ETHIOPIA

TRADE SUMMARY

The U.S. goods trade surplus with Ethiopia was $637 million in 2010, an increase of $483 million from 2009. U.S. goods exports in 2010 were $765 million, up 186.5 percent from the previous year. Corresponding U.S. imports from Ethiopia were $127 million, down 12.8 percent. Ethiopia is currently the 81st largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in Ethiopia was $2 million in 2009 (latest data available), unchanged from $2 million in 2008.

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 progress in drafting new legislation and implementing capacity building measures relevant to WTO membership with the help of technical assistance from a number of donors, including the United States. 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 2009. Revenue generation, not protection of local industry, appears to be the primary purpose of Ethiopia's tariffs. Goods imported from COMESA members are granted a 10 percent tariff preference. *Ad valorem* tariffs range from zero 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 due to high food inflation. This surtax is still in place even though inflation rates have been in single digits for over a year. In July 2008, the Ethiopian government introduced an export tariff of up to 150 percent on raw and semi-processed hides and skins in an effort to shift domestic production to higher-value finished leather, hides, and skins. In October 2010, the Ethiopian government applied high export tariffs on raw cotton in order to force more locally-produced cotton into the bourgeoning domestic textile industry. High import tariffs are primarily applied to luxury goods such as vehicles.

Foreign Exchange Controls

Importers face difficulty in obtaining foreign exchange, particularly those importing goods or inputs destined for domestic sales. Ethiopia's central bank (National Bank of Ethiopia) 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, 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. Additionally, an importer must provide a clearance certificate from the National Bank of Ethiopia to obtain an import permit.

The 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 three months and require 100 percent payment. The limited supply of foreign exchange in Ethiopia's banks has continued to impact U.S. commercial interests negatively as companies have had difficulty importing essential manufacturing inputs, spare parts, consumer goods, and capital goods from abroad. The repatriation of profits is allowed, but companies may face delays in this process.

GOVERNMENT PROCUREMENT

A significant portion of Ethiopian import transactions are conducted through government tenders. 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 perceived favoritism toward Chinese suppliers, 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. In 2009, the Ethiopian government created a central procurement agency within the finance ministry in an effort to streamline the procurement process.

As a non-member of the WTO, Ethiopia is not a signatory to the WTO Agreement on Government Procurement.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Although Ethiopia has enacted laws regarding copyright and related rights, plant varieties, and trademarks, the Ethiopian Intellectual Property Office (EIPO), which is responsible for all those areas, focuses mainly on protecting Ethiopian copyrighted materials software. EIPO has taken virtually no action to confiscate pirated foreign works in Ethiopia, or to impede the sale of pirated goods. Trademark infringement of major international brands appears to be widespread in Ethiopia.

SERVICES BARRIERS

The state-run Ethiopian Telecommunications Corporation (now known as Ethio Telecom or ET) 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 never been promulgated and ET maintains a *de facto* monopoly on Internet services. In November 2010, France Telecom assumed 50 percent of ET's management operations under a two-year management contract.

INVESTMENT BARRIERS

The banking, insurance, and micro-credit industries are reserved for domestic investors, and access to local finance is limited due to government-imposed lending limits on Ethiopian banks. Other areas of investment reserved exclusively for Ethiopian nationals include broadcasting, domestic passenger air transport services, and forwarding/shipping agency services. Foreign investors are also barred from investing in a wide range of small retail and wholesale enterprises. 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. Farm investors have reported land disputes with regional government officials and local residents in various regions. Investment in the defense industry is permitted only in partnership with the Ethiopian government.

OTHER BARRIERS

Parastatal and Party-affiliated Companies

Ethiopian and foreign investors have made general complaints about *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 duty-free imports.

Judiciary

Businesses in Ethiopia assert that its judicial system remains inadequately staffed, inexperienced, and strongly influenced by government officials, 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 suffers from extended delays. The Ethiopian government has recently created a separate court to handle commercial disputes in an effort to increase judicial knowledge of these matters and speed up case processing time. There is no guarantee that an award of an international arbitral tribunal will be fully accepted and implemented by Ethiopian authorities. Ethiopia has signed, but never ratified, the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention).