



ASSESSMENT OF LOGISTICS SERVICES IN KOSOVO



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Abbreviations

AP6	Additional Protocol 6
CBK	Central Bank of Kosovo
CEFTA	Central European Free Trade Agreement
ECMT	European Conference of Ministers of Transport
EU	European Union
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Sector
GVA	Gross Value Added
IFC	International Finance Corporation
IMF	International Monetary Fund
HCDF	Human Capacity Development Facility
IRU	Road Transport Union
JIT	Just-in-time
KAS	Kosovo Agency of Statistics
KBRA	Kosovo Business Registration Agency
KCC	Kosovo Chamber of Commerce
LLC	Limited Liability Company
MESPI	Ministry of Environment, Spatial Planning, and Infrastructure
MIET	Ministry of Industry, Entrepreneurship and Trade
MFN	Most Favored Nation
NACE	Statistical Classification of Economic Activities in the European Community
OECD	Organization for Economic Cooperation and Development
SAA	Stabilization and Association Agreement
STC	Standard Trading Conditions
TAK	Tax Administration of Kosovo
UK	United Kingdom
UNMIK	United Nations Mission in Kosovo
US	United States
WTO	World Trade Organization

Executive Summary

This report presents an assessment of the logistics sector in Kosovo. It analyzes the sector's structure and performance, examines the relevant regulatory framework for logistics services in the light of the EU *acquis*, and identifies the main barriers confronted by logistics service providers. Logistics services, which involve activities dealing with the flow of goods (transport and storage) throughout the value chain, are essential for high-quality economic growth, inclusive employment, and international trade. Because of their cross-sectoral nature, logistics services have multiple effects on the economy. Important sectors like agriculture, metals and mining, food processing, wood production – to name a few, all depend on logistics functions.

In Kosovo, the logistics service providers make up 3.2 percent of the country's Gross Value Added (GVA). Although this is not a small share relative to other sectors in the country's economy, it is considerably smaller compared to the EU and OECD average. The number of active logistics service providers in Kosovo is 20 times smaller compared to the EU average. One major reason for this difference is related to the fact that the outsourcing of logistics functions is not a very common practice in Kosovo. Furthermore, the trade data reveal that Kosovo has seen a continuous trade deficit in freight transport, which is a different trend compared to the country's overall performance on trade in services.

Owing to the complex and multi-faceted nature of the logistics sector, the regulatory framework in Kosovo, like in many other countries, is characterized by a high level of fragmentation, with an extensive body of legislation and regulation being scattered over various institutions.

Several issues have been identified in reviewing the market entry (access) regulations, which typically constitute registration and licensing requirements for new operators to be accepted in the market. First, while in the EU a license is required for all road haulage operators, in Kosovo this is a requirement only for those engaged in international freight transport. In the absence of such a requirement, the internal road haulage market suffers from poor quality services and road safety issues. Even the licensing conditions (criteria) for operators aiming to engage in international road transport, such as those on establishment, good reputation, and the like, are not very well defined, leaving room for misinterpretation. In certain parts, the licensing conditions are not fully compatible with the EU legislation. Second, there is no publicly available national registry of road transport operators holding a license, despite the fact that this is a requirement by the legislation in place. Third, the criteria for non-resident transporters who need to get a haulage permit are not defined in the current legislation. In fact, there is one administrative instruction inherited from UNMIK times that regulates permits for non-resident road haulers; however, this piece of legislation does not specify the criteria for receiving the permit. Fourth, unlike in Kosovo where non-resident transporters cannot perform road transport of goods within the country (cabotage), in the EU non-residents can carry out up to three operations in the host Member States within seven days following an international journey. Fifth, terminal licensing requirements laid out in the existing legislation and the way they are enforced have created distortions in the market, leading to comparatively high terminal fees for carriers, amongst other things. Finally, customs representatives (often referred to as brokers) are obliged to obtain a license to operate in Kosovo, unlike in the EU where there is no such a requirement.

In reviewing the operations regulations, which generally aim to promote the quality of services, some central issues have been identified. First, driving times, breaks, and rest periods for drivers engaged in the

carriage of goods, although regulated in line with the EU practice, are not properly implemented. Second, liability issues in cases of losses and damages, which are very important in logistics contacts, are not well regulated. Third, unlike in the EU where there are emission standards and their compliance is mandatory, in Kosovo there are no limits imposed on transporters who perform road haulage internally.

As a result of difficulties in getting membership in international transportation mechanisms, starting from 2010, Kosovo has entered into bilateral transportation agreements with several EU and neighboring countries. These bilateral agreements vary from one another in many aspects, mostly in regard to the extent of liberalization. Based on stakeholder interviews, of all the agreements in place, the one with Turkey was perceived as most disadvantageous, particularly because the number of annual permits is considered disproportionately lower for Kosovo. Emission standards constitute another area in which these agreements differ. In general, compliance with the bilateral agreements' divergent provisions is considered a significant regulatory burden for transport operators.

To gather more insights on the sector, a survey was conducted with a sample of logistics service providers. The survey findings show that the logistics firms in Kosovo predominantly depend on one service only, which is in most of the cases transportation. This business model is not in line with the new global dynamics, where logistics firms have specialized in providing integrated packages of logistics services, including value-added services like packaging, inventory management, and similar. The findings also show that the Covid-19 pandemic has badly hit the sector in 2020, causing a decrease in turnover for more than two-thirds of the firms. Moreover, firms believe that the competitiveness level (price and quality) is worse compared to the EU.

According to the firms surveyed, the main strengths characterizing the sector are road infrastructure and speed of delivery. On the other hand, some of the weaknesses identified include unfair competition, high terminal prices, lack of digital tachographs, old vehicles, late payments, and poor functioning associations. The majority of the firms surveyed are engaged in international freight haulage. These firms seem to be confronted with many barriers when conducting cross-border trade. Some of the most frequently mentioned barriers include the inability of transporters to enter the EU area without having a visa; high insurance costs in the absence of the green card system; the requirement to change plates at the Serbian border, and other obstacles stemming from the non-recognition of documents; difficulties arising from non-membership in international mechanisms like ECMT; and the discriminatory permit regime with peer countries.

The main recommendations of this report are outlined below:

- The Government should establish an effective regulatory and coordination mechanism linking the various regulatory and control bodies that set and enforce regulations on logistics services. This will, amongst others, improve coherence in policy making and minimize red tape in the sector.
- In general, the regulatory framework should be streamlined to maintain high quality logistics services. Neither overregulation nor deregulation will be healthy for the proper functioning of the logistics sector.
- The role of the sector associations should be strengthened. They should have a leading role in uniting their members and helping them follow the rules that contribute to making the sector more competitive. They can even serve as self-regulators as well, particularly in cases when the Government lags behind in adopting new practices.

- In addition to the licensing requirement for the road haulers engaged in international transport, the Government should introduce a licensing requirement for haulers performing operations domestically. This would be in harmony with the EU practice. The criteria on establishment, reputation, and financial capacity should be clear and specific enough to avoid misinterpretation, which is very common in these cases. On the other hand, the issuance of permits for non-resident operators should be better regulated with a new administrative instruction. Enforcement issues should be addressed as well with more controls and audits.
- The Government should create a user-friendly domestic registry of transport and other logistics operators holding licenses and permits in order to improve transparency in the sector. This registry must be made accessible to the public, certainly without disclosing the information that breach the operator's privacy.
- The Government should carefully assess the market entry provisions on goods terminal and make the necessary changes to address the distortions created by oligopoly tendencies.
- In line with the EU practice, the Government should assess the possibility of amending the legislation to allow non-resident road transporters to perform up to three cabotage operations in Kosovo within seven days following an international journey.
- The Government should intensify its efforts to become a member of international mechanisms that regulate cross-border transport like ECMT. As the membership process might take time and the epilogue would still be uncertain, Kosovo should, in the meantime, expand the geographical reach of its bilateral agreements. Also, the existing bilateral agreements, particularly that with Turkey, should be closely reviewed and possibly renegotiated.
- Following the EU practice, Kosovo should remove the licensing requirement for customs representatives.
- Parties engaged in logistics dealings, when drafting their contracts, should make reference to Standard Trading Conditions (STC) to avoid issues of liability in cases of damage and loss.
- The Government should introduce mandatory fleet upgradation rules to mitigate environmental damage in accordance with standards and criteria established in the relevant EU directives.
- The Government should provide incentives that stimulate the development of integrated logistics services (3PL). This will elevate the performance of the sector and bring it in line with the new global trends. These incentives should come with strings attached. Digitalization should be one of the requirements.
- To improve transparency, an exhaustive and comprehensive checklist of procedures needed for each specific activity should be developed.
- The Government of Kosovo should negotiate with Serbia to eradicate the unjustifiable barriers imposed on Kosovo transporters when transiting goods to the EU.
- Logistics firms that have seen a decrease in turnover should be taken into consideration by the Government when designing the following economic recovery packages.
- A coherent and regular monitoring of the sector's performance should be introduced. This is particularly important for the new policy options and actions. Good and timely policy responses require an improved information base on the state of the sector.
- The Central Bank of Kosovo (CBK) should make all the necessary work to be able to produce more disaggregated data on trade in services so that the policy makers and other interested researchers can better assess the performance and trends of specific logistics services.

- The Government should work with the World Bank to generate the Logistics Performance Index (LPI). LPI is a popular index applied in 160 countries around the world. It specifically measures the situation of the logistics sector in the country.
- Last, but not least, a strategy on services, where logistics is included among the priority sectors, should also be part of the Government agenda. A separate mid- to long-term logistics policy, focusing on the main problematic areas should be considered as well.

1. Introduction

Services constitute a large and vital segment in Kosovo, accounting for around 73 percent of the country's economy and being responsible for about 85 percent of the formal employment.¹ Services also play an essential role in Kosovo's foreign trade, making up 35 percent of total foreign trade.² An important aspect in this regard is that Kosovo has continuously seen a positive trade balance on trade in services, contrary to the case of trade in goods, where the deficit has been enormously high. One important services sector in Kosovo is the logistics sector, which involves activities that deal with the flow of goods (transport and storage) throughout the value chain. In 2019, logistics service providers accounted for around 3.2 percent of Kosovo's GVA, marking a one percentage point (PP) increase compared to 2017. In many manufacturing companies in Kosovo, these services are part of their internal functions. If this aspect were to be considered, the contribution share of the logistics sector to GVA would be even higher.

In general, the logistics sector, besides being important in itself, is also essential for other sectors because of its cross-sectoral nature. Mining and metal companies, agricultural producers, wood processing, pharmaceutical companies, food processing companies – to name a few, all depend on logistics services. Considering that, an inefficient and underdeveloped logistics sector could be a serious problem to the economy, leading to fewer employment opportunities, perpetuating a poverty cycle for vulnerable groups, hindering international trade, and contributing to environmental pollution. Conversely, a strong and efficient logistics sector could facilitate high-quality economic growth, by generating inclusive employment, enhancing international trade, and improving public safety.

Like many services sectors in Kosovo, the logistics sector is also confronted with barriers of various kinds. The EU Country Report 2020 concludes that Kosovo has seen limited progress in identifying and removing barriers related to the right of establishment and freedom to provide services, as well as in aligning parts of the services legislation with the EU *acquis*, as committed in the Stabilization and Association Agreement (SAA).³ To identify the most pressing regulatory barriers and other barriers, review alignment with the EU *acquis*, and, in general, have a better understanding of services sectors, the Ministry of Industry, Entrepreneurship, and Trade (MIET), the Trade Department in particular, has planned to conduct a series of sector-specific assessments. As part of this plan, the MIET has produced this assessment report. This report sheds light on the logistics sector's structure and performance, reviews the relevant regulatory framework for logistics services in the light of the EU *acquis*, and identifies the main barriers faced by logistics service providers. The scope of this assessment is generally designed to focus more on trade-related aspects of the sector, having in mind the interest of the Trade Department.

This assessment was made possible with the support of the Human Capacity Development Facility (HCDF), which is a mechanism created with the donor assistance of the Grand Duchy of Luxembourg and the Kingdom of Norway, to support the implementation of the SAA between Kosovo and the European Union (EU).

¹ Author's compilation based on the Central Bank of Kosovo data.

² Trade in Goods Report. Available at MIET.

³ European Commission (2020). Kosovo* 2020 Report. Available at: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/kosovo_report_2020.pdf

The rest of this report is structured as follows. *Section 2* provides a general overview of the methodology employed to conduct this assessment. *Section 3* highlights the main global trends characterizing the logistics services. *Section 4* provides an overview of the sector's structure and performance relying on macro statistics. *Section 5* discusses the legal framework regulating the sector, predominantly focusing on provisions related to market entry and operations, as well as makes comparisons with the EU practice. *Section 6* presents the main findings of a survey carried out with a sample of logistics operators. *Section 7* concludes.

2. General Methodology

To obtain relevant insights and have a better understanding about the logistics sector, the following data-collection instruments were used: (i) desk research; (ii) open-ended interviews with relevant stakeholders; (iii) a semi-structured online/phone survey; and (iv) a validation meeting with the beneficiary in the end. All these sources of information combined were deemed important for a comprehensive baseline analysis of the sector.

As is usually the case, the desk research was carried out at the beginning of the analysis. First, various reports and studies were consulted with the aim of determining the conceptual underpinnings of the sector and examining the international trends and developments. Second, the relevant legislative and institutional framework in Kosovo was reviewed and compared with the EU *acquis* to identify the areas that need harmonization in the future. The collected information through desk research was closely analyzed, stored, and classified based on source, relevance, and reliability. All this process, amongst others, served as the basis for the primary research and for the other subsequent activities carried out in this analysis.

Open-ended interviews were arranged and conducted (both in person and virtually) with the main identified institutional stakeholders. See the list of the interviewed stakeholders in Annex A. Together with the representatives from MIET, a set of guiding questions was drafted for these meetings.

To solicit more detailed information on the performance and barriers of the sector, an online/phone survey was carried out with 51 economically active firms spread in different regions of Kosovo operating in the area of logistics services. The sample was mainly drawn from the databases of Kosovo Business Registration Agency (KBRA) and the Tax Administration of Kosovo (TAK). Other sources were also used to find contact information for the selected firms.

For the purpose of this survey, a draft questionnaire was designed (see Annex B). This draft was first piloted with a service provider to make sure that all the questions are clear and straightforward. The finalization of the questionnaire was done in collaboration with the Trade Department.

Once the questionnaire was finalized, it was disseminated online via an official e-mail to the sampled firms along with detailed instructions on how to complete it. Those firms that struggled to properly fill the questionnaire were given further assistance over the phone. Firms that declined to respond were substituted with similar ones. The survey process was continuously monitored to verify on time the accuracy of the answers in the completed questionnaires. The questionnaire with the collected data were inserted automatically into an excel database and labelled accordingly. After addressing the eventual specification errors, descriptive tables and graphs were produced. In the end, a meeting with the beneficiary was organized to validate the generated findings, and the draft report was shared with the interviewed stakeholder for comments.

3. International Trends

The logistics sector plays a vital role in productivity and economic development. While the cost of logistics as a percentage of GDP is around 7 percent in OECD countries, it goes up to 25 percent in certain developing countries.⁴ Moreover, the World Bank research in Latin American countries shows that decreasing the share of logistics costs in the final price of goods by 14 percent can boost the demand for those goods by up to 18 percent and increase employment in that sector by up to 16 percent.⁵ With the new pace of digitalization and evolving customer expectations, the logistics sector has gone through unprecedented changes in the past few years, which have contributed to reshaping the sector's landscape. These changes have presented limitations for some players in the market, while for some others they were used as opportunities for growth. This section summarizes the main trends occurring in logistics services. These trends need to be taken into consideration by policymakers in Kosovo.

a) The outsourcing of logistics services

Nowadays, manufacturers of different industries are focusing more and more on their core business functions while outsourcing logistics activities such as transportation, warehousing, inventory control, and other similar activities to third parties. This new trend is also known as third-party logistics (3PL). These operators have more expertise, which enables a greater level of flexibility of logistic operations to cover wider geographical areas, with greater efficiency and better quality of service. Globalization with extended product distribution channels, just in time (JIT) manufacturing, and e-commerce are the chief contributors to the growing demand for 3PL. Worldwide, 3PL companies are growing and specializing in providing a full range of integrated logistics services. The global market for 3PL was estimated to be USD 1,027.7 billion in 2019, and projections are to reach USD 1,789.9 billion by 2027.⁶

b) Talent shortfalls

Labor shortages in the logistics sector constitute one of the most pressing challenges – about 70 percent of the companies operating in this sector experience a shortage of skilled logistics labor. Managers from Western European countries say that young generations do not see a career in logistics to be fulfilling.⁷ DHL, one of the largest companies in the industry globally, has publicly acknowledged this problem, labelling it a “talent crisis”.⁸ In emerging countries, competitive pressures from other fields like finance and IT contribute to the talent shortage in the logistics sector. It is noteworthy to mention that universities and training schools, too, do not provide sufficient logistics programs to attract students and satisfy the market's needs.

c) Digitalization

Nowadays, digital business models and digital platforms are not only more present in logistics but also in many other areas of the logistics sector, like for instance, in warehousing. Integration of digital platforms

⁴ ICF (2020). The Impact of COVID-19 on Logistics. Available at: https://www.ifc.org/wps/wcm/connect/2d6ec419-41df-46c9-8b7b-96384cd36ab3/IFC-Covid19-Logistics-final_web.pdf?MOD=AJPERES&CVID=naqOED5

⁵ Julio Gonzalez, et al. Improving Logistics Costs for Transportation and Trade Facilitation. World Bank, Mar. 2008.

⁶ Allied Market Research (2019). 3PL Market Size and Share.

⁷ Handfield, R. et al (2013). Trends and Strategies in Logistics and Supply Chain Management. Available at:

⁸ Transport and Logistics: Challenges and Trends in 2021. Available at: <https://www.mitrefinch.co.uk/blog/time-and-attendance/transport-logistics-challenges-trends-2021/>.

in the business model of logistics companies has led to a higher supply chain efficiency and transparency. Internet of things (IoT) platforms, for example, enable transparent and responsive supply chains by locating and tracking the flow of goods in real time. By using mobile devices and sensors, vehicles and other logistics equipment become nodes in the IoT. Automatic positioning and navigation systems as well as real time order processing, routing and scheduling systems are foreseen to be expanded.

d) Artificial intelligence and big data

The use of data in planning and managing logistics has been the main driver of innovation in the sector in the last years. Logistics companies are integrating machine learning algorithms in their systems to improve routes and predict demand in certain markets. In the future, companies will most likely continue to increase their use of AI and Big Data, which are expected to have a decisive role in advanced geocoding abilities, route optimization, demand prediction, warehouse automation.⁹

e) Green logistics

Another important trend that is shaping various sectors today is the increased demand for sustainability, and the logistics sector is not an exception in that regard. Transportation, indeed, is a big part of greenhouse gas contributions. Sustainability has become a must to remain relevant. Operators are becoming more regional to have shorter routes and decrease emissions as a result. Inter-modality, which is a combination of two or more means of transport, is now considered to be more competitive and less polluting. In general, increasing efforts on sustainability are expected to drive development on contributing areas such as emerging technologies, alternative fuels, and alternative supply chains.

f) E-commerce

The COVID-19 pandemic has put e-commerce at the forefront of retail. Before the outbreak of the pandemic, e-commerce was growing at a pace of 4.5 percent annually.¹⁰ After lockdown measures were introduced, there has been an unprecedented surge in both business-to-consumer (B2C) and business-to-business (B2B) e-commerce. This trend is expected to follow suit even after moving out of lockdowns. It is expected that by 2040, around 95 percent of purchases worldwide will be made online.¹¹ The rapid changes in the retail sector have created opportunities for logistics companies. Companies' ability to adopt new technologies and solutions will be vital in determining their capacity to satisfy the new needs.

g) Robotics

The integration of robotics into logistics has contributed to increasing the speed and accuracy in operations. Many companies in the logistics sector are using physical robots, such as collaborative robots ("co-bots") to pick up freight in warehouse and storage facilities. Apart from physical robots, companies are using software robots to carry out repetitive tasks that free up time for human resources.

⁹ Trans Global. Top Logistics and Transportation Trends that will Shape 2020 and Beyond. Available at: <https://tgal.us/top-logistics-and-transportation-trends-for-2020/>.

¹⁰ Totolo.E and Baijal. H. (2020). Available at: <https://blogs.worldbank.org/psd/how-pandemic-induced-boom-e-commerce-can-reshape-financial-services>

¹¹ Transport and Logistics: Challenges and Trends in 2021. Available at: <https://www.mitrefinch.co.uk/blog/time-and-attendance/transport-logistics-challenges-trends-2021/>.

4. Structure and Performance of the Logistics Sector in Kosovo

This section presents the logistics sector's macrostructure and performance, relying on statistics from key administrative sources. In some parts, it also makes comparisons with the EU data. The logistics sector falls under divisions 49 to 53 of NACE Rev. 2 EU Classification. Economic activities under these divisions also include passenger transport, which is not part of the logistics sector. To remove passenger transport and provide a more detailed picture, it was necessary for the analysis to be carried out using three-digit level data. The exact activities considered are displayed below. This set of activities represent the basis for the following analysis. Note that the economic activities considered involve only the logistics services provided by operators. Services carried out by companies inhouse are not included in the analysis, as there was no data available.

From “Division” 49 Land transport and transport via pipelines:

- 49.2 – Freight rail transport
- 49.4 – Freight transport by road and removal services
- 49.5 – Transport via pipeline

“Division” 50 Water transport:

- 50.2 – Sea and coastal freight water transport
- 50.4 – Inland freight water transport

From “Division” 51 Air transport:

- 51.2 – Freight air transport and space transport
- From “Division” 52 Warehousing and support activities for transportation:
- 52.1 – Warehousing and storage
 - 52.2 – Support activities for transportation

From “Division” 53 Postal and courier activities:

- 53.2 – Other postal and courier activities

In Kosovo, the number of active logistics firms varies depending on the source. The two main sources for such data are the Kosovo Business Registration Agency (KBRA) and the Tax Administration of Kosovo (TAK). Table 1 compares the active logistics firms as per these two sources. The total number of active firms in the sector, according to the KBRA data, is 2,829; TAK data, by contrast, show that there are around 50 percent fewer firms. It could be that the KBRA numbers present an exaggerated view, provided that firms' representatives in Kosovo generally do not take the trouble to formally close their firms in cases when they cease their activity. That said, the number of active firms as provided by TAK should be taken as more accurate. The distribution of active logistics firms by sub-sectors is very similar in both cases. The EU, on average, has ten times more logistics firms than Kosovo when compared to the KBRA data, and 20 times more when compared to the TAK data.¹² On a per capita basis, Spain, which is the country with the

¹² Analysis of the EU logistics sector. Available at: <https://ec.europa.eu/transport/sites/transport/files/themes/strategies/studies/doc/2015-01-freight-logistics-lot1-logistics-sector.pdf>

largest number of logistics firms in the EU, has two or four times (depending on the source whether KBRA or TAK) more firms compared to Kosovo.

An analysis at the sub-sector level reveals that in 2019, the majority of active firms appearing in TAK, 57.4 percent, fall under ‘freight transport by road and removal services’; ‘support activities for transportation’ follows with 34.6 percent. In the EU, the road freight sub-sector holds by far the most enterprises, around 75 percent in total.¹³

Table 1: Number of active logistics firms, by sub-sectors

Nace Rev 2 – Description	KBRA (2020)		TAK (2020)	
H49.2 - Freight rail transport	5	0.2%	5	0.4%
H49.4 - Freight transport by road and removal services	1,741	61.5%	796	57.4%
H49.5 - Transport via pipeline	7	0.2%	3	0.2%
H50.2 - Sea and coastal freight water transport	6	0.2%	6	0.4%
H50.4 - Inland freight water transport	22	0.8%	10	0.7%
H51.2 - Freight air transport and space transport	2	0.1%	12	0.0%
H52.1 - Warehousing and storage	58	2.1%	24	1.7%
H52.2 - Support activities for transportation	933	33.0%	480	34.6%
H53.2 - Other postal and courier activities	55	1.9%	51	3.7%
TOTAL ACTIVE FIRMS IN LOGISTICS	2,829	100.0%	1,387	100.0%

Source: Author’s calculations based on KBRA and TAK data.

Table 2 presents the number of logistics firms registered and closed in Kosovo from 2001 to 2020, as per the KBRA data. During this period, a total of 2,454 logistics firms have been registered in Kosovo. The largest number of firms were established in the period after the war, between 2000 and 2004. In the next four years (2005-2008), there had been a notable drop in the number of new logistics firms, which was then followed by steady increases in the subsequent periods. The number of logistics firms that were closed during the period under analysis, on the other hand, was much smaller, 291. As indicated previously, this does not mean that all those that do not appear to be closed are still operational. The number of closed logistics firms varies with no specific pattern.

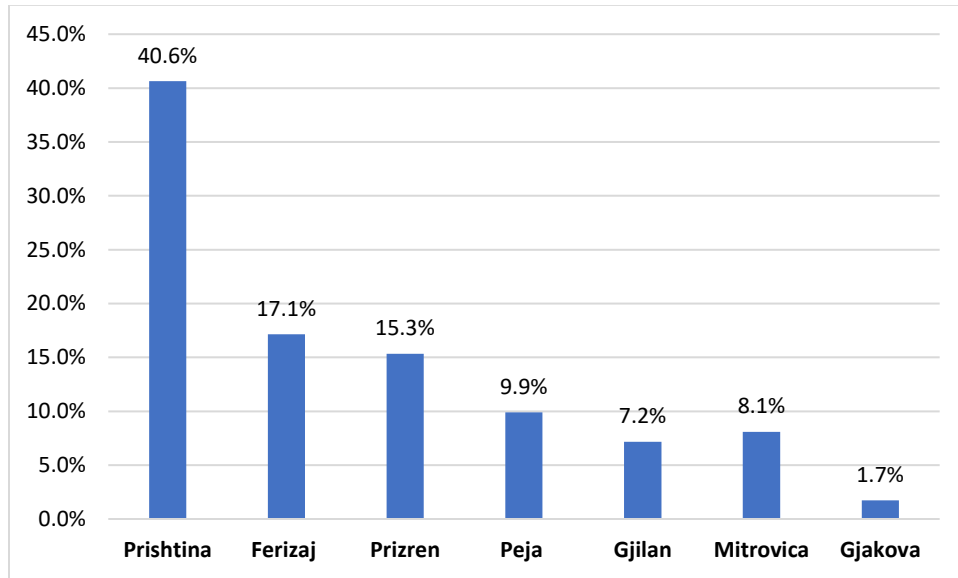
Table 2: Registered and closed logistics firms (2001-2020)

Years	Established	Closed
2000-2004	1,053	92
2005-2008	349	58
2009-2012	465	101
2013-2016	478	54
2017-2020	484	10
Total	2,454	291

¹³ IBID.

The data broken down by regions have been provided by TAK only. According to the data, 40.6 percent of the active logistics firms are located in the region of Prishtina. Ferizaj and Prizren are the following two regions with 17.1 percent and 15.3 percent, respectively. On the other hand, the region with the smallest number of the active logistics firms is Gjakova with 1.7 percent (see Figure 1).

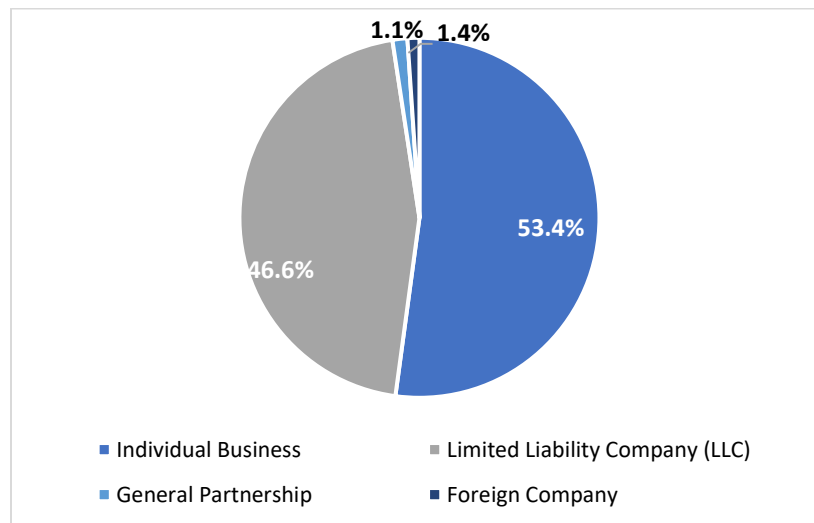
Figure 1: Distribution of active logistics firms (according to TAK data) by region



Source: Author's calculations based on TAK data.

In terms of legal status, as Figure 2 depicts, 53.4 percent of the logistics firms registered in the KBRA are individual businesses; 46.6 percent are limited liability companies (LLC); and the rest consist of general partnerships (1.4 percent) and foreign companies (1.1 percent). Note that in this case only the data from 2008 onwards have been considered, because prior to this year some different forms of legal classification had existed.

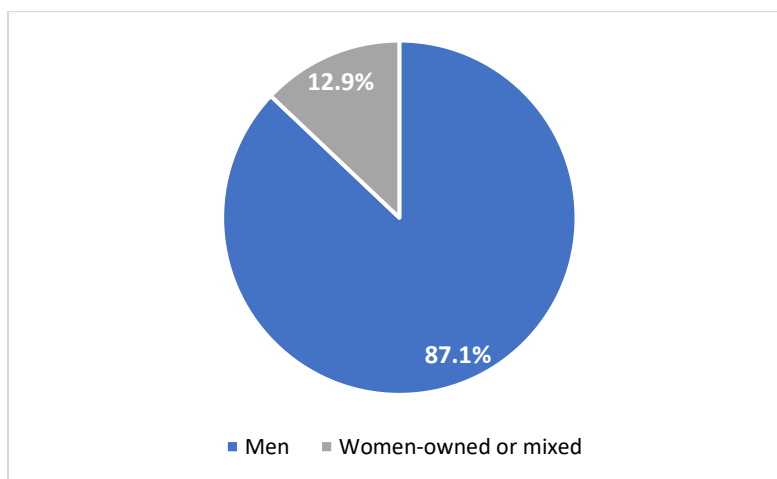
Figure 2: Logistics firms (according to KBRA data) by owners' gender



Source: Author's calculations based on KBRA data.

Figure 3 shows that 87.1 percent of the logistics firms, as per the KBRA data, are men-owned, while 12.9 percent women-owned or mixed. This proportion is generated using data from 2015 onwards, as there has been no regular evidence before this year.

Figure 3: Logistics firms by gender



Source: Author's calculations based on KBRA data.

The Gross Value Added (GVA) data in Kosovo is produced only at the division level. At this level of disaggregation, the values created by passenger transport and some postal activities which are not considered part of the logistics sector are included as well. To deduct these values, the author generated coefficients deriving from proportions in employment data provided by TAK and applied them correspondingly to sub-sectors where non-logistics activities were part of. Therefore, the data in Table 3, although presented at the division (two-digit) level, include only the values created by logistics activities.

In 2019, the share of logistics in Kosovo's Gross Value Added (GVA) stood at 3.2 percent, marking an increase of 1 percentage point (pp) compared to 2017. This share is generally low compared to the EU, where the average hovers around 7 percent.¹⁴ In the EU, Germany is the largest logistics country, comprising about one quarter of the market size. 'Warehousing and support activities for transportation' and 'land transport and transport via pipelines' have been the two principal sub-sectors that have comprised almost the entire GVA of Kosovo in the logistics sector in the period under analysis.

¹⁴ Ibid.

Table 3: GVA in the logistics sector in Kosovo

NACE Rev 2 – Description	GVA 2017		GVA 2018		GVA 2019	
	In 000' EUR	%	In 000' EUR	%	In 000' EUR	%
H49 - Land transport and transport via pipelines ¹⁵	109,576.5	47.5%	117,408.0	45.4%	26,685.3	16.3%
H50 - Water transport	-	0.0%	-	0.0%	-	0.0%
H51 - Air transport ¹⁶	-	0.0%	-	0.0%	-	0.0%
H52 - Warehousing and support activities for transportation	103,495.6	44.9%	124,194.7	48.0%	134,500.7	82.4%
H53 - Postal and courier activities ¹⁷	17,376.6	7.5%	17,269.0	6.7%	2,093.0	1.3%
TOTAL	230,448.7	100%	258,871.7	100.0%	163,279.0	100.0%
Percentage (%) in Overall GVA		2.2%		2.8%		3.2%

Source: Author's calculations based on KAS and TAK data.

Besides GVA, turnover is also an important indicator to show the performance of the logistics sector and sub-sectors. As Table 4 indicates, the logistics sector accounted for 1.3 percent of the combined turnover of Kosovo firms during 2017-2019. Although the share has not changed over the years, the value of turnover in the logistics sector has increased from EUR 134.8 million in 2017 to EUR 166.3 million in 2019. The fact that the share has remained unchanged suggests that the increase in the logistics sector has gone hand in hand with the increase in the overall turnover of Kosovo's firms, all sectors included.

Table 4: Combined turnover of logistics firms (2017-2019)

NACE Rev 2 - Description	Turnover 2017		Turnover 2018		Turnover 2019	
	In 000' EUR	%	In 000' EUR	%	In 000' EUR	%
H49.2 - Freight rail transport	42.0	0.0%	116.1	0.1%	170.16	0.10%
H49.4 - Freight transport by road and removal services	106,434.4	79.0%	124,644.9	80.2%	131,953.6	79.3%
H49.5 - Transport via pipeline	-	0.0%	-	0.0%	-	0.0%
H50.2 - Sea and coastal freight water transport	-	0.0%	-	0.0%	-	0.0%
H50.4 - Inland freight water transport	-	0.0%	-	0.0%	-	0.0%
H51.2 - Freight air transport and space transport	-	0.0%	-	0.0%	-	0.0%
H52.1 - Warehousing and storage	5,030.5	3.7%	3,705.40	2.4%	965.5	0.5%
H52.2 - Support activities for transportation	22,472.5	16.7%	25,710.0	16.5%	31,508.6	18.9%
H53.2 - Other postal and courier activities	827.4	0.6%	1,312.6	0.8%	1,783.80	1.1%
TOTAL TURNOVER LOGISTICS	134,806.8	100.0%	155,489.0	100.0%	166,381.7	100.0%
Percentage (%) in Total Turnover		1.3%		1.3%		1.3%

¹⁵ Coefficients applied: 19.30% for 2017, 21.30% for 2018, and 21.80% for 2020.

¹⁶ Coefficients applied: 0% in all years as there is no air freight transport.

¹⁷ Coefficients applied: 4.1% for 2017, 4.9% for 2018, 12.0% for 2019.

Table 5 shows the number of employed persons at the three-digit level of Nace Rev 2 for 2018 and 2019, based on the Labor Force Survey (LFS) conducted by the Kosovo Agency of Statistics (KAS). KAS has started producing employment data at this level of disaggregation starting from 2018, that is why unlike in the case of other indicators, 2017 could not be included. As per the data, the number of employed persons in 2019 in the logistics sector was 4,134, constituting around 1.2 percent of total employed persons in Kosovo. Compared to 2018, there has been an increase of 32.4 percent. A disaggregation by sub-sector reveals that ‘freight transport by road and removal services’ accommodates the largest share of employed persons in 2019 with 46.8 percent, followed by ‘support activities for transportation’ with 25.5 percent, and ‘warehouse and storage’ with 16.1 percent. All of the sub-sectors considered have seen an increase compared to 2018, except ‘other postal and courier activities’, which has noted a drop of around 40 percent.

Table 5: Employed persons in the logistics sector (2018-2019)

NACE Rev 2 – Description	Employed Persons (2018)		Employed Persons (2019)	
	#	%	#	%
H49.2 - Freight rail transport	-	0.0%	-	0.0%
H49.4 - Freight transport by road and removal services	1,116	35.7%	1,935	46.8%
H50.2 - Sea and coastal freight water transport	-	0.0%	-	0.0%
H50.4 - Inland freight water transport	-	0.0%	-	0.0%
H51.2 - Freight air transport and space transport	-	0.0%	-	0.0%
H52.1 - Warehousing and storage	350	11.2%	664	16.1%
H52.2 - Support activities for transportation	781	25.0%	1,011	24.5%
H53.2 - Other postal and courier activities	876	28.0%	524	12.7%
TOTAL EMPLOYED IN LOGISTICS	3,123	100.0%	4,134	100.0%
Percentage (%) in Total Employment (TAK)		0.9%		1.2%

Source: Author’s calculations based on KAS data.

In Kosovo, the Central Bank of Kosovo (CBK) is responsible for producing trade in services data using BPM6 methodology by the International Monetary Fund (IMF). The data produced so far, as shown in Table 6, are not broken down to a level that depicts the volume of trade by each transportation mode. Moreover, the CBK does not collect trade data on warehousing. Nonetheless, from the data available, which includes air freight transport, other modes of freight transport, and postal and courier services, it is shown that Kosovo has experienced an extremely huge trade deficit in the freight transport sector during 2017-2019. Because the rate of increase in imports has been higher than that of exports, the deficit has increased from an amount of EUR 88.5 million in 2017 to EUR 97.8 million in 2019. During these three years, other modes of freight transport, which can be considered land freight transport (as there is no water transport in Kosovo), constitutes the largest share in total trade and deficit within the sector. For more detailed information, see Table 6. As a matter of fact, freight transport is one of the worst performing sectors on trade in services in Kosovo, if not the worst. To put things into perspective, Kosovo has recorded a surplus on trade in services in general over the last years.

Table 6: Trade in freight transport

IMF BPM6 Categories	Trade in 000' EUR (2017)				Trade in 000' EUR (2018)				Trade in 000' EUR (2019)			
	Credit	Debit	Total	Balance	Credit	Debit	Total	Balance	Credit	Debit	Total	Balance
<i>Air transport (freight)</i>	-	-	-	-	10	-	10	10	50	140	190	(90)
<i>Other modes of transport (freight)</i>	280	87,730	88,010	(87,450)	330	87,730	88,060	(87,400)	2,420	99,660	102,080	(97,240)
<i>Postal and courier services</i>	210	1270	1,480	(1,060)	260	1460	1,720	(1,200)	10	510	520	(500)
TOTAL	490	89,000	89,490	(88,510)	600	89,190	89,790	(88,590)	2,480	100,310	102,790	(97,830)

Source: Author's calculations based on CBK data.

A popular index that measures the logistics performance of countries worldwide is the Logistics Performance Index (LPI) created by the World Bank (WB).¹⁸ Currently, there are 160 countries that participate in the LPI. The LPI is based on a worldwide survey of operators who provide information on the state of logistics in their countries as well as in countries they trade with. Feedback from operators is complemented with quantitative data on the performance of the main components of the logistics chain. Although this is a very important performance, especially for comparison purposes, Kosovo is still not part of it.

¹⁸ World Bank. Logistics Performance Index. Available at: <https://lpi.worldbank.org/>

5. Regulatory Framework

The regulatory framework in the logistics services, especially in developing countries, is characterized by a high level of fragmentation. This is due to the complex and multi-faceted nature of the sector. In most of the countries around the world, one can barely find all the required market entry and operations regulations for the logistics services under one institution. Kosovo is not an exception in this regard. For example, while a candidate for becoming a transport operator finds the regulatory requirements on international freight transport under the Ministry of Environment, Spatial Planning, and Infrastructure (MESPI), the same candidate would still have to follow Kosovo Customs regulations for a warehouse license. There is also an array of relevant operations regulations which fall under other institutions (i.e., regulation on sanitary and phytosanitary standards is with the Ministry of Agriculture, Forestry and Rural Development – MAFRD). To address the difficulties related to finding the necessary regulatory information on services, the MIET has recently launched a single point of contact, which brings the main pieces of regulation, including the ones on transport and logistics, under one window.¹⁹ Although this mechanism facilitates the process of information dissemination, compliance with the complex regulatory framework remains a great burden for participants in this industry.

This section discusses the relevant legal framework that regulates the logistics sector in Kosovo. It predominantly focuses on key regulatory provisions related to market entry and operations. Where possible, it underscores the level of enforcement and the practical implications of the discussed provisions by relying on inputs gathered from stakeholder interviews. It also makes comparisons with EU practices. It is also worth noting that road freight, as the primary mode of transportation in Kosovo, and aspects related to trade make up the greatest part of this legal review.

5.1. Market Entry

Regulations on market entry typically constitute registration and licensing requirements for new operators to be accepted in the sector. Such regulations may serve many purposes. The criteria set for registration and licensing may help the government determine the aspiring operators' financial and technical capacity for the sector. Entry requirements may also protect domestic operators vis-à-vis foreign operators, may keep unqualified operators out from the sector, could determine the level of competition, and be used to gain information that feed into informed policy making.

Market access for road haulage

In Kosovo, the occupation of road transport operator is regulated by Law No. 04/L-179 on road transportation,²⁰ whereas in the EU by Regulation 1071/2009 on admission to the occupation of road transport operator,²¹ and Regulation 1072/2009 on common rules for access to the international road haulage market.²² Unlike in the EU where a license is required for all road haulage operators, in Kosovo,

¹⁹ Single Point of Contact. Available at: <https://cps.rks-gov.net/>

²⁰ Law No. 04/L-179 on road transportation. Available at: https://cps.rks-gov.net/wp-content/uploads/2020/09/LAW_NO._04_L-179_ON_ROAD_TRANSPORT.pdf

²¹ Regulation (EC) No 1071/2009 on admission to the occupation of road transport operator. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009R1071&from=EN>

²² Regulation 1072/2009 on common rules for access to the international road haulage market. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009R1072&from=en>

as per the current law, a license is required only for transport operators who are engaged in the international transport of goods. For an operator to get this license in Kosovo, he/she should be established in Kosovo, have good reputation, have appropriate/sustainable financial capacity, have the necessary professional capacity as transport manager, and have the transportation means in a good technical state. Similar criteria are also required in the EU, although there are some differences which will be highlighted below.

While the condition on establishment is vaguely defined in the Kosovo Law No. 04/L-179, this condition is more specific in the EU. Regulation No. 1071/2009, which obliges undertakings to demonstrate “effective and stable establishment” to avoid the issue of “letter-box companies”.²³ The Regulation states that an undertaking must have an office in which it maintains its core business documents and an operating center with the necessary technical equipment and facilities in the country of establishment. Some EU Member States go even further imposing additional requirements in this regard, with the most common one being the requirement to have a parking space in the country of establishment. This is the case in countries like Austria, Slovakia, Bulgaria, and Ireland.

What is good reputation is also something that is not very well defined in the Kosovo legislation. First, Law No. 04/L-179 does not provide any elaboration on conditions relating to the requirement of good reputation. Second, Administrative Instruction No. 07/2013,²⁴ which is supposed to contain more detailed provisions on the licensing of road transport operators, is indeed very vague regarding reputation, stating that this criterion is met only if both the transport manager and transport road operator have no legal obstacles in exercising the transport activity. The transport operator, in addition, also must not have fiscal obstacles. EU Regulation 1071/2009, on the other hand, explicitly stipulates that the requirement on good reputation is met if the transport managers and the undertakings have not been convicted of a serious criminal offence and have not incurred a penalty for one of the most serious infringements of road transport rules. EU Member States differ in whether they consider administrative fines, arrangements out of court and on-the-spot payments as penalties when determining good repute. For example, Luxembourg, Croatia, and Bulgaria, do not treat any of administrative fines, arrangements out of court and on-the-spot payments as penalties. On the other hand, countries like Germany and Poland, for example, consider all of them as penalties.

Concerning the requirement to demonstrate appropriate financial capacity, Administrative Instruction No. 07/2013 requires that in Kosovo road transport operators should at the time of registration demonstrate that they have capital and reserves of EUR 9,000 for the first vehicle and EUR 5,000 for additional vehicles. This is the minimum amount required according to Regulation No. 1071/2009. The majority of EU Member States stick to this minimum; in other words, they do not require a higher level of capital and reserves. One notable difference with Kosovo is that in the EU, as per Regulation No. 1071/2009, the appropriate financial standing must be demonstrated on an annual basis not only at the time of registration as is the case in Kosovo.

²³ Companies "established" in a Member State, where they do not carry out their administrative functions or commercial activities.

²⁴ Administrative Instruction No. 07/2013 for licensing the road transport operators of goods. Available at: https://cps.rks-gov.net/wp-content/uploads/2020/09/UDHEZIM_ADMINISTRATIN_NR._07_2013_PER_LICENCIMIN_E_OPERATOREVE_TE_TRANSPORTIT_RRUGOR_TE_MALLRAVE.pdf

To comply with technical capacities, Administrative Instruction No. 07/2013 states that the operator must have at least one vehicle registered, insured, in good technical condition. In addition, the vehicle(s) must have valid technical control not older than six months.

To improve the standards of professional qualification in the industry, Kosovo Law No. 04/L-179 obliges transport managers and drivers to possess a certificate of professional competency (CPC) issued by the competent body authorized by the Ministry in charge. In Kosovo, currently there are two certification bodies for CPC authorized by the MESPI that offer such programs: Kosovo Chamber of Commerce (KCC) and Tempulli College. They are both accredited by the International Road Transport Union (IRU). To date, there are 157 freight transport managers and 1,000 freight drivers holding a CPC.²⁵ Administrative Instruction No. 10/2013 and a following amendment define the conditions, criteria, procedures, model, fees, and the method of the organization of trainings on the professional competence. EU Regulation No 1071/2009, too, obliges transport managers to provide proof of 140 hours of training and an examination covering specific subjects laid down in the Regulation.

As per Law No. 04/L-179, a transport manager in Kosovo may be employed by up to four different operators of road transport. This is also the limit prescribed in EU Regulation No 1071/2009. Different from the Kosovo Law, though, the said Regulation also specifies that the transport cannot exceed managing undertakings with a combined maximum total fleet of 50 vehicles. The EU Member States are even allowed to lower the threshold, in terms of both the number of undertakings managed and the maximum fleet of vehicles. This option, for instance, is utilized in France, where an external transport manager is limited to two undertakings representing a total of 20 vehicles.

In addition to the license that is required for carrying out international goods transport, Law no. 04/L-179 also requires that resident operators in Kosovo shall obtain permits for international road transport, unless it is otherwise defined under applicable international agreements. Administrative Instruction no. 05/2014 further regulates this matter by defining the conditions, procedures, and other details over the issuance of permits for resident operators to perform international road transport of goods. For a licensed operator of international goods transport to obtain a permit, he/she needs to have a certificate of professional competence, demonstrate good reputation, and meet the technical standards of the vehicle – all of them are also criteria that need to be fulfilled in order to get a license for international transport of goods, which is indeed a prerequisite to be eligible for a permit.

Whereas the requirements on the condition of professional competence are no different from those laid out in the case of the license, there are slight changes or further specifications with respect to good reputation and technical standards. In regard to good reputation, one specific requirement for the operator to obtain a permit is to have a certificate (not older than 90 days) that confirms that he/she has no outstanding debts or other tax obligations. Such a requirement, which is limited in time, is not specified in the AI that regulates the licensing. As per technical standards, the operator must have trucks that meet the emission and road safety standards. Also, if required by international agreements, the operator needs to have a certificate that shows the category of the engine under the "EURO" classification. The duration of the permit is for up to 13 months, whereas the fee for each permit obtained is 10 EUR. Note that the number of permits required must correspond with the technical capacities at the disposal of the operator.

²⁵ Gashi, N. (2021). [Email]. Message to: Nixha, A. 03 March. 2021

For transparency purposes, Law No. 04/L-179 obliges the Ministry in charge of transport, MESPI in this case, to maintain a national domestic registry of road transport operators that own licenses. It further specifies that the registry shall include all the data pertaining to the issued licenses, certificates of transport vehicles and transport managers. This registry must be made accessible to the public, without disclosing the information that breach the privacy of the operator. The exact content and modalities pertaining to the maintenance of the registry are foreseen to be regulated by a sub-legal act, which until today has not been drafted. MESPI, however, maintains the list of persons holding a license, but it is not in a format to be shared with the public. A summary of the licenses issued from 2016-2019 is provided in Table 7.

Publishing license holders is a general practice in other services sectors as well and is meant to improve transparency. For example, in the case of auditing and accounting services, the Kosovo Council for Financial Reporting (KCFR), which is the regulatory body for the sector in Kosovo, publishes the list of statutory auditors and certified accountants and updates it on a regular basis.

Table 7: A summary of licenses for international transport

Year	License - Transport for own account	License – Transport for third parties	License – Transport of dangerous goods
2016	13	76	11
2017	12	52	17
2018	10	34	8
2019	11	40	7

Source: Compiled using data from MESPI

Different from Kosovo, the EU, through Regulation 1071/2009, requires that Member States must compile a report every two years, which provides an overview of the sector with respect to good repute, financial standing, number of certificates of professional competence, and with respect to statistics related to the national registry.

According to Law No. 04/L-179, cabotage, which constitutes freight transport operations within the territory of Kosovo, cannot be carried out by non-resident transporters. Despite this, some bilateral transport agreements between Kosovo and other countries include clauses that foresee cabotage operations by internationals under a special permit issued by competent authorities. Different from Kosovo, in the EU, based on Regulation No. 1072/2009, haulers are allowed to carry out three cabotage operations in the host Member State within seven days following an international journey. This commonly referred as the “three in seven rule.” It worth noting that in spite of the fact that the EU has a cabotage regime, some Member States, benefiting from loopholes in the Regulation, allow several loading and unloading points per operation. This should be clarified if Kosovo’s provisions in cabotage are harmonized with the EU regime.

Different from practices in the EU countries, Kosovo does not have an executive regulatory body for the coordination and regulation of the road transport of goods. The establishment of this body is foreseen by Law No. 04/L-179, although the provision on this matter does not make it mandatory.

Licensing for goods terminals

Goods terminals are locations within the territory of Kosovo that provide services for the processing of cargo that enters the country. All legal entities that are interested in providing terminal services are obliged to have a license issued by the MESPI, which has a five-year validity. Administrative Instruction No. 08/2015 on the licensing of terminals for goods stipulates that in order to get the license, the manager or legal person must have a bachelor's degree, must demonstrate financial trust with an insurance amount of EUR 50,000, and must fulfill the technical conditions.²⁶ To meet the technical conditions, a legal person must possess an open plateau of at least 5,000 m² and a closed warehouse of 1,000², have at least 30 parking lots, provide lighting and surveillance cameras, and fulfil some other similar criteria. Currently in Kosovo, there are ten goods terminals located in different parts of the country – all of them are privately owned. The average fee for 24 hours in the terminal is EUR 40. This fee is around four times higher compared to Albania.²⁷ Non-governmental stakeholders believe that there is some degree of oligopoly that allows terminal holders to maintain high fees. They say that only three or four owners are behind these terminals, who are believed to collude with one another in setting the fee. Stakeholders also point out that in Kosovo there are some state-owned locations that are equipped with the necessary infrastructure appropriate for terminal services. However, these locations are not being utilized by the government.

Authorization of customs warehouse

Customs warehouses are designated for the storage of non-Kosovo goods, without such goods being subject to import tariffs; and Kosovo goods, where Kosovo legislation governing specific fields stipulates that they shall be subject to specific measures before being exported. According to Customs and excise code of Kosovo,²⁸ a customs warehouse may be either (i) a *Public warehouse* available for use by any person for the warehousing of goods or (ii) a *Private warehouse* designated for the warehousing of goods by the warehouse keeper. Those interested in operating a customs warehouse shall be subject to an authorization process for which the Kosovo Customs are responsible, unless the warehouse is operated by the Customs themselves. The goods sorted in authorized premises shall be under customs supervision. Except for foreseeing that the person seeking authorization shall be established in Kosovo, the Code does not lay down other specific authorization conditions for operating the customs warehouse.

Licensing for customs representatives

Customs and excise code of Kosovo does not require a compulsory use of customs brokers. However, it foresees that any importer or exporter may appoint representatives to deal with customs formalities. The representation can be direct, in which case the customs representative shall act in the name and on behalf of the importer or exporter, or indirect, in which case the customs representative shall act in his or her own name but on behalf of the importer or exporter. This is in harmony with EU Regulation No. 952/2013,

²⁶ Administrative Instruction No. 08/2015 on the licensing of terminals for goods. Available at: https://www.mit-ks.net/repository/docs/2015_12_18_135204_Udhzimi_Administrativ_MI_Nr_08-2015_Pr_Licencimin_e_Terminalave_t_Mallrave.pdf

²⁷ Data from stakeholder interviews.

²⁸ Customs and excise code of Kosovo. Available at: https://dogana.rks-gov.net/wp-content/uploads/2015/02/CODE_NO._03_L-109_CUSTOMS_AND_EXCISE_CODE_OF_KOSOVO.pdf

where the use of customs representatives is neither mandatory nor limited to a certain professional class. The representative in Kosovo must be a holder of a license issued by the Kosovo Customs. The candidate applying for a license shall have at least 6 months working experience in the area; have at least secondary school education; and pass successfully the professional examination organized by the Customs. Unlike in Kosovo, customs representatives operating within the EU are not required to hold a license.

5.2. Operations

Regulations on operations aim to promote the quality of logistics services, safeguard both operators and shippers from unpredicted accidents and incidents and encourage fair competition. Measures affecting operations may increase costs as they cause an increase in prices, but they are necessary in some cases as they generally favor a more competitive market. Regulations on operations have a broader scope than those of the market entry. This sub-section discusses only some principal regulations. Note that sectors like those including food and medicine are prone to specific and more stringent operations regulations. Though important for institutions of the respective sectors, the analysis of operational regulations at this level is beyond the scope of this report.

Driving time limits

Fatigue leads to a significant number of road accidents. To prevent this, Kosovo, like many countries around the world, through Law on Road, regulates driving times, breaks and rest periods for drivers engaged in the carriage of goods (and passengers). The related provisions improve safety in the road and create conditions for fair competition. Law on Road states that the maximum daily driving time is 9 hours, with breaks of at least 45 minutes after 4.5 hours of driving. This can be extended twice per week to 10 hours. The daily rest period, on the other hand, shall be at least 11 hours. This is in harmony with Regulation no 561/2006,²⁹ which regulates this issue in the EU. The enforcement of the driving time limits is based on the records of tachographs fitted to every vehicle, as per the law in place. Stakeholder interviews reveal that provisions related to digital tachographs are not being enforced. Without digital tachographs in place, it is very hard for monitoring bodies to know whether driving time limits are being respected.

Liability

Defining liability is extremely important in contracts between parties in logistics. Carriage of goods by service providers involves certain risks. Delays, damages, and losses are situations very often encountered in the industry. The probability of such events to happen makes the need for a clear definition of responsibilities between parties very important. In Kosovo, Law on Obligational Relationship in general regulates matters related to carrier's obligation for loss, damage or delay of consignment. According to the law, "the carrier shall be liable for any loss of or damage to the consignment during the time between accepting it and delivering it, unless it is a consequence of the action of the entitled person, an attribute of the consignment, or external causes that could not be anticipated and could not be avoided or averted." One common practice used around the world is the adoption of Standard Trading Conditions (STC) or

²⁹ Regulation (EC) No 561/2006 of the European Parliament and of the Council of 15 March 2006 on the harmonisation of certain social legislation relating to road transport. Available at: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32006R0561>

General Terms and Conditions (GT&Cs) in contracts – often imposed by self-regulatory bodies. These conditions are crucial for risk management in the logistics sector.

Emission standards

In the EU, emissions of carbon monoxide (CO), particulate matter (PM), nitrogen oxides (NOx), total hydrocarbon (THC), and non-methane hydrocarbons (NMHC) are regulated for most types of vehicles. Such regulations also include vehicles that are more often used in freight transport such for example lorries (trucks). The acceptable limits for exhaust emissions are laid out in a series of EU directives (see a summary list of relevant directives in Table 8), which foresee a progressive introduction of strict standards. The final standard is Euro VII, which is expected to remove fossil fuel vehicles from the market. LAW No. 05/L –132 on vehicles in Kosovo, which is supposed to regulate this area, does not contain any specific provision on emissions. In the absence of mandatory emission standards, there are vehicles circulating in Kosovo with very high emissions.

Table 8: A summary list of EU emission standards

Category	Type of Vehicle	Directive
Euro 1	For passenger cars and light lorries	Council Directive 93/59/EEC of 28 June 1993 amending Directive 70/220/EEC on the approximation of the laws of the Member States relating to measures to be taken against air pollution by emissions from motor vehicles.
Euro 2	For motorcycle	Directive 2002/51/EC of the European Parliament and of the Council of 19 July 2002 on the reduction of the level of pollutant emissions from two- and three-wheel motor vehicles and amending Directive 97/24/EC (Text with EEA relevance) - Statement by the Commission - Commission declaration as complement
Euro 3	For any vehicle	Directive 98/69/EC of the European Parliament and of the Council of 13 October 1998 relating to measures to be taken against air pollution by emissions from motor vehicles and amending Council Directive 70/220/EEC
Euro 4	For any vehicle	Commission Directive 2002/80/EC of 3 October 2002 adapting to technical progress Council Directive 70/220/EEC relating to measures to be taken against air pollution by emissions from motor vehicles.
Euro 5	For light passenger and commercial vehicles	Regulation (EC) No 715/2007 of the European Parliament and of the Council of 20 June 2007 on type approval of motor vehicles with respect to emissions from light passenger and commercial vehicles (Euro 5 and Euro 6) and on access to vehicle repair and maintenance information.
Euro 6	For light passenger and commercial vehicles	Commission Regulation (EU) 2016/646 of 20 April 2016 amending Regulation (EC) No 692/2008 as regards emissions from light passenger and commercial vehicles.

Source: Compiled by authors relying on EUR-Lex.

5.3. International Agreements and Protocols

The World Trade Organization (WTO) through the General Agreement on Trade in Services (GATS), which is the first multilateral agreement covering trade and investment in services, covers road transport services. The part on road transport services, however, contains few market access and national treatment commitments; on the other hand, it contains numerous most favored nation (MFN) exemptions to protect bilateral agreements. Given this situation, there has been a proliferation of bilateral road transport agreements, which are likely to remain strategic transport and trade integration instruments for most countries in the foreseeable future. In addition to bilateral agreements, there are also examples of cooperation under multilateral frameworks of various kind. One relevant example is the multilateral quota system of transport licenses for pan-European road transport, the so-called European Conference of Ministers of Transport (ECMT).

There are 43 countries that participate in the ECMT system: EU Members States (except Cyprus), the United Kingdom, and 16 other countries, among which all CEFTA Members except Kosovo. Haulers with a ECMT permit can undertake unlimited number of multilateral freight operations in the participating countries. The number of ECMT permits is limited for each participating country. Quotas for the distribution of permits are set on an annual basis, with changes being possible if all ECMT unanimously agree. For example, in 2019 there have 23,252 annual permits for the EU-27, 984 for the UK, and 23,472 for vehicles for other participating countries.³⁰

As indicated, unlike other CEFTA counterparts, Kosovo is not a member of ECMT. As a substitute, starting from 2010, Kosovo has negotiated and concluded bilateral road transport agreements along with technical protocols with nine EU members and Albania; with seven others, road transport is regulated with technical protocols only. According to the interview with MESPI representatives, Kosovo has initiated procedures or talks with seven other EU countries to reach bilateral road agreements possibly. For further details, see Table 9.

The bilateral agreements in place vary from one another to a great extent, both in terms of structure and substance. One notable difference is on provisions that regulate the extent of liberalization. The agreements with the UK and Switzerland are very liberal in the sense that for carriers licensed in the territory of one contracting party, no authorization (permit) is required for the carriage of goods between and through (transit) contracting parties, as well as from the other contracting party to a third party and vice versa. The agreements with Albania, Croatia and Montenegro are the same in this respect except that for freight operations with third parties a permit is needed. The rest of the agreements are less liberal, either requiring permits for different types of road freight transport or have other entry limitations. In the interviews with stakeholders, the agreement with Turkey was perceived as very discriminatory for Kosovo as the annual number of permits set for this country is disproportionately lower compared to that of Turkey. One other difference in agreements has to do with provisions on environmental protection, road safety, and security. The agreements with Austria and Hungary, for instance, are very strict in regard to emission standards.

³⁰ OECD. ECMT Certificates. Available at: <https://www.itf-oecd.org/ecmt-certificates>.

One important reason that explains why there is little consistency in the content of bilateral agreements has to do with the fact that there are no agreed policy guidelines on transport bilateral agreements that would govern parties when negotiating and drafting the agreements. For transport operators, keeping track of all agreements that are different from each other poses a major regulatory burden.

Table 9: Kosovo's international transport agreements and technical protocols

Status	Countries
Bilateral agreement in place (freight included)	Austria, Belgium, Slovenia, Croatia, Bulgaria, Italy, Montenegro, Albania, Switzerland, and Turkey
Technical protocol only	The United Kingdom, North Macedonia, Germany, Finland, Latvia, Lithuania, Estonia
Initial steps to reach bilateral transport agreements	Netherlands, Denmark, Poland, Sweden ³¹ , Norway, Greece, and Slovakia.

Source: Author's compilation using data from MESPI.

5.4. CEFTA – Additional Protocol 6

In 2019, the Central European Free Trade Agreement (CEFTA) has adopted the Additional Protocol 6 (AP6) on Trade in Services, setting out a framework that guarantees market access and national treatment for businesses of CEFTA members in key services sectors. To date, four CEFTA members, notably Albania, Bosnia and Herzegovina, North Macedonia, and Serbia, have completed the ratification process for AP6, while the rest, including Kosovo, have not ratified it yet.

Under the AP6, Kosovo has made several, not many though, liberalization commitments in the sector subject to this study, which are to be implemented once the protocol enters into force. To be specific, under the Consolidated Schedule of Specific Commitments included in Annex III of AP6, Kosovo has committed itself to full liberalization of maritime freight transport, maritime forwarding freight services, and rail freight transport services. The commitments for the former two are not very relevant for Kosovo, given that it is a landlocked country; whereas those for the latter should be scrutinized carefully and incorporated in the national legislation upon the ratification of the AP6.

By contrast, Kosovo has not taken any commitment at all to liberalize services auxiliary to all modes of transport like for example, storage and warehouse services or cargo-handling services – which are fully or partially liberalized by other CEFTA members. No commitments are made for air transport and internal waterways transport either. For the latter, it is understandable given that Kosovo does not have conditions for that mode of transport.

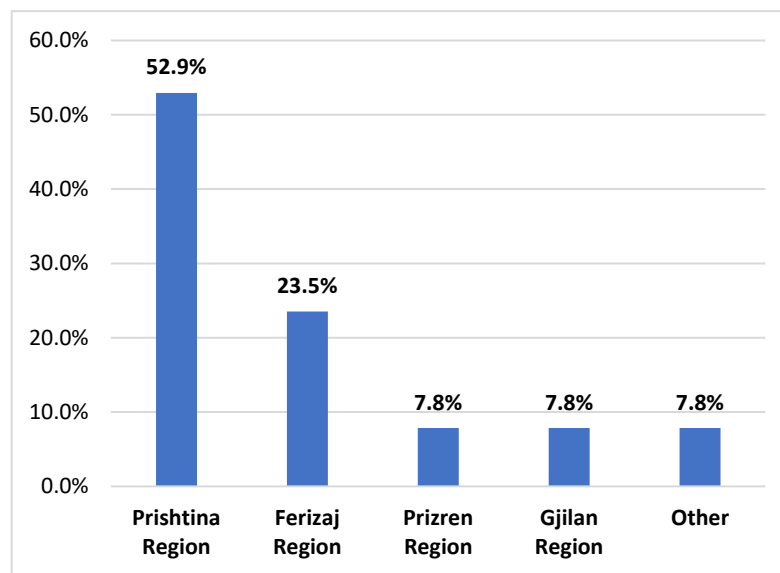
On the road freight transport, which is of very high relevance in this case, Kosovo has committed not to impose any market access or national treatment limitations for Mode 2 (consumption abroad), Mode 3 (commercial presence), and Mode 4 (presence of natural persons). On the other hand, for Mode 1 (cross-border trade), which is very important for road freight haulage, Kosovo agreed not to take any commitment, leaving room for the country to introduce or maintain measures that are inconsistent with market access and national treatment.

³¹ Transportation between Kosovo and Sweden currently functions based on an agreement succeeded from former Yugoslavia; same is with Czech Republic.

6. Main Survey Findings

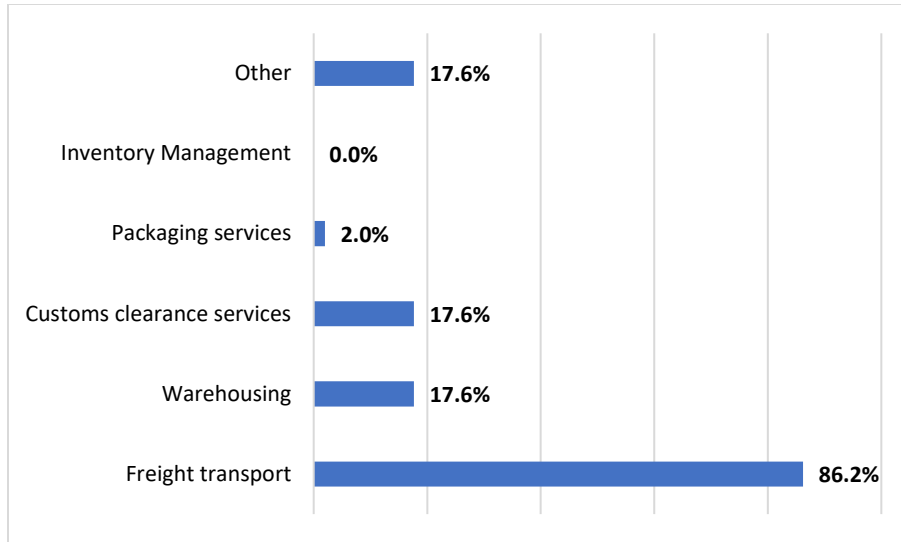
This section presents the main findings compiled from an online survey carried out with a sample of 51 firms that provide transportation and other logistics services. The questionnaires disseminated to the sampled logistics firms were completed either by owners or managers in 90.2 percent of the cases; the rest (9.8 percent) were filled by other personnel performing important functions within the firm. Of all firms surveyed, the majority, 52.9 percent, have their offices in the region of Prishtina, while the rest in other regions, according to percentages depicted in Figure 4.

Figure 4: Location by region, in %



The findings show that only 23.5 percent of firms surveyed provide more than one logistics service. The most common service provided by firms surveyed is freight transport (86.2 percent), while warehousing (17.6 percent) and customs clearance services (17.6 percent of cases) are less common. A negligible portion of firms (2 percent) provide packaging services, and none of them inventory management (see Figure 5). Depending only on one service, which is in this case freight transport, is not in line with the new global logistics trends. Nowadays, logistics firms, in addition to providing typical transportation and warehousing services, are extending their portfolio to include other value-added logistics services such as packaging, inventory management, and other similar services.

Figure 5: Main services provided by firms, in % of cases



The findings on employment show that 5.8 percent of firms surveyed have from 1 to 4 workers; 17.6 percent from 5 to 8 workers, 9.8 percent from 9 to 12 workers, and the rest have more workers employed (see Figure 6). The average number of workers per firm stands at 5.76. Road freight transport firms, which dominate the logistics market in Kosovo, are generally smaller and have fewer workers. This is the case in most of the countries in the EU as well. The majority of firms (76 percent) have an average salary falling in the range of 200 to 500 EUR, as Figure 7 depicts. The weighted average generated by using the midpoint values of the provided ranges stands at 350 EUR.

Figure 6: Distribution of employment, in %

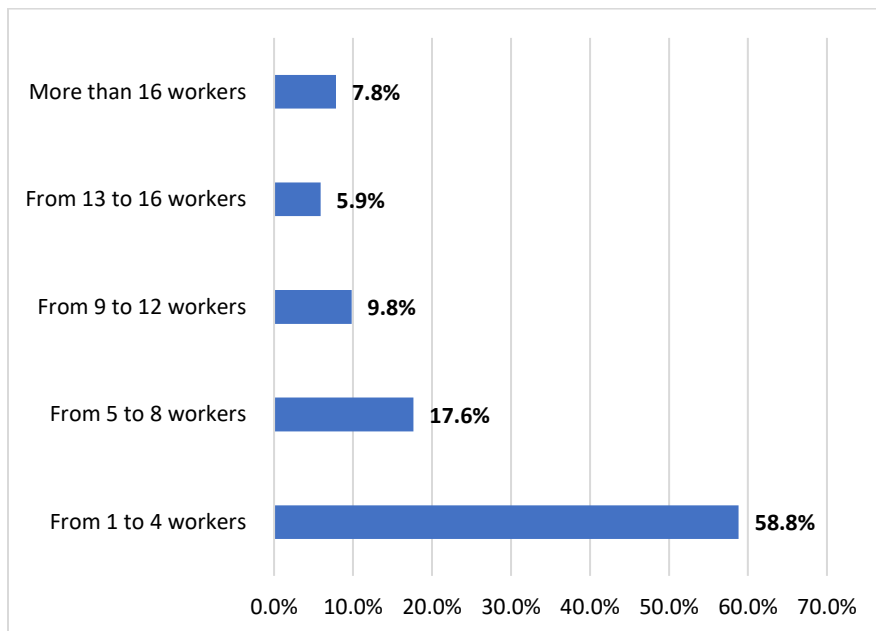
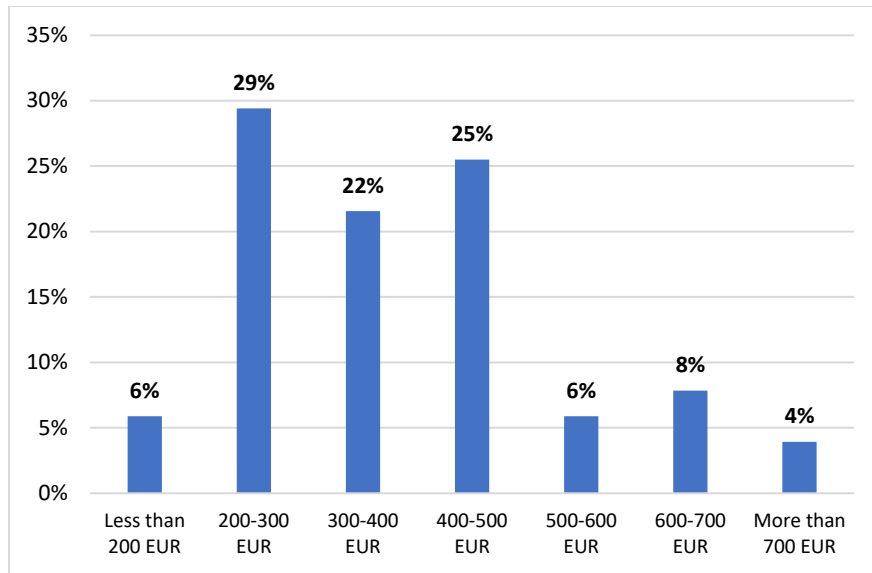
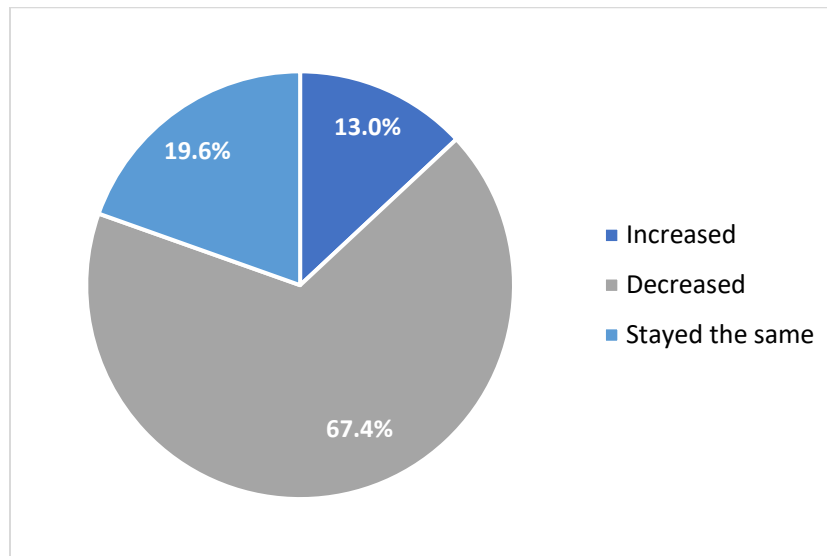


Figure 7: Distribution of average salary, in %



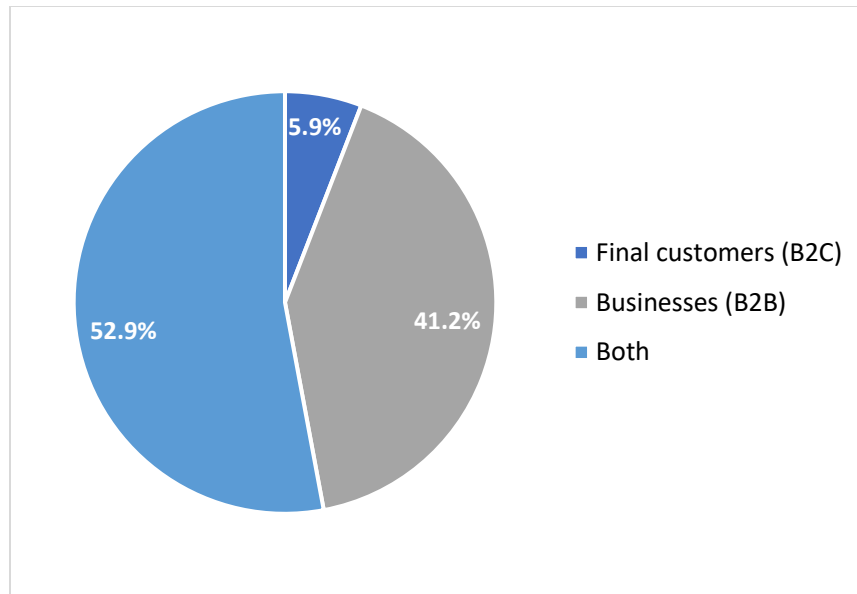
Like elsewhere, the COVID-19 pandemic has hit many sectors in Kosovo. The logistics sector seems to have suffered, too, from the effects of the pandemic. The results reveal that 67.4 percent of surveyed firms declared to have experienced a decline in their turnover of 2020 compared to 2019; 13 percent have seen an increase; and 19.6 percent have seen no change (see Figure 8). The magnitude of decrease among those that have seen a decrease turns out to be 33.7 percent, on average; while among those that have experienced the opposite, it stood at 60 percent, on average.

Figure 8: Annual turnover change in 2020 compared to 2019, in %



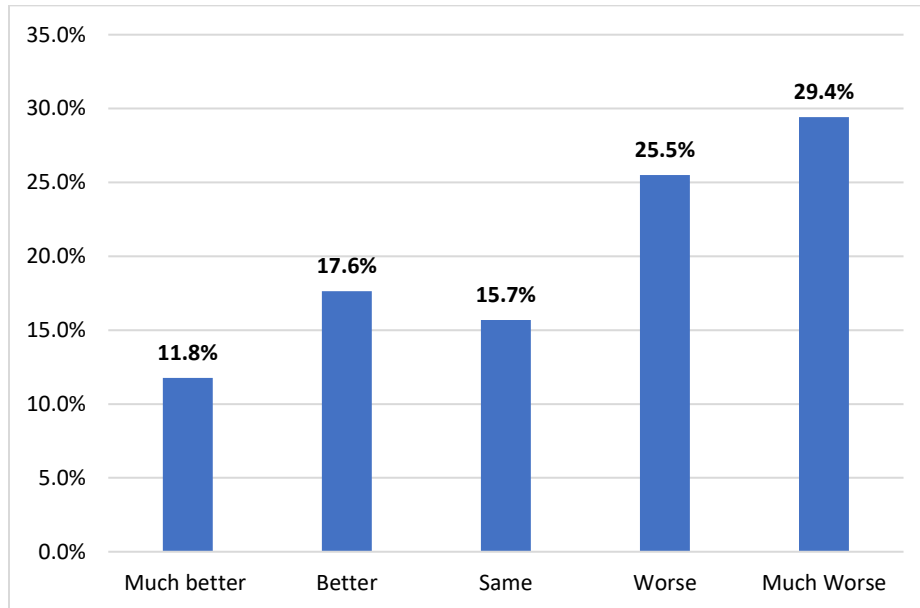
In the question about the type of clients, 52.9 percent of firms surveyed claim that they provide services to both final customers and businesses; 41.2 percent to businesses only; and a very small portion (5.9 percent) to final customers only (see Figure 9). Furthermore, it turns out that that the logistics firms in Kosovo provide services to an average of 22.8 clients annually.

Figure 9: Type of clients, in %



In the question regarding the competitiveness level (price and quality) of the sector compared to the EU, the majority of firms (54.9 percent) perceive it to be either 'worse' or 'much worse' (for more information, see Figure 10).

Figure 10: Perceived competitiveness level of the sector compared to the EU, in %

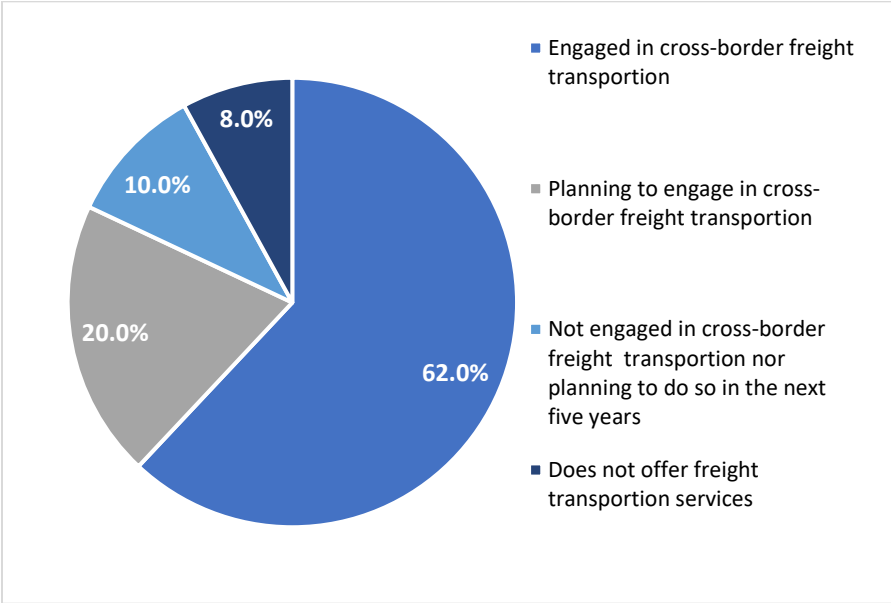


Firms were inquired about the main strengths and weaknesses of the logistics sector. On the main strengths, the most frequent answers provided by firms are road infrastructure and speed of delivery. Unlike in the case of strengths, firms were more responsive when it came to presenting the weaknesses of the sector. One important weakness that was repeatedly mentioned in the firms' responses is unfair competition, which is at the same time a barrier. Unfair competition, according to stakeholder interviews,

is caused by both domestic operators not complying with the legislation in place and large international operators who de facto benefit from a treatment that is not equivalent for Kosovo operators in their respective countries. Other weaknesses highlighted include high terminal prices, lack of digital tachographs, old vehicles, late payments, and associations' poor functioning. In addition to these, firms also highlight many cross-border-related issues. These issues will be discussed later in the part about barriers to international freight transport.

Of all the firms surveyed, 62 percent are engaged in cross-border freight transport; 20 percent are planning to engage in cross-border freight transport; 10 percent are not engaged in cross-border freight transport and not planning to do so in the next five years; the rest do not provide transport services (see Figure 11). Cross-border freight transport makes up 31 percent of the total turnover of firms that provide this service. The countries with which most of the freight operations are carried out are Albania and North Macedonia. Beyond the Balkans, it is Italy and Germany that dominate.

Figure 11: Engagement in cross-border freight transportation, in %

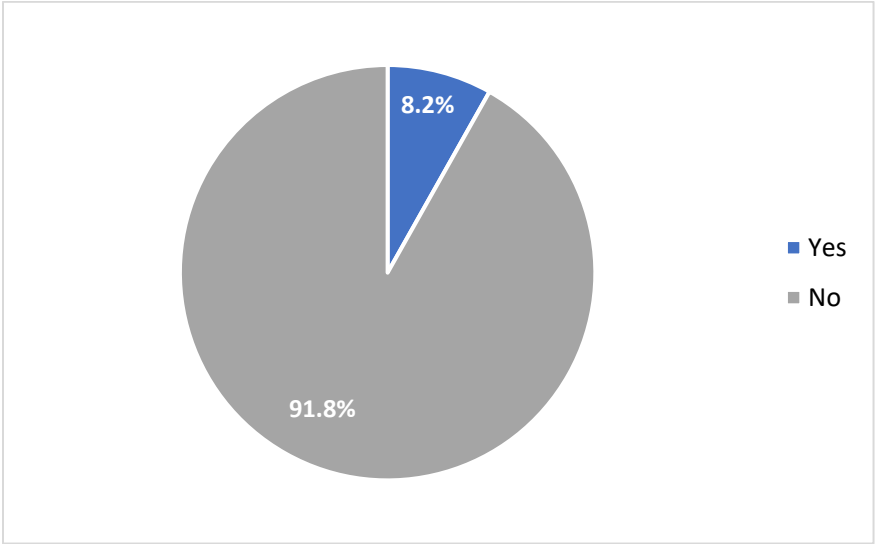


One of the focal points of the survey was the question about the main barriers that prevent firms to engage in cross-border freight transport services or to improve their performance if they already do cross-border transportation. One very frequently mentioned barrier is the inability of truck drivers to enter the EU area without having a visa. Another frequently mentioned barrier is the high cost of insurance that Kosovo transporters incur, especially in cases when they have to carry out operations that involve more than one country. The Kosovo Insurance Bureau is not yet a member of the Council of Bureaux, which is the managing organization of the Green Card system that serves as a cross-border insurance mechanism for its 48 members, including the majority of Kosovo’s chief trading partners. In the absence of Green Card certificates, transportation operators from Kosovo, unlike their main counterparts from member countries, need to obtain multiple insurance covers at each of the frontiers of the member countries. This in turn adds to the cost of Kosovo operators, making them less competitive vis-à-vis their counterparts. One other reoccurring barrier is the requirement to change plates at the Serbian border and non-recognition of documents or products that carry official Kosovar symbols by this country. Some of other

important barriers reported include non-membership in ECMT and the asymmetrical regime of permits with Turkey.

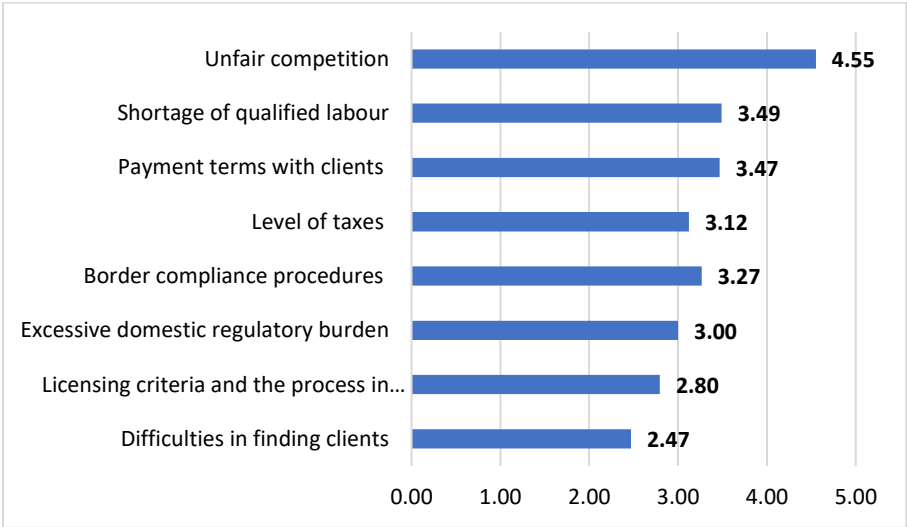
Lack of institutional support is another highlighted problem. This is also corroborated by the survey findings, which reveals that 8.2 percent of firms have not received any grant or subsidy in the last three years from the government (see Figure 12).

Figure 12: Incentives from government, in %



To quantify the obstacles, firms were presented with a list of potential obstacles and were asked to rate them on a scale from 1 to 5, where 1 – not an obstacle at all, and 5 – a large obstacle. Figure 13 shows the ranking of obstacles based on the average rates. The most severe obstacle perceived by firms is ‘unfair competition’, followed by ‘shortage of qualified labor’ and ‘payment terms with clients.’ For more detailed information see Figure 13.

Figure 13: Ranking of obstacles by firms (average)



Finally, firms were asked to list and elaborate three interventions that would upgrade the logistics sector. The following are the most frequent interventions proposed:

- There should be periodic checks for international operators to see if they comply with the required documents.
- Those operators that are not part of ECMT and those that are not allowed to carry out goods to third countries should be stopped and penalized.
- Permits for international operators transporting goods to Kosovo should be properly validated.
- The Government should set a ceiling for terminal prices.
- The Government should make more efforts for membership in international transport mechanisms, Green Card system in particular.
- Customs procedures should be streamlined.
- More bilateral/transit permits are needed with Turkey, Bulgaria and Italy.
- There should be more grants for the digitalization of the sector.
- Procedures on licensing should be streamlined and the fee should be more reasonable.
- More should be done to properly implement the current transport bilateral agreements.
- There should be more support for small operators to help them grow.

7. Conclusion

This report analyzes the structure and performance of the logistics sector, reviews the regulatory framework in the light of the EU *acquis*, and discusses the main barriers faced by logistics services providers. The overall picture shows that the size of logistics services in GVA and the number of service providers are both significantly smaller compared to the EU. Moreover, Kosovo has seen a continuous negative trade balance on freight transport, which is the main logistics activity in the sector.

The regulatory framework of the logistics sector in Kosovo, akin to many countries, is characterized by a high level of fragmentation, with regulations being scattered over various institutions. The report identifies a number of market entry and operations regulatory problems that need to be addressed. Some areas, for example cabotage, are regulated differently in the EU. In regard to freight transport, due to difficulties in becoming a member of international mechanisms like ECMT, Kosovo had no other way but to enter into bilateral agreements. These bilateral agreements vary from one another, both in terms of structure and substance, posing a significant regulatory burden for transport operators.

The report also presents the findings of a survey conducted with a sample of logistics service providers. The survey findings show that the majority of logistics firms in Kosovo base their business model only on one service, while their counterparts are more and more specializing in providing integrated packages of logistics services, including value-added services like packaging, inventory management, and similar. Moreover, the findings also reveal that the Covid-19 pandemic has badly hit the sector, causing a decline in turnover among more than two-thirds of firms surveyed.

The main identified weaknesses of the sector, which at the same time can be considered as barriers as well include unfair competition, high terminal prices, lack of digital tachographs, old vehicles, late payments, and poor functioning associations. The cross-border freight transport barriers highlighted in the survey include the inability of operators to enter the EU area without having a visa; high insurance costs in the absence of the green card system; the requirement to change plates at the Serbian border and similar obstacles stemming from the non-recognition of documents; lack of membership in international transportation mechanisms; and the discriminatory permit regime with Turkey.

ANNEX A: List of interviewees

Name	Date
Central Bank of Kosovo	February 9, 2021
Ministry of Environment, Spatial Planning and Infrastructure	February 15, 2021
Kosovo Transport Association (Member)	February 19, 2021
Kosovo Customs	February 23, 2021
Freight Forwarding Association	February 23, 2021

ANNEX B: Questionnaire**A. General Information**

1. **Company name:** _____
2. **Municipality:** _____
3. **Status of the person who filled the questionnaire:**
 - a. Owner
 - b. Manager
 - c. Other (please specify): _____
4. **Year of establishment:** _____
5. **Please select the main services provided by your company. [Note: More than one answer is possible.]**
 - a. Freight transport
 - b. Warehousing
 - c. Customs clearance services
 - d. Packaging services
 - e. Inventory management
 - f. Other, please specify: _____

B. Overall Structure and Performance

6. **The ownership in your company is:**
 - a. Domestic only
 - b. Foreign only
 - c. Mixed

7. How many employees (including you) does your company have? Please insert the number:

8. What is the average salary in your company?

- a. Less than 200 EUR
- b. 200-300 EUR
- c. 300-400 EUR
- d. 400-500 EUR
- e. 500-600 EUR
- f. 600-700 EUR
- g. More than 700 EUR

9. How would you compare the competitiveness level (price and quality) of logistics companies in Kosovo with those in the EU?

- a. Much better
- b. Better
- c. Same
- d. Worse
- e. Much Worse

10. Compared to 2019, how did the turnover of your company change in 2020?

- a. Increased: _____%
- b. Decreased: _____%
- c. No change

11. You offer your services to:

- a. Final customers (B2C)
- b. Businesses (B2B)
- c. Both

12. How many clients do you have per year, on average? Please specify: _____

13. Could you please list up to three STRENGTHS characterising freight transport and other logistics services in Kosovo?

- a. _____
- b. _____
- c. _____

14. Could you please list up to three STRENGTHS characterising freight transport and other logistics services in Kosovo?

- a. _____
- b. _____
- c. _____

C. Cross-Border Freight Transport

- 15. Which of the following best describes the status of your company at the moment?**
- Engaged in cross-border freight transport
 - Planning to engage in cross-border freight transport
 - Not engaged in cross-border freight nor planning to do so in the next five years
 - Does not offer freight transport services
 - Other, please specify: _____

- 16. [For those engaged in cross-border freight transport] What was the share of cross-border freight shipping in the overall turnover of your business in the last 3 years?**
- 2019 _____%

- 17. [For those engaged in cross-border freight transport] Please specify the countries with whom you carry out freight transport operations more often.**
- _____
 - _____
 - _____

- 18. Could you please list three main barriers that prevent you to embark on cross-border freight transport or improve your performance if you already do so?**
- _____
 - _____
 - _____

D. Other

- 19. Have you received any sort of incentive (grant or subsidy) from the government in the last three years?**
- Yes
 - No

- 20. How would you rate the following on a scale from 1 to 5, where 1 – not an obstacle at all, and 5 – a large obstacle?**

Excessive domestic regulatory burden	1	2	3	4	5
Licensing conditions and the process in general	1	2	3	4	5
Border compliance procedures	1	2	3	4	5
Payment terms with clients	1	2	3	4	5
Level of taxes	1	2	3	4	5
Shortage of qualified labour	1	2	3	4	5
Difficulties in finding clients	1	2	3	4	5
Unfair competition	1	2	3	4	5

Certification standards	1	2	3	4	5
Other (specify):	1	2	3	4	5

21. Please list and elaborate three interventions that would upgrade the logistics sector:

- c. _____
- d. _____
- e. _____