

REPORT ON THE MARITIME CAPACITY OF NIGERIA

1.0 OVERVIEW OF THE NIGERIAN MARITIME INDUSTRY

Nigeria is a coastal state with about 853 kilometers Atlantic coastline. Her exclusive economic zone (EEZ) covers a total area of approximately, 315,950 square kilometers. With a vast marine environment subtending enormous resources, the Nigerian maritime sector has remained largely untapped, yet it has a variety of investment potentials cutting across mining, manufacturing, and service industries.

The current functional structure of the Nigerian maritime sector comprises mainly of the port industry, shipping and ancillary services, offshore services, shipbuilding and ship repair, marine services, bunkering services etc. The port industry is relatively the most developed sector of the Nigerian maritime trade, while the rest are sub-optimally developed as a result of a combination of factors, but largely economic, techno-managerial and technological limitations.

The country has a vibrant oil and gas sector, which contributes 90% of national earnings. Upstream offshore exploration and production is predominant among the oil majors, with corresponding need for regular movement of men and materials. Downstream, market for refined petroleum products has been on the rise with high imports in recent years and intensified tanker operations.

There is a vast network of navigable and potentially navigable rivers, lakes and creeks, traversing more than 30,000 kilometers of inland waterways. Nigeria remains the economic hub of West Africa, and shares in its vast coastline, including the rich Gulf of Guinea. She is arguably Africa's biggest importer, and therefore a key destination for the world's major lines and conferences.

The maritime sector is under the direct supervision of the Federal Ministry of Transport, headed by a Permanent Secretary under a Cabinet Minister. All activities within the sector fall under the control of five statutory bodies (parastatals) namely; the National Maritime Authority (NAMASA), which is the body in-charge of maritime administration in the country; the Nigerian Ports Authority (NPA), which is currently the port industry regulator (there is an ongoing port reform which would culminate in liberalization, deregulation and privatization of the port industry and services); the Nigerian Shippers Council (NSC), in-charge of protecting shippers' interests; and the Nigerian Inland Waterways Authority (NIWA), a statutory body responsible for all activities within the inland waters in the country.

2.0 INVESTMENT OPPORTUNITIES IN NIGERIAN MARITIME SECTOR

Nigeria is the largest market in the African continent and the largest economy in sub-saharan Africa with over 65% of total volume of seaborne cargo in the West and Central African sub-region. The expansion and deregulation of critical segments of the Nigerian economy in the last few years has also impacted positively in the profile of Nigerian bound ocean cargo and created a wide range of investment opportunities in the maritime sector.

2.1 PORT CONCESSIONING AND TERMINALS OPERATION

As part of its economic reform program, the Nigerian Government, has adopted the strategy of concession to bring to an end, close to a century of monopoly of the Nigerian Ports Authority. At present, some of the key ports have been handed over to concessionaires armed with long-term control over the ports' facilities. Several more port facilities are still slated for take-over and there is urgent need for new and modern terminal facilities.

Given the rate of traffic at the city ports, which will be bolstered in the medium and long term by the economic growth brought about by the reform programs and the effect of the oil and petroleum products trade on the smaller rural ports; this is a likely area of interest for potential investors with a large portfolio of funds.

2.2 INLAND CONTAINER DEPOTS AND MULTIMODAL TRANSPORT SYSTEM

As a result of the vastness and diversity of the country's landscape and the resulting distance between some major commercial centers and the coastline, there is need to bridge the service gap occasioned by the lack of access to seaport services. A feasible alternative is the development of Inland Container Depots and dry port facilities. As a corollary to this, there is the need to put in place an efficient multimodal transportation system and the Government has been working on a framework for the implementation of this.

The development of container depots and dry ports is a medium capital volume investment and if well structured will deliver returns in the short and medium term. Investment in multimodal road network and allied services is however a long termed and large volume investment, for those willing to operate on a likely BOT arrangement.

2.3 CARGO OPERATIONS AND STEVEDORING SERVICES

Further to the economic reform program, the government has liberalized dock labour services. This has created opportunity for those willing to invest in the provision of modern stevedoring services.

2.4 WAREHOUSING AND SECURED STORAGE FACILITIES

For years, the Nigerian ports have struggled against the problems of congestion, especially in the city ports where facilities are stretched to the limit. A viable solution to this is the creation of bonded warehousing facilities, which have for years served to ease the pressure on the ports. With the concession of the ports, new/private operators require more efficient warehousing facilities with premium on modern security gadgets. This is a viable investment opportunity and will require medium volume investment with good returns in the short run.

2.5 HAULAGE; DEVELOPMENT OF RAIL INFRASTRUCTURE AND TRUCKING

The Nigerian rail system has suffered total collapse in the last 20 years. There is urgent need for a modern and effective rail system to ease the burden on the road network for effective delivery of cargo leaving the ports. The government is looking for private investors to help achieve this objective. It is hoped that when this is implemented, the current total reliance on trucking for movement out of the ports will reduce. This will nevertheless create a new level of competitiveness in the road haulage sector and the key may be modern trucks and effective operations.

Provision of railway system is a large volume and long termed investment, while trucking might require considerably less capital outlay but will require a medium term turnaround of investment period.

2.6 PACKAGING

The Nigerian economy is hugely import dependent. This is done through bulk importation of raw materials, which are later repackaged to various sizes as required. Furthermore, Government has placed embargo on the importation of certain packaged consumer goods such as drinks and beverages thus forcing the importers to bulk-import derivatives and other raw materials, which are later processed and packaged in table sizes. There is therefore a viable investment opportunity in packaging and it will require medium volume capital outlay and medium term investment strategy.

2.7 LOGISTICS

One of the consequences of the government reform program has been expansion of industrial production capacity and increasing capacity utilization resulting from improved infrastructure. To cope with these without compromising their core functions, major industrial organizations and multinationals in Nigeria have adopted the practice of outsourcing logistics and transportation to specialist services providers. This is especially true for the oil and gas sector where demand for air and marine logistics support is at a premium.

As more direct foreign investment comes into the country heralding the arrival of more industries operating under principles of modern production economics, the demand for outsourcing is daily on the increase and this creates investment opportunities in the production of logistics services. At present, there are few integrated logistics companies in the country and the entrance of new players is expected. The volume of capital required to make an entrance into this sector may vary with an investor's networth and his business vision. This flexibility of option is an added incentive for prospective investors in this area of business.

2.8 FREE TRADE ZONES (FTZ) AND EXPORT PROCESSING ZONES (EPZ)

The creation of FTZs and EPZs is a strategy adopted by less developed countries to attract direct foreign investment. In these zones, normal trade barriers such as import and export tariffs are either completely removed or reduced to the barest minimum. The investors also enjoy the benefit of removal of most bureaucratic bottlenecks that affect business. Presently, Nigeria has one FTZ in Onne and an EPZ in Calabar. There are plans to establish two additional FTZs in Lagos and Kano. The operation of these zones depends on port terminal and export infrastructure facilities, the provision of which are viable investment opportunities.

There is also opportunity to invest in cluster and linkage industries to support these maritime industrial development areas such as banking, insurance, telecommunication, law, ship brokerage etc. The capital requirement for entry into this area of investment will demand a large portfolio of funds and it is a long-term business.

2.9 LINER/CONTAINER SHIPPING

As the largest economy South of the Sahara, Nigeria commands an almost unlimited volume of maritime import trade. Due to funding constraints, most of the cargo is carried by foreign bottoms. The promulgation of the Coastal and Inland Shipping (Cabotage Act) 2003 has restricted participation in the coastal trade to Nigerian owned vessels. This however does not preclude the opportunities available in the deep-sea import, and to some extent, export trade. The traffic in this trade comprises of high value finished and semi-finished goods and containerized goods for the Nigerian economy and regional market.

It is envisaged that the economic reforms being prosecuted will impose a multiplier effect on the scope of this trade and create even more attractive investment opportunities. This segment will also demand a large funding portfolio, being a venture into the core shipping business with all its peculiarities, and turn around on investible funds are to be expected in the long term.

4.10 TANKER SHIPPING

The booming oil industry in Nigeria creates an assured market for investors in the tanker trade in the form of long-term charter-party contracts; this also dovetails into the product tanker market. Nigeria is also steadily positioning to assume a pre-eminent position in the global gas trade as capacity expansion projects are daily being undertaken. As a result of the foregoing, investment in VLCC, Aframax, Suezmax, handysized or LNG/LPG tankers are commercially viable options for prospective investors. Entry into this market will require a huge volume of funding and return on such investments are naturally long termed issues.

4.11 BULK SHIPPING

Overwhelming national dependence on imported grains, fertilizer, sugar, flour, cement and other goods requiring shipping in bulk carriers translates to a very viable investment opportunity in bulk shipping. The Ajaokuta Steel Complex is also gradually inching towards completion and should provide strong market for the steel and iron ore trade, which would also require bulk shipping. Investment in this sector will be characterized by huge capital outlay and a long-term return profile.

4.12 THE REEFER TRADE

There is an existing and largely unfulfilled market for the importation of fish, associated seafoods, dairy products, fruits, vegetables and frozen foods that does not decline throughout the year. This is a prime area of investment opportunity, which would require a relatively high capital investment with a long-term return profile.

4.13 PASSENGER/CRUISE SERVICE

Coastal passenger shipping and passenger cruise services are relatively unexplored areas that may provide viable investment opportunities as the economy expands and the per capita income of Nigerians increases. The market for cruise vessels will also benefit from the concerted efforts of some state governments and the Federal Government to reposition Nigeria as a prime tourist destination on the world map. This segment will also demand a large funding portfolio, being a venture into the core shipping business with all its peculiarities, and turn around on investible funds are to be expected in the long term.

4.14 SHIPBUILDING AND SHIPREPAIRS

At present, Nigeria has virtually negligible shipbuilding capacity, as the little shipbuilding undertaken by Nigerian companies is restricted to barges, houseboats and some few small sized crafts. Nigerdock, Naval Dockyard and Continental shipyard are the largest shipyards in the country but they are solely dedicated to vessel repairs and maintenance. Consequently, Nigeria depends largely on foreign shipyards for shipbuilding of all shapes and sizes. For repairs, some

shipowners have had to patronize shipyards in Ghana and Cote d'voire due to limited capacity of existing Nigerian shipyards.

This is in spite of the high volume of cargo throughput in Nigerian ports, the market leadership of the West African sea-borne trade and the expansive oil industry. This is therefore a strategic and attractive investment option with a ready-made and waiting market. A large volume of funds will be required and return on such funds cannot pre-date the long term.

4.15 INTANGIBLE AND ASSOCIATED SERVICES

Funding has long been identified as the bane of the Nigerian maritime industry. This is a consequence of liquidity shortage in the finance market aggravated by the short-term lending culture of Nigerian banks. However, a major issue that is rarely discussed is the absence of international finance experts with competence in syndication of funds from diverse sources for particular projects, as project financing has become an exact science on its own. These experts exist in large numbers in the industrialized nations of the world and may wish to explore the opportunity presented by the emerging market of Nigeria.

Other allied opportunities include:

- Shortage of marine engineering and naval architecture companies and personnel
- Expert legal services
- Marine Insurance
- Maritime brokerage
- Manpower training institutions and facilities

5.0 INVESTMENT INCENTIVES

The liberalization of the international trading environment occasioned by the globalisation of the world economic system threw-up a very competitive global investment environment. Faced with this scenario, international investors who are traditionally driven by profitability index are predictably attracted to investment environment with significant competitive advantage.

There are many forms of incentives a country can adopt for its merchant marine industry. Certain incentives are suitable to maintain already achieved level of development, while others are applied to stimulate the development of shipping activities in an economy.

In our context, we are concerned primarily with those incentives with potent ability to attract foreign interest with wide range of options, both in terms of what (sector) and where (place) to invest their capital.

The need for adequate and attractive investment incentive for the Nigerian maritime sector is accentuated by the poor infrastructural level of the Nigerian environment; high risk country index, etc which interplay accounts for the high transaction cost in Nigeria. Such incentives are therefore necessary to compensate for those drawbacks.

Based on the peculiarity of our circumstance, the three broad categories of incentives discussed below have been carefully considered, and are envisaged as not only capable of filling the policy gap, but also stimulating new investment in the maritime sector.