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Responding to Subsidized Dairy Imports Into Kosovo

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RESPONDING TO SUBSIDIZED DAIRY IMPORTS INTO KOSOVO

A large share of packaged dairy products sold in Kosovo is imported from nearby countries. Some are members of the European union (Slovenia, Hungary and Bulgaria) and some are not (Croatia, Bosnia, Serbia and Macedonia). It appears that all these exporting nations provide subsidies in one form or another to dairy farmers and dairy processors. These subsidies create competitive problems for local (Kosovo) dairy farmers and processors. The question for this project is to suggest remedies for minimizing the damage done by these subsidies to the local dairy industry.

Kosovo Private Enterprise Program project “Responding to Subsidized Dairy Imports Into Kosovo”
Contract No. EEM-I-07-00007-00, TO #2

This report submitted by Booz Allen Hamilton / September 24, 2009

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PURPOSE OF ASSIGNMENT

There are three purposes to this assignment:

1. Confirm that regional countries that are currently exporting into the Kosovo dairy market are indeed subsidizing dairy production, processing, or providing export incentives.

2. Measure the impact that those subsidies are having on the competitive status of the Kosovo dairy industry.

3. Develop a menu of policy options and present it to the Ministry of Agriculture, Forestry and Rural Development.

BACKGROUND

Kosovo is a new country, having declared independence on 17 February 2008. About 25 percent of the economy is represented by agriculture, of which dairy is the most important enterprise. There are about 83,000 livestock farms in the country, and about 140,000 cows. Only about one percent of these farms (787) have more than 10 cows, and are considered commercial dairy farms. The milk from the other farms is used for home consumption, shared with neighbors, sold through green markets or delivered to a milk collection station. (Source: Muhedin Nushi and Fatmir Selimi, An Assessment of the Competitiveness of the Dairy Food Chain in Kosovo), AgriPolicy Enlargement Network for Agripolicy Analysis, February 2009.)

The dairy industry is an important economic development tool. First, it is a labor intensive enterprise, providing value added jobs to rural people. Second, it relies on forages for a large share of its feed inputs, and does not compete as much for human food as some other livestock enterprises. Third, it provides high quality nutrition both to the farm family and to outside customers. And fourth, it generates cash income to low income and subsistence level farm families.

Some of the Kosovo milk production industry has passed out of the subsistence economy, but more than half of it has not.

The portion of the milk production industry that is commercial, i.e. actively participating in the money economy, faces a number of problems. Most are outside the scope of this project, but need to be addressed by government and industry leadership in Kosovo. These include:

1. Low productivity resulting from limited access to high quality inputs such as superior genetics, high quality feed ingredients, animal health services, and technical information as to how to maximize efficiency.

2. Poor infrastructure, including inadequate roads, a weak system of quality assurance, and an underdeveloped milk testing system.

3. High milk assembly costs. A combination of poor roads and small dairy farm size results in higher costs for milk assembly than in more developed countries.

4. Poor quality. Most of the milk produced in the country is not tested, and is not subject to any milk quality regime, as it stays in the informal economy. For commercial milk production, quality standards have been adopted, milk is tested either at the plant or in the Kosovo central laboratory, and steady progress is being made. Several of the milk processing plants have adopted HACCP quality control programs, and at least one is ISO 9000/9001 certified.

5. Low consumer confidence. Imported products are often preferred by local consumers because they have a higher quality reputation, and have been promoted more cleverly than local produced products.

6. Uncertain markets due to variations in milk production and variations in milk product sales. The two do not match, so during part of the year there is too much milk. Both processors and farmers cite cases in which a processor cannot sell all the milk offered by his milk suppliers in the summer, and he must cease buying. The milk must then be destroyed, fed to animals or the cows sold for meat.

7. Economic advantages for imported dairy products. This report will detail the findings of this investigation with respect to financial assistance provided to dairy farmers and dairy exporters in countries exporting to Kosovo. It will also discuss remedies.

EXECUTIVE SUMMARY

1. Agriculture, and in particular, dairy farming is important to the economy of Kosovo.

2. A large share, maybe 70 percent, of the domestic market for packaged dairy products is supplied by imports from both EU member countries and countries that are parties to the CEFTA agreement.

3. Dairy farmers in these exporting countries are subsidized, either directly for milk production, or indirectly through the Single Farm Payment (SPF) payment system in the EU.

4. Many dairy products exported to Kosovo from EU member countries are subsidized. It appears that fluid milk products in consumer packages are not among them. Local dairy farmers and processors in Kosovo believe that products imported from CEFTA parties are also subsidized, contrary to the CEFTA agreement.

5. Dairy product prices in Kosovo are lower than they would be without farm level and export product subsidies. As a result, consumers benefit, but farmers and processors experience lower profits and prices.

6. This situation results in retarded rural economic development in Kosovo.

7. Several techniques are possible for dealing with this situation. We discuss five options:

    A. Do nothing.

    B. Pay subsidies to dairy farmers in amounts equivalent to those paid by exporting countries.

    C. Levy new import fees to neutralize the effect of farm and export subsidies on imported products.

    D. Implement tariff rate quotas on dairy product imports.

    E. Make use of technical barriers to trade to discourage imports.

8. Each of these options have positive and negative features. It is up to the Government of Kosovo to weigh the benefits and costs of each, and choose the one that is most favorable, given the political, economic and trade environment in which it operates.

9. Documentary evidence supporting the findings of this report is offered in the Annexes.

FIELD ACTIVITIES TO ACHIEVE PURPOSES

The author of this report and a local KPEP staff member interviewed a variety of sources in Kosovo to get a clear definition of the problem of subsidized import competition for the Kosovo dairy industry. We also discussed our findings at that point in time with the individuals we were interviewing to insure that we had correctly interpreted what we had heard, seen and read.

Here is a list of the contacts we personally visited:

1. Kosovo Association of Milk Producers

   Mr. Agim Rexhepi
   Dr. Kurtesh Sherifi

2. Kosovo Customs

   Mr. Naim Huruglica (two visits)

3. Kosovo Chamber of Commerce

   Mr. Safet Gerxhaliu

4. Individual dairy farmers

   Mr. Milazim Berisha
   Mr. Dukagjin Deda

5. Kosovo Central Dairy Laboratory

   Staff members

6. KFVA

   Dr. Flamur Kadriu

7. ALBI Supermarket

   Observed dairy product displays, prices and origins of products

8. Kosovo Dairy Processors Association (two visits)

   Mr. Nexhmedin Salihu
   Mr. Lulzim Aliu
   Mr. Nehat Bixhaku
   Mr. Ramadan Memaj

9. Ministry of Agriculture Forestry and Rural Development

   Agricultural Policy Division

      Mr. Lulzim Shamolli (three visits)

Livestock Division

Mr. Arsim J. Memaj

Mr. Agim Nuha

Office of the Permanent Secretary

Mr. Frymzim Isufaj
Mr. Shefki Zeqiri
Mr. Xhevat Lushi

10. Ministry of Finance

Mr. Liridon Mavriqi
Mr. Mentor Mehmedi
Mr. Douglas Todd

11. Swiss Labor Assistance Program

Mr. Christoph Baumann

12. Devolli Group

Mr. Shkelqim Devolli
Mr. Xhelal Radoniqi

13. USAID

Ms. Patricia Rader
Dr. Mary Hobbs
Mr. Greg Olsen
Ms. Flora Arifi

14. Kabi Dairy Company

Mr. Nehat Bixhaku

We also had assistance from the following agencies is finding data:

1. Danish Dairy Board
2. Economic Research Service of the U. S. Department of Agriculture
3. Foreign Agricultural Service of the U. S. Department of Agriculture

TASK FINDINGS

1. Significant quantities of dairy products are imported into Kosovo. The total imported in 2008 was 43.6 million kg, and the value was 30 million euros. The major exporting countries were Hungary (8.2 million euros), Slovenia (6.6 million euros), Germany (5.1 million euros), Bosnia-Herzegovina (2.2 million euros), Serbia (1.9 million euros), Macedonia (1.6 million euros) and Croatia (1.1 million euros). (Source: Kosovo Ministry of Agriculture, Forestry and Rural Development (MAFRD). Lesser quantities came from 17 other countries.

2. Both dairy farmers and dairy processors in Kosovo firmly believe that most, if not all, of these imports are subsidized in one way or another in the exporting countries. These subsidies can take on two forms. The first is government payments to farmers, either directly for milk production, or indirectly through land payments, such as the Single Farm Payment (SPF) program in the European Union (EU). The second form of subsidy is export assistance on dairy products.

3. Documentary evidence of farm level subsidies in Bosnia, Croatia, Serbia, Hungary and Slovenia is provided at the web sites listed in Annexes 1 through 5 of this report. These reports originated with AgriPolicy.net, an effort supported by the European Commission under the 7th Framework Program. In the section on government policy in each of these reports there is a discussion of subsidies provided for farmers. For example, in Bosnia – Herzegovina (Annex 1) dairy farmers receive direct subsidies of between 0.047 and 0.059 per liter of milk produced (2007). These subsidies may change over time.

   We were not able to quantify farm level subsidies in the individual EU member countries exporting to Kosovo. These nations provide payments under the single farm payment system, which decouples payments from production. Payments differ by type of land, and we think, by member country. In addition to the funds provided from the EU budget, individual member nations may "top off" such payments from the local budget. The Organization for Economic Co-operation and Development (OECD) estimates that producer supports in the EU represented 27 percent of total farm receipts during 2006-2008.

   Under the World Trade Organization (WTO) agreement, farm level payments that are decoupled from production of any particular crop or livestock product are assigned to the so-called "green box" and are not considered to distort trade. However, the fact that farm income is supplemented by these payments means that EU farmers are willing and able to produce whatever products they choose, such as milk, at lower prices than they would without such payments. This a creates a competitive advantage for EU products in export markets.

4. Documentary evidence of dairy product export subsidies from the European Union is provided at the web sites in Annexes 6 and 7 of this report. Annex 6 contains EU Commission Regulation No. 523/2009, which presents the amount of export refund available for each dairy product code to certain destinations. Based on the footnotes to this regulation, we believe destinations T20 and T04 apply to Kosovo.

   Not all dairy products are listed in the EU regulation as eligible for export refunds. For example, most fluid milk products (product codes 0401 20 XX XXXX) are not listed.

Annex 7 contains EU Commission Regulation No. 1344/2008, which presents agricultural product codes. Dairy product codes begin with 040.

For example, for product code 0403 90 13 9200 (Yogurt of a fat content exceeding 1.5%, but not exceeding 11%) to destination T20, the export refund is 22.80 euros per 100 kg., or about 0.228 per liter.

We were not able to get any objective data about dairy product export subsidies paid by non-EU member exporters to Kosovo. The Central European Free Trade Agreement (CEFTA) prohibits export subsidies on exports of agricultural products (Article 11, paragraph 3), so, if such subsidies exist, they will be hard to find in official documents.

5. We found no official, consistent, or reliably accurate source of this kind of information from official sources in Kosovo. Much of it is difficult to find through the internet or through government sources in exporting countries.

6. Three of the major exporters to Kosovo, Bosnia-Herzegovina, Croatia and Macedonia are signatories to the CEFTA. This agreement abolishes customs duties on exports (Article 4, paragraph 1), as well as export subsidies (Article 11, pargraph 3).

7. Article 21 of the CEFTA agreement does not prohibit state aid for agricultural products. However, in paragraph 7 of the same article, attempts to assure transparency for such state aid by requiring an annual report to the Joint Committee and other members.

8. The CEFTA agreement includes several safeguards. If a Party finds that dumping is taking place, it may take appropriate measures against the practice (Article 22, paragraph 1). Also, Article 23 permits safeguard measures against any product which is imported in such increased quantities and under such conditions as to cause or threaten to cause either (a) serious injury to domestic producers, or (b) serious disturbances in any sector of the economy which could bring about serious deterioration in the economic situation of the importing Party. Article 23 *bis* requires consultation among the parties in the case of agricultural products. Article 24 provides procedures for implementing such safeguards.

9. The status of Kosovo within the CEFTA is ambiguous. The original agreement was signed by the United Nations Mission in Kosovo (UNMIK). As a result, a few members of CEFTA do not recognize the government of the Republic of Kosovo as the competent authority in the country. Instead they insist that any commitments incurred under CEFTA apply to UNMIK and not to the Republic of Kosovo.

10. There is no trade agreement between the EU and Kosovo. However, the EU does participate in the WTO, and Kosovo is pledged to conform to WTO rules and practices whenever possible.

11. The Kosovo dairy industry suffers significant harm from the use of farm level subsidies and export subsidies. At the farm level, if farm income is supplemented in the EU by, say, 27 percent, in the form of decoupled payments, then EU farmers do not need to generate the same amount of revenue from farm product sales as farmers in other countries, such as Kosovo, who do not receive such payments. With 27 percent lower prices, EU farmers can maintain their income relative to subsidy-free farmers in countries. The effect is a 27 percent competitive advantage for EU farmers, no matter what the product.

If subsidies are not decoupled, and paid directly for production, or for production inputs, such as cows, then the competitive disadvantage for Kosovo farmers is more direct. Five cents per liter paid to farmers in Bosnia-Herzegovina represents a direct five cents per liter disadvantage for Kosovo farmers on products competing with imports from Bosnia-Herzegovina.

Processors of dairy products in Kosovo are on the front line in competing with imports. They may suffer from disadvantages related to quality, production efficiency and merchandising skill, but these are not related to subsidies. The prices their competitors selling imported products can profitably accept are lower because of subsidies. Thus, the prices that Kosovo processors can charge are reduced accordingly. Lower prices for domestically produced products mean lower profits for Kosovo processors and lower prices that they can afford to pay producers. Also, reduced profits in the processing sector limits the ability of these firms to invest in quality enhancing technology, in more skillful marketing, and in expanding market opportunities for domestic milk and products.

Reduced profits for dairy processors, reduced market share for domestic products and reduced milk prices for farmers means fewer jobs and less, and slower, economic development in the rural economy of Kosovo.

12. The Republic of Kosovo has severe budget limitations, and has a long list of high priority uses for that limited budget.

CONCLUSIONS

1. Some packaged dairy products imported into Kosovo are subsidized.
2. Dairy farmers in countries exporting dairy products into Kosovo are subsidized.
3. The Kosovo dairy industry and rural economy are harmed by these subsidies.
4. There exist several courses of action for remedying these problems.

OPTIONS

Instead of a direct recommendation, we are offering five options for dealing with the problem of subsidized dairy product imports into Kosovo. The desirability of each of these options depends on the political environment in Kosovo, the priorities of the government, the state of international relations with exporting countries, and the long-run plans of Kosovo for integration into the world trading community.

A. **Option 1: Do Nothing**.

Merits:

i. Maintains peace and harmony in trade relations with exporting countries.

ii. Kosovo consumers benefit from low prices for dairy products.

iii. Is revenue neutral, no impact on the budget

Faults:

i. Kosovo farmers continue to suffer a competitive disadvantage and lower milk prices.

ii. Kosovo processors will continue to suffer lower profits, and reduced market share in the domestic market for dairy products.

iii. Less, and slower, economic development in rural Kosovo.

iv. Continuing demands by farmers and processors for economic relief from the Government of Kosovo.

Discussion:

i. This option is already in place, by default. If nothing is done, nothing changes. The status quo continues into the future.

ii. Government and advisory officials (USAID, etc.) need to be prepared to justify this choice when challenged by farmers and processors.

B. Option 2: Pay subsidies to dairy farmers in amounts equivalent to those paid by exporting countries.

Merits:

i. Maintains peace and harmony in trade relations with exporting countries. It is doubtful that the exporting nations would object to new programs for farmers that are similar to their own.

ii. Will satisfy most of the complaints of farmers about the unfavorable treatment they now receive relative to farmers in exporting countries.

iii. Will make it easier for processors to justify low milk prices to farmers.

iv. Would enhance economic development if the rural areas of Kosovo

v. Consumer prices in Kosovo would stay low.

Faults:

i. Would deplete the budget of the Government of Kosovo. If the level of support is equivalent to five or six cents per liter, as it is in Bosnia-Herzegovina, it would cost more than 12 million euros per year to subsidize both commercial and non-commercial milk production.

ii. If dairy farmers receive subsidies from the government, then other farmers would demand similar subsidies. If these demands were satisfied, then the cost could be 50 million euros per year or more.

iii. A complex, costly, new bureaucracy would have to be set up administer the program. Would likely overtax administrative capacity of government to implement.

iv. Would not solve the processors' problem of subsidized dairy product imports in the country.

v. Farm level subsidies tend to be capitalized into whatever resource is most limiting for production. For example crop subsidies in the United States tend to result in increased land prices. Milk production quotas (a form of indirect subsidy that artificially reduces production) in Canada result in the "right to produce" becoming a valuable asset that can be bought and sold. Thus, those who benefit initially from the subsidy, also increase their wealth through higher asset values. For anyone who buys these higher priced assets, they lose the wealth effect, as well as lose the benefit of the subsidy is because they have higher asset costs.

vi. Because of the asset capitalization problem described above, it becomes politically difficult to get rid of subsidies. Those who own the higher priced assets resulting from subsidies are at risk of losing a significant part of their wealth.

Discussion: In order to implement this option, a number of actions and decisions must be made:

i. First, a decision must be made as to who is to be paid and how much. Is it only dairy farmers who are to be paid, and if so, only commercial dairy farmers? How do you justify such action to other farmers?

ii. Should the subsidy be paid as a decoupled farm income supplement, as in the EU, or paid in proportion to milk production? If the payment is not decoupled, then it would violate the spirit of the WTO agreement.

iii. A complex infrastructure must be set up in order to implement this option. Rules and regulations have to be written so that the intended beneficiaries get the subsidy, and unintended persons do not. There must be a variety of reporting requirements to insure that the applicant is entitled to the subsidy. Also, there must be mechanisms for verifying the truth and accuracy of the claims for payment, and the payments, themselves. Institutional capacity to implement is lacking.

C. Option 3: Levy new import fees to neutralize the effect of farm and export subsidies on imported products.

Merits:

i. Kosovo Customs is already collecting import taxes and value added tax (VAT) at the border on imported dairy products. No new bureaucracy would be needed to implement this option.

ii. Would neutralize the effect of subsidies in exporting countries and solve the stated problem of both Kosovo dairy farmers and dairy processors.

iii. Would increase government revenues.

iv. Would stimulate exchanges of information and possible negotiations to achieve policy changes in the exporting countries.

v. Would enhance economic development in the rural areas of Kosovo.

Faults:

i. Might stimulate a hostile reaction from countries exporting dairy products to Kosovo. Some of these countries are EU members and some are CEFTA members. In both cases they would claim that Kosovo is adopting new trade barriers.

ii. Might violate the spirit of the WTO, if an assessment is applied to neutralize decoupled farm level subsidies in the EU. WTO members consider these to be "green payments" that do not affect trade, and not subject to compensating measures in importing countries..

iii. Would increase prices to Kosovo consumers on imported products, and probably on domestic products.

iv. Farmers would prefer internal subsidies paid directly to them.

v. Would require more effort on the part of Ministry of Agriculture, Forestry and Rural Development (MAFRD) and Ministry of Trade (MTI) officials to develop a mechanism for monitoring subsidies in dairy exporting countries. This is needed to insure that the import assessments are accurate and effective in neutralizing subsidies.

Discussion:

i. Implementing this option would require a number of actions:

a. Estimating the amount of farm level subsidies and export subsidies in the exporting countries. The Agripolicy reports presented in Annexes I through 5 of this report give a rough estimate of farm subsidies for 2007 in several countries exporting to Kosovo. Up-to-date data need to be verified by communicating with the government of each of these countries. At best, this information would be available through CEFTA under the transparency requirements of the agreement (Article 44). If not, then official inquiries should be made to the exporting country.

These farm level subsidies are permitted under CEFTA. Therefore, there is nothing to be gained by not sharing this information with Kosovo.

Farm level subsidies in the EU should be available from published data, although we had trouble finding the exact amounts paid. We were not able to access OECD reports of farm level subsidies paid. Even when found, they will be presented in euros per hectare, as a percentage of farm receipts, or some other measurement which is not directly convertible into euros per liter of milk production. But by making certain assumptions, it is possible to calculate a reasonable relationship to milk prices. For example, if SPF in an EU country represent 27 percent of farm receipts, as estimated by OECD, then it would be reasonable to assume that they represent 27 percent of the milk price, or the price of any other farm product. This would give the amount of subsidy to be neutralized.

For EU members exporting to Kosovo, the amount of export subsidies on dairy products is available directly from EU sources. For example, see Annex 6 to this report. That is all that is needed.

It is more difficult to get this information from CEFTA members, as export subsidies on agricultural products are illegal under Article 11, paragraph 3 of the agreement. So a secondary method may be necessary to estimate such subsidies. One method would be to record the price of a particular product at a particular time in a representative market in the country of origin. Then, at the same time and under the same conditions measure the price of the same product in Kosovo. The difference should represent the transportation costs and transactions costs incurred in exporting to Kosovo. In no case should the price in Kosovo be less than the price in the country of origin. So, if the Kosovo price is less than the price of the product in the home country plus transportation and transactions cost, this is evidence of subsidation (or dumping). This difference can then be used to set the fee to neutralize the export subsidy.

b. When reasonably good estimates of subsidies are found, then each exporting country to which the proposed import fee would apply should be given official notification of the intent of Kosovo to implement such import fees. The CEFTA Secretariat must also be notified. The amount of the import fee proposed should be the same for all CEFTA countries to conform to the Most Favored Nation (MFN) provisions of the agreement (Article 24, paragraph 5). This would give the exporting countries an opportunity to complain, clarify the subsidy data, or enter into substantive negotiations with Kosovo to resolve the problems faced by Kosovo.

c. If a particular exporting country responds to the official notification, then if, when, and how much of the import fee is implemented will depend on whether better information becomes available or a negotiated agreement is entered into.

d. If a particular exporting country does not respond to the official notification, then the import fee originally proposed should be implemented at the end of the 30-day period for responding.

e. When it is time to implement the import fee, after the 30-day response period, or at the end of negotiations, the Minister of Finance must issue an order to the Director of Customs to begin collecting the fee on the products and from the countries specified by him.

f. Kosovo Customs has the necessary management and control system in place to execute such an order.

g. Here is an example of a subsidy calculation for the EU: The farm milk price in Bavaria (Germany) averaged 25.67 cents per liter during the first six months of 2009 (Source: www.clal.it). If agricultural support amounted to 27 percent of farm receipts, as estimated by OECD, then 6.93 cents per liter is the subsidy. In addition, the EU provides an export subsidy on yogurt of a fat content exceeding 1.5%, but not exceeding 11% (product code 0403 90 13 9200) of 22.80 euros per 100 kilograms, or approximately 22.80 cents per liter. Add these together, and the total subsidy is 29.73 cents per liter.

The calculation for cheese is a bit more complicated. First, it should be known how much milk us needed to make a kilogram a particular cheese. This information should be available in the Dairy Science literature. For example, we assume that ten liters of milk are used to produce one kilogram of cheddar cheese (product code 0406 90 21 9900). Therefore the farm level subsidy per kilogram of cheese is 69.30 cents (10 X 6.93 cents) and the product subsidy is 17.60 cents (from the EU export subsidy schedule). The combined subsidy is 86.40 per kilogram of cheese.

Similar calculations must be made for all the products of interest from each exporting country.

ii. Effective administration of this program over time requires accurate and timely data about the type and value of subsidies on an up-to-date basis. This requires the assignment of specific responsibility for this information to an official in the MAFRD or the MTI. This must be done on a continuous basis in order to be credible and acceptable to Kosovo's trading partners.

D. Option 4: Implement Tariff Rate Quotas on Dairy Product Imports.

Merits:

i. Would imitate the present practices of WTO members who had quantitative import quotas in place before the WTO agreement.

ii. Would recognize the need for imported dairy products in Kosovo, but in limited amounts.

iii. Would protect a large share of the domestic market for domestic producers.

iv. Would be revenue neutral for the Government of Kosovo.

Faults:

i. Would probably violate the spirit of the WTO, since Kosovo does not have a history of quantitative quotas.

ii. Would violate Article 3, paragraphs 1 and 2 of CEFTA, which prohibit both old and new quantitative restrictions on imports. While a tariff rate quota is not technically a quantitative restriction under the CEFTA and the WTO, it has the same effect, and would still be illegal.

iii. Would tend to enrich whomever owned the rights to fill the quota. For example, if a government agency controlled the rights to fill the quota, it could sell them to importers or exporters. If these sales were not totally transparent, it would be an invitation for corruption.

On the other hand, if the right to fill the quota was issued to a private individual or firm, such as a historical importer or exporter, then that person would be enriched by owning the right.

Becoming rich in this way is offensive because the wealth accrues to an artificial right granted by government, and not to an economic product or service provided to others.

iv. Implementation of quotas requires setting up a new bureaucracy to administer them.

v. Quotas are hard to get rid of because their elimination destroys a valuable, if artificial, asset owned by someone.

<u>Discussion.</u>

i. Import quotas can be of two types. The first type is an open quota that is not assigned to anyone. Such a quota is filled on a first come-first served basis. So, when the quota is opened, such as at the beginning of the year, there is a rush to fill it. As a result, all of the quota volume comes in during a short period of time, and can disrupt local markets until the quota product is sold off in the market.

The second type of quota is one that is assigned to a particular individual or firm. Then this individual or firm can import the product on a more orderly schedule, with less market disruption. This type of quota is likely to accrue value to the owner.

ii. A lot of administrative decisions have to be made to implement and monitor a quota program. Usually, a separate quota is assigned to each individual product originating in each exporting country. This stimulates a lot of competitive lobbying of the decision makers by importers and exporters, each wanting to get a bigger share of the quota.

iii. Once the quota amounts and countries of origins are established, then Kosovo Customs would monitor their fulfillment.

iv. This discussion implies fixed quantitative quotas. However, under the WTO, tariff rate quotas are now being used. They differ in how they are administered, but not in effect. Under a tariff rate quota, the volume of imports within the quota is charged either no, or a low, import fee. Any imports above that volume are charged a much higher import fee, effectively making it uneconomic to export or import.

E. Option 5: Make Use of Technical Barriers to Trade to Discourage Imports.

Merits:

i. Would discourage exports into Kosovo because of the increased cost and uncertainty of getting past the border station.

ii. Would imitate the practice of the EU in limiting imports of some food products for which recombinant DNA was used (GMO, or genetically modified organism).

Faults:

i. Would violate Article 3 of the CEFTA, and would likely provoke retaliation by exporting countries.

ii. Would violate the spirit of the WTO.

iii. Would punish importers and exporters, by increasing their costs and risks, rather than the governments paying subsidies.

iv. Would encourage smuggling to evade harassment at the border.

v. Would increase consumer uncertainty about if and when imported products are available to them.

Discussion:

i. Non-tariff trade barriers can take on many forms, such as absolute prohibition of imports due to some perceived or imagined defect in the product. These include the “precautionary principle” used by the EU to limit imports of GMO products, minor defects in packaging, labeling or composition, minor errors in documentation, or just undue delays in processing documents.

ii. The Ministry of Trade, or another department of the Kosovo government would have to decide which devices to use to harass importers and exporters, and issue instructions to Kosovo Customs to implement them. Use of such devices are likely to stimulate anger toward customs officials, and lead to evasive actions.

ANNEXES

Annex I http://Agripolicy.net. Click on Bosnia-Herzegovina

Annex II http://Agripolicy.net. Click on Croatia

Annex III http://Agripolicy.net. Click on Serbia

Annex IV http://Agripolicy.net. Click on Hungary

Annex V http://Agripolicy.net. Click on Slovenia

Annex VI http://eur-lex.europa.eu/JOHtml.do?uri=OJ:L:2009:156:SOM:EN:HTML

Annex VII http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:348:0036:0075:EN:PDF