

SHATTERING THE ILLUSION OF “EASY MONEY” IN HEAVY OIL PRODUCTION

SERIES III: A Reflection of Investment Climate: The VAT Refund Bottleneck

As established in previous episodes, heavy oil production in Albania is a high-risk endeavor defined by thin margins and complex technical requirements. Beyond the inherent geological challenges and the misapplied taxation on diluents, the project's viability is now being strangled by systematic obstacles in the Value Added Tax (VAT) refund process.

In a capital-intensive industry, timely VAT refunds are not a benefit or concession. They are a basic fiscal mechanism that allows companies to operate continuously. For BPAL, the consistency of this process serves as a critical barometer for fiscal predictability within the Albanian market.

Administrative Clogging of Cash Flow

VAT is intended to be tax-neutral. It should pass through the company and not become a cost. In practice, however, administrative barriers have turned VAT refunds into a way of holding back essential cash flow.

The FIAA White Book (2021–2025) notes that legal deadlines for VAT refunds are rarely kept. Instead of risk-based checks, audits are required for almost every claim. This creates long delays, and disrupts businesses' cash-flow planning. BPAL's experience reflects this pattern. Even before the current investigation, the company had, in its long-established operation history, regularly faced lengthy delays after submitting refund claims.

In many cases, BPAL had no choice but to seek resolution through the courts, which further extended the timeline. One example is Assessment No. 6280/7. BPAL filed the case in 2018. The court issued its decision in July 2023, and the VAT refund of 107 million Leke was only paid in April 2024. This single case illustrates the extensive cash-flow pressure and refund delays BPAL has endured over the decades.

What should be a routine administrative process has often turned into a multi-year legal battle. Such delays severely constrain working capital and highlight the systemic nature of the problem.

The 2025 Escalation: Criminalization as a Financial Weapon

In 2025, the situation worsened. Despite BPAL's full cooperation, the ongoing investigation is now being used to justify a complete suspension of VAT refunds.

By June 2025, BPAL's claimed but unrefunded VAT had reached 4.74 billion Leke (approximately USD 58 million). This figure continued to increase by roughly USD 1.4–2 million per month, creating a cash-flow burden of about USD 70 million. These amounts represent principal only; continued delay compounds the problem through accumulating late-payment interest. There is no clarity on how long the suspension will last, nor any assurance that VAT already paid will ultimately be refunded.

This approach effectively uses criminal procedures as an administrative tool to freeze an investor's funds, violating the principle of proportionality. And the allegation of "fraudulent VAT refunds" is simply absurd, and lacks basic logic. A VAT refund can only be claimed after the tax has been paid. The refund merely returns paid funds; it does not generate profit. Even if a contract were falsified for refund, it would involve only risk but no gain: uncertainty over approval and prolonged delay, and loss of the time value of fund paid upfront.

The Sustainability Threshold: An Impasse of Around \$70 Million and Still Growing

The financial impact has reached a critical point. Under the current suspension, the around \$70 million unrefunded balance continues to rise, while BPAL remains fully compliant with its tax obligations.

For any company, the indefinite withholding of such a large amount of capital poses an existential risk. The current logic is self-defeating. If one wants sustainable milk, one should not kill the cow. BPAL is a major contributor to Albania's energy sector and a significant taxpayer. By freezing its cash flow through extra-legal measures, the state risks damaging one of its most important economic contributors.

Conclusion: The True Responsibility for a Supportive Investment Climate

BPAL's stake extends far beyond the unpaid refunds; we seek a durable, rules-based investment climate that serves Albania's long-term interests as much as our own. The quality of an investment climate is not only measured by the incentives offered to newcomers, but also by the treatment of established investors who have managed to perform through decades of volatility. A supportive climate for investors calls for the following.

- **Return to Contractual Stability:** ceasing to treat VAT refunds as a discretionary bargaining leverage and restore the stability guaranteed under the Petroleum Agreement.
- **Decouple Investigation from Administration:** a pending investigation should not authorize the brutal squeezing of a company's entire operational liquidity.

BPAL is calling for objective, impartial and rules-based treatment—the fundamental prerequisite for a sustainable investment climate. Failing to resolve this impasse signals a move toward a model that undermines the state's attractiveness to all future investments.