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CASE STUDY

Budgetary Impacts of EU Integration Process in Western Balkans

***The Case of the
Republic of Kosovo***



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Budgetary Impacts of EU Integration Process in Western Balkans

– Kosovo Case

Infographic

Highest revenue creating products due to imports of fuel (436 million euro), cigarettes (281 million euro), and cars (91 million euro).

EU policy targets:

EU Green Deal: Climate fossil fuel, switch to zero-emission vehicles.
EU Beating Cancer Plan: Strive for a smoke-free society.

Projected Revenue Loss by 2040:



Fuel

218 million euro
50% by 2040



Cigarettes

231 million euro
82% by 2040



Cars

45 million euro
50% by 2040

(based on figures from 2022)

Total:

490 million euro
20% of budget revenues by 2040

Recommendations:

1. Develop a long-term revenue strategy.
2. Develop European Integration Investment Plan: comprehensive assessment of the implementation requirements and costs resulting from the European Integration.
3. Embed EU targets in financial planning: integrate EU policy targets into revenue and cost predictions while new EU policies are being developed.
4. Establish the practice of assessing the impacts of EU policies while they are still under development.
5. Strengthen policies aimed at fostering economic growth.

Summary of Key Findings



Kosovo is set on a path to join the European Union. Kosovo's journey towards European Union membership involves a commitment to align with EU policies and standards. This study shows the impact on the customs revenue related to the import of the three highest revenue-providing products, namely fossil fuels, cigarettes, and cars if certain EU policy targets from the EU Green Deal and the EU Beating Cancer Plan are met. The study projects that for these three product categories alone Kosovo would see an annual revenue loss of **(490 million euro), equivalent to a 20% reduction from the 2022 budget¹**. The projected costs do not include the additional loss of VAT revenue

from these products, therefore hinting that the actual impact may be higher.

This tremendous impact on government revenues means that action needs to be taken now. The Government of Kosovo should develop a comprehensive overview of the revenue and cost impacts that result from the EU Integration process. This evaluation is crucial for financing the significant reforms necessary in the economy, administration, and society to align with European standards. The Government should also develop the capacities to determine the impacts of EU policies while these are still under development.

TABLE OF CONTENT

1	Introduction	06
2	Methodology	08
3	Findings of the Study	10
3.1	EU Green Deal on Energy	11
3.2	Energy Strategy of the Republic of Kosovo 2022 - 2031	11
3.3	EU Green Deal on Mobility	13
3.4	Multimodal Transport Strategy 2023 - 2030	14
4	EU Beating Cancer Plan	16
4.1	Smoking Prevalence and Regulatory Challenges in Kosovo	17
5	Conclusions	20
6	References	22



Introduction

This study aims to assess the medium to long-term budgetary impacts of the European Union (EU) integration process in Western Balkan (WB) countries. The study focuses on a specific set of EU policy targets for products that are imported and provide most of the customs and excise revenue. Specifically, this study focuses on the implications of EU policy targets on the three highest revenue-providing products, namely fuel, cars, and cigarettes, in the case of Kosovo.

The EU has set specific policy objectives for these products, while in Kosovo, these objectives are indirectly incorporated in different national-level strategic documents. To successfully complete the European Integration process, it means that these targets should be fully incorporated into the design of national policies. The results of this study indicate the tremendous budgetary implications that EU policy targets can have on government revenues. EU policy targets for fuel and cigarette imports alone would lead to 20% reduction in government revenues by 2040. Action is required now to ensure that this loss of revenue is compensated.

 **20%** reduction in government revenues by **2040**

The need for action increases even further when taking into account the investment needed to meet EU targets and implement EU standards across all facets of society and the economy. The EU Green Deal, digitalisation, reform of the agricultural sector, Public Administration Reform, and developing inclusive policies that protect vulnerable groups are just a few examples of policies that will require significant commitment and investment from the Government.



Methodology

This study is based on a qualitative research method which includes thorough desk research, as well as semi-structured interviews/open-ended discussions with main government and civil society stakeholders working on the policy fields relevant to this study.

The desk research included an analysis of the policy targets for the three highest revenue-providing products, being fuel, cars, and cigarettes. EU policy targets were assessed through analysis of the EU Green Deal and EU Beating Cancer Plan since these policies significantly impact not only EU member countries but also nations aspiring for EU accession indirectly. These EU policy targets were compared to national policy targets set by the Government of Kosovo in different national-level strategic documents.

The analysis was followed up by open-end discussions with government and civil

society stakeholders. These discussions included Senior Officers from the Energy Department at the Ministry of Economy, the Director of the Vehicle Department at the Ministry of Environment, Spatial Planning and Infrastructure in Kosovo, and the Executive Director of the American Chamber of Commerce in Kosovo. The discussions also included the Senior Officers from the National Institute for Public Health of Kosovo, researchers from Kosovo Advocacy and Development Centre- KADC (an NGO among other fields working on smoking prevalence in Kosovo), and the Acting Secretary General and Advisor of the Minister of Ministry of Agriculture, Forestry and Rural Development to discuss import targets for food products, since food was assessed initially as potentially the category with the fourth-highest import revenues in Kosovo. However, based on conversations with the Ministry of Agriculture, Forestry and Rural Development it became clear that the import is not expected to change substantially as a result of the implementation of the EU policy target.



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Findings of the Study



3.1 - EU Green Deal on Energy

The European Green Deal sets different policy targets on areas such as climate, energy, transport, and taxation with the aim of reducing net greenhouse gas emissions by 55% by 2030.² Moreover, it aims to reduce net emissions of greenhouse gases by 2050 to zero.

As part of the reduction of net greenhouse gas emissions, EU countries under this Deal also agreed to create stronger legislation to increase the capacities for renewable energy. This target is set as a minimum of 42.5% by 2030, representing a 32% increase from the current situation, with an ambition to reach 45%.³ Additionally, the energy efficiency target for the EU is set at 11.7% by 2030. To meet this target, EU member states need to make annual savings of an average of 1.49% from 2024 to 2030.⁴

3.2 - Energy Strategy of the Republic of Kosovo 2022 - 2031

The Energy Strategy of the Republic of Kosovo is the most baseline and important document at the national level which provides specific directions and actions and guidelines on key actions for the energy sector development over the next 10 years in Kosovo. One of the main strategic objectives of this strategy is decarbonisation through the promotion of renewable energy. The aim of this objective is to introduce decarbonisation in the energy sector in Kosovo, through gradual carbon pricing and transposition of main EU regulations. The decision process related to carbon pricing policies have not yet been finalized in the Energy Community. Depending on the decisions in the Energy Community, carbon price schemes will also be determined in the future. Specifically targeting the

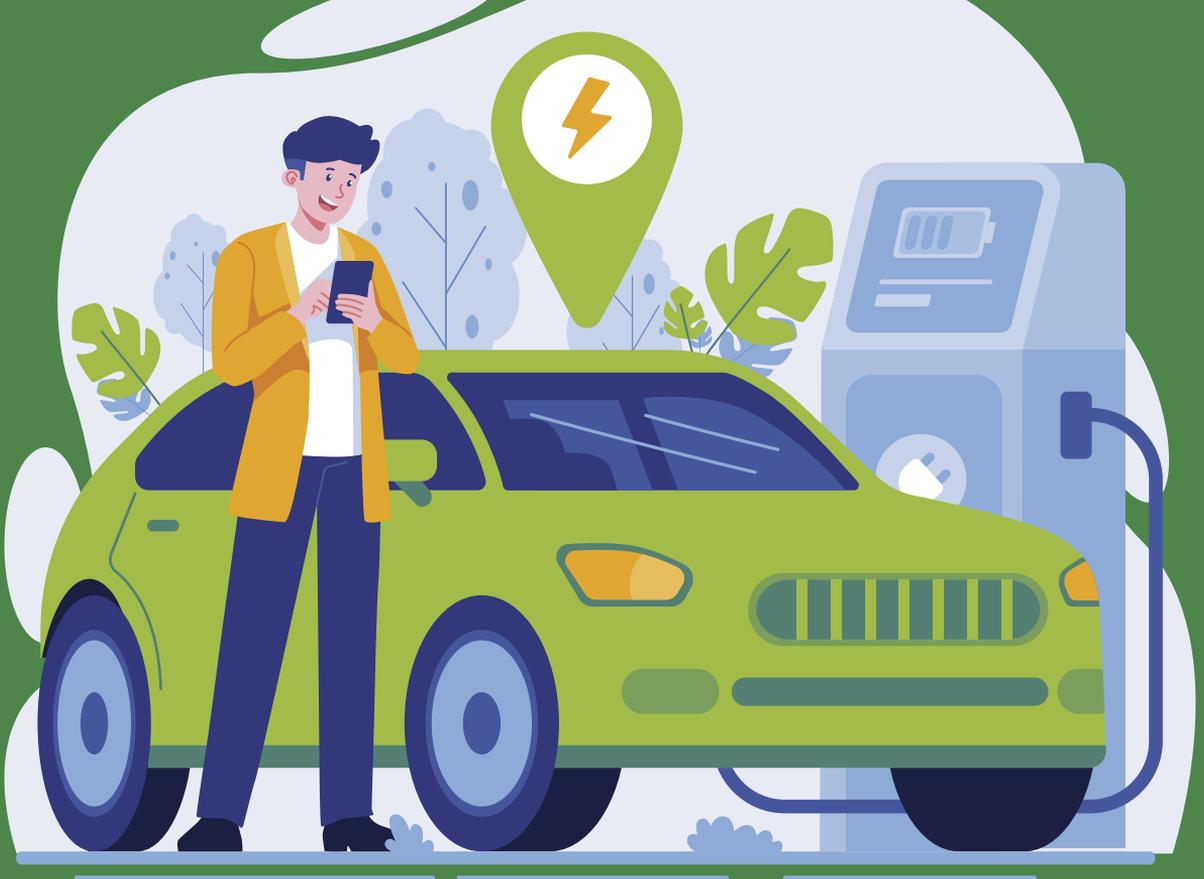
energy sector, the plan promotes utilizing renewable energy sources and gradually phasing out lignite-based energy generation. New technologies aim to reduce GHG emissions with the aim of achieving the goals of the Sofia Summit Declaration by 2050. While this strategy focuses only on energy sector goals, the Multimodal Transport Strategy 2023-2030 and the National Strategy for Industrial Sectors (which is still being developed), will aim to cover other areas of decarbonisation. These two strategies, together with the Energy Strategy, will be integrated into the National Energy and Climate Plan 2025-2030.

Based on the Energy Strategy of the Republic of Kosovo standards, sustainability, and climate

neutrality will be achieved through the reduction of greenhouse gas emissions by at least 32% in 2031⁵ in the power sector in Kosovo and through decarbonisation and promotion of renewable energy to decrease greenhouse gas emissions in the energy sector by first covering at least 35% of electricity consumption by renewable energy by 2031.⁶ Furthermore, this strategy aims to achieve cumulative energy savings of 266.4 ktoe (kilotonnes) in buildings including public, private, and commercial by 2031.⁷

The transition to renewable energy resources will require significant upfront investments in new energy infrastructure. These investments have not been taken into account in this study.

Policy Area	EU Policy Target	Kosovo Policy Target
Net Greenhouse gas emissions reduction	55% by 2030 0 by 2050	32% by 2031 <i>(only power sector target)</i> 12% by 2026 <i>(only transport sector target)</i> 20% by 2030 <i>(only transport sector target)</i>
Renewable Energy	42.5% by 2030	minimum 35% by 2031
Energy efficiency target	11.7% by 2030	N/A
Annual energy savings	1.49% from 2024 to 2030	Cumulative energy savings of 266.4 ktoe (kilotonnes) in only buildings including public, private, and commercial by 2031



3.3 - EU Green Deal on Mobility

The EU Green Deal also provides specific policy targets for mobility, aiming to achieve greener mobility through clean, accessible, and affordable transport solutions. Based on this policy area, all new cars and vans registered in the EU shall be zero-emission by 2035.⁸ A mid-term target to achieve zero emissions sets that average emissions of new cars shall be less to 55% by 2030 and new vans to 50% by 2030.⁹ This will put road transport on a firm path to zero-emission mobility in 2050.

In addition to the reduction of CO₂ emissions, policy targets on mobility also provide areas of improvement to incentivise usage of clean transport by EU citizens. One of these areas is establishing infrastructure dedicated to charging zero-emission vehicles. These objectives mandate the implementation of electric charging and hydrogen refuelling infrastructure across all EU territories. The charging capacity shall meet the demands of a larger fleet of zero-emission cars. Furthermore, the EU policy target also makes it mandatory to introduce carbon pricing by 2027, where road transports will be covered by emissions trading, putting a price on pollution, stimulating cleaner fuel use, and re-investing in clean technologies.¹⁰

Emissions Trading System (ETS). Based on this the target is gradual pricing until 2030 (15% in 2025, then linear uptake).¹³

Based on the assessment under the Energy Strategy of Kosovo, the electric vehicle share in 2021 was 0.05%, as only 157 electric and hybrid vehicles were imported in that year, compared to 333,000 diesel or petrol fuel cars imported the same year.¹⁴ The import trend of electric and hybrid vehicles is expected to increase, especially with taxi companies switching to these vehicles.

In line with the objectives of the Transport Strategy, which envisages the promotion of sustainable transport and the promotion of cleaner vehicles, particularly alternative fuel vehicles, the Energy Strategy takes into account the gradual electrification of the transport sector when forecasting electricity consumption. Measures to achieve this goal are set out in

the transport strategy by creating the legal basis through the adoption of Directive 2014/94/EU and defining the national policy framework for the development of a network of alternative fuel infrastructure (e.g., charging stations for electric vehicles) and promoting the purchase of zero-emission vehicles.

The shift from fossil-fuel powered cars to zero-emission cars is expected to place a demand on the Kosovo budget since zero-emission cars are generally subsidised. This means that the revenue from car imports will be reduced, at least for a period of time. Moreover, the transition to new fuels for zero-emission cars will require significant upfront investments in new energy infrastructure. These investments have not been taken into account in this study.

Policy Area	EU Policy Target	Kosovo Policy Target
CO2 emissions reduction	<p>55% reduction of emissions from cars by 2030</p> <p>50 % reduction of emissions from vans by 2023</p> <p>0 emissions from new cars by 2035</p>	<p>5% by 2026 for cars</p> <p>10% by 2030 for cars</p> <p>20% by 2026 for lorries and busses</p> <p>25% by 2030 for lorries and busses</p>
Electric charging and hydrogen fuelling infrastructure	To be introduced	N/A
Carbon pricing	Mandatory introduction by 2027	Gradual pricing until 2030 (15% in 2025, then linear uptake)

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EU Beating Cancer Plan

The EU Beating Cancer Plan sets specific policy targets to reduce tobacco usage, selling and advertising. Based on this plan, the EU aims to have a Tobacco-Free Society where less than 5% of the population uses tobacco by 2040, compared to around 25% at current state.¹⁵ The interim goal of the EU is to reach the World Health Organisation reduction target of 30% by 2025, which corresponds to a reduction of smoking prevalence of around 20%.



This plan specifically refers to the Tobacco Products Directive and Tobacco Taxation Directive. Those two directives are used as effective instruments to fight tobacco consumption in the EU. The Tobacco Products Directive, initially adopted in 2014, currently is set for an update to align with the internal market of the EU.¹⁶ In addition to that, the Tobacco Taxation Directive sets a tax to reduce tobacco consumption. At the EU level, the target requires Member States to levy a minimum rate of excise duties on cigarettes.¹⁷



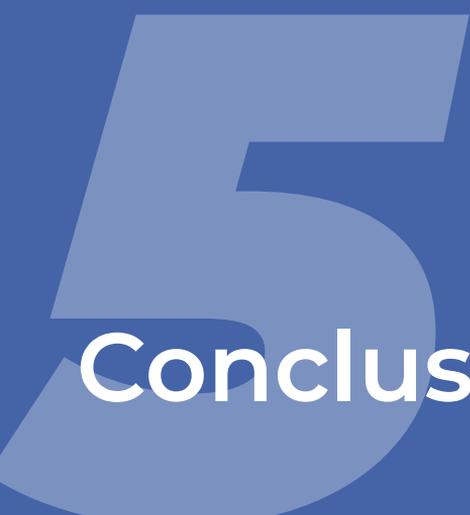
4.1 - Smoking Prevalence and Regulatory Challenges in Kosovo

There are no national strategies specifically focusing on the reduction of smoking prevalence in the Republic of Kosovo. The Strategy for Promotion of Health at Schools and Law No. 04/L-156 on Tobacco Control set the baseline on regulating cigarette advertising and imports, banning smoking in enclosed spaces, and promoting healthier lifestyles among younger generations. A comparative study conducted by the National Institute for Public Health in Kosovo, shows consumption among women and men cumulatively revealing a smoking prevalence of 27.7% in 2019.¹⁸ It is noted that there are still significant problems in the implementation of the Law, especially in the gastronomy sector. In addition to that, a specific focus shall be made in the import and consumption of electronic cigarettes and vapes. In the future, Kosovo Customs will introduce specific codes for e-cigarettes and vapes for taxation and excise. The prevalence of smoking in Kosovo is relatively high when compared with some other countries in Europe.

Policy Area	EU Policy Target	Kosovo Policy Target
Tobacco usage reduction	less than 5% by 2040	N/A
Total tax burden	7.5% to 76.5% by 2040	<p>Excise Tax of specific rate of 47€ per 1,000 cigarettes</p> <p>Value Added Tax of 18%</p> <p>Customs Duty of 10%, except for Serbia and Montenegro 0% and Albania and Macedonia 1%.</p> <p>There is no TTB (total tax burden) target for Kosovo</p>

Customs revenue: Impact Overview

	Policy Area	EU Policy Target	Kosovo Policy Target	Current Customs Revenue (Kosovo)	Expected Customs Revenue (Kosovo)
EU Green Deal on Energy	Greenhouse gas emissions reduction	55% by 2030 0 by 2050	32% by 2031 (only power sector target) 12% by 2026 (only transport sector target) 20% by 2030 (only transport sector target)	Fuel import revenue 2022 436 mil. € ⁹	50% reduction by 2040: -218 mil. € 100% reduction by 2050: - 436 mil. €
	Renewable Energy	42.5% by 2030	minimum 35% by 2031	N/A	N/A
	Energy efficiency target	11.7% by 2030	N/A	N/A	N/A
EU Green Deal on Mobility	Annual energy savings	1.49% from 2024 to 2030	Cumulative energy savings of 266.4 kton in buildings including public, private, and commercial by 2031	N/A	N/A
	CO2 emission reduction	55% reduction of emissions from cars by 2030 50 % reduction of emissions from vans by 2023 0 emissions from new cars by 2035	5% by 2026 for cars 10% by 2030 for cars 20% by 2026 for lorries and buses 25% by 2030 for lorries and busses	All cars revenue 2022: 91 mil. € ²⁰	50% reduction by 2040: - 45 mil. €
	Electric charging and hydrogen fuelling infrastructure	To be introduced	N/A		
EU Beating Cancer Plan	Carbon pricing	Mandatory introduction by 2027	Gradual pricing until 2030 (15% in 2025, then linear uptake)		
	Tobacco usage reduction	less than 5% by 2040	Current prevalence rate: is 27.7%	Cigarette import revenue 2022 281,65 mil. € ²¹	82% reduction by 2040: - 231 mil. €
Total predicted revenue loss under no policy change scenario by 2040				490 million euro	



Conclusions

There are significant mid-term budgetary implications of the EU's policies and policy targets on customs' revenue in the Republic of Kosovo, specifically revenue loss from imported diesel/petroleum fuel, car imports, and cigarette imports. Without any policy changes, the total revenue loss from customs is expected to be 490 million euros. This amount equates to a total of 20% of the Kosovo Government's revenue based on the 2022 budget.

The findings of this study show that there is an urgent call for immediate action. The Government needs to develop a comprehensive overview of the medium to long-term impact of the EU integration process on revenues in order to be able to address the challenge of the predicted shortfall in customs revenue. This needs to include a clear understanding of the effects of new EU policies while these are being developed. By comprehensively understanding the anticipated impact, the Government can then strategize and implement measures to counteract any potential shortfall in customs revenue and revenues from other sources.

In addition, the Government should develop a comprehensive overview of the investments needed to successfully implement the EU Acquis, especially focusing on the policies with the highest associated costs. This comprehensive overview serves as a tool to ensure that both revenues and future investment

demand are aligned. By evaluating these aspects, the Government can guarantee that the financial resources allocated match the demands brought forth by the EU integration process.

To keep a clear focus on the impacts of European Integration, the Government should build robust capacities dedicated to determining the impacts of EU policies while these are still under development. This approach means actively engaging and collaborating with the EU institutions, placing a particular emphasis on fostering partnerships with the European Commission. This proactive approach will enable the Government of Kosovo to align their strategies more effectively, ensuring a smoother integration process and facilitating informed decision-making. This could best be combined with a comprehensive assessment of the implementation requirements and related costs resulting from the requirements to transpose the EU Acquis and achieve EU standards in practice.

Last, and certainly not least, with the investment need increasing to finance the European Integration process, the Government should strengthen all its policies aimed at fostering economic growth. This growth will be an important factor to offset losses in revenue and cover the EU integration investment needs.



References

Page 4

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Page 11

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Page 15

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Page 16

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Page 17

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Page 19

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