

Prepared by:



CASE STUDY

Budgetary Impacts of the EU Integration Process in the Western Balkans

***The Case of the
Republic of Albania***



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Infographic

Highest revenue creating products due to **imports of fuel** (around 47,853 million ALL or 400.6 million Euro), **cigarettes** (around 28,323 million ALL or 237 million Euro), and **used vehicles** for the transport (around 7,008 million ALL or 58.6 million Euro), **in total** 83,184 million ALL or 696 million Euro.

Revenues in Million ALL	Contribution in % to Customs
Fuel imports: 47,853 million ALL or 400,6 million Euro.	21.43 %
Cigarettes import: 28,323 million ALL or 237 million Euro.	12.68 %
Used vehicles for the transport: 7,008 million ALL or 58.6 million Euro.	3.14 %
Total: 83,184 million ALL or 696 million Euro.	37.25 % <i>(based on data retrieved from Fiscal Bulletin January- December 2022, General Directorate of Customs)¹</i>

EU policy targets:

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

Projected Revenue Loss by 2040:



Fuel

23,923 mil. ALL
or 200.3 mil. €
50 % by 2040



Cigarettes

22,928 mil. ALL
or 192 mil. €
81% by 2040



Cars

3,499 mil. ALL
or 29.3 mil €
50% by 2040

(based on the revenues of 2022 budget)²

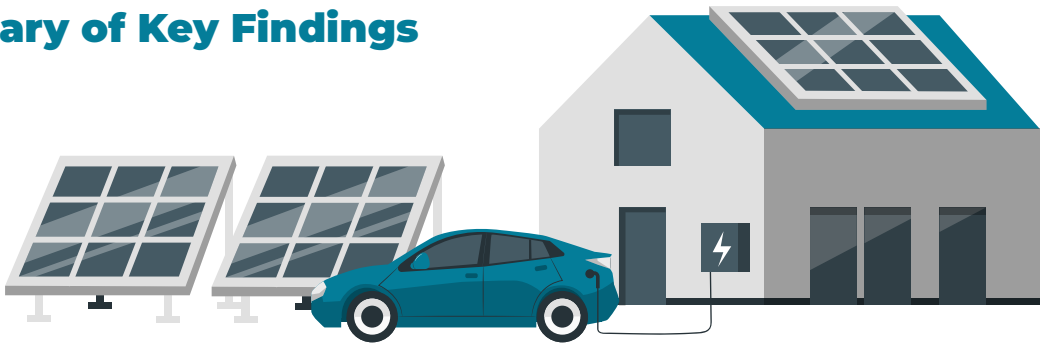
Total:

50,352 million ALL 421.6 million euro
10% of budget revenues by 2040

Recommendations:

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

Summary of Key Findings



Albania is set on a path to join the European Union. It's journey towards European Union membership involves a commitment to align with EU policies and standards. This study shows the impact on the customs revenue related to the import of the three highest revenue-providing products, namely fossil fuels, cigarettes, and cars if certain EU policy targets from the EU Green Deal and the EU Beating Cancer Plan are met. **The study projects that for these three product categories alone Albania would see an annual revenue loss of 50,352 million ALL or 421.6 million euro, equivalent to a 10% reduction from the 2022 budget.**³ The projected costs do not include the

additional loss of VAT revenue from these products, therefore hinting that the actual impact may be higher.

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

TABLE OF CONTENTS

1	Introduction	06
2	Methodology	08
3	Findings of the Study	10
3.1	EU Green Deal on Energy	11
3.2	EU Green Deal on Mobility	12
4	EU Beating Cancer Plan	13
4.1	Smoking Prevalence and Regulatory Challenges in Albania	14
5	Conclusions	16
6	References	18



Introduction

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

The EU has set specific policy objectives for these products, while in Albania, these objectives are meant to be incorporated in different national-level strategic documents. To successfully complete the European Integration process, it means that these targets should be fully incorporated into the design of national policies. The results of this study indicate the tremendous budgetary implications that EU policy targets can have on government revenues. EU policy targets for fuel and cigarette imports alone, would lead to **10% reduction in government revenues by 2040**. Action is required now to ensure that this loss of revenue is compensated.



10% reduction in government revenues by **2040**

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



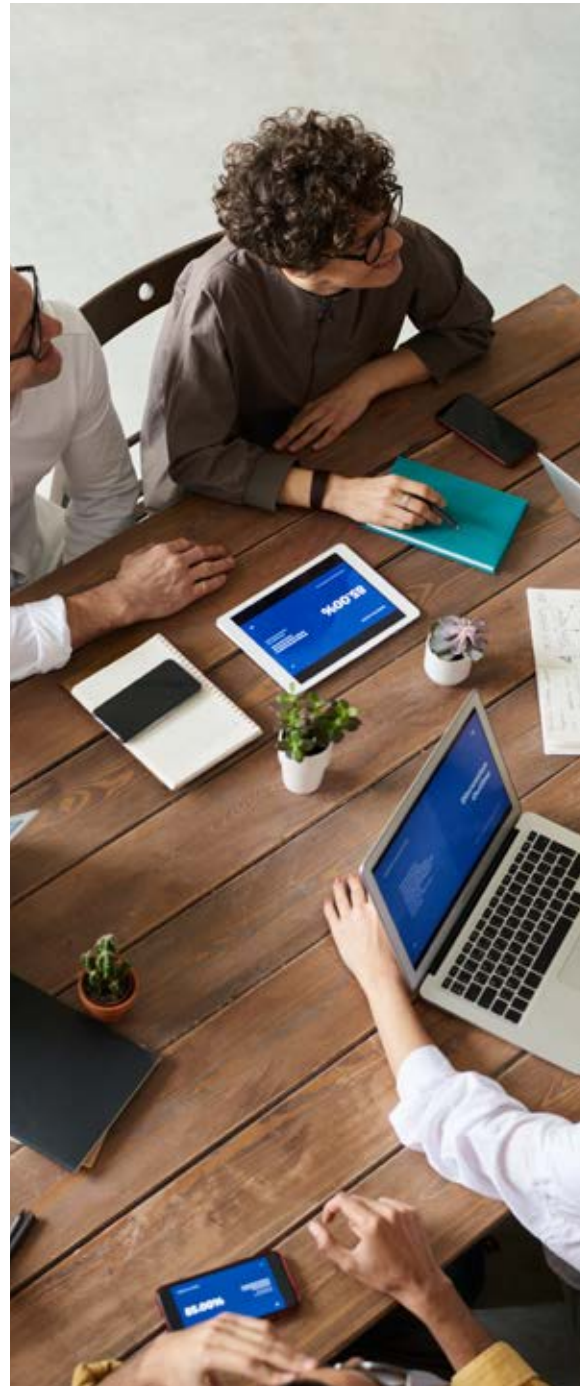
Methodology

This study is based on a qualitative research method which includes thorough research and semi-structured interviews / open-end discussions with main government and civil society stakeholders working on the related policy fields of this study.

The desk research included an analysis of the policy targets for the three highest revenue-providing products, being fuel, cars, and cigarettes. EU policy targets were assessed through analysis of the EU Green Deal and EU Beating Cancer Plan since these policies significantly impact not only EU member countries but also nations aspiring for EU accession indirectly.

The analysis was followed up by open-end discussions with government and civil society stakeholders in Albania. In these discussions were involved representatives from various public institutions such as: the Director of Foreign Relations and European Integration from the General Directorate of Customs, officials from the Ministry of Finance, and the Ministry of Tourism and Environment in Tirana, Albania. Additionally, the discussions included the Director of Primary Healthcare and Public Health Policies from the Ministry of Health and Social Protection, and the General Director of the General Directorate of Road Transport Services, and the respective team. Part of the discussion were also the Executive Director of the American

Chamber of Commerce in Albania (AmCham) and the Executive Director of the Foreign Investors Association of Albania. These dialogues with the institutions provided insightful information for the case study.



3 Findings of the Study



3.1 - EU Green Deal on Energy

The European Green Deal sets different policy targets on areas such as climate, energy, transport, and taxation with the aim of reducing net greenhouse gas emissions by 55% by 2030.⁴ Moreover, it aims to reduce net emissions of greenhouse gases by 2050 to zero.

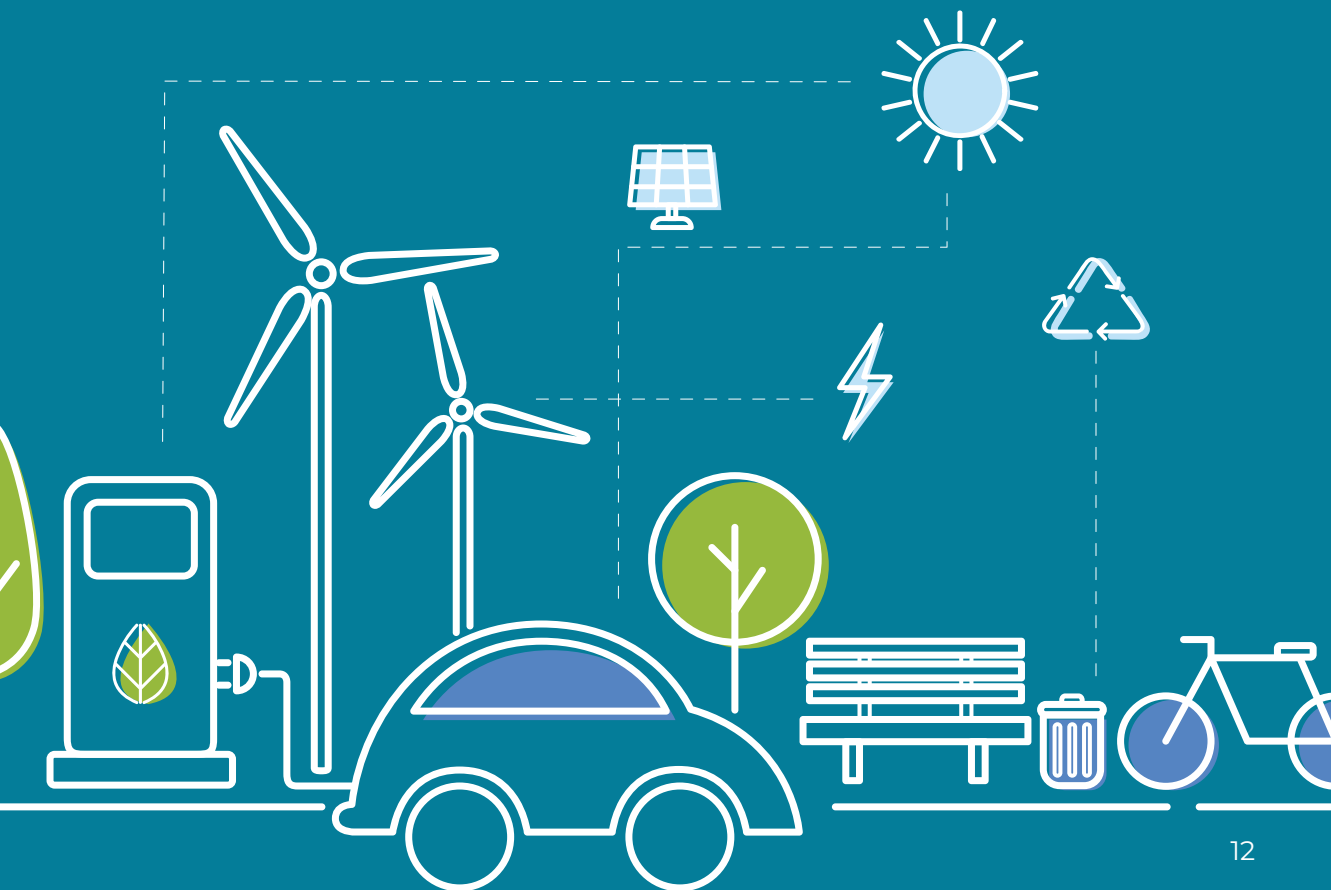
As part of the reduction of net greenhouse gas emissions, EU countries under this Deal also agreed to create stronger legislation to increase the capacities for renewable energy. This target is set as a minimum of 42.5% by 2030, representing a 32% increase from the current situation, with an ambition to reach 45%.⁵ Additionally, the energy efficiency target for the EU is set at 11.7% by 2030. To meet this target, EU member states need to make annual savings of an average of 1.49% from 2024 to 2030.⁶

3.2 - EU Green Deal on Mobility

The EU Green Deal also provides specific policy targets for mobility, aiming to achieve greener mobility through clean, accessible, and affordable transport solutions. Based on this policy area, all new cars and vans registered in the EU shall be zero-emission by 2035.⁷ A mid-term target to achieve zero emissions sets that average emissions of new cars shall be less to 55% by 2030 and new vans to 50% by 2030.⁸ This will put road transport on a firm path to zero-emission mobility in 2050.

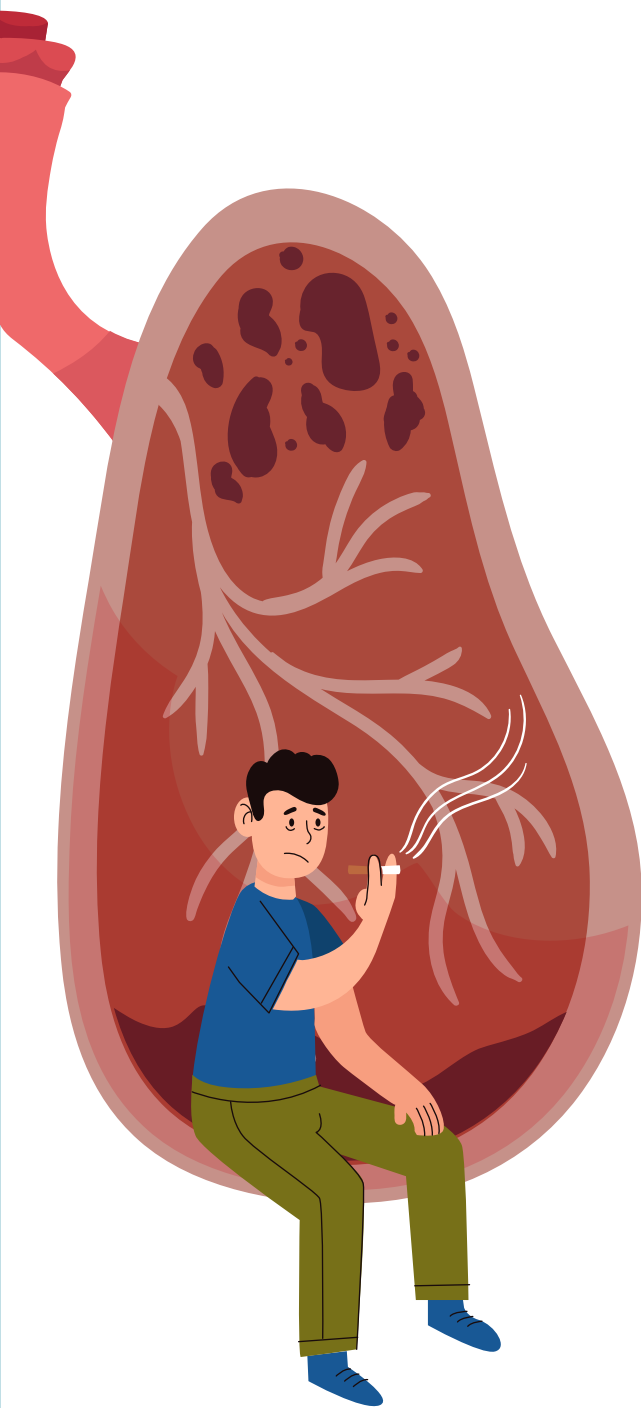
In addition to the reduction of CO₂ emissions, policy targets on mobility also provide areas of improvement to incentivise usage

of clean transport by EU citizens. One of these areas is establishing infrastructure dedicated to charging zero-emission vehicles. These objectives mandate the implementation of electric charging and hydrogen refuelling infrastructure across all EU territories. The charging capacity shall meet the demands of a larger fleet of zero-emission cars. Furthermore, the EU policy target also makes it mandatory to introduce carbon pricing by 2027, where road transports will be covered by emissions trading, putting a price on pollution, stimulating cleaner fuel use, and re-investing in clean technologies.⁹





EU Beating Cancer Plan



The EU Beating Cancer Plan sets specific policy targets to reduce tobacco usage, selling and advertising. Based on this plan, the EU aims to have a Tobacco-Free Society where less than 5% of the population uses tobacco by 2040, compared to around 25% at current state.¹⁰ The interim goal of the EU is to reach the World Health Organisation reduction target of 30% by 2025, which corresponds to a reduction of smoking prevalence of around 20%.

This plan specifically refers to the Tobacco Products Directive and Tobacco Taxation Directive. Those two directives are used as effective instruments to fight tobacco consumption in the EU. The Tobacco Products Directive, initially adopted in 2014, currently is set for an update to align with the internal market of the EU.¹¹ In addition to that, the Tobacco Taxation Directive sets a tax to reduce tobacco consumption. At the EU level, the target requires Member States to levy a minimum rate of excise duties on cigarettes.¹²

4.1 Smoking Prevalence and Regulatory Challenges in the Republic of Albania

A comparative study shows consumption among women and men cumulatively revealing a smoking prevalence of 26.2% in 2022.¹³ This data has been taken from the Report of the Institute of Statistics (Instat).¹⁴

Customs revenue: Impact Overview

	Policy Area	EU Policy Target	Current Customs Revenue in Albania	Expected Customs Revenue in Albania
EU Green Deal on Energy	Greenhouse gas emissions reduction	55% by 2030 0 by 2050	Fuel import revenue 2022 47,853 million lekë or 400.6 mil. euro ¹⁵	50% reduction by 2040: -23,923 million lekë or 200.3 million euro 100% reduction by 2050: - 47,853 million lekë or 400.6 million euro
EU Green Deal on Mobility	CO2 emission reduction	55% reduction of emissions from cars by 2030 50 % reduction of emissions from vans by 2023 0 emissions from new cars by 2035	All cars revenue 2022: 7,008 million lekë or 58.6 million euro ¹⁶	50% reduction by 2040: -3,499 million lekë or 29.3 million euro
EU Beating Cancer Plan	Tobacco usage reduction	Less than 5% by 2040	Cigarette import revenue 2022 28,323 million lekë or 237 million euro ¹⁷	81% reduction by 2040: - 22,928 million lekë or 192 million euro
Total predicted revenue loss under no policy change scenario by 2040			50,352 million lekë or 421.6 million euro	



5 Conclusions

There are significant mid-term budgetary implications of the EU's policies and policy targets on customs' revenue in the Republic of Albania, specifically revenue loss from imported diesel/petroleum fuel, car imports, and cigarette imports. Without any policy changes, the total revenue loss from customs is expected to be 50,352 million all or 421.6 million euros. This amount equates to a total of 10% of the Albanian Government's revenue based on the 2022 budget.

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

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

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

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

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

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References

Page 3

¹Fiscal Buletin January-December 2022 General Directorate of Customs: <https://www.dogana.gov.al/dokument/4527/012buletini-fiskal-janar-dhjetor-2022>

²Draft Budget Law for 2024, states factual revenues for 2022. <https://financa.gov.al/projektbuxheti-2024/>

Page 4

³Draft Budget Law for 2024, states factual revenues for 2022: <https://financa.gov.al/projektbuxheti-2024/>

Page 11

⁴EU Green Deal - retrieved from: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en

^{5,6}EU Green Deal, Renewable Energy - retrieved from: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en

Page 12

^{7,8,9}EU Green Deal, Green Mobility - retrieved from: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en

Page 14

¹⁰EU Beating Cancer Plan - retrieved from: https://eur-lex.europa.eu/resource.html?uri=cellar:8dec84ce-66df-11eb-aeb5-01aa75ed71a1.0002.02/DOC_1&format=PDF

¹¹The Tobacco Products Directive (2014/40/EU) - retrieved from: https://health.ec.europa.eu/tobacco/product-regulation/implementing-tobacco-products-directive-directive-201440eu/revision-tobacco-products-directive_en

¹²Tobacco Taxation Directive (2011/64/EU) - retrieved from: <https://www.europarl.europa.eu/legislative-train/theme-an-economy-that-works-for-people/file-tobacco-directive-revision>

^{13,14}Regarding smokers by age group 30-34 year, specifically for men are 45.1% and women 7.3%: <https://www.instat.gov.al/media/11027/burra-dhe-gra-2022.pdf>

Page 15

^{15,16,17} <https://www.dogana.gov.al/dokument/4527/012buletini-fiskal-janar-dhjetor-2022>

