

# Albania:



## Attempting to escape a dependence on oil and hydropower

Albania has a population of just under 3 million. Its coastal location and mountainous terrain offer **excellent conditions for the development of renewable energy**. RES currently account for around 37% of the energy mix, thanks to the fact that **90% of electricity is generated from hydropower**. The country is thus in an advantageous position with regard to decarbonisation of the electricity sector and its CO<sub>2</sub> emissions remain very low. However, its dependence on hydro makes it vulnerable to climate change. The inadequate regulatory framework and non-transparent environment also means that hydroelectric construction has been plagued by corruption scandals and environmental problems.

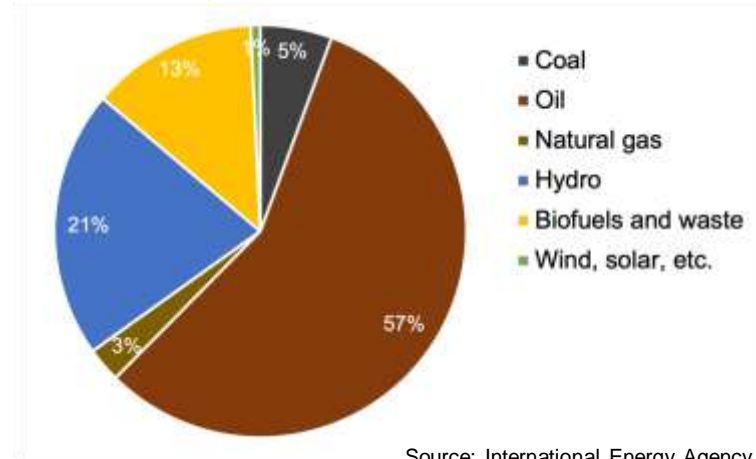
The country has faced power outages in recent decades due to low water levels and losses in the distribution network. The situation has improved, but **Albania imports on average around a third of the electricity it consumes**. Given the rapid development of the economy and rising consumption, **it is essential to build new generation capacity**.

The considerable potential of wind and solar energy is still untapped, but the **2017 Renewable Energy Law** has set the regulatory framework and a feed-in tariff system, **opening the door for investment**. Many projects are now in the process, including large solar and wind parks. Another priority for the government is the **gasification of the country**. Albania is not connected to the regional gas infrastructure and its old gas network is dysfunctional. It is a transit country for the TAP gas pipeline, but a connection to it is only in the planning phase. The construction of an LNG terminal in Vlorë and the conversion of an idle oil power plant to gas therein should also be a part of this endeavour.

Alongside hydropower, **oil is currently the key energy component, accounting for more than half of the total energy mix**. Albania is one of the few Balkan countries that produces oil but cannot process it. Most of its production is exported and domestic consumption is dependent on imports.

**Energy savings are an important opportunity for Albania.**

## Total energy supply by source, 2019 (%)

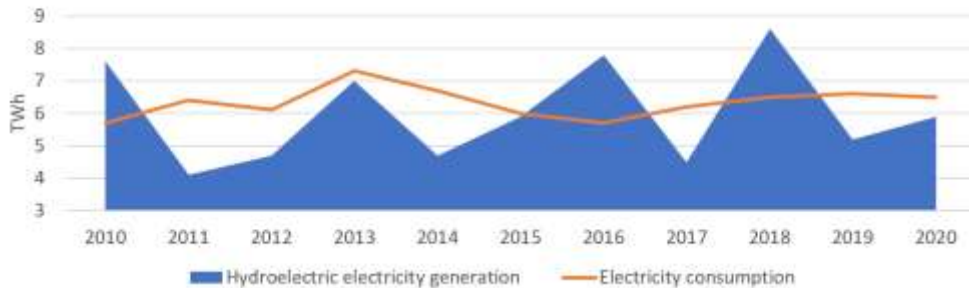


Source: International Energy Agency

## Key challenges for the energy transition

- **Reducing the massive fluctuations in inter-annual electricity production** by diversifying renewable energy sources; the **development of photovoltaics** is particularly promising.
- **Reducing energy losses in the transmission and distribution system and making energy use more efficient**, including by modernising heating (electric and wood heaters are the most common).
- **Reducing dependence on oil**, which fuels the entire transport sector and that accounts for 40% of total energy consumption. **Modernising and greening transport** is therefore a key challenge.
- **Improving the legal and regulatory environment** for the development of renewables and gasification, increasing transparency, tackling corruption and genuinely assessing environmental risks.
- **Alignment with the EU ETS** so that the country would not be negatively affected by the introduction of the CBAM.

Fluctuations in electricity generation  
(source IEA)



## Position of domestic actors

Although the private sector accounted for 43% of total electricity generation in 2019, the main actors in the electricity market are state-owned. The power company KESH owns three large hydroelectric plants on the Drin River as well as a diesel power plant in Vlorë, which has not started operating due to problems in the cooling system. The state-owned transmission operator (OST) and distribution company (OSSH) were separated from KESH 20 years ago and returned to state hands after the ČEZ analysis. Other important actors are the state regulator (ERE) and the agencies for energy efficiency, the environment (responsible for EIA), and for natural resources (in charge of identifying suitable zones for solar and wind development or granting oil production licenses).

At the government level, the **Ministry of Infrastructure and Energy, led by Belinda Balluka** since 2019, is in charge of the sector. Although the ruling Socialist Party of Prime Minister Edi Rama has been in power since 2013, Balluka has made several personnel changes (including to the leadership of the KESH and OST). Immediately after taking office, she also announced a moratorium on new hydropower plants and initiated a review of 182 licenses due to unclear benefits, implementation status and environmental impacts. Under her leadership, the ministry has been able to attract foreign investors and move forward with the construction of larger solar and wind power plants as well as the development of gas infrastructure. **Rama appointed Balluka as Albania's deputy prime minister this summer, a testament to the importance given to the sector.**

## International actors

**Albania's strongly pro-Western orientation**, which is not a given among the Western Balkan states, is also reflected in the energy sector. **European companies and banks, development agencies and international financial institutions such as the World Bank, the European Investment Bank and the European Bank for Reconstruction and Development are key foreign players.** European companies are also heavily involved in the current development of renewable energy sources. An example could be the French company Voltalia that recently won contracts to build two large solar parks - Karavasta (140 MW) and Spitalle (100 MW).

**European companies are present among the small and medium hydropower plants, several of which are also owned by Turkish companies.** However, the experience with European companies has not always been positive, as in the case of the fiasco of the construction of the Vlorë thermal power plant by an Italian company or the takeover of the OSSH distribution company by the Czech utility ČEZ.

**Of the non-Western players, only China has made a significant entry into the energy sector.** In 2016, as part of Albania's largest investment in decades, the Chinese company Geo-Jade Petroleum bought the Canadian company Bankers Petroleum. It operates the Patos-Marinza oil field, which **generates about 90% of Albania's total oil production.** Albania, like Montenegro and Kosovo, **is not dependent on natural gas from Russia and has a diversified oil supply.** The envisaged gasification of the country should bring in gas from Azerbaijan and LNG from the USA.

Chinese investment has attracted US attention to Albania. **In March 2021, Albania signed an agreement with US ExxonMobil and Exxelerate Energy to build a LNG terminal in Vlorë and convert the local oil plant to gas.**

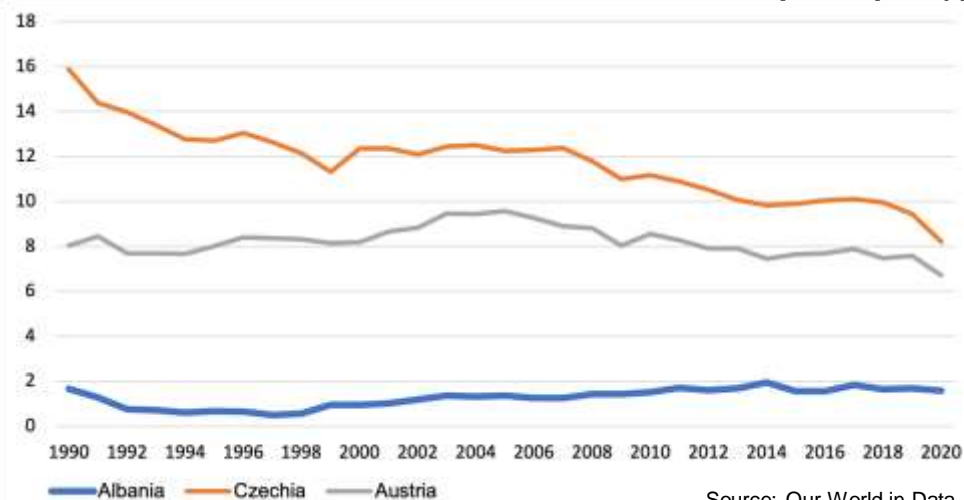
**Albania's energy market is integrated with Kosovo's**, and both countries plan to cooperate on gasification projects. As part of the Open Balkans initiative, Albania has set up a **working group with Serbia and Northern Macedonia to cooperate in the energy sector**, in particular on renewable energy investments and the integration of energy markets.

## Role of the EU

The European Union is key in shaping Albania's energy sector. Albania has been an EU candidate since 2014 and accession talks were launched at the beginning of the 2022 Czech Presidency. Like other Western Balkan countries, it is also a member of the Energy Community, which aims to create a single energy market. Albania is thus bound by the EU regulatory framework and is working to transpose European legislation in the areas of supply, infrastructure and distribution, energy market liberalisation, diversification of resources including renewable energy and increased energy efficiency. The EU is financially supporting Albania's transition under its pre-accession assistance (IPA) programmes.

Albania is also a signatory to the Sofia Declaration on the Green Agenda for the Western Balkans, which is linked to an EU investment package aimed at increasing energy efficiency, introducing an emission allowance system or developing renewable energy sources. Albania is committed to decarbonising its economy by 2050, harmonisation with European climate laws and taking further steps in policy making and strategy development to reduce emissions and protecting the climate.

CO2 emissions per capita (t)



Source: Our World in Data

## Relevance for Czechia

The Czech Republic has left a significant footprint in the Albanian energy sector in the form of a negative experience with ČEZ, which in 2009 acquired a 76% stake in the distribution company OSSH in a privatization tender. In 2013, the Albanian regulatory authority revoked ČEZ's license on the grounds that it had failed to secure electricity imports and invest in the grid. The state administrator took over the management while ČEZ triggered arbitration proceedings with Albania. As part of a settlement agreement, the company withdrew from Albania in an exchange for a remuneration of the original investment. ČEZ was also accused of corruption and bribery in Albania, but the accusations were never proved either before the Czech or the Albanian courts.

Opportunities for Czech companies include expanding renewable energy capacity, especially small solar power plants, and modernising the transmission and distribution system, which is one of the government's strategic goals. Reducing transmission and distribution losses (through smart grids and network digitisation) and developing long-distance transmission capacity including the construction of substations, opens up the possibility for Czech companies to subcontract equipment, transformers or technologies for monitoring losses and optimising transmission and distribution. Transport is also a promising sector for Czech companies, which could participate in its modernisation and greening. Large investments planned, for example, in the reconstruction of the railway network.

Another area for experienced and qualified Czech companies are gas projects. However, as a long-standing supporter of Albania's integration into the EU, the Czech Republic should be restrained in its supporting gas projects that may put Albania off track from achieving its climate goals.

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