

Dhimitri, Julia

Working Paper

Protective Structures in Albania

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The wiiw Balkan Observatory

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Julia Dhimitri

Protective Structures in Albania





The wiiw Balkan Observatory

www.balkan-observatory.net

About

Shortly after the end of the Kosovo war, the last of the Yugoslav dissolution wars, the Balkan Reconstruction Observatory was set up jointly by the Hellenic Observatory, the Centre for the Study of Global Governance, both institutes at the London School of Economics (LSE), and the Vienna Institute for International Economic Studies (wiiw). A brainstorming meeting on Reconstruction and Regional Co-operation in the Balkans was held in Vouliagmeni on 8-10 July 1999, covering the issues of security, democratisation, economic reconstruction and the role of civil society. It was attended by academics and policy makers from all the countries in the region, from a number of EU countries, from the European Commission, the USA and Russia. Based on ideas and discussions generated at this meeting, a policy paper on Balkan Reconstruction and European Integration was the product of a collaborative effort by the two LSE institutes and the wiiw. The paper was presented at a follow-up meeting on Reconstruction and Integration in Southeast Europe in Vienna on 12-13 November 1999, which focused on the economic aspects of the process of reconstruction in the Balkans. It is this policy paper that became the very first Working Paper of the wiiw Balkan Observatory Working Papers series. The Working Papers are published online at www.balkan-observatory.net, the internet portal of the wiiw Balkan Observatory. It is a portal for research and communication in relation to economic developments in Southeast Europe maintained by the wiiw since 1999. Since 2000 it also serves as a forum for the Global Development Network Southeast Europe (GDN-SEE) project, which is based on an initiative by The World Bank with financial support from the Austrian Ministry of Finance and the Oesterreichische Nationalbank. The purpose of the GDN-SEE project is the creation of research networks throughout Southeast Europe in order to enhance the economic research capacity in Southeast Europe, to build new research capacities by mobilising young researchers, to promote knowledge transfer into the region, to facilitate networking between researchers within the region, and to assist in securing knowledge transfer from researchers to policy makers. The wiiw Balkan Observatory Working Papers series is one way to achieve these objectives.



The wiiw Balkan Observatory

Measuring Costs of Protection

*This study has been developed in the framework of the Jubiläumsfondsprojekt Nr. 9957:
Measuring the Costs of Protection in the Southeast European Countries.*

The objective of the project was to analyse quantitatively the costs of current protection in the Southeast European region or, to put it the other way around, to assess the potential benefits of liberalisation in the Balkans. In this way, the study was designed to be able to estimate the intra-regional gains and losses from breaking up fragmented structures and to show the policy implications that arise from this for each of the Balkan countries and the EU in the light of bilateral free trade agreements.

The programme was financed by the Jubiläumsfonds der Oesterreichischen Nationalbank.

For additional information see www.balkan-observatory.net, www.wiiw.ac.at and www.oenb.at

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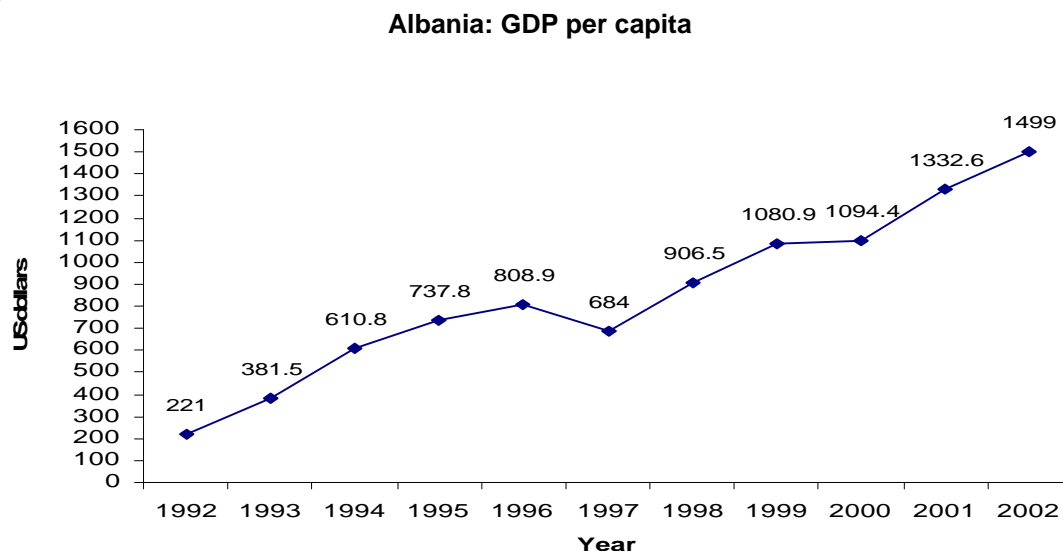
Albania: Non-tariff Barriers to Trade; Industry Study

I Macroeconomic framework

Like all other transition economies in the region, Albania has liberalized its economy and promoted private sector-led growth since 1990. After several ups and downs in the first decade of transition, the economy has managed to achieve macroeconomic stability and a relatively high annual growth rate of over 7% from 1998 up to 2000. Significant progress has also been made in structural reforms, especially in privatizing the small and medium-size state-owned enterprises (SMEs). As a result, the economy today has a private sector that accounts for over 85% of Gross Domestic Product (GDP) and over 80% of employment. Despite the progresses made, Albania still faces an uphill journey to achieve rapid and sustainable growth and improve the economic well-being of the population.

Domestic economy for 2002 grew with 4.7% as compared to the previous year. It is already the fifth year that the economic activity estimates growth. But, this has been the lowest growth rate during 1998-2002 and furthermore, with an apparent deviation from the projected rate of 6%. The so far analysis has indicated that growth is mostly due to further expansion of the private sector, while the role of the public sector in GDP has been diminishing.

Figure 1



Source: Ministry of Finance.

The main factors that explain slow rhythms of economic growth are related to:

- prolonged energetic crisis;
- aggravated agricultural situation as a result of precipitations during September;
- banking system developments related to a temporary loss of public confidence and massive withdrawal of deposits from the two largest banks of the system, Savings Bank and the National Commercial Bank. In March-April 2002, the banking system encountered a massive deposit retraction from two largest banks in the country. The shock of the banking confidence accompanied with the massive retraction of deposits by the two largest banks in the country was caused from the speculation with the Savings Bank privatization and the wrong interpretation of the draft-law on 'Deposit insurance' during discussions in the Parliament. The lack of information and its asymmetry affected the formation of the inexact public expectancies for the events the banking system was passing through;
- frequent changes in government during 2002, influencing political stability and climate of confidence for investors;
- lack in the completion of budget expenses for 2002.

These factors speak to the need for a more objective and rigorous analysis of growth factors and risks in the economic forecasting.

Table 1

Gross Domestic Product by sectors

Indicators	1999		2000		2001		2002	
	GDP in %	Real annual growth	GDP in %	Real annual growth	GDP in %	Real annual growth	GDP in %	Real annual growth
Gross Domestic Product	100	7.3	100	7.8	100	6.5	100	4.7
Industry	13.5	6.4	13.2	5.0	13.2	6.5	12.8	2.0
Agriculture	37.2	3.7	35.9	4.0	34.2	1.4	33.3	2.1
Construction	8.9	15.0	9.7	17.0	10.3	14.0	10.8	9.1
Transport	9.0	15.0	9.5	14.0	10.1	13.0	10.6	10.1
Services	31.4	12.0	31.8	9.0	34.2	8.0	32.5	5.5

Source: Ministry of Finance.

From the structural viewpoint, during 2002 GDP structure is constantly leaving the underlined livestock and agricultural profile of the previous years, being focused on services, transport and construction sectors. Table 1 shows the deceleration of growth in all the sectors, where the most significant are the reductions in agricultural and industrial sectors. Even though smaller as compared to 2001, the service, transport and construction

sectors marked the highest growth rate. All the three sectors contributed 53.9% of the Gross Domestic Product.

Inflation and exchange rate

During 2002, the Bank of Albania continued to use monetary policies to achieve the interest rate target. The use of these indirect instruments increased, particularly during the period of liquidity crisis giving so more flexibility to the second-tier banks in increasing their credits.

Average annual inflation rate during 2002 came up to 5.4%, while fluctuations in the foreign currency market are estimated as relatively stable. During 2002, national currency appreciated towards the US dollar by 2.3% while depreciated by about 3% towards the euro. With the introduction of euro as a physical currency, the developments in the domestic currency markets have witnessed an increasing role of this currency as a reference currency by trade operators. On the other hand, there are evidences that the euro exchange rate plays a significant role on the inflation performance as well as in the behaviour of certain items of the balance of payments.

Fiscal developments. Budgetary income at the end of 2002 reached 22.9% of GDP; the expenditure count for 29.1% of GDP and consequently the budget deficit was reduced to 6.2% of GDP.

Balance of Payment. According to the reports of the Bank of Albania, current transactions during 2002 are valued as USD 3.9 billion having an increase of 10% as compared to the last year. Dominated by transactions of goods and services, the current account was closed with a deficit of USD 447.6 million or 9.5% of GDP. This level of current account deficit marks the highest level registered during this last decade. It is financed by foreign direct investment and foreign borrowings at about 75%.

Foreign Direct Investment

The inflow of Foreign Direct Investment (FDI) into Albania, albeit small, has been increasing. After a major setback caused by the 1997 crisis, foreign investor confidence appears to have returned over the last 2-3 years. According to the statistics of the United Nations Conference on Trade and Development (UNCTAD), Albania attracted USD 143 million of FDI in 2000, a three-fold increase over the levels of 1997-1999. The positive trend continued in 2002, with respectively an inflow of USD 181 million. By the end of 2002, the cumulative FDI stock in the country was USD 800 million, equivalent to a stock per head of about USD 220.

Legal stability

Moreover, the economic transition is far from complete, with many laws and regulations introduced but not effectively implemented. Particularly, weak governance and institutions, coupled by tenuous rule of law, are preventing informal enterprises from 'graduating' to the formal sector. According to the International Monetary Fund the informal economy in Albania is very high accounted for one third of the economy, which discourages entry by long-term and strategic investors and limit the ability of the broader population to share in the benefits of economic growth.

II Foreign trade in Albania

The start of transition, found Albania a financially exhausted economy, with a totally obsolete production technology, with disrupted social and economic structure and institutions, contributed to nearly total bankruptcy of the economy and export sector. Foreign trade, especially export incarnating symptoms of 'this very sick economy' by the end of 1992 was at the lowest level, a modest USD 70 million. However, it should be stated that the inherited export sector was very narrow. Throughout the 1980s total annual exports amounted to an average USD 120 million. This was due to the economic policy applied during the old economic system, of being a self sufficient economy.

Liberalization policies marking the beginning of transition induced deep changes on the economy and substantially on the foreign trade. In 2000 Albania became member of the World Trade Organization and the liberalization of the foreign trade regime was implemented respecting the WTO principles.

Some of the Albanian commitments generating from the WTO membership are the following:

- Liberalize its tariff regime by implementing a tariff reduction process;
- Perform all commitments derived by the agreement on Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Standards (SPS);
- Albanian Custom Code emphasizes that custom evaluation will take place in compliance with WTO requirements;
- Albania is a member of World Intellectual Property Organization (WIPO) since 1992, and it has recognized some international agreement in this area. Albanian has also signed the respective memorandum related to Intellectual Property Regime.

By signing in Brussels in 2001 the Memorandum of Understanding on Trade Liberalization and Facilitation, Albania institutionalized its commitment to become a member of free trade area in the region. Albania is signatory of seven bilateral Free Trade Agreements with SEE

Countries and under these agreements within a period of six years, a free trade area for goods and services will be established between the signatory countries.

Generally, the tariff system that will be applied after the approval of FTAs will consists of:

- Gradually reducing tariffs for products which will go under a temporary tariff protection in order to promote industries of domestic productions;
- Zero tariffs for non-sensitive goods of the respective countries; this category includes all the goods that are not included at the above mentioned point;
- Actual respective tariffs or base tariffs for sensitive products upon which a full protection takes place (this category includes agricultural and food products)
- Agricultural products' concessions which are sensitive towards imports from the partner country.

Also the Stabilization and Association Agreement plays an important role for the gradual approximation of the Albanian trade regime to the EU standards. The Agreement poses asymmetrical relations of the signatories in relation to the foreign trade. Under the terms of the agreement, most Albanian goods enjoy access to the markets of the EU countries free of tariff or quotas. On the other hand, imports from the EU in the Republic of Albania remain under a specific tariff protection scheme.

Due to these developments, the Albanian foreign trade regime can be described as fairly liberal: no quantitative restrictions, a simple tariff regime with only *ad valorem* tariffs, no specific tariffs, no tariff rate quotas, and no combined duties; no import surcharges; no internal taxes or other charges that are higher for the imports than for domestic products. All imports are subject to Value Added Tax, whereas a group of 'heavy' articles such as cigarettes, alcoholic drinks, etc. are subject to excise tax. Furthermore, the tariffs are characterized by a decreasing trend during the whole decade, with actually applied rates comparable with the other countries of the region (see Table 2).

Table 2

Tariff Rates, as 2002

	Un-weighted	Import Weighted	Bands
Albania	8.1	NA	0, 2, 10, 15
BiH	6.8	NA	0, 5, 10, 15 *
Croatia	7	7	100+ rates
Serbia	9.5	9.5	1, 5, 10, 15, 20, 30
Montenegro	3	NA	1, 3, 5, 10, 15
Kosovo	10	10	Uniform

* Also specific duties on 250 HS lines of agricultural products

Source: World Bank Regional Report, June 2002.

Against that background, the export sector has expanded by almost five times during the period 1992-2002. At the end of 2002 the value of exports amounted to USD 330 million and by end of 2003 to USD 448 million. Exports rose by 36% as compared to 2002, which is 2.5 times more than the average growth rate of export volumes during the five years 1999-2003.¹

The *export structure*² in 2002 is dominated by active-processing products such as shoes, and textiles destined towards EU markets. Textile articles make up most of total exports share with 37.7% and an increase of 9.2% as compared to 2001, which indicates a textile industry growth supported by the increase of raw materials' import. The same situation can be found even in footwear, which makes up 28.9% of exports total amount with an increase of 9.2% towards 2001. Base metals, especially ferrochrome, make up 9.3% of exports total amount with an increase of 25.9% towards 2001. Despite the long list of 35 most exported products it is noticed that there is a lack of diversity and flexibility in trade exchange and a dependency on a limited number of product-groups destined to a limited number of partner countries. Some domestic products share is of great importance, too (medical and aromatic plants and also crude and processed leather), which despite their small quantity, still are preserving and enforcing - with modest positive growth rates - their status in the overall volume of Albanian exports.

Agricultural products export makes up only 6.8% of the total exports with a value of USD 22.5 million and a decrease 18.7% towards 2001. Medical plants and tobacco have the greatest share of the total agricultural exports with respectively 48.2% and 24.7% and have registered an increase of 9.1% and -6.2% as compared to 2001. Vegetables with a share of 6.3% and fish products with a share of 4.2% have shown an increase of 41.6% and 45.7% respectively towards 2001. It is noticed that the decline as compared to 2001 is registered mainly for the milling industry, fish and meat cooking, sweets, and cakes, grain products and to a lesser degree for other products, due to markets that are not yet consolidated for Albanian products. A significant increase is noted for other categories with a less share such as: meat products, trees and other plants and animal vegetal or grease.

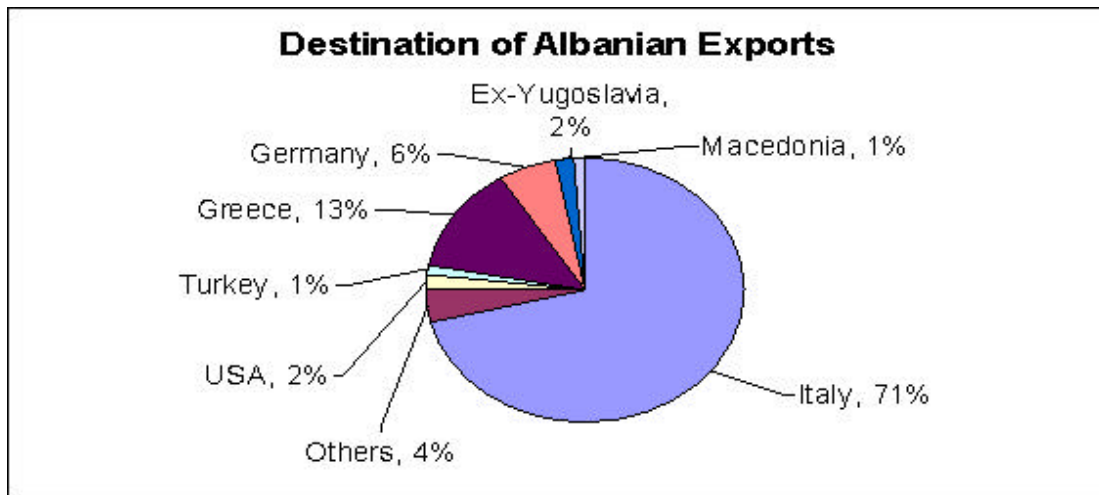
From a structural point of view, the export base is very narrow. Albania enjoys an uneven export structure, dominated by almost two groups of commodities, textiles and garment and unprocessed raw materials. As measured by the Herfindahl index the degree of Albania's export concentration is the highest 0.562 (measured by 1996 data) (see Xhepa and Agolli, 2003).

The destination of the Albanian exports is shown in the following graph:

¹ Foreign Trade Annual Report 2003 (Albanian Centre for International Trade).

² General Directorate of Customs.

Figure 2



Source: General Directorate of Customs.

During 2003, imports accounted to 1.860 million USD, registering a growth of 25% as compared to 2002 level. This is about 2 times higher than the average annual growth of imports during the 5 past years.³ While during 2002, imports registered the value of USD 1,490 millions, with an increase of 11.7% towards 2001. Trade deficit reached up to USD 1,159 millions and it has been increased by 1 percentage point as related to GDP (from 25.7% of GDP in 2001 into 26.7% of GDP in 2002). The level of openness of the economy ((measured by traded goods only) reached 41.9%, dating an increase of only 1% towards 2001, which though as the highest level of openness during the years for Albania, still is insufficiently unsatisfactory as compared to other region countries' level of openness.

The *import structure*⁴ is represented by a wide extension of import values in many product-groups categories. Machinery-equipment and vehicles imports dominate with 21.6% of total imports. These imports have been increased by 12.2% towards 2001, resulting from a high demand for machinery and vehicles by the construction, textile and information technology sectors. Mineral products are placed as second weighting 12.9% of total imports and signing a rapid growth (by about three times) as compared to 2001. The textiles item makes up 10.8% of total imports and signs an increase of about 18.8% as a result of production increase in textile industry oriented for active-processing export. Basic metals make up 8.9% of the total imports of 2002 and they are increased by 12.7% as compared to 2001, due to cast-iron, steel, and aluminium demands in the industry of construction. Processed food makes up 8.7% and show an increase of 22.8% from the previous year, which reflects the high demand fulfilled only by a small part by domestic production. The most evident increase in comparison to last year is registered for animal's

³ Foreign Trade Annual Report 2003 (Albanian Centre for International Trade).

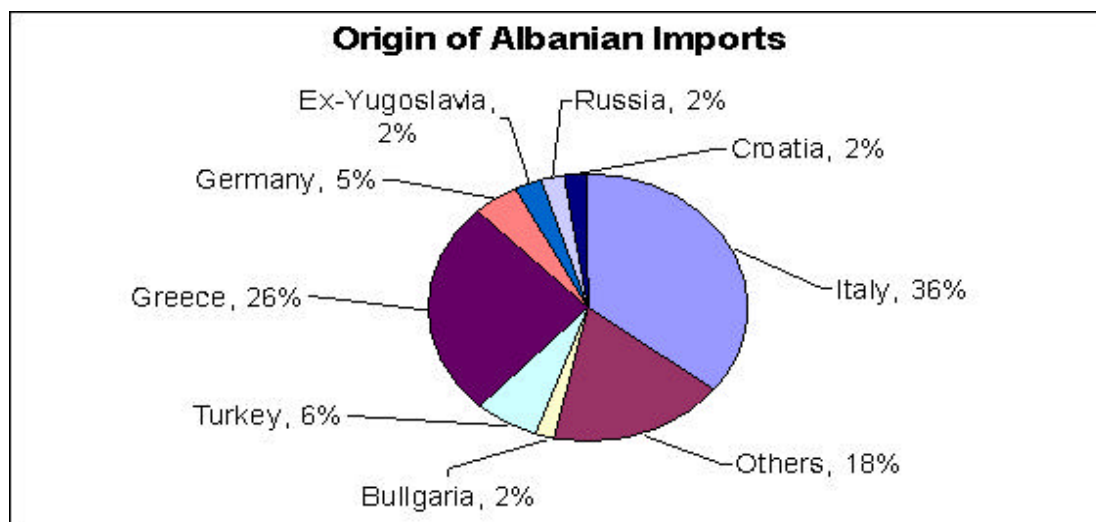
⁴ General Directorate of Customs.

origin products (50.3%), wood and its products (34.4%), crude and processed and unprocessed leather (34%). In total, imports have increased by 11.7% during 2002.

Agricultural products import makes up only 19.8% of imports total amount with a value of USD 298.1 millions and with an increase of 16% towards 2001. Almost all categories of agricultural imports have been increased as compared to 2001, except for the chapters 14, 12, 11, 9 and 8, which have been lightly declined. Grains make up the largest share of agricultural imports with 12.4% of total amount of 2002 and with an increase of 16.6%. Tobacco makes up 10.9% of agriculture total imports amount with an increase of 25.1% towards 2001; fruits make up 9.6% of agriculture imports with a light decline as compared to 2001. Meat and eatable guts make up 8.5% with an increase of 49.6% towards 2001; grain preparations 8% of agricultural import with an increase of 32.3% and alcoholic drinks have contributed with 8.1% in agricultural total imports with a small change as compared to 2001.

The following graph shows the origin of the Albanian imports.

Figure 3



Source: General Directorate of Customs.

The two neighbour countries, EU members, Italy and Greece, make up the largest trade partner, with 84% of export and 62% of import supply. As of 2002, EU buys 92% of Albania's exports and supplies 75% of Albania's total imports.

Regarding the FTAs with the neighbour countries only the FTA with Macedonia started to be implemented at the mid of 2002. Referring to the data from the General Directorate of Custom the trade with Macedonia consists only 1.2-1.5% of the trade flow of Albania in 2002. During 2003, the trade with Macedonia has fluctuated as it did during previous year.

The trade volume has increased by 12.3% as compared to 2002, which is a result of a 6% decrease in import and a decrease of 36.8% in exports. The trade balance is still negative amounting to about 15 million USD. The most exported industrial products have been totally liberalized or are under reduced tariff regime, such as cement, wooden furniture used in the bedroom, nickel ores and concentrates, zinc dust, powder and flakes, sulphur dioxide, clutches and parts thereof etc, while the most exported agricultural products are assigned the MFN tariff or are included in the concession list. Regarding the application of quotas on products exchanged between the two countries, it has been very limited in a few products and marginal amounts.⁵

II Non-tariff barriers to trade in Albania

Most of the countries of the world significantly reduced their tariffs under the auspices of the General Agreement for Trade and Tariffs (GATT)/World Trade Organization. However, most of the countries in the world also created new barriers to protect their internal production, industries and inefficiencies.

The elimination of NTBs is a process much more complicated than the elimination of the tariffs since the limit for the creation of new barriers other than tariffs is the decision of the policy-makers. *The issue of non tariff barriers to trade is crucial for improving trade relations among countries of South Eastern Europe, and between them and the rest of the world.* Moreover, non tariff barriers are of particular concern to developing countries, which may bear additional cost in meeting such mandatory standards for the firms and the government.

There are different conceptions of non-tariff barriers. Hillman (1991) defines NTBs as 'Any governmental device or practice other than a tariff which directly impedes the entry of imports into a country and which discriminates against imports, but does not apply with equal force on domestic production or distribution'. A NTB may be identified as any regulation of trade other than a tariff or other discretionary policy that restrict international trade.

Since, the number of barriers, measures dealt with in trade agreements has increased over time the list of NTBs has been extended as well. Various attempts to categorize or classify them have been made but there is no universally accepted solution. For the Albanian country sheet, the following issues are addressed:

- Import and export prohibitions;
- Quotas and tariff quotas;
- Other charges;

⁵ Foreign Trade Annual Report 2003 (Albanian Centre for International Trade).

- Import and export licensing;
- Custom valuation;
- Non-preferential rules of origin;
- Functioning of customs;
- Registration requirements;
- Technical Barriers to Trade and Sanitary and Phytosanitary Measures;
- Corruption in Albania;
- Other problems;

Import and export prohibitions

Not all non tariff measures impacting trade are necessarily illegal. Measures and decisions leading to complications, price increases and even prohibitions for imports and exports may be justified if they are needed to preserve the health and safety of animals and humans or protect the environment.

In Albania is prohibited the import of dangerous waste, military poisonous substances, chemical weapons other strong poisons, devices for the protection against such substances and chemicals as well as certain narcotic drugs and psychotropic substances in order to protect human, plant and animal health and the environment.

Also, in Albania the export of works of arts and antiques is prohibited in order to protect the cultural integrity and heritage of the country. The Ministry of Culture, Youth and Sport adopted a regulation introducing a licensing system to protect these goods.

Quotas and tariff quotas

Albania is signatory of seven bilateral Free Trade Agreements with SEE Countries and under each FTA and the Interim Agreement with the EU, the import of certain goods (usually agricultural products) in Albania from partner countries are subject to quotas with preferential treatment-zero tariff rate. The allocation of quotas to importers in Albania is done based on the first come-first served principle. And the quantities of goods within each quota are allocated annually. Regarding the application of quotas on products exchanged between the two countries (referring to the FTA with Macedonia), up to now it has been very limited in a few products and marginal amounts.

Other charges

The main characteristics of the Albanian trade regime are the following: a simple import tariff structure comprised of only four *ad valorem* tariff levels: 0%, 2%, 10% and 15%⁶; no tariff peaks, only *ad valorem* tariffs were applied, no specific tariffs, no tariff rate quotas, and no combined duties; no import surcharges; no internal taxes or other charges that are higher for the imports than for domestic products. All imports are subject to Value Added Tax, whereas a group of 'heavy' articles such as cigarettes, alcoholic drinks, etc. are subject to excise tax.

Import and export licensing

The Decision of the Council of Ministers 'On Approving the Import Licensing Agreement of the WTO' defines the import licensing system in Albania. The Decision is a word-by-word reproduction of the WTO Agreement on Import Licensing Procedure.

Licences in Albania are issued by authorized administrative authorities and are required for importing certain kinds of goods for sale on the domestic market. Albania maintains a system of import licensing on the following category of products:

- For import of **nuclear materials, radioactive materials, sources for the radioactive radiation (including radioactive waste), technologies, equipment and plants, special non-nuclear materials (2844 HS)**, the Ministry of Defence has defined the procedure for obtaining import licensing.
- **Non-dangerous waste.** Waste from social and economic activities and physically consumed products that are not included in the definition of dangerous waste. In this category are included waste from steel, foundry, copper, brass, bronze, glass, paper and card board, wool and cotton fibres, fabrics of wool and cotton; contemporary productive technology (equipment, methods, or new technologies that are used to prevent or minimize the damage to the environment); and urban waste from houses and social activities. The Ministry of Health and the Committee of Environmental Protection has defined the procedures for obtaining import licensing for the above mentioned non-dangerous waste.

In brief, the procedure and the required documents for obtaining a licence are as follows:

1. To request a licence one must be a physical and juridical person(s) so being registered at the District Court and District Tax Office;

⁶ During 2002, the beer tariff was increased from 15% to 20%.

2. Must provide a *declaration* that contains a list of the waste to be imported, its quality and composition, its destination within Albania, and an explanation of the purposes of its use (i.e., if to be used in productive economic activity or as waste without additional value-added activities);
3. The importer must respect all standards of environmental protection.
4. The importer must have a *declaration* on waste provided by the authorized institutions of the country of origin, in order to demonstrate that such wastes are not dangerous, and that the exporter has the permission from the customs authorities of the country of origin.
5. Finally, all transportation documents must accompany the above-mentioned documents.

The Ministry of Health and the Committee on Environmental Protection must issue or refuse a licence within 30 working days after the submission of the application. Licences are valid for one year and are non-automatic issuance.

- **Imports of narcotic drugs and psychotropic substances** are subject to a special licence issued by the Directorate of Pharmaceutics in the Ministry of Health.

In brief, the procedure and the required documents for obtaining a licence are as follows:

- To request a licence one must be a physical and juridical person(s) so being registered at the District Court and District Tax Office;
- Narcotic drugs and psychotropic substances for medical purposes being both local and foreign products are subject to registration.
- To apply for a licence, the natural or juridical subjects must have a degree in pharmacy from the Faculty of Natural Sciences or have employed a person who is qualified as such.
- To request a licence, the importer, either a producer or a party authorized by him, must provide the name and address of the technical director (i.e., the licensed pharmacist registered in Albania), define the scope of the activities, the countries with which trade will occur, and provide a list of the name and quantities of the substances.

The licence is non-automatic, non-transferable and valid for one year. Upon expiry of this term, the importing entity should apply for a new import licence.

Upon issuing the import licensing, the importer of narcotic or psychotropic medicines may import such medicines only after being issued an *authorization* from the Ministry of Health, Directory of Pharmaceutics, which is issued within five working days. The importer should present a request that includes the name and address of the exporter, the name of the recipient of the cargo (importer in Albanian), the joint international name, the name of the

medicine in the tables included the international conventions, the quantity of each medicine, the time period when the import is due, the mode of transport and the point of destination within the Republic of Albania.

The authorization is based on the sample compiled by the Narcotic Medicines Commission of the Economic and Social Council of United Nations. The authorization is passed by the Albanian importer to the foreign producer (the respective exporter) who presents it to the Control Bodies of his country and the latter presents this authorization to the International Board of Narcotic Control (INCB) to carry out the necessary verifications. After approval from the latter, the exporting country issues to the producer the export authorization. This document should be together with the cargo and upon arrival at the destination, a copy of it is sent to the Albanian control authorities, which confirm the arrival of the cargo to the government of the exporting country. Upon the arrival of cargo in Albania, the respective import authorization is issued in same mode as preceded for other medicines.

- **Imports of pharmaceutical products (3000 HS)** are subject to a special licence issued by the Directorate of Pharmaceutics in the Ministry of Health.

In brief, the procedure and the required documents for obtaining a licence are as follows:

1. Pharmaceutical products being both local and foreign products are subject to registration. The substantive requirements for the registration of medicaments are defined in the regulation 'On the Registration of Drugs in the Republic of Albania'.
2. To request a licence one must be a physical and juridical person(s) so being registered at the District Court and District Tax Office;
3. To apply for a licence, the natural or juridical subjects must have a degree in pharmacy from the Faculty of Natural Sciences or have employed a person who is qualified as such.
4. The request for a licence to import pharmaceutical products must include the list of medicines to be imported, the international collective name (INN) and the commercial name, the quantity to be imported for each separate medicine, and the Albanian CIF price. Upon completion of this procedure, the import marketing authorization is issued (which only serves as a document to check the quality and quantity of the medicine) by the Ministry of Health and is presented to the customs authority. If the imported product is what is specified in the import licence, then the import marketing authorization is automatic and shall be issued in five working days. There are no substantive criteria to deny authorization to import; only when the above-mentioned conditions are not met, the authorization will be denied.

- **Imports of seeds and seedlings** are subject to a special licence issued by the State Entity of Seeds and Seedlings based on the provisions of the Law on Seeds and

Saplings”. Licences are issued to juridical persons, domestic or foreign, who possess the necessary technical qualification (university diploma in agronomy) or have employed in their companies such a qualified person. Licences are annual and are automatically renewable each year. Prior to applying for a licence to import seeds and seedlings, a person or enterprise must be registered in the Court of first degree to become a natural or juridical person, and then to be registered at the District Tax Office. Only seeds registered in the official catalogue of the State Entity of Seeds and Seedlings and that satisfy Albanian standards are permitted to be imported to Albania. The Albanian standards, in addition to the international standards such as the DHS test (distinguishing, homogeneity and stability) test include also a test of the agronomic and technological value (Value for Cultivation and Use). The procedures of registration are identical for Albanian and foreign subjects. There are occasions when seeds are imported under emergency measures only by a proposal from the State Entity for Seeds and Seedlings (with the approval of the Ministry of Agriculture and Food). Seeds and seedlings which are not registered in the Albanian Catalogue may be registered, on the condition that they are compatible with the climatic and soil conditions of Albania. Registration is applied on a non-discrimination basis.

- **Imports of pesticides (3100)** are subject of special licence issued by the Directory of Plant Protection Services at the Ministry of Agricultural and Food. Prior to applying for a licence to import pesticides, a person or enterprise must be registered in the Court of first degree to become either a natural or juridical person, and then to be registered at the District Tax Office. If the pesticide is registered at the Albanian State Commission for the Registration of Pesticides (ASCRP), then an import licence is issued by the DPPS in accordance with the Agreement on Import Licensing Procedures of GATT 1994. The licence, issued within two months, specify the time limit as required by the importer up to one year maximum and are issued to an individual who has graduated from the Faculty of Agronomy or a firm which employs such a person. If a pesticide is not registered in Albania, then the pesticide may not be imported.

- **The imports of the following products: live animals and products (0100-0200 HS); fish and seafood products; eggs; wool and unprocessed leather** are subject to a special licence issued by the Directorate of Albanian Veterinary Services at the Ministry of Agricultural and Food. Prior to applying for a licence to import the above mentioned products, a person or enterprise must be registered in the Court of first degree to become a natural or juridical person, and then to be registered at the District Tax Office. Once the individual/firm is registered, then the next step is to go to the Ministry of Agriculture and Food, Directory of the Albanian Veterinary Service, to receive a licence (i.e., to receive ‘permission’ as is stated in the Law. The licence must be issued to all juridical and natural persons, local and foreign, who are registered to import the above mentioned products and who present the Certificate of the Origin and

the Certificate of Sanitation. Licences are valid for up to 2 months time and specify the quantity to be imported (only as a means for data collecting and statistical information). Each time the products are to be imported; the importer must go the Ministry of Agriculture and Food to receive a new licence.

Export of the products classified into the following categories of the 4-digits HS (9301-9307 HS) – arms and munitions, parts and accessories thereof – and (3601-360690) – explosives, pyrotechnic products, matches, pyrophoric alloys – are subject to a special export licence issued by the Ministry of Defence. While for the export of the modern work of art the licence is issued by the Ministry of Culture, Youth and Sport.

There appears to be some confusion about the use of the term 'licence'. In some of the above mentioned cases one might more appropriately speak of a *permit* and sometimes of *an authorization* to import a given product, and one of the conditions for obtaining this permit is a demonstrated skill to handle the products concerned in a professional way.

The procedure to obtain a licence is considered long and bureaucratic by the private sector although for instance, the average number of licences required per business in Albania is 0.9, which is much lower than that in many countries in the region and also the total time spent on start-up registration by an average Albanian business is 18 days, also less than that in many other neighbouring countries (see FIAS, 2003).

Customs valuation

The legislation on customs valuation is in line with WTO requirements. As part of the new Customs Code, the transaction value was declared obligatory for determining the import tariff and the practice of the minimum prices was abandoned. When such a value cannot be satisfactorily defined, the Customs can use second and third methods of import valuation (e.g. value of identical goods; adjusted value of similar goods). In order to deal with under-invoicing, a list of reference prices has been established for certain goods based on past transactions, commodity and other values available from other sources of information. According to the clearing agents in the country, the reference values adopted by the General Directorate of Custom (GDC) are currently known and they are practically used by the GDC as minimum values. Accordingly, when the importer's invoice shows a value greater than the reference value, the invoice value must be declared, but when the invoice shows a value less than the reference value, than the reference value must be declared. This practice is against the Article 7 of the WTO rules on the custom valuation (see FIAS, 2003).

Due to these practices importers are unsatisfied from administration and application of the customs valuation system in Albania. They complains about arbitrary application of the

reference price list and arbitrary treatment by individual customs officers based on no clear instructions on how to assess the credibility of declared/invoice values. On the other side the customs people pretend that the importers are to be blamed for frequent attempts to use false invoices by decreasing the declared value.

Non preferential and preferential rules of origin

The rules and procedures for defining the origin of products being imported and exported into and from Albania are laid down in the Customs Code of 27 January 1999 and its Implementing Provisions. Full compliance with WTO rules was achieved with a Decision by the Council of Ministers entitled 'On Approving the Rules of Origin of the WTO' dated 9 September 1999. The Decision is a word-by-word reproduction of the WTO Agreement on Rules of Origin.

Preferential rules of origin are used for determining the country of origin for import related to FTAs which do get preferential treatment above the MFN. The Protocol B of the Free Trade with Macedonia, which is the only one implemented during 2002, lays out the rules of origin and related methods of administrative and cooperation.

Registration requirements

A person or enterprise has to be registered at the District Court to become a natural or legal person, and then to be registered at the District Tax Office. The registration process with the Tax Office is a one-time process and is applied to both foreign and domestic firms and individuals. Only registered firms can exercise trade activities. If the company exercises activities requiring a technical and professional qualification it should be applied to the competent authority (e.g. Ministry of Health, Defence, etc) to receive a licence.

All goods imported in Albania are classified under two categories: I) liberal import and II) import subject to licence. For any further information on licensing procedure applied to certain category of products have a look to the Point **Import and Export Licensing**.

Functioning of customs

Although a lot of progress has been made to improve the functioning of the customs administration, there are still problems with customs procedures (lack of transparency, corruption) both at the Albanian customs points and with the checkpoints of neighbouring countries. Firms are dissatisfied with the time and complexity involved in import clearance, invoice evaluation, and dispute settlement. Currently, the private sector in Albania is facing the customs procedure that are slow, inefficient and requiring high compliance cost.

According to the FIAS Study, the average time for each import clearance is 5.3 days, which is too long compared with the other countries of the region; for instance, it is 1.2 days for Bulgaria, 2 days for Romania, 2.6 days for Ukraine and 4.3 days for Moldova. Based on empirical assessment (see Wolfensohn, 2003 and Frankel, 2002), a one-day delay caused by the customs administration increases the import tariff by one point.

Based on the findings of the FIAS Study, one of the reasons for this prolonged process is the heavier burden of paperwork required. For instance, 20 supporting documents are required at the goods declaration for a commercial consignment. Many of these documents for customs seem redundant, for example cargo manifest extract and cargo stowage plan extract should not be required because the consignment can be identified on the ship's manifest that has to be lodged as part of the ship's report procedure. Likewise there is no need for the routine requirement for packing list as long as sufficient information is provided by the invoice. Other documents required such as bill of lading or other transport documents serve no useful purpose to custom. There are other requirements that seem to be unnecessary such as firms are required to present all the invoices with the original signature and most of the documents should be translated into Albanian even though these documents are originally in English and Italian which are frequently used in the foreign trade policy. Another factor further slowing down the import clearance process is the value added tax calculation.

Regarding the exporters, they complained the lack of adequate customs facilities for signature of the EU certificates of origin. Also, they complained the custom attitude that 'exports can wait' whereby export clearance is done only in the afternoon, a practice that can result in ships being missed.

Technical barriers to trade and sanitary and phytosanitary standards

There is a special interest on technical barriers and sanitary and phytosanitary standards for developing countries. One reason devolves from the fact that developing countries are obligated to rely on international standards as part of the World Trade Organization obligations and pressures to align national standards with international ones.

Among technical regulations and standards, sanitary and phytosanitary (SPS) regulations occupy a particularly relevant place in the regulators' agenda, because of their primary aim of protecting citizens from everyday food hazards. Technically, SPSMs are a subset of regulations that specifically aim to protect human, plant and animal health. Sanitary measures are those related to human or animal health, and phytosanitary measures deal with plant health.

One of the main problems related to SPSMs, and regulations in general, is that even 'well-intentioned' measures may be welfare reducing because of their impact on trade. Crucially this depends not from the mere existence of SPSMs but from their heterogeneity among countries, which imposes costs for producers that must comply with multiple rules and regimes. Costs may be distinguished also in terms of meeting the precise technical regulations, on the one hand, and verifying that regulations are met, on the other hand. The latter is called conformity assessment, and it presents the largest potential political barrier to trade, because of the lack of the adequate infrastructure in the country. The conformity assessment is vulnerable to bureaucratic non-transparency (delays, arbitrary inspections etc.). Time delays are particularly problematic for products subject to short technical life cycles. Moreover, the costs of uncertainty in complying with such procedures can reduce the willingness to compete.

Furthermore, developing countries lag behind developed countries in their capacities for effective certification and accreditation of testing facilities (Stephenson, 1997). This situation has three important implications. *First*, developing countries find it difficult to develop adequate standards and reach mutual recognition agreements (MRAs) with other nations. *Second*, they also have not integrated themselves through accepting test results from abroad (Wilson, 1995). *Third*, because authorities in developed countries may not have much trust in inspection procedures in developing countries, the former group is liable to collaborate on standards and MRAs that exclude the latter group (Baldwin, 2000).

The harmonization would be a solution that minimize the trade impact of SPSMs unfortunately a complete harmonization would be not just costly but simply impossible and unjustifiable. However, some form of coordination among neighbouring countries will make possible to expand market access.

Upon becoming a member of WTO, Albania took the commitment to apply all the obligations under the TBT and SPS Agreements without recourse to any transition periods. In the Law 'On Standardization', dated 11 March 1999, Albania has changed its former system of wide-ranging compulsory product requirements by distinguishing between (optional) standards and (compulsory) technical regulations and by setting out rules for conformity assessment procedures and accreditation that are in line with the TBT Agreement. Although the legal and regulatory framework has defined the general legal parameters, it is not clearly defined which products are subject to mandatory technical regulations and what the content of these regulations is (see Tschani and Wiedmer, 2001).

Regarding the technical barriers, the Decision of the Council of Ministers No. 382, dated 23 July 2002, 'On the exchange of information in the area of standards and technical regulations', constituted a significant development on the notification of standards and technical regulations. Law No. 8944, dated 10 September 2002, 'On the production, origin

and trade of olive oil', established the rules for production, origin and trade of food products in conformity with international trade requirements and standards regarding the origin and the quality.

During 2002, Albania made good progress in improving the legal framework on market and consumer protection by adopting: (i) the Decision of the Council of Ministers No. 554, dated 07 November 2002, 'On the labelling of some imported food products'. This decision obliges the importers to include or to add to the original label also information regarding product name, its characteristics (nature, features, content, etc), usage modes, preserving conditions, expire date as well as importers name and address, all in Albanian language; (ii) Law No. 8974, dated 21 November 2002, 'On some changes in the law for the production and trade of tobacco and cigarettes'. This law states that tobacco products traded in Albania should contain in their packing the respective data on tar and nicotine content, measured according to international standards in force. Any specifications must be written in Albanian language.

During 2003 the Albanian Parliament approved the various laws dealing with the harmonization of our standards with the international ones. Law No. 9024, dated 6 March 2003, 'On the accreditation of testing, calibrating laboratories, certifying and inspecting institutions in the Republic of Albania', regulates the procedural and institutional aspects of accreditation, accreditation areas and the role of accreditation regarding the procedure of compliance with standard and technical regulation.

Law No. 9097, dated 3 July 2003, 'On the evaluation of conformity', completes the standardization scope, defining the standard procedures for the evaluation of the conformity that must be followed by the producers and subject offering services, regardless of the fact whether they are Albanian, foreign, private or public subject.

In addition, measures have been undertaken in the sanitary and phytosanitary areas such as: the approval on principle by the Decision of the Council of Minister No. 723, dated 30 October 2003, of the Agreement with UNMIK, 'On the cooperation of the public veterinary services', aiming at defending the people and live animals during import-export of live animals; the approval on principle of the agreement on 'Cooperation regarding quarantine and plant protection' by the Decision of the Council of Ministers No. 724, dated 30 October 2003, made a good progress regarding the domestic agricultural production; and the Decision of the Council of Ministers No. 22, dated 16 January 2003, 'On the bill regarding the production, processing, certification and trade of BIO products', dealing with the production, certification and trading schemes for the BIO products in order to facilitate protection of this category of products without holding back free trade.

Although, during these years, Albania made good progress in improving the legal and regulatory framework for technical regulations and sanitary and phytosanitary measures and approximating it to EU standards, there are many problems on the implementation side due to the lack of infrastructure and capacities for the effective certification and accreditation and furthermore because authorities of the trade partners do not have much trust in certification and accreditation procedures and capacities of the Albanian institutions. This on return is transformed on an important non tariff barrier for the Albanian export.

Corruption in Albania

The 2002 Corruption Perception Index of Transparency International ranked Albania No. 81 among the 102 countries covered with a score of 2.5 within the range of 0 (highly corrupt) to 10 (highly clean).⁷ A recent study⁸ based on surveys conducted in seven SEE countries reveals that Albania was the worst among all countries in the region in terms of perceived corruption and that its performance is getting worse this time.

Table 3

Corruption index, seven SEE countries

	Year 2002	Year 2001
Albania	68.4	60.8
Romania	59.9	59.9
Bosnia and Herzegovina	48.3	47.6
Croatia	41.1	41.7
Montenegro	35.9	30.8
Bulgaria	35.1	37.5
Macedonia	31.2	35.1

Source: Centre for the Study of Democracy and International Legal Development Institute (2002), 'Regional Corruption Monitoring', Rome, April.

⁷ <http://www.gwdg.de/>

⁸ 'Regional Corruption Monitoring', by the Centre for the Study of Democracy and the International Legal Development Institute, Rome, under its South East European Regional Development Initiative (SELDI), 2002.

The list of professions that have the highest grade – which indicates that they are involved in corruption activities – is as follows:

	2001	2002
Customs officer	55.60 ⁹	54.88
Municipal official	52.50	50.67
Judge	53.10	44.31
Tax official	56.80	50.43

The above-mentioned figures show that Albanian is behind its neighbouring countries regarding the extent of corruption among customs officers, tax administration, municipal officials and judges.

Other problems

While there is much progress on the liberalization of trade for goods and services, the movement of people into the EU and the new accession countries and neighbouring countries encounters a lot of problems caused by visa requirements and practices.

IV Industry Study

A Agriculture

The transition from a centrally planned system to the market economy caused deep structural changes to the Albanian agriculture sector. During the years 1980-1990, the agricultural sector accounted for approximately 35% of the GDP, employed half of the workforce and contributed with 40% of the hard currency. At the beginning of transition, the agricultural sector was considered to be the driving force of the economy, contributing with 53% of the GDP¹⁰. Whereas, after 2000, as a result of changing the calculation and evaluation method to assess the contribution of various sectors of the economy in the GDP, the agricultural sector share decreased and stood between 30-33%. The following tables provide more detailed information on the annual growth rate and the share of agricultural sector towards GDP during the transition period.

⁹ Relative share of them who have had contacts with the respective group and have been asked for cash gifts or favour.

¹⁰ According to the National Strategy for Social and Economic Development.

Table 4

Dynamics of the agricultural sector during the transition period

Years	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2002
Real growth rate of agricultural products	-5.4	-17.4	18.5	10.4	8.3	13.2	3.0	1.0	5.0	3.7	4.0	1.3
In % towards GDP	37	42.5	54.2	54.6	54.6	54.6	51.5	56.0	54.4	37.2	35.9	33

Source: Ministry of Agriculture and Food, Statistical data 2003.

Table 5

Gross domestic products by sectors

Sector of the economy	1992	2001	2002
Agriculture	54.2%	34.2%	33.3%
Industry	16.9%	13.2%	12.8%
Construction	7.6%	10.3%	10.8%
Transport	3.0%	10.1%	10.6%
Other	18.3%	32.2%	32.5%

Source: Ministry of Finance, National Strategy for Social and Economic Development 2003.

The contribution of the agricultural sector for 2002 accounted for 33.3% of GDP, with an annually growth rate of 2.1%, which is 0.7% higher compared with that of 2001 but too low compared with the projected annual growth rate of 5%. Amongst the main factors that continued to hamper the desired rate of growth of the agricultural and animal production during 2002 we can mention the following:

- The low level of organization in this sector, which is expressed in the phenomenon of land parcelling into smaller plots, the obsolete technology and mechanization in agriculture; the obvious deficiencies in organizing marketing of the domestic products;
- The undeveloped infrastructure of rural areas, especially in the north of the country;
- The low preserving capacity of agriculture and live animals products in the country;
- The ignoring of this sector by the banking system, which is reflected by a rather low supporting with the necessary financial resources.

In addition to the above mentioned factors, year 2002 include the natural factor, having been characterized by floods in the period of August – September.

The Ministry of Agricultural and Food (MAF) and other central state agency (Regional Offices of the Ministry of Agricultural and Food) are responsible for the development and implementation of the agricultural policy in the country. Although, considering the low level of the state budget allocated to the MoAF is difficult to speak about drafting and

implementing agricultural development policies at national and regional level. For 2003 the state budget allocated of the MAF was only 285 million Albanian lek (ALL), and 4.6% of it constituted subsidies for the irrigation infrastructure¹¹. Also, due to low financial resources Albania did not maintain subsidies of any sort on agricultural commodities¹² as well as did not maintain subsidies of any sort for the export of agricultural commodities. Even the expenditures included in the 'green box' are in small amount and consist of expenditure for research, training, compensation for natural disasters; inspection etc.

There are some agencies supporting the agricultural sector and non farming activities in the rural areas by giving small credits. They include rural credit funds and saving credit funds supported by Rural Financing Fund and Mountains Area Financing Fund as well as Irish Micro Credit League. Despite the good work done by these agencies, they are unable to meet the growing needs for rural crediting. Also various donors organization are supporting the agricultural sector in Albania, such as World Bank, UNDP, MADA etc, but the donors programs as those of the other sectors lack cooperation and not always are community driven needs.

Although, the agricultural sector is very important for the Albanian economy (contributing with 33% to the GDP and employing less than half of the workforce in this sector) most of the protection schemes in the case of the agricultural products have been eliminated due to the WTO membership and FTAs signed by Albania with most of the SEE countries. The average *ad valorem* tariff rate for the agricultural products (01-24 HS) is 9.5% which is smallest average tariff rate in the region (except the case of BiH with 5%). As per consequence of the FTAs with the SEE countries there are quotas for preferential import of agricultural products which are distributed on the first come-first served principle.

One of the remaining NTBS is: Imported live animals are subject to veterinary controls and then a special licence is issued by the Directorate of Albanian Veterinary Services at the Ministry of Agricultural and Food.

B The food processing industry

The transition from a centrally planned system to the market economy caused deep transformation to the food processing industry in Albania. Presently this industry is almost totally privatized and is considered as one of the main component of the economic development in the country. During 2002, the total production of food processing industry reached the level of 33.914 million ALL (Albanian lek), which was ALL 3.930 million or 13%

¹¹ According to the Medium Term Expenditure Framework, 2002-2004.

¹² For any further information please visit the WTO web site.

higher compared with that of 2001. This is considered the highest growth rate recorded in the recent 5-6 years, while the growth rate of 2001 is 7%¹³.

The sub-branches of food processing industry that contributed more to the increase of the production are the following: Meat and its by-products processing industry by a considerable increase of 43%; Fish Processing and Tinning by an increase of 87%; Fruit and Vegetable Processing (fruit juices, compote, jam, marmalade) by an increase of 15%; Production of Vegetable Fats (Vegetable oil and Olive oil) by an increase of 51%, and Milk Processing by an increase of 41%. The bread production in 2002 accounted for 38% of the agro business industry followed by flour milling with 15%. More information on the production of the food processing industry according to its sub-branches is shown in the following table:

Table 6

The production of the food processing industry sorted by sub branches

No.	Sub-branches	ALL million		
		2000	2001	2002
1	Processing of Meat		1717	2452
2	Fish processing		530	989
3	Fruit and vegetable processing		652	749
4	Vegetable oil production		874	1212
5	Olive oil production		404	711
6	Milk products		2815	3981
7	Flour Milling		4435	4862
8	Bread and other dough products		12216	12698
9	Alcoholic beverages		683	1032
10	Wine		303	141
11	Beer		875	1160
12	Water and soft drinks		2409	2435
13	Tobacco processing and cigarette production		1491	773
14	Others		590	719
	TOTAL	27834	29994	33914

Source: Ministry of Agriculture and Food

The sustainable development of the food processing industry can be seen also by the increasing number of firms operating in this sector. In 2002, there are 1972 firms operating in the food processing industry or 22 firms more than in 2001. The total number of firms sorted by the sub branches of the industry is given in the following table.

¹³ According to the Ministry of Agriculture and Food.

Table 7

The firms operating in the food processing industry sorted by sub branches

No	Sub-branches	No.		
		2000	2001	2002
1	Processing of Meat	68	70	66
2	Fish processing	3	2	2
3	Fruit and vegetable processing	20	22	21
4	Vegetable and olive oil production	67	105	117
5	Milk products	330	336	370
6	Flour Milling	406	381	354
7	Bread and other dough products	707	769	792
8	Alcoholic beverages	58	61	51
9	Wine	22	25	28
10	Beer	55	64	69
11	Water and soft drinks	55	48	39
12	Tobacco processing and cigarette production	7	7	6
13	Others	46	60	57
	TOTAL	1844	1950	1972

Source: Ministry of Agriculture and Food

The sub branches of milk processing, bread and dough production, and olive oil production have recorded an increase of the number of operative firms while the flour milling and alcoholic beverage production etc have recorded a decrease of the number of firms.

Referring to the employment rate, the food processing industry has shown also an increase. In 2002 there were 8,783 employees working in this important sector of the economy, while for 2001 the figure was 8,655 employees. As a result there was an increase by 128 employees or 1.5%.

A considerable increase is recorded in the sub branches of fruit and vegetable processing, milk production, wine and oil production, and fish processing etc, while tobacco processing and cigarette production, bread and other dough production, and beer production recorded a decrease.

It is important to emphasize at this point that most of the firms operating in this sector are considered small or medium enterprises based on the number of employees. In the following chart is shown the structure of the enterprises according to the number of employees. In 2002, 87.6% of the enterprises have up to five employees while the number of enterprises with 6-10 employees tends to grow.

Table 8

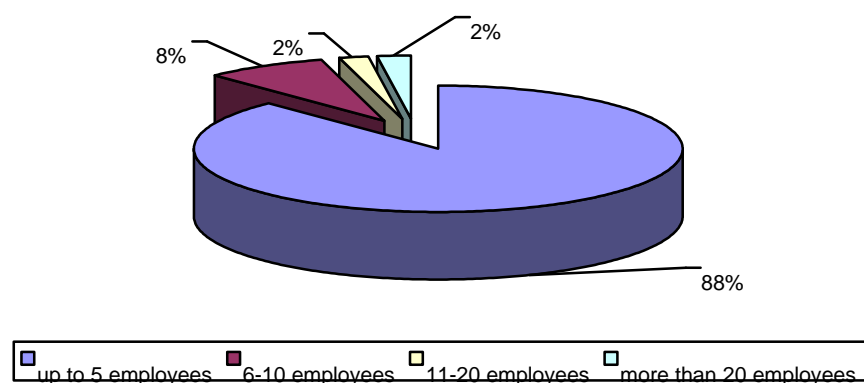
Number of employees by sub-branches

No	Sub branches	2000	2001	2002
1	Processing of Meat	366	470	483
2	Fish processing	428	389	417
3	Fruit and vegetable processing	121	122	165
4	Vegetable and olive oil production	215	357	430
5	Milk products	970	877	1149
6	Flour Milling	989	793	890
7	Bread and other dough products	2875	3098	3008
8	Alcoholic beverages	565	473	324
9	Wine	118	82	120
10	Beer	444	445	435
11	Water and soft drinks	625	579	476
12	Tobacco processing and cigarette production	881	580	398
13	Others	479	390	488
	TOTAL	9076	8655	8783

Source: Ministry of Agriculture and Food

The level of investments is another significant indicator of the importance and development of the food processing industry in Albania. The level of investments during 2000-2002, according to the sub branches is given in the following table.

Figure 4

Enterprises sorted by number of employees

Source: Ministry of Agriculture and Food.

The most important investments belong to the meat and milk processing sectors, flour milling, bread production, vegetable oil production, potable water packaging and soft drink production. Most of the investments are financed by the private firms' own financial

sources, while there is an increased tendency of financing investments through bank loans.

Table 9

Investments by sub-branches

No	Sub branches	thousand ALL		
		2000	2001	2002
1	Processing of Meat	126.022	105.578	100.694
2	Fish processing	35	5.007	22.311
3	Fruit and vegetable processing	3.524	16.705	700
4	Vegetable and olive oil production	21.928	354.131	77.421
5	Milk products	51.499	58.598	158.780
6	Flour Milling	77.895	50.730	112.110
7	Bread and other dough products	67.445	111.381	156.732
8	Alcoholic beverages	39.835	106.625	137.556
9	Wine	4.079	3.840	13.990
10	Beer	2.870	2.740	71.894
11	Water and soft drinks	394.652	179.621	144.432
12	Tobacco processing and cigarette production	4.000	5.234	0
13	Others	104.178	20.342	15.824
	TOTAL	897.962	1.020.532	1.012.444

Source: Ministry of Agriculture and Food

Table 10

Exports of the food processing industry

(thousand USD)

HS Code	Product	1999	2000	2001	2002
0401	Milk and cream	23.73	133.9	8.16	0
0406	Cheese and curd	0	0	4.63	0
0711	Vegetables provisionally	0	13.02	2.49	0
1101	Wheat or meslin flour	245.57		4.45	0
1509	Olive Oil	168.65	45.04	1.19	0
1902	Pasta	27.42	6.01	19.73	0.43
2007	Jams, fruit jellies, marmalades etc	11.77	1.31	8.9	7.07
2009	Fruit juices	90.03	625.88	693.23	313.57
2201	Water, including natural or mineral water	36.9	37.38	59.86	45.86
2202	Waters, including mineral waters and aerated waters, containing added sugar	737.38	950.07	501.22	499.69
2203	Beer made from mal	1.92	0	11.61	13.14
2204	Wine of fresh grapes, including fortified wines;	15.28	0	32.29	5.72
2208	Indentured ethyl alcohol	4.12	35.98	9.78	35.51
2401	Un-manufactured tobacco	1,893.53	2,481.90	5,806.67	4,400.63
2402	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes	52.11	109.63	41.64	1,166.23
3401	Soap	58.97	16.67	0.46	0
040310	Yogurt	0	0	29.27	0
040510	Butter	0	0	4.68	0
	TOTAL	5366.38	6456.79	9236.58	8489.85

Although, by analyzing the above mentioned indicators such as the contribution of food processing industry in the GDP, the number of the enterprises operating in this sector, the number of employees, the level of investments etc, results in a significant improvement in the food processing industry, presently a small part of the domestic agricultural production is processed by the domestic industry, and only some products achieved to be exported. More information on the level of imports and exports of food processing industry is given in the following table.

Table 11

Imports of the food processing industry

(thousand USD)

HS Code	Product	1999	2000	2001	2002
0401	Milk and cream	2,196.55	647.98	1,497.94	1,403.64
0406	Cheese and curd	1,525.89	1,407.40	1,955.96	2,472.71
0711	Vegetables provisionally	277.16	35.24	35.27	395.9
0812	Fruit and nuts	44.97	108.76	3.83	6.23
1101	Wheat or muslin flour	38,375.62	16,849.97	18,197.96	15,314.80
1509	Olive Oil	1,574.76	1,004.34	1,221.29	1,436.67
1601	Sausages and similar products	965.57	683.94	545.75	793.56
1902	Pasta	8,911.61	5,006.05	6,072.11	7,245.44
2007	Jams, fruit jellies, marmalades etc	348.71	86.17	304.29	170.54
2009	Fruit juices	5,214.34	5,539.59	5,867.77	7,956.27
2201	Water, including natural or mineral water	1,619.70	1,647.41	1,894.46	2,289.52
2202	Waters, including mineral waters and aerated waters, containing added sugar	2,026.62	3,528.93	4,018.04	5,443.04
2203	Beer made from mal	9,718.92	11,184.85	14,194.36	13,061.18
2204	Wine of fresh grapes, including fortified wines;	306.03	313.93	602.76	852.88
2208	Indentured ethyl alcohol	255.30	893.84	861.95	1,588.88
2401	Un-manufactured tobacco	19.05	0.00	340.90	82.52
2402	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes	18,948.12	22,376.15	25,511.21	32,318.43
3401	Soap	3,889.81	2,698.12	2,721.51	3,631.26
15121191	Sunflower-seed oil	1,884.80	1,211.76	3,376.09	5,898.62
040310	Yogurt	202.63	362.46	421.24	352.00
040510	Butter	894.96	898.87	901.88	1,299.89
	TOTAL	99,201.12	76,485.76	90,546.57	104,013.98

Source: General Customs Directorate

By examining the general trend of imports and export over the years and the overall balance of trade for this industry reveals a pessimistic situation. Only the export of three products exceed the imports, and the trade balance is positive; oily seeds, medicinal herbs, vegetable products and processing fish and meat.

Table 12

Agricultural exports
(thousand USD)

Exports of the agriculture (000USD)		
Product	2001	2002
Livestock	158	337
Meat	69	351
Fish and shellfish	1760	956
Dairy products	269	471
Animal products	24	33
Plants and flowers	26	89
Vegetables	1004	1422
Fruit	73	94
Coffee, tea, and spices	236	444
Cereals	15	19
Flour	4	
Oilseeds and medicinal herbs	9958	10866
Vegetable products	125	175
Oil and fats	4	11
Tinned meat and fish	5237	0
Sugar and confections	265	11
Cocoa and its by-products	11	5
Dough products	186	9
Preserved fruit and vegetables and fruit juices	879	314
Sauces, soups	397	78
Alcoholic beverages and vinegar	615	609
Animal food	485	361
Tobacco	5932	5567
Total of the agriculture	27.732	22.222
Total of the exports	305884	330.200
Exports toward the EU		304.200
Agriculture/Total of the Exports	9.07	6.73
Agriculture/EU exports		7.31

Table 13

Agricultural imports

(thousand USD)

Product	2001	2002
Livestock	1730	3095
Meat	16962	25371
Fish and shellfish	4780	9124
Dairy products	6162	6958
Animal products	84	114
Plants and flowers	764	1226
Vegetables	9230	10645
Fruit	31843	28697
Coffee, tea and spices	5959	5275
Cereals	31718	36984
Flour	20270	17834
Oilseeds and medicinal herbs	628	505
Vegetable products	28	121
Oil and fats	19907	20821
Preserved meat and fish	2227	2807
Sugar and confections	15589	18057
Cocoa and its by-products	4542	4970
Dough products	18038	23859
Preserved fruit and vegetables	9733	14059
Sauces, soups	5660	7549
Alcoholic beverages and vinegar	22524	24196
Animal food	2554	3339
Tobacco	25953	32457
Total of the agriculture	256885	298.063
Total of the imports	1332985	1.490.045
Total imports from the EU		1.121.000
Agriculture/Total of the Import	19.27	20.00
Agriculture/EU in total		26.59

Source: General Customs Directorate

Non-tariff barriers to trade in food processing products

1. The import of **fish and seafood products** is subject to special licence issued by the Directorate of Albanian Veterinary Services at the Ministry of Agricultural and Food. The licence must be issued to all juridical and natural persons, local and foreign, who are registered to import the above mentioned products and who

present the Certificate of the Origin and the Certificate of Sanitation. As all the other foodstuffs they are subject to sanitary and phytosanitary control.

2. Recently, are operating 20 enterprises **on the vegetable and olive oil production**. The tariff rate applied for the import of this product in 2002 and 2003 consider having the potential to demonstrate comparative advantage and to penetrate at the foreign markets in the near future was 10% equal with the MFN tariff rate. In the Free Trade Agreements with the neighbouring countries this product was considered sensitive benefiting as result full tariff protection.

Regarding the domestic production, although Law No. 8944, dated 10 September 2002, 'On the production, origin and trade of olive oil', established the rules for production, origin and trade of food products in conformity with international trade requirements and standards regarding the origin and the quality, only few enterprises respect and implement the provisions of the law. As a result, great difficulties are faced for the certification and accreditation of this product enabling its penetration to the foreign markets.

3. The tariff rate applied in 2002 and 2003 for the import of **egg** was 15%, while MFN tariff rate is 10%. In the Free Trade Agreements with the neighbouring countries this product was considered sensitive benefiting as a result full tariff protection. The lobby of eggs producers has convinced the Albanian Government not to liberalize such a product and fulfil the commitments towards the WTO.

In addition, there is applied a NTB for the import of **eggs**. It is subject to special licence issued by the Directorate of Albanian Veterinary Services at the Ministry of Agricultural and Food. The licence must be issued to all juridical and natural persons, local and foreign, who are registered to import the above mentioned products and who present the Certificate of the Origin and the Certificate of Sanitation, the last one received after the sanitary and phytosanitary control.

4. During 2002, the tariff rate for the import of **beer** was increased by 5% from 15% to 20%, being so the highest applied tariff rate (tariff peak). The lobby of the beers industry especially of the entrepreneur of Tirana Beer Company who control most of the domestic beer market convinced the Government of Albania not to liberalize such a product and changes it from 15% to 20%. Recently, in this sector are invested ALL 170 million and operate 80 small and medium enterprises. Even thought the number of the operating enterprises is a considerable one considering the potential of the domestic market, only two of them control mainly the domestic market.
5. **Tobacco and cigarettes**. The tariff rates for import of raw tobacco are low mainly 2% while those for import of cigarettes are pretty higher. Also there are applied the following NTBs: cigarettes being a '**heavy**' article is subject to excise tax, as such each box of cigarettes is sealed with a banderol, which is a proof that

the tax has been paid; and according to the provisions of Law No. 8974, dated 21 November 2002, 'On some changes in the law for the production and trade of tobacco and cigarettes', the tobacco products traded in Albania should contain in their packing the respective data on tar and nicotine content, measured according to international standards in force. Any specifications must be written in Albanian language.

C Textiles/garments and leather/shoes industries

The textile/garment and leather/shoes industries were two of the main industries of the Albanian economy during 1960-1990. The enterprises of these industries were state-owned enterprises and operated in the context of centralized economy. Production included a wide range of products of the value added chain. The domestic demand was fulfilled by the domestic production.

After 1990, these enterprises were privatized and a significant part of them did not change their destination. Activities concentrated on the production under outward processing regime of clothes and footwear uppers, which comprise the majority of the country's export. National trademarks are missing and the relations with the suppliers and marketing channels are poor, in addition for the re-exported products, which are marketed by investors and foreign dealers.

In the following table are given general data for these industries.

Table 14

General data	The textiles/garments industry			The leather/shoes industry					
	1999 (ALL million)	Contribution during 1999 In the economy, processing agriculture excluded	In the industry	2000 (ALL million)	Contribution during 2000 In the economy, processing agriculture excluded	In the industry	2001 (ALL million)	Contribution during 2001 In the economy, processing agriculture excluded	In the industry
Production	3,235	2%	8%	4,245	2%	10%	4,935	2%	9%
No. of employees	8,626	6%	24%	9,129	6%	25%	8,865	4%	27%
Average pay rate	10,734	-11.4%		11,708	-12.3%		14,056	-5%	
No. of firms	327	0.9%	9%	347	1%	10%	298	0.8%	8%
Investment rate	690	2%	19%	616	2.6%	7.6%	477	0.8%	4%

ALL = Albanian lek.

Source: INSTAT. Results from Survey on the Structure of Enterprises 1999, 2000, 2001

As shown in the table, the production of the textile/garment production increased progressively during 1999-2001; in 2001 the employment rate reduced due to the closure of some operating businesses caused by the power shortage as well as a reduction of investments. The investments are mainly allocated in the food and beverage industries and the metal processing industry. Referring to the number of the enterprises, the textile industry comes next to the food, timber and furniture, metal extraction and processing industries. While referring to the number of employees, the textile industry stand on the top of light industry list, being an industry that intensively employees labour.

Regarding the leather/shoes industry as shown in the table, the production, the number of enterprises and the number of employees increased during 1999-2001, while the level of investments has decreased significantly due to the allocation of the recourse in the other branches of the industry as mentioned previously.

Export structure in 2002, is dominated by active-processing products such as shoes and textile destined towards the European markets. Textile articles make up most of the total export share accounted for 37.7%, with an increase of 9.2% as compared to 2001, which indicates a textile industry growth supported by the increase of raw materials' import¹⁴. The foreign trade figures for textile industry are shown in the table below.

Table 15

Exports and imports of the textiles/garments industry

thousand EUR

	1999	2000	2001	2002
Trade export	150,179.9	176,587.8	214,874.3	224,576.4
Trade import	218,444.5	164,030.6	197,179.8	221,092.1

Source: General Directorate of Customs

Exports and imports are interrelated as a result of the re-exportation practice. Imports mainly consist of semi-final products, which are re-exported after one or two operations. The level of imports and exports over years has shown an increased tendency. Finally, the trade balance of this industry has been positive.

The following products make up the majority of Albanian textile exports: '*Surfaces and their components except for struts of other materials*' accounted for 20.3% of 2002 total textile exports, '*Other trousers and cotton shorts*' accounted for 12.4%, '*Men's or boys' cotton shirts*' accounted for 7.5% followed by women's shirts (5.4%) and underwear (5.3%). It's obvious that Albania's textile exports portfolio is modestly diverse. Nine types of products comprise about 62% of the textile exports portfolio.

¹⁴ Foreign Trade Annual Report-2002.

As mentioned previously, the footwear constituted an important share in the 2002 export structure, accounted for 28.9% of exports total amount with an increase of 9.2% compared with 2001¹⁵. The foreign trade figures for leather/shoes industry are shown in the table below.

Table 16

Exports and imports of the leather/shoes industry

thousands EUR

	1999	2000	2001	2002
Export	68,355	54,968	59,672	82,324
Import	49,386	40,391	58,791	77,486

Source: General Customs Directorate

Table 17

Tariff regime for the leather/shoes industry

HS Code	Harmonized System Articles of Leather	Tariff Rate 2003	Tariff Rate 2004
4201	Saddlery and harness for any animal (including traces, leads, knee pads, muzzles, saddle cloths, saddle bags, dog coats and the like), of any material	15%	15%
4202	Trunks, suit-cases, vanity-cases, executive-cases, brief-cases, school satchels, spectacle cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers; travelling-bags, toilet bags, rucksacks, handbags, etc	15%	15%
4203	Articles of apparel and clothing accessories, of leather or of composition leather.	15%	15%
4204	Articles of leather, or of composition leather, of a kind used in machinery or mechanical appliances or for other technical uses.	15%	15%
4205	Other articles of leather or of composition leather	15%	15%
4206	Articles of gut (other than silk-worm gut), of goldbeater's skin, of bladders or of tendons.	15%	15%
4301	Raw furskins (including heads, tails, paws and other pieces or cuttings, suitable for furriers' use), other than raw hides and skins of heading No 4101, 4102 or 4103:	2%	2%
4302	Tanned or dressed furskins (including heads, tails, paws and other pieces or cuttings), unassembled, or assembled (without the addition of other materials) other than those of heading No 4303	2%	2%
4303	Articles of apparel, clothing accessories and other articles of furskin.	15%	15%
4304	Artificial fur and articles thereof	15%	15%
Average		14.5%	14.5%

The trade balance of this industry was positive. The export structure is as follows: leather surfaces, also known as shoe uppers accounted for 55% of the total export of the industry and are exported mainly in Italy (99%); raw hides (class 41) accounted for 14.5% and are exported mainly in Italy, Greece and Turkey. Processed hides of bovine (especially bull

¹⁵ Foreign Trade Annual Report-2002.

hides) are the most important ones among hides' exports as raw material due to the low processing cost in Albania.

The foreign market is limited in a few EU countries (Italy, Greece, Germany), which are the main destinations. The list of foreign markets also includes regional countries such as Croatia, Macedonia, and Yugoslavia, though the value of exports in these countries is insignificant.

As is shown by the table the average *ad valorem* tariff rate for manufacture of leather products and footwear is 14.5%, while for the imports from Macedonia it is 0.4% due to the implementation of the Free Trade Agreement.

Table 18

Tariff regime for the textiles/garments industry			
HS Code	Harmonized System	Tariff Rate	Tariff Rate
	ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, KNITTED OR CROCHETED	2003	2004
6101	Men's or boys' overcoats, car-coats, capes, cloaks, anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles, knitted or crocheted, other than those of heading No 6103:	15%	15%
6102	Women's or girls' overcoats, car-coats, capes, cloaks, anoraks (including ski-jackets), wind- cheaters, wind-jackets and similar articles, knitted or crocheted, other than those of heading No 6104:	15%	15%
6103	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear), knitted or crocheted:	15%	15%
6104	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (other than: swimwear), knitted or crocheted	15%	15%
6105	Men's or boys' shirts, knitted or crocheted:	15%	15%
6106	Women's or girls' blouses, shirts and shirt- blouses, knitted or crocheted:	15%	15%
6107	Men's or boys' underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar articles, knitted or crocheted:	15%	15%
6108	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, négligés, bathrobes, dressing gowns and similar articles, knitted or crocheted:	15%	15%
6109	T-shirts, etc	15%	15%
6110	Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted:	15%	15%
6111	Babies' garments and clothing accessories, knitted or crocheted:		
Average		7.7%¹⁶	7.7%

One of the remaining Non Tariff Barriers is: The import of the unprocessed leather is subject to special licence issued by the Directorate of Albanian Veterinary Services at the

¹⁶ Based on preliminary figures of the Central SEE Tariff Database established in the framework of the Research Project 'Measuring the Costs of Protection in the SEE Countries'.

Ministry of Agricultural and Food. Prior to applying for a licence to import the above mentioned products, a person or enterprise must be registered in the Court of first degree to become a natural or juridical person, and then to be registered at the District Tax Office. Once the individual/firm is registered, then the next step is to go to the Ministry of Agriculture and Food, Directory of the Albanian Veterinary Service, to receive a licence (i.e., to receive 'permission' as is stated in the Law. The licence must be issued to all juridical and natural persons, local and foreign, who are registered to import the above mentioned products and who present the Certificate of the Origin and the Certificate of Sanitation. Licences are valid for up to 2 months time and specify the quantity to be imported (only as a means for data collecting and statistical information). Each time the products are to be imported; the importer must go the Ministry of Agriculture and Food to receive a new licence. The procedures for registration and licensing are considered long and bureaucratic and in most of the cases corruptive.

As is shown by the table the average *ad valorem* tariff rate for manufacture of textile is 7.7%%, while for the imports from Macedonia it is 0%, fully liberalized due to the implementation of the Free Trade Agreement with this country.

D Sensitive industrial products ¹⁷

A long list of industrial products is considered sensitive and is under negotiation with the European Union to ensure temporary tariff protection. In the Free Trade Agreement with the neighbouring countries they are treated with the same status. The main arguments presented by the Albanian negotiating party consist on: the high level of investments undertaken by Albanian and foreign entrepreneurs, the increase of the production, potentials, and comparative advantages of the country in the production of these goods etc. Briefly are mentioned some of them.

Salt suitable for human consumption

HS 25010091

In 2002, investments for the rehabilitation and establishment of new technology lines for the production of salt suitable for human consumption were realized. As a result, it is expected an increase of the production by two or three times which will make possible the improvement of the trade balance. In 2002, the trade balance was Import-11.300 tones and Export-6.300 tones.

The tariff rate applied for this industrial product considered as sensitive in 2002 and 2003 was 15% while the MFN tariff rate is 10%. In the Free Trade Agreements with the

¹⁷ The following industrial products are considered sensitive and are under negotiation with the EU to ensure temporary tariff protection. Briefly are mentioned the arguments and the data stated by the Albanian negotiating party to the EU. Due to the lack of information and data it was impossible further elaboration of the topic.

neighbouring countries, this product was included in the list of industrial sensitive products that will be liberalized gradually over the time span of 6 years.

Hydrocarbons

HS 27101125-27139090

The investments began in 2002, and expected to finish in 2004, will make possible the progressive increase of the production over the time span of 7 years up to the level of 1.7 million tones. In 2002, according to the Ministry of Economy the production was 300.000 tones, and in 2001, according to the National Institute of Statistics it was 317.000 tones. The import level for 2002 was 250.000 tones.

In the Free Trade Agreement with Macedonia, even in all the FTAs with the neighbouring countries hydrocarbons was included in the list of industrial products considered sensitive, that will be liberalized gradually over the time span of six years. The tariff rate of 10% applied for these industrial products is in line with the WTO commitments.

Wood Products

HS 44091011-44109098

The wood processing industry is made up of two main branches, the forest wood processing and the production of wood articles. In the latter, some USD 8 million have been invested in establishing new production lines. To encourage the development of this industry, the raw materials trade has been liberalized in order to favour domestic production. Those products are aimed to be included in the sensitive industrial products list with the EU. The regional FTAs have treated the industry with the same status, and its tariffs will be gradually reduced in a six-year period.

The tariff rate applied for this industrial product considered as sensitive during 2002-2004 was 15% although Albania committed to WTO to fully liberalize these products in 2004.

Wood Furniture

HS 94033011-94036030

In the production of the wood furniture, we have to bear in mind the wood furniture production that use domestic raw materials. During the last decade, many production lines have been raised, small and medium. These articles have been treated in the regional FTAs as sensitive products, and the negotiations with the EU will start with this status in mind. This, due to the heavy investments in this area, and the fact that the production is based on raw materials secured domestically. According to the General Customs Directory, the production for 2002 is 1,500 tons.

The tariff rate applied for these industrial products considered as sensitive during 2002-2004 was 15%, although Albania committed to WTO to reduce the tariff rate by 5% in 2004 and fully liberalized it in 2007.

Since 2000 (the year of accession in WTO) Albania has committed itself according to the schedule of concession to liberalize gradually the tariffs. In the first years of accession Albania has liberalized a major part of the products under the WTO commitments while for a long list of products have not, such as: beers, oil, fish, eggs, wood products and furniture, salt, etc. The lobby of these industries has convinced the Albanian Government not to liberalize such products, for instance the lobby of the beer industry convinced the Albanian Government in 2002 to increase the tariff rate by 5% from 15% to 20%, being so the tariff peak at the Albanian tariff regime.

The Albanian Secretariat on WTO issues, explained that a letter of notification has been send under Article XXVIII of GATT in order to justify the situation, but there was no answer from the WTO partners and the tariffs remained higher than the MFN rate.

Last year in December 2003, the EU representative during one of the SAA negotiation rounds has asked the Albanian Government to give the legal and economic reason for keeping the unchanged tariffs for these products, mainly for beer, oil and fish. Due to the lack of the exact economic implication and political pressure from the EU, the Albanian Government changed the tariff of these products and included into the fiscal law of 2004. However for some products like wood, perfume, paper and steel, the Albanian Government decided not to liberalize the tariff according to the commitments. For these reason a letter of notification is drafted and sent to the EU representatives. The EU representative will give an answer in June 2004 and after that the letter will be sent to the WTO Secretariat.

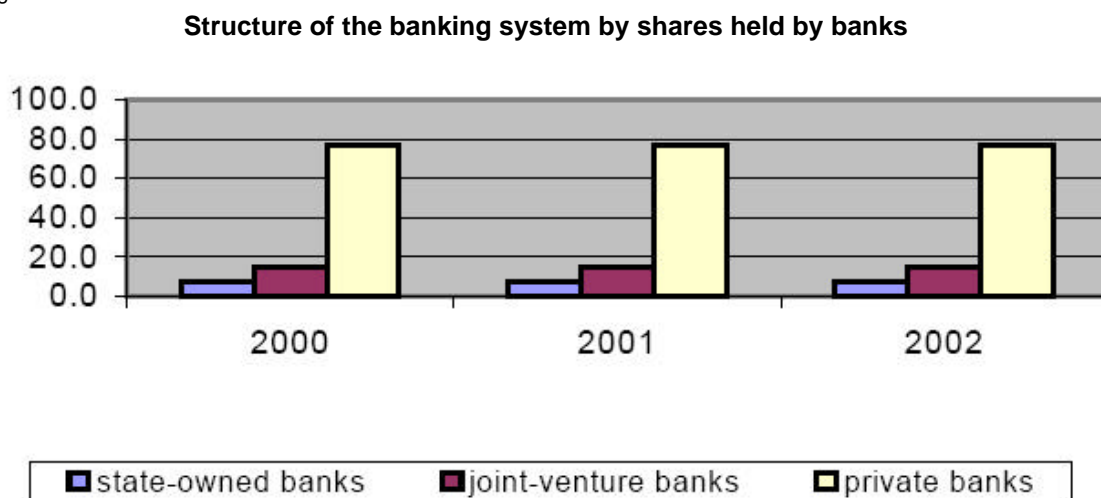
The arguments used by the Albanian Government for this issue are related with the implication in the state budget due to tariff liberalization (custom revenue represent a big part on the budget revenue) and with the fact that these industries are infant industry and recently developed and as such need to be protected. Many of the raw materials were liberalized in order to compensate the protection of the above mentioned industries.

E Banking system

The Albanian banking system during 2002 has been expanded with new banks and has further expanded its network. In 2002, the Credit Bank of Albania was licensed. Currently, 14 commercial banks operate in Albania, which expanded their network with 9 branches and 1 new agency. Except banks, new financial entities are being created and licensed, which will influence on the financial system development in Albania and will lead to the reduction of the banking weight in it. Hence, in 2002 1 non-bank institution; 20 foreign exchange bureaus; 113 saving and credit association and 2 unions of these associations are granted a licence.

The following Table provides information on the structure of the banking system according to the shares held by the state-owned Saving Bank (the biggest bank), by two joint-venture banks and 10 private banks-(including 3 branches of foreign banks).

Figure 5



Source: Bank of Albania, Annual Report 2002.

The licensing policy of the banks or other financial entities did not change as compared to 2001. The Bank of Albania has maintained the same requirement on minimum capital for opening a bank. The feature of this year is the submission of the request for a licence to perform banking activity by Albanian legal entities and natural bodies.

The increasing number of financial entities and the expansion of their activities will add the level of the financial intermediation in Albania. Notwithstanding the positive developments in Albania during the recent tree years, yet the financial intermediation is at low level, ever lower than the region. Time deposit ration comprises nearly 40.1% of the GDP from nearly 50% average of East and Central European Countries. Meantime, domestic credit is nearly as much as 35.1% of GDP, however credit to economy is only 7.2% against 40% of East and Central European Countries. The difference between domestic credit index and credit to the economy represents banking credit to the Government. The still high demand of the Albanian Government to finance the budgetary deficit, as compared to the most developed countries, keeps the lending activity somewhat deformed. Nevertheless, recent developments have been positive.

Positive is the fact that the expansion of the banking system is due to a more intensive activity of the private and joint-venture banks. In this way, premises are being crated even for a constant reduction of the dominating position of the Saving Bank.

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