Oil and gas discoveries catalyst for investment into trade and logistics

By Siphesihle Hlela

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Oil and gas (O&G) discoveries have become a catalyst for investment into road, rail, and pipeline infrastructure in East Africa. The East African region has an economic growth rate projected at 5.5% for 2015 and an estimated 6-7% for 2016.

Over the past 10 years O&G explorations in East Africa have unveiled discoveries within seven countries totalling billions of barrels of oil and trillions of cubic feet of gas. Significant finds include more than 600 million barrels in Kenya, 3.5 billion barrels of commercially viable oil reserves in Uganda, 125 and seven trillion cubic feet of gas in Mozambique and Tanzania; respectively, as well as 60 billion cubic meters of methane gas in Rwanda.

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These regions have been overlooked historically. However, O&G companies are now starting to realise the untapped potential, writes Frost & Sullivan best practices research analyst, Siphesihle Hlela. With O&G investments on the rise in East Africa, international energy companies, in turn, are exploring the logistical hurdles that mark the path towards setup and management of large-scale operations. To meet demand, global and local logistics service providers will need to develop flexible end-to-end solutions with a focus on developing local skills to service construction and exploration work prompted by the new discoveries.

Riding on infrastructure projects

The public sector is investing heavily in major projects such as the US$ 3.8 billion Mombasa-Nairobi standard gauge rail, which aims to connect Kenya, Uganda, Rwanda and South Sudan, facilitating exports in landlocked countries. This project alone is expected to raise Kenya's gross domestic product (GDP) by 1.5%, enabling an estimated annual growth rate of 8%.

Closer to the ocean, the Lamu Port in Kenya and the Bagamoyo Port in Tanzania are preparing for the ever-growing port capacity needs of the region. The Bagamoyo Port alone will become the biggest container terminal in Africa, with a cargo capacity of 20 million twenty-foot equivalent unit (TEU) a year, which is 20 times larger than the port of Dar-es-Salaam, that is also set to be upgraded.

Mombasa - Nairobi train on the Uganda Railway - Rotsee2 via Wikimedia Commons

Moreover, the Lamu Port Southern Sudan-Ethiopia Transport (LAPSSET) corridor project includes oil pipelines to South Sudan and a railway to Ethiopia and Uganda. These infrastructure projects are particularly important as they both highlight the unity of East African Countries (EAC) to drive regional rather than country-specific growth and enables logistics companies to deliver equipment on-site to construction and O&G companies.

It is estimated that once completed by 2017, these projects will enable East African countries to generate an estimated US$ 2.6 billion per year from incoming traffic. Ultimately, these projects indicate a unique opportunity for global and local logistics companies to partner and participate as a way to close the gap in the supply chain that many logistics providers will need in order to meet the demand of industry sectors.

Red tape barriers 'unchained'

With complex supply chains and logistics challenges, transport costs in East Africa can amount to 30% to 50% of the export value and, in some cases, up to 75% in land-locked countries. Delays are known to add additional costs estimated at between US$400-US$500 per trip for freight forwarders crossing borders. Moreover, bureaucracy impedes logistics operations with non-tariff barriers (NTBs) such as customs clearance and multiple weighbridges and checks along main routes presenting unexpected delays. However, corruption is on the decline with bribes for trucks in transit falling gradually to US$ 847 in 2013.

In order for global logistics companies to stay ahead in East Africa, Frost & Sullivan believes that developing strategic relationships with organisations such as the Trade Mark East Africa (TMEA), who work closely with the East African Community (EAC) to reduce NTBs, is a step closer to a responsive versus a reactive supply chain.

Race to East Africa

According to Frost & Sullivan analysis, there is a race amongst global logistics providers to secure market share either through green investments or, in many cases, through win-win partnerships with local companies to create inorganic growth. Global logistics companies are strategically investing in infrastructure alongside the new publicly funded infrastructural projects. This move has enabled logistics companies to source prime locations to establish warehousing facilities for storage near borders and ports.

Through local content policies, East African governments are increasing pressure on the private sector to adopt and design upstream development and corporate social responsibility projects tailored to local communities. The objective of these policies is to have companies source the goods and services used in the O&G operations locally.

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Conclusion

East Africa has taken huge strides to implement solutions that will reduce clearing and permit-related delays which have ultimately improved the ease of doing business. Whether it is capacity constraints or the shortage of skills, global logistics companies should recognise that building local capacity and content is critical to capturing the true size of the East African market. To effectively enter into emerging markets, global companies should look to partner and collaborate with local companies.

This is a powerful strategy that will enable companies to overcome many non-trade barriers, assist in managing local expectations, and finally, gain a strong local footprint to service logistics needs within the region. Frost & Sullivan concludes that logistics companies should look to maximise the benefits accruing from current and upcoming projects and invest in East Africa's economic potential to fully capture the grass-roots of a booming region.

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