article 7) requires imported goods to conform to the standards and technical and quality norms prescribed or recognised as preconditions for their placement in circulation or in use in BiH. International and European standards are usually adopted. Preference is given to European standards, and particularly to Harmonized Standards.⁴⁰ The Institute for Standardization, Metrology, and Intellectual Property is the main conformity assessment body in BiH. There are other testing organizations in BiH and a list of these institutions can be obtained from the Institute.

Labelling Requirements

Labels must contain the following information: name of the product, full address of the importer and the country of origin, net quantity/weight/volume, ingredients, manner of storage (transport, use, or maintenance), and pertinent consumer warnings. Technically complex products must be accompanied by instructions on usage, manufacturer specifications, a list of authorized maintenance persons/businesses, warranty information, warranty period, and other applicable data. All information must be translated into the languages of BiH and affixed to (or accompanying) the product before it is put on the market.

Product certification

Product certification is required in order to make sure that the product has undergone appropriate testing and that it conforms to relevant regulations.

Environmental Regulations

BiH applies Basel Convention when it comes to the Control of Transboundary Movements of Hazardous Wastes and Their Disposal.⁴¹ In accordance with obligations from international trade agreements, the Council of Ministers may ban imports, exports, or transit of certain goods through BiH or set conditions for imports, exports, or transport of such goods in transit in order to prevent danger to human lives, health, and the environment.

⁴⁰EU Harmonised Standards available at http://ec.europa.eu/enterprise/policies/european-standards/harmonised-standards/index_en.htm

⁴¹The text of the Convention is available at <http://www.basel.int>

4.2.5.7. Sector Requirements

Food Processing and Agriculture

BiH requires various certificates for imported food products which must be signed by the designated authorities. However, there are no specific formats that exporters are required to use, except for phytosanitary certificates that must be in accordance with the International Plant Protection Convention (IPPC).

Some veterinary certificates require specific statements e.g. concerning contagious diseases, hormone use, pathogen reduction methods etc. set by the State Veterinary Office (SVO). The SVO is responsible for verifying specific requirements for importing live animals and certain products of animal origin.

Some specific certificates required for exporting of agriculture and food products include:

The health certificate/evidence of sanitary wholesomeness attests to a product's safety for human consumption. The requiring authorities are the Federation Inspectorate and the Republika Srpska Inspectorate, or their respective Sanitary and Food Inspection Departments.

The certificate/evidence of quality attests to the product's quality and to confirm that the product meets certain quality standards. The requesting authorities are the Federation Inspectorate and the Republika Srpska Inspectorate, or their respective Market Inspection Departments.

The veterinary certificate is required for live animals, semen, embryo and egg cells, some processed animal products, raw materials for processing, veterinary medicines and accessories, diagnostic kits and materials, animal feed and waste, and other products that might be carriers of animal disease and put animal and human health at risk. The certificate verifies the product's safety for animal and human health. The requesting authority is the State Veterinary Office of BiH.

The phytosanitary certificate certifies the health of all plants and plant products. The requesting authorities are the Federation Inspectorate and the Republika Srpska Inspectorate (Phytosanitary Inspection Departments).

Wood Processing

Similar to Serbia, the only relevant standard that BiH applies is ISPM 15 for wood packaging material. However, laboratories for testing of wood products in BiH are almost non-existent.

Construction Materials

All materials used in the BiH construction industry are subject to test requirements. These can be accepted against manufacturers' certification of quality and conformity, or they need to be submitted for testing and approval by relevant public institutes. Few organisations authorised to issue ISO certification exist in BiH, but very few construction businesses have achieved the level of EU businesses to date. Three or four notable exceptions exist in the private and in the partially state-owned sectors of the industry, which have worked with certification organisations based outside BiH. Regulations affecting building construction materials used in BiH are somewhat less demanding than those affecting civil engineering sector, where all component materials must be submitted for testing and approval obtained from authorised test-laboratories attached to the Institutes of Architecture and Structural Engineering before they can be used on site.

4.3. Turkey

4.3.1. Political and Economic Overview

A member of the G-20, Turkey is the world's 18th largest economy. Following the 2008-2009 recession, economic activity has rebounded due to strong domestic demand growth driven by low real interest rates, strong capital inflows and a rapid acceleration in bank credit growth. In the last few years, growth rates have been above 8%, pushing GDP per capita above €8,000. With rapid growth rates and a young and increasing population of over 70 million, Turkey has the potential to be the largest economy in Europe after Germany. Turkey is now a member in the G20 club of important economies, and it is almost on par with the emerging giants of the BRIC club. Some forecasts even suggest that during the next decade Turkey will grow faster than any other country besides India or China.

Turkey has signed a Customs Union Agreement with the EU and its customs practices are in line with the guidelines of the World Trade Organization. The Undersecretariat of the Prime Ministry for Foreign Trade is the leading government body in the administration of foreign trade. Other relevant departments are: the General Directorate of the Customs, responsible for formulating customs policies and tariff policies; the Turkish Standards Institution, responsible for the inspection of industrial products; and the Ministry of Industry and Trade, responsible for the formulation and enforcement of trade-related laws.

Turkey enjoys a number of logistical advantages. Serving as a bridge between North and South, and East and West, Turkey represents an influential and cost-effective gateway to sizeable markets. Trade has traditionally been a key aspect of Turkey's economy.

Despite the global economic crisis and the political and social issues that have afflicted neighbouring regions, Turkey exported more goods in 2012 than ever before. Exports were supplied to 241 countries and regions worldwide.

The Turkish government views foreign direct investment as important and necessary to its economic success. In 2003, the government removed almost all restrictions and requirements on foreign investors and granted them the same legal status as Turkish-owned companies. The Turkish government provides various tax and non-tax incentives to foreign investors, in line with those provided to domestic companies. These include customs and VAT exemptions on various imported or locally delivered goods, including machinery and equipment, as well as priority regions offering incentives such as free land and energy support. Investors are also able to benefit from R&D support and market research with the aim of encouraging exports and increasing the competitiveness of firms in international markets. The Turkish government has also introduced flexible exchange rate policies and liberal import regulations in order to promote and sustain foreign investment.

4.3.2. Relations with Kosovo

Turkey is an ally with close links to Kosovo and one of the first countries to recognise it as an independent state. Diplomatic missions have been mutually established in Ankara and Pristina and visa requirements have been mutually lifted between the two countries. The Kosovo diaspora living in Turkey and Turkish diaspora in Kosovo both play important roles in underpinning cooperation and strong relations. Turkey is one of Kosovo's most important economic and trading partners and is Kosovo's fourth largest trading partner.

Kosovo and Turkey have signed a bilateral Free Trade Agreement, which eliminates customs duties on all industrial goods and on 850 tariff lines (at the 8-digit level of the Harmonized System) regarding

agricultural goods of Kosovo origin upon the entry into force. Kosovo, on the other hand, will eliminate the customs duties on all industrial goods and 846 tariff lines regarding agricultural goods of Turkish origin, incrementally, in 9 years, the latest, following the entry into force of the Agreement.

Turkey and Kosovo have also signed an Economic Cooperation Agreement (2009) and a Bilateral Investment Promotion and Protection Agreement (2006).

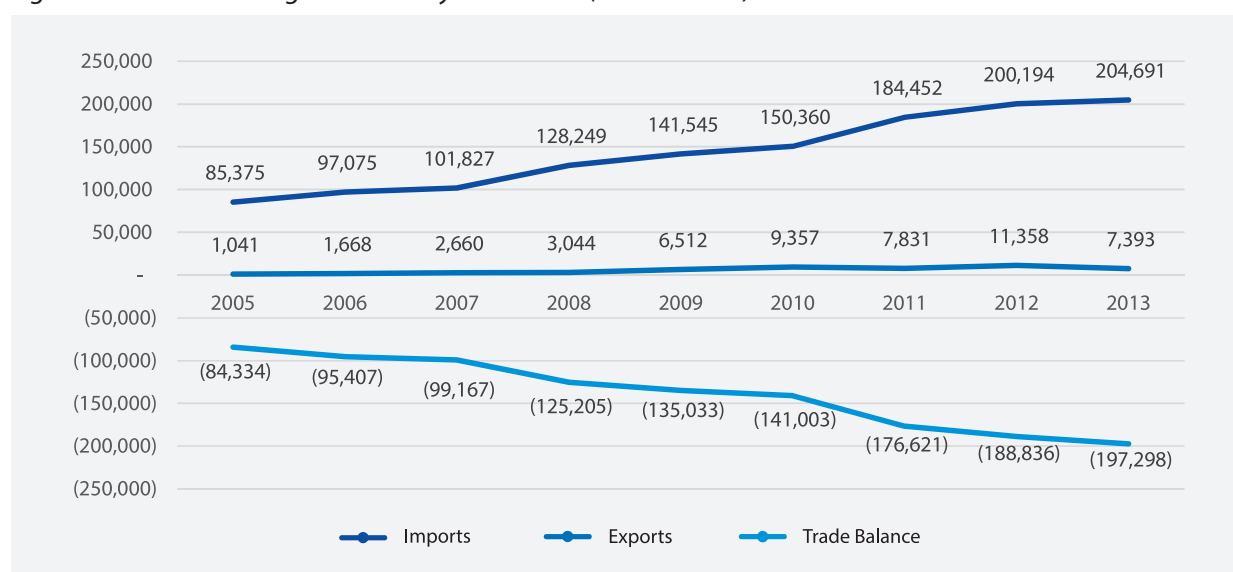
The Turkey-Kosovo Business Council facilitates investments within a structural framework. In the past couple of years cooperation has intensified in education and cultural sectors.

Kosovo's exports to Turkey totalled €7.3 million in 2013, up from €1 million in 2005. The top 5 imports categories were: textile yarn, fabrics, made-up articles (€2.5 million); metalliferous ores and metal scrap (€2.1 million); rubber manufactures (€1.6 million); manufactures of metals (€0.5 million); and textile fibres (€0.14 million).

Similar to Serbia, the only relevant standard that BiH applies is ISPM 15 for wood packaging material.

Kosovo was Turkey's 75th largest goods export market in 2012. Kosovo's imports from Turkey in 2013 were about €200 million, an 11% increase from 2011 (€184 million). The top export categories were: articles of apparel and clothing accessories, textile yarn, fabrics, made-up articles, manufactures of metals electrical machinery, apparatus and appliances, and miscellaneous manufactured articles. Kosovo's trade deficit with Turkey was €197 million in 2013 (see Figure 10 below).

Figure 10. Trade Exchange with Turkey 2005-2013 (in '000 Euros)



Source: Kosovo Agency of Statistics, 2014

Turkish firms have implemented key projects in Kosovo with a total value of nearly €400 million up until now. From 2002 to 2012, Turkish foreign direct investment (FDI) stock in Kosovo is roughly €770 million. Reported Turkish direct investment in Kosovo is led by the banking and mining sectors.

4.3.3. Market Overview

Food Processing

Turkey is the world's 5th largest in terms of spending on food. The sector of food and beverages accounts for 21% of total Turkey's GDP. The Turkish food industry is enjoying continuous growth trends due to the young population of the country, high urbanization rates, and rising income levels. Commodities consumed the most in the sector are bread, pulses, sugar, dairy products, fruits and vegetables.

Turkey's processed food sector is modernized and developed, and is capable of manufacturing high quality items in large quantities and in various sub-sectors. Turkish food producers are flexible and innovative and tend to produce products similar to imported ones when they see a good opportunity to increase sales, which creates a strong competition for imported food items.

Agriculture

Agriculture is still a very important sector of the economy. It represents about 10% of GDP and 25% of employment. Turkey is a major world producer and exporter in some sectors (especially, fruit and vegetables).

In the arable crops sector, Turkey is a major producer. Production of cereals in Turkey (including rice) represents more than 10% of the EU production. Turkey is a major world producer and net exporter of fruit and vegetables. Its levels of production currently amount to 26.8 million tonnes which represent around 60% of EU production of fruit and vegetables. As it regards to nuts, Turkey is a major world player, in particular for hazelnuts (largest world exporter).

Turkey is very competitive in terms of quality/price ratio thanks to its climate and low labour costs. For other crops, Turkey appears to be a competitive producer (in the EU and worldwide) of certain grain legumes such as chickpeas and lentils, of cotton, and of some qualities of sugar, tobacco and olive oil. For animals and animal products, Turkey has a highly protected market including import restrictions. Turkish meat consumption per capita is about 1/5 of EU average, but for sheep meat it is higher than in the EU. Consumption of cow milk and eggs are at half the EU level and 3/4 of the EU level, respectively.

Wood Processing

Wood processing plays a significant role in Turkey's economy, with industrial wood production mainly geared towards the manufacturing of wood-based panels (plywood, block board, particle board, medium density fibreboard, high density fibreboard and oriented strand board) and pulp. As consumption of wood products is extremely high in Turkey, domestic hardwood production has to be supplemented by imports.

In terms of trade, the wood market sector is diverse and consists of a number of products including logs, sawn timber, veneers, panels, moulding, doors and door frames, windows and window frames, flooring and other building components. Wood processing industries are mainly composed of small enterprises and are dispersed throughout the country even though geographic clusters do exist. The wood industry is almost completely controlled by the private sector. Many of these companies are in joint ventures with EU partners. Major industries consuming sawn wood and further processed wood products are construction, furniture, particle and fibre board (MDF), paper/paper board, pulp and wood-based panel industries.

In 81 cities of Turkey, carpentries and traders of timber products are organized and located at “Timber Traders Organized Zones”, which act as the stock market of all timber traded in Turkey. All actors in the market including, wood processors, importers and traders, have small ateliers or trading offices within these zones. Main zones as such are located in Ankara (second largest in Europe), Ikitelli (Istanbul), Simav (Kütahya), İzmit, Düzce and Bursa.

Construction Materials

Turkey ranks as the second country (following China) in terms of the number of top contracting companies in the world construction industry. The main focus is on Istanbul, Ankara and Izmir. With Turkey’s increasing population, rapid urbanization, and the current housing shortage, an estimated 600,000/year additional housing units need to be constructed.

There are about 800 construction companies in Turkey, and 38 of them are in the list of the 250 Largest Construction Companies of the world. The construction sector is the third-largest economic sector in Turkey, after the food and textile industries.

In the last ten years, the Turkish construction sector has experienced significant growth. Key drivers include increased housing needs, eased housing credits allowing people to upgrade their homes, an increase in the number of large-scale Turkish contracting firms, and the growth of the building materials sector. Turkey is currently a market leader in terms of cement exports and is in strict competition with Egypt to be the ruling cement producer of the whole Mediterranean basin. Turkey’s crude steel production has reached about 30 million tonnes, a growth of 15% over the previous year. Accordingly, Turkey is ranked tenth worldwide for unprocessed steel production.

There are several opportunities for Kosovo exporting companies in Turkey, especially for those which can get involved in providing materials for housing projects, which is a sector that is expected to boom in the coming years.

4.3.4. General Import Procedures

Import Regime

Turkey’s Import Regime reflects both its international rights and obligations and the country’s economic needs. The Import Regime Decree is prepared every year, published in the official journal by December 31st and put into force by January 1st. Import Regime Decree indicates the rates of the customs duties separately for countries and country groups and the products are classified under the following six lists:

- Agricultural products (List: I)
- Industrial products (List: II)
- Processed agricultural products (List: III)
- Fish and fishery products (List: IV)
- Suspension list (List: V)
- List of goods used in civil aircraft eligible to relief from customs duties (List: VI)

Customs Procedures

The basic customs legislative framework in Turkey consists of Customs Law No. 4458 (as amended), and its Regulations. The EUR1 form is required for imports from non-EU countries with which Turkey has free trade agreements. The format of the Turkish customs declaration has been aligned to the

single administrative document (SAD) used in the EU for customs procedures. All imported goods must be presented to Customs through the SAD accompanied by other pertinent documents. The Customs Authority may grant permission to simplify formalities and procedures (Simplified Procedure Authorization), including by waiving the requirement for some documentation. The use of a clearing agent is not compulsory. A summary declaration must be presented at the customs office before the end of the working day following the arrival of goods at Customs. This declaration, for imported and exported goods, contains all the information required for the identification of the goods, it has a predetermined layout, and can be found in Annex 9 of the Customs Regulations. Import clearance generally takes a maximum of 24 hours (if all the required documents are in order), regardless of the mode of transport. Import duties must be paid or guaranteed at the time of customs clearance.

Customs Documents

When a customs declaration is submitted by a declarant or his representative, it is obligatory to produce the original invoice and the value declaration form of the import goods before the printed-out customs declaration has been given to the customs administration. In addition to these, the following documents should accompany the declaration that should be produced to the Customs Administration: i) voluntary or depending on the situation a freight invoice and/or insurance policy in accordance with the terms of payment, ii) a Bill of Lading or Bill of Carriage, iii) a packing list (or in case the application of the provisions of release for free circulation procedure is subject to preliminary authorization or where the declarant wants to take advantage of the preferential tariff, a control document or a certificate of origin), iv) other documents required under special provisions such as the declaration form for processed agricultural products. The documents to be attached to the declaration and/or produced before the submission of goods or, in some cases, before the day on which customs liabilities occur are dependent on and/or subject to the nature of the goods, the country or country group the goods are imported from, bilateral or multilateral agreements, terms of delivery, terms of payment, origin, and the measures laid down by special provisions pertaining to trade, i.e. liabilities arising from international agreements on trade of goods, or special arrangements designed by relevant agencies in accordance with laws, decrees, regulations and similar legislation.

Additionally, certain specialised Customs Offices have been established to realize more effective customs control in terms of valuation, tariff and standardization. Some goods must be imported only from these specialized Customs Offices. Goods may be unloaded from means of transport at places designated or approved by Customs, and under authorization given by the Customs office concerned. No goods may be unloaded without producing a summary declaration or another commercial or official document used as summary declaration. However, in the case of an unavoidable danger where the goods have to be fully or partially unloaded in urgency, an authorization may not be required. Such cases must be reported without delay to the nearest Customs office.

Import Licensing

As a general rule, import licenses or permits are not required for imported goods. However, public authorities have the power to regulate and monitor the imports of certain goods on grounds of public morality, public policy or public security, the protection of health and life of humans, animals or plants or the protection of industrial and commercial property. These kinds of issues are arranged by several communiqués which are also published in the Official Gazette. When the import of a particular product causes or threatens to cause an injury to domestic producers of the same or competing products, authorities can impose surveillance over the product. The imported product under surveillance must be accompanied with an import license, in addition to other documents as required by the customs laws and regulations.

Free Trade Zones

Free trade zones are special sites that lie within the country, but are deemed to be outside the customs territory. In these regions, the normal regulations related to foreign trade and other financial and economic areas are either inapplicable, partly applicable or superseded by new regulations. In general, activities such as manufacturing, storage, packing, general trading, banking, and insurance and trade, may be performed in Turkish free trade zones. Goods moving between Turkey and the zones are treated as exports or imports. However, operations within the zones are subject to the supervision of the zone management (and customs authorities), to whom regular activity reports must be submitted. Consequently, there is a requirement for zone users to maintain full accounting records (in Turkish) with respect to their activities. These accounting requirements extend to inventory records. Customs duty is levied on any unexplained inventory losses as though the goods had been imported into the country. The right to operate in a free zone is conferred by an operating license obtained from the Ministry of Economy, which reviews the application for conformity with the objectives and types of activity specified by the Economic Affairs Coordination Council.

Placing of Goods under a Customs Procedure

All goods intended to be placed under a customs procedure should be covered by a declaration for that customs procedure. The customs declaration can be made in any of the following forms:

- In writing;
- Using a data-processing technique;
- Orally; or
- By means of any other act whereby the holder of the goods expresses his wish to place them under a customs procedure.

A declaration that is registered by the Customs administration binds the declarant as a commitment, with regard to the duties and fines to which it refers and it is the base to assess the customs duties.

Bonded Warehouse Regime

According to the Customs Law, it is possible to store goods not in free circulation in bonded warehouses without being subject to import duties or commercial policy measures. There is no limit to the length of time for remaining of goods in bonded warehouses. The cost of warehousing and of preserving goods while they remain in the warehouse, needs not be included in the customs value if they are shown separately from the price actually paid or payable for the goods. However, these costs must be added to the tax base of VAT.

Inward Processing Regime (IPR)

IPR is a system allowing manufacturers/exporters to obtain raw materials, intermediate unfinished goods that are used in the production of the exported goods without paying customs duty and being subject to commercial policy measures. The owner of the IPR authorization is obliged to import goods stated on authorization and export them after processing the imported goods. The basic endeavour of the IPR is to maintain materials at the world market prices and enhance the competitiveness of Turkish exporters. IPR can be implemented in two different ways:

1. **Suspension System:** In suspension system, goods not in free circulation, which is intended for re-export from Turkey in the form of compensating products, can be imported temporarily after having them covered under a security. When the goods are exported in the form of compensating products, the security is returned.

2. **Drawback System:** In case goods released for free circulation are exported from Turkey in the form of compensating products, the import duties collected while they were released for free circulation are returned.

The firms which have an authorization certificate can import and export goods without paying any kind of custom duties and fees within the period stated on the authorization certificate. This period of discharge cannot be longer than 12 months. However, for some special production facilities the time can be given up to 24 months. The period of discharge can be extended maximum half of the period stated on the authorization certificate due to the force majeure situations.

Processing Under Customs Control Regime

The procedure for processing under customs control allows goods not in free circulation to be used in the customs territory of Turkey in operations which alter their nature or state, and without their being subject to import duties or commercial policy measures, and allows the products resulting from such operations to be released for free circulation at the rate of import duty appropriate to them. Authorization for processing under customs control is granted by the customs administrations at the request of the person who carries out the processing or arranges for it to be carried out.

Temporary Importation Regime

The temporary importation regime is defined in the Customs Law as follows: "The temporary importation procedure shall allow use in the customs territory of Turkey, with total or partial relief from import duties and without their being subject to commercial policy measures, of goods not in free circulation intended for re-export without having undergone any change except normal depreciation due to the use made of them". Authorization for the temporary importation of the property of a person established outside the customs territory of Turkey is granted by the relevant Customs office at the request of the person who uses the goods or enables for them to be used. The goods should be covered under the special conditions laid down in the provisions of Council of Minister's Decree No. 2000/69 which defines "Special Conditions for the Temporary Importation Procedures with Total Relief from import duties".

The Outward Processing Regime

The outward processing procedure allows goods in free circulation to be exported temporarily from Turkey in order to undergo processing operations and the products resulting from those operations to be released for free circulation with total or partial relief from import duties. The authorization specifies the period within which the compensating products must be reimported into Turkey. The authorities may extend that period on submission of a duly substantiated request by the holder of the authorization. The import duties are effected by deducting from the amount of the import duties applicable to the compensating products the amount of the import duties that would be applicable on the same date to the temporary export goods if they were imported from the country in which they underwent the last processing operation.

The amount to be deducted is calculated on the basis of the quantity and nature of the goods in question on the date of acceptance of the declaration. The calculation may be done on the basis of other elements relating to the release for free circulation of the compensating products. Where the purpose of the processing operation is the repair of the temporary export goods, they are released for free circulation with total relief from import duties where it is demonstrated that the goods were repaired free of charge, either because of a contractual or statutory obligation arising from a guarantee

or because of a manufacturing defect. However, this provision does not apply where account was taken of the defect at the time when the goods in question were first released for free circulation.

4.3.5. Tariffs, Duties, Quotas and Rules of Origin

Goods imported into Turkey may be subject to various charges: customs taxes and levies (customs tariffs, and the mass housing fund levy) and internal taxes (excise duties also known as the Special Consumption Tax, the VAT, and the stamp duty).

Tariff System

As a result of the Customs Union formed with the EU in 1996, Turkey applies the EU common external tariff (CET) to industrial products and agricultural machinery from third countries, and includes into its Generalized System of Preferences (GSP) all industrial products covered by the EU's GSP regime, offering the same preferential terms as the EU. Goods exported to Turkey may be subject to five types of charges: customs duty rates, excise duties, the Mass Housing Fund (MHF) levy (on fishery products), special consumption tax (SCT), and the value added tax (VAT). Customs duties fall into five kinds: ad valorem, specific, compound, mixed and formula duties.

Turkey's tariff comprises ad valorem rates, which apply to 97.9% of total lines, and non-ad valorem rates (specific, mixed, compound, and variable duties), applied to 378 items at the HS twelve-digit level (284 in 2003). The average applied MFN tariff is substantially higher in agriculture than in other sectors: using the WTO definition, the coverage is 47.6% on agricultural products, and 5% on non-agricultural goods. Some 46.3% of the tariff lines are bound. The simple average bound rate is 33.9%, and the simple average applied MFN rate 11.6% in 2007. The ceiling bound rates leave Turkey ample margins for tariff increases.

Value Added Tax

The Turkish tax system levies value added tax on the supply and the importation of goods and services. The Turkish name for Value Added Tax is 'Katma Deger Vergisi', abbreviated to KDV. Any person or entity engaged in an activity within the scope of the VAT Law must notify the local tax office where his place of business is located. If there is more than one place of business, registration is performed at the tax office that is authorized with respect to individual or corporate income tax.

There is no single 'VAT registration' approach in Turkey because it is not possible to register only for VAT purposes. In order to register for VAT purposes, a foreign company should have a permanent establishment (PE) in Turkey and be obliged to register for all tax purposes (i.e. VAT, corporate income tax, withholding tax and stamp duty, etc.) in a local tax office.

Rules of Origin

Preferential rules of origin, specifying the standards for processing and added value of the relevant products, are applied to imports from countries with which Turkey has signed bilateral or multilateral trade preference arrangements.

Customs Valuation

Turkey harmonized customs valuation provisions with that of the EC in line with the provisions of Article 28 of the EC-Turkey Association Council Decision No. 1/95. Customs valuation of the imported goods is determined according to the following methods and these methods are applied in order of

their hierarchical sequence:

- 1.Transaction value method;
- 2.Transaction value of the identical goods method;
- 3.Transaction value of the similar goods method;
- 4.Deductive method;
- 5.Computed value method; and
- 6.Fallback method.

Simplified Procedures in Customs Valuation

The customs value of perishable goods may be determined under simplified procedures at the request of the declarant. For perishable goods, it is possible to declare the items which are to be added to the price actually paid or payable for the determination of the customs value after exporting to Turkey. Repayment and Remission of Duties

Customs duties are repaid in so far as it is established that when they were paid the amount of such duties was not legally owed. However, no repayment or remission is granted when the facts which led to the payment or entry in the accounts of an amount which was not legally owed are the result of deliberate action by the person concerned. Customs duties are repaid or remitted on submission of an application to the appropriate customs office within a period of three years from the date on which the amount of those duties was communicated to the debtor. Customs duties paid on the basis of a declaration are repaid on request of the person concerned by invalidating the customs declaration. As of the registration date of the declaration, import duties is repaid or remitted insofar as it is established that the amount of such duties entered in the accounts relates to goods rejected by the importer because they are defective or do not comply with the terms of the contract on the basis of which they were imported. Goods damaged before their release are also accepted as defective. Repayment or remission of import duties is granted on condition that the goods have not been used, except for such initial use that is necessary to establish that they are defective or do not comply with the terms of the contract.

The Customs Administration may permit the goods to be destroyed or to be placed, for the purposes of their re-exportation, under the transit procedure or the customs warehousing procedure or in a free zone, instead of being exported. For the purposes of being assigned one of the Customs-approved treatments or uses provided for in the previous section of this document, the goods are deemed to be the goods not in free circulation.

4.3.6. Technical and Environmental Requirements

Technical Regulations

The Regime for Technical Regulations and Standardization for Foreign Trade consists of a Decree (No. 96/7794), a Regulation, and Communiqués. It was first put into force in 1995 and continues to regulate standardization activities (it was last amended by Decree No. 9454/2005). The regime aims to increase the competitiveness and safety of exports to ensure the same treatment to imported and domestic products, and protect human health, safety, animal and plant life, and the environment.

The "Decree on the Regime of Technical Regulations and Standardization for Foreign Trade" is in conformity with the requirements laid down in the Agreement on Technical Barriers to Trade of the World Trade Organization. It prohibits discrimination among trading partners and it aims to ensure that import products comply with the requirements of protection of human health and safety, animal or plant life or health, or the environment. The Regulation as a supplementary legislation is related with

the controls of the agricultural products to be exported within the scope of the standards mandated in exports. The Regulation also determines the framework of the import controls, which are regulated by communiqués in more detail.

For certain products, a control certificate is required. The relevant ministries perform a documental control prior to the import stage and issue a control certificate. These certificates are valid for a stated period from 4 to 12 months and for a stated quantity of imported goods. Within the limits of time and quantity, the importer may use this control certificate for multiple imports.

Standardization

The Turkish Standards Institution (TSE) has been developing and implementing standards for products manufactured in or imported into Turkey since 1960. It is an independent institution (not funded by the State), responsible for the preparation and publication of standards for all types of materials and products. In addition, it deals with industrial metrology and calibration, and laboratory services for conformity assessment and certification.

The TSE is a full member of the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC); it is also an affiliate member of the European Committee for Standardization (CEN), and the European Committee for Electrotechnical Standardization (CENELEC). According to the authorities, about 98% of CEN and 93.5% of CENELEC standards have been adopted (end August 2007). Recognition of testing procedures has been assured by mutual agreements concluded between Turkey and the EU Member States.

4.3.7. Sector Requirements

Food Processing and Agriculture

Main Regulations - The regulations on food and agricultural products are generally prepared and published by the Ministry of Agriculture and Rural Affairs (MARA). However, there are also regulations published by other ministries, such as the Ministry of Finance and the Ministry of Health⁴². Currently, the main target of Turkish food and agriculture policy is to harmonize the related laws and regulations with the EU *acquis communautaire*.

Turkey's principal law governing food is the Production, Consumption and Inspection of Food Law (Law No: 5179). The purpose of the current law, as outlined in its first article, is to ensure food safety and the hygienic production of all food products and food packaging materials, to protect public health, to establish the minimum technical and hygienic criteria for food producers, and to set forth the principles of monitoring production and distribution. The law amends the framework of the Turkish Food Codex which covers the analysis methods of monitoring the quality and hygiene standards of foods, additives, aroma materials, pesticides, and the rules for packaging, storing, and forwarding in a way to establish further adaptation to the EU regulations.

This law has resulted in the creation of the National Food Codex Commission whose responsibility is to prepare, review and approve all changes to the Turkish Food Codex, including those changes that take place through EU harmonization. There are currently 25 sub-committees working on specific revisions to various aspects of the Turkish Food Codex.

In addition to the 2004 Food Law, the Turkish food industry and food imports are primarily regulated by several other related laws and regulations, most importantly the Turkish Food Codex. The current

⁴²Most Turkish agriculture-related regulations, laws, communiqués, directives, and notifications are available on the website of the General Directorate of Protection and Control (GDPC) of MARA: www.kkgm.gov.tr.

Turkish Food Codex and all amendments, new regulations, notifications, are available at the GDPC website.

In addition, bulk or semi-processed plant materials and meat and dairy products are subject to Plant Quarantine Law (Law No: 6968) and Animal Health Law (Law No: 3285). The Plant Quarantine Law is in force since 1957, and in 2003 it was amended by regulation to ensure EU harmonization⁴³.

The Import Process

According to the most recent revision to the Turkish Food Codex, formerly requested control certificate is not required for plant and plant-based products and is only required for animal and animal-based products. The requirements for products to obtain control certificate might vary but below is the basic list:

- A completed import license form obtainable from the www.gkgm.gov.tr website;
- A pro forma Invoice;
- A health certificate from the government Food Inspection Agency of the country of origin stating that the product meets the requirements of the importing country.
- For consumer-ready products, this is normally a "Certificate of Free Sale" indicating that "the product was produced in accordance with local laws and regulations and is fit for human consumption and is freely marketed in the country origin". This can be problematic, as FDA will not usually issue a certificate with this exact wording. In some instances, this problem can be overcome by getting a certificate of free sale from a government agency at the state or local level.
- For alcoholic products, a "distribution certificate" provided by the producer's company to the importer and/or distributor indicating that the Turkish company is authorized to market and deliver the product in Turkey.
- For "special" foods such as diet foods, foods for diabetics, vitamins, baby foods, etc., the importer must provide a written declaration that the product will not be advertised in such a way as to mislead the consumer. The importer will normally receive written approval along with an approved control certificate from the Provincial Agricultural Directorate Authority within one or two weeks.

Customs Inspection and Documentation

Upon entry of the product at Customs, the importer should be prepared to present the approved control certificate as well as other normal import documentation such as the bill of lading, original invoice and certificate of origin. In addition, the importer should be prepared to present Customs with the exporting company's analysis report for physical, chemical, microbiological and heavy metal content, and a certificate from the official food inspection agency of the country of origin stating that the product meets the quarantine requirements of the importing country. The Ministry of Food, Agriculture and Livestock (MINFAL) officials take samples of the imported product to government laboratories for physical, chemical and microbiological analysis and confirm it matches the information supplied from the exporting country. Import of the foodstuff is allowed if the results of the analysis are found to be acceptable and consistent with Turkish regulations, and the imports have been approved by MINFAL. Results of the analysis are normally received within a few working days. If the inspection results do not match with Turkish requirements, the importer may request secondary sample tests. In case that the secondary test results are also against the Turkish import requirements, then the shipment is rejected by MINFAL authorities. In addition, if the foodstuff is a bulk or semi-processed commodity, it is checked by plant quarantine specialists or veterinarians for consistency with the appropriate law and regulations.

⁴³The most recent version of the law can be found at: <http://www.kkgm.gov.tr/regulation/regulations.html>.

Control Certificates

The majority of food and non-food imports require what Turkey calls a “control certificate”. A control certificate is in essence an import license. It is granted to the importer at the discretion of the import officials. As per the Standardization in Foreign Trade Communiqué of January 17, 2007, the import process for each product begins with an application for issuance of a control certificate⁴⁴.

All food products for which a control certificate is required are listed with the HS customs codes in the second and the third Article of Communiqué 2007/21 and in Annex-IVA of the Communiqué on Standardization in Foreign Trade. These products include cereals, milling industry products, oilseeds, animal and vegetable fats, residues, dairy and fish products, live trees and other plants. A few food products such as coffee, natural gums, vegetable saps and extracts, vegetable waxes, and cocoa are not required to have a control certificate prior to import, but should have the necessary documents to be cleared from Customs. Products that do not need a control certificate are listed in Annex-IVB of the same Communiqué. For processed products, these certificates are required for each shipment.

Most recently, in December 2008, the Communiqué on Standardization in Foreign Trade for Import Products was published by the GDPC. This further defined some of the procedures for obtaining control certificates and for determining expiration dates of the control certificates. Accordingly, the control certificates are valid for a period of 4 to 12 months, depending on the product⁴⁵. Control certificates are sometimes used as an instrument to deny or delay the importation of some products.

In order to obtain a control certificate, depending on the type of product, the following documents must be presented to the relevant Ministry: a pro forma invoice, a health certificate, a certificate of analysis, a formula or list of contents of the product, a pedigree certificate, and a radiation analysis report. All documents must be obtained from and/or approved by the relevant authorities in the producer country. Documents must be in the original language and a translation into Turkish is required. Control certificates must be presented to Customs Authorities upon import. The period of validity of control certificates ranges from four to twelve months, depending on the product.

Labelling

Every food product in the market has to be labelled clearly, completely and accurately in the Turkish language. An imported food item, however, may arrive in its original package, but a permanent “sticker” label in Turkish must be attached to the package before it is marketed. Other languages in addition to Turkish may also appear. Labelling requirements are enforced by the Ministry of Agriculture and local municipality officials. This regulation sets forth in detail, under what circumstances a food product can be labelled, for example, as “light”, or “no sugar”, or how the vitamin and mineral information should be stated. The regulation also details what warnings should be indicated under what contents.

If the product has a shelf life of less than three months, it must include the day/month/year of expiration. If the shelf life is more than three months but less than eighteen, the month and year are required. If the shelf life is more than three years, only the year is required. In the case of fruits and vegetables which might be sold in bins or open stands, labels are required on the exterior of bulk packaging. Another regulation requires that labels for fruit beverages specify whether the product contains fruit juice (90-100% concentration), nectar (20-50% concentration), or fruit drinks (up to 10% concentration). Also, the communiqué 2007/26 on Non-Alcoholic Beverages details the labelling requirements of fruit juices, aromatized drinks, syrups, juice powders, natural mineral waters, sodas, tonics and aromatized waters.

⁴⁴The process is described in Communiqué No. 2003/31, which is posted online, in English, at: http://www.kkgm.gov.tr/regulation/com/Com_Approval.html

⁴⁵The communiqué in Turkish can be found at: <http://www.kkgm.gov.tr/teblig/2009-5.html>

Wood Processing

Turkey started to implement ISPM15 to the international standard for Wood Packaging Materials as of 1 January, 2006. From that time on, all Wood Packaging Materials bound for Turkey must be fumigated, debarked, and marked with an approved international mark certifying treatment; otherwise the goods will be sent back or destroyed.

Wood packaging material and dunnage should be marked in accordance with ISPM15. Phytosanitary certificates are accepted in lieu of ISPM15 mark. The phytosanitary certificate must be issued no earlier than 14 days before the date of shipment. Alternatively, if the date of inspection is stated on the phytosanitary certificate then the period between inspection and shipment must not exceed 14 days.

Construction Materials

The legal framework in this area consists of the Regulation on Construction Products of 2002, in force since 2004, its successive amendments (2 in 2004, 1 in 2005), and the Communiqués on the Principles and Methods for Market Surveillance of Construction Products Regulation on the Market Surveillance and Inspection of the Products. The implementing communiqués are being continually revised in order to remain aligned and follow the latest evolutions of the European legislation. Turkey considers that its legislation is therefore aligned with the *acquis*. The relevant European standards have been introduced in Turkey. The Ministry of Public Works and Settlements is the competent authority and is also responsible for implementing market surveillance. Tests on samples of material used in new constructions are performed systematically.

4.4. The United States of America

4.4.1. Political and Economic Overview

With a market of approximately 291 million people, the U.S. has the largest and most technologically powerful economy in the world, with a per capita GDP of about €40,000. Its size gives it the power to influence global acceptance of everything from consumer goods to industrial standards, and makes it a magnet for exporters all over the planet. Simultaneously, the U.S. is a major supplier of goods and services both to its own domestic markets and to markets around the world.

Because of its size and vast range of needs, the U.S. can be a very good place for an exporter to do business. But the same characteristics that make it attractive can also make it a difficult market, because exporters to the U.S. must compete not only with each-other but also with U.S. domestic suppliers. Moreover, the wide variety of market segments can make it hard for an exporter to focus on the areas where the company can best apply its strengths.

Agriculture and the manufacturing sectors make up about 1% and 20% of US's GDP, respectively. This percentage can be relatively deceiving. The U.S. is not only the third largest agricultural producer in the world after China and India, but is also the leading industrial power. The services industry on the other hand makes up the largest share of the US economy – 80% of its GDP. The U.S. is home to the largest and most influential financial markets in the world including major stock and commodities markets.

As of 1 January, 1994, the U.S. is part of the North American Free Trade Agreement (NAFTA) which includes Canada and Mexico. Designed to foster increased trade and investment among the partners, the NAFTA contains an ambitious schedule for tariff elimination and reduction of non-tariff barriers, as well as comprehensive provisions on the conduct of business in the free trade area. The main implication of NAFTA for exporters to the U.S. is free access to the large North American market that includes Canada and Mexico.

4.4.2 Relations with Kosovo

The U.S. is Kosovo's most strategic partner. Relations between the two are very strong and Kosovo is considered by the U.S. as a reliable partner. Since 1999 the U.S. has played an instrumental role in the establishment of local institutions and the rebuilding of the economy.

The U.S. has been Kosovo's staunchest supporters in the international arena. They have provided great political and economic support. Since 1999, the U.S. has contributed about €1 billion to Kosovo's development.⁴⁶

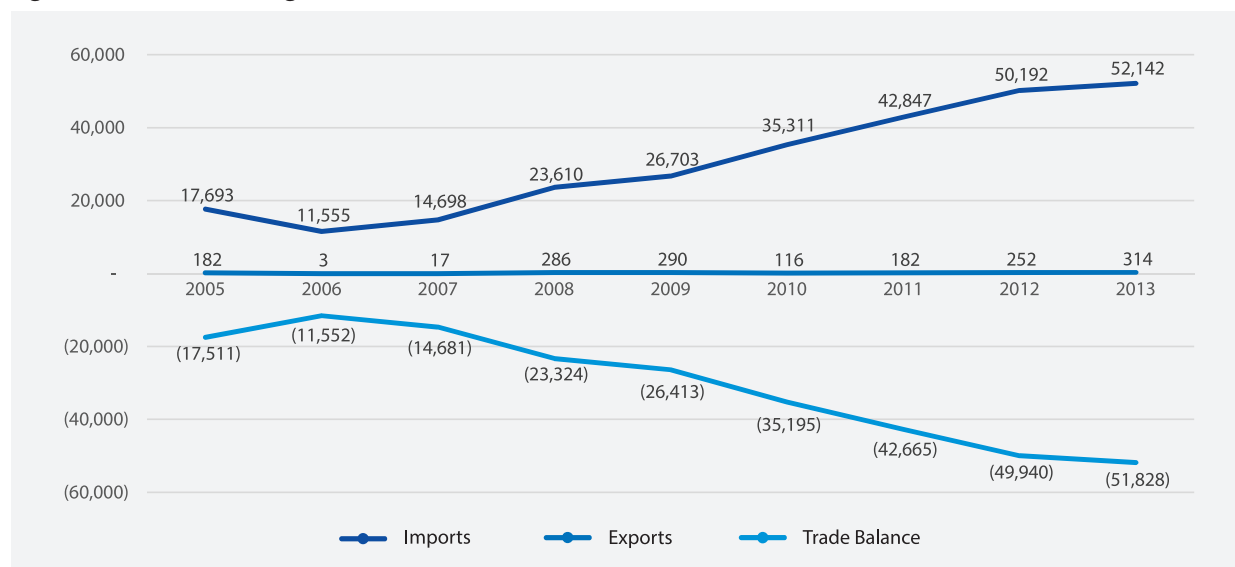
Kosovo maintains a diplomatic mission in the U.S. and vice versa. The U.S. Embassy in Pristina amongst other services facilitates interested investors, exporters and businesses interested in expanding into the Kosovo market and offers business counselling services. The Economic and Commercial Section of the Embassy can provide valuable insight into local market conditions, business climate, and investment opportunities.

The American Chamber of Commerce (AmCham) in Kosovo has an extensive membership and regularly gathers U.S. and non-U.S. businesses to push for greater transparency and private sector input in government decision-making and reforms.

Since 2008, Kosovo has been included in the U.S. Generalized System of Preferences (GSP), a program that cuts U.S. tariffs for many imports from developing countries, with an emphasis on light manufacturing, minerals, building materials, and certain agricultural products. In 2012, the U.S. renewed its GPS for Kosovo, which enables a considerable number of Kosovo products to be exported to the U.S. without import duties.

As shown in the figure below, trade levels between Kosovo and the U.S. are low, certainly as a result of the distance between the two. The trade deficit has been growing since 2006, as a result of weak export performance. Although transportation costs make exports more expensive, strong political relations with the U.S. and instruments like the GSP offer opportunities for increased trade which could be tapped more effectively by the Kosovo business community. Some Kosovo exporters are already taking advantage of such opportunities. One example is the wine producer, Stone Castle, which exports to the U.S. market, mainly in the New York City area. The GSP program also provides an incentive for investors to produce in Kosovo and export selected products duty-free to the U.S. market.

Figure 11. Trade Exchange with the U.S. 2005-2013 (in '000 Euros)



Source: Kosovo Agency of Statistics, 2014

⁴⁶<http://www.state.gov/p/eur/ci/kv/c26235.htm>

U.S. investors in Kosovo are already present and involved with projects in the construction, energy, and real estate development sectors. Among the most visible U.S. companies in Kosovo are Bechtel (involved in the construction of the Ibrahim Rugova Highway), Coca-Cola, FedEx, UPS, DHL, Deloitte, Booz Allen Hamilton, Microsoft, etc.

4.4.3. Market Overview

Food Processing

The food and drink market in the U.S. is worth about €1,000 billion and has grown at an average annual real of about 0.5% by value in the last 5 years. The food and drink industry is both large and extremely complex, consisting of multi-tiered supply chains. It is subject to extreme competition and a heavy regulatory burden. This market is very concentrated, with the top-10 companies supplying about 30% of the total market.

Fresh products have been the fastest growing sector in the last 5 years, increasing by about €7,000 million per year, or a real average annual 0.26%, during the five-year period. Chilled products have achieved a higher average annual growth rate of about 2%. Top food and beverage imports to the U.S. include beverages, with 17% share, fish (12%), fruit (10%), coffee, tea and spices (8%) and vegetables (7%). In 2012, Canada was the U.S.'s largest import source, with 18% share, followed by the EU (17%), Mexico (15%), China (5%), Brazil (4%) and Thailand (4%). The U.S. organic food market has experienced strong growth in recent years, with total revenues of €23 billion in 2011. This market is predicted to continue to experience strong growth. As consumer interest continues to gather momentum, many U.S. producers, manufacturers, distributors, and retailers are specializing in growing, processing, and marketing an ever-widening array of organic agricultural and food products.

Agriculture

Agriculture in the U.S. is a large, competitive and fast growing sector. The U.S. is one of the largest agricultural exporters in the world - agricultural exports have been larger than agricultural imports since 1960, generating a surplus in the country's agricultural trade. U.S. farmers and agricultural firms rely heavily on export markets to sustain prices and revenues.

However, U.S. imports have also been increasing steadily, as demand for diversification in food expands. U.S. consumers benefit from imports because imports expand food variety, stabilize year-round supplies of fresh fruits and vegetables, and temper increases in food prices.

The U.S. market represents good opportunities for exporters of agricultural products. The country's economy is expected to expand somewhat faster in fiscal 2015 compared to 2014 and, as consumer spending rebounds to some extent, imports are expected to grow. U.S. agricultural imports are forecasted at a record €90 billion in 2015, €6 billion higher than in 2014.

Increases in import value are expected for most products, with the largest gains in horticultural products, sugar and tropical products, and livestock products. The U.S. agricultural trade surplus is expected to fall by €12 billion in fiscal 2015, to €21 billion. This would be the smallest surplus since 2009.

Wood Processing

The U.S. is one of the most important wood product export destinations in the world, accounting for a large share of exports of many countries. Imports of wood products have been growing significantly

in the last decade. Growing outsourcing of semi-finished products and components by the U.S. furniture industry has been the key driver of this trade. Globalization has forced the industry to face the realities of shortages of skilled labour and high manufacturing costs. A large number of U.S. furniture manufacturers have transformed themselves into assembly plants, finishing lines, or distributors and marketers of outsourced furniture and components from China and other countries.

The U.S. market could represent opportunities for the wood processing sector in Kosovo, despite the costs of transportation which are a lot higher compared to the EU. A high quality of wood processing combined with competitive prices might provide Kosovo's companies with good access to the U.S. market.

Another emerging opportunity in the U.S. market is the increasing demand for materials of wood processing companies in green building. The U.S. is a global leader in green technologies and the clean economy, with significant growth opportunities in the near future. Given that Kosovo is at the initial stage of development for the wood processing sector, it might be worth exploring the viability of this particular market.

Construction Materials

The U.S. construction sector managed to withstand systemic shocks and build positive momentum during late 2012 into 2013 and 2014. The resurgence of the U.S. housing market is helping to propel construction activity and employment into positive territory, while more modest improvement in other areas, such as the office market, are helping to establish a future platform for growth. The construction industry itself is finally adding jobs, and the value of non-residential construction put-in-place is, with the exception of a couple sectors, growing.

This sector is certainly in recovery mode and much improved from pre-2012 activity levels. There are good opportunities for exporters in the U.S. market, given that the construction industry as it stands is poised for consistent growth through the next year. The housing market turnaround coupled with improving labour market fundamentals will strongly anchor growth in the construction industry while demand for new building in other sectors also gains momentum. While geographic distance and transportation costs pose a challenge for Kosovo exports in this sector, there might be market niches that could benefit from Kosovo's trade preferences and linkages through the diaspora.

4.4.4. General Import Procedures

Import Regime

For any entity, exporting products to the U.S., the following requirements have to be met in order to get clearance from the Customs quickly:

- An individual may make his/her own customs clearance of goods imported for personal use or business. All merchandise coming into the U.S. must clear Customs and is subject to a Customs duty unless specifically exempted by law. Clearance involves a number of steps: entry, inspection, appraisement, classification and liquidation.
- The U.S. Customs Service does not require an exporter to have a license or permit. Other agencies may require a permit, license, or other certification, depending on what is being exported. Licenses or permits may be required for imports of certain restricted merchandise, including alcoholic beverages, animal and animal products, certain drugs, firearms and ammunition, vegetables, fruits and nuts, meat and meat products, milk, dairy and cheese products, plants & plant products,

petroleum products, etc.

- Customs entry forms ask for the importer's number which is either the importer's IRS business registration number, or if the business is not registered with the IRS, the person's social security number.
- The importer must declare the dutiable value of merchandise. The final appraisement is fixed by the Customs. Several appraisement methods are used to arrive at this value. The transaction value serves as the primary basis of appraisement. Transaction value is the price actually paid or payable by the buyer to the seller for the goods imported. Other factors may also add to the dutiable value of merchandise, such as packing costs, selling commissions, royalty or licensing fees, etc. When the transaction value cannot be determined, then the value of the imported goods being appraised is the transaction value of identical merchandise. If merchandise identical to the imported goods cannot be found, then the value is the transaction value of similar merchandise.
- The importer must determine the classification number of the merchandise being imported. The Harmonized Tariff Schedule of the U.S., issued by the U.S. International Trade Commission, prescribes the classification of merchandise by type of product; e.g., animal and vegetable products, textile fibres and textile products. The importer must pay estimated duties and processing fees if applicable. Customs makes the final determination of the correct rate of duty. The duty rate of an item is tied to its classification number. Customs duties are generally assessed at ad valorem rates, a percentage of which is applied to the dutiable value of the imported goods. Some articles, however, are dutiable at a specific rate (so much per piece, litre, kilo, etc.); others at a compound rate of duty (i.e., combination of both ad valorem and specific rates).
- If formal entry is required, the importer may have to post a surety bond.
- It is the importer's responsibility to ensure that the goods being imported meet admissibility requirements, such as proper marking, safety standards, etc., and that the proper permits, if required, have been obtained in advance.

Customs Documents

To make or file a consumption entry (for imported goods going directly into the commerce of the U.S. without any time or use restrictions placed on them) the following documents are generally required:

- A bill of lading, airway bill, or carrier's certificate (naming the consignee for customs purposes) as evidence of the consignee's right to make entry;
- A commercial invoice obtained from the seller, which shows the value and description of the merchandise;
- Entry manifest (Customs Form 7533) or Entry/Immediate Delivery (Customs Form 3461);
- Packing lists, if appropriate, and other documents necessary to determine whether the merchandise may be admitted.

When a consumption entry is filed, the importer indicates the tariff classification and pays any estimated duty and processing fee. A surety bond containing various conditions, including a provision for paying any increased duty that may be found to be owed at a later date, may also be required.

Determination of admissibility and customs examination of goods

In simple cases involving small shipments or certain classes of goods such as bulk shipments, examination may be made on the docks, at container stations, cargo terminals, or the importer's premises. The goods are then released to the importer. In other shipments, sample packages of the merchandise may be retained by Customs for appraisal or classification purposes and the remainder of the shipment released. These sample packages will also be released to the importer after examination. Examination of goods is necessary to determine:

- The value for Customs purposes and their dutiable status.
- Whether the goods are properly marked with the country of their origin. Special marking or labelling may apply. Generally, imported merchandise must be legibly marked in a conspicuous place and with the English name of the country of origin. Certain specific articles are exempt from this requirement.
- Whether the goods have been correctly invoiced.
- Whether the shipment contains prohibited articles.
- Whether the requirements of other agencies have been met.
- Whether the amount of goods listed on the invoice is correct, and no shortage or overage exists.

If necessary, goods may be analysed by a Customs laboratory to determine proper classification and appraisal, to determine that the goods meet safety requirements, or to ensure that they are not counterfeit or otherwise in violation of the U.S. laws. If the Customs determine that the goods are different from the entered descriptions in quantity or value, that the classification of the goods is incorrect, or that a different rate of duty than the one indicated by the importer applies, an increase in duties may be assessed. If the Customs determine that the importer has deliberately failed to properly classify and value one's goods, the latter may be liable for a fine, or other penalty. When all the information has been acquired, including the report of the customs import specialist as to the customs value of the goods, and the laboratory report, if required, a final determination of duty is made and the entry is liquidated. At this time, any overpayment of duty is returned or under-payments billed.

4.4.5. Technical and Environmental Requirements Import Regime

Technical regulations, standards and conformity assessment

For certain categories of goods and services there are specified requirements related to their import and sale in the U.S.. These requirements are contained in government laws and/or regulations at the federal, state and/or local levels.

At the federal level, there is a regulatory policy requirement under the Office of Management and Budget (OMB) to consider the use of standards and to use them where this will achieve regulatory objectives⁴⁷. Standardization helps ensure that imported goods meet U.S. requirements and will make it easier for you to export to the U.S. market.

Conformity Assessment

Conformity assessment helps ensure that products and services have the required characteristics, and that these characteristics are consistent from product to product and from service to service. Conformity assessment includes sampling, testing, inspection, certification, and quality and environmental system assessment and registration. It also includes accreditation of the competence of those activities by a third party and recognition (usually by a government agency) of an accreditation program's capability.

The Department of Commerce⁴⁸ is responsible for ensuring the recognition and use of internationally recognized standards. It also works with other U.S. government agencies and other governments to solve market-access problems related to international standards⁴⁹.

Labelling and marking requirements

As well as requiring licences for certain types of imports, several U.S. agencies have special marking and labelling rules. If shipments of goods do not comply with them, exports may not be allowed to cross

⁴⁷More information can be obtained in the Regulatory Affairs section of the OMB website at www.whitehouse.gov/omb/inforeg

⁴⁸www.commerce.gov

⁴⁹Information about U.S. standards development and U.S. regulatory initiatives can be obtained from the following organizations: The American National Standards Institute (ANSI) is a private, non-profit organization that administers and coordinates the U.S. voluntary standardization and conformity assessment system. (www.ansi.org)

The National Institute of Standards and Technology (NIST) is a non-regulatory federal agency within the U.S. Department of Commerce's Technology Administration. NIST develops and promotes measurement, standards, and technology to enhance U.S. productivity and facilitate trade. (www.nist.gov)

the border. Specific information about specific products and the marking and labelling they require can be obtained from the appropriate agency. Every item imported into the U.S. has to be indelibly labelled with its country of origin⁵⁰.

Details concerning types, sizes, location are found in FDA regulations and are summarized as follows. With a few exceptions, if the label of the food bears representations in a foreign language, the label must bear all of the required statements in the foreign language as well as in English. If the food is packaged, the followings must appear on the label in English:

- Name Street address City, Province, Postal Code (manufacturer, distributor or packer).
- Accurate statement of the net amount of food in the package. Drained weight rather than net weight is required for some products packed in a liquid that is not consumed as food.
- The common name of a food must appear on the principal display panel, in bold type and in lines generally parallel to the base of the package.
- The ingredients in a food must be listed by their common or usual names in descending order of their predominance by weight.
- Nutrition information must be provided on the label for almost all packaged foods intended for sale to the consumer.

Environmental Regulations

A variety of laws and regulations govern import and export requirements of materials which may pose a risk to human health and the environment. The Environmental Protection Agency (EPA) works with the states, other federal agencies, and foreign governments to ensure compliance with laws governing the import and export of many of these materials.

4.4.6. Sector Requirements

Food Processing and Agriculture

The U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service (APHIS) regulates the entry of certain agricultural products into the U.S.. The U.S. Department of Homeland Security's Customs and Border Protection (CBP) enforces APHIS regulations at ports of entry. CBP agriculture specialists inspect shipments of imported products and ensure that the required permits, sanitary certificates (for animal products), and phytosanitary certificates (for plant products) accompany each shipment. APHIS regulates plants and animals, as well as all products derived from plants and animals. For example, seeds for planting and seeds used in decorative craft items are both regulated items.

To enter the U.S. legally, even commercially processed and packaged products may require a permit or documentation from the country of export, certifying that the products meet U.S. animal and plant health standards.

Importers should also be aware that at certain times some products from certain countries or regions cannot be imported at all due to the presence of pests and diseases that do not occur in the U.S.⁵¹ The database allows customers to search for fruits and vegetables by commodity or country, providing a quick and easy way for users to determine basic entry requirements for their specific products.

APHIS also regulates the importation of plants and plant products, including plants for planting (i.e. nursery stock and small lots of seed); agricultural products (i.e. timber, cotton and cut flowers); handicraft items made from plant parts (i.e. baskets); protected plants and plant products (i.e. orchids); and threatened and endangered plant species. To import foreign fruits and vegetables, plants, seeds, and plant products, an importer must apply for an agricultural import permit from APHIS and obtain

⁵⁰Detailed information about labelling can be found on the U.S. Bureau of Customs and Border Protection trade publications page, at www.cbp.gov/xp/cgov/newsroom/publications/trade (document titled "Marking of Country of Origin"). The FTC, at www.ftc.gov, provides information about labelling, including the requirements of the U.S. Fair Packaging and Labeling Act.

⁵¹Up-to-date information on general import requirements for certain plants and plant products can be found on the APHIS Fruits and Vegetables Import Requirements database at www.aphis.usda.gov/favir/.

a phytosanitary certificate from the exporting country. Phytosanitary certificates verify that plant quarantine officials from the exporting country have examined the plants for pests and diseases prior to export.

APHIS also regulates the importation of meat, animal products and by-products, and live animals in order to ensure that exotic animal diseases are not introduced into the U.S.. A veterinary permit may be required to import certain meat and meat products (e.g., meat pies and prepared foods), poultry, milk, eggs, and dairy products (except butter and cheese) from countries with livestock diseases exotic to the U.S.. The importation of food products containing even small amounts of meat, poultry, or processed egg product ingredients may also require a permit.

Two regulatory bodies oversee food and beverage safety in the U.S.. Eighty percent of the food supply is governed by the Food and Drug Administration (FDA) which safeguards against food adulteration and food labelling. The United States Department of Agriculture (USDA) accounts for the other twenty percent and oversees meat (beef, lamb, and pork), poultry, eggs, and products made from them.

FDA requires food labelling for most prepared foods, such as breads, cereals, canned and frozen foods, snacks, desserts, drinks, etc. Nutrition labelling for raw produce (fruits and vegetables) and fish is voluntary. The law states that required label information must be conspicuously displayed and in terms that the ordinary consumer is likely to read and understand under ordinary conditions of purchase and use.

FDA food label regulations include requirements concerning mandatory declarations of most information contained on food labels, such as the statement of identity, net quantity, ingredients, Nutrition Facts, allergen risks, and food label claims. Nutrition Facts declarations must conform to very specific requirements related to formatting, nutrient names and amounts, and Percent Daily Value calculations. Foreign food manufacturers and foreign beverage manufacturers that are subject to FDA Food Facility Registration requirements must also appoint a U.S. Agent for FDA purposes. The FDA U.S. Agent acts as FDA's primary point of contact for the foreign food or beverage manufacturer.

USDA's Food Safety and Inspection Service (FSIS) regulates the importation of meat, poultry, and egg products intended for human consumption. When exported to the U.S., these products require a health certificate that meets both APHIS animal health requirements and FSIS public health requirements.

Wood Processing

The U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) regulates the importation of wood and wood products. APHIS requires wood and wood products to undergo certain phytosanitary procedures prior to importation in order to eliminate the risk of introducing non-native pests and diseases into the U.S.. There are two treatment options for wood and wood products. Heat treatment involves the use of a kiln dryer or dry heat, such as a microwave energy dryer. Chemical treatment involves the use of a surface pesticide, preservative, or methyl bromide fumigation. A Timber and Timber Products Import Permit must accompany each wood shipment. The permit will list the required treatment.

Both exporters and importers face additional requirements if the wood is listed under regulations pertinent to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). Timber species listed under CITES regulations require some or all of the following prior to entry into the U.S.:

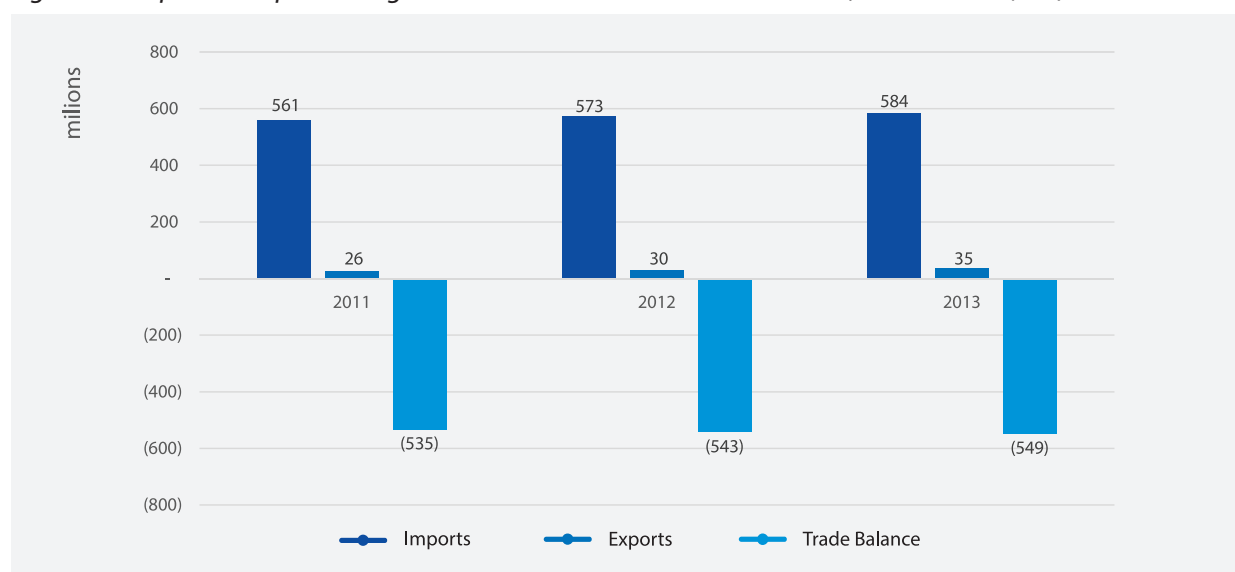
- A general permit (valid for two years) issued by USDA;
- Certificates issued by the CITES representative organization in the exporting country stating that the product will not be detrimental to the survival of that species and that the specimen was not obtained in contravention of the laws of that country for the protection of fauna and flora;
- Certificates issued by the CITES representative organization in the U.S.;
- Arrival at a U.S. port of entry authorized to accept shipments of CITES-listed species.

5. SECTOR PROFILES

5.1. Agriculture and Food-Processing

With more than 50% of the population living in rural areas, agriculture food-processing play an important role in Kosovo's economy.⁵² The share of agriculture to the GDP is about 15% and its contribution to employment is higher than that of any other sector. Although agriculture production and exports have increased steadily in the last decade, the agriculture trade balance has deteriorated because of the greater rate of growth of imports. The figure below shows the levels of imports, exports and the trade balance for agriculture and food-processing products from 2011 to 2013.

Figure 12. Imports & Exports of Agricultural and Food Products in Kosovo, 2010 – 2013 (in €)



Source: Kosovo Agency of Statistics, 2014

In 2013 agricultural and food-processing exports stood at about €35 million, constituting less than 4% of the respective imports. While Kosovo's overall exports have increased by about €100 million between 2007 and 2013, agriculture exports during this period have increased by only €2 million. These figures demonstrate the competitive weaknesses of Kosovo's agriculture and agro-processing products and their inability to compete in foreign markets.

The table below shows agricultural and food-processing exports by product category for the period 2011 – 2013. Through this table, it is easy to observe that the categories of products which Kosovo has been exporting the most are beverages, vegetables, fruits and nuts.

⁵²This sections draws on a number of strategic documents on Kosovo's agriculture and food processing industry: "Agriculture and Rural Development Plan 2010-2013" and "Green Report 2013" by the Ministry of Agriculture, Forestry and Rural Development of Kosovo, "Kosovo Agriculture Opportunities Strategy" by USAID Kosovo.

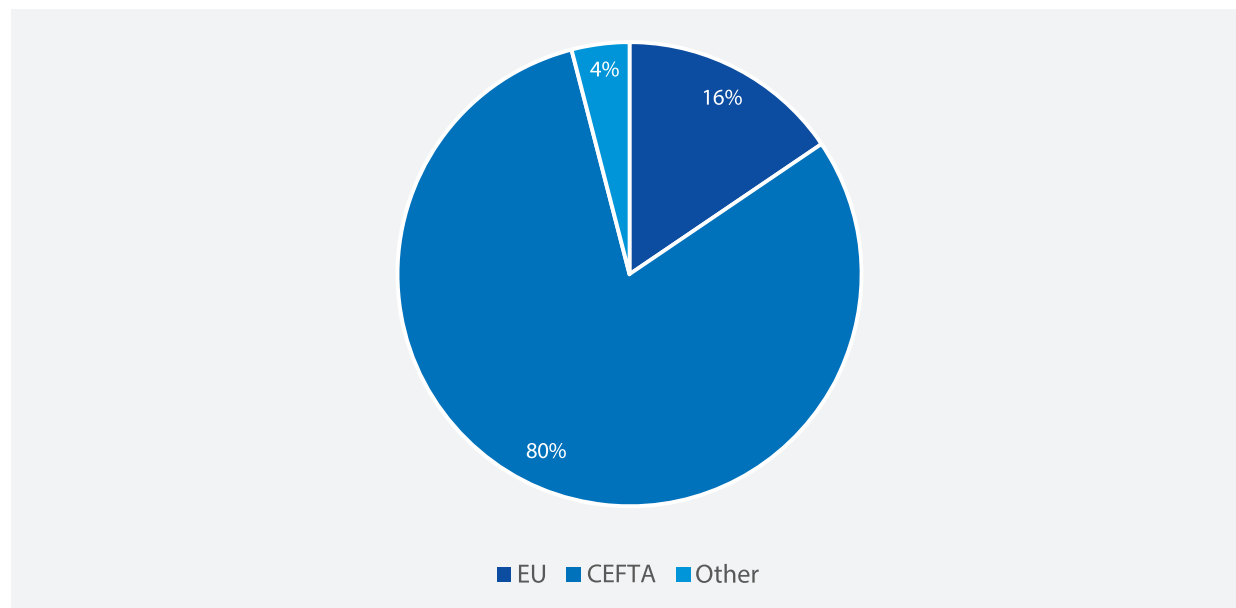
Table 1. Agricultural and Food Export Values 2011-2013, (in €)

Product group	2011	2012	2013
Livestock	104,109	65,201	-
Meat and edible organs	14,428	4,594	23,230
Fish, mollusc and other water vertebrates	57,919	120,180	-
Dairy products, eggs, honey	289,378	137,919	135,687
Products with animal origin	-	-	-
Trees, plants, flowers	8,460	11,853	93,730
Vegetables and some root vegetables and earth nuts	2,642,205	2,873,952	2,641,513
Fruits and nuts	1,676,847	1,500,337	2,142,454
Coffee, tea, relishes	573,009	717,204	1,371,330
Grains	120,143	78,808	32,341
Blended industrial products, starch	7,256,078	8,315,908	8,447,686
Culinary oil, different grains, seeds, fruits, curative plants, chaff, fodder	488,993	607,340	690,895
String materials, resin and other extracts	381	-	7,800
Fruit seeding material, fruit products	381	-	-
Fat and oils	-	47,788	45,936
Cooking of meat, fish, mollusc and other water vertebrates	45,140	6,255	102,046
Sugar and confectionary	140,660	137,276	170,528
Cacao and cooking from cacao	294,864	1,391,888	1,803,095
Cooking for grains, flour, starch	704,969	690,420	1,021,262
Cooked vegetables, fruits and nuts	2,853,816	2,439,489	1,598,762
Different food cooking	139,373	164,436	167,489
Beverages, cold beverages, alcoholic beverages (spirits), vinegar	8,105,752	10,040,081	13,352,191
Fodder food for animals	697,786	898,655	1,089,705
Tobacco and substitutions	-	69,115	87,971
Total	26,214,691	30,318,697	35,025,651

Source: Kosovo Agency of Statistics, 2014

As shown in Figure 13 below, agricultural exports are more successful in the region (CEFTA) and weaker in the much larger EU market (the agriculture export to import ratio is particularly low for trade with the EU and has been deteriorating in the last few years) which suggests that Kosovo producers in the agricultural sector are not taking advantages of the favourable market access conditions that the EU has offered. Kosovo's exports-to-imports ratio is higher with CEFTA than with the EU (obviously given that the EU market is more competitive than the CEFTA market). The bulk of Kosovo's agriculture exports go to CEFTA countries (about 80%), at a time when only about 40% of agriculture imports originate from CEFTA countries. In agriculture, Kosovo has a positive trade balance only with Albania. The trade balance is particularly negative with Serbia and FYRoM, which is a reflection of significant agricultural imports from these two countries.

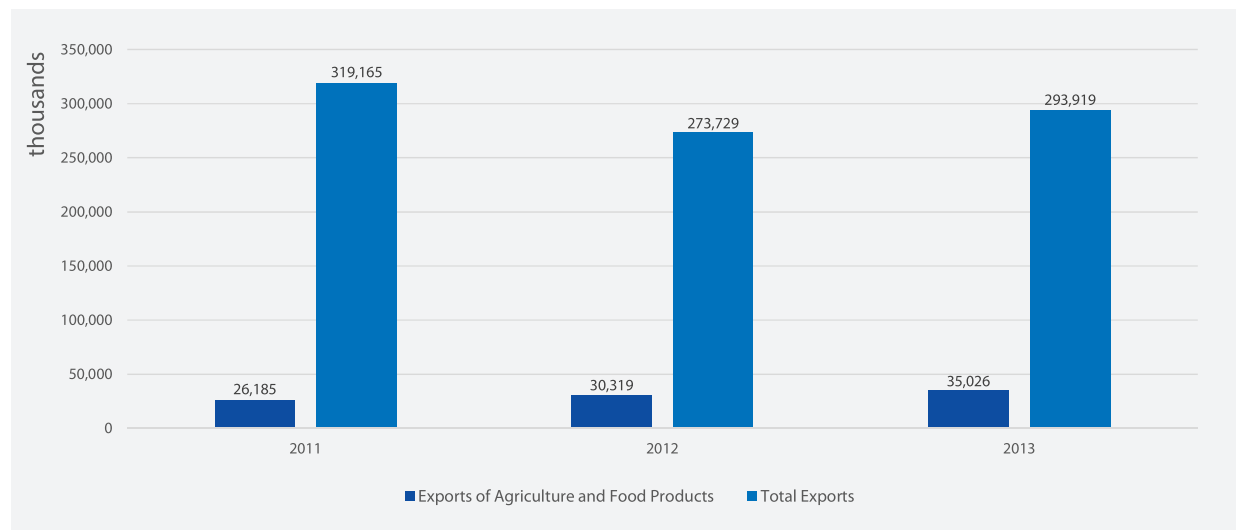
Figure 13. Geographical structure of Exports of Agriculture and Food Products in Kosovo, (avg. 2011 – 2013)



Source: Kosovo Agency of Statistics, 2014

As Figure 14 shows, the share of “Agriculture and Food” exports to total exports in the period 2011-2013 has been about 10%. This share has been on a slow growth path over the last few years, demonstrating some improvements in the agriculture and food processing sectors relative to the other areas of the economy.

Figure 14. Share of the Agriculture and Food Processing sector in total exports 2011 – 2013 (in €)



Source: Kosovo Agency of Statistics, 2014

The analysis shows that Kosovo has not been taking advantage of the market access opportunities that it has thanks to the free trade mechanisms it has acceded to. The rest of this section will take a closer look at some of the agricultural sub-sectors through an assessment of the potential for exports in some agricultural and agro-processing products.

According to the Ministry of Agriculture, Forestry and Rural Development (MAFRD), wheat and maize

are the Kosovo's main crops in terms of both cultivated area and production. Within the group of fodder crops hay (meadow) and lucerne have the largest areas and production. The most important vegetables are beans (particularly as a mixed crop with maize), potato, pepper, onion and water melon. In the orchards category, apples and plums constitute the largest cultivated areas.

Wheat is the main crop occupying 20-25% of the land and provides about 2/3 of Kosovo's requirement. Most farms produce at a subsistence level for their own family needs. What hampers the competitiveness of wheat is the average production cost which on commercial farms is relatively high at 10 to 12 cents/kg. The main animal feeds are hay occupying about 77,000 ha, followed by lucerne (alfalfa) occupying a further 15,000 ha. Cattle and swine are mainly stall fed, so the cost of producing feed has a large influence on the overall cost of production of beef, milk and pork. For fodders, their low value and bulkiness means there is little competition from imports. Improving productivity of feed can have a significant effect on competitiveness of livestock. New technologies such as silage making are being actively promoted and are gaining pace. If feed costs can be reduced then it contributes to improving the competitiveness of livestock production, which in turn will have positive effects on livestock and dairy exports.

Fruit and vegetable production have great potential in Kosovo, based on a relatively good irrigation system and access to water. The small size of plots is not a serious deterrent to horticulture production, although the lack of a critical mass of organised producers especially for processing crops, can be. Vegetable production is concentrated in the Rahovec/Orahovac and Viti/Vitina area, whereas fruit production is more dispersed. What makes horticulture attractive is the high returns per hectare and the huge range of crops that can be grown. The major competitor in the region is FYRoM, which supplies a part of the regional market during Kosovo's main harvest seasons.

The area under greenhouses is still small – according to MAFRD surveys about 185 ha. Higher yields and extended seasons and therefore better prices are obtained if horticultural crops are grown in poly-tunnels and greenhouses. Kosovo can also produce fruit, nuts and soft fruit and compete with imports if more attention is paid to quality, storage and building up local supply. Organising marketing from many small farms is a major challenge. Potential for export and linking with processors in neighbouring countries is a good possibility that needs to be followed up and supported by the institutions.

In the table grape category, Kosovo can compete successfully and export much larger quantities than it is exporting today. This is evidenced by the increasing area of table varieties being planted. Wine varieties depend on an export market to sustain the current production area, as domestic demand is very low at 5 litres per capita per year. Although wine production faces stiff competition, Kosovo has good potential in wine processing. Nearly half the wine grapes grown are consumed on the farm and converted into "local wine" or rakia. Wine is one of the products in which Kosovo has currently a positive trade balance and if quality of production is maintained while quantity expanded, Kosovo has good chances of significantly increasing its exports.

Other agricultural activities with potential for import substitution and exports include, gathering crops from forest and rough pastures (herbs), growing teas, herbs, mushrooms, and ornamentals. These activities are responding to market demand and helping to substitute for imports. Medicinal herbs are already being exported and there is potential for market growth in most of these crops.

In many countries nowadays there is a growing market for organic/naturally grown crops. Typically, these products are harvested in small scale, which is a suitable situation for Kosovo's farmers. The global market for organic produce is increasing and represents good opportunities for Kosovo producers. Due to its geographical composition, Kosovo also offers very good conditions for livestock farming.

Although, still experiencing a livestock recovery process, farming in this sector has made great strides in recent years – both in numbers and yield. Currently, the most significant obstacle remaining for Kosovo's meat processing companies is the reopening of export markets. With Kosovo's geographical location and its close proximity to non-EU countries such as Albania, Montenegro, Bosnia and Herzegovina, Croatia and Turkey, a short-term pragmatic approach could be to initially focus on meat exports to these destinations, with the possibility of expanding into EU markets in the next stage.

Milk production at the farm level is competitive but quality needs to be improved. Collection costs are too high and production needs to concentrate to reduce collection costs. "Fresh milk" has potential to be a good product over imported, but the cool chain needs to be strengthened further in order to provide stronger consumer confidence. Production of dairy products can compete on the regional market, but requires improvement in quality at farm and factory level.

Most beef produce in Kosovo is a by-product of dairy production. At present it is competing with cheap imported live cattle from the region, or imported frozen beef from the U.S. and South America. Beef cattle tends to be stall fed, which is a higher cost feeding system than use of extensive grassland (limited in Kosovo due to small size of farms). Certain improvements in pasture and fodder development can improve competitiveness and open up bigger export opportunities. Kosovo is relatively competitive, and is capable of producing good quality lamb for the international, but prices in Kosovo are relatively high and need to be brought further down to strengthen competitiveness. Some lamb has already been sold in Bosnia and there is good potential for making inroads in the EU market.

Although chicken production faces competition from very cheap imported meat (i.e. from Brazil and U.S.), progress has been made in increasing the share of domestic production with success stories such as "Konsoni". The market for locally produced chicken has been limited mainly as a result of the higher cost of local production. If production costs could be lowered, there might be potential for exports. As a first step, it would be reasonable for Kosovo exporters to test the regional markets (which are less competitive), before looking out to the broader global market. Egg production has been successful in Kosovo and with domestic production meeting 75% of internal requirements. Kosovo has experienced stable production with consolidation over time and prospects for exports are good.

Other activities that could have export potential are niche markets such as honey production, snails, rabbits, etc. These often offer a high income potential. Honey is very valuable and could have potential, although production prices are currently high in comparison to world market prices.

The agribusiness and food processing sector is traditionally one of the strongest sectors in Kosovo's economy. Over the past decade, food-processing in Kosovo has been on the path to recovery. There are numerous food industries in Kosovo with good market potential, offering potential investors immediate access to suppliers of primary products, substantial inherited capital, technical capability and promising market prospects. The custom and tax incentives further underscore the opportunities available in this business field in Kosovo. Also taking into consideration the low prices of primary products, this field is very profitable and has the potential to expand into foreign markets.

Flour mills and bakeries making fresh product have succeeded and fruit and vegetable processing has gradually emerged as a prospective sector. Milk processors have sprung up, initially producing fresh pasteurised milk. There are now processors producing long-life milk. Trying to compete in the cheese market has been more difficult. Slaughter houses and meat processing are gaining ground over the small companies slaughtering animals in backyards without inspection. Other industries have sprung up in response to domestic demand and to compete head on with imports, such as fruit juices and soft drink manufacture. Some of these industries though do not depend on local farm produce as a source of raw material.

Apart from wine production (mentioned above), Kosovo has good opportunities for producing and exporting other beverages such as soft drinks and beer. There are already a number of beverage companies which are active in local and export markets and which are trying to expand their production through 'greenfield' investment as well as partnership arrangements with existing investors. "Birra Peja" already has agreements with distributors in Albania, Montenegro, Serbia and FYRoM, where it aims to boost sales and become well-established.

Most of these businesses face intense competition from cheap imported produce. There is obvious potential to substitute some of these imports and also gain some market share in the region and beyond through exports, but it requires sufficient supply of local raw material competitively priced. The free trade arrangements give the possibility for processors to source raw material from neighbouring countries, and also for farmers to sell to processors outside Kosovo. EU standards are becoming the norm in the region. It is therefore vital that incentives are made to introduce them in a staged and cost-effective way.

5.2. Construction Materials

The construction materials sector comprises of all companies that are involved in either the manufacturing or provision of construction materials. These include manufacturers of cement, window & door frames, steel reinforcements, prefabricated structures, bricks and tiles, roofing materials, plumbing material, etc. Unfortunately there is lack of availability of information regarding this sector in Kosovo; very few studies/reports, albeit outdated, are currently available. However, a baseline assessment for couple of sectors in the south region of Kosovo, including construction materials, was conducted by UNDP in 2013. This baseline assessment showed that this sector is currently expanding in the south region. This can be shown from the sector job growth trend in the South region.⁵³

Taking into account the need for construction of new settlements and road infrastructure, in recent years the construction industry in general has become one of the most important sectors in the Kosovo's economy. Currently, roughly 40% of construction materials are being produced domestically and playing an import substitution role. However as economy grew, also imports grew steadily.⁵⁴ Moreover, the data from 2008 shows that construction materials accounted for 32.3% of industrial output. In terms of employment, this sector in 2008 accounted for more than 22% of the total number of employees in the Kosovo Industry. Also in terms of productivity, construction materials is the leading sector followed by metallurgy and metal processing.⁵⁵

Trade statistics obtained from Kosovo Agency of Statistics (see Fig.13) show that there is a huge trade deficit in construction materials sector in Kosovo. Data were extracted for the period 2011 – 2013 for 14 identified 4, 6 and 8 HS codes (cement, bricks, blocks and tiles, doors, windows, ceramic products, etc.). During the last three years on average €94 million of different construction materials were imported.

On the other hand Kosovo exported roughly €4 million on average during the same period. Within the construction materials sector, imports and exports of cement and other cement products dominated the sector, representing about 47% of the volume of imports respectively 36% of exports.

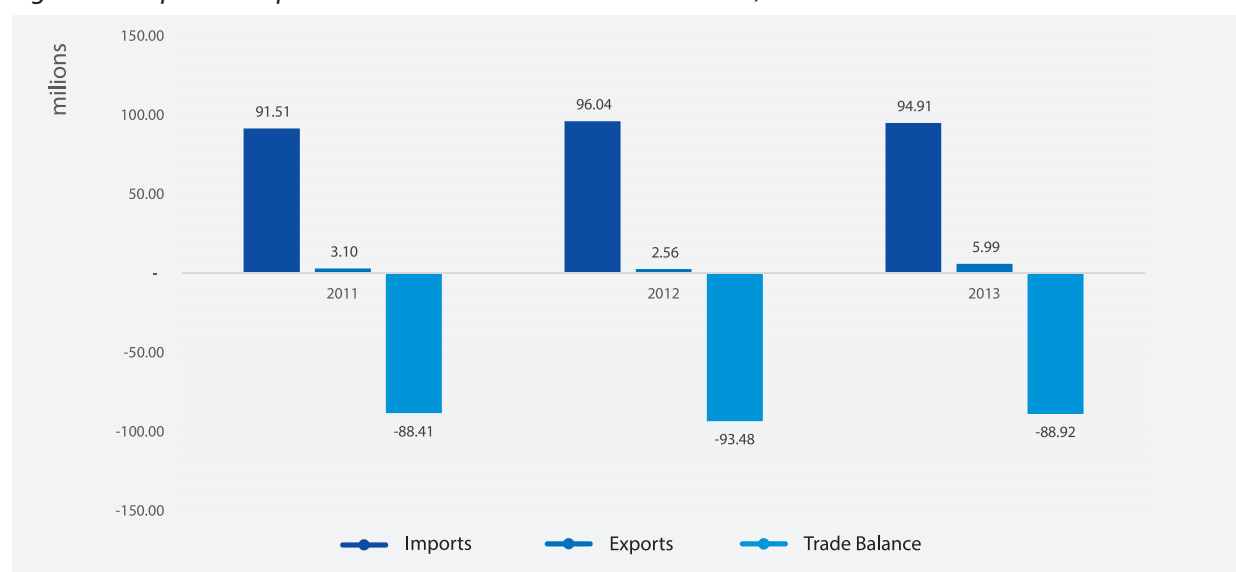
⁵³UNDP Baseline Assessment of Economic Region South, 2014 (p. 40).

⁵⁴Kosovo Quarterly Economic Briefing 2009 available at

⁵⁵Mustafa M., Zogaj A., and Abdixhiku L. (2010). Challenges of Reindustrialization in Kosovo. (2010)

http://siteresources.worldbank.org/INTKOSOVO/1438973-1257960498774/22387507/QEB_2009_1_Exports_and_Imports_2005_2009_Final.pdf

Figure 15. Imports & Exports of Construction Materials in Kosovo, 2011 – 2013



Source: Kosovo Agency of Statistics, 2014

Cement and its articles comprises about half of the exported construction materials in 2013. Doors, windows and their frames accounted for 37% of total exports in this sector in that year. The list of top exported construction materials for the period 2011-2013 is detailed in the table 2.

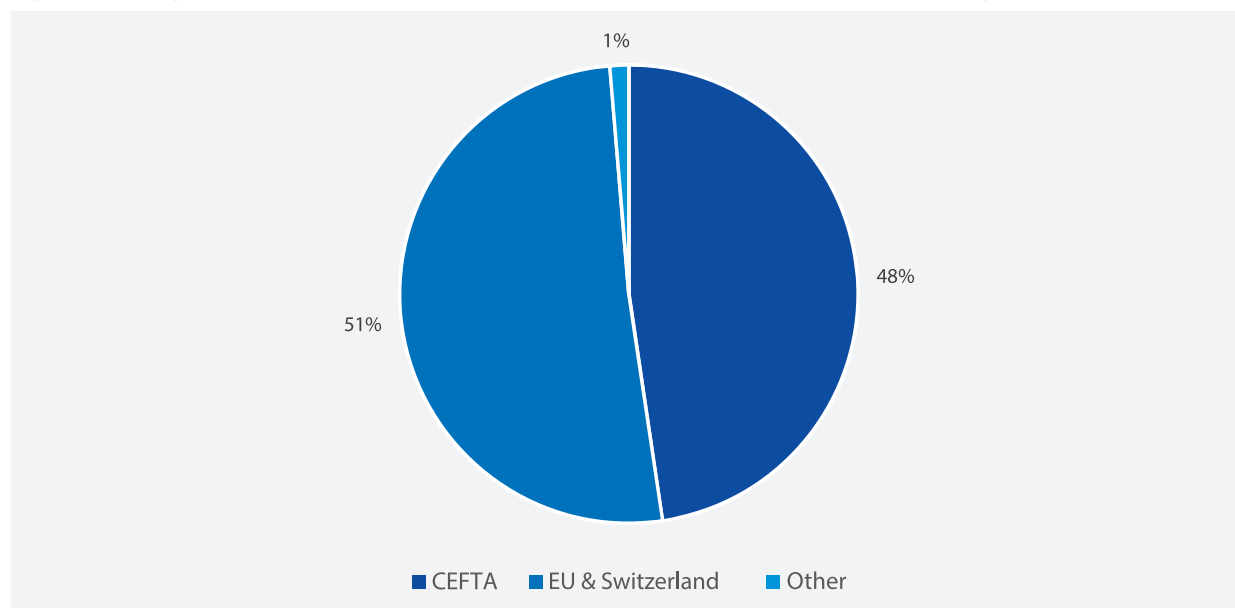
Table 2. Construction Materials export values by product categories 2011 – 2013

Product Category	2011	2012	2013
Cement and other articles of cement	€1,405,129	€438,675	€2,770,672
Bricks, blocks and tiles	€66,092	€47,576	€16,484
Structures and parts of structures (i.e. bridges and bridge-sections, roofs, etc.)	57,919	120,180	0
Doors, windows and their frames of wood	€184,108	€187,649	€210,142
Doors, windows and their frames of aluminium	€44,116	€64,315	€100,887
Doors, windows and their frames of iron or steel	€30,456	€31,652	€34,414
Doors, windows and their frames of plastics	€835,884	€1,436,315	€1,849,986
Total	€3,104,024	€2,563,509	€5,986,368

Source: Kosovo Agency of Statistics, 2014

Kosovo's main trade partners in this sector are CEFTA member countries and EU countries (more than 95% of trade exchanges in this sector). During the last three years imports of construction materials originated from other CEFTA member countries accounted on average for 61%, from EU countries (including Switzerland) 38%, and only 1% from the rest of the world. On the other hand, the structure of exports during the last three years was pretty much similar; on average 48% of exports of construction materials were destined to the region (CEFTA member countries), 51% to EU countries, and only 1% is exported to other countries. The figure below depicts the geographical structure of exports of construction materials in Kosovo.

Figure 16. Geographical structure of Exports of Construction Materials in Kosovo, (avg. 2011 – 2013)



Source: Kosovo Agency of Statistics, 2014

The share of exports of construction materials in overall Kosovo exports is quite low. Construction materials accounted for only 2% of total exports in 2013 and for less than 1% for the two previous years (see Figure 17). Such low participation may be attributed to the ever increasing import substituting role of Construction Materials sector in Kosovo.

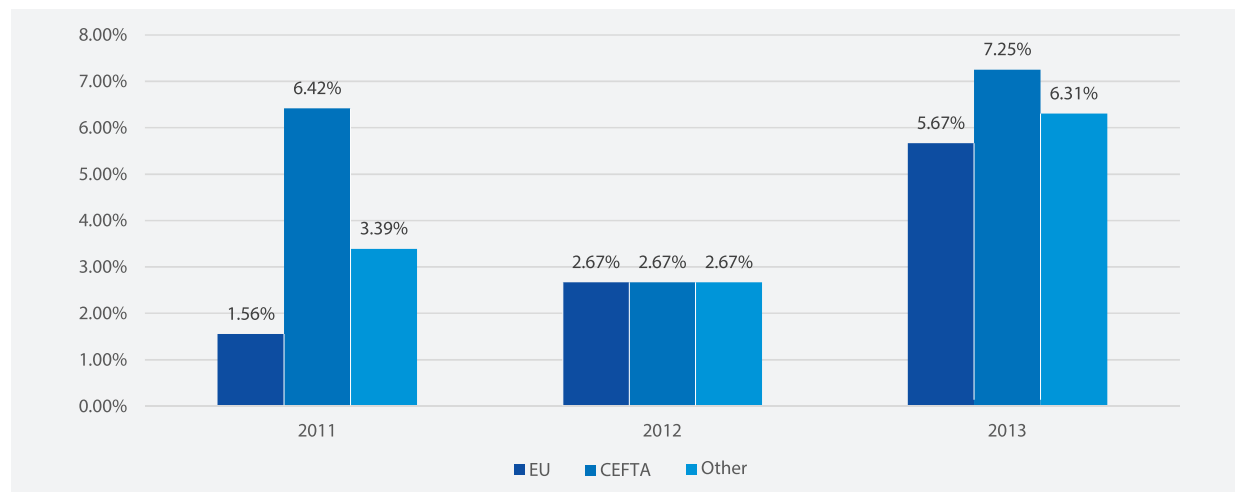
Figure 17. Share of the Construction Materials sector in total exports



Source: Kosovo Agency of Statistics, 2014

Although the gap between exports and imports of construction materials remains high, the trend seems promising. It is worth mentioning that the trade deficit with Kosovo's largest trade partners, EU and CEFTA, is narrowing. In 2013 export-import coverage ratio with EU and CEFTA was 6% respectively 7% (see Figure 18).

Figure 18. Export/Import coverage ratio of construction materials by trading partners/markets (2011 – 2013)



Source: Kosovo Agency of Statistics, 2014

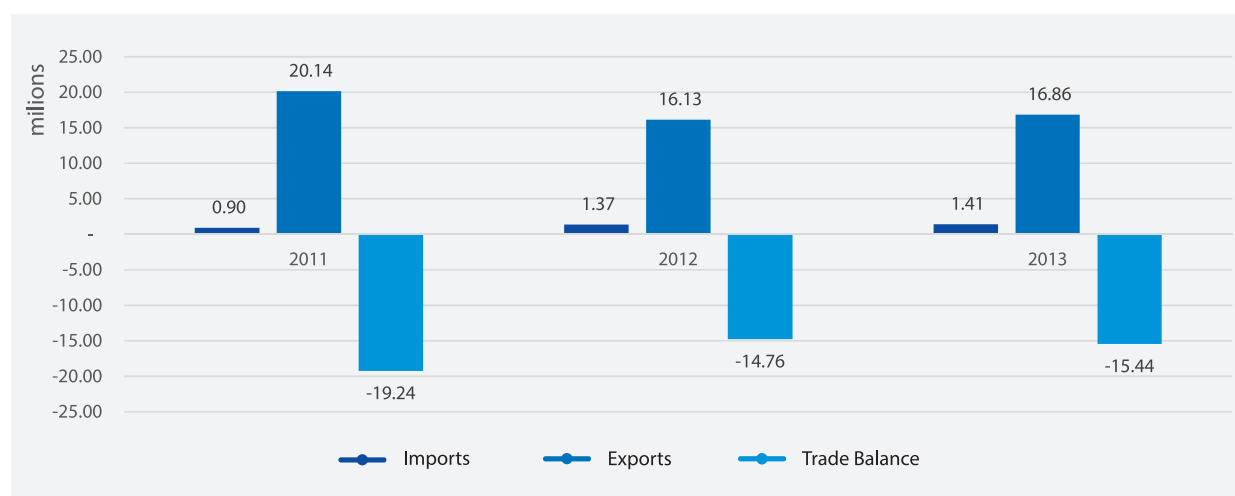
5.3. Wood Processing

The wood processing sector in Kosovo is considered to have growth potential based on the availability of raw material for this sector. Forest area in Kosovo is fairly stable at approximately 481,000 ha (44.7% of its total area).⁵⁶

The wood processing sector in Kosovo has been relatively successful compared to other sectors. A recent report by UNDP, based on survey data from the sector (period 2011-2012), suggests that this sector is growing steadily in terms of turnover, output, employment and exports.

Based on the available disaggregated annual data for the period 2011-2013, exports of wood processed products exhibit a positive trend. The nominal value of these exports has been around €0.9 million in 2011 leading to €1.3 million and €1.4 million for the two consequent years. Such positive trend is confirmed also by investigating recent monthly data for 2014, according to which the exports of this sector in January-July 2014 have increased by 18% compared to the previous year.

Figure 19. Trade balance of Wood Processing Sector (2011-2013)

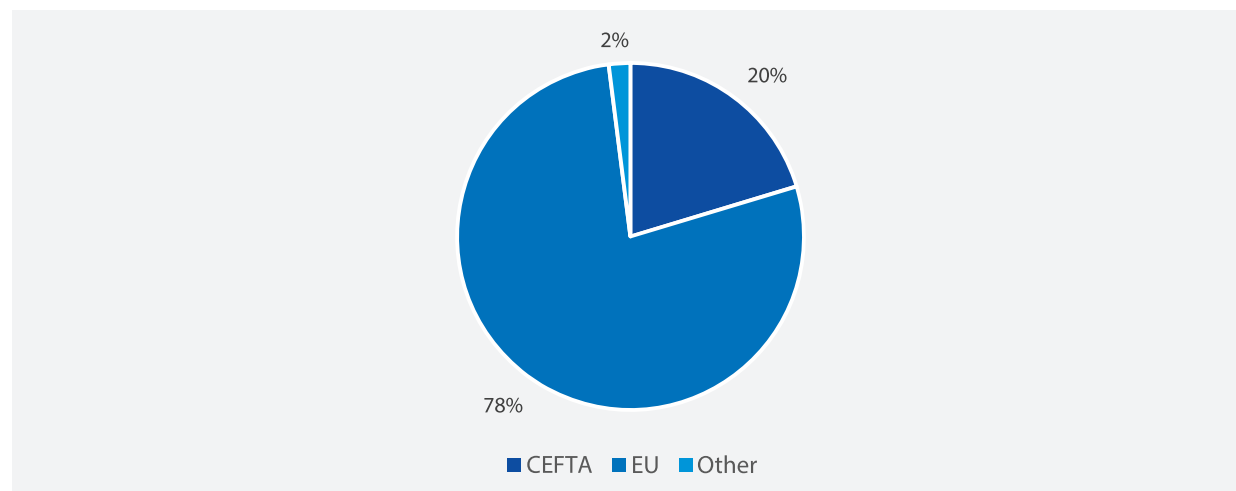


Source: Kosovo Agency of Statistics, 2014

⁵⁶MAFRD (2013) Kosovo National Forest Inventory 2012. Available at: <http://www.nfg.no/userfiles/file/Kosovo/Kosovo%20National%20Forest%20Inventory%202012.pdf>

Main markets for export of wood products for the Kosovar businesses can be segmented in three main groups: CEFTA, EU and other countries. The following chart provides an impression on how wood sector exports are divided among the three groups.

Figure 20. Geographical structure of Exports of Wood Processing Sector in Kosovo, (avg. 2011 – 2013)



Source: Kosovo Agency of Statistics, 2014

A more detailed investigation of exports of the sector by country provides some interesting findings. Within the main groups, i.e. CEFTA and EU, there is a skewed distribution of exports. First, within CEFTA, it is Montenegro, FYRoM, Albania and Serbia with a joint cumulative exports for the period of roughly €1 million that drive the group figures up, and second, within EU, Switzerland and Germany with individual cumulative exports for the period of €1.8 million for the former and approximately €1 million for the latter are the main markets for wood processing sector's exports.

The main export products over the three year period (2011-2013), are presented in the following table:

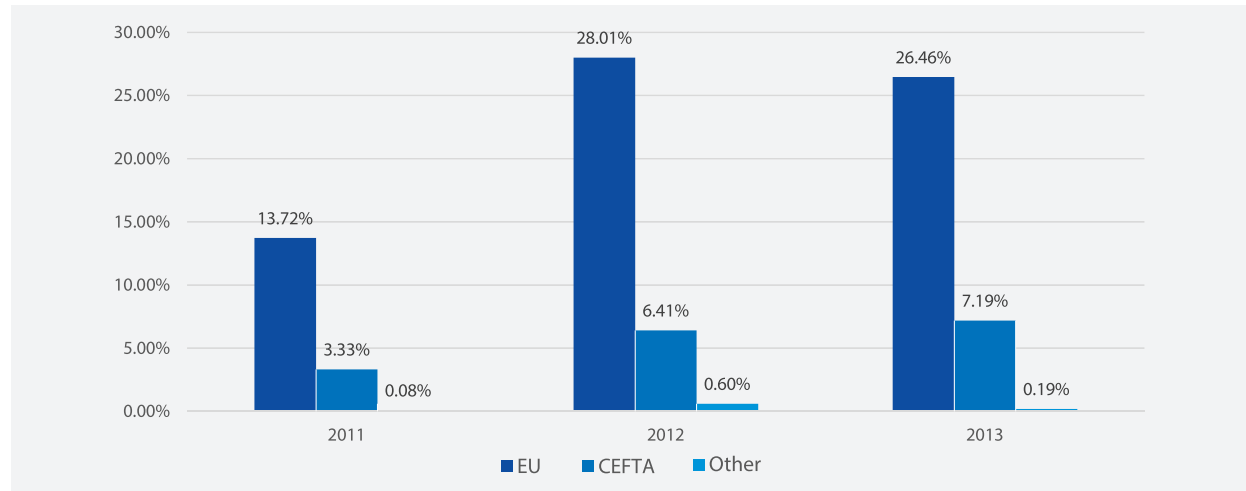
Table 3. Wood Processing export values by product categories 2011 – 2013 in €

Product Category	2011	2012	2013
Desks for offices, with wooden frames	380	529	2,684
Wooden furniture for offices (excl. desks and seats)	-	331	9,141
Wooden cupboards for offices	11,583	3,893	4,975
Wooden furniture for offices (excl. cupboards)	600	439	18,730
Fitted kitchen units	24,956	27,441	290,322
Wooden furniture of a kind used in kitchens (excl. seats and fitted kitchen units)	38,334	94,335	215,844
Wooden furniture for bedrooms (excl. seats)	107,270	220,227	357,432
Wooden furniture for dining rooms and living rooms (excl. seats)	519,307	584,011	160,579
Wooden furniture for shops (excl. seats)	77,110	80,254	2,972
Wooden furniture (excl. for offices or shops, kitchens, dining rooms, living rooms and bedrooms, and seats)	1,474	5,259	315,497
Parts of furniture, of wood, n.e.s. (excl. seats)	116,767	353,759	35,446
Total	897,781	1,370,478	1,413,621

Source: Kosovo Agency of Statistics, 2014

Similar to construction materials, the gap between exports and imports of wood processing products is narrowing slightly, though it remains high. The exports with both EU and CEFTA are increasing while imports remained almost constant or even decreased. In 2013 the export-import coverage ratio with EU was and CEFTA was 26% respectively 7% compared to 14% respectively 3% in 2011 (Figure 21).

Figure 21. Export/Import coverage ratio of Wood Processing materials by trading partners/markets (2011 – 2013)



Source: Kosovo Agency of Statistics, 2014

5.4. Artisanal crafts

Artisan crafts in most economically developed societies provide a connection with the history of the respective country. This connection very often is commercialised and a whole sector, which is economically vibrant, is built around artisan crafts. However, the main selling point of the sector is its attractiveness that appeals equally to the domestic and foreign buyers.

On the other hand, for societies that are less economically developed, artisan crafts remain an important aspect of the economic activity, not necessary relying only on the nostalgic appeal of the produce⁵⁷

The report finds that crafts such as the crochet, embroidery, knitwear and knitting, carpet weaving, wood, traditional organic products and handicrafts have exhibited goods of high quality (obviously some more than others), but there is still a need for further improvement and creativity. One of the suggestions is to combine few crafts into one final product which could be more easily marketed, e.g. the group that knits can coordinate with the group that sells pickled vegetables, to knit small bits to fit the jars which would help market the pickles by emphasizing the autochthonous feel to the final product, and the knitters would be able to better commercialise their craft.

Given the fairly low level of economic development of Kosovo, especially when compared to other European countries, the economic relationship with crafts remains quite strong. Crafting skills have been passed from generation to generation and they remain quite present in the life of Kosovars. The number of handicraft entities based on the Kosova Business Registration Agency (depicted by the Albanian acronym -ARBK) is 98.⁵⁸The geographical dispersion of these entities is also skewed towards the southern municipalities of Kosovo.

It has to be mentioned here that it is very hard to find any secondary data regarding this sector as the Kosovo Agency of Statistics, does not collect or present any data on this sector individually. Thus, any report with the intention to provide a profile for this sector, has to rely mainly on primary data. This

⁵⁷With this perspective, the report of Caroline Winckel, "Crafts in Kosovo" which is based on the "Cultural Heritage and Handicrafts Fair 2013" in Prishtina, should be viewed (Available from: <http://www.culture-ks.org/pdf/rapport-anglais-kosovo1.pdf>)

⁵⁸There is no separate category "Artisan Crafts", hence the number is the sum of companies that: cut coins, produce gold and silver jewellery, accessories, watch smiths and specialised shops (with respective activity codes: 3211, 3212, 3213, 4778 and 9525)

was the case also with the Baseline Assessment of the Economic Region South report prepared and published by UNDP in 2014. The report presents the artisan crafts sector of the southern municipalities based on a survey of a sample of 49 companies interviewed.

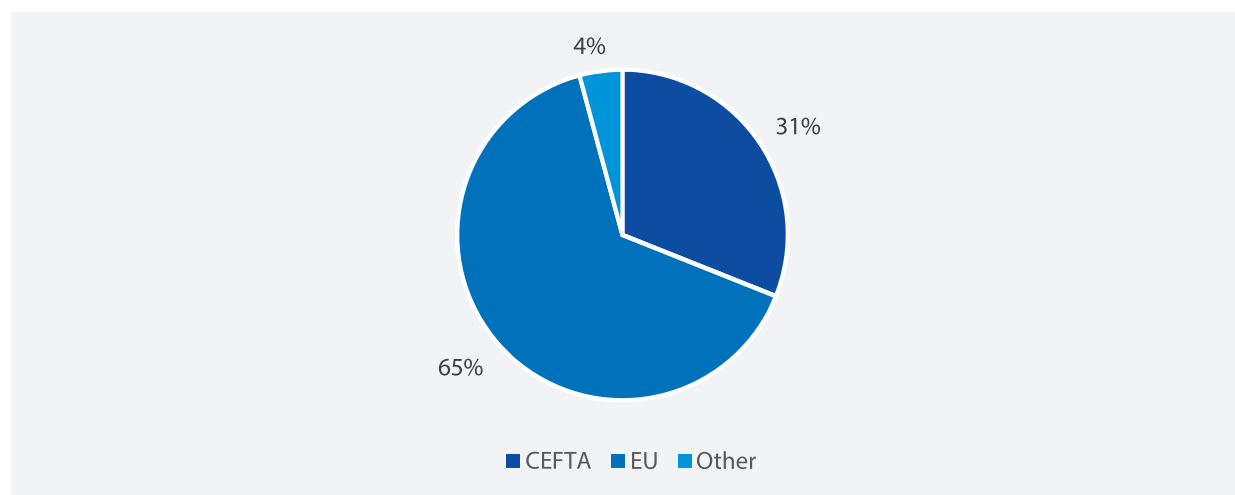
The report findings on this section present the oldest firm in the sample to be 113 years old while the majority of firms have been established after 1999. 47 out of 49 interviewed firms are micro enterprises (with 9 or less workers) and the two remaining companies are 1 small and 1 medium sized. Almost 80% of firms in this sector generate up to €50,000 in turnover (38% of all firms in the sample generate €10,000 or less). Only 11 companies in the sample are members of some sort of association.

The craftsmen and businessmen association of Prizren in their introductory page state that out of 4900 registered businesses in their municipality, 2200 are handicraft related.⁵⁹At one point in history (1870), there were more than 60 types of handicraft activities operating in Prizren.

Even to this day, handicrafts generate quite some economic activity. The trade balance, as in other sectors of economy, is quite negative. Based on the figures provided by the Customs of Kosovo for the years 2011 and 2012, Kosovo has exported €213,211 and €600,536 for the respective years. This shows a great increase of export potential when expressed in relative terms as 2012 shows an export amount threefold higher than the previous year. It has to be noted here that the products were identified by the 8 digit harmonised system which fall under the category of artisan crafts.

In terms of exports, main markets are EU and CEFTA which jointly take 96% of total exports of the sector as shown on the chart below.

Figure 22. Geographical structure of Exports of Articraft Sector in Kosovo, (avg. 2011 – 2013)



Source: Kosovo Agency of Statistics, 2014

Main markets for the handicraft exports, according to the above mentioned data are Germany with a cumulative share of 22% for the two years, followed by Switzerland with 20%, Albania with 15% and Montenegro with 12%. This finding supports the intuition that important markets for Kosovar products are western countries where most of the diaspora live.

The main produce, accounting for more than half of the export in each individual year is listed with the 8 digit code "94036090: Other wooden furniture", supporting the outlook of this report regarding the wood and furniture sectors.

The graphical presentation of the exports of artisan crafts in the years 2011 and 2012 respectively,

⁵⁹The Craftsmen and Entrepreneurs Association of Prizren available at <http://www.shzap.org/artikulli.php?id=1>

lends itself to two main observations. One, Kosovar craftsmen and craftswomen seem to export mainly to the neighbouring countries (Albania, Montenegro, FYRoM, and Serbia), and two, main exports peaking at nearly €160,000 in 2012 are to western European Countries where the Kosovar diaspora is concentrated.

Both observations support the argument presented at the entering paragraphs of this section that artisan crafts provide a connection with the history of a particular territory or society. The first observation, displaying more exports to neighbouring countries shows a clear 'preference' for Kosovar artisan products in Albania then in the remaining three neighbouring countries. This is to be expected as the ethnical background of majority of people living in Albania and Kosovo is Albanian, thus having the same history and Customs has catered for higher exports between the two.

The second observation supports the same argument as the majority of the Kosovar diaspora is concentrated in the two countries showing the highest appetite for Kosovar artisan produce, i.e. Germany and Switzerland. It can be argued that the main part of the income from export of artisan crafts into these countries comes from Kosovar expats working and living there. Thus, this finding supports the intuition that Kosovar artisan craftsmen and craftswomen should make the most of the Kosovar diaspora by utilising their communities as a platform from where to present and market their products.

5.5. Tourism

Kosovo has great potential for the development of tourism based on mountain summer hiking and sightseeing, winter-sports, culture, rural experiences, health and curative services, excursions and recreation, alpinism, paragliding, speleology, hunting and fishing, conference and transit tourism. Also, eco-tourism and agro-tourism present great potential for Kosovo.⁶⁰

Some of the natural and cultural attractions on which entrepreneurs can capitalize to develop their tourist initiatives are:

- Natural attractions such as the Rugova Valley, "Springs of the White Drini River with the Waterfalls and the Cave of Radavc village", the Gadima caves, Mirusha Canyons and Park, National Park "Bjeshkët e Nemuna", Dragash Park, Sharr Mountains, Pishat e Decanit Park, Ravani Park, "Istog Springs", Radoniqi Lake, and many others;
- Health and rehabilitation complexes such as the "Peja Baths" with the most qualitative thermal water springs in Kosovo;
- Holiday and sports resorts, such as the Brezovica Park and Ski Resort;
- Cultural monuments like the old markets, traditional houses (kullas - e.g. the "Haxhi Zeka Kulla"), mosques and churches, public baths (hamams - e.g. the "The Haxhi Beu Hamam"), old stone bridges, and old mills, in particular in Peja, Gjakova, Deçan and Junik;
- Archaeological discoveries of Illyrian and Roman epochs in Siparunt, Dresnik, Rakosh, etc.;
- Ethnographic regional museums in Peja and Gjakova;
- Traditional costumes, crafts (filigree), jewelry, tools, hand stitching, wood carvings, metal and terracotta pieces, china, and traditional processing of rock and wood, and construction of traditional buildings;
- Cultural heritage like music, original folklore, cultural festivals, traditional Rugova games, etc.;
- Fairs in Peja and Gjakova and cultural festivals of film and art (i.e. Dokufest film festival in Prizren), etc.;
- Hospitality, rituals and customs, rites and lifestyles in rural and urban areas;
- Traditional open food markets and those of crafts which offer a unique shopping experience and 'souvenirs' from old crafts in particular in Peja and Gjakova;

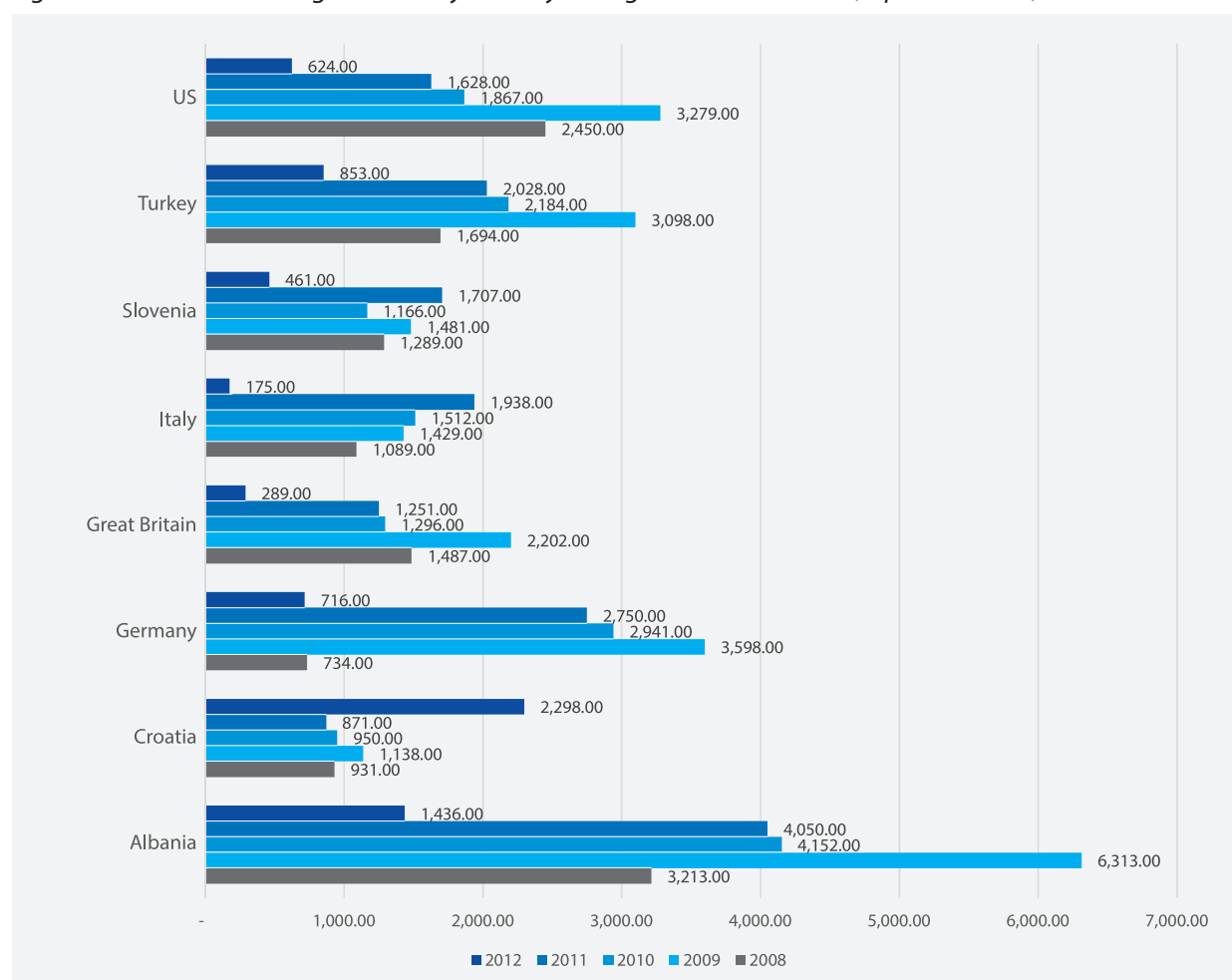
⁶⁰ For more information about tourism in Kosovo visit the webpage of the Department of Tourism in the Ministry of Trade and Industry of Kosovo: <http://www.mti-ks.org/en-us/Department-of-Tourism-and-Hotel>.

As the experience of other countries has shown, the tourism sector develops gradually by building on the foundations of a well-coordinated network of small and medium enterprises in hospitality and family bed and breakfasts, tourism operators (tourism associations and agencies), and individuals like guides and interpreters. Touristic agencies, which are already active in Kosovo, need to expand their reach and advertise their services more effectively beyond Kosovo, especially by using the diaspora networks. They also need to connect more effectively with service providers and tourist operators in Kosovo and develop attractive and integrated packages tailored to the interests and needs of particular groups of tourists. Improvements in utility services, public transport, infrastructure, food producers and trade are essential as they have an indirect impact in the industry.

As a standalone tourist destination, Kosovo will have a hard time promoting and developing tourism. Experience has shown that for countries with conditions similar to Kosovo's the best strategy is to cooperate with regional tourism initiatives and become part of a broader package of touristic services. This does not only mean that Kosovo should promote the integration of tourism into the regional structures. It also means that individual entrepreneurs or groups of operators should seek to integrate their services and products into the regional network. Kosovo could fit well into a regional tourist network that could cover the Western Balkans or South Eastern Europe.

As reported by the UNDP sector profile⁶¹, at present most tourists are arriving from Albania, Slovenia, Croatia, Germany, U.S., Turkey and other EU countries (see Figure 23 below).

Figure 23. Number of foreign visitors by country of origin for 2008 – 2012 (top 8 countries)

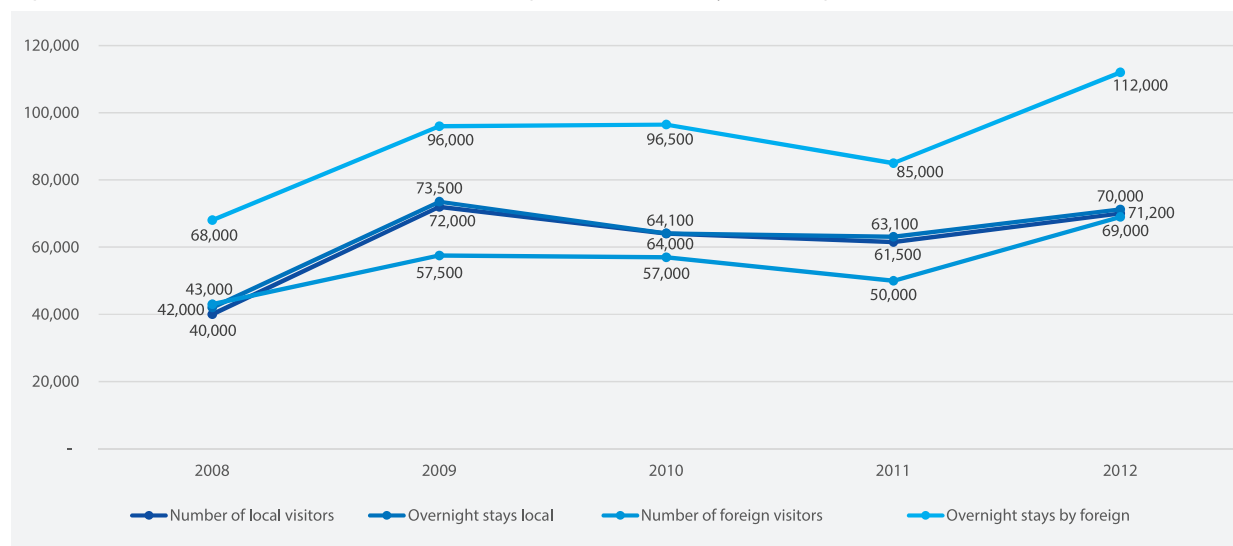


Source: Kosovo Agency of Statistics, 2014

⁶¹Sector Profile of Tourism, UNDP Publication, March 2014.

The number of visitors has been increasing gradually and the trends look good. For example, one study reported that only from Albania, during one day (May 2013), there were about 3700 persons from Albania entering Kosovo. UNDP's tourism sector profile reported an increase in overnight stays between 2008 and 2012 as shown in the figure below.

Figure 24. Number of visitors (local and foreign) and their stays overnight in 2008 – 2012



Source: Kosovo Agency of Statistics, 2014

According to some estimates, most of the visitors from Albania to Kosovo visit sites in Western Kosovo, especially the Rugova Canyon and the cultural and other memorial sites in the region. In the last couple of years there are reports that Western Kosovo is attracting tourists not only from the neighbouring countries and the diaspora, but also from non-traditional countries such as Hungary and Poland, and even Japan.

Another type of tourism that Kosovo could promote successfully within the region is the cultural tourism. In the last few years Kosovo has accumulated some good experience with this kind of tourism. As mentioned in a UNDP survey, some 10,000 people attended the 2013 edition of the Dokufest festival organized in Prizren, with 23% of the total number of guests being foreign visitors. Research conducted by the GAP Institute during the 10th edition of this festival (2011) revealed that the economic impact of Dokufest on GDP was €3.1 million, while this number was expected to be €21.9 million over the following four-year period.

The practical implications of this are that tourist operators and agencies should focus their efforts through a three-pronged strategy: i) take full advantage of the regional opportunities by targeting more aggressively neighbouring markets with packages and offers tailored to their needs and preferences; ii) integrate services with regional operators and piggyback on their established networks and clientele by attracting their tourists into "extension trips" to Kosovo; and, iii) use Kosovo's extensive diaspora to reach wealthier segments of the tourist market, especially in the EU and the U.S.

This requires that entrepreneurs operating in the tourism sector improve their packages and offers both in terms of quality and price. Such measures include further investments in the creation of new services and facilities, as well as the rehabilitation, reconstruction and conservation of existing facilities. Moreover, such measures could focus on better marketing, counselling and information sharing related to natural attractions and cultural heritage sites and buildings. It is also important to improve the

coordination of investments from the private sector, including the tourism operator services and hospitality services. Touristic operator services need to be further strengthened and complemented with more in-bound tourist agencies as currently their number is very limited and outnumbered by out-bound tourism agencies.

It is important to emphasize that the conditions in the tourism sector in Kosovo are quite favourable for the development of smaller hospitality establishments and family-run “bed & breakfasts” and the promotion of eco-tourism and agro-tourism. This, however, does not rule out larger touristic resorts, especially those related to winter tourism in suitable mountain locations in the region, like the Brezovica area or the Rugova Valley.

Box 1: Considerations for tourism business development

A tourism business is a very particular type of business which differs from other types of businesses in terms of requirements and way of operating. Some of the unique things about tourism development are:

- The target market is more difficult to define because it is subject to changing trends.
- Business depends on seasonality of demand (high and low seasons).
- Business depends on the weather conditions.
- Business depends on the varying expectations of clients.
- Longer-term market development. Very few new tourism businesses achieve maximum capacity usage in the first years of start-up.
- High fixed costs. Many tourism businesses have a high fixed cost component.
- Co-operative nature of competition. Because tourism businesses are often located in a tourism destination region, they often work collaboratively to promote their destination.
- Highly capital intensive. Many tourism businesses require large up-front capital investment.

Some of these characteristics present challenges that entrepreneurs should overcome in order to develop successful activities. Usually, successful enterprises in this area are based on a carefully thought-out and designed business plan. A business plan that takes into consideration the challenges and lays out a sequence of actions for dealing with them is necessary for providing clarity and helping the entrepreneur in the decision-making process. Some key elements that are usually part of a business plan in the tourism sector are presented below.

As a first step, the entrepreneur needs to assess the feasibility of his/her business idea. A process for determining the feasibility of a project is outlined below:

- The business idea should be crystalized and clarified in terms of current market supply, demand and trends. Customers should be identified, as well as what their needs are, where they are located and what is already available to meet those needs.
- The business idea should be developed in a business concept which defines a specific customer-targeted tourism development project and includes a market and financial analysis, potential location, land accessibility and site analysis. To be successful, a tourism development should have a positive evaluation in all these components.
- At the next stage, a comprehensive project plan that includes a marketing plan, a business plan and a physical concept plan needs to be developed. The project plan is the summary of all evaluations and will be the basis for approvals from development authorities and financing sources.

- Subsequently, necessary approvals and licenses need to be obtained by central and local regulatory authorities.
- At the last stage, funds should be obtained on the basis of the business plan and the implementation will be started.

As a second step, the entrepreneur needs to conduct a demand analysis through which s/he identifies the type of client targeted by the business idea. Each visitor is looking for a different ideal experience and has specific preferences for type of accommodation, food services, recreation, and so on. As a result, there are numerous ways to break the tourism market into sub-groups. The important thing is to identify the groups (segments) that will buy the product or service in question. The main purpose of the demand analysis is to develop a clear understanding of the market in terms of:

- Who are targeted clients/customers (age, income, marital status, education and lifestyle patterns).
- How many are expected.
- What interests them.
- Where they come from.
- Why they travel.
- When they travel.
- Where they travel and how often they travel.
- How they travel.
- What is their spending power and how they spend their money.
- How price-sensitive they are.

As a third step, the entrepreneur needs to conduct a supply analysis through which s/he evaluates the existing supply of tourism services and facilities. The supply analysis serves to determine:

- What competitive facilities are there in the market area?
- What are the current usage rates or occupancy rates for operators in the regular and off-season?
- What share of the market is intended and expected to be captured?

6. CONCLUDING REMARKS

As already shown in this report, Kosovo has gone a long way in integrating itself into the regional and global markets through free trade arrangements with CEFTA, the EU, Turkey and the U.S. This has created good opportunities for Kosovo producers to gain access to large markets and reach millions of potential customers for their products. An important role in promoting Kosovo's goods in foreign markets can be played by its dynamic diaspora, which is well-established in countries like Germany, Switzerland, UK, Sweden, U.S., etc.

This study has looked at the markets where Kosovo's products have the potential to be exported in much greater quantities – the EU, CEFTA region, U.S. and Turkey. The main focus has been on import rules and requirements that Kosovo exporters need to meet to be able to export their products. The main conclusion is that if Kosovo exporters are able to meet such domestic standards and reach levels of productivity and quality that make their products competitive in these markets, they can expand their customer base and generate significant revenue. The sections on market requirements provide good reference to potential exporters on the key issues they should consider when contemplating entering any of those markets.

At the same time, this report has concentrated on the domestic sectors which have the greatest potential for generating income through exports of goods or services. These sectors are: agriculture, food processing, wood processing, construction materials, handicrafts and tourism.

Agriculture and food processing are the most important sectors in Kosovo's economy and have good potential to support competitive activities that deliver products which can substitute imports in the domestic market and penetrate foreign markets, especially in the region. Based on a relatively good irrigation system and access to water, fruit and vegetable production can further substitute imports in the domestic market and expand into foreign markets, starting with the CEFTA region. Kosovo can also produce fruit, nuts and soft fruit and compete with imports if more attention is spent on quality, storage and building up local supply. Wine is a product in which Kosovo has currently a positive trade balance and if quality of production is maintained while quantity expanded, Kosovo has good chances of significantly increasing its exports. Other agricultural activities with potential for import substitution and exports include, gathering crops from forest and rough pastures (herbs), growing teas, herbs, mushrooms, medicinal herbs and ornamentals. Also, the market for organic produce represents good opportunities for Kosovo producers.

Improvements in pasture and fodder development can improve competitiveness and open up bigger export opportunities for the beef sector. Limited amounts of lamb have already been sold in the region, and there is good potential for making inroads in the EU market. Chicken presents potential, but as a first step it would be reasonable for Kosovo exporters to test the regional markets (which are less competitive), before looking out to the broader global market.

For meat processing companies, the most significant obstacle currently is the reopening of export markets. With Kosovo's geographical location and its close proximity to non-EU countries such as Albania, Montenegro, Bosnia and Herzegovina, Croatia and Turkey, a short-term pragmatic approach could be to initially focus on meat exports to these destinations, with the possibility of expanding into the more demanding EU market in the next stage.

Other sectors where Kosovo has a potential for exports are the dairy, sheep and egg sectors. Production of dairy products can compete on the regional market, but requires improvement in quality at farm and factory level.

In the food-processing sector, beverages such as beer, fruit juices and soft drinks could compete in the regional market. Also, the production of processed vegetables and fruits can expand through import substitution and foreign markets could be accessed taking advantage of the trade preferences.

Construction materials are considered to be a great economic potential not only for import substitution, but for exports too. Currently, almost half of construction materials used are being produced domestically. During the last three years imports remained almost constant while in 2013 exports grew significantly compared to a year before. Considering the geographical proximity - and as the trade data shows - regional market, namely CEFTA member countries, remain attractive markets for construction materials manufacturers in Kosovo. During the last three years, on average almost half of exported materials from Kosovo were destined for regional market, namely Albania, Serbia, FYRoM, and Montenegro. The other half is exported to EU and Switzerland. Due to the high transportation costs and the large share of such costs in the final price of construction materials, both EU and regional market should be targeted, with special emphasis on the latter.

The wood processing sector in Kosovo has good preconditions to develop, and as the data used by this study suggests, it has done so. One of the assets of this sector is ample forest area, which provides a good basis for supply of raw materials needed by the sector. In addition, a very comprehensive report of the sector for the period 2011-2012 implemented by UNDP finds that all firm level indicators such as: positive changes in turnover, production value, and increase in employment figures point towards growth in the wood processing sector.

Growth of the sector is confirmed also by the annual data for the period 2011-2013. Same trends were displayed when more detailed, monthly data of the sector was investigated. In terms of exporting markets, an important destination are neighbouring countries which take a respectable share of the exports of the sector, however, the main markets are Switzerland and Germany which have displayed huge capacities for Kosovar wood sector products. The main products exported are wooden furniture for living rooms, kitchens and bedrooms. It is argued that this is the case due to the large number of Kosovar diaspora living in these countries. This finding, once more reinforces the idea that Kosovar wood processing businesses, and other businesses too, should target these countries in order to maximise their chances of successful exports. However, the sector runs a significant negative trade deficit. In terms of organisation, the sector is considered as one of the most organized sectors, while the Wood Processing sector is represented by the Association of Wood Processors of Kosovo (AWPK) carries a lot of activities to facilitate the needs of the individual producers as well as the sector as a whole.

Artisan crafts have an import role in the Kosovar economy. This is partly due to the low industrialisation of the economy, thus, artisans remain an important aspect of generating income. In Kosovo, crafting skills have been passed from generation to generation and they remain quite present in the economy. The available data suggests that handicrafts generate a noticeable amount of economic activity. The exports of artisan products for 2011 and 2012 are close to €1 million. Main markets for such exports are Germany and Switzerland followed by Albania and Montenegro. As it was found with other sectors, artisan crafts sector seems to export mostly in European countries where Kosovar diaspora is concentrated, i.e. Germany and Switzerland. Given these findings, artisan crafts producers of Kosovo should utilise this 'platform' of Kosovar diaspora living in Western European countries, to expand their presence in these markets by creating products that appeal to people with ethnic background other than Albanian.

Kosovo's natural resources and cultural heritage, as well as geographical position, represent great potential for the development of tourism. Kosovo is generally rich with mountains, artificial lakes and rivers and therefore also offers prime possibilities for hunting and fishing, hiking and sightseeing,

winter sports, rural experiences, excursions and recreation, mountaineering, paragliding, speleology, etc. The area of wellness in Kosovo also offers great potential for development. The numerous thermal springs of Kosovo are well known in the region for their healing effects. The widespread production of rare artisan crafts in Kosovo, such as the filigree (silver), represents another attraction for foreign tourists. In addition, Kosovo has the potential to develop cultural tourism with numerous religious and other sites with extraordinary cultural and historical value. Also, eco-tourism and agro-tourism present great opportunities.

To take full advantage of these opportunities and expand the tourism sector and activities in Kosovo, tourist operators and agencies should focus their efforts through a three-pronged strategy: i) take full advantage the regional opportunities by targeting more aggressively neighbouring markets with packages and offers tailored to their needs and preferences; ii) integrate services with regional operators and piggyback on their established networks and clientele by attracting their tourists into "extension trips" to Kosovo"; and, iii) use Kosovo's extensive diaspora to reach wealthier segments of the tourist market, especially in the EU and the U.S.

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