

DEVELOPMENT AND OPERATIONS OF THE PORT OF GWADAR

By Captain K. Raffat Zaheer, FNI, FCILT, Individual Member

Location

Located at the entrance of the Persian Gulf about 390 nautical miles east of the Gulf of Hormuz and about 234 nautical miles west of Karachi. 80 kms from the Iranian border. It is about 320 kms from Cape al-Hadd in Oman and situated in close proximity to the Iranian ports of Chahbahar and Bander Abbas.

Strategically located outside the sensitive area of the Straits of Hormuz, a major conduit for global oil supplies in the region. The port came to worldwide focus during the first Gulf War when shipping lines were confronted with security issues.

Distances by Road from Gwadar

<u>City</u>	<u>Kilometres</u>
Karachi	653
Chaman	1066
Ratodero	892
Quetta	966

Development of Gwadar

The Portuguese occupied the Makran Coast (including Gwadar) in the 16th and 17th Century A.D. Gwadar belonged to Oman for about 200 years. The Khan of Kalat had given Gwadar as a gift to the Sultan of Oman in the 18th century. In 1958 it was sold back to Pakistan.

In 1993 the concept of the Port of Gwadar was formally conceived by the Government of Pakistan.

The project was in principle approved by the Executive Committee of the Cabinet (ECC) in June 1994.

In Dec 1995 the GOP instructed Karachi Port Trust to finance the development of Gwadar to the extent of Rs.One Billion.

In February 1996 GOP released Rs.Two Billion for the construction of a deep seaport at Gwadar.

In December 1996 43 major companies submitted EOI for construction of Phase 1 of Gwadar Project.

March 2002 Sino-Pak Agreement signed under which China Harbour Construction Company built Phase 1 of the Port of Gwadar at a cost of US \$248 million.

June 2006 Phase 1 of the Gwadar project was completed consisting of:

- 3 berths of total length 602m
- 4.5Km long approach channel dredged to 11.5 – 12.5m
- Turning basin 450m dia
- One 100m service berth
- Related port infrastructure and port handling equipment. Pilot boats, tugs, survey vessels etc.
- Gwadar can now handle Bulk Carriers up to 50,000 DWT and Containerships of 25,000 DWT

Phase 2 of the Gwadar development which is yet to commence will consist of:

- 4 container berths
- 1 bulk cargo terminal (to handle 100,000 DWT ships)
- 1 grain terminal
- 1 Ro-Ro terminal
- 2 oil terminals to handle 200,000DWT ships

The cost of this development work is estimated to be US\$840 million and the project is expected to be completed by 2010. A Chinese consortium has offered to provide a large part of the US \$ 840 million required to construct the second phase of the port.

China today is in the process of developing its landlocked western region and is looking for a location in the proximity of its western region for building a refinery as well as a strategic oil reserve facility.

Benefits which will accrue from development of port of Gwadar:

- Opportunities for trade with landlocked Central Asian states and Afghanistan.
- Promote trade and transport with Gulf States.
- Transshipment of containerised cargo
- Socio economic uplift of the province of Balochistan
- Establishment of shipping related industries
- Oil storage, refinery and petrochemicals
- Export processing and industrial zones
- Regional hub for major trade and commercial activities.

Investment opportunities:

- Private owned warehouse and cold storage units
- Private cargo handling equipment and trucking yards
- Development of industrial zone and industries
- Hospitals, colleges and schools.
- Tourism related industry.
- Marine related industries: shipyards, dry-docks and repair yards.
- Bunkering of vessels, large fuel storage and mobile barges.

- Oil refinery and large oil storage
- Ferry services between Gwadar-Karachi/Oman/Bander Abbas and UAE.

Potential projects at Gwadar port:

- Fish and crab processing
- Cold storages and ice factories
- Oil palm cultivation
- Marine repair workshop
- Clearing and forwarding agencies
- Hospital and clinics
- Shrimp farming
- Water sports centre and recreation facilities
- Warehouses
- Boat building
- Oil storage tankers

Operations

In 2006 the GOP invited offers from experienced port operators for the management of the port of Gwadar. Six companies submitted bids including the Dubai World Ports (DWP), Hutchinson of Hong Kong, Port of Singapore Authority (PSA), two Saudi companies and one Pakistani company. An interested Chinese company opted out of the formal bidding.

After careful scrutiny GOP decided to award the port management contract to PSA. The salient features of the operation contract are:-

- Agreement signed between Gwadar Port Authority (GPA) and Concession Holding Company (CHC) a subsidiary of Port of Singapore Authority (PSA) on 05-02-2007.
- 40 year lease agreement for operating and managing Gwadar Port
- PSA will invest US \$550 million during the next 5 years for Port Development. The areas where the concession agreement is to be implemented are Terminal and Cargo operations, marine services and Free Zone development.
- GPA will receive the following fixed share of revenues: 9% from Cargo operations and Marine services. 15% from Gwadar Free Zone business.
- No duty would be imposed on the machinery and equipment to be imported for development work in this area and for port operations, for 40 years.
- CHC (the port operator) will have complete exemption from corporate tax for 20 years.
- Duty exemption for shipping lines and bunker oil for Gwadar port for 40 years.

- CHC will have complete exemption from all local and provincial taxes for 20 years.
- CHC will take over the marketing and operations of the current terminal area which provides 602 metres of berthing and will invest and expand berthing space as demand grows during the concession period up to a total maximum of 14 berths in an area of 4.2 Km.
- Marine services to be operated by CHC will consist of pilotage, tugging, mooring, vessel traffic control, anchorage management and bunkering.
- GPA will be responsible for dredging of approach channel and harbour to maintain the required depth. All conservancy, security and fire fighting services will be provided by GPA.

Development Potential of Gwadar as a Hub for Multimodal Transport

Planned railway link:

Gwadar-Dalbadin: connecting on to existing Quetta-Dalbadin-Taftan-Zahidan (Iran) line.

Planned Road Network:

1. Gwadar-Turbat-Hushab-Khuzdar (connecting on to N-25) presently under construction.
2. Khuzdar-Ratodero (connecting on to N-55)
3. Gwadar-Ahmedvai (connecting on to N-40)
4. Gwadar-Gabd-Iran border (connecting on to the highway from Chahbahr northwards)

Planned New Airport:

A new airport with a runway long enough to permit taxing of jumbo jets has been planned and construction is about to commence. Once this new airport is commissioned cargo jumbo jets would operate carrying air cargo to and from Gwadar.

After the completion of construction of the above mentioned road and railway links and the new airport, Gwadar will become a hub for multimodal transport services. The introduction of multimodal transport services would considerably reduce the overall cost of transport for inland destinations and thus make their products competitive in the international market place. There will be scope to introduce Air-Sea and Air-Land cargo services from Gwadar to the Middle East and South Asia.

Projected Revenues Over The Next 40 Years:

<u>Name of party/sector</u>	<u>Expected revenue US \$(billion)</u>
Concession holding company (CHC)	17 – 30
Containers and others	10 – 18
Free zone	3 – 6
Multipurpose terminal and others	4 - 8

Estimated Development Costs Of CHC:

<u>Item</u>	<u>US \$(billion)</u>
Equipment at multipurpose terminal	1 - 5
Equipment at container terminal and others	2 - 4
Free zone	1.5 – 2.5
Marine services and others	0.5

Estimated Income For GPA Over The Next 40 Years:

<u>Item</u>	<u>Expected revenue US \$(billion)</u>
Containers handling and others (9% CHC revenue)	0.9 – 1.6
Free zone (15% CHC revenue)	0.45 – 0.9
Multipurpose terminal and others (9% CHC revenue)	0.36 -0.72

Challenges

1. Viability of a port depends on its hinterland. Gwadar has none. The area along the Mekran coast is barren, it comprises of desert and hilly terrain. This area is dependant on the rest of the country.
2. Building a network of roads and railway links requires massive investment. There is a shortage of local funds.
3. Hub Port: Transshipment cargo. Inducing big shipping lines to bring their large vessels to Gwadar for transshipment of container cargo requires low port charges and cargo handling costs, creating a comparative cost advantage. The question is: Can Gwadar port management (PSA) provide this advantage? Marketing the port to get shipping lines to use Gwadar as a Hub port will be the biggest challenge. It is likely that for many years to come Gwadar will remain a transshipment port with little prospect of serving inland destinations.
4. Competition from Chahbahar, Bander Abbas, Dubai, Khor Forkkan, Fujairah and Salalah. Iran already has good road and railway connections from Chahbahar and Bander Abbas to Central Asia.

5. Chahbahar in south western Iran is likely to become the strongest competitor of Gwadar to transit trade for Afghanistan, Central Asia and China. Chahbahar is considered as the economic gateway to the world due to its location on the Oman Sea shore outside the Strait of Hormuz. It shortens the inland link from the sea to CIS countries by up to 100Km. Chahbahar provides the shortest link across to Central Asia and the Middle East. Even Bandar Abbas and Busher sea ports are said to be more economically accessible to the cargo.
6. Gwadar has the potential of becoming a hub port for Pakistan's other ports of Karachi and Port Qasim. The opportunity for Gwadar to become a natural choice for major shipping lines must be exploited by providing cost effective port services.
7. Convincing and attracting investors (local and foreign) to set up industries in EPZ: - Initial high manufacturing cost and imported work force from other provinces of Pakistan.
8. Turmoil in Afghanistan.
9. Pakistan's own internal problems in Balochistan.

Conclusion:

Activities at Gwadar are expected to generate about two million new jobs in the next 8 – 10 years.

Despite the challenges, the overall potential for development of business, commerce and services at Gwadar is indeed impressive. Provided the GOP is sincere and effective in implementing the plans for building inland road/railway links, the dream of a booming Gwadar will come true.