



St. Mary's University College

Faculty of Law
LLB Thesis

**Salient Legal Features of the Ethiopian
Commodity Exchange Challenges and
prospects**

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Thank you all!

Introduction

Background of the study

one of the world's largest and oldest commodity exchanges, the Chicago Board of Trade it was established in 1848 by 82 grain traders in what was then a small Midwestern town in response to a bumper Chicago and could not find buyers had to dump their unsold cereal; in lake Michigan. Today commodity exchange exists not only on agricultural products but also a wide array of financial, stock mineral, and etc.

The economic impact of the development of commodity markets is hard to overestimate. Through the 19th century the "exchanges become effective spokesman for, and innovators of, improvements in transportation, warehousing and financing which paved the way to expanded interstate and international trade".

Commodity exchange is simply a central place where sellers and buyers meet to transact in an organized fashion, with certain clearly specified and transparent" rules of the game".

The Ethiopian commodity Exchange is established by proclamation 550/2007 and also the authority was established by proclamation 551/2007. According to the ECX website

(w.w.w. ECX. Com .et) the ECX is new imitative for Ethiopia and the first of its kind in Africa was launched during April 2008. The Ethiopian Commodity Exchange was started to benefit and modernize the way Ethiopia was trading it's most valuable assets, it's commodities. Ethiopia needed a change from the traditional means of trading to better support the needs of all those involved in the trading and production.

Since the Ethiopian governments take ADLI (Agricultural Development Lead to Industrialize) as its main economic policy for its development, we can say that the ECX is entrusted is the country's economic backbone is a lots and lots of changes for the country's economic development. This makes the ECX the most crucial government entity which should operate on the best legal foundations. ECX assures all commodity market players the security they need in the market through providing a secure and reliable End-to-End system for handling, grading, and storing commodities, matching offers and bids for commodity transactions, and a risk-free payment and goods delivery system to settle transactions, while serving all fairly and efficiently.

Statement of the problem

This research paper will try to solve two general problems that the writer observes in relation with the ECX. The first is even if the motive of ECX is "Market for every one" the ECX starting from its operation mechanism up to what it can offer for everyone is not known which will have a vast negative effect in its best performance. The second set problem that the writer of this paper will try to identify and suggest some solution is mainly arises from the legal regime of the ECX. This can be seen in four distinct ways, the first is problem arising from the overall system of ECX. According to a press release from Eleniz Gebre Medhin PHD in Dec. 2006 on Addis Fortune "ultimately, the whole exchange system relies on trust - trust in the exchange, trust in the brokers to whom clients entrust their money, and trust in the warehouses and collateral managers who will issue the pieces of paper that will actually be delivered on the exchange". Therefore, in the course of our research we will deal with the viability of the ECX's system depends on trust and by raising some real cases we will try to identify to loopholes created by this 'TRUST' as a system for ECX.

The second problems that necessitate to writing of this research paper is related in the Arbitration system that the ECX intends to establish according to an interview a compliance officer at the ECX there are many different cases that needs to be solved by an arbitration. However currently due to some problem (that will be identify latter) to ECX is not enable to establish the arbitration system. Therefore, after trying to identify the problems for its non establishment and problems after its establishment the paper will suggest some solutions.

The third and fourth problems of this research paper identify that will arise where ECX start using warehouse receipt as negotiable instrument and when the ECX starts its initiative to make a compulsory delivery future contract besides on spot trading. For instance, in relations with the use of warehouse receipt as negotiable instruments, a warehouse receipt is issued for a depositor in the value of his/her deposit at the ECX warehouse. Therefore, if a warehouse receipt owner will use the receipt as collateral based on its value. However, given the interchangeable market price what if the initial value of the warehouse receipt decrease? What will happen to the holder of the receipt as collateral?

Therefore, it is known that agricultural products including coffee is the backbone of Ethiopian's economy and for most the largest contributor of foreign exchange reserve, which is the lunge of the country, and if this very crucial sector is given to the ECX it will be work considering the problems related in the ECX.

Objective of the study

In consideration of the above problems and its impacts on the system of the ECX and development of the country's economy, the research had the following objectives.

General objectives

The general objective of the research is to address the problems surrounding practice relating to the system of the Ethiopian Commodity Exchange, that is to say, to comment up on the system and its role in the Ethiopian economy and to some extent to indicate the solutions to the problems.

Specific Objective

The specific objective that is hoped to be achieved out of this research is the following:

Comment up on the system of ECX

ECX is important of the country's economy and since it is new to almost everyone it will be important to show how the whole systems work.

To identify the legal challenges that the ECX will face and suggest their solutions

Significance of the study

The benefits that will be gained out of this research are that:

The study informs the problems surrounding ECX and recommends in order corrective measures be taken

To introduce how is ECX work

It could be serve as a source material for students, other researchers who want to deal with the subject matter in depth

Scope of the study

This research will be limited in dealing to the challenges and prospects of the Ethiopian

Commodity Exchange proclamation No 550/2007, the ECX rule as it is revised and the ECX authority proclamation No 551/2007.

Research Methodology

This research paper will use primary resource like observation and interviews. Secondary resource like detail analysis of the major laws of the ECX and literature of different scholars will be the matter of discussion. Electronic data (Internet) will also provide additional study source.

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Since the area of this research paper is new to our country it will be hard to get studies and books in this area.

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