TRANSPORT AND THE FINAL COSTS OF GOODS

Maritime Transport Costs are important elements in the overall logistics chain. An increase in transport costs acts as a barrier to the seamless flow of trade. It holds back the economic growth of the affected countries, as well as disrupting the benefits of Globalisation and increased trade.

The overall costs of transporting cargo are generally higher in developing nations compared to other parts of the world, which is a true case scenario in many parts of Africa. Transport in Africa is often faced with many uncertainties, making the overall cost of transport to be higher than the value of the goods being transported according to a study conducted by the World Bank, in 2007.

A study conducted by TradeMark East Africa in 2015, revealed that 'the transport costs in East Africa were on average still about 60% higher than in the US and Europe. Land-Linked countries like Uganda, Zambia, Rwanda, and South Sudan can't export much because the costs are just so high.

A fall in tariff may improve international transportation, but the benefits from the consequent price changes may not be equally felt by all shippers. Shippers in remote locations (Land-linked Countries) generally suffer the burden of intranational trade costs than areas close to borders or ports. For instance, according to the 16th Report of the Northern Corridor Transport Observatory*,* the average transport charge from Mombasa to Nairobi which is 481Km is USD 1.77/km per 20ft container, whereas the average transport cost from Mombasa to Kampala a distance of 1,169 Km, is USD 1.97/km per 20ft container.

The Region has witnessed many challenges in moving cargo across borders, in the recent past. This is due to the stringent measures by various governments to curb the spread of Covid-19, many delays have been documented at the border posts, more so in Busia and Malaba. This has created a negative impact on the overall cost of moving transit cargo.

Findings by International Growth Centre (IGC), March 2018, revealed that the high cost of getting goods to and from borders or ports in Africa was restricting the continent's potential gains from international trade.

Trade composition also contributes to transport costs' differences across countries. First, due to the insurance component of transport costs, products with higher unit value have higher charges per unit of weight. On average, insurance fees are around 2 percent of the traded value and represent around 15 percent of total maritime charges. Therefore, high value-added exporting countries should have higher charges per unit weight due to this insurance component. On the other hand, some products require special transport features, therefore, have different freight rates.

Directional imbalance in trade between countries implies that many carriers are forced to haul empty containers on their return trips as is the case in many parts of Africa as a result, either imports or exports become more expensive.

The quality of onshore infrastructure is an important determinant of transport costs. LV (2000) finds that it accounts for 40% of predicted transport costs for coastal countries, and up to 60% for land-Linked ones. If a country with relatively poor infrastructure, say at 75% in international rankings updates it to 25 %, it will be able to reduce transport costs by between 30 and 50 percent. *Source; Determinants-of-Maritime-Transport-Costs*.

Commercial routes more liable to competition and less subject to monopoly power will tend to have lower markups. Monopoly powers can be sustained either by government restrictive trade policies or by private anti-competitive practices (cartels). This is a different case scenario in Eastern and Central Africa, as the routes are subjected to less competition thus monopoly has been a major factor. The region is served by two major regional ports; Ports of Mombasa and Dar es Salaam.

Shortly though, we expect to witness increased competition as more modern ports are emerging. In May 2021, Kenyan President, His Excellency Uhuru Kenyatta, commissioned the first berth of Lamu Port. The second and third berths were completed in December 2021, completing the first phase of the LAPPSET project. The port is expected to serve the LAPSSET Corridor.

Mtwara Port in Tanzania is also being expanded to serve the Mtwara Development Corridor. When these ports together with others that may emerge in the future fully become operational, we expect to witness stiff competition for cargo, improved port efficiency, and overall reduced transport cost.