CONCESSION AS A CATALYST FOR CRISIS MANAGEMENT IN NIGERIAN PORTS

by

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Abstract

This paper examines concession as a catalyst for crisis management in Nigerian ports, using content analysis of archives. Despite Nigeria’s huge investment in the public sector her returns on the investment have been abysmally low for several decades. Thus, to redress the poor performance of Nigerian ports, the Federal Government of Nigeria has embarked on concession of its ports with expectations that the concession would boost socio-economic development. Yet, the expectations have not been met, while barriers to exportation and importation of goods continue to affect the Nigerian society. The paper submits that unless the Federal Government of Nigeria cultivates people-friendly innovative ideas, the crisis of Nigerian ports may escalate.

Keywords: Economy, importation, maritime sector, reform, restructuring

Introduction

Ports have boosted socio-economic development worldwide. The close link between seaports and the economic growth of developing areas is well established in literature (Hoyle & Hilling, 1970). Unlike the case of ports in Asia and Western Europe, Nigerian ports are unattractive to shippers as a result of several crises such as corruption, congestion of cargoes, insecurity of cargoes and excessive charges. It has been reported that Nigerian ports are among the slowest and the most expensive ports in the world by the end of the 1990s (Leigland & Palsson, 2007).

The crises of Nigerian ports have affected Nigeria in several ways. The problem of inefficiency, high cost of importation and unfavourable balance of trade associated with the Nigerian ports make Nigeria an unenviable country in the world. Many Nigerians lack capacity to participate actively in international trade despite the availability of several ports in Nigeria. Nigerian ports are yet to galvanise industrialisation in Nigeria. Essentially, the problems facing Nigerian ports reflect the prevailing socio-economic and political situations in the country. Attempts to develop ports in Nigeria have been recognised since the 15th century; the present attempt to develop Nigerian ports is concession, which can be described as “landlord versus tenants’ agreement”.

The concession agreement is granted by the Federal Government of Nigeria to promote investment opportunities in Nigeria through competition and efficiency of Nigerian ports. The concept of concession is not new and many countries have embraced it. For instance, the French Government granted a 15-year concession for collection and distribution of water to households in Paris in 1777 (Idornigie, 2006). Concession simply refers to a grant for an undertaking. As used in Nigeria, a concession is a Public Private Partnership agreement between Government and an appropriately qualified private sector for the purpose of financing, designing, constructing and maintaining infrastructure that would otherwise
have been done through traditional Public Procurement channels (Detail, 2008). Various projects earmarked for concessions in Nigeria include the following: the Murtala Mohammed Airport Domestic Terminal (MM2), Sea Ports, Upgrading of the Lekki-Epe Corridor, the Itigidi Bridge, the Second Niger Bridge, Federal Highways, four International Airports and the Nigeria Railways.

Guash (2004) asserts that concession contracts are typically defined by four features such as follows: (i) the contract governing the relationship between the concession-granting authority and the private concessionaire (operator), (ii) an award of a concession for a limited but potentially renewable period, (iii) the responsibility of a concessionaire for investments and development of new facilities under the supervision of the state or regulator and (iv) the remuneration of a concessionaire based on contractually established tariffs collected directly from users. Idornigie (2006) adds that the concessionaire can receive revenue directly from the users and pay concession fees to government depending on the terms of agreement.

Concession is analogous to privatisation; both concepts are controlled by the National Council on Privatisation (NCP) and the Bureau of Public Enterprises (BPE). Privatisation is a policy instrument through which governments in many countries promote and sustain economic development. It is also a manifestation of the wave of economic reform designed to reduce the role of the public sector and expand that of private market institutions (Idornigie, 2006). A broader concept of privatisation includes policies that encourage private sector participation in the provision of infrastructure. Privatisation has become popular in most countries. During the 1980s about 70 per cent of the sales of the state-owned enterprises (SOEs) occurred in Western Europe, while fewer than 20 per cent of the sales took place in Latin America (Argentina, Brazil, Chile and Mexico), Africa (Benin, Ghana, Guinea, Mozambique and Senegal), Eastern Europe, Asia (Indonesia, Republic of Korea, Philippines and Thailand) and the Middle East (Rondinelli, 1996). Privatisation was accelerated in the 1990s in Central and Eastern Europe and in East and South-East Asia.

In recognition of worldwide emphasis on privatisation, the Federal Government of Nigeria has embraced it since the 1980s. Approaches to privatisation in Nigeria are diverse ranging from direct or full privatisation to indirect or partial privatisation. The latter resulted in concession of Nigerian ports. In light of the above, this paper examines concession as a catalyst for crisis management in Nigerian ports. The circumstances that warrant concession of Nigerian ports are examined in light of sociological imagination. The crises associated with the concession are also discussed, while recommendations are offered for necessary actions.

**Restructuring and Crisis Management in Nigerian Ports**

Nigeria is a heterogeneous society formed by the British Government in 1914 from the amalgamation of the southern and northern protectorates. Each protectorate comprises peoples with diverse cultures and environments. The discovery of seaports in Nigeria lies in the context of diversity of the country. The first seaports in Nigeria were found in Warri and Benin between 1471 and 1472 during the Portuguese exploration of the shores of the Bights of Benin and Biafra (Ogundana, 1972). The seaports facilitated trade in pepper, ivory and slaves between peoples of Nigeria and foreigners. The first Portuguese trade mission under D’Aveiro visited Benin in 1486. The foremost ports in Nigeria were located at Gwato in Benin kingdom and Forcados in Itsekiri kingdom as illustrated in the following passage:
References continued to be made to interior port activities in the western Delta all through the sixteenth century and part of the seventeenth century, not only by the Portuguese, but also by their successors in the West African trade, the Dutch and the English. The location of these early interior ports, like their European counterparts at this period, was dictated by the balance between the economies of water and land transport. Interior ports that minimized the overland haul were essential. Porters were engaged for headloading of imports and exports through Gwato to and from Benin. There is little evidence that either the Benins or the Itsekiris had developed elaborate water craft to negotiate the creeks of the Delta. At this period, exterior port location would have required the use of such craft to convey goods between the sea and the mangrove-land edge. Before the coming of the Europeans there was no need for an extensive system of water transport, as these peoples looked to interior tributary areas, and not coastward. The interior ports declined in the eighteenth century. This decline was part of a general neglect of the western Delta by Europeans, which appears to have been a function of the small volume of trade. The well-organized military state of Benin had collapsed by the end of the seventeenth century, and only a limited traffic in slaves and ivory was available. (Ogundana, 1972, p. 112)

Following the collapse of the Benin kingdom, the volume of trade became high at the Bight of Biafra and its environs including Brass, Akassa, Calabar, Bonny and Opobo. Subsequently, the British gained control of seaports in Nigeria in the 1860s through the establishment of seaports in Lagos and Akassa (the base of the Royal Niger Company) followed by the promulgation of the Niger Coast Protectorate in 1890. The restructuring of ports in Nigeria was largely influenced by foreign interests as described by Ogundana (1972, pp. 120-21):

Port location changed according to the zone of political and economic contact between the Europeans and Nigerian peoples around the coast. The first interior ports in the western Delta were largely exploratory, and reflected the desire of the Portuguese to trade with people of new lands. By the eighteenth century both Europeans and Africans were alive to the benefits of the Atlantic trade and coastal African groups struggled to control a good share of the trade. The imperialist ambition of the British, backed by their superior military power, led to the displacement of the coastal African middlemen and to a shift of ports to the interior at the end of the nineteenth century. Shifts occur in the location of ports largely because existing ports are unable to meet the terminal requirements imposed by changes in transport technology. Changes in maritime and land transport technology affect the relative accessibility of a port from either hinterland or foreland. Changes in shipping and land transport technology also affect the form of ports. Increasing size of ships, especially from the end of the nineteenth century, called for large berthing and cargo storage facilities in ports. The ascendancy of rail and road over water transport as the major means of inland transport called for port sites with spacious land area for approach roads and marshalling yards. The size of cargo ships and the total volume of trade has continued to increase over the present century and it has been necessary to expand port facilities. The water front in many of the far interior ports has become congested especially at Sapele, Warri, and Port Harcourt.
The centre of ports operation in Nigeria was shifted to Apapa since the 1920s. Decision to develop Apapa Port was taken in 1913 and construction of the first four deep-water berths of 548.64 metres long at Apapa began in 1921. Similarly, Port Harcourt Port was opened to shipping in 1913. Four berths of 1,920 feet long were developed at the Port Harcourt Port in 1927, and following a report by the Port Harcourt Port Advisory Board, the sum of four million pounds was provided for the first major extension work of the Port Harcourt Port in 1954. The Nigerian Ports Authority (NPA) was established in April 1955 to harness the success of the ports industry for the development of the Nigerian society. The NPA’s development strategy was harmonised with the first National Development Plan (1962-1968); it resulted in improvement of ports facilities in Lagos and Port Harcourt with an expenditure of 45 million naira. However, Nigerian ports suffered setbacks during the civil war (1967-1970) when Port Harcourt port was closed to foreign traffic, while Lagos port became the only available port serving the country’s maritime transportation needs. The Federal Government of Nigeria enacted a special decree to empower the NPA to acquire the private ports in eastern Nigeria such as the Warri Port owned by Holts Transport, the Burutu Port owned by the UAC and the Calabar Port jointly owned by five operators.

Congestion of Nigerian ports reached unprecedented level in the aftermath of the civil war. Also, existing roads were inadequate to cope with expeditious evacuation of cargoes. This situation was aggravated by increase in the volume of importation in the 1970s. Port congestion resulted in the imposition of surcharges. Ships had to wait for an average of 180 days before they could berth. Nigerian ports have gone through one of the most congested periods in the world. In 1975 the average waiting time of ships in Lagos Port was approximately 250 days (Shneerson, 1981). To release this tremendous pressure on the port system, the Nigerian Port Authority (NPA) embarked on some emergency measures including the emergency construction of a new port in the Lagos area (Tin-Can Island), acquisition of equipment, and attempts to increase the productivity of berths (Shneerson, 1981).

By the end of the 1990s, unloading and reloading a ship often takes weeks instead of the 48 hours considered standard in other regions such as Asia (Leigland & Palsson, 2007). A major consequence of delay in shipping is increase in freight charges. The increase in freight surcharge affect Nigerian shippers of agricultural exports who are placed at a disadvantage as they find it difficult to maintain competitive position in the scramble for world markets. However, a previously booming import business which kept the Nigerian Ports busy in the 1970s gradually scaled down in the 1980s as a result of economic recession. The Federal Government of Nigeria commercialised the NPA in 1992, thereby changing it to the Nigerian Ports Plc (NPP), which was reverted to its original name in October 1996. Nigerian ports have been integrated with the history of privatisation in Nigeria.

The Genesis of Privatisation in Nigeria

Privatisation has become central to the economic policies of countries across the world since the early 1980s. Iheduru (1994) argues that a cacophony of voices has emerged in supporting or denouncing privatisation. Opponents from both the liberal and radical traditions have been equally vociferous in their attack on privatisation. It is also believed that some intractable limitations could hinder any attempt to make public sector efficient. Defenders of the public sector, on the other hand, believe that the public sector of the economy requires special property rights. The Federal Government of
Nigeria reversed its concentration in development of the state-owned enterprises (SOEs) in the 1980s to promote privatisation.

The Privatisation and Commercialisation Act of 1988 and the Bureau of Public Enterprises Act of 1993 were established to legalize privatisation in Nigeria. The implementation of the Privatisation and Commercialisation Act of 1988 led to emergence of the Technical Committee on Privatisation and Commercialisation (TCPC), which noted in the 1990s that Nigeria had about 1500 public enterprises 200 of which were owned by the Federal Government and others owned by other tiers of government. El-Rufai (2003) reports that the Federal Government of Nigeria had a total of 590 public enterprises by May 1999 and the enterprises could not arrest the core problems of widespread poverty, growing inequality, and rising unemployment, which promote stagnation and retrogression of economic life of an average Nigerian.

There is general agreement in several commissions (Adebo, 1969; Udoji, 1973; Onasode, 1981; Al-Hakim, 1984 etc) that public enterprises confront several problems such as defective capital structure, bureaucratic bottleneck, mismanagement, gross inefficiency and corruption. The problems facing the SOEs therefore give rise to the call for privatisation starting with the Technical Committee on Commercialisation and Privatisation (TCPC) in 1988. Thus, the Federal Government of Nigeria established the following institutional frameworks for privatisation: the National Privatisation Act of 1999, the National Council on Privatisation (NCP) and the Bureau for Public Enterprises (BPE). Concession of Nigerian ports is an integral part of privatisation in Nigeria.

**Concession of Nigerian Ports**

Section 36 of the Infrastructure Concession Regulatory Commission Act of 2005 (ICRCA) defines ‘concession’ as a contractual arrangement whereby the project proponent or contractor undertakes the construction, including financing of any infrastructure, facility and the operation and maintenance thereof and supply of any equipment and machinery for any infrastructure and the provisions of any services (Detail., 2008; Idornigie, 2006). The ICRCA is the first comprehensive legislation on concession in Nigeria, although it is consistent with section 168 of the draft of Ports and Harbour Authorities Bill, which defines a ‘concession’ as an arrangement between an authority and a third party pursuant to which such third party shall be authorised to provide a port service or operate a port facility in accordance with the Bill.

Section 1 of the ICRCA provides that from 10th November 2005 (its commencement date), any Federal Government Ministry, Agency, Corporation or body involved in the financing, construction, operation or maintenance of infrastructure, by whatever name called, may enter into a contract with or grant concession to any duly pre-qualified project proponent in the private sector for the financing, construction, operation or maintenance of any infrastructure that is financially viable or any development facility of the Federal Government in accordance with the provisions of the ICRCA. Basically, concession of Nigerian ports flows from the neoliberal reform adopted by the Federal Government of Nigeria. The Breton Woods supervised the reform and provided consultancy for the concession. Thus, the concession of Nigerian ports aligns with neoliberal policies on privatisation, trade liberalisation, deregulation and reduction of subsidies in key sectors (Kenneth, 2005).
The Federal Government of Nigeria embarked on concession of Nigerian ports to solve the protracted problems of inefficiency, corruption, mismanagement, and huge debts that characterise the Nigerian ports. The rationale behind port concession of Nigerian ports include the $34 million indebtedness of the Nigerian Ports Authority, the redundancy of twenty-four of its eighty-three managers as well as its poor management structure. Emphatically, concession of Nigerian ports refers to lease of port terminals and re-organisation of stevedoring companies. About 110 applications were received in December 2003 and out of 94 pre-qualified concessionaires, only 20 were granted to operate Nigerian seaport terminals for 10-25 years (Leigland & Palsson, 2007; Kieran, 2005; Cameron, 2004).

The successful concessionaires include Hutchison Port Holdings, PSA Corp, ICTSI and Mersey Docks, CMA-CGM, Bollore Group, APM Terminals and Panalpina (Kieran, 2005; Cameron, 2004). Each terminal operator was expected to pay between $5m to $100m depending on the terminal as part of the assurance that concessionaires will maintain equipment and infrastructure in areas of operations. Concession of Nigerian ports has been described as one of the world’s largest concession programs based on awards of 20 long-term port concessions, consideration of two new legislative acts governing the port sector and a draft of an act establishing an independent regulator for all modes of surface transport (Leigland & Palsson, 2007). Activities in the maritime industry in Nigeria show that the Federal Government of Nigeria has taken a lead in the promotion of Public Private Partnership for development of infrastructure. The partnership is expected to promote socio-economic development in Nigeria, although this expectation is yet to trickle down to the majority of Nigerians.

Initial Outcomes of Concession of Nigerian Ports

Concerns have been raised over the concession of Nigerian ports because the success or failure of the concession will affect the perception of privatisation in Africa (Cameron, 2004). The first concession contract was signed in September 2005 with APM Terminals owned by the Danish shipping company for the Apapa container terminal in Lagos (Leigland & Palsson, 2007). Twenty concessionaires have been awarded and commenced operations across Nigerian ports. The Nigerian case is a mirror of the implementation of concessions of ports in several African countries including Tanzania, Cameroon, Madagascar and Mozambique. The concession of Nigerian ports has generated some outcomes such as retrenchment of over 8,000 workers in the NPA and creation of four new autonomous ports authorities in Lagos, Port Harcourt, Calabar and Delta (Ogar, 2005; Chidoka, 2002).

The concession is expected to produce more investment, lower tariffs, more employment and economic growth. These expectations have not been achieved since the commencement of the concession of Nigerian ports in 2005. Evidence of positive effects of the concession of Nigerian ports is yet to be clearly seen on the Nigerian society. This statement however does not mean that the concession has failed. The expectation for success of the concession of Nigerian ports is strong given the fact that the maritime sector is central to economic development of African countries, which largely rely on deep-sea shipping for over 92 percent by volume and 84 percent by value of their international trade (Iheduru, 1994).

Unequivocally, the Federal Government of Nigeria has transferred the right to use Nigerian ports to concessionaires. It is believed that the transfer of a public monopoly to a private sector works better if there is a proper legal and regulatory environment (Idornigie,
Unfortunately, the regulatory environment in Nigeria is porous considering the endemic corruption in the country. An effective regulation can protect the investors from unwholesome intervention from the government; it can also protect users from the abuse of the monopoly or dominant position of the private sectors. The traditional conflicts of interests between the government and the private sector require an effective regulatory framework. While the concessionaires will seek security of investment and adequate returns on investment, the Federal Government of Nigeria is expected to protect the Nigerian society from possible abuse of monopoly and ensure the development of infrastructure as stipulated in the concession agreement.

The concession of Nigerian ports reflects the fact of re-colonisation of Nigeria as claimed by the labour union in the maritime industry. Workers, led by the President of the NPA Senior Staff Association, stormed the venue of a meeting at the NPA Western Operations Zone and disrupted the proceedings at the meeting. All efforts to get the placard-carrying workers to allow the meeting to proceed as planned were rebuffed (Abolarin, 2005). Concession of Nigerian ports has led to changes in employment relations in the Nigerian maritime industry especially in terms of job security, wages and recognition of trade unions. The concession has adversely affected several workers in the maritime industry.

There is ample evidence that privatisation, at least initially, results in significant job losses, given the case in Argentina, Brazil, Chile, Georgia, Hungary, Japan, Mexico, Romania and Zambia (ILO, 1997; ILO, 1995). Thus, the threat of restructuring, lay-offs and higher unemployment has often led trade unions and workers in the SOEs to try to slow down or derail privatisation in Latin America, Western Europe and South-East Asia. For example, in Bolivia, the country's main trade union called national strikes to protest against government plans to privatise 60 companies, including the national airlines (ILO, 1999; Rondinelli, 1998). There is hardly any policy that is entirely free of crisis. Like privatisation, the SOEs have also been condemned. For instance, Iheduru (1994, p. 394) reports that:

By the time the United States and Britain under President Ronald Reagan and Prime Minister Margaret Thatcher, respectively, and the international financial institutions began to export privatization in the early 1980s, most coastal states in the developing world had created several state-owned enterprises (SOEs) in this area...Some of these maritime enterprises-like Ghana's Black Star Shipping Line (BSL), the Nigerian National Shipping Line (NNSL), and the Shipping Corporation of India (Scindia)-have never turned a profit since their incorporation...The seaports in many of these countries have come to epitomize bureaucratic red tape, pilfering, bribery, and corruption-factors that have contributed to high prices for imports and high inflationary pressures....Anyone familiar with the bureaucracy and venality of the developing countries' merchant marine industries, and the losses these characteristics inflict on trade and national development, would hardly dispute the need for increased participation of the private sector in this area of the developing countries' economies, especially for the benefit of the national treasuries.
In light of the foregoing, it is quite obvious that neither privatisation nor SOEs are sacrosanct. The atmosphere created by concession of Nigerian ports can bridge the gap between privatisation and SOEs as long the “landlord and tenants’ agreement” subsists.

Prospects of the Concession of Nigerian Ports

The stated objectives of the concession of Nigerian ports are promising. The initial challenges can be overcome as evidenced by the British experience. Three years after the concession of the British bus sector, total employment in the industry remained about the same, especially among drivers because bus mileage increased (Gomez-Ibanex, 1993). The concession can stimulate national economy as it would promote jobs creation especially among the middle class (Bivbere, 2005). The concession of Nigerian ports can also lead to an increase in total employment in the industry if service innovations and efficiency significantly boost demand. The social costs of extensive job losses can be lessened if carefully handled. Examples of such care are found in the privatisation of the Brazilian federal railways, the Japanese railways and the privatisation plan for Pakistan railways (ILO, 1995; Belzer, 1994).

Among other means of protecting public employees, Argentina, Germany, Greece, Sri Lanka and Turkey provide generous redundancy or severance pay to surplus employees, while Argentina and Venezuela allow voluntary early retirement. In Colombia, Ghana and Portugal, the Government has established retraining and vocational education programmes for its displaced workers. In Colombia, Jamaica, Senegal and Tunisia, the Government promotes entrepreneurship and the expansion of small enterprises that can absorb surplus workers. There are ample opportunities for the success of the concession of Nigerian ports. It is generally hoped that with proper implementation of the concessions of Nigerian ports, the Nigerian economy will be galvanised both at the micro and macro levels (Detail, 2008). This conviction stems from the experience of Latin American countries and European nations that have benefited immensely from concession of their ports ahead of Nigeria.

Conclusion

The paper has examined the circumstances that warrant concession of Nigerian ports and initial outcomes of the concession. It has been noted that with reference to mounting problems of the Nigerian Ports Authority and low returns on investment in the SOEs, the Federal Government of Nigeria adopted privatisation as a strategy for solving the problems. The maritime industry in Africa has been under threat of similar reorganisation since the 1980s, and so far remarkable progress has been made in several African countries. Concession of Nigerian ports is an integral part of privatisation in Nigeria. The Federal Government of Nigerian has recognised the fact that provision of adequate infrastructure is an essential catalyst for socio-economic development, hence its partnership with the private sector in that direction. However, the fact that the Federal Government of Nigerian grants concession does not necessarily amount to an abdication of its role in provision of essential services to the general public (Detail, 2008). It is imperative therefore that appropriate regulatory framework and strategies be enunciated to protect the Nigerian society from abuse of monopoly power of the concessionaires. Also, attempts must be made to ensure that the concessionaires contribute meaningfully to the development of the Nigerian economy.

It is a truism that most countries of the world developed socially and economically through privatisation and reforms guided by people-friendly socio-economic and political
environment. Therefore, to ameliorate the harsh socio-economic conditions in Nigeria the following actions are recommended. Given her extensive and highly diversified natural resources endowment, the short cut option for sustainable socio-economic development in Nigeria is through export promotion industrialisation strategy in which the Nigerian ports would be made to be directly relevant to indigenous economy. Policy initiatives must be taken to eliminate or at least to reduce the performance inhibitors, which scuttle the development of Nigerian ports. Privatisation should be based on felt needs and participatory approach where the ordinary Nigerians would be allowed to contribute to objectives of the concession of Nigerian ports, which should promote the useful indigenous value systems. Governments should protect workers from unjust retrenchment and provide social welfare for those affected by the concession of Nigerian ports.

References


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