



## COMPANY PROFILE

# POLICY POSITION ON THE TRANSPORT AND LOGISTICS CHAIN IN KENYA

**T**he Kenya Shippers' Council (KSC) is a private sector organization that provides a platform for articulating shippers' concerns and demands to service providers and government institutions. It offers a cross-sector liaison forum for discussions with a wide variety of logistics and service providers.

Shippers have increasingly found themselves unable to negotiate effectively with organized transport service providers including shipping lines, airlines, road hauliers and railways on an individual basis. This has resulted in cost recovery being passed on to shippers.

The Council was borne out of the desire by leading business associations including Kenya Association of Manufacturers (KAM), Fresh Produce Exporters Association of Kenya (FPEAK), East Africa Tea Trade Association (EATTA), East Africa Cement Producers Association (EACPA), Kenya Coffee Traders Association (KCTA), Petroleum Institute of East Africa (PIEA) and individual corporate organizations involved in import and export trade to form a one stop multimodal advocacy organization.

Membership is also open to service providers who join as affiliate members and regional, governmental and non

governmental organizations which have a role to play in infrastructure and transport logistics related issues.

### THE IMPORTANCE OF TRANSPORT TO KENYA'S COMPETITIVENESS

Globalization has transformed the world's economy. The steady growth in world economies has tremendously increased industry's demand for the rapid and timely delivery of goods.

Kenya's industry has risen to the challenges and opportunities that have been occasioned by globalization in recent years. The country's transport infrastructure is under pressure from the rising levels of traffic both on rail and road. At the same time, limited maritime infrastructure and poor inland infrastructure are under immense pressure from the massive increase in imports and exports.

The existing logistics operations are strained by port congestion, falling reliability levels, a challenged road transport capacity, the inability of railways to meet demand and the ever increasing user's demands for reliable and predictable services.



The improvement of logistics performance is an important policy objective. Great focus should be put on the performance of customs, trade related infrastructure, inland, and transit logistics service provision, air and sea port efficiency, and the utilization of information technology for timely trade in goods at low costs. Industry demands logistics solutions that can cope with the pressures put on them by governments, the public, competitors, customers and the supply chain itself. There should be options for users to choose between modes, operators and routes.

Road-based logistics services are dominant due to the slow off take of the railway system. However, governments have gone into regulatory controls through licensing regimes, axle load controls and random checks due to the pressure that the road transport is putting on the existing infrastructure coupled with high maintenance costs, overloading, security and environmental concerns. This has resulted in increased costs and reduced flexibility, a factor that has compelled users to seek other modes which are unavailable mainly as a result of the non-performance of Rift Valley Railways. The effects of these policies to businesses are immediate.

Kenya Shippers Council recognizes the effects of an efficient, reliable and predictable supply chain on the cost of doing business and the competitiveness of manufactured and locally produced goods. Consequently, the Council undertook a study to analyze all transport and logistics costs and their effects on business competitiveness with an aim of developing an advocacy framework to these factors.

Recommendations from the study gave proposals based on the following broad framework:

1. Policy and institutional framework to reduce costs and improve competitiveness
2. Institutional and regulatory changes to cushion cargo owners from being penalized for inefficiencies of their service providers. These include: regulations on waivers due to operational delays, compensation for delays arising from regulatory and government agencies and fast-tracking dispute resolution procedures and court processes
3. Benchmarking and monitoring of freight costs, processes and logistics in Kenya against best practice.

This policy document addresses key concerns among shippers and demands for a number of actions that the government, service providers and regulatory institutions

should undertake. The quality of transport and logistics infrastructure can be improved by:

## A. IMPROVING THE QUALITY OF TRANSPORT AND LOGISTICS INFRASTRUCTURE

### Securing and investment in quality infrastructure

Kenya's infrastructural environment is characterized by poor road networks, traffic jams in cities, dilapidated railway, port congestion, slowing down of cargo flows which are collectively limiting the capacity of the transport system.

There is therefore need for urgent investments in the transport infrastructure to cope with the increasing volumes and needs of the cargo owners to facilitate multi-modal transport. These include new standard gauge railways, better roads, new port terminals and better compliance checks (weighbridges). This will result in improved turnaround time for trucks leading to Just-In-Time cargo delivery.

### Competitive charges for use of infrastructure

Charges for service provision should be competitive based on the ability to provide efficient and reliable services. The port and marine handling charges, documentation and local maritime levies should be commensurate with the services. The concessioning of infrastructure needs great consideration.

### Reducing road transport use by upgrading other systems

Cargo owners need to consider using longer trucks which not only provide additional loading capacity, hence less trips, but also consume less fuel for the same amount of goods (per tonne-kilometre).

This can improve efficiency for long haulage particularly for high volume low weight cargo. This is similar to the European Modular system (EMS). Railway infrastructure should be built to link resources to the port thereby reducing the amount of loads on the roads and reducing costs drastically.

### Securing the supply chain

Security along the Northern Corridor needs enhancing. A more secure transport chain will provide round-the-clock usage and improve on truck turn-around times. There will also be fewer cases of leakage and dumping. This will



address issues of terrorism, counterfeits and substandard goods getting into the local markets which are threatening the very existence of local businesses.

### Securing infrastructure needs

There is need for a government policy aimed at encouraging private sector participation in infrastructural development. This can be done for port and inland terminal development, and railway and road construction. Clear policies with regard to private-public partnerships are required to encourage investments. There should also be mitigating factors against risks relating to external factors.

Industry has heavily invested in the development of best practice and other pro-competitive business tools including the Logistics Performance Indicators (LPI) and benchmarking to promote efficient, reliable and sustainable transport logistics and infrastructure systems. These initiatives should be extended to tackle congestion, improve efficiency and promote alternative modes of transport.

## B. LIBERALIZATION AND CLEAR REGULATORY FRAMEWORKS

### Opening up of rail services

The Kenya-Uganda railway was concessioned to the Rift Valley Railways (RVR) but their customers believe that they lack customer focus and capability to deliver services. The current carrying capacity of less than six per cent is proof of this belief. RVR needs to convince cargo owners that they can offer reliable services that can integrate seamlessly into the logistics and supply chain systems in a competitive manner.

Currently cargo owners are faced with prescriptive rail freight contracts that have no room for negotiations based on service levels due to monopoly and concession agreements that have no business focus. The railway should be open to competitive usage and development of new standard gauge lines to compete and offer more reliable and affordable services.

### Regulation of maritime transport

Shipping lines have for a long time been protected by international maritime regulations that have shielded them from the changing customer needs while trading in the global markets. They set unjustifiable freight rates and even surcharge those levies charged within territorial and

local ports. Kenya Maritime Authority (KMA) the regulator of maritime affairs must develop regulations that protect cargo owners from exploitation by shipping lines. The commercial shipping element of the Merchant Shipping Act 2009 is therefore importance to businesses. It will ensure that local charges by shipping lines are registered with the regulator and any increases justified. This will rid maritime transport of cartel-like operations of shipping lines.

### Harmonization of Road Transport Regulations and Contract Clauses

The road transport sector moves about 95 per cent of the cargo in Kenya and along the Northern Corridor. It is therefore necessary to ensure the regulations and policies regarding the axle load control, licensing regimes and modes of operations are harmonized.

This will facilitate seamless movement of goods within the region and eliminate unnecessary delays caused by non-compliance to the regulations. Successful harmonization will provide for a holistic approach to the movement of freight transport. Transport policies and regulations should ensure that each mode complements the other to provide door-to-door transport and logistics services.

The development of legislative clauses that provide for standard contracts of haulage in road transport would professionalize the industry and protect hauliers and cargo owners from sudden steep increases in input costs such as fuel. In a competitive environment such as road transport, a sudden increase in fuel costs would encourage the road hauliers to circumvent safety legislations and engage in unorthodox business practices such as overloading, longer driving hours for drivers and diversion and pilferage of cargo.

### Improving market access to port and auxiliary services

The Port of Mombasa plays a strategic role in the regional economy as a gateway to the international markets and suppliers. This not only applies to Kenya's economy but also to the economies of the landlocked Northern Corridor countries of Uganda, Rwanda, Burundi, DRC and Southern Sudan. The current port infrastructure is complemented by the presence of CFS stations within the port run by private sector investors. The port also runs Inland Container Depots (ICDs) in Nairobi, Kisumu and Eldoret which are underutilized due to the failure of the rail system.





As ports try to manage congestion, they are increasingly introducing systems such as KWATOS, CAMIS, Vehicle booking systems and scanning which may result in surcharges for vehicles entering the port during peak hours. With limited holding space, equipment challenges and unfair and unregulated CFS performance levels, slow ship turn around times will soon lead to surcharges from shipping lines. All charges incurred because of delays resulting from these systems are passed on to the shipper, the actual port customer.

The local transport infrastructure will experience further straining due to developments planned including a new 1.2 million container terminal and a port in Lamu hence the need to develop inland links.

### **C. QUALITY, EFFICIENCY AND RELIABILITY OF SERVICE PROVIDERS**

#### **Competence of private and public service providers**

The role of the service providers is a key determinant of transport costs because their level of efficiency determines the reliability of the supply chain. To achieve optimum transport chain utilization levels, there is need to enhance the level of competence, preparedness and capacity of service providers.

#### **Corruption and transparency**

Acts of corruption within the supply chain are blamed on the rising transport costs. Lack of transparency in the systems used is also identified as a motivation for corrupt undertakings.

#### **Customs and other border stations**

The role of customs in the clearance and movement of cargo is to collect and protect revenue but this should be done without compromising on trade facilitation. Lengthy

customs procedures result in increased costs due to slow clearance and documentation systems.

#### **Reliability and predictability of the trading systems and supply chains**

Every importer or exporter expects delivery of their cargo within specified timelines for business planning purposes. An unreliable supply chain requires businesses to keep high inventories due to its unpredictability thereby increasing business costs. The Just-In-Time (JIT) delivery of goods calls for supply chain systems that are predictable and free of delays, congestion and unnecessary intervention by the relevant cargo interveners.

Our transport and logistics chains compete on the premise of convenience of service rather than balance of service, cost, risk and reliability or the combination of transport modes. Due to limitation in capital and for optimal investments in transport and infrastructure, the relative merits and demerits of transport modes and multi-modalism should be assessed, balanced and selected at national, regional and at a supply chain level. Clear focus should be put on local competitiveness within the regional and international markets.

A national transport strategy would require a definite linkage in multi-modalism with the performance of the ports being linked to the feeder transport by rail, road and other inland services. Linking air, sea, road and rail transport based on convenience, reliability, cost effectiveness and efficiency will provide regional and international competitive advantage.

Kenya Shippers Council will continue with its advocacy agenda of achieving an efficient, reliable and predictable logistics chain through continuous engagement with relevant government, regulatory and regional organizations to ensure that transport costs are competitive.

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