

# Ethiopia's difficulties in Lamu

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Ethiopia has decided to diversify the ports it uses for its imports and exports, notably by putting the various regional players in competition with each other. This is undoubtedly the practice of a good family man, who is careful to pay only the right price. Djibouti, which used to account for 95% of Ethiopia's maritime imports and exports, has taken note of this new policy led by Ethiopian Prime Minister Abiy Ahmed. However, given the importance of Ethiopian traffic to the activity of our ports, we can only wonder to what extent Djibouti will be impacted by this logistical "Big Bang" underway in Ethiopia.

We asked the chairman of the Ports and Free Zones Authority, Aboubaker Omar Hadi, about the impact on our country of this new Ethiopian policy and the creation of new supply channels. He explained that he understood our neighbour's desire to diversify its supply routes, adding that we, for our part, had not stood idly by. For several years now, we have been working on strategic anticipation so as not to let ourselves be taken by surprise. That's why we're diversifying port services and activities, product ranges, the PK23 special economic zone, Djibouti Shipping Company, transforming the old port into a high-end business and residential centre, strengthening the sea-air cargo model, acquiring a ship repair facility - a sort of floating garage - and developing our own energy and aquifer resources, in order to improve our resilience and sovereignty.

We must also consider the future Damerjog zone, with an oil terminal with a capacity of fifteen million barrels a year in its first phase. Its clientele is not just local, or even regional, but anyone who wants to buy fuel, whether in Africa or offshore. Djibouti is already well positioned in this vast market for fuel stations for ocean-going vessels. "It is legitimate for Ethiopia to seek diversified outlets for its products. Our trade statistics for 2023 show that Ethiopia has a volume of imports six times greater than Djibouti's, despite the striking contrast in terms of population size: Ethiopia has a population of 120 million compared with Djibouti's one million.

Only 37% of goods transiting through Djibouti's ports are related to Ethiopian imports and exports, compared with 17% for the Djibouti market. These figures show unequivocally that Djibouti's ports not only serve Ethiopian traffic, but also function as a transshipment and redistribution hub for the entire region, from Sudan to South Africa. The tariff structure is publicly available in our tariff book, highlighting a significant cost disparity whereby Djibouti customers are charged ten times more than Ethiopian customers for port cargo dues. This situation essentially means that our ports are in effect subsidising Ethiopian import and export activities. This is one of the reasons why I remain very calm about the competitiveness of our ports. Ethiopia is free to go where it feels it is best served. For our part, we remain convinced that the customer is 'king', and that *in fine*, he will opt for port services that meet the requirements of quality, delivery times and price."



*Djibouti*

### **The customer is “king”...**

What can we say about what was somewhat hastily presented by the Kenyan press as a “big win for Kenya”<sup>1</sup>: the importation by Ethiopia of agricultural fertiliser through the port of Lamu? In fact, it was a bitter experience for Ethiopia!

According to the Kenyan media *The Star*, “this is the first time Ethiopia has imported goods through the port of Lamu since it opened three years ago. Over the past few months, an Ethiopian delegation has been assessing the viability of the Lamu Port-South Sudan-Ethiopia (Lapsset) transit corridor. For many years, Ethiopia has mainly used the ports of Djibouti and Mombasa.

On Saturday, an Ethiopian vessel, MV Abbay II, began unloading 60,000 tonnes of bulk fertiliser.

The Managing Director of the Kenya Ports Authority, William Ruto, said that this was the largest cargo of bulk fertiliser to dock in Kenya. ‘Indeed, it is a testament to many years of planning, dedication and hard work to make the port of Lamu a logistics hub in the region,’ he said.

The fertiliser was bagged at the port, before being loaded onto waiting trucks for Ethiopia.

‘We are grateful and believe this is the first of many Ethiopia-bound vessels we will handle in the future,’ said Mr Ruto.”

Ethiopia’s decision to expand its port opportunities must be understood in a general context: the post-Covid situation, the 43-month civil war, the surge in sea freight prices caused by the crisis triggered by the Houthis in Bad el-Mandeb and the Red Sea, a sclerotic economy that is buckling under the weight of the state of emergency, limited foreign currency resources that are leading to shortages, particularly of the inputs that are essential for national manufacturing, the downgrading of the country’s international currency debt by Fitch from “C” to “partial default”, the political will to move away from dependence on a single corridor, while liberalising Ethiopia’s multimodal system with the end of Ethiopian Shipping & Logistics Services Enterprise’s (ESLE) sea freight monopoly and the opening up of the market to three new private companies.

The Ethiopian media *The Capital* confirms a timid new logistical direction: “During the financial year under review, ESL ships dropped anchor in Massawa, Berbera, Mombasa and other ports. ESL aims to expand its services to cross-border trade by increasing the number of suitable vessels.”<sup>2</sup>.

1. Charles Mghenyi, “Big win for Kenya as Ethiopia imports fertiliser through Lamu Port”, *Star.co*, 13 May 2024 [<https://www.the-star.co.ke/counties/coast/2024-05-13-big-win-for-kenya-as-ethiopia-imports-fertiliser-through-lamu-port>].

2. Muluken Yewondwossen, “ESL targets higher revenues as waivers cease”, *Capital Ethiopia*, 11 September 2023 [<https://www.capitalethiopia.com/2023/09/11/esl-targets-higher-revenues-as-waivers-cess>].



*Lamu*

### Competing regional ports

The largest vessel in Ethiopian Shipping & Logistique Services Entreprise (ESLE) fleet, Abbay II<sup>3</sup>, docked for the first time at the port of Lamu on the night of 8 May. It had come to unload 60,000 tonnes of agricultural fertiliser. The goods were bagged in 25-kilo sacks, then loaded onto thousands of trucks before being transported by road to Addis Ababa, a distance of 1,700 kilometres, 677 of which were on Kenyan territory.

To accommodate the flagship of the Ethiopian fleet, the Lamu port authorities bent over backwards, since this port, which has been virtually dormant since its inauguration, had only once handled fertiliser. To meet demand, as a Kenyan media report points out, they have made major investments.

“The arrival of the MV Abbay II coincides with KPA’s recent acquisition of three ship-to-shore gantry cranes, an investment designed to improve the operational efficiency of the commercial port.

The fertiliser cargo will be quickly unloaded and packed on the quay before beginning its journey overland through the corridor to the town of Moyale and on to its final destination in Ethiopia.

In order to reduce its dependence on Djibouti, Ethiopia, the main importer via this port, has specified that the port of Lamu will receive fertiliser and livestock shipments.” Author Gerald Andae adds that “nevertheless, the current underperformance of the port of Lamu represents a challenge for the LAPSET corridor project, which relies on vibrant commercial activities in the port.”<sup>4</sup>

Muluken Yewondwossen, in a March publication, expressed similar concerns, pointing in particular to higher operational costs than in Djibouti<sup>5</sup>. And indeed, this first experience of unloading the ship and bagging more than 60,000 tonnes of agricultural fertiliser was no easy task. The Abbay II arrived in the port of Lamu on the evening of 8 May, but only managed to unload 26,000 tonnes of the 60,000 tonnes it was carrying 23 days later, on 1 June. On 1 June, only 940 tonnes had been unloaded... At the current rate, the ship will not have completed unloading until around 10 July.

3. ESL acquired the Abbay II by swapping its very first tankers, Bahir Dar and Hawassa for this ultramax dry bulk carrier (Muluken Yewondwossen, “ESL sets sail toward expansion with new ultramax vessels”, *Capital Ethiopia*, 22 April 2024 [<https://www.capitalethiopia.com/2024/04/22/esl-sets-sail-toward-expansion-with-new-ultramax-vessels/>]).

4. Gerald Andae, “Djibouti Hit as Ethiopia Shifts Transit Cargo to port of Lamu”, *Business Day Africa*, 14 May 2024 [<https://businessdayafrica.org/2129-2/>].

5. Muluken Yewondwossen, “Ethiopia explores fertilizer imports via Kenya’s Lamu Port”, *Capital Ethiopia*, 25 March 2024 [<https://www.capitalethiopia.com/2024/03/25/ethiopia-explores-fertilizer-imports-via-kenyas-lamu-port/>].

## The main bottlenecks

The reason for this extraordinary situation is undoubtedly the under-equipment of the port of Lamu, which lacks modern articulated arms for rapid unloading, or conveyor belts as in Djibouti. The lack of silos or sheds suitable for storing fertiliser also no doubt explains why the port of Lamu has just beaten the continental record for the worst unloading performance for fertiliser... Bagging operations and truck loading are carried out directly on the quays, even on the ship, in the old-fashioned way. Ethiopian Shipping & Logistique Services Entreprise, which had hoped to optimise its logistics costs by opting for Lamu, is instead seeing its costs soar, since the main levers for improving logistics to date are based on reducing waiting and unloading times to limit the immobilisation costs of bulk carriers. This improvement is linked in particular to the size of port infrastructures, and the development of quays capable of receiving and rapidly unloading very large bulk carriers to achieve economies of scale. In the Horn of Africa these logistics capabilities exist only in Djibouti.



As there is no railway between Lamu and Addis Ababa, it is not possible to combine means of transport, unlike in Djibouti. Everything has to be transported by lorry, which accounts for a large proportion of the cost of imports. This difficulty is compounded by the structural shortage of transport vehicles in Ethiopia, which has a fleet of just 13,000 vehicles. Transporting fertiliser alone requires around 2,600 trucks to make the rounds from Djibouti (800 km). The journey via Lamu is 1700 kilometres, more than twice as long, which only exacerbates the shortage of trucks. Transport from Lamu to Addis costs close to \$5,000 per 25-tonne truck, while from Djibouti to Addis it costs around \$2,000 for 40 tonnes.

The weather conditions of recent weeks, with heavy rain and landslides in Kenya's coastal region, have caused torrential downpours and flash floods. The greasy roads and the closure of certain routes meant that lorry loads had to be restricted, resulting in a further major delay to deliveries, not to mention the landslides that have led to the closure of goods traffic routes.

Finally, Djibouti has a considerable advantage due to its geographical position. The ship from Morocco had to travel an extra 1,774 nautical miles, or 6 days, to reach Lamu. At market prices, this represents around \$40,000 per day, i.e. an additional cost of \$240,000, plus the same amount on the return journey to Morocco via Bad el-Mandeb. The extra sailing days alone represent an additional cost of \$480,000 compared with using Djibouti.

The logistical choice therefore appears to be a very expensive one, costing an additional 8 million dollars compared with using Djibouti. This experience seems to have brought Ethiopian Shipping & Logistics to its senses, in view of the memorandum it signed on June 3



with Ethio-Djibouti Railway (EDR) concerning the use of Djibouti's ports for Ethiopian freight.



*Lamu*

### **Risk warnings**

There had been no shortage of professionals advising a smoother logistics transition, but apparently to no avail. “Despite these new developments, industry voices say that the transition from Djibouti to Lamu will require meticulous planning and coordination between the two countries. Djibouti’s logistical capabilities, with its state-of-the-art port facilities and functional rail network, set a high benchmark for Port Lamu to match. They warn that Ethiopia’s strategic initiative is not without its drawbacks. Transporting goods from Port Lamu to Ethiopia, which stretches almost 677km to the Ethiopian-Kenyan border, requires reliable infrastructure and efficient transport solutions. [...]

Logistics industry veterans, including Daniel Zemichael, former President of EFFSAA, stressed the need to modernise infrastructure and harmonise policies with Kenya. These include increasing the maximum load capacity of trucks at the border and updating insurance policies, which are essential steps in ensuring the smooth running of commercial operations in the port of Lamu. He supports the idea of diversifying access, particularly to facilitate shipments of essential products such as fertiliser or aid in exceptional circumstances such as the ongoing attacks on ships by Houthi militias in Yemen.

‘Everyone is concerned about the Red Sea,’ said Mr Daniel. In his view, Lamu’s current capacity is well suited to transporting fertiliser. However, he stressed the crucial role of private investment in the ports of Lamu and Berbera for long-term success and said ‘Strategic foresight in the MoU will be crucial’.

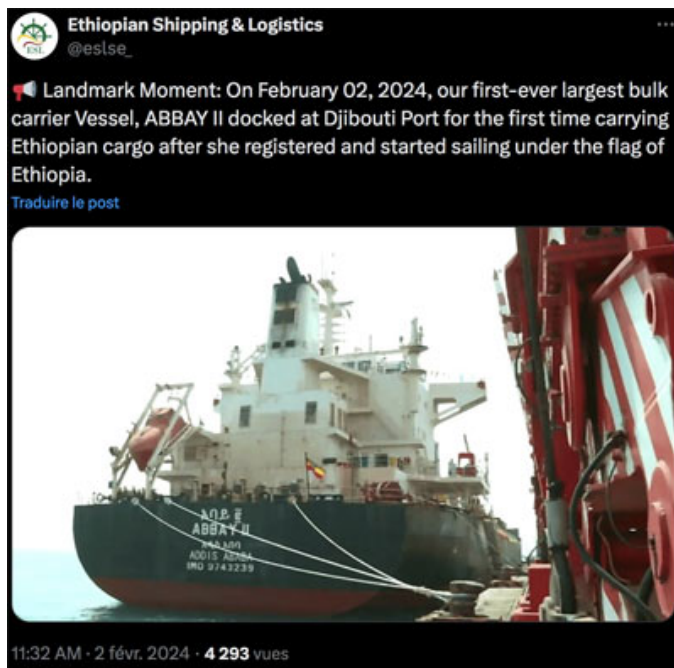
Daniel Zemichael recommends careful planning to take advantage of the logistics cost reduction potential offered by the port of Lamu”<sup>6</sup>.

According to senior Kenyan officials, the Ethiopian government insisted on using Lamu even though the port was not ready. An Ethiopian businessman also told us under the seal of secrecy that it was Abiy Ahmed who pushed to use Lamu to “teach Djibouti a lesson”, but that because of the financial disaster, he would blame the agriculture and transport ministers.

By way of comparison, the Abbey II docked at DMP quay 4 on the evening of 1 February 2024<sup>7</sup>. The unloading of 60,000 tonnes, which began on 2 February, was completed in 17 days, an average of 3,530 tonnes per day, with a peak of 4,822 tonnes. The ship left on 18 February 2024.

6. “From Djibouti grip to Kenya embrace”, *Addis Fortune*, 3 February 2024 [<https://addisfortune.news/from-djiboutis-grip-to-kenyas-embrace>].

7. “ABBAY II arrives at the port of Djibouti with 60,000 tonnes of fertiliser”, *Allafrica*, 2 February 2024 [<https://fr.allafrica.com/stories/202402020428.html>].

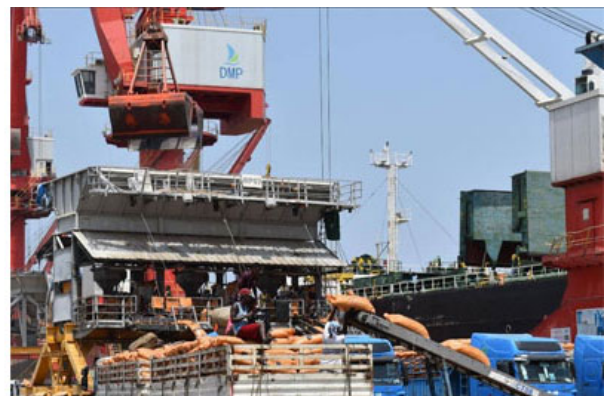


Agriculture accounts for 40% of Ethiopia's GDP and employs 75% of the working population. To be successful, it is totally dependent on access to inputs<sup>8</sup>. These delays will severely affect the sowing period, which ends in July in Ethiopia. This is not without risk, bearing in mind that delays in delivery, and hence a serious shortage of fertiliser vital to the country's small-scale farmers, have already caused major disruption and led to large-scale demonstrations throughout the country, particularly in Amhara and Oromia<sup>9</sup>.

Not to mention the fact that the waiting time at the ship's berth represents a substantial financial loss. In Djibouti, this was no more than 17 days, compared with 2 months in Lamu. The Abiy government's comparison of actual port performance in the region is a great opportunity for Djibouti's logistics and customs services. As Aboubaker Omar Hadi rightly said, "the customer is 'king', and [...] *in fine*, he will opt for port services that meet the requirements of quality, delivery times and price".

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***Djibouti***

8. Samuel Bogale, "Fertilizer dependency haunts farmers", *Reporter Ethiopia*, 7 May 2022 [<https://www.thereporterethiopia.com/23558/>].

9. "Over half of Ethiopia's fertiliser order for current year arrives at Djibouti port", *Ethio Explorer*, 2 May 2024 [<https://www.ethioexplorer.com/over-half-of-ethiopias-fertilizer-order-for-current-year-arrives-at-djibouti-port/>].