



THE IMPACT OF EU RULES ON THREE CONSEQUENTIAL SECTORS OF ALBANIAN ECONOMY

Seizing opportunities and managing shocks in the EU Accession process

CREDITS

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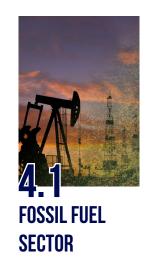
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TRENDS & BEST PRACTICES From the impact of EU integration



THE ROAD AHEAD: A VISION For Managing Albania's Eu integration

EXECUTIVE SUMMARY

Albania's EU Accession: Economic Impacts and Strategic Opportunities

Albania stands at a pivotal juncture where European Union (EU) accession promises both profound economic opportunities and substantial disruptions. This report provides an in-depth analysis of the financial and economic impacts of EU integration on three critical sectors: fossil fuels, tobacco, and agriculture.

By 2050, the implementation of EU-aligned policies across these sectors is projected to result in a cumulative annual fiscal revenue loss exceeding €620 million, representing nearly 3% of GDP. Given the country's current GDP growth rate of 3.3%, such a loss could represent the critical difference between sustained moderate economic growth and potential stagnation.

Specifically, the fossil fuel sector alone faces an estimated annual revenue loss of over €300 million, driven by a more than 60% reduction in road fuel sales and the closure of approximately 930 petrol stations. Consequently, employment within fuel distribution is expected to shrink significantly, with the workforce declining from 2,572 to around 480.

Similarly, stringent EU health directives targeting tobacco use reduction will significantly reduce cigarette consumption by up to 80%, causing annual government revenue losses exceeding €160 million. This transition will heavily impact thousands of small businesses and distributors, with tobacco farming potentially becoming extinct, directly affecting hundreds of rural livelihoods.

In agriculture, while increased competition under EU standards poses substantial challenges for the sector's 359,000 predominantly small-scale farms, significant opportunities exist through access to extensive EU funding such as the Common Agricultural Policy (CAP). Strategic investment in modernization and compliance could enable Albania's agriculture to dramatically enhance productivity and export potential. However, without targeted intervention, approximately 100,000 to 180,000 small farms risk closure or consolidation by 2040.

Despite these daunting challenges, the EU accession pathway provides strategic opportunities. Albania can establish regional leadership in renewable energy and electric mobility infrastructure, thus driving new investment and employment opportunities. Moreover, the tobacco sector transition aligns with transformative public health outcomes, potentially reducing healthcare burdens and enabling innovative fiscal diversification.

Drawing from successful strategies of recent EU entrants like Croatia, Romania, and Poland, Albania can mitigate short-term fiscal and social shocks by proactively e mbracing these sectoral transformations. Strategic planning, targeted use of EU resources, and proactive measures to support affected sectors and communities are critical. By doing so, Albania can achieve sustainable economic growth, fiscal stability, and inclusive prosperity through this transformative EU accession process.

INTRODUCTION

At the Crossroads: Albania's Economy Faces the EU Accession Imperative

Albania stands at a pivotal moment in its modern history. The path ahead leads toward European Union membership – a journey that promises to reshape the country's economic landscape in profound ways. This report examines how this transformation will affect three vital sectors of Albania's economy: fossil fuels, tobacco, and agriculture. This alignment will bring undeniable **opportunities but also significant disruptions**.

These three vital sectors were chosen for their high contribution to government revenues and their vulnerability to regulatory targets set in the EU Acquis. Fossil fuels, which remain central to Albania's transport systems, will be subject to stringent EU climate regulations aimed at achieving carbon neutrality by 2050 and cutting emissions by 90% by 2040². Tobacco, a key source of excise revenue and VAT, will be affected by the EU's far-reaching public health agenda, which seeks to reduce tobacco use to below 5% by 2040. Agriculture, employing a substantial share of the population, will need to align with the EU's Common Agricultural Policy, demanding modernization and competitiveness in a vastly different market landscape.

The fiscal implications of these transitions are immense. Government revenues from fuel excises and tobacco taxation, which currently constitute a substantial portion of the national budget, will decline sharply. The agricultural sector, while gaining access to EU subsidies, will also face challenges from increased competition and higher compliance costs. Without a proactive strategy, Albania risks economic dislocation, revenue shortfalls, and social strains in the years ahead.

This study underscores the urgency of action. Beyond reacting to EU directives, Albania should develop the capacity to anticipate and shape policy changes while they are still in formation at the European level. This foresight will be crucial for mitigating risks and maximizing opportunities. Only by engaging actively in EU decision-making can Albania manage the challenges in a structured and effective manner.

² EU Sticking Points: https://www.idm.at/en/the-sticking-points/#:~:text=At%20the%20beginning%20of%20February%2C,Yet%20economic

The report explores four key dimensions of this transition:



Business and Employment

How will EU regulations impact industries and jobs? Which sectors will shrink, and where will new opportunities emerge?



Government Finances

How will declining excise revenues from fossil fuels and tobacco be offset? What fiscal policies are needed to maintain stability?



Market Dynamics and Risks

What shifts will occur in consumer behavior, trade patterns, and investment flows? What risks-such as illicit trade or market disruptions-need to be managed?

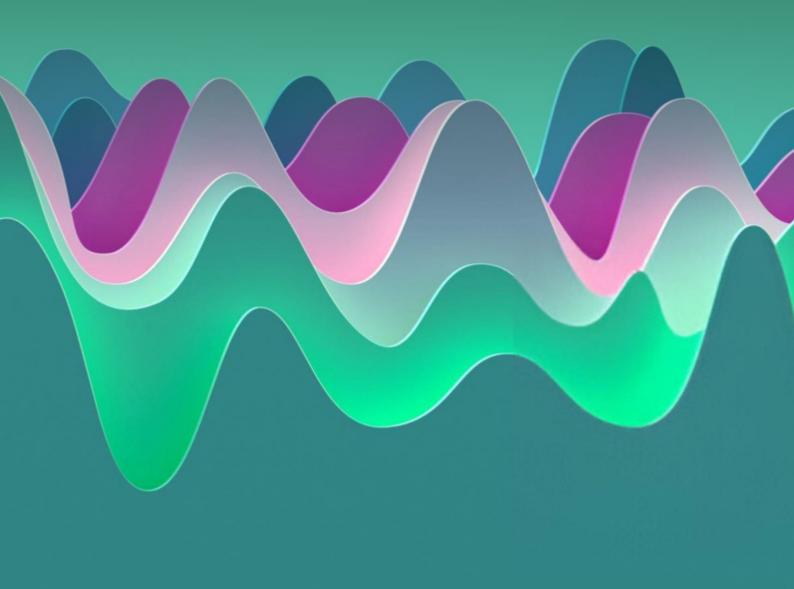
Strategic Adaptation

What steps should policymakers and businesses take to navigate this transition successfully?

To answer these questions, we employ a scenario-based modeling approach, comparing a "business-as-usual" trajectory with an "EU accession" scenario for 2040 and 2050. The analysis is enriched by lessons from other recent EU entrants, including Croatia, Romania, and Bulgaria, providing valuable benchmarks for Albania's path forward. By preparing today, Albania can ensure that its integration into the European Union is not just a challenge to overcome but an opportunity to seize.

METHODOLOGY AND DATA SOURCES

Scenario-Based Analysis of Albania's EU Integration



A Dual-Scenario Approach

To capture the potential economic shifts Albania will experience on its path to European Union membership, this study employs a scenario-based modeling approach, focusing on projections for 2040 and 2050. We define two core scenarios:

- Baseline Scenario: This assumes no major policy changes beyond existing trends, meaning Albania does not adopt new EU-aligned regulations. This scenario serves as a control, allowing us to assess the incremental impact of EU accession.
- EU Alignment Scenario: Under this scenario, Albania fully integrates EU legislation in line with an accession timeline targeting early 2030s. This includes full compliance with EU climate policies, public health regulations, and agricultural standards, which will redefine key economic sectors.

Our analysis prioritizes the EU Alignment Scenario, examining its divergence from the baseline by modeling sector-specific transformations such as reduced fuel demand, declining tobacco consumption, and shifts in agricultural production. The methodology follows EU policy milestones:

- Fossil Fuels: The study accounts for policies under the EU's Fit for 55 package, including the 2035 ban on new internal combustion engine vehicle sales³, rising carbon pricing, and directives supporting renewable energy.
- Tobacco: The EU Tobacco Products Directive and the Europe's Beating Cancer Plan target a reduction in smoking rates to below 5% by 2040⁴, driven by stricter regulations and higher excise levels.
- Agriculture: The adoption of EU sanitary, environmental, and agricultural policies, including the Common Agricultural Policy (CAP), is expected to reshape farming structures and market access.

Sectoral Impact Analysis

For each sector, the study examines four dimensionst:

Business Impact

Identifying how firms will need to adapt or restructure.

Market Shifts and Risks

Assessing consumer behavior changes and potential disruptions (e.g., illicit trade, loss of competitiveness). **Government Revenue** Impact

 $\frac{1}{2}$ Estimating changes in tax revenues from excises and duties.

Adaptation Strategie

Proposing policy and industry measures to mitigate challenges and leverage opportunities.

EU on CO2 Emissions: https://www.weforum.org/stories/2023/03/this-eu-law-will-require-all-new-cars-sold-to-have-zero-co2-emissions-from-2035/#:-:text*,a%20 auarter%20of%20EU%20emissions

⁴ EU on Tobacco: https://ec.europa.eu/commission/presscorner/detail/hu/ip_21_2563

For instance, in the fossil fuel sector, we project a decline in fuel stations, correlating electric vehicle (EV) adoption with decreasing fuel sales, referencing studies predicting a 45% drop in European fuel stations by 2050⁵. In agriculture, the impact of EU accession on small farms is modeled using historical data from Poland's EU entry, where many smaller farms struggled to meet compliance standards⁶.

Underlying Assumptions

Our projections are based on several critical assumptions

- **Economic Growth**: Albania's GDP and income levels will gradually converge toward EU averages, with an assumed growth rate of 3-4% annually. This supports EV adoption, compliance investments, and increased energy consumption.
- **Policy Implementation**: We assume Albania will fully adopt EU excise duties on tobacco (minimum €90/1,000 cigarettes) by the 2030s, and introduce carbon pricing by 2030.
- **Market Trends**: Falling renewable energy costs and the declining price of EVs are expected to continue, with EVs achieving price parity with combustion vehicles in the mid-2020s.
- **EU Accession Timing**: We assume Albania joins the EU in the early 2030s, gaining full access to CAP and structural funds by 2035.
- **Regional Dynamics**: The assumption that neighboring Western Balkan countries also align with the EU affects smuggling risks-if some lag behind, illicit trade could remain a concern.

Each assumption is tested for sensitivity. For example, if EV adoption is slower than expected, fuel excise revenues will decline more gradually, potentially delaying climate target fulfillment. These contingencies are highlighted in our analysis.

⁵ Gas stations in Europe to fall 45% by 2050: https://www.consultancy.eu/news/10629/number-of-gas-stations-in-europe-to-fall-45-by-2050#:-:text=According%20to%20 Sia%20Partners%20%20the,continent%20to%206%2000%20in%202050

⁶ Impact on small farms: https://www.fao.org/fileadmin/user_upload/reu/europe/documents/Events2015/fcss/pol_en.pdf#:--:text=The%20number%20of%20small%20farms, the%20EU%20and%20in%20Poland

Data Sources

Our research is grounded in a wide array of reliable data sources:



National Data

The Albanian Institute of Statistics (INSTAT) for population, employment, and economic output; Ministry of Finance reports for fiscal revenues (e.g., excise taxes on fuel and tobacco); and Ministry of Agriculture statistics on farm structure. For instance, Ministry of Finance data indicates that excise revenues totaled 46.7 billion ALL in 2019.



Comparative Case Studies

Data from recent EU members such as Croatia, Romania, and Bulgaria offer benchmarks on post-accession trends, including smoking rate declines, fuel consumption changes, and small farm closures. For example, Romania's illicit tobacco trade surged after EU accession, impacting tax revenues⁹.



EU and International Data

European Commission progress reports on Albania, European Energy Community studies on Albania's energy transition, and EU policy documents on climate and public health regulations. IMF⁷ and World Bank reports provide macroeconomic perspectives⁸.



Industry Reports

Research from independent organizations and consultancies, such as a Sia Partners study on European fuel stations¹⁰, informs our projections. Health economics studies provide insights into how taxation affects tobacco consumption¹¹.

All quantitative data is sourced transparently, with citations linking to original documents. This ensures the robustness and credibility of our findings.

Analytical Tools

Rather than relying on complex econometric models, this study employs trend extrapolations and scenario matrices to estimate order-of-magnitude impacts. For fiscal projections, we apply percentage changes to current revenues, adjusting for policy-driven price effects using well-established elasticities from prior research. These estimates are validated against real-world trends observed in comparator countries, ensuring a strategic and data-driven approach to assessing Albania's EU transition.

⁷ IMF on Tax Policy: https://www.elibrary.imf.org/view/journals/002/2022/052/article-A001-en.xml#:-:text=,Direct%20income

⁸ The Agriculture perspective: https://blogs.worldbank.org/en/agfood/unlocking-albanias-agricultural-potential-fields-finance#:-:text-Despite%20a%20steady%20increase%20in, relevant%20knowledge%20and%20skills

^o Tobacco Smuggling is Up in Romania's Post-EU Transition: https://www.occrp.org/en/investigation/romanian-public-revenue-up-in-smoke-of-smuggled-tobacco#:--:text= Cigarettes%20are%20smuggled%20into%20Romania,Police%20estimates%20are%20similar

¹⁰ Falling Gas Stations in Europe: https://www.consultancy.eu/news/10629/number-of-gas-stations-in-europe-to-fall-45-by-2050#.-.:text=At%20the%20same%20time%20%20the, do%20not%20transform%20their%20businesses

¹¹ Impact of Taxation on Tobacco Consumption: https://tobaccotaxation.org/cms_upload/pages/files/261_report-the-impact-of-tobacco-tax-increases_-albania.pdf#:-:text= Tax%20revenues%20from%20tobacco%20account,increase%20from%202018%20according%20to

SECTOR-SPECIFIC IMPACT ANALYSIS

FOSSIL FUEL SECTOR

Albania's fossil fuel sector is poised for a profound transformation as the country advances toward EU accession. The transition to a low-carbon economy, as mandated by EU policies, will bring both challenges and opportunities, fundamentally altering the structure of fuel distribution, refining, and energy taxation. This shift will demand a careful balance between environmental objectives, economic sustainability, and social impact mitigation.

BUSINESS IMPACT

The fossil fuel industry in Albania is expected to experience significant structural changes due to EU climate regulations that aim to reduce greenhouse gas emissions by 90% by 2040 and achieve carbon neutrality by 2050. Several key trends will define this transition:



Decline in Fuel Stations

The rise of electric vehicles (EVs) and alternative fuels will cause a steady decline in demand for gasoline and diesel. A Europe-wide study estimates a 45% reduction in fuel stations by 2050. Albania currently has 1,117¹² fuel stations of which 735 are considered fully functioning. By comparison, the neighboring Greece, with more than four times Albania's population, and higher consumer spending has only 800 gas stations¹³.

By 2040, many rural or independent stations are expected to become unprofitable, leading to a consolidation into larger, multi-service stations. Based on trends observed in neighboring EU countries, adjusted for population size, a likely scenario shows that by 2050, Albania would have approximately 184 fuel stations, with the remaining outlets transforming into hubs offering EV charging, compressed natural gas (CNG), hydrogen fueling, and expanded retail services. The workforce will be similarly affected: the current 2,572 employees working at these fuel stations is projected to decrease to just 480 workers.



Closure of Oil Refineries

Albania's refining sector has been in decline for years, with the Ballsh and Fier refineries closing in 2017 due to financial struggles and environmental non-compliance¹⁴. The sale of Ballsh refinery infrastructure in 2021¹⁵ marked a symbolic end to domestic refining. Under EU environmental regulations, restarting refining operations would require costly modernization investments that are unlikely to be justified given the declining EU demand for fossil fuels. By 2040, Albania is expected to rely entirely on imported refined fuels, eliminating refining-sector employment and associated industrial activities.

¹³ # of Gas stations in Greece: https://www.motor-plan.com/en/rental-tips-1030/fuel-stations-in-greece-and-their-peculiarities-1034#:-:text=There%20are%20about%

^{12 #} of Gas stations in Albania: https://www.tatime.gov.al/d/8/45/0/1179/perfundon-kontrolli-per-regijimin-automatik-ne-te-gijtha-pikat-e-karburantit-ne-vend

¹⁴ Struggle with Ballsh and refineries: https://www.ogi.com/refining-processing/refining/operations/article/17296138/albania-seeks-investors-for-shuttered-ballsh-fier-refineries
¹⁵ The Sale of Ballsh refinery: https://ditizens.al/en/2023/09/08/shitja-per-skrap-e-rafinerise-nuk-mjaftoi-per-te-mbyllur-borxhet-e-armo/#:-:text=The%20end%20of%20the
%20refinery.as%20a%20result%20of%20debts



Employment Effects in Fuel Distribution

Fuel distribution companies, including wholesalers and retailers, will face workforce reductions due to declining fuel sales. Fuel station attendants, maintenance personnel, and logistics workers will see job losses as automation increases and the number of fueling stations declines. While new jobs will emerge in EV infrastructure, such as charging station maintenance and battery services, the overall net impact on employment is likely negative.



Declining Domestic Oil Production

Albania's Patos-Marinza oil field is the largest onshore oil field in Europe, yet its heavy crude output faces increasing regulatory pressures. EU environmental policies under Chapters 15 (Energy) and 27 (Environment) of the acquis communautaire will enforce stricter drilling standards, leading to higher compliance costs for operators. By 2050, global demand for Albania's heavy crude will be significantly reduced, potentially rendering production uneconomical. If no alternative uses for heavy crude (such as petrochemical feedstock) are developed, domestic oil production could decline sharply.

Government Revenue Impact

The fossil fuel sector is currently a major part of Albania's economy, representing about €1 Billion or 6% of Albania's GDP¹⁶. It also represents a major source of Albania's public finances through excise duties, VAT, and customs revenues. Consequently, EU accession will have considerable fiscal implications:

- Declining Fuel Excise Revenues: Excise duties on fuel currently account for 54% of total excise tax revenues, equivalent to 1.5–1.7% of GDP¹⁷. As fuel consumption declines due to EU climate policies, excise revenues will steadily erode. By 2050, with EVs constituting the majority of vehicles, road fuel sales may shrink by more than 60%, leading to an estimated revenue loss of over €300 million annually. The fiscal impact will be gradual but unavoidable, necessitating alternative revenue sources to maintain budgetary stability.
- Reduced VAT from Fuel Sales: Fuel purchases generate substantial VAT revenue (currently at a 20% rate). With the expected drop in fuel sales volume, VAT collections from fuel transactions will decline proportionally. By 2050, the total reduction in VAT receipts from fuel could amount to 0.5% of GDP. Some of this decline will be offset by VAT from electricity sales, particularly as demand for EV charging increases, but this will not fully compensate for lost fuel tax revenue.
- Elimination of Customs Duties on Fuel Imports: Upon joining the EU, Albania will eliminate customs duties on fuel imports from EU countries. While most of Albania's fuel imports already come from European refineries, the removal of tariffs will further reduce state revenues. The primary fiscal impact remains concentrated in excise and VAT reductions.

¹⁶ Fossil Fuels are a big part of Albania's GDP: https://altax.al/tregu-i-karburanteve-dhe-gazit-ne-shqiperi/

¹⁷ Fuel is the Highest Excise Source Revenue: https://www.elibrary.imf.org/view/journals/002/2022/052/article-A001-en.xml#:--:text=,Direct%20income

• **Potential Carbon Pricing Revenues**: One potential counterbalance is the integration of Albania into the EU Emissions Trading System (ETS) or the implementation of a domestic carbon tax. Carbon pricing mechanisms can generate significant government revenues while incentivizing lower carbon consumption¹⁸. The IMF has recommended that Albania explore a carbon tax to both drive emissions reductions and offset declining excise tax receipts.

Market Shifts and Risks

The structural transformation of Albania's fossil fuel sector will have wide-ranging market implications:



EV Market Expansion

With the EU mandating zero-emission vehicle sales by 2035¹⁹, Albania will see a rapid uptake of EVs post-accession. By 2040, one-third of the country's vehicle fleet could be electric, increasing to near-total electrification by 2050. This transition requires substantial investment in EV charging infrastructure, with 200–300 public charging stations already planned.



Affordability Challenges

Given Albania's lower per capita income, EV adoption may be slower compared to wealthier EU states. Without sufficient subsidies or financing programs, consumers may extend the life of older combustion engine vehicles, delaying environmental benefits.



Illicit Fuel Trade

When fuel prices rise due to excise increases or carbon taxation, smuggling risks increase. Albania must align its tax policies with neighboring countries to prevent illicit fuel markets from emerging.



Energy Security Considerations

A shift away from imported fuels will increase dependence on electricity. Ensuring grid stability, diversifying energy sources, and investing in storage capacity will be critical to maintaining reliable energy supply.

¹⁸ A new plan for carbon pricing revenues. https://www.infrastruktura.gov.al/wp-content/uploads/2024/12/The-National-Energy-and-Climate-Plan-NECP.pdf.pdf#:-:text=Albania %20www.in%20renewable%20energy%2C%20energy

⁷⁶200/www.iit/acuteriew.ucuerie.acuteriew.ucuerie.acuteriew.ucueriew.uc ucueriew.u

Adaptation Strategies

To mitigate economic risks while seizing new opportunities, Albania can adopt the following forward-looking policies:



Gradual Introduction of a Carbon Tax

Implementing a phased carbon tax in the 2020s, aligned with EU benchmarks, would generate revenue while disincentivizing fossil fuel consumption.



Expansion of EV Infrastructure

Large-scale investments in charging networks, tax incentives for EV purchases, and EU-backed financing programs will facilitate the transition.



Modernization of Public Transport

Shifting toward electric and hydrogen-powered buses can reduce dependency on private vehicles while cutting emissions.



Workforce Reskilling Programs

Targeted training initiatives can transition fuel sector workers to employment in renewable energy, EV servicing, and battery recycling.



Grid Investments

Strengthening transmission networks and developing energy storage solutions will ensure a stable electricity supply for an electrified transport sector.

As a conclusion, Albania's fossil fuel sector is expected to undergo an irreversible transformation due to EU accession and climate commitments. While **challenges** such as **revenue shortfalls and employment shifts must be addressed**, the transition also presents *new opportunities for clean energy investment, green mobility, and technological innovation*. By proactively implementing fiscal, infrastructure, and workforce policies, Albania can ensure a smooth and economically beneficial shift to a sustainable energy future.

TOBACCO SECTOR

Albania's tobacco sector is on the cusp of a profound transformation as the country progresses toward EU accession. Stricter regulations, higher taxes, and far-reaching public health campaigns are set to redefine the market, affecting businesses, government revenues, and consumer behavior. While the long-term public health benefits are undeniable, the economic repercussions-particularly for retailers, distributors, and tobacco farmers-necessitate careful policy planning and mitigation strategies.

BUSINESS IMPACT



Retailers and Distributors

The widespread sale of tobacco products in Albania has long been a staple of small retail businesses. Thousands of kiosks, convenience stores, and cafés derive a significant portion of their revenue from cigarette sales. However, as EU-aligned policies aim prevalence to cut smoking from approximately 25% of adults to below 10% by 2040, demand for cigarettes could plummet by 60% or more. Many small tobacco shops may struggle to survive, with some closing and others diversifying their offerings-shifting to e-cigarettes (if legal), lottery sales, or other consumer goods.

Larger tobacco wholesalers and distribution networks will also feel the cigarette sales decline, impact. As logistics companies, warehouse operators, and trucking services that currently distribute tobacco products will contract. Some larger distributors may operations consolidate to maintain economies of scale, while others may pivot toward distributing other fast-moving consumer goods (FMCGs). The shift will be gradual through the 2020s and 2030s, but the long-term trend is clear: tobacco retail and distribution will shrink dramatically.



Manufacturing and Imports

Albania has limited domestic cigarette manufacturing, relying primarily on imports of well-known international brands. Any local tobacco producers that do exist-such as small-scale traditional operations producing hand-rolled cigarettes-will face substantial challenges. Meeting EU manufacturing standards, such as ingredient regulations, mandatory graphic warning labels, and packaging restrictions, may be cost-prohibitive for small firms. Consequently, some may shut down or be acquired by larger players better equipped to handle compliance costs.

On the import side, multinational tobacco companies may reduce the variety of products available in Albania, focusing only on premium or niche markets. Some companies may attempt to introduce reduced-risk products, such as heated tobacco devices or e-cigarettes, though EU regulations on these products are expected to tighten.



Tobacco Farming

Historically, Albania has had some tobacco cultivation, with production estimated at 1,792 tons on 833 hectares in 2022²⁰. However, EU policies discourage tobacco farming, and direct subsidies for tobacco production have been phased out. Instead, EU funds are directed toward encouraging farmers to transition to alternative crops. As demand for raw tobacco shrinks, Albanian farmers will likely face declining prices and reduced viability. Without targeted assistance, these farmers could lose their livelihoods.

By 2050, it is possible that tobacco farming in Albania will be virtually extinct. While this transition benefits public health, presents challenges for rural it communities reliant on tobacco cultivation. To mitigate these effects, the must implement government crop diversification supporting programs, affected farmers with financial aid, technical assistance, and access to EU agricultural subsidies.



Ancillary Businesses

Beyond direct tobacco sales, other industries will experience ripple effects. Advertising agencies (though already by strict marketing bans), limited packaging and printing companies warning labels (which print and standardized packs), and logistics firms involved in tobacco transport will all be affected. The EU's requirement for plain packaging or larger graphic warnings will require adjustments in the printing sector, potentially raising costs for smaller operators.

A significant concern is the potential rise in illicit tobacco markets. As legal cigarette sales decline, criminal networks have an incentive to capitalize on continued demand by smuggling untaxed or lower-taxed cigarettes into Albania. If not effectively managed, this could undercut legal retailers, erode government tax revenues and reduce the undermine the expected health benefits.

Government Revenue Impact

Tobacco taxation is one of Albania's most significant sources of excise revenue. However, as smoking prevalence declines, the government will need to prepare for a substantial fiscal shift.

²⁰ Tobacco cultivation: https://tobaccoatlas.org/factsheets/albania/#:~:text=Albania%20,been%20used%20to%20grow%20food

Declining Excise Revenues

Currently, tobacco excise duties contribute approximately 13–14% of Albania's total customs revenues²¹, equating to about 36% of total excise tax collections. In 2019, total excise revenue stood at 46.7 billion ALL, with around 17 billion ALL (or \$180 million) derived from tobacco products. The current excise revenues are estimated to be at €240 million, while another €85 Million is collected by VAT sales.

Under EU requirements, Albania must sharply reduce smoking prevalence-by up to 80% by 2040 and potentially below 5% of the total population by 2050. While raising excise rates (to at least €90 per 1,000 cigarettes) may initially boost per-pack revenue, declining consumption will eventually drive overall tobacco tax receipts downward.

For illustration, if smoking prevalence falls by 80% by 2040, even a substantial increase in excise rates might only partially offset the lost volume, resulting in a 50% or greater drop in tobacco-related revenues. This implies an annual loss of over €160 million compared to current levels. By 2050, if smoking prevalence approaches the EU target of under 5%, tobacco excise revenue could become negligible-falling below 0.2% of GDP. VAT receipts would similarly decline, as fewer packs are sold.

This trajectory highlights a significant fiscal gap, analogous to the decline in fuel-related revenues. Albania will therefore *need to explore* **alternative revenue measures to preserve fiscal stability** while meeting EU public health and tobacco reduction goals.

Illicit Trade Risks

One major risk is the potential rise of illicit trade. Countries that have significantly raised tobacco taxes have often experienced an increase in cigarette smuggling. For example, Romania's illicit tobacco trade surged following EU accession, costing the government an estimated €70 million annually in lost excise revenues²². If Albania's tax hikes outpace those of neighboring countries, smugglers may attempt to flood the market with untaxed cigarettes, undercutting both public health objectives and government revenues.

Strengthening customs enforcement, implementing track-and-trace systems, and coordinating with regional law enforcement agencies will be critical in mitigating illicit trade.

Healthcare Cost Savings

While declining tobacco consumption will reduce tax revenue, it will also alleviate healthcare costs associated with smoking-related illnesses. In the long run, lower smoking rates will reduce the burden on Albania's healthcare system, potentially freeing up funds for other public health initiatives. These indirect fiscal benefits, while harder to quantify, contribute to the overall economic rationale for ambitious tobacco control policies.

²¹ **Tobacco tax collections**: https://tobaccotaxation.org/cms_upload/pages/files/261_report-the-impact-of-tobacco-tax-increases_-albania.pdf#:-:text=Tax%20revenues%20 from%20tobacco%20account,a

²¹ Romania's loss from tobacco revenues: https://www.occrp.org/en/investigation/romanian-public-revenue-up-in-smoke-of-smuggled-tobacco#::-:text=A%20new%20 member%20af%20the,Serbia%20%20Ukraine%20and%20%3B%20Moldova

Market Shift and Risk Analysis

EU-driven changes will alter consumer and criminal behavior in the tobacco domain:

Smoking Prevalence and Consumption

Currently, Albania has a 25% average smoking rate. EU tobacco control measures plan to reduce this below 5% by 2040. Per-capita cigarette consumption is expected to drop as younger Albanians avoid the habit, and users may shift to regulated alternatives like vaping and heated tobacco.

Illicit Cigarette Trade

Higher cigarette taxes create price differentials that attract smugglers, particularly given Albania's proximity to non-EU Balkan countries and Adriatic sea routes. Cheap cigarettes from Ukraine and Belarus could enter through smuggling networks. Success depends on keeping the illicit market below 10% of consumption; if it reaches 30-40%, both health and revenue goals would be compromised.

Consumer Behavior Changes

Some smokers will quit entirely, while others may switch to alternatives like e-cigarettes or heated tobacco products. These alternatives typically face lower tax rates initially, impacting government revenue. By 2050, remaining "smokers" might predominantly use new devices rather than conventional cigarettes.

Enforcement of EU Tobacco Regulation

Albania must implement various regulations: graphic warnings covering 65% of packs, bans on misleading descriptors, restrictions and on point-of-sale displays. This requires enforcement strengthening capacity across health ministry, customs, and market inspectorates to prevent grey market emergence.

Public Health and Social Norms

EU rules on indoor smoking bans, advertising restrictions, and public education will make smoking less socially acceptable, especially among youth. However, remaining smokers may be disproportionately from lower-income groups, raising equity concerns that require targeted cessation support.

Smokeless Tobacco and Novel Products

The market may diversify into products like nicotine pouches as cigarettes become less attractive. While cigarette consumption might decrease sharply, overall nicotine consumption could remain higher if alternative products gain popularity. This trend requires monitoring for both health and revenue implications.

Possible Adaptation Strategies

To navigate the challenges posed by declining tobacco consumption, Albania must implement proactive policies:

- Strengthening Anti-Smuggling Efforts: Enhancing border security, utilizing scanning technology for cargo, and participating in EU-wide traceability initiatives will be crucial to combating illicit trade.
- **Public Health Initiatives**: Expanding smoking cessation programs, funding quitlines, and integrating anti-smoking support into primary healthcare will help accelerate smoking decline.
- **Revenue Diversification**: As tobacco excise revenue declines, Albania should explore alternative tax sources, such as levies on sugary drinks or other health-harming products.
- **Retailer Support Programs**: Small businesses that rely on tobacco sales may require support in transitioning to alternative revenue streams. Training and micro-loans could facilitate diversification into other high-margin consumer products.
- **Agricultural Transition Assistance**: Tobacco farmers should be provided with incentives to switch to alternative crops, leveraging EU rural development funds for sustainable agriculture initiatives.
- **Regulation of Emerging Nicotine Products**: If alternative nicotine delivery methods, such as e-cigarettes or heated tobacco, gain popularity, Albania should establish clear regulations and taxation policies to prevent market loopholes and fully implement EU policy adjustments that will be developed in the future.

As a conclusion, Albania's transition toward EU tobacco regulations represents a paradigm shift for the industry with significant fiscal implications for the government and private sector. While the economic adjustments will be significant, the long-term benefits-improved public health, reduced healthcare costs, and alignment with EU norms-are compelling. By adopting a proactive approach, including fiscal planning, regulatory enforcement, and support for affected industries, Albania can manage this transition effectively and ensure a sustainable economic future.

AGRICULTURE SECTOR

BUSINESS IMPACT

Albania's agricultural sector is at a crossroads as it prepares for European Union accession. Defined by small-scale farms, fragmented land holdings, and traditional farming methods, the sector faces a transformative shift driven by EU sanitary, environmental, and market standards. The impact will be both challenging and potentially rewarding, leading to consolidation, modernization, and increased competitiveness within the European market.

Small Farms vs. EU Standards

Albania's agriculture consists primarily of small family-run farms (359,000 of them), with an average size of just 1.2 hectares, often divided into multiple plots²³. Many of these farms struggle to meet national agricultural standards, let alone the more stringent EU regulations on food safety, environmental sustainability, and traceability²⁴. According to INSTAT, only 96,440²⁵ of these farmers operate with a proper business registration, while others use a less formal standard. Compliance with EU rules will require costly upgrades-such as refrigeration for dairy farms, pesticide reduction for crop growers, and improved livestock housing-which many smallholders cannot afford without financial assistance.

In countries such as Romania and Bulgaria, thousands of small farms ceased commercial sales after joining the EU due to the high cost of compliance. A similar shift is expected in Albania, with some farms consolidating into larger operations and others exiting the sector altogether.

Consolidation and Professionalization

Farm consolidation will become an inevitable trend, as observed in other EU accession countries. Larger, well-capitalized farms will expand their market share while smallholders either join cooperatives to share resources or lease their land to more efficient commercial farms. In Poland, the number of small farms declined following EU accession, with medium-sized enterprises growing in their place²⁶.

For Albania, this means a shift toward commercial farming enterprises operating on dozens or hundreds of hectares, particularly in lowland areas suitable for mechanization. By 2050, the number of farms may decrease dramatically, but those remaining will be better integrated into supply chains and capable of meeting EU standards.

Our analysis indicates that, by 2040, approximately 30–50% of Albania's small farms could exit or merge, mirroring post-accession patterns in Eastern Europe after joining the EU. Applying these benchmarks to Albania suggests that around 100,000 to 180,000 small farms may cease formal commercial operations or consolidate into larger entities by 2040.

²² Fragmentation of Albanian farms: https://blogs.worldbank.org/en/agfood/unlocking-albanias-agricultural-potential-fields-finance#:~:text=An%20estimated%20359%2C000% 20farms%20with,marginal%20productivity%20of%20Albanian%20farms

²⁴ EU Farm Standards: https://bujqesia.gov.al/wp-content/uploads/2022/09/Programi-IPARD-III_2021-2027_English.pdf#:~:text=A%20high%20percentage%20of%20agricultural, The%20main

²⁵ Registered Farmers in Albania: https://www.instat.gov.al/media/13413/regijstrat-e-biznesit-2023.pdf

²⁶ Polish Farm Experience: https://www.fao.org/fileadmin/user_upload/reu/europe/documents/Events2015/fcss/pol_en.pdf#...text=The%20number%20of%20small%20farms, the%20EU%20and%20in%20Poland

This consolidation is driven by rising compliance costs-such as improvements in food safety, environmental standards, and traceability-which many smallholders cannot absorb without significant financial aid. In parallel, labor in agriculture is expected to decline substantially as mechanized, capital-intensive methods replace subsistence practices. Offsetting some job losses, however, new opportunities may emerge in higher-value agribusiness, organic production, and food processing, especially if Albania leverages IPARD and other EU funds effectively.

Modernization Investments

To compete in the EU market, Albania's agri-food businesses will require substantial modernization. Investments in certified seeds, improved livestock breeds, farm machinery, irrigation systems, and food safety certifications (such as HACCP and GlobalGAP) will be critical for survival. Agro-processors, including dairies and slaughterhouses, must also upgrade to comply with Chapter 12 of the EU acquis on sanitary and phytosanitary standards.

The transition period may lead to temporary restrictions on certain exports, as seen in other new EU members. However, those who successfully modernize stand to gain immensely by accessing a consumer market of 450 million people. Companies investing early in compliance-such as fruit and vegetable packhouses or olive oil producers-could position themselves as key exporters to the EU.

Competitive Pressure and Market Dynamics

EU accession will expose Albanian farmers to direct competition with well-established European producers. While this benefits consumers by offering a wider variety of high-quality and affordable food products, local farmers must improve efficiency to survive. Dairy farmers, for example, may struggle to compete with EU imports unless they adopt cost-cutting measures or transition to niche markets such as organic dairy or Geographical Indication-certified products.

Conversely, Albania can leverage its climatic advantage for early-season vegetables, Mediterranean fruits, and medicinal herbs, which have strong export potential. By focusing on high-value, niche markets, Albanian farmers can carve out competitive advantages instead of competing directly on price with mass-produced EU goods.

Employment Shifts

Agriculture currently accounts for approximately 35% of Albania's workforce²⁷, though much of this employment is informal or subsistence-based. As farming modernizes and becomes more capital-intensive, labor requirements will decline, potentially displacing thousands of workers. Many younger rural residents may transition into agribusiness, food processing, or entirely different industries such as tourism or services. A decreasing trend in agriculture employment is underway²⁸.

By 2040, agriculture's share of employment may drop below 20%, similar to other recent EU entrants. This shift necessitates parallel job creation in non-agricultural sectors to avoid high rural unemployment and forced migration to urban centers.

²⁷ Albania's Agriculture Workforce: https://globaledge.msu.edu/countries/albania/economy#:~:text-Labor%20Force%2C%20Total%201%2C381%2C652%20, year%20graph %20on%20the%20right

²⁰ Employment in Agriculture sector: https://www.statista.com/statistics/454897/employment-by-economic-sector-in-albania/



The composition of Albania's agricultural output will evolve as farmers respond to EU regulations and market incentives. Compliance costs may discourage traditional dairy farming, leading to initial declines in milk production. However, the sector could rebound through efficiency gains and consolidation into fewer, more productive farms.

Certain sectors, such as fruit and vegetable cultivation, may expand due to improved access to EU markets. Products like tomatoes, citrus fruits, and olive oil could see increased production, while inefficient cereal and livestock farms may struggle unless supported by targeted policies.

EU Funds and Businesses

EU pre-accession (IPARD) and post-accession funds offer significant opportunities for Albanian agriculture. Businesses that proactively seek grants and modernize their operations will have competitive advantages. It must be noted however, that Albania's IPARD funds remain frozen due to OLAF's findings that the government has unappropriated funds²⁹. But if and when started, IPARD funding can spark increased agricultural investment, benefiting equipment suppliers, construction firms, and agricultural consultants. While this EU-driven investment can revitalize rural economies, smaller farmers may struggle to access grants due to complex application processes or inability to provide matching funds, potentially widening the gap between larger and smaller operations.

²⁰ Albania's IPARD Funds remain frozen: https://balkaninsight.com/2024/06/21/albania-misused-33-million-euros-of-eu-funds-anti-fraud-office-says/?utm_source=chatgpt.com

GOVERNMENT REVENUE IMPACT

Tax Revenue Changes

Agriculture is lightly taxed in Albania, with many small farmers operating informally. EU accession will push for formalization, potentially increasing tax revenues from registered agribusinesses. Larger commercial farms will contribute corporate taxes, and hired labor will enter the social security system. However, smallholders may still benefit from simplified VAT schemes, minimizing overall tax growth from primary agriculture.

Public Expenditure and Subsidies

The largest fiscal impact will stem from increased government spending on agricultural modernization. Compliance with EU food safety regulations requires expanded inspection services, veterinary oversight, and laboratory testing-costs that will be borne by the state. Additionally, Albania must co-finance EU rural development programs (IPARD), requiring domestic budget contributions alongside EU funds.

Following EU accession, Albanian farmers will gain access to the Common Agricultural Policy (CAP), which provides direct payments and rural development funds. While CAP subsidies primarily come from EU budgets, Albania will need to contribute a portion through membership dues. The net effect is expected to be positive, with Albanian farmers receiving more in subsidies than the country contributes to the EU budget, but the Government costs will increase.

Market Shifts and Risks

Export Opportunities

Albanian producers will have an opportunity to increase exports to the EU, particularly for early-season vegetables, medicinal herbs, and high-value specialty foods. Ensuring compliance with EU traceability and food safety standards will be essential to fully capitalize on these opportunities.

Import Competition and Food Security

The removal of trade barriers will allow a flood of EU agricultural products into Albania, pressuring local producers. Dairy, grain, and meat imports may displace domestic production unless competitiveness is improved. To maintain a level of food security, strategic support for essential sectors may be required, ensuring Albania does not become overly reliant on imports for staple foods.

Environmental and Climate Adaptation

EU accession will bring stricter environmental regulations, requiring Albanian farms to adopt sustainable practices. Investments in irrigation, soil conservation, and climate-resilient crops will be critical as climate change intensifies. EU funds will support these transitions, but proactive adaptation strategies must be implemented.



- **Maximize EU Funds**: Ensuring full utilization of IPARD and CAP funds will be crucial for modernization. The government must simplify grant application processes and provide technical assistance to small and medium-sized farms.
- Enhance Agricultural Extension Services: Expanding farmer training programs will help meet EU standards and improve productivity.
- Encourage Cooperative Development: Promoting producer groups and cooperatives will help small farmers pool resources and compete in larger markets.
- **Support Rural Diversification**: Investments in agri-tourism, renewable energy, and local food processing can create alternative income streams for rural communities.
- Strengthen Border and Food Safety Enforcement: Ensuring proper monitoring of imports and domestic compliance will maintain food quality and prevent unfair competition from non-compliant sources.

The transformation of Albania's agricultural sector under EU accession will be profound, leading to increased competitiveness, improved food safety, and access to EU markets. However, challenges such as small farm consolidation, labor displacement, and competitive pressure from imports must be carefully managed. With proactive government policies, strategic use of EU funds, and investments in modernization, Albania can successfully transition into a sustainable and productive agricultural economy within the European framework.

CROSS-SECTORAL RISKS AND ADAPTATION STRATEGIES

A DELICATE MACROECONOMICS BALANCE: WEAVING GROWTH THROUGH TRANSITION

As Albania integrates into the European Union, its economic landscape will be trasformed. The shifts in the fossil fuel, tobacco, and agriculture sectors will reverberate across the broader economy, influencing employment, fiscal balances, trade, and investment patterns. While these transitions present opportunities for long-term growth, they also pose significant risks that require careful management and adaptive strategies.



The Shifting Workforce

The structural changes in these sectors will redefine Albania's labor market. The fossil fuel sector will experience contraction, with refinery closures and fuel retail downsizing affecting thousands of workers. The tobacco sector, primarily in retail and distribution, will shrink, potentially impacting tens of thousands of small business owners and employees. However, the most significant labor transition will occur in agriculture, where approximately 35% of Albania's workforce is currently engaged. As modernization progresses, employment in this sector is expected to decline substantially by 2050, necessitating a shift toward alternative livelihoods in manufacturing, services, tourism, and renewable energy.

Successful transitions in other European nations demonstrate that labor migration from declining sectors to emerging industries is possible, but it requires planning. strategic Without proper workforce development programs, this shift could result in increased unemployment or underemployment, particularly in rural areas. Urban centers may see population growth as rural workers migrate for jobs, requiring investment in housing, infrastructure, and urban planning to absorb this influx.

The GDP Growth Paradox: The GDP Growth Paradox: Short-Term Pain, Long-Term Gain

The long-term effect of these sectoral shifts will likely be an increase in economic productivity. The phasing out of inefficient and informal agricultural practices in favor of mechanized. high-yield farming will boost output per worker, contributing to overall GDP Likewise, replacing growth. fossil fuel-based industries with renewable energy and technology-driven sectors will enhance economic value creation.

However, the transition will not be immediate. Some regions, particularly those dependent on fossil fuel jobs or subsistence farming, may experience localized economic downturns before industries take hold. Fiscal new contraction from lost excise revenues could also have a temporary dampening effect on economic growth. A World Bank study suggests that Albania will require approximately \$5.3 billion in additional investment by 2050 to transition to a economy³⁰. greener То mitigate disruptions, policymakers short-term should prioritize gradual sectoral transitions, ensuring that new industries are established before legacy sectors decline.

²⁰ World Bank, "Albania Country Climate and Development Report," https://documentsl.worldbank.org/curated/ep/099600105312217360/ndf/P177233097556301c0b27c02de015fdb83a.pdf

Fiscal Balance:

EU accession will introduce a dual fiscal challenge: declining excise revenues from tobacco and fossil fuels and increased government spending on agricultural modernization and environmental compliance. lf left unaddressed, these factors could widen budget deficits and impact public debt sustainability. The IMF has already highlighted Albania's limited fiscal space for large-scale investments, underscoring the need for prudent fiscal management³¹.

counterbalance declinina То excise revenues, Albania must diversify its tax Options include increasing base. property taxes, improving tax collection the informal economy, from and introducing environmental levies such carbon pricing. Additionally, as EU membership will provide access to structural funds, which, if utilized efficiently, can offset public expenditure on rural development, infrastructure, and social support programs.



The Trade Balance Evolution

As Albania integrates into the EU's single market, trade patterns will shift. A reduction in fossil fuel consumption will lower oil import bills, positively affecting the trade balance. However, increased demand for electricity to support the transition to electric vehicles may lead to seasonal electricity imports, unless domestic generation capacity is expanded.

Agriculture, historically a trade deficit sector, has the potential to become a net exporter if modernization efforts succeed. Investments in compliance with EU food safety and quality standards could boost exports of fruits, vegetables, and specialty products like medicinal herbs and olive oil. However, in some cases, Albania's agricultural imports may rise, particularly if domestic production of staple foods becomes less competitive against EU imports.

Overall, EU accession tends to increase both imports and exports due to market integration. The key to maintaining a healthy trade balance will be ensuring that Albania's exports grow at a faster rate than its imports. Strengthening tradable sectors such as agribusiness, tourism, and light manufacturing will be critical to sustaining external economic stability.

³¹ International Monetary Fund, "Albania: Concluding Statement of the 2022 Article IV Mission," https://www.imf.org/en/News/Articles/2022/11/21/albania-staff-concluding-statement-of-the-2022-article-iv-mission

THE SOCIAL FABRIC: A COMMUNITY IN TRANSITION

Public Resistance to Tax Increases

Fuel and tobacco tax hikes are historically unpopular, often sparking protests and public resistance. Albania's past experience with fuel price regulations highlights the sensitivity of these issues. The Constitutional Court previously struck down price control mechanisms³², demonstrating the challenges policymakers face in implementing tax changes.

To mitigate backlash, tax increases should be phased in gradually, with clear communication on how revenues will be used for public benefits such as improved public transport, healthcare, and green energy initiatives. Public awareness campaigns emphasizing the long-term benefits of EU accession can also help build acceptance.



The Equity Question: Ensuring Fair Transition

The economic transitions may disproportionately impact lower-income populations. Carbon taxes, for example, place a heavier burden on low-income households that spend a larger share of their income on fuel and energy. Similarly, small farmers and rural shop owners will face greater challenges adapting to EU standards compared to large agribusinesses and urban retailers.

To prevent widening inequality, targeted should social safety nets be Direct cash implemented. transfers. subsidized retraining programs, and micro-financing for small businesses can help vulnerable populations adjust to the new economic landscape. The government should conduct social impact assessments to design policies that minimize disparities between urban and rural populations, older and younger workers, and different income groups³³.



Demographic Dynamics: Managing Migration

Albania already experiences high emigration rates. If transitions are poorly managed, more citizens (especially rural youth and workers from declining industries) may seek opportunities abroad, particularly as EU accession eventually facilitates mobility. While some labor movement benefits the economy through remittances and reduced domestic unemployment, excessive brain drain could undermine the very sectors targeted for growth if educated young agronomists or engineers leave rather than contributing to Albania's modernization.

Retaining talent requires creating attractive domestic opportunities in emerging sectors like renewables, agri-processing, and tourism, while ensuring that training aligns with future job needs.

%20fuels,on%20the%20extraordinary%20profits%20in

²² Constitutional Court: https://enlargement.ec.europa.eu/system/files/2023-11/SWD_2023_690%20Albania%20report.pdf#:--:text=selected%20food%20commodities%20and

³³ European Commission, "Albania Report 2022," https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-10/Albania%20Report%202022.pdf



The Health Transition: Balancing Change and Support

Reduced smoking rates will significantly benefit public health – an unequivocal positive. However, during transition, older smokers may struggle with nicotine dependence or turn to illicit sources. The health system should prepare with cessation support programs.

Similarly, as people transition from manual farming or become jobless for some time, some may face financial challenges and mental health impacts. Losing your farm or your job is not just losing an income. It can feel like a loss of identity and instill a feeling of powerlessness. Comprehensive social services community support and mechanisms help address these less aspects visible of economic transformation.



Institutional Capacity and Governance Risks

The success of these transitions hinges on Albania's ability to implement and enforce new regulations effectively. Weak enforcement mechanisms can lead to policy failures, corruption, and public disillusionment. For example, if fuel and cigarette smuggling remain widespread due to ineffective border controls, it will erode tax revenues, undermine public trust in government reforms and hinder achieving significant drop in smoking rates.

Strengthening governance structures, investing in digital tax collection systems, and enhancing anti-corruption measures will be crucial for maintaining credibility. Albania should also leverage EU technical assistance programs to build institutional capacity in areas such as customs enforcement, tax administration, and regulatory oversight.

POTENTIAL ADAPTATION STRATEGIES

- 1. Crafting the Master Plan A National Just Transition Strategy: Develop a cross-sectoral National Just Transition Strategy outlining timelines, affected groups, and compensatory mechanisms for impacted workers and businesses.
- **2. Rebuilding the Revenue Foundation: Tax System Reform**: Replace declining revenues (excise, VAT, taxes etc.) with alternative taxation strategies, such as environmental levies and broader property taxation³⁴.
- 3. Social Support and Workforce Development: Establish retraining programs for displaced workers in fossil fuels and agriculture, focusing on skills relevant to renewable energy, agribusiness, and digital services.
- 4. Building Consensus: Stakeholder Engagement and Communication: Proactively engage with stakeholders, including labor unions, business leaders, and civil society groups, to build consensus and reduce resistance to reforms.
- 5. Urban and Rural Planning: Anticipate labor migration patterns and invest in urban infrastructure, housing, and services to accommodate workforce shifts.
- 6. Strengthening Institutional Capacity: Improve tax enforcement, customs controls, and regulatory compliance mechanisms to prevent illicit trade and tax evasion.
- 7. Leveraging External Support: EU Technical Assistance: Ensure effective use of EU financial assistance programs to finance infrastructure, social programs, and economic diversification efforts.
- 8. Economic Diversification: Cultivating New Growth Sectors: Promote investment in green energy, advanced manufacturing, and sustainable tourism to create alternative employment opportunities and drive economic growth.
- 9. Monitoring and Policy Flexibility: Establish real-time monitoring systems to track the economic and social impacts of reforms, allowing for data-driven adjustments as needed.

Albania's path to EU accession will require bold reforms and strategic policymaking. While the economic shifts in fossil fuels, tobacco, and agriculture will bring inevitable disruptions, they also present a unique opportunity to modernize the economy, improve living standards, and foster sustainable growth. By proactively addressing cross-sectoral risks, Albania can navigate this transition smoothly, ensuring that the benefits of EU integration are widely shared across society.

³⁴ International Monetary Fund, "Building Fiscal Capacity in Fragile States,"

TRENDS & BEST PRACTICES FROM THE IMPACT OF EU INTEGRATION

LEARNING FROM PEER NATIONS

The journey Albania faces toward EU integration has been traveled before. The experiences of Croatia, Romania, Bulgaria, the Baltic states and Poland provide valuable insights into the potential economic shifts, policy challenges, and opportunities that Albania is likely to encounter. These cases highlight both the benefits and the pitfalls of EU integration, offering a roadmap for Albania's path forward.



Croatian Experience: Balancing Tradition with Transition

Croatia, an EU member since 2013, shares many economic similarities with Albania, including a reliance on tourism, a developing industrial sector, and a significant agricultural base. EU accession required Croatia to modernize its energy sector and meet stringent environmental standards. A notable impact was the closure of outdated oil refineries; in 2019, Croatian oil company INA shut down major processing units at its Sisak refinery due to financial losses³⁵, opting instead to focus on a more efficient refinery elsewhere. This decision triggered local protests over job losses and underscored the importance of planning alternative economic activities for affected regions.

Albania faces similar challenges, particularly with the Ballsh refinery, which remains inactive. Croatia's experience suggests that efforts should focus on redeploying affected workers and repurposing industrial sites for renewable energy projects, such as the proposed solar plant in Ballsh. Additionally, Croatia's EU accession triggered a boom in tourism, as the country became more accessible to European travelers. Albania, with its pristine coastline and cultural heritage, has already seen Tourism growth and could similarly leverage EU membership to accelerate higher revenue-based tourism.

Croatia's fuel retail sector is also undergoing major shifts due to EU climate targets. A recent projection indicates that Croatia may reduce the number of gas stations by over 50% by 2050 as electric vehicle adoption accelerates. This trend **underscores the need for Albania to anticipate infrastructure shifts and proactively invest in EV charging networks and alternative energy services.**

³⁵ Croatia's oil refinery closing case:

https://www.energetika.net/eu/novice/articles/croatian-ina-to-close-fcc-plant-at-sisak-oil-refinery#...:text=Croatian%20INA%20to%20Close%20FCC,a%20maximum%20of%2040 37

Romania and Bulgaria: Tobacco, Agriculture, and Fiscal Challenges



The Tobacco Smuggling Challenge

Both Romania and Bulgaria, which joined the EU in 2007, faced significant disruptions in their tobacco markets due to increased excise taxes mandated by EU law. In Romania, this led to a spike in cigarette smuggling, with illicit trade peaking at around 15% of consumption in the late 2000s, resulting in an estimated €1.5 billion in lost revenue from 2006–20103. Smugglers exploited price differences with non-EU neighbors like Ukraine and Serbia, a challenge that persisted until Romania strengthened border controls and law enforcement.

Bulgaria experienced similar issues, with smuggled tobacco reaching a notable market share in the years following EU entry. However, both countries eventually benefited from EU-backed enforcement measures, including international customs cooperation and digital track-and-trace systems. Albania must learn from these experiences and ensure that strong anti-smuggling infrastructure is in place before tobacco excise hikes take effect. Without early enforcement, public frustration over high cigarette prices could erode support for EU-aligned tax policies.



Agricultural Modernization and Rural Transitions

Bulgaria's Romania and agriculture sectors, like Albania's today, were initially dominated by small-scale, subsistence farming. EU Common Agricultural Policy (CAP) funds helped drive modernization, turning Romania into one of the EU's top grain producers, with agricultural output reaching €19 billion by 2019³⁶. However, consolidation favored large farms, and many small vegetable and dairy farms struggled against EU competition. Some subsistence farmers exited the sector altogether, while others shifted to part-time farming or joined cooperatives.

Bulgaria experienced similar polarization. Large agribusinesses thrived, particularly in cereal production, while smaller fruit and vegetable farms faced difficulties. The key lesson for Albania is the importance of facilitating access to CAP funds for smallholders and encouraging cooperative farming to prevent excessive rural depopulation. Romania and Bulgaria also initially struggled with CAP fund absorption due to weak administrative capacity, delaying rural development benefits. Albania must build robust institutions early to ensure that available EU funding is fully utilized.

³⁶ How illegal smuggling of cigarettes cost Romania \$1.5 billion during EU transition: https://www.occrp.org/en/investigation/romanian-public-revenue-up-in-smoke-ofsmuaaled-tobacco#--text-Cigarettes%20are%20smuaaled%20into%20Romania Police%20estimates%20are%20similar

Fiscal Rebalancing and Revenue Shifts

EU accession also altered the tax structures of Romania and Bulgaria. The removal of customs duties on intra-EU trade led to initial revenue losses, but VAT and income tax revenues eventually increased as economies formalized and grew. Romania initially faced budget shortfalls when it cut certain taxes to boost competitiveness but later recovered as economic growth accelerated. Albania should carefully balance fiscal discipline with strategic investments to avoid short-term revenue gaps.

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The Baltic Renaissance: From Soviet Legacy to a Successful, Digital European Future

Estonia, Latvia, and Lithuania, which joined the EU in 2004, underwent rapid economic restructuring. One of the most significant shifts occurred in energy. Lithuania had to close its Soviet-era Ignalina nuclear power plant as an EU accession requirement, forcing it to invest heavily in alternative energy sources. Today, the Baltic states are leaders in green transition and digital economy development, with Estonia and Lithuania ranking among the top European nations for clean-tech startups.

For Albania, which already relies heavily on hydropower, the lesson is clear: EU integration provides opportunities to expand renewable energy projects and attract investment in sustainable industries. Estonia also successfully re-skilled workers from declining industries into the digital economy, a model that Albania could replicate by developing its ICT sector as a destination for labor transitioning out of traditional industries.

Poland's Model of Agricultural Resilience

Poland stands as a particularly instructive example for Albania's agricultural future. Despite initial fragmentation similar to Albania's current landscape, Poland transformed into an agricultural powerhouse while preserving elements of its traditional farming structure creating niche markets such as organic produce and agrotourism. Poland also absorbed nearly 100% of its available EU agricultural funds, demonstrating that strong institutional capacity can maximize the benefits of CAP funding³⁷. Albania may want to aim to replicate Poland's effective fund utilization and dual-structured agricultural economy, ensuring both commercial agribusiness and small-scale farming can coexist. Other success models such as Romania can also be leveraged³⁸.

³⁷ Polish success model of CAP funding: https://www.fao.org/fileadmin/user_upload/reu/europe/documents/Events2015/fcss/pol_en.pdf#.--:text=The%20number%20of%20small %20farms the%20EU%20and%20in%20poland

²⁰ Romania's Agro achievements with EU transition: https://www.agroberichtenbuitenland.nl/actueel/nieuws/2020/07/08/romania-agricultural-sector-overview

Albania's Potential Leadership Positioning in the EU-Aligned Western Balkans

By the 2040s, Albania's Western Balkan neighbors-North Macedonia, Serbia, and Montenegro-may also be EU members or in advanced accession stages. Regional cooperation will be essential for managing common challenges, such as aligning excise policies to prevent cross-border smuggling and developing shared infrastructure projects. Albania should actively engage in regional dialogues – and given its candidate status and support by Brussels to quickly complete its negotiations – to drive some of these dialogues to harmonize policies and strengthen its position in EU funding negotiations.

Key Lessons for Albania's EU Accession

- Sectoral Transitions Will Be Disruptive but Ultimately Beneficial: The closure of inefficient refineries, declining tobacco sales, and shifts in agriculture will present short-term challenges but can lead to a more modern and competitive economy if managed well.
- Smuggling and Tax Evasion Must Be Controlled Early: Romania and Bulgaria's experiences highlight the importance of robust customs enforcement to prevent revenue losses and maintain public confidence in tax policies.
- **EU Funds Must Be Absorbed Efficiently**: Delays in CAP fund utilization in Romania and Bulgaria slowed rural development. Albania must establish strong institutions to ensure full absorption of available EU funds.
- Agricultural Strategy Should Balance Growth and Equity: Poland successfully maintained both large agribusinesses and small farms through targeted policies. Albania should adopt a similar dual-structured approach to avoid excessive rural displacement.
- Green Energy and Digital Innovation Offer High-Value Growth: The Baltic states leveraged EU accession to become clean energy and tech leaders. Albania can position itself similarly by prioritizing renewable energy and ICT sector development.
- **Regional Coordination Will Enhance Stability**: As Albania integrates into the EU, coordinating policies with neighboring Western Balkan states will be critical to maximizing economic opportunities and managing common risks.

Albania has the advantage of learning from past EU accessions, enabling it to mitigate risks and capitalize on opportunities. While challenges such as labor transitions, fiscal adjustments, and sectoral disruptions are inevitable, the long-term benefits-economic modernization, increased trade, and improved living standards-are substantial. By proactively adopting best practices from Croatia, Romania, Bulgaria, the Baltic states, and Poland, Albania can ensure a smoother integration into the European Union, emerging as a stronger, more competitive economy by 2050.

THE ROAD AHEAD: A VISION FOR MANAGING Albania's EU integration

Imagine Albania in 2050: Electric vehicles glide silently along coastal highways. Former disorganized rural landscapes have transformed into thriving organic farms. Agricultural exports, bearing the prestigious EU quality mark, command premium prices in European markets. This is not merely aspiration-it represents the logical conclusion of Albania's EU integration journey.

POLICY PRIORITIES FOR A Smooth transition

(\mathbf{i}) Own the challenge of transition

- Understand the key impacts: Create a comprehensive overview of the key challenges resulting from the European Integration process; ensure proactive government intervention and strengthen negotiation positions.
- **Organise yourself regionally**: The WB countries face similar challenges in their path towards EU membership. Albania should take the lead and ensure common engagement towards Brussels.
- Engage, engage and engage: EU membership is a real prospect for Albania.
 EU rules will have to be implemented as a result. Albania needs to engage in all decision-making fora in Brussels for issues that impact its society, citizens and/or economy significantly.

Strengthening Fiscal Resilience

- **Diversify Revenue Sources**: Balance the diminishing revenues from excise taxes from fuel and tobacco by introducing carbon pricing, expanding property taxation, and improving VAT collection.
- Create a Transition Fund: Allocate revenues from fossil fuel and tobacco taxation toward green infrastructure, workforce reskilling, and rural development to ensure a structured transition.
- **Maximize EU Funds**: Improve administrative capacity to absorb available EU structural and pre-accession funds, directing them toward high-impact projects in energy, agriculture, and transport.

Workforce Development and Economic Diversification

- **Expand Vocational Training**: Align educational programs with emerging sectors, such as renewable energy, agribusiness, and digital services, to prepare workers for future job markets.
- **Support Reskilling Programs**: Provide targeted retraining opportunities for workers in declining industries to facilitate smooth labor transitions.
- Encourage Regional Development: Invest in local job creation initiatives to prevent excessive rural-to-urban migration and maintain balanced economic growth.

()) Strengthening Social Protections

- Targeted Support for Affected Workers: Introduce temporary income support programs for workers transitioning out of fossil fuel and tobacco-related industries.
- Healthcare Investments: Redirect resources from declining tobacco consumption into preventive healthcare, chronic disease management, and public health campaigns.
- **Mitigate Inflation Risks**: Implement temporary price stabilization measures for essential goods and services to protect low-income households from market volatility.

() Governance and Institutional Strengthening

- Enhance Anti-Smuggling Efforts: Strengthen border enforcement and digitize customs tracking to minimize illicit trade in tobacco and fuel, protecting fiscal revenues.
- **Ensure Transparent Fund Allocation**: Develop a publicly accessible platform to track EU fund usage, ensuring efficient and equitable distribution.
- Adopt Digital Governance Tools: Leverage technology to streamline tax collection, reduce bureaucratic inefficiencies, and enhance regulatory compliance.

(\mathbf{i}) Leveraging Environmental and Health Benefits

- Develop a Green Growth Strategy: Align national policies with the EU Green Deal to attract climate funding and encourage investment in renewable energy and circular economy models.
- Improve Air Quality and Public Health: Promote awareness of the health benefits associated with reduced emissions and tobacco consumption, reinforcing public support for reforms.
- **Expand Nature-Based Solutions**: Invest in sustainable land use practices, reforestation, and water conservation to build long-term environmental resilience.

Encouraging Private Sector Innovation

- Incentivize Clean Technology Investments: Provide tax incentives for companies investing in green energy, sustainable agriculture, and digital transformation.
- Facilitate Public-Private Partnerships: Engage businesses in infrastructure development, particularly in expanding EV charging networks, smart farming solutions, and clean energy production.
- **Support SMEs and Startups**: Establish competitive grant programs for businesses developing innovative solutions in agribusiness, renewable energy, and sustainability-driven industries.

(I) Aligning Reforms with the EU Accession Roadmap

- Integrate Policies with EU Benchmarks: Ensure that reforms in taxation, energy, agriculture, and governance align with EU accession milestones to maintain momentum.
- Enhance Regional Cooperation: Strengthen economic collaboration with neighboring Western Balkans countries to optimize shared infrastructure, trade policies, and market integration.
- Sustain Public Engagement: Communicate the long-term benefits of EU integration through regular updates, transparency initiatives, and public dialogue forums.

CONCLUSION

Turning Challenges into Opportunities

Albania's EU accession is a once-in-a-generation opportunity to modernize its economy and improve quality of life for its citizens. While the transition will require bold reforms, strategic investments, and strong governance, the long-term rewards-higher living standards, economic stability, and EU market integration-far outweigh the challenges.

By implementing these policy recommendations, Albania can navigate the complexities of EU accession, ensuring that economic growth is inclusive, sustainable, and forward-looking. With the right policies in place, Albania can emerge as a competitive, resilient, and prosperous member of the European Union.

The Impact of EU Accession on Three Consequential Sectors of Albanian Economy