

ADVOCATING FOR FAVOURABLE TERMS OF TRADE: FOB TO CIF FOR PUBLIC SECTOR CARGO



**PRESENTED BY SOFIEYE UZOR AT THE NIMPORT 2019 SESSION ON
SHIPPING, CABOTAGE AND MARITIME INSURANCE POLICY**

AUGUST 2019

27TH

Introduction

International Commercial Terms (INCOTERMS) are trade terms published by the International Chamber of Commerce and used in international and domestic trade contracts.

These trade terms define the responsibilities and liabilities of contracting parties in domestic and international trade.

Terms of Trade

The principal terms of trade used for international sea trade in Nigeria:

Free on Board (FOB)

The seller takes responsibility and liability for the cargo from source till it is placed on board the ship.

The buyer assumes responsibility for carriage, freight payment, insurance etc. once cargo is on board the ship.

Seller collects the value/payment for the cargo before the voyage

Cost Insurance & Freight (CIF)

The seller nominates the ship that will carry the cargo. He takes responsibility and liability for the cargo till it is delivered to the buyer.

The seller has full control over the carriers, insurers and pays freight for the cargo.

Nigeria's preference of FOB for Exports

- The government finds it most appropriate to transfer the potential risks associated with the ownership of the cargo to the buyer at the load port in Nigeria which FOB incoterm allows.
- Government/NNPC's liability ends as the crude oil passes from loading hose at the vessel's manifold to the loading vessel. The buyer pays for freight, marine insurance, unloading and transportation from the load port in Nigeria to the destination.
- The NNPC bases their choice of FOB on previous experiences of Nigerian Airways and the Nigerian National Shipping Line (NNSL) both of which had their vessels/ crafts and cargoes confiscated on court orders obtained by creditors is unpleasant to recall.

Nigeria's preference of FOB for Exports

Other reasons include:

Guaranteed immediate payment for cargoes and subsequent remittance of revenue into the federation account

Refining contracts are structured such that fiscal forex is not exchanged between NNPC/CBN and the contracting companies

Reduces the cost implication of CIF which depletes our foreign reserves.

The limited control over both freight and freight costs offered by the CIF trade term can cause economic uncertainty

Advocating for CIF

Most maritime nations have adopted the CIF trade term which has enabled them grow thriving shipping industries and created an enabling environment which allows their citizens to participate actively in shipment of their cargoes.

Using the same strategy, Nigeria can derive the following benefits:

Growing Indigenous Shipping Capacity

Economic Growth

Promotion of National Security

Enhanced professionalism across sub-sectors in the value chain

Advocating for CIF

Growing Indigenous Shipping Capacity:

- Encourages indigenous participation in cargo affreightment
- Encourage indigenous fleet expansion
- Build competence in international shipping trade
- Massive job creation for qualified seafarers and other related skill specializations
- Nigerian carriers will have more opportunities to be nominated for cargo affreightment contracts
- Nigerian shipping companies will remain able to compete by entering into charter party agreements with foreign tanker operators to build shipping capacity
- Increased earnings for Nigerian shipping companies and improved capital bases.

Advocating for CIF (Cont'd)

Economic Growth:

Economic diversification has created renewed focus on the huge potentials of the Nigerian shipping industry.

- Active participation of Nigerian shipping companies thus growing the nation's shipping industry and increasing contributions to the Nigerian economy.
- Conserve foreign exchange outflows.
- Enhanced foreign exchange liquidity and stability.
- Improve Nigeria's balance of payments position.
- Wealth creation and improved well being for the citizens.
- In-country value addition as the nation maintains control of the cargo affreightment value chain up to the port of discharge.

Advocating for CIF (Cont'd)

Promotion of National Security:

- Strengthens national border security
- Prevents international terrorism by minimizing foreign involvement in the nation's shipping.
- Restricts market information about shipments and end users and in this way promotes and strengthens national security.
- Major security and economic implications if any country handling our cargo affreightment gets into an international security crisis during the shipment process.

Advocating for CIF (Cont'd)

Enhanced professionalism across the sub-sectors in the value chain:

- Increased management, technical and financial competencies and capabilities of Nigerians in various downstream oil and gas sub-sectors including maritime, insurance and banking.

Increased number of direct seafaring jobs and cadets on sea time training

Increase in number of in-country bunkering and chandelling services

Jobs will be created in administrative,, agency, ship brokerage and chartering services

Conclusion

- The FOB export trade term guarantees revenue flow into the nation's treasury, but is a costly and self-effacing policy that has been detrimental to our economic development as a nation. This policy is adversely affecting the development of shipping in the country as Nigerian shipping companies are technically schemed out on the reason of lack of relevant capacities.
- It is ironical that Nigeria exports on FOB but imports on CIF. This structure puts the nation at a disadvantage as the foreign exchange outflows resulting from current practice do not enhance our balance of payments position with trading partners and keeps us in perpetual deficit. FOB should instead be adopted as the trade term for imports only.
- In view of economic and security implications of leaving foreign operators to dominate shipping, there is an urgent need to galvanize Nigerian shipping companies to get fully engaged in the entire process.
- Enabling trade policies are critical for economic growth. Changing export trade terms from FOB to CIF would significantly develop the nation's shipping industry and have various positive multiplier effects on our national economy.

Questions & Answers

