Multi-year Expert Meeting on Transport, Trade Logistics and Trade Facilitation

Third Session:
Small Island Developing States: Transport and Trade Logistics Challenges

24 – 26 November 2014

Presentation by

The Intergovernmental Standing Committee on Shipping
ISCOS Secretariat, Mombasa, Kenya

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THE INTERGOVERNMENTAL STANDING COMMITTEE ON SHIPPING
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Acronyms

ASYCUDA…………………………………Automated System for Customs Data
CAK……………………………………….Competition Authority of Kenya
CFS………………………………………..Container Freight Station
CCTTFA…………………………………Central Corridor Transit Transport Facilitation Agency
DRC……………………………………….Democratic Republic of Congo
EAC…………………………………………East African Community
ECTS………………………………………..Electronic Cargo Tracking System
ESC…………………………………………European Shippers Council
GVM……………………………………….Gross Vehicle Mass
FDIs ………………………………………….Foreign Direct Investments
ICDs……………………………………….Inland Container Depots
KPA……………………………………….Kenya Ports Authority
KSAA…………………………………….Kenya Ships Agents Association
KNSWS…………………………………Kenya National Single Window System
KWATOS………………………………Kilindini Water Front Operating System
LAPSSET………………………………Lamu Port South Sudan Ethiopia Corridor
NTBs……………………………………Non-Tariff Barriers
NTTCA…………………………………Northern Corridor Transit Transport Coordination Authority
OSBP……………………………………One Stop Border Posts
SCT…………………………………………Single Customs Territory
SGR……………………………………….Standard Gauge Rail
SIMBA System…………………………..Kenya Customs Information Management System
TANCIS………………………………….Tanzania Customs Information Management System
TMEA…………………………………….TradeMark East Africa
Introduction

The purpose of this paper is to give an overview of transport logistics, trade facilitation initiatives and challenges facing the East African Region. According to the World Bank as quoted by TradeMark East Africa (2014:3), East Africa is among the highest transport logistics costs in the world. Freight logistics costs in East Africa per kilometre are more than 50% higher than the USA and Europe. These costs seriously erode the competitiveness of goods exported by East African countries and raise the cost of living. It is estimated that land-linked countries’ transport costs can be as high as 75% of the value of exports. In the end, it is the producer, a farmer or a business that pays. The World Bank estimates that high costs reduce growth rates by 1% per annum and account for 40% of higher consumer prices across East Africa and its neighbours, affecting a consumer base of more than two hundred and fifty people.

The ports of Dar-es-Salaam and Mombasa are critical and a lifeline to the development of economies in the Eastern and Southern African regions and their need to offer efficient transport logistics services cannot be over emphasised. The ports service Tanzania and Kenya for imports and exports as well as land-linked developing economies in the hinterland namely Burundi, Rwanda, South Sudan, Uganda, Zambia, Democratic Republic of Congo (DRC) and Malawi. The ports link transit countries through an inter-modal system of roads, railways and inland waterways in the Dar-es-Salaam, Central and Northern Corridors. According to Trade Mark East Africa (2014:3), it is estimated that 98% of East Africa’s trade is carried through the Northern and Central corridors. The Northern corridor handles 73% of the region’s trade from the port Mombasa in Kenya through Uganda, to Rwanda, Burundi and DRC, with spurs to South Sudan and Ethiopia while the Central Corridor carries 25% of the region’s trade from the port of Dar-es-Salaam to Rwanda, Burundi and the Great lakes region.

Therefore, the region requires an efficient transport logistics system which is predictable, reliable, transparent and guarantee back to back fluidity in the movement of cargo from seaborne to land-linked developing countries in the hinterland and vice versa. This would help in greatly in reducing the cost of doing business and reduction in firms carrying higher stock levels which ties down much needed liquidity. The main cost drivers that have been cited in the region are Non-Tariff Barriers (NTB’s) which include corruption, police roadblocks, red tape in Government licencing, tedious customs procedures for importation and clearance of goods at ports of entry and border posts, transit costs, weighbridges, congested ports, business unfriendly working hours among others. According to Marete (2014:48) the port of Mombasa in the recent past has been dogged by congestion, delays in cargo clearance, and unco-ordinated procedures by government agencies that slowed operations which resulted in an increase in the cost of doing business in the region.

However, there are notable reforms and achievements that have been made in the region which are commendable and are making the region more efficient and attractive to international trade. Trade facilitation initiatives and investments in hard and soft infrastructure like ports, roads, railways, airports, technology, modernisation and harmonisation of policies and procedures make the region’s future prospects bright. Despite the achievements, significant challenges still exist and therefore more efforts are required to make the region more efficient in transport logistics in order to reduce the cost of doing business and ultimately reducing poverty through affordable prices for goods and services for the population and attracting Foreign Direct Investments (FDIs) which would be vital in creating new employment opportunities.

The remarkable improvement in the clearance of imports and exports at the port and the corridor can be attributed to but not limited to the following factors: implementation of Single Customs Territory (SCT), Presidential directives for the port of Mombasa to operate 24/7 and streamlining port operations, integrated security system at the port (pilferage and thefts have reduced), implementation of the Cargo trucking Systems on Transit vehicles, commissioning of berth 19 at the port of Mombasa (port capacity increased), implementation of Kenya National Single Window System, One Stop Border Posts (OSBP), upgrade and integration of Customs Information Management Systems, modernisation of weighbridges and weighing once at the first weigh station; reduction of roadblocks to transit countries and training of customs clearing agents.
Maritime Transport

The users of ports have complained of delays and surcharges accruing to them due to congestion caused by low productivity by ports. Gachiri (2014:20) writes that Kenya Ships Agents Association (KSAA) threatened to impose Vessel Delay Surcharge on shippers due to inefficiency at the port in the months May, June, July and August 2014 and was attributed to berth moves per hour of less than 30, the acceptable benchmark for an efficient port, low productivity of equipment, low productivity of labour forcing shipping lines to offer incentives (bribes) for work to be done. Idle ships in anchorage result in extra cost of fuel burnt and time lost due to unwarranted waiting time. The costs are usually passed on to shippers who are not in any way responsible for the delays. The reasonable action is to make the port operator pay for cost and not the shipper.

According to the Kenya Ports Authority (KPA), operator of Mombasa Port, the drawback on turnaround time was temporary and was caused by construction works of rehabilitating existing infrastructure at container terminal, expansion of exit gates and adjacent roads. It was also reported that traffic volumes at the port had increased to 122% over a period of six months against the projected 12%. The increase was mainly due to increase in transhipment of cargo passing through Mombasa Port. The other reason for the delays was attributed to heavy rains during the period in question.

The scenario is not unique to the East African region alone. According to the European Shippers Council (ESC) (2014) representing the freight transport interests (by all modes of transport) of businesses in Europe, ‘it is unacceptable to hit European businesses with the new so-called congestion surcharges as there is no reason to impose these congestion surcharges, and urge ship owners to minimise surcharges and bring all costs into a single negotiable freight rate where possible’, ‘this would provide more transparency and predictability to the partnership with the customer. Additional surcharge tends to be ‘fixed’ and not to fluctuate on a large scale over time. The reason for the surge in surcharges has been linked to the new organisation of ship-owner through alliances, VSA, slot exchanges and other means of rationalisation. These new forms of organisations have been presented to improve the service quality offered to customers and not to increase revenues by creating new surcharges, writes ESC.

The liner shipping business in the region is skewed towards few shipping lines. For example five shipping lines control 78 % the market share of general cargo at the port of Mombasa while others control the remaining 22%. This kind of market structure is susceptible to unfair competition which leads to shippers paying more than normal for freight and other services surcharges through collusion. Anyanzwa (2014:57) quotes the Transport Permanent Secretary Mr. Nduva Muli that Government had put unscrupulous shipping firms that curtailed growth of the maritime industry on notice. He revealed that the ministry was working with the Competition Authority of Kenya (CAK) to weed out shipping firms that abused their market dominance and ensure that anti-trust practices were eliminated in the maritime transport services as well as any arbitrary actions, proliferation of charges and surcharges or any unfair or restrictive trading practices by maritime service providers or shipping lines whose actions result in high cost of doing business and un competitiveness of exports in the international market and contributes to low affordability of import commodities.
According to Zulu (2014:8) in his presentation during the Northern Corridor stakeholders’ survey of the Mombasa- Kampala transit section in Kampala, the coastal and land-linked countries in the region face similar seaborne trade challenges. The external shocks experienced as a result of globalisation usually affected the region as a block hence the need for the region to work as a unit through consensus building. The facts on the ground are that the region trades with the same overseas trading partners; use same sea ports with similar challenges for their seaborne trade; their seaborne trade is carried by the same shipping lines majority of which are foreign owned; the liner shipping operators serving the trade consider the region as one single tariff zone; the region has similar trading goods [Imports and Exports]; the region is serviced by transport corridors with almost similar problems and challenges; the same development patterns for the facilitation of transport and trade; and not limited to common high sea challenges such as Piracy.

The following are some of the projects intended to increase port capacity in the region in anticipation of growth:

- The second container terminal at Mombasa port underway which is re-development of berths 12-14 into container terminal.
- The construction of the first three berths at Lamu Port in Kenya and ancillary port facilities in progress
- Feasibility studies have been completed for the construction of second terminal at Dar-es-Salaam port berth 1-7.
- Feasibility study feasibility studies and designs for the development of Maruhubi Hub Port in Zanzibar.
- Development of Mwambani port in Tanga, Musoma Port and New Kampala Port at Bukasa.

**Single Customs Territory (SCT)**

The East African Community launched Single Customs territory early 2014 and has since produced encouraging results in the movement of goods from ports to land linked countries. The SCT is a customs system that allows for goods arriving at the port to be declared in the country of final destination and taxes paid before goods are allowed to move. The physical verification of goods when required is done by officers from the country of destination stationed at the port. The multiple declarations of goods at each border has been eliminated as the driver only presents a release order and exit note and left to proceed after joint verification with neighbouring country officers. There is timely collection of revenue and has reduced cases of dumping for goods destined for Uganda and Rwanda. The need for transit bonds has been limited to a single regional bond that offers high cost savings to importers compared to multiple guarantee bonds which are now irrelevant and has reduced costs where physical escorts were required. The transporters are able to make more trips in a month than before.

According to Busuulwa (2014:5) the Uganda Revenue Authority (URA) and Rwanda Revenue Authority conducted a survey to gauge the gains made since the rollout of the SCT in February 2014 and results indicate a surge in importation of fuel, cement and clinker, wheat, used clothes and beverages, have spurred significant growth of import volumes and increased customs revenues, and improving the average turnaround time spent on clearing and transporting cargo from Mombasa to Kampala dropped from 18 days, two hours and 27 minutes to an average of 4 days and 15 hours after implementation of the Single Customs Territory system. The clearance and transportation of cargo from Mombasa to Kigali fell from an estimated 21 days to an average of 5 days and two hours after rollout of the SCT. The number of trips done by Ugandan drivers increased from four to six in a month.

The other challenge on SCT is that very few Customs Clearing Agents from different countries have been trained and given passwords to access different Customs Information Management Systems for them to conduct their business. However, the different Customs administrations have conducted Trainer of Trainers workshops in order to fast track the training of clearing agents and facilitate issuance of passwords.
**One-Stop Border Post (OSBP)**

The aim is to reduce delays experienced at border posts and therefore facilitating cross-border trade and movement of people. Under OSBP, cargo and passengers stop once at the point of entry where government agencies operating at both sides of the borders jointly undertake the necessary customs and immigration clearance procedures. This is a departure from the current arrangement with double stoppage for clearance is done on either side of the border. In Kenya, border posts of Malaba, Busia, Isebania, Namanga, Taveta and Lunga lunga border posts have been prioritized for this concept. The construction works are in progress. The change in clearance procedures are meant to reduce the time taken at border posts by almost half thereby increasing turnaround times of cargo transport trucks.

**Electronic Cargo Tracking System (ECTS)**

The East African Community states rolled out the electronic cargo tracking system (ECTS) to curb theft and dumping of cargo in transit thereby reducing revenue losses that accrue from the diversion of transit goods. The technology involves installing electronic tracking devices on cargo trucks, enabling the owners of the goods and revenue bodies to track the movement of the goods. The ECTS provides updates on the position of the vehicle, its speed and the status of the container in real time. There are minimal truck escorts which are limited to classified as sensitive goods.

**24/7 Operations at Mombasa Port**

Since the Presidential directive for the port of Mombasa to operate 24/7, the volume of cargo leaving the port has improved and the port dwell time has reduced from 9 days to 3 days. The clearing of cargo at the port and Container Freight Stations (CFS) is to 24/7.

**Weighbridges**

The rampant abrogation of legal weight limits (overloads) has compelled Governments to install weighbridges so as to protect road infrastructure which cost huge sums of money to construct. However, there has been a lot of complaints from the trade concerning congestion and delays at weighbridges such that there was a directive that transit trucks be weighed only once at the first weighbridge. The weighbridges have been modernised to weigh vehicles in motion. The system in Kenya is high weigh in motion with vehicle moving at 50KM per hour while in Uganda it is the slow weigh in motion at speeds of 5KM per hour. The weighing speeds have improved as the scales are weighing all the axles at once as opposed to weighing each axle.

The road transporters and other stakeholders have recently signed a charter in order to eliminate overloading by adhering to the set legal weight limits in order to preserve the road infrastructure. According to the Northern Corridor Transit and Transport Co-ordination Authority, compliance with axle load limit within the region is below 75 per cent, raising the question on how practical the Charter will be. The Charter requires KPA to share information in advance with the other cargo inspectors on the weight of the containers received based on ship manifests. Cargo that exceeds the allowed limit of 56 tonnes will only be released through the railway, which currently only 3 per cent of imports and exports are carried by rail through Mombasa port.

**Inter-modal Transport**

The weak link in the intermodal transport systems in Africa is affected mainly by the non-performance of the railways. For example the cargo off take by rail through the port of Mombasa has been less than 4%. The scenario has put pressure on the already inadequate roads infrastructure. The Central line in Tanzania, Tanzania-Zambia Railways Authority and the Rift Valley Railways in Kenya and Uganda are all underperforming due to several of reasons.
There are new initiatives in the region meant to arrest the falling fortunes in the railway sector and make it more efficient and attract some of the cargo from road transports. They include but not limited to:

- Construction of Standard Gauge Railways (SGR) to be completed by 2018 in Kenya, Tanzania and Uganda.
- The development of standard gauge railway from Mombasa to Kigali though Kampala is in progress.
- Construction of a standard gauge railway line from Uvinza, Kigoma in western Tanzania to Musongati in Burundi
- Development of the Lamu Port-South Sudan-Ethiopia Transport Corridor Project in Kenya (LAPSSET)
- The East African Railway Master Plan by EAC

### Challenges & Recommendations

1. The SCT is a powerful platform that needs to be supported by all stakeholders as tangible positive results have been realised. One weakness of the SCT at the moment is the weak integration of information management systems at ports and customs for different countries. The integration of ASYCUDA, SIMBA, TANCIS, KWATOS, and KNWS and others needs urgent attention in order to eliminate systems outages causing a lot of disruptions to the trade. The shipper pays the high price for delays caused due lack of proper integration of systems. The EAC ICT Technical Working Group need support in terms of resources to make sure the interface challenge is dealt with otherwise the gains from SCT would be negatively affected. This problem has to be rectified for SCT to produce the maximum desired results.

2. The ECTS in the region are not harmonised. In Kenya there are 7 service providers while in Uganda the system is managed by the Uganda Revenue Authority and there is no charge to the transporter. In Kenya there is an installation fee for the gadget costing between USD 850.00 and USD 1000.00 plus service charge of USD 25.00 per month. The response time for any alert in Uganda is 30 minutes and there are plans to reduce it time further. The response time in Kenya as reported by transporters is not reliable.

3. Shippers have in some cases failed to remove cargo from the port due to some service providers not working 24/7 as per directive. For example some shipping lines and banks operate only up to 17.00hrs.

4. There is lack of harmonisation. For example in Kenya the weighing is based on axle loads while in Uganda it is based on GVM. The maximum GVM is now harmonised at 56 metric tons. There is no interconnectivity between the weighbridges in Uganda for data exchange purposes. The other challenge is that weighbridges are located on one side of the road and creating traffic jams as trucks have to cross to the other side of road. They were reports of rampant corruption at weighbridges in the past but things seem to have improved due to controls put in place on the use of weigh in motion system.

5. The majority of shippers have resorted to road transport because it is more reliable and predictable as compared to rail transport. At the moment there is no incentive for shippers to use rail transport even with the advantage of economies of scale. The pricing by rail is not able to compete with road transport as there is no much price difference between rail and road transport. The fixed lines are generally very bad and limit speeds to less than 20 km/h including high risks of derailments, shortage of serviceable locomotives and rolling stock, delays in pick-up and delivery of goods and, high operational costs as compared to road transport. The railways have failed to take advantage of carrying heavy cargo; there are no police stops on the railway, no congestion on rail as compared to roads passing through busy towns. The railway inadequacies have affected the volumes of maritime trade at Embakasi and Kisumu Inland Container Depots (ICDs) in Kenya as well as port Bell in Uganda. The railway lines are dilapidated and therefore cannot support the inland waterways on Lake Victoria to complete the rail-water, water-truck or rail-truck service combinations especially for containerised cargo.
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