REPORT FROM THE COMMISSION TO THE COUNCIL

On the work of the EU/Albania High Level Steering Group, in preparation for the negotiation of a Stabilisation and Association Agreement with Albania
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A. Introduction

1. Foreword
This report has been compiled in pursuit of decisions taken at the Zagreb Summit of November 2000. It reviews the political and economic situation of Albania and assesses its ability to implement the obligations of a Stabilisation and Association Agreement (SAA). It also reviews progress made since the Commission’s 1999 Feasibility study.
2. Summary and Conclusions

Summary

Albania is one of five countries in south east Europe participating in the EU’s Stabilisation and Association process. This process is designed to help bring stability to the region by integrating each country into European structures and by offering them the prospect of future EU membership. The EU has been actively involved in supporting Albania’s reform efforts since 1991 and supports the priority which successive Albanian government’s have given to European integration. However, in 1999 the Commission presented a Feasibility Study which concluded that, despite progress made, Albania was not yet in a position to take on far reaching contractual obligations with the EU. The Council shared the Commission’s view.

Recognising that Albania needs a European perspective and that the prospect of one day becoming a Member State of the EU can be a powerful motor for change in support of Albania’s own process of reform and development, the Zagreb Summit decided in November 2000 to set up a EU/Albania High Level Steering group to make a new assessment of Albania’s capacity to take on the obligations of a Stabilisation and Association Agreement with the EU. In making the assessment and recommendations set out in this report the Commission has taken account of political, economic and regional factors.

Albania faces many challenges. Ten years ago it was the poorest and most isolated country in Europe. Early efforts to introduce democracy and build a market economy were severely damaged by the lawlessness and economic collapse which followed the failure of the pyramid schemes in 1997.

Since 1997 major efforts have been made to restore law and order, reform economic and social life and to open Albania to the region and the EU. In political terms much has been done to reform the electoral system to ensure that elections can be run in accordance with OSCE standards and Parliament and political life function normally. Albania has been a moderating influence in recent political crises in the region, calling for resolution of differences through peaceful means. There has been a major overhaul of the legal system and serious efforts are being made to align legislation with EU standards. Economic decline has been reversed and in 2000 GDP grew by 7.8%, in line with growth rates reported for 1999 (+8.0%) and 1998 (+7.3%). Important progress has been made in securing government revenue through reform of the customs and tax services, Albania’s trade regime has been modernised and liberalised and Albania became a member of the WTO in 2000. Privatisation of small and medium sized companies can now be considered as complete and, with some delay, privatisation of larger companies is proceeding.

However, despite the impressive achievements of the last two years many problems remain which will make it difficult for Albania to meet the obligations of a Stabilisation and Association Agreement and to deliver on the commitments it would undertake. The main difficulties lie in the functioning of the judiciary, widespread corruption, a large grey economy and lack of capacity to implement laws.

Despite the overhaul of the legal system the functioning of the judiciary remains a major problem. Judges are ill prepared to administer the huge volume of new laws which have been adopted recently, there is still interference with the work of the Courts and corruption is a

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serious problem. This situation has an adverse effect on the way Albanians view their state and impedes the full exercise of human and civil rights. It retards economic development and inward investment, since the law is not uniformly applied and the enforcement of contracts is difficult. Further concrete steps are necessary to consolidate democratic institutions and reinforcing good governance, the rule of law and the respect for human and minority rights. Greater efforts will be needed if Albania is to assure the EU that it will be able to honour the legal obligations of a Stabilisation and Association Agreement.

Corruption and organised crime are still major problems. Despite impressive changes to the laws and the establishment of a number of enforcement structures, the state has not yet equipped itself to implement them adequately. Even taking account of Albania’s budgetary constraints there are not enough people engaged in the fight against organised crime and corruption. The special court for serious crimes which is to be established in Tirana has not yet been set up and the anti corruption monitoring unit currently only has a staff of three people.

Albania is both a source and a transit centre for trafficking in human beings. Greater determination is needed to tackle this problem if Albania is to demonstrate that it shares the political and human values of the EU and is able to manage its borders effectively. Illegal migration and trade in arms are also areas of concern to the EU which require greater attention.

Although the economy is now picking up Albania is starting from a very low base and faces structural weaknesses. The size of the grey economy is still too important and is threatening the viability of officially registered businesses, preventing fair competition and discouraging investment. The recent energy crisis has underlined the need for investment in and modernisation of infrastructure. Emigration is an important phenomenon which has an important economic effect in two ways – the brain drain is depriving Albania of people who could contribute to its development but emigrants remittances substantially contribute to the Albanian economy.

The Albanian administration remains extremely weak. Recruitment on the basis of open competitions has only just begun and it will take time to build a culture of public service, free from political and financial influence. In almost every area where Albania would take on obligations under a Stabilisation and Association Agreement there is a lack of implementing capacity. Government departments and agencies have neither the staff nor the means to implement the huge volume of recent legislation. In most of the areas examined by the EU/Albania High Level Steering Group the legal situation is broadly satisfactory, taking account of Albania’s current level of development, but there is little capacity to implement them. Until this situation can be redressed the new laws will exist only on paper.

Conclusions

The negotiation of a Stabilisation and Association Agreement is both a political and a technical process. These agreements are designed to draw countries closer to the EU by providing rights and obligations and creating mechanisms for working closer together in areas of mutual interest. Countries need to demonstrate not only that they share the values of the EU but also that they have sufficient capacity to make a reality of the obligations they would agree.

Given the mixed situation described in this report the Commission has had to balance different elements in coming to a conclusion. In favour of recommending to start negotiations
it has taken account of the need to recognise the substantial efforts Albania has made in the past two years, the role it is playing as a moderating influence in ongoing conflicts in the region and the desirability of demonstrating progress in EU/Albania relations in order to make Albania’s European perspective more concrete. However, the Commission is also concerned by Albania’s widespread lack of capacity to implement its own laws and international obligations, by the inadequacy of the judiciary and the prevalence of corruption. Successive governments have tried to deal with these weaknesses, which are structural and the result of Albania’s past isolation and system of government. However, it will take time, money and sustained commitment to overcome these difficulties.

Taking all of these factors into account, the Commission considers that Albania is not yet in the position to meet the obligations of a Stabilisation and Association Agreement. However, if the current pace of change is sustained and if sufficient priority is given to strengthening administrative capacity during the negotiating and transition periods, considerable improvements can be made in the areas highlighted in this report. The Commission believes that the perspective of opening Stabilisation and Association Agreement negotiations is the best way of helping to maintain the momentum of recent political and economic reform, and of encouraging Albania to continue its constructive and moderating influence in the region. The Commission therefore considers it appropriate to proceed with a Stabilisation and Association Agreement with Albania, and it will in due course submit a recommendation for a Council decision to open negotiations, which can, of course, only be concluded when all appropriate conditions have been met.

There will be a need to provide ongoing support to Albania throughout the negotiating and transition periods, particularly with a view to strengthening administrative capacity. The government will need to intensify its commitment to reform in the areas mentioned in the attached report and will need to allocate further human and financial resources to key areas. The Commission recognises that Albania cannot afford to increase substantially the number of civil servants but more could be done within existing constraints to target resources in key areas. Through the new CARDS programme, which is designed to support the priorities of the Stabilisation and Association process, the Commission will seek to provide technical and financial help to the Albanian government in some of the areas covered in this report. It will also urge Member States, through their bilateral aid programmes, and other donors to channel assistance to priority areas.
3. Background: Relations between the Community and Albania

Current relations between the Community and Albania are based on a non-preferential Agreement on Trade and Economic Co-operation which entered into force on 1 December 1992. Since October 1999, the Community grants Albania, on an autonomous basis, very generous trade concessions which allows duty free access to the Community for almost all Albanian exports. These trade concessions were further reinforced by supplementary trade preferences granted to Albania in September 2000. In addition, Albania has benefited, since 1991, from over €1 billion in Community financial support, notably through the PHARE programme.

As early as 1995, Albania requested the opening of negotiations for an Association Agreement with the EU. An assessment undertaken by the Commission in June 1995, on subjects such as free trade in goods and services, establishment and capital movement, led to the conclusion that a “classical” Europe Agreement could not be envisaged. The General Affairs Council of 29/30 January 1996 invited the Commission to submit formal proposals for a new agreement with a view to enhancing relations with Albania. But Parliamentary elections of May 1996 cast a shadow on Albania’s democratic record and delayed the development of relations. This was followed by a deep state crisis in early 1997 provoked by the collapse of the pyramid schemes.

In November 1999 the Commission presented a report on the feasibility of opening negotiations for a Stabilisation and Association Agreement (SAA) and concluded that the pre-conditions for such negotiations were not yet met. The report listed a number of pre-requisites to be met before negotiations could be opened.

During the Zagreb Summit of November 2000, an EU/Albania High Level Steering Group (HLSG) was set up, with the objective of stepping up co-operation between the EU and Albania, and identifying and supporting the reforms to be carried out by Albania in preparation for the negotiation of a Stabilisation and Association Agreement. The EU/Albania High Level Steering Group was asked to assess progress, recommend the necessary reform measures and provide advice and guidance in all areas of concern set out in the 1999 Commission Feasibility Report, and to report to the Council by mid-2001.

Three meetings of the HLSG have been held in Tirana on 9 February, 6 April and 16/17 May 2001 respectively. Discussions have covered all the areas of concern set out in the 1999 Feasibility report and have substantially contributed to the preparation of this report.

Community financial support amounts to 1 055 million € for the period 1991-2000
B. Key issues in preparation for the negotiation of a Stabilisation and Association Agreement:

1 Political Criteria:

1.1 Democracy and the Rule of Law

The Albanian Constitution of 1998 guarantees democratic freedoms, notably political pluralism, freedom of expression and religion. On the basis of the Constitution, Albania has been undertaking a major overhaul of its institutions and legal system. Progress has been made in the area of legal and judicial reform under the auspices of the 1999 Joint Action Plan agreed between Albania, the Council of Europe and the European Commission. In February 2000, Albania’s first Ombudsman was appointed by Parliament. Albania abolished the use of the death penalty in peacetime in 2000 when it ratified Protocol No. 6 of the Convention for the Protection of Human Rights and Fundamental Freedoms. Since April 2000, several other Council of Europe conventions have been ratified (Civil Law Convention on Corruption; European Conventions on the suppression of terrorism, on mutual assistance in criminal matters and on the transfer of sentenced persons) or signed (Convention on laundering, search, seizure and confiscation of the proceeds from crime).

1.1.1 Parliament

Generally, the Parliament functions satisfactorily, helped by the return of the opposition to normal parliamentary life since July 1999.

However, political life in Albania continues to be highly conflictive. For example, the local elections of October 2000 were won by the ruling party but the results were heavily contested by the opposition which claimed widespread fraud. However, the OSCE has stated that these elections were the best implemented in the country to date and were carried out in an acceptable manner, even if some weaknesses and irregularities were identified. These weaknesses related mainly to: errors in the electoral lists, certain provisions of the electoral code, the functioning of the Central Electoral Commission (CEC), the lack of efficient procedures to cope with complaints relating to the electoral process, the definition of the electoral zones, and lack of efficient decision-making process in Court.

General elections are due to take place in Albania on 24 June 2001. It is important for the consolidation of democracy that the shortcomings of the local elections be corrected in time for the general elections. The Government and the institutions responsible for organising the electoral process (notably the Central electoral Commission) have been taking steps to remedy these shortcomings and there is general agreement that the CEC has substantially improved its performance. For example, a major effort is being made to enhance overall awareness of the electoral process of both electoral officials and general public. The issue of the electoral zones appears now settled, following the adoption by the Albanian Parliament of the boundary changes required by the electoral code. Steps have also been undertaken to address the technically difficult issue of ensuring the accuracy of voters lists. Through a nation-wide, multimedia information campaign, Albanian citizens and political parties are being urged to check the provisional voters lists. Up to 1 June a variety of ways of correcting the lists is being provided and anyone who has been wrongly excluded from the final voter list will be able to get a court order allowing him/her to vote up until one day before the election.

Despite the improvements made to the electoral system in recent months confrontation between the Government coalition and the opposition has been frequent. The opposition
constantly challenges the impartiality of the bodies in charge of the preparation of the elections (notably the Central Electoral Commission, which is still perceived by the opposition as favouring the Government). The manner in which the forthcoming elections will be run represents a major test of the maturity of democracy in Albania.

1.1.2 The Executive

The Government has made determined efforts to stabilise the country since the 1997 crisis provoked by the collapse of the pyramid schemes, and to promote economic and social transition. “Euro-Atlantic” integration is a major goal of Government policy, and important efforts have been made to align legislation with EU rules and to address the weaknesses identified in the 1999 Feasibility Report. The Government is also working to improve security and public order, reform the public administration, improve public financial management and tackle corruption. While its macroeconomic policies have been effective in improving public finances, controlling inflation and attracting the support of financial institutions, continued efforts will be needed to build an effective and competent public administration, free of corruption and capable of implementing national and Community legislation.

In its foreign policy Albania has played a positive and constructive role on regional issues, notably as regards Kosovo, Southern-Serbia, FYROM and Montenegro. It actively participates in a wide variety of regional co-operation activities.

1.1.3 The Judicial System

During the last three years, Albania has adopted a large number of laws and regulations aimed at improving the functioning of its judicial system. Most recently, the Albanian Parliament adopted new important pieces of legislation such as the law on the Supreme Council of Justice, the law on the organisation of the Ministry of Justice and the law on the General Prosecutor’s Office. However, implementation of the bulk of this legislation remains clearly insufficient due to a number of important shortages. Basic infrastructure and services are generally inadequate (dilapidated buildings, deficient postal and telephonic services, power cuts). Courts do not have proper equipment or filing systems and recording of Court proceedings is poor, which adversely affects the exercise of justice. Trials are often carried out under inadequate conditions.

A School of Magistrates has been established but the number of trained judges remains very limited. At an expected rate of around 25 graduates per year (judges and prosecutors together) it will take a long time to build up a modern, well trained judiciary The Albanian authorities should take steps to accelerate this process, and to provide appropriate training and working conditions for administrative staff (auxiliaries, secretaries, archivists etc).

Corruption within the Albanian judiciary constitutes a serious problem. The Albanian authorities have undertaken some steps in order to address this issue. The Criminal Code and the Criminal and Civil procedures Code have been revised and a Code of Ethics for the Judiciary has been adopted. From 1999 to 2001, the High Council of Justice has taken measures against 24 judges (out of a national total of around 300) because of corruption or improper professional behaviour. However, further efforts are needed to eradicate corruption from an institution which plays a major role in law enforcement.

Another key issue in Albania is failure to enforce Court judgements. In 2000, out of a total of 18,976 rulings, only 11,099 were carried out. Particular difficulties have been experienced in enforcing Court rulings against State bodies. To address this issue, the Albanian authorities
have undertaken a number of legislative measures, restructured the so-called “Execution Office” and established a specific budget line to honour possible financial obligation arising from rulings against the State. However, most of these steps are recent and results cannot be properly assessed yet.

The Albanian penitentiary system consists of 7 prisons and a prison hospital centre. The prison population is today 1,583, having risen over the past three years. Efforts have been undertaken by the Albanian authorities to develop a generally acceptable legal framework for the penitentiary system. However, Albania’s prisons remain in a very poor state and there is a problem of overcrowding (around 200 persons). The pre-imprisonment system currently applied where prisoners on remand are held in police stations (often under inadequate conditions and over relatively long periods) is not acceptable and should be addressed urgently.

1.1.4 Public Administration

The Albanian public service is currently undergoing reform. Primary and secondary legislation relating to the “Status of Civil Servant” have been adopted during 2000. New institutions have been set up, such as the Civil Service Commission, which includes 5 members and a technical secretariat with 28 employees, as well as a General Secretariat for Public Administration. Other institutions, such as the existing Department of Public Administration, heavily involved in the reform process, have also been recently reinforced. New recruitment procedures are now operational and pilot projects regarding the salary system for the Albanian public administration have been tested. Steps have also been undertaken in order to establish a training institute for public administration.

However, although these initiatives are to be welcomed, it will take time for them to show results in terms of more efficient service, enhanced implementing capacity, etc... Today the Albanian public administration remains weak. Financial and human resources are insufficient and salaries too low to motivate personnel and to reduce the temptation of corruption. Weak implementing capacity is already a problem for the implementation of EU and other donor aid and it will be difficult for Albania to honour the obligations it would take on in a Stabilisation and Association Agreement unless key areas of the administration are reinforced.

Albania has taken action to improve public expenditure, notably through the preparation of a Medium Term Expenditure Framework (MTEF). However, implementing and monitoring mechanisms need to be put in place. Treasury rules still need further development.

A new law on Public Internal Financial Control (PIFC) is in the process of adoption. This law will provide for the establishment of a sound PIFC in Albania. Once adopted, it will require the preparation of a complete set of implementing provisions. The development of a number of key PIFC elements (i.e. establishment of internal audit in all spending centres, ex-ante control, …) depend on the approval of this new PIFC law and the necessary secondary legislation. This is, therefore, another area where initial stages are being undertaken, but where full implementation will still need some time.

As regards external audit, the Albanian State Audit Institution (SAI) appears to be relatively well staffed (5 audit departments and 105 auditors) and is operational. During the year 2000, the SAI carried out 120 audits and recommended 394 disciplinary measures. It also audited 670 tenders, where it identified a considerable number of deficiencies and irregularities. However, the follow up of the State Audit Office recommendations and findings is not yet
satisfactory. A considerable number of recommendations are not implemented, and prosecutions in cases of irregularities are not systematic.

A State Publications Centre has been created to publish and disseminate laws and regulations. The proper functioning of the State Publication Centre will reinforce transparency of legal information and contribute to the rule of law.

### 1.1.5 Corruption and Organised Crime

Albania has made progress in setting up structures and a framework for combating corruption as well as a process of opening up discussion on this sensitive issue. Albania is currently equipped with the tools for fighting its strong systemic corruption, although further efforts are needed both to create implementation mechanisms and strengthen inter-agency co-operation in the law enforcement area. In April 2000, a revised Anti-Corruption Plan (ACP) was launched and an Anti-Corruption Monitoring Group has been established. This group has been set up and is operational although it only has three staff members (scheduled to increase to six). The Criminal Code and Criminal Procedure Code have been amended in order to better address corruption-related issues.

Albania has taken action against corruption: 70 customs officials have been sentenced for collaborating with smugglers over the period 1998-2001 and 33 cases are currently pending. During 2000, 156 people have been charged with smuggling, and criminal cases involving judges, tax, and state bank officials have been opened. However, implementation and enforcement capacity remains limited, notably due to insufficient institutional capacities to investigate and prosecute corruption cases, and to lack of witness protection. Moreover, the Albanian authorities should introduce legislative amendments to establishing effective and dissuasive sanctions on companies for the offence of bribery of public officials and to carry out a more systematic control of private and state firms.

Organised crime is a major problem in Albania. Illegal trafficking in human beings, particularly women but also drugs, arms and other goods, is reported to be widespread. The Government has made considerable efforts to control these problems but more could be done, especially in introducing an effective management and control of Albania’s international borders. Albania should concentrate resources on known border ‘hot spots’ (such as the border with Montenegro which is notorious for trafficking in women).

### 1.2 Human Rights and the Protection of minorities

Respect of human rights is guaranteed by the Albanian Constitution. In September 2000, Albania took the important step of abolishing the death penalty in peacetime. The Albanian authorities have also undertaken steps to strengthen the protection of human rights (legislation, structures), but implementation remains weak. In particular, judges and prosecutors need to be better trained in the application of human rights legislation, and law enforcement agencies need to be better informed of their obligation to respect human rights. The process of ensuring that Albanian legislation and practice conform to the European Convention on Human Rights is ongoing and Albania is expected to report to the Council of Europe, as required by the Convention, by 15 June 2001.
1.2.1 Civil, social, economic and political rights

In general, civil society in Albania is still underdeveloped, suffering from insufficient financial resources, lack of advocacy skills, and an overly competitive –often divisive- attitude towards one another. Civil society organisation outside Tirana is very weak. There is little interface between civil society and the government, despite some, limited initiatives by the latter to enhance dialogue. A positive step has been, however, the adoption in May 2001 of new legislation aiming at governing NGOs. There is freedom of expression in Albania but the media needs to become more professional. The independence of radio and television should be reinforced. The transformation of the state TV and radio into an independent public broadcasting institution, which is currently under-way, should be completed. Generally, public TV provides fair coverage of the views of the opposition. However, the opposition still refuses to participate in the National Council of Radio and Television set up in 1999, as provided for in the Albanian Law on Television and Radio. The issuing of licences is controversial and further steps should be taken to ensure a fair and adequate allocation process. Foreign ownership of broadcasters is not restricted in Albania and Tirana has several TV stations owned by foreigners. None of the print media in Albania is financially viable without outside assistance and regional newspapers are disappearing. These financial difficulties represent a threat to media independence.

The right of assembly and demonstration is generally respected. Opposition rallies normally take place without major incidents. However, the opposition often claims attempts of intimidation by the police.

The right to seek redress, a fair trial or protection against arbitrary arrest or detention exist in law. However, they are often not applied in practice.

The right to property is legally guaranteed but remains ill-defined leading to frequent disputes. This situation is a serious impediment to the creation of a functioning property market, including a land market. Until action is taken the lack of clarity over property ownership will discourage investment and hold back the development of agriculture.

The Ombudsman’s office began its work in August 2000 and is gradually becoming fully operational. In a country with no tradition of such an institution, the progress made over the past year has been significant. As of 31 December 2000, the Ombudsman had received 810 complaints, out of which 601 had been completed, while 209 were under investigation. Main complaints concern court decisions, police behaviour and lack of enforcement of court decisions. One of the main challenges ahead lies in further promoting the role of the Ombudsman as a proactive defender of human rights.

1.2.2 Minority rights and the protection of minorities

The rights of minorities in Albania are guaranteed by the Constitution. Albania has two recognised national minorities (Greek and Slav-Macedonian) and three “cultural minorities” (Montenegrin, Vlach and Roma). In September 1999, Albania ratified the Convention on the Protection of National Minorities of the Council of Europe and in general takes a constructive approach regarding minority issues. The most important minority group in Albania is the Greek minority (estimated officially at around 1.5% of the total Albanian population, i.e. around 50 000 people. Greek minority representatives claim however that this figure is substantially higher. The 2001 Census which has just been completed did not contain questions about ethnic origin so the Government will need to take other steps to get an accurate picture of the size of different minority groups. A commitment has been made to do
this within two years). The Greek minority is organised through an association called Omonia and is politically represented by the Human Rights Union Party, which in turn is part of the present coalition government, and has normal access to the media like other parties or associations. Local elections in October 2000 were however marked by some irregularities in the voting process and some nationalistic tones, which led to tension, notably in the area of Himara with a strong Greek minority presence.

Albanian legislation still retains the concept of “minority zones”, inherited from the Communist era. This legislation defines ethnic origin on the basis of geography rather than personal declaration and limits the exercise of minority rights to minority zones. This is not compatible with the international conventions binding Albania in the field of minority rights and Albania should take the necessary measures to abolish this concept and bring its legislation into line with international standards. Albania should complete its legislative framework on minorities (the current framework is just based on constitutional principles) and take steps to collect accurate statistical information on the minority populations living in Albania.

The Roma population is considered as a cultural minority and enjoys certain rights linked to this status. However, the socio-economic situation of this community remains clearly below acceptable standards and concrete plans to support this community need to be implemented. The Government is working on a strategy which should be finalised and implemented as soon as possible.

1.3 General Evaluation

Albania has made progress in revising its legal framework to bring it closer to EU political criteria. A democratic Constitution exists and democratic institutions have been established. Basic human and minority rights are respected, although further improvements are necessary. There are persistent weaknesses in the judiciary, widespread corruption, interference between the various democratic powers (legislative, executive, judiciary), all of which reduce in practice the exercise of democratic principles. Given Albania’s limited democratic tradition (including in the media) these weaknesses make democratic life highly conflictive. Developing respect for the rule of law still constitutes a major challenge for Albania and a major emphasis should be placed on strengthening law enforcement in the coming years.
2 Economic Criteria

2.1 Economic situation and Fiscal Sustainability

The 1997 crisis, which led to a collapse of the Albanian economy, has been followed by three years of significant economic growth. According to official figures, GDP grew by 7.8% in 2000 with respect to the previous year, above the initial forecast of the authorities (7%), but in line with growth rates reported for 1999 (+8%) and 1998 (+7.3%). Construction and services sectors, more particularly transport, mainly contributed to this increase. Despite the drought that affected Albania as most of the Western Balkans, agricultural output, which still accounts for more than 50% of GDP, increased by some 3.5% in 2000.

As for economic policy, positive developments were registered in the fiscal area in the year 2000. Owing to a sharp increase in tax revenues (26% increase in 2000 with respect to 1999) essentially due to improvements in the efficiency of tax and customs administrations, the fiscal deficit is reported to have decreased from 11.5% of GDP in 1999 to 9.5% in 2000. As a consequence, foreign financing of the deficit, which has predominantly taken the form of grants or concessional borrowing, decreased from 6% to 4.5% of GDP. Furthermore, the large amounts of privatisation receipts (1.8% of GDP for the year as a whole) allowed for a sharp reduction in domestic borrowing (3.3% of GDP). On the expenditure side, the implementation of the 2000 budget was satisfactory, although progress is still needed to improve co-operation between ministries. A significant improvement in the reform of public expenditure management has been the adoption of the Medium Term Expenditure Framework (MTEF) covering the period 2001-2003. Albania will need now to put in place and implement the necessary mechanisms to monitor proper implementation of the MTEF.

Monetary policy continued to be in check and in line with the requirements of the IMF programme. A relatively restrictive monetary policy, coupled by significant increases in productivity, contributed to keep inflation under control. Due to the pick-up in oil prices and the energy crisis which emerged in the last quarter of the year, inflation in 2000 rose to 4% on an end-of-year basis (compared to –0.1% in 1999). It however slightly decreased in the first months of 2001. The central bank recently abandoned its direct control over credits, which, together with the recovery of the economic activity, contributed to a significant increase in credits granted by banks to the private sector. Low inflation and a comfortable level of foreign exchange reserves equivalent to some 5 months of imports, contributed to the stability of the exchange rate of the Lek. In the course of 2000, the Lek depreciated slightly against the dollar (143 Leks/USD in December 2000, compared to 138 in December 1999), while remaining substantially stable vis-à-vis the euro. This trend is being confirmed in the first months of the year 2001 (145 Leks/USD as of mid-May).

On the external sector, the current account balance has improved. As customary since the beginning of the transition, remittances from Albanians living abroad partly compensated for the still high trade deficit. The current account deficit is expected to be limited to about € 290 million in 2000, equivalent to some 7% of GDP. This represents a reduction of 1 percentage point with respect to 1999. The significant increase in foreign direct investment recently recorded is largely due to revenues from the privatisation process, notably those carried out in the telecommunications sector. Reform of tax collection, which contributed to an increase in tax revenues recalled above, also progressed significantly. Concerning customs revenues, main measures taken included changes in key personnel in the major customs houses, better control of goods in transit and regular revision of reference prices. As far as domestic taxes are concerned, improved enforcement led to a significant increase in the number of registered
VAT and small business taxpayers. A better co-ordination between tax and customs administration also contributed to a reduction in tax evasion. Good progress was also made in the reform of public expenditure management with the adoption of the Medium Term Expenditure Framework (MTEF). The MTEF will be revised on a regular (yearly) basis. It identifies four key areas of expenditure: infrastructure, education, health and social protection.

Albania is also finalising its Growth and Poverty Reduction Strategy (GPRS) which, once completed, should be a comprehensive economic development strategy for the country, with a specific focus on sustainable growth for Albania and poverty reduction.

The positive growth performance which has characterised Albania during the past three years could have been jeopardised by the energy crisis which erupted in the last quarter of 2000. A deepening of the crisis was averted, thanks to warmer weather and increased rainfalls, but a strict implementation of the action plan agreed in December between the Albanian authorities and the donors community will be necessary to minimise the ongoing risks of a serious crisis. A donors meeting in April 2001 led to the unfreezing of about € 95 million from Western donors. However, the performance of the electricity sector will remain a major threat for the development of Albania in the years to come.

2.2 Price and trade liberalisation

Albania officially became a member of the WTO in September 2000. Provided that the present trend continues, Albania should be able to meet its WTO commitments in due time. Albania has no quantitative restrictions on imports nor on exports. The maximum tariff rate has been further reduced: as from January 2001, the maximum tariff rate has been set at 15%, which represents a significant reduction from that prevailing in 1999 (20%) and 2000 (18%).

Price liberalisation is largely complete, with the exception of public transport, rail fares, postal tariffs, electricity and the rural water supply. Capital movements are also liberalised to a large extent.

2.3 Privatisation process

Albania has made progress in the field of privatisation, although large-scale privatisation has been somewhat delayed. In the context of the privatisation strategy adopted by the Parliament in March 1998, all small and medium-sized enterprises have been sold, liquidated or leased in accordance with the strategy (the four medium-sized enterprises, which remained to be privatised in the framework of the privatisation strategy, were sold during the year 2000). The privatisation of small and medium-sized enterprises can be therefore considered as completed.

Some progress has also been made in the privatisation of large-scale enterprises in strategic sectors (telecommunications, power, mining, petroleum and water resources), notably with the sale in June 2000 of the Albanian Mobile Communications company (AMC). In this context, a second mobile telecommunications license was granted in February 2001, following an international tender. Privatisation of copper and chrome mines is underway and is expected to be completed during 2001, as well as parts of oil sector (Servcom). Privatisation of the major Albanian bank, the “Savings Bank” has been launched and is expected to be completed before the end of 2001. Successful privatisation of the “Savings Bank” would constitute a major step ahead in the privatisation process which would certainly benefit the overall financial sector in the country. First steps have also been taken in the privatisation of the state-owned insurance company INSIG and the privatisation of the fix-line telephony company, Albtelecom, is expected to be launched before the end of 2001.
2.4 Other relevant economic developments

Financial sector reform has progressed somewhat less than expected, especially due to delays in the privatisation of the two remaining state-owned banks. Whereas the National Commercial Bank was sold to a Turkish Bank in 2000, some delay has been registered in the privatisation of the Savings Bank, the largest bank in the country, which is now due to be completed before the end of 2001 (see above). The Government and the Bank of Albania are continuing to improve the legal, regulatory and supervisory framework of the banking sector. Banking supervision has made some progress, although further efforts are necessary. The Central Bank continues to work towards the establishment of internationally accepted accounting standards for banks and to further improve prudential rules and reserve requirements.

FDI investment in Albania remains limited mainly due to a relatively insecure investment environment, poor infrastructure, heavy administrative procedures, corruption in the public administration and judiciary, relatively high taxes. However, for the year 2000, FDI in Albania is estimated at €102 million, twice the 1999 figure, notably due to successful privatisation operations. Albanian FDI forecasts for 2001 are set at €122 million, counting also on a strong contribution from the privatisation process.

According to the Albanian Law on Foreign Investments, all foreigners (either physical or juridical persons) have the right to engage in different economic activities in Albania without needing permission or authorisation. They have the right to transfer all funds in currency and any item related to their investment out of Albania. The law also grants foreign investors legal protection on disputes between them and Albanian parties. However, this legislation is also affected with the current limitations in Albania for proper implementation and enforcement of legislation.

The Albanian authorities plan to undertake further actions to further attract investment: taxes are being reduced and certain schemes are being implemented in favour of export-oriented firms (although compatibility of these schemes with EC competition rules will need to be examined). A New Investment Promotion Agency, which will act as a “one stop shop”, is planned. The Albanian authorities claim that there is no discrimination between companies in terms of taxes. Enhancing the efficiency of public administration and judiciary, reducing corruption and fraud (including the share of grey economy) and improving the country’s infrastructures would positively contribute to the increase FDI in Albania.

2.5 General Evaluation

Overall, considerable progress has been achieved by Albania as regards most of the economic-related pre-requisites established in the 1999 Feasibility Report. Albania has continued to develop sound macroeconomic policies in accordance with IMF requirements, has made progress regarding the completion of the privatisation process, has strengthened tax collection through improved tax administration and customs services, has improved public finance planning and broadly integrated public investment expenditures into the general state budget. Progress regarding the establishment of a functioning real estate market (including the agricultural land market), and the restructuring of some crucial public utilities and promotion of their sound financial management on a cost recovery basis, has been however limited.

Despite significant progress in economic stabilisation and structural reforms, the country’s economy is still facing structural weaknesses. Although GDP reached its pre-transition level already in 1998, GDP per capita is still one of the lowest in Europe (€1,340). The informal
sector, whose activity is partly taken into account in the calculation of GDP figures, remains too large and is threatening the viability of officially registered businesses. The state budget continues to depend to a very large extent on foreign financing, whose part in the financing sources is even expected to increase in the coming years. The financial sector remains weak and does not fulfil its role of financial intermediation and contributor to the development of the private sector. FDI is not sufficient for boosting the economy.

The major challenge facing Albania in the coming years consists of achieving a process of self-sustained economic development, from which the poorest layers of the society would also benefit. Although it is expected that foreign assistance will continue to flow into the country, mainly to finance projects, thereby providing important source of economic growth and improving infrastructure, there is an urgent need for reforms to tackle important and difficult issues. Strengthening of public order, further progress in tax reform, public expenditure management reform, continued financial sector reform, including privatisation of the remaining state-owned bank, restructuring and privatisation of strategic sectors enterprises, (including the electricity company KESH) and land reform are the areas where reforms are mostly needed.

Implementation of these reforms should contribute in the medium-term to ensuring fiscal sustainability, to creating an environment conducive to economic growth led by a performing private sector, and more generally to maintaining a stable macroeconomic environment.
3. Ability to take on the obligations resulting from a Stabilisation and Association Agreement (SAA):

In this section of the report the main elements of a future SAA are presented (in italics) and Albania’s capacity to take on these obligations is assessed. The general weaknesses described elsewhere in this report (in the judiciary, the weak level of administrative capacity, lack of human and financial resources) have an impact on Albania’s ability to implement obligations in all of the policy areas described in this chapter. This chapter concentrate on sector or policy specific issues and does not repeat the more general points.

3.1 Political dialogue

The political dialogue chapter of an SAA would aim to increase convergence between EU and Albanian foreign policies.

The EU and Albania have already largely synchronised their positions regarding international and regional questions. Good examples have been the positions taken by the Albanian authorities on highly sensitive issues as those relating to Kosovo, FYROM, Southern Serbia and Montenegro.

Albania has demonstrated its capacity to participate in the on-going political dialogue under the current Co-operation and Trade Agreement. Reinforced political dialogue should not present particular difficulties for Albania and would help the parties to co-ordinate their efforts to meet the challenging objective of ensuring regional stability.

3.2 Regional co-operation

Under the SAA Albania would commit itself to actively promote regional co-operation. It would also be required, within two years of signature, to conclude Regional Conventions, including free trade agreements, with all other SAA signatories.

Albania has continued its policy aiming at improving relations with all its neighbours and participates actively in the Stability Pact for South Eastern Europe. This policy constitutes an important contribution to regional stability. Dialogue with FRY has resumed through the re-establishment of diplomatic relations, although practical co-operation with FRY is still limited. Albania has stepped up its contacts with the authorities of the Republic of Montenegro with a view to improving cultural and economic relations, as well as enhancing co-operation in the fields of Justice and Home Affairs. Dialogue with FYROM and with the Albanian minority in FYROM has had a moderating influence in the current difficult climate. Co-operation with neighbouring EU countries has also increased.

Albania has established bilateral Agreements on Economic Co-operation and Trade with Bulgaria, Croatia, FYROM, Greece, Italy, Romania, Slovenia and Turkey. It has also concluded agreements for the reciprocal promotion and protection of investments with these countries. With FYROM negotiations are underway on a Free Trade Agreement (FTA) and discussions are entering the final stage. Albania anticipates progressive liberalisation with FYROM, due mainly to the existing differences between the Albanian and FYROM tariffs, the still fragile Albanian fiscal position and the existence of sensitive, competing products (i.e. tariff dismantling for sensitive products will only start three years after the conclusion of the FTA, and is expected to be completed eight years after signature).
Italy and Greece have become not only the main trade partners for Albania but also important sources of bilateral financial support for Albania. The EU is the source for most Albanian imports (77% from EU in 2000) and the destination of almost all Albanian exports (94% to EU in 2000). The current trade balance is clearly in favour of the EU. Trade with Albania’s Northern and Eastern neighbours has remained at traditional low levels.

Albania has shown its political commitment to contribute to regional peace and stability, and to the development of good neighbourly relations. Albania should not have problems in participating in political initiatives designed to foster regional co-operation. However, Albania could face some difficulties when it comes to implementing some of the requirements which might derive from the a strengthened regional co-operation, as for example, rapid reduction of customs duties in the framework of FTAs or adequate implementation of customs procedures (i.e. some difficulties with the control of certificates of origin have been indicated by the Albanian authorities). Further work will need to be done to strengthen the fiscal system to provide public revenue to make up for the loss of customs duties which will result from the conclusion of FTAs with other SAA signatories.

3.3 Free Movement of Goods:

Ensuring free movement of goods is one of the main objectives of any association agreement established by the Community. In the framework of a future SAA, Albania would need to gradually establish a free trade area with the Community, within a transitional period to be determined during the negotiations. This free trade area should be in conformity with Article XXIV of the GATT 1994 and other relevant WTO provisions. Albania would need to abolish all quantitative restrictions or measures having an equivalent effect (if any) and progressively dismantle its tariffs in trade with the EU. Albania would also need to use the Combined Nomenclature for the classification of goods in trade and to determine the basic duties to which the successive reductions of duties would be applied.

Albania would not be able, in principle, to introduce new duties, restrictions or measures with equivalent effect in trade between the Community and Albania. Those already applied (if any) could neither be increased nor made more restrictive for EU products from the start of SAA negotiations. Albania will also be required to abolish any domestic tax measure or practice which would discriminate directly or indirectly against EU products. Moreover, trade arrangements of Albania with third parties should be established in such a way that they do not result in discrimination against the EU.

Albania has made considerable progress during recent years to introduce a liberal and open trade system. In September 2000, it became a member of the WTO and is therefore committed to trade liberalisation. Albanian exports are normally free of restrictions (except for skins and hides and scrap metals, where an export ban still exists). Restrictions are also applied to wood and wood products with the aim of preserving the forests. Albania has still excise duties above the Community for certain products. On the other hand, tariff duties on imports are being progressively reduced. The highest rate of customs duty is now 15% (having been reduced from 20% in 1999, 18% in 2000). Albania has also abolished quantitative restriction or measures having an equivalent effect. Albania has an important trade deficit with the EU, which represents 94% of its exports and 77% of its imports (2000 figures).

Albania has adopted a new Customs Code, substantially in line with that of the EC. Improvement in the customs areas has been a constant since 1998 and constitutes a real success story. Despite progressive reduction of customs duties, customs revenues have
increased due to a strengthened and more efficient customs administration. However, much
remains to be done to achieve EU standards, notably in terms of equipment (infrastructure,
laboratories), human resources (training) and IT technology. Furthermore, even if fiscal
sustainability in Albania has improved, due notably to increased tax collection (at present, the
most important component of the total customs revenue is VAT, whose share has increased
steadily from 36% in 1996 to 58% in 2000. VAT represented 31.6% of the total budget
revenues in 2000), the share of customs duties in the total Albanian revenue will remain
important, particularly at the beginning of the transition period.

Albania should be able to implement some of the basic requirements of an SAA in terms of
free movement goods (i.e. apparently, there are no quantitative restrictions, the Combined
Nomenclature is already used, customs duties are being reduced progressively), but
substantial efforts will still be necessary during the transition period. In particular, customs
procedures will need to be progressively improved through better border control, staff will
need further training and EU compatible information systems need to be developed. Albania
will need to assess the impact of tariff dismantling on different economic sectors, particularly
agriculture which represents over 50% of GDP. In view of the existence of sensitive sectors
and the share of customs duties in total budget revenue (11 % in 2000), Albanian tariff
dismantling should be progressive, perhaps with limited reductions at the beginning of the
transitional period and with an acceleration towards the end. The EU may need to consider
accepting a greater range of special treatment for a bigger number of sensitive sectors than for
FYROM and Croatia.

3.3.1 Trade in industrial goods

Industrial products represent the bulk of EC/Albania bilateral trade. Albanian industrial
products have duty free access to the Community. Due to this favourable trade regime,
Albania has the possibility to progressively increase its exports of both “traditional” products
such as footwear and textiles and of new manufactured products. However, to date, Albania
has not been able to take real advantage of the trade benefits granted by the EU because of
differences in quality or inability to meet EU norms and standards. Whenever possible
increased resources should be allocated to areas such as quality standards in order to improve
export capacity.

3.3.2 Trade in agricultural goods and fisheries

Agriculture is a very important sector of the Albanian economy (over 50% GDP). This sector
(including fisheries) has considerable growth potential, both in terms of production and trade.
In practice, however, Albanian exports remain limited, due to production and quality
problems. This explains why agricultural products represent only around 10% of total
Albanian exports to the EU, while they represent over 30% of imports from the EU.

Albania benefits from generous EU trade concessions for most of its agricultural products, on
an autonomous basis. In line with what has been suggested for industrial products, Albania
should, during the transition period, dismantle its customs duties progressively in order to
preserve a certain level of revenue collection and to allow for the development of its
agricultural sector.
3.4 Movement of workers, Establishment, Services, Capital:

3.4.1 Free movement of workers

An SAA would require both the EU and Albania to ensure non-discrimination as regards working conditions, remuneration and dismissal against workers who are legally established in their respective territories. The legally resident spouse and children of a worker legally employed in the EU or Albania would have access to the labour market during the period of the worker’s authorised stay. Furthermore, the EU would be required to apply some of the rules on co-ordination of social security systems to Albanian nationals legally employed in the EU and to members of their family legally residing with them. For certain rules Albania would also have to grant similar treatment to EU nationals legally employed in Albania and their family members residing with them.

Albania will need to take steps to ensure that the principle of non-discrimination of EU workers legally working in Albania is respected. Similar measures will be taken by the Community.

3.4.2 Establishment

Under an SAA Albania would be required to grant EU companies the right of establishment in Albania. This right would be reciprocal. EU companies established in Albania should be granted either national treatment or MFN treatment, whichever is more favourable. During the transition period the issue of extending these rights to EU or Albanian nationals wishing to establish themselves as independents would be examined. Notwithstanding the provisions governing on the free movement of workers under the agreement, special establishment provisions could be introduced for “key personnel”.

At present Albania has a rather liberal approach as regards establishment and EU companies are allowed to establish themselves. However, procedures are still cumbersome and the Albanian legal framework remains uncertain. This discourages the establishment of EU firms and foreign direct investment. Moreover, there are still restrictions on the purchase of land by foreigners. Although open discrimination is not observed, action might be necessary to ensure a level playing field. The extension of national or MFN treatment to EU or Albanian nationals wishing to establish themselves as independents will probably require in-depth discussions, because of the strong migratory tendency observed in Albania. It should only take place at the end of the transitional period.

3.4.3 Trade in Services

A future agreement would provide for the progressive and reciprocal liberalisation of trade in services, consistent with the relevant WTO rules, in particular Article V of GATS. Companies not established in the territory of the other party would gradually acquire the right to provide services, in accordance with the GATS provisions and taking account, in particular, of progress in approximation of laws in the various fields. The implementation of this liberalisation would be monitored under the agreement, notably as regards financial services.

Albania has made considerable efforts during its WTO accession negotiations to open its economy to foreign companies and investments. Liberalisation has also been extended to services. However, major restrictions remain in the financial sector, although progressive opening, including in the field of insurance is planned. Liberalisation of telecommunications is foreseen to be completed by 2003. Liberalisation of transport services will probably need
more time, taking into account the poor general conditions of the sector in Albania and the requirements of EC legislation in this area.

3.4.4 Current payments and movement of capital

In the framework of a SAA, Albania will need to commit itself to progressive liberalisation of both inward and outward movement of capital, in particular for direct investments. Protection of investors as regards liquidation and repatriation of investments and profits will also need to be covered.

Following the collapse of the pyramid schemes in 1997, the Albanian authorities have taken measures to restore the financial infrastructure. The National Commercial Bank has already been privatised and the process for the privatisation of the Savings Bank, the biggest bank in the country, has started. Legislation to liberalise the movement of capital is being introduced progressively. The Bank of Albania has improved its monetary policy instruments and aims to abandon minimum interest rates and the credit framework, while establishing better rules for banking control. Therefore, the basis for progressive liberalisation of current payments and movement of capital has been established.

Albanian legislation already provides for protection of investments and the possibility of repatriation. Repatriation of profits is also foreseen.

3.5 Approximation, implementation and enforcement of legislation

A future SAA would include provisions on the gradual approximation of the existing and future legislation of Albania to that of the Community. Albania should start ensuring that, in so far as is possible at its present level of development, its laws are compatible with the acquis, notably in key areas of Internal Market legislation. Albania will have to agree binding deadlines for harmonisation in areas such as competition, intellectual, industrial and commercial property, public procurement, standards and certification, financial services, land transport, company law, accounting, consumer protection, data protection, health and safety at work and equal opportunities.

Since 1992, Albania has been working to progressively align its legislation to that of the Community. However, implementation and enforcement remain poor, mainly due to the insufficiencies of the Albanian public institutions, administration and judiciary. A future SAA with Albania would need to put emphasis not only on the progressive alignment of Albanian legislation to that of the EC, but also on ensuring implementation and enforcement.

3.5.1 Competition

In an SAA, Albania would undertake to refrain from any measures which could adversely affect fair competition. In particular, it should prohibit i) all agreements between undertakings and concerted practices which prevent, restrict or distort competition; ii) abuse by one or more undertakings of a dominant position in Albania, iii) any public aid which distorts or threatens to distort competition by favouring certain undertakings or certain products. Albania should commit itself to ensure transparency in the area of public aid, inter alia, by reporting annually to the EC on the total amount and the distribution of the aid given and by providing, upon request, information on possible aid schemes.

The development of competition policy in Albania remains at its initial stage, despite the existence of basic legislation since 1995. Implementation is extremely weak, due in particular to the clearly insufficient resources devoted to this area. Although the law provides for the
establishment of an independent Competition Office it does not exist and competition issues are dealt by the Department for Economic Competition within the Albanian Ministry of Economic Co-operation and Trade. This department is poorly staffed (3 experts), with two specialist on competitions issues and one in charge of consumer protection issues. As a result, enforcement of the law is extremely limited.

The concept, type of operations and other usual procedures (notification, monitoring, reporting) in the State Aids area are not familiar in Albania. A serious effort will be necessary in this field if Albania is to be able to take on and implement obligations under an SAA.

The “de facto” situation in Albania, where the grey economy remains very important, does not allow fair competition between companies belonging to the formal and the “informal” economy. This has a serious detrimental effect on companies willing to invest and legally operate in Albanian. Albania will need to make considerable efforts in this area in order to be able to properly implement the provisions of a future SAA.

3.5.2 Intellectual, industrial and commercial property

Before the end of the transitional period, Albania would need to take all measures necessary to ensure effective and adequate protection and enforcement of intellectual, industrial and commercial property rights, including protection against counterfeiting and pirating, so as to guarantee a level of protection similar to that existing in the Community. It would also need to accede to a number of multilateral conventions to which EU Member States are party or which are applied in the Community de facto.

In the framework of the existing co-operation agreement, Albania has already committed itself to take measures to guarantee protection of the intellectual, industrial and commercial property rights to a level similar to that existing in the Community and to adhere to the relevant international conventions. Progress has certainly been made, notably as regards the basic legislative framework. Albania, member of the World Intellectual Property Organisation (WIPO) since 1992, has already signed a considerable number of international conventions in the field of copyright (Berne Convention, Rome Convention, Geneva Convention, TRIPs), as well as the Paris Convention for the Protection of Industrial Property and the Madrid Agreement for the International Registration of Trademarks. In the framework of its accession to WTO, Albania has undertaken to fully implement TRIPs.

There is on-going co-operation with the European Patents Office and the European Patent Convention is expected to be ratified shortly. With a staff of 10 people distributed in 3 departments, the Albanian Patent Office has registered to date 18,502 trade and services marks. The number of applications is increasing every year.

Implementation of legislation remains however more problematic. Administrative capacity needs to be enhanced, in particular through the strengthening of those institutions involved, directly or indirectly, in the protection of intellectual, commercial or industrial property rights (Albanian Patent Office, relevant departments at the Ministry, Youth and Sports in charge of copyrights, independent copyrights companies, customs, judiciary). The degree of awareness in Albania on IPR issues is still insufficient and has to be increased. As regards enforcement, the judiciary needs to be substantially reinforced to deal with these cases, notably through the provision of a sufficient number of duly trained judges.
3.5.3 Public procurement

In an SAA, Albania will be required to ensure that Community companies can bid for public contracts on the same basis as Albanian companies. Albania will need to progressively align its public procurement legislation to that of the Community. It will also need to strengthen the relevant institutions and judiciary in order that public procurement procedures will be properly implemented.

The basic legislative framework for Public Procurement in Albania entered into force in 1996. This framework is based mainly on the American Law UNICITRAL, and compatibility with EU requirements is not always ensured. A revised Public Procurement Law is under preparation. This law should take into account the need for further alignment towards EU standards and address some of the deficiencies identified in the current legal framework. According to the current legislation, the Public Procurement Agency (PPA) should be the central element of the public procurement system in Albania. However, this agency remains poorly staffed (9 people, of whom only 4 are procurement specialists) and insufficiently trained.

Implementation and enforcement of public procurement provisions remain problematic. A considerable number of mistakes and irregularities have been identified by the Albanian State Audit Institution in this area (see item B.1.1.4 on Public Administration). There are too many derogations to the principle of open tender (for the period October 2000-March 2001, there were 624 “national” open tenders and 12 “international” tenders, while restricted tenders amounted to 715 and requests for quotations to 640. No data on direct contracts have been made available). Moreover, it is not clear when and on which basis a “national open tender” becomes an “international open tender”. The number of complaints is high (106 were to be addressed by the Public Procurement Agency in April 2001) and they are not being addressed in time, mainly due to lack of resources.

There is a pressing need in Albania to strengthen the Public Procurement Agency, to promote a “public procurement culture”, to improve public procurement-related legislation and to further clarify Albanian procurement rules. Albania will need to address this issue rapidly in order to implement the obligations that would normally derive from a future SAA in terms of alignment of legislation and to ensure fair access of EU firms to public procurement markets in Albania.

3.5.4 Standardisation & Conformity Assessment

In order to comply with an SAA, Albania would need to gradually achieve conformity of its legislation with Community technical regulations and European standardisation, metrology, accreditation and conformity assessment procedures. In particular, it would be required to i) promote the use of Community technical regulations and conformity assessment procedures, ii) conclude, when appropriate, European Conformity Assessment Protocols, iii) to foster the development of quality infrastructure: standardisation, metrology, accreditation and conformity assessment; and iv) to promote Albania’s participation in the work of specialised organisations (CEN, CENELEC, ETSI, EA, WELMEC, EUROMET etc).

Since 1992, Albania has made good progress regarding the adoption of EC standards. The PHARE PRAQ III programme has proven useful in supporting alignment. The basic legislation in the field of standards and certification appears to be in place. The accreditation functions is in the process of being separated from the General Directorate for Standardisation, in charge of standards. In 1999, 2% of Albanian standards were in line with
EN (European Norm). Today the figure is 18%. The objective announced by the authorities of reaching a level of 56% by the end of 2002 is ambitious but does not seem realistic. According to the Albanian authorities, the adoption of standards regarding the New Approach directives constitutes a priority. However, in the absence of a functioning market surveillance system (see below) and adequate product liability legislation, the New Approach directives could not be effectively implemented.

As regards certification activities, there are 35 accredited laboratories in Albania, of which 10 belong to the private sector. A draft National Quality Programme has been prepared and there are plans to establish an Albanian Society for Quality and National Quality Award. A National Directorate for Metrology and Calibration has been established, but the Albanian metrology system needs strengthening.

Despite the existing legal basis, there is considerable room for improvement in this area. In practice, certification procedures continue to be marginal due to lack of interest on the part of economic operators.

3.5.5 Consumer protection

Effective consumer protection is needed to ensure that the market economy functions properly, and this protection will depend on the development of an administrative infrastructure in order to ensure market surveillance and law enforcement in this field. In order to meet its obligations under an SAA, Albania would need i) to develop active consumer protection policies, in accordance with Community law, ii) to harmonise its legislation on consumer protection and iii) to establish effective legal protection for consumers in order to improve the quality of consumer goods and maintain appropriate safety standards.

Since 1997, Albania has a law on Consumer Protection, which establishes the legal framework for consumers’ associations. A service in charge of the protection of consumers has been set up within one of the Albanian Ministries. However, implementation of this law is weak and consumer protection in Albania is insufficient. Active participation of civil society (NGOs, consumers’ associations) in the consumer protection process is limited, and existing institutions are not in a position to ensure adequate protection. A market surveillance system, which is central to ensuring respect of the quality of consumer goods and the respect of safety standards, still needs to be developed.

3.5.6 Working conditions and equal opportunities

Under an SAA Albania would need to progressively harmonise its legislation concerning working conditions, notably on health and safety at work, and equal opportunities

Basic norms on working conditions exist in Albania, but remain far from the EC standards in this area and, above all, are not widely applied. As regards equal opportunities, Albania ratified the Convention on the Elimination of All Forms of Discrimination Against Women in 1994, but has not yet reported on its implementation. The most relevant institutional mechanism for the promotion of equal opportunities is the Albanian Committee on Women and Family, but it faces organisational difficulties and severe financial limitations to implement its activities. Government support is limited.

In the field of working conditions and equal opportunities, Albania will need to develop legislation and, above-all, good practices aiming at ensuring gradual compliance with the EC
acquis, including with regard to the role of the social partners. Co-operation in the framework of an SAA could contribute to this development.

3.6 Justice and Home Affairs:

Progress has been made in Albania in the fields indicated in the 1999 Feasibility Report: the basic legal framework for the Albanian police in accordance with the civil service law is in place, but it needs to be further developed and, above all, implemented. The functioning of the police forces has improved, and it is widely recognised that Albania is no longer in the crisis situation of 1997/1998. However, training, long term strategic planning and equipment still need to be improved. As regards arms collection and destruction, some limited progress has been achieved, but much remains to be done, notably in certain areas of the country.

3.6.1 Reinforcement of institutions and rule of law

In the field of Justice and Home Affairs, Albania would need to reinforce institutions at all levels, but in particular those involved in the areas of law enforcement and administration of justice. In this context, consolidating the rule of law, strengthening the independence of the judiciary, improving its efficiency and ensuring adequate training of judges appear to be the main priorities.

Albania is no longer in the crisis situation that prevailed in 1997 and 1998, notably with regard to security and public order. Progress has certainly been made, although further efforts remain necessary. In the field of Police, clear divisions of responsibility between the General Directorate of the Police and the Ministry of Public Order have been established, and the overall legislative framework has been further developed and looks now rather comprehensive. However, certain important elements such as the legal infrastructure to implement the law on the organisation and functioning of the judicial police need still to be completed. A Strategy for the Reform of the Police, which will guide developments in the medium term, has been adopted. This strategy foresees a reduction in the size of the police forces with the purpose of both making them more efficient and allocating more resources for the improvement of working conditions and salaries. Emphasis will be put on selection, qualifications and training of police. Albania has approved a plan aiming at educating the police force in the field of human rights, which is to be welcome as some complaints of inappropriate police behaviour have been raised in recent months. All these steps have been undertaken in co-operation with the EU/international support mechanisms in Albania.

The structural changes for the implementation of the State Police Law appear to be on-going. Main actions concern the reinforcement of the civil control of the police, efforts to limit political influence, and the establishment of special structures to address security issues, in particular organised crime. Training activities continue, but more emphasis should be put on «training the trainers», specialised training and training of high-ranked police officials. Efforts to improve police behaviour and image, and to combat corruption within the police ranks are on-going, but should be enhanced. Initial steps are being undertaken to improve coordination between law enforcement bodies (police, intelligence services, judiciary), but more efforts will be necessary.

3.6.2 Asylum, migration, control of external borders, visa issues

Albania would need to set up a framework for co-operation, including at a regional level, in the fields of asylum (legislation, issues of procedures), migration (legal/illegal), control of
external borders and visas. A central element of co-operation in the area of preventing and controlling illegal immigration would be the inclusion of provisions on readmission.

The Albanian legislative framework in the fields of asylum and migration is rather comprehensive and meets internationally recognised standards. However, as in other areas, the relevant provisions of these laws remain unimplemented. A decision of the Council of Ministers of August 2000 establishes the creation of reception centres for detained foreigners, but no further details as to the nature of these centres or their function have been provided. The development of the asylum and migration structures needed to properly address asylum and migration issues has been slow although some preparatory steps can now be observed. Teams are being established, in co-operation with UNHCR, to develop a concept. As a temporary measure, prior to the establishment of a fully developed asylum system, an administrative order was issued by the Albanian Ministry of Public Order in February 2001 that interviews be systematically carried out to establish whether intercepted persons are economic migrants, refugees in need of protection or trafficked persons. However, implementation of this order has, to date, been limited (only 17 persons interviewed between 15 February and 26 April).

Albania has concluded readmission agreements with Italy and Switzerland. A bilateral readmission agreement, not covering third country nationals, was signed with Belgium in April 2001. Readmission operates also with Greece, although not through a formal Readmission Agreement, but just on the basis of a readmission clause included in a police co-operation agreement between Albania and Greece. Overall, the current and planned readmission agreements provide adequate guarantees for asylum seekers and refugees, in conformity with the provisions of the 1951 Geneva Convention. However, there are concerns about the Albanian financial capacity to properly implement these agreements.

Border management and control still needs substantial improvement, particularly in the northern part of the country. In addition to continued efforts to improve border-crossing points, action is necessary to develop strategies to control the Albanian maritime and green borders. Risk analysis and intelligence remain insufficient, which favours illegal trafficking and smuggling. An integrated border management strategy, taking into account the need to better co-ordinate the activities of the various law enforcement bodies operating at the borders and to find the right balance between efficient controls and border crossing facilitation, should be prepared.

The current Albanian visa regime determines the countries for which visa is not required upon arrival in Albania, and those for which visa is necessary. Amongst the countries for which a visa is required, a further differentiation is made between countries for which the visa can be obtained on arrival in Albania (land borders, sea ports, airports) and those for which the visa can only be obtained at Albanian consular offices abroad. Technical means for proper implementation of a visa system similar to those operating in the Community are needed. Albania has 33 consular offices abroad issuing entry visas. Notification of visas issued is made by the Consular Office to the Ministry of Foreign Affairs, which in turn informs the border authorities. However, there is no computerised network so this will need to be progressively developed.

3.6.3 Combating money laundering

Albania would need to establish a framework for co-operation aimed at preventing the use of its financial systems for laundering of proceeds from criminal activities. Co-operation in this area would include administrative and technical assistance aimed at establishing appropriate
standards to counter money laundering which are equivalent to those adopted by the Community and other international bodies in this field, in particular the Financial Action Task Force (FATF).

Albania has signed the European Convention on Laundering, Search, Seizure and Confiscation of proceeds of Crime and has recently established basic legislation on the prevention of Money Laundering (entry into force, 6 December 2000). Secondary legislation to fully implement this law is now under preparation and a co-ordination structure within the Ministry of Finance is being established. The financial police, when fully operational, will be in charge of implementing money laundering-related legislation.

Although it is not possible in Albania to open anonymous accounts, and control of significant or suspicious financial movements is foreseen by Albanian legislation, Albania is not yet in the position to combat money laundering efficiently. Structures will need to be consolidated and co-ordination between the various law enforcement bodies, the financial sector and the judiciary, substantially enhanced. It is relevant in this context that, to date, no sentence has been established in Albania on money laundering-related charges.

3.6.4 Preventing and combating crime and other illegal activities. Combating illegal trafficking and illicit drugs

Albania should develop a framework for co-operation aimed at fighting and preventing criminal and illegal activities, notably organised crime. Albania should devote particular attention to issues such as trafficking in human beings, illegal economic activities (i.e. corruption and illegal transactions involving goods such as industrial waste, radioactive material, and counterfeit products), illicit arms trafficking and terrorism. Albania should also need to take the necessary steps to be able to cope with the health and social consequences of different forms of drug abuse, preventing the diversion of chemical precursors and introducing and/or reinforcing structures for combating illicit drugs’ trafficking.

Albania has made some progress in preventing and combating organised crime, but efforts need to be enhanced in the future. It has signed a considerable number of international conventions, has revised the Penal Code and has established new legislation aiming at fighting organised crime and its main activities. From the organisational point of view, new structures have been created (i.e special units for the smuggling of weapons, drugs and against human beings trafficking, and a specialised unit including police, prosecutors, judges with the specific mandate to fight against organised crime), but their capacity to operate remains questionable at this stage due to their recent creation and to a systematic lack of sufficient human and technical resources.

Efforts in the field of controlling trafficking of human beings have been made, including specific raids against traffickers, but more needs to be done to address this critical issue. There is a pressing need for the Albanian authorities to deliver politically on commitments made within the framework of the Stability Pact Anti-Trafficking Task Force and to enforce and implement existing legislation on trafficking in human beings. Emphasis should be placed on making a clear differentiation between victims and traffickers, increasing efforts to prosecute traffickers and organised crime, re-directing resources to assist victims, securing protection for victims and potential witnesses, taking radical measures against members of the police involved in trafficking, and strengthening border management (border-crossing points and blue/green borders), notably in the well known “hot” areas. International co-operation should also be enhanced.
As regards illicit drugs, Albania is primarily a transit country. It is considered that a substantial share of the heroine reaching Europe travels through Albania. According to Albanian statistics, 547 cases of drugs trafficking were discovered in the year 2000, 641 persons charged, and a considerable quantity of drugs intercepted. However, much remains to be done, notably through the strengthening of border controls, including the blue and green borders, better co-ordination between law enforcement bodies and enhanced international co-operation along the lines of the current Italo-Albanian co-operation against drugs.

3.6.5 Small arms collection and destruction

The process of collection and destruction of small arms is ongoing, but progress is slow. Weapons collection was stepped up during 2000 (up to 20,000 small weapons collected) in combination with the adoption of a law on illegal weapons in September 2000. However, the authorities have had a limited intervention in the most difficult areas such as Fier, Berat, Korça, Shkoder and Kukes.

Action in the fields of co-operation between police and local representatives and public awareness have been recently undertaken. First results are reported positive, but it seems soon to be able to properly assess the success of these initiatives.

If collection is slow, destruction of weapons is unclear. Some weapons have been certainly destroyed with the support of the international Community (around 100,000 of the 600,000 estimated), but the systematic destruction of collected weapons is not carried out. Some of the collected arms are kept by the police/army. On the other hand, the Albanian authorities declare that no major weapons trafficking/selling has been observed in the country.

Ammunition in bad condition represents a problem in Albania. There have been feasibility studies carried out with the support of the international community but no concrete actions have been undertaken to date to properly address this issue.

3.7 Co-operation Policies:

A future SAA would imply the establishment of close co-operation in a wide range of policy areas, in order to provide EU policy guidance and assistance to promote the economic and social development of Albania. This process would not be limited to bilateral EU/Albania co-operation but could also take place within a regional framework, i.e. special attention would be devoted to measures that can foster co-operation between Albania and its neighbours, thus contributing to regional stability.

3.7.1 Economic, monetary and statistical co-operation

Albania should take steps to facilitate reform and economic integration into European structures by improving the formulation and application of market economy policies. It should improve its capacity to provide information on macroeconomic performance and forecasts, to formulate economic policy and to develop the instruments necessary for its application. It should also take appropriate account in its policy development of the EU’s economic and monetary union. Albania should develop an efficient and sustainable statistical system, capable of providing timely, reliable, objective and accurate data needed to plan and monitor the process of transition and reform.

Progress has been made by Albania in formulating economic policies. The Growth and Poverty Reduction Strategy and the Medium Term Expenditure Framework 2001-2003 demonstrate that Albanian skills in this area are improving. Accuracy of some economic
indicators remains insufficient. This is mainly due to the importance of the grey economy in the country and the need for further improvement of Albanian statistics. Although the Albanian Statistical Office (INSTAT) already participates in EUROSTAT activities aiming at the harmonisation of European statistics, it still needs further improvement in order to meet EC standards. In particular it should i) adopt an appropriate legal framework, ii) improve methods for calculating macro-economic aggregates, iii) put in place an appropriate company register and iv) complete the population census. INSTAT should also develop training methods and continue to improve its equipment.

Co-operation in this area should mainly aim at the establishment in Albania of a more efficient statistical service, based on an appropriate institutional framework, using European standards and classifications and able to provide the public and private sectors with accurate socio-economic data. Methods of dealing with the considerable grey economy should also be developed.

3.7.2 Investment promotion and protection, industrial co-operation, Small and Medium Enterprises (SMEs), tourism

Albania should aim at creating a favourable climate for private investment, both domestic and foreign, in order to promote economic and industrial revitalisation. In particular, it should aim at establishing a legal framework conducive to investment, the implementation of suitable arrangements for the transfer of capital and the promotion of investment opportunities. In the fields of industrial co-operation, SMEs and tourism, Albania should develop policies aimed at promoting the modernisation and restructuring of industry, the reinforcement of the SME sector and the development of tourism.

Investment in Albania remains limited. Investment protection is provided for in Albanian legislation, but its implementation cannot be guaranteed. In order to attract further investment, the Albanian authorities should act simultaneously on three fronts : i) implementation of concrete actions to improve the business environment, including security and protection aspects, ii) development of an active investment promotion strategy, and iii) a strategic and gradual improvement of infrastructures.

The secondary sector is weak in Albania. Industrial co-operation could make an important contribution to the completion of the restructuring of strategic enterprises and the development of the national industrial base.

Almost all enterprises in Albania can be considered as SMEs. Only 0.2% employ more than 100 employees. Given the weight of SMEs in the Albanian economy, co-operation in this area would be important, notably through the strengthening of the necessary institutional environment, the creation of a predictable legal and fiscal framework, the improvement of the credit systems for SMEs and support for SMEs in the most depressed areas of the country.

Tourism has the potential to be an important sector for the medium-long term economic development of Albania. Co-operation in this area could help in the development of policy.

3.7.3 Agriculture and agro-industrial sector

Albania should aim at modernising and restructuring agriculture and the agro-industrial sector. In particular, co-operation could include i) development of private farms and distribution channels, methods of storage and marketing, ii) modernisation of rural infrastructure (transport, water supply, telecommunications), iii) improvement of productivity
and quality using appropriate methods and products; iv) training and monitoring in the use of anti-pollution methods in connection with inputs, v) development and modernisation of processing firms and their marketing methods, promotion of industrial co-operation in agriculture and the exchange of know-how, and vi) development of co-operation on animal and plant health in the form of assistance for training and the organisation of controls with a view to gradual harmonisation with Community standards.

Agriculture remains the most important economic sector in Albania, contributing a little over 50% of the total Albanian GDP. More than 50% of the population live in the countryside, with agriculture providing a major source of employment. Although some improvements can be noted, they have not been sufficient to alter the agricultural reality in Albania: - production systems remain primitive, yields are low, many farms are too small to be viable, physical infrastructure is poor and private sector activity has not yet been able to fill the vacuum left by the previous state processing and marketing agencies. In order to improve farm revenues, increase agricultural exports and ensure the sustainable use of natural resources, Albania should finalise the land reform process (including speeding up land registration), increase agricultural production through the introduction of new technologies, improve phytosanitary and veterinary services, enhance quality control and food safety regulations, increase marketing capacity and rehabilitate and improve irrigation systems.

Co-operation and assistance in this area has already been substantial, notably as regards the development of the land register and the production of maps of all Albanian districts, support for the improvement of veterinary services and the promotion of fisheries. Further co-operation remains necessary in order to help Albania address the issues mentioned above and to gradually approximate Albanian structures and legislation to that of the EC.

3.7.4 Customs and Taxation

Customs

In the field of customs, Albania would need to undertake steps to achieve further alignment with the acquis and to ensure the implementation of the liberalisation measures which would result from an SAA. In particular, Albania would need to develop efficient customs management, including investigation methods, establish adequate cross-border infrastructure, develop the interconnection between the transit systems of the Community and Albania, ensure proper revenue collection, simplify inspections and formalities in respect of the carriage of goods, and introduce modern customs information systems.

EC support in this area has proven effective. Customs legislation in conformity with EC standards has been approved and the new Customs Code, in force since May 1999, is currently being implemented in Albania. A customs enforcement division which includes anti-smuggling, intelligence and investigation units has been set up and has begun to produce tangible results. Thanks to a more efficient operation of the Albanian customs services, total customs duty collection has increased, (from € 84 million in 1999 to € 99 million in 2000), despite the progressive reduction of customs tariffs. The human resource structures and recruitment process have been successfully upgraded and should be considered as a possible reference for the overall strengthening of the Albanian Public Administration. Performance appraisal and an emphasis on combating corruption, together with the provision of appropriate financial incentives have been important factors. Customs control and the fight against smuggling have improved, but more needs to be done. Steps in improving IT have been undertaken, although the process is far from being completed. Training activities are being implemented. Customs co-operation with third countries (in particular neighbouring
countries) exists and Albania is seeking accession to more international conventions in the field of customs (Nairobi, Kyoto). Two Customs laboratories are operational and a third one is under construction.

Progress in the field of customs can be considered as a success story, but continued progress will be necessary in order for Albania to meet EC standards in this field. In particular, legislative alignment needs to be completed, border procedures have to be improved, infrastructures need to be further developed, computerisation must continue.

**Taxation**

*Co-operation between the EU and Albania in this field should contribute to the completion of the reform of the Albanian fiscal system and the restructuring of its tax administration in order to ensure effectiveness of tax collection. The fight against fiscal fraud in Albania should remain a priority.*

Progress has also been achieved in the taxation field, although there is still considerable room for further improvement. Tax collection has increased (approx. 26% increase in 2000 as compared with 1999). At the end of 2000 tax revenues amounted to 15.3% of the Albanian GDP. In 2001, this share is expected to be 15.6%. VAT represented 31.6% of the total budget revenues in 2000 and is expected to reach 32.4% in 2001. Efforts have also been made to strengthen the administrative capacity of the Albanian tax administration, notably as regards training and computerisation (8 big local offices, including Tirana, have been computerised) but more needs to be done.

Despite some recent positive signs (i.e. increase in the number of registered activities, 42 000 taxpayers registered in 2000), Albania needs to sustain its efforts to combat the country’s enormous grey economy, which constitutes a serious threat to its sustainable development. Moreover, tax evasion remains very high. Control of registered businesses should be strengthened as tax fraud practices are still generalised. The intention of the Albanian authorities to tax agricultural activities (agriculture represents over 50% of the Albanian GDP) is welcome, as this would contribute to fiscal sustainability. A number of international treaties on avoiding double taxation and the prevention of fiscal evasion have been signed with third countries.

Despite recent progress, the overall tax administration (including local tax offices) should be upgraded. Better training of tax inspectors and further development of IT systems remain important. Progress in this area is crucial as it would contribute to consolidating the fiscal situation of the country, which in turn would help Albania to meet a number of contractual obligations under a future SAA.

**3.7.5 Employment, social policy, education and training, Research Technology and Development (RTD)**

*Employment and Social policy*

*Co-operation in this area should aim at supporting Albania in the reform of its employment policy, focusing notably on upgrading job-finding and career advice, promoting local development and providing back-up measures such as a functioning social dialogue at all levels and labour law to assist industrial restructuring. Regarding social security, Albania would need to adapt its social security systems to the evolving economic situation and the new social requirements.*
With a population estimated at 3.0-3.4 million (a new census has been recently carried out and results will be made available shortly) and a per capita GDP of €1,340, Albania is one of the poorest countries in Europe. One fifth of the population is living on less than €1.2/day. Poverty in the north and rural areas is widespread, with 90% of the population living below the poverty line. Unemployment levels are high, both in urban and rural areas, but official unemployment figures (close to 20%) significantly underestimate the reality. They only cover people who register in a labour office and, because of tight restrictions on employment benefits, the motivation to register is low. The restriction on benefits is reflected in government expenditure on unemployment, which has constantly decreased over the last 10 years. Social assistance to families in need has slightly increased, but has clearly fallen in real terms. Overall, the decline in social transfers has been marked since 1995, indicating that the social well being of the poor has deteriorated.

The Albanian Government is finalising a Growth and Poverty Reduction Strategy (GPRS), aiming at consolidating economic growth and at addressing the issue of poverty. Taking into account the present situation, it will take some time for Albania to significantly redress the situation and improve the overall socio-economic situation. Co-operation in the framework of an SAA could provide expertise in order to help Albania to develop appropriate social security systems and employment policies.

**Education and training, RTD**

*In the fields of education, training and RTD, co-operation could aim to help Albania raise the level of general education, higher education, vocational training and to promote youth co-operation. It could also encourage the development of an environment conductive to research in Albania, notably through joint RTD ventures and the transfer of technology and know-how.*

Albania entered the transition process with high literacy rates, but the overall quality of education was low and the situation has since deteriorated. Expenditure on education as a share of GDP have decreased. Salaries and motivation of teachers are both low. Infrastructures and teaching facilities are poor and the drop-out rate of pupils is increasing. Vocational and teacher training have also deteriorated. RTD activities in Albania are very limited, mainly due to the lack of adequate research infrastructures and insufficient financial resources.

The Albanian higher education system faces considerable challenges. These include the restructuring of degrees and study programmes, strengthening of the strategic management capacities of Albanian higher education institutions, as well as reforms in governance, management and finance.

Albania participates in the activities of the European Training Foundation and in the Fifth Framework Programme for RTD. It also benefits from EC support through the TEMPUS programme for higher education reform. A future SAA could seek to deepen co-operation in these areas.

**3.7.6 Culture, audio-visual, telecommunications and postal services, information society**

*Culture and audio-visual*

An SAA could promote cultural co-operation, notably with EU Member States and with neighbouring countries, with the overall objective of increasing mutual understanding.
between individuals, communities and peoples. In the field of audio-visual, Albania should take all steps necessary to promote the European audio-visual industry and encourage co-production in the fields of cinema and television. It would also need to gradually align its policies and legislation with those of the EC, including as regards matters relating to cross-border broadcasting and the acquisition of intellectual property rights for programmes and broadcasts by satellite or cable.

Albania will need to strengthen regulatory bodies in the field of audio-visual and, above-all, to take the necessary steps to adhere to the Council of Europe Convention on trans-frontier television and to gradually align its legislation to the EC acquis in this area, notably to the “Television without Frontiers” directive. Co-operation between the EU and Albania could focus on this area.

**Telecommunications and Postal Services, Information Society**

Co-operation under an SAA could be used to expand and strengthen co-operation in telecommunications and postal services and gradual alignment with the acquis. This would involve, in particular, i) the development of legal and regulatory aspects of telecommunications and postal services, ii) the progressive liberalisation of the sector, iii) the promotion of an investor friendly environment for the modernisation of Albania’s telecommunications network and its integration into European and world networks, iv) institutional reforms suitable for a liberalised environment and v) the promotion of European standards and regulatory approaches. Albania should also aim at the progressive development of the information society, including co-operation in the area of electronic communications infrastructures.

Albania has the least developed telecommunications network in Europe with only 3.65 fixed lines per 100 inhabitants and less then 1 mobile subscriber per 100 inhabitants. The low GDP/capita explains this only in part and the main reason lies in a lack of investment over many years.

Recent developments in government policy have been positive. Albania has joined the WTO and committed to liberalise the sector by 1.1.2003. The government has also introduced competition into the mobile sector and is committed to privatising the incumbent fixed line operator as a first step to introducing competition. The much needed expansion and modernisation of the networks, and the introduction of new services would be encouraged by the establishment of a fair and transparent regulatory framework effectively applied and through the establishment of an attractive business environment.

Postal services also show considerable room for improvement.

Co-operation between the Community and Albania in this area could focus on gradual alignment of the Albanian legislation to the acquis, including support for the establishment of the necessary independent regulatory bodies for telecommunications and postal services.

**3.7.7 Transport**

In the field of transport, co-operation could contribute to the restructuring and modernisation of the Albanian transport system and improving related infrastructures, improving the free movement of passengers and goods, achieving standards comparable to those prevailing in the Community, aligning Albanian transport legislation to that of the EC, and allowing progressive mutual access to the EU and Albania transport markets and facilities.
Despite some limited progress, transport infrastructures in Albania remain poor. Major investment efforts will be needed in order to improve Albanian infrastructures to levels similar to that of the EU (i.e. roads, railway, ports (Durres, Vlora) and Tirana international airport). Albania will need to develop a long term investment plan in order to properly address transport infrastructure development. In the years to come, it will need to mobilise considerable financial resources to this area and will not be able to rely on donor funding to take a major share of the costs.

Works undertaken to date in the field of transport infrastructure have suffered considerable delays, notably due to difficulties with the expropriation of properties necessary for the development of roads, lack of an adequate long-term transport strategy and a lack of urban planning. Co-ordination between the various actors involved in the implementation of transport infrastructure projects has also been occasionally deficient.

Albanian legislation in the field of transport will need to be reviewed in order to ensure progressive alignment to EC legislation.

The gradual alignment of the Albanian transport legislation, the establishment of EC compatible transport policies and statistics, as well as the improvement of Albanian infrastructures interconnected to neighbouring countries in all transport modes could be included in co-operation between EU and Albania in this sector.

3.7.8 Energy, including nuclear safety

Co-operation between Albania and the Community in the field of energy would need to take into account the principles of the market economy and the European Energy Charter Treaty. Albanian energy policy should be developed with a view to gradual integration with EC policies and networks. Co-operation could focus in particular on formulation and planning of energy policy, modernisation of infrastructure, improvement and diversification of supply, development of energy resources and renewable energy, and promotion of energy saving and energy efficiency. As appropriate, co-operation in the field of nuclear safety could also focus on upgrading the relevant laws and regulations, on radiation protection including environmental radiation monitoring, and on radioactive waste, including uranium mine waste, management.

The energy sector in Albania remains weak. There is an increasing gap between supply and demand (over the last 10 years, there has been a 70% increase in demand). Strategic planning and diversification policies have been lacking and, despite the existence of a two-year plan for the restructuring of the electricity sector prompted by the serious difficulties of last winter, an overall long term energy strategy has not yet been approved.

Albania has become a net importer of electricity, which is seriously affecting its trade balance. The Albanian electricity sector needs to complete a profound restructuring, which has only been recently initiated with the support of the Italian company ENEL. Electricity supply is too dependent on rainfalls (most of the electricity produced in the country is of hydroelectric origin). Practically all the thermo-power plants have stopped activity and no new energy production plant has been constructed since 1986. The energy interconnection lines with neighbouring countries are unable to cope with current demand for electricity imports and distribution and technical losses are still enormous.

The oil sector needs also to be restructured in order to cope with increased demand, notably as regards the rehabilitation of the Ballsh refinery. The promotion of LPG as an alternative to
electricity for winter heating through fiscal and other measures should continue. The construction of storage capacities in Albania would help by making LPG prices more competitive. Albania is the only European country not connected to a natural gas network so the feasibility of such an option should also be explored.

Albania has already taken steps to align its energy sector to future EU requirements: an energy regulatory authority has been established and appears to be operational, with direct intervention in areas such as energy tariffs. The need for separation of energy generation, transmission and distribution is well known and plans for its implementation are being developed, and the privatisation of small electricity producers is due to start shortly.

Restructuring of the energy sector should remain a priority for the Albanian authorities. Lack of progress would imply further deterioration of the system and would have very serious consequences for the economic sustainability of the country and, thus, affect the implementation of a future SAA.

3.7.9 Environment

In the framework of an SAA, Albania could strengthen its co-operation with the EU in the vital task of combating deterioration of the environment, in particular as regards water quality, air pollution, monitoring of pollution levels, promotion of energy efficiency and safety at industrial plants, classification and safe handling of chemicals, urban planning, waste management and protection of forest, flora and fauna.

Albania has established basic legislative framework on environmental protection and adopted a National Environment Action Plan (NEAP), which is currently under revision (a revised NEAP is expected by autumn 2001). Under the NEAP, a number of sectoral strategies have been developed (water, waste, bio-diversity, forest protection). A revised NEAP should develop targets aimed at gradual alignment with Community acquire. The main institution in charge of environmental policy is the National Environmental Agency, which co-ordinates with the relevant institutions involved in the legislative/implementation/enforcement process. The Agency has a staff of 70 people and is active but its powers to enforce legislation and ensure implementation remain weak. Albania lacks the capacity to monitor and effectively act on environmental data, which is essential for sound decision-making. Monitoring and inspections systems should be streamlined and penalties for environmental breaches should be increased. Furthermore, the scope of the law on environmental protection should also be extended to state companies (at present, state companies are not covered by this law and therefore are not liable).

Albania is currently drafting a new law on Environmental Impact Assessment (EIA) which should comply with EC legislation. Existing EIA provisions are not always respected, and the present procedures do not allow for effective intervention by the National Environment Agency. Albanian attempts to establish an Ecofund have not been successful to date, but the Albanian authorities plan to implement eco-taxes (on CO2, waste generation,…) which could support the establishment of financial facilities for environmental purposes. Around 20 NGOs are active in the environmental field, but their influence in the development and implementation of environmental policies has been and still is very limited.

Environmental issues have never been very high on the Albanian political agenda, partly due to the poor state of the environmental civil society in Albania. There is a lack of an environment-friendly culture in the country which contributes to a rapid environmental deterioration, notably in urban areas. Most solid waste is dumped in rivers. Water pollution in
urban areas is generalised, due to the lack of waste-water treatment plants and Albania’s larger lagoons have major problems of pollution. Dangerous pesticides still need to be removed. Forest cover has dramatically decreased over the last 10 years, and the lack of urban planning and control of enterprises often provokes additional environmental problems. There is also a serious problem of unstable ammunition in military sites.

Albania has been co-operating with neighbouring countries in the framework of the Regional Environment Reconstruction Programme. It has signed Memoranda of Understanding on various environment-related issues with FYROM and Montenegro. A Memorandum of Understanding with Greece is also being prepared.

Albania needs to urgently increase its efforts to develop and implement a suitable environmental policy, in order to control growing environmental problems. The progressive integration of environmental considerations into other Albanian policies should become a priority.

3.8 Financial co-operation

An SAA with Albania would foresee the continuation of EU financial support in order to help Albania to achieve the objectives of the Agreement. Financial co-operation could support democratic, economic and institutional reforms in Albania, in line with the Stabilisation and Association process. It could be able to focus on different areas of approximation of legislation and co-operation policies covered by the SAA. Macro-financial assistance could also be possible in specific and duly justified cases. Albania should develop the capacity to properly co-ordinate the resources available from the EU and other donors in order to ensure its optimal use.

Since 1991, Albania has benefited from a total Community assistance of € 1 055 million. From 1991 to 1993, a total of € 318 millions were provided as emergency and food aid (€ 198 million through PHARE and € 120 million through FEOGA). From 1994 to 1996, PHARE provided € 190 million in grants to support the Albanian economic reform. After the crisis in 1997, EC support concentrated on fewer priorities and focused on the re-establishment of the rule of law (police, customs, justice, public administration,) and support for the development of basic infrastructures (transport, water supply, Local Community Development). In 1999, the PHARE programme provided specific budgetary support to alleviate the cost for hosting refugees from Kosovo, and € 97 million were allocated for humanitarian aid through ECHO. The 2001 CARDS programme (€ 37.5 million) will focus on Stabilisation and Association priorities such as: JHA issues, local community development and institution building.

To date the results of EU assistance have been mixed. Albania has not devoted sufficient resources to support implementation and this has contributed to implementation delays, although this has not been the only factor. Albania will need to seriously address this issue and make major efforts to ensure more effective use of donor funding. Current co-ordination capacities are weak and too dependent on external support. Priority setting is being addressed but has still room for improvement. The bodies in charge of the follow-up and implementation of projects should be substantially strengthened. In future Albania should integrate EU assistance fully into its EU integration strategy and work with the Commission to tailor support under the CARDS programme to its SAA priorities.

Taking into account the current situation, a future SAA should usefully include appropriate conditionality on the timely and adequate use of EC financial resources.
3.9 General Evaluation

Implementation of a future SAA will be a challenge for Albania. The underlying administrative structures are fundamentally weak and are threatened by corruption. The main reason for this lies in the weaknesses observed in a number of state institutions (despite the progress observed since 1999) and limited infrastructure and equipment. Weak public administration and judiciary, and inadequate technical and human resources risk adversely affecting Albania’s ability to implement and enforce any agreement, particularly a relatively sophisticated agreement like the SAA. Throughout the negotiating and transition periods it will be necessary for Albania to make sustained efforts to strengthen its implementing capacity. Continued efforts will also be necessary to ensure that key areas of the Agreement such as free movement of goods, establishment, competition, intellectual, industrial and commercial property rights, public procurement and Justice and Home Affairs-related issues are properly implemented. Through the CARDS programme the EU can help Albania in this task.