A SURVEY OF NON-TARIFF BARRIERS THAT AFFECT ERITREAN IMPORTS AND EXPORTS WITHIN COMESA COUNTRIES

Final report

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EXECUTIVE SUMMARY

The overall objective of the COMESA NTBs survey was to identify the scope and nature of non-tariff barriers (NTBs) that hamper intra-COMESA trade (imports and exports) thus impairing the ability of member states to optimize on gains from the regional trade preferences offered through their trading arrangements. The survey for Eritrea was therefore undertaken within this overall objective, but specifically focuses on NTBs that affect Eritrean trade within the trading bloc. For the purpose of categorising NTBs and their impact to business, the WTO NTBs inventory classification has been used in order to standardise the definition of NTBs that exist within the region. Extensive interviews were conducted through a pre-prepared questionnaire and one-to-one consultations with selected key government and private sector representatives in order to identify NTBs that form the subject of this report.

The survey has found out that currently, Eritrea doesn't seem to benefit much from the trade preferences available under her membership to COMESA. Analysis of the trade data between 2003 and 2006 shows that both exports and imports to and from the region are quite insignificant, with imports from the region constituting a mere 9% to the country's total imports while exports constituted a mere 7% of the country's total exports during the period. On the other hand, imports from the region were unstable, while exports actually declined by a notable 58% during the period 2003 and 2006.

The survey has also identified the key NTBs that affect Eritrean trade within COMESA, and has additionally given an overall picture regarding impediments to Eritrea's trade within the region. Discussions with the trade stakeholders also show that the major NTBs are closely related to the Eritrea/Ethiopia border conflict, which in 2003 and 2005 necessitated the Government to introduce interventionist measures aimed at regulating economic activities so as to minimize the adverse impacts of the war, including the set-up of a trading corporation and introduction of foreign exchange controls that have ended up directly affecting business operations. A summary of the NTBs include manual customs declaration and clearance which result to time loss, cumbersome import permit regulations, foreign exchange shortages, measures to regulate domestic prices, lack of knowledge on the potential of the COMESA market, and high transportation costs due to lack of direct sea and air freight.

The major challenges regarding implementation of the NTBs monitoring mechanism in Eritrea will include the need to support technical assistance of a proposed National Monitoring Committee, whose responsibilities will be to facilitate reporting, elimination and monitoring of NTBs that affect trade within the region. Establishment of a working NM will enable a structured approach to dealing with NTBs which should involve all trade stake holders.

Regarding implementation of COMESA transit traffic programs, Eritrea has implemented most of programs aimed at facilitating cross-border trade. These include the Harmonized road transit charges system; COMESA Carrier's License; Harmonized Axle Loading and Maximum Vehicle Weight; and COMESA Yellow Card.

The survey has recommended an action plan for facilitating eliminating and monitoring of NTBs that were identified during the process of consultations. This template needs to be validated by the proposed National Monitoring Committee when it becomes operational, while the list of NTBs could also be expanded with additional trade obstacles as the NMC gains experience on how to deal with NTB issues.

CHAPTER ONE INTRODUCTION AND OVERVIEW

1.1 Overview

COMESA is one of the regional economic groupings within the African Union embracing whose key focus is to promote trade as means of economic growth and development for the Eastern and Southern African region. Since the creation of COMESA in 1994 and even the previous era of the Preferential Trade Area (PTA) between 1981 and 1994, Member States of the regional bloc have continuously regognised that NTBs hinder intra-COMESA trade. The issue was given significance in 1984 under Article 49 of the COMESA Treaty, which provides for the elimination of existing and non-imposition of new NTBs. The member States have also recognised the importance of reducing technical barriers to trade and preventing the emergence of new ones so as to facilitate intra-COMESA trade and market access for products, thereby enhancing exports and generating employment. In this respect, the member States have agreed to implement a common, comprehensive, coherent and operational external strategy regarding NTBs, whose implementation should not be to the detriment of legitimate demands for better protection of health, safety and the environment and that should not put national market regulatory regimes in jeopardy. However, the removal and non-imposition of NTBs have been sensitive issues which continue to provide key challenges for the organization as the integration process deepens.

It is within the above background that this assignment was commissioned by the Regional Trade Facilitation Programme (RTFP) on behalf of the COMESA with an objective of identifying and analysing the nature and scope of Non-tariff barriers (NTBs) that hamper intra-regional trade within the member countries. The entire survey which also includes EAC and SADC members covers twenty-five countries which are either/or members of COMESA[1], SADC[2] and EAC[3], with Eritrea being covered as a member of COMESA. All the three regional economic communities (RECs) are currently at various stages of developing formal/ structured mechanisms for identifying, monitoring and eliminating NTBs and are collaborating closely in this process> The result is expected to be the adoption of a single NTB monitoring and elimination mechanism for the region.

1.2 Scope of Work and tasks for the Survey

The main objective of the survey was to identify and analyze the nature and scope of NTBs that constrain intra-COMESA trade and thus the ability of member States to reap maximum gains from the large market size under the trading bloc. The specific tasks for the assignment were to:

[1] Common Market for Eastern and Southern African countries
[2] Southern African Development Community
[3] Eastern African Community

- Prepare (using available data) patterns of intra-COMESA trade, with identification of country exports and imports and the main traded commodities for the last 5 years.
- Identify the enforcement agencies and laws, regulations, practices, and requirements in the exporting and importing country with which exporters and importers must comply.
- Identify the scope and nature of NTBs that affect intra-COMESA trade utilising a standardised inventory approach using the WTO categorisation of NTBs.
- Identify the products and markets most affected by the NTBs.
- Document exporters' and importers concerns regarding the impact of the NTBs that are practiced on products intended for trade within the region.
- Assess the impact that NTBs have had on traders, such as the cost of the additional time incurred to ensure compliance, lost market opportunities, and prevalence of specific NTBs at COMESA country exit and entry points.
- Assess how producers, exporters and traders have responded to the challenges posed by NTBs.
- Ascertain whether COMESA harmonized transit procedures are implemented by national enforcement agencies. Such procedures include the Harmonized Road Transit Charges, COMESA Carrier's License, Harmonized Axle Load and Maximum Vehicle Weight specifications, and the COMESA Yellow Card.
- Undertake consultations on the proposed template form for reporting NTBs .
- Identify the measures required to facilitate the implementation of the COMESA NTBs monitoring and elimination instrument as well as recommend a process for
- Recommend a plan for NTB elimination or at least the sharp reduction in their incidence.

1. 3 Methodology for undertaking the survey

In accordance with the Terms of Reference (TOR), the survey in Eritrea included analysis of exports and imports between the year 2003 and 2006, including destination countries, trends and major products imported or exported. The four-year period was taken instead of a five-year period since the 2002 trade data was not reliable. A questionnaire was used to conduct extensive interviews with selected government institutions, business entrepreneurs, transport companies, clearing and forwarding agencies, leather manufacturers association, and key importers and exporters who are directly or interested to doing business in the COMESA region. The study also reviewed the current import and export regulations as well as other proclamations related to Eritrea's trade. Further, it has used the WTO NTB codes to categorize and identify NTBs into a standard inventory.

CHAPTER TWO OVERVIEW OF ERITREA TRADE WITHIN COMESA COUNTRIES

2.1 IMPORT PERFORMANCE

2.1.1 Import trends from COMESA region

Eritrea's total imports from the COMESA region during the years 2003 to 2006 had an up and down trend. As can be seen from Table 1 and Chart 1 below, imports from the COMESA region decreased by about 5% in 2004 from the 2003 figure, then increased significantly in 2005 by about 68% before decreasing again significantly by about 53% in 2006. The high value of imports during the year 2005 was due to large imports of cereals and cement as a result of the severe drought that the country experienced during the year and also partly aimed at meeting the needs of the country's huge construction programs during same year. The decline of imports for 2006 was mainly due to the tight import permit regulations introduced in mid-2003 whose real impact started being felt three years later, and partly due to a good harvest which reduced the need for massive cereal imports.

Eritrea had 16 trade partners within the COMESA region during the period 2003-2006. Egypt, Djibouti, Kenya and Sudan were the major sources of imports within the region, with an average share of 46%, 26% 15% and 11% respectively. The main imports from Egypt were mainly cement. Further analysis of the existing data shows that out of the total imports, the share of COMESA region was about 13% in the year 2005 which was the highest. However, on average the region supplied only 9% of Eritrea's total imports during the 2003-2006 as shown in Table 1 below.

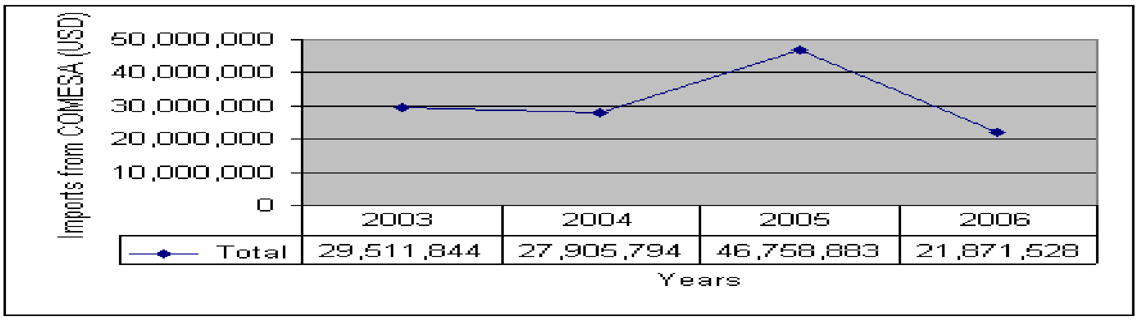
Table 1: Imports from COMESA members by Country (USD) (2003 – 2006)

Countries	2003	2004	2005	2006	Total Imports	Market share
Egypt	8,691,730.60	15,890,681.14	22,448,354.73	10,361,898.16	57,392,664.63	45.5%
Djibouti	10,577,927.05	3,403,550.41	10,980,648.44	7,911,140.63	32,873,266.53	26.1%
Kenya	7,130,635.49	6,170,566.98	4,139,997.65	1,707,118.16	19,148,318.28	15.2%
Sudan	2,072,008.25	1,608,618.79	8,695,672.60	907,425.78	13,283,725.42	10.5%
Ethiopia	116,916.70	36,444.76	480,567.30	820,176.06	1,454,104.82	1.2%
Uganda	755,896.51	109,980.00	1,898.10	4,073.97	871,848.58	0.7%
Swaziland	696.51	635,641.90	151.43	33,957.78	670,447.62	0.5%
Namibia	150,800.32	15,429.52	0.00	0.00	166,229.84	0.1%
Seychelles	0.00	10,584.76	0.00	113,574.60	124,159.36	0.1%
Zimbabwe	1,811.11	23,370.48	674.92	0.00	25,856.51	0.0%
Rwanda	13,162.54	102.22	8,640.95	346.35	22,252.06	0.0%
Congo D.R	0.00	0.00	0.00	9,986.98	9,986.98	0.0%
Zambia	0.00	660	1,919.37	0.00	2,579.37	0.0%
Burundi	0.00	0.00	253.02	1,462.54	1,715.56	0.0%
Congo	259.05	0.00	104.13	366.67	729.85	0.0%

Countries	2003	2004	2005	2006	Total Imports	Market share
Angola	0.00	162.86	0.00	0.00	162.86	0.0%
Total imports from COMESA	29,511,844.13	27,905,793.82	46,758,882.64	21,871,527.68	126,048,048.27	100.0%
Total Imports from all world countries	381,513,980.63	377,187,724.92	372,422,745.80	260,986,907.78	1,392,111,359.13	
Percentage of imports from COMESA to total imports	8%	7%	13%	8%	9%	

Source: Customs Department, Trade Statistics Reports (2003-2006), Asmara, Eritrea

Chart 1: Trends of Eritrea Imports between 2003 and 2006 (USD)



Source: Summary of Table 1 above

2.1.2 Major imports from COMESA

Among the major ten products imported from the COMESA region during the period 2003 to 2006 were cement and cereals, which took 25.2% and 23.9% of total imports from the region during the period 2003 to 2006. Combined, the ten major imports took an average of 70.8% of imports from the region during the period as shown in Table 2 below.

Table 2: Top 10 products Imported from COMESA Countries in 2006

HS Code	Product Type	Total imports 2003-06 (USD)	Percentage share
25232900	Other Portland cement	5,513,430.79	25.2%
10089000	Other cereals	5,220,464.13	23.9%
90111000	Coffee not roasted, not decaffeinated	1,654,425.14	7.6%
39172300	Tubes, pipes & hoses of polymers of vinyl chloride, rigid	901,114.92	4.1%
27090000	Petroleum oils and oils from bituminous minerals, crude	639,496.51	2.9%
90240000	Other black tea (fermented) and other partly fermented tea	431,586.98	2.0%
90412000	Pepper crushed or ground	403,262.48	1.8%
40112000	New pneumatic tyres, of rubber, used on buses, lorries	253,396.83	1.2%
15159000	Other fixed vegetable fats, oils and their fractions	247,737.78	1.1%
27139000	Other residues of petroleum oils, bituminous minerals	228,336.19	1.0%
Total for 10 major imports from COMESA in 2006		15,493,251.75	70.8%
All other products		6,378,275.93	29.2%
Total for all imports from COMESA in 2006		21,871,527.68	100.0%

Source: Customs Department, Trade Statistics Reports (2003-2006), Asmara, Eritrea

2.2 EXPORT PERFORMANCE

2.2.1 Export trends to COMESA region

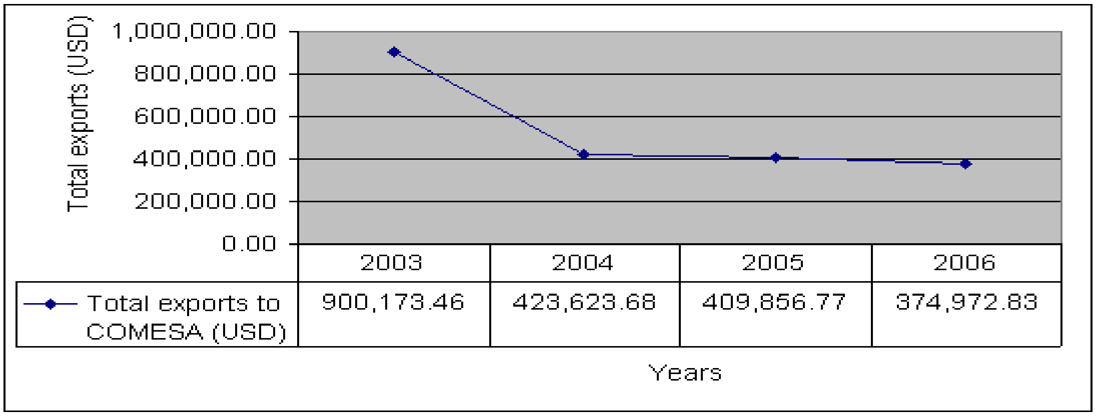
A notable observation is that total exports to the COMESA region declined significantly during the period 2003-2006 from USD 900,173.46 in 2003 to USD 423,623.68 in 2004, representing a decline of about 53%. The figure declined further to USD 409,856.77 or by 3% in 2005 and further to USD 374,972.83 or by 9% in 2006 as shown in Table 3 and Chart 2 below. Exports to the region therefore declined by a notable average of 58% between the period 2003 and 2006. it is also notable that exports to the region during the period of analysis were limited to only six countries only, Sudan, Egypt, Djibouti, Uganda, Kenya and Zimbabwe; with Sudan taking the bulk of the region's market share at an average of 68.4% followed by Egypt at an average of 20.3%. In addition, it is also notable that the value of exports to the region during the period of analysis were very small, and that the region's share of Eritrea's total exports declined significantly during the period from about 18% in 2003 to 7% in 2004, and to 4 % in 2005 and 2006. On average the region took only an average of 7% of Eritrea's total exports during the period 2003 to 2006. The implication is that Eritrea has not taken advantage of her membership to COMESA, where preferential trade arrangements exist in the form of lower than 3rd country import duty rates. The major reason for this poor export performance to the region is that Eritrea's export trade is greatly affected by the border conflict with Ethiopia starting from 1998, which has made it difficult to trade with the region through road transport. In the absence of this mode of transport, the only options are either air or sea transport, which are both extremely expensive. For example, air freight costs an average of USD 250 per kg while sea freight costs an average of USD 6,000 per 20ft container from Asmara to Kigali (Rwanda) compared to an estimated average of USD 1,000 per a 20 foot container which would be chargeable on road transport if transit through Ethiopia was possible. As a result of transport problems, Eritrean export items cannot be competitive in the OMESA region, which has forced Eritrean businesses to look for alternative markets mainly in Middle East and Europe.

Table 3: Exports to COMESA Region between 2003 and 2006 (USD)

Countries	2003	2004	2005	2006	Total	Market share
Sudan	818,562.10	219,873.52	126,563.37	277,847.43	1,442,846.42	68.4%
Egypt	0.00	163,495.24	263,772.06	0.00	427,267.30	20.3%
Djibouti	35,767.17	0.00	2,866.67	97,125.40	135,759.24	6.4%
Uganda	34,717.78	40,254.92	16,654.67	0.00	91,627.37	4.3%
Kenya	7,911.49	0.00	0.00	0.00	7,911.49	0.4%
Zimbabwe	3,214.92	0.00	0.00	0.00	3,214.92	0.2%
Total exports to COMESA	900,173.46	423,623.68	409,856.77	374,972.83	2,108,626.74	100%
Total exports to all world countries	4,999,405.17	6,240,537.20	10,919,214.41	10,279,683.37	32,438,840.15	
Percentage of exports to COMESA relative to Total exports	18%	7%	4%	4%	7%	

Source: Customs Department, Trade Statistics Reports, (2003-2006)

Chart 2: Trends of Eritrean exports to COMESA between 2003 and 2006 (USD)



Source: Summary of Table 3 above

Nine products constituted the entire exports to COMESA during the year 2006, with Vegetable materials for plaiting; Natural gums; and Articles of iron or steel used for household purposes taking the bulk of these exports as shown in Table 4 below.

Table 4: Products Exported to COMESA Countries in 2006

HS Code	**Product Name**	**Value in USD**	**Percentage share**
14019000	Other vegetable materials used for plaiting	142,361.59	38.0%
13019000	Other lac; natural gums, resins, gum-resins and balsams	102,800.00	27.4%
73239900	Other table, kitchen or other household articles and parts, of iron or steel	91,350.16	24.4%
40122000	Used pneumatic tyres	19,235.68	5.1%
12119000	Other plants or parts used in perfumery, pharmacy…	9,323.17	2.5%
62052000	Men's or boys' shirts of cotton	5,775.24	1.5%
25221000	Quicklime	2,539.68	0.7%
25210000	Limestone flux; limestone and other calcareous stone,	1,428.57	0.4%
14039000	Other vegetable materials used in brooms, in brushes	158.73	0.0%
Total for nine major exports to COMESA in 2006		374,972.82	100%
All other exports in 2006		0.01	0.0%
Total exports to COMESA in 2006		374,972.83	100%

Source: Customs Department Trade Statistics Reports (2003-2006), Asmara, Eritrea

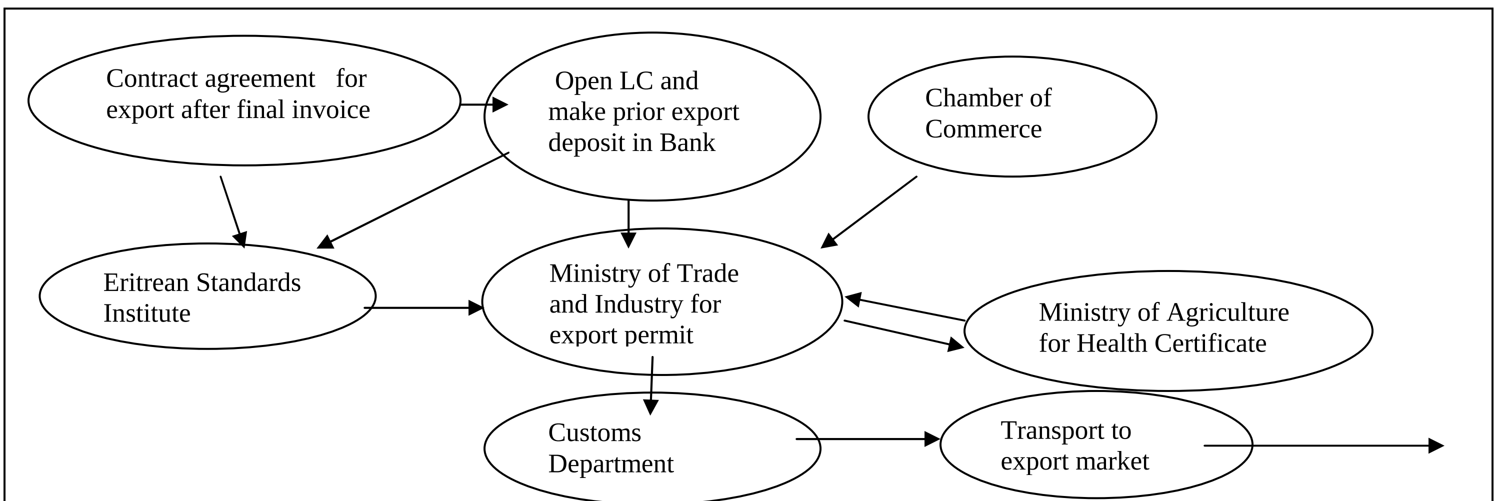
CHAPTER THREE:NTB MEASURES DIRECTLY AFFECTING EXPORTS

This chapter analyzes the NTB measures directly affecting exports using information collected through pre-prepared questionnaires and one-to-one discussions with representatives of the business community and the public sector. A summary of the export flow process is shown in Chart 3 below.

3.1 Summary of Eritrea's export flow process

As a first step to the long export process, an Eritrean exporter sends a proforma invoice to the target importer. The relevant Ministry[4] thereafter confirms availability of the product to be exported before the exporter can give the final invoice to the importer. The exporter then makes a contract agreement with the importer and thereafter opens a letter of credit with his/her bank using a copy of the proforma/final invoice. As a temporary[5] measure, the exporter also deposits the equivalent of expected foreign exchange earnings to his/her bank. Standards inspection is then undertaken by the Eritrean Standards institute, and for food/plant products an sanitary and phyto-sanitary inspection by Ministry of Agriculture. For exports to COMESA, the Chamber of Commerce also issues the COMESA Certificate of Origin, after which the Ministry of Trade and Industry verifies all bank and other relevant documents before issuing an export permit. All these documents are then taken to the customs office for final export clearance, after which the export consignment is transported to the importer. The export flow process is summarised in Chart 3 below.

Chart 3: Export flow process in Eritrea



3.2 Major NTBs Affecting Exports

[4] The relevant Ministry depends on the product to be exported. For food/plant related products, the relevant Ministry is Ministry of Agriculture, for leather and leather products it is Ministry of Livestock, for fish and fish products it is Ministry of Fisheries and for other manufactured products it is Ministry of Trade and Industry.

[5] The requirement to deposit equivalent of foreign exchange earnings is temporary until the foreign exchange problem ends.

3.2 Inventory of Major NTBs that affect exports

A number of NTBs emerge during the export flow process as summarised below.

3.2.1 Rules of Origin

Eritrean exports destined to other COMESA member states suffer from non-acceptance of the certificate of origin in target COMESA countries. Kenya is sited as a good example, where often the Customs authorities refuse to give preferential tariffs on Eritrean originating products claiming that specimen signatures of relevant Eritrean officials designated to issue the COMESA certificate of origin have not been deposited with Kenya Customs. This causes delays and as a result exporters are forced to pay taxes and demurrage costs in Kenya.

3.2.2 Customs formalities

Export declarations are manually processed, which coupled with the temporary requirement to deposit an equivalent amount of the expected export earnings to exporter's bank, existing shortages of skilled manpower and poor communication facilities between institutions involved in an export consignment cause delays and create inconvenience for exporters. On average, an estimated only 1,500 export declarations are processed monthly, but which consume a lot of man-hours in the process clearing them.

3.2.3 Pre-shipment inspection

Generally, pre-shipment inspection services are used by countries to prevent customs fraud and ensure products meet a target country's product standard specifications among other reasons. In Eritrean pre-shipment inspection is not required on imports, whereas in other COMESA member states, a pre-shipment inspection is requires prior to an import consignment. Again Kenya is sited as a good example of a COMESA country where the Kenya Bureau of Standards requires pre-shipment inspection on imports, a process that ends up costing an average of 200 USD per consignment to the importer. While the procedure is time consuming, it also increases the cost of products exported to Kenya, thereby making COMESA originating products more expensive than would have been the case if it was not applicable. Eritrean business people are greatly affected by this requirement.

3.2.4 Transportation bottlenecks

The road transport network from Masawa and Assab ports to Asmara and other inland towns is well maintained. Related facilities such as the port are also well equipped through recent rehabilitation and modernisation of facilities such as cranes, other loading equipment and container space, to handle the current trade volume in and out of Eritrea. However, the volume of Eritrean exportable commodities is limited. This has resulted to very few cargo ships calling at Eritrean ports to pick-up export cargo. Consequently, a consignment can wait for as much as one month or even longer before being loaded onto delivery vessels for transport to a final destination. This problem impacts directly on the logistical cost of delivery and the product's price competitiveness.

Related to low volume of export, the current border conflict[6] with Ethiopia makes it difficult to transport commodities by road to COMESA target markets, although there are enough modern large transport trucks which meet COMESA's transit requirements such as Axle Load and Gross Vehicle Weight dimensions. The only COMESA country where exports are made through road transport is Sudan since transit through another country does not apply.

3.2.5 Production of raw and semi-processed products

Eritrea has a huge potential to produce semi-processed prickled, wet-blue and crust skins. However there is little chance to sell these products to COMESA countries which also produce similar items, and whose capacity to process leather and leather related products is limited. The products therefore end up in European and North American markets for final processing of the main leather items.

3.2.6 Cumbersome and expensive bank transfers

The COMESA countries banking system is very poor, and bank transfers of export earnings have to be re-routed through European and American banks. The process means payment of exorbitant bank charges and lost business time which discourages Eritrean business people to trade within the region.

The categorization of the above NTBs under WTO Codes is shown in Table 5 below.

[6] Before the breakout of border conflict between Eritrea and Ethiopia in 1998, Eritrea used to entirely to depend on Ethiopia as her major export market and transit trade with other neighbouring countries.

Table 5: WTO categorization codes on NTBs applicable to Eritrean exports to COMESA markets

WTO INVENTORY CATEGORY	DESCRIPTION				
	WTO Inventory Code	Problem Area	Description of the most severe NTBs	Impact of NTB to businesses and trade	Responsibility/ Source of NTB
PART II PART V	Customs and Administrative Entry Procedures Specific Limitations				
	II-F	Rules of origin	Eritrean Customs demands that all exporters wishing to penetrate the COMESA market have to produce a COMESA certificate of origin.	Eritrean Exporters are denied preferential trade benefits as they are forced to pay taxes and demurrage costs in target COMESA countries. This discourages Eritrean business men to export to COMESA countries.	Kenyan Custom Authorities
	V-D	Exchange controls	Eritrean exports destined to other COMESA member states suffer from the non-acceptance of the certificate of origin in the target country. Kenya is a good example where the authorities have refused to confer recognition by claiming that the specimen signatures of the relevant Eritrean designated authorities to issues the COMESA certificate of origin signatories have not been deposited with Kenya Customs		
	G	Customs formalities	The manual customs process for verifying export declarations and clearing cargo creates inconvenience for faster exports. This problem coupled with existing shortages of skilled manpower, the temporary requirement to deposit an equivalent of foreign exchange earnings and poor communication facilities between export authorising institutions causes delays in fulfilling an export order, while additionally creating inconvenience for exporters.	The manual customs process of export declarations, poor communication between institutions and shortages of man power skills result to delays in fulfilling an export order. The temporary requirement to deposit equivalent of expected foreign exchange earnings means only those who have made savings can export and that new exporters cannot venture into exports markets	Eritrean Customs and other institutions involved in authorising an export
PART II	Customs and Administrative Entry Procedures Technical Barriers to Trade				

<table>
<tr><td>WTO INVENTORY CATEGORY</td><td colspan="5">DESCRIPTION</td></tr>
<tr><td></td><td>WTO Inventory Code</td><td>Problem Area</td><td>Description of the most severe NTBs</td><td>Impact of NTB to businesses and trade</td><td>Responsibility/ Source of NTB</td></tr>
<tr><td></td><td>II-I
III-B</td><td>Pre-shipment inspection</td><td>Some COMESA member states require a pre-shipment inspection before allowing imports into their home market. A good example here is Kenya, which makes exports more expensive than would have been the case if the requirements did not apply.</td><td>The requirement of pre-shipment inspection by Kenya Bureau of Standards costs an average of USD 200 per consignment. This increases the cost of import commodities, hampers faster trade facilitation and discourages imports from the region.</td><td>Kenyans Bureau of Standards</td></tr>
<tr><td>Part VII</td><td colspan="5">Others</td></tr>
<tr><td></td><td>C</td><td>Distribution constraints - Expensive sea and air freight transport</td><td>The limited number and volume of Eritrean exports means few cargo ships call at its ports to pick-up exports. It also translates to lack of direct sea or air connection to the COMESA region, which delays exports' delivery for up to one month or longer, consequently making exports to the region uncompetitive.
The current border problem with Ethiopia makes it difficult to transport commodities by road to COMESA target markets although there are enough modern large transport trucks which meet COMESA transit requirements such as Axle Load and Gross Vehicle Weight dimensions. The only COMESA country where direct exports are made through road transport is Sudan since transit through another country does not apply.
COMESA countries have very poor bank transfer systems with no direct bank connectivity. As a result, export earnings have to be re-routed through European and American banks.</td><td>An export consignment has to wait for as much as one month or even longer before it can reach its final destination. The problem has direct cost impacts on price competitiveness.
The current border problem with Ethiopia makes it difficult for Eritrea to export to COMESA through road transport. The alternative is to transport by air which costs an average of USD 250 per kg or by sea which costs an average of USD 6,000 per 20ft container from Asmara to Kigali (Rwanda). In comparison, if transit through Ethiopia was possible, the road transport cost would have been an estimated average of USD 1,000 per 20 ft container. As a result of transport problems, Eritrean export items cannot be competitive in the COMESA region, which has forced Eritrean businesses to look for alternative markets mainly in Middle East and Europe.
The poor bank connectivity means re-routing of trade proceeds through European and American banks resulting to exorbitant bank charges and lost business time which discourages Eritrean business people to trade within the region.</td><td>COMESA Ministries in charge of Transport and Communications[7] matters

Border problem is a political issue which needs intervention by relevant COMESA policy organs

COMESA Ministries regarding bank transfers - need for banking agreements & promotion of PTA bank facilities</td></tr>
</table>

[7] COMESA Ministries in charge of transport and communications may need to promote business mergers between shipping lines so that instead of competing for small cargo volumes, some can be designated to handle the small trade in countries like Eritrea. If one shipping line was for example to handle Eritrea's trade, this would be big business, but small business when there is competition.

WTO INVENTORY CATEGORY	DESCRIPTION				
	WTO Inventory Code	Problem Area	Description of the most severe NTBs	Impact of NTB to businesses and trade	Responsibility/ Source of NTB
	Other	Limited capacity to process final products	The tanning industries in Eritrea produce semi-processed prickled, wet-blue and crust skins which are similarly produced in COMESA countries, whose capacity to process leather and leather related products is limited. Additionally, there is limited market information on tradable products available within the region.	The chance for exporting semi-processed products like prickled, wet-blue and crust skins to the COMESA region is limited and they therefore end up in European and North American markets for final processing of the main leather items.	COMESA Ministries of Trade and Industry. COMESA manufacturers

Table 6: Specific Official Regulations Affecting Exports

WTO Inventory Category	Product Group	Government Controlling Agency	Regulatory Procedure
Part II – F & D	All products	Chamber of Commerce Customs Kenya Eritrea Customs	Requirement for a certificate of origin and deposit of authorised signatories. Eritrean temporary Customs requirement for deposit of expected equivalent foreign exchange earnings prior to export.
Part II G	All products	Eritrea Customs Department	Manual verification of export documents prior to export
Part IV General	Food and agricultural items	Ministry of Health and Ministry of Agriculture	Requirement for health certificate/ SPS inspection
Part V G Export restraints	Old or used clothing	Customs Department	Export ban
Part V G Export restraints	Asbestos and construction materials made of asbestos	Customs Department	Export ban
Part V G Export restraints	Ivory	Customs Department	Export ban
Part V G Export restraints	Second grade alcohol (denatol)	Customs Department	Export ban
Part V G Export restraints	Marihuana, hashish, cocaine, opium, heroin, morphine, LSD, chat, other controlled narcotic substances	Customs Department	Export ban
Part V G Export restraints	All products	Ministry of Trade and Industry	All exports are required to have export permit
Part II–I & Part II-B	All products	Kenya Bureau of Standards	All imports into Kenya have to undergo Pres-shipment Inspection prior to export from source country
Part VII-C Distribution constraints	All products	Ministries in charge of transport & communications matters. COMESA political organs COMESA banks/ PTA bank	Open competition among shipping lines. Eritrea/Ethiopia border closure means no transit through Ethiopia. Re-routing of bank transfers through European and American banks.
Part VII Limited processing of COMESA originating products, and lack of market information.	Selected products like semi-processed prickled, wet-blue and crust hides and skins.	COMESA leather manufacturers/ COMESA Ministries of Trade and Industry	Limited processing capacity of raw materials

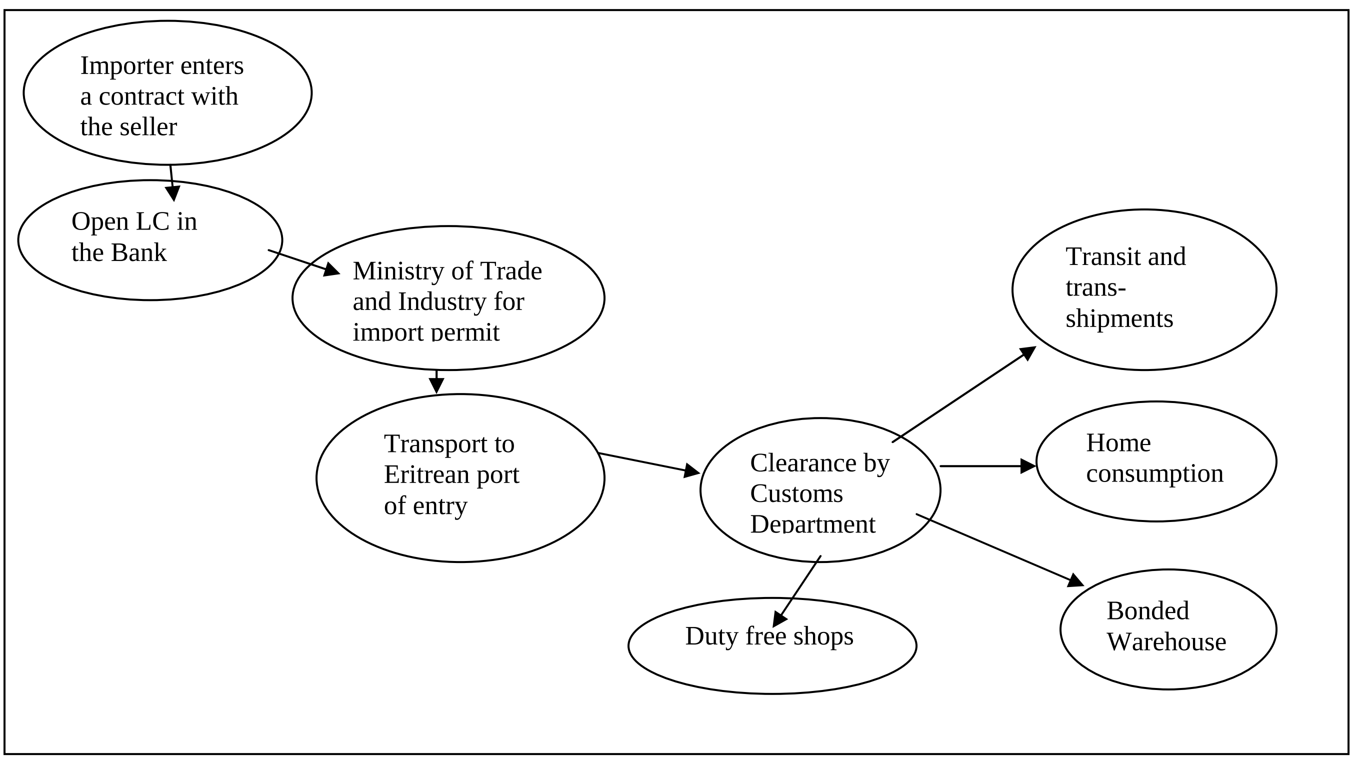
CHAPTER FOUR: NTB MEASURES AFFECTING IMPORTS

This chapter analyzes NTB measures that directly affect imports. The data was obtained from pre-prepared questionnaires and one-to-one informal discussions with selected representative of the business community and the public sector. While in general these representatives had reservations about the use of information gathered through the survey and were therefore reluctant to give detail information, it is observed that they have a good understanding of the NTB measures that affect imports, which like the case of export trade are also closely related to the ongoing border conflict with Ethiopia. A summary of the import flow process gives a good guide on procedures as shown in Chart 4 below.

4.1 Import process flow

A contract agreement is entered between the exporter and the importer after which the exporter sends a performa invoice. The importer then opens a letter of credit with his/her bank, after which the Ministry of Trade and Industry (MOTI) gives the required import permits. The final step is to take all relevant documents to customs for final clearance and release of the import commodities. While the foreign exchange market is liberalised, the border conflict with Ethiopia entails that all importers have to provide proof of availability of foreign currency for the importation. Chart 4 below summarises the import flow process.

Chart 4: Import flow process in Eritrea



4.2 Major NTBs affecting imports

A number of NTBs emerge in the above import flow as summarised below.

4.2.1 State trading

The Red Sea Trading Corporation, a government parastatal organization, is currently involved in trading activities particularly in importation and distribution of goods referred at as “declared goods”, which include as food-stuffs, construction materials and textile products. Private traders are only allowed to import certain government specified goods such as white cement, office and house furniture, and ceramic tiles. This is considered a temporary policy measure aimed at safeguarding available foreign currency arising directly from the ongoing border conflict with Ethiopia. However it restricts abiliaty to undertake free enterprise.

4.2.2 Customs valuation

According to the information gathered from the different respondents to the questionnaire and one-to-one discussions, the custom’s declaration, valuation and classification procedures result to unnecessary time loss and cost. If the documentation is correct, the procedures take about one day, and an average of 1-5 days according to customs, for only a volume of an average 50 import declarations per month[8]. The import procedures also entail that customs officers quite often resort to other means of getting import prices such as the internet instead of using the invoice prices provided by importers. In addition, the classification of goods is often changed to tariff codes that attract higher duties, which inflates the final selling prices of commodities in the domestic market. Reliance on internet for valuation purposes contravenes the WTO agreement on customs valuation (a elaborated in customs proclamation 112/2000), especially if the importer is not given justifiable reasons for rejecting the invoice price.

4.2.3 Customs formalities

Customs procedures involve manual processing of import declarations, which coupled with shortages of skilled manpower, poor communication among institutions involved in an import process cause unnecessary delays and inconvenience to importers. On average, the manual process in addition to cumbersome valuation means imports take an average of 1-5 days to clear from customs, which could be reduced to 2 hours if a computerised system was in use.

4.2.4 Foreign exchange controls

The government introduced an import permit in 2003. In addition, the foreign exchange management regulation was introduced in 2005. As the result of these regulations, importers currently suffer from insufficient foreign exchange to undertake import

[8] The import volume however was an average of 200 declarations per month before the border conflict with Ethiopia.

transactions. One can only import upon proof to the Bank of Eritrea that the sources of foreign exchange is either retained foreign export earnings, or profits and dividends from one's overseas shares and bonds. In addition to this proof, the value of imported commodities should not exceed the amount of the importer's oversees bank account. All these evidences have also to be supplemented with supporting documents such as legally audited financial statements. However, in the case of tannery industries, they often don't face foreign exchange problems since they are able to procure an average 90% of their raw material and chemical requirements from the domestic market. Any of their retained export earnings is therefore sufficient to cover import requirements whenever necessary.

4.2.5 Measures to regulate domestic prices

The government through the Ministry of Trade and Industry introduced the "declared goods and import permits" regulation under the legal notice No. 78/2003 under the Ministry of Trade and Industry (MOTI). The regulation stipulates the maximum selling price/profit margins for food items, construction materials, and textile products, and also covers import permit requirements. Consequently, the Red Sea Trading Corporation, a government parastatal is allowed under this regulation to import and export a major portion of certain products like Gum Arabica, fish, sesame seeds and salt. While the government intervention through this regulation is a temporary policy measure aimed at addressing the current shortages of products as a result of the border conflict with Ethiopia it restricts free market forces from determining prices and importation requirements. Regarding the prior import permit requirement, it is not easily obtained due to the bureaucratic and time consuming procedures involved. The consequence has been shortages in essential inputs like raw materials, oil and other petroleum products.

Table 7: WTO categorization codes on NTBs applicable to Eritrean imports

INVENTORY CATEGORY	DESCRIPTION				
	WTO Inventory Code	Problem Area	Description of the most severe NTBs	Impact of NTB to businesses and trade	Responsibility /Source of NTB
PART I	Government Participation in Trade and Restrictive Practices Tolerated by Governments				
	E	State Trading, government monopoly practices	The Red Sea Trading Corporation (government owned), is the only current organisation allowed to import and distribute "declared goods" such as food -stuffs, construction materials and textile products. Importation by private companies is only allowed for "specified goods" such as white cement, office and house furniture, and ceramic tiles. While this is considered a temporary measure, it restricts private traders from undertaking free import/export business through market forces of supply and demand.	Restricting importation and distribution of "declared goods" only to Red Sea Company, and allowing private importation to only specified goods is an impediment to free enterprise. It hampers free trade and could lead to undersupply and overpricing. This has happened for industrial raw materials and other essential inputs such as petroleum products. There is also potential for a parallel market developing in form of illegal imports of products in short supply.	Ministry of Trade and Industry/ Customs
PART II	Customs and administrative entry procedures				
	G	Customs formalities	The manual processing of import declarations, physical inspection, shortages of skilled manpower poor communication among institutions involved in an import consignment result to delays in delivering an import to its final destination. Consequently, producers are unable to manufacture on schedule which results to delays in fulfilling orders to the local and export markets.	Time lost to clear goods at entry points due to manual processes, which lead to delays in delivery of requirements for manufacturers, thus affecting production schedules and fulfilment of orders. Some times, custom formalities can take up to five days, while this should not be the case for a country which clears only 50 declarations per month.	Customs Department

INVENTORY CATEGORY	DESCRIPTION				
	WTO Inventory Code	Problem Area	Description of the most severe NTBs	Impact of NTB to businesses and trade	Responsibility /Source of NTB
	B C	Customs Valuation Classification of imports	Imports classification is done manually which is too cumbersome, time-consuming, and could lead to unfairness and corruption. The customs officers quite often tend to resort to other means of getting correct prices such as the internet instead of relying on invoice prices provided by the importers, while they also re-classify goods into tariff codes different from those appearing in an importer's declaration. Quite often, the two problems lead to higher duty being demanded by This procedure is considered unfair by importers and it contravenes the provisions of WTO customs valuation agreement.	There are cases where Eritrean importers sometimes pay higher than would be applicable duty rates, which results to higher prices of the finished product .It also results to unnecessary time wasted in the process of sorting out the tariff misclassification and valuation problems.	Customs Department
PART II	G	Customs formalities	Scanners are used to verify imports only at Asmara airport but not at the seaports. The result is that customs authorities sometimes demand unloading of cargo 6for physical verification before clearance to enter the Eritrean market.	Business time lost at sea ports during unloading and reloading of cargo. This means lost business time, and could sometimes lead to damage of imports for example ceramic tiles and food-stuffs.	Customs and port authorities
Part V	Specific limitations				
	D	Foreign exchange controls	The government under the Ministry of Trade and Industry introduced the "declared goods import permit" legal notice No. 78/2003 in 2003 and the foreign exchange management regulation in 2005. As the result of these regulations, importers are not getting sufficient foreign exchange to import essential commodities like	While the import permit and foreign exchange restrictions are temporary measures are temporary policy measures aimed at addressing the effects of Eritrea/Ethiopia border closure, they have become impediments to free importation, an effect which is felt in shortage of foreign currency required to import essential items like industrial raw materials and petroleum products.	Bank of Eritrea

INVENTORY CATEGORY	DESCRIPTION				
	WTO Inventory Code	Problem Area	Description of the most severe NTBs	Impact of NTB to businesses and trade	Responsibility /Source of NTB
			industrial raw materials and petroleum products. The only possible way they can import is when they provide proof to the Bank of Eritrea that the sources of foreign exchange are either retained export earnings, and profits and dividends accrued from one's shares and bonds in overseas companies.		
	H	Measures to regulate domestic prices	The declared goods and import permits regulation controls the selling price and profit margins for food items, construction materials, and textile products and import permit requirements. In addition, the Red Sea Trading Corporation now sponsors almost all imports and certain export items such as Gum Arabica, fish, sesame seeds and salt.	The selling price and profit margin controls have created shortages in supply of industrial inputs, petroleum products and consumable goods in the domestic market and scared away investors. The controls have also led to loss of huge government revenue from taxes due to emergence of parallel markets in supply of essential commodities.	Ministry of Industry &Trade
Part VI	Charges on Imports				
	A	Prior import permit	In addition to creating shortages in foreign exchange and supply of essential items, legal notice No. 78/2003 requires an importer to have an import permit prior to any importation, which however is time consuming to get and at times not easily acquired due bureaucracy involved.	Unnecessary time wasted during application and follow-up of an import permit. Like in the case of price and profit margin controls, the regulation has led to shortages in importation and therefore supply of essential commodities.	Ministry of Trade and Industry

Table 8: Specific official regulations affecting imports

WTO Inventory Category	Product Group	Government Controlling Agency	Regulatory Procedure
Part I E	Food items, textile products and construction materials	Ministry of Trade and Industry (MOTI)	Importation of declared goods by Red Sea Trading Corporation only
Part V D Foreign exchange controls	All products	Bank of Eritrea	Proof of foreign exchange prior to importation under the foreign exchange management regulation of 2005
Part II G Customs formalities	All products	Customs Department	Manual processing of import declarations and physical inspection/verification of imports (Scanners are only available verify imports at Asmara airport but not at the seaports
Part II B&C Customs Valuation Customs Classification	All products	Customs Department	Interpretation of tariff descriptions and codes, and consequent tariff classification for duty purposes
Part III G Customs formalities	All products	Customs Department	Periodic unloading of cargo for physical verification
Part V H Measures to regulate domestic prices	Food items, construction materials and textile products	Ministry of Industry &Trade	Controls of selling price and profit margins for selected goods referred to as declared goods
Part II D Customs formalities and documentation	All products	Customs Department	Customs officials may at any time within three years after the date of Customs release of the goods from customs control re-determine the tariff classification, the value for duty or the country of origin of such goods
Part II B&C Customs Valuation and classification of imports	All products	Customs Department	Customs valuation procedures of imports - Use of internet as a source of price information
Part II F	Products that origin from the COMESA member states	Customs Department	Preferential tariff reduction on reciprocity terms
Part II D Consular formalities and documentation	Transit products en-route to a third country	Customs Department	The responsible persons have to furnish surety\deposits equivalent to the potential duties and taxies of the goods until they prove to customs authorities that the goods have left the country.
Part IV B General	Poultry and poultry products	Ministry of Agriculture	Requirement for health certificate from origin country

Part V L Others - Import restraints	Old or used clothing	Customs Department	Import ban
Part V L	Asbestos and construction materials made of asbestos	Customs Department	Import ban
Others - Import restraints	Ivory	Customs Department	Import ban
Part V L	Second grade alcohol (denatol)	Customs Department	Import ban
Others - Import restraints	Marihuana, hashish, cocaine, opium, heroin, morphine, LSD, chat, other controlled narcotic substances	Customs Department	Import ban
Part VI A Prior import permits	All products	Customs Department	Requirement for prior import permits
Part VII D Business practices or restrictions in the market	All products	Ministry of Trade and Industry (MOTI)	Business registration and licensing

CHAPTER FIVE: KEY ISSUES FROM INTERVIEWS AND DESK RESEARCH

During the one-one-discussions with representatives of the public and private sector (Customs Department, Clearing and Forwarding Agents, Transport Associations, Association of Leather and allied Products and business enterprises), and from the questionnaire sent out to various trade stakeholders, the following issues emerged as key to reporting, elimination and monitoring of NTBs that affect Eritrean trade within COMESA.

5.1 Major challenges for Eritrean trade within COMESA

5.1.1. Before the breakout of the Eritrea/Ethiopia border conflict in 1998, Eritrean enterprises used to solely depend on Ethiopian markets as their major market outlet. It is only after the border conflict that the enterprises started to look for other markets in Africa. The penetration to African markets and particularly the COMESA region was initially attempted by bringing several enterprises together so as to benefit from the economies of scale. Unfortunately, this first attempt was not successful due to lack of efficient communication, knowledge, marketing channels like sales agents, financial constraints and other related facilities for a successful penetration of the region.

5.1.2. Although considered temporary, the current involvement of the Government in trading activities through the Red Sea Corporation particularly with regard to imports is an impediment to the development of a vibrant private sector.

5.1.3 The yet to be computerized customs formalities and clearance procedures ends up consuming a lot of business time, which according to businesses averages three to four days.

5.2.4 Non-acceptance of the COMESA certificate of origin, pre-shipment inspection requirements in some countries, and non- complementarities of the COMESA economies constitute some of the major impediments to penetration of the COMESA market.

5.1.5 The foreign exchange controls, cumbersome import permit regulations, and price/ profit margin controls are some of the internal issues that the Eritrean Government needs to address urgently in order for the economy to start developing a firm private sector orientation.

5.1.6 Eritrean entrepreneurs are basically producers with little knowledge of foreign markets and export marketing. In this respect, it appears that a mechanism should be created to facilitate the business community to take advantage of preferences that exists on intra-COMESA trade. Such a mechanism should include:

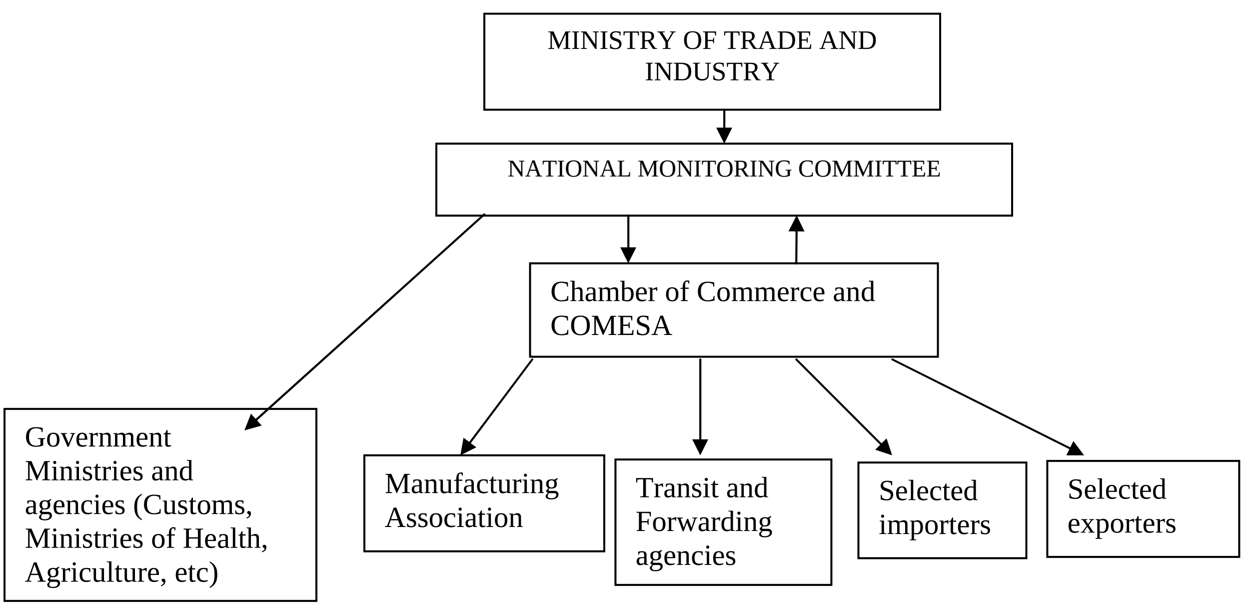
- Familiarizing them with some of the established COMESA trading houses.

- Strengthening the Chamber of Commerce, other business associations like the Association of Leather and allied Products, and the Ministry of Trade and Industry so that they can provide the business community with timely and relevant information about preferential tariffs, potential import and export markets, channels of export marketing, and areas where improvements on products quality are required.
- Availing financial credit facilities through the PTA bank and other development oriented financial institutions.
- Strengthening the Eritrean Standards Institute (ESI) to undertake the necessary standard tests on exports and imports.

5.2 Reporting, elimination and monitoring of NTBs

To ensure that NTB complaints and other related problems are properly reported, monitored and appropriate action is taken, an institutional framework to deal with NTB issues that includes all trade stake holders is required. The Ministry of Industry and Trade (COMESA desk) should chair such a focal point, with members from the public sector being Ministry of Agriculture, Ministry of Health, Customs Department, Ministry of Transport and Communications, Road and Maritime Departments, Standard Institute. From the private sector, members should be the Chamber of Commerce, Association of Leather and allied Products, transport association, transit and clearing agencies, and selected importers and exporters. Business people would channel all their NTB complaints to the focal point through the Chamber of Commerce, which would also give them a feedback on actions taken regarding such complaints. In this respect, the focal point would become the National Monitoring Committee on NTBs with a simple institutional structure as proposed in Chart 5 below.

Chart 5: Proposed institutional framework NTBS reporting in Eritrea



5.3 Template for NTBs reporting, elimination and monitoring

From the consultations with the representatives of the business community and the public sector, it was clear that trade stakeholders would favour an action oriented plan for dealing with NTBs, whose proposed actions and progress is shared regularly. In this regard, all NTBs should be reported through the business umbrella associations or through the Eritrean Chamber of Commerce (ECC). The ECC and business associations would in turn report on existence of such NTBs to the Ministry of Trade and Industry, which would thereafter liaise with relevant agencies, or counterpart Ministries in other COMESA countries, and report to the National Monitoring Committee on actions taken. For NTBs that cannot be resolved at the national or bilateral level, the National Monitoring Committee should refer them to the COMESA Secretariat to initiate an elimination process. The proposed action plan for eliminating identified NTBs that affect Eritrean exports and imports is given in Annex 1 below. This template is not exhaustive and will therefore be subjected to review when the National Monitoring Committee is established.

5.4 Technical assistance to the National Monitoring Committee

In order for the National Monitoring Committee to be established without delay and to start work efficiently, there is need for it to have a technical arm that can liaise closely with both the public and private sector stakeholders. This is because if the proposed coordinating Ministry of Trade and Industry is expected to provide an NTBs secretariat, the approach will not work, as the Ministry is involved in various other activities and cannot afford to provide a dedicated staffing to focus on NTBs work only. The COMESA secretariat therefore needs to explore possibilities of coordinating the sourcing of required technical assistance to facilitate the kick-start of the NMC. The technical assistance arm would prepare the agenda for NMC, call for meetings and assist the NMC in monitoring activities.

CHAPTER SIX: ASSESSMENT OF PROCEDURES FOR HARMONIZATION OF TRANSIT TRAFFIC BETWEEN COUNTRIES IN THE REGION

Eritrean trade stakeholders support the initiative of harmonizing and standardizing transit procedures among the member countries, which they believe would have the following benefits for the region:

Speedy transit of cargo through major transit corridors in member countries
Increased competitiveness of products due to cheaper modes of transport
Closer liaison between customs authorities

The transit procedures in Eritrea are elaborated under Part VI of the customs proclamation, which stipulates that goods that are in transit through Eritrea should be reported to the nearest customs office. The transporter is required to pay any fees and charges applicable on goods in transit, and to produce satisfactory evidence of customs clearance at the final destination or re-export of such goods. The evidence must be forwarded by the transporter to the initial port of entry for acquittal purposes. Failure to produce such evidence within 60 days from the time the goods start the transit journey results into demand for payment of applicable duty and other taxes. Security is often demanded to cover potential duties and taxes which may become payable should the goods not arrive at the declared destination, or where proof of re-export cannot be produced or is unsatisfactory to customs authorities.

While the above transit procedures apply, Eritrea has however ratified and implemented COMESA transit programs such as the Harmonized Road Transit Charges (HRTC), COMESA yellow card, and adoption of Axle load limits[9]. In addition, the country has adopted the COMESA Carriers License and COMESA transit plates, but implemented is scheduled to take place when Eritrean business people start undertaking substantial transport activities within COMESA countries. In readiness for these activities, the country is in process of adopting overload control measures, and a heavy trucks weighbridge is under construction, while three mobile weighbridge scales have been purchased.

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[9] COMESA axle load limits for freight vehicles are:
- Single steering axle= 8 tonnes
- Single load or drive axle = 10 tonnes
- Tandem axle group = 16 tonnes
- Triple axle group = 24 tonnes

The COMESA maximum vehicle dimensions are:
- 12.5m for a rigid chassis single vehicle or trailer
- 17m for articulated vehicles
- 22m for truck and draw-bar trailer
- 2.65 maximum width; and
- 4.60 maximum height

The country will would have gone further to investing in required infrastructure for the COMESA transit programs had it not been for the border war with Ethiopia that distracted the attention of the government and drained the available scarce resource. The overall implementation status of the programs related to the harmonization of transit procedures are indicated in the Table 9 below.

Table 9: Status of harmonization and implementation of COMESA transit programs in Eritrea

COMESA transit program	**Status of implementation**	**Year of Implementation/Remarks/Comments**
Harmonized Road Transit Charges	Implemented	1998
Adoption of Axle Load Limits	Implemented	June 2002
Adoption of COMESA Yellow Card	Implemented	1998
Adoption of COMESA Carriers License	Adopted	To be implemented when COMESA transport activities materialize for Eritrean business people
Adoption of COMESA Transit Plates	Implemented	To be implemented when COMESA transport activities materialize for Eritrean business people
Adoption of overload Control Measures	In processes	A heavy trucks weighbridge is under construction and three mobile scales have been purchased.
Setting up of Multi Sectoral Working Group	Adopted	The informal working group is currently inactive, but will be revived once intra-COMESA transport activities materialize for Eritrea business people
Liberalization of 3rd, 4th, & 5th freedoms	Implemented	Date to be clarified
Liberalization of non scheduled air cargo services	Implemented	Date to be clarified
Submission of information on standardized energy data	Implemented	Date to be clarified

CHAPTER 7: RECOMMENDED ACTIONS ON NOTIFICATION, MONITORING AND ELIMINATING NTBS

The recommended actions for notification, monitoring and elimination NTBs that affect Eritrean business people include those actions categorised under Annex 1 below.

To facilitate the reporting, monitoring and elimination process, the following actions are recommended:

7.1 While the Eritrea/Ethiopia border conflict is more of a political issue that may fall outside the mandate of COMESA, it has had a major negative impact on the ability of Eritrea to take advantage of the preferential trading opportunities available under the country's membership to COMESA. The trading bloc therefore needs to initiate any necessary actions that might facilitate resolution of the conflict.

7.2 Looking at the trade data summarised in Chapter 2 of this report, it is clear that the Eritrean business community has not been able to take advantage of export and import opportunities available under COMESA's preferential trading arrangements. While the Eritrea/Ethiopia border conflict has a large part to play in this scenario, it is also true that Eritrean business people lack the knowledge about the COMESA market. It is therefore necessary to establish a mechanism that would facilitate the full integration of Eritrean business community into COMESA trade, including Familiarizing them with some of the established COMESA trading houses; Strengthening the Chamber of Commerce, other business associations like the Association of Leather and allied Products, and the Ministry of Trade and Industry so that they can provide the business community with timely and relevant information about COMESA; Facilitating access to financial credit facilities through the PTA bank and other development oriented financial institutions; and Strengthening the Eritrean Standards Institute (ESI) to assist in necessary standard tests on exports and imports.

7.3 The Ministry of Trade and Industry needs to call a national workshop to discuss the NTBs elimination plan as enumerated in Annex 1. The workshop would be expected to own the plan so that monitoring the elimination progress becomes easier. The workshop would also be expected to reach consensus on the need for a National Monitoring Committee and to validate its membership.

7.4 The set-up of the National Monitoring Committee should involve all trade stakeholders from both the public and private sector as shown in Chart 5, Chapter 5 above.

7.5 The COMESA Secretariat needs to explore possibilities of coordinating sourcing of required technical assistance to facilitate the kick-start of the NMC. The technical assistance arm would prepare the agenda for NMC, call for meetings and assist the NMC in monitoring activities.

7.6 While Annex 5 of this report summarises the most severe NTBs identified in the process of consultations, the list is not exhaustive. The proposed NMC should therefore validate the list and add any other trade obstacles that require to be addressed.

A summary of the most severe NTBs, their impact to businesses, recommended approaches to eliminating them and the benchmarks to be pursued is given in Annex 1 below.

Annex 1: Template for NTBs reporting and elimination mechanism in Eritrea

1	2	3	4	5	6	7	8	9	10
NTB Inventory under WTO code	Problem Area	Description of the most severe NTBs	Impact of NTB to businesses	Responsible Ministry/ Department	Possible approach to eliminate NTB	Performance Benchmarks	Means of Verification	Constraints	Success factor
Part I E	Government participation in trade and restrictive practices tolerated by governments	The Red Sea Trading Corporation is allowed under Legal Notice no. 78 of 2003 to import and distribute items referred to as declared goods such as food staffs, construction materials and textile products. Private traders are only allowed to import certain government specified goods such as white cement, office and house furniture and ceramic tiles.	Restricting importation and distribution of "declared goods" to Red Sea Company, and allowing private importation to specified goods only is an impediment to free enterprise. It is an impediment to free trade and has led to undersupply and overpricing of industrial raw materials and other essential inputs such as petroleum products. There is also potential for development of parallel markets in form of illegal imports for affected products.	Eritrean Government through Ministry of Trade and Industry	Liberalization and deregulation of trade.	Review the Legal Notice No. 78 of 2003 to allow free trade Substantial reduction in price of imports and prices of goods distributed in the domestic market Waiver of requirement for an import permit issued to to private traders	A legal notice reviewing provisions of legal notice no. 78 0f 2003. Periodic customs foreign trade statistics reports. Reduction in complaints by private traders o their business associations.	The ongoing border conflict with Ethiopia may water down the impact of a liberalised market since it is an obstacle to transit traffic. Foreign exchange shortages may reduce the impact of liberalising the market.	Peaceful and faster resolution of the border conflict with Ethiopia
Part II D	Customs and administrative entry procedures	The manual processing of import declarations, physical inspection, shortages of skilled manpower, and poor communication among institutions involved in an import consignment	Time lost to clear goods at entry points due to manual processes, leading to delays in delivery of requirements for manufacturers, thus affecting production schedules and fulfilment	Customs Department	Introduce ASYCUDA++ at all major import entry points, by 2008[10] as planned so as to reduce time taken from imports declaration to release of goods. Continue with current	ASYCUDA++ operational at least in the three planned major import entry points, so as to reduce time taken between an import	Annual reports by Customs on average clearance time at entry points.	Budgetary constraints within the central government. ASYCUDA project is sponsored and financed by	Sufficient government resource allocations to enable rolling out of ASYCUDA ++ at all import entry points

[10] Customs Department has already started introducing ASYCUDA ++ in three major customs stations as a pilot project. The remaining stations are scheduled to be integrated at later stage.

1	2	3	4	5	6	7	8	9	10
NTB Inventory under WTO code	Problem Area	Description of the most severe NTBs	Impact of NTB to businesses	Responsible Ministry/ Department	Possible approach to eliminate NTB	Performance Benchmarks	Means of Verification	Constraints	Success factor
		cause delays in procurement of imports. Consequently, producers are unable to manufacture on schedule which results to delays in fulfilling orders to the local and export markets.	of orders. Some times, custom formalities can take up to five days, while this should not be the case for a country which clears only 50 declarations per month.		initiatives of recruiting new staff aimed at increasing efficiency in customs clearance. Continue with ongoing initiative of customer services training in customs training programs Ensure efficient online communication with customs officials at import entry points and between institutions involved in imports/ exports clearance.	declaration and release to maximum of 2 hours.		foreign donors, and its success therefore depends on honoring the donor pledges. Insufficient manpower and financial resources to introduce ASYCUDA++ at all import entry points.	Timely orientation and sensitization of customs officials and clearing agents on operations of new system. Simplified customs procedures by upgrading the existing manual imports clearance to ASYCUDA ++ Timely internet communication with all customs stations and between institutions involved in import/export clearance.
Part II C&G		Eritrea is currently using HS 1996 coding system which is not as exhaustive as HS 2007 system in terms of tariff codes and descriptions, although both are compatible.	Continued use of HS code 1996 instead of 2007 system could affect the timely release of newly introduced imported goods whose tariff odes and descriptions may not be incorporated in the older system. It also has the possibility of disrupting the efficient implementation of the harmonized WCO programme. Consequently this would delay duty payment and clearance of imports, since importers have to wait for interpretation of	The Customs Department	The initiative by Customs Department to upgrade the existing HS coding system to the 2007 version needs to be expedited and finalized in order for the ASYCUDA system to be successfully introduced. Sensitization of Customs Officials on customs coding 2007 system and use of ASYCUDA should be done hand in	Timely use of HS 2007 coding system and operations of ASYCUDA ++ system at all entry points. Customs officers fully sensitized on use of both systems.	Publication of a Gazette notice on HS 2007 coding system and use of ASYCUDA++ system at all entry points.	Budgetary constraints for central government. Resistance of customs officers to implement new systems that they are not conversant with.	Sufficient budgetary allocation by central government for introduction and roll-out of HS 2007 coding system and ASYUDA 2007 at all entry points,; Publication of Gazette notice on the two systems; and satisfactory sensitization of customs officials

1	2	3	4	5	6	7	8	9	10
NTB Inventory under WTO code	Problem Area	Description of the most severe NTBs	Impact of NTB to businesses	Responsible Ministry/ Department	Possible approach to eliminate NTB	Performance Benchmarks	Means of Verification	Constraints	Success factor
			tariff descriptions and classification of codes. Also, in case of transit imports, relevant security (always in the form of cash) cannot be cancelled until the imports leave the customs territory, which ties up the importer's working capital.		hand with the introduction of the two programs so that classification of products in the correct tariff lines is done more efficiently and without disruptions. Publish the HS code 2007 in form of a Gazette notice to enable correct interpretations of tariff codes and rates.				on use of the two systems.
Part II F	Rules of Origin	Eritrean Customs demands that all exporters wishing to penetrate the COMESA market have to produce a COMESA certificate of origin. In addition, Eritrean exports destined to COMESA member states suffer from non-acceptance of the certificate of origin in the target country. Kenya is sited as an example where customs authorities occasionally refuse to confer recognition claiming that specimen signatures of Eritrean authorising institutions have not been deposited.	Eritrean Exporters are denied preferential trade benefits and are in turn forced to pay taxes and demurrage costs, thereby making the products uncompetitive. .	Eritrean Chamber of Commerce. Kenya customs	Relevant Authorities in each partner state need to communicate with their customs departments on decisions of the Council regarding Rules of origin, so that harmonized laws are implemented without delay. Ministry of Trade and Industry to communicate with its counterparts in other COMESA countries regarding institutions designated to issue COMESA certificate of origin.	Immediate deposit of authorised specimen signatures by relevant Eritrean authorities in all COMESA countries.	Grievance reports of the Eritrean traders through their business associations to the Eritrean COMESA focal point. Regular verification on actual practices at entry points.	Ignorance on the importance of timely and updated specimen signatures. Lack of follow up of the problems faced by the traders by focal point.	Immediate deposit of authorised specimen signatures by relevant Eritrean authorities in all COMESA countries. Ministry of Trade and Industry to introduce penalty measures on errant officials who do not implement Council Decisions.
Part II B	Customs valuation	While the procedure of customs valuation is too cumbersome and time-consuming, the use of other means to getting	Eritrean importers sometimes pay higher than would be applicable duty rates, which results to higher prices of the finished product in the	The Eritrea Customs Department	Eritrea customs should accept the invoice values provided by the importer unless there is sufficient proof to suspect	Implementation of WTO Customs Valuation Agreement and enforce its	Actual inspection of the valuation practices at	Imports from UAE and other middle East countries often lack the	A focused orientation and sensitization program aimed at making them

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		correct prices of a product intended for Eritrean market such as the internet contradicts the overall objective of WTO valuation Agreement which is to facilitate clearance of imports based on sellers invoice. In addition, Eritrean customs often change the tariff code and therefore the applicable tariff rate, which means the payable duty often becomes higher than would have been the case. Importers occasionally report that this method is unfair while the duty payable is grossly exaggerated.	domestic market.		undervaluation. The importer in such a se should be given satisfactory hearing before a ruling is made on the proper tariff coding and duty to be applied.	provisions as stipulated in the Customs proclamation 112/2000.	all entry points. Grievance reports by importers to Eritrea COMESA focal point through their business associations.	relevant documents, particularly the commercial invoice as demanded by Customs, which could derail efficient implementation of WO customs valuation agreement. It is sometimes difficult to ascertain the genuineness of some documents submitted by importers. Lack of efficient internet communication facilities between importers, their overseas suppliers and customs.	understand the importance of proper description of imports in terms of end-use function and origin.
Part II G	Customs formalities	On most occasions, Eritrean Customs demand that import consignments have to be unloaded for physical verification, which may result in the destruction of the products, especially	Cost of repackaging and time lost during unloading, physical verification and reloading.	Eritrean Customs Department	Immediate installation of container scanners particularly at Massawa Customs station.	Scanners used instead of physical verification, particularly at Massawa port in addition to the airport.	Report by Eritrean Customs department to the Council of Ministers regarding	Lack of sufficient financial resources to invest in the proposed scanners, estimated at	The project could be financed under the Customs Department's annual capital budget to enable timely implementation.

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		perishable ones. The exporter has thereafter to repackage at a cost. Products most affected include commercial and perishable consignments.					investment in scanners at Massawa port.	more than USD 5 million.	
Part IIG	Customs formalities: Transiting procedures on imports	Eritrean customs demands a customs cash deposit for transit goods that pass through Eritrean roads en-route to other countries. The responsible persons have to furnish surety\deposits equivalent to the potential duties and taxies of the goods until they prove to customs authorities that the goods have left the country.	Relevant cash deposits cannot be recalled until the consignment leave the Eritrea customs territory, which ties up the trader's working capital.	Customs Department	Introduction of other forms of securities such as insurance bond. And it needs harmonization of transit procedures of the COMESA region as a whole.	COMESA transit procedures and other WCO related conventions	Reports by Customs and other transport associations.	Lack of developed financial sector that can issue bonds.	Commitment and good will on the side of the government to adopt the COMESA harmonized and standardized transit procedures Relentless effort to promote and enhance the financial institutions
Part II I	Pre-shipment Inspection	Some COMESA member states require pre-shipment inspection before allowing imports into their home market. A good example here is Kenya, which makes exports more expensive than would have been the case if the requirements did not apply.	The requirement of pre-shipment inspection by Kenya Bureau of Standards costs an average of USD 200 per consignment. This increases the cost of import commodities, hampers faster trade facilitation and discourages imports from the region.	Kenyan Custom Department	COMESA member states should agree on whether to undertake pre-shipment inspection before imports, and if so apply harmonised procedures. In addition, member states should mutually recognize each other's certification marks for products where standards have been harmonized without undertaking 100% examination, as this is the main objective of the COMESA harmonized standard and quality assurance	Immediate mutual recognition by COMESA member states of each other's certification marks for products where standards have been harmonized COMESA should built their technical capacity for certification to the same level in the long term	Monthly reports of COMESA Standards that are mutually recognized. Monthly reports b traders regarding cases where sampled or 100% inspection has been undertaken and in	If COMESA Council of Ministers decide not to apply pre-shipment on goods trade among member states, Kenya may refuse to comply on reasons that all goods traded within the Kenyan market have to meet Kenya standards specifications	Council decision regarding whether or not to implement PSI on goods traded among member states. Regular monitoring by the Council of whether COMESA harmonized procedures are respected, implemented and consistently practiced within the region.

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					Protocol. Relevant COMESA institutions involved in imports inspection should harmonize their inspection and analysis procedures, fees, and distribution regulations, so as to facilitate easier movement between member states. COMESA member countries' inspection agencies should built their capacities for accreditation to the same level, so that their certification marks are mutually recognized.		which country.	aimed at human, plant and animal protection. If the Council decides to implement the PSI program, some member states ma lack facilities for testing of the standards.	
Part V D	Foreign exchange controls	The government under the Ministry of Trade and Industry introduced the "declared goods import permit" legal notice No. 78/2003 in 2003 and the foreign exchange management regulation in 2005. As the result of these regulations, importers are not getting sufficient foreign exchange to import	While the import permit and foreign exchange restrictions are temporary policy measures aimed at addressing the effects of Eritrea/Ethiopia border closure, they have become impediments to free importation, an effect which is felt in shortage of foreign currency required to import essential items like industrial raw materials	Bank of Eritrea	Peaceful resolution of the Eritrea/Ethiopia border conflict which is taking hostage the countries resources Promote and encourage foreign exchange generating enterprises PTA Bank to provide credit finance for all intra-COMESA trade	Easy availability of foreign exchange resources.	Actual verification and survey of the major problems that the businesses are facing in access to foreign exchange	Lack of acceptance by Eritrea Government that it faces insufficient foreign exchange to finance major import needs. Lack of awareness of facilities provided by PTA bank and	Lasting and peaceful resolution of the Eritrea/Ethiopia border conflict Consistent commitment and determination of Eritrean Government to a liberalized, market-led and private sector oriented economy[11]

[11] This principle is well formulated and described in the Macro Policy of the government, but implementation is a problem due to the Eritrea/Ethiopia border conflict.

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		essential commodities like industrial raw materials and petroleum products. For one to import, proof must be provided to the Bank of Eritrea that the source of foreign exchange is either ones' retained export earnings, profits or dividends accrued from one's shares and bonds in overseas companies.	and petroleum products.					its credit procedures by business people.	
Part V H	Measures to regulate domestic prices	The government introduced the declared goods and import permits regulation under the legal notice No. 78/2003 through Ministry of Trade and Industry (MOTI). This regulation stipulates for a selling price/profit margin for food items, construction materials, and textile products and import permit requirements..	The regulation on declared goods has created shortage in supply of consumable goods to the market and scared away investment. It also has potential to create parallel markets in importation and distribution of illegal commodities and loss of government revenue through taxes.	Ministry of Industry &Trade	Resolving the Eritrea/ Ethiopia border conflict which was the major reason for introducing the regulation Review of the regulation governing current price regulation.	Enhanced efficiency of market determined prices Reduction of government involvement in trading	Reports by the business through their business associations to the COMESA focal point	The prevailing no border conflict could delay the process of reviewing the regulation on domestic prices	Lasting and peaceful resolution of the border conflict Consistent commitment and determination of Eritrean Government to a liberalized, market-led and private sector oriented economy.

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Part VI A	Prior import permit	In Eritrea, any importer needs a prior import permit. The permit is not easily acquired while the procedures involved are also bureaucratic	Unnecessary time wasted to apply and acquire the import permit	Ministry of Trade and Industry	Resolving the Eritrea/ Ethiopia border conflict which was the major reason for introducing the regulation Review of the regulation governing current price regulation.	Abolition of prior import permits or minimization to certain specified imports	Reports from Ministry of trade and Industry on the number of prior import permits issued per annum	The prevailing no border conflict could delay the process of reviewing the regulation on import permits.	Lasting and peaceful resolution of the border conflict Consistent commitment and determination of Eritrean Government to a liberalized, market-led and private sector oriented economy.
	Transportation bottlenecks Bank transfer constraints	The limited number and volume of Eritrean exports and imports means few cargo ships call at its ports to pick-up exports. It also translates to lack of direct sea or air connection to the COMESA region, which delays exports and imports delivery for up to one month or longer, consequently making exports to the region uncompetitive, and imports more expensive. Most ships delivering imports to Eritrea cannot make direct deliveries due to low volumes, but have	An export consignment has to wait for as much as one month or even longer before it can reach its final destination. The problem has direct cost impacts on price competitiveness. The current border problem with Ethiopia makes it difficult for Eritrea to export to COMESA through road transport. The alternative is to transport by air which costs an average of USD 250 per kg or by sea which costs an average of USD 6,000 per 20ft container from Asmara to Kigali (Rwanda). In	COMESA Ministries in charge of transport and communications. Eritrea/Ethiopia Governments PTA bank	Encourage mergers between shipping lines to enable market segmentation which would facilitate faster deliveries of imports and exports. Resolution of the Eritrea/ Ethiopia border conflict which makes it impossible to undertake transit traffic by road, resulting to uncompetitive use of alternative sea and air transport. Encourage use of PTA bank and its constituent banks within COMESA for bank transfers.	Delivery vessels calling directly at Eritrean ports. Increased use of road transit transport Faster bank transfers on COMESA business transactions.	Reports by business people on time taken to access imports and deliver exports to COMESA countries. Reports by business people on means used to transport goods within COMESA countries. Reports by business people on	Shipping lines may resist to enter into business mergers on reasons of low business. Eritrea/Ethiopia border conflict is a political problem that needs a political approach for successful resolution. COMESA banks may refuse to handle trade transactions due to political	Direct shipping to Eritrean seaports like Massawa. Use of road transport as opposed to the more expensive sea and air transport. Ensure that political risks are properly insured through the COMESA re-insurance scheme

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		carry cargo for both Eritrea and Djibouti. This means the ships have to pass through Djibouti to drop off cargo before docking at Massawa port (Eritrea), which translates to lost business time. The current border problem with Ethiopia makes it difficult to transport commodities by road to COMESA target markets although there are enough modern large transport trucks which meet COMESA transit requirements such as Axle Load and Gross Vehicle Weight dimensions. The only COMESA country where direct exports are made through road transport is Sudan since transit through another country does not apply. COMESA countries have very poor bank transfer systems with no direct bank	comparison, if transit through Ethiopia was possible, the road transport cost would have been an estimated average of USD 1,000 per 20 ft container. As a result of transport problems, Eritrean export items cannot be competitive in the COMESA region, which has forced Eritrean businesses to look for alternative markets mainly in Middle East and Europe. The poor bank connectivity means re-routing of trade proceeds through European and American banks resulting to exorbitant bank charges and lost business time which discourages Eritrean business people to trade within the region.				time taken to receive export payments.	risks involved.	

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		connectivity. As a result, export earnings have to be re-routed through European and American banks.							

Annex 2: list of persons consulted

Name	Institution/Company
Fessehaye Haile	Director General, Customs Department
Yosief Tekle	Head, Tariff Classification and Valuation Division – Customs Department
Abreham Gebretensae	Head of Operations Division, Customs Department
Kidane Berhe	Expert, Customs Department
Issak Hidrru	Expert, Customs Department
Mebrahtu Haile	ELAIN Private Company
Semere Petros	ELAIN Private Company
Negeset Nuguse	Niguse Family Shoe Factory
Estifanos Ogbazhi	Quality Shoe Steel
Ermias Hadera	Hadera and Sons Shoe Manufacturing P.L.C.
Yassin Mohammed Said	Semhar Tanneries P.L.C.
Abraham Haile	Alhashime Trading
Tesfazion Araya	T.BAATAI and Sons P.L.C.
Alem Tekeste	ZaEr Plc – Asmara
Andemariam Habte	Global Trading
G.Kidan Kidane	Global Clearing and Forwarding P.L.C.
Adhanom Kibrom	LiLay Inernational (Import & Export)
Mebrahtu Andom – Chairman Other members	Leather and Leather Related Manufactures Association