

China Tightens Grip on East African Port - Djibouti's Doraleh Container Terminal

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A Chinese port operator is tightening its grip on a strategic container terminal in East Africa, resetting operations and infrastructure at a site crucial to Beijing's push to control seagoing trade lanes between Asia and Europe.

China Merchants Port Holdings has fully taken over operations at Djibouti's Doraleh Container Terminal, maritime officials say, while state-owned China Civil Engineering Construction Corp. and China State Construction Engineering Corp. have built a new, multipurpose cargo facility next door to handle cars, livestock, steel and other goods.

Crew members of ships that recently docked at Djibouti said the new port resembles other Chinese-managed ports around the world.

"At the multipurpose port it's the same cranes, the same silos for grain, fertilizers and other commodities, it's very Chinese," said Apolinario Bautista, executive officer of a dry-bulk ship that docked in Djibouti in late January.

The changes under way in Djibouti, a small nation strategically positioned at the Horn of Africa at a crossroads of Asia-Europe trade, come as legal challenges to China's advance at the port move forward.

DP World, one of the world's top port operators, last year sued rival China Merchants over the cancellation of a long-term concession contract to exclusively run a container terminal in Djibouti. Hong Kong's High Court is scheduled to hear the case in mid-October.

Beijing sees Djibouti as part of its multitrillion-dollar Belt and Road Initiative that encompasses seaports in nations including Pakistan, Sri Lanka, Greece and Belgium.

These gateways give priority handling and lower docking fees to Chinese vessels, giving China's carriers and their shipping customers a head start in the race to deliver as much cargo as possible in the shortest time to European markets.

Djibouti stands at the entrance to the Red Sea where about 12% of all seaborne trade passes through on scores of ships en route to the Suez Canal. There are no other ports along the East Africa coastline with the infrastructure to handle, store and trade cargo between ships.

It also is a gateway for East African markets that can handle growing volumes of imports and exports.

The location makes the country and the port an important geopolitical site for nations looking to exert influence across the region. The U.S. has a military installation near the port that it uses to monitor sea traffic tied to the Middle East, and which is a key post in its efforts to curtail East

Africa's al-Shabaab terrorist group, which is aligned with al Qaeda.

China also has a military base in Djibouti, its first in a foreign country.

Dubai-based DP World signed a 25-year concession to run the Doraleh Container Terminal in 2004. But that agreement was tossed out as Djibouti's government brought in Chinese businesses in return for investment and state financing.

Djibouti's government last January nationalized the container terminal and then offered about a quarter of the ownership to China Merchants.

The Dubai operator owned 33% of the port venture, and the government held the remaining 67%.

State-run China Merchants is active across the world in port construction, container logistics and terminal management. The company and Cosco Shipping Ports are important tools in Beijing's Belt and Road Initiative.

An arbitration court in London ruled in August 2018 that DP World is the legal owner of the terminal concession but can't take punitive action, so DP World took the case to Hong Kong's High Court.

"We believe the Hong Kong Port has jurisdiction over China Merchants," a senior DP World official said. "We were illegally removed from operations in Djibouti and we are asking either a return to the previous status or to be paid damages."

The court is scheduled to discuss the DP World lawsuit on Oct. 15. Lawyers said the court could grant DP World damages, but it is unlikely that the concession would be returned. The lawyers said China Merchants has been slow to respond to the case since DP World first filed to the Hong Kong court last August.

Marine Gen. Thomas Waldhauser, the top U.S. military officer for Africa, told a congressional hearing last year the U.S. military could face significant consequences if China took the port in Djibouti.

Despite statements of concern about China, the U.S. is reducing its small military presence in Africa.

"We are baffled by the U.S. inaction," the DP World official said. "All supplies for their base come through the port, and if it falls in Chinese hands, there could be significant problems."

Meanwhile, maritime officials see more ships moving through the site.

"It's like a baby sister to mainland China ports that expand to bring in more ships," said Panagiotis Hatzikostas, a chief mechanic on a container vessel that unloaded cargo destined for neighboring Ethiopia in mid-February. "But if you want to send cargo to East Africa, you call at Djibouti. It became a gateway from the start, with no real competition. That gives it a lot of potential."

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— Additional reporting by Courtney McBride.

P.S.

- Morning Star. February 21, 2019 06:14 ET (11:14 GMT):
https://www.morningstar.com/news/dow-jones/TDJNDN_201902213473/china-tightens-grip-on-east-african-port.html

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