

**ENERGY CHARTER
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Related documents: CC 352, CC 368

DECISION OF THE ENERGY CHARTER CONFERENCE

Subject: Conclusions of the In-depth Report on Investment Climate and Market Structure (ICMS) of Albania

[The Energy Charter Conference at its 19th Meeting held on 28 November 2008 approved the Conclusions of the In-depth Report on Investment Climate and Market Structure of Albania as presented in document CC 352 (*Annex*).]

Keywords: ICMS, Albania

Policy Conclusions to the In-depth Report on the Investment Climate and Market Structure in the Energy Sector of the Republic of Albania

as adopted by the Energy Charter Conference
at its 19th Meeting held on 28 November 2008

The Charter Conference,

Having regard to the Report from the Investment Group with respect to the In-depth Review on Investment Climate and Market Structure of the Republic of Albania

NOTED

- a) That the Republic of Albania has successfully covered a long way in liberalising its economy and realising institutional and structural reforms that led to a better investment climate for investors;
- b) That the Government of Albania is fully aware that attraction of FDI and the improvement of the business climate are key factors for a competitive economy and sustainable development toward increased prosperity, and that the Government of Albania sees improvement of the business regulatory framework as a priority and has created a special agency to boost foreign investment with focus on the energy sector;
- c) That international investment protection and promotion agreements, and prevention of double taxation treaties, as instruments of FDI, are now available in the Republic of Albania, which provide the terms and conditions mostly sought by foreign investors, and create a business climate conducive to increasing foreign investment;
- d) In particular:
 - Underlined the remarkable political, economic, and social progress in the fifteen years since the country first began its transition to democracy. Albania has well managed to establish the institutions of a parliamentary democracy, and despite economic development far behind similar regimes of Eastern Europe at the time, has made impressive strides in the establishment of a functioning market economy;
 - Welcomed the significant progress in negotiations with the EU which were successfully concluded, and underlined that the country is moving towards an integration with the EU by adopting the *Acquis Communautaire*, which is expected to further boost investor confidence in the country;
 - Noted that Albania has a big potential through its developing yet open market economy with a fully liberalised trade and completely privatised banking sector, and offers many opportunities for investors; property and labour costs are low, the young and educated populace is ready to work, and tariffs and other legal restrictions are already low in many cases and being swept away in others;
 - Observed with satisfaction the efforts towards implementing the reform programs towards a better judicial infrastructure, in particular the introduction of administrative courts into the existing legal system, which is likely to be taken as a signal for investors for better legal framework and security;

- Welcomed the positive macroeconomic developments in the country despite inherent difficulties for transition regimes, whereby the economy remains one of the fastest growing in Europe mostly driven by the private sector, with inflation long time under control and local financial sector gaining strength;
- Noted that Albania offers a considerable amount of natural resources including oil, gas, and hydroelectric potential, as well as certain minerals. Underlined the importance of the country toward taking an active role for regional energy cooperation through the SEEREM, and emphasised on the big potential for regional electricity cooperation thanks to its vast hydro resources;
- Noted that the currently on-going privatisation process presents opportunities in such strategic sectors as mining, energy generation, oil and gas, telecommunications, and finance as well as some port terminals, which already has attracted several major foreign investors. Welcomed the privatisation strategy of Albania for sectors of primary importance which explicitly seeks qualified foreign firms as strategic investors for these key sectors;
- Welcomed the improvements in the tax regime which now applies to investors in a more encouraging manner through the reduced flat tax; observed with satisfaction the equal treatment of foreign and domestic investors, underlined that there is no limitation on the percentage share of foreign participation in companies, with state guarantees against undue expropriation or nationalisation towards investments made in the country, the most favourable treatment allowed in accordance with international agreements, and international arbitration allowed for foreign investors together with the right to expatriate all investments in the form of funds and contributions in kind;
- Appreciated the overall reforms toward establishment of an efficient bureaucratic mechanism, in particular, the One-Stop-Shop for business registration to reduce dramatically the procedures for investors, but further noted the still remaining issues of concerns on obtaining of licenses for start-up businesses, disputed claims regarding land ownership and cadastre problems as well as observance of intellectual property rights, and further noted that certain restrictions still apply to ownership of agricultural land by foreigners;
- Appreciated the Government's intentions towards taking an active role for establishment of transit pipelines which would serve the purpose of enhancing the concept of energy security in the region, and encouraged the efforts in this respect;
- Took note of the importance of Albania's location which offers a big trade potential, especially with EU markets, and furthermore, underlined the potential of the country in energy trading with its neighbours;
- Welcomed the liberal energy market regime in general and the privatisation efforts along this line especially in the oil business and appreciated the institutional reforms to this end which includes the creation of an independent regulatory agency (ERE), while acknowledging the room for further progress on transparency in relation to issuing licenses for new hydro investments via unsolicited bids and on the tariff calculation mechanism to attract potential investors, and more importantly, on the effective functioning of ERE in accordance with the current legislation that envisages market principles;
- Noted that there are issues to be tackled with in its energy sector, such as import dependency weakened by the deficient interconnection lines, high technical losses in

transmission and distribution lines, issues relating to non-technical losses, non-liberalisation of determination of the electricity price; low per capita electricity consumption; lack of fuel diversification, that all needs to be addressed in the energy policies, and welcomed the recent legislative efforts and policy measures in this context.