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Factors Affecting Retail Diesel Prices in Albania: A Comprehensive Analysis

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ABSTRACT: Retail diesel prices in Albania are among the highest in the region, influenced by a combination of taxation policies, global economic factors, supply chain inefficiencies, and government regulations. This paper analyses the key determinants of diesel pricing in Albania by examining tax structures, market dynamics, exchange rate fluctuations, and policy interventions. The study aims to provide a comprehensive understanding of price formation mechanisms, their impact on consumers and businesses, and potential policy recommendations to stabilize or reduce diesel prices. The findings suggest that taxation policies and market inefficiencies play a significant role in keeping diesel prices high. Addressing these issues through policy adjustments and market liberalization could improve affordability and economic sustainability.

KEYWORDS: Retail diesel prices, crude oil price, taxation, exchange rate, market dynamics.

I. INTRODUCTION

Diesel is a critical fuel for economic activities, impacting industries such as transportation, logistics, and agriculture. The cost of diesel directly affects consumer goods pricing and inflation. Albania has one of the highest diesel prices in the Balkans, raising concerns about its economic impact and competitiveness. This paper explores the factors that contribute to the high retail diesel prices in Albania and evaluates potential policy solutions.

The objective of this study is to analyse the major components influencing diesel prices, including:

Taxation policies and government levies.

Market competition and regulatory oversight.

Global crude oil price trends and currency exchange rates.

Domestic production and supply chain inefficiencies.

The impact of price regulations and government interventions.

By understanding these elements, policymakers can make informed decisions to improve pricing mechanisms and reduce economic burdens on consumers and businesses.

II. TAXATION POLICIES AND GOVERNMENT LEVIES

Taxation plays a fundamental role in shaping diesel prices in Albania, contributing significantly to the final retail cost. Various taxes and levies imposed by the government are designed to generate revenue, regulate fuel consumption, and contribute to infrastructure maintenance and environmental protection. However, these taxes also increase the cost of fuel, making it one of the most expensive commodities in the country.[6]

The Albanian government applies multiple layers of taxation on diesel fuel, including excise taxes, turnover taxes, carbon taxes, and value-added tax (VAT). The combined effect of these taxes results in one of the highest diesel prices in the region, raising concerns about the economic burden on consumers and businesses that depend on fuel for daily operations.[5],[9].

The taxation structure on diesel fuel follows a fixed-rate model where specific taxes are imposed per litre of fuel sold. Unlike some countries that adjust fuel taxes based on global market conditions, Albania maintains a relatively rigid taxation framework, [7]. As a result, even when global crude oil prices decline, the impact on retail fuel prices in Albania remains limited due to the high tax component.

One of the primary concerns with the existing taxation model is its disproportionate impact on businesses, particularly those in the logistics, transportation, and manufacturing sectors. The high cost of fuel directly increases the operational expenses of these industries, leading to higher prices for goods and services. Additionally, small businesses and low-income consumers bear the burden of high diesel prices, reducing their purchasing power and limiting economic mobility. The rationale behind high fuel taxation often revolves around environmental concerns and infrastructure funding. The Albanian government justifies these taxes as necessary to curb excessive fuel consumption and reduce carbon emissions while ensuring adequate revenue for road maintenance and infrastructure development. However, critics argue that such policies disproportionately affect the lower and middle classes while failing to provide viable alternatives, such as an efficient public transportation system or incentives for cleaner fuel technologies.

Given the significant impact of fuel taxes on the economy, policymakers must carefully balance revenue generation with affordability. Potential solutions include revising excise duties, introducing tax breaks for businesses that rely heavily on diesel, or implementing a dynamic tax adjustment system that aligns with global fuel price trends.

III. GLOBAL ECONOMIC INFLUENCES

3.1 Diesel Price Fluctuations and Crude Oil Prices

Since Albania relies heavily on diesel imports, fluctuations in global crude oil prices have a direct and profound impact on domestic diesel prices. The international oil market is highly volatile and influenced by a range of factors, including geopolitical events, supply and demand imbalances, production decisions by major oil-producing nations, and economic cycles.[3]

Crude oil prices are determined by international benchmarks such as Brent Crude and West Texas Intermediate (WTI). These prices are affected by various global dynamics, including:

- **Geopolitical Tensions:** Political instability in oil-rich regions, such as the Middle East, can disrupt oil supply chains and lead to sudden price spikes. Conflicts, sanctions, and trade restrictions imposed on major oil-producing nations have historically contributed to volatility in global fuel markets.
- **OPEC+ Production Decisions:** The Organization of the Petroleum Exporting Countries (OPEC) and its allies (OPEC+) play a crucial role in setting oil production quotas. Production cuts or increases decided by OPEC+ directly influence crude oil prices and, consequently, the cost of diesel in oil-importing countries like Albania.
- **Global Supply and Demand Dynamics:** Economic growth or downturns across the world influence oil demand. In times of economic expansion, industrial activities and transportation needs increase, pushing up oil prices. Conversely, during economic recessions, demand for oil declines, leading to lower prices.
- **Natural Disasters and Weather Events:** Hurricanes, earthquakes, and other natural disasters can disrupt oil production and refining infrastructure, leading to short-term price surges.
- **Speculation in Oil Markets:** Financial market speculation and investments in oil futures contracts also contribute to price volatility. Large investors and hedge funds trading in crude oil futures can cause price swings unrelated to physical supply and demand.

In Albania, the high dependence on imported diesel means that any fluctuation in crude oil prices is quickly reflected in domestic fuel costs. Because fuel importers and distributors set prices based on international trends, Albanian consumers and businesses remain vulnerable to external shocks. Unlike some countries that implement fuel price stabilization mechanisms, Albania's pricing system is directly exposed to market fluctuations, leading to frequent price adjustments.

3.2 Exchange Rate Fluctuations

The exchange rate between the Albanian Lek (ALL) and the US Dollar (USD) plays a crucial role in determining the cost of diesel imports. Because Albania does not refine its own diesel and relies heavily on fuel imports, most transactions in the global fuel market are conducted in USD. When the value of the ALL depreciates relative to the USD, the cost of importing diesel increases, leading to higher retail prices for consumers and businesses.

Several factors contribute to fluctuations in the exchange rate,[5] including:

- **Macroeconomic Stability:** Inflation, interest rates, and economic growth affect investor confidence and currency valuation. High inflation in Albania weakens the ALL, making fuel imports more expensive.
- **Trade Balance and Foreign Reserves:** If Albania imports more goods than it exports, the increased demand for foreign currency (such as USD) leads to currency depreciation, further increasing diesel costs.
- **Monetary Policy and Central Bank Interventions:** The Bank of Albania influences the exchange rate through interest rate adjustments and foreign currency market interventions. A weaker currency worsens fuel price volatility.

- External Shocks and Global Economic Trends: International economic downturns, geopolitical conflicts, and commodity price shocks affect currency values, contributing to unpredictable exchange rate movements.

Impact on Diesel Prices. As the ALL depreciates against the USD, importers must pay more for fuel, a cost that is then passed on to consumers. This effect is amplified by already high taxation and supply chain costs, making diesel prices particularly sensitive to currency fluctuations.

Potential strategies to mitigate exchange rate volatility include:

- Strengthening Albania's foreign exchange reserves to stabilize currency movements.
- Encouraging domestic industries to increase exports, reducing the trade deficit.
- Enhancing monetary policies to control inflation and stabilize the ALL.

IV. DOMESTIC PRODUCTION AND SUPPLY CHAIN INEFFICIENCIES

4.1 Limited Domestic Refining Capacity

Albania has proven oil reserves, but its refining capacity remains underdeveloped. Without operational refineries, the country must import refined diesel, which significantly raises costs. This dependency on imports results in:

- Higher Transportation Costs: Fuel must be transported long distances from refineries in other countries, increasing logistical expenses.
- Exposure to Global Price Volatility: Since Albania imports nearly all of its diesel, it remains vulnerable to global crude oil price fluctuations, OPEC+ production decisions, and supply chain disruptions.
- Additional Import Duties and Tariffs: Fuel imports are subject to customs duties, increasing the final price of diesel in the domestic market.

Developing local refining infrastructure could mitigate some of these costs, reducing reliance on imports and stabilizing domestic fuel prices. However, this requires significant investments and regulatory support.

4.2 Supply Chain and Distribution Costs

Beyond crude oil prices and taxation, Albania's diesel supply chain adds considerable costs to the final retail price. Several inefficiencies contribute to higher diesel prices [4] including:

- Inefficient Infrastructure: The country's transportation network, including roads, pipelines, and storage facilities, lacks modernization, increasing distribution costs.
- High Operational Costs: Storage facilities, security measures, and fuel transportation contribute to elevated costs before diesel even reaches consumers.
- Intermediary Markups: Wholesale and retail fuel suppliers add price markups at various distribution stages, further inflating costs for businesses and households.

Potential improvements to reduce supply chain costs include:

- Investing in modern fuel storage and pipeline infrastructure.
- Encouraging competition among fuel distributors to prevent excessive markups.
- Improving transport logistics to minimize unnecessary expenses.

V. POLICY AND REGULATORY INTERVENTIONS

The **Transparency Board** regulates diesel prices in Albania by setting maximum price limits. This policy was introduced to prevent excessive price spikes and protect consumers from sharp increases in global fuel costs. However, this regulatory intervention has received mixed reactions.[7]

Advantages of Government Price Controls:

- Helps stabilize diesel prices, preventing erratic fluctuations that could harm businesses and consumers.
- Protects vulnerable households from sudden fuel cost increases, maintaining economic stability.

Criticism of Price Regulations:

- Artificially high price floors prevent prices from decreasing when global oil prices drop, keeping diesel expensive.
- Reduced competition among fuel suppliers, as the market adapts to state-imposed price ceilings.
- Potential inefficiencies in price setting, where regulated prices do not always reflect real-time market conditions.
- Alternative regulatory approaches include:

- Implementing a flexible price regulation system that adjusts to international oil price trends while allowing market forces to operate effectively.
- Providing targeted fuel subsidies for businesses in essential sectors, such as agriculture and public transport.
- Increasing transparency in fuel pricing mechanisms to ensure fair pricing for consumers.

While price regulations can prevent short-term volatility, a balanced approach that encourages competition while maintaining consumer protection is essential for long-term economic sustainability.

VI. BREAKDOWN OF DIESEL TAXES IN ALBANIA, REGIONAL COMPARISON

Retail diesel prices in Albania are heavily influenced by taxation. The following tables show the tax components applied to diesel fuel in Albania and comparison with neighbouring countries. [5],[9]

The excise tax represents a substantial portion of the overall tax burden, being a fixed charge applied to all diesel sales. Excise duties are generally imposed to discourage excessive consumption and to generate steady government revenue, regardless of fuel price fluctuations. Meanwhile, the turnover tax and VAT contribute additional costs, further inflating diesel prices. The carbon tax, though relatively small, reflects Albania's efforts to implement environmental policies by penalizing carbon emissions linked to fuel combustion.

A comparison of fuel taxes in Albania versus neighbouring countries reveals significant disparities:

Tax Type	Amount (ALL/litre)
Excise Tax	38
Turnover tax	27
Carbon Tax	3
VAT (20% in total)	Varies (Depends on the price)

Country	Total Tax Burden (ALL/litre)
Albania	~110
Kosovo	~50
North Macedonia	~45
Montenegro	~70
Serbia	~85

Total estimated tax burden: ~110ALL/litre

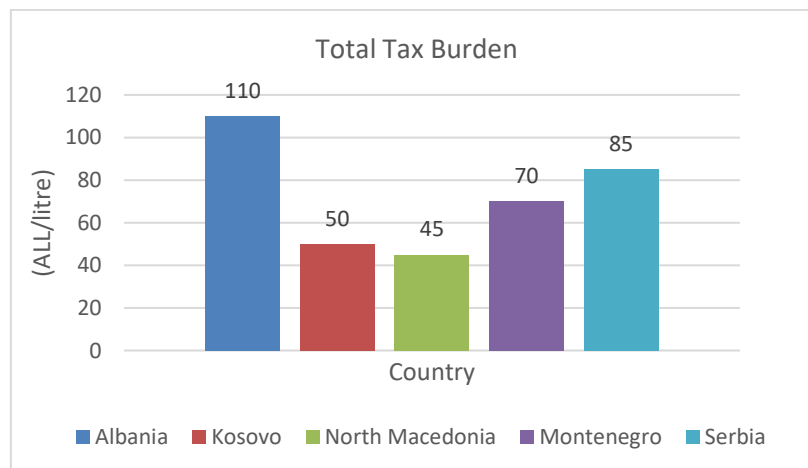


Fig.1: Taxation impact on Diesel Prices in Albania vs. Region

VII. THE RELATION BETWEEN CRUDE OIL AND DIESEL PRICES

The chart below illustrates the relationship between Brent crude oil prices (\$/barrel) and retail diesel prices (ALL/Litre) in Albania from 2020 to 2024. The pattern in the chart shows a strong positive correlation, meaning that as crude oil prices rise, diesel prices in Albania tend to increase as well. Similarly, when crude oil prices decline, diesel prices tend to follow.[6],[8]

Trends and Patterns in the Chart

a) Rising Prices (2020 - 2022)

- Brent crude prices increased from \$42.3 per barrel in 2020 to \$100.3 in 2022.
- Diesel prices also rose sharply from 145 ALL/Litre to 240 ALL/Litre in the same period.
- This sharp increase can be attributed to global economic recovery after the COVID-19 pandemic, supply chain disruptions, and the energy crisis caused by geopolitical tensions (such as the Russia-Ukraine war).
- Higher crude oil prices resulted in higher fuel production costs, which were passed on to consumers.

b) Declining Prices (2023 - 2024)

- Brent crude prices dropped to \$85.2 in 2023 and further to \$78.6 in 2024.
- Diesel prices also declined from 240 ALL/Litre in 2022 to 190 ALL/Litre in 2024.
- The decline in crude oil prices was due to stabilization in global oil supply, weaker demand, and economic adjustments.
- The strengthening of the Albanian Lek (ALL) against the US Dollar (USD) in 2023-2024 may have also contributed to lowering import costs, further reducing diesel prices.

Key Observations

- Direct link between crude oil and diesel prices: The strong alignment between both lines in the chart indicates that diesel prices in Albania are heavily influenced by fluctuations in Brent crude oil prices.
- Lag in price adjustments: Even though crude oil prices started decreasing after 2022, diesel prices did not drop immediately or proportionally. This suggests the influence of additional factors like taxes, refining costs, import duties, and fuel distribution expenses.
- Diesel prices remain higher than pre-2020 levels: Despite the decrease in crude oil prices after 2022, diesel prices in Albania are still higher than they were in 2020. This could be due to:
 - Inflation and increased production costs
 - Government fuel taxation and policies
 - Fluctuations in the global energy market
 - Long-term impacts of the energy crisis on fuel pricing

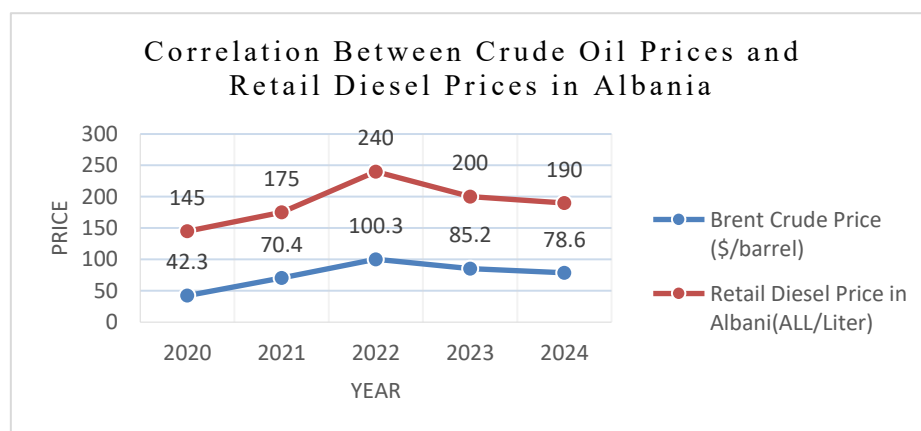


Fig.2. Relation between crude oil and retail diesel prices

VIII. CONCLUSION

Retail diesel prices in Albania are shaped by a combination of taxation policies, global market influences, domestic inefficiencies, and regulatory frameworks. The interaction of these factors results in one of the highest fuel price burdens in the region, directly impacting economic productivity and the cost of living for Albanian citizens.

Key Findings

- **Taxation Policies:** Albania imposes multiple taxes on diesel, including excise duties, turnover taxes, VAT, and environmental levies. These taxes make up a substantial portion of the retail price, often insulating the domestic market from potential global price reductions.
- **Global Market Influences:** As an import-dependent country, Albania is highly vulnerable to fluctuations in international crude oil prices and exchange rate movements. Any depreciation of the Albanian Lek (ALL) against the US Dollar (USD) increases the cost of diesel imports, pushing up further retail prices.
- **Domestic Inefficiencies:** Limited domestic refining capacity forces Albania to import most of its diesel, leading to higher transportation and storage costs. Additionally, the country's inefficient distribution network and outdated infrastructure add significant expenses to the overall supply chain.
- **Regulatory Policies:** The government's approach to price regulation, primarily through the Transparency Board, has had mixed results. While it has prevented extreme price fluctuations, it has also kept diesel prices artificially high, reducing market competitiveness and discouraging cost reductions.

Policy Recommendations

To ensure a more stable and affordable diesel market, comprehensive reforms are necessary in several key areas:

1. Taxation Reform

- Implement progressive tax structures that differentiate between essential and non-essential diesel usage.
- Reduce excise taxes or introduce temporary tax relief measures when global prices surge.
- Introduce targeted fuel subsidies for industries most affected by high diesel prices, such as agriculture and public transport.

2. Market Competition and Regulation

- Encourage more competition in the fuel import and retail market by reducing bureaucratic barriers for new entrants.
- Increase transparency in fuel pricing mechanisms to prevent artificial price inflation by major market players.
- Strengthen the role of the Competition Authority in investigating and addressing potential price-fixing practices.

3. Strengthening Energy Security and Supply Chain Efficiency

- Develop domestic refining capacity to reduce reliance on imported diesel and stabilize supply chains.
- Improve fuel transportation and storage infrastructure to lower distribution costs and enhance efficiency.
- Establish strategic fuel reserves to cushion against extreme global price fluctuations and supply disruptions.

4. Currency and Economic Stability Measures

- Implement monetary policies aimed at stabilizing the exchange rate to minimize diesel import price volatility.
- Promote alternative energy investments, including biodiesel and electric transportation, to reduce long-term dependence on imported fossil fuels.

Final Considerations

Reducing diesel prices in Albania requires a multi-faceted approach involving both short-term interventions (such as tax reductions and supply chain optimization) and long-term structural reforms (such as refinery investments and energy diversification). While external global factors will continue to influence diesel costs, a more competitive, efficient, and transparent domestic fuel market can mitigate these effects, ensuring fairer and more stable fuel pricing for Albanian consumers and businesses.

In conclusion, Albania's policymakers must prioritize market liberalization, infrastructure development, and sustainable energy solutions to achieve a more equitable and affordable diesel pricing system. Addressing these structural challenges will not only lower fuel costs but also contribute to broader economic growth, competitiveness, and energy security for the country in the long run.

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