

# **Kosovo**

## **Export/Import Roadmap**

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Author: Carmen Victor

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## EXECUTIVE SUMMARY

Kosovo is progressively introducing infrastructure and regulatory measures to facilitate trade with its neighbors and increase its regional integration. Steps about to be taken include opening new entry points along the international borders and Administrative Boundary Line, restarting the commercial railway traffic through Kosovo and reestablishing a transit regime with the parallel licensing of customs warehouses. These efforts to increase trade are departing from the framework of the post-war customs organization and taxation system laid out in UNMIK Regulation 3/1999 and AD 2001/7 and 2001/8 which remain in force.

The Free Trade Agreement between FRY and Macedonia honored by UNMIK and some non-binding MOUs are also part of Kosovo's regulatory framework. The former defines the rules of origin and the extent of UNMIK competence to issue Customs documents. Inspection authorities –Ministry of Health- and the appointment of inspectors by the Ministry of Agriculture are also addressed in Regulation 3/1999.

Though codes, agreements and memoranda of understanding are well developed, implementation problems exist. For example, while Section 8 of the MOU between UNMIK CS and the Customs Authorities of the Republic of Macedonia 2001 provides a basis for reciprocity given to goods entering Macedonia with a certificate of FRY origin stamped by UNMIK, daily practice contradicts this provision. A new Regulation of the Macedonian Ministry of Finance suppresses the 1% evidence tax.

Of special relevance for economic integration between Serbia and Kosovo is the Agreement recently reached between the Public Revenue Service and the Central Fiscal Authority to avoid double taxation sales tax/VAT.

At the business level, a network of non binding cooperation agreements has initiated a new trend with potentially strong impact in complementing the work done by the Administration –the bilateral agreement between the Chambers of Commerce of Kosovo and Macedonia and a Declaration by Presidents of all Balkan Chambers of Commerce are considered in the Road Map.

All these cooperation agreements need to be functional in the wider institutional framework of the non-binding decisions taken in the Stability Pact negotiations where Kosovo is now represented with non-voting rights and no capacity to participate in tariff reduction agreements both bilaterally or multilaterally. The Stability Pact roundtables seem to be the most appropriate forum to deal with these and other significant sources of regional trade distortion affecting Kosovo's ability to export. One of them is the combination of the FTA binding Albania and Macedonia and the FTA between Macedonia and FRY.

Details of the bilateral import/export and transit regimes and the currently suspended special customs regimes are included as well as a description of non-tariff barriers to trade in each particular trade partner territory under survey.

The numerous obstacles to trade found in neighboring territories range from political to legal and to other factors, such as the lack of appropriate coordination among banks to mention only one. An idea such as the proposed Agreement among Agencies for export insurance from the Balkan countries is suggested and briefly explained, an idea that certainly requires a catalyst.

The Commercial policy orientation in the immediate future should aim at opening Kosovo's market and at promoting increased competition. Such aim needs to be coupled with an effort to further organize the business environment. A fully operational exporters association is the suitable tool in that direction and it is now being formed.

Additionally, a combination of the following means and goals is required:

- Promoting political stability
- Efficient taxation enforcement
- Customs facilitation
- Promoting reciprocity and confidence building with Customs administrations and business organizations.

## **INTRODUCTION – EXPORTS AND REGIONAL INTEGRATION**

Kosovo can accelerate its integration into regional and international markets by increasing its export trade. This export focus will also enable Kosovo to achieve sustainable growth more quickly, and will reduce its reliance on imports. Therefore, businesses in Kosovo must reorient themselves toward focusing on meeting the requirements in export markets.

While exports from Kosovo are still relatively low, companies in its industrial sector must begin to understand, and incorporate into their business practices, the preferences and quality demanded in neighboring markets while delivering goods and services at competitive prices. Regional markets, including Macedonia, Serbia, Albania and Montenegro are initially the most likely export markets for Kosovo. Once developed, a regional market perspective will help lure foreign direct investment into Kosovo's industrial sector.

Expanding exports requires a concerted effort on a daily basis by companies here to expand trade with its neighbors. Kosovo will find its place in the regional economic matrix, itself designed to evolve towards a free trade area, alongside its trade partners in those markets. In the process, Kosovo will clarify its own comparative advantages in this rapidly changing environment and its businesses will become more competitive as a result. Measures to facilitate the easy movement of goods across Kosovo's borders into the region will require the smooth implementation of regulatory practices both in Kosovo, and within the export markets.

Kosovo's market oriented economy will naturally cause it to desire to achieve integration within the regional economic context. This is a combination of the need for Kosovo's producers to find additional markets for their products in order to achieve business growth, and the likelihood that, over time business alliances with partners from elsewhere in the region will occur, thereby opening additional market opportunities for businesses here. By engaging in regional trade to a larger extent and increasing their production capacities to serve exports markets, Kosovar businesses will benefit from economies of scale and lower their average costs of production.

Regional integration and exports will require, and result in, improved levels of product quality by Kosovo's manufacturers. Some of these improvements have already occurred, and they have yielded good results for businesses here. These initial improvements provide reasonable grounds to expect further progress. Businesses here, though, must also move beyond an often self-imposed belief that it is impossible to effectively penetrate export markets due to regulatory barriers either within Kosovo, or in the markets targeted.

As part of a larger promotional endeavor, it is necessary for Kosovar businesses to educate themselves about the administrative procedures that are actually in place, identify obstacles that they may encounter, and constructively work with their colleagues in both the private and public sectors to overcome these.

Kosovo's exports were traditionally insufficient both in quantity and in quality. While energy, non-ferrous metals, ferrous metallurgy, machine components and electric equipment used to be the leading sectors, the effort to reach exports markets at the current stage needs to be pursued by other branches of the economy.

The corresponding requirement for export growth is the need for raw materials and equipment for production. Depending on the industry, many of these are imported. Issues related to the efficient import of raw materials that Kosovar businesses require to produce value added products must also be addressed.

This Import/ Export Road Map addresses all aspects involved in trade with the four neighboring territories of Macedonia, Serbia, Albania and Montenegro pointing at the current obstacles – both tariff and non-tariff barriers – that Kosovar exporters to these markets actually encounter. It provides detailed and documented information necessary to understand the regulatory and administrative processes required to properly complete an export transaction. Transit regimes in and out of Macedonia, Serbia, Albania and Montenegro are included. In addition, some aspects of international sales contracts in the most likely exporting and importing scenarios are addressed.

## 1 – CUSTOMS ORGANIZATION IN KOSOVO

### Entry points

The territory of Kosovo which is comprised inside the borders defined by UNSC Res. 1244 is under UNMIK jurisdiction for Customs related matters and covers 10,887 sq. kilometers. It shares international borders with the Former Yugoslavian Republic of Macedonia to the South with Albania to the West and South West and with UNMIK defined administrative boundaries (ABL) between Kosovo and the Republic of Serbia and Montenegro to the North and to the East respectively.

Traffic of goods and persons between Kosovo and the neighboring territories flows normally through the entry points or border crossings established on the main roads. There are currently ten entry points, four of them being border crossings and the others tax collection offices.

These entry points are : (see fig. 1)

- Gate Hen/D31 Zubin Potok (Municipality of Mitrovica) to Serbia. Sift point for TCO in Mitrovica.
- Gate 1 Leposavic (Municipality of Mitrovica) to Serbia. Sift point to TCO in Mitrovica.
- Gate 3 Merdare (Municipality of Podujevo) to Serbia TCO.
- Gate 5 Dheu I Bardhe (Municipality of Gjilan) to Serbia. TCO.
- Hani I Elezit (Municipality of Hani I Elezit) to Macedonia. Customs Station
- Vermica (Municipality of Prizren) to Albania. Customs station
- Kulla (Municipality of Peja) to Montenegro. Sift point for Peja TCO
- Pristina International Airport. Customs station

According to the Customs service two more gates will open in the course of this year: Gate 4 Medveje and Gate 6 Kamenica.

### Road transport network

The territory of Kosovo is served by a road network whose total length is 1800 kilometers with some 500 kilometers of main roads often used for Kosovo's freight traffic. Freight traffic across the border is estimated at about 25.000 metric tons per day and is mainly passing to and from Serbia, Montenegro and Macedonia.

Road E-80, the route between Mitrovica and Skopje via Prishtina is becoming especially important to Kosovo for regional transport. It has been nominated as an east-west connection under the UN ECE system but its development is more by decree than the more traditional "corridors" used elsewhere in the region. Its status is merely part of a route that national governments may develop. By contrast, route E-75, a more traditional route, circumvents Kosovo. It follows part of Corridor 10, a geographic path identified for transport development over 30 years ago and was to connect Greece with Europe.

Road E-75 is going around Kosovo and connecting directly Belgrade to Kumanovo and Skopje through Nis and to Thessaloniki in Greece. Similarly, corridor 8 was also promoted steadily over the last thirty years to connect east-west Italy and Turkey. A part of it has been developed (see European continental road network. Fig.2).

Although road capacity in Kosovo is believed to be below demand, available analysis suggests that road capacity in Kosovo appears adequate. Ratings supplied by the Ministry of Transports and Communications indicate that serviceability and accessibility of the road network are good and intensity of use is average. There are only isolated congestion points like between Pristina and Lipjan where traffic reaches 12 to 13 thousand vehicles per day. As a consequence of the limited congestion, the need to justify large new projects and the existence of road E-75 suggest that it is very unlikely that a freeway project across Kosovo is realistic.

Congestion at border crossing points and TCOs is an issue. The waiting time for trucks to go through customs clearance in Mitrovica and Hani I Elezit (the most congested points) can range from several hours to a whole day.

However, roads around Kosovo are getting damaged. The weight they can bear is somewhat lower than the European standard (10 metric tons instead of 11.25 metric tons per axle). But even if the quality of the roads increasingly used for heavy traffic is an issue, there is insufficient budget allocation to repair them due to insufficient fees collected from car registration and non reception of the amount committed by the European Commission for repairing road infrastructure.

There is no transportation of goods by railway in transit through Kosovo for the time being. In such situations greater use of the rail transit can help protect a country's road system. Freight railroad transportation could be rehabilitated. Customs clearance for goods coming into Kosovo from Macedonia by railway is conducted at Hani I Elezit and Pristina. An MOU has been signed between UNMIK railway and ZTP Belgrade for rail transportation of commercial goods. The first train will start on June 27<sup>th</sup> and the timetable is expected in two months.

In the region some bilateral agreements are in force (i.e.: between Montenegro and Albania) concerning rail freight and rail freight facilities. The current situation suggests that these railroad transports agreements will diminish Kosovo's share of regional trade.

Most important for Kosovo's trade facilitation perspectives is the agreement on rail freight which has been recently signed by the SRSG Michael Steiner with the Serbian Ministry of Transports whereby the railway from Belgrade to Skopje for transportation of commercial goods will restart. Its consequence as far as improving cost effectiveness of transport in Kosovo are important since trade facilitation achieved by transport facilitation and its repercussion on the share of transport cost in the total cost of the goods is a main point. These costs are currently calculated to reach 30%. Transport costs are also high for the Kosovo Consolidated budget where they amount to some 50 – 60% of the expenses.

## **Customs terminals in Kosovo**

A main trade facilitation measure which has started being implemented to some extent by UNMIK Customs Service is the rehabilitation of certain locations in Kosovo to serve the increased needs of operators –especially importers– to clear the imported goods from Customs at their convenience. At a later stage when the regulation of the transit regime through Kosovo which is being drafted will be approved, these Customs terminals will enable the Customs Service to reintroduce the currently suspended Transit regime.

UNMIK Customs Service has authorized the operation of four Customs Terminals, one of them in Peja for the main route from Montenegro, and very recently one in Podujevo for the main route from Serbia through Gate 3. They are both privately run with UNMIK CS authority to clear and tax commercial goods. Another UNMIK CS terminal operates at Mitrovica which will be relocated in a better facility in the Trepca complex as an interim measure pending establishment of privatized facilities. In Hani I Elezit the Customs Terminal is located in the Sharr-Salonit Factory. (Details of the indicated Customs Terminals can be found in the useful contacts section). See fig. 3 – Location of customs warehouses in Kosovo.

## **2 – UNMIK COMPETENCE ON CUSTOMS IN KOSOVO**

With Kosovo’s current international status being that of a province of the Federal Republic of Yugoslavia, with de facto independence, it can be said to be a separate tax entity due to its exceptional circumstances.

The competencies of the UNMIK Customs Service lie in a number of legal instruments: The Yugoslav Customs Law is still applicable generally and most competencies relating to administration of powers and procedures lie in that. Also, a number of UNMIK regulations – most relevant is 3/1999 – and Administrative Directions –AD 7/2000 – apply. They relate to customs powers at the international borders.

At the Administrative Boundary Line UNMIK CS in some cases acts on behalf of the tax authority – CFA- and their somewhat limited powers derive from Taxation Regulations and AD – AD 8/2001 is the best example.

### **UNMIK Regulation 3/1999**

(see Annex 1)

This regulation is the basic text laying out the authority of UNMIK over Customs in Kosovo in accordance with UNSC Res. 1244 and Reg. Nr. 1999/1 defining UNMIK general authority in Kosovo. It lays out the basic tariff flat rate of 10% with a transitional character as well as the excises for a closed list of goods (Annex II) when imported into Kosovo plus the sales tax calculated on the total customs value including tariffs and the

excise. The sales tax collected at the border was replaced by the VAT collected inland in June 2001. It suspends any quantitative restrictions to imports and allocates to the Kosovo Consolidated Budget all revenues derived from Customs and excise duties.

### **Administrative Direction 7/2001**

(see Annex 2)

This AD is a development of the aforementioned Regulation and it establishes that the tariff based on the Harmonized System of the World Customs Organization will continue to apply in Kosovo as well as the tariff level of 10% flat rate. Goods originating in FRY transported into Kosovo will not be subject to Customs duties.

- ✍✍ This AD introduces amendments to the basic Import and Export regime (FRY law still applicable) to give competence to UNMIK to issue import/export certificates and customs documents.
- ✍✍ It follows from the text of this AD that the tax authority in Kosovo is the CFA.
- ✍✍ The Ministry of Agriculture, Forestry and Rural Development is responsible for appointment of phyto-sanitary and veterinary inspectors. The inspection authority is the Ministry of Health and Social Welfare.
- ✍✍ Importers/Exporters and forwarding agents need to be registered with the Customs Service.
- ✍✍ Section 8 suspends customs regimes other than the general import/export regimes. Hence, transit through Kosovo is generally suspended unless expressly authorized by the Director General of UNMIK CS. This provision leaves room for a case by case authorization of the Inland Clearance Depots. The Director General of UNMIK CS is the competent authority to grant transit arrangements following a consultation procedure with the Ministry of Trade and Industry and the Central Fiscal Authority. The Customs Assistance Mission in Kosovo (CAM-K) is currently drafting a regulation for transit in view of reestablishing the regime. The transit regime will be dependant on a system of bank guarantees.

### **Administrative Direction no. 2001/8**

(see Annex 3)

- ✍✍ It is a development of UNMIK Reg. Nr. 1999/16 on the establishment of the Central Fiscal Authority in Kosovo.
- ✍✍ It establishes the approved routes for the transport of commercial goods by commercial means of transports.

Although UNMIK competence over customs in Kosovo is clearly set out in the Trade Agreements and MOUs with neighboring jurisdictions (all of them summarized in Section 3 and attached to this report) the implementation of all of them is problematic.

One of the main issues is the lack of recognition given by customs authorities at the Macedonian border to one of the required documents – EUR-1 which is the certificate of origin issued by UNMIK CS in accordance with the terms of the MOU between UNMIK CS and CS of Macedonia. It is used whenever a preferential agreement is in place, as it is the case between FRY and the Republic of Macedonia, which is affecting exports from Kosovo to Macedonia even though the stated origin of the goods is FRY. This case will be developed under the chapter dedicated to non-tariff obstacles.

### **3 – TRADE AGREEMENTS IN FORCE**

#### **Between Kosovo and neighboring jurisdictions**

According to the terms of the UNSC Res 1244 of June 10 1999 UNMIK has the obligation to maintain the International Agreements in force under the previous situation. UNMIK can be regarded as the successor entity of the Republic of Serbia, up to the extent provided for in this Resolution, with competence on Customs related issues among other external relations related areas.

With the final international status of Kosovo still being undecided, UNMIK competence to negotiate and sign Trade Agreements is limited. Even though only sovereign states have Treaty making power, UNMIK competence to negotiate and sign Memoranda of Understanding on taxation issues and customs related matters has been generally recognized by its neighbors – which is fully consistent with the basic principle stated by UNSC Res. 1244 according to which the sovereignty over the province of Kosovo rests in the Republic of Serbia of which Kosovo is an integral part – but it is still problematic from the day by day enforcement perspective.

As a result of the combined effect of the different legal instruments in force – see reference hereunder – the Macedonian Customs Authorities do not recognize goods originating in Kosovo but they recognize goods originating in FRY. They also accept EUR-1 certificates of FRY origin of the goods issued by UNMIK for goods produced in Kosovo. This leads to a contradictory situation where in practice the indicated certificates are overlooked and left aside by the Macedonian Customs authorities and forwarding agents there. Such a situation lends itself to arbitrary fee collection by enforcing and forwarding agents.

The main practical consequence arising from this situation has been the lack of reciprocal treatment given by the Customs Service of the Former Yugoslavian Republic of Macedonia to goods manufactured in Kosovo being imported there which makes this important neighboring market practically inaccessible for Kosovar producers. On the other hand Macedonian producers enjoy the advantage of the trade preference derived from the FTA of 1996 between FRY and Macedonia whereby goods produced in Macedonia are only charged a 1% evidence tax when entering Kosovo. This discrimination accounts not only for the fact that the productive capacity to serve the

Kosovar market is currently located in Macedonia but also for an additional incentive for investors to go to Macedonia rather than to Kosovo.

UNMIK competence on customs taxation is limited. Due to its inability to negotiate and sign FTAs it cannot participate in multilateral or bilateral tariff reduction negotiations. Consequently, the following legal instruments are currently applicable and honored by UNMIK:

Free Trade agreement between the Federal Government of the FRY and the Government of the Republic of Macedonia

Signed in Skopje on 4.5.1996. This agreement is specially relevant as far as the rules to determine the origin of the goods which are contained in its Annex II. A different issue is the proof of the origin in FRY of the goods produced in the territory of Kosovo which according to the paragraphs 2 and 3 of point 2 of the Memorandum of Understanding signed in Skopje in 2001 is to be issued by UNMIK CS and the Customs Administration of the Republic of Macedonia. Some problems derived from this agreement have arisen very recently, including an issue regarding the import of Yugo cars into Macedonia. Other problems have arisen for Kosovar operators sending goods to Macedonia. Examples are provided under Non-tariff barriers to trade and documented in attachments.

Memorandum of Understanding between UNMIK Customs Service and the Customs Administration of the Republic of Macedonia.

(see Annex 4)

This agreement addresses the need for closer Customs cooperation in simplification of Customs formalities, in working hours harmonization and in prosecution of customs related offences. It establishes the conditions and modalities of use of the Blace border crossing and creates the Joint Committee for the monitoring of the implementation of the MOU.

The last paragraph of the Memorandum mentions the commitment by UNMIK to establish a transit corridor for goods to go from Macedonia to Montenegro and vice-versa. Since there is presently no transit through Kosovo, nor an established transit procedure, that provision is still pending. There is a proposed draft of a Working Technical Agreement to be signed between UNMIK and Macedonia for transiting the goods through Kosovo to Montenegro. Transit through Kosovo was allowed in a few cases by the Director-General of UNMIK Customs Service. A written request to the Director-General of CS is needed to obtain the authorization for a particular case.

Most importantly, the Memorandum states the authority of UNMIK CS and the Customs Authority of Macedonia to issue EUR-1 certificates. This recognition will hopefully translate into practice after the stamps transmission on June 10, 2002.

Regulation on conditions and procedure of the Public Revenue Accounting, contents and method of keeping records on turnover of goods from AP Kosovo and Metohija.

(See Annex 5)

It provides for a way to make compatible the different rates applicable in Kosovo and in Serbia for the VAT and the sales tax. In this way it will contribute to prevent smuggling to avoid double taxation. On the basis of this regulation an agreement has been signed recently between the Public Revenue Service and the CFA whereby its provisions will be effective.

According to this regulation goods originating in Kosovo going to Serbia will pay a 5% sales tax at destination to the Public Revenue Service.

Goods of high revenue value (those that are subject to excises) will be charged with an extra tax amounting to the equivalent of 168,000 dinars in foreign currency per tank or other in proportion to the quantity.

The benefits provided for can be obtained under condition that the business is registered at the CFA for the VAT refund. A specific form will be created different from the one used for the VAT refund (see sample documents in Annex 13). By means of these specific forms a proof of the sales to Serbia will be kept which will allow the recording and quantification of these transactions.

For goods originating in third countries transiting through Serbia with a destination to Kosovo or goods made in Kosovo in transit through Serbia, a transit fee is applicable. The transit fee amounts to 5% with an additional 4% charged for petroleum tax.

This agreement has been challenged by nationalist parties in Serbia on the grounds that it implies a certain recognition of UNMIK competence on taxation over the territory of Kosovo, whereas given the better coordination it brings with the Serbian taxation system it is often disliked by Kosovar Albanian operators.

Memorandum of Understanding between the Customs Administration of the Republic of Albania and the Customs service of UNMIK on cooperation and mutual assistance on Customs matters.

(see Annex 6)

The parties state their commitment to assist each other in the prevention, investigation and repression of Customs offences as well as exchange of information on applicable Customs Law. It is also intended to facilitate cross-border flows of goods and persons.

It contains no specific trade facilitation measures with impact on operators.

## **Agreements Between Business Organizations**

(see Annexes 7 and 8)

A network of cooperation and partnership agreements is in place. The Chamber of Commerce of Kosovo has signed agreements with partner organizations in the Balkans. There is a most recent Declaration by Representatives of Chambers of Commerce of the former Yugoslav republics and provinces stating the commitment to the liberalization process and the elimination of obstacles for free circulation of goods and factors of production.

## **The Stabilization and Association Agreements for South Eastern Europe – Stability Pact Negotiations.**

Kosovo is represented in the Stability Pact negotiations and roundtables and it is participating in them with a special status. It has no voting rights and cannot engage in FTA negotiations either bilaterally or multilaterally.

Given these limitations, both the local Government and UNMIK are currently engaged in the process of trying to find the legal procedure to get the benefits of tariff reductions. Kosovo could perhaps sign MOUs with neighbors on trade facilitation and liberalization for Kosovo to accrue the benefits of tariff reductions. MOUs, however, are non binding instruments and have limited practical effect.

Currently the member countries of the Stability Pact are in the process of exchanging lists of products that could be subject to liberalization.

Tariff reforms in Kosovo will need to go through the Stability Pact since the legislation concerning Customs is still generally applicable in Kosovo for whatever is not covered specifically by UNMIK regulations and Administrative Directives. At the present stage, Albania and Macedonia have a FTA while Kosovo and Albania, two natural trade partners, do not. This fact accounts for a source of trade diversion affecting Kosovo's possibilities to trade in the region. It results in a distortion for Kosovo businesses exporting to Albania or Albanian producers exporting to Kosovo.

## **4 – TRADE REGIMES IN AND OUT OF KOSOVO**

### **Imports and Intra-Fry Inflows of Goods – Transit Regime Into Kosovo**

Since UNMIK initiated its mandate on the territory of Kosovo according to UNSC Resolution 1244 and UNMIK Regulation nr. 1999/1 the general import regime into Kosovo applicable to goods originating in third countries is laid out in UNMIK Regulation 1999/3 and developed in several AD particularly AD nr. 2001/7 (see legal instruments in attachment).

All goods imported into Kosovo are subject to a 10% flat rate customs duty on their value. Goods entering Kosovo originating in the neighboring territories of Serbia and Montenegro are treated as Intra-FRY transactions and are not charged tariffs. Whenever they are applicable, excises for the specified goods of high revenue value (Annex II of UNMIK Reg 1999/3) are charged on both intra-FRY inflows and imports from Macedonia and Albania at variable rates depending on the goods. A 15% VAT is charged on all imports and intra-FRY inflows and it is collected at destination. Goods in transit through Serbia and Montenegro originating in third countries are imported into Kosovo paying the normal tariff rate of 10% and bearing the remaining taxation. (See fig. 4.)

Goods originating in the FYR Macedonia imported into Kosovo are the exception to the applicable tariff of 10% as a result of the Free Trade Agreement between the Federal Republic of Yugoslavia and the FYR Macedonia. These goods are only charged a 1% evidence tax. The indicated FTA, which is a source of serious trade distortion affecting imports to FRY from many Balkan countries and induces many operators to fake the origin of the goods, is in force and honored by UNMIK. Reciprocity should be granted on the basis of the same agreement and the MOU between UNMIK and the FYR Macedonia of 2001 by the Macedonian Customs authorities to goods made in Kosovo provided that they are covered by the EUR-1 certificate issued by UNMIK Customs Service proving their origin in FRY (see Non-tariff barriers to trade).

For goods originating in Serbia entering Kosovo a certificate is required – Izjava – (see sample in case nr. 3 under heading nr. 6) for the importer to avoid double taxation for Sales tax/VAT in Serbia and Kosovo. Such a transaction will be charged 15% VAT at destination as provided for by the recent agreement between the CFA and the Public Revenue Service in Serbia. Other documents required are: Commercial invoice and CMR transports document.

For goods originating in Macedonia or Albania and imported into Kosovo, a Customs declaration according to the Single Administrative Document model is required plus the CMR and the commercial invoice. For imports of goods originating in Macedonia a circulation certificate EUR-1 proving the origin of the goods is additionally required as indicated above.

A simplified Customs clearance procedure, with cash receipt, is applied in TCO-Mitrovica (Gate 1 and Gate Hen), Merdare – Gate 3 and Dheu I Bardhe – Gate 5. A commercial invoice and CMR need to be presented.

The regular customs clearance procedure that includes the Single Administrative Document declaration is applied in these Customs stations: Hani I Elezit, Peja, Vermica, Pristina Airport and in Merdare-Podujevo. Other documents that need to be presented are: Commercial invoice, CMR, waybills, cargo manifests, packing lists, different goods specifications and lists, customs documents from the origin countries/territories and other relevant documents. A list of forwarding agents licensed by UNMIK Customs Service to assist in preparing the shipment's administrative requirements is attached as Annex 9.

The simplified procedure does not require the SAD nor the assistance by the forwarding agent. All TCOs along the defined administrative boundaries are following the simplified procedure for clearance of the goods.

Documents required by UNMIK CS for goods transiting through the four neighboring territories of Serbia, Montenegro, Macedonia and Albania are:

- ?? Commercial invoice stamped at each border crossing,
- ?? Exports declaration covered by the SAD from the country of origin stamped at each border crossing,
- ?? An EUR-1 certificate from the country of origin, and
- ?? A declaration of transit is required for goods transiting through Montenegro and Macedonia.

The authorization by UNMIK to import and the VAT registration certificate are also required for transit into Kosovo as it is for imports transactions.

Samples of all of these documents can be found in the cases attached to this report.

## **Exports and Intra-Fry Outflows of Goods – Transit Regimes Applied by Neighboring Jurisdictions.**

### *Exporting to FYR Macedonia*

The above mentioned Free Trade Agreement between FRY and the FYR Macedonia of 1996 is in force and is governing the bilateral trade regime for imports and exports with FYR Macedonia. It has been never suspended although growing imports of Yugo cars into Macedonia led the Macedonian Government to consider its eventual suspension.

This Agreement in conjunction with the MOU between UNMIK CS and the Customs Administration of FYR Macedonia are the basis of a preferential reciprocal treatment whereby import and export transactions are free of customs duties and are only subject to a 1% evidence tax plus excises if the goods are of high revenue value plus 19% VAT, or in some cases a reduced rate of 5% for specific products at destination. The preference is granted upon presentation of the EUR-1 certificate stating FRY origin of goods stamped by UNMIK CS as provided for in the indicated MOU. A new regulation from the Ministry of Finance (Official Gazette of Republic of Macedonia nr. 102/01) in force since Jan. 1<sup>st</sup> 2002 has suppressed the 1% evidence tax and has been replaced by a payment of 19 Euro for Customs service fee.

In practice however, there is no reciprocal treatment between Kosovo's imports from Macedonia (charged 1% at Customs) and exports from Kosovo to Macedonia (theoretically charged with 1% but in practice exports from Kosovo are arbitrarily taxed under pretext that there is no recognition of EUR-1 certificates issued by UNMIK as proven in one of the cases attached to this report). According to a recently promulgated regulation from the Ministry of Finance, the 1% is not consistent with International trade

rules from WTO and therefore the only payment applicable is 19 Euro as a Customs service fee.

Whenever a phyto-pathological or veterinary check is required, legal fees apply. The checks are carried out at the border crossings by inspectors. The same rules apply for imports of seeds, while frozen meat requires specific analysis and certification. Stenkovac, marked on the map, is the location where routine checks are conducted. Certification requirements are according to the European legislation and there is nothing specific for Kosovo.

Quantitative restrictions (quotas) can be decided by the Government for certain goods. For these cases import licenses need to be obtained from CS in Macedonia.

The required documents for an export transaction of goods originating in Kosovo to Macedonia are:

- ?? Single Administrative Document,
- ?? Commercial invoice,
- ?? CMR or transport document, and
- ?? The EUR-1 certificate.

A forwarding agent should handle the transaction since it does not follow the simplified procedure (see documents in annex 12).

- For Customs clearance through the simplified procedure no declaration of Exports is required (SAD format). All tax collection offices follow the simplified procedure.

Exporters from Kosovo can use the Customs terminals in Macedonia that are located close to the border with Kosovo – Blace, Tetovo-Jazince and Skopje (see fig. 5)

#### Transit Through FYR Macedonia

Transit through Macedonia is charged a fixed fee of 100 Euro as Customs Supervisory Service. Excises are also charged in different percentages for goods in transit.

Customs claims are first dealt with by the Customs Administration itself and a second instance is the Ministry of Finance in Skopje. It is possible for exporters from Kosovo to have legal assistance to handle their claims through the exporters association. (For road connections, entry points and customs warehouses in the Macedonian side of the border see fig. 5).

### Exporting to Albania

Goods made in Kosovo are charged the full tariff when they are imported into Albania in addition to a 20% sales tax. Excises are paid for some predetermined high revenue goods.

In addition, all vehicles not registered in Albania will pay the road tax either as a daily fee or calculated according to the formula: Weight x Kilometers x 0.02. Operators will be charged according to the procedure whereby the highest amount is obtained. For a 40 metric ton load the tax to be paid is about 170 USD.

Certifications of health, phyto-sanitary and veterinary certificates issued in Kosovo by the competent authorities (Ministry of Health, Ministry of Agriculture) are recognized by the Customs Service in Albania. The same applies to drug licenses issued by the Kosovo Drug Regulatory Authority. Food products need to be certified.

According to Customs officials in the Kukes border point no major problems occur on the daily basis. About 50 to 60 trucks per day go across the border.

Documents required for exports to Albania are:

- ?? A certification of the origin of the goods, normally the EUR-1 certificate,
- ?? exports declaration or the SAD,
- ?? Authorization to export from UNMIK CS,
- ?? Registration at UNMIK CS Pristina as importer/exporter, and
- ?? The CMR.

Customs warehouses in Albania next to the border are located in Morina about 150-200 meters from the Kukes border crossing.

### Transit Through Albania

A transit fee is applicable in Albania. Excises are also paid for transit and they are charged cumulatively after the value of the goods has been taxed with the transit fee.

The main road for traffic linking Kosovo with Albania is from Prizren to Durres. (For road connections, entry points and the location of customs warehouses close to the Kosovo/Albania border see fig 6).

### Outflow Regime to Montenegro

(See Annex 10)

Kosovo and Montenegro are not bound by bilateral trade agreements. Considering the fiscal regime applied by the Customs authorities in Montenegro to goods originating in Kosovo it can be said to be an extreme case of lack of reciprocity. For UNMIK CS transactions with Montenegro are intra-FRY inflows and outflows while the Montenegrin Customs service treats inflows from Kosovo like imports from any other third country.

The normal tariff is applied for goods originating in Kosovo. Export and import restrictions apply in Montenegro for a small number of goods but about 95-97% of goods imported and exported are free of restrictions respectively.

Tariff levels in Montenegro are laid out in Reg. 38/2000. According to this regulation tariff levels have been adjusted to the European principles of uniform, low and stable levels. Seventy-two percent of all tariff positions have tariff rates ranging from 0 to 3 percent. As a result the average tariff rate in Montenegro is lower than 3%. For protected goods tariff rates range from 10 to 15 percent.

In addition to the tariff that goods imported into Montenegro are charged, an evidence tax of 1%. On the basis of Customs Regulation 7/02 an excise also applies for certain goods of high revenue value. Sales tax is calculated on the value of the goods after the imposition of the tariff and, if applicable, the excises at variable rates between 15-24% depending on the type of the goods (art. 10 of reg. 4/94 and reg. 55/00).

Most times the simplified import procedure will apply but otherwise an approval by the Central Bank of Montenegro following application is required. For goods subject to quantitative restrictions a special approval by the competent Ministry will be required and Customs will issue the import license.

Customs clearance procedures will include phyto-pathological, veterinary or sanitary inspections carried out by inspectors at the border or labs in Montenegro.

Documents required for the shipment include:

- ☞ Commercial invoice
- ☞ CMR,
- ☞ Certificate EUR-1
- ☞ Declaration in the SAD form –required by the Customs service in Montenegro that regards this outflows from Kosovo to Montenegro as imports.

By contrast, UNMIK CS does not require the SAD Declaration for inflows from Montenegro which is consistent with the treatment of this transactions as intra-FRY inflows of goods.

Operators in Kosovo can benefit from the VAT return by means of a declaration in the CS of the outflow country. In the absence of a document which is now being designed, a sort of SAD for intra-FRY sales of goods, the CS stamps the commercial invoice.

### Transit Through Montenegro

(see annex 10)

All goods in transit through Montenegro will be charged a transit tax of 3% according to Reg. 68/01 and 16/01. A transit tax of 5% will apply on coffee, alcohol and cigarettes.

No agreement regarding double taxation for Sales tax/VAT has been reached between UNMIK and Montenegro and therefore the 20% sales tax will be collected at destination. (See attached map for the road network, entry points and customs warehouses in Montenegro).

*Outflow Regime to Serbia*  
(see Annex 11)

Commercial transactions with Serbia are intra-FRY sales of goods with no tariffs applying. However, if the goods are originating in third countries they are to be declared at the ABL at the Customs check point and the regular tariff will apply. In such cases the documents required for an export transaction need to be prepared – commercial invoice, CMR, customs declaration with the SAD and certificate of origin of the goods EUR-1. If sanitary, veterinary inspections are required the goods will undergo check before customs clearance and the appropriate certificate is to be obtained. Clearance of fuel or oil derivatives requires the approval from the Serbian Ministry of Energy.

For goods originating in Kosovo sales tax will apply in Serbia. On the basis of the recent agreement reached between the CFA and the Public Revenue Service of Serbia (see chapter 3 on Trade Agreements) to avoid double taxation the 5% difference between sales tax in Serbia (20%) and the VAT in Kosovo (15%) will be charged in Serbia. A new form is being designed for the operators to get this benefit. In the meantime they only need to be registered at the CFA for the VAT. The new forms will also provide a way for Customs to keep track of outflow transactions with Serbia. The proof of the transaction is also required by the Agreement.

*Transit Through Serbia*  
(see annex 11)

Transit shipments through Serbia are charged a 5% fee. Some local companies try to go in transit through Serbia and they are facing continuous problems. Most times they are sent back to Kosovo and they then try to reach their destination by going around Serbia.

Customs warehouses in the Serbian side of the ABL are located in the points marked in the map in fig. 8.

In Presevo there is an operating Customs terminal run by a forwarding agency “Gran Spedicija” (see useful contacts section). Fees charged depend on the kind of goods. Goods that are subject to excises pay a higher price. Usually one truck is charged 20 Euro for an overnight stay. Goods in the customs warehouses are exempted from the 5% transit fee payment.

## Special Customs Regimes

As provided for by Section 1 of UNMIK Regulation 1999/3 quantitative restrictions to imports are suspended. Special customs regimes other than the basic import regime are also suspended as established by Sec. 8 of UNMIK AD 2001/7. Inward Processing Relief (IPR) and the Transit regime are therefore affected and effectively suspended. Temporary imports are not affected and this special regime has remained in force all along.

### Inward Processing Relief (IPR)

Also called “import for export”, IPR can be authorized by the Director-General of UNMIK CS on a case by case basis following a consultation procedure involving the CFA and the Ministry of Trade and Industry. A number of guarantees are required for this regime to be granted. So far it has only been authorized in very few cases

### Temporary imports, temporary exports

This regime has never been suspended and guarantees are required. It allows the use in Kosovo with total or partial relief from import duties and without being subject to commercial policy measures of goods made out of Kosovo intended for re-export without having undergone any change except normal depreciation due to the use made out of them.

There have been some cases of temporary exports allowed by UNMIK Customs Service. They relate to different machines/goods that had to be repaired/manufactured in other countries and then brought back to Kosovo. A written request with “strong reasons” is needed. It has to be submitted to the Customs Service together with other documents such as contracts, agreements and other relevant documents.

### Transit Regime.

Transit regime was suspended by UNMIK Reg. 1999/3 The Director-General of UNMIK CS can authorize the operation of customs warehouses for trucks containing uncleared goods. Four customs Terminals, two of them privately operated, have been authorized so far. CAM-K is currently drafting the regulation that will reestablish transit through Kosovo.

The transitional nature of the suspension is stressed in the Regulation which can be interpreted as a post-war emergency measure. The Customs Service is therefore in the process of creating the appropriate instruments to reestablish the special Customs regimes in the immediate future.

## 5 – NON-TARIFF BARRIERS TO TRADE

In general terms, trade and cooperation in the region are inhibited by unstable political situations, unfair competition as a result of distorting tariff preferences and generalized smuggling as well as by protectionist rules and practices.

Administrative procedures are excessively bureaucratic while customs and tax legislation is often poorly shaped.

Trade partners for producers in Kosovo can be found in neighboring countries and territories. The most recent figures, however, show that raw materials, equipment and basic consumption goods are increasingly imported from countries other than the neighbors. Persistent tariff and non-tariff obstacles account for much of this trade distortion.

As a basic measure of commercial policy the taxation reform of commercial flows of goods across the borders needs to be tackled in the immediate future in addition to focusing on market related factors.

Commercial policy needs to focus as well on:

- Promoting political stability as far as possible
- Efficient tax implementation
- Customs facilitation
- Promoting reciprocity and confidence building with Customs administrations and business organizations in trade partner countries.

Customs taxation systems should aim to open the Kosovo market and promote increased competition. Progress in the institutional cooperation front and between customs administrations will not be sufficient and it needs to be strengthened by additional export promotion measures and increased cooperation at the business organization level. This, in turn, calls for efforts in Kosovo to further organize the business environment. Initiatives such as the creation of an exporters association could contribute to reach these goals.

Having a fully operational exporters' association has some immediate advantages such as information sharing, cost effectiveness of promotional actions, increased synergies, international expertise in mediation with potential customers in neighboring markets, economies of scale of transport costs by coordination of shipments as well as legal support in Customs related claims, advice in licensing requirements and procedures, dealing with arbitrary fees, administrative delays and other most frequently found obstacles relating with the operation of the concerned Customs Administrations.

Other obstacles to trade in the region relate to the trade partners. They include sales contract enforcement conditions and payments reception resulting in a high degree of transactional costs.

Intra-regional trade is hindered by the inability of operators to use the full diversity of instruments of payment. Most transactions are paid with cash in advance both because bank correspondence is not developed and countries in the region are rated high risk. A usual scheme is 50:50. First 50% paid on signing the agreement and the rest is paid after both the goods cross the border and the customs clearance is finalized.

The lack of coordination or correspondence among banks in the different countries/territories prevents the use of traditional forms of payment and guarantees, for instance, it is difficult to employ letters of credit where there is equal distribution of costs and risks under the contract or the bank receipts.

Export insurance is fairly unusual in the region and is non-existent in Kosovo while most banks are increasingly providing guarantees of payments for imports. An initiative that could help developing intra-regional trade would be based on an agreement among Agencies for Export Insurance from the Balkan countries. They might guarantee the realization of the contracts whenever the origin and the destination of the transaction is in the Balkans. For the companies the local agency has complete information so the risk premium is minimized. Such a form of cooperation would surely stimulate trade.

At a different level, obstacles relate to the increased difficulty for Kosovar Albanian truck drivers to circulate in most neighboring territories except in Albania. The non-recognition of UNMIK travel documents by neighboring countries, particularly in Macedonia, certainly amount to a significant barrier to trade. The FRY passport still provides more freedom of movement.

On the other hand, Serbian truck drivers who are coming en masse from Novi Pazar and Novi Sad through Gate 1, Gate 3 and Gate Hen are also facing considerable obstacles according to unofficial sources of information. Among them it has been widely reported that the following illegal fees are requested:

- Road tax payment claimed by the bridge watchers in Mitrovica North, although commonplace just after the war, has continued to this day. It had been repeatedly reported by Bosnian truck drivers.
- Protection fees paid to Kosovar-Albanian mafias.

Trucks with Kosovar number plates (KS) are only allowed to circulate in Albania and Montenegro but not in Macedonia or Serbia, although this is expected to change soon in Macedonia.

From these facts it follows that for the time being it is easier to trade in and out of Kosovo with different number plates, other licenses and other passports.

## **Non-Tariff Barriers to Trade in Kosovo**

Kosovar operators are very familiar with external trade transactions and procedures. Although they are now importing most of what is found in the market, the most

successful and innovative companies are increasingly benefiting of regional trade partnerships.

The state of the infrastructure and the transportation network around Kosovo is generally accessible enough and sufficient for the present level of traffic. Companies mention transport problems such as long lines of trucks at the border crossing points but it is evident that more investment in the road network would need to be economically justified. Waiting times at the border to clear the goods from Customs usually take a few hours.

The main issue is trade facilitation through increased cooperation with neighboring administrations and business organizations. The entire fiscal system prevents trade transactions with partners in the region to develop.

Unfair competition is due to widespread tax and customs evasion. On the other hand, importers in Kosovo would do anything within their reach to minimize the customs bill. Common practices include: Unmanifested cargo, double invoicing, under valuation of goods, etc. The impact of complicit behavior hinders the economy's development.

The lack of a modern banking system is another issue. Payments for regional trade transactions are conducted by local companies with bank transfers.

In view of what tariff and non-tariff barriers to trade are in Kosovo action in different fronts needs to be pursued:

- Tackling the customs taxation reform.
- The business community needs to be reinforced and further organized.
- A change of direction from trade to production but whenever imports (equipment, raw materials) are needed to start the production process production is discouraged. 29% of GDP is generated through tariffs while 14% of GDP is generated from excises.

A number of exports/outflow intra-FRY transactions or transit cases are included as attachments to this document.

## **Non-Tariff Barriers to Trade in Albania**

Inefficiencies in Albanian Customs procedures add uncertainty and cost to imports and exports. A partial enumeration of these inefficiencies suggests the existence of excessive and imprecise administration and the unnecessary addition of a day to the one-day that appears to be required for customs clearance.

Tirana Customs closes its books at 12:30 pm so if a truck arrives later clearance is delayed until the next day. In addition, clearance procedures require three signatures for each of the three main customs procedures. These procedures are:

- ?? Registration,
- ?? Documentation review, and
- ?? Physical examination of goods.

The third procedure, physical examination of goods can be delayed until the next day if the documentation checking is completed to include the required three signatures before 15:00. An added minor inconvenience of this delay is the requirement that a fee of seven USD is charged for the overnight parking of the transporter's vehicle.

Additional transit difficulties in Albania include:

- ?? Different Customs officials across the country use different operating procedures.
- ?? Theft of goods in transit through Albania is commonplace.
- ?? Mistrust exists among different government institutions and enforcement agencies thereby complicating procedures. For example, Customs expects the time for driving from Durres to Tirana not to exceed two hours otherwise the transporter is subject to fines. Moreover, trucks at Durres Customs are sealed and can only be opened by Tirana Customs.
- ?? Capricious checks of transporters are reported to occur frequently. Trucks are unloaded in Durres for a physical check then they are stopped by anti-smuggling units en route to Tirana and unloaded again for a physical check. When they reach Tirana they have to go through a third physical check.
- ?? Penalties are charged for weight discrepancies at each Customs checkpoint, but weighing practices are not standardized.
- ?? Penalties for weight discrepancies include inconvenience and expensive forced delays of transport vehicles for several days at customs checkpoints.

In summary, customs clearance of shipments in transit through Albania generally require two calendar days, but could easily be completed in one day if prolonged customs procedures were eliminated.

**Taxation:** The tax office works with scarce material means and poor equipment. Therefore advance payment of profits tax is based upon profits figures for the last two years. If taxes are not paid, customs has the right to block the shipment.

## **Non-Tariff Barriers to Trade in Montenegro**

The following are the main non-tariff barriers to trade in Montenegro:

-- Imports into Montenegro face the need to obtain licenses from the competent Ministry which is later submitted to the House for Payments and Settlements whenever the transaction is not covered by the simplified procedure.

- Arbitrary taxation is widespread in Montenegro.
- Undeveloped banking system.
- Inefficient Court procedures in relation with the collection of claim repayments.
- Conflicts of laws/conflicts of jurisdictions between the federal level and the Montenegrin laws and institutions result in inhibiting trade.
- Illegal imports bring unfair competition, market losses, difficulties with currency conversion.
- International payments and transactions face long delays and banking fees are very high, 1.85%.
- There is a transit tax of 3% charged on goods that pass through Montenegro towards other markets. These goods are later sold in Montenegro at unreasonably low prices.
- It has been reported for some shipments of goods originating in Kosovo to Montenegro that the trucks have been forced to go back to obtain the SAD. For Montenegrin Customs authorities commercial goods originating in Kosovo are considered imports.

### **Non-Tariff Barriers to Trade in Serbia**

Parallel to the increase in number of outflows from Kosovo to Serbia the bilateral commercial relations between UNMIK and Serbia have improved significantly. This is reflected in the recent fiscal agreement between the CFA and the PRS.

In practice, some “on the road” obstacles were reported by companies trying to go through Serbian territory to Bosnia which were forced to go back and out of Kosovo through the Kula pass close to Peja and reach their destination in Bosnia circumventing the Serbian territory.

Taking as a reference outflow records from the TCO in Mitrovica, outflows to Serbia, either of goods made in Kosovo or goods originating in third countries, have increased over the last two years by a significant proportion: 39 transactions of this kind from March to December 2001 versus 51 from January to May 2002. For a quantification of outflows from Kosovo to Serbia see pie chart under bilateral trade flows.

Some documented cases of practical obstacles are presented. They illustrate the issues described for some transactions where exporters from Kosovo were selling goods to partners in Montenegro, Serbia or Macedonia. The kind of problems found in Albania are not reflected in documents.

## **6 – CASES**

(Please see attached documents for backup documentation for each case.)

### **Case nr. 1 Outflow to Montenegro**

Shipment of mineral water to Montenegro. The attached documents show that for goods of total value of 257,64 Euro the total paid to Customs in Montenegro for the different taxes claimed was 276,05 Euro or 107% (see invoice).

The taxes the exporter faced were:

- 17,33% tariff
- 1,16% evidence tax
- 84,3% Agriculture tax
- 4,36% tax for quantity of goods shipped

It goes without saying that both the rate and amounts of taxes charged was arbitrary. The company underwent all required controls and obtained the corresponding certificates that are also attached. It reflects the lack of reciprocity and the biased attitude by Customs Authorities in Montenegro towards goods originating in Kosovo.

As explained above UNMIK CS treats goods originating in Montenegro when entering Kosovo as intra-FRY inflows and does not charge Customs duties. The bias is reflected by the fact that inflows from Serbia and Vojvodina into Montenegro are only charged 1% evidence tax.

### **Case nr. 2. Inflow from Serbia**

The case documented presents no striking features other than the certificate (Izjava) that Kosovar and Serbian operators involved in the transactions, both inflows and outflows, needs to obtain to avoid double taxation for the sales-tax/VAT.

It is a regular transaction with goods originating in Serbia. The Customs invoice shows that it has been charged a 15% VAT.

### **Case nr. 3 . Outflow from Kosovo to Serbia.**

A firm from Podujevo was trying to send goods to their customer in Bosnia. The transaction had all required documents – invoice, CMR, SAD. The origin of the goods mentioned in the SAD form was Kosova. The truck was therefore not allowed to transit through Serbian territory. The origin of the goods can only be FRY until eventually something different is decided by the international community.

#### **Case nr. 4. Export to Macedonia.**

It relates to an export shipment from Peja, Kosovo to Skopje, FYR Macedonia.

The origin of the goods indicated on the SAD is Yugoslavia. (meaning FRY). For this reason the shipment was granted the preference provided for in the 1996 FTA between FRY and the FYR Macedonia. Additionally, it was charged a fee for staying at the Customs terminal and a so-called “weight” tax was applied. (See invoice of the forwarding agent attached.)

#### **Case nr. 5. Temporary export of samples to FYR Macedonia.**

Samples from different producers were sent to the Skopje trade fair. The certificate was stamped by UNMIK but the box in the EUR-1 certificate designed to indicate the origin of the goods was empty. On the way back the samples were charged 19% customs (tariff?) according to the invoice, 110 Euros. The value of the goods indicated in the KBS invoice attached was 136.33 Euro.

#### **Other cases (anecdotal).**

##### **1 – Company manufacturing table cloth and products for tourists (private)**

- The company imports raw materials from Turkey.
- It used to export to Croatia and Slovenia before the war.
- The company is now not able to export due to high production costs and the inability to compete with cheaper and lower quality Chinese goods.
- The firm claims it has not enough information on prospective markets
- The goods are primarily intended for tourists. With the conflict the attractiveness of the region has decreased.
- Tariffs on imported inputs make the company’s goods too expensive –raw materials make for a 33% of total production costs.

##### **2 – Company producing cutlery and jewelry (Socially owned enterprise)**

- Former big exporter to Slovenia, Croatia, Macedonia, Turkey, Germany, Greece and Italy.
- Currently it exports to Macedonia, Germany and Turkey.
- Among the problems mentioned: 1) No reciprocity with Macedonia (1% evidence tax vs. 19% tariff), 2) Lack of information on Import/Export regime with Serbia and Montenegro.

##### **3 - Private producer of video and audio cassettes**

- Markets are in Macedonia and Serbia
- Problems faced include: 1) Political problems at the Serbian border (similar to the one described in case nr. 3). The first out of three shipments to Serbia was

successful. To go across the border companies need a set of documents (not only invoice, packing list, CMR like in internal transactions but also exports declaration with the SAD and certificate of origin EUR-1.

## **7 – CONSOLIDATED GUIDE TO EXPORTS**

1 - Any Kosovar business wanting to export needs to register in the Provisional Business Registration office at the Municipality.

Procedure and documents required for registration:

- ?? Opening a bank account
- ?? Declaration on how long the company expects to operate in Kosovo.
- ?? Contract for rent of office or purchase of the premises certified by the Court of Kosovo.
- ?? Contract among the shareholders, if there is more than one partner.
- ?? List of the property the company owns in Kosovo at the moment of registration.
- ?? Completed application form (obtained from the Municipality).

2 - Registration at the Central Fiscal Authority as an exporter, which is required in order to obtain VAT refunds on exports.

3 - Registration at Customs House in Pristina as an importer/exporter.

4 – When exporting goods that require phyto-pathological, veterinary and/or health certifications, the competent authorities for these are:

- ?? Ministry of Health
- ?? Ministry of Agriculture

The exporter needs to be aware of what certifications are required in the target market. These are normally obtained by the customer.

### **Requirements for Each Export Transaction**

- ?? Are the goods to be exported subject to quantitative restrictions in the country of destination? If yes, an import license needs to be obtained by the customer in that country.
- ?? What quality control certifications are required in the targeted market and where to go.
- ?? Customs clearance will be conducted by the simplified or the normal procedure. The difference between both procedures lies in the documents and the resources that are required . This depends on to which country or region the goods are being

sent. No Single Administrative Document or the use of a Forwarding Agent are required for the simplified procedure.

All Tax Collection Office cleared goods from Customs go through the simplified procedure. In the border crossings customs clearance is normally conducted through the normal procedure.

Both procedures include three stages:

- ☒☒ Registration of the shipment at Customs Office by presentation of the documents.
- ☒☒ Check of the documents
- ☒☒ Physical check of the goods.

## **FYR Macedonia**

### Exporting to FYR Macedonia

#### Taxation

- ☒☒ No tariffs should be applied (according to the Free Trade Agreement between FRY and the Republic of Macedonia of 1996 and the Memorandum of Understanding of 2001 providing for preferential treatment).
- ☒☒ Each shipment should be charged only 19 Euro for Customs service fee according to the Regulation of the Ministry of Finance.
- ☒☒ For goods of high revenue value excise taxes are applied in different percentages.
- ☒☒ Goods exported to FYR Macedonia are charged 19% VAT.
- ☒☒ Fees are charged for phyto-pathological or veterinary checks in FYR Macedonia wherever they are required. Checks are carried out at the border crossing points by inspectors.

Required Documents: (for goods originating in Kosovo)

- ☒☒ Single Administrative Document
- ☒☒ Commercial Invoice
- ☒☒ CMR (Convention de Marchandises en Route) or transport document
- ☒☒ EUR-1 certificate of origin in FRY stamped by UNMIK Customs Service

Customs terminals in FYR Macedonia close to the border with Kosovo are located in Blace, Tetovo-Jazince and Skopje.

### Transit Through FYR Macedonia

#### Taxation

- ☒☒ 100 Euro as Customs Supervisory Service Fee
- ☒☒ Excise taxes in different percentages for goods of high revenue value

Any claims by exporters relating to fees imposed by Customs in FYR Macedonia are first dealt with by the Customs Administration itself and a second instance is the Ministry of Finance in Skopje.

## **Albania**

### Exporting to Albania

#### Taxation

- ✍✍ Goods are charged full tariff
- ✍✍ Excise taxes apply for goods of high revenue service
- ✍✍ 20% VAT tax
- ✍✍ Road tax in Albania is paid either as a daily fee or calculated according to the formula: Weight x kilometers x 0.02. (For a 40 METRIC TONS load the tax to be paid is about 170 USD).

#### Required Documents

- ✍✍ EUR-1 certificate of origin
- ✍✍ SAD exports declaration stamped by UNMIK CS
- ✍✍ CMR
- ✍✍ Health, phyto-sanitary, veterinary certifications issued in Kosovo by the Ministry of Health and the Ministry of Agriculture are recognized by the CS in Albania. The same applies to drug licenses issued by the Kosovo Drug Regulatory Authority. All food products need to be certified in Kosovo

Customs warehouses in Albania are located in Morina , which is about 150-200 meters from the Kukes border crossing point.

### Transit Through Albania

#### Taxation

- ✍✍ 5% transit fee charged on the value of the goods
- ✍✍ Road tax, as noted above.
- ✍✍ Excise taxes

## **Montenegro**

### Shipments to Montenegro

(The simplified procedure is used in most cases but there have been instances in which shipments with no SAD declaration were sent back to Kosovo.)

#### Taxation

- ✍✍ Goods are charged normal tariff unlike goods made in Montenegro shipped into Kosovo.

- ✍✍ Export and import quantitative restrictions apply for a small number of goods
- ✍✍ 1% evidence tax on top of the tariff.
- ✍✍ Excise taxes for goods of high revenue value
- ✍✍ 20% VAT tax charged cumulatively after the tariff and the excise taxes –if applicable- at variable rates between 15 and 24%.

#### Required Documents

- ✍✍ SAD (unless the simplified procedure applies)
- ✍✍ Commercial invoice
- ✍✍ CMR
- ✍✍ Certificate EUR-1
- ✍✍ To receive a VAT refund in Kosovo the commercial invoice needs to be stamped at the CFA.
- ✍✍ Phytopathological, veterinary and sanitary inspections are carried out by inspectors at the border or in labs in Montenegro.

#### Transit Through Montenegro

##### Taxation

- ✍✍ 3% Transit tax , 5% for coffee, alcohol and cigarettes charged on the value of the goods.

Customs warehouses in Montenegro close to the border with Kosovo are located in Zelen, Rance (border with Serbia), Kulla and Sukobin.

## **Serbia**

#### Shipments to Serbia

##### Taxation

- ✍✍ No tariffs apply because shipments between Kosovo and Serbia are considered intra-FRY transactions. If goods originate in a third country they are to be declared by SAD at the check point TCO and the regular tariffs will apply.
- ✍✍ Excise taxes are charged in different rates.
- ✍✍ Sales tax is charged in Serbia at a 5% rate (difference between 20% sales tax in Serbia and 15% VAT in Kosovo according to the Agreement reached between CFA and the Public Revenue Service of Serbia)

#### Required Documents

a) For goods originating outside of Kosovo the following documents are required:

- ✍✍ Commercial invoice
- ✍✍ CMR

- ✍✍ Customs declaration with the SAD
- ✍✍ Certificate of origin EUR-1
- ✍✍ For fuel or oil derivatives, authorization by the Serbian Ministry of Energy.

b) For goods originating in Kosovo.

- ✍✍ VAT registration. This will be used to obtain the benefit of the 5% sales tax in Serbia. While there is no specific form currently required to register such shipments, a Single Administrative Document is being created that will be used for intra-FRY transactions.

### Transit Through Serbia

#### Taxation

- ✍✍ Goods are charged a 5% fee on their value

Customs warehouses in the Serbian side of the Administrative Boundary Line are located in Vranje, Nis, Krusevac and others.

## **Special Customs Clearance Procedures**

### Inward Processing Relief

According to UNMIK Regulation 1999/3 IPR is suspended but can be granted on a case by case basis by the Director General of Customs upon written request and with a number of guarantees following a consultation procedure with the CFA and the Ministry of Trade and Industry. It can be used by producers that need to import raw materials to be elaborated here and will re-export the final products.

### Temporary Imports/Temporary Exports

This regime is not suspended. Guarantees are also required. It allows the use in Kosovo with total or partial relief from import duties and without being subject to tariffs or restrictions of goods made out of Kosovo intended for re-export without having undergone any change except normal depreciation due to the use made out of them. A written request with strong reasons is needed and it has to be submitted to the Customs Service together with other documents such as contracts, agreements and other documents.

### Transit

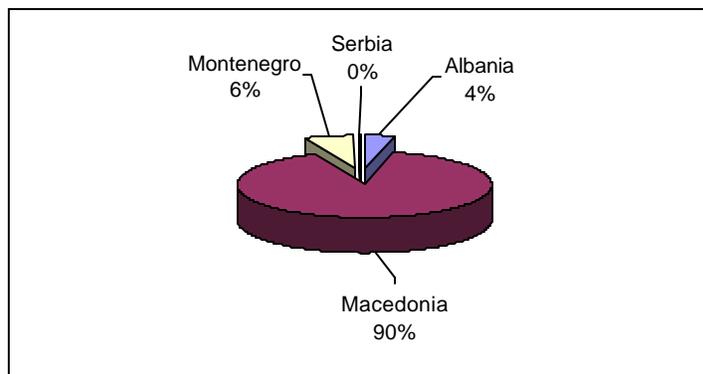
Transit through Kosovo is suspended. Goods need to be cleared from Customs at the borders/ ABL or in one of the four Customs terminals authorized by the Director-General of UNMIK CS.

## 8 – BILATERAL TRADE FLOWS 2001 AND 2002

### Imports – Inflows

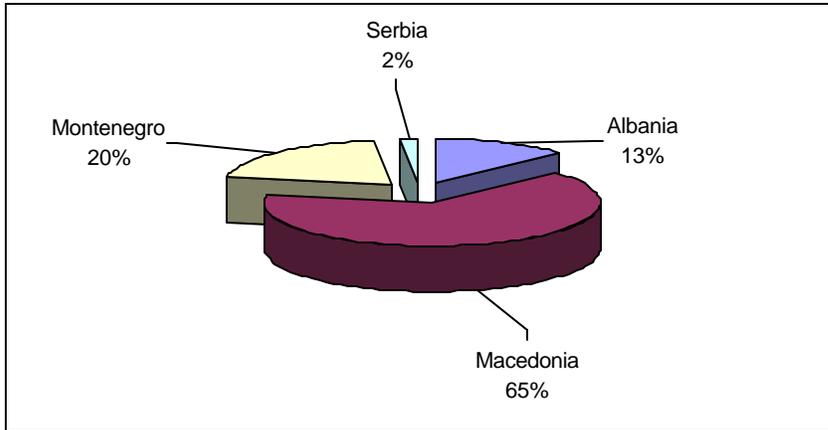
#### *IMPORT BY PLACE OF LOADING-2000 (in Euro)*

	<i>Albania</i>	<i>Macedonia</i>	<i>Montenegro</i>	<i>Serbia</i>
2000	10,931,036	264,598,020	17,857,798	728,947



#### *IMPORT BY PLACE OF LOADING IN 2001(in Euro)*

	<i>Albania</i>	<i>Macedonia</i>	<i>Montenegro</i>	<i>Serbia</i>
2001	29,432,396	147,915,907	46,586,551	3,512,102



## 9 – MAPS AND FIGURES



Figure 1

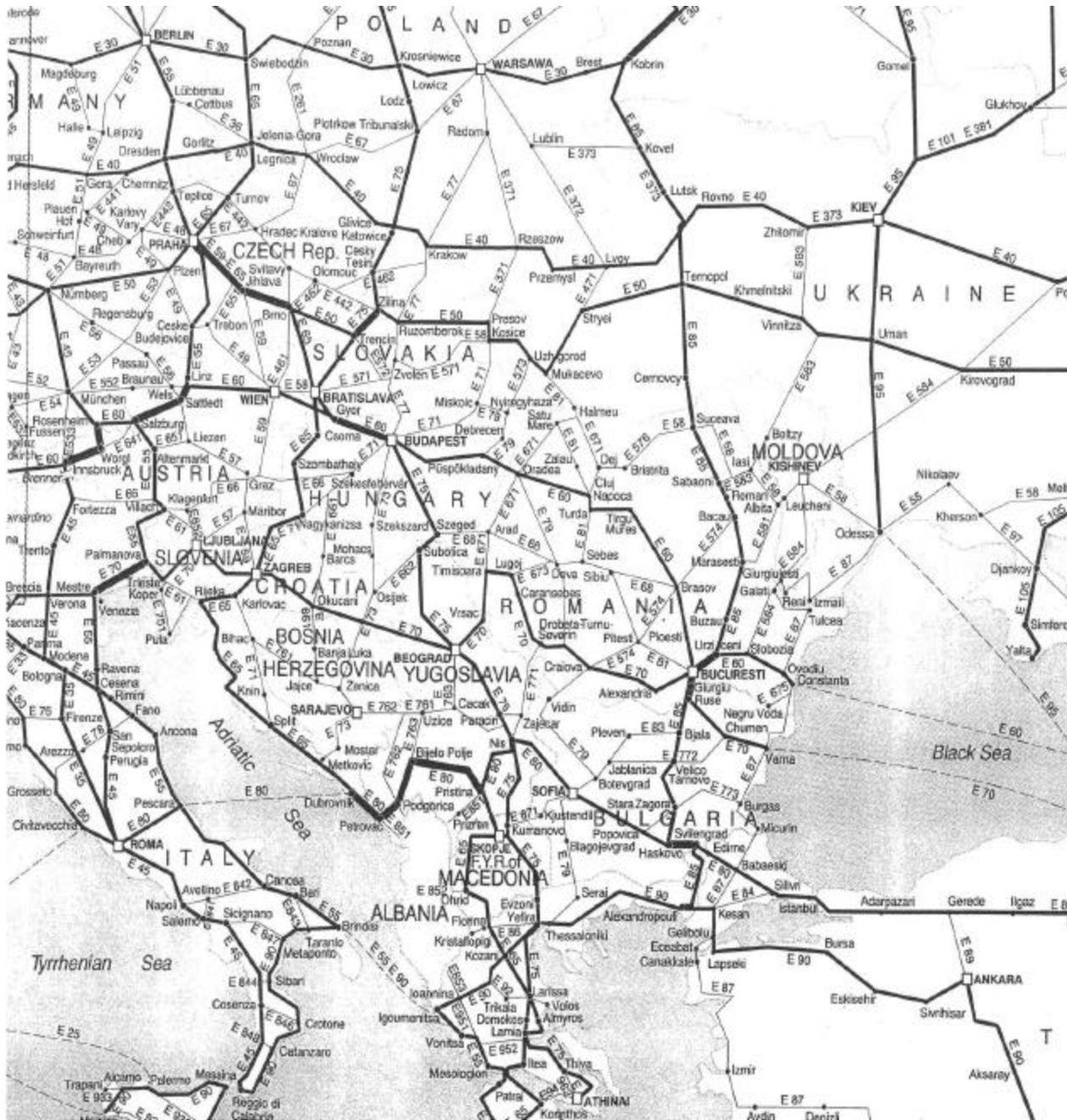


Figure 2

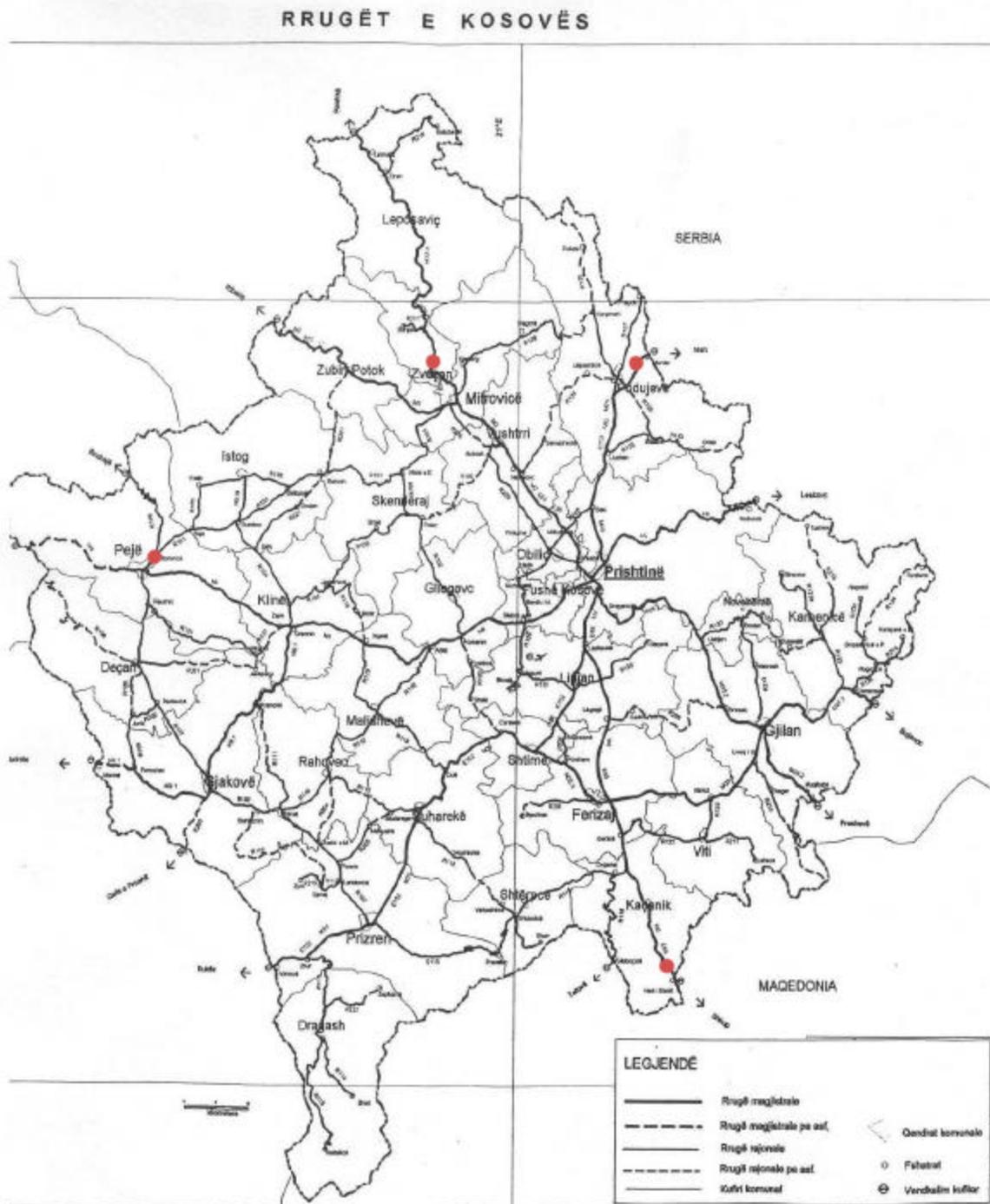


Figure 3

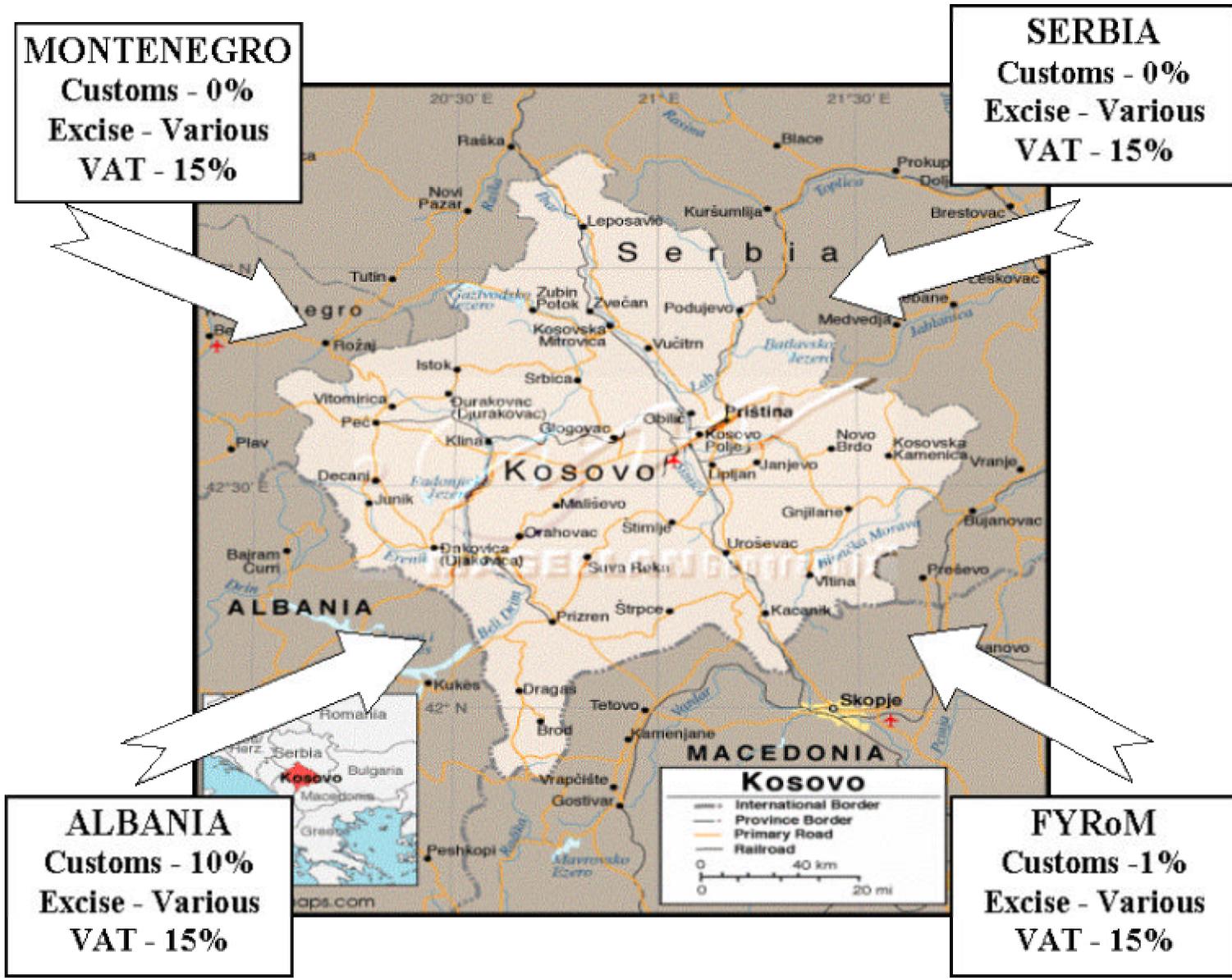


Figure 4

REGIONAL DIVISION OF THE CUSTOMS ADMINISTRATION OF THE REPUBLIC OF MACEDONIA  
 ТЕРИТОРИЈАЛНА ПОДЕЛБА НА ЦАРИНСКА УПРАВА НА РЕПУБЛИКА МАКЕДОНИЈА

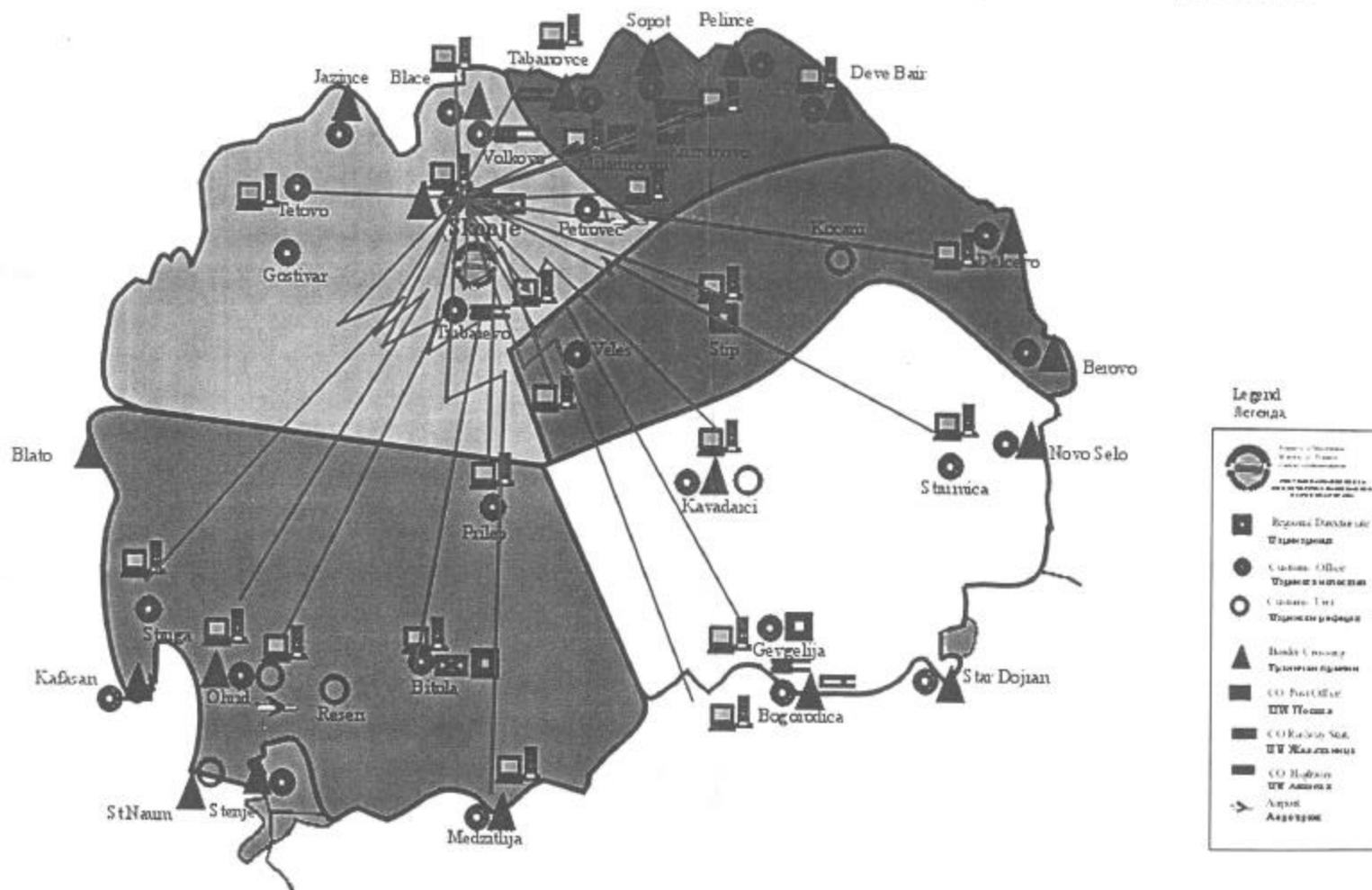


Figure 5



Figure 6

### Geografska infrastruktura UCCG sa poslovnim funkcijama koje se preuzimaju na datom mjestu

Priložena skica pokazuje geografsku infrastrukturu UCCG sa poslovnim funkcijama koje se preuzimaju na datom mjestu:



1. **Crveno:** carinske ispostave na graničnim prelazima kod kojih se vrši:

- nadzor (prijavlivanje robe radi uvoza ili izvoza)
- prijava tranzita,
- carinjenje robe u putničkom prometu,
- kontrola posebnih uslova za uvoz robe,
- valutna kontrola putnika.

Obuhvata sljedeće carinske ispostave: CI Debeli Brijeg, CI Vračenovići, CI Ilijino Brdo, CI Šćepan Polje, CI Krstac, CI Metaljka, CR Rožaje, CI Sitnica.

Figure 7



## 10 – USEFUL CONTACTS

### Kosovo

Kosova Chamber Of Commerce (Oda Ekonomike E Kosoves)

Nëna Tereze 20, 38000, Pristina.

Tel (+ 381) 38 224 299/ 38 224 741 Fax (+381) 38 224 497, GSM mobile tel. ++ 377 44 500 499

Mr. Ismail Kastrati, president , Besim Beqaj, Head of International Relations Dept.

Secretary: Mrs. Bucic

Euro Info Correspondence Center In Kosovo

Ejup Qerimi , Director

tel./fax. + 381 38 224 596 / GSM + 377 44 501 210

c/ Mother Teresa str. 20 PRISTINA KOSOVO

<http://www.kosovo-eicc.org> [e.qerimi@kosovo-eicc.org](mailto:e.qerimi@kosovo-eicc.org)

### CUSTOMS TERMINALS

Hani I Elezit Customs Terminal (Sharr-Salonit Factory) – 038/542 439

Peja Customs Terminal (Devolli Company) – 038/502 199

Merdare-Podujevo Customs Terminal (Crk Complex) – 038/

Mitrovica Customs Terminal (Trepca Complex) – 038/502 204

### FORWARDING AGENTS (see Annex 9)

Unmik Customs Service

Rruga e Leninit P.N.

38000 Pristina

Tel. And Fax +381 38 542 411, 541 497, 542 065

e-mail: [ekrem@unmikcustoms.org](mailto:ekrem@unmikcustoms.org)

Customs Assistance Mission In Kosovo (CAM-K)

Rr. Drini I Bardhe P.N.

Pristina-Kosovo

Ph. Nr. + 381 38 243 501

Fax +381 38 243 502

e-mail: [Cam-k.legal@octas.com](mailto:Cam-k.legal@octas.com)

Central Fiscal Authority (CFA)

Corner Mother Theresa and Leninit

Pristina, Kosovo

Ph. Nr. +381 38 540564

[www.kosovo-CFA.org](http://www.kosovo-CFA.org)

Ministry Of Trade And Industry  
Jean Monnet Building  
Velusha Street  
Pristina, Kosovo  
Tel: +381 38 500 400  
[www.euinKosovo.org](http://www.euinKosovo.org)

#### BUSINESS ASSISTANCE AND INFORMATION

Kosovo Business Support  
Rr. Nazim Hikilometerset No. 116  
Arberia, Pristina  
Tel: +381 38 243 361  
Fax: +381 38 517 216  
Website: [www.usaidkbs.com](http://www.usaidkbs.com)

Central and Eastern European Law Initiative (CEELI)  
Rr. Ismail Qemali 47  
Arbëria, Pristina  
Tel: +381 38 524 104

Kosova Development agency (KDA)  
Rruga e Londres 91  
Gjakovë, Kosovo  
Tel: + 381 390 24 837  
Or  
Rruga Dardania blloku B nr. 1  
Pristina, Kosovo  
Tel +381 38 543 436/510 122

Riinvest Institute for Development Research  
Mother Teresa Street, No.7/III  
Pristina, KOSOVO  
Tel/Fax: + 381 38 549 320  
E-mail: [riinvest@hotmail.com](mailto:riinvest@hotmail.com)

#### BANKS

American Bank Of Kosovo-Abk  
(Banka Amerikane E Kosovës)  
St. Luan Haradinaj 1  
Prishtina-Kosovo  
Tel.+381 (0)38 226 400/2,  
Fax: +381 (0)38 226 408  
e-mail: [info@abk-kosovo.com](mailto:info@abk-kosovo.com)

Micro Enterprise Bank –MEB

Address: Skenderbeu Str., Prishtina

Tel: +381 38 549 624 or 54 96 37 or 54 96 38

Fax: +381 38 54 96 25

Email: meb\_kosovo@compuserve.com

Banka E Re E Kosovës – Brk

Rr. Nënë Terezë, 54

Prishtina-Kosovo

Tel: +381 (0)38 223 976, 225 359, 224 494

Fax: +381 (0)38 225152

Banka Private E Biznesit - Bpb

Bank For Private Business

St. Vellusha No.6

Prishtina-Kosovo

Tel: +381 (0)38 243 653/5

Fax: +381 (0)38 243 656/7

Tel/Fax: +381.38.548 901, 548 899

Web: www.bpb-bank.com

Kasabank Sh.A.

St. Pal Palucaj No.1

Prishtina-Kosovo

Tel: +381 (0)38 543 688

Fax: +381 (0)38 543 699

e-mail: milazim\_a@yahoo.com

Banka Ekonomike

Qafa 5a

Prishtina – Kosova

Tel: +381 (0)38 249 070

Tel&Fax: +381 (0)38 248 997

Banka Kreditore e Prishtinës sh.a.

Credit Bank of Prishtina sh.a.

St. Tirana 29/a

Prishtina-Kosovo

Tel: +381 (0)38 249 851

Fax: +381(0)38 248 851

E-mail: bajram@bkpbank.com

Sources of Equity Finance  
AREF – Kosovo Branch  
Rruga Nene-Tereza  
Hotel Iliria Ground Floor, Pristina  
Tel: +381 38 518 152/518 153  
Fax: +381 38 518 061  
Email: arefkos@kujtesa.com

## **Montenegro**

### FORWARDING AGENTS

Zetatrans  
Beogradska, 10  
Ph. Nr. Central 081/230 620, 230 505, 230 429, 230 342,230 435,230 773  
General manager phone:081 244 842, 245 776, 244 844,Fax: 081 244 157  
Deputy director :081 230 139, 230 969, fax: 081 230 988  
Legal Department: 081 230 003,230 051 fax:081 230 135  
Commercial department: 081 230 464, 230 520 fax 081 230 082

Podgorsped  
J.Stojanovica bb  
Bar  
Ph. Nr. 085 313 270

Zensped  
V.Rolovica 15 ph:085 317 501, 317 502  
Bar  
Fax:085 312 275, 313 123  
E-mail brano@zensped.com  
E-mail info@zensped.com

### BUSINESS SERVICES

Euro Info Correspondence Center (EICC) Montenegro  
Boulevard Revolucije 2  
81000 Podgorica, Montenegro  
Ph. Nr: +381 (0) 81 247 270  
Fax : +381 (0) 81 247 350  
Mob: +381 (0) 67 570 041  
<http://www.euroinfo.cg.yu>

## CUSTOMS ADMINISTRATION

Vlada Republike Crne Gore  
Uprava Carina Crne Gore  
Oktobarske revolucije 128  
8100 Podgorica  
Main Ph. Nr.: +381 81 620 378

Radusinovic Miodrag (Director of Montenegrin Customs Service)  
Ph. Nr. +381 81 623 322

Predrag Milonjic (Manager of Podgorica Customs Station)  
Ph. Nr. +381 81 620 433, 620 459.

Suzana Sukovic, Dragan Nikolic, Branimir Tatar (Heads of section in the Montenegrin Customs Service)  
Ph. Nr. +381 81 620 433, 620 459

Dragan Djurovic (Manager of Bar Customs Service).  
Pn. Nr. +381 85 312 141

Jovo Sudjic (Manager of Kotor Customs)  
Ph. Nr. +381 82 323 817

Small And Medium Enterprise Development Agency  
Government of the Republic of Montenegro  
Trg Vektre bb  
81000 Podgorica  
Ph. Nr. +381 81 482 150  
Ph. Nr. +381 81 234 214  
Fax: +381 81 234 462  
e-mail: sanjav@mn.yu  
Director: Zoran Vukcevic  
e-mail: zoranv@mn.yu

Chamber Of Economy Of Montenegro  
Privredna Komora Crna Gora  
Novaka Miloseva 29-II  
Podgorica, Montenegro  
Vladimir Vumirovic, Chairman + 381 81 230 545  
Bozidar Raznatovic General Secretary +381 81 230 546  
Sr. Velisa Nenezic, Secretario relaciones Económicas Internacionales

EAR Montenegro  
Plot 137, Gorica "C", 81000 Podgorica (Montenegro)  
Tel. 381-81- 406 600, Fax 381-81- 231 742  
E-Mail: sanela.banda@ear.eu.int

Development Fund Of The Republic Of Montenegro  
Bulevar Revolucije 9,  
81000 Podgorica

Zoran Milicevic – General Director  
Ph. Nr. +381 81 245 975  
Fax: +381 81 224 998  
e-mail: fzrcg@cg.yu

## **Macedonia**

Ministry of economy  
add.Jurij Gagarin 15, 1000 Skopje  
tel.+389 2 393 403 Maja Curcieva-head of investment promotion unit  
tel.+380 393 423 Katerina Orovcanec-head of trade promotion unit

Chamber of commerce  
add.Dimitrie Cupovski 13, 1000 Skopje  
tel.+389 2 118-088  
fax.+389 2 116 210

Customs office  
add.lazar Lecenoski 13, 1000 Skopje  
tel.+389 2 131 328, 238 471, 116 188  
fax.+389 2 237 832

USAID  
add.Jurij Gagarin 15, 1000 Skopje  
tel.+389 2 380 446  
fax.+389 2 380 112  
Stephen Gonyea -private sector development officer

World Bank office  
add.Leninova 34, 1000 Skopje  
tel.+389 2 117 159  
fax.+389 2 117 627

EBRD  
add.Dame Gruev 14, 1000 Skopje  
tel.+389 2 113 262  
fax.+389 2 126 047

UNDP

add.Dimitrie Cupovski 8, 1000 Skopje  
tel.+389 2 118 641  
fax.+389 2 131 040

**Serbia**

INTERNATIONAL ORGANIZATIONS

EU - European Union

(Delegation of the European Union in FRY)  
Paje Adamova 4. 11000 Beograd  
Tel. +381-11- 36 72 411, Fax +381-11- 36 71 143  
E-Mail: [mailto@delyug.cec.eu.int](mailto:mailto@delyug.cec.eu.int)

EAR - European Agency for Reconstruction

Vasina 2. 11000 Beograd  
Tel. +381 11 30 23 425, 302 34 29, 302 34 89.  
E-Mail: [ear@yubc.net](mailto:ear@yubc.net) WEB: [www.ear.eu.int](http://www.ear.eu.int)  
Representante para Yugoslavia, Sr. Hasso Molineus  
Mr. Mingarelli, Director General  
Richard Zink, Head of Operations Division  
Srta. Duska Subotic  
Sector energija: Sr. Alan Chandelier, Sr. David Williams (Tel. 3023444)

SEED - Southeast Europe Enterprise Development

Kneginje Zorke 96-98  
Fax +381-11- 30 23 740  
E-Mail: [jarnautovic@ifc.org](mailto:jarnautovic@ifc.org)

UNDP - United Nations Development Program

Internacionalnih brigada 69. 11000 Beograd  
Tel. +381-11- 344 44 00, 344 40 41  
E-Mail: [undp@undp.org.yu](mailto:undp@undp.org.yu)  
Mr. Francis M O'Donnell, Officer in Charge  
Sr. Radomir Buric

WFP - United Nations World Food Program

Aleksandra Stambolijskog 13. 11000 Beograd  
Tel. +381-11- 661 007, 661 013, 661 029; Fax +381-11- 660 221  
E-Mail: [wfp.belgrade@wfp.org](mailto:wfp.belgrade@wfp.org)

WB - World Bank

Bulevar Kralja Aleksandra 86. 11000 Beograd.

Tel. +381-11- 302 07 02, 302 07 04.

E-Mail: [epatterson@worldbank.org](mailto:epatterson@worldbank.org)

Mr. Rory O`Sullivan, Jefe Misión, 30.23.700

Mrs. Elaine W. Patterson, Liaison Officer

Mr. Jamal Saghir, director sector energía

Gabriela Has, Igor Kesman.

Ministry of International Economic Relations

Ministarstvo za ekonomske veze sa inostranstvom

Gracanicka 8, 11000 Beograd, Yugoslavia

Tel/Fax: (+ 381 11) 3617-628, 3617-583

E-mails: [office@mier.sr.gov.yu](mailto:office@mier.sr.gov.yu)

[cabinet@mier.sr.gov.yu](mailto:cabinet@mier.sr.gov.yu)

Foreign Investment and External Trade Promotion Agency

Agencija za strana ulaganja i promociju izvoza

Terazije 23, VII sprat. 11000 Beograd

E-Mail: [office@siepa.sr.gov.yu](mailto:office@siepa.sr.gov.yu)

CHAMBERS OF COMMERCE AND FOREIGN TRADE INSTITUTIONS

Official Chambers of Commerce

Privredna komora Jugoslavije - (Chamber of Economy)

Terazije 23. 11000 Beograd

Tel. 381-11- 324.81.23, 324.82.29, Telefax 381-11-324.87.54

Secretary for International Relations: Mrs. Mira Lukic, Tel. +381-11- 32 24 336

Fax 381-11- 324 87 54, 322 59 03

Website: [www.pkj.co.yu](http://www.pkj.co.yu) E-Mail: [info@pkj.co.yu](mailto:info@pkj.co.yu)

E-Mail: [cooperation@pkj.co.yu](mailto:cooperation@pkj.co.yu)

Privredna komora Srbije - (Serbian Economic Chamber)

General Zdanova 13-15. 11000 Beograd

Tel. 381-11- 324.06.11, 323.01.13, Telefax 381-11- 323.09.49

E-Mail: [president@pks.co.yu](mailto:president@pks.co.yu) [pksrbije@pks.co.yu](mailto:pksrbije@pks.co.yu) WEB: [www.pks.co.yu](http://www.pks.co.yu)

Privredna komora Novi Sad - (Novi Sad Economic Chamber)

Rumenacka 16a. 21000 Novi Sad

Tel. 381-21- 334.688

Privredna komora Beograda - (Belgrade Economic Chamber)

Kneza Milosa 12. 11001 Beograd

Tel. +381-11- 641 355, Fax + 381-11- 642 020

WEB: [www.komberg.org.yu](http://www.komberg.org.yu)

Regionalna privredna komora Kragujevac  
Mose Pijade 10/IV. 34000 Kragujevac  
Tel. +381-34- 335 805, Fax +381-34- 334 049  
E-Mail: rpkkkg@eunet.yu

Euro Info Correspondence Centre en Kosovo, Director: Ejup Qerimi,  
tel./fax. + 381 38 224 596 / GSM + 377 44 501 210  
c/ Mother Teresa str. 20 PRISTINA KOSOVO  
<http://www.kosovo-eicc.org> [e.qerimi@kosovo-eicc.org](mailto:e.qerimi@kosovo-eicc.org)

Unija poslodavaca Srbije - UPS (Serbian Business Association)  
Stojana Novakovic 19. 11000 Belgrade  
Tel. 764 075, 764 125; 063- 205 216; E-Mail: [unija@yubc.net](mailto:unija@yubc.net) WEB: [www.unija.org.yu](http://www.unija.org.yu)  
Sr. Nebojsa Atanackovic, president

SIGMA – Serbian small business association  
Srpskih vladara 19 b. 11000 Belgrade  
Tel. 3235 185, E-Mail: [sigma@bbnet.org.yu](mailto:sigma@bbnet.org.yu)  
Sr. Aleksandar N. Denda, vicepresident

Svetski trgovacki centar Beograd - (World Trade Center Belgrade)  
Bulevar vojvode Misica 14. 11000 Belgrade  
Tel. 381-11- 655.721, 655.222, Telefax 381-11- 655.625

#### FOREIGN BANKS OPERATING IN YUGOSLAVIA

"EKSIMBANKA" - Eksport - import banka, A.D.  
Trg Nikole Pasica 10. 11000 Beograd  
Tel. +381-11- 32 44 323, Fax + 381-11- 32 31 935  
SWIFT: EKB EYU BG  
WEB: [www.eksim.co.yu](http://www.eksim.co.yu)  
Shareholders: BERD (London) and others (DEG german, SEF USA and "Futura Investment Ltd".)  
With a 50,37% of the total shares.

"HVB Yugoslavia"  
Rajiceva 27-29. 11000 Beograd  
Tel. +381-11- 320 45 00, 334 41 00, 328 34 40; Fax 334 45 43, 334 22 00  
[www.hvb.co.yu](http://www.hvb.co.yu)  
Mr. Christoph Greussing, Chairman & CEO, 3204501, 3344100  
E-Mail: [christoph.greussing@yu.hvb-cee.com](mailto:christoph.greussing@yu.hvb-cee.com)  
Gdja. Dusica Mihajlovic, Account Manager Retail, 3204 646, 3204 652, Fax 3204 691  
E-Mail: [dusica.mihajlovic@yu.hvb-cee.com](mailto:dusica.mihajlovic@yu.hvb-cee.com)  
Grupo "HVB": Bank Austria + HypoVereinsbank + Creditanstalt

"MFB Bank" - Micro Finance Bank  
 Gospodar Jevremova 9. 11000 Belgrade  
 Tel. + 381-11- 3025 625, Fax +381-11- 3025 605  
 E-Mail: infobel@mfbbanka.com  
 Director: Mr. Ralf Reitemeier, tel. +381-11- 3025 650

"National Bank of Greece, S.A."  
 Kralja Petra 22-24. 11000 Belgrade  
 Tel. + 381-11- 3025 900, Fax + 381-11- 3025 936  
 E-Mail: nbgbanka@beotel.yu

"Raiffeisenbank Jugoslavija, a.d."  
 Resavska 22. 11000 Belgrade  
 Tel. +381-11- 32 02 100, 32 02 117; Fax 32 02 149  
 Director: Mr. Harald Lorenz  
 Mrs. Sofia Davidovic: sofia.davidovic@rba-belgrade.raiffeisen.at  
 Mrs. Gordana Milakovic: gordana.milakovic@rba-belgrade.raiffeisen.at

RECOMMENDED WEB PAGES

FRY	www.gov.yu www.nbj.yu www.pkj.co.yu www.g17.org.yu www.yustrade.net www.tanjug.co.yu	FRY official web page Yugo National Bank Yugoslavian Chamber of Commerce Group of 17 ONG cooperating with the Government Yugoslavian Businesses Directory TANJUG press agency
Serbia	www.mier.sr.gov.yu www.mpriv.sr.gov.yu www.invest-in-serbia.com www.siepa.sr.gov.yu www.energoprojekt.co.yu	Min. International Economic Relations Min of Economy Investing in Serbia Foreign Trade and Investment promotion Agency EPS – Electricity of Serbia
Montenegro	www.vlada.cg.yu www.savjet.org www.montenegro.com	Government of Montenegro Republic Economic reform Internet

International Organizations	www.undp.org.yu www.eudelyug.org/eufirstfla sh.htm www.ebrd.com www.seerecon.org	UNDP Yugoslavia EU EBRD Economic Reconstruction and Development in South East Europe
-----------------------------	--	---

## **Albania**

Union of Chambers of Commerce and Industry  
Rr. Kavajes N6  
Tirana  
Ph. Nr. 355 4 222934  
Fax nr. 355 4 222934  
e-mail: uccial@abissnet.com.al

Italian Albanian Bank  
Rr. Barrikadave  
Ph. Nr. 355 4 233966  
Fax nr. 355 4 235701  
e-mail: biatia@adanet.com.al

American-Albanian Bank  
Rr. Ismail Qemali nr. 27  
Tirana  
Ph. Nr. 355 4 248753  
Fax nr. 355 4 248663  
e-mail: aka@icc.al.eu.org

Chamber of Commerce and Industry of Tirana  
Rr. Kavajes nr. 6  
Tirana  
Ph. Nr. 355 4 230283  
Fax. Nr. 355 4 227297  
e-mail: ccitr@abissnet.com.al

Transalbania  
Rr. Deshmoret e 4 Shkurtit nr. 6  
Tirana  
Ph. Nr. 355 4 224592  
Fax nr. 355 4 227605  
e-mail: ntia.cg@uehne-nagel.com

Ministry of Economic Cooperation and Trade  
Blv. Zhan d' ark  
Ph. Nr. 355 4 364642  
Fax nr. 355 4 364642  
e-mail: ggjoncaj@hotmail.com

Bank of Albania  
Sheshi Skenderbeu N1  
Tirana  
Ph. Nr. 355 4 221522  
tbaleta@bankofalbania.com

ACER (Albanian Center for Economic Research)  
Rr. Ismail Qemali P34/1 Kati V Ap 4  
Tirana  
Ph. Nr. 355 4 225021  
Fax nr. 355 4 225021  
zpreci@interalb.net

For more comprehensive contact list see annex nr. 13

# Cases

# Annexes