ETHIOPIA

TRADE SUMMARY

The U.S. goods trade surplus with Ethiopia was $56 million in 2006, a decrease of $392 million from $448 million in 2005. U.S. goods exports in 2006 were $137 million, down 73.1 percent from the previous year. Corresponding U.S. imports from Ethiopia were $81 million, up 31.3 percent. Ethiopia is currently the 121st largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in Ethiopia in 2005 was $55 million, up from $53 million in 2004.

TRADE BARRIERS

Tariffs

Tariffs are an important source of Ethiopian government revenue; in 2005 they comprised 18 percent of total domestic revenue. Revenue, not protection of local industry, is the primary purpose of Ethiopia's tariffs. However, highly protective tariffs are applied on certain items such as textiles products and leather goods to protect local industries. Tariffs are applied evenly to all countries (except for a 10 percent reduction given to COMESA countries) and have been lowered substantially in recent years; *ad valorem* duties range from 0 percent to 35 percent, with a weighted average of 17.5 percent. Importers also enjoy duty drawback and duty-free provisions when they use the imports in the production of export goods. There have been instances in which burdensome regulatory or licensing requirements have prevented the local sale of U.S. exports. In general, however, these have not been significant.

A deterrent to imports generally is the strict foreign exchange control regime administered by Ethiopia's central bank, the National Bank of Ethiopia, which has a monopoly on all foreign currency transactions and supervises payments made abroad. The local currency (Birr) is not freely convertible. Because Ethiopia perennially experiences a large current account deficit and foreign exchange is in short supply, the Bank limits access to foreign exchange and importers can have difficulty obtaining it. For larger firms, state enterprises and enterprises owned by the ruling party, obtaining foreign exchange is not usually a major concern, but for others the procedures and bureaucracy in arranging trade-related payments can pose burdensome delays. Less well-connected importers, particularly smaller, new-to-market firms complain that there is not a level playing field. 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 is not a Member of the WTO but has observer status and is in the early stages of the accession process. It is a member of the Common Market for East and Southern Africa (COMESA), but is not a party to the COMESA Free Trade Area.

Customs Procedures

In June 2004, Ethiopia discontinued its pre-shipment inspection regime, which domestic producers, including textile and garment manufacturers, found burdensome and costly. The Customs Authority generally levies duties based on the invoice transaction, though on occasion it revalues goods based on a price database maintained by an outside contractor if the invoice transaction values appear significantly lower than expected.

The Customs Authority has made a major effort in recent years to increase transparency; its valuation methodologies and procedures are available to the public on its website. It has also done much to streamline services to importers. Customs clearance time, which used to take 43 days on the average, has been reduced to less than a week in most cases.

STANDARDS, TESTING, LABELING AND CERTIFICATION

The Quality and Standards Authority of Ethiopia regulates all exports and imports that have Ethiopian standards. Except for a few types of imports, there are no general requirements for product certification. Certification is required for foodstuffs, construction materials, chemicals, textiles and pharmaceuticals. Standards are consistent with international norms (ISO/IEC Guide 28). Pharmaceuticals that have been extensively tested and licensed in other countries are allowed to enter the Ethiopian market with no further testing. However industry reports that there have been instances in which 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/services. Bureaucratic procedures and delays in the decision-making process sometimes impede foreign participation in tenders. U.S. firms have complained that the abrupt cancellation of tenders and lack of transparency in the procurement system influences some procurement decisions. There is reason to believe that state-owned and party-owned enterprises have enjoyed some *de facto* advantages over private firms in the government procurement process.

Several very large contracts have been signed in recent years between government corporations and Asian companies without a tender process, apparently because Asian governments offered supplier credit at very favorable terms. Ethiopia is not a member of the World Trade Organization (WTO) Agreement on Government Procurement.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Ethiopia became a member of the World Intellectual Property Organization in 1998. In April 2003, the government established the Ethiopian Intellectual Property Office as an autonomous government body responsible for the administration of patents, trademarks, copyrights, and other intellectual property policy and legal issues.

Within the last two years, IPR has received a great deal of government interest and attention. Ethiopia enacted a series of new laws pertaining to some areas of IPR, namely, copyright and related rights, plant varieties and trademarks.

The 2004 copyright law improved protection for literary and artistic works, and extended protection for the rights of performers, producers of phonograms and broadcasting organizations. In 2006, a new trademark law was enacted that was designed to bring Ethiopian law in line with the laws of other jurisdictions worldwide. The Ministries of Trade and Industry and Justice are finalizing a revised commercial code to enhance the protection and enforcement of intellectual property rights.

The government is in the process of developing new laws for the protection of geographical indications and trade secrets.

INVESTMENT BARRIERS

In recent years, the government has taken major steps to open the Ethiopian economy to foreign investment. However, official and unofficial barriers still exist. Ethiopia's investment code restricts investment in the banking, insurance and micro-credit industries to domestic investors. Other areas of investment reserved for Ethiopian nationals include broadcasting, air transport services using aircraft with a seating capacity greater than 20 passengers, and forwarding/shipping agency services. In addition, foreign investors are barred from investing in a wide range of small retail and wholesale enterprises (e.g., printing, restaurants and beauty shops).

The investment proclamation of July 2002 exclusively reserved to the government investment in the transmission and supply of electrical energy through the integrated national grid system and non-courier postal services. Private investment in telecommunication services and defense industries is permitted, but only in partnership with the government.

An August 2005 directive allows private companies to provide Internet service through the government's backbone infrastructure, but implementing regulations have yet to be promulgated and the state-owned Ethiopian Telecommunications Corporation maintains a 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, 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 agro-business, but less so for real estate developers.

ELECTRONIC COMMERCE

The low telecommunication penetration rate, the monopoly on Internet service provision, restrictions on foreign exchange and the low level of development of the financial sector have impeded the growth of electronic commerce. However, there do not appear to be any trade restrictions specific to electronic commerce.

OTHER BARRIERS

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.

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 run under U.S.-linked management contracts.

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. 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 "ICSID Convention").