Maersk Group Trade Report

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East Africa weathers tough conditions to return a mixed bag of trade growth

- **East Africa containerized trade volumes contracted by 3% in the first three quarters of 2016**
- **Northern Corridor grew by 2% whereas Central Corridor contracted by 9%**
- **Macro-economic headwinds, political instabilities and a slowdown in commodity demand in China are some of the factors impacting trade.**

According to estimates from the World Trade Organization (WTO), world trade growth has been weaker than expected in 2016, expanding by just 1.7% as opposed to the 2.8% forecasted in April. With expected global GDP growth of 2.2% in 2016, this year would mark the slowest pace of trade and output growth since the financial crisis of 2009. Even containerized trade is not indifferent to the impact of this slowdown owing to the structural relationship between economic growth and growth in container trade.

In the East Africa region, containerized trade volumes contracted by 3% in the first three quarters of 2016, according to the first ever East Africa Trade Report issued by the Maersk Group. East Africa is split into two core trade corridors – the Northern Corridor (serving Kenya, Uganda, South Sudan & parts of Rwanda) and the Central Corridor (serving Tanzania, parts of Rwanda, Burundi, Zambia, Malawi & DRC).

"The silver lining in the overall tepid containerized trade performance is the Northern Corridor that grew by 2% in the first nine months of 2016, with imports growing 2% and exports growing 3%. Countries in the Central Corridor are facing some macro-economic headwinds, resulting in a contraction, especially in imports, which showed a year-on-year decline of 8%," says Steve Felder, Managing Director, Maersk Line Eastern Africa, a member of Maersk Group.

Elaborating further on the market rudiments for the East Africa region, Felder explains, "Political instabilities like those in South Sudan and Burundi also impact the trade sentiments in the region. Other aggravating factors include rising inflation, volatile commodity prices, generally weak currencies, and a slowdown in commodity demand in China. The economies in the region are primarily import-based, and export is mostly comprised of agro-based products."

The East Africa region's top trade partners remain the same as last year. The top import trade lanes were Middle East, Far East and Europe consisting mainly of manufactured goods, foodstuff and consolidated cargo. The top trade lanes for export were Middle East (tea, copper and soda ash) and Europe (tea, coffee, and tobacco).

Defying the trend - Northern Corridor (Kenya, Uganda, South Sudan and parts of Rwanda)

The 3% growth in exports on the Northern Corridor was largely propelled by tea, non-frozen vegetables and beans, avocadoes and animal fodder. Imports on the other hand, while positive, had a lower growth rate at 2%. New duties and regulations had an impact, explains Purity Karau, Head of Safmarine Eastern Africa, a member of the Maersk Group:

"Imports were stifled by introduction of new duties and levies on some of the import commodities such as used clothing, as well as new regulations on auto- and paper imports into Kenya."

Strong growth seen in tea exports from Kenya

Tea is the second largest foreign exchange earner for Kenya, making the commodity a key pillar of the economy. Kenyan tea earnings jumped 29% from May 2015 to May 2016. Official data shows that tea fetched KSH 53.2 billion in the period, up from KSH 41.2 billion in a similar period in 2015 – a growth of KSH 12 billion. Tea earnings growth was further aided by the weakening of the shilling against the US dollar.

According to Maersk Line data, tea exports grew by 43% in the first nine months of 2016, making it one of the top export commodities from the East Africa region. Kenya is the world's leading exporter of black tea, a crop that offers a livelihood to thousands of small-scale growers. The top export market for tea export for Kenya is Pakistan.

A matter of concern - Central Corridor (Tanzania, Burundi, Zambia, Malawi, DRC and parts of Rwanda)

The containerized market in the Central Corridor contracted by 9% in the first three quarters of 2016, with exports taking the biggest hit and declining by 13%, and imports dropping by 8%. This decline can be attributed to a multitude of factors like weakening of currencies, internal conflict in Burundi, a tax crack-down in Tanzania and the levying of VAT on transport services from Tanzania to and from hinterland countries.

Chukwuma Mokwe, Maersk Line Eastern Africa Trade Manager, explains, "One reason for the sharp decline in exports from the Central Corridor is fall in the commodity prices. Also the fact that containerized volumes from neighboring countries, including Zambia and Democratic Republic of Congo, which used to pass through the Dar es Salaam port, moved out via other gateway ports like Durban in South Africa and Walvis Bay in Namibia."

AVOCADOS – an export on the rise

For Kenya's avocado exporters, the inception of controlled atmosphere containers has created a fundamental change. Before the new technologies were available, the Middle East had been as far as the exporters could reach in containers. Now, Europe, where the fruit sells for roughly triple the price, is within reach. This has led to a growth of 34% in 2016 over 2015.

Today, Kenya produces an estimated 115,000 metric tons of avocado annually, 70% of which is grown by small-scale farmers. Some years back, most of the avocados were sold in local markets, but this has drastically changed this year, where three quarters of the avocado fruit grown is exported.

Political stability, fewer trade barriers and infrastructure needed

A number of things can be done to help drive regional growth, says Steve Felder:

"To improve trade volumes in our region, the East African economies need to attract more foreign investments, which can only happen if we continue to work towards removing trade barriers and providing a conducive environment for business in general and industrialization specifically." Felder points to two key infrastructure development projects that will aid in attracting investors.

- The advent of the second container terminal in Mombasa has eliminated congestion within the port, and productivity has improved.
- The construction of the Standard Gauge Railway linking Mombasa and Nairobi, for which more than 75% of civil works have been completed on the first phase of the KSH 420 billion project, with over 235km of track already laid. Rail has huge potential to reduce the cost of logistics, decongest roads and reduce carbon emissions.

Steve Felder also points to the positive development recorded by the World Bank's Doing Business index where the region has seen major improvements, for instance with Kenya ranking within the global top 100 easiest countries to do business with for the first time.

"We want to acknowledge the improvements made, and we need to continue to improve the ease of doing business to enhance our region's business activity and trade and hereby create growth."

Some of the factors that can lay a damper on the trade in the region are major events like the elections in Kenya in August 2017 which can have a direct impact on trade in the region. Historically there is a slowdown of up to 20% in imports starting around 3 months prior to the election date, and only picking up once the situation stabilizes. Also, exports are expected to come under further strain next year, when the impact becomes clear of the lack of an Economic Partnership Agreement (EPA) between the East African countries and Europe.

"As per our estimates, the East African trade will contract by 4% in 2017 with imports declining by 5% and exports declining by 2%. Northern Corridor is set to out-perform the Central Corridor in both import and export segment again," says Felder.

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MAERSK LINE

About Maersk Line

- Maersk Line, the global container shipping division of Maersk Group, is the world's largest container shipping company which services customers through 324 offices in 115 countries. The Group is known for reliable, flexible and eco-efficient services.
- The Kenyan office was established in 1994, with the head office situated in Nairobi and branch offices in Mombasa. Globally, Maersk Line employs 7,600 seafarers and 23,200 land-based employees and operate 590 container vessels.
- Maersk Line has reduced its CO_2 emissions by 42% since 2007 and aims to reduce 60% of CO_2 emissions per container by 2020.

Safmarine

About Safmarine

- Safmarine is an international container carrier focused on trade to and from emerging markets in Africa and West Central Asia.
- Founded in 1946 in South Africa, Safmarine has always had strong ties to Africa, its energy, people and vibrant culture.
- Today, over 1,200 Safmariners in 85 countries around the world share a common goal: to be the people making the difference in shipping. Our ambition is to inspire a brighter future through profound partnerships and a culture of positivity and optimism. To realise this we invest in people, in relationships, and in the way we do business.

MAERSK

About Maersk Group

- The Maersk Group is an integrated transport & logistics company with multiple brands and is a global leader in container shipping and ports. Including a stand-alone Energy division, the Maersk Group employs roughly 88,000 employees across operations in 130 countries.

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