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Extractive Industries Transparency
Initiative in Albania

Summary of Report for years 2011
and 2012

November 2014

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A country's natural resources belong to its citizens. Citizens should have the right to see what their government is receiving from these resources. However, in too many countries this information is not publicly available.

EITI is based on the belief that prudent use of natural resources contributes to economic growth, sustainable development and reduction of poverty in resource-rich countries.

What is EITI?

The Extractive Industries Transparency Initiative (“EITI”) is a voluntary international coalition of governments, extractive industry companies and civil society organizations engaged in management and use of natural resources, such as oil, gas and other minerals. The transparency initiative is regulated through an international standard “EITI Standard”.

EITI’s final aim, is to promote transparency in order to prevent corruption as well as provide citizens with a basis for demanding fair use of revenue.

EITI begins a process whereby citizens can hold their governments to account for the use of those revenues.

Under this standard, companies declare what they pay and governments declare what they receive. These payments shall be reconciled by an independent administrator and are disclosed in an annual EITI Report. Alongside payments, this report shall disclose comprehensive information for use of country’s natural resources and contribution in economy.

EITI in Albania

The Extractive Industries Transparency Initiative in Albania was established in 2009. Albania joined EITI as a candidate in May 2009 and obtained the EITI compliant status in May 2013.

The process is overseen by the Albanian Multi-stakeholder Group (“MSG” or the “Albanian Working Group”), composed of various EITI stakeholders including the Government, extractive companies, civil society etc. The Albanian Working group is the decision-making body supervising the implementation of EITI in Albania, it is chaired by the Deputy Minister of the Ministry of Energy and Industry. The Albanian MSG is supported in its work by the EITI Albania Secretariat (“ALBEITI”).

Based in the framework of this initiative, on May 2, 2014 the MSG appointed Deloitte Albania Sh.p.k as independent administrator of EITI report for years 2011 and 2012.

EITI Albania has published four reports for years 2009, 2010, 2011 and 2012 respectively.

This publication is a summary of the third and fourth report, covering the years 2011 and 2012 respectively.

For more information about the legal framework, industry activity, the revenue collected by State and the process refer to the full report.

More information about EITI in Albania and the EITI reports can be found in ALBEITI office address Blv. “Zhan D’Ark”, Building no. 3 (former ME), 4th floor, Tirana or on the website www.albeiti.org.

Extractive sector in Albania

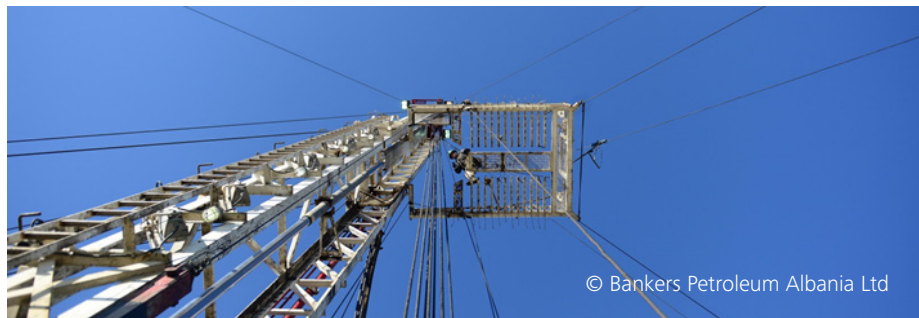
Extractive sector in Albania is regulated by Ministry of Energy and Industry ("MEI"), which is responsible for establishing energy and resources public policies and monitoring of the implementation of the legislation in this sector.

MEI is responsible for granting exploration and production licenses in the oil, gas and mining sector. More information about the plan of development and exploitation of natural resources and licensing procedures can be found on the website of the Ministry: www.energija.gov.al.

The National Agency for Natural resources ("AKBN") and Albanian Geological Service ("AGS") support MEI with the pre and post-licensing procedures, AKBN for production licenses and AGS for exploration licenses, respectively. Pre-licensing procedures include promotion of free sites, instruction of potential operators, technical verification of proposed production plan, and negotiation of investment plan and other terms. Post-licensing procedures include monitoring of licensees activity through periodical reports collected from the licensees and monitoring site visits.

Albpetrol Sh. A. was the only State-owned company engaged in the development, production and trade of crude oil and gas. Under Law No.10490 dated 15 December 2011, the Albanian Parliament decided to privatize Albpetrol.

An overview of the actual situation of licensing and free licensing areas in exploitation and production appears respectively in AKBN website: www.akbn.gov.al and Albpetrol website www.albpetrol.al for licenses administered by thereof.



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Exploration, development, and production of oil and gas

Exploration, development, and production of oil and gas in Albania are regulated by Law no.7746 "On Petroleum (Exploration and Production)" dated 28 July 1993 ("Law on Petroleum"). Law on Petroleum expressly states that all petroleum deposits existing in their natural condition in strata lying within the jurisdiction of Albania are the exclusive property of the Albanian State.

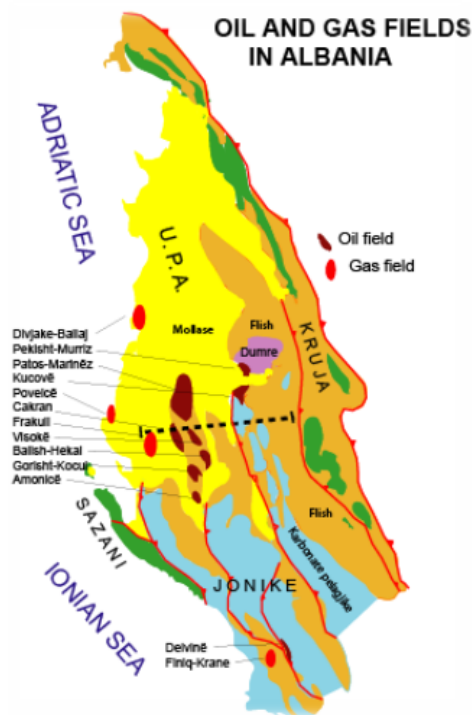
Based on this law the Ministry of Energy and Industry may enter into a Petroleum Agreement, whereby grants exclusive rights to explore and produce oil and gas for an initial production period no longer than 25 years. This period can be extended further as provided for in the Petroleum Law.

Petroleum agreements have all been developed as Production Sharing Agreements (PSAs), signed by the National Agency of Natural Resources (AKBN) on behalf of the Government of Albania and the licensee. Albpetrol is party to the agreements when PSAs grant oil fields under Albpetrol administration.

Oil and Gas reserves¹

Oil exploration in Albania began in 1918. . Since then, oil bearing fields were discovered in the following 11 onshore areas: Drashovica (1918), Patos (1927), Kuçova (1928), Marinza (1957), Visoka (1963), Gorisht-Koçul (1965), Ballsh-Hekal (1966), Finiq-Krane (1973), Cakran-Mollaj (1977), Delvina (1989) and Sqepuri (2001).

Based on studies performed by foreign companies and Albpetrol between year 1985 and 1990, petroleum reserves at existing Albanian drill sites totaled about 437.6 million tons, however recoverable stocks according to those estimations amounted to only 81 million tons.



Albania's petroleum reserves generally are located in the tertiary layers in south-western Albania, mainly in the triangle-shaped region delimited by Vlorë, Berat, and Durrës.

Albania's known natural gas reserves have been estimated at 18,164 million Nm³ and lie mainly in the Kuçova and Patos areas. Cumulative gas produced until the end of 2012 amounts to 12,504 million Nm³.

Figure 1 - Oil and gas fields explored in Albania

The table below lists geological and recoverable reserves for the existing oil fields in million tons:

Table 1 - Geological and recoverable oil reserves in million tons

Oil Fields	Reserves in million ton		Cumulative production up to 2012
	Geological	Recoverable	
Cakran –Mollaj	16.1	8.1	4.2
Ballsh-Hekal	19.7	6.5	5.1
Gorisht –Kocul	30.5	14.7	11.9
Amonice	2.8	1.5	0.7
Visoke	28.4	6.8	6.2
Delvine	0.3	0.1	-
Finiq –Krane	1	0.2	-
Drashovica	0.1	-	-
Total Limestone	98.9	37.9	28.1
Marineza	258.4	31.2	23.1
Kucova	80.3	12	4.2
Total Sandstone	338.7	43.2	27.3
Total	437.6	81.1	55.4

As shown above, the principal petroleum reserves (99% of total geological reserves) were located in:

- 2 sandstone areas: Kuçova and Marinza, which collectively comprise 77% of total geological reserves and 53% of recoverable reserves; and
- 4 limestone areas: Cakran –Mollaj, Ballsh-Hekal, Gorisht –Kocul and Visoka, which collectively comprise comprising 22% of total geological reserves and 45% of recoverable reserves.

1 - Address: <http://www.albpetrol.al/rezervat-gjeologjike/>

Extractive sector in Albania

In 2012, AKBN reported production of crude oil at 1,029,300 ton oil (2011: 894,500 ton) for an estimated value of USD 484 million (2011: USD 456.5 million).

Oil and gas production

Crude oil production in Albania began in 1929 with 750 tons of crude oil. After World War II production increased steadily and recorded the highest pick in 1974 with an annual production of 2.25 million tons. In the 80s oil production fell under 1 million tons per year and did not pick up until 2012.

Oil produced by private licensees operating in the petroleum sector represented 96% of total oil produced in 2012 (2011: 93%).

This production was extracted mainly from the Patos-Marinzha oil fields, operated by Bankers Petroleum, with around 85% of total crude oil production.

In 2012 Albpetrol reported that gas production was at 13.1 million Nm³, out of which 12.5 million Nm³ gas was extracted through petroleum production (2011: total production of 13.7 million Nm³, where 12.4 million Nm³ associated with petroleum)².

Chart 1- Oil produced in 2012

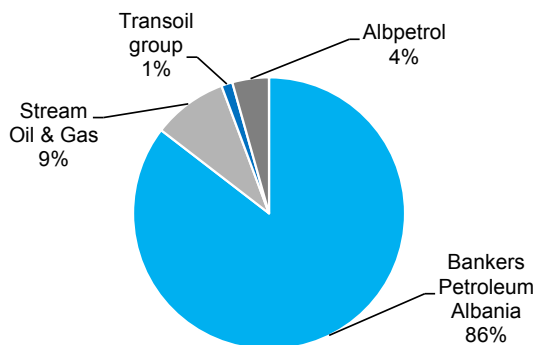
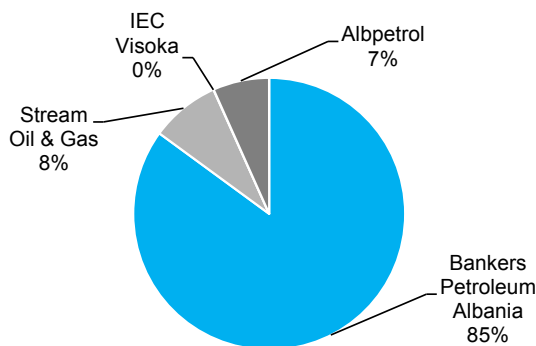


Chart 2- Oil produced in 2011



2 - This information was officially sent by Albpetrol to AlbEITI, who presented it in this report.

Exploration, development, and production of mining sector

Albania has a longstanding history in mining with significant mineral deposits of chromium, nickel, copper and limestone.

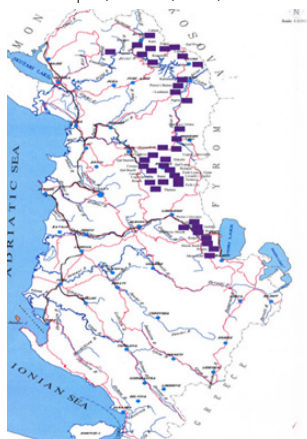
According to the Law on mining, the initial term of a production license shall be for 25 years, subject to renewal for additional 10 years.

As a traditional mining country, Albania contains an increasing number of medium, small-scale mining and quarry companies, and only a couple of large-scale industrial mining companies. In November 2011, AKBN reported 752 mining licenses, out of which 673 production licenses, operating mostly in Bulqiza (136), Kruja (65), Berat (45), Tirana (48) and Librazhd (40) districts, etc.

Chromium ore

Geological studies estimated that Albania had more than 36.9 million tons³ of chromite reserves, located mainly near the towns of Bulqiza, Kukës, Has, Mat and Pogradec.

Figure 2 - Chromium ore deposits map



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Copper ore

The main copper deposits, estimated at about 27 million tons³, are located near the northern towns of Pukë, Mirditë, Kukës, Has and Shkodër.

Iron-Nickel and Nickel-Silicate

Albania's deposits of iron-nickel and nickel-silicate estimated at 311 million tons³ are located near Pogradec, Librazhd, Bilisht, Kukës and Peshkopi.

Non-metal minerals

Geological studies in Albania up to 1995 revealed approximately 32 different kinds of rocks and non-metal industrial minerals, expanded all over the country, including: limestone, sandstones, dolomites, carbonate decorative stones, clay, granites, gypsum etc. These minerals can be extracted throughout our country. They constitute the main raw materials for the construction industry in Albania.

Albanian bitumen and asphalt deposits were located near Selenica and in the Vjosa River valley. Albania also possesses abundant deposits of salt, found near Kavajë and Vlorë

Figure 3 - Copper ore deposits map



3 - Invest in Albania Natural Resources - Mineral Resources, published August 10, 2010 by the National Agency of Natural Resources (AKBN) – www.akbn.gov.al

Extractive sector in Albania

According to AKBN, mining production was around USD 217.5 million in 2011 and USD 149.2 million in 2012. Production of chromium constitutes over 60% of annual mining production in the two years.

Prodhimi i kromit

Based on data presented by AKBN, production of chromium in 2012 amounted to USD 92 million comprising 62% of total mineral production (2012: USD 143 million, 66% of total mineral production). This production was mainly extracted from Bulqiza:

- 70% of total chromium production in 2011, and
- 58% of total chromium production in 2012.

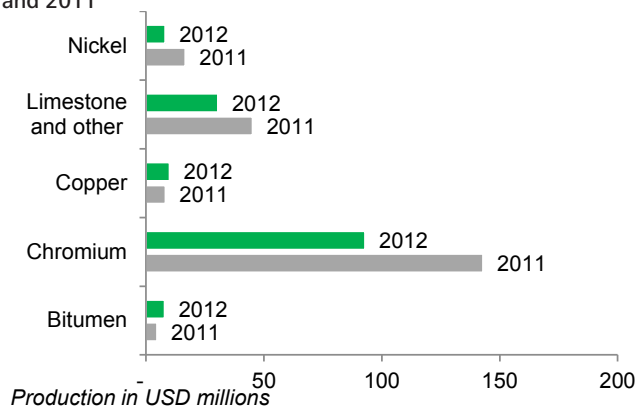
Albchrome (ACR – previously Albanian Chrome), operating the Bulqiza mine, was the largest industrial company extracting chromium in Albania with production counting about 11% of total chromium production in 2011 and 7% in 2012. Besides Albchrome, many medium and small-scale companies (more than 200 licenses) have extracting and collecting chromium production in Bulqiza, Tropoja, Has, Kukes, Mat etc

Production of copper ore

Beralb was the only industrial company extracting copper in 2012 and 2011, comprising 100% of copper production value in 2012 and 2011. Beralb holds production licences for the mines of Munelle, Lak Roshi, Karma and Fushe-Arres, all located in the province of Puke.

Chart below presents production value in USD by mineral for years 2011 and 2012:

Chart 3 – Mineral production value in USD in 2012 and 2011



Production of nickel compositions

In 2011, around 56% of nickel production was reported from Elbasan. In 2012, nickel was mostly extracted in the form of iron-nickel and nickel silicate, in the regions of Librazhd 56% (2011: 17%), Pogradec 12% (2011: 28%), Kukes 12% (2011: Nil) etc. In both years, production value was generated from medium and small-scale mining companies extracting this mineral, with few licensees collecting production of nickel from the medium and small-scale producers.

Production of limestone and other minerals

A large number of small-scale limestone mining companies operate throughout the country. Fushe-Kruja Cement Factory and Antea Cement operating in Kruja district was the largest producer of limestone in 2012 contributing respectively with 15% and 12% of total production value.

Contribution to Albanian Economy

AKBN reported total production of oil and mining at the amount of Lek 70.7 billion in year 2011 and Lek 65.8 billion in year 2012. Oil comprised 68% of the total extractive sector production in 2011 and 76% in 2012.

Based on data reported from INSTAT, production of oil, gas and mining represented about 4.3% of GDP in 2011 and 5.6% of GDP in 2012.

In 2011 exports from the extractive sector amounted at Lek 49 billion or 25% of total exports. In 2012 they increased at Lek 75 billion or 34% of total exports.

Petroleum exports, represented 71% of total exports from the extractive sector in 2012 (2011: 64%).

In 2012, 53% of total petroleum exports were directed to Italy, followed by Spain (34%), Malta (7%) and Germany (4%).

Exports from the mining sector collectively amounted to Lek 21.7 billion in 2012, or 29% of total exports from the extractive sector (2011: Lek 18 billion, comprising 36% of total exports from the extractive sector).

In the last two years chromium was mainly exported to China, Netherlands, Austria, Switzerland etc. However, China represented a major export destination country throughout the five year period from 2011 and 2012. Copper exports were mainly directed to Turkey and China.

Chart 4 – Production from extractive industry

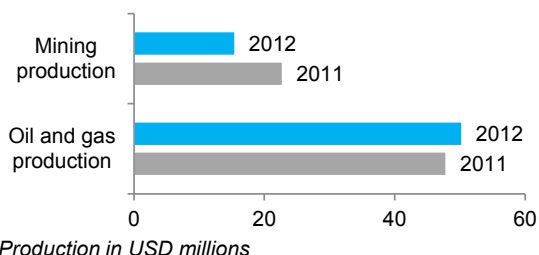
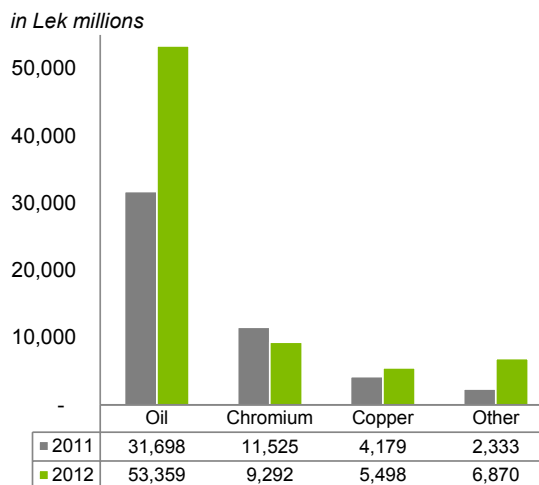


Chart 5 – Exports from extractive industry by mineral in 2012



Contribution of the extractive industry to total employment in the country is almost insignificant. AKBN reports that companies licensed in oil, gas and mining sectors employee collectively less than 1% of total employees in the country.

Contribution to Albanian Economy

Government's revenue from the upstream oil, gas and mining sector

The Albanian Government receives its share of the value created from the extractive industry through:

- Taxation of petroleum and mining activities
- Charges / fees and
- Dividends from ownership in Albpetrol sh.a

Main revenue streams contributed by the upstream extractive sector are described briefly in the following:

Royalties are payments made for the use of natural resources in accordance with Law No. 9975 "On national taxes", dated 28 July 2008, amended. Royalty for exports is collected by the Albanian Customs Administration and for domestic sales by the General Tax Directorate.

Under this law, royalty tax from sale of petroleum and gas is applied at 10% of taxable value, while for other minerals royalty tax varies from 4 to 7%.

Signature and training bonuses are typical features of Petroleum agreements. These are determined (based on contract negotiations) upon the granting of exploration permits or production licenses in oil and gas within the context of the specific contractual terms and conditions.

Signature bonuses are recovered both by Albpetrol (for the signature of production licenses) or AKBN (for the signature of exploration permits).

Profit tax is levied from the General Directorate of Taxes as a percentage of each company's net profit. Up to December 2013, in accordance with "Law on Income tax" No. 8438, dated 28 December 1998, amended, profit tax in Albania was charged at 10% on net profit. Starting from 1 January 2014 profit tax rate increased to 15% of the company's net profit. Full requirements of this Law apply to the mining sector.

Profit tax on petroleum sector is calculated to 50% flat tax on taxable profit regulated in accordance with Decree no. 782 "On fiscal system in petroleum sector" dated 22 December 1994 ("Law on petroleum taxation"). Under this law, taxable profit is equal to accumulated revenue less accumulated capital and operating expenses as specified in the terms of the Petroleum Agreement.

Share of oil production - Albpetrol holds share in oil produced by the companies operating in areas under its administration. As such is entitled to a share of production, which is defined contractually, based on deemed production (pre-existing production) and incremental production (production issued from contractor's investment). The Share of Production allocated to Albpetrol may be paid in cash or in kind.

In compliance with the Petroleum Agreements signed, companies shall transfer to Albpetrol the Pre - Existing Production ('PEP' at 65-75%) and Albpetrol's Share on Production ('ASP' at 1-5%).

Albpetrol is subject to taxes applicable to oil commercial entities such as profit tax, royalty, VAT etc. The Government is entitled to dividends and revenue from privatization of the company.

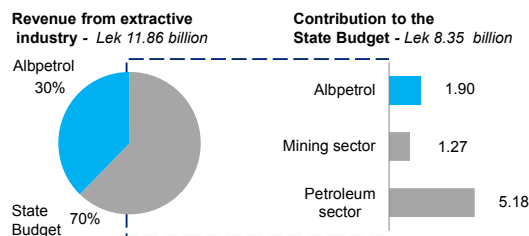
Revenue generated from the extractive industry from share of oil production, royalty, profit tax, and signature bonuses amounts to Lek 11.86 billion in total (2011: Lek 9.32 billion). This revenue includes oil production and bonuses amounting to Lek 5.41 billion collected by Albpetrol for production licenses under its administration (2011: Lek 3.56 billion). As a licensee, Albpetrol paid to the State budget royalty, profit tax, and dividend amounting in total Lek 1.9 billion (2011: Lek 0.75 billion). Payments amounting to Lek 8.35 billion or 70% of total cash flows from the extractive industry were recorded in the State budget (2011: Lek 6.5 billion or 70%).

Payments from extractive industry contributed to 2.5% of the total revenue in the State budget in 2012 (2011: 1.8%).

Oil and gas sector generated the largest share of this revenue, amounting to Lek 5.18 billion or 62% of total cash flows paid from the extractive industry to the State Budget (2011: Lek 3.97 billion or 62%). Albpetrol and the mining sector contributed with 23% and 15%, respectively (2011: 11% and 28%).

In 2012, payments made to Albpetrol from the oil, and gas licenses in accordance with the petroleum agreement were Lek 5.41 billion (2011: Lek 3.5 billion). Had these payments flown directly to the State Budget, the contribution of the industry to the State Budget would be 4.1% in 2012 and 2.9% in 2011.

Figure 5 – Analysis of cash flows from the extractive industry in 2012



According to Law on National taxes in force in 2011 and 2012, 25% of royalty tax shall be allocated to each local government unit ("LGU") where it is extracted the mineral production.

The Ministry of Finance reported that no sub-national transfers were made to LGUs in 2011. In 2012, sub-national transfers of royalty were Lek 41.7 million, which comprise 0.6% of total royalty levied.

According to the Ministry of Finance, in 2011 and 2012, revenues from the royalty payments were recorded in the State Budget in a pool and no accurate records were held on royalty generated out of each local government unit.

The figure on the left presents an overview of the cash flows generated from the extractive industry and their allocation between the State Budget and Albpetrol.

Reconciliation of revenues and payments

Selection of reporting entities for years 2011 and 2012

All companies operating an exploration license in oil, gas, and mining and a production license in oil and gas were required to report under the EITI Standard. Thus, cash flows reconciled for the oil and gas sector represent 100% of cash flows contributed by the sector for the selected revenue streams.

Because of the large number of small-scale producers in the mining sector, certain materiality criteria based on annual turnover and production were applied to select the most significant producers. The selection resulted in:

- 58 mining companies in 2011, (71.4% of the production value)
- 69 mining companies in 2012, (77.1% of the production value)

The total number of licensees selected for the reconciliation process:

- In 2011 was in total 67 comprising 8 oil companies, Albpetrol, and 58 mining companies
- In 2012 was in total 78 comprising 8 oil companies, Albpetrol, and 69 mining companies

Comparison of revenues with payments resulted in some discrepancies. Most of the discrepancies was explained by the work of reconciliation. Explained discrepancies resulted mainly due to amounts initially unreported or errors in reporting.

By the date of this report cash flows were reconciled to 99% of cash flows reported from licensees and the Government or licensees and Albpetrol in the two years

Table 2 Summary of reconciliation of cash flows to the State Budget in 2011 and 2012

Aggregated payments	Adjusted amounts in <i>Lek million</i> year 2012			Adjusted amounts in <i>Lek million</i> year 2011		
	Licensees	Government	Discrepancy	Licensees	Government	Discrepancy
Oil and gas sector	5,834	5,834	-	3,966	3,966	-
Mining sector	1,008	989	19	932	917	15
Albpetrol	1,889	1,901	(12)	760	741	19
Total	8,731	8,724	7	5,659	5,625	34

Table 3 Summary of reconciliation of cash flows to Albpetrol for oil production sharing and bonuses under the agreement in 2011 and 2012

Aggregated payments	Adjusted amounts in <i>Lek million</i> year 2012			Adjusted amounts in <i>Lek million</i> year 2011		
	Licensees	Albpetrol	Discrepancy	Licensees	Albpetrol	Discrepancy
Oil and gas sector	5,478	5,415	63	3,546	3,558	(12)
Total	5,478	5,415	63	3,546	3,558	(12)

Reconciliation of aggregated cash flows paid to the State budget from the oil and gas sector

Royalty stands out as the largest cash flow paid from the oil and gas sector to the State budget. This cash flow constitutes 79% and 87% of total payments reported by the oil and gas sector in 2011 and 2012, respectively.

None of the oil and gas companies resulted with taxable profit and made profit tax payments in 2011 and 2012.

Bankers Petroleum Albania contributed the largest share of the cash flows to the State budget with over 90% of the cash flows paid by oil and gas private sector in years 2011 and 2012.

Reconciliation of aggregated cash flows paid to the State budget from the mining sector

Profit tax and royalty comprise the main cash flow generated from mining sector, respectively 64% and 27% of total reported cash flows from the mining sector in 2011 and 55% and 43% of total reported cash flows from the mining sector in 2012.

Contributions from the two largest producers of chromium and copper in 2011 comprise together 54.4% of the total cash flows reported from the mining sector. These two companies were Beralb (copper) with a contribution amounting to Lek 292,389 thousand or 31% and Albchrome (chromium) with a contribution amounting to Lek 220,883 thousand or 23.4%.

In 2012, this contribution was 53% of the total cash flows reported from the mining sector. Payments for Beralb amounted at Lek 464,092 thousand or 46% of the total cash flows reported from the mining sector. Albchrome contributed with Lek 65,429 thousand or 7% of the total cash flows.

Table 4 - Aggregated payments from the oil and gas sector to the State budget – by revenue stream

Aggregated payments	Adjusted amounts in <i>Lek million</i> year 2012			Adjusted amounts in <i>Lek million</i> year 2011		
	Licensees	State	Discrepancy	Licensees	State	Discrepancy
Royalty – exports	5,104	5,104	-	3,128	3,128	-
Royalty – internal sales	125	125	-	724	724	-
Penalties	215	215	-	<i>Were not subject to reconciliation in 2011</i>		
Signature Bonuses	390	390	-	114	114	-
Total	5,834	5,834	-	3,966	3,966	-

Table 5 - Aggregated payments from the mining sector to the State budget – by revenue stream

Aggregated payments	Adjusted amounts in <i>Lek million</i> year 2012			Adjusted amounts in <i>Lek million</i> year 2011		
	Licensees	State	Discrepancy	Licensees	State	Discrepancy
Profit Tax	549	528	21	601	591	10
Royalty – exports	341	344	(3)	255	250	5
Royalty – internal sales	99	99	-	56	56	-
Penalties	8	6	2	<i>Were not subject to reconciliation in 2011</i>		
Dividend tax	<i>Repealed by the new mining law</i>			4	4	-
Profit Tax	11	12	(1)	16	16	-
Total	1,008	989	19	932	917	15

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