

Three new logistics operators in Ethiopia

Mahdi A., *Human Village* n° 50, 5 April 2024

[human-village.org/spip.php?article1650]

In an article published on March 18, the Ethiopian media *Capital* announced the names of the new companies authorised to operate in the multimodal transport sector. The announcement was made during an official ceremony at the Sheraton Addis on March 13, presided over by the Minister of Transport and Logistics, Alemu Sime.

“In addition to the existing state-owned VOCC, Ethiopian Shipping and Logistics (ESL), four other operators will be allowed access to the sector, in accordance with a plan unveiled by the government almost four years ago.

According to the Ministry of Transport’s Directive No. 802/2021 on commercial licenses and certification of competencies for multimodal transport operators, potential operators, including foreign companies, have been invited to compete for the license. [...] will come into effect in about two weeks with the selection of Panafric Global, Tikur Abay Transport and Cosmos Multimodal Operation.”¹.

The devil is in the detail: no foreign investor is present in the capital of the beneficiaries of these appointments, Panafric Global, Tikur Abay Transport and Cosmos Multimodal Operation. Yet the stated aim of the National Logistics Strategy legislation of September 2018 and the reform of the Ethiopian Investment Board was to lift all restrictions in the logistics sector, previously closed to foreigners. They could now participate - up to 49% - in joint ventures with a local partner specialised in logistics services. This important reform was intended to enable the transfer of know-how², and thus improve the efficiency of services, but above all to increase the financial base of national companies with better access to foreign currency. It is therefore regrettable to note that none of the eight companies that bid was able to present a joint-venture project with a foreign partner. This is why the new beneficiaries had asked, in vain, for the specifications to be revised downwards, since they had been designed with a view to international partners taking a substantial stake in the national logistics sector. By authorising new operators alongside the Ethiopian Shipping & Logistics Service Enterprise (ELSE), Abiy’s government hopes to give itself more room for manoeuvre by offloading the burden of mobilising the foreign currency needed to finance sea freight onto the private sector³. This could enable the government to devote its resources to the country’s other priority needs. It is clear that foreign multimodal logistics professionals are turning away from the opening up of the Ethiopian market. For Samuel Bogale, “The list of companies awarded the first batch of multimodal logistics operator licenses in Ethiopia is characterised by a glaring lack of foreign entities, while the government’s efforts to liberalise the sector are hampered by security concerns and worries about favouritism. [...]

The three successful bidders have met the minimum requirements set out in the multimodal directive prepared by the authorities. These include a paid-up capital of 350 million birr and

1. Muluken Yewondwossen, “Government urged to ensure equal competition in multimodal transport sector”, *Capital Ethiopia*, March 18, 2024 [capitalethiopia.com/2024/03/18/government-urged-to-ensure-equal-competition-in-multimodal-transport-sector/].

2. Samuel Bogale, “Ministry looks to involve private investors in ailing railway transport”, *Reporter Ethiopia*, March 16, 2024 [thereporterethiopia.com/39280/].

3. Matiws Ensermu, « Ethiopia’s Strategic Gambit for Maritime Access », *Addis Fortune*, October 21, 2023 [addisfortune.news/ethiopias-strategic-gambit-for-maritime-access/].

five hectares of leased or owned land, three hectares of which must be used to develop a terminal with a minimum of 3,000 square meters of bonded warehousing space. The companies have been given six months to finalise preparations and start operations. If they fail to meet this deadline, they will be subject to administrative measures, including the revocation of their license.”⁴.

On reading the conditions of the initial specifications, discussed on January 30 at the headquarters of the Ethiopian Maritime Authority (AME), in particular the material conditions and financial capacities requested, the beneficiaries seem to have every reason to be satisfied. Not only have they been given a six-month deadline from April 1st, 2024, to meet the tender requirements, but their obligations have melted away like snow in the sun. The Ethiopian regulatory authorities could only agree that the prospective multimodal companies had been unable to attract international partners. They were therefore unable to meet the conditions for obtaining a license. As a result, the conditions were significantly reduced and are now considered reasonable by the three licensees.

“Despite the government’s intentions to liberalise the logistics industry, local logistics players expressed their dissatisfaction with the proposed directive during the conference. They argued that the directive failed to take into account the challenges faced by logistics companies in Ethiopia, particularly with regard to the acquisition of specified land. Logistics players highlighted the difficulty of accessing 5,000 to 10,000 square meters of land for the construction of warehouses, claiming that the directive failed to take into account the capabilities of local logistics players. They suggested that the directive might be easier to apply for foreign investors than for local companies, unless they were joint ventures.”⁵.

Djibouti requests clarification to avoid differing interpretations

With the restricted distribution directive issued by the Ports and Free Zones Authority on March 17, 2024, on Non Vessel Operating Common Carrier (NVOCC), Djibouti recalls its regulations: NVOCCs are not considered shipping agencies and cannot issue bills of lading (BIL). Only registered shipping agencies are authorised to do so.

“The Djibouti Ports and Free Zones Authority (DPFZA) stresses that a bill of lading (BL) issued by Non-Vessel Operation Common Carriers (NVOCC) is not recognised in Djibouti Ports and Corridors due to their legal status. Moreover, NVOCCs cannot guarantee full payment of supply chain costs along the corridor, which raises issues of security, traceability and liability. In accordance with our regulations and policies, BLs issued by multimodal transport operators, in particular shipping companies, are the only legally recognised documents for goods transport operations in Djibouti’s ports, free zones and corridors.

It is therefore imperative for all entities involved in maritime transport and logistics activities to adhere to these guidelines in order to avoid any operational disruption in Djibouti’s ports, free zones and corridors.”

4. Samuel Bogale, “Foreign freighters shy away from multimodal logistics operator bid”, *Reporter Ethiopia*, March 16, 2024 [thereporterethiopia.com/39271/].

5. Muluken Yewondwossen, “Logistics industry expresses concerns over new directive permitting private sector participation in dry ports”, *Capital Ethiopia*, February 5, 2024 [capitalethiopia.com/2024/02/05/logistics-industry-expresses-concerns-over-new-directive-permitting-private-sector-participation-in-dry-ports/].

A vague reform that does not meet with consensus

Although welcomed with open arms, as it stands, Ethiopia's logistics reform raises more questions than answers. To find out more, we asked Mohamed Adour, President of the Association of Shipping Agencies, about the meaning of Aboubaker Omar Hadi's NVOCC directive. "There are more than forty NVOCCs working in Djibouti, relying, from memory, on nine shipping agencies. Twenty-six shipping agencies are approved in Djibouti, including ESL under a bilateral agreement that also authorises it to operate as an NVOCC when products are not transported on its own vessels.

Before 2020 and the Covid crisis, NVOCC operators accounted for an extremely small share of container traffic in Djibouti. The crisis in the logistics sector, and in particular the severe shortage of containers worldwide, has given these operations an unprecedented boost. Taking advantage of this favourable international context, these companies succeeded in building up an increasingly substantial niche market, by offering their containers for hire at competitive prices for door-to-door transport of goods, loading them onto mainline vessels.

When the maritime trade experienced a bottleneck of goods in certain ports, due to a lack of available ESL containers, some goods were stuck for months on quays in China or Turkey. To avoid such situations, the Ethiopian Maritime Authority did not hesitate to issue temporary waivers - and thus break ESL's monopoly on import/export transport - for certain priority imports. Some companies used this competition to get their goods through faster. It was quite unprecedented to see multimodal freight transported in Ethiopia without going through ESL. Added to this was the Bad el-Mandeb crisis, which accentuated the role of small feeder vessels in transporting goods to countries bordering the Red Sea or Bad el-Mandeb. NVOCC operators are very active here, as the major shipping lines prefer to use the Cape of Good Hope for safety reasons. We are therefore witnessing an unprecedented movement, revealing the maritime sector's ability to adapt. This leads me to believe that this is to some extent the spirit of the reform in Ethiopia, even if we don't yet know all the details. If it is confirmed, it will have been imposed by the authorities, because since last May, ESL officials have put a stop to the derogations issued by the Ethiopian Maritime Authority, in order to re-establish their market share, which had been drastically reduced by around 50%. So, I guess these three new entities are supposed to bring flexibility, efficiency and additional logistical means to Ethiopian imports and exports. I don't know what resources these companies have, but they can't ignore the fact that when we talk multimodal for Ethiopia, we're talking about \$800 million in sea freight for 200,000 containers, \$100 million in port and transit charges, or \$180 million in road and rail transport... Personally, I'm looking forward to working with these three new operators".

A little secret: the main advantage of shipping agencies is that they are the only operator in the logistics chain to be paid in advance by the customer, i.e. the forwarder. Without full payment, they are not authorised to issue the bill of lading.

If there's one company that this logistics reform in Ethiopia has made grit its teeth, it's Ethiopian Shipping and Logistics (ESL). Until recently, ESL's management was rubbing its hands that it had been able to put an end to derogations for chartering goods without going through its services for Ethiopian imports/export... But then, the government made a 180-degree turn - under strong pressure from the IMF - and opened the floodgates to liberalism, particularly in the logistics sector, a sector long held by this unique national operator, ESL. This flagship of the Ethiopian economy has announced a profit of over six billion birr for the 2022/2023 financial year.

"The ESL report states that, of the total non-containerised cargo, ESL took only 34% of sea freight. The main reason for this is that import cargoes from Djibouti are increasing, and the expansion of import cargoes by waiver has been high. Similarly, ESL had a 55% share of containerised cargo. On the export side, ESL handled 30% of the 922,858 tonnes of outbound cargo, which is not part of the multimodal system". According to Mr. Berisso, the waiver issue was resolved at the end of the fiscal year and cargoes are now routed through the multimodal system, which is fully controlled by ESL: "We have discussed and resolved the issue and I think that for the current fiscal year, such issues will not bother us" said the CEO⁶.

How do Djibouti's freight forwarders view Ethiopian logistics reform?

To take the pulse of the profession, we met with a number of ATD board members on Saturday March 30, including president Robleh Mohamed Barreh, first vice-president Mohamed Daoud Mohamed, second vice-president Bogoreh Ali Maidal and secretary general Robleh Abdillahi. Also present were the Secretary of the Chamber of Commerce, Abdourahman Elmi, and the President of the Association of Shipping Agencies, Mohamed Adour, mentioned above.

For ATD President Robleh Mohamed Barreh, it was important to clarify the terms of engagement between the various parties, so that Ethiopians could understand the debate that concerns them. He recalls that the relationship between ESL and ATD dates back to 2006. He expresses his concern about the consequences for the financial health of their companies in the event of failure of the settlements of these three new operators. "This reform is not a surprise; Ethiopia has been talking about it for a few years, even if the operator ESL felt that it had been buried according to the feedback we had from them. But, in any case, we're delighted to be able to expand our multimodal customer base, and operating with four, maybe soon five, instead of just one is probably a great opportunity for our business to grow. On the other hand, we don't want this reform to put a large number of companies out of business. We have learned from the Ethiopian press that the three new operators have six months to get organised and meet the conditions imposed by their regulatory authority. This is enough time for us, the NVOCC operators and the forwarding agents, to agree on a *modus operandi* that will satisfy all the parties concerned.

It's important to distinguish between ESL, a state-owned company, and private companies, which I'm afraid will have even more difficulty than our partner ESL in obtaining foreign currency from banks in Addis to pay their invoices. My forwarding colleagues have entrusted me with the onerous task of running our group, and they are responsible for fulfilling the performance conditions agreed with the customer, in this case ESL, on pain of financial penalties if this is not done on time. It's up to me to ensure that this ecosystem functions properly, and that payments are received for work carried out by our group. I don't want to dwell on it, but we're talking about a multimodal and unimodal bill of 32 or 33 million dollars. Never before have we reached such a level of outstandings. However, we have always been there for them, and have never hesitated to meet our obligations to our partner ESL, whose situation we understand, when it fails to pay on time, as in the past. This relationship of trust was not built overnight. It has been built up gradually, over time. So you'll understand why we're wondering about the capabilities and guarantees of the new

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

entrants. We look forward to meeting them, discussing these and other issues, and above all seeing how we can help them to improve the supply chain together.”

The press’ explanation of the new operators’ resources does not convince First Vice President Mohamed Daoud Mohamed, who is highly critical of this positioning. “Today, Ethiopia wants to diversify its ports of service to all the countries of the Horn for the transport of its freight. Personally, I wonder what will happen if one of these NVOCC operators, after having put us to work for several million dollars, decides to change the port of embarkation and export for its customers’ goods, since from now on it alone will decide. If he decides to draw a line under his debt, his financial commitments to ATD, from one day to the next, to move to Berbera or Lamu, our profession will be ruined. We wouldn’t be able to absorb such a financial setback.”

General Secretary Robleh Abdillahi has the same concerns, “All we want is confidence. What can be put in place to prevent this from happening again? We’ve already had to deal with Ethiopian unimodal transit companies that close down due to bankruptcy after leaving us with heavy unpaid debts, and then return to the business with a new name, registered with the Ethiopian authorities under the name of their wife or a relative. We need to put safeguards in place. It’s up to us to be vigilant, as the future survival of our businesses depends on it.”

For second vice-president Bogoreh Ali Maidal, “Two conditions need to be met, however, to make the positioning truly convincing. Firstly, we need to know exactly what we’re talking about with the NVOCCs - which, despite the efforts of the Ethiopian authorities, is not at all clear to the Djiboutian side - and, secondly, what guarantees do these new entities have? The multimodal market requires a cash flow of over a billion dollars to cover Ethiopia’s needs. In the light of ESL’s experience, I wonder”.

Abdourahman Elmi, Secretary of the Chamber of Commerce, is relatively optimistic, and in favour of setting up a working group to find ways of allaying fears on both sides⁷: “Ambition means taking the necessary time. I know that some people find the time long and are impatient, as reported in the Ethiopian press, and that’s normal... I ask that we all be judged on the final result. The method has been criticised in the past, but the decision has borne fruit in the multimodal relationship between ESL and ATD. We made a timid start, putting the cart before the horse and not the other way round. To bring ideas together, let’s take the time to get the various parties around the table to iron out misunderstandings and respond to each other’s legitimate concerns. I’m confident we’ll succeed.

Ethiopia, a colossus with feet of clay

Abiy’s Ethiopia is the scene of a serious, out-of-control political crisis, the result of multiple protracted crises that are reaching a critical point. The government has no choice but to scramble to reassure investors⁸, and what’s more, tourists are deserting the destination. A worrying shortfall for Ethiopia as the security crisis continues, the economy remains strangled by a lack of liquidity in dollars. Since the start of the war, the birr has depreciated by over 114% on the black currency market, where exchange rates differ considerably from

7. Muluken Yewondwossen, “Djibouti prohibits NVOCCs as Multimodal Operators”, *Capital Ethiopia*, March 25, 2024 [<https://www.capitalethiopia.com/2024/03/25/djibouti-prohibits-nvoocs-as-multimodal-operators/>].

8. Sisay Sahlu, “Dutch firms eager for agri investment, wary of security, forex gaps”, *Reporter Ethiopia*, March 16, 2024 [<https://www.thereporterethiopia.com/39258/>].

the official market. The IMF is ready to agree to a new financial aid package for Addis, but the delay in the reform package is postponing disbursement⁹. What's more, despite the incredible acceleration in reform announcements by Abiy's government in recent weeks, nothing has been done: investors are turning away¹⁰, including the tempting liberalization of the logistics sector. Without a spectacular turnaround in monetary policy¹¹, it will be difficult to hope for renewed momentum. In the meantime, in the Ethiopian press, China, India, Turkey and Djibouti are described as Ethiopia's most reliable partners, whose private currency-related problems, and therefore difficulties in settling supplier debts incurred in recent years.

Proof, if proof were needed, of the ability of both partners, Ethiopians and Djiboutians alike, to help each other out when the need arises. There's no need to worry: the three new Ethiopian operators will ultimately be welcome to operate from Djibouti, having reassured their Djiboutian partners of their financial solidity.

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9. "Les créanciers de l'Éthiopie se donnent jusqu'à la fin du mois de juin pour conclure un accord avec le FMI", *Zone Bourse*, April 3, 2024 [<https://www.zonebourse.com/actualite-bourse/Les-creanciers-de-l-Ethiopie-se-donnent-jusqu-a-la-fin-du-mois-de-juin-pour-conclure-un-accord-av-46351536/>].

10. Ashenafi Endale, "Will appeal to development partners' pockets bear fruit?", *Reporter Ethiopia*, March 16, 2024 [<https://www.thereporterethiopia.com/39286/>].

11. Muluken Yewondwossen, "Ethiopia nears budget limit despite Central Bank's borrowing restrictions", *Capital Ethiopia*, March 31, 2023 [<https://www.capitalethiopia.com/2024/03/31/ethiopia-nears-budget-limit-despite-central-banks-borrowing-restrictions/>].