ETHIOPIA

TRADE SUMMARY

The U.S. goods trade surplus with Ethiopia was $149 million in 2008, an increase of $70 million from $79 million in 2007. U.S. goods exports in 2008 were $302 million, up 80.1 percent from the previous year. Corresponding U.S. imports from Ethiopia were $152 million, up 72.5 percent. Ethiopia is currently the 111th largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in Ethiopia was $2 million in 2007 (latest data available), the same as in 2006.

IMPORT POLICIES

Ethiopia is not a Member of the World Trade Organization (WTO) but has begun the process of acceding to the WTO. It submitted the Memorandum of Foreign Trade Regime to the WTO in December 2006, sent replies to the first round of WTO member questions in January 2008, and held its first Working Party Meeting in May 2008. Ethiopia has made modest progress in drafting new legislation and implementing capacity building measures relevant to accession, with the help of technical assistance from a number of donors, including the U.S. Government. Ethiopia is a member of the Common Market for Eastern and Southern Africa (COMESA). Economic relations between the U.S. and Ethiopia are governed by the 1953 Treaty of Amity and Economic Relations.

Tariffs

Revenue generation, not protection of local industry, appears to be the primary purpose of Ethiopia's tariffs. However, high tariffs are applied on certain items, such as textiles products and leather goods, to protect local industries. Goods imported from COMESA members are granted a 10 percent tariff preference. *Ad valorem* duties range from 0 percent to 35 percent, with a simple average of 16.8 percent. In February 2007, the government levied a 10 percent surtax on selected imported goods, with the proceeds designated for distribution of subsidized wheat in urban areas. In July 2008, the government of Ethiopia introduced an export tariff on raw and semi-processed hides and skins in an effort to shift domestic production to focus more on finished hides and skins, which reap higher world prices.

Foreign Exchange Controls

Importers are facing increasing difficulty in obtaining foreign exchange, particularly those importing goods or inputs destined for domestic sales. Ethiopia's central bank administers a strict foreign currency control regime and has a monopoly on all foreign currency transactions. The local currency (Birr) is not freely convertible. While larger firms, state enterprises, and enterprises owned by the ruling party do not typically face major problems obtaining foreign exchange, less well connected importers, particularly smaller, new-to-market firms, increasingly face burdensome delays in arranging trade related payments. Supplier credit is rarely allowed. An importer must apply for an import permit and obtain a letter of credit for 100 percent of the value of imports before an order can be placed. Even then, import permits are not always granted. Ethiopia currently maintains four restrictions on the payments and transfers for current international transactions, which relate to a) the tax certifications requirement for repatriation of dividend and other investment income; b) restrictions on repayment of legal external loans and supplies and foreign partner credits; c) rules for issuance of import permits by commercial banks; and d) the requirement to provide a clearance certificate from the National Bank of Ethiopia to obtain import permits.

The stock of Ethiopia's foreign exchange reserves has fallen below six weeks of import coverage. The limited supply of foreign exchange in Ethiopia's banks has begun to take a toll on U.S. commercial interests as private and public entities have increasingly become unable to import essential consumer inputs and industrial capital goods from abroad. As a result, some prominent U.S. and other foreign business interests in Ethiopia may be forced to suspend business operations in Ethiopia. The government's recent tightening of the banking regulations to manage its limited foreign exchange reserves has dampened real supply for certain desired consumer and industrial imports and has precipitated a foreign exchange crunch. An acute shortage in Ethiopia's foreign exchange market has stalled business in both the private and public sectors. Whereas firms seeking bank letters of credit for imports requiring hard currency previously could acquire those upon demand and with an initial 30 percent deposit, such requests now routinely face waits in excess of 3 months and require 100 percent of the payments up front.

STANDARDS, TESTING, LABELING, AND CERTIFICATION

The Quality and Standards Authority of Ethiopia regulates all exports and imports that have Ethiopian standards. There are no general requirements for product certification. Certification is required for foodstuffs, construction materials, chemicals, textiles, and pharmaceuticals. Standards appear to be consistent with international norms. Pharmaceuticals that have been extensively tested and licensed in other countries are allowed to enter the Ethiopian market with no further testing. Industry sources have reported instances in which burdensome regulatory or licensing requirements have prevented the import and/or local sale of products from the United States and other countries, particularly personal hygiene and health care products.

GOVERNMENT PROCUREMENT

A high proportion of Ethiopian import transactions are conducted through government tenders, reflecting the heavy involvement of the government in the overall economy. The tender announcements are usually made public to all interested potential bidders, regardless of the nationality of the supplier or the origin of the products or services. Bureaucratic procedures and delays in the decision-making process sometimes impede foreign participation in tenders. U.S. firms have complained about the abrupt cancellation of some tenders, a perception of favoritism toward Chinese vendors, and a general lack of transparency in the procurement system. Business associations have complained that state-owned and ruling party-owned enterprises have enjoyed *de facto* advantages over private firms in the government procurement process. Several U.S. firms have complained of pressure to offer vendor financing or other low-cost financing in conjunction with bids. Several very large contracts have been signed in recent years between government corporations and Asian companies without a tender process. Ethiopia is not a Member of the WTO and, therefore, is not a signatory to the WTO Agreement on Government Procurement.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Ethiopia is a party to the World Intellectual Property Organization Convention. The Ethiopian Intellectual Property Office (EIPO) is responsible for the administration of patents, trademarks, copyrights, and other intellectual property policy and legal issues. In the past few years, Ethiopia has enacted a series of new laws pertaining to copyright and related rights, plant varieties, and trademarks. In July 2008, EIPO confiscated and destroyed close to half a million pirated copies of locally produced songs and films in Addis Ababa.

Ethiopia has yet to sign onto a number of major international IPR treaties, such as: the Paris Convention for the Protection of Industrial Property, the WIPO Copyright Treaty, the Berne Convention for the Protection of Literary and Artistic Works, and the Patent Cooperation Treaty. As EIPO has been tasked only to protect Ethiopian copyrighted materials and pirated software, EIPO has taken no action to confiscate or impede the rampant sale of pirated foreign works in-country, arguing that it has no obligation to protect such works which it considers to be outside of its purview.

Several Ethiopian firms, particularly in the tourism and service industries, operate under the names, or use the symbols, of major international brands. While Ethiopia's Competition Commission hears claims of IPR violations, the lack of government registration requirements and enforcement capacity leave the government in a position of only responding to formal IPR challenges brought to the Competition Commission.

SERVICES BARRIERS

Telecommunications

The state-run Ethiopian Telecommunications Corporation (ETC) maintains a monopoly on telecommunications and Internet service and is closed to private investment. The sector remains underdeveloped, and Ethiopia has the lowest telecommunications and internet penetration rates on the continent with just 2.01 telephone and 0.3 Internet subscribers per 100 people.

Telecommunications service in Ethiopia is patchy and unreliable at best. While most of Addis Ababa receives mobile phone coverage, attempted calls often fail for broken signals, false errors of recipients being out of the service area, or a lack of network capacity to carry the call. Both coverage and service in most other major towns is unpredictable. Having reached capacity for internet service in August 2008, ETC stopped accepting new clients in eight major towns around the country.

To date, the Ethiopian government has not made any special accommodations for the business community to acquire improved telecommunications services to compete in the global market. The government has taken a populist approach in improving the telecommunications sectors by focusing the bulk of its efforts toward broad access for rural areas before it plans more robust and high tech upgrades to help businesses. Chinese companies have received the vast majority of orders from ETC for upgrading its infrastructure.

An August 2005 directive allows private companies to provide Internet service through the government's infrastructure, but implementing regulations have yet to be promulgated and the state-owned Ethiopian Telecommunications Corporation maintains a *de facto* monopoly on Internet services. There are no regulations on international data flows or data processing use.

Franchising

Difficulties in product quality control, banking regulations, and continuing foreign exchange convertibility issues make franchising difficult. Currently, there are no U.S. franchise operations in the country; though two U.S.-flagged hotels operate under United States-linked management contracts.

INVESTMENT BARRIERS

Official and unofficial barriers to foreign investment persist. Sectors that are closed to private investment include electricity generation and transmission through the national grid and non-courier postal service. Investment in telecommunications services and defense industries is permitted only in partnership with the Ethiopian government. The banking, insurance, and micro-credit industries are restricted to domestic investors. Other areas of investment reserved exclusively for Ethiopian nationals include broadcasting, air transport services using aircraft with a seating capacity up to 20 passengers or a cargo capacity of up to 2,700kg, and forwarding/shipping agency services. Foreign investors are also barred from investing in a wide range of small retail and wholesale enterprises (*e.g.*, printing, restaurants, and beauty shops).

The government is privatizing a large number of state-owned enterprises. Most, but not all, of the tenders issued by the Privatization and Public Enterprises Supervising Agency are open to foreign participation. Some investors bidding on these properties have complained about a lack of transparency in the process. Others who have leased land or invested in formerly state-owned businesses subject to privatization have sometimes experienced political impediments to assuming full control of acquired firms (*e.g.*, transferring title, delay in evaluating tenders, and tax arrears).

All land in Ethiopia belongs to the state; there is no private land ownership. Land may be leased from local and regional authorities for up to 99 years. In practice, land has been made readily available by the authorities to foreign investors in manufacturing and agriculture business, but less so for real estate developers. An on-going border dispute with Sudan has resulted in investors, including foreign investors, who had been granted land usage rights in the area to have their land and all assets thereon forcibly taken by Sudanese authorities without recourse or response from the Ethiopian government.

OTHER BARRIERS

Parastatal and Party-affiliated Companies

Ethiopian and foreign investors alike complain about patronage networks and *de facto* preferences shown to businesses owned by the government or associates of the governing party in the form of preferential access to items such as bank credit, foreign exchange, land, procurement contracts, and import duties.

Judiciary

Ethiopia's judicial system remains inadequately staffed and inexperienced, particularly with respect to commercial disputes. While property and contractual rights are recognized, and commercial and bankruptcy laws exist, judges often lack understanding of commercial matters and scheduling of cases often suffers from extended delays. Contractual enforcement remains weak. There is no guarantee that the award of an international arbitral tribunal will be fully accepted and implemented by Ethiopian authorities. Ethiopia has signed, but never ratified, the 1965 Convention on the Settlement of Investment Disputes between States and Nationals of Other States. The Ministry of Justice and the Federal Ethics and Anti-Corruption Commission (FEACC) are the government entities with primary responsibility to combat corruption. FEACC has arrested many officials, including managers of the Privatization Agency, Customs, and the state-owned Commercial Bank of Ethiopia, and charged them with corruption.