

100% TARIFF

**CONTINUATION
OR SUSPENSION?**

FEBRUARY, 2019

100% TARIFF

**CONTINUATION
OR SUSPENSION?**

Prepared by: Jeta Krasniqi, Eugen Cakolli and Violeta Haxholli

Contribution: KDI staff and field experts in the focus group organized by KDI

COPYRIGHT © 2019. Kosova Democratic Institute (KDI).

All rights reserved. No part of this publication that may be used for reproduction or transmission in any form or by any electronic, mechanical mean, including photocopying or any other storage and retrieval system, is strictly prohibited without prior written permission of the publisher. The publication may be reproduced or transmitted only if used for non-commercial purposes. Whenever and anyone who uses citations or different materials of this publication is obliged to clearly indicate the source from where the used citations or materials are taken.

For any assessment, comment, criticism or suggestion, please contact us through the options provided below:

Address: str. Bajram Kelmendi, no. 45,
10 000, Prishtina, Kosovo
Tel.: +381 (0)38 248 038
E-mail: info@kdi-kosova.org
web: www.kdi-kosova.org

Note: This report was drafted within the project "European Perspective- building the national consensus on the normalization of relations with Serbia" and supported by the Swiss Embassy in Pristina. The content of this report is sole responsibility of the Kosovo Democratic Institute and is not deemed to reflect the opinions of the Swiss Embassy in Pristina in any circumstance.

TABLE OF CONTENT

1. INTRODUCTION.....	6
2. BACKGROUND OF THE TARIFF IMPOSED TO SERBIA AND BOSNIA AND HERZEGOVINA PRODUCTS	7
3. GENERAL IMPACT OF THE TARIFF TO SERBIA AND BOSNIA AND HERZEGOVINA.....	7
4. OPTIONS FOR THE TARIFF	11
4.1. Potential scenarios	11
SCENARIO I: TARIFF OF 100% IS NOT SUSPENDED.....	12
SCENARIO II: TARIFF OF 100% IS SUSPENDED	16

1. INTRODUCTION

The EU-mediated Kosovo-Serbia Dialogue entered in a new phase by the end of 2017. This process initiated in 2011 as a technical process, following the UN Resolution, which welcomed the role of the European Union as mediator of this process is stated that it aimed at improving the lives of citizens of both countries and contributing to peace, security and regional stability¹. In 2012, it was transformed into a process of normalizing the relationships or political dialogue and after 6 years underwent the third transformation. At the current new stage, proclaimed as the closing phase of the dialogue, is aiming to reach a legally binding agreement between the parties, which is stated to be balanced², acceptable and applicable by both parties³.

The nature of the Kosovo-Serbia dialogue, which since the beginning had not clearly defined the guiding principles, expected epilogue of talks, timetable, necessary guarantees as well as the approach of constructive ambiguity used by the EU as mediator, made the agreements reached in its framework are not implemented to a large degree. Moreover, the relations between parties have not reached the expected normalization, often limited only to the expression of readiness of parties for dialogue and in marking the moments called and by the mediator itself as 'historical'⁴.

In already 8 years of talks between Kosovo and Serbia, relations between the parties oftentimes have been tense. This relationship reached the top in Kosovo's failure to join Interpol as a result of Serbia's aggressive campaign against the state of Kosovo when for the very first time the state of Kosovo undertook actions with imposition of tariff and non-tariff measures against the state of Serbia in response to its destructive approach⁵.

These measures of the Government of Kosovo overlooked the Brussels Round Table as a place for discussing of open issues between the parties. It is worth mentioning that for years it argued that within the dialogue process was not agreed with Kosovo to accept its statehood by justifying its behavior against the state of Kosovo. While from the EU side itself, there was a lack of clear and anticipated reaction against Serbia's destructive approach, which directly affected in deterioration of relations between the two states.

The imposition of these measures by Kosovo has generated chain effect in several areas, firstly in the Kosovo-Serbia dialogue process itself, then in Kosovo's relations with international partners, in domestic political trends in the country, in the economy and in the perception of citizens itself. The Kosovo Democratic Institute has analyzed the positive and negative effects in these areas of impact with two scenarios: holding the 100% tariff and its suspension. Moreover, this analysis is conducted in consultation with a group of relevant field experts who provided their input.

1 For more details, click: http://kryeministri-ks.net/wp-content/uploads/docs/UNGA_Resolution_on_Brussels_Dialogue_on_9_September_2010.pdf

2 For more details, click: https://zeri.info/aktuale/230501/trump-i-shkruan-leter-thacit-per-marreveshjen-me-serbine/?fbclid=IwAR1Qlfs8t7_EQmS-sQ5FvWTCVc1pvP3Ko2p_zdChsQFasUiio1Ixnnyeglr4

3 For more information on dialog process Kosovo-Serbia, click: <http://kdi-kosova.org/wp-content/uploads/2018/03/18-Sfidat-FINAL-ALB-06.pdf>

4 European Council, "Statement by European Council President Herman Van Rompuy when is reached the agreement under the facilitated dialogue on the normalization of relations between Serbia and Kosovo", 19 April 2013. Available at: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/136877.pdf

5 The tariff and non-tariff measures of the Government of Kosovo are imposed also to Bosnia and Herzegovina.

[illegible]



These decisions boosted the reactions of the European Union and the United States of America, which resulted with explicit pressure towards Kosovo institutions to lift or suspend the tariff. The pressure to lift the tariff was related to the fact that Serbia conditioned the Kosovo-Serbia dialogue with this tariff, whereas the Kosovo side stated that without recognition from Serbia, the tariff will not be lifted. In the following months, the pressure towards the Government of Kosovo continued from high officials of the European Union, Mrs. Mogherini and Enlargement Commissioner Mr. Hahn in Prishtina and through the clearly written letters sent by USA, US Embassy in Kosovo and numerous meetings of US Ambassador to Kosovo, Mr. Kossnet with representatives of Kosovo institutions.

The pressures were directed against both parties, inviting them to withhold from decisions or actions that could undermine the dialogue process and everything that had already been achieved throughout the years during this process. However, the lack of a balanced EU position on the actions of the parties prompted not only reactions from Kosovo institutions through exchange letters but from the Kosovo civil society as well, which sent to Mrs. Mogherini a letter to express its concern about this approach and harm that was causing to the credibility of the dialogue process¹¹.

The state of Serbia continued its campaign against the state of Kosovo, which resulted with another decision from the Kosovo Government on 28 December 2018, when the measure of 100% was also imposed to international brands produced in Serbia and Bosnia and Herzegovina. Within this constructed relation, there were also 'threats' that the Kosovar side is ready to use other measures against Serbia's aggressive approach towards state of Kosovo.

This decision followed by another one on 15 January 2019¹² on exclusion of this tariff for goods which have already entered the market before the decision on imposing the tariff. This decision was discussed at two meetings of the Government where at the first meeting despite the proposal, the Government did not have available information on the amount of products, their type and their cost when proposing this measure.



The pressure to lift the tariff was related to the fact that Serbia conditioned the Kosovo-Serbia dialogue with this tariff, whereas the Kosovo side stated that without recognition from Serbia, the tariff will not be lifted.

11 For more details, click: http://kdi-kosova.org/aktivitetet/leter-e-hapur-per-federica-mogherini-nga-organizatat-e-shoqerise-civile-ne-kosove/?fbclid=IwAR0excEEVvQcJiFmsDlG_Kavf5tLPjDzwVUb37ZP_dPe7If14deWQ_6rMsk

12 For more details, click: <http://kryeministri-ks.net/wp-content/uploads/2019/01/Vendimet-e-mbledhjes-84-t%C3%AB-Qeveris%C3%AB.pdf>



3. General impact of the tariff to Serbia and Bosnia and Herzegovina

The 100% tariff imposed on the products of Serbia and Bosnia and Herzegovina has generated different impacts for Kosovo. The first ones are unfolded with Serbia's refusal to continue the dialogue without abolition of tariff, then EU and US requirements to lift this measure.

The US is expressed that tariff hinders the achievement of an agreement between the parties, which is a strategic US interest. Moreover, since the tariff imposition, bilateral relations between Kosovo and the US have begun to break. This is reflected in the four letters sent by the United States, starting with President Donald Trump's letter¹³, letters from the US Embassy in Pristina¹⁴ and a letter from senior US officials addressed to the country's leaders¹⁵, in which was unveiled the breakage of bilateral relations between the countries, as well as the explicit requests for tariff suspension. It is worth of mentioning that the American side had come up with a proposal to the Government of Kosovo for the tariff suspension and the possibility of re-impose the same if agreement with Serbia fails¹⁶.

In practical terms, US demand for suspension of tariff is also reflected in the many punitive measures taken by the US, such as refusing the visa for government officials for 'Morning Prayers'¹⁷, canceling the participation of General Timothy Orr in marking of the anniversary of Kosovo's independence¹⁸, canceling participation in programs of Center "George Marshall"¹⁹, the threat of withdrawing support for the KSF etc.

The tariff was also opposed by the EU side, whose officials have requested to abolish this tariff, because it is hindering the dialogue process and endangering the work that has been done so far. High Representative for Foreign and Security Policy, Federica Mogherini has stated that dialogue will not continue without the abolition of the tariff²⁰, whereas the EU is ready to convoke the meeting at the presidential level once the decision to lift the tax is taken. Regarding the tariff is discussed also in the last UN Security Council meeting, where most countries have requested to suspend or remove all measures that are blocking the dialogue.

The Prime Minister's refusal to abolish the tariff after the US and EU demands has caused polarization even among the coalition partners, namely between Prime Minister Haradinaj and Parliament Speaker Kadri Veseli. The latter has stated that as a sign of trust towards the United States and the EU, a temporary tariff suspension should be made for only 120 days²¹. This reaction appear upon international pressure and following a letter of Prime Minister Haradinaj sent to Quint Member States on 28 December 2018 on the conditions to be met in order to lift the tariff²². As result of disagreements over the tariff, several times the government coalition was put in question and frequent meetings between coalition partners took place in order to reach an agreement on this issue.

Even President of the country Hashim Thaçi expressed his objections on keeping tariff and proposed that the same to be sus-

13 For more details, click: <https://insajderi.com/letra-e-plote-e-trumpit-drejtuar-presidentit-thaci/>

14 For more details, click: <https://xk.usembassy.gov/sq/deklarate-nga-ambasada-e-shba-ve-ne-prishtine-3/>

15 For more details, click: <https://telegrafi.com/leter-e-ashper-nga-shba-te-per-lideret-e-kosoves-hiqeni-taksen/>

16 For more details, click: <https://indeksonline.net/amerika-kerkon-pezuillimin-e-menjehershme-te-taksen-ndaj-serbise-paralajmeron-pasoja/>

17 For more details, click: <http://top-channel.tv/2018/01/08/nuk-pajiset-me-vize-haradinaj-anulon-viziten-ne-shba/>

18 For more details, click: <https://www.evropaelire.org/a/29763387.html>

19 For more details, click: <https://zeri.info/aktuale/242111/ekskluzive-amerika-ia-anulon-kosoves-tete-programe-ne-qendren-marshall-ne-gjermani/>

20 For more details, click: <https://www.koha.net/arberi/142901/mogherini-taksa-te-hiqet-menjehere-qe-dialogu-te-vazhdoje-ndash-ska-kohe-per-te-humbur/>

21 Voice of America "Veseli demands suspension for 120 days of the tariff to Serbia", 28 January 2019. Available at: <https://www.zeriamerikes.com/a/kosovo-veseli/4762233.html>

22 Office of the Premier Minister of the Republic of Kosovo, "Letter of the Prime Minister Haradinaj sent to Quint ambassadors and EU representatives in Kosovo", 28 January 2019. Available at: <http://kryeministri-ks.net/letra-e-kryeministrit-haradinaj-derguar-ambasadoreve-te-quint-it-dhe-perfaqesueses-se-be-se-ne-kosove/>

pended to maintain partnership with the US²³. In addition, the four mayors of northern municipalities, North Mitrovica, Zubin Potok, Leposavić and Zvečan resigned, which was not accepted by Kosovo institutions²⁴ and Lista Srpska boycotted the Assembly works²⁵.

Despite political impact, this measure has generated economic impact as well. According to Kosovo Customs, initially imposing 10% tariff then 100% had significant impact on imports from Serbia and Bosnia and Herzegovina. This has also affected the revenues of Kosovo Customs from Serbia decreasing in revenues for € 20 million in November, when tariff was imposed²⁶.

Kosovo represents about 3% of Serbia's total export however, products exported to Kosovo represent 21% of exports with-in CEFTA²⁷. In general, this measure has had a general citizen support to 100% tariff despite the fact that it has been reported the price increase in certain products. Exception was made by citizens of the Serb community, mainly in the north of Kosovo, who have organized protests wherewith they called for abolition of measure. In an electronic poll organized on 29 January 2019 by "Gazeta Zëri", with question whether tariff should be lifted, most of citizens have replied that tariff should not be lifted.²⁸

Despite political impact, this measure has generated economic impact as well. According to Kosovo Customs, initially imposing 10% tariff then 100% had significant impact on imports from Serbia and Bosnia and Herzegovina. This has also affected the revenues of Kosovo Customs from Serbia decreasing in revenues for € 20 million in November, when tariff was imposed.

23 Top Channel, Interview with President Thaçi, 17 February 2019. Available at: <http://top-channel.tv/2019/02/17/kosove-thaci-taksa-do-te-pezullohet/>

24 For more details, click: <http://rtv21.tv/lista-serbe-mbyllet-ne-kuvend/?fbclid=IwAR1N3AFAqsEq3ysniOL8m45VoQj12Jr0Ac0IA0csrKjuWdhTclSI2eurdug>

25 For more details, click: <http://rtv21.tv/lista-serbe-mbyllet-ne-kuvend/?fbclid=IwAR1N3AFAqsEq3ysniOL8m45VoQj12Jr0Ac0IA0csrKjuWdhTclSI2eurdug>

26 KDI Platform My Vote, "MP's are informed by Kosovo Customs on implementation of agreements of Dialogue and protection measure of 100%", 4 December 2018. Available at: <http://www.votaime.org/Public/DialogActivity/Detail/261>

27 For more details, click: <http://www.mapo.al/debati-i-ekonomisteve-a-ka-te-drejte-kosova-me-taksen-ndaj-serbise/>

28 See this poll at "Zëri": <https://zeri.info/aktuale/237381/sondazh-a-duhet-te-hiqet-taksa/>

4. OPTIONS FOR THE TARIFF

The Kosovo Democratic Institute has conducted an analysis of potential positive and negative impacts based on five areas of influence regarding two scenarios related to 100% tariff imposed on the products of Serbia and Bosnia and Herzegovina.

The areas of impact have been selected based of general trends focusing into the following areas: i) in the Kosovo-Serbia dialogue process, ii) in Kosovo's relations with international partners, iii) in potential impact on Kosovo's internal politics, iv) in economy, and v) in civic perception.

Scenarios have been prepared based on possible trends and projections related to these areas of impact. These scenarios are valid in the current context of trends, impacts of which could be under time influence

SCENARIO:

SCENARIO 1:



Keeping a 100%
tariff



SCENARIO 2:



Suspension of the
100% tariff



SCENARIO

1

Area of impact	 Positive impact	 Negative impact
Kosovo-Serbia Dialogue	<ul style="list-style-type: none"> ➤ Reflection of real relations between Kosovo and Serbia, position of Kosovo in this process and lack of success of the normalization process ➤ Exercise of state sovereignty of Kosovo in relation to Serbia ➤ Restoring attention to the level of implementation of the dialogue agreements ➤ Avoiding artificial timeframes in reaching the agreement ➤ Strengthening the negotiating position of Kosovo in relation to Serbia, through inclusion of certain topics in the dialogue as a prerequisite for its continuation ➤ Keeping the tariff blocks opportunity that Kosovo-Serbia dialogue generates an unfavorable agreement for Kosovo ➤ Attempts to prevent negative scenarios for Kosovo within the dialogue process 	<ul style="list-style-type: none"> ➤ Dialogue does not continue because Serbia conditions and procrastinates the process by blaming Kosovo for lack of readiness to reach agreement ➤ Strengthening the role and position of Serbia in the process of dialogue and in relation to the international community, to the detriment of Kosovo.



|||||

Tariff of 100% is not suspended

Area of impact	 Positive impact	 Negative impact
Kosovo and international partners	<ul style="list-style-type: none"> ➤ Restoring the attention of the international factor in the Kosovo-Serbia dialogue ➤ Increasing the level of US involvement in the dialogue process ➤ Improving the negotiating position of Kosovo in relation to the international community ➤ More liberal attitude of the UK and Germany on tariff suspension 	<ul style="list-style-type: none"> ➤ Making decisions without coordination with international partners ➤ Presentation of Kosovo as a non-cooperative partner with international allies ➤ US persistent insistence on tariff suspension affects in aggravation of bilateral relations between Kosovo and the US ➤ Shaking of US support for Kosovo, manifested through various punitive measures and actions ➤ Blocking the processes related to the European perspective for Kosovo citizens ➤ Bypassing Kosovo in regional and European activities or initiatives ➤ Loss of momentum for potential achievement of agreement with Serbia as a result of possible political elections and changes in the EU ➤ Polarization of the political spectrum within Kosovo undermines the state's position in the foreign affairs



SCENARIO

1

Area of impact	 Positive impact	 Negative impact
Political aspect in Kosovo	<ul style="list-style-type: none"> ➤ Exercising state sovereignty in decision-making ➤ Indirectly is fueled a wider social and political debate in country regarding approach to the Kosovo-Serbia dialogue process, bilateral relations and relations with other international factors ➤ Fueling the public debate has contributed to the indispensable quest for political consensus on issues of state interest ➤ Creating a timeframe for building of Kosovo's official position regarding the dialogue process ➤ Restoring the attention to the level of implementation of the agreements, beside those achieved within the dialogue 	<ul style="list-style-type: none"> ➤ The lack of the state strategy on imposing tariff and conditions for its lifting ➤ Kosovo's defensive foreign policy and its shrinking only in dialogue and tariff matters; ➤ International pressure and shaken of relations with international partners may provoke early elections ➤ Polarization between the institution of the President, the Government, the coalition government partners and other political subjects ➤ Use of tariff for political and electoral purposes ➤ Creating institutional vacuum due to the withdrawal of the Serbian community from institutional life and the risk of returning of Serbian parallel structures ➤ The focus of political and public attention on tariff, leaving aside other important topics for the general well-being of citizens



|||||

Tariff of 100% is not suspended

Area of impact	 Positive impact	 Negative impact
Economic aspect in Kosovo	<ul style="list-style-type: none"> ➤ Increasing of domestic products consumption - growth / strengthening of local products/ companies ➤ Increase of tax revenues from TAK ➤ Creating the preconditions for replacement of Serbia's products - fighting of Serbia's 'dumping' policies in Kosovo market ➤ Promotion of the brands "Made in Kosovo" ➤ Removing of perception that Kosovo depends on Serbia's products 	<ul style="list-style-type: none"> ➤ Increased prices of certain products in the Kosovo market ➤ Damage of the part of local producers, who imported the raw material from Serbia ➤ Increase of smuggling, especially in the north of the country ➤ Import of Serbian goods from other countries of the region ➤ Increase of import
Civic aspect in Kosovo	<ul style="list-style-type: none"> ➤ Serbia's aggressive policy ➤ Increase of state dignity ➤ Increasing of civic interest for Kosovo-Serbia relations 	<ul style="list-style-type: none"> ➤ Decline of trust towards the EU-mediated Kosovo-Serbia dialogue process ➤ Growth of euro-skepticism ➤ Growth of populism



SCENARIO

2

Area of impact	 Positive impact	 Negative impact
Kosovo-Serbia Dialogue	<ul style="list-style-type: none"> ➤ Dialogue continues ➤ Kosovo strengthens the negotiating position, because in the negotiating table has a conditional tool ➤ Growth of potential for imposing the discussion topics from Kosovo side in dialogue, with international support ➤ Kosovo removes the hindrance label of dialogue becoming responsible subject and not a "bargaining tool" 	<ul style="list-style-type: none"> ➤ Dialogue continues without unified attitude of political spectrum in Kosovo ➤ Serbia does not cease the campaign and the aggressive policies against the state of Kosovo ➤ The risk that Serbia or the international factor impose new conditions to Kosovo ➤ The risk of reaching an agreement that could present unfavorable compromise for Kosovo



|||||

Tariff of 100% is suspended

Area of impact	 Positive impact	 Negative impact
Kosovo and international partners	<ul style="list-style-type: none"> ➤ Kosovo respects the strategic partnership with international allies, especially with the US ➤ Kosovo relations with international partners are improved in all areas of cooperation ➤ International community increases pressure on Serbia to stop destructive approaches and aggressive policies against the state of Kosovo ➤ US, EU institutions and EU member states intensify support for Kosovo-Serbia dialogue and increase pressure on reaching a legally binding agreement between parties 	<ul style="list-style-type: none"> ➤ International partners exert pressure on reaching an agreement between Kosovo and Serbia within an artificial deadline, not paying attention to the content of the eventual agreement



SCENARIO

2

Area of impact	 Positive impact	 Negative impact
Political aspects in Kosovo	<ul style="list-style-type: none"> ➤ Kosovo avoids the risk of going to early elections as result of the tariff ➤ Opportunity for attitude unification of the political spectrum and Kosovar institutions ➤ Opportunity to articulate Kosovo's clear demands towards international partners about the guarantees that should be provided within the dialogue ➤ Creating partial political stability that provides opportunity to continue the dialogue ➤ Return of the Serbian community into the institutional life 	<ul style="list-style-type: none"> ➤ Decline the probability of tariff return in future ➤ Taking decisions from Kosovo under pressure of international factor ➤ The weakening of Kosovo's negotiating position within the dialogue, if tariff is lifted without meeting the demands of Kosovo side ➤ Breakage of political spectrum regarding the Kosovo's approach towards Serbia in the process of normalizing relations

|||||

Tariff of 100% is suspended

Area of impact	 Positive impact	 Negative impact
Economic aspect in Kosovo	<ul style="list-style-type: none"> ➤ Customs incomes increase ➤ Product prices in the Kosovo market are leveled ➤ Decrease of smuggling cases, especially in the north of the country 	<ul style="list-style-type: none"> ➤ Consumption of products and import level from Serbia grow again ➤ It may have negative impact on the level of consumption and production of domestic products
Civic aspect in Kosovo	<ul style="list-style-type: none"> ➤ Citizens welcome the keeping of good relations with international partners, in particular with the US ➤ Growth of citizens' expectation from the EU regarding integration process 	<ul style="list-style-type: none"> ➤ Decline of citizens' trust towards Kosovo institutions ➤ Growth of the helplessness feeling of the state of Kosovo to face the Serbia conditionings ➤ Uncertainty growth on potential dialogue results

KDI is a Non-Governmental Organization (NGO) committed to support the development of democracy through the inclusion of citizens in public policy making and strengthening of civil society sector with the aim to have an impact on the increase in transparency and accountability of public institutions.

For more information about KDI please visit **www.kdi-kosova.org**

With the financial support of:



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Federal Department of Foreign Affairs FDFA