

*Cabotage Implementation
In Nigeria: Analysis For
Improving Coastal
Shipping Business
Opportunities For Local
And Joint Venture
Operators*

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ABSTRACT

The year 2013 marked a decade of the implementation of cabotage law in Nigeria. This study analyzed the implementation of the policy over the 10 years period from 2004 to 2013. The aim of the study is to assess how the implementation of the policy has affected indigenous and foreign coastal shipping firms and how to use the policy to increase coastal shipping business opportunities for local ship operators. Data on number of cabotage vessels chartered from local and foreign shipping operators, their charter fees for each year covered the study were obtained. Assuming equal charter rate for cabotage vessels of local and foreign operators chartered in each year covered by the study, the research estimated the earned by each class of operator from charter fees. The difference of means statistical method was used to analyze the data on number of local and foreign ship operators vessels charter over the period and revenue earned from cabotage vessel. T-test was used to test each null hypothesis. Both null hypotheses H_{0A} and H_{0B} were rejected for the alternate hypotheses. The research found that Non-Nigerian (foreign) ship operators have earned more revenue and supplied more vessels to coastal shipping operations in Nigeria. It was recommended that the cabotage policy be amended remove the provision for waiver option to foreign vessel and encourage joint venture arrangement between local and foreign firms.

1. INTRODUCTION

Ndikom (2006), observed that the maritime transport subsector of Nigeria, has over the years played key role in the economic development of the nation through the lubrication of import and export trade, and facilitation of exploration and exploitation of natural resources located offshore. In the views of Echezona (2014), the importance of shipping, whether coastal or liner shipping in the economic and socio-political development, as well as sovereignty of nations, remain a major casual factor for qualitative but radical maritime policy formulation and its diligent implementation, by traditional maritime nations of the world. Most time, these policies are aimed at attracting massive foreign and local investment in shipping, empowerment and development of indigenous ship operators, achieving maritime technology transfer and advancement, maritime manpower training and empowerment, expansion in national fleet sizes, radical seaport facility development and port technology advancement, and strategic positioning of national shipping industry and fleet for carriage of domestic and global seaborne trade through formation of shipping conferences, (Echezona, 2014).

Over the years, the carriage of Nigeria Waterborne trade, both domestic and global waterborne trade was dominated by foreign registered vessels to the extent that there exists a near total lack of indigenous operators and throughout (Agidi, 2014). Onyemechi (2005) noted that that Nigeria adopted the cabotage policy in 2003 as an option to reverse the effect of foreign domination of its coastal shipping market and to empower

indigenes to acquire maritime skills through training for employment in the sector, increase the size of the national fleet (throughout), achieve transfer of shipbuilding technology, as well as enhance the development of the maritime transport subsector to make it contribute more to the local economy, using more indigenous manpower and operators as the drivers than foreigners. Iheanacho, (2004) argued that Nigerian Government made first effort to secure indigenous participation in the carriage of her global seaborne trade by adopting and domesticating the United Nations Conference on trade and development code for liner conference (UNCTAD 40:40:20) policy in her 1987 National Shipping Act (NSA). This initially produced numerous indigenous shipping companies involved in the carriage of Nigerian's share of the seaborne cargo from the policy, the intense competition from the heavily capitalized and experienced foreign firms against the poorly funded new indigenous companies incapacitated many of the new local operators and forced them out of the market to continue the reign of foreign domination (Ndikom, 2008).

Nigeria continued to seek a better policy framework and approach to develop her shipping industry from within, using local ship operators and manpower, until in 2003 when the coastal and inland shipping Act (Cabotage policy) was promulgated by the National Assembly under the regime of past president Olusegun Obasanjo.

2. REVIEW OF LITERATURE

Ndikom (2008), opined that National Coastal and Inland shipping Act (Cabotage policy) was passed in 2003 and came into force in 2004, to reserve shipping and inland water transportation to Nigeria indigenes. The above view was support by Agidi (2014), when he stated that the central aim of cabotage policy is to reserve the totality of existing coastal shipping business opportunities to Nigerian ship operators and their genuine business partners, for joint venture companies.

According to Ndikom (2008), the Nigeria Cabotage policy is hinged on four major pillars which include:

- Nigeria citizens must wholly own cabotage vessels.
- Cabotage vessels must be registered in Nigeria
- Cabotage vessels must e manned Nigerian citizens.
- Cabotage vessels must be built by Nigerian shipyards.

Okoroji (2005), noted that the implementation of the cabotage policy is vested on the Nigerian maritime Administration and Safety Agency, while observing that Cabotage implementation has so far not yielded the positive result expected in terms of increasing the participation of local ship operators in the Nigerian coastal shipping industry by increasing the business opportunities offered to local operators.

Onyemechi (2005), noted that Part IV of the cabotage Act provided for joint venture companies between Nigerians and foreigners to also participate in coastal shipping business opportunities in Nigeria. Cabotage policy offers business opportunities in the following areas:

Drilling vessels,
Commercial cargo ships
Bulk carriers
Integrated Tugs and Barges
Fishing vessels and fish processing vessels
Hydrographic survey vessels
Ore/Bulk/oil (OBO)
Tanker vessels
Suction dredgers
Semi submersibles
Incinerator vessels
Upper dredgers
Tug boats
Offshore supply boats
Diving support ships
Pilot boats, etc.

(Onyemechi, 2005)

In the views of Agidi (2014), the cabotage law in coming into force in 2004, became an instrument for regulating Nigeria domestic shipping and determining the level of local ship operator's involvement in shipping services supply to oil and gas industry, indigenous maritime manpower involvement in manning of coastal vessels and overall development of Nigerian's shipping industry. A measure of the cabotage policy implementation success will therefore be based on how much coastal shipping business opportunities and contracts, local operators and joint venture operators have secured over the period, against that of their foreign competitors.

Ndukwe (2014), strongly argue that cabotage implementation in Nigeria has not offered enough business opportunity for local vessel operators to participate in coastal shipping as the tide of foreign domination of the industry persists, citing funding difficulties for vessel acquisition and low throughout as a major problem hindering local shipping companies from securing coastal shipping contracts. The above view was supported by ISABU (2013), who argue that over the 10years period of cabotage implementation in Nigeria, more foreign owned, registered and manned vessels than Nigerian owned, registered and manned ones. Hire revenue (charter fee) earned by ship operators in the cabotage regime indicate that foreign operators (Non-Nigerian Operators) have earned more revenue from ship charter than Nigerian operators.

Echezona (2014), observed that a key causal factor to the derailment of the cabotage policy implementation in favour of foreign- non- Nigerian operators is pressure on the implementation agency (NIMASA) from foreign interest through public authorities, politicians, top public servants and the ministry of transport which

oversees cabotage implementation. As a result the local content development objective of Government using cabotage as a tool in both increase in indigenous fleet ownership, and throughput, ship building technology transfer, maritime manpower development and employment may fail at the long run.

The joint venture (Merger between Nigerian and non-Nigerian companies) provided for in Part IV of the policy as identified by Onyemechi (2005) has as well failed. Arbitrarily waivers are corruptibly granted to foreign ship operators. These foreigners seem to prefer the corrupt acquisition of waivers to joint venture arrangements on the basis of 60% and 40% shareholding for Nigerians and foreigners respectively as provided in the policy.

Okoroji (2010) is of the opinion that part of the problems with the implementation of cabotage by NIMASA is the failure of the agency to adopt sound modalities to disburse the ship acquisition and ship building fund to local operators as provided in the policy to enable them buy new vessels and increase capacity to compete the foreigners. To ensure successful implementation of cabotage policy, the Nigeria maritime Administration and safety Agency has identified the Nigeria National Petroleum Corporation (NNPC), the Nigeria liquefied Natural Gas (NLNG), the department of petroleum resources (DPR) and pipeline products marketing and Distribution Company as its key Partners (Isabu, 2013). Thus, the need to analyze the cabotage policy implementation in Nigeria over the 10years of its implementation for improvement in coastal shipping business opportunities for local and joint venture ship operators in Nigeria.

3. OBJECTIVES

The main objective of the research is to assess cabotage policy implementation in Nigeria and how to use it to increase coastal shipping business opportunities for local and joint venture ship operators. Other specific objectives are:

- To determine if there exist a difference between the number of Nigerian (Local) vessels and non Nigerian (Foreign) vessels engaged in coastal shipping business in Nigeria over the 10years period (2004-2013)
- To determine if there exist any difference in hire revenue (Charter fee) earned by local and foreign ship operators engaged in cabotage trade in Nigeria over same period.
- To measure the volume of coastal shipping business executed using local and foreign shipping companies over the period covered by the study.

4. HYPOTHESES

H_{0A} : There is no significant difference between the number of Nigerian (Local) and non-Nigerian (Foreign) vessels, engaged in coastal shipping in Nigeria over the period covered by the study.

H_{OB}: There is no significant difference in hire revenue earned by local and foreign ship operators engaged in cabotage trade in Nigeria over the period covered by the study.

5. METHODOLOGY

The researcher obtained a time series data of 10years on the numbers of Nigerian owned and registered vessels (Local Vessels) and non Nigerian (Foreign Vessels) of different types chartered by key partners of NIMASA in the implementation of cabotage, from 2004 to 2013. The hire (Charter fee) of the vessels for each year covered in the study was also obtained and treated as revenue earned by the ship operators from the charters. Assuming equal charter rate (Hire rate) for each vessel chartered within the same year, the research estimated the hire rate per vessel by dividing the total charter fee (hire) paid and earned each year with the number of vessel hired in each year. Total revenue earned by local and foreign ship operators each year was estimated by multiplying the hire rate per vessel in that year, with the total number of vessel hired-out by each class of operators in the same year.

The SSPS (Statistical Package for Social Sciences) was used to analyze the data on table B and table A on revenue earned and number of vessel hired respectively. The difference of means method of statistical analysis was used to analyze the data. Bar chart and was also used to chart the volume of coastal shipping businesses executed by each class of operators and their hire revenue earned over the period. Both hypotheses were tested using the difference of means t-statistics (t-test).

$$\text{Thus } t = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{s_1^2}{n_1} + \frac{s_2^2}{n_2}}}$$

Where t= t-statistics results for the difference of means

\bar{x}_1 = mean of foreign vessel and or earned revenue of non-Nigeria ship operators

\bar{x}_2 = Mean of vessels of local operators and, or earned revenue of Nigeria operators

s_1^2 = Variance of number of vessel and earned revenue of non-Nigeria (foreign) operators

s_2^2 = Variance of number of vessel and or earned revenue of local (Nigerian) ship operators.

$n_1 = n_2 = N$ = Samples sizes

6. DATA PRESENTATION AND ANALYSIS

Table A: Fleet Size, Ownership Status, And Annual Total Hire In U.S Dollars Of Vessels Chartered For Coastal Shipping In Nigeria By Nnpc, Ppmc And Dpr From 2004 To 2013

S/No	Year	Total no of vessels	Local (Nigeria)	Foreign (non-Nigeria)	Hire (U.S. Dollars)
1	2004	35	8	27	34,918,149.49
2	2005	21	4	17	28,175,555.61
3	2006	25	7	18	20,141,632.61
4	2007	30	9	21	56,497,555.70
5	2008	30	10	20	68,548,971.07
6	2009	40	13	27	61,158,180.61
7	2010	58	15	43	121,6141,364.08
8	2011	71	20	51	131,463,562.15
9	2012	81	26	55	140,326,549.01
10	2013	84	28	56	143,328,264.90
Total					

Source: Isabu, (2014): Statistics released by Department of Petroleum Resources and PPMC

Table B: Estimated Revenue Earned By Local And Foreign Ship Operators In The Cabotage Trade Based On Table A And Assuming Equal Charter Rate For All Ships Involved Per Annum In U.S Dollars

S/No	Year	Local Ship Operators	Foreign Ship Operators
1	2004	7,98,1291.32	26,936,858.16
2	2005	5,366,772.49	22,808,783.11
3	2006	56396570.13	14,501,975.48
4	2007	16,949,266.71	39,548,288.99
5	2008	22,849,657.02	45,281,771.91
6	2009	19,876,408.7	41,281,771.91
7	2010	31,451,990.69	90,162,373.31
8	2011	37,031,989.32	94,431,572.78
9	2012	45,043,089.8	95,283,459.2
10	2013	47,776,088.3	95,552,176.6
Total		240,166,161.48	566,206,603.12

Note: Authors Calculations. Estimates based on Table A.

Table C: Spss Output Of Analysis On Table A Using Difference Of Means Statistical Method

Group statistics

	Vessels	N	Mean	Std. Deviation	Std. Error Mean
Number of vessels	Foreign	10	33.50	15.988	5.056
	Local	10	14.00	8.192	2.591

SPP Output

Levene's Test for Equality of Variance		t-test for Equality of Means							
F	Sig.	t	df	Sig.(2-tailed)	Mean Difference	Std. Error Difference	95% Confidence interval of the Difference		
						Lower	Upper		

Number of Equal variance assumed Vessels	11.488	.003	3.433	18	.003	19.500	5.681	31.435	7.565
Equal variance not assumed			3.433	13.421	.004	19.500	5.681	31.734	7.266

Table D: Spss Output Of Analysis On Table B By Using Difference Of Means Statistical Method.

Group statistics

	Revenue	N	Mean	Std. Deviation	Std. Error Mean
Number of vessels	Foreign	10	566206603120	33349267.35912	10545964.31527
	Local	10	24016616.1480	15814454.05570	5000969.47681

SPP Output

	Levene's Test for Equality of Variance		t-test for Equality of Means						
	F	Sig.	t	df	Sig.(2-tailed)	Mean Difference	Std. Error Difference	95% Confidence interval of the Difference	
								Lower	Upper
Number of Equal variance assumed Vessels	15.00	.001	2.793	18	.012	-32604044.16400	11671634.80610	57125238.97378	8082849.35422
Equal variance not assumed	2		2.793	12.853	.015	32604044.16400	11671634.80610	57848451.04241	7359637.28559

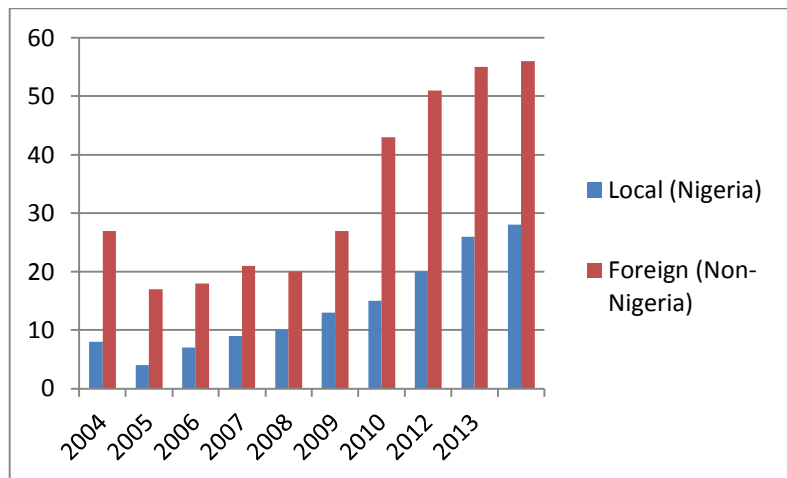


Figure 1: Analysis Of Table A On Number Of Vessels Supplied By Each Class Of Operators Using Bar Chart

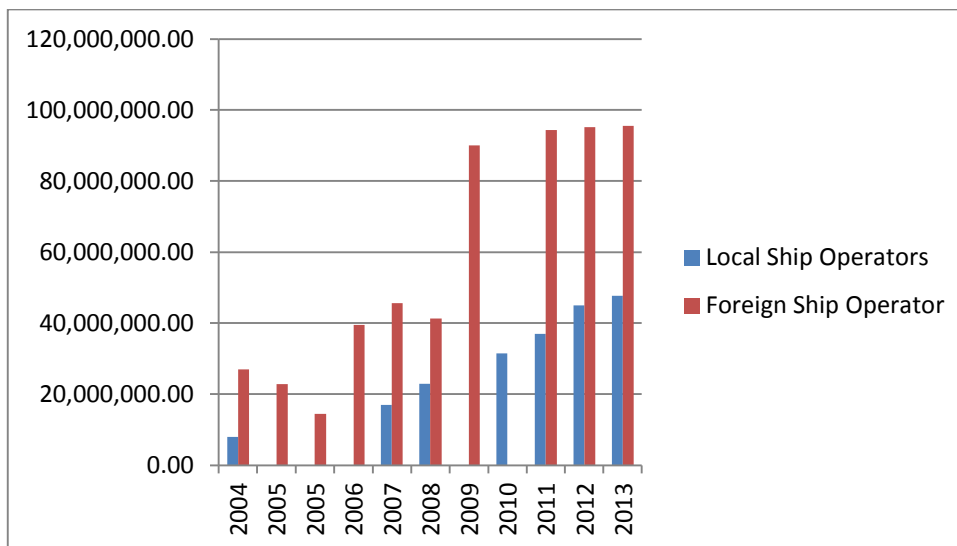


Figure 2: Analysis Of Tableb On Revenue Earned By Shipping Operators Using Bar Chart

7. DISCUSSION OF RESULT AND FINDINGS

The result of the estimate on table B showed the total revenue earned from ship chartering contracts for coastal shipping by foreign and local ship operators over the period covered by the study is five-hundred and sixty-six million, two hundred and six-thousand, six-hundred and three U.S. dollars (566,206,603 USD) and Two-hundred and forty-thousand, one-hundred and sixty-six thousand one-hundred and sixty-one US Dollars (240, 166, 161 USD) respectively. The estimate also showed a consistent increment in charter revenue earned by each group in each year covered by the study except in the year 2005 when there was a decline in revenue earned from charter fees by each group. Table D showed the output of result of analysis of table B revenue estimates using difference of means method. The result showed mean revenue earned from charter fees by local and foreign operators over the 10years period covered by the study as 240, 16616.143 USD and 566, 20660-312 USD respectively, indicating that for each year covered under the study, non-Nigeria ship operators earned higher revenue than Nigerian ship operators from cabotage vessel charter fees. The difference of mean (Foreign-Local) is Thirty-million, six-hundred and four-thousand and forty-four U.S. dollar (32 604044.16), in favour of foreign ship operators. The t-test showed a t-stat of 2.793 and a t-table of 1.734, with 18 degrees of freedom and 0.05 significance level. Since t-stat (2.793) > t-table (1.734) at 18 degrees of freedom, we reject null hypothesis H_{0B} and accept its alternate, and conclude that there is a significant difference in hire revenue earned by local and foreign ship operators engaged in the cabotage trade in Nigeria over the period covered by the study (2004-2013). This difference favours foreign operators, against their local competitors whom cabotage is meant to protect.

Table C shows the output of SPSS result on table A and shows that over the 10years period covered by the study, the mean number of ships of Nigeria operators engaged in cabotage trade is 14 while non Nigeria ship operators produced 34 vessel each year over the 10years period as indicated by the statistics. The difference of mean between the foreign ship operators vessels and Nigeria ship operators vessels Foreign-Nig) engaged in coastal shipping in Nigeria over the period is 19.5 in favour of foreign ship operators. This explains the reasons for the higher earnings in revenue from charter fees by foreign ship operators. The test showed a t-stat of 3.433 and t-table of 1.734 at 0.05 significance level and 18df. Since t-stat is greater than t-table, i.e. $3.433 > 1.734$. We also reject null hypothesis H_{0A} and accept the alternate thus, there is a significant difference between the number of non-Nigeria owned (foreign) and Nigeria owned (Local) vessels engaged in coastal shipping in Nigeria over the period covered by the study. These results support the earlier result on revenue earnings from charter fees of both groups with each favouring the foreign ship operators.

Figures 1 and 2 showed the representation of the numbers of vessels of local and foreign ship operators and charter revenues of each group on Bars Charts to illustrate the volume of coastal shipping trade done by each group in each year covered by the study from 2004 to 2013.

8. CONCLUSION

Evidence from the analysis shows that foreign ship operators and vessels have had more coastal shipping business opportunities in the Nigerian cabotage regime than local ship operators and vessels. The research findings showed that out of an average of 48 vessels chartered for coastal shipping operations each year covered by the study from 2004 to 2013, 14 vessels and 34 vessels were chartered from Nigerian and non-Nigerian ship operators respectively. This indicates an average coastal shipping business opportunity for 34 vessels lost to non-Nigeria operators.

The earned revenue from charter fees for each group showed a difference of mean of 32, 604, 044 USD, in favour of foreign operators. This represent the difference in average revenue lost to foreign ship operators by local and joint venture operators. Thus, the revenue earnings of the local ship operators can be improved by improving their level of involvement in costal shipping operations. From the above, the research concludes that foreign ship operators significantly dominate coastal shipping operators in Nigeria, even in the cabotage regime.

9. RECOMMENDATION

There is need for an urgent and radical disbursement of the cabotage vessel finance fund (CVFF) to enable Local ship operators purchase new vessels and increase their fleet size and throughout. This is because poor

funding of local operators over the years has not given them room to produce enough tonnage to be able to compete with foreign firms and gain more businesses in the cabotage trade.

There is also need to amend the cabotage Act particular part III and Part IV of the Act which dealt with waivers and Co-ownership of vessels by Nigerians and foreigners (Joint-Venture Companies) respectively. The research recommends that granting of Waivers to foreign vessels be removed from the Act to curb the problems of arbitrary waiver grants to foreigners in the face of qualified and capable local capacity. The provision for Joint Venture arrangement should replace the Waiver provision. However, Joint-venture share holding arrangement should be amended to be 45 percent to foreigners and 55 percent to Nigeria partners from the present 30 percent to foreigners and 70 percent for Nigerians. This will encourage the foreign firms to seek to partners with Nigerian firms to form Joint Venture Companies and Improve Cabotage business opportunities for local firms and indigenous ship operators.

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