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***ANALYTICAL REPORT***

*accompanying the*

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT AND THE COUNCIL**

**Commission Opinion on Albania 's application for membership of the European Union**

{COM(2010) 680}

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## A. INTRODUCTION

### a) Application for membership

Albania presented its application for membership of the European Union on 28 April 2009. On 16 November 2009, the Council of the European Union requested the Commission to submit its opinion on this application, in line with the procedure laid down in Article 49 of the Treaty on European Union, which states: *'Any European State which respects the values referred to in Article 2 and is committed to promoting them may apply to become a member of the Union. The European Parliament and national parliaments shall be notified of this application. The applicant state shall address its application to the Council, which shall act unanimously after consulting the Commission and after receiving the consent of the European Parliament, which shall act by a majority of its component members. The conditions of eligibility agreed upon by the European Council shall be taken into account.'*

Article 2 states that *'the Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail.'*

This is the legal framework within which the Commission submits its Opinion<sup>1</sup> and the present analytical report.

The Feira European Council in June 2000 had acknowledged that Western Balkan countries participating in the Stabilisation and Association Process were 'potential candidates' for EU membership. The European perspective of these countries was further confirmed by the Thessaloniki European Council in June 2003 which endorsed the "Thessaloniki Agenda for the Western Balkans". This agenda remains the cornerstone of the EU policy towards the region.

The European Council of December 2006 renewed the EU's commitment *"that the future of the Western Balkans lies in the European Union"* and reiterated that *"each country's progress towards the European Union depends on its individual efforts to comply with the Copenhagen criteria and the conditionality of the Stabilisation and Association Process. A country's satisfactory track-record in implementing its obligations under a Stabilisation and Association Agreement (SAA), including trade related provisions, is an essential element for the EU to consider any membership application"*. At the Sarajevo EU-Western Balkans ministerial meeting on 2 June 2010, the EU reiterated its unequivocal commitment to the European perspective of the Western Balkans and that the future of these countries lies in the European Union.

In line with the Treaty requirements, the current assessment is made in terms of the conditions of eligibility laid down by the European Council. In Copenhagen in June 1993, the European Council concluded that:

*"Accession will take place as soon as a country is able to assume the obligations of membership by satisfying the economic and political conditions required."*

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<sup>1</sup> COM(2010) 680 of 09.11.2010

*Membership requires:*

*that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;*  
*the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union;*  
*the ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union".*

The Union's capacity to absorb new members, while maintaining the momentum of European integration, is also an important consideration in the general interest of both the Union and the candidate countries.

In December 1995, the Madrid European Council referred to the need *"to create the conditions for the gradual, harmonious integration of [the applicant] countries, particularly through the development of the market economy, the adjustment of their administrative structures and the creation of a stable economic and monetary environment."*

The Stabilisation and Association Process (SAP) conditionalities were defined by the Council on 31 May 1999 and included co-operation with the International Criminal Tribunal for the Former Yugoslavia (ICTY) and regional co-operation. These conditions are a fundamental element of the SAP and are integrated into the Stabilisation and Association Agreement (SAA) with Albania, which entered into force in April 2009.

In December 2006, the European Council agreed that 'the enlargement strategy based on consolidation, conditionality and communication, combined with the EU's capacity to integrate new members, forms the basis for a renewed consensus on enlargement'.

In the present Opinion, the Commission analyses Albania's application on the basis of the country's capacity to meet the criteria set by the Copenhagen European Council of 1993 and the conditionality of the Stabilisation and Association process. Albania's track-record in implementing its obligations under the Stabilisation and Association Agreement (SAA), including trade related provisions, is also examined.

In line with the renewed consensus on enlargement, this analytical report also provides initial impact estimates with regard to key policy areas and sectors (freedom of movement of workers, agriculture and rural development, regional policy and financial and budgetary provisions). The Commission provides more detailed impact assessments for these key policy areas at later stages of the pre-accession process. In addition, an accession treaty for Albania would involve a technical adaptation of the EU institutions in the light of the Treaty on the European Union.

## **b) Relations between the EU and Albania**

Following the first multi-party elections, the European Community established relations with the country in June 1991. In 1992, a Trade and Cooperation Agreement between the EU and Albania entered into force. The country became eligible for funding under the EU financial assistance programme in December 1991. Economic cooperation was enhanced in 1999, when Albania started to benefit from Autonomous Trade Preferences from the EU. As from 2000, Albanian products benefited from duty-free access to the EU market.

A **Stabilisation and Association Agreement (SAA)** between the EU and Albania<sup>2</sup> was signed in June 2006 and entered into force in April 2009, superseding the Interim Agreement on trade and trade-related aspects, which entered into force in December 2006. Political dialogue meetings at ministerial level between the EU and Albania have been held since 2001.

The entry into force of the Stabilisation and Association Agreement marked a qualitatively new stage in bilateral relations, entailing significant new obligations and engagement for the country in the areas of justice, freedom and security, free movement of workers, right of establishment and free movement of capital and services as well as on transport, audiovisual field and telecommunications. Furthermore, the Stabilisation and Association Agreement provides for close cooperation between the EU and Albania in a number of EU policy areas. In most areas cooperation focuses mainly on priorities related to the EU *acquis* in the relevant field, with Albania committing to gradually introduce EU *acquis* in its legislation and to cooperate with the EU on joint policy objectives.

Albania has, overall, smoothly implemented its obligations under the Stabilisation and Association Agreement since the launch of the Interim Agreement. Albania has contributed to the sound functioning of the various joint institutions. The Joint Committee established under the Interim Agreement met in 2006, 2007 and 2008, and its related Working Parties met in 2007, 2008 and 2009. Meetings of the Stabilisation and Association Council took place in May 2009 and May 2010. The first meeting of the Stabilisation and Association Committee was held in March 2010. Subcommittee meetings were held in 2009 and 2010.

Annual inter-parliamentary meetings between representatives of the European Parliament and the Parliament of Albania have been held since 1993. The European Parliament adopted a resolution on Albania in July 2010.<sup>3</sup>

Albania participates in the multilateral economic dialogue between the Commission, EU Member States and potential candidate countries in the context of the pre-accession fiscal surveillance. Since 2006, it prepares an annual Economic and Fiscal Programme (EFP), which aims at preparing the potential candidate countries for participation in the multilateral surveillance and economic policy co-ordination procedures currently in place in the EU as part of the Economic and Monetary Union.

The first **European Partnership** with Albania was adopted by the Council in 2004. In February 2008 the Council adopted a new European partnership with Albania<sup>4</sup>.

In the framework of the visa liberalisation dialogue, Albania has made important progress in the different areas of the roadmap. The Commission therefore presented a proposal on lifting the visa obligation for the citizens of Albania on 27 May 2010, which was subject to the fulfilment of outstanding criteria. The proposal was adopted by the European Parliament on 7 October and by the Council on 8 November 2010. An agreement on readmission between the European Union and Albania is in force since 2006.

Albania became a full member of the Energy Community of South East Europe following the entry into force of the Energy Community Treaty on 1 July 2006. The Treaty aims at creating a regionally integrated energy market for electricity and natural gas, as part of the wider EU

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<sup>2</sup> OJ L 107, 28.4.2009, p.166.

<sup>3</sup> The rapporteur for Albania is Mr Nikolaos Chountis.

<sup>4</sup> OJ L 080, 19.03.2008 p. 1.

market. Albania signed the European Common Aviation Area (ECAA) agreement in June 2006.

The Albanian National Strategy for Development and Integration (2007-2013) represents the key strategic policy document of the Albanian Government outlining its long-term national development and EU integration objectives. The Strategy comprises a synthesis of the medium and long-term sector and inter-sector strategies. The majority of the sector strategies include action plans, laying out specific deadlines for the accomplishment of concrete activities in each sector within the period 2007- 2013.

The European Union is by far the most important **trading partner** of Albania. In 2009, the EU accounted for 80% of the total Albanian foreign trade volume.

Albania's exports to the EU amounted to about 86% of the country's total exports in 2009, being of a value of €95 million. Albania's main exports are metals and minerals, textiles and footwear, processed agricultural products and beverages, and building materials.

In 2009, 73.1% of Albania's total imports came from the EU, being of a value of €2,166 million. EU exports to Albania include goods under inward processing regime such as textiles and footwear, metal products, furniture and electronic goods, which are nearly entirely re-exported to EU Member States. Other imported goods of significance from the EU are machinery and equipment, electricity, pharmaceuticals as well as tobacco and cigarettes.

The trade deficit of Albania with the EU amounted to €1,571 million in 2009.

Albania joined the WTO in 2000 and has been a CEFTA member since 2007.

Albania benefits from **EU financial assistance** since 1991. Overall, between 1999 and 2010 the EU committed over €65.7 million to Albania. From 1999 to 2006, Albania benefited from EU CARDS assistance worth €259.6 million. Since 2007, CARDS has been replaced by the Instrument of Pre-Accession (IPA) programme, under which Albania has received assistance worth €306.1 million from 2007 to 2010.

The CARDS programmes in Albania supported democratic stabilisation, good governance and institution building, administrative capacity and justice and home affairs, economic and social development, environment, and the participation of Albania in Community Programmes.

In 2007-2010, the IPA programmes focus on key political criteria areas such as judicial reform, police and penitentiary infrastructures, civil service and public administration reform, parliament, fundamental rights, as well as civil society. In the area of the economic criteria and the EU membership criteria, IPA assistance concentrates on small and medium size enterprises, education, taxation, statistics, intellectual property rights, environmental infrastructure, transport (local/rural roads), employment and social inclusion, and food safety.

Albania participates in three cross border cooperation programmes at "internal borders" within the Western Balkans (Montenegro, the former Yugoslav Republic of Macedonia, Kosovo<sup>5</sup>; in one bilateral cross border cooperation programme with an EU Member State (Greece); and in several multilateral programmes (including EU Member States), e.g. in the

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<sup>5</sup> under UNSCR 1244/1999



ERDF European Trans-National Programmes South East European Space and Mediterranean Space, as well as in the Adriatic regional programme.

IPA assistance is centrally managed by the EU Delegation. Albania is preparing accreditation for management of IPA funds. IPA assistance builds on a number of strategic documents, such as the European Partnership and the SAA priorities; these are reflected in Multi-annual Indicative Planning Documents and the Multi-annual Indicative Financial Frameworks.

A Framework Agreement between the European Community and Albania on participation in EU Programmes was ratified in May 2005. Albania participates actively in three EU Programmes: the 7th Framework Programme (FP7) for research, technological development and demonstration activities (2007-2013), the Entrepreneurship and Innovation specific Programme (EIP) of the Competitiveness and Innovation Framework Programme (2007-2013) and the Europe for Citizens Programme. IPA funds are used to meet part of the costs of participation in all three programmes.

### c) **Contents of the Analytical Report**

The analytical report takes account of the conclusions of the European Council in Copenhagen in 1993 and subsequent European Council conclusions. The report:

Describes the relations between Albania and the Union;

Analyses the situation in respect of the political conditions established by the European Council (democracy, rule of law, human rights, protection of minorities);

Assesses the country's situation and prospects in respect of the economic conditions established by the European Council (functioning market economy, capacity to cope with competitive pressure);

Addresses the question of the capacity of the country to adopt the obligations of membership, i.e. the total body of EU legislation as expressed in the Treaty, the secondary legislation, as well as the policies of the Union (*acquis* of the European Union);

In line with the December 2006 European Council conclusions, provides initial impact estimates in the fields of freedom of movement for workers (chapter 2), agriculture and rural development (chapter 11), regional policy and coordination of structural instruments (chapter 22), and financial and budgetary provisions (chapter 33). These have been identified as the main policy areas likely to require particular attention in case of Albanian accession.

In assessing Albania's situation in respect of the economic criteria and its capacity to assume the obligations of the *acquis*, the Commission has also estimated the progress which could reasonably be expected in the years ahead, before eventual accession, taking account of the fact that the *acquis* itself will continue to develop.

The Commission has drawn on a number of information sources: answers given by the Albanian authorities to a detailed questionnaire and additional follow-up questions, expert missions, consultations with the EU Delegation in Albania, reporting by the Member States' Embassies in Tirana, assessments by international organisations (including the Council of Europe, OECD, OSCE, IMF, World Bank), as well as local and international non-governmental organisations.

This Opinion has been prepared following a methodology similar to that used in previous Opinions with some adaptations reflecting the elements including the 2006 'renewed consensus on enlargement'. The Commission organised a number of expert missions in Albania concentrated mainly in the field covered by the political criteria. This methodology

allowed for a solid assessment of administrative capacities of Albanian institutions, of the way legislation is implemented and helped to better identify remaining challenges and priorities for future action. The Commission has analysed both the present situation and the medium-term prospects. For the purpose of this Opinion and without prejudging any future date of accession, the medium-term perspective has been defined as a period of five years.

## **B. CRITERIA FOR MEMBERSHIP**

### **1. POLITICAL CRITERIA**

The European Council in Copenhagen in 1993 set a number of political criteria for accession to be met by applicant countries. A country must have achieved '*stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities*'. In the case of the Western Balkans the conditions defined by the Stabilisation and Association Process are also a fundamental element of EU policy, which will be assessed in this report. These include regional cooperation, good neighbourly relations and compliance with international obligations.

The political criteria established in Copenhagen are derived from the fundamental values on which the EU is founded, as set out in Article 2 of the Treaty on European Union. These principles are emphasised in the Charter of Fundamental Rights of the European Union. Article 6(1) of the Treaty states that: '*The Union recognises the rights, freedoms and principles set out in the Charter of Fundamental Rights of the European Union of 7 December 2000, as adapted at Strasbourg, on 12 December 2007, which shall have the same legal value as the Treaties*'.

The assessment set out below examines the main ways in which public authorities are organised and operate, and the situation with regard to the protection of fundamental rights. It is not confined to a formal description but seeks to ascertain the way in which democracy and the rule of law actually function in practice.

#### **1.1. Democracy and the rule of law**

Parliamentary democracy was established in Albania following the March 1991 elections. These elections were preceded by electoral law changes in December 1990 and January-February 1991 which provided for political pluralism.

In April 1991, Albania's new multiparty legislature passed the Law on major constitutional provisions. This was in effect an interim constitution and laid the foundation for the modern democratic state.

The current **Constitution** was adopted in November 1998 by referendum. The constitution provides the basis for a parliamentary republic, a unitary and indivisible state based on free elections. It recognises fundamental freedoms and human rights, not least political pluralism, freedom of expression and religion, and respect for minorities, as well as prohibiting the death penalty. According to the Constitution, the governance system is based on the division and balance of powers among the legislative, executive and judiciary. The constitutional institutions are in place.

The Constitution has been amended twice, in 2007 and 2008. In 2007, small changes were made including lengthening the term of office of local government bodies and increasing the number of Central Electoral Commission members. More substantial changes were made in April 2008. These included changing the electoral system from a mixed majority proportional to a regional proportional system, amending the procedure for electing the President of the Republic, removing the Central Election Commission (CEC) from the Constitution as a constitutional body, limiting the previously indefinite term of office of the Prosecutor General to five years, and changing some parliamentary rules.

The Constitutional Court has asserted increasing independence since 2005. In several cases, it has invalidated or suspended approved laws. In the course of 2007–2010, 33 laws were subjected to constitutional review: 18 were found partially unconstitutional, 2 entirely unconstitutional, and in 13 cases the Court rejected the petition on grounds of unconstitutionality. One of the recent pivotal decisions of the Court was holding the so-called 'lustration law', which was judged to violate the separation of powers, to be unconstitutional.

The Constitution sets out an adequate framework for a democracy run in accordance with the rule of law. However, there are a number of cases in which decisions and rulings of the Constitutional Court have been seriously challenged or even disregarded by governmental institutions.

*Overall*, the Albanian Constitution sets out a reasonable framework for a democracy run in accordance with the rule of law. The Constitutional Court has asserted increasing independence since 2005. However, respect for the Constitution has in a number of cases been challenged by governmental institutions notably by calling into question or even disregarding constitutional court decisions and rulings.

#### *1.1.1. The parliament*

Albania has a unicameral parliamentary system. **Parliament** (the assembly or *Kuvendi*) is the highest body of state power and currently consists of 140 members elected by direct, universal suffrage. It is elected every four years. In 2008, the Albanian electoral system changed from a mixed (100 first-past-the-post constituency seats and 40 national proportional representation seats) to a regional proportional system (140 proportional representation seats filled from party lists in regions corresponding to existing administrative boundaries). The aim of these reforms was to make the political system more stable, to simplify the electoral machinery and to reduce the personalisation of electoral contests.

The June 2009 legislative **elections** were assessed by the OSCE/ODIHR as an improvement on past practices and as meeting most international standards. However, shortcomings were identified and a number of recommendations were made for future elections. The report stressed that the elections demonstrated tangible progress, in particular with regard to the voter registration and identification process, the legal framework, voting, counting and adjudication of election disputes. Nonetheless, the report added that the elections did not fully achieve the highest standards and that the politicisation of vote counting and tabulation undermined citizens' confidence in the process. Shortcomings also included non-transparent party financing and flawed media coverage.

Parliament's organisation and functioning are governed by rules of procedure adopted by the majority of its members. Parliamentary sessions are usually open to the public. The leading bodies of parliament are the Speaker, the Parliamentary Bureau and the Conference of

Chairmen of the parliamentary groups. Other bodies include standing committees, sub-committees, special committees, investigative committees, the Council for Rules, Mandates and Immunities and the Council for Legislation. Parliament also has a Standing Committee on European Integration, which is currently chaired by the opposition.

Parliament exercises a legislative role. The right to take a legislative initiative rests with the Council of Ministers, every Member of Parliament, as well as on petition when signed by 20,000 registered voters. A draft law goes first to the parliamentary committee for review and then to plenary session for voting. Parliament, at the request of the Council of Ministers or one fifth of its members, may deliberate and adopt a draft law by expedited procedure. The rules of procedure also provide for a system of verification of compliance of Albanian legislation with the EU *acquis*.

Under the Constitution, parliament exercises oversight over the executive and the institutions established and voted for by parliament. The rules of procedure provide for a number of instruments to ensure its oversight role, including investigative committees, interpellations, question and answer sessions, motions for debates, motions of confidence, motions of no confidence, reporting and petitions.

A considerable number of laws have been passed by parliament in view of necessary social and economic reforms and to align Albanian legislation with the EU *acquis*. However, the quality of legislation passed has not always been of an adequate standard. Parliamentary committees often work under severe time pressure. There are substantial differences in workload between the committees, with the legal committee being particularly overburdened. Involvement of relevant interest groups in parliamentary hearings and consultations is limited. The assembly's legislative agenda is decided upon by the Conference of Chairmen, which includes the parliamentary group chairmen but not the individual committee chairs. As a consequence, there have been conflicts between the committees' work plan and the assembly's legislative agenda. The position of parliamentary speaker has been misused, in particular by exerting disproportionate influence on the process of establishing the legislative agenda by frequently imposing short-term decisions as opposed to joint decisions of the conference of chairmen.

Despite constitutional provisions, there is a lack of effective parliamentary oversight over the executive and parliament does not function as an independent institution. Interpellations and question times are rarely used and written questions are hardly ever submitted. There is a very strong culture of partisan politics polarising stances in parliament, which hampers the proper functioning of the assembly and its committees. Investigative committees have often been forums for party political quarrels, rather than instruments for parliamentary oversight. They have rarely produced results and thus have had limited impact on government policies. There is little consensus among the parties in parliament about its functioning and standards.

Parliamentary work both on passing legislation and oversight functions has for years been strongly marked by difficult and often unconstructive political dialogue. Since the June 2009 elections, parliamentary work has been overshadowed and obstructed by political stalemate. The opposition Socialist Party has boycotted the work of parliament for long periods since the elections, calling for transparency and investigation of alleged irregularities in the elections. The government for its part has not shown readiness to compromise on proposals for overcoming the political deadlock made by the Socialist party. As a result, political dialogue has further deteriorated, being highly confrontational and unproductive or else outright non-existent. The political stalemate and obstruction of parliament amplifies the existing weakness

in parliamentary oversight. The two opposing camps consisting of the government parties and the Socialist Party have more than one year after the elections not yet overcome their disagreements. This despite involvement from many parties, including the major parties in the European Parliament and the international community, aimed at paving the way for a solution.

The political stalemate is damaging the functioning of democracy in Albania and hindering important reforms, which are necessary for the country's progress on the path towards EU integration and the rule of law. Key pieces of legislation requiring a qualified majority (three fifths of all votes) could not be approved. Electoral reform necessary in view of upcoming local government elections is substantially delayed. This political situation risks a profound and lasting polarisation of the political class with serious consequences in terms of its capacity for compromise and finding consensus on key reforms. Constructive cross-party dialogue is necessary to ensure a smooth functioning of Parliament based on its rules of procedure.

Parliament's structures are relatively weak and many activities are carried out on an ad hoc basis rather than in line with established procedures. Politicisation of parliament's administrative and expert staff is detrimental to the overall organisation of activities. Moreover, staff capacities are limited and there is frequent turnover.

*Overall*, Albania is a parliamentary democracy based on a constitutional and legislative framework, which is largely in line with European principles and standards. However, parliament does not function properly as an independent institution and accordingly does not exercise effectively and efficiently its oversight and control function over the government. Political culture is not conducive to constructive political dialogue. Since the June 2009 elections, parliamentary work has been hampered by political stalemate between the majority parties and the Socialist Party, which is in opposition. OSCE-ODIHR recommendations on the 2009 elections and their follow-up need to be fully addressed with a view to upcoming elections.

#### *1.1.2. The executive*

The **President** of the Republic is elected by parliament, by a qualified majority of three fifths of 140 votes in the three first rounds and by simple majority in the last two rounds. The President has a limited executive role. The President promulgates laws adopted by parliament and has the right to return them to the plenary for reconsideration. He is the Commander in Chief of the armed forces. The President appoints the Prime Minister on the proposal of the party or coalition of parties that has the majority of seats in the Assembly, he appoints and dismisses ministers on a proposal by the Prime Minister and he appoints and dismisses ambassadors and other diplomatic representatives. The President chairs the High Council of Justice. He appoints the members of the Constitutional Court and High Court with the consent of parliament.

The current President, Mr Bamir Topi, was elected in July 2007 for a five-year period. He has a constitutional role as a guarantor of consensus, promoting party dialogue and compromise. However, on some of the major issues of public debate including the political stalemate since 2009, the effective role of the President of the Republic has remained limited. In 2010, some of the President's proposed appointments for the Constitutional Court and the High Court failed to receive the consent of parliament.

The Council of Ministers (CoM) is the basic executive body. Within 10 days of appointment by the President, the Prime Minister presents the political programme of the Council of Ministers, together with its composition, to parliament for approval.

The current **government** is led by Prime Minister Sali Berisha. He was reappointed by parliament in September 2009 following the June elections and the formation of a coalition government between the Democratic Party of outgoing PM Berisha and the Socialist Movement for Integration of Ilir Meta. There is one Deputy Prime Minister (Ilir Meta, who is also Minister of Economy) and 14 ministers, one of whom is female.

With regard to the government's main task of law-making, the main planning tool is the annual Analytical Legislative Programme (ALP). Before approval, the Programme is checked against the main priorities in the National Strategy for Development and Integration and the Stabilisation and Association Agreement, although this linkage is not systematic, and a substantial number of laws put forward by line ministries in recent years had not been included in the ALP. This reflects the government's excessive and short-term ambitions for the legislative agenda. There is a mechanism for coordination of work planning in different institutions but it works insufficiently in practice.

Inter-ministerial consultation on draft legislation is required by law. It is up to the line minister to organise inter-ministerial groups and to invite experts to discuss drafts laws. However, participants in inter-ministerial groups do not always have a mandate to negotiate agreements on behalf of their ministries, which reduces the effectiveness of such procedures. There is a formal requirement to involve external consultation; however, broad-based consultations with the participation of representatives from interest groups are rarely carried out.

In general, capacities for legislative drafting in line ministries and administrative bodies are weak. One of the specific weaknesses is that insufficient attention is given to implementation. This, in addition to limited consultation with interest groups and specialists, as well as the government's over-ambitious legislative agenda and limited parliamentary scrutiny, results in several pieces of legislation being of low quality.

Proper implementation of, and respect for, legislation have been affected by its poor quality. Furthermore, implementation is hampered at times by the lack of full understanding of the social and political role of laws by relevant public sector institutions; these disregard certain legal provisions as a result. There have been cases in which respect for legislation and the rule of law have been put into question by the government, with Constitutional court decisions and rulings being challenged or even disregarded.

The government has invested in an Integrated Planning System (IPS), which embodies the principles that the government should have a clear and coherent set of policy priorities that are linked to the budget process. The most influential forum for ministerial discussions on priorities and key sector strategies is the Strategic Planning Committee, an inter-ministerial committee chaired by the Prime Minister, which is focusing increasingly on the linkage between policies/priorities and budgetary matters. Despite positive developments in this regard, the coherence between the IPS, the ALP and budgeting remains weak.

The Ministry of European Integration (MEI) was established in 2004 with the core task to coordinate European integration work in the government. Directorates for EU integration were also established in relevant line ministries.

In order to streamline and improve coordination of the European integration process, the Albanian government established the Inter-Institutional Coordinating Committee, chaired by the Minister for European Integration and composed of the deputy ministers or secretaries general of each line ministry, as well as officials of relevant central institutions. The Committee meets at least once a month.

More specifically, permanent inter-ministerial working groups covering various *acquis* chapters were established ahead of the Opinion questionnaire process. A new European Secretariat was established within the MEI to coordinate the work of these groups. The MEI together with the working groups have managed the process of replies to the questionnaire in a satisfactory manner.

The Albanian Constitution provides that **local governments** are founded on the principle of decentralisation and exercise their powers in accordance with the principle of local autonomy. The Constitution incorporates the basic principles of the European Charter of Local Self-Governance ratified by Albania in 1999.

Communes and municipalities are the basic units of local governance. Communal, municipal, and regional councils regulate and manage local issues within their jurisdiction. They exercise property rights, administer their revenue independently and are entitled to engage in economic activity, collect revenue and spend the funds necessary for fulfilling their duties. They are also entitled, pursuant to the law, to levy local taxes and set their level.

The heads of communes and municipalities may be dismissed by the government in cases of serious breaches of duty. The government also appoints prefects to check the legality of acts adopted by local government. Prefects also exercise financial control over these bodies, although the relationship between them is not one of subordination. The cooperation between local government and government appointed prefects overall functions smoothly.

Despite much debate regarding the decentralisation process, few of the measures planned in the local government and decentralisation strategy 2007-2010 were implemented. The transfer of some competences was made at short notice and often without adequate preparation. The Law on territorial planning and amendments thereto raised issues regarding potential conflicts with the existing regional and local structures.

The deterioration of the political atmosphere at national level has affected relations between central and local government. It has also affected the activities of the association of local government representatives. A second association was created by local elected officials of the opposition.

*Overall*, Albania has an institutional system of government institutions that broadly function, although with some deficiencies. These concern in particular the low quality of legislative drafting and the limited process of policy consultation with third parties. This in turn leads to serious shortcomings in the implementation and respect for legislation. The cases of non-respect of constitutional court decisions by government in recent years and the politicisation of the vote on the President's Constitutional Court appointments are of concern. The President has not been able to fulfil his constitutional role as a guarantor of consensus, promoting party dialogue and compromise. Albania's local government system is in line with the principles of the European Charter of Local Self-Governance. The cooperation between local government and government appointed prefects overall functions smoothly. Planned decentralisation

measures in recent years have not been implemented. Lack of constructive political dialogue at central level has affected relations between the central and local level.

### *1.1.3. Public Administration*

The Albanian Constitution, the Law on the organisation and functioning of the Council of Ministers, and other special laws on the organisation and functioning of institutions subordinate to the Council of Ministers/Prime Minister, or line ministers, provide for the establishment and functioning of central institutions of the public administration. This legislation defines their mission, scope, powers, activity, and manner of funding. Institutions created in this way include: political institutions (parliament), judicial institutions (courts), independent institutions (Ombudsman, High Commissioner for Data Protection, High State Control Office, Civil Service Commission, etc.) and administrative institutions (Department of Public Administration, Department of Internal Control and Anti-corruption, sectoral inspectorates, Public Procurement Advocate, prefects).

As there is no unified system and law on the general organisation and functioning of the public administration, there is a risk of fragmentation between different pieces of legislation. These put in place administrative bodies and establish for each public administrative body individual provisions on issues of responsibility, accountability and competences, without having to follow general rules at state administration level.

The status of civil servants is regulated by the Law on civil service of 1999 as well as by several pieces of secondary legislation. The Labour Code is also applicable to civil servants as supplementary legislation; it covers many areas related to working conditions in the civil service. The Labour Code is the basic law for public employees who are not civil servants. As provided by the civil service law, the civil service in Albania is basically a position-based system with some elements of a career mechanism. Such a system is subject to higher risks of politically motivated staff turn-over than in a fully career-based system. The total number of public employees is about 90,000, including 15,000 in local and regional administrations. Of these, only about 5,000 are civil servants.

The civil service law regulates civil servant recruitments. These are organised for each vacancy at a time, even though each institution has to communicate its forecasts for new recruitments a year in advance. The law provides for open competitions as the only means of recruiting civil servants. Most stages of open competitions are transparent. However, the final stage and the recruitment decision is left exclusively to the discretion of the line manager concerned. An exception to the rule of open competitions is temporary employment. Over the last few years there has been a relatively high share (on average more than 20%) of vacancies filled by employees under temporary contracts. Most staff recruited on a temporary basis tend to be confirmed subsequently in open competitions. The government has issued an order on 1 October 2010, which aims at limiting the use of temporary contracts for employment; this decision and its implementation need to be verified in practice. There has in general been a high turnover of civil servants in recent years due to politicisation of recruitment practices. The existing position-based career system has provided for the possibility to make civil servants redundant as a result of restructuring of ministries by incoming new ministers. These practices undermine the procedures and principles under the civil service law for merit-based appointments and lower the overall capacity of public administration.



The civil service law lays down procedures for horizontal mobility and for promotion through competition of civil servants. However, these procedures have been applied rarely in recent years.

Since 2006 the government has been implementing a policy to increase salaries in the public service, applying different rates according to the sectors (the largest increases were in the education and healthcare sectors). Salary increases have continued in 2009 and 2010 despite global pressures for budgetary restraints, which helps to reduce the income gap between public and private sector and staff turn-over as a result.

There is a Code of Ethics dating from 2003 which is binding on civil servants. However, part of the Code of Ethics is eschewed as not legally enforceable because some concepts are contradictory. The Code also regulates some procedures for dealing with conflicts of interest. Submitting conflict of interest declarations is a requirement strictly enforced by the Department of Public Administration (DoPA), but the correctness of such declarations is not checked.

The strategy for public administration reform (PAR) and corresponding action plan of September 2009 aim to address shortcomings in the functioning of the public administration; they specifically include review of the civil service law and institutional strengthening of the management authorities implementing the civil service legislation. The necessary amendments to the civil service law need to be undertaken in a cooperative environment with involvement of all stakeholders. It will require political will and political consensus on the need for and scope of public administration reform, as the law requires a qualified majority in parliament.

Two institutions are responsible for managing and monitoring the management of the civil service at state level. Department of Public Administration has the task of managing the civil service in central institutions, while in independent institutions the respective human resources units exercise this function. DoPA also has a central role in public administration reform. The Civil Service Commission (CSC) supervises the legality of management decisions concerning the civil service and decides on appeals by civil servants in all areas connected with the civil service law. In addition, the Training Institute for Public Administration (TIPA) is in charge of training civil servants.

The administrative resources and organisational capacity of DoPA are insufficient and accordingly need strengthening in the light of its dual task of overseeing the PAR and monitoring implementation of the civil service law. Raising and maintaining the institutional capacity of the Civil Service Commission, as well as insuring better enforcement of the CSC decisions by the state administrative bodies are of particular importance for the enforcement of the rights and duties of Albanian civil servants.

There are no specific administrative courts in Albania. Judicial review of administrative acts is carried out by the administrative sections within the first instance courts, in accordance with the provisions of the Civil Procedure Code. Appeals against decisions of the first instances can be lodged according to general procedural rules, to appeal courts and the High Court. However, the existing mechanisms for judicial review of administrative acts are quite often inefficient. A draft law intended to form the basis for administrative courts in Albania is pending adoption in Parliament by qualified majority.

The High State Control (HSC) is the supreme audit institution (SAI) in Albania (see also chapter 32 on financial control). The constitution provides the HSC with a broad remit and the mandate to carry out different types of audits. The HSC is a member of EUROSAI since 1993. As the HSC is not legally required to audit all government entities annually, current resources are broadly satisfactory. In the long term the SAI needs to develop its capacity further. Reporting to the Parliament and the follow-up of audit recommendations by state institutions need to be improved.

The Law on the Ombudsman (People's Advocate) gives the **Ombudsman's** Office the mission to safeguard the rights, freedoms and lawful interests of individuals from unlawful or improper actions or failure to act by institutions of the public administration and private bodies acting on behalf of the state. Moreover, the Ombudsman's Office monitors the implementation of laws on transparency and internal control, including the Law on access to public information. The Ombudsman's Office has provided solid and timely recommendations in its areas of competence. However, these are insufficiently put into practice by government institutions. Its work is hampered by lack of resources and lately by budget reductions and the pending election of the new Ombudsman. (*See also Section 1.2 on human rights and minorities*)

*Overall*, the general administrative law framework and the civil service system are mostly in line with European principles and standards, although some gaps exist. Proper implementation of the legal framework remains a concern as does the lack of transparency and accountability in appointments and the politicisation of the public administration. Political will and strong efforts are necessary for the full implementation of the civil service law and progress with the public administration reform strategy, which are necessary for the establishment of a civil service that is independent, professional and based on merit. The pending election of a new Ombudsman as well as the insufficient respect of this institution's recommendations is of concern.

#### *1.1.4. Judicial system (See also Chapter 23 — Judiciary and fundamental rights)*

The judicial system is based on the Constitution of 1998, and is organised in three instances, **courts of first instance, courts of appeal** and **the High Court**. Albania has 22 first-instance courts, six appeal courts, one first-instance serious crime court, one serious crimes appeal court, and one High Court.

Judges of first instance and appeal courts are appointed by the President of the Republic on a proposal from the High Council of Justice. The President appoints the members of the High Court with the consent of parliament (by simple majority). The President and members of the High Court hold office for nine years without the right to reappointment. The High Court is the final national instance in civil and criminal cases. In addition, it has original jurisdiction when adjudicating criminal charges against the President of the Republic, the Prime Minister, members of the Council of Ministers, MPs, judges of the High Court, and judges of the Constitutional Court. Being the highest instance of the judiciary in Albania, the High Court plays a specific role in ensuring unified application of case-law.

The **Constitutional Court** is composed of nine judges, who are appointed for a single term of nine years by the President of the Republic with the consent of parliament (by simple majority). The court decides on the conformity of laws as well as other regulations, such as international agreements, with the Constitution. Where judges consider a law unconstitutional,

they suspend the proceedings and send the question to the Constitutional Court. Decisions of the Constitutional Court are binding on all courts.

The Constitutional Court has asserted increasing independence since 2005, by issuing decisions that on several occasions annulled legislative acts passed by majority. However, there are concerns, amplified by the current political deadlock, over the politicisation of the consent vote in parliament of the President's appointment of judges to the Constitutional Court. This risks jeopardising the impartiality and independence of this institution.

The High Council of Justice consists of the President of the Republic, the President of the High Court, the Minister of Justice, three members elected by parliament (by simple majority) and nine judges of all levels elected by the National Judicial Conference. Elected members stay in office for five years. The Council is responsible for the protection, appointment, transfer, dismissal and professional evaluation of judges of first instance and appeal.

Replacements of judges in the High Council are currently blocked by the suspension of the Law on the National Judicial Conference. Amendments to this law need to be adopted by a qualified (three-fifths) majority in parliament.

The High Council of Justice does not have competence over the High Court, which is politically appointed and has an extraordinary position within the judicial system. The exclusion of the highest instance court from the arrangements applicable to the lower courts weakens the independence of the judiciary as a whole.

The Prosecutor's Office conducts criminal investigations, brings prosecutions to court on behalf of the state and performs other duties laid down by law. Prosecutors are organised and operate as a centralised body attached to the judicial system. In the exercise of their powers, prosecutors are subject to the Constitution and the laws.

The General Prosecutor is appointed by the President of the Republic with the simple majority consent of parliament, for a five-year term, with the right to be reappointed. The other prosecutors are appointed by the President of the Republic on a proposal by the General Prosecutor. The prosecutor's office operates according to instructions given by the General Prosecutor, as a centralised structure which includes the General Prosecutor's Office, the Prosecutorial Council as well as the prosecutor's offices within the judicial system.

The Prosecutorial Council is composed of six prosecutors and one representative of the Minister of Justice and carries out advisory functions, assisting the General Prosecutor. The **prosecutorial system** is highly centralised and hierarchical. It is considered to belong neither to the judiciary nor to the executive. The autonomy of prosecutors is guaranteed in the trial phase, but is limited in the investigative phase, which impairs its efficiency. A pro-active approach to investigations and more widespread use of modern investigation methods are both lacking. The General Prosecutor's Office has undertaken steps to improve its functioning, with the approval of several internal orders regarding its internal organisation. Nonetheless, further efforts are needed to implement the new regulations. The independence and accountability of the prosecutorial system is weakened in particular by the fact that the General Prosecutor's appointment depends on the simple majority consent of parliament; moreover, there is a lack of sound evaluation and inspection systems for prosecutors.

The School of Magistrates is in charge of initial and continuous training of judges and prosecutors. Admission to the School is subject to a public competition with written and anonymous exams. The best candidates from the written competition have the right to

commence the initial training of three years towards obtaining the title of magistrate based on a decision by the Leading Council of the Magistrates' School. This system is helping overall to improve the qualification of magistrates and to increase the transparency of recruitment procedures.

The principle of independence of the judiciary is provided for in the Constitution and relevant legislation. The duration of the office of judges (except Constitutional Court judges) cannot be limited; their pay and other benefits cannot be lowered. However, there are important obstacles to effective independence. The politicisation of the appointment of judges to the High and Constitutional Courts undermines the neutrality and independence of these institutions.

The independence and calibre of the judiciary is also weakened by the lack of sound evaluation systems for judges as well as by the lack of merit-based appointments and transfers. Appointments to the first and subsequent positions of judges in the district courts and the appeal courts are made by the President of the Republic on proposals by the High Council of Justice. Conditions and competitive procedures for selection are laid down by law. One of the criteria for first appointment is that candidates must have graduated from the Magistrates' School. However, 10% of all judges may be appointed without having completed the Magistrates' School, the only criteria being that they must have previously worked as a judge. Promotions and transfer appointments to higher courts are based on evaluation systems, which lack transparency as well as a systematic and consistent application. In addition, when proposing candidates for appointment, transfers or directive posts, the Council does not provide any reasons for its decision. There are for candidates no procedures or provisions for an appeal against decisions or for a judicial review. The latter is also due to the absence of administrative courts, the establishment of which is foreseen through a draft law, which is pending qualified majority in parliament. Such a lack of accountability, transparency and possibility of appeal creates risks of political interference and corruption.

Courts have a separate budget which they propose pursuant to the law and administer themselves. However, budgetary appropriations for the judiciary overall remain insufficient.

Accountability of the judiciary is ensured by inspections undertaken by two institutions. The inspectorate of the High Council of Justice carries out inspections both on own initiative and based on complaints from citizens. It also undertakes professional assessments/evaluations of judges every three years. The Ministry of Justice conducts inspections of first-instance courts and appeal courts focusing on the organisation and work of judicial services and judicial administration, according to specific thematic or territorial programmes.

However, there is overlap and lack of coordination between the two inspectorates. Both the Ministry of Justice and the HCJ have competencies and apply procedures that do not fully comply with European standards regarding inspections of judges and courts. The evaluation of judges lacks transparency. The initiative for disciplinary procedures is in the sole hands of the Minister of Justice, without any balance or control. Due to the fact that the absence of disciplinary procedures is a key element for judicial careers, there is a concrete risk of interference from the government in this key area. As a result, accountable and efficient inspection systems and disciplinary proceedings for judges are not in place. In addition, preventive measures against corruption in the judiciary are insufficient.

The principle of equality before the law and the right to trial by impartial courts is foreseen by the Constitution. The Code of Judicial Ethics was introduced by the National Judicial

Conference in 2000 and has been overseen by it since then. A computerised case management system and random allocation of cases in both criminal and civil proceedings are in place in most judicial offices. However, problems with the random allocation of cases persist in practice notably due to a lack of consistent approach in all courts, and a lack of necessary guidance and training. Further efforts are needed to have a fully uniform and harmonised integrated case management system functioning and used in all courts.

The judiciary suffers from problems of transparency and efficiency. There are serious obstacles to the investigation of corruption cases in the judiciary notably due to the fact that, by law, judges enjoy full immunity. The immunity of judges can only be lifted on a decision of the High Council of Justice, which substantially reduces the effectiveness of possible investigation (*See also Section 1.1.5 on corruption*). Court management is poor due to the lack of human and financial resources, in particular in first-instance district courts. There is no sound and adequate organisation and training of court administrators. Unreasonable delays in judicial proceedings are of concern as is the high backlog of cases. Court proceedings are slow and the number of trial sessions for a case is high. In addition, proceedings are often delayed or outright stalled by defendants. Working conditions in courts remain poor and hearings often take place in judges' offices, hampering transparency and efficiency. Concerns over the security of judges persist. Currently, the Ministry of Justice is preparing amendments to the Civil Procedure Code and the Civil Code aimed at tackling these deficiencies.

There is corruption in the judiciary, risks to the independence of judges, as well as a lack of transparency and accountability of many procedures and a lack of efficiency in general of the justice system. As a consequence, public perception indicators highlight a very low level of trust in the judiciary. High-profile cases are rare and where they are prosecuted, they mostly do not lead to convictions. There have been cases where the General Prosecutor's Office completed the investigation but the trial was delayed on procedural grounds and eventually suspended because of the immunity of the defendant. Such inertia contributes to the overall perception that high-level figures are not prosecuted on the grounds of political and economic power.

Albania has undertaken reforms in the judiciary in recent years including both improving the justice infrastructure and drafting legislation aligned with European standards. However, Albania lacks a comprehensive long-term reform strategy for the judiciary. In this respect, consensus and inter-institutional cooperation on the need for judicial reforms are important. The lack of relevant resources at the policy and technical level within the Ministry of Justice hampers the effective implementation of reforms in the sector. Coordination with the High Council of Justice on judicial reform has been insufficient. Furthermore, adequate consultation mechanisms and assessments of the financial and institutional impact of legislation are not always implemented. There can be confusion about the initiator and drafter of laws in the justice sector. In December 2009, the Ministry of Justice created a working group to prepare the justice sector strategy. Important pieces of legislation to complete the legal framework have not been adopted, including the Laws on the National Judicial Conference, on administrative justice and on judicial administration. In particular, the law on administrative justice should be finalised and passed in a reasonable timeframe, in order to fulfil the existing gaps in this area.

The right to defence counsel is not mandatory in a very wide range of cases. This is a concern. The quality of services provided by lawyers is frequently considered insufficient by judges. There are numerous cases of lawyers using delaying tactics in court cases such as not showing up at hearings, without facing disciplinary procedures from the Chamber of Advocates.

Enforcement of decisions is weak, in particular in cases where state institutions are the defendants. The European Court of Human Rights in Strasbourg has ruled on several occasions against Albania for non-enforcement of its judgments. The law on the new bailiff services, approved in 2008, has still not fully entered into effect. The private bailiff system has not yet started to function and no sound case management for bailiffs is in place. Provisions of relevant and financial resources from the state budget for the execution of decisions against state bodies could also improve the enforcement of decisions. The recent appointment of the State Commission for Legal Aid is a positive development to promote access to justice and will lead to enforcement of implementation of the Law on legal aid which was adopted in 2008.

*Overall*, Albania lacks a tradition of judicial independence. It needs to continue the process of reforming the judiciary, including the adoption of a comprehensive judicial reform strategy and key pending laws and the establishment of a sustained track record of implementation demonstrating the independence and efficiency of the judiciary. It will need to address the lack of independence, transparency and accountability in the appointment, transfer and evaluation of judges as well as necessary improvements to the system for inspecting the judiciary. The fact that the parliament votes on the appointment of judges to the High Court and Constitutional Court entails strong risks of politicisation and hence of a weakening in the independence of the institutions. Adequate human and financial resources as well as infrastructure conditions are needed to ensure the efficient functioning of courts. Albania also needs to address corruption in the judiciary, taking into consideration all the relevant aspects, including salaries, immunity, security, and the politicisation of key appointments.

#### *1.1.5. Anti-corruption policy (See also Chapter 23 — Judiciary and fundamental rights)*

In recent years, Albania has undertaken coordinated efforts to establish a legal and institutional framework for fighting corruption in certain fields. However, corruption is prevalent in many areas and is a particularly serious problem.

Albania has adopted several anti-corruption measures and laws. The Criminal Code criminalises the main forms of corruption and the Criminal Procedure Code includes key tools for fighting corruption, including special investigative measures. Amendments to the Criminal Code introduced provisions on public sector bribery as well as completely new provisions on private sector bribery and trading in influence.

In 2008, an intersectoral strategy on preventing and combating corruption was adopted. A general action plan to implement the strategy is drafted each year and endorsed by an interministerial working group. The 2010 action plan is more specific and includes measurable indicators, which should facilitate implementation and monitoring. Individual plans are also adopted by line ministries and their implementation is part of an overall annual reporting system.

The Department for Internal Administrative Control and Anti-Corruption (DIACA) performs internal controls on the administration and is the administrative body in charge of coordinating the activities decided by the inter-ministerial working group.

Albania has a Law on the declaration and auditing of civil servants' assets and a Law for the prevention of conflicts of interest while engaged in public work. The High Inspectorate for Declaration and Audit of Assets (HIDAA) is in charge of receiving and verifying the asset declarations of public officials and checking that their positions are compatible with the Law

on conflicts of interest. HIDAA can take administrative measures against civil servants failing to submit their declarations and can notify the prosecutor's office in case of non-compliance with the laws. HIDAA is starting to produce satisfactory results; however, further improvement of cooperation with law enforcement and prosecution offices is needed to make full use of analysis and investigations into asset declarations.

In the Ministry of the Interior, an Internal Control Service (ICS) has been established to investigate corruption cases in the police. It has produced some results. Several traffic police officers have been investigated and dismissed for taking bribes.

Joint Investigative Units (JIUs) for economic crimes and corruption were established. They are based in Tirana and six other cities and are intended to improve the coordination efforts of law enforcement agencies. The JIUs are composed of police staff from the prosecutor's offices, the state, customs and tax police and other relevant institutions.

E-procurement systems have been introduced in the public administration in order to reduce personal contacts between contracting authorities and bidders and therefore reduce opportunities for bribery. Reforms have been introduced in the education sector (e.g. electronic database for enrolments and anonymous entry exams) and health sector (e.g. new regulation on the referral system) in a bid to step up the fight against corruption in these areas. However, newly introduced measures and policies will have to prove their effectiveness in practice.

Despite an improved legal and institutional framework, corruption across many sectors and institutions remains at high levels, with certain sectors and areas particularly affected, notably the judiciary, the health sector and property rights, but also public procurement and party funding.

There are gaps in the legal framework for the fight against corruption. Cases of bribery of foreign public officials are not covered by the Criminal Code. More importantly, even if the immunity granted to a large group of public officials (MPs, ministers and judges) is meant to increase their independence, it has proven to be a serious obstacle to the investigation of corruption, which increases the risk for this phenomenon. Immunity can only be lifted by Parliament or High Council of Justice decisions. This is complicated, time-consuming, prevents efficient investigation and is rarely successful.

There are gaps in the institutional set-up for the fight against corruption. DIACA's capacities for playing a coordination role in the context of the strategy and action plan are limited due to lack of resources. Monitoring of implementation of the action plan by DIACA and corruption reporting and statistics in particular are insufficient. In general, the entire sector of administrative inspections is a matter of concern in terms of vulnerability to corruption and capacity to ensure integrity and transparency in administrative practice. The Internal Control Service of the Police has produced results mainly on petty corruption cases. Cooperation between the different institutions involved in fighting corruption outside the JIUs needs to be further strengthened. Resources for fighting corruption remain limited. This includes the low salaries of prosecutors and judges, the number of qualified staff but also limited resources for investigation and proper court practice.

An increasing number of corruption cases have been investigated and prosecuted, but conviction rates remain very low. There is no track-record of investigation, prosecution and

conviction of high-level corruption cases. The immunity of judges is lifted only rarely. These factors consolidate the general prevailing culture of impunity.

Despite ministerial involvement in the anti-corruption task force and working group, and outspoken high-level political commitment, the actual results of the fight against corruption do not live up to expectations.

Outside the central institutional levels, there is a lack of general awareness of the legal framework and mechanisms in place to fight corruption. Also, the lack of public knowledge of the duties of certain institutions and the rights of citizens (e.g. health sector, judiciary) exacerbates the feeling of inevitability of corruption, particularly in certain areas.

*Overall*, Albania has made efforts in recent years to establish a legal and institutional framework for fighting corruption and has produced some initial results. However, corruption is prevalent in many areas and is a particularly serious problem. Albania needs to complete the legal framework addressing GRECO recommendations and concerns over the unlimited immunity of certain public officials. Efficient implementation of the anti-corruption strategy and action plan needs to be demonstrated and a proven track record of convictions in corruption cases established at all levels. Areas of particular concern are the judiciary, the health sector, property rights and funding of political parties.

#### *1.1.6. Civilian oversight of security forces*

Civilian control over the armed and security forces and intelligence services is regulated by a comprehensive legal and policy framework including the constitution and laws regulating the different forces. Parliament is the highest authority for civilian control over armed and security forces and intelligence services. Other important institutions with control functions provided by law include the president, the prime minister, the High State Control, the Office of the General Prosecutor, the Ombudsman, and the General Inspector.

Security forces in Albania are divided into three main categories: the armed forces, police forces and security services.

As regards the armed forces; the General Staff Headquarters, the Albanian Joint Forces Command, the Albanian Support Command and the Albanian Training and Doctrine Command are all under the purview of the Ministry of Defence. These all have military status and include a number of civilian employees.

The police forces are composed of: the Albanian State Police, which is the national police force, tasked with the maintenance of public order and the fight against crime; the Municipal Police Forces, which serve under the authority of local government entities and the Republican Guard which is a constabulary force tasked with protecting government property and dignitaries and which has military status and powers of arrest. There are inspectorates within line ministries, the members of which have the attributes of Judicial Police officers (competent to identify and process violations of laws and reporting to the Public Prosecutor).

The security services are divided between the Internal Security Service, which is tasked with confronting national security threats, and the Military Intelligence Service, which deals primarily with external security threats.

Parliamentary oversight over the security sector is executed through several committees within parliament, with the Security Committee and the Laws Committee being the most



relevant ones. They conduct periodic hearings of officials on security sector issues. However, the capacity of these committees and their legal powers to perform effective oversight functions in a system of checks and balances are insufficient. In addition, while political direction or the development of security policies is indeed within the remit of ministers, political interference with the security sector still exists and extends to the lower grades of the hierarchy.

*Overall*, civilian control over the armed and security forces and intelligence services is regulated by a comprehensive legal and policy framework, which establishes the parliament as highest oversight institution. Parliamentary oversight over the security sector suffers from weaknesses and political interference.

## 1.2. **Human rights and the protection of minorities** (See also Chapter 23 – Judiciary and fundamental rights)

### *Observance of international human rights law*

Respect for human rights and the protection of minorities are enshrined in the Constitution and in a number of legislative provisions. Albania has ratified most **human rights instruments**; these are part of the internal judicial system and are directly applicable after publication in the Official Journal. Albania joined the Council of Europe in 1995, and ratified the European Convention on Human Rights in 1996. To date, the **European Court of Human Rights** (ECtHR) has delivered 29 judgments concerning Albania. The Court mainly found breaches of the right to a fair trial within a reasonable time, the right to an effective remedy and the right to peaceful enjoyment of possessions. As of September 2010, there were 287 cases pending before the ECtHR regarding Albania.

As regards the **promotion and enforcement of human rights**, the Office of the Ombudsman (the People's Advocate) is the main domestic human rights institution. It has played an active role in monitoring the human rights situation in the country, and has contributed to enhancing the accountability of state institutions. The Ombudsman is elected by parliament by qualified majority. Due to the ongoing political stalemate, election of the new Ombudsman has been pending since February 2010. The main fields in which the Ombudsman has intervened relate to property disputes, police abuse, undue length of judicial proceedings, non-enforcement of judgments in civil cases and unfair dismissals. He has also repeatedly expressed particular concern over inadequate conditions in prisons, pre-trial detention centres and police stations, corruption in the judiciary and difficult living conditions of the Roma minority. The Ombudsman's recommendations are insufficiently put into practice by government institutions. His annual report to parliament has been vehemently criticised by some MPs. The work of the Office is hampered by lack of resources and recent significant budget reductions are a matter of concern. These constraints have meant that the Ombudsman has only marginally used his *ex officio* power. The independence of this body needs to be ensured through appropriate allocation of resources.

The institutional framework on human rights has been reinforced through the creation of an equality body. In accordance with the Law on protection from discrimination, passed in February 2010, the Commissioner for protection from discrimination, was appointed in April 2010. The Commissioner has the authority to receive complaints relating not only to the public sector, but also to the private sector and individuals and has the power to impose fines for breaching the law. However, the Office is not yet fully operational.. An adequate funding

of the Office is essential to ensure its capacity to examine complaints and to undertake awareness-raising activities to implement the principle of equal treatment.

Trainings on issues relating to human rights have taken place, in particular for police officers, however, awareness and sensitivity to human rights issues on the part of the administration, the judiciary and law enforcement authorities need to be reinforced.

### *Civil and political rights*

The protection of the **right to life** is enshrined in the Constitution. Albania ratified Protocol No 13 to the European Convention on Human Rights abolishing the death penalty under all circumstances in 2007. The number of blood feud killings has decreased, due notably to better policing. Specific criminalisation of blood feuds and blood feud killings, the creation of specialised police units and the establishment of a high-level Coordination Committee have been important steps in this field. However, the incidence of these killings continues to result in the families concerned being self-isolated due to fear of reprisals, thus depriving children of basic rights such as inclusive education. The government has taken measures to improve access to education of isolated children notably through its "second chance" programme. Additionally, several NGOs have been active in this field, providing support to affected families and contributing to increased awareness of the need to eradicate this phenomenon. Collection of reliable data on blood feud killings is required in order to measure the extent of the problem and address it adequately. Community education, outreach and measures aimed at reconciliation of families are also needed.

Albania has made efforts to ensure **access to justice** with the adoption in December 2008 of the Law on legal aid, under which free legal services in civil, criminal and administrative proceedings are to be provided to different categories of persons. However, challenges remain in this area. The members of the State Commission for legal aid have been appointed, and have started work, although with much delay, thus hampering the effective implementation of the law. The substantial increase in judicial administration fees introduced in March 2010 risks limiting access to justice for the economically underprivileged, particularly since individuals benefiting from the free legal aid scheme are not exempt from the payment of court fees.

The **prison system** and pre-trial detention in Albania have been considerably improved since the transfer of responsibility from the Ministry of the Interior to the Ministry of Justice in 2007. Investments have been made to develop penitentiary facilities and new administrative measures taken to improve food quality and the frequency of outdoor breaks, resulting in improved living conditions. Vocational training is available for detainees in 15 of the 21 penitentiary institutions, with 570 persons following such courses, notably juveniles. Overcrowding has been reduced, in particular through the introduction of alternative sentencing and a probation system.

Nonetheless, penitentiary centres continue operating permanently above capacity and overall conditions remain below standards, especially in some of the older prisons, pre-trial detention centres and police stations. Further efforts are needed to reach international and European standards in the treatment of persons deprived of their liberty. In this respect, inspections of the activity of penitentiary institutions need to be further strengthened and the training system for prison officers further developed. Also, the excessive use and length of pre-trial detention is worrying, especially in the case of juvenile offenders. Access to adequate medical services, particularly psychological and psychiatric care, is not always available. Measures need to be

taken for the appropriate treatment of detainees with mental health disorders and their placement in an adequate psychiatric institution needs to be ensured.

Albania has taken measures to combat **torture and ill-treatment** by the police and prison staff, and to prosecute perpetrators. The country is party to the UN Convention against torture and other cruel, inhuman or degrading treatment or punishment and its optional protocol and it ratified the European Convention for the prevention of torture and inhuman or degrading treatment or punishment in 1996. Following recommendations by the Ombudsman, a legal definition of the crime of torture was included in the Criminal Code (Article 86). Internal controls have been introduced within the prison system to prevent and detect cases of excessive use of force. Capacity-building training sessions have been delivered to prison staff, in cooperation with NGOs. In June 2010 the Directorate General for Prisons renewed the memorandum signed with certain NGOs granting them access to penitentiary institutions.

The National Prevention Mechanism, created in 2008 within the Ombudsman's Office, is responsible for monitoring places of detention and treatment of persons deprived of their liberty. The Ombudsman has competence over places of detention and pre-trial detention but also military bases, hospitals for quarantine, transit halls of airports and psychiatric facilities. However, the Office is underfunded and does not have the necessary social, forensic, psychological and psychiatric expertise, which is often offered by NGOs. The issue of ill-treatment remains a concern as cases of physical and psychological ill-treatment are still being reported, in particular in police custody. Despite increased visibility, such cases are still often resolved with administrative rather than penal sanctions. Further measures need to be taken to implement recommendations of the Ombudsman and of the European Committee for the Prevention of Torture.

The Albanian government has adopted strategies encompassing concrete measures regarding prevention of **trafficking in human beings**, protection and assistance to victims, and prosecution of perpetrators. The Office of the National Anti-trafficking Coordinator implements the strategy, and works to increase public awareness in order to prevent people trafficking. Focus has been put on identification of victims and the functioning of the national victim referral mechanism. The government cooperates with NGOs for the provision of assistance to victims of trafficking and provision of funds for NGO-run shelters. However, despite a decline in numbers, Albania still remains a country of origin for persons trafficked for sexual exploitation and forced labour. Internal trafficking constitutes an issue of serious concern. Improved coordination among relevant authorities and intensified cooperation with NGOs is needed to increase detection and referral of victims. The effective prosecution of perpetrators needs to be ensured through the development of proactive investigation methods and safety guarantees for victims who testify in court proceedings.

The right to privacy is guaranteed by the Constitution and the Criminal Code; **protection of personal data** is ensured by the Law on the protection of personal information. Pursuant to this law, the Office of the Commissioner for Data Protection was set up with the aim of reviewing complaints related to personal data. Implementation of the law needs consolidation.

**Freedom of expression (including the media)** is guaranteed by the Constitution and relevant laws. The media in Albania is pluralistic and presents a high number of different outlets. Most newspapers, radio- and TV-stations are concentrated in the capital, with some recent attempts at developing local media. Political influences over the media and their use as propaganda tools by political parties or influential businessmen create conditions for biased reporting and self-censorship of journalists. The climate in which the media operates remains an issue of

concern as it impedes the development of editorial independence. Political and economic pressures and occasional threats, added to the informality of work contracts, and the lack of adequate education and training, have a negative effect on professional standards.

The courts' application of disproportionate and sometimes selective fines against media outlets in cases involving politicians is an issue of concern. Increased transparency regarding media ownership would clarify political and business implication in the sector. Provisions on libel and defamation in the Criminal Code have yet to be repealed. However, a moratorium called by the Prime Minister preventing government officials from filing lawsuits against journalists for defamation is respected. The independence of the public broadcaster and the National Council on Radio and Television (NCRT) is insufficient.

The Albanian Constitution and the Electoral Code guarantee the **right to vote** and stand for election for all persons having reached the age of 18 years. Reforms of the Electoral Code have changed voter identification rules, introducing the obligation to present an identity card or a valid passport rather than a birth certificate. Delays in the delivery of identity cards impeded some citizens from exercising their right to vote during the last parliamentary elections. The lack of civil registration of many persons belonging to the Roma minority prevents them from participating in the democratic process.

As regards **freedom of assembly and association**, the Constitution and legislation provide for the right to organise collectively for any lawful purpose. Civil society actors operate in a non-restrictive environment and registration of new organisations is not impeded by the state authorities. Progress has been made on building networks of organisations dealing with domestic violence, Roma, child trafficking, lesbian, gay, bisexual and transgendered persons and people with disabilities, among others. However, notwithstanding the enhanced visibility of some **civil society organisations**, the sector still remains relatively weak, suffering from insufficient technical and financial resources and dependence on international donor assistance. Only a limited number of NGOs have strong organisational capacity and most lack solid management structures.

Despite the adoption of the Charter for Civil Society, involvement of civil society organisations in policy making and parliamentary hearings and consultations is limited, thus undermining their counterbalancing power and role in democratic scrutiny. Civic engagement of the Albanian public remains limited and NGOs are sometimes regarded with mistrust. The fiscal regulatory framework for non-profit organisations needs to be further clarified through a consultative process with all relevant stakeholders. An Agency for the support of civil society tasked to allocate state funding to non-profit organisations has been established and the first call for proposals has been launched.

**Freedom of religion** is constitutionally guaranteed in Albania. Interfaith relations are based on mutual respect and tolerance. Although Albania has no official state religion, the largest religious communities (Sunni, Bektashi, Orthodox and Roman Catholic) enjoy a greater degree of official recognition (prioritised restitution of property, tax exemptions) than other religious groups. Agreements regulating their relations have been signed between the government and the main religious communities, thus granting them access to state funding. Substantial efforts are needed to resolve the issue of restitution of property belonging to religious communities.

*Economic and social rights*

As regards **anti-discrimination policies**, Albania adopted a Law on protection from discrimination in February 2010. This law was drafted in cooperation with the international community and civil society; it regulates the implementation and enforcement of the principle of equal treatment in connection with a non-exhaustive list of grounds including gender, race, disability and sexual orientation. The law also provides for the establishment of the Office of the Commissioner for Protection from Discrimination (*see above*). The Albanian Criminal Code provides that hate-based motivation of an offence constitutes a specific aggravating factor. Lesbian, gay, bisexual and transgendered persons (LGBT) are protected under the new anti-discrimination legislation. However, despite increased awareness of LGBT issues and the emergence of a community supported by NGOs, discrimination and intolerance remain widespread. There have been cases of violence, particularly targeting the transgender community. Respect for the fundamental rights and freedoms of LGBT people needs to be guaranteed by the authorities, in particular the Commissioner for Protection from Discrimination.

As regards **women's rights**, Albania has taken significant measures to strengthen the legal and institutional framework on gender equality and fighting domestic violence. Albania is party to the UN Convention on the elimination of all forms of discrimination against women. A national strategy on gender equality and the eradication of domestic violence was adopted for 2007-2010. A National Council on Gender Equality was set up, as well as a network of gender equality employees in line ministries and municipalities. A new mechanism for monitoring and evaluation of gender equality and violence against women, set out in adopted instructions of the Ministry of labour, social affairs and equal opportunities, will provide for the collection of disaggregated data and follow the effective implementation of the Law on gender equality in society. A 30% gender quota has been introduced by this law and the Electoral Code, in order to boost participation of women in politics. The implementation of this quota is verified by the Central Electoral Commission. In the last general elections, although the main parties followed the letter of the law, in many cases its spirit was not respected as women were relegated to unelectable positions. Despite these shortcomings, these legislative changes led to an increase in the number of women in parliament (from around 7% to 16%).

Nonetheless, women are severely under-represented in parliament, top government posts and in decision-making positions in the local administration and public undertakings. Women continue to be discriminated against in terms of access to employment, education and property. This is due in particular to insufficient allocation of human, technical and financial resources for effective implementation of laws and strategies. The gender wage gap needs to be addressed, notably through improved oversight by the Labour Inspectorate. Further efforts are needed to promote the economic security and empowerment of women. Gender mainstreaming at all levels of the educational system is essential to change traditional attitudes and raise awareness of women's rights.

Domestic violence is a persistent phenomenon that affects numerous families in Albania and is an issue of serious concern. The introduction of the Law on measures against violence in family relations and the related strategy led to significant increases in the number of incidents being reported to the police and protection orders being delivered. Special units for dealing with such cases have been set up in police stations at regional level and many police, court and other officials have received training on the issue of domestic violence. However, cases continue to be largely under-reported and insufficiently investigated and prosecuted, especially in rural areas. Relatively few complaints lead to criminal prosecutions, as it is

generally the duty of the victim to initiate this procedure. The duty only falls upon the prosecutor to initiate a prosecution in cases that result in death, serious injury or threats to life.

The protection of women and other victims against all forms of violence needs to be considerably strengthened. Victims' access to justice needs to be guaranteed, in particular through granting of free legal assistance, as provided for in the amendments to the Law on measures against violence in family relations. Enforcement of protection orders through allocation of additional resources and training for police officers on the handling of such cases is necessary. Coordination of the state authorities and other stakeholders dealing with domestic violence cases, including civil society organisations, needs to be enhanced, in particular through provision of public funds for NGO-run shelters in regions. Allocation of appropriate resources for the management of the new national centre for rehabilitation of victims of domestic violence is key to ensure protection of victims. Social reintegration of victims requires increased attention, including through the allocation of public resources for training, employment and access to long-term housing for abused women.

Albania has ratified the relevant international conventions relating to **children's rights**. The national strategy for children 2006-2010 aims to fulfil the obligations under the UN Convention on the Rights of the Child. A national strategy for the fight against trafficking in children adopted in July 2008 supplements the national strategy against human trafficking. Child Rights Units are progressively being established in all 12 Regional Councils and Child Protection Units exist in 15 local government units to promote and monitor children's rights. The Law on civil status removes the 45-day deadline for registration of births which has resulted in a temporary decline in the number of unregistered children, in particular Roma. Albania adopted a foster care strategy in 2008 aimed at the de-institutionalisation of children without parental care. The juvenile justice system has been reformed, including through implementing alternatives to detention for juvenile offenders, setting up new court sections and building a new detention centre for juveniles in Kavaja.

Despite these achievements a number of issues of concern remain. Albania still lacks a functional child protection system at national level. The adoption of an integral law on children's rights establishing a national referral mechanism will be essential for further progress in this area. Allocation of sufficient resources at central and local level is essential to ensure comprehensive social protection for families. There is no system of child allowances in place. Shelter for children in need, notably those above the age of 15, is mostly being provided by NGOs. Street children and child labour are issues of particular concern requiring more systematic attention from the authorities. The lack of civil registration and low school enrolment make Roma children particularly vulnerable to human trafficking and child labour. Support for families and identification of children at risk of losing parental care are crucial to avoid children entering care. Violence against children in Albania is an issue of concern. Due to delays in the judicial process, many juvenile offenders spend their entire sentence in pre-trial detention, thus breaching the principle that detention of children pending trial should be a measure of last resort. The Albanian juvenile justice system does not include provisions for children under the age of criminal responsibility, set at 14.

Governmental expenditure for **education** in Albania is insufficient and recent cuts are a cause for concern. Albanian legislation provides for 9 years of compulsory education. School infrastructure remains below standard, with a substantial number of schools still lacking sanitation facilities and heating systems. Despite efforts to tackle it, corruption continues to be an issue in the educational system.

The situation of the **socially vulnerable and persons with disabilities** in Albania is still problematic. Living conditions have improved, poverty levels have steadily decreased, and considerable measures have been taken towards implementation of the cross-cutting social inclusion strategy for the period 2007-2013. However, due to limited financial and human resources, government structures at central and local level are still not fully able to respond to the needs of marginalised and vulnerable groups. Although a system of economic aid intended to support the poorer sections of the population was set up by the Law on economic aid, the mechanism needs revising, in order to target not only households but also individuals in need and to expand the categories of women eligible to be ‘heads of households’.

Albania signed the UN Convention on the Rights of Persons with Disabilities in December 2009. The government has started reviewing the national legislation in this field with a view to its ratification. The legislative framework still has some gaps which need to be remedied through a participatory and transparent process focusing on the needs of disabled persons. The national strategy on persons with disabilities adopted for the period 2004-2014 and aimed at improving living conditions through accessibility, support services, employment and education, is insufficiently implemented. The special legal status awarded to the blind, paraplegic, tetraplegic and work invalids, in the absence of an integral law covering all categories of disabled persons, leads to concerns over the risk of discrimination and differentiated treatment. Limited measures exist to support disabled persons; however, the means available are still insufficient. Persons with disabilities suffer from insufficient and inadequate health, education, social and employment services, leading to a heightened risk of social exclusion. Children are often educated in special institutions because of the lack of capacity of the educational system to integrate learners with disabilities, thus denying them the right to inclusive education. The level of inclusion of persons with disabilities in the labour market remains very low, and quotas introduced by the Law on employment promotion are generally not enforced.

As regards mental health, Albania has launched a process of de-institutionalisation of persons with mental disabilities and started developing community-based care homes. Appropriate regulation of admission to psychiatric institutions and monitoring of patients’ situations need to be addressed by the Albanian authorities. Further action is required to improve conditions in institutional healthcare settings, including access to educational facilities. Appropriate accommodation in adequate forensic psychiatric facilities for offenders with mental disabilities is necessary.

Albania has ratified the 8 core **labour rights** conventions of the International Labour Organisation (ILO), as well as the revised European Social Charter. The right to create independent **trade unions** and employer associations is guaranteed. Yet the large scale of the informal economy means that these organisations are still weak. Social dialogue is still at an early stage and needs to be reinforced. The Labour Code recognises the right to bargain collectively at enterprise and sector level, but effective collective bargaining remains difficult and agreements are hard to enforce. Strengthening of the mandate of the National Labour Council, as the main tripartite consultation body, is needed. The Law on trade unions’ assets nationalising the properties inherited from the former Communist union, while approved by parliament, was finally overturned by the Constitutional Court in April 2010. The conditions for prohibiting the right to strike for civil servants need to be amended in order to comply with international commitments. Despite the ratification of ILO conventions on minimum age and on the worst forms of child labour, employment of children remains an issue of serious concern, as a number of children leave school to work, sometimes in dangerous conditions.

Labour inspections need to be stepped up to fight this trend. (*See also Chapter 19 — Social policy and employment*)

Since the fall of Communism in the early 1990s, Albania has undergone a significant reform process concerning **property rights**. These include the re-establishment of private immovable property, the reintroduction of civil law principles and transactions and the acknowledgement of ownership rights of those that had been unjustly expropriated during Communism.

Legislative and institutional measures were taken in three main interrelated areas: property registration, restitution and compensation, and legalisation. A number of laws were passed such as the Law on registration of immovable properties in 1994 (last amended in 2007), the Law on the verification of the legal validity of property titles on arable land in 2008, the Law on restitution and compensation of property in 2004 (initial law of 1993), and the Law on legalisation, urban planning and integration of informal buildings in 2006 (initial law of 2004). The Immovable Property Registration Office was established to undertake initial property registration across the country. The Property Restitution and Compensation Agency was set up to prepare the restitution of expropriated land and property and to provide compensation in case restitution is not possible. The Agency for legalisation of informal zones was established as the coordinating body for issuing legalisation permits.

However, legislation was often developed in a piecemeal and uncoordinated manner, leading to a very complex legal framework often challenged for its legitimacy and fairness by people concerned. The property issue remains unresolved. Difficulties include an artificially high number of agencies operating in an uncoordinated, often inefficient and sometimes overlapping way, an improperly functioning land registry system in addition to widespread corruption.

Albania's courts suffer from a backlog of property disputes that often go through all instances, sometimes several times. The ensuing systemic problem of the non-enforcement of final domestic judgments and administrative decisions ordering restitution of properties or compensation of former owners is of serious concern. Cases relating to a breach of the principle of due process in property disputes constitute the largest amount of petitions to the European Court of Human Rights against Albania. The lack of enforcement, especially of claims against the state, is particularly worrying. These are, among other things, caused by the inefficiency of the bailiffs in enforcing court decisions, the lack of necessary funds and the lack of an effective remedy system.

The situation in Albania has reached a level of complexity which in some cases puts the principle of respect for human rights into question. Chronically unresolved disputes and legal uncertainty over title to land hinder economic and land market development, hamper foreign investment, undermine citizens' confidence in democracy and tie up courts.

Albania needs to tackle the manifold problems in the ailing immovable property sector as a matter of urgency. These problems require a comprehensive approach and strong political support in order to improve the current situation by meeting constitutional requirements and those of public international law, and balancing interests and needs of different interest groups in society aimed at preventing conflicts and social unrest in the long run. Clear property titles and legal certainty are essential prerequisites for prosperous development of the country and attracting foreign investment.

*Respect for and protection of minorities, cultural rights*



The Constitution provides for the protection of the civil, economic, social and political rights of **minorities**. Albania has no specific framework law on minorities. The country historically defines minority groups in its territory as three "national" (Greek, *Macedonian* and Montenegrin) that have a kin state, and two "ethno-linguistic" minorities (Aromanian and Roma). There is officially no distinction in access to rights for persons of national and ethno-linguistic minorities, however, there is differentiation in practice, notably as regards access to public education in minority languages. Clarification of the distinction between different national and ethno-linguistic minorities would help avoid differentiated treatment for the persons belonging to the latter category. The Egyptian community seeks recognition as an ethno-linguistic minority and the Bosniak community as a national minority. Inter-ethnic relations are generally good, although there has recently been a violent incident leading to the death of a Greek-speaking Albanian citizen in Himara that is under investigation by the authorities.

There is a lack of accurate data on minorities in Albania. This situation is expected to be addressed by the conduct of a population census in 2011, respecting international standards including the principle of free self-identification. This census will include optional questions on the ethnic origin, religious affiliation and mother tongue of respondents. Establishing updated statistical data is important for the development of appropriate minority policies. Albania has ratified the Council of Europe's Framework Convention for the Protection of National Minorities but has not adopted the European Charter for regional or minority languages. Albanian legislation provides for the rights of national minorities to be respected throughout the entire territory. Agreements have been signed at local level in some municipalities to display local names in minority languages; however, the implementation of these agreements is not always consistent. The availability of minority language education needs to be enhanced and rigid regulatory provisions for access to it removed. Albania needs to ensure members of all minorities enjoy full access to their rights, taking into account the recommendations of the Advisory Committee of the Framework Convention for the Protection of National Minorities.

The State Committee for Minorities, under the authority of the Prime Minister, is tasked with making recommendations to the government on measures related to minority groups. The Committee is composed of representatives of the five recognised minorities. Its chairperson is selected by the Prime Minister. The institutional capacity of the Committee remains weak and its performance as an effective advisory body can be questioned. The Albanian authorities need to ensure that the Committee has the necessary financial and human resources to effectively perform its tasks. The level of representation of persons belonging to minorities in public administration and politics needs to be enhanced.

As regards the **Roma**, a national strategy to improve Roma living conditions was adopted in 2003 and is being implemented by the Ministry of Labour, Social Affairs and Equal Opportunities. In 2008 Albania joined the Decade of Roma Inclusion 2005-2015 and adopted a national action plan focusing on education, employment and social protection, housing and infrastructure, health, social inclusion and equal opportunities, and cultural heritage. Nevertheless, the Roma community constitutes the most vulnerable minority group in Albania, facing widespread poverty, socioeconomic marginalisation and frequent discrimination, particularly regarding access to education, social protection, health, employment and adequate housing. Implementation of the national strategy has been slow, due to insufficient human and financial resources, inadequate coordination of all institutions involved at local and central level, and deficiencies in the monitoring and evaluation mechanisms.

A registration campaign took place in 2009 to provide ID cards to citizens, including Roma. However, many Roma still lack civil registration, thus impeding the exercise of their fundamental rights. Access to health for this minority group is particularly problematic, and a number of Roma suffer from diseases associated with poverty. Many Roma live in poor conditions in settlements lacking basic sanitary infrastructure. Although steps have been taken to favour inclusion of Roma in the school system, in particular through the creation of pre-school classes to enhance their knowledge of the Albanian language, school enrolment of Roma remains insufficient and the drop-out rate high. Participation of the Roma minority in political and public life remains marginal, even at local level.

*Overall*, a legal framework on human rights and respect for and protection of minorities is largely in place and broadly corresponds to European standards. However, its implementation remains insufficient in a number of areas. The institutional framework is adequate but its appropriate functioning needs to be ensured. As regards civil and political rights in particular, access to justice for vulnerable groups needs to be ensured, ill-treatment in police custody and the situation of mentally ill prisoners need to be addressed, and independence and transparency in the media sector increased. In the field of economic and social rights, appropriate resources need to be allocated for implementing the Law on protection against discrimination, a framework law on children's rights needs to be adopted, the legal framework for persons with disabilities enhanced, and the existing strategies for gender equality and fighting domestic violence need to be effectively implemented. Overlapping legislation and the resulting lack of legal certainty, unenforced court decisions and risks of corruption in the area of property rights need to be urgently addressed. Respect for, and protection of, minorities needs to be enhanced through improved visibility of the State Committee for Minorities and increased access to minority language education. Proper implementation of strategies and action plans pertaining to the Roma minority is necessary to improve their living conditions and facilitate their integration into society.

### **1.3. Regional issues and international obligations**

The Parliamentary Assembly of the **Council of Europe** has monitored Albania's fulfilment of its membership obligations since 1995 and has recently closely followed developments relating to the political situation in the country.

**Regional cooperation and good neighbourly relations** form an essential part of Albania's process of moving towards the European Union. Albania actively takes part in regional initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the Energy Community Treaty (ECT) and the European Common Aviation Area Agreement. Albania is currently chairing the Migration, Asylum, Refugees Regional Initiative (MARRI).

Concerning international judicial cooperation in civil and criminal matters, Albania concluded bilateral agreements with several neighbouring countries and other countries in the region. Albania concluded bilateral agreements on legal assistance in civil and criminal matters with Greece, the former Yugoslav Republic of Macedonia and Italy. Albania is a party to the European Convention on mutual legal assistance in criminal matters and cooperates satisfactorily at regional and international level. Albania concluded agreements on mutual enforcement of court decisions in criminal matters with Greece and the former Yugoslav Republic of Macedonia. A Law on jurisdictional cooperation with foreign authorities in criminal matters was adopted in December 2009. Albania is actively participating in regional police cooperation, either bilaterally or through Europol and Interpol. Cooperation agreements

in the fight against organized crime, trafficking of human beings, trafficking of narcotics and terrorism were signed with Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro and Serbia. Joint international counter-narcotics operations have been successfully conducted, notably with Italy.

As regards extradition, according to the Constitution, no Albanian citizen may be expelled from the territory of the State. Extradition may be permitted only when it is expressly provided for in international agreements, to which Albania is a party and only by judicial decision. The extradition procedures followed are pursuant to the 1957 European Convention on Extradition, as ratified, as well as bilateral agreements with effect on the field, with Greece and with the former Yugoslav Republic of Macedonia. The bilateral agreements with Croatia and Bosnia and Herzegovina are *de facto* not implemented because both these countries are parties to the Convention on extradition procedures.

**Albania has very good bilateral relations with other enlargement countries and neighbouring EU Member States.**

Relations with *Serbia* are constructive. Regardless of the serious disagreement over the status of Kosovo, bilateral relations have normalised. In March 2010, the Albanian Minister of Foreign Affairs visited Belgrade for the very first time since Kosovo's declaration of independence and signed several important bilateral agreements, including on police cooperation. In April 2010 Albania unilaterally lifted visa requirements for Serbian citizens.

Albania has good relations with the *former Yugoslav Republic of Macedonia*. Albania supports that country's accession to NATO and has been supportive towards its integrity and ethnic stability. Albania has encouraged dialogue between different ethnic communities during meetings with Albanian political leaders from Skopje.

Albania has traditionally very good relations with *Kosovo* and was among the first to recognise its independence. Albania has actively backed Kosovo's recognition within the Organisation of the Islamic Conference (OIC) and recently sponsored the adoption of a resolution in support of the efforts undertaken by Kosovo for the establishment of peaceful and democratic institutions. Several agreements are in place for bilateral cooperation, including on border and police cooperation and the most recent ones regarding cooperation in the fields of education and science.

Albania has established very close relations with *Montenegro*. A joint border crossing point, the first in the region, was recently opened in Muriqan and a number of agreements on border and police cooperation were signed.

Relations with *Bosnia and Herzegovina* have developed positively. In November 2009, the visa-free regime with Bosnia and Herzegovina entered into force and in February 2010 parliament ratified the agreement between the two countries on the readmission of irregular migrants.

Albania has good relations with *Croatia*. Political dialogue has strongly developed over recent years and has witnessed a particularly qualitative increase as a result of both countries' accession to NATO in April 2009. Cooperation is marked by a high number of bilateral agreements in fields such as economic and investment development and security.

Relations with *Italy* are very good. A large part of the Albanian diaspora lives in Italy. The two governments have established very close relations and Italy strongly supports Albania's

EU integration efforts. Italy is the main trade partner and one of the main investors in Albania. On 12 February 2010, Italy and Albania signed a strategic partnership agreement which provides that both countries will cooperate on the implementation of joint projects including nuclear energy projects.

Relations with *Greece* are very good. Greece is a strong supporter of Albania's efforts for European integration. The two countries cooperate closely in many sectors. The main institutional basis for this cooperation is the 1996 Agreement on friendship, cooperation, good neighbourliness and security. The Albanian Constitutional Court judgment in January 2010 to annul the maritime border pact between the two countries has not affected bilateral relations. Greece is the main investor in Albania and the second largest trade partner. A large part of the Albanian diaspora lives in Greece.

Albania maintains the 2003 bilateral immunity agreement with the United States, granting exemptions from the jurisdiction of the **International Criminal Court**. This does not comply with the EU Common Position on the integrity of the Rome Statute or with the related EU guiding principles on bilateral immunity agreements. Albania needs to align with the EU position.

*Overall*, Albania generally satisfies the **Stabilisation and Association Process** conditions for regional cooperation. The country is strongly committed to regional cooperation; it plays a constructive regional role and participates actively in regional initiatives.

#### **1.4. General Evaluation**

The present assessment is made on the basis of the Copenhagen criteria related to the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities and the conditionality of the Stabilisation and Association Process.

Albania is a parliamentary **democracy** based on a constitutional and legislative framework, which is largely in line with European principles and standards. There is a general consensus on the goal of EU membership. Yet, the effectiveness and stability of democratic institutions is not sufficiently achieved. Parliamentary institutions and procedures do not function properly. As a result, parliament does not exercise effective oversight and control over the government and its scrutiny of legislative development is weak. Political dialogue is confrontational and unconstructive, not least because of the political stalemate since the June 2009 elections. This obstructs parliamentary work and prevents necessary policy reforms based on consensus. The government together with the opposition share the responsibility for reaching, in a transparent way and in full respect of the constitution, solutions needed for the country to move forward on its EU integration path. In addition, there are shortcomings in the implementation of legislation. The public administration's legal framework and the civil service system are mostly in line with European standards and practices. However, proper implementation of the legal framework is a concern, and the public service is very politicised, lacks transparency in appointments and is marked by high turn-over of staff.

The June 2009 legislative elections were assessed by the OSCE-ODIHR as meeting most international standards and as being an improvement over past practices. However, shortcomings were identified and a number of recommendations were made for future elections including addressing the politicisation of processes such as the vote count. Recommendations have not yet been translated into a satisfactory electoral reform, which is needed for upcoming elections.

Albania has in recent years strengthened **rule of law**, in particular by conducting legislative and institutional reforms of the judiciary and in the areas of the fight against corruption and organised crime. Administrative capacity notably of law enforcement bodies has been strengthened. However, reforms remain incomplete, there are substantial shortcomings regarding the independence, transparency and accountability of the judicial system and a solid track record of effective fight against corruption and organised crime is missing.

The reform process of the judiciary is on-going. However, a comprehensive and coordinated judiciary reform strategy is pending as is the adoption of key laws including on the administrative courts and the organisation of the High Council of Justice. Serious concerns remain on the overall functioning, the efficiency and independence of the judiciary. There is a lack of transparency in the appointment, promotion, transfer and evaluation of judges and there are considerable weaknesses in the inspection system of the judiciary. The cases of non-respect of Constitutional Court decisions by government in recent years and the politicisation of the vote on the President's Constitutional and High Court appointments are of concern as they challenge fundamental principles such as the independence of the judiciary and the respect for the rule of law. Human and financial resources, as well as infrastructure conditions, are not adequate and need to be improved to ensure the efficient functioning of courts.

Albania has made efforts over recent years to establish a legal and institutional framework to fight corruption, which is now broadly in place. Despite these efforts, corruption is prevalent in many areas and constitutes a particularly serious problem. Areas of particular concern are corruption in the judiciary and in relation to the system of restitution and compensation of property rights, and widespread bribery in the health sector. Absence of transparency in political party funding, allowing inappropriate influence on politics, is a considerable problem. Albania needs to complete the legal framework in the field of fight against corruption and to address obstacles to effective investigations notably of judges, ministers and MPs related to the unlimited immunity of these public officials. Thorough implementation of the anti-corruption strategy and action plan needs to be ensured and a solid track record of pro-active investigations and prosecutions as well as of conclusive indictments and convictions in corruption cases at all levels established.

In the area of the fight against organised crime, Albania has established a legislative and institutional framework which is largely adequate. Reform of law enforcements authorities, as well as their adequate resources and equipment contributed to counter this phenomenon. However, effective implementation of new legislation and the professionalism of new structures and systems need to further be proven in practice. Proactive investigation needs to be ensured and cases that have been successfully investigated need to be followed by convictions. Activities of organised crime groups in Albania, having impact outside of the country remain an issue of serious concern. Further strengthening of cooperation at the international level is necessary, including in particular with neighbouring countries.

The Albanian legal and policy framework regulating **human rights and the respect for and protection of minorities** is largely in place and broadly corresponds to European and international standards. The institutional framework is adequate. However, there are some gaps in the legislation and implementation of existing strategies and action plans. Awareness and sensitivity to human rights' standards on the part of the administration, the judiciary and law enforcement authorities need to be reinforced.

Human rights are broadly respected in Albania. However, some concerns remain. Restitution, legalisation and compensation of property is governed by piecemeal legislation and many agencies with overlapping competencies, reaching a level of complexity that puts at risk the effective enjoyment of human rights in this area. There are several judgements against Albania in the European Court of Human Rights for breach of the principle of due process in this field. Another serious concern relates to detention conditions and the treatment of detained persons in police stations, pre-trial detention and prisons. Media independence is put at risk by the prevalence of political influences and business interests. Domestic violence is a persistent phenomenon which affects numerous families and is not systematically addressed. The anti-discrimination legal and institutional framework has been substantially improved, notably with the creation of the Office of the Commissioner for Protection from Discrimination. However, Roma, persons with disabilities and lesbian, gay, bisexual and transgendered persons are still subject to discrimination. Gender equality is not fully guaranteed in practice, in particular in the field of employment and access to economic aid. There are some gaps in the legislation governing human rights, notably since an integral law on children's rights is yet to be adopted. Additionally, the operation of national human rights institutions is hampered by the delays in appointment of a new Ombudsman, which is pending since early 2010.

Although Albania has no framework law on minorities, respect for and protection of minorities are broadly guaranteed. In practice, specific rights of three "national" and two "ethno-linguistic" minorities, as defined by the country, are recognised. However, there are inconsistencies in the application of these rights. The lack of accurate data on minorities impedes the development of appropriate policies. This is expected to be addressed by the conduct of the next population census in 2011 in line with international standards. The level of representation of persons belonging to minorities in public administration and politics needs to be enhanced. The existing policy framework for improving the lives of the Roma is insufficiently implemented. The Roma minority faces very difficult living conditions and limited access to employment, education and social services.

Albania broadly satisfies the **Stabilisation and Association Process** conditions. The country is strongly committed to regional cooperation; it plays a constructive regional role and participates actively in regional initiatives. Bilateral relations with neighbours are overall good. Albania is a party to the Rome Statute. However the country ratified a bilateral immunity agreement with the United States regarding the International Criminal Court which does not comply with the relevant EU Common Positions and guiding principles. The country needs to align with the EU position.

## 2. ECONOMIC CRITERIA

In 1993, the European Council in Copenhagen set the following economic criteria for accession to the EU:

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union.

These criteria are linked. A functioning market economy will cope better with competitive pressure and, in the context of membership of the Union, the reference market is the internal market.

Following a brief overview of economic developments and policies in a historical perspective, the report goes on to consider the extent to which Albania fulfils the two economic criteria established by the Copenhagen European Council.

## **2.1. Economic developments**

Albania is a small and mountainous country, with a population of just over 3 million distributed on a territory of 28,750 square kilometres. The country is well endowed with natural resources, mainly chrome, nickel, copper, and small quantities of oil and coal. Albania enjoys a favourable climate for agriculture and tourism and almost all of its electricity needs can be generated from hydropower sources. Albania has undergone a profound structural transformation over the past two decades, from a highly centrally planned to a free-market economy, which has resulted in high growth rates. Average annual GDP growth was slightly more than 6% from 2000 to 2008, before slowing down to just over 3% in 2009. Gross domestic product reached almost € billion (2009), or 0.07% of EU-27 GDP. Expressed in purchasing power standards, GDP per capita in 2009 amounted to €6,400, or 27.1% of the EU-27 average. Income disparities between Tirana, the capital, and the less developed mountain areas are significant, but declining,

### *Macroeconomic background*

The first years of the transition that started in 1991 saw a drastic contraction in output, a ballooning budget deficit and inflation rising to triple digits. With the support of the international community, in 1993 the country embarked on a programme to stabilise the economy that included fiscal consolidation, tight monetary targets and structural reforms. Progress towards macroeconomic stability was interrupted in 1997 by the collapse of the so-called pyramid schemes<sup>6</sup> which had a significant adverse effect on the economy and gave rise to civil disorder. The opening of the country and the collapse of the pyramid schemes also resulted in mass emigration and workers remittances have become an important feature of the Albanian economy.

In the aftermath of the pyramid schemes crisis, a new stabilisation programme was launched. This programme led to a notable improvement in economic performance in 1998 and in subsequent years, underpinned by gradual fiscal consolidation and a tight monetary policy. By 2000, inflation had been brought down to single-digit levels. Macroeconomic stability has been broadly maintained since 2000 and steps have been taken to integrate Albania with the international economic system.

Albania has undergone significant reforms aimed to enhance the quality of public spending. Fiscal discipline improved during most of the 1990s in line with the various adjustment programmes. Since 2000, a medium-term budget programme, which consists of a rolling three-year expenditure plan, has been in place.

In the first years of transition unemployment soared, reaching its peak at 23% in 1993. It was then slowly reduced mainly due to migration. In the aftermath of the pyramid scheme crisis unemployment increased again. Since 1999 it has been progressively reduced, however, it remains high standing at 13.8% in 2009.

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<sup>6</sup> Investment arrangements whereby the money paid by the latest investors is used to pay artificially high interest to earlier investors

The moderate openness of the economy and the low level of integration of the financial system with the global market, together with the substantial, albeit declining, share of agriculture have limited the impact of the global crisis on Albania. Macroeconomic policy has been instrumental in cushioning the effects of the turmoil.

### *Structural change*

Since 1991, the economy has undergone a structural transformation which has seen a decline in the dominance of industry and agriculture in favour of services and construction. Services are now the main driver of growth, accounting for around 54% of GDP. Manufacturing is characterised by a lack of diversification, both in terms of products exported and export markets.

Privatisation featured high on the reform agenda from the early stages of transition. In the first stage, which started in 1991, small retail shops and other commercial services, agricultural land and housing were sold, mostly to their current employees. A mass privatisation programme to sell off large state-owned enterprises began in 1995 and proceeded with relative speed. Since 1999, around 340 public enterprises have been partly or fully privatised through international tendering in strategic sectors. The share of the private sector is now 82% of GDP.

Until 1991, prices at all levels of production were established by central planners. Comprehensive price liberalisation covering practically all consumer goods took place in 1992 as part of the macroeconomic stabilisation and reform programmes. The authorities also adopted a policy of gradually freeing or raising some of the controlled and administered prices to cost-recovery levels.

In 1992, the authorities embarked on a programme to establish a modern banking system. This was given a further impetus as a response to the pyramid scheme crisis. A new banking law was passed further strengthening the independence of the Bank of Albania. Steps were also taken to improve banking supervision and introduce prudential regulations. In addition, a privatisation strategy was launched and the entry of new private banks encouraged. The reforms proved effective and led to an increase in formal private sector credit and a rise in the number of private banks. With full privatisation and the entry of international private banks, the banking sector has continued to develop in recent years.

Significant progress, mainly in facilitating market entry, has led to an increase in foreign investment in recent years. However, it remains low by regional standards. This reflects a weak business climate which, among other things, suffers from incomplete recognition of property rights, shortcomings in the public administration, weak enforcement of the law and bottlenecks in basic infrastructure, including as regards the reliability of power supply.

## **2.2. Assessment in terms of the Copenhagen Criteria**

### *2.2.1. The existence of a functioning market economy*

The existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of significant barriers to market entry and exit improve the efficiency of the economy.



## *Economic policy essentials*

Albania has implemented far-reaching market-oriented changes, including price and trade liberalisation, privatisation and fiscal and monetary reforms. These reforms have been supported, inter alia, by several financial and technical arrangements with the EU, the IMF and the World Bank. There has been over the years a consensus between the political parties about Albania's integration with the EU. *Overall*, there is a broad domestic consensus on the fundamentals of economic policy.

## *Macroeconomic stability*

Real GDP growth has been very strong since 1998, reflecting the continuation of resource re-allocation from low to higher productivity sectors. Consequently, Albania's per capita GDP increased but remains very low. Private consumption remains the main component, representing some 80% of GDP, reflecting the significant boost given to household income by migrants' remittances. The role of remittances in the development of the economy has been significant throughout the transition. Unlike most other countries, economic growth remained positive although decelerating to slightly above 3% in 2009, owing to the impact of the global crisis. *Overall*, Albania has witnessed very strong economic growth, exceeding 5% since 1998, while economic activity slowed down but remained positive in 2009 in spite of the global crisis.

Since 2000, the current account deficit has been progressively rising, mainly due to a growing merchandise trade gap. It reached 15% of GDP in 2009. After posting a deficit between 2002 and 2006, the services account turned into a surplus as exports — supported by a burgeoning tourism sector — increased rapidly. Around half of the trade deficit has traditionally been financed through current transfers from abroad, amounting to approximately 13% of GDP in 2009. A significant share of these transfers is accounted for by workers' remittances which, after following an upward trend in the first half of the 2000s, have declined in the past few years. In the last decade, net capital inflows have broadly covered the current account deficit, contributing to higher foreign reserves. FDI, driven by privatisation proceeds and representing around half of external financing, rose from around 4% of GDP in 2000 to 7.6% in 2009. The high current account deficit represents a risk. Insufficient capital inflows, specifically FDI, could lead to an abrupt adjustment with a negative feedback loop on the real economy and an adverse impact on public finances. *Overall*, the trade balance and the current account show significant and persistent deficits.

The contribution of employment to GDP growth has been limited, partly due to unfavourable demographic shifts, a loss of skills spurred by mass emigration as well as a significant informal sector. Job growth was positive in the period 2002-08 but contracted in 2009 as a result of the crisis. Unemployment has been declining gradually along the years and stood at 13.8% in 2009. The labour market is characterised by a high inactivity rate, which in recent years stood at just below 40%. Informal work arrangements remain widespread across most economic activities notwithstanding several initiatives to tackle them, including a reduction in social contributions. High long-term unemployment, which accounts for around 65% of total jobseekers, is another characteristic of the Albanian labour market. Female participation and employment rates are significantly lower than for males, while unemployment is higher. Although official labour market data comprise a high degree of uncertainty, unemployment has remained persistently high reflecting the low education level, the outdated skills of the jobless and undeclared work, which help in alleviating poverty but reduce job-search incentives. *Overall*, the existence of widespread informal work arrangements continues to

severely distort the labour market whilst the absence of reliable statistics hampers the analysis. Although declining, unemployment has remained stubbornly high.

The Bank of Albania, a largely independent institution, was mandated in 1997 to achieve and maintain price stability as a primary objective. Direct credit and administered interest rates were replaced in 2000 by repurchase agreements, which became the key policy instrument for controlling bank liquidity. In 2004, the Bank moved closer to an inflation targeting framework to achieve the price stability goal by keeping an inflation rate of 3%, within a band of +/- 1 percentage point. This publicly announced target has been instrumental in anchoring inflation expectations.

During the last decade, inflation was brought progressively down and, except for 2002, was below 3%. Inflation started to pick up in October 2009, reflecting mostly the depreciation of the lek which raised import prices. It accelerated in January and February 2010, primarily due to increases in administrative prices (water and electricity tariffs) but decelerated thereafter, reaching 3.4% in September. *Overall*, since 2003 annual inflation has remained below 3%, reflecting a monetary policy conducive to a high level of price stability.

The degree of euroisation in the economy is high. The high interest rate on lek-denominated loans, while essential for the stability of the currency, has resulted in more lending in foreign currencies. In July 2010, the share of foreign-currency loans amounted to 70% of the total stock of loans, while their share of deposits was 48%. Such currency substitution places a constraint on the effectiveness of monetary policy. Furthermore, the high euroisation is a potential source of financial system instability since it may expose banks to currency risk. The BoA has taken prudential measures that have the effect of encouraging borrowing in the local currency by, among other things, requesting banks to weight foreign currency-denominated loans with an additional 50% when calculating capital adequacy ratios.

The weighted average interest rate spreads between loans and deposits are relatively wide, standing at about 8.4 percentage points for those denominated in lek, but have declined significantly during the past years (from 16.5 percentage points in the last quarter of 2000).

Albania has established a loosely managed float as its exchange rate regime with the value of the currency determined in the foreign exchange market and interventions limited to softening sharp currency movements, while maintaining adequate reserve cover. With the unfolding of the global crisis, the lek started to weaken and on average lost 7.5% of its value against the euro in 2009. At the end of 2009, the BoA reserves amounted to 4.3 months of imports of goods and services. *Overall*, monetary policy has been conducive to anchor inflationary expectations notwithstanding the important constraint placed on its effectiveness by the high euroisation.

The government deficit which had followed a downward path until 2006, reached 7% of GDP in 2009. Until 2006, the overall improvement in the fiscal imbalance has been mainly expenditure-led, first relying on restraint of non-wage current spending and capital outlays while during the period 2000-05 the budgetary consolidation reflected primarily lower interest payments. Total revenue only rose marginally in the period 2000-06, as the notable gains in direct and indirect taxes were partially offset by lower foreign project-related aid and customs duties, due to the alignment of tariffs with international obligations. Thereafter, following an increase in 2006-08, revenue declined in 2009 and stood at 26.2% of GDP as the government allowed the full play of automatic stabilisers, mostly through lower receipts from direct and indirect taxes, in the face of weakening economic performance. Total expenditure started to

rise in 2006, reaching 33.2% of GDP in 2009, driven mainly by higher capital spending — related to major road infrastructure projects — as well as an increase in the public service wage bill and pensions. This suggests that a pro-cyclical stance, masked by tax-rich revenue in the boom period, started already in 2006 and contributed to aggravating the budgetary deficit and external imbalance, leading to reduced fiscal space in the post-crisis period. *Overall*, the public deficit has been brought down from high levels but the trend was reversed in 2007-09, fed by pro-cyclical expenditure policies already as of 2006.

The composition of government revenue remained practically unchanged during the period 2000-09, with indirect tax revenue (VAT) representing the largest share (36.8% in 2009). As a result of the broadening of the tax base, the share of direct taxes (15.5% in 2009), particularly personal income tax, increased significantly over this period, partly owing to the lowering of statutory tax rates to 10% and the establishment of reference salaries and reference employment in 2008. While these measures help to reduce tax evasion, a fully-fledged tax compliance system is still lacking. Reforms over the years have led to improvements in the tax administration. However, gaps in terms of both revenue collection and continued administrative changes remain. In addition, corruption in tax and custom collection, as well as weak law enforcement, allow businesses to operate in the informal sector, which in turn results in a narrow tax base. The management of local government finances remains poor, resulting in low revenue collection (small business, property and local taxes for which they are responsible account for some 4% of total government revenue), and limited spending. The structure of total expenditure is dominated by current transfers (30%) and capital outlays (29%). Compensation of employees followed a rising trend over the period 2000-09, now representing roughly a fifth of total spending. Interest payments declined progressively, due to both lower interest rates and public sector borrowing requirements, but still represent some 9.5% of total expenditure and therefore continue to crowd out primary spending. *Overall*, weak institutions and a large informal sector have resulted in a narrow tax base which constrains fiscal receipts, despite various measures in the past years.

The fiscal consolidation brought about a decline in public debt, from 61% of GDP in 2000 to 54.3% in 2007. This downtrend was reversed in 2008-09, when the debt stood at almost 60% of GDP. While this is a relatively high public debt ratio, a risk-mitigating factor is the fact that some three-fifths of total public debt is domestic, almost entirely denominated in lek. The public debt consists of central government debt and while local governments can borrow, the use of this possibility has been limited so far. However, around 60% of domestic debt is short-term, i.e. with a maturity of 1 year and less, giving rise to refinancing risk. Commercial banks remain the main holders of domestic public debt. External debt is composed of long-term loans of which slightly more than half is denominated in euro, while another 30% is denominated in Special Drawing Rights. Multilateral creditors represent approximately 53% of the external debt. *Overall*, the recently increasing and high level of public debt remains a source of macro-financial vulnerability.

Appropriate fiscal and monetary policies have been the main anchors of the policy mix and have underpinned the relative macroeconomic stability in Albania. However, the pro-cyclical budget stance since 2006 has reduced the fiscal room for manoeuvre and reversed the decline in public debt. The monetary policy framework has anchored inflation expectations, despite the limitations arising from significant euroisation. The flexible exchange rate has supported adjustment to external shocks. *Overall*, rebuilding fiscal space so as to ensure medium-term budgetary sustainability and vigorously accelerating reforms to continue structural adjustment remain key macroeconomic policy challenges.

### *Interplay of market forces*

Price liberalisation has been largely completed but price regulation protects a number of sectors. Around 4.3% of the items that compose the consumer price index remain administered or regulated. Administered prices are set by sectoral regulators (electricity, telephony, water supply) or government bodies.

State participation in the economy has been progressively reduced and as a consequence the private sector today accounts for around four-fifths of GDP and 82% of total employment. This has been achieved largely through a widespread privatisation process. The sectors that are still owned or controlled by the state include electricity generation, railways, ports and water supply utilities. The government is planning to continue with the privatisation programme by proceeding with the delayed selling of shares and assets in strategic sectors such as hydrocarbons, insurance, certain port services, certain operations in rail transport and telecommunications. *Overall*, the privatisation process is advanced, while the contribution of the private sector in the economy has reached a high level.

### *Market entry and exit*

Significant progress in facilitating business start-ups has been achieved in recent years. In 2007, a new law was approved on the National Business Registration Centre (NRC) which provides for simultaneous registration in ‘one-stop-shops’ for the purposes of tax administration, social and health insurance, and labour inspections. The streamlined procedures have made business start-up faster and cheaper. Despite an increasing number of electronic services and registration centres across the country, further efforts are required to strengthen the NRC’s capacity in municipalities. In addition, with the establishment of a National Licensing Centre (NLC) in 2009, many licences were abolished, while procedures for many sectors have been simplified and streamlined, thereby reducing administrative barriers for businesses. *Overall*, notable progress has been achieved in facilitating market entry at national level but more effort is needed at local level.

The new law on bankruptcy procedures approved in May 2009 provides a more efficient framework for market exit. Moreover, courts will consider a case within 30 days, thereby speeding up bankruptcy procedures. However, implementation has been poor, the agency to deal with bankruptcy cases provided for in the amended law has not been established yet, and the number of companies declared bankrupt by the courts has been minimal, despite several ongoing judicial proceedings. *Overall*, despite recent legislative changes, implementation of bankruptcy procedures remains largely ineffective.

### *Legal system*

A legal system which supports the market economy has been evolving since the 1990s. However, the legislative process is not fully transparent as proposed laws are not always subject to public consultation. Laws and regulations are sometimes inconsistent, incomplete or lack implementing regulations, leading to unreliability in their interpretation.

The functioning of Albania’s property market remains inefficient, which adds to business uncertainty. One of the main issues relates to the restitution of property and the regularisation of informal construction. About 80% of all property has been registered, but registration is less advanced in urban and coastal areas, the latter having a high potential for tourism development. The land registration process is tainted by lack of legal documents, delays and poor enforcement of court decisions, competing land ownership claims, corruption and weak

coordination among government agencies. This leads to an informal exchange of property giving rise to disputes which further burdens the courts and causes an additional loss of tax revenue. *Overall*, although progress has been achieved in the past two decades, ownership transfer and recognition of property rights remain incomplete and hamper the functioning of the land market.

The judicial system suffers from undue political interference, corruption, lack of capacity and non-transparent and inefficient court proceedings. Informal methods of contract enforcement, by-passing the legal system, continue to be widespread. The government took several steps to strengthen the judicial system and step up the fight against corruption. A number of electronic public services (including the electronic public procurement system) were introduced in order to increase transparency. Inspections of courts and public agencies have been stepped up and legal proceedings initiated against officials responsible for violations. However, the law establishing the administrative courts, that will deal with commercial cases and disputes between companies and public institutions, has not been adopted. The role of courts in the enforcement of contracts remains limited due to weak administrative capacity and prevalent corruption. *Overall*, while some progress has been recorded, the business climate remains hampered by the weak rule of law.

### *Financial sector development*

Although still low, banking intermediation has increased rapidly during the past years. In 2009, the loan-to-GDP ratio rose to slightly above 41% from 7.3% in 2003. All 16 commercial banks are fully privately-owned with an asset-to-GDP ratio of approximately 82%. The banking sector is characterised by a high degree of concentration, with the six largest banks having a share of 72% for loans and 81% for deposits.

Ownership of the banking sector is foreign-dominated. The capitalisation of the banking system has increased gradually, standing at around 9.4% of banks' balance sheets. The capital adequacy ratio stood at 16.2% in 2009 — well above the legal minimum of 12% imposed by the BoA and the 8% required under the Basel framework agreement.

The structure of the banks' assets has undergone significant changes in recent years. The banking sector's investment in government securities has declined from almost half the total assets in 2003 to 12% in 2009, giving way to an increase in the share of the credit portfolio. The corporate sector share in total loans amounts to roughly 62%, households 33%, the public sector 2.7%, and financial institutions accounted for the rest. In the past seven years, the maturity structure of loans has become increasingly skewed toward long-term loans, i.e. loans with maturity of one year and above, which represent around 72% of the total.

Banks' profitability followed a general upward trend on the back of increasing net operating income between 2004 and 2007, but declined in the subsequent two years owing mainly to rising operational costs and the rapid growth of expenses for provisioning due to the economic crisis. While non-performing loans (NPLs) increased at a moderate pace in the period 2005-07, this pace has accelerated since the last quarter of 2008. In the first half of 2010, NPLs continued to increase — reaching 12% in the second quarter of 2010 — although at a decelerating pace. Return on assets dropped from 1.3% in 2004 to around 0.3% in 2009. However, the banking system remains well capitalised.

Starting from a low base, credit expanded rapidly in the first half of the 2000s, driven mainly by heightened competition in the sector following the privatisation of the Savings Bank. Most

of this expansion in lending was financed through domestic resources, in the form of domestic deposits and recapitalisation. During the past two decades, the Bank's supervisory capacity has been significantly bolstered through the implementation of a more risk-based supervision process. Substantial progress has been made in improving the legal framework for insolvency and bankruptcy procedures have been strengthened. *Overall*, the banking system has recorded rapid expansion in recent years as a result of privatisation and the entry of foreign players.

The insurance market has registered gradual expansion, albeit from a low base. In 2008, total assets amounted to approximately 1.4% of GDP. All 10 licensed companies active in the sector are domestic, but since 2007 Albania has attracted increased foreign (EU) participation. In the voluntary insurance sector, non-life insurance represents around 83% of turnover. The private pensions market is still underdeveloped. Three companies are licensed to offer private pensions. At the end of 2009, the legal framework for private pensions was amended by a new law on voluntary pension plans. The law opens up the possibility for the establishment of defined contributions third pillar pension funds, but does not reflect all the provisions of the *acquis*. *Overall*, the non-banking financial sector is still undeveloped and plays a negligible role as a source of private sector financing.

The Tirana Stock Exchange was formally established in 1996, but there are no companies listed on the stock exchange.

#### *2.2.2. Capacity to cope with competitive pressure and market forces within the Union*

The ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to take decisions in a climate of predictability. It also requires a sufficient amount of human and physical assets. Enterprises need to invest to improve their efficiency and innovate to adjust to a globalised and highly competitive external environment. Overall, the more an economy is integrated with the Union before accession, the better will it be able to take on the obligations of membership.

##### *Existence of a functioning market economy*

Albania is a small and increasingly open economy with a large private sector that accounts for some 80% of GDP. Prices and trade have been mostly liberalised. Throughout the transition, Albania has broadly followed a policy mix pursuing macroeconomic stability. Economic growth has been strong while inflation has declined and remained low. However, the current account deficit has worsened throughout the years, while unemployment, although declining, remains high. The pro-cyclical expenditure stance, which started already in 2006, led to a rise in the budgetary deficit as of 2007 and was further aggravated by deteriorating revenue in 2009. As a consequence, the decline in public debt was reversed, which, together with the build-up of external imbalances, poses a risk to macroeconomic stability. Resuming fiscal consolidation, bolstering the stability of the banking sector, eliminating obstacles to market entry and exit and stepping up the enforcement of the legal system would improve the economy's growth potential. *Overall*, Albania has achieved a degree of macroeconomic stability which broadly allows economic operators to make decisions in a climate of predictability. However, to become a functioning market economy, Albania needs to further strengthen governance, improve the performance of the labour market, complete the recognition of property rights and step up law enforcement.

##### *Human and physical capital*

Although public resources devoted to education are significant (3.8% of GDP in 2009), Albania faces a number of challenges. Demographic shifts brought about by the brain drain in the past years, a high incidence of informality as well as weaknesses in the education and skills system hinder the full realisation of *human capital*. The result is that firms face a dearth of skills that limits their growth. Educational attainment is weak notwithstanding improvements in the past years. On average, Albanian pupils complete 8.6 years of schooling, which is significantly low by international standards. However, drop-out rates have fallen in recent years, especially in primary education, and participation in secondary and higher education have increased. Reforms to make the vocational education system (VET) more responsive to changes in the labour market are relatively recent. University curricula, which were insufficiently linked to labour market demand, are undergoing a thorough re-organisation in terms of content and structure in accordance with the Bologna standards. On an institutional level, reforms are also increasing the autonomy and self-governance of universities. The level of expenditure on research and development in Albania remains low. Spending on scientific research was estimated at 0.2% of GDP in 2009. *Overall*, while there are serious gaps in the knowledge, skills and orientation of the labour force needed by a changing job market, recent reforms are a step in the right direction.

In 2007, a strategy on employment and vocational training covering the period 2007–13 was adopted. The National Employment Service runs active labour market programmes by providing vocational counselling and training and job mediation and employment promotion programmes mostly targeting students, females and vulnerable groups. The coverage of these programmes remains inadequate. A comprehensive strategy on workforce skills is lacking, while on-the-job training is weak. *Overall*, active labour market programmes are insufficient compared with the level of unemployment, while work-related training remains a challenge.

Burdened by a largely obsolete *physical capital* stock, Albania faced considerable investment needs after 1992 in view of its very poor endowment with basic infrastructure and productive capital. Expressed as a percentage of GDP, average annual total investment amounted to around 37% during the period 2000-08. However, residential property, which saw rapid expansion during the past years sustained by strong inflows from migrants' remittances, accounted for most of this high level of investment. Such investment, together with rather modest green-field inward investment which has been concentrated in capital-poor manufacturing activities in the past years, is unlikely to increase the economy's productive capacity. Green-field investment is hampered by the state of infrastructure which, although improving in the last two decades, still faces weaknesses in terms of quality, reliability and affordability. *Overall*, investment has been high but impediments to productive capital remain.

The unreliability of electricity supply is one such constraint. Lack of investment in the transmission and interconnection grids as well as over-reliance on hydropower has led to periodic load-shedding. This, together with deficiencies in distribution, translated into financial losses for KESH, the power supplier, triggering the need for subsidies. However, the situation has improved since 2008 mainly because of favourable hydrological conditions. In 2003, a national energy strategy was launched with the objective of transforming the sector along market-oriented principles. The government is seeking to diversify energy sources by offering concessions to private investors for the construction and operation of hydroelectric plants and other alternative sources of power. Interconnection with neighbouring countries is limited, although investment in this area is ongoing. *Overall*, recent reforms have begun to address the bottlenecks in electricity infrastructure but further investment is needed to ensure a reliable supply.

Telecommunications infrastructure is also inadequate and hampers businesses. Fixed-line telephone penetration stands at a low 11.3 per 100 inhabitants. Broadband penetration remains significantly low at 2.5% of population as tariffs remain high. Internet take-up by business has increased in recent years but remains particularly low among micro-enterprises that comprise the largest proportion of firms. On the other hand, heightened competition has led to a rapid rise in mobile telephony density, which is comparable with EU levels. Notwithstanding the competition and reductions in tariffs in 2008, mobile telephony charges remain at the high-end by regional standards. *Overall*, the performance of telecommunications is weak.

Significant investment in recent years has resulted in an enlarged road network but the incidence of poor quality roads is high since spending allocated for road maintenance is low. Albania's primary deep-sea ports in Durres and Vlora are undergoing upgrading works. The priority given by the government to road infrastructure has resulted in a lack of investment in the rail network. *Overall*, attention devoted to building transport infrastructure in the past years has not been matched with maintenance, while rail transport remains inadequate.

### *Sector and enterprise structure*

Most of manufacturing is classified as light industry and is almost entirely privately owned. Despite a notable expansion in recent years, Albania's manufacturing base remains narrow and capital-poor. The textiles and footwear sub-sectors is a major sub-sector, representing some 15% of industry value added. A large part of output is destined to foreign markets and constitutes around 43% of total export of goods. The extracting sector, composed of energy and non-energy production, represents around 14% of merchandise exports. The non-energy sector is composed of mining of metal ores and other mining. Given Albania's significant deposits, the non-energy subsector remains largely below potential mainly as a result of poor institutions, a lack of regulatory effectiveness and weak technical capacities. Services represent some 54% of GDP with trade, hotels and restaurants accounting for the largest share. Tourism has been one of the most dynamic sub-sectors in the past decade.

The significantly higher share of services in output is not mirrored in employment figures. The Albanian private sector economy is characterised by a dichotomy; a high proportion of employment (around 44%) is engaged in declining sectors, primarily agriculture, with a low share of output, while growth sectors i.e. services, industry and construction with a high proportion of GDP account for a lower weight of employment (38%). The public sector absorbed roughly 18% of total employment in 2008. The informal sector, fuelled by weaknesses in tax and expenditure policies, as well as in law enforcement, including the fight against corruption and organised crime, is large. It reduces the tax base and the efficiency of economic policies. *Overall*, despite sizeable structural shifts over the years, there is still ample scope for more labour inputs to move from low to the higher productivity activities. The informal sector is an important challenge.

In recent years, regulatory reforms provided for the restructuring and the gradual liberalisation of the electricity market as well as promoting regional trade in electricity. The government also decided to unbundle, commercialise the electric power provider and in 2009 privatised the electricity distribution arm. The sector's regulator was strengthened and given more powers including issuing licences to the different market operators. Tariffs have been gradually increased but are not yet at a cost-recovery level. Strengthening the technical, financial and management situation of the provider and making the privatisation effective by, amongst others, taking steps to reduce energy losses and enforce bill collection remain a challenge. The essential elements of the telecommunications regulatory framework are in



place, i.e. a telecoms regulator and a privatised fixed-line operator, while legislation is partly in line with EU practise. *Overall*, recent steps in the electricity sector are in the right direction but need further re-enforcement to ensure that the re-organisation of the sector is effective.

Albania's transition process has resulted in a business sector dominated by SMEs which have a share of more than three-fifths of GDP and employ around four-fifths of total workers. Micro and small enterprises dominate the services and trade sectors, while medium-sized firms are concentrated in construction and industry. SMEs concentrate on the domestic market and lack export competitiveness. Support to export-oriented and innovative companies is weak. In 2007, the government established a €1.6 million export guarantee fund to export-oriented firms as well as a grant scheme as part of a competitiveness fund. A strategic framework for SME development was launched in 2007 with the Business and Investment Development Strategy which is a long-term strategy complemented by a medium-term programme. *Overall*, SMEs are mostly domestically-oriented as export promotion remains inadequate.

Although access to finance has improved over the years, own resources remain the main source of financing for most firms. This is particularly the case for micro, small businesses and start-ups, which face tough borrowing conditions, especially in rural areas. Since 2009, credit conditions for SMEs have become more restrictive, with lending rates charged by commercial banks on new lek-denominated loans standing at around 15%. While companies continue to suffer from delays in the reimbursement of overpaid VAT or export refunds, the situation has improved somewhat since the beginning of 2010. A public credit registry, established by the BoA in 2008, collects data from banks and makes them available to lenders. However, the exclusion of micro-credit institutions from the credit registry is considered to be a bottleneck for the access to bank lending for SME. *Overall*, despite significant progress, access to finance remains a challenge to micro and small enterprises.

#### *State influence on competitiveness*

State aid (including for agriculture and fisheries) has declined from 0.6% of GDP in 2006 to 0.4% in 2008. Three-fifths of state aid is granted to support special sectors mostly providing public services including water supply and railways. The electricity sector has been a major recipient of state support in 2007 partly as a result of adverse weather conditions which led to a crisis in the sector. The level of subsidies granted to this sector has declined thereafter. No additional specific financial assistance was awarded to companies to counter the economic crisis in 2009 and 2010. *Overall*, the amounts of state aid are limited..

#### *Economic integration and convergence with the EU*

During the past two decades, Albania has become more integrated into the global economy and increasingly more open as trade in goods and services reached more than 80% of GDP in 2009 — almost double the corresponding figure in 1996. The EU is the major trading partner, representing roughly 70% of goods, followed by the CEFTA countries (9.4%). In 2008, the largest share of merchandise trade with the EU was directed to Italy (62% exports; 27% imports) and Greece (9% exports; 15% imports). However, the share of trade with both Italy and Greece has shown a generally declining trend. The increased integration and trade openness was achieved against a background of FDI inflows averaging 4.7% of GDP during the period 2003-08. During this period, more than three quarters of FDI originated from EU countries, with Greece being the main source, accounting for more than half of the total, followed by Italy (11%) and Austria (8%). Although the real effective exchange rate has

depreciated since mid-2008, contributing to an improvement in price competitiveness, limited quality upgrading of exports points to weak non-price competitiveness. *Overall*, trade and investment integration with the EU is high. The recent depreciation of the real exchange rate has supported price competitiveness, but structural factors constrain non-price competitiveness.

### 2.3. General evaluation

The present assessment is made on the basis of the Copenhagen criteria related to the existence of a **functioning market economy**, as well as the capacity to cope with **competitive pressure** and market forces within the Union.

There is a broad consensus in Albania on the fundamentals of economic policy as well as a track record in the implementation of economic reforms. Albania achieved a degree of macroeconomic stability sufficient enough to allow economic operators to make decisions in a climate of predictability. The macro policy mix in the past years has been appropriate, generating growth rates exceeding 5% and activity, although slower, remained positive in 2009 despite the crisis. Inflation has remained low. The free interplay of market forces has been developing through privatisation. Prices and trade have been mostly liberalised. Notable progress has been achieved in facilitating market entry. The banking system has rapidly expanded as a result of privatisation and the entry of foreign players. State aid has been reduced. The share of trade and investment integration with the EU remained high.

However, fiscal consolidation has been reversed recently and the high level of public debt remains a source of macro-financial vulnerability. A narrow export base and public investment have led to a significant and persistent current account imbalance. The existence of widespread informal work arrangements continues to severely distort the labour market and unemployment remains high and stood at 13.8% in 2009. Access to finance remains a challenge to small enterprises. Weaknesses in the rule of law hamper the business environment and ownership transfer and recognition of property rights remain a serious problem. The education system remains unable to equip the labour force with the skills needed by the changing job market. Infrastructure requires further investment and institutional and regulatory steps are needed to ensure a reliable energy supply. The informal economy remains an important challenge.

## 3. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

The European Council in Copenhagen in June 1993 included among the criteria for accession “the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union”.

In applying for membership on the basis of the Treaty, Albania has accepted without reserve the basic aims of the Union, including its policies and instruments.

This part of the analytical report analyses Albania's ability to assume the detailed obligations of membership — that is, the *acquis*, as expressed in the Treaties, the secondary legislation and the policies of the Union. This section follows the structure of the 33 negotiating chapters into which the *acquis* has been divided for the purpose of conducting accession negotiations. Each chapter examines the current situation and prospects in Albania.

As the Union has developed, the *acquis* has become progressively more onerous and presents a greater challenge for future accessions than was the case in the past. The ability of Albania to implement the *acquis* will be central to its capacity to function successfully within the Union.

In this respect, alignment with the *acquis* is a necessary but not sufficient condition to meet the obligations of EU membership. Albania must also take all necessary measures to create the necessary implementing structures, to bring its administrative capacities to the required level and to ensure effective enforcement. An analysis and assessment of the country's administrative capacities is therefore included in each of the chapters below.

For the purpose of this analytical report, and without prejudging any future date of accession, the medium-term perspective in the assessments has been defined as a period of five years.

### 3.1. Chapter 1: Free movement of goods

The principle of free movement of goods means that products must be traded freely from one part of the Union to another. In a number of sectors this general principle is supplemented by a harmonised regulatory framework, following either the 'Old Approach' (laying down precise product specifications) or the 'New Approach' (setting general product requirements). Transposition of harmonised European product legislation accounts for the bulk of the obligations under this chapter. Smooth implementation and proper implementation of the *acquis* requires sufficient administrative capacity to notify restrictions on trade and to apply horizontal and procedural measures in areas such as standardisation, conformity assessment, accreditation, metrology and market surveillance.

The *Stabilisation and Association Agreement* creates a number of obligations in the field of free movement of goods, such as establishment of a free trade area. It also provides for gradual alignment to EU technical regulations and standards as well as metrology, accreditation and conformity assessment procedures.

Regarding the **general principles**, Albania needs to ensure that its legislation, including distinctly as well as indistinctly applicable measures, is compatible with Articles 34 to 36 of the Treaty on the Functioning of the European Union and related case law of the European Court of Justice (with special emphasis on the principle of mutual recognition).

In the area of **horizontal measures**, Albania adopted new legislation on accreditation, standardisation and metrology during 2007 and 2008. The Law on general product safety, essential requirements and conformity assessment of non-food products aims at gradual harmonisation with the principles of the *New and Global Approach*. It will need further revision to comply fully with the general principles of the New Approach and with the horizontal *acquis* adopted in 2008.

The framework Law on *standardisation* was adopted in March 2008. However, Albania has not yet established the legal basis and administrative structure for adoption of ETSI (European Telecommunications Standards Institute) standards as Albanian standards.

The General Directorate of Standardisation (GDS), a government department reporting to the Minister of Economy, Trade and Energy, is responsible for standardisation in all fields except telecommunications. The GDS is a correspondent member of the International Organisation for Standardization (ISO), an associate member of the International Electrotechnical Commission (IEC) and an affiliate member of both the European Committee for

Standardization (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC). It plans to apply for full membership of CEN and CENELEC in 2012. So far it has adopted around 92% of the European standards (ENs) prepared by CEN and CENELEC as Albanian standards, thus meeting the standard-related membership criterion. The GDS has a staff of 18. There are 60 technical committees, all but one mirroring CEN/CENELEC committees. Sufficient translation and information technology capacity, backed up by funding for promoting use of standards, will need to be ensured. The supervisory board provided for in the 2008 law on standardisation to monitor the work of the GDS has not yet been established.

As regards *conformity assessment*, the Albanian framework Law on general product safety, essential requirements and conformity assessment of non-food products needs to be revised to align it with the 2008 horizontal *acquis*. Current practices on use of the CE marking are not in line with the *acquis*. So far 17 conformity assessment bodies have been accredited. By law, accreditation is a pre-condition for being designated as a conformity assessment body.

Albania's *accreditation* policy is broadly in line with the EU principles, notably as regards the public, not-for-profit basis of the General Directorate for Accreditation (GDA) and its professional and financial independence from possible clients. The GDA is in charge of accreditation of conformity assessment bodies. It has a staff of 15 and its rules of procedure are regulated by a government decision of October 2008 which aims at further alignment with the *acquis*. The GDA signed a contract of co-operation with the European co-operation for Accreditation (EA) in 2006 and in 2008 it applied to be a signatory of the EA Multilateral Agreement (MLA) in the field of testing laboratories.

The appeal procedures introduced by the 2008 law on *metrology* were improved in 2010, granting economic operators recourse to court. The General Directorate for Metrology (GDM) in the Ministry of Economy, Trade and Energy is in charge of legal, scientific and industrial metrology and acts as the National Metrology Institute. The law on metrology allows outsourcing of some verification activities to private bodies. The GDM is an institution funded from the State budget with 110 employees. The continuity of its staff will be essential to create an institutional memory and transfer knowledge. The GDM is a full member of the European Association of National Metrology Institutes (EURAMET) and an observer member of WELMEC, the organisation for European cooperation in legal metrology. Two calibration laboratories are accredited in accordance with EN ISO/IEC 17025 by the Albanian accreditation body. The GDM is working on implementation of the investment plan for the new areas of measurements, premises and equipment, as part of the National Strategy on the Metrology System in Albania for 2008–2012. A new National Metrology Centre is under construction.

The Albanian *market surveillance* system is based on many different pieces of legislation depending on the product in question. A pre-marketing authorisation system based on permits or licences also exists for some products. The 2007 Law on general product safety, essential requirements and conformity assessment of non-food products, one of the main pieces of legislation regulating market surveillance of industrial products, does not fully incorporate the requirements of the *acquis*.

The Ministry of Economy, Trade and Energy plays a coordinating role in the area of market surveillance. Its Market Surveillance Directorate took on a wider remit by becoming the Directorate for Trade Mechanisms and State Aid in June 2010. Its institutional and administrative capacity and resources need to be increased in order to ensure efficient, coordinated market surveillance. Different inspectorates or agencies carry out market

surveillance activities, but they have had problems with the transition from State pre-market inspection bodies to market surveillance authorities required by the *acquis*. The comprehensive market surveillance structure required under the *acquis* is not yet in place and existing inconsistencies will need to be repealed. Inter-institutional coordination and cooperation, including with customs authorities, needs to be enhanced.

Albania has not yet transposed the vast majority of the sector-specific legislation. Major discrepancies with the *acquis* persist in sectors covered by the **Old Approach product legislation**. Albania has already partly aligned its legislation on detergents, pre-packaging and legal units of measurement with the *acquis*. However, legislation applicable to motor vehicles, emissions of pollutants from non-road mobile engines, chemicals, medicinal products for human use, medicinal products for veterinary use, cosmetics, aerosol dispensers, textiles, footwear and crystal glass is not yet aligned with the *acquis*.

Albania has already transposed many of the directives in areas covered by the **New and Global Approach product legislation**. It has adopted legislation aiming at alignment on toys, simple pressure vessels, pressure equipment, gas appliances, low-voltage equipment, electromagnetic compatibility, machinery, equipment and protective systems intended for use in potentially explosive atmospheres, lifts and personal protective equipment. However, its alignment with the *acquis* needs to be verified. The *acquis* has not yet been transposed as regards medical devices, recreational craft, cableway installations, construction products, explosives for civil uses, pyrotechnical articles, radio and telecommunications terminal equipment, eco-design requirements for energy-related products, noise emissions by outdoor equipment, non-automatic weighing instruments and measuring instruments.

Regarding **procedural measures**, Albania has not yet transposed the *acquis* on provision of information on technical standards and regulations. The 1992 Law on weapons and the related implementing legislation are being amended with the aim of full compliance with the *acquis* on civil *firearms*. The Law on cultural heritage is not yet in line with the *acquis* on the return of *cultural objects* unlawfully removed from the territory of EU Member States. As regards *external border checks*, the Albanian legislation is not in line with the *acquis* on control of products coming from third countries.

### *Conclusion*

Albania has started to harmonise its national legislation with the principles of free movement of goods. However, most provisions of the *acquis* are not yet in place. Horizontal and procedural measures, including the framework legislation on technical regulations for products and conformity assessment procedures, and Old and New Approach product legislation need to be harmonised with the *acquis*. The basic separation of standardisation, accreditation and metrology functions has been established, but further implementing measures are necessary. An adequate market surveillance structure needs to be established in accordance with the *acquis*. Overall administrative capacity needs to be reinforced and proper coordination of measures on free movement of goods is needed at government level. Major efforts to transpose directives will be necessary.

*Overall*, in the field of free movement of goods, Albania will have to make considerable and sustained efforts to align with the *acquis* and to implement it effectively in the medium term.

### 3.2. Chapter 2: Freedom of movement for workers

The *acquis* under this chapter provides that EU citizens of one Member State have the right to work in another EU Member State, to reside there for that purpose with their family and to be treated in the same way as national workers in terms of working conditions and social and tax advantages. Furthermore, the *acquis* includes the EU instruments on coordination of different national social security systems.

The *Stabilisation and Association Agreement* provides that, subject to conditions and modalities applicable, Albania and EU Member States ensure that nationals of the partner country who are legally employed on their territory are not subjected to any discrimination based on nationality as regards working conditions, remuneration or dismissal.

Concerning **access to the labour market**, the current Albanian legislation is not in line with EU law on free movement of EU citizens. It requires EU citizens to apply for a work permit (pursuant to the Law on foreigners) which may be issued following a labour market test. No distinction is drawn between EU nationals and other foreign nationals in this respect. Families of EU migrant workers have the right to reside in Albania for the same duration as the workers. EU nationals legally residing and employed in Albania enjoy equal treatment as regards employment, pay and working conditions, but employment in the public sector is restricted to Albanian nationals.

By the time of its accession to the EU, Albania would have to implement the *acquis* on freedom of movement for workers. Its national law will have to ensure that no work permit scheme applies to EU nationals and that EU workers have the right to reside in the country and enjoy the same social advantages as Albanian nationals. Furthermore, Albania's national law will have to grant family members of EU migrant workers the right to be employed without needing a work permit and their children the right to be admitted to educational institutions on the same conditions as nationals of Albania.

As regards employment in the public sector, The Albanian legislation on the status of civil servants stipulates that a general requirement for hiring in the civil service is to be an Albanian citizen.. Albania will have to take into account the *acquis* (in particular, the case law) in this field, which allows EU Member States to restrict public service posts to their own nationals only if they are directly related to the specific activities of the public service, i.e. involve exercising public authority and responsibility for safeguarding the general interest of the State (including of local authorities).

Preparation for future participation by Albania in the European Employment Services (**EURES**) network will need to be verified. Besides making sure that the vacancy database is available in English and checking the language skills of potential EURES advisors, attention needs to be paid to ensuring that local and regional offices have the possibility to share vacancies data not only with the central employment agency but also with each other.

As regards supplementary pensions, Albania's pension scheme has two components: a compulsory public pension and recently adopted voluntary pension insurance (first and third pillars). Upon accession Albania will need to implement measures in line with Directive 98/49/EC to guarantee equal treatment between EU migrants and nationals regarding preservation of vested second-pillar supplementary pension rights and payment thereof in another Member State. Moreover, posted workers must have the possibility to continue to make contributions to a supplementary pension scheme in their country of origin for the

duration of their posting, in which case they are exempt from contributing to such a scheme in the host Member State.

As regards **coordination of social security systems**, the social security system in Albania includes all traditional branches of social security which come within the scope of the rules on EU coordination and includes benefits and characteristics similar to those in many EU Member States' systems. The Albanian social security system is based on the principle of compulsory insurance in the country of work (*lex loci labori*). Albanian social security legislation provides for no discriminatory treatment with regard to nationals from other countries. Albania has concluded bilateral social security agreements with three other countries, including two EU Member States, and negotiations are continuing with three more. In Albania, the Social Security Institute and Health Care Institute will be responsible for applying the European Union provisions on coordination of social security schemes. Regulations 883/2004 and 987/2009 are directly applicable upon accession. Consequently, only technical adjustments to Albania's social security legislation will be necessary. Application of these regulations could have some financial implications for Albania, including export of pensions and reimbursement of medical expenses for Albanian nationals treated in another Member State. In addition, preparations will have to be made for participation in the EESSI system (on electronic exchange of social security information), implying additional costs for the necessary IT infrastructure. Albania will have to develop sufficient administrative capacity to apply the *acquis* fully as from accession. Additionally, Albania will also have to introduce the **European Health Insurance Card** upon accession.

### *Impact*

The estimated impact of Albania's possible accession upon the EU labour market has to be related to a number of factors, such as the size of Albania's working population, age structure and migration movements.

Albania's population is estimated to be around 3.2 million persons. The annual population growth until 2020 is estimated at 0.5%<sup>7</sup>. As regards the age structure, the share of the youngest age groups (15 and less), around 23%, is higher than in the EU (15.4%).

Albania's working age population (15-64) in 2009 was estimated at around 2.1 million, which represents 0.6% of the EU working age population. The economically active population was estimated to be around 1.3 million individuals. In 2009, the employment rate was estimated to be around 53.4% (compared to 65.9% in the EU). Unemployment has been declining gradually, except in 2009, when it rose slightly from 13% to 13.8%. Furthermore, an important number of persons work in the informal economy.

Despite a strong annual growth of the GDP in the last decade (always higher than 5% since 1998, apart from 2002), there remain very large differences in the level of GDP per capita between Albania and the EU. Albanian GDP per capita in purchasing power parity represents 27.1% of the EU 27 average.

Since the early 1990s there have been migration movements from Albania towards third countries including EU member states. It is estimated that around 1 million Albanian citizens currently live in the EU (mostly in Italy and Greece) representing 3.2% of the foreign population living in the EU (and 0.2% of the EU total population). There is a trend of reduction of the net migration rate from Albania in recent years.

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<sup>7</sup> United Nations Population projections. See: <http://esa.un.org/unpp/index.asp?panel=2>

Notwithstanding limits due to the lack of reliability and comparability of Albania's labour market statistics with that of the EU, overall, the above preliminary assessment tends to indicate that Albania's membership in the EU would have a relatively minor impact on the EU labour market. However, this situation will have to be closely monitored taking into account developments in Albania and the EU.

### *Conclusion*

*Overall*, Albania will have to undertake additional efforts to align with the *acquis* and to implement it effectively in the medium term in the field of freedom of movement for workers. With regard to coordination of social security, taking into account that Albania has only three social security agreements, development of adequate administrative capacity to apply the provisions on coordination with all EU Member States will be a major challenge.

### **3.3. Chapter 3: Right of establishment and freedom to provide services**

Member States must ensure that the right of establishment of EU nationals and legal persons in any Member State and the freedom to provide cross-border services, as laid down in Articles 49 and 56 of the Treaty on the Functioning of the European Union (TFEU), are not hampered by national legislation, subject to the exceptions set out in the Treaty. The core piece of *acquis* in this area is the Services Directive. The *acquis* also harmonises the rules concerning regulated professions to ensure mutual recognition of qualifications and diplomas between Member States. For certain regulated professions a common minimum training curriculum must be followed in order to have the qualification automatically recognised in an EU Member State. The EU postal reform aims to ensure provision of a universal postal service, the establishment of an internal market for postal services and a high-quality postal service for end users.

The *Stabilisation and Association Agreement* provides for gradual liberalisation of the right of establishment and the freedom to provide services between the EU and Albania. It includes a standstill clause as regards restrictions to supply of services by providers established in a country other than that of the person for whom the services are intended.

As regards the **right of establishment**, the Albanian legislation does not discriminate against foreign operators or their subsidiaries or branches. The procedures for registration in the commercial registry are non-discriminatory.

Albania's legislation on the **freedom to provide cross-border services** is not in line with the *acquis*, particularly the Services Directive. Its current legislation regulates provision of services with an establishment in Albania, but not provision of cross-border services. Full implementation of the Services Directive will require significant strengthening of the administrative capacity. Furthermore, effective compliance with the *acquis* will entail adequate coordination at national level between all relevant administrative bodies and, upon accession, with EU Member States.

Albania's primary legislation on **postal services** follows the principles and objectives laid down in the *acquis*. A number of specific issues regarding the universal service obligation will require particular attention, such as product range and minimum requirements, VAT exemption, exceptions to the obligation, and the period for designation and supervision of the service provider. Further efforts have to be made regarding provisions on the reserved areas, licence requirements for the authorisation procedure, tariff regulation and accounting separation for the universal service along with complaints procedures. A new postal sector



development strategy, taking into account changes introduced by the Third Postal Services Directive, is at an early stage of preparation. The Ministry for Innovation and Information and Communication Technology is responsible for policymaking, including rules and procedures for setting tariffs and conditions for universal postal services. The Electronic and Postal Communications Agency, an independent body not funded from the State budget, is the national regulatory authority (NRA). The current administrative capacity of the NRA is weak and its regulatory department for postal services has not been established. This hampers effective separation of regulatory functions from policymaking.

In the field of **mutual recognition of professional qualifications**, the scope and minimum training requirements for the regulated professions are broadly in line with the *acquis*. Minimum training requirements will need to be adjusted to ensure full alignment. Some requirements for EU professionals to practise in the health sector are not in line with the *acquis*. Albanian legislation provides for the mutual recognition of foreign higher education and professional qualifications. However, there is no clear differentiation between recognition of professional qualifications and recognition of academic qualifications and some implementing legislation for the recognition of professional qualifications is still outstanding. The Commission on Recognition in the Ministry of Education and Science is responsible for both academic and professional qualifications. It processes all applications for recognition of certificates of first-level higher education, secondary-level higher education, second-level Master's diplomas and specialist certificates obtained abroad. Line ministries are responsible for regulated professions in their fields. Administrative capacity appears insufficient for the scope of the tasks. The Commission has five members and is assisted by a technical secretariat which has a staff of two. Further efforts will be required to achieve full transposition of the *acquis* and establish an adequate institutional framework

### *Conclusion*

There are no discriminatory legal barriers to the right of establishment for EU operators in Albania. However, significant efforts need to be made regarding the alignment of legislation on the freedom to provide services with the *acquis*, as well as on administrative capacity and interinstitutional cooperation. Albania should have no major difficulties to align its national postal legislation with the *acquis* in the medium term, but adequate capacity and full independence of the NRA will need to be ensured. Legislation on recognition of professional qualifications needs to be further aligned with the *acquis*. The relevant structures and procedures for implementation need to be established.

*Overall*, Albania will have to undertake additional efforts to align with the *acquis* and to implement it effectively in the medium term. Early preparations and particular attention will be needed in the area of freedom to provide services.

### **3.4. Chapter 4: Free movement of capital**

Member States are expected to remove all restrictions on capital movements and payments both within the EU and between Member States and third countries. The *acquis* also includes rules on cross-border payments and execution of transfer orders concerning securities. The Directive on the fight against money laundering and terrorist financing requires banks and other economic operators to identify customers and report certain transactions, particularly when dealing with high-value items and large cash transactions. A key requirement in order to combat financial crime is creation of effective administrative and enforcement capacity, including cooperation between supervisory, law enforcement and prosecution authorities.

The *Stabilisation and Association Agreement* (SAA) sets out a timetable for capital liberalisation. It also provides for freedom and convertibility of current account payments and transfers.

In the area of **capital movements**, the Regulation on foreign exchange activity adopted in September 2009 liberalised current account transactions between residents and non-residents. It provides for unrestricted capital inflows and outflows. It also abolished previous prerogatives of the Bank of Albania on control of capital outflows.

Acquisition of real estate by foreigners is subject to certain restrictions: foreigners are not yet allowed to acquire agricultural land, forests, meadows and pastures. The SAA provides for progressive adjustment of the legislation in this area to ensure, by 1 April 2016, no less favourable treatment for EU nationals than accorded to Albanian nationals. This will require enhancing current administrative capacity. Moreover, Albania will need to solve existing uncertainties on real estate ownership rights.

The 1993 Law on foreign investments provides for a free investment arrangement for both non-residents investing in Albania and residents investing abroad. Foreign direct investment (FDI) has been one of the main factors in the recent economic development of Albania. In 2009, 304 foreign companies, 74 branches and 21 offices representing foreign companies were established in the country. The estimated value of FDI for 2009 totalled €695 million. Privatisation in key sectors (banking, telecommunications and energy) has been the main source of FDI. So far the government has retained no special rights or 'golden shares' when privatising strategic companies, but the existing legislation allows it to. The legislation governing investment in the non-banking financial market includes provisions which are not compatible with the *acquis* and can only be justified on the grounds of imperative reasons in the public interest.

The Albanian legislative framework on **payment systems** is different and far less developed than the current EU framework. Substantial amendments and adoption of new legal acts will be needed to bring it into line with the *acquis*. Cross-border payments are not regulated and rights and obligations related to provision and use of payment services apply to national transactions only and do not cover many aspects addressed by the EU directive. For example, provisions on electronic payment instruments are limited in scope and do not provide for consumer protection (settlement of disputes). The administrative structure necessary for transposition of the *acquis* is in place. However, it will need to be reinforced to cope with the increase in supervisory and enforcement duties during transposition and after adoption of the EU payment legislation.

The main legislative acts regulating the **fight against money laundering** are the 2008 Law on the prevention of money laundering and financing of terrorism (the AML law) and its implementing regulations. They already cover a number of requirements of the *acquis*. However, there are shortcomings concerning definitions, particularly of beneficial owners, shell banks and politically exposed persons. Certain measures required from financial institutions to deal with consumer due diligence (CDD) remain vague and provisions on politically exposed persons will have to be amended.

Implementation of the anti-money-laundering legislation is steadily progressing, with the latest initiatives focusing mainly on definition of suspicious transactions, CDD requirements, record-keeping obligations and supervisory issues. The October 2009 national strategy paper

on investigation of financial crime lays the foundations for progress in the fight against money laundering and financing of terrorism.

The number of cases referred by the Financial Intelligence Unit (FIU) to the Prosecutor's Office and the Albanian State Police has increased, as have the number and quality of inspections. However, effective implementation and enforcement of the legislation is a cause for concern. So far there has been only one conviction for money laundering. Despite a slight upward trend, the overall number of suspicious transaction reports (STR) sent to the FIU remains low and unsatisfactory. Electronic reporting remains very limited. Reporting is also uneven as, with the exception of commercial banks, most financial or non-financial institutions do not send STRs to the FIU. More outreach to the private sector will be necessary to increase awareness of reporting obligations. Moreover, the extensive use of cash in the economy and the high levels of organised crime and corruption are hampering the implementation of the framework to fight money laundering and financing of terrorism.

The General-Directorate for the Prevention of Money Laundering (GDPML) serves as the FIU. Its organisation and functions are regulated by the AML law. It operates as the national centre for collecting and analysing information on potential money laundering and terrorism financing activities and disseminating it to law enforcement agencies. The capacity of the GDPML has been improved with additional staff, training and IT equipment, but its overall capacity remains limited, in particular on the analysis side. Cooperation between law enforcement bodies has improved and specialised training for all institutions has continued, but further efforts are still needed.

### *Conclusion*

Capital movements in Albania are essentially liberalised and so far the country has met the deadlines for implementing its SAA commitments in this area. However, further efforts are still needed and the *acquis* on payments will need to be transposed. Adequate human resources need to be made available. A sound legal framework is in place to fight money laundering and financing of terrorism. Legislation needs to be further aligned with the *acquis*, but it should be possible to solve the existing shortcomings in the medium term. Effective enforcement of legislation will require further efforts and political determination to address systemic issues such as the large cash economy and the high levels of organised crime and corruption. An additional challenge will be to provide adequate training, guidance and supervision to the private sector.

*Overall*, Albania will have to undertake additional efforts to align with the *acquis* and to implement it effectively in the medium term in the field of free movement of capital.

### **3.5. Chapter 5: Public procurement**

The *acquis* on public procurement includes the general principles of transparency, equal treatment, and non-discrimination. In addition, specific EU rules apply to coordination of the award of public contracts for works, services and supplies, for the classical sectors, for utilities and for the fields of defence and security. The scope of application is defined according to contracting entities, contracts covered, application thresholds and specific exclusions. The *acquis* also lays down rules on review procedures and the availability of remedies.

The *Stabilisation and Association Agreement* (SAA) stipulates that EU companies, whether established in Albania or not, must have access to contract award procedures in Albania based on treatment no less favourable than that accorded to Albanian companies.

The Albanian legislation is broadly aligned with the **general principles** applying to public procurement on the internal market. However, not all the provisions of the public procurement directives have yet been transposed.

**Award of public contracts** is regulated by the 2006 Public Procurement Law (PPL), which was last amended in 2009. Detailed rules for implementing the law are in place. The PPL is aligned with the basic principles of the *acquis*. However, further alignment will be required in areas such as certain award procedures, remedies and defence-related procurement. The 2006 Concessions Law (CL) provides the legislative framework for concessions. Detailed rules on the award procedures are in place. The CL is not aligned with the *acquis* and does not include provisions relating to works and service concessions. Albania has no specific legislation on public-private partnerships.

As regards administrative capacity, the Public Procurement Agency (PPA) is the government authority responsible for policymaking and implementation in the field of public contracts and concessions. It also gives procuring entities advice and support to ensure proper application of the legislation. The PPA is no longer responsible for review procedures, as a new body, the Public Procurement Commission (PPC), was established for this purpose by the latest amendments to the Public Procurement Law. As a consequence, the staff of the PPA has been reduced from 36 to 18 and attention will be required to ensure that the PPA retains adequate capacity. The establishment of the PPC will ensure separation of policymaking and implementation from **remedies** functions, bringing the system more into line with the EU rules. The PPC is responsible for remedies, both for public contracts and for concessions. Its members are elected by the Council of Ministers. At present the PPC has a staff of 18. There is a need to ensure that it has adequate resources to carry out its functions effectively. Safeguarding the independence of the PPC will be essential. Particular attention should be paid to avoiding conflicts of interest and preventing corruption. The responsibilities of the PPC and the PPA and the arrangements for interaction between them need to be clearly defined.

The Public Procurement Advocate came into operation in 2008 to perform functions similar to an ombudsman, safeguarding the rights and interests of suppliers against acts or omissions by contracting authorities. The PP Advocate is appointed by parliament for a five-year term, on a proposal by the Council of Ministers. In the area of concessions, the Concession Treatment Unit in the Ministry of Economy has certain functions for promoting and assisting contracting authorities in evaluating and negotiating concessions.

### *Conclusion*

So far Albania has fulfilled its SAA commitments in this area. The legislative and institutional framework provides a good basis for development of an effective public procurement system in line with EU rules. Adequate capacity needs to be ensured in all public procurement bodies and clear definitions of responsibilities and cooperation mechanisms need to be established. Safeguarding the independence and effectiveness of the review procedures will be essential. *Overall*, Albania will have to undertake additional efforts to align with the *acquis* and to effectively implement it in the medium term, particularly in the areas of concessions and remedies.

### 3.6. Chapter 6: Company law

The company law *acquis* includes rules on disclosure requirements, formation, maintenance and alteration of capital, mergers and divisions, takeover bids and shareholders' rights, as well as corporate governance principles. In the area of financial reporting, the *acquis* lays down rules on presentation of annual and consolidated accounts, including simplified rules for small and medium-sized enterprises. Particular accounting rules apply to the banking and insurance sectors. Application of International Accounting Standards is mandatory for some public-interest entities. In addition, the *acquis* specifies rules on the approval, professional integrity and independence of statutory auditors.

The Albanian legislation on **company law** is, overall, consistent with the *acquis* on disclosure requirements, takeover bids, formation of public limited liability companies and alteration of their capital and rights of shareholders in listed companies. However, further alignment will be required on disclosure of information, minimum subscribed capital requirements for public limited companies, cross-border mergers and on reporting and documentation requirements for mergers and divisions. Albania has not yet adopted a corporate governance code.

The establishment of the National Registration Centre (NRC) in 2007 marked a significant step towards simplification of the regulatory framework for registration of companies. The NRC functions as a one-stop shop and has 32 service desks in operation throughout the country. The average time for effective registration is one day and a single registration number is valid for every step of the procedure. At present, shortcomings in implementation of the legislation on electronic signatures are hampering electronic applications for registration.

The NRC maintains the commercial register, which is kept in electronic form. There is no legal condition that members of the public must have a legitimate interest before they can request information regarding files stored in the register. Electronic access to the data in the company information register is possible. The law provides for compulsory annual disclosure of accounting documents. However, the low level of compliance points to inappropriate penalties for the purposes of the EU directive. There is still no mechanism in place for coordination and cooperation with registers from EU Member States.

**Corporate accounting** is regulated by the Law on accounting and financial statements. The law entered into force in 2006 and is largely aligned with the *acquis*. All companies listed on the stock exchange and their affiliates, together with banks, financial institutions, insurance and reinsurance funds and securities and all companies licensed to conduct investment activities are required to apply international financial reporting standards (IFRS). This also applies to large economic entities meeting set criteria on their number of employees and bi-annual revenue. Other entities are required to apply the 2008 national accounting standards.

The National Accounting Council is responsible for reviewing and advising on laws and regulations and for improving accounting methods and qualifications. It also drafts national accounting standards and translates IFRS into Albanian.

The Albanian legislation on statutory **audits**, organisation of statutory audits and certified accountant professions is broadly aligned with the *acquis* as regards public oversight, registration of auditors, approval and withdrawal of approval, education and training. The Public Oversight Board (POB) for the audit profession was established in 2009. It will be necessary to guarantee its independence. The salaries of its members are paid by the Ministry

of Finance and at present it depends on the Institute of Registered Chartered Accountants for administrative support. A system for investigations and disciplinary action in line with the *acquis* is not yet in place. Further measures will be required to ensure independent supervision by the POB of the quality assurance work undertaken by the Institute of Registered Chartered Accountants. The current legislation and practices do not ensure sufficient independence.

## Conclusion

The Albanian legislation on corporate accounting and statutory audits is broadly aligned with the *acquis*. The national accounting standards are developed in accordance with the law and international accounting standards. However, further alignment is required in the area of company law, including adopting the corporate governance code and operating the business register. Further efforts will be needed to ensure adequate capacity and independence on the part of the POB and guarantee its investigative and disciplinary powers and independent supervision of quality assurance.

*Overall*, Albania will have to undertake additional efforts to align with the *acquis* and to implement it effectively in the medium term.

### **3.7. Chapter 7: Intellectual property law**

The primary objective of the EU *acquis* in the area of intellectual property rights is to ensure the proper functioning of the internal market while striking the right balance between the rights of right-holders and the interests of users and adapting the legal framework to the changing technological environment. The copyright *acquis* harmonises rules on legal protection of copyright and related rights. Specific provisions apply to protect databases, computer programs, semiconductor topographies, satellite broadcasting and cable transmission. The *acquis* on industrial property rights sets out harmonised rules for legal protection of trademarks and designs. Specific provisions apply to biotechnological inventions, pharmaceuticals and plant protection products. The *acquis* also establishes an EU trademark and EU design. Finally, the *acquis* contains harmonised rules for enforcement of copyright and related rights and industrial property rights. It requires Member States to set up adequate implementing mechanisms, in particular effective enforcement capacity.

The *Stabilisation and Association Agreement* states that Albania must take the measures necessary to guarantee, by 1 December 2010, a level of protection of intellectual, industrial and commercial property rights similar to that existing in the EU, including effective means of enforcing such rights.

Albania acceded to the World Trade Organisation (WTO) in September 2000 and is therefore party to the TRIPS Agreement. It is also party to a number of international agreements, such as the Berne Convention on the protection of literary and artistic works, the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, the Universal Copyright Convention and its two Additional Protocols, the Rome International Convention for the protection of performers, phonogram producers and broadcasting organisations, the Convention for the protection of phonogram producers against unauthorised duplications of their phonograms and the International Convention for the protection of new varieties of plants. Therefore, the country has fulfilled its SAA commitments in this respect.

Albania has adopted a national strategy for the enforcement of intellectual and industrial property rights (IPR) with the objective of achieving a level of IPR protection similar to that in the European Union countries. The strategy sets out the obligations and roles of all the

institutions involved. Its aims include building adequate administrative capacity, improving inter-institutional cooperation and coordination, and informing and raising the awareness of the public on the benefits of IPR.

The current Law on **copyright and neighbouring rights** entered into force in 2005 and is not compliant with a number of EU Directives. The new law on copyright, drafted with the assistance of the World Intellectual Property Organisation (WIPO), has not yet been adopted. A Law on administrative contraventions was adopted in 2010 to improve collection of fines for infringements of copyright. The Albanian Copyright Office (ACO) established in April 2007 is the main institution responsible for monitoring and implementing the law on copyright. There are two Regional Copyright Offices, with ten more planned according to the IPR strategy. Information technology capacity of the copyright offices and on-line copyright services need strengthening.

As regards **industrial property rights**, the 2008 Industrial Property Law complies largely with the *acquis*. A number of implementing regulations are also in place. In 2010 Albania became a contracting party to the WIPO Patent Law Treaty and a full member of the European Patent Organisation (EPO). The General Directorate for Patents and Trademarks (GDPT) is responsible for granting and administering patents, commercial trademarks and service marks, industrial designs and geographical indications. The IPR strategy foresees establishing a network of centres for technical and scientific information under the responsibility of the GDPT. The administrative capacity of the GDPT needs reinforcing and the security of its IT systems needs to be upgraded.

Regarding **enforcement**, the legal framework will have to be thoroughly revised and its alignment with the *acquis* will need to be established. The main institutions active in IPR enforcement are the ACO, the GDPT, the General Directorate for Customs, the Tax Inspectorate, the Prosecutor's Office, the police and the courts. The General Directorate for Customs includes a directorate for the protection of intellectual property and has powers to act *ex officio*, but not the ACO or the GDPT. The IPR strategy foresees establishing a Market Inspectorate for Industrial Property to identify and monitor infringements of IPR legislation. However, the necessary legislation is still outstanding.

The current legal and institutional set-up is weak and implementation of IPR is hampered by many shortcomings. Both the ACO and the GDPT lack capacity, particularly for copyright inspection. Cooperation between enforcement institutions needs to be improved to ensure enforcement of IPR in practice. There are no specialised courts for IPR matters and the judiciary lacks appropriate experience and qualifications. The number of infringement cases brought to court and the number of convictions are low. Sanctions are not effective, as the level of fines and collection rates remain low. Public awareness of IPR is poor. The collective management societies are not working appropriately. Their income is very low, as most users do not pay royalties.

### *Conclusion*

Albania has drafted a new law to bring its legislation on copyright and related rights into line with the *acquis*. This law is expected to be adopted before the end of 2010. Alignment with the *acquis* on industrial property rights needs to continue. Albania adopted a national strategy for the enforcement of IPR aiming at further approximating its practices to those of the EU.

Shortcomings in human, technical and financial resources, particularly at the level of the law enforcement bodies and the judiciary, are hampering effective enforcement of intellectual and industrial property rights. *Overall*, Albania will have to show determination and make considerable and sustained efforts to align with the *acquis* and to implement it effectively in the medium term. At present it is doubtful that the country will be able to meet the 1 December 2010 deadline to comply with its SAA obligations.

### 3.8. Chapter 8: Competition

The competition *acquis* covers **anti-trust, merger and State aid** control policies. It includes rules and procedures to fight anti-competitive behaviour by companies (restrictive agreements between undertakings and abuse of dominant positions), to scrutinise mergers and to prevent governments from granting State aid that distorts competition on the internal market. Competition rules are directly applicable throughout the Union and Member States must cooperate fully with the Commission on enforcing them.

The *Stabilisation and Association Agreement* (SAA) includes provisions closely aligned with a large part of the competition *acquis*. These cover anti-competitive agreements between undertakings, abuse of dominant positions and State aid distorting competition. The SAA includes rules applying to public undertakings and to undertakings which have been granted special and exclusive rights and prohibits quantitative restrictions on imports from the EU into Albania. The SAA provides for operationally independent public authorities to supervise application of the competition rules. It also includes a protocol laying down rules on State aid in the iron and steel sectors.

As regards **anti-trust and mergers**, the current Competition Law applies to all sectors of the economy and is modelled on the EU rules. The law was amended in September 2010 and is now in line with the essential elements of the *acquis*. The amended law significantly lowers threshold values for prior notification of mergers to the Albanian Competition Authority (ACA). This could lead to an increase in notifications making it important to ensure that the ACA has adequate administrative capacity to deal with the increased caseload.

As regards administrative capacity, the ACA is a public body and a separate legal entity which performs its tasks independently and reports to parliament. The chairman and four members of the authority's decision-making body - the Competition Commission - are appointed by parliament for a five-year term. The ACA has adequate investigative powers including requesting information and searching companies' premises. It may impose fines on undertakings and public bodies. The thresholds for fines are being revised to bring them closer into line with EU policy. The ACA's decisions are subject to judicial review. The ACA may also intervene in regulated sectors by issuing policy recommendations. The ACA staff of 35 appears insufficient, considering the numerous tasks given to the authority and the lowering of the merger notification thresholds.

The 2005 **State Aid** Law was amended in 2009 to align it further with EU rules. The amended law includes rules on State aid for risk capital and for environmental protection. It allows State aid, including risk capital, to be granted to SMEs under certain conditions. A State aid inventory was compiled in January 2008. In 2007 Albania confirmed that it had no intentions to grant state aid to its iron and steel industry.

As regards *administrative capacity*, the State Aid Sector (SAS) under the Department for Market Mechanisms and State Aid in the Ministry for Economy, Trade and Energy (METE) is



the administrative body in Albania's two-tier system. The SAS carries out investigations and prepares proposals for State aid decisions. Until early 2010, investigative and operational tasks were performed by a separate State Aid Department. The SAS has the same number of staff (four) as the former State Aid Department and has reportedly retained the same responsibilities and tasks. However, it needs to be established that this apparent downgrading does not impinge on its operational capacity. The State Aid Commission (SAC) is the decision-making body for State aid control. It is chaired by the Minister of Economy. The SAC's four members are appointed by the Council of Ministers and may include nominees put forward by the METE, which is likely to be one of the main granters of aid. The SAC authorises State aid schemes and individual aid and may recover unlawful aid. It also monitors the use made of State aid. The SAC may initiate *ex officio* investigations and third parties have the right to submit complaints to it. To date, no *ex officio* cases have been opened and no complaints have been received.

Concerning **liberalisation**, the Competition Law incorporates the principles of the *acquis* regarding services of general economic interest. A number of undertakings in the transport, public utilities, postal services and energy sectors enjoy special or exclusive rights. Certain reserved sectors are supervised by sectoral regulatory authorities. Further analysis of the compatibility of these practices with the *acquis* will be needed.

### *Conclusion*

Albania's legal framework for competition is largely based on EU rules and the necessary legal and administrative structures are in place. However, sufficient safeguards need to be put in place to guarantee the operational independence and administrative capacity of the Competition and State aid authorities so that they can enforce the legislation efficiently. The actual independence of sectoral regulators needs to be demonstrated. Further monitoring and analysis of Albania's progress towards market liberalisation in reserved sectors in line with the *acquis* will be required.

*Overall*, Albania will have to undertake additional efforts to align with the *acquis* and implement it effectively in the medium term.

## **3.9. Chapter 9: Financial Services**

The main objectives of the *acquis* as regards financial services are to ensure financial stability, the financial soundness of companies operating in the financial sector and appropriate protection of consumers, investors and policy-holders. The aim is to build up confidence in the financial markets and to provide a level playing field. The *acquis* on financial services includes rules on authorisation, operation and supervision of financial institutions in the areas of banking, insurance, supplementary pensions, investment services and securities markets as well as on financial market infrastructure. Financial institutions can operate across the EU in accordance with the 'single passport' and the 'home country control' principle, either by establishing branches or by providing cross-border services.

As regards **banks and financial conglomerates**, the current Albanian legislation constitutes a solid ground for further alignment with the EU banking *acquis*, such as on calculation and adequacy of own funds, concentration of exposures, capital requirements, deposit guarantee and supervision of financial conglomerates. The Bank of Albania is responsible for licensing and supervising banks and branches of foreign banks in Albania and the branches of licensed banks operating abroad. The Bank of Albania has increased its regulatory activity and

reinforced and restructured its Supervision Department with special emphasis on risk-based supervision. It has signed memoranda of understanding with other institutions on the domestic financial market and with foreign supervisory authorities of banking entities operating in Albania. There are 16 banks operating in Albania, all of which are totally or partially foreign-owned. The Bank of Albania's strategy of gradual implementation of the Basel II Accord reflects the development of the domestic banking system.

The capacity of the BoA is adequate to address the challenges posed by approximation of Albania's legislative and regulatory framework to the EU rules. The responsibilities of the Bank's Regulation Office and of the Methodology and Analysis Office include adoption of best practices and approximation of the legislative framework to the EU.

In the field of **insurance and occupational pensions**, the 2004 Albanian Insurance and Re-insurance Act is not aligned with the EU directives on life and non-life insurance. Albania's legislation on voluntary pension plans does not reflect all provisions of the *acquis* as regards the activities and supervision of institutions for occupational retirement provision. As regards motor insurance, tariffs for compulsory insurance and third party liability will need to be liberalised in line with EU rules.

As regards **securities markets and investment services**, the Albanian regulated securities market consists of the Tirana stock exchange and the government securities retail market. There are no multilateral trading facilities in Albania and no specific rules are yet in place, neither on MTFs nor on trading on MTFs. The government securities retail market in 2008 was dominated by short-term instruments. The Law on securities and the Law on collective investment are partly aligned with the *acquis* and provide a good basis for further alignment. The Law on corporate bonds and local government bonds of October 2009 regulates the issuance of bonds by joint stock companies residing in Albania and by local governments. Nevertheless there are discrepancies from the definitions and exemptions provided for in a number of EU directives (e.g. the Prospectus Directive, MiFID, the Market Abuse Directive and the UCITS Directive), and no system for judicial appeal is in place in the authorisation procedure. There is no legislation on investor compensation schemes. Due attention will be required to take into account impending amendments to the *acquis* on investment services.

The Albanian Financial Supervisory Authority (AFSA) is the regulatory and supervisory authority in the fields of insurance, occupational pensions and securities. AFSA is an independent body funded essentially by its own resources. It has adequate oversight and investigative powers, but lack of adequate administrative sanctions for market abuse, *inter alia*, is limiting its capacity to ensure market surveillance. AFSA became a full member of the International Organisation of Securities Commissions (IOSCO) in 2009, thus paving the way for cooperation and exchanges of information with counterpart institutions worldwide. AFSA's administrative capacity will need to be strengthened to cope with the challenge of alignment with the Solvency II framework.

### *Conclusion*

Albania's legislation in the field of financial services is partly in line with the *acquis* and lays a solid foundation for further alignment. There is adequate capacity in the banking sector, but further efforts will be needed in the non-banking financial sector to enforce market surveillance and ensure adequate capacity to face future challenges.

Overall, Albania will have to undertake additional efforts to align with the *acquis* and to implement it effectively in the medium term, particularly in the non-banking sector.

### 3.10. Chapter 10: Information society and media

The *acquis* on information society and media aims to eliminate obstacles to the effective operation of the internal market in electronic communication services and networks, promote competition and safeguard consumer interests in the sector, including the universal availability of basic modern services. It also includes rules on information society services and a transparent, predictable and effective regulatory framework for audiovisual media services in line with European standards.

The *Stabilisation and Association Agreement* (SAA) calls for Albania to adopt the *acquis* on electronic communications networks and services by April 2010.

In the field of **electronic communications and information technologies**, the 2008 Law on electronic communications, which provides for broad approximation to the 2002 EU regulatory framework, will need to be amended to take into account recent developments in the *acquis* (in 2009). In addition, a number of related implementing regulations were adopted late and this has resulted in Albania not fulfilling its SAA commitments on time. The 1998 Law on public and private radio and television regulates radio and television activities, including satellite and cable services. Cable TV operators still require individual licences for provision of telephony and internet services, even though a general authorisation system applies to all other telephony providers under the Law on electronic communications.

Existing legislation lays down the conditions for liberalisation of the electronic communications and services market. Tariff re-balancing is being applied, but key competitive safeguards, including local loop unbundling, carrier selection, carrier pre-selection and cost orientation of wholesale charges by the incumbent operator, have not yet been implemented. Number portability has not been applied within the timeframe set by the law. An updated regulation on access and interconnection was adopted in June 2010. From 1 November 2010 onwards the mobile operators with significant market power (SMP) will no longer have obligations on termination of international calls. Competition is very limited on the fixed telephony market, with only one operator licensed to provide services throughout the country. There is some competition on the provision of broadband internet market. Mobile telephony penetration is high, due in part to the practice of having more than one SIM card. Overall, insufficient regulation and non-implementation of competitive safeguards are hindering effective competition.

The Ministry for Innovation and Information and Communication Technology is in charge of policymaking and legislation. The Agency for Electronic and Postal Communications (AKEP) is the regulatory authority and is also responsible for market surveillance and implementation of legislation. The administrative capacity and technical expertise of the ministry and AKEP need to be strengthened to address the responsibilities introduced by the 2002 EU regulatory framework and its subsequent revision. The Albanian legislation provides for the independence of the national regulator, a key component of the EU regulatory framework. However, the circumstances surrounding the dismissal of the steering committee of AKEP and the appointment of new members in 2008 and 2009 cast doubts over its effective independence.

Legislation on **information society services** is progressively being approximated to the *acquis*. In particular, legislation concerning eSignature is a good approximation of the directive. Nevertheless, there are shortcomings, for example regarding data retention, unsolicited communications, itemised billing and conditional access. The 2009 Law on electronic commerce will need to be amended to address restrictions to the freedom to provide information society services. Overall, additional efforts are needed to ensure effective implementation of legislation and policies. The main priorities of the 2009 strategy on the information society cover infrastructure, e-governance and public services, education and knowledge, e-business and development of the legislative framework. However, a broadband policy has not yet been developed and investment in communication infrastructure is still poor.

The National Agency for the Information Society (NAIS) has been integrated into the Ministry for Innovation and Information and Communication Technology which is responsible for reforms relating to the information society and for implementing the information society strategy. Other institutions relevant in this field are the Agency for Electronic and Postal Communications, the Commissioner for Personal Data Protection and the National Authority for Electronic Certification. The government has shown commitment to developments in this field by allocating budgetary and human resources, but administrative capacity to implement policies and legislation remains weak overall. A national contact point will also need to be established, as required by the Directive on e-commerce.

The main legislative acts in the field of **audiovisual policies** are the Law on public and private radio and television in the Republic of Albania, the Law on digital broadcasting, the Law on the press and the Law on the right to information on official documents. Albania's legislative framework is only partly aligned with European standards on media regulation. In particular, it is not aligned with the Audiovisual Media Services Directive and it fails to ensure some of the main standards, such as guaranteeing the independence of the broadcasting regulatory authority and of the public service broadcaster. The legislation also lacks provisions for regulating on-demand and online audiovisual services. Adoption of the strategy for switching from analogue to digital broadcasting is still pending. Other issues also require attention. In particular, there is a need to ensure freedom of expression and a better media climate by decriminalising defamation and libel. (*See Chapter 1.2 - Civil and political rights*)

Albania is party to the Council of Europe Convention on trans-frontier television and to the UNESCO Convention on the promotion of diversity of cultural expressions.

Parliament is in charge of policymaking and the National Council for Radio and Television (NCRT) is the regulatory authority monitoring enforcement. The NCRT's administrative and technical capacity is currently insufficient to meet the obligations imposed by the Audiovisual Media Services Directive. The NCRT is an independent authority. However, measures are required to guarantee its effective independence, including amendments to the existing legislation.

### *Conclusion*

Albania's legislation is partly aligned with the *acquis*. However, effective implementation of legislation is lagging behind and will require building adequate capacity in the national regulatory authorities and guaranteeing their independence. The country failed to meet its SAA obligations on electronic communications networks and services on time. The existing legislation on audiovisual media services fails to ensure some of the main EU standards on

media regulation. The overall climate for the media needs to be improved by adopting the draft law on audiovisual media services, decriminalising libel and defamation, adopting the digitalisation strategy and increasing transparency of media ownership.

*Overall*, Albania will have to make considerable and sustained efforts to align with the *acquis* and to implement it effectively in the medium term in the field of information society and media. The country needs to ensure implementation of its SAA commitments in the field of electronic communications networks and services.

### **3.11. Chapter 11: Agriculture and rural development**

The *acquis* on agriculture and rural development covers a large number of binding rules, many of which are directly applicable. The proper application of these rules and their effective enforcement and control by an efficient public administration are essential for the functioning of the common agricultural policy (CAP). Running the CAP requires the setting up of a paying agency and management and control systems, such as an integrated administration and control system (IACS), and the capacity to implement rural development measures. Member States must be able to apply the EU legislation on direct support schemes and to implement the common market organisation for various agricultural products.

Gradual liberalisation of agricultural trade between the EU and Albania has been provided for by an Interim Agreement on trade and trade-related matters since December 2006 and, since April 2009, by the *Stabilisation and Association Agreement*. Albania is a member of the World Trade Organisation and Central European Free Trade Agreement and implements liberal arrangements for trade in agricultural and food products. Their main features are a simple tariff system with a maximum duty of 15% *ad valorem* and the absence of incentives or support schemes for imports and exports of agricultural products. Albania has a free trade agreement with Turkey.

Agriculture continues to be one of the main sectors of the economy, generating about 18.5% of Gross domestic product (in 2008) and 48.3% of total employment. Around 500,000 people work in agriculture, of whom 55% full time and 45% part time. Labour productivity in agriculture is only 30% of labour productivity in the rest of the Albanian economy and 20% of the EU labour productivity in agriculture. More than 50% of the total population live in the rural areas where agriculture is the main economic activity.

The annual growth rate of agricultural production during the last five years was around 3 to 3.5%. Factors hindering the growth of this sector include the small size of farms (1.2 ha on average), land fragmentation (3.8 parcels per farm), underdeveloped irrigation and drainage systems, deficient infrastructure, lack of access to markets, the low level of development of the agri-food industry, the low technological level, weak farmers organisations and lack of access to financing. The land market lacks dynamism and functions below its potential due to problems with registration and unsettled land ownership.

The utilised agricultural area (UAA) totals approximately 1.15 million ha, of which 697,000 ha are arable land. About 43% of the arable land is in lowland areas with high productivity, 34% is in hilly areas and 23% is in mountainous areas. Livestock production accounts for 46% of the total production of the sector, followed by crops with 42% and fruit with 12%. Albania is a net importer of food products with a considerable negative trade balance. Around 80% of agricultural exports go to the EU. As for imports, the EU share is 60%.

The Ministry of Agriculture, Food and Consumer Protection (MAFCP), responsible for agricultural policymaking, has a staff of 2,200. The Agency for Agricultural and Rural Development (AARD, the *paying agency*) was established at the end of 2008 to implement the support measures in the agricultural, food and rural development sector. It has been designated as the future IPARD agency in charge of implementation of pre-accession measures.

The general land register information exists only in manual form and is not complete or up to date. The vineyard register was completed recently. An agricultural census is foreseen to take place in 2012. The results should provide a strong basis for designing agricultural and rural development policy. (See Chapter 18 – Statistics).

Albania's agricultural policy is based on the Agriculture and Food Sector Strategy for 2007-2013. The strategic sectors are (i) fruit, olive and grape production; (ii) vegetable production; (iii) livestock products; (iv) processing of fruit and vegetables; (v) processing of grapes; and (vi) processing of meat and milk.

Support for production is provided by a series of measures covering, in particular, subsidies for new plantations, drip irrigation, greenhouse equipment, headage payments for sheep, production aid for milk and olive oil, subsidies for organic production and interest-rate subsidies for agriculture and the agro-industry. The list of measures (some of which fall under the broad heading of rural development) and the level of support can change from one year to the next. The budgetary expenditure on such support totalled €10 million in 2009.

*Direct payments* in Albania are not compatible with the EU rules. There are substantial differences in the way direct support to farmers is delivered. Contrary to the approach taken in the reformed CAP, direct aid payments are coupled and will therefore need to be brought into line with the EU *acquis*. Direct aid is currently granted to Albania's key production sectors: production aid for milk and olive oil and headage payments for sheep and goat production. The aid rates are set annually. No obligations to comply with environmental standards or any other type of 'cross-compliance' standards have been introduced so far. Albania will also have to put in place an information system for beneficiaries of CAP payments under shared management and ensure yearly publication of names of beneficiaries.

There is no established structure equivalent to the integrated administration and control system (*IACS*). Introduction of a functioning *IACS*, including a farm register, an IT system and a land parcel identification system, is a difficult and lengthy task that will require extensive investment and institution-building well in advance of accession. Albania will also need a *farm accountancy data network (FADN)* in line with the *acquis*.

With regard to *State aid*, apart from market-related subsidies and rural development measures, Albania applies a number of additional measures. Albania will need to bring all its State aid measures into line with the EU rules and guidelines.

Agricultural markets are vulnerable and still under construction. The accent is being put on developing regional markets, predominantly served by small farmers. There is nothing comparable to the common market organisation under the EU *acquis*.

Regarding **arable crops**, *cereals* are grown on 628,000 ha, wheat and maize being the main crops. Potatoes are grown on 200,000 ha, showing an upward trend in recent years. Production of other arable products is of little significance in Albania. Albania's self-sufficiency rates are 56% for wheat, 81% for maize and 91% for potatoes.

Cattle breeding is the largest sub-sector in **animal production**. *Beef* production is 66,000 tonnes, *sheep and goat* meat production 44,000 tonnes, *poultry* 17,000 tonnes and *pig meat* 16,000 tonnes. Albania's self-sufficiency rates are 95% for beef, 99% for sheep and goat meat, 48% for poultry and 58% for pig meat. Total milk production was 1,045,000 tonnes in 2009, of which 87% was cow milk. About 10% of *milk and milk products* consumed in the country are imported.

As regards **specialised crops**, in Albania about 30,000 ha are planted with vegetables and watermelons, cultivated in open fields, plus about 750 ha in greenhouses. *Fruit* trees occupy an area of 20,000 ha, olive trees 42,000 ha and vineyards 10,000 ha. Estimates for 2009 put production of *vegetables* at 730,000 tonnes, of fruit at 47,202 tonnes and of *olive oil* at 5,060 tonnes. About 70% of farms produce vegetables, 80% cultivate fruit trees, 33% olive trees and 19% vineyards.

Production and yield of fruit and vegetables have been increasing year by year, but the sector is affected by the low collection and storage capacity and by the low level of producers' organisations. Despite the efforts made to promote and disseminate new production technologies and improve standards and market conditions, the fruit and vegetables sector still does not meet the need to supply the local market all year long.

Arboriculture and viticulture have been the fastest developing sectors over the last few years. Albania grants a per-hectare subsidy for planting new olive trees, fruit trees and vineyards. This measure is not in line with the *acquis*.

Farmers organisations are very weak and no support is granted from the national budget to promote establishment of groups of producers, as is the case under the EU common market organisation for fruit and vegetables. Albania needs to set up the administrative structure and legal provisions which would allow it to operate a system of producers' organisations, producer groups, associations of producers' organisations and inter-branch organisations in line with the EU *acquis* (rules on recognition, operational programmes, operational funds, eligibility criteria, etc.).

Particular attention needs to be paid to aligning existing marketing standards to EU standards and to performing conformity checks in line with the *acquis* (trader database, risk analysis, etc.). Development of the market information system will be necessary in order to meet the obligation to notify the Commission of producer prices for fruit and vegetable products, based on type, variety, size and/or presentation at representative markets.

**Rural development** in Albania is based on the rural development cross-cutting strategy for 2007-2013. A range of foreign-financed stand-alone programmes, coupled with national support measures, have been completed or are in implementation or preparation stage. The primary focus within the rural development policy remains, however, on agriculture. In addition, the measures currently applied have limited scope and there is a need for additional alignment with the EU *acquis*.

The strategic approach applied to rural development does not take sufficient account of agri-environmental aspects, of the transition from agricultural to non-agricultural employment and of training and education for people in rural areas. Participation by sectoral stakeholders in strategic planning exercises needs to be secured.

Responsibility for implementation of the rural development policy lies with the Ministry of Agriculture, Food and Consumer Protection. The capacity for both programming (for

example, preparation and adaptation of the programme, monitoring and evaluation) and implementation (for example, selection of projects, authorisation and control of payments) needs to be enhanced. Extension services would have to be strengthened in order to facilitate participation by farmers in implementation of rural development measures.

As regards **quality policy**, Albania protects geographical indications and traditional specialities by means of trademarks and, in particular, certified trademarks, which is different from the EU system of geographical indications and traditional specialities. This would have to be brought into line with the EU *acquis*.

**Organic farming** is a relatively small sector, but can be expected to grow in the future as a result of domestic support and ongoing international projects and trends. The total surface area of certified organic farms in Albania is 89,000 ha, but more than 99% of this area is occupied by uncultivated products (such as medicinal and aromatic plants). Over 99% of these products are exported. The number of operators registered in 2009 was 61, seven of which are groups of farmers. Albania's legislation on organic farming needs to be further aligned with the *acquis*.

### *Impact*

The **estimated impact** of accession by Albania on the EU common agricultural policy is commensurate to the structure and size of Albania's agricultural sector. Albania would add 1.15 million ha of UAA to the EU agricultural sector (equal to 0.6% of the EU UAA). Crop production, like production of milk, beef and sheep, would equal a very small percentage of current total EU-27 production. Overall, a preliminary assessment suggests that Albania's membership of the EU would have a very limited impact on the CAP.

### *Conclusion*

*Overall*, in the field of agriculture and rural development, Albania will have to make considerable and sustained efforts to align with the *acquis* and to implement it effectively in the medium term. Its agricultural policy will require adjustments, moving towards decoupled support. Albania will have to strengthen its administrative capacity and focus on setting up basic instruments and institutions for management and control of the funds available under the common agricultural policy. One important measure is timely preparation for implementation of the assistance for rural development available from the Instrument for Pre-accession Assistance (IPA). Albania needs to establish a solid basis of precise agricultural statistics. Particular attention must be paid to strengthening administrative capacity to manage common market organisation and rural development activities.

## **3.12. Chapter 12: Food safety, veterinary and phytosanitary policy**

The EU has an integrated approach aimed at ensuring a high level of public health, animal health, animal welfare and plant health by means of coherent farm-to-table measures and adequate monitoring, while ensuring effective functioning of the internal market. The *acquis* lays down hygiene rules for food production and veterinary rules, which are essential for safeguarding animal health, animal welfare and the safety of food of animal origin in the internal market. EU phytosanitary rules cover issues such as seed quality, plant protection products, harmful organisms and animal nutrition. Member States must have appropriate administrative structures for inspection and control of food products, including appropriate laboratory capacity.



Albania has started to comply with the *Stabilisation and Association Agreement* obligations regarding food safety and veterinary and phytosanitary policy, which aim at modernising and restructuring agriculture and the agro-industry in Albania and at supporting gradual approximation of the Albanian legislation with the *acquis*.

In the area of **general food safety**, overall responsibility for policymaking and coordination of the different institutions and regional authorities involved lies with the Ministry of Agriculture, Food and Consumer Protection. The administrative structure in place until the end of 2009 was complicated, with an unclear chain of command, overlapping responsibilities and a lack of efficient controls, enforcement and registration of food establishments.

In 2010 a National Food Authority was created with EU assistance, which, when fully operational, will assume all responsibilities for inspection, risk assessment and communication. As these are currently spread among four different ministries and regional offices, this will improve the overall administrative set-up for the sector. However, it will not be fully functional until 2011 and its functioning will have to be monitored. Human resources at central level are extremely limited, with no indication of any plan to increase administrative capacity and budgetary resources.

Responsibility for drafting implementing legislation in this sector is shared between the Ministry of Agriculture and the Ministry of Health. Limited progress has been made towards alignment with EU legislation. Legislation introducing the EU 'hygiene package', setting general and specific hygiene conditions for food establishments and food business operators, is still pending. Very substantial efforts will be necessary for progressive efficient implementation of hygiene rules and official controls on products of animal origin.

A system of veterinary laboratories is supervised by the Food Safety and Veterinary Institute. More efforts will be necessary on laboratory analysis for pesticide residues and on accreditation of laboratories. There is currently no rapid alert system for food and feed in place in Albania. Crisis management capacity will need to be developed and adapted to the new administrative structures. Steps will also have to be taken to ensure that all Albania's bilateral international food agreements comply with EU requirements.

The main legislative provisions on **veterinary policy** are the Law on the veterinary service and inspectorate and the Law on the *identification and registration of animals* and livestock farms. Legislation establishing the *control system for the internal market and for imports* transposes part of the *acquis*. However, implementing capacity needs to be reinforced. Regarding animal registration, efforts are being made on compliance with EU standards: identification and registration of bovines is almost complete, but its operational character will have to be assessed, while registration of small ruminants has started in parts of the country.

Albania has adopted legislation on *measures to control animal diseases* (e.g. anthrax, tuberculosis, brucellosis, rabies and Newcastle disease), but efforts need to continue to ensure alignment with the *acquis* and proper implementation, including sampling and reporting. It is necessary to put in place a compliant and effective system for trade in live animals, semen, ova and embryos. There is no Albanian legislation specifically on non-commercial movements of pet animals transposing the relevant EU legislation. Basic principles of animal welfare have been introduced in the national legislation, but will need to be further developed.

As regards legislation on **placing on the market food and feed**, *hygiene rules* and *specific rules for animal products* have been partly aligned. However, introduction of legal provisions

on hazard analysis and critical control points has not started yet and implementation of legislative measures is still incomplete. The microbiological quality of raw milk is below EU standards. There is no specific legislation on animal feed. Albania has no incineration capacity for high-risk material.

Alignment with the *acquis* on **food safety** is very limited and partial. In a number of areas, for example genetically modified organisms (*GMOs*), it has not started yet. Significant efforts will be needed to implement legislation in the sector, along with heavy investment to upgrade agro-food establishments.

As regards **specific rules for feed**, relevant provisions are included in the amended Law on livestock breeding, the Law on animal feed and the Law on nutrition. A considerable distance will need to be covered to achieve alignment with the EU legislation. Careful monitoring of implementation of laws and regulations in this sector will be necessary.

The main legislative provisions governing **phytosanitary policy** are set out in the Law on the Plant Protection Service. The Directorate for Food and Consumer Protection in the Ministry of Agriculture, Food and Consumer Protection is the competent authority for harmful organisms and seeds. It collaborates with the Ministry for the Environment, Forestry and Water Administration and with the Ministry of Health on plant protection products.

Alignment with the relevant EU *acquis* is very limited. Although regulated by national legislation, control of pesticide residues has not been applied for lack of laboratory facilities. Regarding the *quality of seeds and plant propagating material*, no distinction, uniformity and stability tests are performed for registration of plant varieties, except for wheat. The country follows OECD, and not EU certification schemes.

### *Conclusion*

Although Albania has made a start on alignment with and implementation of EU legislation, there are major concerns about food safety and veterinary and phytosanitary policy. Big efforts will need to be made to ensure gradual introduction of the *acquis*. Administrative capacity will need to be built up in view of the heavy workload linked to preparation for the obligations which come with membership. *Overall*, implementation of the existing legislation is weak. Areas such as the hygiene package, animal registration, food safety controls, *GMOs*, capacity for inspections and laboratory analysis and incineration of animal by-products will require particular attention from the national authorities, with technical assistance from the EU. Albania will have to make considerable and sustained efforts to align with the *acquis* and to implement it effectively in the medium term.

### **3.13. Chapter 13: Fisheries**

The *acquis* on fisheries consists of directly applicable Regulations, which do not require transposition into national legislation. However, it does require the introduction of measures to prepare the administration and operators for participation in the common fisheries policy (CFP), which covers resource and fleet management, inspection and control, structural actions, market policy and state aid control. In some cases, existing fisheries agreements and conventions with third countries or international organisations will need to be adapted.

The *Stabilisation and Association Agreement* regulates preferential trade in fish and fishery products and encourages cooperation on fisheries.

Economic activity in this sector includes marine fisheries, inland fisheries and aquaculture. Catches totalled 7,132 metric tonnes in 2008. Albania has taken the first steps to improve its administrative capacity by setting up a Fisheries Inspectorate Sector in the Ministry of the Environment, Forests and Water Administration (MEFWA). To increase monitoring and control of the fisheries sector, the Interinstitutional Maritime Operations Centre was brought into operation in January 2010. It currently has six staff. The Fisheries Inspectorate has 23 local fisheries inspectors, with relevant qualifications and experience, who monitor application of fisheries legislation, but are also assigned tasks relating to aquaculture, veterinary and zoo-technical issues.

There is a need to make the vessel monitoring system (VMS) compliant with the common fisheries policy by equipping the fishing fleet with blue boxes and by upgrading the infrastructure of the coastguard and of the MEFWA. Substantial strengthening of administrative capacity is required, as the staff at central and local levels with their rudimentary inspection equipment are insufficient to take on the tasks imposed by the CFP *acquis*.

Regarding **resource and fleet management**, the sector is not subject to any catch limitations, except for a quota on bluefin tuna. Albania has started implementing the CFP *acquis*, notably Regulation 1967/2006 on fisheries management measures (minimum size, technical characteristics and maximum dimensions of fishing gear, etc.) and Regulation 2371/2002 on fleet management. However, there is a need to ensure reliable, systematic and improved collection of data on the fishing fleet, catches, landings and the biological state of the fish stocks in Albanian waters and beyond.

The fishing fleet consists of 280 vessels based in four fishing ports (Saranda, Vlora, Durres and Shengjin). The large majority of the vessels are ageing, obsolete and in need of repairs and spare parts. In addition, there are 289 small fishing vessels (less than 8 metres long, using fixed gear or gill nets and fishing not more than 2 to 3 miles from the coast). Albania needs to complete the vessel register in accordance with CFP rules (Commission Regulation 26/2004) and to make it compatible with the EU vessel register. There is no statistical monitoring or recording of catches and landings and only limited collection of catch data from logbooks. Compliance with these basic requirements clearly needs to be addressed.

Concerning **inspection and control**, Albania introduced logbooks for vessels longer than 10 metres in 2009 (a simplified reporting system is planned for vessels less than 10 metres long), but more efforts will be necessary to streamline logbook requirements (format of logbooks, collection and processing of data, introduction of electronic logbooks for larger vessels, etc.) and to put in place a fisheries information system for cross-checking catch and landing data. Albania needs to establish a fisheries monitoring centre or to share facilities with neighbouring countries.

In order to reach an appropriate level of inspections, systematic training needs to be given to fisheries inspectors, particularly on pre-inspection preparation, vessel selection (risk analysis), maintaining control during an inspection, physical inspection of fish, fishing gear, fish holds, documents, VMS, completion of inspection reports and post-inspection cross-checks.

An electronic fisheries information system performing cross-checks between quantities recorded in the logbook and the quantities recorded in the landing declaration and/or sales notes is still lacking. The system must be able to detect discrepancies and missing documentation. It is very important to conduct systematic physical inspections of catch

composition and logbook records during the landing procedure and to draw up an inspection report containing full details each time.

In preparation for management of **structural action**, reinforcement and training of staff, backed up by EU expertise, will be required. Measures on **market policy** are at an embryonic stage, in particular concerning producers' organisations and collection of market data. There are no wholesale fish markets, although investments are planned.

In order to comply with the *acquis* on combating illegal, unreported and unregulated fishing, Albania has prepared catch certificates for fisheries products to be exported to EU countries and has notified the relevant EU authorities about the vessel register, licensing procedures and checks on the veracity of catch certificates.

Albania provides **State aid** to support development of fisheries infrastructure in the four fishing ports and excise-free fuel for fishing vessels. Albania will have to comply with EU State aid rules for the fisheries sector upon accession.

Regarding **international agreements**, Albania has been a party to the International Commission for the Conservation of Atlantic Tunas since 2008. It is a member of the General Fisheries Commission for the Mediterranean and is participating in the FAO AdriaMed project (co-funded by the EU).

The overall impact of Albania's accession to the EU will be negligible in terms of trade balance, fleet, production and functioning of the CFP.

### *Conclusion*

The Albanian fisheries sector is gradually developing, with catches increasing and some investment in infrastructure. Progress has been made on streamlining administrative structures and on resource management, fleet inspection and control. However, approximation to the EU *acquis* is still at an early stage and policymaking and administrative capacity at central level, including for managing structural actions, are inadequate. Further investment and training will be necessary for local inspectors, as will improvements in data collection and fleet monitoring, including satellite monitoring. *Overall*, Albania will have to make considerable and sustained efforts to align with the *acquis* and to implement it effectively in the medium term.

### **3.14. Chapter 14: Transport policy**

EU transport legislation aims at improving the functioning of the internal market by promoting efficient, environment- and user-friendly transport services. The transport *acquis* covers road transport, railways, aviation, maritime transport and inland waterways. It governs technical and safety standards, social standards and market liberalisation in the context of the single European transport market.

The *Stabilisation and Association Agreement* (SAA) places an obligation on Albania to grant unrestricted access to EU transit traffic to cross its territory and provides for applying non discriminatory road charges as well as for a timetable for harmonisation of the road safety legislation with the EU.

In the case of **road transport**, legislative alignment with the EU *acquis* is fairly advanced and implementation has started in all areas, including on the implementation of the digital

tachograph. Adequate administrative capacity is in place to deal with the *social acquis*. Access to the market for goods and passenger transport for both national and international services is regulated, however one of the four criteria for access to the occupation of road transport operator, namely the financial standing criteria is lagging far behind EU requirements. Although some actions have been taken to harmonise the national legislation with EU requirements for vehicles' inspections, road safety remains a concern.

In the **rail transport** sector, Albania needs to step up its efforts, both on aligning and on implementing the EU *acquis*. The state owned Albanian railway company has separated its accounts for passenger and freight services to prepare for compensation for passenger transport and calculation of the costs involved in its passenger operations. However, independent railway institutions, which are the precondition for the open access to the Albanian rail network, are not established. The infrastructure manager and the state-run railway undertaking (HSE) do not enjoy the independence required under the EU railway legislation and their unbundling remains a concern. The agreement on Albania's sole international rail border crossing with Montenegro is under revision to align it with EU legislation.

There is no **inland waterways transport** in Albania.

As regards **combined transport**, Albania is in the initial phases of its development.

As regards **air transport**, Albania is continuing the implementation of the first phase of the European Common Aviation Area (ECAA) Agreement. In this context, *air safety* remains a continuing concern. Albania has transposed the EU *acquis* in this field but has not yet ensured effective implementation of the legislation. The safety oversight by Civil Aviation Authority (CAA) over the country's carriers needs to be improved. In spring 2010 Albania adopted a new air code and passed legislation aiming at increasing the human resources and improving the expertise in the field of air safety in the CAA as well as establishing an independent National Body for investigation of accidents and incidents in civil aviation. As regards *aviation security*, Albania needs to ensure compliance with the latest version of the security requirements of the European Civil Aviation Conference (ECAC). In relation to the air traffic management *acquis*, the single European sky, the four main regulations have been adopted, as well the common requirements regulation and the flexible use of airspace regulation. Further efforts are needed to complete regulatory alignment with the single European sky within the ISIS Programme, in particular as regards the implementation of a solid national supervisory authority.

In the case of **maritime transport**, Albania is a member of the International Maritime Organisation (IMO) and of the International Labour Organisation (ILO). Albania's legislation is fairly in line with EU *market rules*, although some adjustments are necessary. References to authorisations and licensing schemes need to be removed from the legislation on market access to international transport. Cabotage is reserved to national flag-carriers, which conflicts with European rules. Finally, there is a requirement that ship's captains must be Albanian nationals, whereas alignment with the EU *acquis* would require extension to all EU nationalities. The rules on vessel registration and establishment of ship-owners are consistent with EU law.

Substantial efforts will be needed to improve both flag State control and port State control. The rates of detention of the Albanian vessels pursuant to the Paris Memorandum of Understanding on Port State Control was 21% in 2009 compared with an EU average of 2.2%

and the Albanian flag is listed as very high risk, being in the Black List of the Paris Memorandum. Concerning *maritime security*, Albania has already taken a number of steps to align with international and EU requirements. However, there is no indication as regards the alignment of domestic shipping with the EU *acquis*. A maritime administration was put in place in April 2009, with Port State and Flag State departments recently created, but adequate capacity to fulfil the required tasks has not been developed yet.

As regards **satellite navigation**, Albania does not currently plan to participate in the Galileo satellite navigation programme, once it is operational..

### *Conclusion*

*Overall*, Albania will have to make considerable sustained efforts to align its legislation with the *acquis* and to implement and enforce it effectively in the medium-term. While it is well advanced in the case of road transport, serious efforts need to be made to step up its action in the rail, maritime and aviation sectors. In order to ensure effective implementation of the *acquis*, Albania's administrative structures in the different transport sectors would need to be considerably strengthened.

### **3.15. Chapter 15: Energy**

The EU's energy policy objectives are to improve competitiveness, ensure security of supply and protect the environment. The energy *acquis* consists of rules and policies covering competition and State aid, the internal energy market (opening up electricity and gas markets in particular), promoting renewable energy sources, energy efficiency, crisis management and oil stock security obligations, nuclear energy and nuclear safety and radiation protection.

Albania is a member of the Energy Community and, as such, is legally bound to implement substantial parts of the energy *acquis*. The country has no integrated energy law. Different energy sectors are regulated by specific laws. The current national energy strategy is not compliant with the *acquis*. A new national energy strategy is being prepared.

In 2008, Albania's overall energy balance comprised firstly oil products (64%) followed by electricity (23%), firewood (12%) and coal (1%). The transport sector accounted for 42.3% of consumption, the residential sector 23.6%, industry 13%, services 10.8% and other sectors 10.3%. Total energy consumption in 2008 was 10% higher than in 2007, mainly because of the increase in road transport. Domestic production of primary energy covered 62% of total primary energy consumption in 2008. Oil and gas made up 49.8% of domestic production, electricity 28% and firewood 18.5%. Imports largely consist of oil products.

As regards **security of supply**, the law places an obligation on Albanian oil refineries and wholesale companies to hold 60 days reserves of oil products, which will increase to 90 days by 2011, in line with the EU Oil Stocks Directive. Albania will need to demonstrate effective compliance with current and future oil stocks requirements. With respect to security of electricity supply, Albania's 2009 security of supply statement takes into consideration the existing generation capacity and the current limitations in interconnection and lack of energy diversification. The Power Sector Law, the new market model and the National Energy Strategy cover basic provisions on the security of electricity supply. However, Albania needs to make further efforts to implement the *acquis* on security of electricity supply as required under the Energy Community Treaty. The 2008 Law on natural gas defines security of natural gas supplies.

Albania depends almost exclusively on hydropower for its *electricity* generation, making it vulnerable to unfavourable hydrological conditions. The transmission network needs substantial investments. Its interconnections with neighbouring countries are limited although developments are underway in priority infrastructure projects of the Energy Community. Albania has some indigenous *gas* production, which is used only domestically for technological purposes. The country is not linked to any international gas pipelines. *Coal* (lignite and brown coal) production is not significant and is of poor quality. The government plans to discontinue coal production in the near future. Current coal imports are very limited. No notifications of State aid for this sector have been given. Local production of *crude oil* is significant and increasing. Exploration and production are carried out with the involvement of foreign investors. The refining sector is 85% privatised. Albania's legislation on oil exploration is harmonised with the EU Hydrocarbons Directive.

On the **internal energy market**, the electricity sector is regulated by the Power Sector Law, which is largely in line with the Energy Community Treaty. However, a number of obstacles still hinder full market opening. A substantial percentage of transmission and distribution capacity is reserved for the wholesale supplier. The transmission system operator is unbundled and 76% of the shares of the distribution operator have been privatised. Electricity tariffs are not yet at cost-recovery level. Illegal connections and high technical and non-technical losses are undermining the viability of the electricity market. Bill collection rates remain below the EU average. The 2008 Gas Law, based on the Energy Community Treaty, transposes a considerable part of the relevant *acquis* but fails to provide for market opening. Albania has not yet started to implement the 2009 internal energy market *acquis* for gas and electricity ("the third package of legislative measures"). A joint independent regulatory authority (ERE) for electricity and gas was established in 2008. Its monitoring and enforcement powers need to be strengthened.

Albania's **renewable energy** law has not yet been adopted, but the country has transposed some provisions of the *acquis* in its legislation on promoting use of biofuels and other renewable fuels in transport. Albania has also taken measures to support development of electricity from renewable sources, particularly in the hydropower sector. Albania's regulatory framework needs further development to meet the requirements of the Renewable Energy Directive in all sectors. Implementation of the legal framework will require particular attention. All contracting parties in the Energy Community will have to set a target for the minimum national share of renewable energy for 2020 based on the method applicable to EU Member States. One of the main challenges facing Albania is to establish a reliable value for the share of renewable energy in 2005, which is the base year for the calculation.

The legal framework on **energy efficiency** is partly aligned with the *acquis* on the energy performance of buildings, energy labelling of household appliances and energy services. However, overall implementation of legislation is poor, including on energy labelling of products. Alignment with the recast Eco-design Directive is being prepared and a new law which will cover the *acquis* on cogeneration is being drafted. The draft national energy efficiency action plan sets an indicative target for energy savings by 2016.

As regards **nuclear energy, nuclear safety and radiation protection**, Albania has no nuclear power or research installations or other nuclear fuel cycle facilities. The government is considering the possibility of using nuclear technology for energy production. The National Agency on Nuclear Energy (AKOB) established in January 2010 is responsible for developing the nuclear programme, which is at a very early stage, including its financial aspects. The country has made progress on the nuclear regulatory framework, although its full

compliance with the EU *acquis* still needs to be verified and a significant number of regulations and working procedures need to be developed. Albania is a party to the Convention on physical protection of nuclear material. It has adopted a law to ratify the 2004 Protocol Additional to its Comprehensive Safeguards Agreement with the IAEA, although the law has not yet entered into force. However, Albania has not yet ratified the Joint Convention on the safety of spent fuel management and the safety of radioactive waste management and the Convention on nuclear safety . The regulatory authority is weak and will require substantial financial and human resources to build up its capacity to establish, implement and effectively enforce legislation in line with international standards and the Euratom *acquis*, including the 2009 Nuclear Safety Directive. The arrangements for informing the public are incomplete. The environmental radiation monitoring programme needs to be put into action. Finally, measures will be required to guarantee the financial independence of the regulatory authority from the Ministry of Health.

The country has a centralised radioactive waste management facility with capacity of 300 m<sup>3</sup> to store conditioned waste produced in various applications of radiation sources. This facility needs to be properly licensed as it is currently licensed as a source. Furthermore, its safety analysis report needs to be (re)written.

### *Conclusion*

Albania has aligned its legislation with a number of aspects of the *acquis* and amendments to the legislative framework are being prepared. However, the fields of energy efficiency, renewable energy and oil stocks as well as ensuring the viability of the electricity market and the development of the gas market require further attention. The role of the electricity and gas regulatory authority needs to be strengthened. Energy diversification is poor and the country is still vulnerable as regards security of electricity supply. The capacity of the regulatory authority on nuclear safety and radiation protection needs substantial strengthening. *Overall*, the country will have to undertake additional efforts to align with the *acquis* and to implement it effectively in the medium term.

### **3.16. Chapter 16: Taxation**

The *acquis* on taxation covers the area of indirect taxation as regards value added tax (VAT) and *excise* duties and lays down definitions and principles of VAT. Excise duties on energy, tobacco products and alcoholic beverages are subject to EU Directives covering the structures of the duties, the levels of minimum rates and the holding and movement of excisable goods. Regarding direct taxation, the *acquis* covers some aspects of corporate taxes and aims mainly at removing obstacles to cross-border activities between enterprises. EU legislation in the area of administrative cooperation and mutual assistance provides tools to prevent intra-EU tax evasion and tax avoidance.

In the area of **indirect taxation**, Albania's legislative framework is in line with the Capital Duty Directive.

Albania's VAT framework is fairly in line with the EU rules, but some amendments will be required to bring the current legislation into line with the VAT Directive, including as regards exemptions and special schemes.

The *excise* system covers most products subject to excise in the EU. Excise duties are applied to tobacco products, alcoholic beverages and oil products. However, there are discrepancies with the EU system, including on scope, structures and rates.



On alcoholic beverages taxation, the duty categories and some provisions on preferential treatment of raki are not harmonised with the *acquis*. Albania's tax structure and rates on tobacco differ from those in the EU. Furthermore, the tax on cigarettes is based on the nicotine content. This is not in line with the *acquis*. Energy products do not include electricity, coal, natural gas and LPG. The system for travellers' allowances is different from the EU system as regards the amounts that can be imported, allowances, value thresholds and minimum age of beneficiaries.

Concerning **direct taxation**, Albania's legislative framework is not in line with the the main EU legislative acts in this area. Albania broadly complies with the code of conduct on business taxation, although existing restrictions on shareholdings in resident entities will need to be assessed. As regards good governance on tax matters, there are some concerns about transparent identification of the final owner or beneficiary of assets, liabilities or transactions, as required under international and EU standards. Future double taxation agreements being negotiated will be based on the OECD model which ensures full exchanges of information in all tax matters.

On **administrative cooperation and mutual assistance**, Albania will need to implement the *acquis* on mutual assistance in direct tax matters, including the Savings Directive, upon accession. Central liaison offices for exchanges of information on VAT and excise will have to be set up and equipped with adequate personnel and procedures to meet the deadlines set in the *acquis* for providing information. Interconnectivity and interoperability with the EU excise movement and control systems and with the computerised systems for exchanges of information on VAT and excise will have to be put in place.

As regards **operational capacity and computerisation**, the legislative and administrative framework to implement and enforce the tax legislation is in place. The General Directorate for Taxation (GDT) in the Ministry of Finance is in charge of implementation of national taxes, public charges and collection of contributions. Its administrative capacity and procedures are adequate for its current tasks, although further efforts will be needed on training and working methods. The VAT system will need to be improved, mainly with regard to identification of traders. An effective excise control system, including electronic administration procedures, needs to be put in place. Additional capacity will also be needed to comply, upon accession, with the requirements on administrative cooperation with other EU Member States on VAT, excises, direct taxes and taxation of savings. The perception of corruption in the Tax Administration is high and Albania will need to make particular efforts to address this issue.

The Tax Administration has made significant efforts to enhance voluntary compliance by taxpayers and manages to collect the bulk of tax debts effectively. Current legislation requires payment of the full amount of tax due before an appeal can be lodged against a decision of the Tax Administration and does not allow a bank guarantee to be used for this purpose. Risk analysis, inspection and interinstitutional cooperation will require further strengthening to enhance enforcement and reduce the large informal economy.

A Taxation Council has been established as an advisory body to the Ministry of Finance and to enhance technical cooperation between the ministry, the GDT and taxpayers. However, it is not yet operational and its role needs to be further defined. The Taxpayers' Advocate became operational in June 2010 to provide information and assistance to taxpayers and to assist the authorities in the fight against corruption and unethical behaviour among tax officials.

Computerisation is fairly advanced in the Tax Administration and the integrated tax system is operational throughout the country. Electronic tax procedures are in place for business taxpayers and implementation is being extended. A cash register system has already been implemented for large and other VAT taxpayers, with 18,000 daily balances being filed electronically. However, the computer centre needs to be upgraded and human resources and systems development in the IT area need to be reinforced, including with the aid of training. Upon accession, the country will be required to develop and operate all the national parts of trans-European taxation and excise IT systems.

### *Conclusion*

Albania's tax legislation is partly aligned with the EU *acquis*. Further approximation is needed on indirect taxation, particularly on excise, and Albania will need to implement most of the *acquis* on direct taxation. There are no potentially harmful tax measures, but the transparency of the tax system needs to be further examined. The administrative capacity of the Tax Administration will need to be strengthened, particularly as regards risk analysis, inspection, internal communication and communication with other agencies or public authorities. Particular efforts will be needed to establish the administrative structures required by the *acquis* upon accession and to achieve full connectivity with the EU's computerised tax and excise systems.

*Overall*, Albania still faces challenges with legislative alignment and administrative capacity, but should, in the medium term, have the capacity to comply with the requirements of the *acquis*, provided it keeps up its efforts.

### **3.17. Chapter 17: Economic and Monetary Policy**

The *acquis* in the area of economic and monetary policy contains rules requiring the independence of central banks in Member States and prohibiting both direct financing of the public sector by the central banks and privileged access for the public sector to financial institutions. Member States are expected to coordinate their economic policies and are subject to the rules of the excessive deficit procedure as well as of the Stability and Growth Pact. The national central banks will be subject to the Statute of the European System of Central Banks (ESCB). New Member States are also committed to complying with the criteria for adopting the euro. Until they join the euro area, they will participate in the Economic and Monetary Union as Member States with a derogation and must treat their exchange rate policy as a matter of common concern.

In the area of **monetary policy**, the Law on the National Bank is broadly in line with the *acquis*. It provides a large degree of independence for the Central Bank and sets it the primary objective of maintaining price stability. The law stipulates that the Bank must neither seek nor take instructions from other authorities and that it is the sole institution responsible for monetary and foreign exchange policies in the country. However, the law will need to be further aligned with the *acquis*, including on the personal independence of Council members and the Central Bank's accountability. In particular, provisions on dismissal of the Governor will need to be brought more closely into line with the ESCB Statute.

The Central Bank is financially independent and, overall, has sufficient administrative capacity to function effectively.

Concerning **economic policy**, the Law on the National Bank explicitly prohibits extending credit directly to the State, although not to other public institutions. Regarding the prohibition

of privileged access by the public sector, existing legislation will need to be aligned with the *acquis*, as there are acts that provide specific rules or incentives for the financial sector to lend to the public sector or to purchase public securities. In particular, the Law on insurance and the Law on pension funds contain provisions which effectively give the public sector privileged access to financial institutions.

Since 2006, Albania has been participating in the pre-accession economic policy surveillance which aims at strengthening economic planning capacity in the country to prepare it for eventual participation in the economic policy coordination and budgetary surveillance mechanisms of the European Monetary Union (EMU). In this context, Albania submits regular economic and fiscal programmes (EFP). The 2010 EFP covers the period 2010-2012 and is based on several medium-term government strategies. It broadly complies with the requirements on format and content, although the public finance data are not compliant with the ESA95 European system of accounts. There are some significant gaps in the data, which point to the need for further strengthening of the statistical system, including statistical governance. All in all, the programme presents a very extensive but mainly descriptive outline of the structural reform agenda. It remains vague on the overall strategy and on the link between the reforms and the fiscal objectives and provides no clear timetable for implementation of the reforms.

### *Conclusion*

Albania's legislation is not in line with the *acquis* on central bank independence, monetary financing and privileged access for the public sector to financial institutions.

*Overall*, Albania will have to undertake additional efforts to align with the *acquis* in the field of economic and monetary policy and to implement it effectively in the medium term. Preparation for participation in the third stage of EMU as a Member State with a derogation should pose no major problems prior to accession.

### **3.18. Chapter 18: Statistics**

The *acquis* on statistics consists almost exclusively of legislation which is directly applicable in the Member States, such as European Parliament and Council regulations and Commission decisions or regulations. It also includes a range of methodological handbooks and manuals. International agreements provide a further basis for production of statistics.

In the area of **statistical infrastructure**, the statistical system in Albania is rather decentralised with many government agencies producing official statistics. The Law on official statistics was adopted in 2004. The national statistical institute INSTAT has the coordinating role. INSTAT is subordinate to the Prime Minister's Office and the appointment and dismissal of the General Director are subject to the approval of the Prime Minister. In order to strengthen the professional independence of INSTAT, the Law on statistics needs to be revised to set a fixed term for the General Director and to define more precisely the role of INSTAT as coordinator of the national statistical system. The composition of the statistical council should be changed to better represent all stakeholders of official statistics. The current level of human and financial resources available for statistics is not sufficient for full compliance with the *acquis*.

The area of statistical **classifications** needs to be substantially improved. The translation and introduction of the new classification of economic activities (NACE Rev. 2) is particularly important and will require coordination with all producers of official statistics. The quality of

the business **register** is inadequate and requires regular updating. A regional statistical classification compatible with the NUTS classification is still not available.

In the area of **sector statistics**, weaknesses persist, in particular in agricultural, social, business and macroeconomic statistics. Agricultural statistics needs to be upgraded and agromonetary statistics as well as a farm structure survey need to be introduced. Population statistics are based on the civil register, but that needs further improvements. The population and housing census in 2011 will allow an update of demographic statistics and more accurate population projections. Migration statistics are not in line with EU requirements. The Labour Force Survey needs to be implemented on a quarterly basis. The Survey on Income and Living Conditions does not comply with the *acquis*. Other social statistics, e.g. on education and health, are likewise not well developed. Further improvements are necessary concerning the methodology and the data sources of national accounts. Statistics on government deficit and debt, foreign direct investments as well as monetary and financial statistics need further improvement as well. This is especially valid for the measurement of the remittances. The consumer price index in Albania does not comply with the EU harmonised index of consumer prices. External trade statistics partly comply with EU requirements, but closer collaboration between INSTAT, the Bank of Albania and the customs authorities is necessary. Business statistics need further improvement. Limited statistics are available on transport and energy. Fishery, environment and tourism statistics are not in accordance with EU standards.

### *Conclusion*

*Overall*, the statistics produced by Albania are not yet satisfactorily aligned with the EU standards, particularly as regards classifications and registers and on agricultural, business and macroeconomic statistics. The professional independence of INSTAT is not sufficiently anchored in the legislation. Albania will have to ensure that sufficient human and financial resources are made available and will have to undertake additional efforts to align with the *acquis* and to implement it effectively in the medium term.

## **3.19. Chapter 19: Social Policy and employment**

The *acquis* on social policy and employment includes minimum standards in areas of labour law, equal opportunities, health and safety at work and anti-discrimination. Member States participate in EU policy processes in the areas of employment policy, social inclusion and social protection. The social partners of Member States participate in social dialogue at European level. The European Social Fund (ESF) is the main financial tool through which the EU supports the implementation of its employment strategy and contributes to social inclusion efforts.

Albania's labour market is marked by low activity (at 61.9% in 2009) and a low employment rate (at 53.4%) compared with the EU average and targets, reflecting the very low employment of women. Unemployment stands at around 13.8%, but the official unemployment rate does not correctly reflect the actual unemployment in the country. The rate of long-term unemployed and discouraged jobseekers is high, whilst at the same time the Albanian labour market experiences substantial skills mismatch problems. Informal employment is widespread.

As regards **labour law**, Albania's legislative framework partly covers a number of basic principles laid down by the *acquis*. However, several adjustments to the national legislation will still be necessary in order to fully transpose and implement the *acquis* in the field of

labour law. Legislation similar to the EU directives on information and consultation at national or transnational level is lacking (i.e. European Work Councils, European Company, European Cooperative Society). There is no legislation corresponding to the Insolvency Directive, nor to the directive on posting of workers. The general District Courts have specific sections to adjudicate industrial disputes. A specific law regulates the State Labour Inspectorate.

The recently adopted Law on **Health and Safety at Work** aims to transpose the Framework Directive 89/391/EEC. It introduces new concepts, such as employers' obligations regarding risk assessment, along with prevention and protection measures, services provided by external bodies with a view to protection from and prevention of health and safety risks and worker participation. It also introduces a classification of accidents at work, depending on their consequences and the number of persons involved. Its effective implementation remains to be seen. Considerable efforts will be needed to ensure proper transposition and effective implementation of the EU Directives in particular sectors and on specific subjects, such as carcinogenic substances, explosive atmospheres, health and safety signs, artificial optical radiation, display screen equipment, vibration, chemical, physical and biological agents at work and others.

The State Labour Inspectorate (SLI) is responsible for monitoring and enforcing legislation on health and safety at work. It has 12 regional directorates, but its capacity to enforce legislation throughout the country is hampered by lack of equipment and by the fact that only one out of the 24 local offices planned has been established. Certain sectors are excluded from the scope of authority of the SLI (such as agriculture and matters related to exposure of biological agents at work), which substantially affects the uniform implementation of health and safety at work *acquis*.

**Social dialogue** in Albania is still developing. It takes place almost exclusively in the framework of the National Labour Council (NLC), the main tripartite consultation body. The NLC is chaired by the Minister of Labour, Social Affairs and Equal Opportunities and includes representatives from workers' and employers' organisations. Both cross-industry and sectoral organisations are represented. Its aim is basically to examine draft proposals submitted by the government. A working group has been set up within the NLC to amend the current regulation of its functioning, but for the time being the NLC has no explicit roles and responsibilities and lacks policymaking powers. In practice, social partners have very limited influence over policy- and decision-making. Improving social dialogue in the country will require raising the profile of the NLC, determining the representativeness criteria to be met by social partners and improving the scheduling and regularity of its meetings.

Bipartite social dialogue is not very developed. Collective bargaining at sectoral level is still almost non-existent, with the exception of some sections of the public sector. There is no national collective agreement in Albania.

Albania has a Sector Strategy for Employment for 2007-2013 and is currently developing a national action plan for employment. Setting and monitoring feasible objectives and ensuring the necessary commitment on the part of the entire government and social partners are key challenges. **Employment policy** essentially consists of a number of active labour market measures. Four active labour market policies (ALMPs) are in place: subsidised employment for women in need; work placements for university graduates; subsidised on-the-job training; and training for people in need. Both the budget and the number of participants involved in such measures are small in relation to the needs for active support. Overall, the financial

resources put into active measures are very low (0.016% of GDP in 2009) compared with the EU average of 0.46% of GDP in 2008. No in-depth evaluation of ALMPs has been undertaken to date. The effectiveness of training programmes in terms of integrating participants into the labour market is perceived to be low, as training is often short and its quality remains an issue. Strengthening cooperation between employment offices and training institutions and continuing to survey skills needs on the labour market are important issues.

The labour market measures are implemented by the National Employment Service (NES). Throughout 2009 and 2010 NES staff were trained and guidelines were issued for modern counselling services. However, regional and local labour offices are still poorly staffed and equipped and can rarely offer effective counselling services. Capacity-building is necessary in the employment service, especially at local level.

In terms of preparations for the **European Social Fund** (ESF), currently there is neither a social nor an employment fund in Albania which would be similar to the ESF. Measures will be needed to set up these structures and ensure the required consistency between Albania's national legislation and the cohesion policy framework. The Ministry of Labour, Social Affairs and Equal Opportunities is responsible for developing social policy in Albania, but other ministries and services also have specific sectoral powers. Sector strategies exist, and inter-ministerial working groups ensure coordination. However, an integrated strategy for the medium term, with effective coordination mechanisms and institutional set-up for management and implementation of funds, needs to be put into place, involving all relevant stakeholders in the planning and programming process. Preparations for programming and implementation of IPA Component IV on human resources development, in view of future implementation of the ESF are still at a very early stage. In this context, the quality and consistency with national priorities of employment and social policies requires attention. (*See also Chapter 22 - Regional policy and coordination of structural instruments*)

The National Strategy on **Social Inclusion** for 2007-2013 will need improving, especially in the form of clearer targets, budgets and responsibilities. Coordination of social inclusion initiatives by the government remains weak, both across sectors and between central and local government. Further efforts are needed to assess the level of poverty better and to align with the new concepts and approaches developed at EU level.

The 2009 Action Plan for the Decade of Roma Inclusion is structured around six priority fields (education, employment and social protection, housing and infrastructure, health, social inclusion and equal opportunities, and cultural heritage).

Implementation of the National Strategy for People with Disabilities suffers from insufficient budget allocations at central and local government levels. There is a lack of appropriate health, education, social and employment services for people with disabilities. Their level of inclusion in the labour market is very low. Quotas set by law to promote their access to employment are generally not met (not even in public institutions). The disability legislation is fragmented, with different categories benefiting from special status. The government is working on a draft law which will cover all people with disabilities.

In the area of **social protection**, despite a favourable population structure (relatively low old-age dependency ratio), the Albanian pension system has recorded deficits in recent years. Weak links between contributions paid and benefits received create incentives for contribution evasion, especially for those with higher earnings. The coverage of the pension system is relatively low by EU standards. Albania has implemented a number of reforms with

the aim of improving its adequacy and sustainability. Avoiding further deterioration of the replacement rate in the long term will need attention. Health expenditure is low compared to the needs.

Regarding **anti-discrimination legislation**, the Constitution prohibits discrimination on several grounds. The 2010 Anti-discrimination Act significantly improved alignment of the legislation with the *acquis*. Several issues remain to be correctly addressed, including the scope of the prohibition of discrimination and the exceptions to the principle of equal treatment. Relations between the Anti-discrimination Act and other legislation need to be further clarified. The Commissioner for Protection from Discrimination, a national equality body, has been established, but lacks adequate premises and budget. Establishing adequate administrative capacity for both anti-discrimination and gender equality measures is a major challenge.

In the area of **equal opportunities**, the Labour Code and the Law on gender equality prohibit discrimination on grounds of gender in connection with employment. The Anti-discrimination Act also covers gender discrimination. Albania is a party to a number of international conventions, including the UN Convention on the elimination of all forms of discrimination against women.

Basic legislation is in place, including on equal pay, access to employment, maternity protection and maternity leave. Further legal adjustments are necessary, e.g. introducing parental leave, removing the over-protection of women and improving the equal pay legislation. The different pension ages for men and women will need to be adapted and the pension system will have to be further examined.

The Law on measures against violence in family relations is intended to prevent and reduce all forms of domestic violence and to protect family members who are victims of violence, paying special attention to women and children. A National Strategy for Gender Equality and Domestic Violence for 2007-2010 and an action plan to implement it were adopted in 2007. The action plan has eight strategic priorities and is implemented by central and local government institutions in partnership with academic institutions, media, civil society and international organisations.

The Ministry of Labour, Social Affairs and Equal Opportunities is the authority responsible for gender equality. The National Council for Gender Equality is an advisory body on gender policies and programmes. There is a network of gender officers in ministries and local government authorities and a national referral mechanism is being established to provide a coordinated response to domestic violence. Public awareness campaigns on gender equality and domestic violence have been organised. Representation of women in political decision-making is low, but the introduction of a quota in the Law on gender equality and the Electoral Code marked a step forward on promoting female participation in policy-making bodies.

### *Conclusion*

Albania has started alignment with the *acquis* in the areas of labour law, equal treatment for women and men and anti-discrimination, but further efforts are necessary, in particular in the area of health and safety at work. Effective implementation of the legal framework and building adequate enforcement capacity remain major challenges, particularly in the areas of anti-discrimination and health and safety at work. Social dialogue is still at an embryonic stage. A strategy is needed to improve the institutional framework and mechanisms for social

dialogue, alongside measures to build up social partners' capacity and establish clear representativeness criteria. In the areas of labour market, employment, social inclusion and social protection, capacity for policy development, implementation and monitoring remains a major challenge, not least with a view to Albania's participation in the European Social Fund. Developing reliable data and statistics remains an outstanding issue in several areas, in particular labour market analyses. *Overall*, Albania will have to make considerable and sustained efforts to align with the *acquis* and to implement it effectively in the medium term.

### **3.20. Chapter 20: Enterprise and industrial policy**

The *acquis* under the enterprise and industrial policy chapter consists largely of policy principles and policy recommendations, which are reflected in communications, recommendations and Council conclusions. The EU's enterprise and industrial policy, including its small and medium-sized enterprises (SME) policy, seeks to promote the competitiveness of the economy. It is strongly driven by the Europe 2020 strategy, the successor of the Lisbon strategy for growth and jobs, and by the 2008 Small Business Act for Europe. Enterprise and industrial policy comprises policy instruments, including financial support and regulatory measures. It also includes sectoral policies, such as recommendations for more targeted policy analysis and for new initiatives and consultations at sectoral level.

Albania has a relatively small and not very advanced industrial base consisting mainly of low-tech sectors (e.g. mining, textiles and clothing, footwear, food and beverages and furniture). In 2009 industry contributed 7.2% to GDP (out of which 6.5% from the processing industry). Textiles and footwear account for 1.6% of GDP and 30% of industrial employment. Other major manufacturing sectors are food products, beverages and tobacco (1.3% of GDP and 12% of industrial employment) and basic metals and metal items (1.3% of GDP and 8.4% of industrial employment). The chemicals, rubber and plastics industry makes a modest contribution to the economy. Agriculture generates 16.2% of GDP and services 54.3%.

The Business and Investment Development Strategy (BIDS) provides the strategic framework for Albania's **enterprise and industrial policy**. It aims at promoting steady growth and dynamic development of entrepreneurship, productivity and competitiveness, investment and better use of human, financial and natural resources. The industrial policy is built on analysis of competitiveness and includes broad consultations with stakeholders. During preparation of the policy, Albania followed the EU principles. In general, the measures taken are appropriate to the needs of industry, but attention needs to be paid to effective implementation. The Ministry of Economy, Trade and Energy (METE) is the main institution responsible for enterprise and industrial policy. The Albanian Business and Investment Agency (Albinvest) has been replaced by the Albanian Investment Development Agency. Like Albinvest, the new agency depends of METE and is responsible for promoting investment, improving competitiveness and providing professional support services to SMEs.

Albania's SME policy is based on the European Charter for Small Enterprises and the country is committed to implementing the Small Business Act for Europe. Albania's definition of 'SME' is in line with the EU's as regards the number of employees and autonomous partners and linked enterprise concepts. The share of SMEs in the economy is similar to that in the EU. In 2008 their value added to GDP stood at 63%, their contribution to exports at 69%, while their contribution to employment was 82.7%. The overall climate for business has improved as a result of developments in the regulatory framework. In particular, business registration and licensing procedures were improved and one-stop shops are in operation for these formalities. Positive measures were also taken in the form of tax reforms, entrepreneurship



education and programmes to support SMEs and promote their competitiveness. Albania will need to step up its efforts to remove remaining obstacles to investment. In this context, fighting corruption and the informal economy, ensuring the rule of law, in particular enforcement of contracts, raising the quality of exported products and improving human capital and infrastructure will require attention.

Albania currently has no cluster policy, but clusters are being developed in several sectors with external assistance. Incubation and start-up support face challenges, mainly related to the lack of infrastructure and poor availability of bank loans for start-up activities, particularly in rural areas.

Only a few components of an innovation policy and effective innovation support mechanisms are in place. Current initiatives related to strategies, governance and support, such as establishment of the Agency for Research, Technology and Innovation (ARTI) and the planned business relay innovation centre (BRIC), are encouraging signs of development of the institutional framework for Albania's innovation policy.

As regards **enterprise and industrial policy instruments**, Albania is participating in the Entrepreneurship and Innovation Programme (EIP) under the EU Competitiveness and Innovation Framework Programme, but not yet in the Enterprise Europe Network or EIP's financial instruments. In general, access to finance remains limited. The banking system finances mainly large companies and tends to be conservative towards SMEs. Credit to the private sector increased in 2009, but loans are still provided mainly for purchase of plants and equipment. Start-up businesses have almost no access to financing from banks and rely on the non-banking sector and microcredit providers. Bank requirements on loan collateral vary from 120% to 150% of the loan and credit interest rates are high. Albania has not yet transposed the Directive on combating late payment in commercial transactions.

On **sectoral policies**, Albania has launched initiatives on mining, tourism and the clothing and footwear sectors. Mining generated 0.8% of GDP in 2008 and 9% of employment in industry. However, it should be taken into account that revenue from mining is very cyclically dependent. Textiles and footwear account for about 43% of total exports. However, the clothing and footwear sectors rely heavily on outward processing traffic based on assembly operations with low labour costs and exporting mainly low value-added products.

Tourism contributed approximately 4.1% to GDP and 3.3% to employment in 2008. This sector is expanding rapidly. Albania has adopted sustainability as the general overarching principle in this sector, which is in line with EU policy.

### *Conclusion*

Albania's SME and industrial policies are broadly in line with EU principles. However, remaining challenges to improve the business environment and remove remaining obstacles to investment will require particular attention and the Directive on combating late payment in commercial transactions will need to be transposed. *Overall*, the country should, in the medium term, have the capacity to comply with the requirements of the *acquis* provided it continues its efforts.

## **3.21. Chapter 21: Trans European Networks**

This chapter covers trans-European networks policy in the areas of transport, telecommunications and energy infrastructure, including the EU guidelines on development of

trans-European networks and the support measures for developing projects of common interest. The aim of establishing and developing trans-European networks and promoting proper interconnection and interoperability of national networks is to take full advantage of the internal market and contribute to economic growth and the creation of employment in the European Union.

As regards trans-European **transport networks** (TEN-T), Albania faces a huge challenge due to limited financial resources, its mountainous landscape and the concentration of the population and the main economic activities in the western part of the country. As the country is experiencing rapid economic growth, parallel development of a sufficient transport network is very important. This needs to be done in the framework of the South-East European Core Network and the future TEN-T network. In the case of the *road core network*, huge progress has been made on its quality and density. The *rail core network* has been disregarded so far and needs quick targeted improvements in order to ensure sustainability in the medium and long run. Regarding *sea port* connections, rehabilitation of Durres port, the main commercial port in Albania, must continue. Sufficient financial resources need to be allocated to maintenance of *transport infrastructure*. Finally, access from the remote rural areas to the core network has to be ensured by continuing to improve the secondary network.

In connection with trans-European **energy networks** (TEN-E) in Albania, only the electricity transmission has been developed to date, whereas there is no gas market. The Albanian *gas* pipeline network consists of some 400 km linking producing sites in the south with major domestic consumers, most of the infrastructure is no longer in use. Numerous possible gas interconnectors have already been studied, also in the context of the Energy Community process and infrastructure priorities have been identified. Despite a gas act passed in 2008 for the development of a fully-fledged natural gas sector in the country, Albania needs to further develop the legislative framework for gas, as a precondition for further extension of the gas market and for participation in the regional gas network. Albania has expressed interest in two projects: the Ionian Adriatic gas pipeline (along the Adriatic coast to Croatia, constituting an element of the Energy Community Gas Ring) and the Trans-Adriatic pipeline (which aims at linking Greece to the south of Italy). With regards to the *electricity* transmission system in Albania, voltage profile in the main network of 400kV and 220kV is almost in compliance with the criteria of UCTE. Nevertheless, the system needs *overall* network reinforcement and improvement of operational measures. The current decrease in voltage in the transmission network limits the general net consumption and certain transmission lines are overloaded. The Albanian system is connected with Greece (400kV) and Montenegro (220kV), and under construction with Kosovo (220 kV) and Montenegro (400kV), yet some interconnectors need to be upgraded and finalised. Access to imported electricity is limited by the interconnection capacities and, to some extent, by the existing procedures of capacity allocation, which need to be addressed. Two projects of common interest are identified in the TEN-E guidelines: "Electricity connection between Elbasan/Albania and Podgorica/Montenegro" and "Electricity connection between Kardia/Greece) and Elbasan/ Albania". The former is nearing completion. It is essential to improve the coordination of transmission system investments with the neighbouring countries, notably with Greece, the former Yugoslav Republic of Macedonia and Kosovo, bilaterally and in the framework of the Energy Community.

Albania is not participating in the trans-European **telecommunication network**. The government expresses interest in joining the Information and Communication Technologies Policy Support Programme under the Competitiveness and Innovation Programme (CIP).

*Conclusion*

*Overall*, Albania will have to undertake additional efforts in the field of trans-European transport and to make considerable and sustained efforts in the field of trans-European energy networks to align with the *acquis* and to implement and enforce it effectively in the medium term. Albania needs to develop its transport infrastructure in line with the expected volume of traffic. Rail needs specific attention, as it could play an essential role in the medium-term and needs to be well connected with the existing link with Montenegro. A balance needs to be struck between the necessary improvement of the core network and its connections on one hand and, on the other, the profitability of some projects, which must be taken into account better. Albania has been actively participating in the South-East Europe Transport Observatory (SEETO) and must continue to cooperate with its neighbours with a view to jointly defining projects of regional interest. Albania needs to increase the security of electricity supply and to make the natural gas available to the Albanian economy in order to allow for efficient and stable infrastructure.

### **3.22. Chapter 22: Regional policy and coordination of structural instruments**

The *acquis* on regional policy and coordination of structural instruments consists mostly of framework and implementing regulations, which do not require transposition into national legislation. They lay down the rules for drawing up, approving and implementing programmes financed by the Structural Funds (the European Regional Development Fund and the European Social Fund) and — for some Member States — Cohesion Fund programmes reflecting each country's territorial organisation. These programmes are negotiated and agreed with the Commission. Implementation is a shared responsibility of the Member States and the Commission. Member States must comply with the provisions of the *acquis*, for example in the areas of public procurement, competition and the environment, equality between men and women and non-discrimination, as well as sustainable development, when selecting and implementing projects.

As regards the **legislative framework**, the issue of regional development is not regulated in any uniform manner. There is no specific law on regional development, though it is not a requirement to have such a law to implement regional policy programmes. However, the Albanian authorities are currently preparing a law, which would lay the foundation for regional development policy in Albania. Currently, fragmented regional development operations are planned in a coordinated way via a newly established Regional Development Fund.

Albania has three levels of governance: national/central, county and local (municipalities). Directly elected self-government bodies exist at central and local levels only. County-level bodies consist of delegated representatives from local units. Albania's territory is organised into 12 counties and 373 local government units. The State administration is divided into 36 districts for the purpose of carrying out public tasks under State supervision or State responsibility. There are neither administrative nor self-governing regions in Albania that would correspond to level 2 in the NUTS classification, counties being the equivalent of NUTS level 3.

The Law on the organisation and functioning of local government stipulates that municipalities are responsible for drawing up development strategies and selecting and implementing projects related to them. Funds for financing municipalities are raised from local taxes and transfers from the central budget. Albania is in the process of decentralisation.

The Budget Law does not explicitly provide for multi-annual budget programming, but allocations for multi-annual policies and projects are coordinated in the three-year Medium-Term Budget Programme and transposed in the annual Budget Acts, thus securing financing for multi-annual investments.

Albania is currently preparing for components III (regional development) and IV (human resources development) of the Instrument for Pre-Accession (IPA), which will become available once Albania is granted candidate country status. The main aim of IPA components III and IV is to prepare candidate countries for management of financial instruments under the Structural and Cohesion Funds following EU accession. During the first half of 2010, the Albanian authorities adopted a number of decisions to put in place an **institutional framework** to plan, manage and monitor future assistance under IPA components III and IV. The strategic coordinator is the Deputy Minister in the Ministry of European Integration, while the operating structures have been designated in the Ministry of Public Works, Transport and Telecommunications (for component III) and in the Ministry of Labour, Social Affairs and Equal Opportunities (for component IV). The heads of these structures have been appointed. Other structures established for previous EU assistance under IPA component I will remain in place, namely the national IPA coordinator, the national authorising officer and the National Fund. Capacity developed in the Central Finance and Contracts Unit (CFCU) will serve as a basis for implementing future programmes on IPA components III and IV. The Audit Authority is a newly established body. Its functional independence still needs to be verified and its capacity developed in order to fulfil its audit duties.

**Administrative capacity** to deal with the requirements of the EU's structural policy need to be developed. Competent staff needs to be recruited and solid managerial capacity needs to be developed at all levels of the administration dealing with the Structural Funds. To manage this process, training and organisational development strategies remain to be formulated and the necessary financial resources to be allocated. Sound financial management, control and monitoring mechanisms will need to be given adequate human resources to deliver the expected results.

Experience with pre-accession funding under component I is limited and further efforts will be necessary to increase administrative capacity to allow smooth management and implementation of projects under IPA III and IV. Attention must be paid in this context to build up a pipeline of eligible projects. The same applies to the capacity at local and county levels and in municipalities, which must be significantly strengthened.

A number of **programming** documents have been adopted by the government to implement and promote sectoral policies for regional development purposes. The National Programme for Development and Integration for 2007-2013 is the main national planning strategy for Albania. It synthesises the strategic priorities defined in various sectoral strategies. These documents could provide a good basis for drafting a strategic coherence framework for the IPA. Drafting of the strategic coherence framework is ongoing and preparation of the operational programmes has recently commenced.

Strategy-making, including for regional development, is coordinated via the Integrated Planning System, which involves line ministries and other stakeholders in setting policies. Financing is budgeted under the Medium-term Budget Programme and implementation is coordinated and monitored by the Department for Strategy and Donor Coordination.

Partnership needs to be ensured, as the planning and programming process should involve full participation by economic and social partners. Future policy instruments remain to be designed to ensure consistent consultation of social and economic partners and broad participation by citizens and interest groups via open consultations and public meetings.

Action under IPA components I and II has allowed the Albanian authorities to familiarise themselves with the **monitoring and evaluation** requirements for EU co-funded programmes and projects. Evaluation capacity is very weak in Albania. Proper national systems and mechanisms need to be put in place to evaluate and monitor the quality and impact of development programmes. For decision-making and reporting purposes, a management information system (MIS) is being currently introduced by the Albanian administration for IPA components I and II, which could be a good basis also for components III and IV.

A law governing rules, methodology, procedures and administrative structures for **financial management and control** activities in the public sector is planned. In the context of the IPA, the national authorising officer (NAO), as the head of the National Fund (NF), will be responsible for sound financial management of EU funds once the country has been accredited to manage IPA funds in a decentralised manner. This responsibility is assumed by the Deputy Minister of Financial Affairs. The NAO assumes overall responsibility for financial management of EU funds and is responsible for the legality and regularity of financial transactions. The NAO is also responsible for effective functioning of management and control systems under the IPA.

An Audit Authority has just been set up as an independent agency reporting to the Minister of Finance. The High State Control Office plays no role in auditing of EU funds in Albania. Internal audit units and irregularity officers in IPA bodies need to be strengthened. (*See also Chapter 32 Financial Control*)

### *Impact*

Albania had a nominal GDP of €7.8 billion in 2007. This equals about 0.06% of EU-27 GDP for about 0.6% of the EU-27 population. Considering the size of its economy and population, Albania's accession would marginally reduce the EU's average per capita GDP (PPS) figures and, hence, slightly influence the eligibility of regions.

Given that its per capita GDP is considerably below the EU average, Albania would be entitled to receive EU contributions from the Cohesion Fund under the convergence objective. Following a preliminary assessment of Albania's economic situation and considering the current capping rules of the structural funds, the estimated impact of Albania's possible accession on EU cohesion policy is considered manageable.

### *Conclusion*

*Overall*, cohesion policy instruments and structures are at a very early stage in Albania. Institutional structures need to be established and their administrative capacity will have to be considerably strengthened to allow successful participation in the IPA regional development component and EU cohesion policy. A positive start has been made with preparations for IPA components III and IV, however, considerable and sustained efforts to set up sound procedures and competent administrative structures will be necessary to allow Albania, in the medium term, to apply EU rules and channel the funds from the EU structural instruments.

### 3.23. Chapter 23: Judiciary and fundamental rights

EU policies in the area of the judiciary and fundamental rights aim to maintain and further develop the Union as an area of freedom, security and justice. The establishment of an independent and efficient judiciary is of paramount importance. Impartiality, integrity and high standards of adjudication by the courts are essential for safeguarding the rule of law. This requires a firm commitment to eliminating external influences over the judiciary and to devoting adequate financial resources and training. Legal guarantees for fair trial procedures must be in place. Likewise, Member States must fight corruption effectively as it represents a threat to the stability of democratic institutions and the rule of law. A solid legal framework and reliable institutions are required to underpin a coherent policy of prevention and deterrence of corruption. Member States must ensure respect for fundamental rights and EU citizens' rights as guaranteed by the *acquis* and by the Charter of Fundamental Rights.

The principle of *independence* of the **judiciary** is enshrined in the Constitution and implemented in relevant legislation. However, there are obstacles to the full independence of judges.

Judges of the High Court and the Constitutional Court are appointed by the President of the Republic with the consent of the Assembly. The need for simple majority instead of qualified majority consent by parliament has led to the politicisation of the appointment process of the two courts, which undermines the neutrality and independence of these institutions.

The High Council of Justice (HCJ), as the body administering the judiciary, is responsible for the protection, appointment, transfer, dismissal and professional evaluation of judges of first instance and appeal. The HCJ does not have competences over the High Court, which is politically appointed and has an extra-ordinary position within the judicial system. Such a disconnection of the highest instance court from the other instance courts weakens the independence of the whole system.

The first appointment as well as the reassignment of judges of the district courts and of the appeal courts is made by the President upon the proposal of the HCJ based on criteria established by law and competitive procedures for selection. However, the HCJ does not provide reasoned decisions, apart from in disciplinary matters. There are also no procedures or provisions for candidates to appeal these decisions. The lack of transparent decisions as well as the lack of appeal provisions or other judicial review mechanisms entails the risk of political interference and possible susceptibility to corruption, thus limiting the independence of judges. With a view to strengthening their independence, judges benefit from full immunity by law. However, immunity can only be lifted upon decision of the HCJ, rendering investigations more difficult. In addition, it is one of the main risk factors for corruption in the judiciary.

The judiciary system in the Republic of Albania enjoys financial independence. Courts have a separate budget which they propose pursuant to the law and which they administer themselves. However, budgetary appropriations for the judiciary overall remain insufficient.

*Inspections* of the judiciary are undertaken by two institutions, the inspectorates of the High Council of Justice and of the Ministry of Justice. There is a certain degree of overlap and lack of coordination between the two inspectorates. The evaluation of judges by the HCJ lacks transparency. Disciplinary procedures are launched solely by the Minister of Justice without control mechanisms or balances; this bears the risk of political interference.

The General Prosecutor is appointed by the President of the Republic by simple majority consent of the Assembly, making this appointment open to political influence. The other prosecutors are appointed by the President upon the proposal of the General Prosecutor. The prosecutorial system is highly centralized and pyramidal. It is considered to belong neither to the judicial nor to the executive power. The autonomy of prosecutors is guaranteed in the trial phase, but is limited in the investigative phase, thus reducing its efficiency.

The School of Magistrates is in charge of initial and continuous *training* of judges and prosecutors.

The principle of equality before the law and the right to process by *impartial* courts is established by the Constitution. The Code of Judicial Ethics was introduced by the National Judicial conference in 2000 and overseen by this body since then. A computerised case management system and random allocation of cases in criminal and civil procedures are in place in most judicial offices. Further efforts are needed to have a fully uniform and harmonised integrated case management system functioning in all courts.

The judiciary suffers from problems of *transparency* and *efficiency*. Court management is poor due to a lack of human and financial resources, in particular in first instance district courts. There is no sound and adequate organisation and training of court administrators. The backlog of cases is problematic, court proceedings are slow and the number of trial sessions for cases is high. Working conditions in courts generally remain poor and hearings often take place in judges' offices, hampering transparency and efficiency. Working conditions also raise concern over the security of judges. Currently, the Ministry of Justice is preparing amendments to the Civil Procedure Code and the Civil Code aiming at tackling these problems.

Albania lacks a comprehensive long-term *strategy for the judiciary sector* to continue and complete reform efforts in this area.

*Enforcement* of decisions is weak, in particular in cases where state institutions are the defendants. The new private bailiff system has not yet started to function and no sound case management for bailiffs is in place.

*Access to justice* has been improved by the Law on legal aid of 2008, which provides for free legal assistance in civil, criminal and administrative proceedings to different categories of persons. However, the law is not implemented effectively yet. Furthermore, generally applicable judicial administration fees were increased substantially in March 2010, limiting access to justice for the least economically advantaged.

(See also *Political criteria — Democracy and the rule of law*)

Concerning, **anti-corruption policy** and measures, Albania is undertaking coordinated efforts.

Albania has acceded to the Council of Europe Criminal and Civil Law Conventions on Corruption and the Convention on Laundering, Search, Seizure and Confiscation of Proceeds from Crime. Albania ratified the UN Convention against Corruption and has been a member of the Group of States against Corruption (GRECO) since April 2001. Out of the thirteen recommendations of GRECO's report on Albania, two recommendations regarding the rule on political party financing remain to be addressed.

Albania has adopted several anti-corruption measures and laws. The Criminal Code criminalises the main forms of corruption and the Criminal Procedure Code includes key tools for fighting corruption, including special investigative measures. A cross-cutting Anti-corruption Strategy was prepared in 2008 as well as two action plans since then to implement the strategy. Albania has a law on declaration and audit of assets for civil servants and a law for the prevention of conflict of interest while exercising public office. Albania needs to vigorously implement the anti-corruption strategy and action plans as well as relevant legislation.

A number of key institutions and agencies have been established for the fight against corruption. The Department for Internal Administrative Control and Anti-Corruption performs internal controls on administration and is the administrative body in charge of coordinating the anti-corruption strategy. The High Inspectorate for Declaration and Audit of Assets is in charge of receiving and verifying the declaration of assets of public officials and the compliance of their positions with the law on conflict of interest. In the Ministry of Interior, an Internal Control Service was established to investigate corruption cases in the police. Joint Investigative Units for economic and corruption crimes were established, which aim at improving the coordination efforts of law enforcement agencies. These units are increasingly effective in investigating and prosecuting corruption cases.

Additional measures include the establishment of E-procurement systems to reduce personal contacts between contracting authorities and bidders, and reforms in the education sector (e.g. electronic database for registrations and anonymous entry exams) and health sector (e.g. new regulation on the referral system). The effectiveness of these measures still has to be proven in practice.

Despite an improved legal and institutional framework, corruption remains widespread in Albania. Areas of particular concern are bribery and corruption in the judiciary, the health sector and in relation to the system of restitution and compensation of property rights. The absence of transparency in political party funding, allowing inappropriate influence on politics, is a considerable problem. The main deficiencies include weaknesses in the legal framework for the fight against corruption, full immunity granted to a large group of public officials (including judges, ministers and MPs) posing a serious obstacle to the investigation of corruption and gaps in the institutional set-up and administrative capacity. Resources to fight corruption remain limited.

There are an increasing number of corruption cases been investigated and prosecuted, but conviction rates in such cases are low. There is no evidence that high level corruption cases are investigated, prosecuted and adjudicated. There is a lack of a track record of convictions in corruption cases established at all levels.

*(See also Political criteria — Democracy and the rule of law)*

Albania is well advanced in setting up the legal and institutional framework necessary for the protection of **fundamental rights** and continues improving it. The Office of the Ombudsman (People's Advocate) functions well and is supplemented by the recently appointed Commissioner for the protection from discrimination. However, operation of these institutions is hampered by delays in the staffing of the Office of the Commissioner for protection from Discrimination and the appointment of a new Ombudsman, both pending since early 2010. Attention needs to focus on implementation of legislation and on genuine independence of the Human Rights bodies, including through appropriate allocation of resources.



Albania ensures the *right to life* and has abolished the death penalty under all circumstances. However, despite a decrease in number, the incidence of blood feud killings continues to affect some sections of the population.

As regards the *prison system*, there is a need to continue upgrading facilities to bring them in line with European standards and to urgently ensure adequate treatment and appropriate placement of mentally ill detainees. Albania has an appropriate mechanism in place to prevent *torture and ill-treatment*, through the National Prevention Mechanism and partnerships with NGOs. However, cases of ill-treatment remain an issue of concern, in particular in police custody. Implementation of recommendations by the Ombudsman and prosecution of perpetrators needs to be enhanced.

Despite constitutional guarantees covering *freedom of expression (including the media)* and the existence of a pluralistic media, political and business pressures continue to impede media independence. The overall media climate needs to be improved, in particular by addressing the issue of informality of contracts and the lack of transparency in media ownership. Criminal Code provisions on defamation need to be repealed.

*Freedom of assembly and association* is guaranteed and civil society operates in a non-restrictive environment. However, the NGO sector remains weak.

*Freedom of religion* is ensured by the Constitution and broadly respected, ensuring good inter-faith relations. Restitution of property belonging to religious communities needs to be ensured.

As regards *anti-discrimination policies*, the adoption of the Law on protection against *discrimination* is a significant step in ensuring equal treatment for all. Its implementation needs to be ensured, in particular through allocation of appropriate funds to the Commissioner for protection from discrimination. The rights of lesbian, gay, bisexual and transgendered persons (LGBT) persons are protected through this Law. However, this community continues to face widespread discrimination and some cases of violence have been reported. This issue needs to be addressed.

As regards *women's rights*, the legal framework is in place and the introduction of a gender quota to enhance their participation in politics is a positive step. However, their effective participation remains limited. Many women are discriminated against in the field of employment and their equal access to economic aid is not fully guaranteed. Gender mainstreaming needs to be enhanced. Despite an increase in reported cases of domestic violence following to the introduction of the Law against violence in the family and the national strategy on gender equality and the eradication of domestic violence, this phenomenon continues to affect many families and cases are being under-reported, in particular in rural areas. Emphasis needs to be put on increased prosecutions, access to justice, victim protection and programmes for their social reintegration.

As regards *children's rights*, Albania is progressively setting up children's right units in all Regional Councils and has established Child protection units in 15 municipalities. However, Albania still lacks a national child protection system and the integral law on children's rights has yet to be adopted. The juvenile justice system has been reformed but it still lacks adequate measures for children under the age of 14. Street children and child labour remain issues of concern.

The implementation of the national strategy on *persons with disabilities* remains slow and these persons continue to suffer from discrimination and social exclusion. A framework law covering all persons with disabilities needs to be introduced and legal quotas for access to employment enforced. As regards mental health, the process of deinstitutionalisation needs to continue and conditions in institutional healthcare facilities improved.

As regards *property rights*, Albanian legislation is overlapping and leads to low levels of legal certainty. The process of restitution or compensation for property nationalised under the previous regime is ongoing and progressing slowly. The incidence of corrupt practices impedes this process. The high number of pending court cases and non-enforcement of court judgments puts into question the functioning of the judicial system in this area.

The constitution provides the protection of the rights of *minorities*. The current lack of data on minorities will be addressed by the 2011 census. The availability of minority language education needs to be enhanced and made accessible to all persons belonging to minorities (national and ethno-linguistic). Restitution of property belonging to minorities remains an issue. The State Committee for Minorities needs to be substantially reinforced in order to ensure its representative and consultative role. The implementation of the Strategy on the *Roma* minority and the Roma decade action plan need to be accelerated. Focus needs to be put on improving the living conditions of the Roma minority and decreasing discriminatory attitudes. Civil registration of Roma needs to be enhanced.

*(see also Political criteria - Human Rights and the protection of minorities)*

To ensure **EU citizens' rights** to vote and stand as a *candidate in municipal and European Parliament elections*, Albania will need to amend its legal and constitutional framework. There are administrative structures in place to deal with electoral matters. There should not be any difficulties for Albania to transpose and implement EU law in this field.

Regarding *residence rights*, the current Albanian legal framework is not in line with EU law on free movement of EU citizens and major amendments are necessary. However, this will only be a requirement in the later stages of the EU accession process. There are administrative structures in place to deal with immigration matters and these structures are likely to be involved in implementation of EU law.

Regarding *diplomatic and consular protection*, the current Albanian legal framework is not in line with EU law. Amendments will be necessary at a later stage. However, transposition and implementation of EU law should not be problematic.

For *access to justice, protection of personal data and the right to vote* see *Political criteria*, for *trafficking in human beings* see *Political criteria* and *Chapter 24*, for *labour rights and trade unions* see *Political criteria* and *Chapter 19*.

### *Conclusion*

*Overall*, Albania will have to make considerable and sustained efforts to align with the *acquis* in this chapter and to effectively implement and enforce it in the medium term. Considerable strengthening of administrative and implementation capacities will also be needed.

*(see the conclusion of Part 1 – Political criteria)*

### 3.24. Chapter 24: Justice, freedom and security

EU policies aim to maintain and further develop the Union as an area of freedom, security and justice. On issues such as external migration, asylum, border control, visas, judicial cooperation in criminal and civil matters, police cooperation, the fight against organised crime and terrorism, cooperation in the field of drugs and customs cooperation, Member States need to be properly equipped to adequately implement the growing framework of common rules. Above all, this requires strong and well-integrated capacity within the law enforcement agencies and other relevant bodies to attain the necessary standards. A professional, reliable and efficient police organisation is of paramount importance.

The most detailed part of the EU's policies on justice, freedom and security is the Schengen *acquis*, which entails lifting internal border controls in the EU. For new Member States substantial parts of the Schengen *acquis* are implemented following a separate Council decision taken after accession.

Albania has made progress in a number of key areas of this chapter in the framework of the visa liberalisation dialogue with the EU, which set out benchmarks to be achieved in fields such as border security, migration, asylum and the fight against organised crime. The progress attained in these areas is a good basis on which Albania can build further to meet the challenges of the enlargement process.

As regards **migration**, legislation on residence permits, family reunification, students and long-term residents is largely in place, although it is not fully in line with the EU *acquis*. Some divergences remain in the scope of the right to family reunification and the rules on long-term resident status. Albania has no special arrangements for highly-qualified workers. It has a sufficiently developed residence permits database, but further alignment of penalties for smuggling people, employment of illegally resident foreign nationals or the residence permits scheme for victims of trafficking will be necessary. Albania's return policy is regulated by the Law on foreigners adopted in 2008, which addresses the key issues of the EU Return Directive and is generally in line with the *acquis*. However, the detention process for persons subject to return decisions needs to be built around a more individual case-by-case assessment and less coercive, alternative measures to detention need to be considered.

The readmission agreement between the European Community and Albania has been implemented smoothly since 2005. Irregular migration from Albania remains a significant challenge, particularly across the land border with Greece. Cooperation between the Greek and Albanian police on this issue is good. In 2009, 64,625 return cases were recorded and 47,239 Albanian citizens were returned. Albania has developed a strategy and action plan for the period 2010-2015 to reintegrate returned citizens and needs to pursue its implementation. Local employment bodies and migration counters providing information about special services for returnees play an important role. Close cooperation with the border and migration police is to be pursued in this area. The Total Information Management System (TIMS) at border crossing points provides data on visas, residence permits and work permits issued and on the migration statistics available. Risk analysis and monitoring of migration flows need to be further improved.

In the area of **asylum**, the institutional and legal framework has been put in place. The Law on asylum was adopted in 2009 and is generally in line with EU standards. Consistency needs to be ensured between the Law on asylum, the Law on integration and the Law on foreigners. Basic procedural guarantees in the appeal process need to be regulated in the Law on asylum.

Albania needs to continue efforts leading to shorter appeal procedures against decisions of the Department for Citizenship and Refugees. Training of the Department's staff, as well as of judges hearing asylum appeals, needs to continue.

A reception centre for asylum seekers has been fully operational since May 2010. The asylum system has sufficient human resources and capacity to deal with its current low caseload. In February 2010, there were 69 recognised refugees and 29 asylum applicants. However, in case of a higher influx of asylum seekers, the Department for Citizenship and Refugees would need additional and more specialised staff. Albania is more of a transit country for potential refugees on their way to the EU. The asylum seekers are mostly ethnic Albanians from Kosovo. Provision of identity documents for refugees needs to be ensured in order to guarantee them effective access to the rights conferred by Albanian legislation, and their integration needs to be further improved. Legislation should exempt asylum seekers and refugees from obligations to provide official documents issued in their country of origin. Legislation should specify an age limit for fingerprinting asylum seekers and migrants. More comprehensive statistical data needs to be compiled in the field of asylum.

As regards **visa policy**, Albania has created a legal framework, which needs to be brought fully in line with the *acquis*. The Law on foreigners was adopted in 2008, but further harmonisation with the EU Visa Code is needed. The Albanian visa lists are not harmonised with the EU lists. The legislation allowing Albania unilaterally to apply a seasonal visa-free arrangement to citizens of certain non-EU countries is not in line with the EU *acquis*. Issuing visas at the border needs to remain an exception. Albania operates a visa-free regime for all EU Member States and unilaterally recognises Schengen visas and residence permits as equivalent to short-stay visas issued by Albania. The visa facilitation agreement between the EU and Albania is being implemented. An e-visa information system is being set up. Important elements to ensure in this context will include ownership, good managerial use and maintenance, security features and personal data protection. The system will need to be in line with visa information system (VIS) requirements.

In the area of **external borders and Schengen**, the border management system is generally in line with EU standards. The Law on state border control and surveillance was adopted in 2008 and followed by several legal acts regarding the border and migration police (BMP). A national integrated border management strategy was adopted in 2007 and the associated action plan has been updated in 2009. The BMP is a clearly structured department within the State Police with sufficient human resources (1,539 staff), IT resources and technical equipment to perform border checks. The training curricula of the BMP were designed in cooperation with the Police Assistance Mission of the European Community to Albania (PAMECA) and Frontex. Risk analysis capacity has been strengthened and is operational. Further upgrading of the infrastructure at border crossing points is continuing. All 24 border crossing points are connected to TIMS, providing access to the national database on travel documents and wanted persons and to the Interpol database. The BMP has limited access to the MEMEX criminal intelligence information system. Further roll-out is needed, especially to border crossing points.

The development of a fully civilian surveillance of the blue borders is continuing. An inter-institutional maritime operations centre started work in January 2010 under the administration of the Ministry of Defence, ensuring close cooperation between the BMP, coastguard, customs authorities and Fisheries Inspectorate. The training system is being set up and the standard operating procedures are being finalised. Albania should be able to patrol its

coastline effectively in the medium term. At the moment, a three-year ban on speed boats is in force in order to facilitate the fight against trafficking.

Cross-border cooperation is generally functioning well in the form of joint patrols, as well as one joint border crossing point (with Montenegro). A working arrangement with Frontex has been in place since February 2009 and cooperation is good. Albania actively participates in the Western Balkans risk analysis network and draws on expertise and advice from Frontex for training. Inter-agency cooperation with the customs authorities has been strengthened. However, further joint efforts are needed to fight against all types of cross border crime including trafficking of stolen vehicles. It is necessary that the customs authorities carry out systematic controls and make effective use of equipment.

Regarding **judicial cooperation in civil matters**, recognition and enforcement of foreign judgments is incorporated in the Civil Procedure Code. The general system for civil and commercial matters is similar to that laid down in EU legislation. Efforts are needed to ensure its efficient enforcement. No simplified debt recovery procedures are envisaged in Albanian legislation. Albania has acceded to a number of relevant international instruments, for example the 1970 Hague Convention on the taking of evidence abroad. Accession to other conventions, such as the 2007 Convention on the international recovery of child support, is still outstanding.

In the field of **judicial cooperation in criminal matters**, Albania has ratified the most important Council of Europe conventions and UN instruments. It needs to take steps towards acceding to the Additional Protocol to the Convention on the transfer of sentenced persons. A new law on mutual legal assistance entered into force in February 2010. The provisions generally comply with EU standards, but effective implementation of the law by sufficiently trained personnel is needed. Judges and prosecutors also need to receive training in this field. In 2009, the number of transfers of convicts to and from other countries increased. Albania needs to take steps, particularly in the area of data protection, in order to be able to conclude a cooperation agreement with Eurojust. In order to be able to assume full membership of Eurojust in the future, further capacity building efforts are necessary in the field of judicial cooperation in criminal matters. Bilateral agreements are in place with a number of neighbouring countries on judicial cooperation in criminal and civil matters.

In the field of **police cooperation and the fight against organised crime**, important measures have been taken in recent years. The legal framework has been enhanced, with a new law enabling effective seizure and confiscation of the illegal proceeds of crime. The so-called "Anti-Mafia" Law entered into force in January 2010 together with the Law on protection of witnesses and informants. Their effective implementation, in particular the effective management of seized and confiscated assets, needs to be ensured and demonstrated through a track record of final confiscations.

A new police structure reflecting the priority given to organised crime investigations is in place since July 2010. Human resources have been relocated in order to increase the number of staff dealing with organised crime investigations and budgetary provision has been made for further investments. The introduction of joint investigative units to fight economic crime and corruption has proved effective. Efforts have been made to increase investigative capacity and a more pro-active and intelligence-led approach is promoted. Common training with prosecution and other law enforcement agencies needs to continue in order to further strengthen operational cooperation between the police and prosecution. Specialised training needs to be further developed, in particular on the international aspects of organised crime.

The use of the MEMEX criminal intelligence system has improved data exchange within the Albanian State Police. An upgrade and the purchase of more licences are planned. For the moment, the system is not shared with other law enforcement agencies. The transfer of data from archives has not been completed. The system contains police data but not information on investigations led by the prosecution service. With the increased use of new databases, personal data protection within the police needs to be enhanced. Special investigative measures are increasingly used, although line intercepts and the use of undercover agents are limited to central level. The division of tasks between the Albanian State Police and the SIS (Security Service), particularly tasks such as the interception of telecommunications, needs to be clarified and streamlined in accordance with European best practices and the relevant Council of Europe instruments. Forensic capacities, including management of forensic DNA, need to be improved. A reliable system for reporting statistics is necessary.

Overall sustained and effective joint action by all stakeholders is necessary to dispel the general association of Albania with trafficking of human beings, drugs, weapons, stolen cars and money laundering. Successful law enforcement operations need to be underpinned by convictions. In October 2010, an agreement establishing a regional office in Belgrade for improving cooperation in the fight against organised crime was signed with Albania, Bosnia and Herzegovina, Croatia, Montenegro and the former Yugoslav Republic of Macedonia. Further strengthening of cooperation at international level is necessary, including with Interpol. Albania needs to meet the requirements for the conclusion of an operational agreement with Europol.

In the **fight against terrorism**, Albania has revised and adapted its national legal framework with the international regulatory framework, but still needs to fully comply with the *acquis*. A counter-terrorism strategy has not been adopted yet. Information systems and databases, which would facilitate the cooperation and coordination of competent authorities, remain to be developed.

The **fight against drugs** remains an area of concern, although recently a more active approach has been adopted by law enforcement agencies, resulting in drug seizures. Albania continues to be on one of the main Balkan drug trafficking routes. Cannabis is still being produced in Albania, but cultivation has largely moved to more remote mountain regions. An action plan to fight cultivation of narcotics is being implemented. Programmes for cultivation of alternative crops need to be put in place. The National Strategy against Drugs will expire at the end of 2010. A new strategy needs to be drafted based on lessons learnt. Some efforts have been made towards more efficient investigation and prosecution of drug trafficking cases. Cooperation with foreign law enforcement agencies is good, but needs to continue. Further development of investigative methods is required in order to conduct complex investigations.

Albania's capacity to deal with the demand for treatment and rehabilitation of drug addicts is still insufficient. Cooperation with the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) produced some substantial results in 2009; a first country overview and an Information Map were published and scientific activities organised. Overall, the institutional framework for cooperation with EMCDDA is still at a preliminary stage.

Despite the good progress, **trafficking in human beings** continues to be an area of concern. Albania remains a source country for trafficking for the purposes of sexual exploitation and forced labour. The implementation of the outgoing strategies needs to be evaluated and new strategies drafted. Albania is improving its capacity to detect, protect and reintegrate victims.

However, there has been a drop in detection of cases, in line with the regional trend. In 2009, very few trafficking cases were prosecuted in court. Training on identification and interviewing victims, as well as special investigative techniques, need to be further provided to law enforcement officers. Recruitment of specially trained female police officers at the most sensitive crossing points needs to continue. International police cooperation needs to be stepped up.

A new Law on social services was approved in March 2010, providing financial support to victims. Financial and human resources need to be further improved and cooperation between the local authorities involved (schools, social services, municipalities) needs to be enhanced to better prevent trafficking and to reintegrate victims, especially children. In 2009, day care centres and child protection units were established. Effective protection of victims who collaborate with the law enforcement authorities is needed.

In the area of **money laundering**, Albania has put in place a legislative framework which however still needs to be fully aligned with international norms, FATF recommendations and the provisions of the *acquis* (see also Chapter 4 — *Free movement of capital*). The minimum criminal penalties for money laundering need to be raised in line with the *acquis*. Practical improvements have been made in recent years by decreasing reporting thresholds, introducing preventive measures and reducing cash transactions. Client identification is still inconsistent and needs to go hand in hand with the consolidation of the Address and Civil Registry systems. The financial intelligence unit (FIU) is in place and has improved its operational and analytical capacity through increased training. The number of cases referred to the prosecution services is increasing. Cooperation with other national and international institutions is satisfactory. The National Strategy and Action plan are being implemented, but additional efforts are needed to tackle the phenomenon effectively. The quality and the low number of suspicious transaction reports sent to FIU remains a challenge. Electronic reporting, especially from the non-banking sector, needs to be promoted. A national register of bank accounts is not in place. More cross-checks with other institutions need to be performed by the FIU. The analytical staff and IT tools of the FIU need to be reinforced. The Bank of Albania needs to play a more active role in this field, as a principal supervisor of the banking system. Albania needs to use powers to confiscate criminal assets more effectively. The central asset recovery office required by the EU *acquis* has not yet been set up in Albania. The low number of prosecutions and final convictions in money laundering cases remains a concern.

Albania has put in place a range of bilateral agreements on **customs cooperation** and needs to implement these effectively. It needs to start preparing for ratification and implementation of the Convention on mutual assistance and cooperation between the Member States (Naples II) and the Convention on the use of information technology for customs purposes (CIS). The technical and administrative capacity of customs services needs to be further enhanced, and their investigative powers used more proactively, in order that they can carry out effective operations to counter organised crime.

For protection of the euro against counterfeiting, see chapter 32 *Financial control*.

### *Conclusion*

Albania has made considerable efforts to align its legislation with the *acquis* in the field of justice, freedom and security. Positive results have been achieved in reform of the law enforcement authorities and in providing them with adequate resources and tools to face the

challenges of organised crime. However, further steps are necessary to fully align legislation with the *acquis* and international norms. A proactive approach by law enforcement authorities is key to tackling organised crime, which remains a matter of concern. A solid track record of convictions needs to be built up. *Overall*, Albania will have to make considerable and sustained efforts to align with the *acquis* and to implement it effectively in the medium term.

### 3.25. Chapter 25: Science and research

The *acquis* in the field of science and research does not in principle require transposition of EU rules into the national legal order. Successful implementation of the *acquis* in this domain therefore involves mainly fulfilling the necessary conditions for participating effectively in the EU's Research Framework Programmes and contributing to the creation of the European Research Area. This requires good administrative capacity (adequate staffing and knowledge of research cooperation) and scientific excellence in order to be successful in carrying out research and innovation projects together with scientific partners from EU Member States and in creating growth and jobs in an economically sustainable way.

Albania, as a potential candidate country, has been associated with the Seventh EU Research Framework Programme (FP7) since January 2008.

National **research policy** is under the authority of the Ministry of Education and Science, which oversees the strategic planning and legislative sides and national and international cooperation. Basic research priorities are set by the government and approved in parliament, following consultation of the Academy of Sciences, the Council of Higher Education and Science and the Conference of University Rectors. In 2010 Albania established an Agency for Research, Technology and Innovation, which is responsible for evaluation of research funding at both national and international levels. Albania has identified seven priority fields for research which should contribute to the economic development and competitiveness of the country.

Albania started reforming its scientific research system in 2006, with the integration of the former institutes of the Academy of Sciences into the major public universities. The role of the Academy now consists, as in most European countries, of representation and advice. The research institutes under the line ministries were also restructured and merged into 12 newly created technology transfer centres and agencies.

The current level of investment is very low (about 0.2% of GDP in 2009). Due to lack of statistics and systems to collect data from the private sector, there are no means to monitor the targets set. Albania is actively working on a reform of science and research statistics to comply with EU criteria.

In 2009, a Strategy on Science, Technology and Innovation (STI) was adopted for the period 2009 to 2015, which maps out the reforms needed to create a knowledge-based economy. The STI aims, among other things, to increase public expenditure on research to 0.6% of GDP by 2015, create centres of excellence, increase the number of researchers and boost the innovation capacity of businesses with the aid of partnerships between academics and industry.

Effective participation in the EU research **framework programmes** requires good administrative capacity (sufficient staffing and expertise on research cooperation under the *EU framework programmes*) and scientific excellence in order to be able to submit successful proposals for projects jointly with EU and non-EU research institutes. Since Albania first



became associated with FP7, it has become more familiar with cooperation under the EU research framework programme, but its rate of successful participation is still very low. Albania has started to take the necessary capacity-building measures by nominating observer delegates to the FP7 management committees and restructuring its network of national contact points. The country is not engaged in nuclear research and has not requested to become associated with the *Euratom framework programme*.

Regarding policy initiatives to help create the **European Research Area**, the STI strategy for 2010-2015 is fully in line with the ERA objectives, but serious efforts will be necessary to achieve the targets set. In addition, exact data on investment in research and the number of researchers in the country or the diaspora are lacking. Albania has started to take action to reverse the brain drain by attracting scientists back to the country. It has announced an action plan on mobility of researchers, including measures to attract young people to sciences and strengthen human capital-building. Albania is suffering from a lack of modern research infrastructure and state-of-the-art equipment, but efforts are underway to improve infrastructure, starting with support for development of communication networks and IT systems.

Albania is participating in the work of the European Research Area Committee (ERAC, former CREST) and has nominated a delegate observer to the Standing Committee for Agricultural Research (SCAR). It has also been invited to nominate delegate observers to the different ERA governance bodies.

International cooperation, particularly with EU partners, is high on the national agenda. Albania is actively participating in several regional projects with the other Balkan countries and has recently concluded science and technology agreements with several neighbouring countries and other international partners.

### *Conclusion*

*Overall*, if it continues its efforts, Albania should, in the medium term, have the capacity to comply with the requirements of the *acquis*. The National Science, Technology and Innovation Plan is fully in line with the targets set at EU level in the context of the European Research Area. Consistent implementation and close monitoring of targets adopted at national level are, however, of key importance. Albania will have to undertake additional efforts for its effective participation in the research framework programmes and further integration in the European research area. This also requires strengthening the administrative capacity and increasing the currently very low level of investment.

### **3.26. Chapter 26: Education and Culture**

The *acquis* on education and culture consists mainly of a cooperation framework made up of programmes and the open method of coordination (OMC), which aims at convergence of national policies and attainment of shared objectives. In the field of education and youth, Member States need to ensure sound management of decentralised EU programmes. The *acquis* also requires Member States to facilitate the education of children of EU migrant workers and to prevent discrimination against EU nationals. In the field of culture, the 2005 UNESCO Convention on the protection and promotion of the diversity of cultural expressions, ratified by the EU, is a major component of the *acquis*. The EU also contributes to promoting European sporting issues.

In the field of **education and training**, Albania is in the process of reforming its education system in line with the developments in the EU. Efforts are being made to improve the education and training system and very ambitious targets have been set at national and regional levels. School curricula have been revised and provide some flexibility to meet the needs of minority and vulnerable groups. Legislation on ensuring inclusive education of vulnerable groups and children with special needs has to be enforced. Some quality assurance measures have been introduced or strengthened, such as new textbooks and school inspections. However, the quality of education is affected by the need for continuous school rehabilitation, equipment upgrading and teacher training. Albania does not yet participate in international testing (OECD PISA test) or in data sources, such as the UNESCO database. The recently revised legislation and the new school curriculum implemented in 2009-2010 aim at improving the level of education. The implementation of the reforms needs to be followed very closely and progress monitored. Providing adequate human resources and material capacity and reforming the school governance are major challenges. In terms of public spending on education, funding in 2009 was at 3.8% of GDP.

The vocational education and training (VET) system is under review. In order to take into account labour market needs and social demands, the VET studies structure is in line with the European Qualifications Framework (EQF). The recently established National Agency for Vocational Education and Training has been given a mandate to monitor quality assurance in VET.

As a party to the Bologna process, Albania is continuing its efforts in higher education reform. However, there is a need for assessment of recent reforms. Both third-level (PhD) degrees and a National Qualifications Framework (NQF) have been introduced, but need to be further developed. Internal quality assurance systems are in place, but external quality assurance has still to be completed. Institutional autonomy and good governance will require particular attention. Further efforts are required on integration of teaching and research, continued curricular reform, recognition of prior learning, and increasing mobility.

In Albania, responsibility for formulating and implementing **youth policy** lies with the Ministry of Tourism, Culture, Youth and Sports. A National Youth Strategy was adopted in 2006, followed by a National Youth Action Plan for 2007-2013. A national youth centre is currently being established as the main government body responsible for implementation of policies related to youth. However, much depends on the vision and commitment of non-governmental youth organisations which, themselves, are struggling to establish a sustainable position in society. Albania will have to review its strategy in line with the EU Youth Strategy (2010-2018).

As regards the Directive on education of children of EU migrant workers, Albanian legislation already covers most of its requirements.

In order to fulfil the preconditions for participation in the decentralised EU programmes in the fields of education and training and youth, the relevant authorities will need to develop capacities for sound financial management and financial control.

In the area of **culture**, drawing on national and local public funds, Albania is supporting cultural institutions and artistic and creative work and promoting capacity-building, including international training. Albania ratified the 2005 UNESCO Convention on the protection and promotion of the diversity of cultural expressions in 2006 and subscribes to the objectives of the European Agenda for Culture. A new national strategy on culture is expected to be

adopted in 2010. Negotiations are under way for full participation of Albania in the Culture Programme.

### *Conclusion*

Reforms in this sector need to be pursued and implementation monitored. Convergence with EU policies and promoting quality and good governance in education and training are major national priorities. Non-discrimination against EU nationals within the Albanian education system will need to be ensured. Albania will need to significantly strengthen its administrative capacity in order to ensure sound financial management of the decentralised education programmes. *Overall*, if it continues its efforts, Albania should, in the medium term, have the capacity to comply with the requirements of the *acquis*.

### **3.27. Chapter 27: Environment**

EU environment policy aims to promote sustainable development and protect the environment for present and future generations. It is based on integration of environmental protection into other EU policies, preventive action, the polluter pays principle, fighting environmental damage at source and shared responsibility. The *acquis* comprises over 200 major legal acts covering horizontal legislation, water and air quality, waste management, nature protection, industrial pollution and risk management, chemicals and noise. Ensuring compliance with the *acquis* requires significant investment, but also brings significant benefits. A strong and well-equipped administration at national and local levels is imperative for application and enforcement of the *acquis*.

The Constitution of Albania considers sustainable development and environmental protection one of the fundamental goals of the State. The 2002 Framework Law on environmental protection provides a basis for specific legal acts regulating different components of environmental protection. Specific laws are in place to regulate air and water quality, waste management, chemicals, biodiversity, etc. However, considerable efforts are needed to revise the existing national legislative framework to align it fully with the EU environmental *acquis*.

Regarding the institutional and administrative framework, the Ministry of the Environment, Forests and Water Administration along with 12 regional environment agencies and the Environment Inspectorate cover a considerable part of environment policy. However, the existing institutions are not fully operational and there are gaps and fragmentation of responsibilities, particularly in the waste and water sectors. Further streamlining and consolidation of the existing institutional arrangements is required plus setting up new institutions, such as an environment and forests agency and inspection units. It is also essential to establish a clear division of responsibilities between different administrative bodies. Inter-institutional coordination remains poor.

The environmental inspection system is only partly aligned with the *acquis*. There is a lack of administrative capacity, in particular enough well trained staff and appropriate equipment for proper implementation of the whole environmental inspection cycle. Particular efforts are needed on inspection planning, on effective cooperation between environmental inspectors and other supervisory authorities and on improving the system for reporting and evaluating the inspectorate's work. A more effective system for prosecuting breaches of environmental law is required, including new legislation targeting specific offences, proportionate and dissuasive sanctions, an effective enforcement system and proper prosecution. Overall, implementation and enforcement levels are low due to weak legislation, lack of human and

financial resources, lack of awareness in government, business and society in general, fragmented responsibilities and a weak judicial system.

Environmental monitoring across all sectors is weak and inconsistent and does not provide reliable data. Urgent efforts are needed to develop a consolidated, properly equipped monitoring and information system.

There is no overall environmental investment strategy. Priority needs to be given to environmental spending from national resources, to complement international funding. In this context, the commitment to set up an environmental fund is very welcome and should be met. A national environmental investment strategy needs to be prepared as soon as possible.

Public awareness and participation in environmental decision-making and public access to environmental information remain weak. Further efforts are needed to build a solid partnership between government and civil society.

**Horizontal legislation** is weakly aligned with the *acquis*. Further efforts are needed to finalise alignment in the area of environmental impact assessment, including to remedy flaws in transposition. Transposition of the legislation on strategic environmental assessment and environmental liability is at an early stage and needs to be speeded up. Further efforts are needed to improve access to justice and facilitate public participation, including better information, financial assistance, legal aid and making sure that procedures are not unreasonably long and expensive. Implementation and enforcement of legislation in this field require considerable strengthening. In particular, environmental impact assessments, including due consideration of viable alternatives, need to be carried out properly and coordination between authorities and with all stakeholders needs to be ensured.

Air pollution is one of the main environmental concerns for Albania. However, there are neither a specific national strategy nor regional plans (except for Tirana) to address **air quality**. A 2008 cross-cutting strategy for the environment sets a number of objectives for alignment with EU and WHO standards, but these are not yet operational. Air quality is now monitored in all the main cities, but monitoring is hindered by poor equipment and methods and no consistent data are available. Transposition and implementation of the *acquis* in this sector remain at an early stage. The main gaps to be filled include designating competent authorities, adopting a number of laws, including the new Law on air protection, establishing a comprehensive monitoring programme and database and making data available to the public.

Alignment in the area of **waste management** is moderate and needs to be considerably speeded up. In particular, a comprehensive waste management strategy and national as well as municipal waste management plans need to be rapidly developed. The waste management hierarchy needs to be brought into line with the EU Waste Framework Directive. A number of legislative acts transposing a large part of the EU waste legislation need to be adopted. Implementation and enforcement remain at a very early stage and investment needs to increase considerably. No permanent monitoring takes place and no official database exists. Currently a solid waste collection system exists only in the main cities and towns. There is no safe landfill complying with EU standards. Most waste, particularly in rural areas, is disposed of in uncontrolled dumps or burnt. Substantial efforts are required to reduce waste generation and promote recycling. Rehabilitation of toxic hotspots is progressing, but new ones are being identified.

As regards **water quality**, alignment with EU standards is at an early stage. The national strategy for water supply and sewage, the new water law and most of the legislation for approximation with the Water Framework Directive and other directives in this sector have yet to be adopted. Albania is making steady progress on improving waste water collection and treatment and its drinking water supply infrastructure, but very significant investment is still required. As regards the marine environment, Albania is involved in the work under the Barcelona Convention on protection against pollution in the Mediterranean Sea. Further efforts are needed, however, on aligning with the Marine Strategy Framework Directive. Implementation and enforcement of the water legislation also need to be considerably strengthened. Particular attention needs to be paid to clearly defining currently fragmented responsibilities and ensuring sound coordination between competent authorities.

Albania is advancing on transposition of the **nature protection** legislation. Initial preparations are being made for establishment of the Natura 2000 network and accession to the key multilateral agreements in the area of nature protection. A National Biodiversity Strategy and Action Plan are being implemented. However, further monitoring is needed, targeted on adjustments to strategy related to the new EU biodiversity target. Albania is progressing well on establishment of the Emerald network. However, implementation, enforcement and, in particular, management of the protected areas need considerable improvement. Illegal logging and hunting and unauthorised construction in nature reserves remain significant concerns. Inspections and sanctions have to be implemented. An effective monitoring and information system has yet to be developed.

As regards **industrial pollution and risk management**, the level of alignment is very low and needs to be speeded up. In particular, transposition of the Integrated Pollution Prevention and Control Directive and development of a permit system based on best available techniques, including equipping environmental inspectorates with proper capacity to conduct control, verification and assistance functions, need to be addressed as early as possible. Transposition of the Large Combustion Plants, Seveso II, Waste Incineration and Solvents Directives is also at a very early stage. Serious efforts are needed on institutional capacity-building.

Albania has national legislation regulating management of **chemicals** and dangerous substances. However, it is only partly in line with the main EU legislation in the field of chemicals (REACH and the regulations on classification, labelling and packaging of substances and mixtures). In particular, there is no single competent authority. Responsibility in the field of chemicals is spread across a number of ministries, with unclear and overlapping responsibilities and weak administrative capacity. The register of chemical substances and mixtures and the classification and labelling system need to be adjusted to EU requirements. The mechanism for evaluation of chemicals needs to be developed. As regards control of hazardous materials, Albania applies the relevant international conventions, but alignment with the EU legislation is still necessary. Directives on biocides and laboratory animal welfare have still to be adopted.

As regards environmental audits and eco-labelling, no specific system exists in Albania and substantial efforts are needed to create the conditions for proper implementation of such schemes.

Albania has been a 'non-Annex I' party to the United Nations Framework Convention on **climate change** since 1994 and also ratified the Kyoto Protocol in 2004. However, as a non-Annex I party, Albania has no greenhouse gas (GHG) emission limit/reduction target. Albania has submitted two National Communications. The second, submitted in November 2009,

includes estimates for emissions of HFCs, PFCs and SF<sub>6</sub>. At the moment, Albania is not ready to take on a legally binding greenhouse gas emission limit or reduction commitment under the post-2012 climate regulations. Albania is striving to improve its GHG monitoring and reporting, on which much remains to be done. A GHG inventory for the period 1990-2000 exists, but no more recent data are available. Albania plans to include a GHG inventory for 2001-2010 in its third National Communication. It has taken no measures to transpose and implement the EU emission trading system (EU ETS). Albania has made some efforts to address key sectors outside the EU ETS (e.g. transport and waste), but further measures need to be envisaged to align with the *acquis*.

Albania is party to the Montreal Protocol on substances that deplete the ozone layer and has ratified all the amendments to it. Albania has to comply with less demanding phase-out schedules for the different groups of substances than the EU and its Member States and has a satisfactory level of compliance with the Protocol. Albania recently sent notification of a revision of its ozone legislation, which seems to go further than required under the Protocol and further aligns this legislation with the EU *acquis*.

Administrative capacity and technical and financial resources need to be strengthened considerably for Albania to be able to align with and implement all the requirements of the EU *acquis* on climate change.

As regards **noise**, transposition of parts of the *acquis* is underway, but implementation is at an early stage.

The Council of Ministers is responsible for planning and response measures regarding **civil protection**. To deal with any civil emergency, an Inter-ministerial Committee for Civil Emergencies has been established. The Ministry of the Interior is responsible for preparing and implementing the National Civil Emergency Plan. Albania also has several related laws in place. International cooperation has been established. At the beginning of 2010 Albania used the Monitoring and Information Centre (MIC) operated by the European Commission to respond to the severe flooding. Furthermore, Albania is supporting the regional cooperation on response to forest fires and has enhanced its national capacity for fire-fighting.

### *Conclusion*

Considerable efforts are needed to revise the existing national legislative framework to align it fully with the EU environmental *acquis*. The process of strategic planning in all sectors needs to be accelerated and sustainable funding for implementation needs to be secured, including by establishing a dedicated environment fund. Particular attention must be given to the quality of transposition of the EU legislation and to ensuring proper implementation and enforcement. The environment has to be integrated into other sectors, at both the strategic and policy implementation levels. Development of a comprehensive environmental monitoring and information system across all sectors needs to be addressed urgently.

Administrative capacity needs to be significantly reinforced, including filling the existing gaps, streamlining management of currently fragmented responsibilities and ensuring proper horizontal and vertical coordination. At local level particularly, care needs to be taken to ensure that local authorities have the resources necessary to discharge their responsibilities effectively. The implementation and enforcement capacity of the inspectorates needs to be considerably strengthened, by making the necessary legislative adjustments, carrying out general capacity-building and ensuring effective cooperation with the judicial system.

*Overall*, Albania will have to make considerable and sustained efforts to align its legislation with the environmental *acquis* and to implement and enforce it effectively in the medium term. It will be particularly important to create the conditions for building the necessary technical and human capacity and resources in this area within the next few years. Effective compliance with EU legislation requiring a sustained high level of investment and considerable administrative efforts can only be achieved in the long term.

### **3.28. Chapter 28: Consumer and health protection**

The *acquis* on consumer protection covers the safety of consumer goods, as well as the protection of the economic interests of consumers in a number of specific sectors. Member States need to transpose the *acquis* into national law and to put in place independent administrative structures and enforcement powers which allow effective market surveillance and enforcement. Appropriate judicial and out-of-court dispute resolution mechanisms, consumer information and education and a role for consumer organisations should be ensured as well. This chapter also covers rules in the area of public health.

The *Stabilisation and Association Agreement* provides for enhanced cooperation in the area of consumer protection aiming at aligning the consumer protection standards in Albania with those of the European Union, including active consumer protection and efficient law enforcement.

The general framework for **consumer protection** in Albania is enshrined in the national inter-sectoral strategy on consumer protection and market surveillance, adopted in 2007 and covering industrial, food and pharmaceutical products. Policies are developed by the Ministry of Economic Affairs, Trade and Energy (METE). The Trade Mechanisms and State Aid Department, operating under the Regulatory General Directorate in the METE, is responsible for preparing legislation and developing policies in this sector. A Central Technical Inspectorate (CTI) under the METE, with 67 inspectors in Tirana and the regional offices, carries out some market surveillance activities. However, application of a strategic plan and appropriate methodology is still pending. The government has not yet allocated additional staff for enforcement of the General Product Safety Directive. Institutional and administrative capacity need to be increased in order to ensure efficient market surveillance.

The Consumer Protection Commission is presently chaired by the METE and its members are appointed by the Prime Minister. Its independence and impartiality as a body responsible for protecting the economic interests of consumers will have to be reinforced. The Consumer Protection Council, established by law as a consultative forum bringing together representatives of the government, consumer organisations and businesses, has not yet met. There are currently two consumer organisations operating in Albania.

Regarding *product safety measures*, the level of alignment of Albania's legislation with the General Product Safety Directive can be considered satisfactory at the moment. However, in order to achieve full alignment with the secondary EU legislation in this sector, Albania will have to make further efforts, in particular by amending its general product safety legislation.

In the case of *non-safety-related measures*, Albania has already adopted legislation to ensure approximation with most of the consumer *acquis*, but the institutional framework necessary to enforce consumer rights has not yet been entirely established. In some areas the responsible authority has still to be set up (e.g. on package travel, package holidays and package tours), while in others the powers of some enforcement authorities need to be defined more clearly.

In addition, enforcement and investigative tools, along with the resources of certain authorities (e.g. the Consumer Protection Commission), need to be further enhanced so that they can address infringements of consumer laws efficiently.

Concerning **public health**, the overall aim of the EU's policy is to improve health and prevent human illness and diseases. The EU *acquis* in this area consists of a limited number of legally binding instruments and a larger body of non-binding measures and policy documents, as well as two international commitments on health.

The Ministry of Health (MoH) is responsible for defining, coordinating and directing public health policy. The Institute of Public Health assists the ministry with monitoring, analysis, public information and awareness-raising. Current health policy priorities include upgrading emergency services, improving accessibility of public health care throughout the country, developing capacity to address epidemics and further computerisation of health services.

Government expenditure on health is low (2.8% of GDP). Disparities in coverage by basic health services exist due to the geographical distribution of service-providers, limited access in remote areas and requirements limiting enrolment in the insurance scheme. There is a significant problem with patients having to make informal payments in order to receive health care.

The Health Services Law was adopted in March 2009 as a framework law defining the basic principles and regulatory framework for organisation and operation of the health care system in Albania. In May 2009, the Public Health Care Law was adopted to define the activities and services of the public health system, the role of the State in securing funding for public health services and the distribution of responsibilities between the relevant institutions. The government is currently working on the specific by-laws to implement the Public Health Care Law, some of which are linked to communicable diseases.

In the area of *tobacco* control, alignment with the *acquis* is incomplete, notably as regards oral tobacco, the detailed rules for health warnings and sponsorship. A clear timetable for complete alignment and implementation of tobacco control measures is missing. A clear commitment on restrictions to tobacco advertising and tobacco products remains necessary. As regards protection from environmental tobacco smoke, unclear arrangements are creating difficulties with enforcement of legal provisions.

Regarding *communicable diseases*, the necessary legal basis is in place but needs to be further developed to comply fully with the EU legislation. Communicable diseases are not a major cause of mortality, but remain a significant morbidity burden. Vaccine-preventable diseases appear largely under control and the immunisation rate is very high (over 95%). Albania was declared polio-free in 2002. Although decreasing, waterborne diseases are still a significant public health issue. There are emerging threats, such as HIV/AIDS and sexually transmitted infections, although the HIV/AIDS prevalence is low. A system for initial notification of communicable diseases is in place, but needs to be aligned with the *acquis*.

In relation to the safety and quality rules on *blood, human tissues and cells*, approximation of the legislation on blood with the EU *acquis* is well advanced. The reorganisation of the blood transfusion services is underway, as planned in the national strategy, which envisages five regional blood banks including the National Blood Transfusion Centre, 15 district blood banks and 11 hospital blood banks. To date, blood testing has been centralised at national level at the National Blood Transfusion Centre, while blood processing has been centralised



in two regional banks (Tirana and Vlora) out of the five covered by the plan. The national strategy aims to switch from the existing paid and replacement donation system to a full voluntary unpaid donation approach. In the cases of tissues and cells, alignment with the *acquis* is at a very early stage.

Prevailing conditions in the area of *mental health* raise concerns, particularly about de-institutionalisation of long-term residents of psychiatric hospitals. Policy commitments will need to be backed up by adequate provision of community-based mental health care across the country.

Regarding prevention of *alcohol* and drug abuse, Albania has set up structures for developing public health policy, providing national leadership on health promotion and gathering public health information. First steps have been taken to develop services for treatment of alcohol disorders. A national drugs strategy has been in place since 2004, but a national alcohol strategy is still at the planning stage. Given that alcohol is recognised as a key health determinant, accountable for 6% of the disease burden in Albania, approval and careful implementation and monitoring of such a strategy are very important, not least with a view to regulation of sales of alcoholic beverages.

There is currently no specific national e-health policy document, although the plan and objectives to promote use of ICT in the health sector are outlined in a separate chapter of the National Information and Communication Technologies Strategy.

A national *cancer* strategy is being prepared. However, screening programmes for breast, cervical and colorectal cancer have not yet been established. At present there is no legislative framework for protection against electromagnetic fields in Albania.

### *Conclusion*

Consumer protection measures must be implemented against a background of efficient public authorities and with the active involvement of non-governmental consumer organisations. Completion of an adequate and updated legislative framework needs to be combined with an effective system for enforcement and monitoring. Further measures will be needed to improve the efficiency of the health system for addressing public health issues and reducing social and regional disparities in access to health services. *Overall*, Albania will have to undertake additional efforts to align with the *acquis* and to implement it effectively in the medium term.

### **3.29. Chapter 29: Customs Union**

The *acquis* in this sector consists of the EU Customs Code and its implementing provisions, the Combined Nomenclature, the Common Customs Tariff, including trade preferences, tariff quotas and tariff suspensions and other customs-related legislation outside the scope of the Customs Code. Member States must ensure that the necessary implementing and enforcement capacities, including links to the relevant computerised EU customs systems (e.g. tariff-related systems, NCTS, ECS, ICS and EOS) are in place. The customs administration must also ensure adequate capacity to implement and enforce special rules laid down in related areas of the *acquis* such as the provisions on external trade, health and security.

The *Stabilisation and Association Agreement (SAA)* provides for establishment of a free trade area with the EU and the immediate or progressive removal of customs duties on a wide range of products. It places an obligation on Albania to adopt the Combined Nomenclature. It also

provides for administrative cooperation on customs matters, and rules of origin which have to be observed in order to benefit from the trade preferences.

As regards **customs legislation**, Albania already applies the Combined Nomenclature and its classification rules are largely in line with the *acquis*, although practice is not always consistent. Existing systems of binding tariff information, tariff suspensions, tariff quotas and duty relief are similar to those of the EU but are not yet fully aligned. Upon accession Albania will need to ensure implementation of all EU customs-related legislation. Albania's customs legislation does not yet include security measures or the concept of the authorised economic operator (AEO). The system of administrative fees for customs supervision and control will need to be analysed in depth, as some of the charges applied may not be in line with the *acquis*. Albania will need to align its transit procedures in preparation for accession to the Common Transit Convention. Temporary admission under the ATA carnet has been introduced, but is not yet applied in practice as there is no national guarantor.

Albania's system of preferential rules of origin and methods of administrative cooperation largely reflect those used by the EU in its free trade agreements. Albania applies diagonal cumulation with the EU and other countries participating in the Stabilisation and Association Process. Due to concerns about under-invoicing, reference prices are often used as alternative valuation methods. Currently the transaction value is recognised for only about 80% of imports, which is lower than the EU standards.

Customs legislation and procedures provide a level of protection for intellectual property rights which is broadly similar to the level in the EU, although more efforts will be needed to ensure effective enforcement, including by improving interinstitutional cooperation.

Concerning **administrative and operational capacity**, the legal and administrative structures to apply and enforce customs rules are in place. An Internal Audit Unit plays a key role in homogeneous application of the rules throughout the country. Resources are generally adequate, but infrastructure and equipment will need upgrading to address future challenges and more capacity will be needed to implement and enforce the EU *acquis*, including in the IT area. The stability and independence of the Customs administration needs to be reinforced, especially with regard to the status of its employees. The perception of corruption in the customs administration is high and Albania will need to continue, with determination, its efforts to address this issue. Enhanced interinstitutional cooperation and exchanges of information will be required, both internally and with neighbouring countries, to improve security at borders and the fight against illegal traffic.

The risk management system is adequate in terms of system architecture, functions and governance structure, although improvements will be needed in detection of irregularities. Post-clearance controls will need to be systematically developed to compensate for the lower percentage of physical and documentary checks and to strike a balance between trade facilitation and efficient controls.

The legal basis for trade facilitation needs to be established (simplified procedures and AEO) and more extensive use of simplified procedures will be necessary to enhance the practice of carrying out customs formalities on the premises of businesses. Overall, proper attention will need to be given to shifting the focus of the customs administration from collection of duties to trade facilitation and protecting the health and safety of citizens.

The current computerised declaration and processing system (ASYCUDA) allows risk analyses of all documents lodged and also includes some basic measures to introduce performance-based management. The system includes web-based declaration lodging and pre-arrival information. However, the Albanian IT system is not in line with the new computerised transit system (NCTS), the integrated transit management system (ITMS) and other EU e-customs specifications. Infrastructure upgrades will be needed to ensure continuous operation of the Customs Computer Centre, including establishing a disaster recovery centre. Additional efforts on computerisation will be required to allow all customs formalities and exchanges between operators and customs to be completed electronically in line with the EU's modernised Customs Code. Business and IT strategies still need to be adopted and the systems development methods will need strengthening in the medium term.

### *Conclusion*

Customs legislation in Albania is partly aligned with the *acquis*. Further efforts are needed in a number of areas, along with overall alignment with the EU's customs legislation. The administrative and operational capacity of the customs administration will need to be reinforced to improve implementation of the existing legislation and to address future challenges. IT capacity will need to be strengthened, with particular attention to interconnectivity and interoperability with the computerised systems of the EU.

*Overall*, Albania still faces challenges in the areas of legislative alignment and administrative capacity, but should, in the medium term, have the capacity to comply with the requirements of the *acquis*, provided it continues its efforts.

### **3.30. Chapter 30: External relations**

The *acquis* in the field of external relations consists mainly of directly binding EU legislation which does not require transposition into national law. In the area of humanitarian aid and development policy, applicant countries need to comply with the EU legislation and its international commitments and to ensure the capacity to participate in the EU's policies.

*The Stabilisation and Association Agreement (SAA)* includes a core trade part establishing a free trade area between Albania and the EU. It includes provisions in several areas requiring the parties to act in accordance with the rules of the WTO or relevant international obligations. Albania shall enhance cooperation, including trade liberalisation, within the region and with other countries involved in the enlargement process.

Upon accession, Albania will be bound by the **common commercial policy**. It will have to apply all the autonomous (preferential and non-preferential) trade arrangements that the EU grants to certain non-EU countries, including the Generalised System of Preferences (GSP). At present Albania does not apply any GSP scheme. Albania will also have to terminate all its current preferential trade agreements with non-EU countries and bring all other agreements, including non-preferential trade agreements, into line with the obligations of EU membership. Albania will also become party to the European Economic Area (EEA) and, upon accession, will have to apply all EU international trade agreements.

Albania is a member of the Central European Free Trade Agreement (CEFTA). It has a free trade agreement with Turkey. The free trade agreement with the European Free Trade Association (EFTA) is awaiting ratification. The average Albanian most favoured nation (MFN) *ad valorem* tariff rates are 7.6% for agricultural products, 0.0% for fish and fishery products and 4.44% for industrial goods, with an overall average of 5.2%. The EU average

MFN *ad valorem* tariff rates are 9.74% for agricultural products, 10.02% for fish and fishery products and 3.75% for industrial goods, with an overall average of 4.83%. Upon accession to the EU, Albania will have to apply the EU Common Customs Tariff.

Albania has been a member of the *WTO* since 2000. As far as the plurilateral agreements are concerned, Albania is a party to the Agreement on trade in civil aircraft. Albania's schedule of commitments under the General Agreement on Trade in Services (GATS), and both horizontal limitations and sector-specific commitments, generally differ from those undertaken by the EU. In general, Albania has fewer horizontal commitments than the EU in terms of the number of sectors or subsectors covered. The sectoral or subsectoral commitments from Albania and the EU do not have the same level of limitations, either for market access or national treatment. Albania has substantially fewer sector-specific commitments than the EU and the Albanian system is more liberalised. Albania also has fewer MFN exemptions than the EU. In order to avoid compensation under Article XXI of GATS, upon accession Albania will have to consider amending or withdrawing its commitments in some sectors sensitive for the EU. None of Albania's GATS commitments hinder its ability to take on the obligations of EU membership.

Albania has bilateral investment treaties (BITs) in force with 37 countries and a further 8 agreements have yet to be signed. Moreover, Albania is currently negotiating 13 more BITs. Some of the provisions in Albania's BITs will need to be aligned with the *acquis* to meet the obligations of the Treaty on the Functioning of the European Union and relevant case-law. Some BITs do not provide for exemptions to free transfer of investment-related funds between the signatories and provide for pre-establishment national treatment for third-country investors with respect to services.

Albania has laws in place on anti-dumping and countervailing measures to offset the damage caused by subsidised imports. Upon accession Albania will have to repeal national legislation related to its trade defence instruments and measures based on this legislation.

As regards administrative capacity, participation in the EU decision-making mechanisms on trade and implementation and enforcement of the *acquis* will require strengthening the Trade Policy Directorate in the Ministry of Economic Affairs, Trade and Energy. The mechanism in place for coordination between ministries needs to be further strengthened.

Albania has no *export credit* scheme. The *acquis* on export credits will need to be applied upon accession.

Albania has legislation in place on *dual-use* export controls, but it is not yet fully in line with the *acquis*. Some parts of this legislation are different from current EU law, in particular from the latest EU Regulation (Regulation 428/2009), and the list of items controlled prior to export is not based on that regulation.

In relation to **development policy and humanitarian aid**, Albania is a signatory of the Millennium Declaration and supports the Monterrey Consensus on development financing. It is a recipient of aid and has neither a policy framework nor administrative structures for development and humanitarian aid policies. It has provided limited *ad hoc* aid to non-EU countries in response to natural disasters. Albania will have to adopt a legal and material framework to cover humanitarian aid to non-EU countries and civil protection aid to Member States and non-EU countries in accordance with the principles already adopted by the Union, notably Regulation 1257/96. Albania will need to strengthen the administrative structure

inside the government and its ability to participate in the EU decision-making process on development and humanitarian aid policies. The change from recipient to donor of external assistance will require the active support of informed civil society.

### *Conclusion*

*Overall*, with regard to external relations, Albania should be able to meet EU requirements in the medium term, provided alignment with the *acquis* continues and the institutional capacity to implement and enforce it is strengthened. In preparing for membership, Albania will need to ensure that its action and commitments concerning international organisations are aligned and coordinated with those of the EU.

### **3.31. Chapter 31: Foreign, Security and Defence Policy**

The common foreign and security policy (CFSP) and the common security and defence policy (CSDP) are based on legal acts, including legally binding international agreements, and on policy documents. The *acquis* consists of political declarations, joint actions, common positions and agreements. Member States must be able to conduct political dialogue within the framework of the CFSP, to align with EU declarations, to take part in EU action and to apply the restrictive measures agreed. Applicant countries are required to progressively align with EU declarations and to apply restrictive measures as and when required.

Albania fully supports the efforts of the European Union to strengthen its role as a cohesive force in international relations and its ability to promote European interests and values on the international scene. Albania is seriously committed to being ready and able to participate fully and actively in the EU's CFSP and CSDP, as defined in the Treaty on European Union, by the date of accession.

Albania's administrative structures are generally adequate, although parts are still being developed or restructured. Albania has 40 embassies (with six more being set up), six permanent representations and six consulates-general. The diplomatic service consists of 615 employees, of whom 187 are in Tirana. In order to be able to participate fully in the CFSP and CSDP, development and restructuring of the administration need to be continued.

As regards **political dialogue**, Albania has established close political consultations with Member States of the European Union. Following the entry into force of the Stabilisation and Association Agreement, this takes place within the SAA structures. Since January 2004, Albania has in most instances, when invited, aligned itself with Council decisions, EU demarches and declarations. However, it concluded the Agreement on Article 98 of the Rome Statute with the USA in June 2003, which is not in line with the EU position. Albania will have to change legislation in this field before its accession.

Albania's foreign policy aims at building constructive bilateral and multilateral relations. In this context, Albania intends to increase its role in promoting regional peace and stability. It is active in all multilateral organisations and initiatives with a focus on South-East Europe and plays a positive role. It holds the presidency of MARRI (the Migration, Asylum and Refugees Regional Initiative) in 2010/2011.

Overall, Albania's bilateral relations pose no significant problems.

As regards *restrictive measures*, Albania has implemented all United Nations Security Council restrictive measures and EU restrictive measures and has adopted the legal acts necessary to this end.

In relation to *non-proliferation and the strategy on weapons of mass destruction/small arms and light weapons* (WMD/SALW), Albania is participating in international export control arrangements and instruments concerning the non-proliferation of weapons of mass destruction. It has applied to become a party to the Wassenaar Arrangement on export controls for conventional arms and dual-use goods and technologies. Albania's national laws and control system comply with international commitments on SALW, including the EU strategy. However, for the time being, Albania has no national strategy on SALW. Albania has declared its intention to finalise and adopt a national strategy on SALW by the end of 2010. Further efforts are needed to develop the online register of weapons and ammunition under the management of the State Police. Destruction of surplus weaponry and ammunition is following an action plan due to be completed by 2013, but requires substantial funding.

With regard to *cooperation with international organisations*, Albania is a member of the UN, the Council of Europe, the OSCE, NATO and many other international organisations and agreements.

Albania has introduced the legal basis and practical arrangements necessary to comply with the Council decisions on information security, including on handling of classified information. However, it has not yet concluded a security agreement with the EU on exchanges and mutual protection of classified information.

Albania is ready to participate actively in different *civil and military crisis management* missions. The country already has a team of 12 taking part in ALTHEA ammunition and explosives disposal operations plus one officer in HQ. In Chad, 63 military personnel from Albania took part in EUFOR Chad/RCA (now under MINURCAT). Albania has been participating in UN peacekeeping missions in Iraq and Afghanistan and contributing to KFOR. Cooperation with the EU rule of law mission (EULEX) in Kosovo seems to have improved and raises no concerns at present. Several agreements in 2008 and 2009 laid a legal basis for this cooperation.

Civil emergency services and disaster preparedness require further improvement.

### *Conclusion*

*Overall*, Albania should be able to fulfil its obligations under the CFSP and CSDP in the medium term, provided it takes the necessary legal and administrative measures and makes the necessary adjustments.

## **3.32. Chapter 32: Financial Control**

The *acquis* on financial control relates to the following policy areas: *public internal financial control (PIFC)*, which covers internationally agreed standards and EU best practice for implementation across the entire public sector, and *external audit*, which covers the operational and financial independence of the external audit function (national audit office). Management and control of EU funds are discussed in the other relevant chapters (e.g. on agriculture and rural development, regional policy, coordination of structural instruments or fisheries). This chapter covers the more general aspects of internal control and external audit of national funds. It also covers protection of the EU's financial interests, including

administrative cooperation and criminal law protection (the PIF Convention and its protocols). Finally, the section on protection of the euro against counterfeiting deals with the first-pillar aspects of this issue.

In Albania, the **public internal financial control (PIFC)** system is further developing. The first PIFC policy paper, adopted in June 2005, has been revised for the period 2009–2014 and highlights the importance of the managerial accountability principle, which goes beyond compliance with laws and regulations. This strategy maps out the future development priorities and actions necessary. The *Budget Law* (last amended in 2008), the *Law on Financial Management and Control* from July 2010 and the *Internal Audit Law* of 2007 (last amended in September 2010) provide the legal basis for development of PIFC. The *Law on Inspection* from July 2010 provides the legal basis for *centralised budget inspection* in line with PIFC requirements. Updated implementing legislation will be required along with considerable further efforts to implement the legal framework.

*Financial management and control (FMC)* in Albania is currently primarily understood in terms of controls, but there is a recognised need to strengthen managerial accountability. An FMC manual has been prepared and it has been approved by the Minister of Finance. There are no systematic audit trails. Risk management is not yet developed on a systematic basis. Considerable training and awareness-raising efforts will be required to implement the legal provisions on managerial accountability and FMC principles. As regards the *internal audit* function, organisationally, internal audit has been developed, though existing internal audit units perform primarily compliance audits. There have been only a few attempts at systems or performance audits. The roles of internal audit and inspection have been legally clearly separated but awareness needs to be raised and financial inspection function to be set up. Two central harmonisation units (one on FMC, the other on internal audit) have been established in the Ministry of Finance to develop and coordinate PIFC across the entire public sector.

With regard to **protection of the EU's financial interests (PFI)**, the country is also at an early stage of legislative and administrative preparations. Albania's national penal legislation already contains many elements of the PFI legislation (the Convention on the protection of the EU's financial interests and its protocols). In the medium term, Albania will need to ensure that the provisions enshrined in the Albanian Criminal Code and in the Albanian Criminal Procedure Code comply with EU requirements for protection of the EU's financial interests. Albania needs to set up an effective and efficient coordination service (AFCOS) to guarantee compliance with the obligations concerning on-the-spot checks and inspections by the European Commission, in particular the obligation to assist Commission inspectors from the day of accession at the latest. The legal basis for that has been drafted and preparations for putting it into operation have already started.

Concerning *protection of the euro against counterfeiting*, there is legislation covering various types of counterfeiting (money, credit cards and securities). Albania is working on amendments to the Criminal Code to address provisions on criminal offences of counterfeiting money, as well as on import, export and transport of counterfeited money. The existing national legislation does not regulate which authorities have been designated for centralisation, technical analysis and processing of information on counterfeit bank notes and coins, both euro and other currencies. In the medium term, Albania will have to ensure that its Criminal Code and other laws and regulations on money counterfeiting comply with the EU requirements for protection of the euro against counterfeiting.

*Conclusion*

*Overall*, as regards financial control, Albania has started preparations, but it will have to make considerable and sustained efforts to align with the *acquis* especially in the areas of *protection of the EU's financial interests* and *protection of the Euro against counterfeiting* and to implement the *acquis* in this chapter effectively in the medium term. Whereas the legal framework and institutional arrangements for *public internal financial control* are largely in place, actual implementation of both financial management and control and internal audit principles still needs to be further developed. Considerable further training and awareness-raising efforts are required in order to embed the new control environment and management culture. Regarding *external audit*, the independence of the SAI needs to be ensured and the SAI Law needs to be amended to bring it fully into line with INTOSAI standards. The SAI's capacity needs further strengthening to ensure efficient external audits of government activity.

### **3.33. Chapter 33: Financial and budgetary provisions**

Chapter 33 covers the rules concerning the financial resources necessary for funding the EU budget ('own resources'). These own resources are made up mainly of contributions from Member States based on (1) traditional own resources deriving mainly from customs duties and sugar levies, (2) resources based on VAT and (3) resources based on the level of GNI (gross national income).

The *acquis* under this chapter consists of EU legislation that is directly binding on the Member States and does not require transposition into national law. However, all necessary steps should be taken to ensure, from accession, full and correct application of the rules on own resources.

The basic principles and institutions for the underlying policy areas shaping the own resources system are in place in Albania. A national **VAT** system is in operation, customs duties are levied on imports and national accounts and GDP estimates are based on ESA95 standards. The Institute of Statistics has not yet developed an official version of **GNI**. Further efforts are needed to reach the full implementation of the ESA 95 standards to ensure that GNI resource is appropriately measured.

As regards operational management of the own resources system, Albania will need to ensure, in due course, the human and **administrative resources** necessary to apply the EU rules concerning payments to the EU budget. Albania needs to develop appropriate administrative capacity to coordinate adequately and ensure correct forecasting, calculation, accounting, collection, payment and control of own resources.

#### *Impact*

Given its GDP level, Albania's accession is expected to have a limited impact on the EU budget. This applies both to its likely receipts under the various EU expenditure programmes and to its expected contribution to the EU budget, based on application of the rules on own resources.

#### *Conclusion*

There are no significant divergences between the systems in Albania and the EU in terms of the basic principles and institutions for the underlying policy areas shaping application of the rules on own resources. *Overall*, if it continues its efforts, Albania should, in the medium term, have the capacity to comply with the requirements of the *acquis* in the field of financial and budgetary provisions.



### 3.34. General Evaluation

Albania's ability to assume the obligations of membership has been evaluated according to the following indicators:

the obligations set out in the Stabilisation and Association Agreement;  
progress with adoption, implementation and enforcement of the EU *acquis*.

Albania has overall smoothly implemented the obligations under the Stabilisation and Association Agreement, although due attention needs to be paid to respecting the deadlines for its commitments. Until recently there have also been some gaps in the implementation of certain trade provisions (notably the standstill clause related to taxation of imports).

Albania adopted a National Strategy for Development and Integration (2007-2013) which is a comprehensive and ambitious plan providing for the approximation of national legislation to the EU *acquis*. It has in recent years made significant efforts in aligning its legislation with the EU *acquis*, particularly in some areas of the internal market, trade-related provisions, customs and taxation. However the country faces major challenges in implementing and enforcing legislation. Administrative and judicial capacities remain overall limited and the country will need sustained efforts to strengthen them to be able to assume the obligations of membership in the medium-term.

If it continues its efforts, Albania should, in the medium term, have the capacity to comply with the requirements of the *acquis* in the following fields:

- Taxation
- Enterprise and industrial policy
- Science and research
- Education and culture
- Customs union
- External relations
- Foreign, security and defence policy
- Financial and budgetary provisions

Albania will have to undertake additional efforts to align with the *acquis* and to implement it effectively in the medium term in the following fields:

- Freedom of movement for workers
- Right of establishment and freedom to provide services
- Free movement of capital
- Public procurement
- Company law

- Competition policy
- Financial services
- Energy
- Economic and monetary policy
- Statistics
- Trans-European networks
- Consumer and Health Protection

Further adjustments of the legal and institutional framework and in particular strengthening of administrative and implementation capacities are needed in the above areas.

Albania will have to make considerable and sustained efforts to align with the *acquis* and to implement it effectively in the medium term in the following fields:

- Free movement of goods
- Intellectual property law
- Information society and media
- Agriculture and rural development
- Food safety, veterinary and phyto-sanitary policy
- Fisheries
- Transport policy
- Social policy and employment
- Regional policy and coordination of structural instruments
- Judiciary and fundamental rights
- Justice, freedom and security
- Financial control

Considerable adjustments of the legal and institutional framework and significant strengthening of administrative and implementation capacities are needed in these areas.

Regarding environment, very significant efforts will be needed to align with the EU *acquis* and to implement it effectively. These should include substantial investments and strengthening of administrative capacity for the enforcement of legislation in order to achieve effective compliance on the most important issues, including climate change, in the medium term. Full compliance with the *acquis* could be achieved only in the long term and would necessitate increased levels of investment.

## Statistical Annex

### STATISTICAL DATA (as of 18 October 2010)

#### Albania

<b>Basic data</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population (thousand)		3 058	3 063	3 084	3 103	3 120	3 135	3 149	3 153	3 170	3 185
Total area of the country (km <sup>2</sup> )		28 750	28 750	28 750	28 750	28 750	28 750	28 750	28 750	28 750	28 750
<b>National accounts</b>											
	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross domestic product (GDP) (million national currency)	1)	523 043	583 369	622 711	694 098	751 022	814 797	882 209	967 670	1 088 132e	1 122 566e
GDP (million euro)	1)	3 945	4 541	4 705	5 048	5 883	6 561	7 168	7 828	8 861e	8 500e
GDP (euro per capita)	1)	1 289	1 477	1 521	1 622	1 881	2 088	2 275	2 476	2 785e	2 661e
GDP (in Purchasing Power Standards (PPS) per capita)		:	:	:	:	:	5 000.0	5 500.0	5 800.0	6 500.0	6 400.0
GDP per capita in PPS (EU-27 = 100)		:	:	:	:	:	22.2	23.2	23.3	25.9	27.1
Real GDP growth rate (growth rate of GDP volume, national currency, % change on previous year)		6.7	7.9	4.2	5.8	5.7	5.7	5.4	5.9	7.7e	3.3
Employment growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		:	:	:	:	:	:	:	:	:	:
Real unit labour cost growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
Labour productivity per person employed (GDP in PPS per person employed, EU-27 = 100)		:	:	:	:	:	:	:	:	:	:
Gross value added by main sectors (%)											
Agriculture and fisheries		25.5	23.6	23.4	23.5	22.3	20.6	19.4	19.0	18.5e	:
Industry		7.8	7.3	6.9	8.7	10.0	10.6	11.1	9.4	9.8e	:
Construction		8.3	10.4	12.0	13.7	13.9	13.8	14.3	14.8	14.9e	:
Services		58.5	58.6	57.6	54.0	53.8	55.0	55.2	56.8	56.7e	:
Final consumption expenditure, as a share of GDP (%)		86.0	80.9	86.0	86.1	89.0	88.9	87.4	90.4	89.6	:
Gross fixed capital formation, as a share of GDP (%)		31.7	38.4	37.9	40.5	37.2	37.0	39.0	38.7	38.1	:
Changes in inventories, as a share of GDP (%)		2.4	1.3	0.8	-1.8	-3.8	-1.2	-2.8	-2.4	-1.1	:
Exports of goods and services, relative to GDP (%)		17.9	18.4	19.6	20.4	22.0	22.8	24.9	28.1	29.4	:
Imports of goods and services, relative to GDP (%)		38.1	39.0	44.3	45.1	44.4	47.5	48.5	54.8	56.1	:
<b>Industry</b>											
	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Industrial production volume index (2000=100)		:	:	:	:	:	:	:	:	:	:
<b>Inflation rate</b>											
	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Annual average inflation rate (CPI, % change on previous year)		4.2	3.5	1.7	3.3	2.2	2.0	2.5	3.1	2.2	3.5

<b>Balance of payments</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Balance of payments: current account total (million euro)		-185	-316	-444	-350	-340	-589	-471	-831	-1 370	-1 346
Balance of payments current account: trade balance (million euro)		-897	-1 149	-1 218	-1 177	-1 277	-1 477	-1 659	-2 104	-2 431	-2 304
Balance of payments current account: net services (million euro)		12	100	-8	-72	-41	-140	-32	13	69	121
Balance of payments current account: net income (million euro)		115	150	116	132	138	131	209	217	55	-101
Balance of payments current account: net current transfers (million euro)		586	583	667	767	839	897	1 011	1 043	937	938
of which government transfers (million euro)		105	31	41	53	61	61	43	60	31	27
Net foreign direct investment (FDI) (million euro)		157	231	141	157	267	209	250	470	620	680
Foreign direct investment (FDI) abroad (million euro)	2)	0	0	0	0	0	0	0	0	0	0
of which FDI of the reporting economy in EU-27 countries (million euro)		:	:	:	:	:	:	:	:	:	:
Foreign direct investment (FDI) in the reporting economy (million euro)	2)	157	231	141	157	267	209	250	470	620	680
of which FDI of EU-27 countries in the reporting economy (million euro)		:	:	:	:	:	:	:	:	:	:

<b>Public finance</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General government deficit/surplus, relative to GDP (%)		-7.6	-6.9	-6.1	-4.9	-5.1	-3.5	-3.3	-3.5	-5.5	:
General government debt relative to GDP (%)		60.2	58.5	63.9	61.5	58.3	56.8	56.8	54.8	53.9	:

<b>Financial indicators</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross foreign debt of the whole economy, relative to GDP (%)		17.0	17.2	22.1	21.1	19.0	16.7	17.2	16.6	17.1	:
Gross foreign debt of the whole economy, relative to total exports (%)	3)	94.9	93.1	112.5	103.5	86.5	73.0	69.0	59.0	:	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		936	1 113	1 102	1 033	1 332	1 801	1 969	1 963	2 303	2 154
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		1 995	2 376	2 430	2 555	3 080	3 434	3 879	4 094	4 520	4 378
Money supply: M3 (M2 plus marketable instruments, million euro)		2 475	3 069	3 083	3 225	3 942	4 614	5 415	6 129	6 643	6 599
Total credit by monetary financial institutions to residents (consolidated) (million euro)		175	217	302	381	566	1 007	1 590	2 377	3 227	3 335
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:	:	:	:	:
Lending interest rate (one year), per annum (%)	4)	24.0	11.9	15.0	12.2	15.5	12.4	12.9	11.7	11.8	12.5
Deposit interest rate (one year), per annum (%)	5)	8.0	7.8	8.5	8.3	6.6	5.1	5.2	5.7	6.9	6.8
euro exchange rates: average of period - 1 euro = ... national currency		132.580	128.470	132.360	137.510	127.670	124.190	123.080	123.620	122.800	132.060
Effective exchange rate index (2000=100)		:	:	:	:	:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		697	853	1 704	1 486	1 650	1 885	2 145	2 203	2 658	2 723

<b>External trade</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Value of imports: all goods, all partners (million euro)		:	:	1 586.5	1 648.5	1 859.9	2 096.1	2 430.9	3 045.7	3 699.4	:
Value of exports: all goods, all partners (million euro)		:	:	348.3	396.2	485.0	530.1	628.1	786.1	784.3	:
Trade balance: all goods, all partners (million euro)		:	:	-1 238.2	-1 252.3	-1 374.9	-1 566.0	-1 802.8	-2 259.6	-2 915.1	:
Terms of trade (export price index / import price index)		100.2	101.5	99.9	98.2	99.0	80.3	100.6	98.1	96.0	97.6
Share of exports to EU-27 countries in value of total exports (%)		:	:	92.8	93.8	90.7	92.0	88.6	83.1	76.6	:
Share of imports from EU-27 countries in value of total imports (%)		:	:	77.0	74.6	70.4	70.6	65.5	59.8	62.2	:

<b>Demography</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		11.4	12.5	9.5	9.3	8.1	7.2	5.5	5.9	6.3	:
Infant mortality rate: deaths of children under one year of age per 1000 live births		13.8	10.8	10.2	8.4	7.8	7.6	7.4	5.6	6.0	:
Life expectancy at birth: male (years)		72.1	72.1	72.1	72.1	72.1	72.1	73.9	72.9	72.9	72.9
Life expectancy at birth: female (years)		78.6	77.5	77.9	78.6	78.6	78.6	78.0	77.8	77.8	77.8

<b>Labour market</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population (15-64): total of population aged 15-64 (thousand)	6)	1 939.0	1 773.1	1 767.0	1 825.7	1 850.6	1 876.8	2 022.6	2 106.0b	2 052.5	2150.6
Population in economic activity (15-64): total of population aged 15-64 that is economically active (thousand)	6)	1 283.3	1 101.1	1 092.5	1 089.3	1 088.2	1 085.4	1 084.5	1 373.1b	1 271.4	1331.9
Total employment (15-64): total of population aged 15-64 that is employed (thousand)	6)	1 068.2	920.6	920.1	926.2	931.2	932.1	935.1	1 188.3b	1 103.5	1147.8
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)	6)	66.2	62.1	61.8	59.7	58.8	57.8	53.6	65.2b	61.9	61.9
Employment rate (15-64): share of population aged 15-64 in employment (%)	6)	55.1	51.9	52.1	50.7	50.3	49.7	46.2	56.4b	53.8	53.4
Employment rate male (15-64) (%)	6)	66.0	64.0	63.9	62.6	61.2	60.0	58.8	63.6b	63.0	64.3
Employment rate female (15-64) (%)	6)	44.1	39.6	39.7	39.1	38.9	38.8	38.1	49.3b	45.6	43.6
Employment rate of older workers (55-64): share of population aged 55-64 in employment (%)		:	:	:	:	:	:	:	46.6	44.0	48.9
Employment by main sectors (%)											
Agriculture	6)	71.8	57.7b	57.7	58.2	58.5	58.5	58.0	47.9b	44.6	44.1
Industry	6)	5.4	7.7b	7.6	7.2	8.1	7.9	8.0	10.4b	9.3	10.0
Construction	6)	1.2	6.1b	6.1	6.0	5.5	5.5	5.7	8.2b	8.5	9.9
Services	6)	21.5	28.5b	28.6	28.5	27.9	28.1	28.3	33.5b	37.6	36.0
Unemployment rate: share of labour force that is unemployed (%)	7)	16.8	16.4	15.8	15.0	14.4	14.1	13.8	13.5b	13.0	13.8
Share of male labour force that is unemployed (%)	7)	14.9	14.2	13.6	12.9	12.4	12.1	11.8	14.4b	12.5	12.2
Share of female labour force that is unemployed (%)	7)	19.3	19.9	19.1	18.2	17.5	17.2	16.8	12.2b	13.5	15.9
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)	7)	:	:	26.8	:	:	:	:	20.1b	27.2	27.2
Long-term unemployment rate: share of labour force that is unemployed for 12 months and more (%)	7)	:	:	:	:	:	:	:	9.3b	8.5	9.1
<b>Social cohesion</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average nominal monthly wages and salaries (national currency)		14 963.0	17 218.0	19 659.0	21 325.0	24 393.0	26 808.0	28 822.0	33 750.0	36 537.0	40 874.0
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI) (2000=100)		:	11.6	21.1	27.8	42.8	53.3	60.9	83.1	91.7	109.8
Early school leavers - Share of population aged 18-24 with at most lower secondary education and not in further education or training (%)		:	:	:	:	:	:	:	42.0	39.0	:
<b>Standard of living</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Number of passenger cars per 1000 population		37.4	43.6	48.2	56.4	60.9	62.2	71.4	89.1	91.4	:
Number of subscriptions to cellular mobile telephone services per 1000 population		:	120.8	259.4	370.6	403.6	488.0	561.7	:	:	:
<b>Infrastructure</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Density of railway network (lines in operation, per 1000 km <sup>2</sup> )		13.9	14.3	15.0	15.0	15.1	15.0	13.9	13.9	13.9	13.9
Length of motorways (thousand km)		:	:	:	0	0	0	0	0	0	:
<b>Innovation and research</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Spending on human resources (public expenditure on education in % of GDP)		3.1	3.3	3.0	3.1	3.2	3.2	3.1	3.2	3.5	3.4
Gross domestic expenditure on R&D in % of GDP		:	:	:	:	:	:	:	:	:	:
Percentage of households who have Internet access at home (%)		:	:	:	:	:	1.5	:	:	3.4	:

<b>Environment</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Greenhouse gas emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		400.5	386.5	356.3	370.6	384.0	366.5	328.9	306.6	259.2e	:
Electricity generated from renewable sources in % of gross electricity consumption		:	:	:	:	:	:	:	:	:	:
Road share of inland freight transport (% of tonne-km)		:	:	:	:	:	:	:	:	:	:

<b>Energy</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Primary production of all energy products (thousand TOE)		987	933	896	1 012	1 178	1 149	1 237	1 080	1 159	:
Primary production of crude oil (thousand TOE)		314	335	308	359	443	418	500	564	578	:
Primary production of hard coal and lignite (thousand TOE)		20	15	5	19	19	15	15	15	20	:
Primary production of natural gas (thousand TOE)		12	8	8	12	9	10	10	16	8	:
Net imports of all energy products (thousand TOE)		858	1 001	965	1 043	1 080	1 130	826	1 020	1 033	:
Gross inland energy consumption (thousand TOE)		1 845	1 934	1 861	2 055	2 258	2 279	2 156	2 130	2 119	:
Electricity generation (thousand GWh)		4.7	3.7	3.2	4.9	5.5	5.5	5.6	3.0	3.9	5.2

<b>Agriculture</b>	Note	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Agricultural production volume index of goods and services (producer prices, previous year=100)		:	:	:	102.9	105.1	101.2	102.5	100.4	107.4	:
Total utilised agricultural area (thousand hectare)		1 144	1 139	1 140	1 121	1 122	1 077	1 120	1 121	1 146	1 164
Livestock: cattle (thousand heads, end of period)		728	708	690	684	654	655	634e	577	541	494
Livestock: pigs (thousand heads, end of period)		103	106	114	132	143	147	152e	147	161	160
Livestock: sheep and goats (thousand heads, end of period)		3 045	2 933	2 773	2 919	2 739	2 701	2 770e	2 729	2 620	2 540
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		948	984	1 010	1 060	1 064	1 076	1 102e	1 016	1 040	1 045
Crop production: cereals (including rice) (thousand tonnes, harvested production)		566	503	519	489	499	511	508	494	609	:
Crop production: sugar beet (thousand tonnes, harvested production)		42	39	39	50	40	40	:	:	:	:
Crop production: vegetables (thousand tonnes, harvested production)		620	677	669	675	678	685	688	672	715	730

: = not available

e = estimated value

b = break in series

1) 2009 values are based on the sum of quarterly data, transformed to current prices for 2009.

2) The balance of payments sign conventions are used. For FDI abroad a minus sign means investment abroad by the reporting economy exceeded its disinvestment in the period, while an entry without sign means disinvestment exceeded investment. For FDI in the reporting economy an entry without sign means that investment into the reporting economy exceeded disinvestment, while a minus sign indicates that disinvestment exceeded investment.

3) Debt Outstanding Disbursed (DOD) cumulative stock covering external public debt and external publicly guaranteed debt, but excluding IMF credit. Total exports are calculated according national accounts concepts.

4) Average weighted rate applied on new 12-month loans over the respective month, on 12-month maturity.

5) Deposit interest rate represents the average weighted rate for newly accepted deposits over the respective month, on 12-month maturity.

6) For 2001-2006 administrative data (information only for the male population aged 15-59 and for the female population aged 15-54); from 2007 onwards Labour Force Survey data.

7) From 2000 to 2006 the unemployment indicators refer to administrative data; from 2007 on the unemployment indicators refer to LFS data.