

Republic of Albania

Extractive Industries Transparency Initiative



EITI Report 2010



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The Albanian Extractive Industries Transparency Initiative (ALBEITI)

Tirana - ALBANIA

Paris, 21 December 2012

To the President of the ALBEITI Working Group

Ref.: The Albanian EITI Report 2010

The Extractive Industries Transparency Initiative (EITI) is designed to increase transparency and governance in the management of public revenues generated by the extractive sector (oil, gas and mining). The Republic of Albania committed to implement the EITI in March 2009 and became a candidate country in May 2009.

The ALBEITI Working Group is the decision-making body supervising the implementation of the EITI in Albania. This Group, regulated by Public Order No.71 dated 21 July 2011, is chaired by the Minister of Economy, Trade and Energy and composed of various EITI stakeholders (State, extractive companies, civil society). The ALBEITI Working Group is supported in its work by the ALBEITI Secretariat.

In the context of ongoing implementation of the EITI in Albania, Fair Links has been selected in March 2012 through international tender as the Independent Administrator in charge of producing Albania's second EITI Report, covering the year 2010.

This EITI Report 2010 aims at improving the understanding of the contribution of the extractive companies to the economic and social development of Albania.

In this regard, our work as an Independent Administrator has consisted of collecting, reconciling and compiling:

- The fiscal revenues declared collected by the State from the extractive companies, in 2010;
- The fiscal payments declared made by these extractive companies to the State, in 2010.

This Report has been written in compliance with the best international practices for EITI reporting. Our work is based on the ISRS (International Standards on Related Services) published by the IFAC (International Federation of Accountants): ISRS 4400, relative to the "Engagement to perform agreed-upon procedures regarding financial information" and ISRS 4410, relative to the "Engagement to compile financial information". Such practices specifically entail a high degree of integrity and observance of ethics, as well as a rigorous application of the procedures designed to ensure the relevance, quality and impartiality of our work, whether this relates to work management procedures, resource management or internal controls.

This Report, intended for the exclusive use of the ALBEITI Working Group, presents hereafter:

1. A brief overview of the Albanian extractive sector;
2. The Scope of companies and benefit streams selected for the EITI Report 2010;
3. The nature and extent of our work as an Independent Administrator;
4. The final reconciliation of data for the oil, gas and mining sectors;
5. Our main comments and recommendations.

Fair Links
A. Mélard de Feuardenet.
Anton Mélard de Feuardenet

Executive summary

This EITI Report presents the reconciliation of the fiscal revenues declared collected by the State of Albania from the extractive companies (oil, gas and mining) and the payments declared by these extractive companies, for the year 2010.

The data presented for the oil and gas sector are based on the declarations received from the 8 companies having submitted complete EITI declarations. These declarations include, beyond the 5 benefit streams selected by the ALBEITI Working Group, any payment superior to 50 KUSD (5 MLEks) made to the State and any payment superior to 5 KUSD (500 KLEks) made to local authorities. These declarations have been attested by the external auditors of the declaring companies, therefore guaranteeing the reliability and the comprehensiveness of the data submitted for the oil and gas sector. Sky Petroleum, the only oil and gas company that has not submitted EITI declarations, is undergoing arbitration with the State of Albania. Sky Petroleum was in exploration in 2010 and is therefore unlikely to have paid any significant revenue to the State. We can therefore reasonably conclude that the data reconciliation presented below reflects the effective fiscal contribution of the oil and gas sector to the State revenues in 2010.

(in USD)	2010				
	Declared data			Δ Companies - State	Δ Companies - Albpetrol
	Companies	Albpetrol (company)	State		
1. Signature bonuses	400 000		400 000	-	
2. Royalties (from private companies)	18 499 298		18 801 781	(302 483)	
2. Royalties (from Albpetrol)		7 655 487	8 805 469	(1 149 982)	
3. Share of production of Albpetrol	24 474 090	24 463 090			11 000
4. Corporate profit tax (from private companies)	-		-	-	
4. Corporate profit tax (from Albpetrol)		2 644 811	2 415 480	229 331	
5. Dividends		-	-	-	
6. Other significant payments to the State (from private companies)	100 000		100 000	-	
6. Other significant payments to the State (from Albpetrol)		1 849 455	1 860 013	(10 558)	
7. Other significant payments to local authorities (from private companies)	-		-	-	
7. Other significant payments to local authorities (from Albpetrol)		-	-	-	
Total in USD	43 473 388		32 382 743	(1 233 692)	11 000

The data presented for the mining sector are based on the declarations received from the 54 companies having submitted complete EITI declarations. As for the oil and gas sector, these declarations include, beyond the 4 benefit streams selected by the ALBEITI Working Group, any payment superior to 50 KUSD (5 MLEks) made to the State and any payment superior to 5 KUSD (500 KLEks) made to local authorities. The declarations received from the large-scale mining companies in production have been attested by their external auditors, therefore guaranteeing the reliability and comprehensiveness of the data they have submitted. The 6 mining companies that have not submitted EITI declarations were either in exploration or of limited size; in both cases, it is very unlikely that their fiscal contribution has been significant. We can therefore reasonably conclude that the data reconciliation presented below reflects the effective fiscal contribution of the mining sector to the State revenues in 2010.

(in LEks)	2010		
	Declared data		Variation
	Companies	State	
1. Signature bonuses	1 982 902	2 982 792	(999 890)
2. Surface fees	29 698 393	22 201 355	7 497 038
3. Royalties	282 413 274	290 739 932	(8 326 658)
4. Corporate profit tax	218 171 239	215 084 788	3 086 451
5. Other significant payments to the State	73 694 676	73 694 676	-
6. Other significant payments to local authorities	6 893 906	5 640 640	1 253 266
Total in LEks	612 854 390	610 344 183	2 510 207

We have formulated comments and recommendations regarding the quality of the ALBEITI process. These comments and recommendations can be found in the last section of this Report. They could be taken into account so as to be reflected in the next EITI Report.

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Abbreviations

State agencies

AKBN	National Agency of Natural Resources
METE	Ministry of Economy, Trade and Energy

Extractive sector

Kg	Kilograms
M ³	Cubic meters
Cf	Cubic feet
Mcf	Million cubic feet
PSA	Production Sharing Agreement

Others

ALBEITI	Albanian Extractive Industries Transparency Initiative
KUSD	Thousand United States Dollars
MUSD	Million United Stated Dollars
KLeks	Thousand Leks
MLeks	Million Leks

1. Presentation of the Albanian extractive sector

The information presented hereafter for the description of the Albanian extractive sector is drawn from various sources identified as reliable; we have not, however, tested the accuracy of such data.

1.1. The oil and gas sector

1.1.1. The potential of the oil and gas sector

Proven and probable reserves of oil in Albania are estimated close to 277 million barrels¹. In 2010, the daily output of crude oil was about 15,000 barrels². This production has been extracted mainly from (i) the Patos-Marinz-Kolonje field (82% of production), known as the largest onshore oilfield in continental Europe, (ii) the Gorisht-Kocul field (6% of production) and (iii) the Kucove field (3% of production)³.

Proven and probable reserves of gas are estimated at 791 Bcf⁴. Daily natural gas production was averaging 1.4 Mcf⁵, in 2010. This production has mainly been extracted from the Patos-Marinz-Kolonje field (61% of the annual production), the Cakran-Mollaj field (10%) and the Kucove field (4%)⁶.

This production of oil and gas generates limited fiscal revenues for the State of Albania. Indeed, in 2009, the fiscal contribution of the oil and gas sector was less than 1% of the total fiscal revenues collected by the State of Albania⁷.

1.1.2. The institutional framework of the oil and gas sector

Exploration, development and production of hydrocarbons in Albania are regulated by Law No.7746 on Petroleum (Exploration and Production) dated 28 July 1993 and its Decree No.782 on the Fiscal system in the Petroleum sector (Exploration-Production) dated 22 February 1994. Since the adoption of the Law, it has been amended by Laws No.7853 (29 July 1994), 7811 (12 April 1994) and 9975 (28 July 2008)⁸. The Ministry of Economy, Trade and Energy (METE) is responsible for the respect and implementation of this legislation.

Petroleum agreements have all been developed as Production Sharing Agreements (PSAs), signed by the National Agency of Natural Resources (AKBN) on behalf of the State⁹. Under such contracts, and according to Law No.7746 on Petroleum (Exploration and Production), a "*Production Sharing Agreement means a petroleum agreement which provides for the recovery of contract costs from petroleum produced in the contract area or from a proportionate part thereof, and for the division between the State and the Contractor of the balance of petroleum remaining after the recovery of contract costs in accordance with a scale or formula specified in the petroleum agreement*"¹⁰.

Albpetrol Sh. A. ("Albpetrol") is the Albanian state-owned oil company, with the State being its sole shareholder. Albpetrol holds shares in every agreement signed in Albania, on behalf of the State. Albpetrol also operates fields exclusively, such as the oil field of Amonica and the gas fields of Divjaka, Ballaj-Kryevidh, Frakull and Panaja¹¹. Under Law No.10490 dated 15 December 2011, the Albanian Parliament has decided that Albpetrol would be privatised.

¹ GEPS Report Albania, IHS, January 2012

² Information on the oil and gas production for 2010, AKBN, June 2012

³ GEPS Report Albania, IHS, January 2012

⁴ Id.

⁵ GEPS Report Albania, IHS, January 2012

⁶ Id.

⁷ We understand that total fiscal revenues of the State of Albania reached 2.56 Billion USD (270.8 Billion Leks) in 2009, as can be found in *Albania: 2011 Article IV Consultation – Staff Report*, IMF, October 2011

⁸ *Summary of the Albanian legal framework for petroleum exploration and production* – www.akbn.gov.al

⁹ *Invest in Albanian Natural Resources*, National Agency of Natural Resources (AKBN) – www.akbn.gov.al

¹⁰ Law No.7746 on Petroleum (Exploration and Production), Article 2

¹¹ Id.

1.1.3. The private actors of the oil and gas sector

In 2010, 2 international oil and gas companies held production licences:

- Bankers Petroleum, operating both Patos-Marinza and Kucova onshore fields¹²;
- Stream Oil & Gas, operating amongst others Gorischt-Kocul, Cakran-Mollaj and Delvina onshore fields¹³.

In 2010, several ongoing licences for exploration were held by IEC Visoka, Sky Petroleum, Manas Adriatic, Sherwood International (onshore), Capricorn and Island International (offshore)¹⁴.

1.2. The mining sector

1.2.1. The potential of the mining sector

Albania has a longstanding history in mining with significant mineral deposits of chromite, nickel, copper and limestone. Chromite reserves have been estimated close to 37 million tons¹⁵, copper reserves at around 30 million tons¹⁶, and nickel ore reserves at nearly 300 million tons¹⁷.

We understand that more than 800 permits have been granted for prospection, exploration and mining, out of which nearly 700 are dedicated to production¹⁸. Chromite and limestone are the most attractive minerals in Albania, with each counting more than 250 permits¹⁹.

In 2010, the national production of chromite exceeded 330,000 tons for a production of limestone averaging 2.3 million m³. The production of copper was close to 140,000 tons for a production of nickel of 270,000 tons²⁰.

The profile of the Albanian mining sector – many small producers scattered throughout the country – partly explains the very marginal contribution of this sector to the State revenues. In 2009, revenues collected from the mining sector were less than to 1.8 MUSD (186 MLeqs), merely 0.07% of the total fiscal revenues collected by the State of Albania²¹.

1.2.2. The institutional framework of the mining sector

The mining sector in Albania is regulated by Law No.10304 for the Mining sector in the Republic of Albania, dated 15 July 2010, which entered into force in August 2010 and abrogated the Mining Law No.7796, dated 17th February 1994. The METE, through the AKBN, is responsible for the respect and implementation of this legislation. We note that under its Article 36, this Law explicitly compels mining companies operating in Albania to disclose their tax payments in accordance with the Extractive Industries Transparency Initiative.

1.2.3. The private actors of the mining sector

As a traditional mining country, Albania counts an increasing number of medium, small-scale mining and quarry companies, and only a couple of large-scale industrial mining companies.

Albanian Chrome (ACR), extracting from the Bulqiza Mine, was the only industrial company extracting Chromite in Albania in 2010. DCM, the parent company of ACR, is planning to invest 15 M€ in the near future in order to increase the annual production capacity of the Bulqiza Mine from 80,000 tons today to 100,000 tons²². Many medium and small-scale companies (more than 250 licences) were extracting chromite in the Tropoja and Kukes Ultrabasic Massifs, in the Bulqiza Ultrabasic Massif and in the Shebenik-Pogradec Ultrabasic Massifs²³.

¹² Bankers Petroleum website: www.bankerspetroleum.com

¹³ Stream Oil & Gas website: www.streamoilandgas.com

¹⁴ *State of exploration licences and Current licensing situation*, National Agency of Natural Resources (AKBN) – www.akbn.gov.al

¹⁵ *Invest in Albanian Natural Resources*, National Agency of Natural Resources (AKBN) – www.akbn.gov.al

¹⁶ Id.

¹⁷ ALBEITI Secretariat website: www.albeiti.org

¹⁸ *Invest in Albanian Natural Resources*, National Agency of Natural Resources (AKBN) website: www.akbn.gov.al

¹⁹ Id.

²⁰ For all figures, *Main data on Albanian Mining and Processing Industry Production*, National Agency of Natural Resources (AKBN)

²¹ We understand that total fiscal revenues of the State of Albania reached 2.56 Billion USD (270.8 Billion Leqs) in 2009, as can be found in *Albania: 2011 Article IV Consultation – Staff Report*, IMF, October 2011

²² DCM website: www.dcm-vienna.com

²³ *Invest in Albanian Natural Resources*, National Agency of Natural Resources (AKBN) – www.akbn.gov.al

Beralb was the only industrial company extracting copper in 2010. Beralb holds production licences for the mines of Munelle, Lak Roshi, Karma and Fush Arres, all located in the province of Puke²⁴. No medium or small-scale mining companies were extracting copper in 2010.

Nickel is mostly extracted in the form of iron-nickel and nickel silicate, in the regions of Devoll, Pogradec, Librazhd and Kukes²⁵. In our understanding, only medium and small-scale mining companies were extracting this mineral in 2010.

Limestone, used mostly for the production of cement or as a decorative construction material, is found all across Albania, explaining the important number of very small operators for this mineral, dispersed throughout the country.

²⁴ Beralb website: www.beralb.com

²⁵ *Invest in Albanian Natural Resources*, National Agency of Natural Resources (AKBN) – www.akbn.gov.al

2. Companies and benefit streams selected for the EITI Report 2010

The Scope of the EITI Report 2010 defines:

- The extractive companies that have been requested to declare their payments made to the State;
- The various types of payments (benefit streams) that are to be considered in their declarations.

This Scope has been defined by the ALBEITI Working Group which holds responsibility for it. It has been discussed with us in Tirana, in April 2012.

2.1. The oil and gas sector

2.1.1. Companies

The ALBEITI Working Group has decided that this EITI Report should consider all the oil and gas companies operating in Albania in 2010, whether national or private, in production or in exploration.

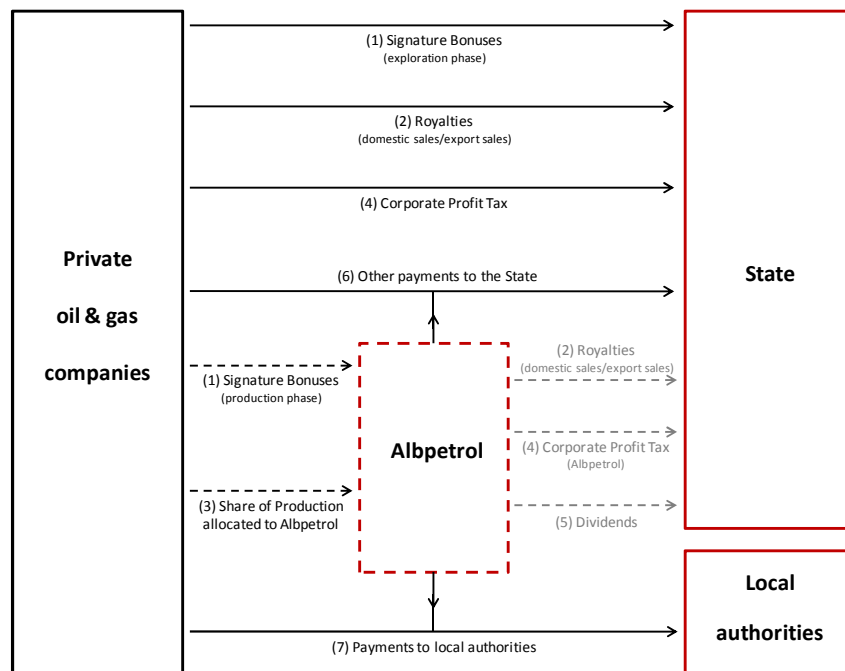
This approach has led to the selection of 9 oil and gas companies: 1 national and 8 private companies, among which 3 in production (including Albpetrol) and 6 in exploration²⁶.

2.1.2. Benefit streams

The ALBEITI Working Group has decided that this EITI Report should consider the 4 oil and gas sector specific taxes stipulated in the Albanian mining law²⁷, as well as the corporate profit tax.

For exhaustiveness purposes, the ALBEITI Working Group has decided that: “Other significant revenues/payments to the State” (with a materiality threshold set at 50 KUSD [5 MLeqs]²⁸ per annum, per company) and “Other significant revenues/payments to local authorities” (with a materiality threshold set at 5 KUSD [500 KLeqs]²⁹ per annum, per company) should also be declared by State agencies and extractive companies.

The 7 benefit streams selected for the oil and gas sector for the EITI Report 2010 can be illustrated as follows³⁰:



Benefit streams of the oil and gas sector considered in the EITI Report 2010

²⁶ Full list of oil and gas companies selected for the ALBEITI Report 2010 is available in Annex 1

²⁷ *Albanian Mining Law No.10304*, 15 July 2010

²⁸ Less than 0.1% of the fiscal contribution of the extractive sector as disclosed in the EITI Report 2009

²⁹ Less than 0.01% of the fiscal contribution of the extractive sector as disclosed in the EITI Report 2009

³⁰ Full list of benefit streams and their definitions can be found in Annex 2

2.2. The mining sector

2.2.1. Companies

2.2.1.1. Large-scale mining sector

The ALBEITI Working Group has decided that this Report should consider all the large-scale industrial mining companies operating in Albania in 2010, whether in production or in exploration.

This approach has led to the selection of 7 large-scale mining companies: 2 in production and 5 in exploration³¹.

2.2.1.2. Medium, small-scale mining and quarry sector

Considering the very important number of medium, small-scale mining and quarry actors operating throughout Albania, the ALBEITI Working Group has decided to consider companies based on their potential level of contribution to the State revenues. This selection has therefore been limited to companies with an annual turnover³² superior to 500 KUSD (50 MLEks)³³.

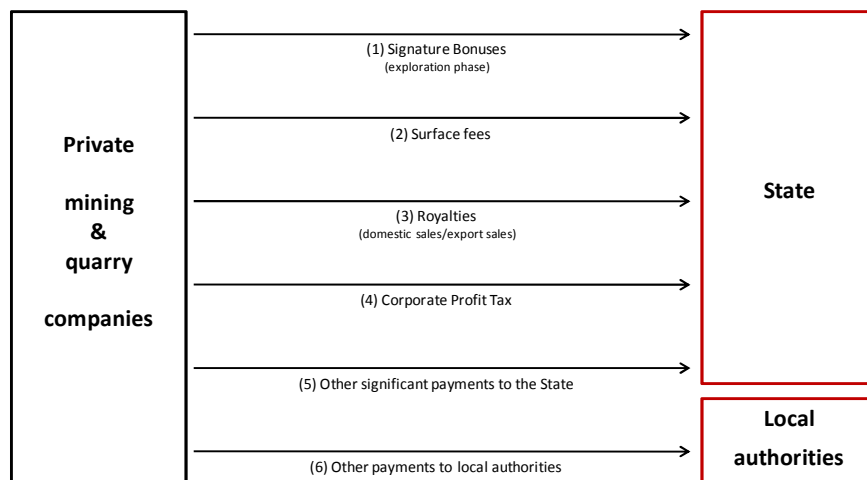
This approach has led to the ambitious selection of 38 medium and small-scale mining companies and 15 quarry companies (all in production)³⁴.

2.2.2. Benefit streams

The ALBEITI Working Group has decided that this EITI Report should consider the 3 mining sector specific taxes stipulated in the Albanian mining law³⁵, as well as the corporate profit tax.

For exhaustiveness purposes, the ALBEITI Working Group has decided that “Other significant revenues/payments to the State” (with a materiality threshold set at 50 KUSD [5 MLEks]³⁶ per annum, per company) and “Other significant revenues/payments to local authorities” (with a materiality threshold set at 5 KUSD [500 KLEks]³⁷ per annum, per company) should also be declared by State agencies and extractive companies.

The 6 benefit streams selected for the mining sector for the EITI Report 2010 can be illustrated as follows³⁸:



Benefit streams of the mining sector considered in the EITI Report 2010

³¹ Full list of companies from the mining sector selected for the EITI Report 2010 is available in Annex 3

³² Turnover = annual production × price of mineral

³³ The turnover is commonly used as a proxy for a company’s fiscal contribution; it appears adequate in the context of Albania, where the profitability of companies is relatively uniform due to similar extractive conditions

³⁴ Full list of companies from the mining sector selected for the EITI Report 2010 is available in Annex 3

³⁵ *Albanian Mining Law No 10304*, 15 July 2010

³⁶ Or 0.2% of the fiscal contribution of the extractive sector as disclosed in the EITI Report 2009

³⁷ Or 0.02% of the fiscal contribution of the extractive sector as disclosed in the EITI Report 2009

³⁸ Full list of benefit streams and their definitions can be found in Annex 4

2.3. The adopted reporting templates

The reporting templates used for data disclosure by State agencies and extractive companies have been designed by us, in consideration of the Scope defined by the ALBEITI Working Group for the EITI Report 2010.

These reporting templates have been discussed with and approved by the ALBEITI Working Group. They have been directly distributed by us to the State agencies and local authorities declaring on behalf of the State of Albania, and to the 69 extractive companies included in the Scope of this EITI Report.

In line with the recommendations of the EITI Source Book, with the requirements of the new EITI Rules and in accordance with the best EITI practices, the instructions for completing the reporting templates pointed out the need for:

- (i) A cash basis disclosure, in order to reconcile the amounts received/paid in 2010, and not the amounts due for that period;
- (ii) A disaggregated reporting date by date, for every revenue received and payment made, so as to facilitate the identification of possible discrepancies between declarations;
- (iii) A disclosure in the currency of the transaction, therefore mitigating the risks of discrepancies due to exchange rate adjustments;
- (iv) The submission of an Endorsement letter from every declaring party, signed by its highest legal representative, supporting the EITI declarations and confirming the reliability and accuracy of the disclosed data;
- (v) The submission of a Confirmation letter signed by an external auditor for the major potential contributors to State revenues (*i.e.* the oil and gas companies and the large-scale mining companies in production). Such a document indeed attests the reliability and comprehensiveness of the disclosed data. This requirement has been left voluntary for the large-scale mining companies in exploration.

We have presented the reporting templates and their associated instructions for completion to the representatives of the State agencies and extractive companies during our preliminary work phase, conducted in Tirana in April 2012.

3. The nature and extent of our work as an Independent Administrator

We had the task of collecting, reconciling (identification and resolution of the main discrepancies) and compiling the tax collection declared by the State of Albania and the tax payments declared by the extractive companies, on the basis of the Scope of the EITI Report 2010 described above.

The reporting templates used for this process have been completed under the responsibility of the representatives of the State agencies and extractive companies, who have sent their declarations directly to us.

We are now to present, on a consolidated basis and for each benefit stream included in the Scope of the EITI Report 2010, the amounts declared collected by the State and declared paid by the extractive companies during 2010.

We have reconciled all revenues and payments declared on a disaggregated basis. We are not required to explain the remaining discrepancies consequent to the reconciliation process. Our work as an Independent Administrator is neither an audit nor a limited assessment of the fiscal payments to be made by the oil, gas and mining sectors. Auditing or verifying the data provided to us is not part of our mandate: hence, we are not expected to reveal errors, unlawful acts, or other irregularities.

The definitions of the benefit streams selected for the EITI Report 2010 have been discussed with us; these definitions have been formulated by the ALBEITI Working Group under its sole responsibility, on the basis of the Petroleum Law, the Mining Law and the Tax Law. We have considered the comprehensiveness of the benefit streams included in the Scope of this Report.

We have also discussed the list of extractive companies to be selected for the EITI Report 2010, defined by the ALBEITI Working Group, under its sole responsibility.

As an Independent Administrator, we have carried out the following tasks:

- (i) We have ensured that the definitions of the benefit streams selected for the EITI Report 2010 were consistent with those described in the new EITI Rules, in the EITI Source Book and with those widely recognised in the international oil, gas and mining industries (consistency review);
- (ii) We have ensured that the definitions of the benefit streams were correctly perceived and understood by the representatives of the State agencies and extractive companies (shared understanding of the Scope);
- (iii) We have collected (submission of documents and follow-ups) the reporting templates from the State agencies, disclosing the disaggregated revenues collected from the extractive companies in 2010. These declarations were presented in accordance with the Scope of this EITI Report;
- (iv) We have collected the reporting templates from the extractive companies, disclosing disaggregated payments made to the State in 2010. These declarations were presented in accordance with the Scope of this EITI Report;
- (v) We have reconciled the data provided by the State agencies and extractive companies;
- (vi) We have resolved the main discrepancies identified through the reconciliation process, in coordination with the ALBEITI Secretariat, the State agencies and the extractive companies. These discrepancies were mainly due to disclosure on accrual basis and to some reporting inaccuracies;
- (vii) We have compiled the final figures and presented, for the oil, gas and mining sectors, the reconciliation of the data declared by the State of Albania and extractive companies for 2010, on a consolidated basis, for each benefit stream selected for this EITI Report.

4. The final reconciliation of data for the oil, gas and mining sectors

4.1. The oil and gas sector

The reconciliation of data for the oil and gas sector, presented hereafter, is based on the declarations received from the 8 oil and gas companies having transmitted complete EITI declarations³⁹. These aggregated figures allow us to understand what were the main taxes paid by the oil and gas sector in 2010.

(in USD)	2010				
	Declared data			Δ Companies - State	Δ Companies - Albpetrol
	Companies	Albpetrol (company)	State		
1. Signature bonuses	400 000		400 000	-	
2. Royalties (from private companies)	18 499 298		18 801 781	(302 483)	
2. Royalties (from Albpetrol)		7 655 487	8 805 469	(1 149 982)	
3. Share of production of Albpetrol	24 474 090	24 463 090			11 000
4. Corporate profit tax (from private companies)	-		-	-	
4. Corporate profit tax (from Albpetrol)		2 644 811	2 415 480	229 331	
5. Dividends		-	-	-	
6. Other significant payments to the State (from private companies)	100 000		100 000	-	
6. Other significant payments to the State (from Albpetrol)		1 849 455	1 860 013	(10 558)	
7. Other significant payments to local authorities (from private companies)	-		-	-	
7. Other significant payments to local authorities (from Albpetrol)		-	-	-	
Total in USD	43 473 388		32 382 743	(1 233 692)	11 000

Reconciliation of data for the oil and gas sector (2010)

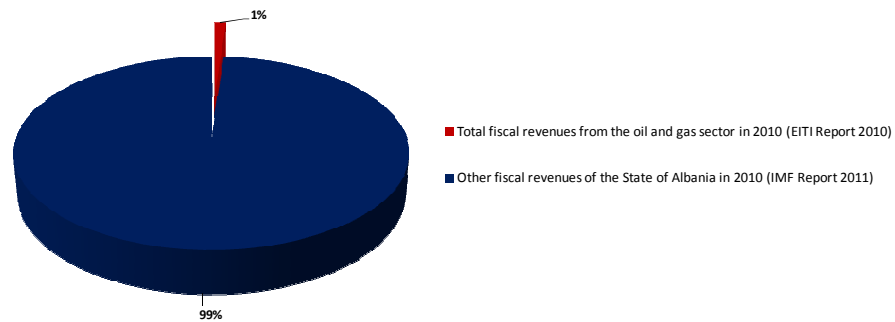
The private oil and gas companies have declared 43.5 MUSD (4.4 Billion Leks) of payment to the State of Albania (19 MUSD, or 1.9 Billion Leks) and to Albpetrol (24.5 MUSD, or 2.5 Billion Leks).

To the date of publication of this Report, only Sky Petroleum has not submitted EITI declarations. The ongoing arbitration opposing the company to the State of Albania for 2 Production Sharing Agreements (PSAs) signed in June 2010⁴⁰ may explain this lack of declaration. The usual limited fiscal contribution of companies in exploration and the limited prospect for Sky Petroleum having paid signature bonuses in 2010 allow us to believe that the effective fiscal contribution of this company in 2010 was most probably not significant. This assertion is confirmed by the EITI declarations submitted by the State of Albania for Sky Petroleum, which disclose nil figures. We can therefore reasonably conclude that this absence of declaration from Sky Petroleum does not significantly affect the presentation of the fiscal contribution of the oil and gas sector to the State revenues in 2010.

³⁹ Out of the 9 oil and gas companies included in the Scope of the ALBEITI Report 2010

⁴⁰ One PSA covering onshore Blocks 4 and 5 and another PSA covering Onshore Dumre Block, as presented in *GEPS Report Albania*, IHS, January 2012

In conclusion, and as for 2009, we observe that the overall fiscal contribution of the oil and gas sector remained marginal with regards to the total fiscal revenues collected by the State of Albania in 2010⁴¹ (around 1%).



Total fiscal contribution of the oil and gas sector compared with the overall fiscal revenues of the State of Albania (2010)

4.2. The mining sector

The reconciliation of data for the mining sector, presented hereafter, is based on the declarations received from the 54 mining companies having transmitted complete EITI declarations⁴². These aggregated figures allow us to understand that Royalties represented by far the main fiscal payment made by the mining companies to the State of Albania in 2010 (46%), followed by the Corporate profit tax (36%) and Surface fees (5%).

(in Leks)	2010		
	Declared data		Variation
	Companies	State	
1. Signature bonuses	1 982 902	2 982 792	(999 890)
2. Surface fees	29 698 393	22 201 355	7 497 038
3. Royalties	282 413 274	290 739 932	(8 326 658)
4. Corporate profit tax	218 171 239	215 084 788	3 086 451
5. Other significant payments to the State	73 694 676	73 694 676	-
6. Other significant payments to local authorities	6 893 906	5 640 640	1 253 266
Total in Leks	612 854 390	610 344 183	2 510 207

Reconciliation of data for the mining sector (2010)

The mining companies have declared 613 MLeks (6.2 MUSD) of payment to the State of Albania.

To the date of publication of this Report, the following companies have not submitted EITI declarations:

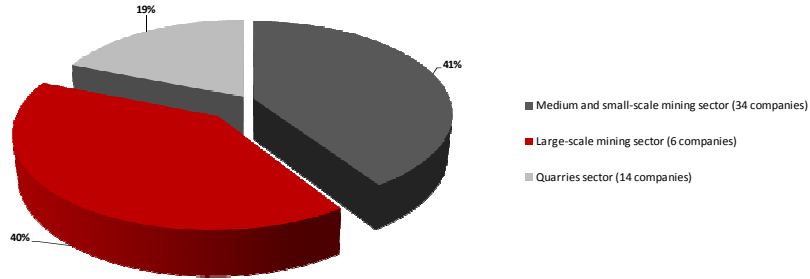
- Cougar Mining (large-scale mining sector);
- Bytyci, Marei, Shkembi and Tadri (medium and small-scale mining sector);
- Dks Group (quarry sector).

Cougar Mining was in exploration in 2010; we understand that it has left Albania in 2011. The usual limited fiscal contribution of companies in exploration and the limited prospect for Cougar mining having paid signature bonuses in 2010 allow us to believe that the effective fiscal contribution of this company in 2010 was most probably not significant. The limited size of the 5 other companies that have not submitted EITI declarations leads us to a similar conclusion. In addition, the marginal declarations transmitted by the State of Albania for these 6 companies (17 MLeks in total, less than 3% of the total amount declared collected by the State of Albania from the mining sector in 2010) encourage us to conclude that this absence of declaration does not significantly affect the presentation of the fiscal contribution of the mining sector to the State revenues in 2010.

⁴¹ We understand that total fiscal revenues of the State of Albania reached 2.9 Billion USD (288.8 Billion Leks) in 2010, as can be found in *Albania: 2011 Article IV Consultation – Staff Report*, IMF, October 2011

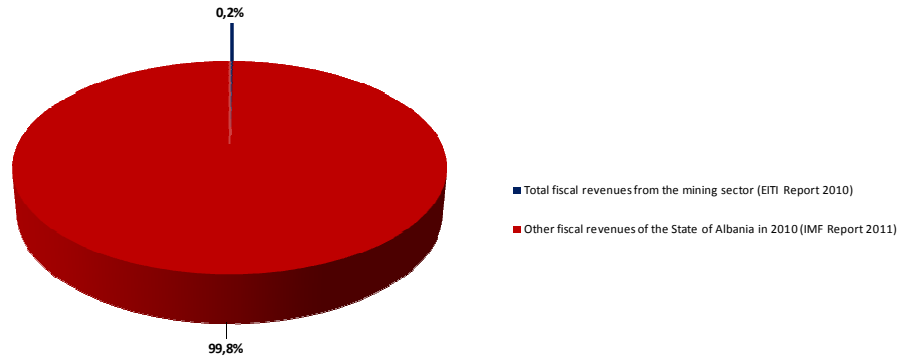
⁴² Out of the 60 mining companies included in the Scope of the ALBEITI Report 2010: 7 for the large-scale mining sector, 38 for the medium and small-scale mining sector and 15 for the quarry sector

We observe that this very marginal fiscal contribution is supported evenly by the large-scale mining and medium and small-scale mining companies (respectively 40% and 41% of the taxes collected from the mining sector). In terms of materiality, this means that the fiscal contribution of the 6 large-scale mining companies having submitted EITI declarations⁴³ – 2 of which have been attested by their external auditors – is nearly as important as the fiscal contribution of the 34 medium and small-scale mining companies that took part in the EITI process⁴⁴.



Fiscal contribution of the various companies composing the mining sector (2010)

In conclusion, we observe that the overall fiscal contribution of the mining sector remained very marginal with regards to the total fiscal revenues collected by the State of Albania in 2010⁴⁵ (barely 0.2%).



Total fiscal contribution of the mining sector compared with the overall fiscal revenues of the State of Albania (2010)

⁴³ 2.4 MUSD (246.3 MLeqs), as declared by the State of Albania

⁴⁴ 2.5 MUSD (248.6 MLeqs), as declared by the State of Albania

⁴⁵ We understand that total fiscal revenues of the State of Albania reached 2.9 Billion USD (288.8 Billion Leqs) in 2010, as can be found in *Albania: 2011 Article IV Consultation – Staff Report*, IMF, October 2011

4.3. Main conclusions

The following observations are based on the information made available to us to this date by the ALBEITI Working Group, the State of Albania and the extractive companies:

- (i) The definitions of the benefit streams selected by the ALBEITI Working Group for the EITI Report 2010 are consistent with the definitions described in the new EITI Rules, in the EITI Source Book and with those widely recognised in the international oil, gas and mining industries;
- (ii) The definitions of the benefit streams have been shared with the representatives of the State agencies and extractive companies;
- (iii) The declarations submitted by the State of Albania and by the extractive companies were presented in accordance with these definitions;
- (iv) The participation of the major oil, gas and mining companies in the EITI declaration process, along with the declarations of any “Other significant payment to the State” allow us to reasonably conclude that this EITI Report covers the most significant fiscal contributions of the extractive sector to the State of Albania;
- (v) The declarations of the oil and gas companies and large-scale mining companies in production have been attested by their external auditors, ensuring the reliability and comprehensiveness of the data they have disclosed;
- (vi) The disaggregated reconciliation of the declarations submitted by the State of Albania and the oil, gas and mining companies did not reveal any significant inconsistency;
- (vii) The private oil and gas companies have declared 43.5 MUS\$ (4.4 Billion Leks) of payment to the State of Albania (19 MUS\$, or 1.9 Billion Leks) and to Albpetrol (24.5 MUS\$, or 2.5 Billion Leks);
- (viii) The mining companies have declared 613 MLeks (6.2 MUS\$) of payment to the State of Albania.

5. Main comments and recommendations

5.1. Definition of an adapted Scope

In response to the conclusions of the EITI Validation Committee, the ALBEITI Working Group has decided to enhance the Scope of its second EITI Report by selecting a much larger number of medium, small-scale mining and quarry companies⁴⁶. The inclusion of many undersized and scattered declaring parties revealed itself challenging and, in many ways, ill-adapted to the requirements and goals of the EITI process.

The time and logistics needed to collect reliable and comprehensive data from more than 80 declaring parties (62 extractive companies, 4 State agencies, 15 local authorities) have indeed been largely underestimated. Notwithstanding such a number of declaring parties, the associated coverage of this Scope has been unconvincing in terms of materiality, as demonstrated in § 4. Indeed, taxes collected from the 3 producing oil and gas companies are more than 5 times the taxes collected from the other 59 extractive companies having submitted EITI declarations.

In order to address these difficulties without compromising the relevance and coverage of the EITI process, we recommend the ALBEITI Working Group to adapt the Scope of future Reports to the realities and goals of the EITI process and to focus its attention on Albania's most significant extractive tax payers, *i.e.* the oil and gas and large-scale mining companies.

Whilst the inclusion of the medium, small-scale mining and quarry companies should necessarily be considered, we further suggest:

- (i) Significantly raising the materiality threshold of future EITI Reports;
- (ii) Considering proceeding to unilateral declarations for the smallest operators. Such a procedure is fully compliant with the new EITI Rules⁴⁷. It addresses pragmatically the difficulties and materiality issues raised above, without hindering the comprehension of the fiscal contribution of these small and numerous actors to the State revenues.

5.2. Strengthening access to reliable data

Despite clear and detailed instructions for completing the reporting templates, a significant number of declarations from State agencies, more scarcely from extractive companies, were established on accrual basis. Extensive working sessions have been undertaken and a significant number of corrective declarations have been needed to limit the most significant discrepancies. This revealed the difficulties of some State agencies in accessing reliable data established on cash basis. This emphasises the need to strengthen the information and monitoring procedures of the State on the taxes effectively collected from the extractive companies, specifically but not exclusively in the context of an EITI Report.

The formal appointment of an EITI focal point in every concerned State agency (AKBN, METE, General Directorate of Taxes, General Directorate of Customs) as well as within the major extractive companies (oil, gas and large-scale mining) should help to address this difficulty. The organisation of a thorough EITI workshop with these focal points should also be proposed prior to the launch of the next EITI Report.

⁴⁶ The Scope of the ALBEITI Report 2010 includes 53 medium and small-scale mining and quarry companies, against 31 for the EITI Report 2009

⁴⁷ Requirement No.11 (b) of the EITI Rules indeed clearly states: "An entity should be exempted from reporting only if it can show with a high degree of certainty that the amounts it reports would in any event be immaterial", *EITI Rules, 2011 edition*, EITI International Secretariat Oslo, 16 February 2011

5.3. Treatment of declarations from local authorities

The ALBEITI Working Group has chosen to include “Other significant revenues/payments to local authorities” to the Scope of benefit streams of this Report, with a materiality threshold set at 5 KUSD (500 KLEks) per annum, per company. If this decision seemed necessary with regards to the enhancement of the EITI Scope, it has not been convincing in terms of materiality⁴⁸.

In order to limit the time spent on the collection of non-material revenues, we recommend that:

- (i) The list of the 15 districts used for this Report be re-examined, so as to include all districts effectively collecting fiscal contributions from extractive companies (such as the district of Fier, where Albpetrol operates). Communes and municipalities which collect fiscal contributions from extractive companies should also be included in future Reports;
- (ii) The ALBEITI Working Group considers the fiscal contribution of extractive companies to local authorities through unilateral declarations by these local authorities only.

5.4. Evolution of the Scope for future EITI Reports

We understand that some companies are under negotiations with the State of Albania, notably for offshore Blocks Adriatiku 2, 3, 4 and Rodoni North⁴⁹:

- Pelagian Oil (Adriatic Oil since February 2012);
- Repsol;
- Gas Plus Italiana;
- Pathfinder Hydrocarbon Ventures.

These negotiations may have led to the payment of signature bonuses; we therefore recommend adding these companies in the Scope of future EITI Reports.

Furthermore, declarations of “Other significant revenues/payments to the State” have revealed declarations of Taxes on dividends. These tax payments for 2010 have been taken into account in this EITI Report but we recommend considering specifically this benefit stream in the Scope of future EITI Reports.

Lastly, we recommend that the ALBEITI Working Group requires that the declarations from all large-scale mining companies (in production and in exploration) be attested by their external auditors, in order to further strengthen the reliability and comprehensiveness of EITI Reports in Albania⁵⁰.

⁴⁸ As presented in § 4, only the mining sector has disclosed data for this category. Figures compiled barely represent 1% of the total fiscal contribution of the mining sector to the State of Albania in 2010

⁴⁹ *GEPS Report Albania*, IHS, January 2012

⁵⁰ As mentioned in § 2.3, if this requirement was compulsory for producing large-scale mining companies, it has been left voluntary for the exploring companies

Annexes

- Annex 1: List of companies from the oil and gas sector selected for the EITI Report 2010**
- Annex 2: List and definitions of the benefit streams of the oil and gas sector selected for the EITI Report 2010**
- Annex 3: List of companies from the mining sector selected for the EITI Report 2010**
- Annex 4: List and definition of the benefit streams from the mining sector selected for the EITI Report 2010**
- Annex 5: List of reporting State agencies and local authorities**

Annex 1: List of companies from the oil and gas sector selected for the EITI Report 2010

<p>Private companies in production (2)</p> <ul style="list-style-type: none"> - Bankers Petroleum - Stream Oil & Gas <p>National company (in production)</p> <ul style="list-style-type: none"> - Albpetrol 	<p>Private companies in exploration (6)</p> <ul style="list-style-type: none"> - IEC Visoka - Capricorn Albania (subsidiary of Cairn) - Island International Exploration (subsidiary of San Leon Energy plc) - Manas Adriatic (subsidiary of DWM then Petromanas Energy Inc.) - Sherwood International Petroleum Ltd. (subsidiary of Bankers Petroleum) - Sky Petroleum
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Annex 2: List and definitions of the benefit streams of the oil and gas sector selected for the EITI Report 2010

1. List of benefit streams

From Albpetrol (5)	From companies in production and in exploration (6)
<ul style="list-style-type: none"> - Royalties - Corporate profit tax - Dividends - Other significant payments to the State - Other payments to local authorities 	<ul style="list-style-type: none"> - Signature bonuses - Royalties - Share of production allocated to the National Oil Company - Corporate profit tax - Other significant payments to the State - Other payments to local authorities

2. Definitions of benefit streams

Signature bonuses

Signature bonuses are occasionally determined (based on contract negotiations) upon the granting of an exploration or exploitation permit within the context of the specific contractual terms and conditions.

Royalties

Royalties are applied to the taxable value (or fiscal value) of sales.

Share of Production of the National Oil Company

Albpetrol, the National Oil Company, is entitled to a share of the production. This share is defined contractually, based on deemed production (pre-existing production) and incremental production (production issued from contractor's investment) and paid in kind or in cash.

Dividends (for Albpetrol only)

Dividends correspond to the profitability of the National Oil Company that is redistributed to the State as the sole shareholder. The level of Dividend is determined by the board of the company.

Corporate Profit Tax

Corporate profit tax is calculated on the basis of taxable profit of the company.

Other significant payments to the State

For exhaustiveness purposes, companies should declare any payment made to the State that they would consider as significant (> 50,000 USD per annum).

Other payments to local authorities

For exhaustiveness purposes, companies should declare any payment made to the local authorities (county, district, municipality, commune) that they would consider as significant (> 5,000 USD per annum, such as Environmental city tax).

Annex 3: List of companies from the mining sector selected for the EITI Report 2010

Large-scale mining sector in production (2)

- Albanian Chrome shpk (Chromite)
- BerAlba shpk (Copper)

Large-scale mining sector in exploration (5)

- Empire Mining (Chromite)
- Jab Resources (Chromite)
- Balkan Resources (Copper and nickel)
- Cougar Mining (Copper)
- Tirex Exploration (Copper)
-

Medium and small-scale mining sector (38)

- Afrimi - k (Chromite)
- Alb-Canaj (Chromite)
- Algej shpk (Chromite)
- Ateani shpk (Chromite)
- Bytyci (Chromite)
- Egi-K (Chromite)
- Elidon - 06 (Chromite)
- Ernisi shpk (Chromite)
- Fabrika e Pasurimit te Kromit (Chromite)
- Florida shpk (Chromite)
- Gentari (Chromite)
- Gjoni shpk (Chromite)
- Herbi (Chromite)
- Info Metal Plast al shpk (Chromite)
- Klervibris shpk (Chromite)
- Klosi shpk (Chromite)
- Koka shpk (Chromite)
- Aren 2003 (Nickel)
- Alb xhoi (Nickel)
-

- Koxheri shpk (Chromite)
- Krasta shpk (Chromite)
- Kromex Import Export (Chromite)
- Lahaze (Chromite)
- Lamnica shpk (Chromite)
- Leshnica (Chromite)
- Marei shpk (Chromite)
- Mineral - Invest shpk (Chromite)
- Miniera e kromit katjel (Chromite)
- Neli (Chromite)
- Ral shpk (Chromite)
- Runja (Chromite)
- Shkalla shpk (Chromite)
- Shkëmbi shpk (Chromite)
- Tadri shpk (Chromite)
- Tollja (Chromite)
- Vellazeria shpk (Chromite)
- Ylberi shpk (Chromite)
- Selenice Bitumi sha (Natural bitumen)

Quarry sector (15)

- Alb Tiefbau (Limestone)
- Antea cement (Limestone)
- Babasi coo shpk (Limestone)
- F. Kruja cement factory (Limestone and clay)
- Makaresh shpk (Limestone)
- Salillari shpk (Limestone)
- Shkodra inert (Limestone)
- Stone Production (Limestone)
- Vellezerit Llupo shpk (Limestone)

- B & b Stone (Siliceous sandstones)
- Dks Group shpk (Siliceous sandstones)
- Albitoil shpk (Bituminous sands)
- Prodhime Karbonike sha (Slags of Ferrochrome)
- Arsi shpk (Sterile Chrome)
- Klervibris shpk (Sterile Chrome)

Annex 4: List and definition of the benefit streams from the mining sector selected for the EITI Report 2010

1. List of benefit streams

From companies in production (6)	From companies in exploration (4)
- Signature bonuses	- Signature bonuses
- Surface fees	- Surface fees
- Royalties	- Other significant payments to the State
- Corporate profit tax	- Other payments to local authorities
- Other significant payments to the State	
- Other payments to local authorities	

2. Definitions of benefit streams

Signature bonuses

Signature bonuses are occasionally determined (based on contract negotiations) upon the granting of an exploration or exploitation permit within the context of the specific contractual terms and conditions.

Surface fees

Surface fees are taxes payable by holders of mining exploration or production licences on the basis of the geographical area.

Royalties

Royalties are applied to the taxable value (or fiscal value) of sales.

Corporate Profit Tax

Corporate profit tax is calculated on the basis of taxable profit of the company.

Other significant payments to the State

For exhaustiveness purposes, companies should declare any payment made to the State that they would consider as significant (> 50,000 USD per annum).

Other payments to local authorities

For exhaustiveness purposes, companies should declare any payment made to the local authorities (county, district, municipality, commune) that they would consider as significant (> 5,000 USD per annum, e.g. Environmental city tax).

Annex 5: List of reporting State agencies and local authorities

State agencies

From the oil and gas sector (4)

- Albpetrol, declaring:
 - Signature bonuses (production licences)
 - Share of production allocated to the National Oil Company
 - Other significant revenues (> 50,000 USD or 5 MLeks)
- Nation Agency of Natural Resources (AKBN), declaring:
 - Signature bonuses (exploration permits)
 - Other significant revenues (> 50,000 USD or 5 MLeks)
- General Directorate of Taxes, declaring:
 - Royalties (domestic sales)
 - Corporate profit tax
 - Dividends from Albpetrol
 - Other significant revenues (> 50,000 USD or 5 MLeks)
- General Directorate of Customs, declaring:
 - Royalties (export sales)
 - Other significant revenues (> 50,000 USD or 5 MLeks)

From the mining sector (4)

- Nation Agency of Natural Resources (AKBN), declaring:
 - Signature bonuses
 - Other significant revenues (> 50,000 USD or 5 MLeks)
- General Directorate of Taxes, declaring:
 - Royalties (domestic sales)
 - Corporate profit tax
 - Other significant revenues (> 50,000 USD or 5 MLeks)
- General Directorate of Customs, declaring:
 - Royalties (export sales)
 - Other significant revenues (> 50,000 USD or 5 MLeks)
- Ministry of Economy, Trade and energy (METE), declaring:
 - Surface fees
 - Other significant revenues (> 50,000 USD or 5 MLeks)

Local authorities

All of the flowing local authorities have been asked to declare "Other significant revenues" (> 5.000 USD or 500 KLeqs)

From the oil and gas sector (15)

- Berat
- Bulqize
- Devoll
- Elbasan
- Has: no declaration received (no material impact)
- Kruje
- Kukes: no declaration received (no material impact)
- Librazhd
- Mat: no declaration received (no material impact)
- Pogradec
- Puke
- Shkoder: no declaration (no material impact)
- Skrapar
- Tropoje
- Vlore

From the mining sector (15)

- Berat
- Bulqize
- Devoll
- Elbasan
- Has: no declaration received (no material impact)
- Kruje
- Kukes: no declaration received (no material impact)
- Librazhd
- Mat: no declaration received (no material impact)
- Pogradec
- Puke
- Shkoder: no declaration (no material impact)
- Skrapar
- Tropoje
- Vlore



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