ETHIOPIA

TRADE SUMMARY

The U.S. goods trade surplus with Ethiopia was $163 million in 2009, an increase of $14 million from 2008. U.S. goods exports in 2009 were $276 million, down 8.5 percent from the previous year. Corresponding U.S. imports from Ethiopia were $113 million, down 25.9 percent. Ethiopia is currently the 105th largest export market for U.S. goods.

The stock of U.S. foreign direct investment in Ethiopia was $2 million in 2008 (latest data available), the same as in 2007.

IMPORT POLICIES

Ethiopia is not a Member of the World Trade Organization (WTO), but is in the process of acceding to the WTO. 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 United States Government.

Ethiopia is a member of the Common Market for Eastern and Southern Africa (COMESA), but does not participate in COMESA's free trade area.

Tariffs

According to the WTO, Ethiopia's average applied tariff rate was 17.3 percent in 2008. Revenue generation, not protection of local industry, appears to be the primary purpose of Ethiopia's tariffs. However, high tariffs are applied to protect certain local industries, such as the textile and leather industries. Goods imported from COMESA members are granted a 10 percent tariff preference. *Ad valorem* tariffs 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 higher-value finished leather, hides and skins.

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. Ethiopia's currency (birr) is not freely convertible. While larger firms, state-owned enterprises, and enterprises owned by the ruling party have not typically faced major problems obtaining foreign exchange, less well connected importers, particularly smaller, new-to-market firms, increasingly face burdensome delays in arranging trade related payments. An importer must apply for an import permit and obtain a letter of credit for the total value of the imports before an order can be placed. Even then, import permits are not always granted. Ethiopia currently maintains four requirements and potential restrictions for payments and transfers of international transactions, which include: (1) a tax certification requirement for repatriation of dividend and other investment income; (2) regulations covering the repayment of legal external loans and foreign partner credits; (3) rules for the issuance of import permits by commercial banks; and (4) a requirement to provide a clearance certificate from the National Bank of Ethiopia (central bank) to obtain import permits.

An acute shortage in Ethiopia's foreign exchange market has stalled overall business in both the private and public sectors. Whereas firms seeking bank letters of credit for imports requiring hard currency previously could acquire them 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. The government's recent tightening of the banking regulations to manage its limited foreign exchange reserves has consequently dampened the supply of desired consumer and industrial imports. The limited supply of foreign exchange in Ethiopia's banks has continued to negatively impact U.S. commercial interests as companies have had increasing difficulty in importing 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.

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 significantly large contracts have been signed in recent years between government enterprises 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

The Ethiopian Intellectual Property Office (EIPO) is responsible for the administration of patents, trademarks, copyrights, and has competence in intellectual property policy. In the past few years, Ethiopia has enacted a series of new laws regarding 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. EIPO focuses mainly on protecting Ethiopian copyrighted materials and pirated software, and has taken virtually no action to confiscate or impede the rampant sale of pirated foreign works in Ethiopia.

Trademark infringement of major international brands appears to be widespread in Ethiopia. The lack of government registration requirements and enforcement capacity leave the government in a position of only responding to formal IPR challenges brought to Ethiopia's Competition Commission.

SERVICES BARRIERS

The state-run Ethiopian Telecommunications Corporation (ETC) maintains a monopoly on telecommunications and Internet service and is closed to private investment. 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 ETC maintains a *de facto* monopoly on Internet services. There are no regulations on international data flows or data processing use. In late 2009, Ethiopia released a tender soliciting an international firm to overhaul ETC's management operations.

INVESTMENT BARRIERS

Official and unofficial barriers to foreign investment persist. 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 of up to 20 passengers, 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 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. An ongoing 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 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 ruling party, for example, in the form of preferential access to bank credit, foreign exchange, land, procurement contracts, and import duties.

Judiciary

Companies attempting to transact business in Ethiopia assert that its 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 an understanding of commercial matters and scheduling of cases often suffer 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, Ethiopian Revenue and Customs Authority, National Bank of Ethiopia and the state-owned Commercial Bank of Ethiopia, and charged them with corruption. In 2009, FEACC actively arrested officials of private financial institutions allegedly involved in unlawful business practices and individual businesspersons accused of tax evasion.