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Abbreviations

AmCham	American Chamber of Commerce
BMO	Business Membership Organisation
CEFTA	Central European Free Trade Agreement
CN	Combined Nomenclature
EFTA	European Free Trade Association
EC	European Commission
EU	European Union
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade in Services
IPA	Industrial Property Agency
IPR	Intellectual Property Rights
JC	Joint Committee
KSA	Kosovo Statistical Agency
KCC	Kosovo Chamber of Commerce
MEETIESI	Ministry of Economy, Employment, Trade, Industry, Entrepreneurship and Strategic Investments
MFT	Ministry of Finance and Transfers
MTI	Ministry of Trade and Industry
ROO	Rules of Origin
UK	United Kingdom
SAA	Stabilisation and Association Agreement
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
TFA	Trade Facilitation Agreement
TOBB	Union of Chambers and Commodity Exchanges of Turkey
TRIPS	Trade-Related Aspects of Intellectual Property Rights
TQ	Tariff Quotas
WTO	World Trade Organization

Executive Summary

The Kosovo-Turkey Free Trade Agreement (FTA) came into effect in September 2019, seven years after it was concluded. This report intends to comprehensively assess the likely impact of the agreement on Kosovo's economy. In particular, the report explores trade trends and tariff concessions between Kosovo and Turkey, reviews the regulatory framework and the incorporated built-in agenda of the agreement, sheds light on the agreement's possible fiscal implications and gives some insights into the opinions and expectations of Kosovar business associations. In doing so, the report aims at facilitating the exploitation of potential gains of the agreement, while helping to minimize the negative effects.

The trade analysis reveals that the exchange of goods between Kosovo and Turkey has been very disproportionate in favour of the latter. Kosovo has recorded a high and continuously growing trade deficit with Turkey. In 2019, this deficit reached an all-time high, with imports exceeding exports by 54 times. Whereas Kosovo's exports to Turkey noted a negative trend, falling by 12 percent over the last 5 years, imports showed an opposite trend, increasing by 71 percent in the same time. In terms of value, Turkey was the second most important import partner for Kosovo in 2019, while the 12th most important in the ranking of exports. Furthermore, Kosovo imports a wide and diverse range of products from Turkey, whereas it exports a limited number of products. Over the past five years, 4,754 products have been imported from Turkey, while only 365 have been exported. Of all exports to Turkey in 2019, the first three, namely rubberised textile, scrap of aluminium and conveyor belts, comprised almost half of all exports.

A review of tariff concessions unveils that although at first look the agreement seems to be balanced, it is actually asymmetrically in favour of Turkey, at least in the long run. Article II.5 of the agreement obliges Kosovo to treat products (subject to transitional tariffs) originating in Turkey no less favourably than like products originating in the EU. This provision, though mandatory, has not been implemented by Kosovo yet. An eventual implementation of this provision means that Kosovo, in a period much shorter than originally programmed, would entirely mirror Turkey's concessions by liberalising all products, except for around 65 percent of agricultural products. The treatment of the latter products brings the asymmetries of the agreement to the surface. First, customs tariffs applied by Turkey to the "excluded" agricultural products are, on average, five times higher vis-à-vis the flat tariff applied by Kosovo. Second, the Turkish tariff schedule has rates that go up to 225 percent – that is, 22.5 higher compared to the maximum MFN tariff rate of Kosovo. These particular tariffs constitute nothing less than a Turkish import prohibition for the affected products. Finally, unlike Kosovo, Turkey, under Law No. 474 on the Customs Tariff Schedule, has the possibility to increase its MFN tariffs by 150 percent to ensure an "adequate" level of protection for products left out of concessions. All these asymmetries would likely bring non-reciprocal outcomes for Kosovo.

As has been the case in other agreements, besides the liberalisation of trade through a gradual removal of tariffs, the agreement with Turkey contains a body of regulatory provisions, incorporating commitments aiming to assure fair and unobstructed trade between the parties. The obligations adopted in areas such as sanitary and phytosanitary measures (SPS), technical barriers to trade (TBT), intellectual property rights (IPR), trade defence, transparency and internal taxation mirror the commitments that Kosovo has already adopted in other trade agreements. The majority of these provisions derive from WTO rules. One notable distinction of the agreement with Turkey, nonetheless, is that Kosovo is bound to follow WTO regulations in a much more extensive and deeper manner than in previous agreements. That is because the core provisions incorporate *mutatis mutandis* the obligations from the WTO agreements, which means that any new developments in WTO agreements would have to be reflected in new or modified obligations under the Kosovo-Turkey FTA. Moreover, compared to the new generation of FTAs, the agreement with Turkey is short in disciplines pertaining to trade facilitation, investment and services. Nonetheless, the agreement still contains a general evolutionary clause, which foresees that the parties may expand the scope of the current agreement. Bosnia and Herzegovina and Serbia are two countries in the region that have already signed new revised agreements with Turkey, where they further liberalise trade in goods and include commitments in additional areas (i.e. investment protection).

The fiscal analysis reveals that the loss of budgetary revenue for Kosovo stemming from tariff reductions committed under the FTA with Turkey is predicted to amount to EUR 25 million. This value, more or less, compares with the annual budget of an average municipality in Kosovo. The largest loss in revenue is expected to be caused by tariff reductions in industrial goods.

The main Business Membership Organisations (BMOs) commonly acknowledge the benefits of free trade. However, in the case of the Kosovo Turkey FTA, BMOs believe that if the agreement remains unchanged, it may have a negative impact on the development of the manufacturing sector. Since economic conditions have changed since the signing of the agreement seven years ago, BMOs suggested that the whole document should be reconsidered.

Given the disproportionate trade flows between Kosovo and Turkey and the long-term asymmetries in tariff concessions, let alone border-in problems, it is unlikely that Kosovo would be able to fully reap the benefits of the current agreement with Turkey. That said, Kosovo should aim to re-negotiate parts of the agreement. To do so, Kosovo needs to make the necessary preparations to properly address the built-in agenda and undertake other necessary measures to improve the potential positive impact of the agreement, while mitigating as much as possible the negative effects.

1. Introduction

The liberal paradigm has been the cornerstone of economic reforms pursued by Kosovo over the past two decades. Alongside other liberal-oriented economic reforms, Kosovo has made significant steps in opening up trade with its strategic partners. The Central European Free Trade Agreement (CEFTA), which UNMIK joined on behalf of Kosovo in 2006, was the first trade arrangement of Kosovo.[1] Following the example of a number of Western Balkan (WB) countries, Kosovo signed a bilateral Free Trade Agreement (FTA) with Turkey in 2013 [2] and in 2015 a Stabilisation and Association Agreement (SAA) with the European Union (EU).[3] Recently, Kosovo signed a "continuity" trade agreement with the United Kingdom (UK), which would come into effect if the EU-Kosovo agreement (the SAA) ceases to apply to the UK. Moreover, in 2018 Kosovo signed a Joint Declaration on Cooperation (JDC) with the European Free Trade Association (EFTA) States, namely Iceland, Liechtenstein, Norway and Switzerland, which is often the first step towards the opening of negotiations for a possible FTA.[4] With the full implementation of the current preferential agreements, Kosovo has committed to removing tariffs and other charges of equivalent effect for roughly 80 percent of its trade.

Whereas CEFTA and the SAA came into force in the year following the signing, the FTA with Turkey did not until September 2019, due to a delayed ratification process on the side of Kosovo. The approval procedure in Turkey, on the other hand, was completed in 2015. The delay in the ratification of the agreement on the part of Kosovo responded, among other factors, to concerns that were raised regarding the expected fiscal impact and the potential adverse effects on domestic production.[5] Today, the agreement is being implemented, and the first meeting of the Joint Committee (JC) took place in Ankara on February 11th, where the rules of procedure of the JC and an agreement on rules of origin (ROO) were adopted. The agreement will be notified by Turkey to the WTO Committee on Trade Agreements under GATT 1994 Article XXIV.

Now that the Agreement with Turkey has come into effect and its implementation is underway, the Ministry of Economy, Employment, Trade, Industry, Entrepreneurship and Strategic Investments (MEETIESI) requested the undertaking of a comprehensive assessment of the possible effects of this agreement on Kosovo's economy. Responding to this request, this document intends to: (i) closely analyse trade trends between Kosovo and Turkey along with the tariff concessions adopted in the agreement; (ii) review the regulatory framework and the built-in agenda incorporated in the agreement; (iii) briefly analyse the fiscal implications; and (iv) to gain some perspective from BMOs on the agreement. The aim of this document is to contribute to elucidating the most appropriate responses to maximize the gains while minimising the potential negative effects of the agreement.

[1] CEFTA (2006). https://cefta.int/legal-documents/#1463498231136-8f9d234f-15f9
[2] Kosovo-Turkey FTA (2013). https://gzk.rks-gov.net/ActDetail.aspx?ActID=20035
[3] Stabilisation and Association Agreement (2015). https://ec.europa.eu/neighbourhoodenlargement/sites/near/files/news_corner/news/news-files/20150430_saa.pdf
[4] EFTA States – Kosovo (2018). Joint Declaration on Cooperation. Available at MEETIESI.
[5] Pristina Insight (2016). https://prishtinainsight.com/much-free-trade-agreement-turkey-cost-kosovo/

This work builds upon a short assessment prepared by the MEETIESI (then MTI) at the time of negotiations, which mainly describes the structure and dynamics of the bilateral trade between the two Parties of the FTA, while predicting the loss in fiscal revenues for Kosovo.[6] To obtain relevant information on the topic, the authors relied on general desk research, trade data from Kosovo Customs and the Kosovo Statistical Agency (KSA), and semi-structured interviews with the main Business Membership Organisations (BMOs)[7] in Kosovo.

The rest of this paper is organised as follows. Section 2 presents a brief description of the main content of the agreement. *Section 3* provides an overview of trade trends between Kosovo and Turkey. *Section 4* discusses Kosovo's and Turkey's MFN tariffs, analysing the tariff concessions granted to each other by the two parties, as well as identifying some strategic products to be considered in the case of further concessions. *Section 5* reviews the regulatory framework and addresses the built-in agenda incorporated in the agreement. *Section 6* analyses the possible fiscal implications. *Section 7* presents the opinion of the main BMOs towards the agreement. *Section 8* concludes and advances some recommendations.

[6] Trade Department (2013). Trade Aspects of the Kosovo-Turkey FTA: Trade Policy Liberalising Trade between Kosovo and Turkey Impact Assessment. Available at MEETIESI.
[7] Kosovo Chamber of Commerce (KCC), American Chamber of Commerce (AmCham), and Chamber of Doing Business in Kosovo.

2. Brief Overview of the Kosovo-Turkey FTA

Turkey has signed FTAs with all the countries in the WB region. In structure and content, these agreements are almost identical. The only aspect that differs is the list of products exempt from customs tariffs and the liberalisation calendar for when these tariffs would be removed. That said, Kosovo during the negotiations with Turkey basically accepted the template proposed by the latter, which became the main content of the signed agreement.

Turkey is currently modernising its trade agreements, including those with countries in the WB region. New agreements further liberalising trade in goods, and incorporating commitments in additional areas, have been signed in 2019 with Bosnia and Herzegovina and Serbia. The Kosovo-Turkey FTA that has come into effect, on the other hand, mainly reflects, with the exception of the commitment to start negotiations to liberalize trade in services, the provisions of a prior generation of FTAs, which are much more limited in scope and depth compared to the new ones. Further to this report, it would be appropriate to examine the new generation agreements being promoted by Turkey in order to generate important insights on the possible direction of future developments in the bilateral relations when implementing the evolutionary clause incorporated in Article V.4 of the agreement.

The parties' main objectives under the agreement are to enhance trade and the overall economic cooperation; gradually eradicate restrictions on trade in goods; promote reciprocal trade; remove barriers to trade; and create favourable conditions for investments. As is normally the case, the core part is about the liberalisation of trade in goods through a progressive dismantling of tariffs. The agreement, however, does not incorporate specific commitments on the liberalization of trade in services – an issue that should be addressed in the immediate future, as provided by Title III of the agreement. Moreover, the agreement does not incorporate any provision on co-operation between the parties either, except a limited commitment on cooperation between Customs Administrations incorporated in Article II.10 of the agreement.

Regarding trade in goods, Kosovo originally agreed to immediately (on the date of entry into force) eliminate all customs duties on 493 agricultural products from Turkey, and to progressively dismantle duties (within six to 10 years, depending on the product) on some other 353 agricultural products. Kosovo excluded 1,596 agricultural products from the liberalization schedule. These products were considered strategic at the time of negotiations. Moreover, in the original schedule, Kosovo agreed to immediately remove all customs duties on 2,292 industrial products originating in Turkey, and to gradually remove duties (within four to 10 years, depending on the product) on other 4,649 industrial products. Unlike in the case of agricultural products, there are no industrial products excluded from the liberalisation program. This would be the timeframe of liberalisation if there was not a clause in the agreement which foresees that Kosovo has to treat products originating in Turkey (subject to transitional tariffs) no less favourably than like products from the EU. The eventual implementation of this clause would significantly shorten the transition period, as is discussed in Section 4 of this report. Turkey, on the other hand, agreed to drop all customs duties on 850 agricultural products originating in Kosovo, while maintaining Most Favoured Nation (MFN) duties on 1,592 others. Moreover, all industrial products from Kosovo have been granted duty-free access to the Turkish market since the entry into force of the agreement.

As is usually the case in agreements establishing a free trade area, besides the liberalisation of trade through the progressive dismantling of tariffs, the FTA with Turkey also contains a number of regulatory provisions incorporating commitments aiming to assure that fair and free trade will be maintained among the parties, and also institutional provisions to govern relations under the agreement, including dispute settlement provisions. The obligations that Kosovo has adopted in areas such as SPS, TBT, trade defence, IPR, transparency, general and security exceptions, quantitative restrictions, national treatment, custom valuation and internal taxation, mirror the commitments that Kosovo has already adopted in other trade agreements, in particular under CEFTA. Therefore, no new obligations are imposed on Kosovo by the agreement with Turkey, and no domestic regulatory amendments are needed to fulfil these obligations.

An important issue to note, however, is that the agreement with Turkey binds Kosovo to follow the WTO agreements in a much more extensive and deeper manner than any of the previous trade agreements to which Kosovo is a party. All the core areas covered by the bilateral agreement with Turkey incorporate *mutatis mutandis* the obligations from the WTO agreements, which means that any new developments in the WTO agreements would be reflected in new or modified obligations under the Kosovo-Turkey FTA. In this respect, it would be appropriate to maintain a close monitoring of new developments in the WTO in those areas that have been made an integral part of the bilateral agreement.

3. Overview of Trade Trends between Kosovo and Turkey

This section closely analyses trade between Kosovo and Turkey. Specifically, it sheds light on the evolution of trade between Kosovo and Turkey from 2015 to 2019. It compares Kosovo's current trade with Turkey and other partners, and shows the most traded products (in value and number) between the two parties by main categories, chapters, and eight-digit level of Combined Nomenclature (CN).

Table 1 reveals that Kosovo has experienced a high and growing trade deficit with Turkey. In 2019, this deficit reached an all-time high, with imports exceeding exports by 54 times. To be more specific, Kosovo's exports to Turkey in 2019 amounted to only EUR 7.9 million, while imports stood at EUR 431.5 million. More worryingly, Kosovo's exports to Turkey have noted a negative trend compared to 2015, dropping by around 12 percent. This was not the case with imports. On the contrary, imports have seen an increase of 71 percent compared to 2015. Turkey along with Greece, Macedonia and Slovenia have been the countries that benefited the most from the trade diversion arising from Kosovo's 100 percent tariff affecting products originating in Bosnia and Herzegovina and Serbia. This was one of the underlying reasons for the somewhat more rapid increase in imports from Turkey in 2019.

Table 1: Kosovo's trade with Turkey (2015-2019)

Year		2015	2016	2017	2018	2019
Turkey	**Exports (000 EUR)**	9,212	7,630	7,177	8,354	7,971
	Imports (000 EUR)	252,285	288,488	292,626	336,533	431,544
	Δ in exports (%)	-11.1%	-17.2%	-5.9%	16.4%	-4.6%
	Δ in imports (%)	5.9%	14.4%	1.4%	15.0%	28.2%
	Coverage ratio (%)	3.7%	2.6%	2.5%	2.5%	**1.8%**

Source: Authors' calculations based on Kosovo Customs data.

A disaggregation of the 2019 trade data by import partners reveals that Turkey was the second most important partner after Germany (though with a very minimal difference), participating with 12.3 percent in Kosovo's overall imports, followed by China, Macedonia, and Albania. On the other hand, Turkey was Kosovo's 12th most important export destination by value in 2019, contributing with only 2.1 percent in Kosovo's total exports in that year. Again, Albania and Macedonia are among the top five export partners, accompanied by India, Germany and Switzerland. For more detailed information, see Table 2 and Table 3.

Table 2: Kosovo's imports, by import partner (2019)

No.	Country	Imports (in 000 EUR)	% in Total Imports
1	Germany	447,613	12.8%
2	**Turkey**	**431,546**	**12.3%**
3	China	340,917	9.7%
4	Macedonia	240,640	6.9%
5	Albania	223,894	6.4%
	Total imports	**3,497,130**	**100.0%**

Source: Authors' calculations based on Kosovo Customs data.

Table 3: Kosovo's exports, by export partner (2019)

No.	Country	Imports (in 000 EUR)	% in total imports
1	Albania	67,377	17.6%
2	Macedonia	44,129	11.5%
3	India	32,824	8.6%
4	Germany	30,906	8.1%
5	Switzerland	28,460	7.4%
…	…	…	…
12	**Turkey**	**7,976**	**2.1%**
	Total	**383,504**	**100.0%**

Source: Authors' calculations based on Kosovo Customs data.

In 2019, Kosovo's exports of agricultural products (chapter 1-24 of the CN) to Turkey amounted to EUR 1.0 million, whereas imports stood at EUR 57.1 million. Kosovo's exports of industrial goods (chapter 25-97) in the same year were EUR 6.9 million as opposed to imports which reached a value of EUR 374.3 million. The proportion of agricultural and industrial products was the same in the case of exports and imports, 13 percent and 87 percent, respectively (see Table 4).

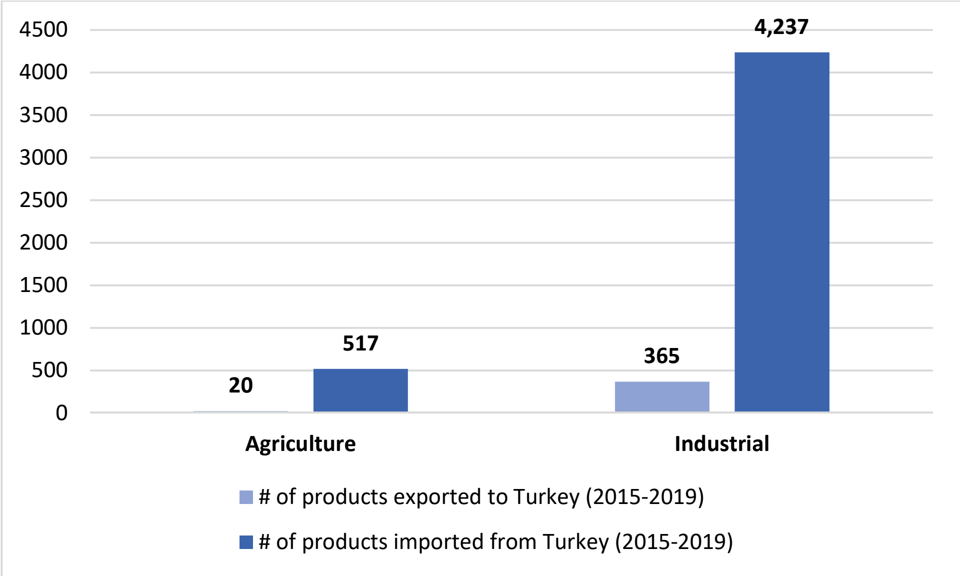
Table 4: Kosovo's trade with Turkey, by two main product categories (2019)

Product Categories	Kosovo's Exports to Turkey (in 000 EUR)	%	Kosovo's Imports from Turkey (in 000 EUR)	%
Agricultural	1,011	13%	57,186	13%
Industrial	6,961	87%	374,358	87%
Total	**7,972**	**100%**	**431,544**	**100%**

Source: Authors' calculations based on Kosovo Customs data.

Over the past five years, Kosovo exported to Turkey only 20 agricultural products, while it imported 517. A large disproportion is also noted in the case of industrial products. During the same period, Kosovo exported to Turkey 365 industrial products, while it imported 4,237 (see Figure 1). A more detailed analysis unveils that the majority of Kosovo's exports have not exceeded a total value of EUR 1.0 million in five years, indicating that those exports have been largely sporadic. This enormous disproportion in the number of products traded emphasises the problem of Kosovo producers to penetrate the Turkish market.

Figure 1: Kosovo's Trade with Turkey, by two main categories, Number (#) of products (2015-2019)



Source: Authors' calculations based on Kosovo Customs data.

Table 5 shows the cumulative total of Kosovo's top 10 exports to Turkey disaggregated by CN chapters in the period 2015-2019. Textile fabrics, with EUR 14.1 million, rubber and articles thereof, with EUR 6.1 million and aluminium and articles thereof, with EUR 4.5 million are the most exported products, constituting around 61 percent of all exports. Nine out of 10 top exported products (by chapter) are industrial.

Table 5: Kosovo's exports to Turkey, by chapter (2015-2019)

No.	Chapters of CN	Exports to Turkey, in 000 EUR	% in exports to Turkey
1	59: Textile fabrics	14,196	35%
2	40: Rubber and articles thereof	6,192	15%
3	76: Aluminium and articles thereof	4,528	11%
4	74: Copper and articles thereof	2,668	7%
5	39: Plastics and articles thereof	2,276	6%
6	84: Boilers, machinery and mechanical appliances	1,650	4%
7	47: Pulp of wood	1,512	4%
8	63: Other made-up textile articles	1,151	3%
9	73: Articles of iron or steel	1,149	3%
10	15: Animal or vegetable fats	660	2%
	Other exports	*4,363*	*10%*
	Grand Total	**40,345**	**100%**

Source: Authors' calculations based on Kosovo Customs data.

Note: Descriptions of categories have been shortened for reasons of space.

Table 6 depicts the cumulative total of Kosovo's 20 most exported products to Turkey at the eight-digit level of CN over the last five years. During this period, all these products contribute with 88 percent in overall exports to Turkey. Rubberised textile, with EUR 11.4 million (28 percent); scrap of aluminium, with EUR 4.4 million (11 percent); conveyor belts, with EUR 3.8 million; and tyre cord fabric, with EUR 2.7 million, top the list of Kosovo's exports to Turkey. A concerning trend for Kosovo is that the majority of the products have registered a decline in exports compared to 2015. What is even more concerning is that six products that registered exports in 2015 were not exported at all in 2019. Almost half of the products on this list are waste or scrap, representing 28 percent of total exports during this period. Due to lax regulations, Turkey is one of the most significant importers of waste and scrap commodities. A similar list of products with very limited value addition dominate exports of Kosovo to the rest of the world as well.

Table 6: Kosovo's top 20 most exported products to Turkey 2015-2029, in 000 EUR

No.	Product (8-digit of CN)	2015	2016	2017	2018	2019	2015-2019	% in total exports
1	59069990: Rubberised textile	1,369	2,144	2,646	2,862	2,379	**11,401**	28%
2	76020090: Scrap of aluminium	528	25	822	1,535	1,525	**4,435**	11%
3	40101200: Conveyor belts	1,912	604	651	382	271	**3,820**	9%
4	59021090: Tyre cord fabric	1,927	867	0	0	0	**2,794**	7%
5	74040099: Waste and scrap	354	297	259	549	579	**2,038**	5%
6	40103100: Transmission belts	295	557	469	462	235	**2,018**	5%
7	39159080: Waste, parings	314	645	423	283	196	**1,860**	5%
8	63053310: Sacks and bags	286	231	219	213	192	**1,140**	3%
9	73141400: Woven cloth	126	510	122	166	88	**1,011**	3%
10	15121191: Crude sunflower	0	0	0	0	660	**660**	2%
11	47079010: Waste paper	89	551	18	0	0	**658**	2%
12	84705000: Cash registers	643	0	0	0	0	**643**	2%
13	47071000: Waste paper	0	18	403	120	0	**540**	1%
14	30049000: Medicaments	0	1	0	119	334	**453**	1%
15	79020000: Zinc waste	69	67	145	115	50	**446**	1%
16	68029200: Calcareous stone	0	0	192	184	17	**393**	1%
17	74040010: Waste and scrap	108	133	17	103	0	**362**	1%
18	47073090: Waste and scrap	107	84	79	45	0	**314**	1%
19	41012030: Whole raw hides	70	39	0	0	163	**272**	1%
20	74040091: Waste and scrap	200	28	18	13	0	**260**	1%
	Other exports	*816*	*830*	*692*	*1,204*	*1,283*	*4,825*	*12%*
	Grand Total	**9,212**	**7,630**	**7,177**	**8,354**	**7,972**	**40,345**	**100%**

Source: Authors' calculations based on Kosovo Customs data.

Note: Descriptions of categories have been shortened for reasons of space.

Table 7 presents the cumulative total of Kosovo's top 10 imports from Turkey disaggregated by chapters in the period 2015-2019. Boilers, machinery and mechanical appliances, with EUR 167.2 million, articles of apparel and clothing accessories, with EUR 141.0 million, plastics and articles thereof, with EUR 108.7 million are the most imported products, constituting around 26 percent of all imports. Eight out of 10 top chapters belong to the industrial category.

Table 7: Kosovo's main imports from Turkey, by chapter (2015-2019)

No.	Chapters of CN	Imports from Turkey, in 000 EUR	% in total imports
1	84: Boilers, machinery and mechanical appliances	167,276	10%
2	62: Articles of apparel and clothing accessories	141,064	9%
3	39: Plastics and articles thereof	108,769	7%
4	85: Electrical machinery and equipment	106,790	7%
5	61: Articles of apparel and clothing accessories	82,743	5%
6	73: Articles of iron or steel	67,923	4%
7	94: Furniture; bedding, mattresses	63,397	4%
8	19: Preparations of cereals, flour	47,888	3%
9	44: Wood and articles of wood	43,551	3%
10	21: Miscellaneous edible preparations	42,933	3%
	Other	**724,544**	**45%**
	Grand Total	**1,596,878**	**100%**

Source: Authors' calculations based on Kosovo Customs data.

Note: Descriptions of categories have been shortened for reasons of space.

Table 8 shows the cumulative total of the 20 most imported products from Turkey at the eight-digit CN-level over the past five years. These products constitute almost one-fifth of all imports from Turkey. Ice cream with EUR 28.8 million (2 percent) and cigarettes with EUR 24.9 million (2 percent); followed by boards of wood with EUR 22.8 million (1 percent) and gas oils of petroleum with EUR 22.4 million (1 percent), are the most imported products from Turkey. Unlike in the case of Kosovo's top exports to Turkey, where the majority of products have seen an export decline compared to 2015, almost all imports from the list below (except two) recorded increases. Cigarettes, boards of wood, gas oil of petroleum, ceramic flags and carpets, on the other hand, are the products with the most notable increases. The latter two were not imported at all in 2015. The enormous increase of gas oils of petroleum in 2019 is mostly attributable to the trade diversion arising from the 100 percent tariff imposed to Bosnia and Herzegovina, as this was the largest imported product from this country in 2018 before the tariff came into effect.

Table 8: Kosovo's top 20 most imported products to Turkey 2015-2020, in 000 EUR

No	Product (8-digit of CN)	2015	2016	2017	2018	2019	2015-2019	% in total imports
1	21050091: Ice cream and other edible ice	6,693	6,297	6,442	5,059	4,364	**28,854**	2%
2	24022090: Cigarettes, containing tobacco	474	3,465	5,279	7,668	8,081	**24,968**	2%
3	44101130: Board of wood	901	4,872	5,177	6,176	5,741	**22,866**	1%
4	27101943: Gas oils of petroleum	15	0	863	0	21,615	**22,493**	1%
5	30049000: Medicaments	2,533	2,797	2,891	2,957	3,845	**15,023**	1%
6	62034231: Men's or boys' trousers	2,335	2,541	2,981	3,410	3,595	**14,862**	1%
7	61091000: T-shirts	2,148	3,039	2,689	3,042	3,486	**14,404**	1%
8	19059055: Extruded or expanded products	1,696	2,798	2,485	2,923	4,065	**13,967**	1%
9	39162000: Monofilament	2,896	2,789	2,298	2,650	3,243	**13,874**	1%
10	72083900: Flat-rolled products of iron	5,309	4,734	0	0	2,358	**12,401**	1%
11	61109090: Jerseys, pullovers, cardigans	2,329	2,092	2,218	3,092	2,584	**12,315**	1%
12	94016100: Upholstered wooden seats	1,500	1,767	1,849	3,064	4,036	**12,214**	1%
13	62069090: Women's or girls' blouses	2,122	2,026	2,023	2,807	3,235	**12,214**	1%
14	84221100: Dishwashing machines	1,702	2,023	2,067	2,618	3,075	**11,485**	1%
15	69072100: Ceramic flags and paving	0	0	2,836	3,717	4,724	**11,277**	1%
16	84501190: Laundry-type washing machines	1,561	1,960	2,397	2,669	2,552	**11,139**	1%
17	44111490: Medium density fibreboard	1,755	1,773	2,241	2,835	2,531	**11,135**	1%
18	76042990: Solid profiles, of aluminium	2,425	1,461	1,594	2,247	3,050	**10,776**	1%
19	73221900: Radiators for central heating	1,542	1,637	2,068	2,603	2,805	**10,655**	1%
20	57024200: Carpets and other floor	0	0	3,327	3,671	3,141	**10,139**	1%
	Other imports	*212,350*	*240,418*	*238,902*	*268,728*	*339,418*	*1,299,816*	*81%*
	Grand Total	**252,285**	**288,488**	**292,626**	**331,934**	**431,544**	**1,596,878**	**100%**

Source: Authors' calculations based on Kosovo Customs data.

4. Tariffs and Possible Further Tariff Concessions

This section provides an overview of Kosovo's and Turkey's MFN tariffs and analyses the preferential tariffs they grant to each other, as well as presents some areas of possible further liberalisation.

4.1. Overview of Kosovo's Tariffs

Kosovo maintains a flat basic duty of 10 percent on imports coming from non-preferential trade partners. Raw material and equipment used in the production process are exempt from this duty.[8] The average MFN tariff rate stands at 8.1 percent. With the full implementation of the current trade agreements, roughly 80 percent of total imports will have duty-free access to Kosovo's market.[9]

Under the original liberalisation schedule of the Kosovo-Turkey FTA, Kosovo's average customs duty rate on imports from Turkey varies from 6.4 percent in the initial year to 1.7 in the last year. This sharp drop is due to Kosovo's commitment to phasing out duties on a great number of products within ten years. This original schedule, however, does not seem to be applicable anymore, unless renegotiated. The agreement contains a clause (Article II.5), which stipulates that "Kosovo shall accord treatment no less favourable than that accorded to like products originating in the EU." Three years after the FTA with Turkey was signed, the SAA with the EU came into effect. Under the SAA, reflecting on the fact that the EU agreed to liberalise almost all products, Kosovo likewise granted tariff concessions, which are more favourable than those originally granted to Turkey. The current average nominal rate on EU imports stands at 0.4 percent. By 2024, it is expected to drop to nearly 0 percent. By treating Turkey no less favourably than the EU, Kosovo will end up having lower average tariff rates over the next years than initially scheduled. Note that the "non-discriminatory" clause holds only for products subject to transitional tariffs. If it had been applicable to "excluded" products as well, the average tariff rate would have been slightly lower than that granted to the EU.

4.2. Overview of Turkey's Tariffs

The tariff schedule of Turkey predominantly consists of ad-valorem duties, which account for about 98.3 percent of all tariff lines. Other types of tariffs, such as specific, compound, mixed and variable, apply to around 275 lines. More concretely, Turkey imposes specific duties on alcoholic beverages, salt and cinematographic films, mixed duties on carpets, glass and glassware products as well as watches, compound duties on yogurt, bread, pastry, pasta and similar, while it applies variable duties on dairy spreads, confectionary and chocolate.[10] Also, it should be noted that Turkey, besides the Custom Union type agreement with the EU on non-agricultural products, has currently 22 free trade agreements in effect and is negotiating 16 additional free trade agreements. This is an important issue as it pertains to the effective tariff preference that Kosovo has under the bilateral agreement. In most

[8] Ministry of Finance. Tax Regime in Kosovo. https://mf.rks-gov.net/desk/inc/media/172A9209-0E63-4F4F-8201-85E1258EF4E5.pdf
[9] Gashi, P. (2017). Free Trade and FDI in Kosovo: Prospects for Integration into the EU and Turkish Production Networks
[10] WTO (2016). Trade Policy Review - Turkey. https://www.wto.org/english/tratop_e/tpr_e/s331_e.pdf

of the products liberalised under the agreement Kosovo exporters will have to compete with other countries that also enjoy duty free access to the Turkish market.

Turkey's average MFN rate stands at 12.8 percent, about 4.7 percentage higher compared to Kosovo's average. For agricultural products, the tariff rate averages 49.1 percent, whereas for non-agricultural (industrial) products the average MFN rate is 5.5 percent. The highest rate, which is 225 percent, applies to 76 products, namely meat of bovine animals, swine, sheep, goats, horses, asses, and mules. A great number of these products are in the list of excluded products in the agreement with Kosovo. Also, Turkey imposes quotas to 1,800 tariff lines, targeting mainly agricultural products.

Law No. 474 on the Customs Tariff Schedule allows the Turkish Government to increase the applied MFN rates in cases when the corresponding rates are insufficient to provide "adequate" protection to domestic industries. Specifically, the Turkish Government may replace applied MFN rates by 150 percent of the corresponding rates of the statutory tariff to ensure a higher level of protection to local industries. The possibility of Turkey to increase MFN tariffs might negatively affect the predictability of Kosovo's (potential) exporters to Turkey and affect trade as a result.

Under the FTA with Kosovo, Turkey's average preferential rate is 3.7 percent, 9.1 percentage points lower than the MFN average. The average preferential rate on agricultural products is 16.5 percent, 33.4 percentage points lower than the average MFN. Under the agreement, all industrial products are exempt from tariffs; therefore, the average rate is zero; the average MFN, on the other hand, is 5.5 percent. For more details, see Table 9.

Table 9: Turkey's average MFN tariffs and preferential tariffs to Kosovo

	Turkey's Average Tariffs (%)		
Tariff Regime	**All**	**Agriculture**	**Non-Agriculture (Industrial)**
MFN	12.8%	49.9%	5.5%
Kosovo (Preferential)	**3.7%**	**16.5%**	**0.0%**

Source: WTO. Trade Policy Review.

This overall picture reveals that Turkey's MFN tariffs, which will be applied to "excluded" agricultural products, will be higher than those applied by Kosovo, on average. In addition, Turkey, unlike Kosovo, based on its domestic legislation, has the right to unpredictably increase MFN tariffs. This overall difference in rates might lead to non-reciprocal results to Kosovo.

4.3. Current Concessions on Agricultural Products

In the original schedule of the FTA with Turkey, Kosovo agreed to abolish the customs duty and charges having an equivalent effect on 493 agricultural products originating in Turkey. On some other 353 agricultural products (i.e. dairy products, fruits and vegetables, flour products), the commitment, as per the original schedule, is to progressively dismantle the tariff within six to 10 years from the date of entry into force of the agreement. On the other hand, 1,596 agricultural products, which were considered to be strategic, are excluded from concessions. It is noteworthy to mention that Kosovo has not implemented yet Article II.5 that obliges Kosovo to treat products from Turkey (subject to transitional tariffs) no less favourably than those from the EU. If Kosovo had accorded this treatment to Turkey in 2019, when the agreement came into effect, the number of products with duty-free access would have been higher by 102. Under this scenario, products subject to transitional tariffs would be liberalised in a more accelerated manner.

Turkey also committed to eradicating all tariffs and charges having an equivalent effect on 850 agricultural products originating in Kosovo. The rest, which constitute 1,592 agricultural products, are excluded and as such are subject to MFN tariffs. For more detailed information, see Table 10.

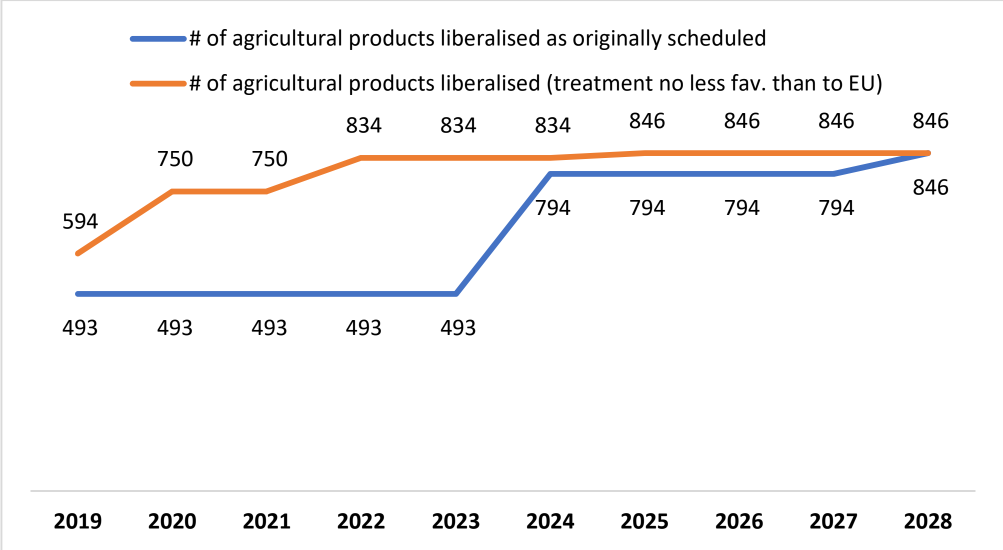
Table 10: Kosovo's and Turkey's concessions on agricultural products in the FTA

Kosovo's Tariff Concessions as Originally Scheduled		Kosovo's Concessions with Treatment no Less Fav. than to EU (2019)		Turkey's Tariff Concessions	
Year (Schedule)	**# of Products**	**Year (Schedule)**	**# of Products**	**Year (Schedule)**	**# of Products**
Zero	493	***Zero***	595	***Zero***	850
Six	301	***One***	156	***Transitional Tariffs***	0
Ten	26	***Three***	84		
Ten-A	26	***Six***	11		
Excluded	1,596	***Excluded***	1,596	***Excluded***	1,592
Total	**2,442**	***Total***	**2,442**	***Total***	**2,442**

Source: Kosovo-Turkey FTA.

Figure 2 visually shows the evolution of Kosovo's liberalization of agricultural products with Turkey as originally scheduled and under the scenario where Kosovo grants treatment to Turkey no less favourable than that accorded to the same products originating in the EU. In the first five years, there is a notable discrepancy between the two scenarios, clearly revealing that Kosovo originally had planned considerably slower tariff reductions. After the fifth year, the difference becomes less significant.

Figure 2: Kosovo's concessions on agricultural products originating in Turkey, by scenario (2019-2028)



Source: Authors' calculations based on Kosovo-Turkey FTA.

In 2024, both Turkey and Kosovo will end up liberalising (or protecting) almost the same number of agricultural products. Although at first glance the agreement looks balanced in terms of agricultural concessions, it is indeed asymmetrical in favour of Turkey for three main reasons. First, Turkey applies tariff rates for excluded agricultural products that are, on average, five times higher compared to the flat rate of 10 percent imposed by Kosovo. Second, Turkey's duties on some "excluded" agricultural products are as high as 225 percent, whereas in the case of Kosovo 10 percent is the maximum. Third, Turkey, under Law No. 474 on the Customs Tariff Schedule reserves the right to increase applied MFN tariffs by 150 percent to ensure an "adequate" level of protection for non-preferential products. All these asymmetrical measures will be affecting Kosovo's "excluded" exports of agricultural products, which constitute 65 percent of all agricultural products.

In principle, it is expected that a more developed economy like Turkey to provide better treatment to a less developed economy like Kosovo. Under the SAA, for example, despite Kosovo's commitment to gradually remove quantitative measures on the majority of agricultural products, the EU immediately lifted tariffs on products originating in Kosovo, except for beef, sugar and wine, which are still subject to quantitative restrictions.

4.4. Concessions on Industrial Products

In the original schedule of the agreement, Kosovo committed to abolishing the customs duty on 2,292 industrial products originating in Turkey with immediate effect. At the time of negotiations, these products were either not produced in Kosovo or were considered to lack a significant export potential. For the rest of industrial products, which involve 4,649 (around 67 percent of all products), the customs duty has been agreed to be dismantled progressively within a timeframe of four to 10 years. Akin to the case of agricultural products, the SAA with the EU changes the situation. Provided that concessions to the EU are more favourable, it is expected that by the beginning of 2022 all industrial products originating in Turkey will have duty-free access. Turkey, on the other hand, committed to eliminating all tariffs on the date of entry into force. For more information, see Table 11.

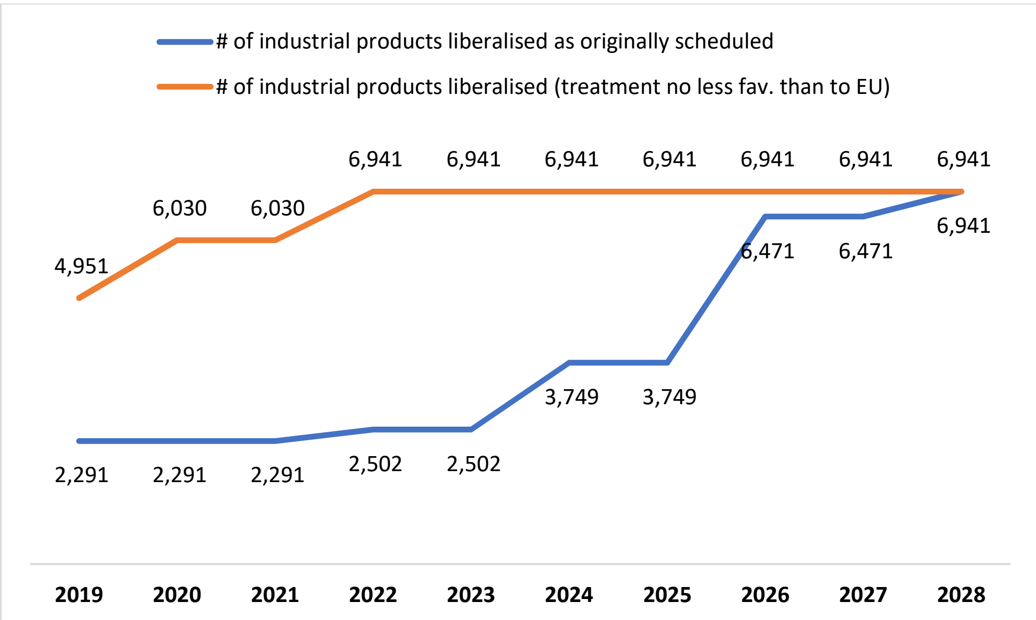
Table 11: Kosovo's and Turkey's concessions on industrial products in the FTA

Kosovo's Concessions as Originally Scheduled		Kosovo's Concessions with Treatment no Less Fav. than to EU		Turkey's Concessions as Originally Scheduled	
Year (Schedule)	**# of Products**	**Year (Schedule)**	**# of Products**	**Year (Schedule)**	**# of Products**
Zero	2,292	***Zero***	4,951	***Zero***	6,941
Four	210	***One***	1,080	***Transitional Tariffs***	***0***
Six	1,247	***Three***	910		
Eight	2,722				
Ten	470				
Excluded	0	***Excluded***	0	***Excluded***	0
Total	**6,941**	***Total***	**6,941**	***Total***	**6,941**

Source: Authors' calculations based on Kosovo-Turkey FTA.

Figure 3 depicts the number of liberalised products originating in Turkey over the years as originally scheduled and under the condition that Turkey will be granted treatment no less favourable than that accorded to the EU. The gap in the initial years until 2025 is significant, clearly showing that Kosovo, according to its original schedule, had planned to provide some more protection to industrial products. The asymmetrical (better) treatment for industrial products that Turkey had provided under the original schedule is largely offset with the introduction of the "non-discriminatory article".

Figure 3: Kosovo's concessions on industrial products originating in Turkey, by Scenario (2019-2028)



Source: Authors' calculations based on Kosovo-Turkey FTA.

4.5. Possible Further Tariff Concessions on Agricultural Products

Article II.17 of the agreement stipulates that, "the Parties shall examine in the Joint Committee the possibilities of granting further concessions to each other in trade in agricultural products." This sub-section identifies some strategic products that might be subject to possible concessions in the near future.

Table 12 shows 10 (out of 20) of Kosovo's most exported agricultural products to Turkey in the last five years and compares them against the corresponding exports to the rest of the world (RoW), as well as against Turkey's and EU tariff concessions. While the EU grants duty-free access to all these products, Turkey does so to only six of them under the current agreement. Roasted coffee, chocolate, non-alcoholic beer and chocolate and other preparations will still be subject to MFN tariffs when entering Turkey. Given that these four agricultural products are already being exported to Turkey, it is recommended that Kosovo request tariff reductions in possible future negotiations with Turkey.

Table 12: Comparing Kosovo's top 10 exports to Turkey with exports to RoW and concessions provided by Turkey and EU

Agricultural Product (8-digits of CN)	Kosovo's Exports to Turkey 2015-2019 (in 000 EUR)	Kosovo's exports to RoW 2015-2019 (in 000 EUR)	Turkey Concessions to Kosovo (Tariff Rates)	EU Concessions to Kosovo (Tariff Rates)
15121191: Crude sunflower-seed oil	660	226	0	0
22082029: Spirits	225	145	0	0
09012100: Roasted coffee	160	13,374	MFN Tariff	0
22030001: Beer	93	30,919	0	0
08102010: Fresh raspberries	45	4,814	0	0
22060059: Mead	40	34	0	0
18069019: Chocolate and chocolate products	34	73	MFN Tariff	0
20019070: Sweet peppers	27	5,720	0	0
22029100: Non-alcoholic beer	24	63	MFN Tariff	0
18063100: Chocolate	20	9,598	MFN Tariff	0

Source: Authors' calculations based on Kosovo Customs data; Kosovo-Turkey FTA; SAA.

Note: Descriptions of categories have been shortened for reasons of space.

Table 13 shows Kosovo's 30 most exported agricultural products to the RoW in the last five years and compares them against exports to Turkey and its tariff concessions to Kosovo. One-third (10) of these products are subject to Turkey's MFN tariffs under the current agreement. Seven of them, including ephedra plants and parts, dried mushrooms, soya-based beverages, fresh or chilled edible mushrooms, jams, jellies and marmalades, plants and parts of plants and non-alcoholic beverages, although exported to the RoW, have not been exported at all to Turkey. This might be in part attributable to the tariffs that Turkey still maintains. For all products subject to MFN tariffs by Turkey listed in Table 13, Kosovo should request concessions when negotiating for further liberalisation.

Table 13: Comparing Kosovo's top 30 exports to RoW with exports to Turkey and concessions provided by Turkey

Agricultural Product (8-digits of CN)	Kosovo's exports to RoW, in 000 EUR (2015-2019)	Kosovo's Exports to Turkey, in 000 EUR (2015-2019)	Turkey's Tariff Concessions to Kosovo
22021000: Waters, incl. mineral	40,420	18	0
22030001: Beer made from malt	30,919	93	0
09012100: Roasted coffee	13,374	160	MFN Tariff
18063100: Chocolate and other preparations	9,598	20	MFN Tariff
08102090: Fresh blackberries	9,163	0	0
11010015: Flour of common wheat	8,665	12	0
07019090: Potatoes, fresh or chilled	8,020	0	0
11010011: Durum wheat flour	7,132	0	0
12115000: Ephedra plants and parts	6,643	0	MFN Tariff
20019070: Sweet peppers	5,720	27	0
07123900: Dried mushrooms	5,570	0	MFN Tariff
22029911: Soya-based beverages	5,345	0	MFN Tariff
22042178: Wines produced in EU	5,202	0	0
08102010: Fresh raspberries	4,814	45	0
08112090: Loganberries	4,353	0	0
22042998: Wines not produced in EU	4,281	0	0
22029010: Non-alcoholic beverages	3,970	0	0
23023090: Bran, sharps and other residues	3,643	0	0
22042997: White wines not produced in EU	3,510	0	0
22011011: Mineral waters	3,019	0	0
17049099: Pastes	2,899	4	MFN Tariff
07095990: Fresh or chilled edible mushrooms	2,853	0	MFN Tariff
20052080: Potatoes	2,699	0	0
08112031: Raspberries	2,563	0	0
22042197: White wines	2,473	0	0
20079939: Jams, jellies, marmalades	2,390	0	MFN Tariff
12119020: Plants and parts of plants	2,355	0	MFN Tariff
22029019: Non-alcoholic beverages	2,345	0	MFN Tariff

Source: Authors' calculations based on Kosovo Customs data; Kosovo-Turkey FTA.

Note: Description of categories have been shortened for reasons of space.

Table 14 shows a list of agricultural products imported in relatively large amounts from the RoW and in small amounts from Turkey in the last five years. The majority of them are subject to Kosovo's customs duty, which is to be gradually eradicated three years from the date of entry into force of the agreement, while the rest are excluded from concessions (according to *Article II.5*). None of these products are exported to the World by Kosovo. Kosovo might consider removing the current customs duties on these products for Turkish exporters – in exchange for its requests during negotiations for further liberalisation. The eventual removal of the customs duty would contribute to the diversification of imports. This, in turn, would reduce dependency on limited supply countries, foster competition and drive prices down.

Table 14: List of agricultural imports which could be subject to further tariff concessions under the FTA with Turkey

Agricultural Product (8-digits of CN)	Kosovo's exports (2015-2019)	Kosovo's imports from RoW, in 000 EUR (2015-2019)	Kosovo's imports from Turkey, in 000 EUR (2015-2019)	Kosovo's Concessions to Turkey (Treatment no Less Fav. than to EU)
24022090: Cigarettes	0	282,287	24,968	**Three Years**
02071410: Frozen boneless cuts	0	52,989	1,166	**Three Years**
02071450: Frozen breasts	0	41,213	1,343	**Three Years**
04063039: Processed cheese	0	6,508	5	**Three Years**
20091200: Orange juice	0	4,576	227	**Three Years**
21050099: Ice cream	0	3,615	162	**Three Years**
15119019: Solid palm oil fractions	0	2,966	48	**Excluded**
19042010: Preparations of the Müsli	0	1,971	5	**Three Years**
23091051: Dog or cat food	0	1,734	9	**Excluded**
17049081: Confectionery tablets	0	1,203	33	**Excluded**
02071470: Frozen cuts of fowls	0	1,007	78	**Three Years**
22072000: Denatured ethyl alcohol	0	801	10	**Three Years**
06029045: Outdoor rooted cuttings	0	695	20	**Excluded**
04069069: Cheese of a fat content	0	680	213	**Three Years**
17049055: Throat pastilles	0	419	333	**Excluded**

Source: Authors' calculations based on Kosovo Customs data; Kosovo-Turkey FTA.

Note: Description of categories have been shortened for reasons of space.

4.6. Possible Further Tariff Concessions on Industrial Products

As indicated previously, all industrial products originating in Kosovo enjoy duty-free access in Turkey. Despite this, there is a number of manufactured products from Kosovo which although being exported in relatively "large" amounts to the RoW, have seen no exports to Turkey. Table 15 identifies the top fifteen industrial products of this kind. The majority of these products are used in the construction industry. This is no surprise provided the extent to which this industry has been developed in Kosovo after the war years. These products and many others of this sort should be given priority in export promotion measures so that they can gradually better penetrate the Turkish market.

Table 15: Kosovo's top 15 industrial products exported to RoW but not exported to Turkey (2015-2019)

Industrial Products (8-digits of CN)	Kosovo's exports to RoW, in 000 EUR (2015-2019)	Kosovo's Exports to Turkey, in 000 EUR (2015-2019)
76101000: Doors, windows and their frames (aluminium)	58,277	0
39252000: Doors, windows and their frames (plastics)	39,153	0
73044999: Tubes, pipes and hollow profiles	34,698	0
39211100: Plates, sheets, film	20,311	0
39232990: Sacks and bags	17,261	0
71189000: Coin of legal tender	15,097	0
73221100: Radiators for central heating	10,578	0
73089098: Structures and parts of structures	9,786	0
34011100: Soap and organic surface-active products	9,331	0
73066199: Tubes and pipes and hollow profiles	8,228	0
27149000: Bitumen and asphalt	6,590	0
39172190: Rigid tubes, pipes and hoses	6,539	0
94034010: Fitted kitchen units	5,928	0
39211390: Plates, sheets, film, foil and strip	5,609	0
73066192: Tubes and pipes and hollow profiles	5,540	0
44182080: Doors and their frames and thresholds, of wood	5,528	0
39211900: Plates, sheets, film, foil and strip, of cellular plastic	4,593	0
73089059: Structures and parts of structures, of iron or steel	4,432	0
94042990: Mattresses, stuffed or internally filled	4,182	0
94061000: Prefabricated buildings of wood	3,961	0
73142090: Grill, netting and fencing	3,758	0
39201089: Plates, sheets, film, foil, tape, strip	3,584	0
39173100: Flexible tubes of plastics	3,338	0
41012080: Whole raw hides and skins of bovine	3,043	0
68101110: Building blocks and bricks	2,726	0

Source: Authors' calculations based on Kosovo Customs data.

Note: Description of categories have been shortened for reasons of space.

Similar to the case of agricultural products, Kosovo could consider accelerating the transition period of tariffs on the industrial products listed in Table 16, under the condition that they do not hinder the development of domestic producers. These constitute the most imported products from the RoW, where Turkey has also some export potential.

Table 16: List of industrial imports which could be subject to further tariff concessions under the FTA with Turkey

Industrial Products (8-digits of CN)	Kosovo's exports to the World (2015-2019)	Kosovo's imports from RoW, in 000 EUR (2015-2019)	Kosovo's imports from Turkey, in 000 EUR (2015-2019)	Kosovo's Concessions to Turkey (Treatment no Less Fav. than to EU)
72139149: Bars and rods	0	48,864.1	490.6	**Three Years**
39202029: Plates, sheets, film	0	11,487.0	110.4	**Three Years**
36020000: Prepared explosives	0	5,458.4	499.0	**Three Years**
73102111: Cans of iron or steel	0	1,732.2	24.0	**Three Years**
44092991: Blocks, strips and friezes	0	1,692.4	28.8	**Three Years**
73090030: Reservoirs, tanks, vats	0	970.3	82.4	**Three Years**
39171010: Artificial guts	0	593.0	340.6	**Three Years**
84179000: Parts of industrial furnaces	0	542.2	18.4	**Three Years**
73102910: Tanks, casks, drums	0	342.2	65.1	**Three Years**
62033919: Men's or boys' jackets	0	338.6	25.5	**Three Years**
68138100: Brake linings and pads	0	265.3	318.7	**Three Years**
62122000: Girdles and panty girdles	0	207.3	105.7	**Three Years**
73201090: Leaf-springs and leaves thereof	0	169.2	328.4	**Three Years**
61032200: Men's or boys' ensembles of cotton	0	154.5	129.1	**Three Years**
72173041: Wire of iron or non-alloy steel	0	149.8	140.3	**Three Years**

Source: Authors' calculations based on Kosovo Customs data; Kosovo-Turkey FTA.

Note: Description of categories have been shortened for reasons of space.

5. Analysis of Regulatory Framework and Built-in Agenda

As previously indicated, besides commitments on tariff concessions, the Kosovo-Turkey FTA contains other regulatory provisions, which intend to improve trade relations and the overall economic integration between the Parties. The main provisions of this agreement include rules of origin, SPS and TBT measures, trade remedies, government procurement, IPR and dispute settlement. The agreement also contains a general evolutionary clause (Article V.4), which foresees that both Parties may mutually agree to extend the FTA with the goal of broadening and supplementing its scope, by concluding agreements on specific sectors or activities. There is also one particularly important clause of this kind (Title III), which stipulates that the parties are expected to commence negotiations immediately on liberalising trade in services, recognizing the growing importance of this sector.

The highest institutional mechanism for the Kosovo-Turkey FTA is the Joint Committee (JC). In this body, the Parties are represented by their senior officials. The main functions of the JC are to: review the implementation of the agreement and decide on matters related to implementation, set up and supervise sub-committees, facilitate the avoidance and settlement of disputes, explore venues to enhance trade between the parties, and make decisions to adopt amendments to the agreement pending internal ratification procedures.

Overall, the Kosovo-Turkey FTA, as well as the SAA with the EU, are generally structured around WTO and GATT rules and principles. This section discusses the regulatory framework of the Kosovo-Turkey FTA, highlighting in particular differences with the SAA, as well as addresses the built-in agenda incorporated in the agreement, which is important for possible upcoming negotiations between the two Parties.

5.1. Rules of Origin (ROO)

Rules of origin (ROO) constitute a core component of any FTA as they establish what products will benefit from the trade preferences provided by the agreement. Too strict ROO can become an unsurmountable obstacle making exports with preference almost impossible. Globally, there is a wide variation in the practice of governments when it comes to establishing rules of origin, although over the past years there has been a tendency to harmonize these rules. In 2013, the EU, EFTA States, the Western Balkans, Turkey, the countries which signed the Barcelona Declaration and the Faroe Islands, have committed to replacing the protocols of rules of origin in their FTAs with the protocols laid down in the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention).[11] Drawing on this Convention, at the first meetings of the Joint Committee in March 2020, Kosovo and Turkey signed a decision on rules of origin, cumulation and methods of administrative cooperation, which now awaits ratification by both Governments.[12] With the entry into force of this decision, Kosovo and Turkey will have an identical set of substantive and procedural rules,

[11] PEM (2013). PEM Convention. https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/general-aspects-preferential-origin/arrangements-list/paneuromediterranean-cumulation-pem-convention_en
[12] MEETIESI (2020). Kosovo and Turkey have signed a decision on treating the rules of origin, cumulation and methods for administrative cooperation. https://mti.rks-gov.net/Page.aspx?id=2,3,869.

which will allow for the application of bilateral cumulation. The SAA, which was signed in 2015, draws on PEM Convention protocols, too. Kosovo can also benefit from diagonal and full cumulation with FTA partners in the PEM zone if it signs into the PEM Convention. The process of signing into this Convention is being held up by pending discussions over the denomination of Kosovo. Given the importance of ROO and the advantages of the PEM Convention, this issue should be a priority of the Government of Kosovo.

5.2. Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT)

Under the Kosovo-Turkey FTA, the Parties agree that rights and obligations on sanitary and phytosanitary measures (SPS) (Article II.8) and technical barriers to trade (TBT) (Article II.9) shall be governed by the WTO Agreement on the Application of Sanitary and Phytosanitary Measures and the WTO Agreement on Technical Barriers to Trade, respectively. Both agreements have been incorporated as an integral part of the FTA. According formulations are found in many FTAs worldwide. On the contrary, the SAA does not contain any provision on SPS and TBT making specific reference to the respective WTO agreements. It contains just one clause that foresees cooperation aiming to reach EU requirements in these areas, but nothing specifically binding. However, the SAA contains the general obligation to adopt the EU *acquis*, which includes the areas of SPS and TBT, which at the same time are WTO compatible, as the EU and its member states are members of the WTO.

Concerning SPS, the Kosovo-Turkey FTA contains a paragraph that states that the parties shall not apply regulations on SPS related matters as an unjustifiable discrimination or a disguised restriction on trade. It is commendable that this paragraph was included, since in many cases countries tend to impose arbitrary SPS regulations as an alibi to provide protection to domestic industries. What the Kosovo-Turkey FTA is missing in regards to SPS, however, is that it does not foresee instruments such as consultations, contact points, exchange of information and prospects for developing bilateral agreements between respective regulatory agencies, thereby leaving gaps concerning cooperation on a technical level.

To eliminate TBT, the agreement foresees cooperation and exchange of information under the JC in areas of technical regulations, standards, metrology, and conformity assessment procedures. Besides that, Article II.9.3 stipulates that, when appropriate, the parties will enter into negotiations for mutual recognition in the area of conformity assessment. Kosovo is currently working on harmonizing conformity assessment and other quality infrastructure standards with those in the EU. Turkey, based on its agreement with the EU, is also bound to establish regimes that are fully compatible with EU regulations.[13] Once everything in this respect is compatible with the EU regimes, Kosovo could enter into time-bound negotiations with Turkey to seek out mutual recognition, not only on conformity assessment but also on metrology, standardisation and accreditation. It is noteworthy to mention that the agreement does not contain a specific, easily accessible mechanism to address relevant disputes

[13] In addition to providing for a common external tariff for the products covered, the Customs Union agreement with the EU foresees that Turkey is to align several essential internal market areas with the *acquis communautaire,* notably including industrial standards.

over TBT. In the case of any controversy, the only available mechanism is the general dispute settlement procedure.

5.3. Trade Remedies

The Kosovo-Turkey FTA contains provisions that address anti-dumping and countervailing duties (Article II.13), as well as a general safeguard regime (Article II.12) and bilateral safeguards specifically for agricultural products (Article II.18). With the exception of the special bilateral safeguards for agricultural products, the agreement incorporates as an integral part all the relevant WTO obligations. Therefore, both parties are bound to apply the WTO rules when undertaking an investigation or action concerning trade remedy measures. Over the past years, Kosovo has advanced its legislation on trade remedies to fully comply with international practices deriving from GATT and the respective WTO agreements. Therefore, Kosovo’s commitments taken under the agreement with Turkey are in line with domestic legislation. It is noteworthy that there are other FTAs which explicitly rule out some trade remedies. EFTA FTAs with regional countries, for instance, rule out anti-dumping measures. However, this is not the case under the Kosovo-Turkey FTA. Both Parties have the right to impose measures against each other’s imports that cause or threaten to cause injury to domestic producers.

Trade remedies, under the SAA, are also governed by GATT and WTO. It is worth noting that in the case of safeguards, however, there is a difference between the SAA and the Kosovo-Turkey FTA. While the former agreement sets a bilateral safeguard maximum limit, which shall correspond to the basic duty applicable to all products (Article 43.3), the latter reduces this limit to agricultural products only (Article II.18). This limit may not be considered a good idea for Kosovo provided that its maximum rate is 10 percent. That said, it would be more advantageous for Kosovo if it was allowed in both agreements to determine the margin up to a level deemed necessary to remedy the injury.

Some business stakeholders believe that some imported products originating in Turkey are heavily subsidized by the Turkish Government and as such are distorting the market in Kosovo. This triggers the need for the respective authority in Kosovo to be more vigilant in this respect and to take action where required to protect the justified interests of Kosovar producers.

5.4. Intellectual Property Rights (IPR)

Under the Kosovo-Turkey FTA, Intellectual Property Rights (IPR) is governed by the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and other multilateral agreements in the field to which both Kosovo and Turkey are members (Article I.5).

The agreement with Turkey is less stringent in the coverage of IPR compared to Kosovo’s SAA. The SAA obliges Kosovo to undertake the necessary measures to guarantee that within five years the protection of intellectual, industrial and commercial property rights to be similar to the EU, including effective means of enforcing such rights. The commitment to advance IPR to the EU level is something that goes beyond TRIPS. In addition, under the SAA, Kosovo is also undertaking to respect specific international conventions, such as the Locarno Agreement Establishing an International Classification for Industrial Designs, the Strasbourg Agreement Concerning the International Patent Classification, the Trademark Law Treaty – to name just a few. Kosovo does not have comparable obligations under the FTA with Turkey, because it is not yet bound by these agreements.

In the Kosovo-Turkey FTA, Kosovo committed to ensuring adequate, effective and non-discriminatory protection based on principles laid down in TRIPS. Although the IPR legislation in Kosovo is rather advanced, Kosovo seems to lag in terms of securing efficient mechanisms for enforcing IPR. The latest European Commission (EC) report on Kosovo states that significant efforts should be made by Kosovo to strengthen the capacity and coordination of law enforcement agencies to enforce IPR, address the lack of resources of the Industrial Property Agency (IPA) and cope with the remaining backlog of applications.[14] Given Kosovo is struggling with IPR enforcement, it is good that it did not go beyond TRIPS in the agreement with Turkey.

[14] EU Commission (2019). Kosovo Report. https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-kosovo-report.pdf

5.5. Government Procurement

In government procurement, Kosovo and Turkey agreed to grant each other's suppliers access to contract award procedures no less favourable than that granted to suppliers of any other country (Article I.4). In compliance with procurement commitments in the SAA, Kosovo, in recent amendments to its procurement legislation, has eliminated preferences for Kosovar companies for contracts awarded under procedures following the criteria of the most economically advantageous tender and the lowest price. Kosovo even went beyond the SAA, granting national treatment to non-EU companies as well. That said, Kosovo is well positioned to comply with the procurement commitments under the agreement with Turkey.

WTO rules concerning procurement allow countries to have some flexibility in providing preferential treatment to domestic industries. Neither the SAA nor the Kosovo-Turkey FTA make binding commitments to base procurement rules on WTO rules. The SAA, nonetheless, still contains a clause that stipulates that Kosovo and the EU consider "the opening-up of the award of public contracts on the basis of non-discrimination and reciprocity, following, in particular, the WTO rules, to be a desirable objective." If in the future the Parties agree to follow WTO rules, this would create room for Kosovo to establish some preferential treatment for its domestic companies/industries that are generally at an infant stage of growth vis-a-vis companies from the EU, Turkey and other developed countries.

5.6. Dispute Settlement

The Kosovo-Turkey FTA also encompasses provisions regulating dispute settlement (Article IV.3). The agreement foresees consultations as the first mechanism to settle disputes between the parties and to possibly arrive at a mutually satisfactory resolution. Consultations have been agreed to take place in the JC. This body has also the possibility to call on technical advisers or create working/expert groups as it deems necessary. If the dispute cannot be settled within a reasonable timeframe in the first mechanism, the JC may agree to establish an Arbitration Panel that can make binding recommendations. This quasi-judicial model of dispute settlement is also part of the SAA with the EU, though there is one notable difference in the case of the Arbitration Panel. While in the SAA the number of arbitrators, selection procedures, deadlines, and other related steps are all defined, in the agreement with Turkey this is left to the discretion of the JC. In general, the procedures and description of instruments for dispute settlement are much more detailed in the SAA. It would be advisable to develop together with Turkey more detailed rules for the arbitration mechanism.

5.7. Investments

The latest generation of FTAs worldwide include provisions concerning investment. The most common endeavour is to provide equitable and transparent investment conditions to investors, while recognising the inappropriateness of encouraging investment by relaxing health, safety or environmental standards. In the Kosovo-Turkey FTA, except in the preamble where the parties show their determination to promote investments, there are no specific features dealing with investment. In the SAA, on the other hand, there is an article on investment promotion and protection, but it is of a non-binding nature. Unlike the Kosovo-Turkey FTA, the SAA, however, under Article 51, guarantees that each party shall grant to each other treatment no less favourable than that accorded to domestic companies. Despite the fact there are no commitments in the Kosovo-Turkey FTA about investment protection, both Parties foresee national treatment for foreign investments under their domestic legal framework, which is very important for the stimulation of mutual investments.

5.8. Trade Facilitation

Redundant trade-related procedures, overlapping compulsory documents and data submission requirements can seriously obstruct the efficient flow of goods. Kosovo has been subject to such obstacles very often. A Kosovo exporter needs to wait on average 43 hours for border compliance and another 38 hours for documentary compliance.[15] To put things into perspective, the average border and documentary compliance in other Western Balkan countries is 7 hours and 3.8 hours, respectively.[16] Because of similar issues, countries worldwide have started to incorporate chapters/protocols on trade facilitation in their preferential agreements.

The FTA with Turkey, except for some provisions on transparency of procedures and regulations, does not have a chapter on trade facilitation. The SAA with the EU, likewise, does not treat trade facilitation as a separate topic, although it touches upon trade facilitation aspects in many instances. To avoid possible non-tariff barriers and to be in line with new developments in more recent FTAs, Kosovo should consider negotiating a protocol on trade facilitation with Turkey. Main guiding principles might be those laid down in the WTO Trade Facilitation Agreement (TFA) – to which Turkey is bound. In such a possible protocol on trade facilitation, the parties should aim at applying simplified and efficient customs and other trade-related requirements and procedures, as well as pursue the harmonisation of trade documents in accordance with international standards. Trade facilitation measures such as advance rulings, pre-arrival processing, post clearance audit and single windows should be considered, though with caution because Kosovo might not yet be in a position to easily comply with these measures. A self-assessment on the capacity of CEFTA Members to implement certain trade facilitation measures conducted in 2016 shows that Kosovo would need additional time and support for capacity building.[17] Additional Protocol 5 on Tarde Facilitation (AP5) adopted by CEFTA (but not ratified by Kosovo yet) could be consulted for reference,[18] although it should be noted that this Protocol has commitments that go beyond the WTO TFA.

[15] World Bank (2017) Western Balkans: Regional Economic Integration Issues Notes. June
[16] Ibid.
[17] Bjelic, P. (2018). Trade Facilitation in the Central European Free Trade Agreement (CEFTA): an imperative to boost intra-regional trade. https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1817
[18] CEFTA. Additional Protocol 5. http://cefta.int/legal-documents/#1463498231136-8f9d234f-15f9

5.9. Trade in Services

In the past few decades, the services sector has become increasingly important in the world economy. The latest data show that it currently makes up 75 percent of GDP in developed countries, compared to 50 percent in the 1950s. Consistent with its key role in domestic economies, trade in services has also become a vital component of international trade, accounting for around 20 percent in the overall world trade. Owing to technological advancements in recent years, it has become increasingly easy to conduct trade in this sector.[19]

The services sector is an important segment of Kosovo's economy. It contributes with around 73 percent to GDP and is responsible for over 80 percent of total formal employment.[20] In addition, services play an important role in Kosovo's overall trade, participating with around 35 percent. Contrary to the case of goods, the balance of trade in services generates a surplus. Exports of services are almost four times higher than exports of goods.

Unlike the case of trade in goods, where market access is mainly improved by removing tariffs, trade in services can best be increased by eliminating regulatory restrictions that might discriminate against foreign suppliers or investors. Although the Kosovo-Turkey FTA is limited to liberalisation of goods, it nevertheless contains an evolutionary clause, which stipulates that the parties shall begin negotiations for a progressive liberalization and mutual opening of their markets for trade in services. Such negotiations have not started yet. Given the good prospects of Kosovo in the services sector, a convenient step forward would be to look into the possibility of reaching an agreement with Turkey on trade in services.

Over the past years, following the EU and the overall world trends, Turkey has started to broaden the scope of its existing and new agreements by including commitments on liberalisation of services, amongst others. Recently, for instance, Turkey has initiated procedures to include services in its modernized agreements with countries in the region, notably Albania, Bosnia-Herzegovina, North Macedonia and Serbia. Of all FTAs Turkey has concluded, to the authors' knowledge, up to date only the ones with Singapore and Korea cover trade in services. Disciplines in these agreements divert from the GATS approach which uses a positive listing approach. The Turkey-Singapore agreement, for example, introduces a negative listing approach, which is much more demanding for negotiations. Under negative listing, what is included in the services annex are the measures that a party will maintain. Whatever is not included is automatically liberalised, which has also been termed "list or loose it". By contrast, CEFTA's Additional Protocol 6 on services (AP6), which is yet to be ratified by Kosovo, is largely governed by WTO GATS. Therefore, Kosovo might be confronting a very complex negotiating process if negotiations to liberalise services with Turkey are launched as provided by the agreement. The examination of the commitments adopted by Turkey in its agreement with Singapore would provide important insights for the preparation of Kosovo's approach for future negotiations in

[19] World Trade Report 2019: The future of services trade. https://www.wto.org/english/res_e/booksp_e/executive_summary_world_trade_report19_e.pdf

[20] EU Trade Project – MTI (2018). Brief on Trade in Services. https://mti.rks-gov.net/desk/inc/media/7593CC1B-475F-4E0E-B130-B3A58AED5ECB.pdf

services with Turkey. The overall aim of Kosovo should be to follow WTO GATS rules. However, it is noteworthy to mention that the dynamism experienced in trade in services over the past few years has triggered the need for some new updates, which were not foreseen when WTO GATS was concluded around 25 years ago, or in the new generation bilateral agreements covering trade in services.

6. Fiscal implications

To undertake a comprehensive assessment of the potential impact of a reduction in import tariffs on the fiscal revenues of a country, data on a number of variables is needed, including quantities and prices of imports, tariff levels, price-elasticity of imports and elasticity of substitution between imports and domestic products. Some of these variables are difficult to estimate. The detailed analyses required to answer questions on the impact of tariff reductions on fiscal revenue are usually carried out by the Macroeconomic Unit in the Ministry of Finance and Transfers (MFT). For the purpose of this report, the authors have followed the methodology suggested by Kowalski (2005) to estimate the impact of trade liberalization on state revenues.[21] The advantage of this approach is that it can be used without employing computable equilibrium models and is much less demanding in terms of data and human resources.

The fiscal analysis undertaken assumes that all duties will be removed at once, except for those that apply to agricultural products “excluded” from the agreement.[22] Given that in principle a tariff reduction is followed by an increase in demand, the analysis also takes into consideration the price-elasticity of imports, drawing on standard OECD averages by HS commodity. [23] Besides that, it also predicts the additional amount of VAT and excise tax from higher imports resulting from the envisaged increase in demand. All other variables are assumed to remain constant.

The potential fiscal impact of the FTA with Turkey is presented in Table 17. Following the full elimination of import duties applied to products originating in Turkey (*note:* “excluded” products omitted), imports from Turkey would be EUR 51.9 million higher. With this increase, VAT and excise tax would expectedly go up as well by EUR 2.5 million. The amount foregone as a result of tariff reductions, however, would largely outweigh the increase in VAT and excise tax, amounting to EUR 25.3 million. This loss of budgetary revenue, more or less, corresponds to the yearly budget of an average municipality in Kosovo. Broken down by main product categories, the elimination of tariffs in industrial products would cause a budget loss of EUR 18.3 million, whereas reductions in agricultural products EUR 6.9 million. For more detailed information, see Table below.

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[21] Kowalski, P. (2015). Impact of Changes in Tariffs on Developing Countries' Government Revenue. https://www.oecdilibrary.org/docserver/210755276421.pdf?expires=1583745092&id=id&accname=guest&checksum=A2DD57EEA94766D5129F956523797ED8

[22] The administrative instruction (GRK) on goods exempted from custom duties: http://kryeministri-ks.net/repository/docs/UDHEZIM_ADMINISTRATIV_QRK_-_NR__05_2015_PER_MALLRAT_E_LIRUARA_NGA_TATIMI_DOGANOR.pdf

[23] OECD Secretariat calculations based on WITS https://www.oecd ilibrary.org/docserver/210755276421.pdf?expires=1583745092&id=id&accname=guest&checksum=A2DD57EEA94766D5129F956523797ED8

Table 17: Fiscal implications, by main categories (in 000 EUR)

Policy regime		Imports	Import duties	VAT and excise taxes	State revenues
Actual 2019	Agriculture	56,498	4,945	35,072	40,017
	Excluded Agriculture	688	67	130	197
	Non-Agriculture (Industrial)	374,358	22,879	76,515	99,394
	Total	**431,544**	**27,891**	**111,717**	**139,608**
FTA with Turkey	Agriculture	60,025	0	33,081	33,081
	Excluded Agriculture	688	67	130	197
	Non-Agriculture (Industrial)	422,690	0	81,025	81,025
	Total	**466,935**	**0**	**114,105**	**114,303**
Changes					
Value	Agriculture	3,527	-4,945	-1,991	-6,937
	Non-Agriculture (Industrial)	48,332	-22,879	4,509	-18,370
	Total	**51,859**	**-27,824**	**2,518**	**-25,307**

Source: Kosovo Customs; Kosovo-Turkey FTA; OECD; Admin Instruction on Goods Exempted from Custom Duties.

7. Findings from Interviews with Main BMOs

To understand the perspective of the private sector in Kosovo on the FTA with Turkey, a series of face-to-face interviews has been carried out with BMOs with the largest membership base. The interviews conducted sought to solicit information on the following: the extent of BMO involvement when the agreement was negotiated, the overall knowledge about the content of the agreement, specific concerns and interests and the expected impact.

The interviewed BMOs that were active at the time of negotiations claim that they had been consulted by the then MTI about the agreement. The involvement of BMOs, however, has been reduced only to consultations around tariff concessions, while the regulatory framework, which is also an important aspect of the agreement, has never been part of any discussion with them. This underscores the fact that the template proposed by Turkey was adopted in the normative areas. When negotiations with Turkey took place, BMOs and a couple of large businesses that were engaged in commercial dealings with Turkey were asked to provide their inputs on a preliminary liberalisation calendar that was drafted by a working group at the then MTI. In response, they submitted proposals outlining their interests. The most relevant requests were taken into consideration and incorporated into the agreement.

From the authors' general observation, it could be said that the level of familiarity of BMOs with the content of the agreement, especially with the regulatory part, is rather superficial. Two BMOs that were to be interviewed declined the request for the meeting on the basis that they have no sufficient information about the topic. Over the past months, a great deal of attention has been devoted to the 100 percent tariff imposed on goods from Serbia and Bosnia and Herzegovina. This, according to one BMO, was one of the reasons why a detailed analysis of the FTA with Turkey was not a priority. Nonetheless, the same BMO claims that businesses that are engaged in trade with Turkey know the very details of the agreement.

Concerning the question about specific issues and interests related to the agreement, BMOs highlight the following:

- Some Kosovan beverages that are exported in relatively large amounts to the RoW are subject to a discriminatory excise duty in Turkey. The margin applied, according to a BMO member, is high enough to negatively affect the competitiveness of beverage producers in the Turkish market.
- Roasted coffee, which is one of Kosovo's most exported agricultural products to the World is excluded from the agreement. The average MFN duty for such products stands at 37.9 percent.[24] This rate is almost four times higher than the one applied by Kosovo.
- A large pharmaceutical company, which exports to Albania, North Macedonia, as well as to some Asian and African countries, complains that due to some non-standard registration procedures it is not allowed to do business in Turkey.

[24] WTO (2016). Tariffs and imports by product groups. https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/TR_E.pdf

- A number of products under the 4-digit codes of the CN, such as 7403, 7407, 7408, 7413, 7605, 7614, which mostly consist of copper and aluminium wires/cables and are mainly used as raw material, are still subject to transitional tariffs. Bearing in mind that cheaper raw material products would make manufacturing companies more competitive, it has been recommended that they should be granted duty-free access.
- One BMO believes that it is in the interest of the business community to have a platform where business representatives from Turkey and Kosovo meet and discuss about various issues related to the implementation of the agreement.

The interviewed BMOs, in principle, share the view that FTAs are a precondition for local producers to integrate into global production networks and to climb up the value ladder. When asked specifically about the likely impact of the agreement with Turkey on Kosovo’s economy, they described a two-sided effect. They generally believe that those that will benefit the most from the agreement will be Kosovar distributors of Turkish products, whereas those that will suffer the most will be companies from the manufacturing sector. The reality is that even with the current level of tariffs, Kosovo has been flooded by imports from Turkey. Some sub-sectors, such as food processing, for instance, are expected to be highly affected, as imports from Turkey will be in direct competition with what Kosovar companies produce. They also say some sub-sectors emerged after the agreement was concluded, such as the apparel sub-sector, which have interests that were not necessarily reflected in the negotiation of the agreement.

8. Conclusion and Recommendations

An ex-post impact of the Kosovo-Turkey FTA could not be properly measured as it has been only six months since the entry into force of the agreement. In such a short period of time, it is very difficult to capture patterns that would allow robust conclusions. That said, this report is rather an ex-ante assessment, with more focus on the definition of appropriate responses to exploit the potential gains of the agreement, while minimizing the negative effects.

The analysis in the report reveals that trade flows between Kosovo and Turkey have been very disproportionate in favour of the latter. Kosovo has seen a high and growing trade deficit with Turkey. In 2019, this deficit reached an all-time high, with imports surpassing exports by 54 times. Whereas Kosovo’s exports to Turkey recorded a negative trend (dropping by around 12 percent) compared to 2015, imports showed an opposite trend (increasing by 71 percent). Turkey was the second most important import partner for Kosovo in 2019, while it is not in the list of top ten export destinations. Moreover, Kosovo imports a diverse range of products from Turkey, while it exports a limited number of products. Concretely, in the last five years, 4,754 products have been imported from Turkey, while only 365 have been exported. Moreover, in 2019, of all exports to Turkey, only three products, notably rubberised textile, scrap of aluminium and conveyor belts, comprised almost half of all exports.

A review of tariff concessions shows that although at first glance the agreement might look balanced, it is actually asymmetrical in favour of Turkey, at least in the long run. Article II.5 obliges Kosovo to treat products originating in Turkey (subject to transitional tariffs) no less favourably than like products originating in the EU. This provision has not been implemented by Kosovo thus far. With the eventual implementation of this provision, Kosovo will mirror Turkey’s concessions by liberalising all products, except for around 65 percent of agricultural products, in a period much shorter than originally foreseen. The treatment of agricultural products “excluded” from concessions in the agreement reveals the main asymmetries of the FTA. First, duties applied by Turkey to these “excluded” agricultural products are, on average, five times higher compared to the flat rate applied by Kosovo. Second, there are duties in the Turkish schedule that go as high as 225 percent. Such high rates represent a prohibition for the import of the products they apply to. Compared to the maximum MFN rate of Kosovo, the Turkish rate is 22.5 times higher. Lastly, unlike Kosovo, Turkey, under Law No. 474 on the Customs Tariff Schedule, has the policy space to increase applied MFN tariffs by 150 percent in order to ensure an “adequate” level of protection for products left out of concessions.

In addition to tariff concessions, the Kosovo-Turkey FTA also covers a set of regulatory aspects, which aim at improving trade relations and the overall economic integration between the Parties. The obligations adopted in areas, such as SPS, TBT, IPR, trade defence and transparency, are in line with commitments that Kosovo has already adopted in other trade agreements. The majority of provisions in the agreement with Turkey derive from WTO rules. One notable distinction in this agreement is that the core provisions incorporate *mutatis mutandis* obligations from the WTO agreements, which means that Kosovo is bound also to any modification that could take place in those agreements. Different from recent FTAs worldwide, the agreement is short in disciplines related to trade facilitation, investment and services. It contains a general evolutionary clause, nevertheless, which foresees that the parties may broaden the scope of the agreement. The Government of Kosovo should examine the areas in which it would be beneficial to launch negotiations with Turkey to expand the scope of the agreement. In this regard, an examination of the new generation of trade agreements being signed by Turkey will generate important insights.

Moreover, the loss of budgetary revenue for Kosovo as a result of tariff reductions committed in the FTA with Turkey is predicted to amount to more than EUR 25 million. This value compares with the annual budget of an average municipality in Kosovo. Expectedly, the largest loss in revenue is expected to be caused by reduced fiscal income from trade in industrial goods. A more sophisticated analysis of the fiscal aspects of FTAs, as usually conducted by the MFT, would be necessary to estimate fiscal effects of the FTA in greater retail.

Finally, the main BMOs have been interviewed to understand their expectations on the likely impact of the agreement. Despite the fact that they commonly acknowledge the principal benefits of free trade, they believe that the FTA with Turkey, if it remains as it is, may negatively affect the development of the manufacturing sector. The interviewed BMOs voiced the concern that economic conditions have changed since the signing of the agreement, suggesting that the whole document should be reconsidered.

Given the overall trade trends with Turkey, the long-term asymmetries in tariff concessions, and the numerous supply-side constraints in Kosovo, it is unlikely that Kosovo will be able to fully reap the benefits of the current FTA with Turkey. Bearing these issues in mind, Kosovo should seek to further negotiate parts of the agreement, prepare to properly address the built-in agenda and undertake other necessary steps to enhance the potential positive impacts while mitigating negative impacts of the FTA. In this light, some recommendations and ideas are proposed below.

Tariff Concessions:

- Implementation of Article II.5 would significantly shorten the liberalisation period for a considerable number of agricultural and industrial products compared to the original schedule. To that end, negotiations aiming to delay the implementation of this obligation are highly recommended.
- Law No. 474 on the Customs Tariff Schedule allows the Turkish Government to increase MFN tariffs by 150 percent in cases when the corresponding rates are deemed insufficient to provide "adequate" level of protection. “Excluded” products of the agreement originating in Kosovo could be subject to this non-reciprocal treatment. That said, the discussion on the applicability of this Law to Kosovar products is highly encouraged.
- Some beverages that are exported in relatively large amounts to the RoW are subject to a discriminatory excise duty imposed by Turkey. This trade barrier should be removed immediately for these products so that they can be competitive in the Turkish market.

- One-third of Kosovo's 30 most exported agricultural products to the RoW are subject to Turkey's MFN tariffs under the current agreement. The top ones include roasted coffee, chocolate, and ephedra plants (see Table 13). The elimination of tariffs for these products should be requested by Kosovo in possible future negotiations with Turkey.
- Agricultural products including cigarettes, frozen boneless cuts and frozen breasts (see Table 14) are all imported in relatively large amounts from the RoW but in small amounts from Turkey. Also, these products do not appear in Kosovo's exports to the World. In the agreement with Turkey, these products are either subject to transitional tariffs or completely excluded from the concessions granted. Under the condition that imports of these products from Turkey will not hinder the development of domestic procedures, Kosovo might consider removing the current customs duty on these products in exchange for its requests during negotiations for further liberalisation.
- Under the agreement with Turkey, all industrial products originating in Kosovo have duty-free access in Turkey. In spite of this, there are still some industrial products which although being exported in relatively large amounts to the RoW, marked zero exports to Turkey. Doors and windows of aluminium, doors and windows of plastic, tubes and plates are the top products in this category (see the rest in Table 15). These and other products should be supported with export promotion activities to improve the benefits of the FTA for the Kosovar economy.
- Kosovo could consider accelerating the tariff reduction period on industrial products, such as bars, rods, plates, sheets, film and others listed in Table 16, under the condition that these products do not hinder the growth of domestic producers. Akin to the case of agricultural products, such concessions could be made in exchange for Kosovo's requests during negotiations for further liberalisation.

Regulatory Framework/Build-in Agenda:

- The decision on rules of origin, cumulation and methods of administrative cooperation, which was signed in February 2020, should be ratified soon. With the entry into force of this decision, the parties will have an identical set of substantive and procedural rules, which will allow for the application of bilateral cumulation. Kosovo could benefit from diagonal and full cumulation with FTA partners in the PEM zone as well by having the Government sign the revised PEM Convention. This should be a priority as well.
- In regard to SPS, disciplines on consultations, contact points, and exchange of information should be considered, as well as bilateral agreements between respective regulatory agencies.
- To reduce TBT, the parties should enhance cooperation and exchange of information under the JC in areas of technical regulations, standardisation, metrology, and conformity assessment. In addition, the parties should consider entering into negotiations about mutual recognition of documents.
- The maximum safeguard limit applying to agricultural products should be negotiated to be removed. This limit is rather low in the case of Kosovo provided that its maximum MFN tariff rate is 10 percent. That said, it would be more advantageous if Kosovo was allowed to determine the margin up to a level deemed necessary to remedy the injury.

- WTO rules on government procurement should be included in the agreement with Turkey. This would create room for Kosovo to provide preferential treatment to its domestic companies/industries that are generally at an infant stage of growth vis-a-vis companies from Turkey.
- Similar to the SAA, the number of arbitrators, selection procedures, deadlines, and other related steps should be negotiated to be clearly defined in the case of an Arbitration Panel.
- Given that the core provisions of the agreement incorporate *mutatis mutandis* the obligations from the WTO agreements, it is recommended that Kosovo maintains a close monitoring of new developments in the WTO in areas that include *mutatis mutandis* provisions.
- The agreement, except for some provisions on transparency of procedures and regulations, does not treat trade facilitation as a separate topic in a separate chapter. To avoid possible non-tariff barriers and to be in line with new trends, Kosovo should, when appropriate, negotiate a protocol on trade facilitation with Turkey. The main guiding principles might be those laid down in the WTO Trade Facilitation Agreement (TFA) – to which Turkey is bound.
- Provided the good prospects of Kosovo in the services sector, it would be beneficial to launch negotiations with Turkey in this sector as soon as possible as provided by Title III of the agreement. That said, Kosovo should start preparing for the negotiations in order to identify its offensive and defensive interests. In this regard, an examination of Turkish commitments under the WTO GATS and under other trade agreements should be undertaken.
- Given the investment potential of Turkey, a new agreement on encouraging and protecting investments should be negotiated, relying on the template of the agreement between Turkey and Serbia.
- Overall, new additional aspects incorporated in the revised agreements between Turkey and Serbia and Bosnia and Herzegovina should also be considered in possible future negotiations.

Other:

- BMOs expressed their interest to be somehow included in meetings with counterparts from Turkey. To accommodate this request, it is recommended that the parties establish a bilateral business consultative body that would cater to the JC with advice regarding the improvement of trade relations between the Parties. The Turkey-Kosovo Chamber of Commerce and Industry Forum promoted by the Union of Chambers and Commodity Exchanges of Turkey (TOBB) and the Kosovo Chamber of Kosovo (KCC) has been established during a meeting in Ankara on February 2020. This could be the basis for establishing a consultative business council which could meet in parallel sessions with those of the JC.
- One BMOs share the view that some imported products originating in Turkey are heavily subsidized by the Turkish Government and as such are distorting the market in Kosovo. To address such cases, the capacities of the respective authority in Kosovo should be enhanced.