



European Communities

EUROPEAN PARLIAMENT

WORKING DOCUMENTS

English Edition

1985-86

9 October 1985

SERIES A

DOCUMENT A 2-114/85

REPORT

drawn up on behalf of the Committee on External Economic Relations

on economic and trade relations between the EEC and Albania

Rapporteur: Mr I. TZOUNIS

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Resolution adopted at the Sitting of 25 October 1985
is annexed

WG(VS)/1984E

PE 95.226/fin.

At its sitting of 13 November 1984 the European Parliament referred the motion for a resolution tabled by Mr FORD on the Community's trade relations with Albania (Doc. 2-927/84) pursuant to Rule 47 of the Rules of Procedure to the Committee on External Economic Relations.

At its meeting of 21 November 1984 the committee decided to draw up a report and appointed Mr TZOUNIS rapporteur.

The committee considered the draft report at its meetings of 19 December 1984, 31 January 1985, 26 March 1985, 20 May 1985 and 25-26 September 1985. It adopted the motion for a resolution as a whole unanimously on 26 September 1985.

The following took part in the vote: Dame Shelagh ROBERTS, chairman, Mr HINDLEY, vice-chairman; Mr TZOUNIS, rapporteur; Mr BEAZLEY (deputizing for Mr Kilby), Mr BLUMENFELD (deputizing for Mr van Aerssen), Mr de CAMARET, Mr COSTANZO, Mr MALLET (deputizing for Mr Mühlen), Mr MOORHOUSE, Mrs T. NIELSEN (deputizing for Mr de Winter), Mr ROSSETTI (deputizing for Mr Galluzzi), Mrs van ROOY, Mr SEELER, Mr TOUSSAINT, Mrs WIECZOREK-ZEUL, Mr ZAHORKA and Mr ZARGES.

The report was tabled on 30 September 1985.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.

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ANNEX: MOTION FOR A RESOLUTION Doc. 2-927/84

The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on economic and trade relations between the EEC and Albania

The European Parliament,

- having regard to the motion for a resolution by Mr FORD on the Community's trade relations with Albania (Doc. 2-927/84),
 - having regard to the report of the Committee on External Economic Relations (Doc. A 2-114/85),
- A. whereas economic and trade relations between Albania and the EEC are on an extremely modest scale but are capable of development,
 - B. convinced that the development of such relations in a particularly sensitive region of direct interest to the Community would benefit both the latter and Albania and contribute to the stabilization of the situation in this region of the Balkans,
 - C. aware of Albania's special political and diplomatic position,
 - D. bearing in mind the possibility of developments in that country,
 - E. believing that a more generally favourable climate must be created if economic and trade relations are to be improved and developed,
1. Expresses the desire to make possible in future an improvement and development of economic and trade relations with Albania;
 2. Notes with interest Albania's efforts to establish new trade relations with several Community countries;
 3. Considers that the Community should encourage any moves by Albania in that direction;
 4. Would like methods and procedures to be developed to promote economic and trade cooperation between the two parties;
 5. Believes that the European Community can play a positive and significant role in the development of Albania;
 6. Stresses that respect for human rights in Albania and respect for the rights of the numerous Greek minority, the existence of which has been internationally recognized as well as of the other minorities, would contribute to the creation of a more favourable climate for the development of cooperation with the Community;
 7. Stresses that incidents such as the recent killing of nationals of Member States of the Community by Albanian border guards do not help to improve relations with Albania;
 8. Instructs its President to forward this resolution and the report of its committee to the Council, the Commission and the governments of the Member States.

EXPLANATORY STATEMENTINTRODUCTION

Economic and trade relations between the Community and Albania are today of minimal significance for the former: in 1983 Albania accounted for only 0.03% of the Community's imports and 0.03% of its exports, which amounted to only 89,281,000 EUA and 99,170,000 EUA respectively. These figures speak for themselves. This report is thus concerned more with future prospects than the present situation and inevitably concentrates above all on the reasons for this state of affairs.

It must be stressed at the outset that anyone attempting to study Albanian foreign trade and the economy of Albania in general faces an exceptionally serious problem: the unwillingness of the Albanian authorities to provide relevant information. Until 1965 official publication with statistics was published annually; until 1959, however, these contained no reference to international trade. In 1965 this publication began appearing biannually and contained less information regarding external economic relations until publication ceased in 1972. Since then the Albanian authorities have only twice provided any substantial information regarding Albanian foreign trade: in 1974 it issued a publication entitled '30 Years of Socialist Albania' and in 1979 '35 Years of Socialist Albania'. The second contained less information than the first. Since then fragmentary information has been provided sporadically, but without statistics. We thus have no very clear picture of the situation. Albania remains the most closed country in Europe despite the fact that it has diplomatic relations with approximately one hundred countries, seventeen of which have embassies in Tirana.

Albania is a Mediterranean and Balkan country and covers 28,748 square kilometres. Its land borders with Yugoslavia and Greece are 577 kilometres in length, it has 472 kilometres of coastline and at the Straits of Otranto is only 75 kilometres from Italy. It clearly has great strategic importance as a bridgehead in the Balkans and as a Mediterranean base. It has played both these roles repeatedly in the course of its history. 76.6% of its territory is mountainous and its average elevation is approximately 700 m, approximately twice the European average. The coastal belt is the only plain in the country. Almost 40% of the territory is covered by forest. The subsoil is rich in chrome (in the north-east near the Yugoslav border) and there are oil reserves (in the Verati and Fier regions), ferro-nickel (from Pogradec to the valley of the upper Shkumbin), copper (in the Mirditias region), lignite (Tirana, Korç, Tepelene), asphalt and natural gas (Avlon and Fier). The numerous rivers are suited to the production of hydro-electric power and this possibility has been exploited.

Today, Albania has a population of almost three million and it is increasing more rapidly than any other country in Europe. It is estimated that by the year 2000 Albania will have a population of approximately four million. The population is the youngest in Europe, the average age being 25.7. Albania is unlike any other European country in that two-thirds of the population still live in the country. The division of the country into Ghegs in the north and Tosks in the south with their distinctive dialects separated

by the river Shkumbin does not appear to have been eliminated despite the measures taken by the regime. As long as Albanians enjoyed religious freedom - until 1967 - the majority were Muslims. There was also, however, a Christian minority (approximately 30%) most of whom were orthodox and the rest Catholics. The large Greek minority traditionally based in northern Epirus on the Greek/Albanian border continues to suffer systematic oppression. (In 1911 the Turkish authorities put it at 113,000. The Greek consular services estimate that before the Second World War it amounted to between 200,000 and 250,000. Owing to the lack of information, it is impossible to calculate the exact size of this minority today. The Albanian authorities only recognize between 30,000 and 40,000, having arbitrarily restricted this minority to two districts - Argyrokastron and Aghion Sarayta - though it is known that considerable numbers of Greeks reside in other regions of Albania).

Albania was the last Balkan country to be liberated from the Turks. The most backward state in Europe, socially and economically underdeveloped, it had great difficulty in asserting its independence and was unable to repulse the fascist attack in April 1939.

Since the end of the Second World War, Albania has been ruled exclusively by one party, the Albanian Communist Party (it changed its name to the Albanian Party of Labour in 1948) which in turn was controlled exclusively by one man for more than 40 years. The Albanian regime has maintained a Stalinist ideology and continued to pursue Stalinist policies up to the present, especially in the field of human rights, a subject about which (the European) Parliament is understandably very sensitive. It has, however, pursued a foreign policy which has placed it in a peculiar diplomatic position today.

The man who held absolute power in Albania for an exceptionally long period of time is now dead. In a country with the political system and traditions and the geographical position of Albania the succession may well spring a number of surprises, despite the smooth course of events so far. It is only human to hope for positive developments and the unexpected could very well happen. The Community is right to monitor events in Yugoslavia carefully and to formulate a policy such as will discourage any disruption of peace and the status quo in the Balkans.

Albania is still the poorest country in Europe. The World Bank has calculated that in 1981 the per capita GNP was \$820. Since the War and notably since 1951 the economy has been managed by a series of five-year plans characterized by their great centralization and austerity; particular importance has been given to industrialization, though systematic efforts have at the same time been made to avoid substantially altering the distribution of the population between the towns and the countryside. The electricity grid was completed in 1970. In the agricultural sector, the land was first distributed to the peasants; this was followed by full collectivization. Albania aimed to achieve self-sufficiency in certain products and the traditional crop, maize, was replaced by wheat; it seems that these efforts met with some success. However, even with the extension of arable ground into the mountainous regions the stepping up of agricultural production will create problems in future, and these the Albanian leadership is attempting to solve by structural means: increasing state farms as opposed to cooperatives and restricting the size of villagers' personal holdings which had already been reduced from 3,000 sq m to 300 sq m etc. It is estimated that in 1980 61% of

the active population worked in agriculture, 25% in industry and 14% in the services sector. One conclusion that can be drawn from the development of the Albanian economy is that frequently realism seems to have been sacrificed to party dogma, and the standard of living of the Albanian people has suffered through politically motivated choices covered by the cloak of ideology. Moreover, it seems that economic development has slowed down in the last few years.

I. THE EXTERNAL ECONOMIC RELATIONS AND FOREIGN POLICY OF ALBANIA

One essential point must be grasped in order to understand the external economic relations of Albania: from the establishment of the Communist regime until 1978, when Albania broke with China, foreign trade was directly dependent on the foreign policy pursued by the Albanian leadership. The Albanian regime attempted systematically to align tiny Albania exclusively with - or, to be more precise, to attach itself to - a larger Communist country which could give it political, diplomatic, military and economic support and defend its interests both at home and abroad.

Public opinion and international observers were impressed chiefly by the dramatic manner in which Albania broke with its successive patrons and the ideological justifications it gave for this as well as its extreme views on national independence. It is true that each patron was replaced by another one more distant - and therefore more harmless or at least less dangerous. Perhaps the real reason for the realignments of Albanian foreign policy was the determination of Albanian leaders not to allow some new political line adopted by rulers of the protecting country to endanger their position.

At all events, one of the consequences of the close and exclusive dependence of Albania on its three successive patrons, Yugoslavia (1944-1948), the Soviet Union (1948-1961) and China (1961-1978) has been that each patron has in turn accounted for an exceedingly large share of Albanian foreign trade. Each break has led to the total cessation of all economic ties, and this has had very serious implications for the economic development of the country (the interruption of development programmes, the withdrawal of technical advisers and of credit facilities). Foreign trade with the former patron was reduced to nothing overnight. Exactly the same scenario was re-enacted three times. And amongst the other unpleasant consequences of these breaks, Albania suddenly lost almost its only trading partner. One can therefore justifiably refer to 'political' foreign trade, or at least foreign trade exceptionally sensitive to foreign policy.

A substantial change has taken place since 1978. Albania no longer seems to be looking for new patrons. This is perhaps due to the fact that the Albanian leadership considers its position strong enough and the Albanian economy sufficiently stable to stand on its own two feet. Besides, Albania has exhausted the stock of possible patrons in the Communist camp. Its foreign trade is more balanced, no longer characterized by the one-sided alignment of former times. Political considerations are not so important in its choice of trading partners.

Let us examine in some detail the two phases of Albania's external economic relations.

1. The period of exclusive economic partners (1944-1978)

A. Relations with Yugoslavia (1944-1948)

At the end of the Second World War the Albanian regime, aware of its political weakness and of the immense problems facing Albania, a poor country ravaged by war, was anxious to bring about radical economic and social change. Albania clearly needed foreign aid and it was natural that it should turn to neighbouring Yugoslavia, especially in view of the very active role played by the Yugoslav Communist Party in supporting the fledgling Albanian Communist Party and the blessing given by the Soviet Union. Problems which had arisen between the two states during the two World Wars (border disputes, a tendency on the part of Yugoslavia to interfere in Albania's internal affairs) were brushed aside.

Economic cooperation between the two countries was particularly close after 1944. They decided to coordinate their economic programmes, the Albanian lek was put on a par with the Yugoslav dinar, a single customs area was established and customs duties between the two countries abolished. Plans were made to set up joint companies for the exploitation of raw materials, for foreign trade and other sectors. It is estimated that economic aid from Yugoslavia to Albania during that period amounted to \$33 m. The Yugoslavs claim that their financial aid constituted 57% of the revenue of the Albanian state in 1947 and 48% in the following year. The development of Albanian foreign trade during this period clearly shows the importance of Yugoslav aid: Albanian imports which amounted to only \$2.05 m in 1946 leapt to \$30.27 m in the following year while exports rose from \$1.91 m in 1946 to only \$4.75 m in 1947. This trade deficit could not have been covered without Yugoslav aid.

The decline in trade following the deterioration and subsequent severing of relations with Yugoslavia are equally significant: imports plummeted to \$18.8 m in 1948 and to \$12.89 m the following year. Exports continued to rise in 1948 (\$8.33 m) but these, too, fell in 1949 to \$5.82 m.

The events which led to Yugoslavia's break with the Soviet camp are well documented. Albania did not follow Yugoslavia's lead and pro-Tito elements lost the struggle for power. Enver Hoxha remained in power and Albania aligned itself exclusively with the Soviet Union, cutting off relations with Yugoslavia and reducing its trade with that country to nil. Albania's geographical separation from the Soviet camp by non-aligned Yugoslavia was to prove an advantage to the Albanian regime later in 1961 when it decided to dissociate itself from Krushchev's Russia.

B. Relations with the Soviet Union (1948-1961)

The Soviet Union and its satellites fully occupied the place vacated by Yugoslavia in Albania's economy and trade. From 1948 to 1961 these states literally monopolized Albania's foreign trade. During this period COMECON member states accounted for an exceptionally high proportion of Albanian trade: for instance, 99.94% in 1950, 99.70% in 1952 and 99.29% in 1955. These figures speak for themselves. During the period from 1950 to 1961 the percentage of Albanian trade accounted for by the Soviet bloc fell below 90% only in 1956 (87.71%) and in 1957 (86.90%), very probably owing to the upheavals of the destalinization and the events in Hungary and Poland, and of course in 1960 (88.68%) and in 1961 (75.59%) when the break was imminent.

The Soviet Union naturally accounted for the bulk of this trade: it frequently accounted for more than 50% of Albanian trade, as in 1951 (57.95%), 1953 (51.96%), 1958 (54.11%) and 1960 (53.89%). This figure fell to 36.05% in 1961 the last year of the Soviet-Albanian friendship (these two countries cut off diplomatic relations on 3 December 1961 and Albania withdrew from the Warsaw Pact in 1968 following the Soviet invasion of Czechoslovakia. Albania remained a member of COMECON but was inactive as it did not pay its contribution). In the following year trade was non-existent. The Eastern European countries accounted for the remaining share, led by Czechoslovakia with its developed industrial sector. It is interesting to note that trade with these countries continued even when Albania broke off diplomatic, economic and trade relations with the Soviet Union, very probably at the instance of the latter. So the percentage of Albanian trade accounted for by COMECON countries, minus the USSR, was 38.09% in 1962 and subsequently remained at a similar relatively high level.

During its honeymoon with the Soviet Union, Albania had substantial foreign trade deficits. This problem was overcome by significant economic aid from Russia estimated at approximately \$156 m for the period between 1947 and 1961; on top of this the Soviet Union granted a further sum of approximately \$100 m in the form of military and technical aid. Other Eastern European countries also furnished aid amounting to approximately \$133 m.

The measures taken by the Soviet Union preceding the break with Albania and the manner in which this break was effected had serious repercussions on the Albanian economy and Albanian trade. The Albanian political leadership, however, would have no truck with destalinization and there was nothing to stop it establishing the same kind of relations with China.

C. Relations with China (1961 - 1978)

Trade relations between China and Albania were initially on an exceedingly modest scale: China accounted for only 2.27% of trade in 1955, 6.98% in 1960 and 18.41% in 1961. But the break between Albania and the Soviet Union led to an impressive jump in Sino-Albanian trade to 50.03% in 1962 and 54.73% in the following year. And trade seems to have remained at approximately that level for the whole period of the Sino-Albanian friendship.

China, too, undertook to finance the Albanian economy and its foreign trade deficits. No reliable information is available regarding the level of aid granted: the Chinese claim that they provided aid worth \$5,000 m between 1957 and 1978, whereas Western sources claim that Chinese aid did not exceed \$838 m between 1959 and 1975.

For the third - and last - time, therefore, Albanian foreign policy led Albania to exclusive dependence on one trading partner. The Sino-Albanian friendship lasted longer than its predecessors, possibly because distant China was less able to impinge on the internal affairs of Albania. However, Albania feared that certain changes which occurred in the Chinese political scene might prove contagious and thus brought to an end the friendship between the two countries with ideological purity once again furnishing the pretext.

2. The period of multilateral Albanian foreign trade (1978 - ?)

In 1978, however, the Albanian leadership was more self-confident and the economy was less in need of support. It considered that the three successive breaks with its three successive exclusive trading partners had cost the country enough already - although it should be noted that Albania partly offset the damage caused by these breaks by failing to repay its debts to its former patrons - and it was not keen to repeat the process. Foreign trade lost some of its political and ideological strings and Albania sought some kind of balance in its choice of trading partners. However, since it was deprived of economic aid, Albania was forced to make systematic and intensive efforts to restrict somehow its trade deficit.

A. Relations with the Community

These changes brought about an improvement in trade with Member States of the European Community. Trade with the EEC had been non-existent in the 1950s, but improved somewhat owing to China's inability to replace the Soviet Union in supplying certain products. The situation has improved still further since the break with China.

Of course, from an ideological point of view, Albania totally rejects the European Community. This is illustrated for instance by the letter of the Central Committee of the Albanian Party of Labour and the Albanian Government to the Chinese authorities on 29 July 1978 (in which it officially announced the break with China). Albania accused China of 'aiming to strengthen the Common Market and European Union, entities created to maintain the proletariat of Europe in capitalist slavery and to oppress and exploit other peoples'. In practice, however, trade between Albania and the EEC has improved. A fairly clear picture of Community trade with Albania over the last few years emerges from the tables given in the annex to this report: they give overall trade figures as well as figures for each Member State, show the level and type of trade involved and indicate that the Community enjoyed a positive trade balance (between 1974 and 1984 it was negative only in 1979, 1980 and 1981).

However, some distinction should be drawn between the positions of the various Member States. For historical reasons Italy has been particularly keen to cultivate relations with Albania. The two countries have signed important agreements and organized meetings at ministerial level; more significantly, a decision has been taken to set up a ferry link between Trieste and Durres with ferries sailing every ten days (these are 5,000 t. ships and have a capacity of 30 lorries, 200 cars and 750 passengers). Italy today does more trade with Albania than any other Member State of the EEC and on a world scale is second only to Yugoslavia.

Relations between Greece and Albania are unusual. Diplomatic relations between them were restored only in May 1971 during the colonels' regime in Greece; officially, however, Greece is still in a state of war with Albania. The subject of the Greeks in northern Epirus remains a source of friction. Despite this, a series of agreements have been signed, trade has considerably increased, the Greek national airline operates flights to Tirana, road communications between the two countries have improved although traffic is maintained at a very low level (on 1 January 1985 the border post of Kakavia was reopened for transfrontier traffic) and Albania sells electric power to Greece. An agreement has recently been signed providing for a ferry service to be set up between Corfu and Aghia Saranta.

The Federal Republic of Germany is another Member of the Community with significant trade links with Albania, despite the fact that diplomatic relations between the two countries have not been restored as Albania is still demanding war reparations.

The United Kingdom, on the other hand, does only a limited amount of trade with Albania. The restoration of diplomatic relations is prevented by a continuing dispute between the two countries dating back to the incident in the Corfu Channel. The United Kingdom demands the payment of the compensation (amounting to approximately £840,000) awarded to it by the International Court of The Hague after two British destroyers hit mines in 1946 and, until such time as it obtains satisfaction, is refusing to return to Albania 2,450 kilos of gold belonging to the National Bank of Albania.

The European Community seems a natural trading partner for Albania. Its geographical position, its economic strength and its technological know-how ideally suit it for this role; and, of course, with no political strings attached.

B. Relations with Yugoslavia

The fact that Yugoslavia is once more Albania's leading trading partner sheds an interesting light on the new Albanian attitude to foreign trade. As has already been mentioned, trade between the two countries came to a complete standstill after the 1948 break. The Albanian leadership's fierce ideological opposition to Marshall Tito's regime long precluded any resumption of trade between the two countries. After remaining at an extremely modest level for many years, Yugoslav-Albanian trade is very gradually beginning to recover (in 1983 it amounted to approximately \$130 m).

Since 1981, however, a new crisis in Kosovo has caused considerable tension between the two countries. (Kosovo is an autonomous region in Yugoslavia with a sizable Albanian population; severe disturbances broke out there in spring 1981.) This has led to a decline in trade between Albania and Yugoslavia and seems to have been responsible for the delay in the completion of a fifty-four-kilometre track from Titograd to Skodra, connecting the railway networks of the two countries, a long-standing Albanian demand. In addition, certain restrictions have been imposed on Albanian lorries passing through Yugoslav territory. However, it is clear that both sides are attempting to defuse the situation as they do not wish to allow trade to become a victim of political differences. However, the fear that Yugoslavia might obstruct their communications with the rest of the world and confine Albanian trade to Yugoslavia is perhaps encouraging Albania to seek closer links with Western Europe.

C. Relations with Turkey

Recently relations with Turkey have somewhat improved: ministers have exchanged visits, a trade agreement was signed in 1982 and renewed two years later and an aviation agreement was concluded in 1984 but flights have not yet been scheduled between the two countries.

