ETHIOPIA

TRADE SUMMARY

The U.S. goods trade surplus with Ethiopia was $79 million in 2007, an increase of $23 million from the $56 million surplus in 2006. U.S. goods exports in 2007 were $168 million, up 22.1 percent from the previous year. Corresponding U.S. imports from Ethiopia were $88 million, up 8.8 percent. Ethiopia is currently the 122nd largest export market for U.S. goods.

The stock of U.S. foreign direct investment in Ethiopia was $60 million in 2006 (latest data available), up from $54 million in 2005.

Ethiopia is in the process of accession to the World Trade Organization (WTO). As part of that process its trade regime will need to be aligned with WTO requirements.

IMPORT POLICIES

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 members of the Common Market for Eastern and Southern Africa (COMESA) 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.

Foreign Exchange Controls

Importers often have difficulty obtaining foreign exchange. 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, can 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.

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 and a general lack of transparency in the procurement system. Business associations have complained that state owned and 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 neither a Party nor an observer 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 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.

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 noncourier 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).

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 service. There are no regulations on international data flows or data processing use.

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 bureaucratic problems (*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.

SERVICES BARRIERS

Telecommunications

Ethiopia's telecommunications sector is controlled by the state run Ethiopian Telecommunications Corporation (ETC) and is closed to private investment. The sector remains relatively underdeveloped compared to neighboring sub Saharan African countries. For example, text messaging, which is common throughout the continent, is not regularly available in Ethiopia and voice over Internet protocol calls are prohibited. Broadband access, while available, is prohibitively expensive, with a set up cost of over $10,000 and monthly charges of over $5,000 for a 2 megabyte leased line.

Government and ETC officials have indicated that extending universal telecommunications coverage, especially to poor rural areas, is a priority. Although private operators have helped to drive greater telecommunications penetration in other African countries, Ethiopian officials have expressed the view that the ETC and state run entities are better suited to advance this objective in Ethiopia. Ethiopia currently has the lowest rate of telephone penetration in Africa, with 2.09 fixed line subscribers per 100 people and 1.09 mobile phone subscribers per 100 people.

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 there are local Sheraton and Hilton hotels that operate under United States linked management contracts.

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 loans, land, procurement contracts, import duties, *etc.*

Judiciary

The judicial system does not offer a high level of property protection. Ethiopia's judicial system remains inadequately staffed and inexperienced, particularly with respect to commercial disputes. While property and contractual rights are recognized, and there are commercial and bankruptcy laws, 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.