

**REINVENTING THE SHIPPING INDUSTRY IN NIGERIA: ATTRACTING LOCAL AND FOREIGN PLAYERS**

**BY**

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# ABSTRACT

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- ✦ **The shipping industry is the nerve of most economies of the world. In Nigeria it has been the gateway to the economic development of the county. This research is based on the need to reappraise and plan better ways of improving the shipping industry in Nigeria by involving local and foreign players in the industry as players to improve the already existing standard. When we re-invent the shipping industry in Nigeria, we imbue the necessary total quality machineries that should make the sector attractive to investors in all facets. Attracting local and foreign players involves partnership orientation and formalization of standards. It will also encourage capacity building and development of total logistics. Unfortunately, institutions with the main seaports in Nigeria are concessional to foreign operators. Maritime trade in West Africa is dominated by foreigners from Western countries with indigenou entrepreneurs trailing far behind due to lack of finance capital. Agreements under bilateral and multilateral platforms are largely uncompleted and those that were completed have remained passive. This Paper therefore seeks to encourage the need for reinventing the shipping industry and how local and foreign investors could get more involved towards improving what has been. Key words: Shipping, Maritime, Bilateral Trade, Oil & Gas, Port Management**

# INTRODUCTION

- ✘ **The Nigerian maritime industry encompasses all activities related to maritime or coastal movement. This includes all activities linked to coastal shipping, waterways, passenger movements, coast guards etc. The Federal Ministry of Transport largely supervises this sector. Key players in the industry cut across all sectors of the economy. Other than key maritime parastatals like NPA, NIMASA etc., it also includes NNPC, Oil Exploration and Producing Companies, Shipping Companies, Logistics Companies, Nigerdock, Maritime Training Institutions etc. Current estimated size of industry is about N5 billion per annum. To further this discussion, we may ask the rhetoric question: why is the development of local capacity in the Maritime industry so important? The answer is because the world depends on merchant ships to transport over 80% (by weight) or the total cargo exchanged in World Trade. The present global economics could not exist without ocean shipping as two-third of the earth's surface is covered by water. Ships now transport more than 5 billion tons of cargo each year and the total annual tones' miles covered by merchant vessels exceeds 10 trillion world-wide. Ships facilitate trade and are a very crucial component of a nation's competitiveness in international markets.**
- ✘ **According to Mshelia (2002), "Shipping is a service, secretive industry and because it tries to meet transportations needs of the global trades. It is regarded as the most international of all industries. The industry is a highly technical, professional, secretive, competitive and complete industry." (34) It is labour and capital intensive in nature and also subjected to international conventions, norms, rules and regulation. Its operation is international in nature and context. The shipping industry in its entire ramification is a great positive earner of foreign exchange. Nigeria is highly involved in the industry and today, the country has invested in this sector despite the capital intensive nature. The industry does not exist in isolation but a culmination of many firms that work in unison to make function as a whole.**
- ✘ **The coastal States of West Africa are relatively equipped with seaports, cargo handling equipment as well as private and public maritime education and training institutions with the main seaports in Nigeria being operated by big international operators. Although the actual ship-port turnaround is about seven days in most West African seaports, Governments are encouraging officials and the operators to attain the 72 hours target time frame. This is expected to be achieved through drastic reduction in delays and corruption as well as attracting investment in infrastructure thereby reducing the costs of goods and services.**

# OBJECTIVE OF RESEARCH

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- ✘ **The primary objective of this research is to raise the consciousness of the need to reinvent the shipping industry and make it more profitable in Nigeria, which is our country of emphasis. Moreover, the research unveils the benefits of the reinvention processes so that the existing multilateral platforms will help to promote trade, investment, economic growth and development. We will agree also that reinventions in the sector can act as a sustaining point for better business relationships.**

## Research Problem

- ✘ **Nigeria's shipping industry is very large. In order to measure up with the expected local and international demands, the need for reinventing the industry becomes paramount. The reinvention includes capacity building and attracting local and foreign players into the industry in order to improve on what has been and join the global sphere in line with the expected contemporary attractions and development in the sector.**

# OPPORTUNITIES IN THE MARITIME

- ✘ **The Nigerian maritime sector may be divided into shipping services, port services, shipbuilding and repairs as well as maritime education and training sub sectors. The sector can also be categorized into inland and coastal trade, and ocean trade segments. Further segmentation is to look at the Nigerian maritime sector from the regulatory and operational view points. Whereas the Nigerian Maritime Administration and Safety Agency (NIMASA) regulates both the ocean and domestic shipping services including the enforcement of Flag and Port State controls, marine environmental matters, seafarers certification, infrastructure and manpower capacity building, the Nigerian Ports Authority (NPA) regulates the port sector. The powers of NIMASA are drawn from the NIMASA Act 2007 as well as from the Cabotage Act 2003 to regulate shipping and implement the provisions of the Merchant Shipping Act (MSA) 2007.**
- ✘ **Obed (2006) epitomizes that, “The Nigerian maritime sector is indeed a big industry which facilitates the operations of other sectors in the Nigerian economy including the oil industry.”(45) Between 2006 and 2009, the sector has handled a total of 126,846,707.20 metric tons of major dry cargo imports namely cement, sugar, wheat, salt, rice and fertilizer. The sector also handled imports of 251,217,235.97 metric tons of AGO, PMS, Jet A1, Kerosene, Tallow and other chemicals during the same period. There were also crude oil exports of over 300 million metric tons during 2006 to 2009. On the other hand, training of Cadets takes place at the Maritime Academy of Nigeria (MAN) at Oron. Despite the complementary efforts of the Nigerian Institute of Oceanography and Marine Research and few private institutions, the combined capacity for maritime education and training is far below the national demand. Furthermore, because of inadequate number of ships in the country, only few Cadets have the opportunity for sea time experience.**
- ✘ **Similarly, the undeveloped shipbuilding and repairs sub-sector does not have the capacity to carry out repairs on ocean-going vessels. As a result, ships had to be allowed to sail to go to other countries to undertake necessary repairs identified after flag state and port state surveys. Most of the coastal ships cannot also be maintained in Nigeria because of inadequate ship repair facilities. In general, Nigerian investment environment is attractive for genuine investors. In consultation with the appropriate Government agencies, the Nigerian Investment Promotion Commission (NIPC) is empowered to negotiate sector-specific incentives packages. Investors are also free to transfer funds in form of dividend or profits, payment for loan servicing and remittance of after tax proceeds and other obligations in the event of sale or liquidation of part or complete interest attributable to the investment through authorized dealers. Investors are protected against nationalization or expropriation by any Government. Moreover, investors will not be compelled to surrender their interest in the investment at any point in time.**
- ✘ **On the other hand, participation in the inland and coastal trade to provide shipping services requires the ship to be built in Nigeria, owned by Nigerians, crewed by Nigerians and registered. Large investment opportunities are available in the Nigerian maritime sector for investors from Islamic countries while the establishment of a Joint Investment Fund is necessary for medium and long term sustained investments in West Africa and Nigeria in particular. Apparently, Lawal Bello (2012) adds that, “investment opportunities in the maritime sector will create challenges for infrastructural development and training which when properly addressed will reduce the percentage of unemployment which is more than 40 percent in West Africa.”(56) It will also help to raise the average capita income of their respective countries.**

# REINVENTING THE SHIPPING INDUSTRY

- ✘ According to Encarta, 'to reinvent' means, "to bring something back into existence, use, or popularity after a period of neglect or to change radically the appearance, form, or presentation of something or somebody" Thus, the shipping industry which has been operating in tighter situations ought to be given leverages by making proper use of local and foreign players to enliven the sector and make it more profitable, more functional and more contemporary. It involves the injection of players to improve what has been. One secret to maintaining a thriving business is recognizing when it needs a fundamental change. There is the need for forward thinking in the shipping industry. They could build a system for web and hard copy publishing until they were told they should stick to the knitting and leave the developing to professionals.
- ✘ According to Ekpo (2012:107-108), "When local and foreign players are attracted into the shipping industry it creates more room for partnership in development." In 2003, the Millennium Development Goal (MDG) in the West African sub-region indicates that 100 million people accounting for 44 per cent of the total population of 230 million live in severe poverty, surviving on less than US\$1 a day and that by 2015, the region's population will reach 300 million, which magnifies the challenge of reducing poverty by half. In response to the sorry situation however in July 2001, African leaders initiated the New Partnership for Africa's Development (NEPAD) at the 37th Session of the Organization of African Union (OAU) in Lusaka, Zambia, in order to integrate the Sub-region into the global economy and attract large investments into key sectors. This move was aimed at reinventing all the key sectors of African economy of which the shipping sector alone occupies more than 50%.
- ✘ More so, some researches in African development paradigms have opined that partnerships whether at regional or global levels target interventions policies, better harmonization and alignment of development partners' actions to support country-led strategies and the establishment of sound monitoring and evaluation systems that will ensure development in Africa. Many researches in the economic development have argued that African governments allow foreign players more than the private local investors. Prasad (2010) debunks the argument that African governments are instinctively opposed to the private sector and that the private sector is always a force for good while fewer regulations enhance their contribution to economic development while Iniodu, P.I. and Ukpog, I. I. (2004), Obed, BCN (2006) and Gaius O. (2009) affirm reports that costly borrowing, slow-down in private capital flows into Africa, as well as remittances from the African Diaspora as the constraint for infrastructural development in Africa.

# ATTRACTING LOCAL AND FOREIGN PLAYERS

- ✘ (i.e., clearly defined and enforced), it is argued, ordinary people will have both the incentive and the authority to decide how to use them. Because they are local, “local” people are also likely to be familiar with their immediate surroundings and, in many cases, to depend on the local environment for a significant portion of their livelihood. In other words, local people have both the incentive and the knowledge to manage environmental resources in an effective and sustainable manner. Securing their property rights and allowing them increased scope for self-government, policy makers argue, will help to create conditions favorable to equitable and sustainable development.” (2004: 79-80)
- ✘ By these arguments, it is clear that local content means that the local people Despite countless announcements by the federal government to create jobs, cut business costs and curb inflation in the national economy, hundreds of trillions of naira are lost to foreign shipping lines annually as domestic shipping companies crumbles, Maritime trade in West Africa is dominated by foreigners who owned most of the ships operating in both coastal trade and international cargo affreightments. Local entrepreneurs are willing to participate but they are constrained by lack of capital. Agreements under the bilateral and multilateral platforms are largely uncompleted and those that were completed have remained passive rather than active to serve as avenues for mutual investment benefits. Often times most African Governments, Non-Governmental Organizations etc. invoke capacity problems to explain why policies fail to deliver or why aid is not generating sustainable impacts. Also reports of several local and international seminars, workshops and conferences often generate a host of capacity building recommendations in their conclusions. Capacity issues are omnipresent. It is all a reflection of our desire to leapfrog into the 21st century or rather catch up with the developed economics.

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- ✘ **However, widespread interest in capacity building is not in any way misplaced in view of the critical need to enhance the ability of countries, local institutions and people particularly in Africa to manage development on their own in a smooth, efficient and sustainable way. Adequate capacity in terms of Building and effective development has often been described as the missing factor or link in the development of most poor countries, Nigeria inclusive. The Local Content Act was enacted on April 22<sup>nd</sup> 2010. It provides a framework, for increased Nigerian participation in the Oil and Gas Industry. It prescribes minimum thresholds for Nigerian participation in activities within the industry through the utilization of Nigerian human and material resources and services in the upstream sector of the industry. This includes all activities, connected with the exploration, development, exploitation, transportation and sale of Nigerian crude oil and gas resources.**
  - ✘ **The initial impact of the Act has seen great changes being made, with most IOCs making efforts to comply with the provisions of the Local Content Act. An initiative of which is provided amongst others, includes the opportunity for Nigerian independent operators to be given first consideration in the award of oil blocks, oil field licenses, oil lifting licenses and in all projects for which a contract is to be awarded in the Nigerian oil and Gas industry. Exclusive consideration is also provided to Nigerian indigenous services companies which demonstrate ownership of equipment, Nigerian personnel and capacity to execute such work to bid on land and swamp operating areas of the Nigerian oil and gas industry for contracts and services. In furtherance of ensuring greater stability and growth in the Nigerian Oil and Gas sector the Act further mandates that a minimum of ten percent (10%) of total revenue accruing from operations in Nigeria is retained.**



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- ✘ **The federal government's failure to engage Nigerians in the transportation of crude and refined petroleum products, is creating huge deficits in the nation's financial reserves, and putting Nigerian trade relations with foreign economies at a grave disadvantage. Huge deficits in the national economy are incurred through the invasion of the Nigerian cabotage trade by foreign vessels, resulting either in the unemployment or underemployment of indigenous seafarers. The major complain in the sector is the lack of local players in the Nigerian Shipping industry. According to Berry Sara of Johns Hopkins University, USA:**
  - ✘ **"Arguments for local empowerment rest on several assumptions. One, which is often implied rather than stated explicitly, is that "local" is synonymous with "poor," "marginalized," or "ordinary" people, and that channeling resources to local communities promotes equitable patterns of growth. A second, related assumption is that ownership of resources is a necessary condition for effective resource management. If "local" ownership rights are secured who knows and understand their environment should be allowed to control the businesses in their domain instead of making them second fiddle. However, this research is based on equal participation of both local and foreign players in order to allow room for expertise and improved performance.**

# BENEFITS OF REINVENTING THE SHIPPING INDUSTRY

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- ✘ **There are some important developments and changes in shipping which impact on the Nigerian shipping industry, when local and foreign players are attracted. These developments and changes in shipping venture are as follows:**
  
- ✘ **1. Technological innovations and Improvements: When foreign players are attracted, technological innovations are also attracted. In the five years or more, there have been accelerated technological innovations in shipping in the area of design and cargo utilization. This is to make for efficient and cheap transportation of goods in the world trade. Innovations have been recorded in bigger seize of vessels, cellular container vessels, the roll on/ roll off (RORO) and IT which increase the cost of ships to the disadvantage of less developed economies.**
  
- ✘ **2. Institutional Changes in Shipping Procedures. Latest changes in legislation, code modification, labour conventions in the last two decades make it rather too difficult for compliance for less developed countries and developed countries alike and by attracting foreign players the investors would bring the innovations expected since they would protect their investments**
  
- ✘ **3. Impact of Liberalization. Certain global policies make it difficult for implementation at the national level. One such is the liberalization by the United Nations Committee on Trade and Development (UNCTAD). Developing economies are ill-equipped to embark on it. Some of the policies contain ambiguities at the implementation stage and impact seriously on the national regimes.**
  
- ✘ **4. Inadequate Shipping Management Skills and Experience. As has already been mentioned, the shipping business has become very complex. New shipping arrangements and organizational structure are formed to respond to the emerging trends in shipping. The multimodal transport and short sea transport has placed more responsibility on the shoulders of operators having been given the duty to transport goods through all modes, from origin to destination, and the liability for damage or loss done to goods in the course of carriage.**

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- ✘ **Thus, the benefits of reinventing the shipping industry in Nigeria through the attraction of local and foreign players include:**
  - ✘ **The increased capacity would enable local companies to effectively demand to be allowed to participate in the lifting of our crude oil exports, which though forming over 90% of our external trade, totally excludes indigenous maritime operators.**
  - ✘ **It would enable Nigerians to quickly and effectively take control of the maritime activities along the West African sub-regions-potential as a regional maritime power.**
  - ✘ **An increase in effective participation of Nigerian owned vessels would also help to reduce foreign companies' influence, exorbitant charges and price fixing of freight rates which have inflationary tendencies.**
  - ✘ **Encouraging indigenous ship owning investment even by non-shipping persons or institutions e.g. financial institutions in view of the obvious positive financial results that would arise from the sector.**
  - ✘ **Improving our level of maritime technology and know-how through the foreign players' participations.**
  - ✘ **As Nigerians acquire more clout and confidence, more joint venture partnerships would be formed with foreign companies to create synergy leading to exchange of technology, increased competition and efficiency.**

# RECOMMENDATIONS

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- ✘ Sequel to this research on reinventing the Nigeria shipping industry through foreign and local players, the following recommendations are proffered:
- ✘ (1) The need to reform the shipping policy to be responsive and dynamic to the future of shipping in the 21st century,
- ✘ (2) The need for intermodal transport coordination and integration within the context of the total transport concept (TTC) and supply chain management (SCM),
- ✘ (3) Port specialization leading to the adoption of the load centre strategy or the husband spoke approach to shipping,
- ✘ (4) Merger formation and cooperation of shipping companies versus competition,
- ✘ (5) Specialized vessels to be introduced, particularly tanker vessels and others,
- ✘ (6) Use of Incoterm and IT facilities should be improved upon,
- ✘ (7) Improvement in the training of manpower in the maritime training institutions. For example, the maritime academy of Nigeria Oron should be upgraded to a degree awarding status with improved and modern simulators and equipments for the training of seafarers in keeping with standard training certification and watch keeping (STCW 78/95) and a consistent supply of labour to the Nigeria and other flag states.
- ✘ (8) The maritime sector is capital intensive. A maritime bank should be established to provide the needed finance with government guarantee and provide the basic financial assistance to both local and foreign investors
- ✘ (9) A combined monetary and fiscal incentive scheme should be formulated, in order to accommodate the local and foreign investors
- ✘ (10) A deliberate policy should be put in place to encourage indigenous participation in line with the local content bill
- ✘ (11) The Cabotage regime should be faithfully implemented to make for more involvement of local operators within the flag state,

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- ✘ **(12) Maritime policy makers should understudy developed economies with a view to duplicating some features and toe their own path of growth especially as foreign investors are allowed to participate in the training and capacity of the sector**
  - ✘ **(13) Increased investment in shipping infrastructure and maintenance by indigenious operators to continually meet acceptable international standards through foreign training and initiatives**
  - ✘ **(14) The local investors should be encouraged with incentives like reduced tax, government guaranteed loans and protection against foreign dominance.**
  - ✘ **(15) Government should and must do all it can to encourage local and foreign investor collaboration for a more sustainable economy.**
  - ✘ **(16) Government should encourage production of exportable goods for maximum deployment of ships as most ships coming into Nigerian waters sail back on ballast.**
  - ✘ **(17) All anomalies like unnecessary delays, odd practices and scam should be drastically reduced so that shipment to move freely and supply chain management to be effective in Nigeria.**

# CONCLUSION

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Shipping is of great importance to the Nigerian economy. One of the major challenges facing Nigeria at present is that it has no meaningful participation in the Shipping Industry on which Nigeria depends, both for Exports and Imports. Practically all Nigerian Exports are shipped “Free on Board” (FOB), while its Imports are shipped ‘Cost Insurance and Freight’ (CIF). The Oil rigs in Nigerian waters and the vessel which service them are owned and controlled by foreigners. Even the vessels involved in Coastal trade and Inland Waterways covered by the Cabotage Act are mostly controlled by foreign Ship owners. Statistics show that Nigeria pays over \$2 billion in freight each year to foreign ship owners either to export oil or to import finished goods. Presently Nigeria derives no benefit from the freights incurred. A substantial amount of foreign exchange is being lost to foreign shipping operators and owners. From available records the value of vessels engaged in the three areas of Nigeria’s shipping business namely: Offshore rigs and support vessels, coastal Cabotage trade and import and export trade, amount to well over \$20 billion. The consensus is that if Nigeria can gain a foothold in its Shipping Industry, the potential would be enormous. If shipping activities are properly harnessed, given the few suggestions made in this research, shipping will be ranked next to oil in foreign exchange earnings if not overtake it. Shipping is indispensable in economic growth and development of Nigeria with its attendant positive multiplier. Port facilities should be upgraded and modernized for quick discharge of consignments as a ship owner is more interested in timely turnaround of his ship for next engagement and avoid lay time and lay days. Much as we reinvent the shipping industry through positive attraction of foreign and local players, the Nigerian government should through proper legislation guide the industry to curb much of foreign dominance and encourage both local and foreign participation in proper profit agreements.

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