



# PORT DEVELOPMENT IN EAST AFRICA

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East Africa has long been marginalised as a somewhat less significant part of the global container industry, with inadequate capital investment in infrastructure leading to the majority of cargo being transhipped over Red Sea or Middle East Gulf ports such as Jebel Ali, Salalah or the Indian Ocean Islands.

A recent rise in container activity suggests that East Africa may be shaking off its previous reputation however. A report published in January, 2016 by Dutch transport consultancy firm Dynamar indicated that cargo volumes moving to and from East Africa increased by a compound annual growth rate of 9% over the past five years.

Economic growth projections suggest that this trend is only set to continue for the remainder of the decade; the IMF forecast GDP growth for Kenya, Mozambique and Tanzania to be around 8% per annum through to the end of 2020, whilst the aggregate population across the three countries is reported to increase by 29% to 133.4 million in the same period. Chinese exports to East

Africa are also expected to increase by 91% by 2020.

## INFRASTRUCTURE

Against this backdrop of strong economic performance, existing port facilities appear somewhat limited, with current capacity insufficient to serve not only their own countries, but also the vast hinterland of landlocked nations such as South Sudan, Uganda and Rwanda beyond them. The region therefore represents an attractive growth market for both terminal operators and major shipping lines alike.

Of equal importance to the continuing development of East African ports are the operating trends of container shipping lines. Ships between 6,000-8,500 TEU have become regular callers to hub ports in South Africa, as shipping lanes evolve and vessels increase in size as cascading from the main arterial lanes takes effect. Whilst infrastructure and water depths remain limited in East Africa as a result of insufficient capacity there, these ships continue to sail past Kenya and Tanzania to reach South Africa. Vessels serving ports in East Africa are

generally relatively small, in the 2,000-3,500 TEU range. Current schedules provide good connectivity however, with major carriers offering direct routes to Asia and connecting to Europe and the Indian subcontinent by transhipment in the Middle East.

With the longest quay, the biggest container yard and the highest number of cranes, Mombasa remains the region's only major port facility, where throughput exceeded 1 million TEU for the first time in 2014. In 2012, The Kenya Port Authority (KPA) launched a three-phase expansion plan with an estimated total investment of US\$900m (funded in part by the Japanese Government), aimed at doubling handling capacity by 2021. Phase one of the project is scheduled for completion shortly and 19 companies have already bid for the concession to operate the new terminal.

The region's dependence on Mombasa is also being addressed, primarily through the development of the Lamu Port-Southern Sudan-Ethiopia Transport Corridor (LAPSSET). This is a project to develop Lamu as a second port in Kenya, connecting with the regional economies of

Eastern and the Horn of Africa and beyond. In addition to the freight transport corridor, China Communications Construction Company has commenced construction on three cargo handling berths, with a further twenty-nine planned in the longer term. The project is set to take at least 15 years at an estimated cost of US\$26bn.

**TANZANIA**

At present, Tanzania is equally reliant on its port facility at Dar es Salaam, which handled 647,900 TEU in 2014 (96% of total container activity in the country). The port has long standing plans to double present capacity through the construction of a new 600,000 TEU box facility. Tanzania International Container Terminal Services Ltd, the management company of the port's existing box handling facility and a member of the Hutchison Group, also intends to invest up US\$400m on new equipment over the next five years.

More crucially however, in October 2015, building work begun on what the Tanzanian Government labelled the 'largest port in East Africa' at Bagamoyo, 74 kilometres north of Dar es Salaam. The project looks set to create a major maritime transport hub and logistics centre implemented through a number of construction phases, which together could create a facility potentially capable of processing 20 million TEU per annum by 2045. It is estimated that the project will cost US\$11 billion and is jointly funded by China Merchants Holdings International (which already manage or develop over 30 port projects globally) and the government of Oman.

The future of the Bagamoyo project is currently uncertain however in the wake of the Tanzanian general election which took place in October 2015. The newly elected President, John Magufuli, recently dissolved the entirety of the Tanzania Port Authority's board, a move that was criticised by some circles as a setback for the region's emergent economic stability. A recent announcement by the Minister for Works, Transport and Communication stated that the project would be suspended, however the government have since stressed that it is continuing as before.

**TRANSPORTATION**

The most significant potential challenge facing East African ports is the ability to transport cargo inland. The existing transport corridors originating from Mombasa and Dar es Salaam are operating at near capacity and are inefficient, with inland transportation costs reaching 77% of export value in some circumstances. Although the planned LAPSSSET development will alleviate the pressure on this existing infrastructure to an extent, the reliance of



the majority of Kenya's populated areas on the existing southern corridor means it will likely remain the primary route.

**SUMMARY**

Despite the fact that a number of the developments at both existing and new port facilities remain in their infancy, such movements clearly demonstrate the demand for further capacity and enhanced facilities for both import/export and, potentially future transshipment activity. Port expansion projects at Mombasa

and Bagamoyo indicate that East African governments are increasingly willing to involve foreign, private sector investment and expertise, a policy successfully utilised by a number of West African countries and ports in the last 15 years or so. Massive investment is still required across both inland infrastructure and cargo handling facilities, although there are indications that this may now be starting to take place.

*Research by Craig Grant, Trainee Solicitor, Holman Fenwick Willan*

**ABOUT THE AUTHOR**

Matthew focuses on transactional corporate and commercial law with a particular emphasis on ports, transport and the logistics sector. He has experience of a wide range of high value international corporate and commercial transactions. His high profile international port and terminal project experience includes port development, privatisation, restructuring, concessions, as well as management and operation. He works with global and international terminal operators, UK ports and stevedores, and international government bodies. His previous industry experience with Maersk Line and Nedlloyd Lines in a variety of commercial and operational roles in the UK and Denmark gives him a firsthand understanding of the ports, liner shipping and logistics industries.

**ABOUT THE ORGANISATION**

Holman Fenwick Willan (HFW) is a global law firm advising on all aspects of

international commerce. With over 475 lawyers operating in 13 offices across 11 countries spanning Asia, Australia, Europe, the Middle East, and South America, we provide a global and seamless service 24 hours a day. HFW has worked on over 100 port projects internationally and our experience has been gained not only from our involvement with the world's leading port operators and users, but also through the employment of lawyers and industry experts from terminal operating companies and shipping lines. We have one of the largest groups of transactional and dispute resolution lawyers specialising in legal matters relating to the development and operation of national and international ports and terminals.

**ENQUIRIES**

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