

# Challenges Facing Ports Under New Global Economic Realities

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# Introduction

- ▶ It remains incontrovertible that maritime transport accounts for more than 80% of trade and the exchange of goods between countries globally.
- ▶ Global maritime transport also continues to experience unprecedented changes, which poses increasing demands for ports and logistics services providers to improve performance and lower overall costs along the whole value chain. These challenges are becoming more prevalent with evolving circumstances globally such as slowdown in production capacity in the main markets (China and the US), access to capital for infrastructure development, regulation compliance, population growth, environmental impact and climate resilience, safety and security, digitalization, prices of raw materials, energy and increasing freight rates, industrial relations and port community relationships.





# Global Trade



- ▶ According to the UNCTAD Review of Maritime Transport 2021, global economic output fell by 3.5% in 2020 and merchandise trade by 5.4%. International maritime shipments fell by 3.8%, to 10.65 billion tons from more than 12 billion tons the previous year.
- ▶ However, the projections are that world maritime trade will recover by 4.3% in the current year and the growth is expected to continue for the next 4 to 5 years, albeit at rates that will be moderated by the easing in world economic output. Although the short-term outlook is positive, the medium- and longer-term prospects remain uncertain. Out of this global trade volumes, Africa accounts for about 9% and is expected to grow in the coming years.
- ▶ One aspect that is likely to affect global maritime trade is the current surge in freight rates, which if sustained, could increase global import price levels by 11% and consumer price levels by 1.5% between now and 2023 according to UNCTAD. This has resulted in increased consumer prices for basic commodities, further aggravated by the volatility in the price of Brent crude oil per barrel, which has also increased by more than 45%.
- ▶ By the end of 2020, freight rates had jumped to about \$4,000 per TEU and rose to \$7,552 per TEU by the end of November 2021.
- ▶ Furthermore, freight rates are expected to remain high due to continued strong demand combined with supply uncertainty and concerns about the efficiency of transport and ports.



# Infrastructure Challenges

Given the trend for the deployment of larger and more specialized vessels to take advantage of the economies of scale, ports are obliged to invest in infrastructure to be able to provide service to such vessels. The use of China Max vessels are driving the decision to dredge deeper channels, construct new and larger terminals and procurement of more sophisticated ship-to-shore and terminal handling equipment.





## Technology Improvements



- ▶ The increasing use of technology presents the opportunity for Ports that are more adaptive to this evolution to capture and retain ships and trade volumes. This is the case when the Ports of Singapore and Rotterdam, for example, have invested in technology for the deployment of unmanned vehicles and equipment, which enhances greater ship output and increased productivity.
- ▶ The challenge, mostly for African ports is the supply of reliable energy and internet connectivity.
- ▶ Other systems that enhance port productivity include the use of IT for end-to-end transactions where shipping information is shared via EDI to plan for ships arrival, terminal handling and documentary processes in goods clearance. Many Ports, both in Europe and Africa, are utilizing customized software such as NAVIS and the Single Window Platform for ships handling, cargo tracking and customs declarations. It goes without doubt that Ports that are disposed to embrace this evolution in technology will stand a greater advantage to leverage on the potential that automation engenders to attract increased trade volumes.
- ▶ At its experts meeting in Geneva in November 2018, International Port Community System Association (IPCSEA) was mandated to analyse the impact of the single window in managing the supply chain. This was against the auspices of the Sustainable Freight Transport in Support of the 2030 Agenda for Sustainable Development.



# Access to Capital

- ▶ The investment in Port infrastructure requires huge capital outlay, which many ports especially in Africa are finding increasingly difficult to access. Port Concessions are becoming prevalent in West Africa with many global operators staking their claims on the region's port infrastructure. Bollore Africa Logistics, Maersk Line and APM Terminals, ICTS, DP World and many other operators are increasingly investing huge capital in the form of concessions in Senegal, Mauritania, Sierra Leone, Liberia, Ghana, Cote D'Ivoire, Nigeria, Cameroon Togo and many such countries.
- ▶ These companies are investing in long term concessions ranging between 25 to 40 years and have invested hundreds of millions of Euros for the construction of deep-water berths, terminal handling facilities, equipment and computerized operating systems. This is against the background that Africa in general has great potential for growth and efficient infrastructure is essential for stimulating that growth, with ports being the gateway to world trade.





# Access to Capital cont...

- ▶ However, operating concessions in West Africa poses challenges and risks. Some of these challenges and risks include Government interference, lack of transparency in the solicitation process or ill-prepared negotiations teams.
- ▶ Nonetheless, the case still remains valid that with weak economies and debt unsustainability, many African Governments are finding it difficult to attract financing for port infrastructure development and as such are having recourse to private funding from global shipping operators through public-private-partnerships, for which concessions are the main drivers. It therefore behoves on Port managements to be guided properly to add value to the trade in these countries.





# Access to Capital cont...

- ▶ Issues such as concept designs, technical and financial proposals, tariff issues, human resource retention and development and the payment of royalties need to be clearly defined at the onset to eliminate any ambiguities that may arise during the concession period.

PORT	CONCESSION PARTNER
Dakar	DP World FZE
Conakry	Bollore (75%) APM Terminals (25%)
Freetown	Bollore (80%) SLPA (20%)
Monrovia	APM Terminals
San Pedro	MSC
Abidjan	Bollore (60%) APM Terminals (40%)
Lome	Bollore
Apapa	APM Terminals
Tin Can	Bollore (52.5%) CMHI (28.5%) CADF (19%)
Cotonou	Bollore (75%) SMTTC (25%)
Lome	MSC (50%) CMHI (50%)
Tema	Bollore/APMT (70%) GPHA (30%)







## Environment and Climate Resilience

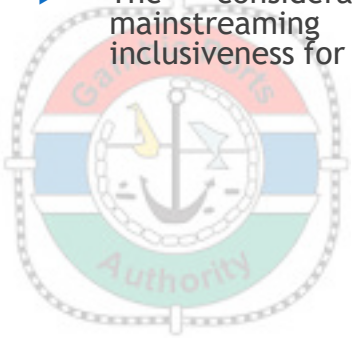


- ▶ Sustainability and environmental concerns are becoming more important. With the Paris Agreement and the 2030 Agenda for Sustainable Development, ports are being forced to reduce carbon use and care more for the environment. Nowadays, ports cannot be focused only on economic goals but also environment and social responsibilities must be integrated into business plans.
- ▶ Cargo handling operations at ports exposes personnel to risks of injury as it involves working onboard ships, operating large equipment, being around heavy machinery and within environments that are prone to emissions.
- ▶ A large part of becoming a Smart Port is not only the aspect of going digital, but it also incorporates going green. With the use of advanced technologies, ports are adopting new forms of energy. Strategies can include developing green energy sources that can even provide green energy to entire Smart Port city complexes, for example, offshore wind farms.
- ▶ As the world is concerned with adopting healthy environmental policy for ports, the shipping industry is also going green and adopting new technology to lower emissions from ships.
- ▶ IMO revision of MARPOL Treaty Annex VI to enter into force on 1<sup>st</sup> November 2022 requires ships to reduce carbon emissions and this will be reviewed for efficiency in 2026.
- ▶ Port infrastructure projects, particularly in Africa, should be preceded by the preparation of ESIA's to ensure climate risk assessment and adaptation measures. The identification of risks associated with sea level rise and increased precipitation should be followed by mitigation measures incorporated in the design of new facilities.



# Port Community Relationships

- ▶ The development of Port infrastructure, especially those in Africa in general, have had to face challenges in cohabitation with a sprawling urban settlement around the port vicinity. Ports often struggle to gain community support due to its operations, which can be harsh on surrounding lands and communities. Known for their pollution, environmental disruption, stress on hinterlands, and use of coastal land, community support can be difficult to achieve.
- ▶ With a Smart Port philosophy, the community is reintegrated back into port operations under an integrated Port-City relationship. They consider how they affect the community by focusing on developing the attractivity of their ports for residents and tourists, caring more for the environment, and providing jobs for surrounding residents.
- ▶ The considerations should include gender mainstreaming and youth to ensure greater inclusiveness for better port-city relationships.





# Conclusion

Ports are faced with emerging challenges in an ever-changing world. Developing countries generally perform worse, with higher costs and lower connectivity – a consequence of diseconomies of scale, greater distances from overseas markets, and lower levels of digitalization. Smaller and most vulnerable economies may need support to mitigate the increased costs and lower connectivity.



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# THANK YOU

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