

AFRICA RISK CONSULTING**Country briefing – Ethiopia****16 December 2013****Summary**

Sudan president Omar al-Bashir says that Sudan is mediating indirect talks between Ethiopia and Eritrea. Relations between Eritrea and Ethiopia will remain stable but a breakthrough is unlikely. Government allows independent power producers to compete with the state power utility Ethiopian Electric Power Corporation (EEPCo). The World Bank reports that Ethiopia needs to increase domestic electricity tariff by 400%. South African mobile phone company Vodacom is to open an office.

1.1 Sudan says it is mediating indirect talks between Ethiopia and Eritrea

Sudan president **Omar al-Bashir** said in December that Sudan is mediating indirect talks between **Ethiopia** and **Eritrea** in a bid to restore to full diplomatic relations between the two states.¹ Bashir said that Khartoum would host a summit between Ethiopia's prime minister **Hailemariam Desalegn** and Eritrean president **Isaias Afewerki** in the near future. Despite Bashir's diplomatic overtures, the protracted border feud over the town of **Badme**, ongoing since the 1998-2000 war, is likely to remain "on ice" in the medium term.² The announcement came after Hailemariam visited Sudan on 4 December for the inauguration of the **Ethio-Sudan Power Systems Interconnection** link (see below). At the end of November, Isaias had visited **Port Sudan** to launch the Port Sudan-**Toker-Garora** highway.³ There is, however, little probability of a sudden significant breakthrough.

"Ethiopian foreign affairs are easier to predict than one might imagine; there are never any real strategic surprises. The foreign ministry published its foreign affairs and national security policy and strategy document in 2002 and they remain absolutely committed to it. I spoke to a foreign ministry official recently and said, 'considering when it was written, there was only one Sudan, and now you have

¹ Africa Review, 6 Dec 2013

² Source, Western diplomat, Addis Ababa

³ www.tesfanews.net

*two?' He said, 'No, no need for any revision.' What Ethiopia wants more than anything is a stable neighbourhood and that encourages, and equally depends upon, predictability."*⁴

The 2002 strategy document calls for dispassionate, distant relations with Eritrea. It says that both those who think that Ethiopia should establish full diplomatic relations due to a dependence on Eritrea for maritime trade, and those who think that a mutual history of antagonism means they should be at war are incorrect.⁵ Relationships have been particularly tense since 2002 and the ruling of the **Eritrea-Ethiopia Boundary Commission** that delineated the disputed border. Eritrea has repeatedly called on the international community to enforce the ruling, while Ethiopia has insisted there should be further talks. Some of the more aggressive wings of the **Ethiopian People's Revolutionary Democratic Front** had questioned the late prime minister **Meles Zenawi's** lack of aggression towards Eritrea, and there had been suggestions that Hailemariam would not have the authority to stand up to them.⁶ This, however, has not been the case.

*"The emphasis on the constitution and the continuation of the foreign ministry planning framework, means you can change the personnel but the overall strategy remains the same."*⁷

Hailemariam's actions suggest that he doesn't see a breakthrough in the medium term. He has focused diplomatic efforts on developing relationships with the de facto state of **Somaliland** to have access to an uncritical (democratically-elected) local ally with access to the **Gulf of Aden's** deep water trade routes and links to global commercial markets. **Djibouti** is its only other major outlet/import terminal within reasonable proximity. Access to shipping trade routes has been a sensitive point since Eritrean independence in 1993 saw Ethiopia lose access to the sea. The port of **Asab** in Eritrea was built to link **Addis Ababa** with the **Red Sea**.

The political environment in both Addis Ababa and **Asmara** is, however, conducive to stable relations and the probability of talks. Hailemariam has trodden a careful path in relation to his neighbour. Ethiopia was not involved in the coup attempt in Asmara.⁸ For its part, Eritrea is unlikely to instigate aggression, as it has been deterred by the heavy losses suffered during the war and will be keen to avert the imposition of more stringent **United Nations** sanctions on its nascent mining sector. The

⁴ Source, Western diplomat, Addis Ababa

⁵ Section 1.2, Ethiopia foreign affairs and national security policy and strategy, 2002

⁶ Source, Western diplomat, Addis Ababa

⁷ *ibid*

⁸ *ibid*

attempted coup is an indication that the military is increasingly dissatisfied with Isaias. In 2010, Isaias arrested his long-standing adviser Major-General **Filipos Woldeyohannes** in order to pre-empt a suspected coup plot. The move reportedly angered a number of key military figures and may have helped trigger the January 2013 coup. Notably when Ethiopia's foreign ministry accused Eritrea of backing **al Shabaab** in November 2013, there was no issuing of a belligerent denial and counter claim as would have been expected.⁹

*"Isaias [Afwerki].. had reportedly sought mediators in the **Gulf States** to facilitate talks with Ethiopia. The moves may have prompted rising expectations within elements of the military eager to seek an end to the country's pariah status. UN sanctions are also being felt in a country where per capita GDP is less than \$500."*¹⁰

According to a second diplomatic source, the political contexts are conducive to a stable détente between the two neighbours:

*"Relations will improve in the not too distant future, and meaningful talks could begin within five years. Until then Ethiopia will not do anything which jeopardises a relatively stable Eritrea."*¹¹

1.2 Sudan an important energy partner

Sudan's willingness to conduct delicate negotiations in a nearly intractable conflict between two economic allies is perhaps due to **South Sudan** attempting similar shuttle diplomacy in October and November 2012 which proved fruitless.¹² Confirming Sudan's increasingly important relationship with Ethiopia, the **Sudan Ethiopia Joint Higher Level Committee** signed a series of economic accords.¹³ Most notably, the agreement is a key step towards Ethiopia's ambitions of being a regional exporter of energy as a key source of foreign exchange. A framework agreement between Sudan and Ethiopia provides for greater trade and economic cooperation with the establishment of a free trade zone on the mutual border of the two countries. Sudan and Ethiopia also inaugurated a cross border electricity link, the **Ethio-Sudan Power Systems Interconnection**, in **Gedaref**. The \$35m project will allow the transmission of power between Gedaref and Ethiopia's **Amhara** state. While the line has a

⁹ Dhacdo, 7 Nov 2013

¹⁰ Security analyst, Addis Ababa

¹¹ Source, Western diplomat, Addis Ababa

¹² Sudan Tribune, 26 Oct 2013

¹³ Sudan News Agency, 4 Dec 2013

capacity of 300MW, Sudan will initially only buy 100MW. Both Sudan and Ethiopia committed themselves to cooperation over the **Grand Ethiopian Renaissance Dam**. The dam moved a step closer in December with Sudan and Ethiopia claiming that most of **Egypt's** major objections had been met, and a summit in **Khartoum** in January would settle contentions around a supervisory body to oversee the dam's construction (see *ARC Briefing November 2013*).

1.3 Government liberalises energy sector

The house of people's representatives ratified a proclamation liberalising the energy sector on 19 November.¹⁴ The new proclamation allows independent power producers to compete with the state power utility, the **Ethiopian Electric Power Corporation (EEPCo)**. The move is a bid to encourage investment in the sector to meet the government's target of increasing power generation to 10,000MW of power by the end of the current **Growth and Transformation Plan** in 2015. The **Ethiopian Energy Authority (EEA)** will replace the current **Ethiopian Electric Agency** and will be responsible for encouraging investments and setting prices for the private and state power distributors. The EEA, whose board is yet to be determined, will review tariff proposals and submit them to the council of ministers for approval. Energy is the most significant sector that the government has moved towards liberalisation, while it shows no indication of following **International Monetary Fund (IMF)** recommendations to do so in banking (see *ARC Briefing November 2013*).

In December, the **World Bank** reported that Ethiopia would need to increase its domestic electricity tariff by 400% if it is to realise its \$48 billion plan to construct 28 planned generating projects and increase generation capacity from 2,300 MW currently to 37,000MW by 2037.¹⁵ The study recommends that either export tariffs must increase from \$0.07 per kWh, or the current domestic tariff of 0.028 per kWh must increase to more than \$0.14. Even an increase in export tariffs from \$0.07 per kWh to \$0.10, a 43% increase, would require a domestic rate of \$0.10.

1.4 But otherwise a mixed bag for privatisation...

The IMF states that foreign direct investment in Ethiopia is expected to reach 2.8% of GDP in the current fiscal year and average 4.5% in the medium term if the government promotes the private

¹⁴ Daily Ethiopia, 25 Nov 2013

¹⁵ Addis Fortune, 2 Dec 2013

sector.¹⁶ There were a number of developments in December that emphasise Ethiopia's ambiguous relationship with liberalisation:

- **South African** mobile phone company **Vodacom** announced plans on 7 December to open an office in Ethiopia.¹⁷ The company, along with **MTN** who opened an office in March 2012, is hoping to get first mover advantage should Ethiopia liberalise the telecommunications sector. Vodacom said that its office would be a way of building brand awareness, though it will also apply for a value added services licence allowing it to offer most communication services beyond traditional voice services.
- The government said it would appoint rating companies before the end of 2013 to assess the level of risk involved in investing, but finance minister **Sufian Ahmed** reiterates that Ethiopia has no plans to access international bond markets.¹⁸
- A tender by the **Privatisation & Public Enterprises Supervising Agency (PPESA)** to privatise **Caustic Soda SC** and **Ethiopian Mineral Development SC** failed to attract bidders.¹⁹ The PPESA announced plans to re-auction them and privatise a further nine enterprises including pharmaceutical, textile, transport and agricultural firms.²⁰
- Chief negotiator for **World Trade Organisation (WTO)** accession **Mekonnen Manyazewal** cancelled his attendance at the WTO ministerial summit that started on 3 December in **Indonesia**.²¹

2 Implications

While Sudan is one of the few states with close ties to both Eritrea and Ethiopia, its influence is not strong enough to produce the compromises required. Relationships between Eritrea and Ethiopia will remain frosty in the medium term with tit-for-tat accusations and sabre rattling liable to continue. However, outright conflict remains improbable in this time frame.

Ethiopia's ambitious energy infrastructure plans, if financed by the Central Bank, will raise inflationary concerns. The government has previously disregarded the international lending organisation's policy prescriptions and agreeing to the World Bank's recommended tariff increases

¹⁶ IMF figures, 2013

¹⁷ Reuters, 7 Dec 2013

¹⁸ Bloomberg, 4 Dec 2013

¹⁹ Fortune, 11 Dec 2013

²⁰ *ibid*

²¹ Fortune, 3 Dec 2013



would be an indication that it is becoming increasingly compliant. Securing private sector financing will, however, be difficult unless the government demonstrates greater commitment to liberalisation. A credit rating would be a good start with regard to attracting foreign investment.

In October 2013, Hailemariam reiterated that his government had no intention of privatising **Ethio Telecom**. Liberalisation in telecommunications is, however, a key precondition to ascension to the WTO and companies are already maneuvering to be in the best position to respond.