

Fiscal stamps' concession – between high costs and absent economic logic

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Abstract

The fiscal stamps' concession for excise -taxed and pharmaceutical products is part of a long list of many PPPs and other concessions, granted and approved by Albanian governments, over the years, whose purpose is to free the government and state entities from providing services and investments in different sectors of the economy.

Beyond being a normal practice in many European countries and also in the region, this concession, approved since 2011, is almost unique and unusual, in terms of printing and selling price for fiscal stamps by SICPA, the concessionary company, where practically these prices are up to 7-10 times more expensive than the respective ones applied in other European countries and in the region, even by the same concessionary company. Despite this, such a concession applies a primitive technology for the production and printing of (domestic and imported) beer tax stamps, which does not justify the price of the

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stamp, furthermore, is senselessly burdening the cost of producers and importers, as well as the final consumer, in the domestic market. This concession remains unprecedented, as it imposes a fiscal stamp on beer as well, a practice not implemented in Europe, by burdening, without an economic logic, all the operators who produce and trade beer, as well as the final consumer in the domestic market.

Given the fact of the lack of a deep analysis on the benefits and successes of the fight against fiscal evasion from trade of excise – taxed goods and, moreover, of the lack of a clear comparative analysis between the advantages and essential improvements, such a concession brought to the national economy, public finances and the consumer of the Albanian producer, but also through the analysis made with regard to the economic & financial indicators and the costs of the Albanian producers and consumer, the paper comes to the conclusion that this concession, in its closing stage, should be deeply revised, probably being temporarily offered by the government and then negotiated with more favorable terms and prices than the current ones and comparable to other countries in the region and Europe.

Also, the government should be attentive to the concerns of beer producers and importers and the unjustifiable costs on final consumer. Moreover, it must clarify and specify, from a legal point of view, the possible consequences, or “gaps” of the concession contract with SICPA company, related to its international arbitration proceedings.

I. General

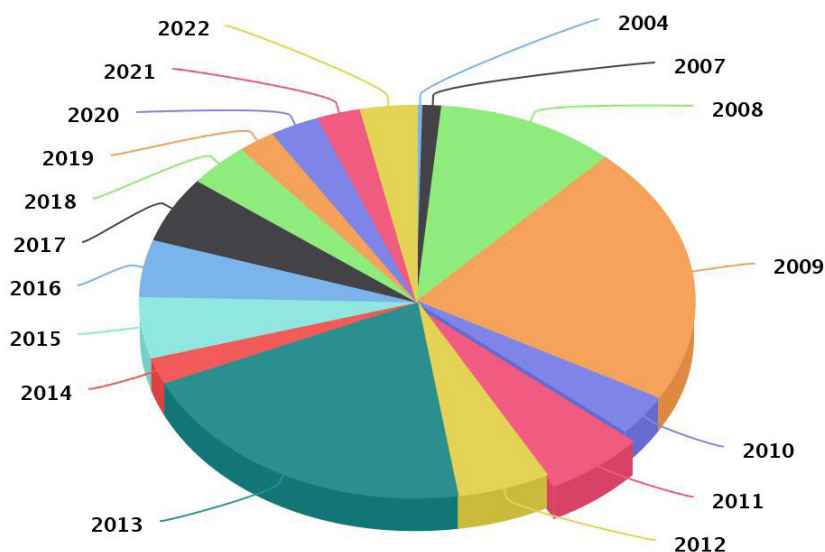
Concessionary agreements are a policy instrument that can affect the market for a long time. These agreements usually grant exclusive rights to infrastructure project operators, but not exclusively, and therefore have the potential to distort competition, to a significant degree.

In European countries, granting concessions or public-private partnership contracts for various infrastructure projects or providing services is a normal practice. According to ATK², for the year 2018, the total value of Concessions/PPP contracts, signed in the European market, reached the value of EUR 14.6 billion (a decrease of 4% from 2017 with a total value of EUR 15.2 billion).

The concession/PPP market in Albania records a history of more than 18 years, since 2004, when the concession of Rinas International Airport was granted for the first time. All Albanian governments have been very active in using and tuning this instrument in many fields and sectors of the Albanian national economy.

² Concessions Treatment Agency – ATK: <http://atrako.gov.al>

CHART 1. Concessionary/PPP Contracts through years

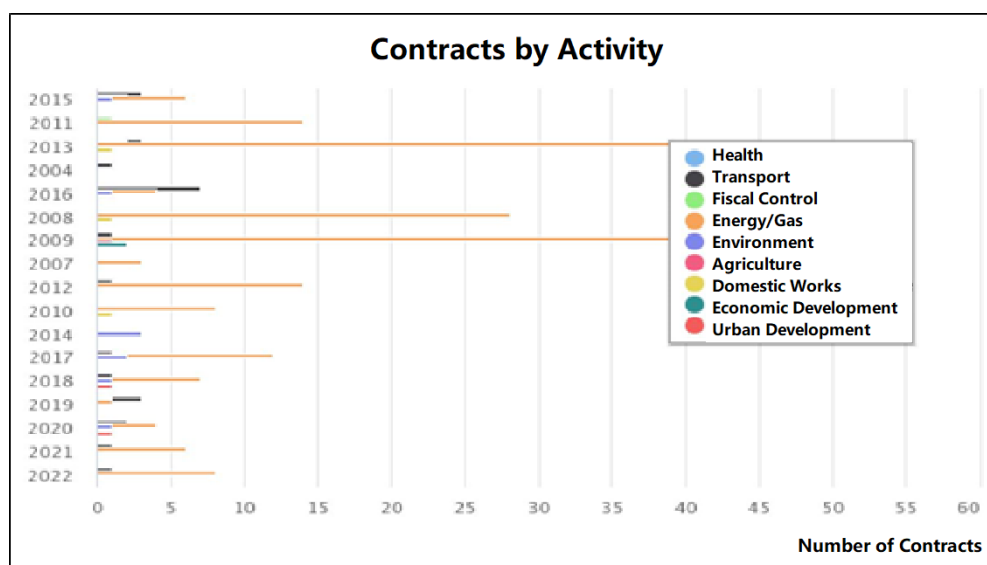


Source: ATK (2022)

According to the data of the Concessions Treatment Agency (ATK), from 2004 to 2022 (July), about 246 contracts and concession/PPP agreements were signed by the Albanian governments (see Chart 2 below) in various fields, which include:

- Health,
- Transportation,
- Fiscal Control,
- Energy/Gas,
- Environment,
- Agriculture,
- Internal Works,
- Economic Development and
- Urban Development.

CHART 2. Concessionary/PPP Contracts by activity (field/sector)



Source: ATK (2022)

The concession of fiscal stamps, approved since 2011, ranks under the fiscal control field.

Concessions/PPPs' advantages and disadvantages

As per the application of concession contracts and public private partnership (PPP), there is an open and time spanning debate, actually and also at international level, regarding their efficiency and effectiveness, in terms of increasing the quality of life for the public and the provision of quality services within a short time, which in other conditions would not be possible. In practice, granting various infrastructure projects or various government services with concessions may present certain advantages and disadvantages, as per following:

Advantages:

1. The private sector bears a significant part of risks, allowing a better distribution of risk between public and private entities,
2. High level of private investments,
3. The potential for efficiency gains, in all phases of project development, and implementation and technological innovation is high, if they are well - designed and implemented in a balanced regulatory environment,

4. By increasing the efficiency of government investment, the Concession/PPP allows government funds to be redirected to other important socio-economic areas,
5. Public - private partnerships reduce costs and can potentially lead to lower taxes.

Disadvantages:

1. They are generally very complex to implement and administer,
2. There may cause high fiscal costs for the government,
3. Negotiation between the parties and the conclusion of a project agreement may require a long time,
4. May require in-depth regulatory oversight,
5. They may produce conditional obligations to the government, in the medium and long term,
6. When there are a limited number of private entities that have the ability to complete a project, this may mean less competition and thus a less cost-effective partnership,
7. Project earnings may vary, depending on the assessed risk, the level of competition and the complexity and scope of the project.
8. If the PPP/Concession expertise lies too much on the private side, the government is at a major disadvantage, for example, it may not be able to accurately estimate the proposed costs.

II. The situation of fiscal stamps' concession in Albania

The concession of fiscal stamps for excise – taxed and pharmaceutical products in Albania is part of a long list of many public-private partnerships (PPPs), and other concessions granted and approved by Albanian governments over the years, the purpose of which is freeing the government and state entities from providing services and investments in various sectors of the economy, in fact almost in all sectors where services are provided by state entities and institutions.

From a historical point of view, the concession contract between the Ministry of Finance & Economy and the Swiss company SICPA, for putting fiscal stamps on excise – taxed goods (alcohol, alcoholic beverages and tobacco) and pharmaceutical products, was approved by the Assembly of the Republic of Albania in February 2011, through the Law no.10381, dated 24.2.2011: “For the approval of the concessionary contract between the Ministry of Finance, as the contracting authority, and “SICPA Security Solutions, s.a.” and “Sicpa Security Solutions,

Albania”, sh.p.k., “For the layout, financing, design, production and establishment of a system for issuing, distributing, tracking and monitoring of fiscal stamps and drug control stamps” and the concession contract that followed it, the Albanian government aimed to establish an efficient system for identifying and tracking products, subject to excise tax, aspiring for a higher efficiency in the fight against fiscal evasion and informality, in the production and marketing of these products in the territory of the Republic of Albania.

Previously, fiscal stamps were printed by the Bank of Albania and were a service provided by the Ministry of Finance, at a cost several times lower for excise - taxed products.

Beyond being a normal practice in many countries of Europe and in the region, this concession is almost unique and unusual, in terms of the price of printing and selling fiscal stamps by the concessionary company, SICPA (as presented below).

Under such a contract, the Albanian government agreed with the concessionary company (SICPA) to put the fiscal stamps according to the following prices:

TABLE 1. Prices of fiscal stamps by products

Product	Fiscal stamp type	Price per 1000 pieces (in €, excluding VAT and other taxes)
Tobacco	Security stamp	€ 20.00
Alcohol	Security stamp	€ 32.00
Beer	Security stamp	€ 22.00
Pharmaceuticals	Security stamp	€ 14.43

Source: Law no.10381, dated 24.2.2011.³

If we compare these price figures with those the Albanian government has agreed with the concessionary company, and also with those that are usually applied for fiscal stamps in Europe and in the countries of the region, we will notice a significant difference in the price range applied in Albania, a difference that is not in percentage terms, but several times higher than the prices applied outside Albania.

³ Law no.10381, dated 24.2.2011: “For the approval of the concessionary contract between the Ministry of Finance, as the contracting authority, and “SICPA Security Solutions, s.a.” and “SICPA Security Solutions, Albania”, sh.p.k., “For the layout, financing, design, production and establishment of a system for issuing, distributing, tracking and monitoring of fiscal stamps and drug control stamps”.

TABLE 2. Prices of fiscal stamps in several countries of Europe and in the region

Country	Fiscal stamp in USD \$/'000 pieces	Company
Kosova	2.2	UAB "Garsu pasaulis"
EU*	3	Mainly National State Subjects
Bosnia & Herzegovina	3.2	Local Provider (Grafotisak)
North Macedonia	3.2	National Printing House
Serbia	5.2	National Printing House
Turkiye	5.6	SICPA
Georgia	6.4	SICPA
Montenegro	6.6	Obod
Russian Federation	7	CRPT
Albania	24.2	SICPA

* Average cost for 1,000 pieces of fiscal security stamps.

Specifically, what is visible and that goes without any explanation and logical reasoning, in the practical aspects of this concession, is the remarkable difference in the price of printing fiscal stamps, which the Albanian Government, back in 2011, accepted and agreed upon with the concessionary company, SICPA, differences in the range of 7 to 10 times (700 - 1,000%) higher than those applied outside Albania. As it can be seen from Table 2, the differences that exist between the price of fiscal stamps in various countries are within some reasonable and logical intervals; the only exception here is their price in Albania, which goes beyond any logical and reasonable range.

The Albanian government, and also the concessionary itself, have made no clarifications and explanatory arguments regarding such a high price level for printing fiscal stamps in Albania. The rationale of the lack of economy of scale and the small consumer market, the Republic of Albania presents, is completely inappropriate, as long as in markets smaller, or comparable to Albania (Kosova, Montenegro, Georgia, Bosnia & Herzegovina, North Macedonia, etc.) the price applied for fiscal stamps is several times lower, which speaks for the irrelevance of such an argument. Also, the argument of using a very special technology does not hold, since the format used in Albania does not have big differences, or that would require very large costs from those needed to be used in other countries. Practically, in Albania the use of a completely different and much more advanced technology for their printing by this concessionary company is not evidenced, contrary to what the latter uses for printing and producing fiscal stamps in other countries, where it offers such a service. Last, but not least, this concession agreement extends the effects of the application of the fiscal stamp to the beer product. Here it is worth noting that, in no European country, there is any evidence of putting any fiscal stamp on the "beer" product. At the time of

the negotiations for granting the concession for the printing, distribution, tracking and monitoring of fiscal stamps, it was evident that there was only one European country that applied the imposition of stamp tax for the beer product; this country was Turkey, which for several years has given up such a procedure and its respective application. In other words, the fiscal stamp application for beer is not only unusual, but it can be asserted that it is quite unique for Albania.

Moreover, beer is a wet product and, in the environment where it is packaged and the fiscal stamp is attached, there is moisture and about half of fiscal stamps that are purchased by the producer, or the importer at SICPA, are damaged. Thus, the cost of fiscal stamps, in case of beer, is even higher for the business, considering a very high percentage of losses and damages. In other words, the concessionary company uses an outdated technology for their production, a method that ranks Albania as the only country in Europe that uses such a primitive method of printing fiscal stamps, at a time when their selling price is very high, causing high costs and unnecessary waste of time to importing and domestic business.

On the other hand, despite the fact that “SICPA Security Solutions” Albania sh.p.k., has implemented the “Track and Trace” system, which in some way can be a reason for significant technological expenses that justify the high price applied for the beer tax stamp, the outdated technology of their printing and the lack of the fact that the concessionary company is using, only in case of Albania, a much more advanced technology than in other markets, disproves such a claim. This means that the reason of an accelerated depreciation of equipment, within the concession period, does not hold.

On the other hand, an unusual element of this concessionary contract is the application of very different prices for tax stamps, from the same concession company (in this case “SICPA Security Solutions” SA, which offers the same tax stamp production service also in Turkey and Georgia, but with prices almost 4 - 5 times lower than in Albania. If the reasoning for the large level of fiscal evasion in Albania, in relation to Georgia were to be considered, this reasoning does not hold, since as Little et. al (2021) put in the early 2000s, the informal cigarette market was unmanageable in Georgia, reaching one-third to two-thirds of the total cigarette market. According to such an argument, at least the level of the fiscal stamp price of cigarettes should have been comparable to Georgia, which is not observed in the above data.

II.1. Financial considerations and associated concession's costs

The concession of fiscal stamps that the Albanian government has given to “SICPA” company produces a certain cost, for three stakeholders, as follows:

- Domestic producers and importers of excise – taxed goods,
- The final Albanian consumer,
- The Albanian government.

As can be easily deduced from the above information, it is easily recognizable that the one who pays the most and finally the burden of this concession, at least from a financial point of view, is the final consumer in Albania (the individual), who bears not only the burden of the concession's cost (the turnover invoiced by "SICPA" company), but also other additional costs, which come as a result of the process of price transfer from producer to the final consumer.

Costs for manufacturing and importing businesses

Based on this concession, domestic beer producers and importers have been forced to carry out extra expenses and make considerable investments, by purchasing specific equipment that enables the correct implementation of the regime of putting fiscal stamps on products, produced by them. The fact is that the concessionary company has not made the required investments, i.e., offering specific equipment to local brewers, investments which could also include the price of fiscal stamps. In other words, even the costs of putting fiscal stamps have been charged as costs to domestic brewers and importers. Specifically, domestic brewers (producers), in accordance with correct implementation of service, provided by the concessionary company, are obliged to follow a very complex procedure for the purchase and putting of fiscal stamps on excise – taxed goods, such as: cigarettes, beer, wines and other alcoholic beverages. Moreover, even for importers of excise – taxed goods, the procedure of sending fiscal stamps to producers of goods subject to the excise regime outside Albania, produces some extra costs. This is because, apart from the fact that, for fiscal stamps Albanian importers are obliged to deposit the corresponding bank guarantees, their delivery to producers (outside Albania) must be done by an international transport company, and this further increases the respective business costs. In many cases, importers (e.g. of beer, but not only), send fiscal stamps to producers almost every week, accumulating increasingly higher costs.

Such an approach has inevitably and understandably led to increased production costs. As local producers put out:

“The expenses charged to businesses that produce excise – taxed goods, to guarantee the compliance of duties’ payment to the state through fiscal stamps, in certain cases, go beyond any financial logic. In case of beer, for example, the expenses incurred by domestic brewery businesses are as much as 50% of the excise duty per production unit, for the purchase of fiscal stamps, only”.

But if these production costs, in one way or another, are transferred to the final consumer, they still make domestic production less competitive, compared to imports, where the “price” element remains almost the only relative competitive

advantage that domestic production possesses, given the real difficulties to ensure the same economy of scale foreign producers enjoy, either European or regional ones, which enables the distribution of extra costs in more final production units. This puts local producers in a difficult position in the market, thus compromising their competitive position.

On the other hand, beyond the argument that this concession and the high price of fiscal stamps has almost no impact on the revenues of the state budget (since the part that passes to the budget is quite negligible), it has not managed to effectively address the main issue of the informal trade of excise – taxed products, mainly tobacco, which is still sold openly in the free market, without any concern from unregistered local producers or farmers, at a price 2-3 times cheaper than the excise duty per kilogram, which continues to be an issue. So, in the eyes and interest of the business engaged in the production and trading of excise – taxed products, the fiscal stamp applied by the concessionary company does not result, even after 10 years from its inception, as an efficient solution for the informal trade of these goods, as it has no power or does not protect honest manufacturers and importers from the unfair competition of illicit trade. Furthermore, it does not provide the government with a more effective excise tax for the tax collection.

In summary, the entire fiscal burden brought by this concession translates into a significant pre-fiscal burden, which in practice does not bring any practical positive results, neither in the field of food safety, nor in a better monitoring of the supply chain on those goods and products, that other countries and governments are able to obtain from similar solutions, but at a much cheaper price of stamps and/or total solutions, through tracking systems through codes.

Final consumer costs

The above additional production costs (specific machinery and equipment) that domestic manufacturers are forced to be faced with and bear are only the initial aspect of the overall costs incurred by this concession. The problem goes deeper because, beyond the problem of domestic producers with foreign competition, the final consumer is burdened with more than the cost of producers' investments, since the price transfer does not materialize according to the *Dollar-for-Dollar* principle (ALL-for-ALL), instead it goes under the "*cascade principle*" effect, where sequential processes add up to final costs more than their arithmetic sum, after each stage or process. In such a situation, the cost effect and price of the tax stamp is not the one presented in the invoice of their purchase, but even greater, forcing the Albanian consumer to pay costs not only for the tax stamp, but also the increased costs of production. At least for beer, this could have been avoided, by not making it part of the concession of fiscal stamps and saving the Albanian consumer unnecessary expenses for years.

On the other hand, as the local entrepreneurs claim, mainly beer producers, but also traders of other alcoholic beverages, tobacco and cigarettes:

“...high tariffs during these 10 years have only increased costs and have not protected us from unfair competition.”

So, everyone can easily figure out that one of the goals of introducing and applying fiscal stamps, the consumer's safety (health), is not evidenced either by the concessionary company, or by the government, itself.

II.2. Economic and financial aspects of fiscal stamps' concession

Regarding the economic and financial aspects of fiscal stamps' concession, below are presented some economic and financial data through years (until 2020) by “SICPA” company.

As can be seen, throughout 9 years (until 2020), the concessionary company has realized a total turnover of about ALL 8 billion, where the average annual turnover has fluctuated around ALL 900 million. If the concessionary company would apply a normal price for the sale of fiscal stamps, ranging from 7 to 10 times lower, the financial amount collected by the business would fluctuate in the range of ALL 1-2 billion, which easily means that the Albanian importing business and producers of the excise – taxed goods have paid about ALL 7 billion more, or about EUR 60 million, during the above - mentioned concessionary period. Meanwhile, the cost, or fiscal “damage” for the final consumer is even greater than this figure, due to the cascade effect on the final price of the product, as explained above.

Concession's revenues for the Albanian government

According to Annex 18 of the concession agreement⁴, in question, the concessionary company will pay in favor of the Authority (the Albanian government) a concession fee of 2% (two percent) of the net income from the sale of fiscal stamps, for the rights and privileges granted through this agreement, according to the audited financial statements of the concessionary company, for each financial year. Technically, the income of the Albanian government from the granting of this concession is completely negligible, considering the fact that for 5 years the concessionary company has not made any profit (that is, it has not even paid corporate tax).

⁴ Annex 1: “Price, Fees and Costs” of the Law no.10381, dated 24.2.2011: “On the approval of concessionary contract between the Ministry of Finance, as the contracting authority, and “Sicpa Security Solutions, s.a.” and “Sicpa Security Solutions, Albania”, sh.p.k. companies “For the layout, financing, design, production and establishment of a system for issuing, distributing, tracking and monitoring of fiscal stamps and drug control stamps”.

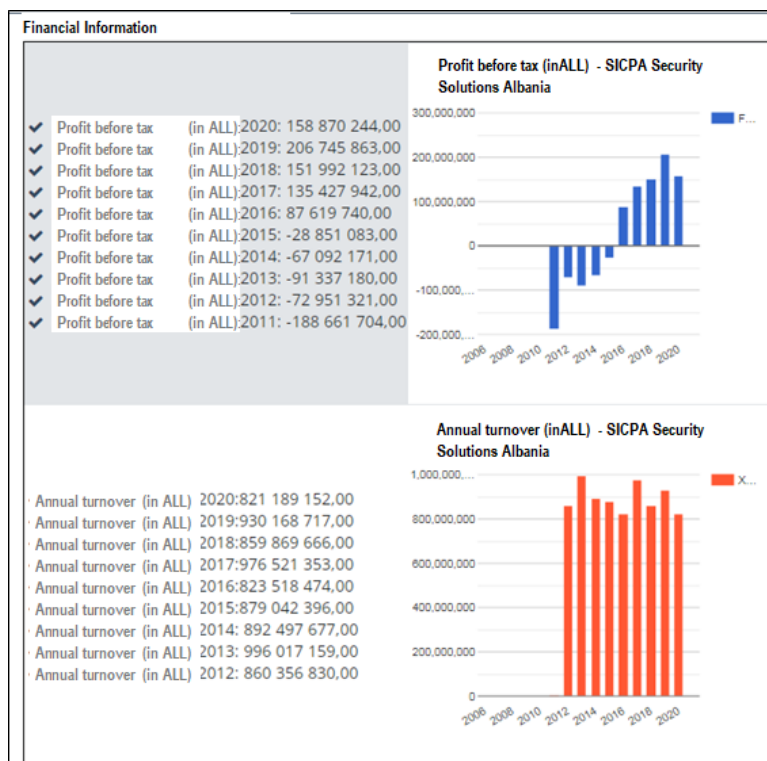
According to the financial statements for the last two years of “SICPA Security Solutions Albania sh.p.k” company, the estimated concession fee of ALL 18,603,374 for the year 2019, was paid during 2020. The estimated concession fee for the year 2020 stands at ALL 16,423,783 and it was paid in April 2021.

What stands out is that, during the first 5 years, the concessionaire worked at a loss (and consequently did not even pay the corporate tax), and only after 2016 it started to generate profit.

Profit-to-Turnover (in%) through years



Source: Open Corporates



Source: Open Corporates⁵

⁵ <https://opencorporates.al/sq/nuis/102120032r>

II.3. The legal “issue” of a possible extension for the concession

Regarding the concession agreement for fiscal stamps, it should be noted that, like many other agreements of this type, the Albanian government has signed over the years, by passing the provision of many services to private companies, this agreement also “suffers” from a legal deadlock. Specifically, it is about the production and application of fiscal stamps for pharmaceutical products, which was foreseen in the 2011 agreement, but which technically did not start that year. According to the performance report of the concessionary company, it is claimed that the contract terminates after the implementation of the “Track and Trace” system for pharmaceutical products. Following this logic, such a delay extends the implementation period for another 10 years, until the completion of the second element of the contract. At the time of drafting the concession agreement, the Ministry of Health required that the stamp of pharmaceutical products must also offer the “Track and Trace” function, for which the concessionary company claimed that the necessary respective investment would be EUR 9.7 million, and therefore the price of the stamp would have to be increased from ALL 2 per piece to ALL 10 lek per piece. Also, under the proposals in that time, the drug stamp would be priced at 2.4% of the retail price of each pharmaceutical product. Such an agreement would cause losses to the “track and trace” drug tracking system and the system of double drug stamps, which allowed the FDSKSH to track fake prescriptions. Such a price was contested and rejected in 2016, whereas according to Ms. Irena Beqiraj, former Deputy Minister of Finance:

“...The quality of medicines, mainly curative ones, is always increasing, due to research and development expenses. Every new medicine costs more. With the increase in the value of the medicines, the profit of the concessionary company would increase proportionally, which, with the same cost per unit, produced both the stamp for paracetamol, which costs ALL 50, and for an expensive medicine, which could cost ALL 50,000. These “unfair” benefits, which would come not because of the investment, or operating costs of the concessionary company, but simply from the developments in the drug markets, in my economic point of view, would fall on the public, or the state budget, for refunded medicines.”

On the other hand, Mr. Edmond Ahmeti, Director of Concessions at MFE, claims that:

“...the group of experts that reviewed the concession contract, after repeated business concerns, has reached the final legal conclusions that the closing date of the concession is February 6th, 2023.”

As per above, it is understandable that, according to the legal claims of the concessionary company, the concession cannot terminate in February 2023, but it must be extended for a longer period, as the condition of fiscal stamps for pharmaceutical products must be met, too. However, according to Mr. Edmond Ahmeti Director of Concessions at MFE:

“...in Article 4 of the contract, it is determined that for the unrealized element, each of the parties had the right to terminate the contract. This right was not exercised by any of the parties at that time, that is, it did not renounce the contract, or notify the other party about the termination of the contract for non-fulfillment of a condition. As such, since the concession fee had started to be paid in 2012, following discussions in meetings held by the contract implementation board (representatives of the ministry and the concessionary company) they agreed that February 6th, 2013, would be considered contract start date, which means the date of fulfillment of the preconditions. This was the part that was not officially defined for the entry into force of the contract”.

In conclusion, it can be affirmed that the Albanian government may face a legal dispute at international level, related to the controversial aspect of the start date of concession, according to the claims by the concessionary company. Such a fact should serve as a signal of caution, as regards taking relevant and timely measures, aimed at a successful avoidance of an international legal confrontation, which would, in any case, cause economic and reputational consequences and costs for the consumer and the Albanian government.

V. Conclusions and recommendations

At the end of this study, the following conclusions may be drawn and the following recommendations may be given, as follows:

Conclusions

- Albania offers the most expensive concession for fiscal (tax) stamps, and imposes fiscal stamps even to products that are not normally treated as such in all EU countries and in the region (beer), thus burdening the and Albanian producers and consumers with excessive and unnecessary costs, by increasing the cost of households' budgets. Albanian business is faced with additional cost of about EUR 60 million, during the whole concession's timespan.

- The final consumer is burdened not only with the financial cost of the concessionary company, but also with the producers' investment costs, since the price transfer process does not take place according to the *Dollar-for-Dollar* principle (ALL-for-ALL), instead it goes under the "*cascade principle*" effect, where sequential processes add up to final costs more than their arithmetic sum, after each stage or process.
- The application of the fiscal stamp for beer is not only unusual, but it can be asserted that it is quite unique for Albania. The fiscal stamp for beer should be removed immediately, because no country in the region or Europe has imposed it. In Albania, there is a lack of evidence, facts and in-depth analyses, which testify to any essential and significantly tangible results, related to the fight against fiscal evasion, in the trading and production of goods that bear a fiscal stamp, hence one of the primary goals of this concession. Under these conditions, the presence of such a concession creates little added value for the national economy, the Albanian consumer and the Albanian government, itself.
- The concessionary company uses an outdated method/technology of printing fiscal stamps for beer, thereby increasing production and import costs and expenses, and further burdening the final consumer.
- The Albanian government is a very modest beneficiary of incomes from this concession, thus making its extension quite unreasonable, at least under the prevailing regime of setting the value and price of fiscal stamps.

Recommendations

- The Albanian government should terminate and discontinue the concession in 2023 and stop the fiscal stamps' price abuse, as well as lift their application from beer product.
- Following the official termination of the concessionary contract, the Albanian Government may consider to temporarily provide the service of fiscal stamps' production by itself, until a second moment that may be deemed as appropriate, to stabilize the current anomaly first, then to sign a new concessionary contract with much more fair and normal terms than current ones. Regardless of the decision-making by the Government, in the near future on whether or not to continue the fiscal stamps' concession, or providing such service by itself, the rates and prices of these stamps must be fundamentally revised and aligned with those of the countries of the region and EU countries, by reducing their cost burden in the final price, paid by the consumer and by the business engaged in this field of production and trade. Moreover, technological advancements and numerous offers on the market

for this type of service create all necessary conditions for the application of fiscal stamps at prices comparable to other countries in the region and EU.

- The government may consider undertaking a study, related to real benefits and necessary mechanisms to be used, in case of the application of fiscal stamps, related to the reduction of fiscal evasion and the minimization of goods' circulation in informal ways, which harm regular business, beyond the aspects of food safety and consumer health protection, which should be part of goals and objectives for imposing and applying fiscal (safety) stamps.

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