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## Problems and prospects of the state shipping agency in Tanzania

John K. Moshi

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**WORLD MARITIME UNIVERSITY**  
Malmö, Sweden

**PROBLEMS AND PROSPECTS OF THE STATE  
SHIPPING AGENCY IN TANZANIA**

**JOHN K. MOSHI**  
United Republic of Tanzania

**A dissertation submitted to the World Maritime University in Partial fulfilment  
of the requirements for the award of degree of**

**MASTERS OF SCIENCE**  
in  
**Shipping Management**  
**2000**

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## **Declaration**

I certify that all material in this dissertation that is not my own work has been identified, and that no material included for which a degree has been previously been conferred on me.

The contents of dissertation reflect my own personal views, and are not necessarily endorsed by the University.

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*I thank you all!*

## **Dedication**

*To my late parents who supported my previous education and yet they had no opportunity of seen my success.*

*I will always honour them!*

## ABSTRACT

**Title of the Dissertation:      Problems and prospects of the  
State Shipping Agency in Tanzania.**

**Degree:                    MSc**

Like many other National Shipping Agencies in Africa, NASACO had a traditional and conservative way of performing its activities and this was due to the fact the company had been enjoying state monopoly.

Given the pressures from unsatisfied customers on one hand and external pressures from various International Organisation like World Bank, WTO, EU, IMF etc NASACO had neither option nor immune but to comply with the policy of privatisation which is believed to work more efficiently thus forgetting about the obsolete monopolistic enjoyment.

The problems analysed in this study are a clear indication to the eyes of professionals that state dominance in the commercial activities is most likely to be inefficient and bureaucratic.

As a solution to those problems the government has decided to privatise ship agency activities, consequently to this decision NASACO has been greatly affected in terms of revenue and employment. The author would like to put his position crystal clear that he is not intending to criticise the concept of privatisation since he is of the opinion that the policy is as good if carried out properly, and for the right reasons. Indeed the author is convinced that private ship agencies may offer port users and economy as a whole many benefits.

It is the interest of the study to analyse the future of the state shipping agency in an ever growing technology, competition and the environmental changes than before.

Basing on this the author gives various alternatives for the ship agencies and other intermediaries including that of becoming NVOCC, warehousing, packaging and other diversified value-added services.

**Key words:** monopoly, efficiency, e- commerce, mergers, Privatisation, Diversification.

<b>Table of Content</b>	<b>Page</b>
<b>Declaration</b>	<b>i</b>
<b>Acknowledgement</b>	<b>ii</b>
<b>Abstract</b>	<b>iii</b>
<b>Table of Content</b>	
<b>List of abbreviation</b>	<b>iv</b>
<b>1:0:0 Introduction</b>	<b>1</b>
<b>1:1:0 Definition of the problem</b>	<b>3</b>
<b>1:2:0 Objective and scope of the Study</b>	<b>3</b>
<b>1:3:0 Study Methodology</b>	<b>4</b>
<b>1:4:0 Limitation of the Study</b>	<b>4</b>
<b>2:0:0 The concept of the shipping agent, intermediaries and its application</b>	<b>5</b>
<b>2:1:0 Definition</b>	<b>5</b>
<b>2:1:0:1 Liner Agent</b>	<b>6</b>
<b>2:1:0:2 Owner’s Broker</b>	<b>6</b>
<b>2:1:0:3 Chatterers Broker</b>	<b>6</b>
<b>2:1:0:4 Sale and Purchase Broker</b>	<b>7</b>
<b>2:1:0:5 Port Agent</b>	<b>7</b>
<b>2:2:0 The need for the Agent</b>	<b>8</b>
<b>2:3:0 Qualification for the Good Agent</b>	<b>9</b>
<b>2:4:0 General Duties of the Shipping Agent</b>	<b>12</b>
<b>2:4:1:0 The duty for contracting signature</b>	<b>13</b>
<b>2:4:1:1 Accounting for Fund</b>	<b>13</b>
<b>2:4:1:2 Cargo canvassing</b>	<b>14</b>
<b>2:5:0 Liabilities and claims of the Ship Agent</b>	<b>14</b>
<b>2:5:1 Claims from negligence</b>	<b>14</b>
<b>2:5:2 liabilities resulting from booking cargo</b>	<b>14</b>
<b>2:5:3 Liasing with other Port</b>	<b>15</b>
<b>2:5:4 Liabilities resulting from releasing of import cargo</b>	<b>15</b>
<b>2:5:5 Liabilities resulting from improper care in issuing documents</b>	<b>16</b>
<b>2:5:6 Liability claim resulting from “fake crew”</b>	<b>16</b>
<b>2:6:0 Historical Development of the Shipping Agency in Tanzania</b>	<b>17</b>
<b>2:6:1 Macro- economics analysis of Nationalisation</b>	<b>17</b>
<b>2:6:2 Argument in favour &amp; against of Nationalisation</b>	<b>18</b>
<b>2:6:3 Concluding Remark</b>	<b>19</b>
<b>3:0:0 Problems of the Shipping Agencies Prior to Privatisation</b>	<b>21</b>
<b>3:1:0 Background review</b>	<b>21</b>
<b>3:1:1 Political Problem</b>	<b>22</b>
<b>3:1:1:1 Formulation of the Company</b>	<b>22</b>
<b>3:1:1:2 Missing sense of belongings</b>	<b>23</b>
<b>3:1:1:3 Mixing Politics and Shipping Business</b>	<b>23</b>
<b>3:2:0 Institutional Problem</b>	<b>24</b>
<b>3:2:1:1 Lack of accountability</b>	<b>24</b>

3:2:1:2	Poor Marketing Efforts	24
3:2:1:3	Wrong Perception	25
3:2:1:4	Conflicts of interest among shipping lines	25
3:2:1:5	Staff recruitment	25
3:2:1:6	Over increasing of administration cost	26
3:2:1:7	Lack of communication facilities	27
3:3:0	External Pressure	28
3:4:0	Infrastructural Problems	29
3:5:0	Concluding remark	29
	Government Response to the Problems	30
4:0:0	Privatisation, Restructuring and Lincensing Strategy	30
4:1:1	Objectives of Privatisation	31
4:1:1:1	Promotion of Economic Efficiency	32
4:1:1:2	Reduction of fiscal burden	33
4:1:1:3	Balancing the role of the public and the private sector	34
4:1:1:4	Attract foreign investment	34
4:1:1:5	Spread and democratise share ownership	34
4:2:0	Some methods of achieving Privatisation	34
4:2:0:1	Public Offer	34
4:2:0:2	Management /Employment buyout	35
4:2:0:3	Private placement	35
4:2:0:4	Sale of assets	35
4:2:0:5	Joint Venture	35
4:3:0	The Road to Privatisation	35
4:3:0:1	Communication and campaigning for Privatisation	36
4:3:0:2	Legal Reforms	37
4:3:0:3	Tendering procedures	39
4:4:0	Implementation of the Privatisation Policy	40
4:4:1	The challenges facing the Privatisation Policy in Tanzania	40
4:4:1:1	Lack of Capital Market	41
4:4:1:2	Uncertainty of the gains	41
4:4:1:3	Resistance to change	42
4:5:0	Alternative Reforms Methods	43
4:5:0:1	Commercialisation	45
4:5:0:2	Corporatisation	45
4:5:0:3	Deregulation/Liberalisation	46
4:6:0	The Impact of the Reforms and the Critique of the Reforms Commission	46
4:6:1	Background information	46
4:6:2	Weaknesses of the Reforms Commission	47
4:6:3	The Weakness of the PSRC in divesting	48
4:7:0	Licensing of the Private Agent	49
4:8:0	Conclusion of the chapter	51
5:0:0	Global Challenges Facing the Shipping	

<b>Agent and recommended steps forward</b>		<b>52</b>
<b>5:1:1 e- commerce</b>		<b>52</b>
<b>5:1:2 Decline in freight rate</b>		<b>54</b>
<b>5:1:3 Mergers and Acquisition, alliances</b>		<b>54</b>
<b>5:2:0 Alternative Strategies for the agents and intermediaries</b>		<b>55</b>
<b>5:2:1 Pondering about the future</b>		<b>55</b>
<b>5:2:2 Selected alternative for Prospects</b>		<b>56</b>
<b>5:2:3 Consolidation and shipment of cargo</b>		<b>58</b>
<b>5:2:4 Packaging</b>		<b>59</b>
<b>5:2:5 Warehousing</b>		<b>60</b>
<b>5:2:6 Reasons for warehousing</b>		<b>61</b>
<b>5:2:7 Location analysis</b>		<b>61</b>
<b>5:3:1 Strategies for the success</b>		<b>62</b>
<b>5:3:2 Marketing tools</b>		<b>63</b>
<b>5:3:3 Formation of the shipping &amp; Brokers Association</b>		<b>63</b>
<b>5:3:4 ISO Certification</b>		<b>64</b>
<b>5:3:5 Training need</b>		<b>64</b>
<b>5:3:6 Conclusion of the chapter</b>		<b>66</b>
<b>6:0:0 CONCLUSION</b>		<b>66</b>
<b>8:0:0 Bibliography</b>		<b>68</b>
<b>Appendices</b>		
<b>Appendix 1 NVOCC</b>		<b>75</b>
<b>Appendix 2 GENERAL AGENCY AGREEMENT</b>		<b>76</b>

## **LIST OF ABBREVIATIONS**

BIMCO	Baltic International for Maritime Council
CIF	Cost Insurance Freight
EDI	Electronic Data Interchange
EU	European Union
FONASBA	Federation of National Association of Ship and Brokerage
I/P	Internet Protocol
IMO	International Maritime Organisation
LCL	Less Container than Loads
NASACO	National Shipping Agencies Company Limited
NVOCC	Non Vessel Operators Common Carrier
PE's	Public Enterprises
PSRC	Parastatal Sector Reforms Commission
UNCTAD	United Nation Conference on Trade and Development
WTO	World Trade Organisation

## CHAPTER 01

### INTRODUCTION

The author is beginning by quoting biblical verses from the book of Saint Luke 1:1-4, of which the verse contains the following words,

*“In as much as many have taken hand to set in over a narrative of those things which have been fulfilled among us. Just as those who from the beginning were eyewitnesses and ministers of the word delivered them to us. It seemed good to me also, having had perfect understanding of all things from the very first, to write to you an orderly account, most excellent...”*

The author is fully aware that many scholars have put their hands and write about ship agencies and other intermediaries, however, things are changing with time, and knowledge is changing in every sunrise and sunset. This study is aimed at analysing the role of the shipping agency and its significant changes and the future role of these intermediaries

Up to the year 1998, Shipping Agencies in Tanzania was controlled by the State, giving large room for problems relating to state ownership.

Some of the problems that have been experienced were lack accountability, lack of sense of belongings, lack of essential facilities leading to low attention to the customers, political interference and sheltering of employment. Such problems create barrier to transportation chains leading to higher cost of goods to the final consumer.

In the year 1998, the government decided to introduce reforms aiming at introducing free market economy, thus allowing private sector to participate in the shipping agencies. Other purposes for this move was to promote country's economic growth by facilitating trade it was also one of the method employed by the government in accepting the global economic changes and information technology.

With the introduction of these reforms National Shipping Agencies Co. has been greatly affected making the future uncertain!

Basing on this result, the paper is aimed at analysing the impact of these policies and the future of the shipping agencies and other intermediaries. The future analysis will be based on truth of the changes in technologies especially internet i.e. e- commerce, mergers and acquisitions, alliances and the global decline of the freight rate.

The impact of these changes affects the chains in global liner shipping. With the introduction of electronics commerce the image of the shipping industry and particularly the intermediaries has assumed new roles.

Basing on this fact then, it has become truism that e- commerce has changed the manner in which goods and services are being bought and sold, and secondly the way in which the process of sourcing, transforming and distribution of goods to ultimate consumer is being managed.

It is from this logic of changes, that the paper is aimed at analysing the likelihood future of the shipping agencies in particular **NASACO**.

### **1:1:0 Definition of the Problem**

Tanzania National Shipping Agencies (NASACO) like many other State Owned Enterprises in third world has been greatly challenged for its existence due to poor performance of its role that led to much havoc and dissatisfactions of his customers. Shipping is an international business meaning that it requires fast and efficient logistic chain from the shipowner, cargo owner, port authority, agent, shipper and the final consumer.

Due to the problems of the ship agents in Tanzania, the government decided to transform these activities by allowing private sector to participate in the industry.

Implementation of those policies had its consequences, thus the paper aim at analysing some of the problems in implementation of those policies.

Another problem that relates to these policies is the possible future role of NASACO, care has been taken in analysing these aspect taking into the account of the growing changes in Information and Technology.

### **1:2:0 Objectives and scope of the study**

The study is aimed at focussing on the:

- To examine the traditional role of the shipping agency in maritime industry.
- To assess some of the problems of the shipping agencies working under the state ownership.
- To assess some strategic solution introduced by the government of Tanzania as a solution to those problems.
- To assess the impact of those solution

- To assess the future of the shipping agents and other ship brokers basing on the growing technological changes.
- To make recommendations regarding structural reforms which has been introduced in the shipping Agencies.
- To make constructive proposal and recommendation regarding the future role of the ship agent.

### **1:3:0 Study Methodology**

The study involves various book research published, unpublished, and electronic searching relating to the shipping agencies. The research covers the financial analysis of NASACO basing on the previous years prior to privatisation. The purpose was to have justification for the government intervention.

Contact with NASACO, Ministry of Finance, Tanzania Harbours Authorities, Freight Forwarders, Parastatal Sector Reforms Commission, and Tanzania Shippers Council, Tanzania Central Freight Bureau just to mention few has been made. Personal contact with WMU Lectures has been conducted too.

### **1:4:0 Limitation of the Study**

The study has been conducted just after a structural reform has been introduced in the company, as such, the author has the feeling that it is too early to have enough information on the general success of the private sectors in the shipping agency. More indeed there has been a general tendency of the Private enterprises to avoid disclosing information to the researchers and public at large, thus creating a sort of the barrier to the study.

Looking from NASACO point of view, there could be no much information available, the last information was those mostly published in 1997 just before privatisation of the Company. Given the desperate mood of the remained employees there has been little co-operation with them.

## CHAPTER TWO

### 2:0:0 The Concept of the Shipping Agent, Intermediaries and its application

#### 2:1:0 Definition

A Shipping Agency can be described as the business of one company rendering delivering shipping services on behalf of the shipowner with the right and obligations for both parties specified and signed by the involved parties in the so called agency agreement. Sell defines ship agent in a legal perspectives, *“as a legal relationship that exist between two parties that enter into agreement, whereby one of the parties, called the Agent agrees to represent or act for the other called the principal, subject to the principal’s right to control the agent’s conduct concerning the matters entrusted to him.”*

However with the changes in the shipping industries, it becomes difficult to give a precise definition of the shipping agency.

The type and the function of the shipping agency are highly influenced by the nature of the shipping company or the activities of the ship owner.

In the shipping industries today, various agents can be identified this includes liner agent, Port Agents, Ship brokers, Charterers’ broker, Forwarding Agents sometimes called clearing and forwarding agents, Sale and Purchase Brokers, Owner’s Brokers, Chatterers Broker just to mention few. For the purpose of bringing sense, it is prudent to clarify some of them.

### **2:1:1 Liner Agent**

Sometimes he is called loading broker, This is the special company serving the interest of the shipowner's company who operates under liner arrangements. Some of the key features of the liner business include,

- Fixed schedule i.e. time and place of sailing and the destination.
- Serving one or more established trade routes and can be in various geographical areas.
- Advertised and repetitive and departure dates.
- It carries high value cargo compared to tramp shipping that normally carries bulk homogeneous commodities.
- Uses of tariff in quoting freight rates based on commodity value and destination within the liner services.
- Terms of carriage are guided by contract called Standard Bill of Lading, issued by the Liner Company.

So liner agent has to carry business with the above features. He survive on agency fees, commission on cargo booking, bill of lading fees, commission on container trucking & tracing etc.

**2:1:2 Owner's Broker** is a person appointed by the ship owner's for the purpose of finding cargo for the ship to the highest or best freight rate. The main task of the owner's broker is to focus on the ship's tonnage and balance this supply with demand of the existing tonnage i.e. depending on the market situation.

**2:1:3 Charterer's Broker** can be explained as the person appointed by the charterer to find a reasonable and qualified ship tonnage at he minimum freight cost.

After he has fixed a deal he is entitled for the commission as agreed with the principal.

#### **2:1:4 Sale and Purchase Broker**

These are Brokers specialising in the technical aspects of the ships including the construction and machinery, they also have knowledge on classification of a ship, loadlines, safety regulations, maritime law, shipping economics, (market economics), they are also equipped with the knowledge of international trade, i.e. market volatility of demand and supply of tonnage. Having such knowledge they are able to reap higher profit. Many ship practitioners view this industry as the most lucrative.

When this kind of broker act on behalf the seller he always aim at obtaining the highest possible price and when acts as an agent for the buyer he will aim at obtaining the lowest price to purchase a ship, it should be noted that the sale and purchase of the ship is largely influenced by the supply and demand of the freight market. Meaning that, when the rates are low many ships will be on sale and when freight rates are high fewer ships will be on sale.

Successful broker will be judged and measured by his ability to understand the whole ideas of the freight market.

The author further admits that ship brokerage are not well developed in Tanzania for many reasons but major one can be said due to low purchasing power attributed by low economic development and other associated scenarios.

**2:1:5 Port Agent**, this is an agent in a specified port, serving the interest of his principals in this case the shipowner. He represents the shipowner in that particular port and act on his behalf. His main task is to facilitate prompt berthing of the ship, cargo handling customs, documentation, pilotage, security, tug arrangement, advance cash to the master, paying port dues, ensuring prompt turn around of the ship etc.

However in many port of the world the functions of the port agency are carried out by the liner agents

The UNCTAD Minimum Standards defines the term Shipping Agency in the following manner as,

- any person (natural or legal) engaged on behalf of the owner, charter or operator of a ship or of the owner of the cargo in providing services including:
  - a) Negotiating and accomplishing the sale or purchase of a ship.
  - b) Negotiating and supervising the charter of a ship
  - c) Collections of freight and / or charter hire where appropriate and all related financial matters.
  - d) Arrangement for customs and cargo documentation and forwarding of cargo.
  - e) Arrangement for procuring, processing the documentation and performing all activities required and related to dispatch of cargo.
  - f) Organising arrival or departure arrangements for the ship.
  - g) Arranging for the supply of services to a ship while in port.

### **2:2: 0 The need for the ship agent**

The need and significance of the ship agent can be easily understood when someone looks at the functions and the liabilities entrusted to him by the shipowner.

The shipowner need a representative who will take care of his ship in the foreign port with good knowledge of the local situation, such as marketing and port conditions and capable of handling all the necessary work for the shipowner.

However with the introduction of the container transport and computerisation in 1960's has greatly affect the coefficient degree of the need and the size of the ship agent in our modern times.

Mergers and acquisition of the shipping lines like Maersk acquiring Sealand, P & O merges with Neddloyds etc all these has a great impact on the ship agent in terms of sizes and revenue. More details on the impact of the mergers and acquisition have been discussed in the fifth chapter.

In those long past days, the business of shipping agency was extremely profitable resulting from the high level of freight then prevailing. Implying that both the principal and the agent made good amount of money.

However, since the ship agent most important resources are training, experience, marketing knowledge, etc. That still applies today in a world of increasing globalisation and modern means of communication. The ability to call up data on a screen does not completely eliminate or totally replace the commercial initiative and creativity that the ship agent offers to the shipowner. Basing on this, the author is convinced that the ship agent will continue to be an indispensable link in the maritime chain.

### **2:3:0 Qualification for the good Ship Agent**

Many countries in the world do not impose professional qualification for ship agents. Generally speaking there are no mandatory qualification requirements so speaking, indeed many agents do not even know the existence of the UNCTAD code of conduct for the ship agent. It has been confirmed that many ship agents operate without having to be member of any association or having to comply with any sort of standards.

Like in Tanzania, there is no specific requirement one has to possess for becoming a ship agent but what is important he has to be registered with the Customs Authority together with the Ministry of Trade and Transport.

The purpose for this registration is mainly for tax collection and distance monitoring. However, apart from lack of uniformity in qualifications, there are some implied requirements to be attained by ship agent. These requirements include;

- Sounding financial base.
- Sounding professional shipping matters,

- Technical knowledge
- Reliable office
- Marketing knowledge and
- Knowledge of the Local procedures.

Having examined the existing standards, which lacks uniformity. UNCTAD decided to prepare a set of draft minimum standards as a non- mandatory model to be applied to the ship agency business. The UNCTAD minimum standards has been prepared in close consultation with organisation involved in ship agency matters, including BIMCO, the Baltic Exchange, FONASBA, the ICS and Multiport. They are intended to serve as a guideline to help national authorities and professional associations their own standards.

It should be carefully noted that, these are not comprehensive set of rules covering all aspects of ship agency. They are aimed at upgrading business standards of intermediaries, and focus on three main areas professional qualifications, financial qualification and professional conduct. Their objectives are to:

- a) Uphold high standard of business ethics and professional conduct
- b) Promote a high level of professional education and experience
- c) Encourage operation of financially sound and stable shipping agents
- d) Continue combating maritime fraud by ensuring improved services by better qualified shipping agents and
- e) Provide guidelines for national authorities and professional associations to establish and maintain a sound ship agency system.

The requirements are of general nature and are suitable for minimum standards application to all types of intermediaries and agents. They can be adopted to suit the requirements of intermediaries, whether acting for the ship or the cargo. And they lay down a relatively high level of professional expertise and competence.

The requirements are based on those standards already imposed by various professionals, associations and government regulations in certain countries. They include having practical experience in the relevant field of activity, being of good standing and reputation, and passing appropriate professional examinations.

Article 3(1) of the minimum standards stipulates that, in order to be professionally qualified, the shipping agent must:

- a) Have obtained the necessary experience in the profession by working for at least three years in a responsible capacity with a qualified shipping agent;
- b) Be of good standing and be able to demonstrate his good reputation and competence, by positive vetting and signified approval of at least two agents of good repute who are in his business and his geographical area of activity; and
- c) Have passed such professional examination(s) as required by relevant national authorities / professional associations.

The scope and details of such examinations shall be determined by the said authorities/ professional associations.

The financial qualifications required by the minimum standards are aiming at preventing the operation of financially unstable individuals or entities, by requesting shipping agencies to have adequate financial resources and to be adequately insured against professional liabilities. It is also required that measures be taken to ensure that these standards are met on continuous basis, through annual scrutiny by national authorities or professional association.

The minimum standards promote a high level of business ethics and professional conducts. Article 5 requires the agent to:

- a) Discharge his duties to his principals with honesty and integrity
- b) Apply a standard of competence in order to perform in conscientious, diligent and efficient manner.

- c) Observe all national laws and other regulations relevant to the duties he undertakes;
- d) Exercise due diligence to guard against fraudulent practices and
- e) Exercise due care when handling money on behalf of the principal

Enforcement of the standards is left to the national authorities and professionals association. Disciplinary measures may be applied for failure to comply, but existing agents who fail to meet standards set by the rules are to be given reasonable time to conform with the requirements.

#### **2:4:0 General duties and responsibilities of the ship agent**

The duties of the shipping agent to his principals are covered under the contract called the Agency Agreement. The contract can be in a formal document or can be implied as a matter of common law or by customs, or by statute. However, in general the agent undertakes the following duties.

The agent is required to exercise skill and knowledge to the best of his ability for the benefit of the principal, he is supposed to perform duties to the satisfaction of the principal. Again he the agent should avoid errors, omissions negligence and other risks or some mistakes that may consequently cause loss to the principal. The agent should avoid any act that may low down the reputation of his principal, he should always try to defend and protect his principal's interest

The Agent has a duty to keep his principal informed of any development e.g. when securing cargo, any market possibilities, changes in the port both infrastructure and superstructure, changes in port restrictions, any changes with regards to port tariffs, so when the agent fails to inform his principal of such development then the duty to keep the principal informed has been breached. In some occasion breach of this duty may warranty the principal to terminate agency contract and may lead for him to appoint someone else who is more capable.

In tanker market, competition is very fierce hence principals are heavily relying on the agent. While at the agent port the vessel may be fixed for the next employment to load and the lay day's date are based on the latest information received from the agent. If the agent fails to keep the shipowner closed advised of possible delays, the shipowner may lose the next cargo and revenues. The same can occur if cargo discharge or loading order is issued locally to the agent and the agent fails to advise the principals of changes in quantity and or quality of cargo.

#### **2:4:1:0 The duty for contracting signature**

Care should be taken when the agent is signing contract or any other document on behalf of the principal. The very commonly document signed by the agent is the Bills of Lading, the Agent is keenly required to understand the meaning and implication of what he is signing, cost, risk and impact to be involved thereafter. It is on this ground that the ship agent is required to have knowledge in commercial law or maritime law which covers some backgrounds of INCOTERMS e.g. FAS i.e. Free Along Side Ship, (named port of shipment) FOB, (Free On Board, named port of shipment) CIF- (Cost Insurance and Freight, named port of destination)

When issuing Bill of lading he should be able to differentiate the meaning of stamped phrases like, Received for shipment Bill of Lading or Cargo loaded on Board Bill of Lading.

When signing the relevant document, the Agent should sign as agent for a named principal, in this manner the agent ensuring that he is contracting on behalf of the principal.

#### **2:4:1:1 Accounting for the fund**

The Agent has the duty to account for the fund advanced by the principal. When vessel calls at the agent's port, normally he request estimated port charges to be advanced to him prior to the arrival of the ship. Thus, the use of the principal's fund should be reported immediately after the vessel has sailed.

If the agent fails in this regard, he may be considered as trustworthy, creating the impression of lasting ship agent.

#### **2:4:1:2 Cargo canvassing**

The agent also has the **duty of marketing** and sells principal's service, monitoring of cargo entering or leaving the territory whether direct or transshipment.

#### **2:5:0 Liabilities and claims of the ship agent**

The liabilities and claim of the shipping agents are mainly resulting from his main duties. The author shall only discuss fewer liabilities and claims basing from his book research and experience. Most of the liabilities discussed hereunder are those caused by agent own fault (negligence)

#### **2:5:1 Claim from negligence**

If the agent fails to arrange for the ship to berth, or for the stevedore to attend loading or discharge the ship, he has failed to perform his duties and would become liable for any losses suffered by his principal or by his customers.

Consider a case when an agent receives fax or telex message from a charterer asking if a particular ship was suitable for that port. Having received this message the agent just checked port draft restrictions and replied that the ship was suitable, and the ship was fixed for that port.

Unfortunately he had overlooked the fact that the ship was too long, and that the vessel could not berth accordingly. So when the ship was streaming to the said port then the error was realised. In this particular situation the cargo had to be diverted to the nearest port, unloaded and then shipped in a shorter ship to the previous port. So the agent in this particular case is fully liable for the extra cost involved due to his negligence, he would have to reimburse the substantial costs incurred by his principal.

### **2:5:2 Liabilities resulting from booking cargoes, quoting rates**

One of the most important tasks of the agent is to find and book cargo for his principal's ship. The agent in this respect he must be careful to book the cargo and quote the rate under the terms and conditions of the principal concert.

Some forwarding companies do attempt to their owns terms on the ocean carriers, sometimes under the guise of the quality assurance requirement. In this respect the agent should take care not to accept booking on terms that his principal has not been specifically agreed upon. If the agent is not careful then he might find himself liable and paying substantial amount of money so as to cover the loss incurred.

### **2:5:3 Liasing with other parties**

The agent should liasing between the cargo interest, the ship service provider etc. a failure by the agent to pass on an instruction correctly may lead to a consequential losses. For example, when dealing with refrigerated or cargo which need fumigation care should be taken accordingly.

To be on safe side the agent need to put necessary instructions in writing to the relevant authorities.

### **2:5:4 Liabilities resulting from releasing of import cargo**

One of the greatest moment of which the agent exposes himself to a higher liability claim, is when he releases cargo to a consignee or receiver, when a container has to be delivered directly over the ship's rail into consignee's possession, the agent needs to be careful. The agent has to ensure that original bill of lading or the approved original bank indemnity, which has been approved by his principal, is in the hands of the agents before the cargo is being released to the consignee. When agent releases cargo without original bill of lading or approved instructions from the principal in

this regard the agent is said to commit professional negligence, and that the agent will be liable for wrongful delivery or any other losses resulted thereof.

### **2:5:5 Liabilities resulting from improper care in issuing documents**

Transposition of container numbers may subsequently lead to a wrong destination of those container(s), and thus the agent will be liable for paying reposition cost of those container(s) indeed if cargo lost or damaged (or even confiscated by customs) the agent may be fully liable for the value of goods in question.

Issuing of incorrect address may cost the agent dearly, consider cargo bound for San Diego has been sent to Santiago, iron ore for Coching went to Kaohsin, refrigerated cargo for Birmingham Alabama has been mistakenly shipped for Birmingham England.

Extra care needs to be maintained when preparing cargo manifest, bills of lading and other related documents. Negligence and other minor errors like those mentioned above may cost the agent huge sum of money.

### **2:5:6 Liability claims resulting from “ fake crew “**

It has been learnt that some organisation pretends to be principals or shipowners with malicious motives. BIMCO (1999), that illegal immigrants posing as ship’s crew have increasingly using unwitting ship agents to gain entry into a number of countries.

One of the incidents reported by BIMCO was that, an agent was notified by an owner – Sealink Shipping – that the vessel, the Suwa, would be arriving shortly in Israel. The unsuspecting agent, who accepted the nomination, notified the relevant authorities and arranged hotel accommodations for the incoming of 12 crew, all of them believed to be Indian nationals. Shortly after the new crew arrived in Israel and checked into their hotel, the agent received a call from the “master” of the vessel claiming a delay owing to engine failure. The following morning the Hotel advised that all 12 crew members had left the hotel without notice, leaving the agent

responsible for an unpaid amount of \$ 2000. All the subsequent effort to contact the shipowner or the vessel itself proved to be unsuccessful.

In such incidence like this, the agent is rendered liable for all costs incurred by the crew, and for any fines or any sanctions that may be levied by local immigration authorities for failure to exercise due diligence.

The business of agency is especially susceptible because it relies to an extent on trust. The only way to check the validity of a company is to investigate it fully before to agreeing to represent it, something which is not always possible given the level of competition on agency business. It is advised that agents should use the BIMCO Service Division to check new or unknown principal.

Agents are also advised to be vigilant when it comes to the activities of unscrupulous!

### **2:6:0 Historical Development of the shipping Agency in Tanzania**

Tanzania gained her political independence. During colonial rule shipping activities and other economic matters in Tanzania was mostly carried under private basis.

However it was in 1967 when Tanzania decided to nationalise all major means of production under the so-called Arusha Declaration. In this regard all commercial activities was put under the State Trading Corporation (STC) and consequently NASACO was nominated to monopolise all shipping agencies effectively from 27<sup>th</sup> January 1973.

### **2:6:1 Macro economic analysis of Nationalisation policy**

The author explains the purpose of nationalisation by quoting from Beardshaw pg156,

*“ To secure for workers by hand or by brain the full fruits of their industry and the most equitable distribution thereof that may be possible, upon the basis of common ownership of the means of*

*production, distribution and exchange and the best obtainable system of popular administration and control of each industry or service.”*

Clause IV of the constitution of the UK, Labour party 1918.

The quote sounds so sweet, but has proved to be so difficult to achieve, it is purely manifestation of socialist philosophy of ruling the world economy with honey promises

The definition of “nationalisation” is a complicated one and indeed not easy to ascertain what it actually constitutes. However, the author defines nationalisation as the desire of the state to handle all major means of production into the hands of the public for the purpose of creating equitable distribution of income. This definition should not be considered as standard, simply because it is purely author’s ideas as he stands to be challenged and criticised.

So, shipping agencies and other commercial activities was nationalised in order to fulfil the concrete steps towards socialism, which never reached.

In view of this scenario, the public enterprises operated under centrally planned market environment. The overall policy direction was from the government. Consequently many public companies could not manage to survive on they own but rather depending on the government subsidies. Fewer companies could produce services and goods to the level of break even point, making  $TR=TC$

( $TR$ = Total Revenue,  $TC$  = Total Cost)

This occurs where the AverageC curve cuts the Average Revenue curve at the Equilibrium point

*“This overall equality of total revenue and total cost allowed for a large disparity between the cost of supplying any one individual and the price charged to that individual “ Bearshaw, 1988, p. 276.*

The economic history of Tanzania witnessed the collapse of many public enterprises basing on the above mentioned reasons.

### **2:6:2 Some argument in favour and against Nationalisation**

There are two major reasons for the Tanzania government to opt for nationalisation,

- a) Control of the economy- the government wanted to pursue its economic policies on investment, employment, and prices through, the operation of the industries concerned.
- b) Socialism – a major reason for nationalisation is also considering political views of the ruling party by then TANU currently, CCM. This is based on the belief that public ownership of the means of production is the best way of living.

Some argument against nationalisation

Many nationalised industries are monopolies and it could be argued that state monopoly is more disadvantageous to the consumer than private one. This is because there is no higher authority to protect the consumer's interests The consumer has to tolerate lack of choice and high prices associated with monopoly.

Bureaucracy is another setback against nationalisation, since it creates over- large and over bureaucratic organisation, which suffers from diseconomies of scale.

It is also argued that the sound administration of nationalised industries is often undermined by politicians for short-term political gains.

### **2:7:0 Concluding remarks**

In this chapter the author has explained in details the concept and definition of the ship agents and some of ship intermediaries and their general application in maritime community. Modern shipping business is becoming more litigious than before so the ship agent has to perform his obligations with optimal diligence, the purpose being avoidance of claims.

For the case of Tanzania prior to de - regulation, State agent had nothing to worry about because all matters were under the state control. In view of this, nor claims

were being paid neither did the company had the insurance policy for covering his liabilities and even to his properties.

The NASACO head office was inferno and the whole 8-story building were completely destroyed by fire, nothing could be rescued at that time. However, due to the fact that the building and other properties were not insured the Company could not obtain compensation thus total loss!

Given this experience, it is advised that the ship agent should cover himself by buying sufficient and adequate insurance.

## **CHAPTER 03**

### **PROBLEMS OF THE NATIONAL SHIPPING AGENCIES IN TANZANIA PRIOR TO PRIVATISATION**

#### **3:0:0 Background review**

NASACO as a State owned shipping agency basically could have faced with only two major problems, first problems related to Liner business which can be said as more work load for lower reward; lower levels of cash flow; less control over his or her own future and greater investment in technology. At the same time the Liner Principal expect the Agent to work in partnership bringing the sense of change of corporate culture and greater degree of mutual understanding.

For non-liner, the agent faces the problem of identifying where control really lies i.e. the cargo owner or the shipowner; the information required focuses on the cargo, as well as the vessel. In such business there is conflicts between the owner, who pays the fees and the charterer who nominates him, demands from owner for discounts and charterer for rebates and for need for wider marketing and intelligence work.

Thus these are general problems which might face the Liner Agent and non-liner agent in his day to day operations. However the situation is more detailed for a state owned ship agent

The problems of the shipping agency in Tanzania could be divided into three major group that includes political, state control or interference and technical problems.

All these together could be said to be the most significant problems affected the shipping agencies in Tanzania. However the author has included other problems which had indirect effect to the shipping agency. Such problems can be said as the poor transport net work in Tanzania, high tariff rate etc

### **3:1:1 Political Problems**

These are the problems, which affected the company due to political influences, and others are due to Company formulation, some of them are as follows;

#### **3:1:1:1 Formulation of the Company**

It will be recalled that soon after Tanzania gaining political independence opted for ideas of socialism the purpose was to archive fast economic growth through public ownership of the means of production and limiting the size of private sector. Tanzania was one of those countries and NASACO was born in those premises. By the virtue of law, NASACO was empowered to monopolise all shipping agencies business. Adam Smith explains in his book *The Wealth of the Nation* the unique behaviour of monopolists also as cited by Samuelson, p 154,

*“The Monopolists by keeping the market constantly understocked, sell their commodities much above the natural price, and raise their emoluments, whether they consist in wages or profit”*

Briefly what Adam Smith is saying here is that Monopolists have unique feature of raising the prices of goods or services for the purpose of enrichment. So, NASACO as a single provider of the agency services had a problem of higher commission rates and higher agency fees while service provided where critically low and of poor standard.

Another problem with such political formulated organisation includes the possibility of existing mismanagement of finances leading to self enrichment, since officials exercise substantial amount of power so under such environment it is easy to bend rules in favour of certain groups or individuals.

### **3:1:1:2 Missing sense of belongings**

Missing of sense of belongings among employees was another serious problem faced the agency in Tanzania; one of the reason for the creation of NASACO was to create employment for his Nationals of which the goal was extended extensively leading to low productivity.

### **3:1:1:3 Mixing politics and Shipping business**

Shipping industry is competitive businesses it mostly requires freedom of decision and sometimes ad hoc solution and responsibilities. Thus combining management team with politicians and workers may distort decisions. This is because history has proved that politics affects economic business. But to some academicians, there is nothing wrong for management team that comprise of managers, politicians and workers in fact this can be assumed as a participate management concept in large spectrum.

Chief Executive Officer of the Company is a political appointee of the ruling party in which case he has to dance whatever the party is singing. It is prudent to agree that for any business to prosper needs to be free in her decision without political yoke or intervention and unnecessary bureaucratic constraints it must have the authority and implement them and take fully responsibility for success or failure as the case may be. On the other hand such combination can be viewed as the complication of the decision making processes where collective responsibility means safety against individual accountability thus leading to inefficiency, high operation costs and low productivity.

### **3:2:0 Institutional Problem**

These are problems relating to management as a whole, some of these could be sighted as follows;

#### **3:2:1:1 Lack of accountability**

NASACO being the Public Enterprise severely lacked accountability. The concept gives the idea of reporting and feedback system. Those who acts on behalf of the other persons or group should report back to the group or person this is one of the basic principle of quality management in an organisation. NASACO as a public enterprise lacked this important component. At the other end of the business i.e. in a Private Sector accountability is very obvious.

For directing and supervising production. Finally, the owners are accountable to the customers, and collect profit the excess of revenue over cost in exchange for organising and monitoring the whole process. From the customer point of view a classic profit seeking agency relationship prevails, but with layers of more complex contracts within it. The Chief Executive officer and other managers are accountable to the Board; the Board is accountable to the Shareholders. Thus there is a clear line of accountability from management to the Board and finally to the Shareholders. So NASACO as a Public Enterprise had little to do with this concept of accountability.

#### **3:2:1:2 Poor marketing efforts**

One of the important duties of the shipping agent is to conduct cargo canvassing or cargo promotion. Due to the fact that NASACO was the sole Shipping Agency by that time, little attention was being paid in this due regard. It was obvious that the Agent was not fulfilling one of his obligations of which he was duty bound. To the shipowners it was disappointing since the agent was paid reasonable remuneration and other fees. Some of the vessels used to sail with ballast water simply because the Agent could not secure cargo for the vessels.

### **3:2:1:3 Wrong perception**

The Company had no clear mission statement, it had wrong perception that ” Customers will always buy the company service wether they are satisfied or not. This was absolutely wrong in its totality especially in the competitive market.

### **3:2:1:4 Conflicts of interest among shipping lines**

Putting all shipping lines together under one roof was not proper since there is strong conflicts of interests among shipping lines such combinations were P&O Nedlloyd, Msc, PIL, MOL, Hyundai, GSL etc such environment apart from creating conflicts it also invites corruption among the shipping lines for cargo lobbying against each other.

### **3:2:1:5 Staff Recruitment**

The personnel recruitment’s policy did not comply on required personnel attitudes and qualities desired for competitive global shipping business. Such recruitment policy was based on the fact that employment was for life.

Boarding officers who had direct contact with the master and the crew onboard needed to have academic and professional qualities as a tool of giving good company’s external image. Suprisingly in most cases NASACO selected unqualified personnel who frustrated the ship officers thus toning the image of the Shipping Agency

### 3:2:1:6 Over increasing of Administration cost

The table below shows the operating income and administrative expenses over the described period and total expenditure in percentage.

Year	Operating Income	Admin. Expenses	Total Expend.. in %
1991	1748	849	48.6
1992	1982	1209	61.0
1993	2818	2125	75.4
1994	3348	2912	87.0
1995	3476	3042	88.0
1996	3325	4141	125**

Source: NASACO *Annual report and Accounts 1994/95 & 1996/97(Mill TZS)*

The latest information as from 1998 and 1999 was not ready during the period when this research was being conducted, however those figures above shows the general trend of the Organisation had financial difficulties. In the year 1996 and the year 1997 the Company spent more than his income this was possible due to the fact that management decided to borrow some of the money which belonged to the principals and invested in the real estates .The result of this heavy investment lead some of the claimant like the Harbours Authority and principals to pressurise for their claims. At some instances some vessels had to be seized or detained for the alleged maritime

claim of which the principal had already remitted fund to the Agent who had not paid but investing in estate instead. Such scenario and others frustrated the shipowners and other parties who could use the agency services.

### **3:2:1:7 Lack of communication facilities**

We all agree that shipping is International business of which the players need to contact each other by various facilities due to vast distance exist among those participants. Ship owner may be far away say in Western Europe but his ship may be sailing in the waters of East Africa. In this regard, the owner would be anxious to know the prevailing situation of his ship, crew on board, and the carried cargo. So he will spend most of his time making phone calls, telex and other sophisticated means of communication just to inquire for the actual position of his ship.

It is important then for the agent to have reliable communication facilities since he can communicate with the owner and give him all the required information, it is also true to say that any ship before calling to any port the principal will require some information from the agent such as port condition, port expenses, and other related information. So, communication facilities are very important for any ship agent who aspires to be successful.

NASACO, as State Enterprise dealing purely with Shipping Agencies to a great extent ignored the significance of this variable. The Company exercised very low investment on this important aspect, very limited number of telephone, and telex were installed, and when installed the bills were not paid on time hence Communication companies had to disconnect the cables more often. Consequently to this, shipowners who intended to call at the Tanzania port find themselves in a difficult situation since they were unable to provide relevant information like expected time of arrival (ETA), Ship particulars, cargo particulars, etc, it was even difficult for principals to remit necessary funds for port charges i.e. Disbursement account.

Such situation frustrated principals and associated customers e.g. shippers, importers who are heavily relying on shipping agent for their day to day transactions.

For the Chatterers they had to loose more since in some occasion they had to stay outer anchorage leading for payments of demurrage. According to Peter Bradie, he defines demurrage as ,

*” amount of money paid to shipowners by the chatterers, shippers or receivers as the case may be for failing to complete loading or discharging of cargo within the time allowed in the charter party. The rate of demurrage normally an amount per day, is agreed in the charter party ”* Sandevan p.58 explain that,

*“ If the Charterer fails to load and /or discharge the vessels within the laytime specified he has to pay compensation for the surplus time used (demurrage)”*

So in this regard the sea users who depended on agents find themselves hanged by paying dearly!

Poor communication and weak transportation facilities contributed to slow documentation of necessary papers such as ship clearance, despatch of cargo manifest, shipping order just to mention few.

Such scenario prompted port users to complain bitterly to the ministry of Trade and Industries who is the overall incharge of the commercial activities in Tanzania.

### **3:3:0 External Pressure**

With the increased Internationalisation of all forms of economic activities, which demanded strong competitiveness, and adjustment of business behaviour thus NASACO could not survive the pressure and changes, which were happening outside, the World Bank and International Monetary Fund several times have been advising the Government to restructure her economies among other things was to reduce the size of the Public sector and introduction of free market economy as a strategy for economic growth.

### **3:4:0 Infrastructural Problems**

- Inefficiencies of both railway network and road transportation made many shippers and importers especially transit to opt for the other ports the consequences as explained above.
- High port tariff compared to other neighbouring countries the same effects as above.
- Lack of dry docking facility in port made vessels to call to other neighbouring ports such as Mombasa and Durban, this deny some income to NASACO esp. commission and agency fees.

### **3:5:0 Concluding remarks**

In this chapter the author has tried to explain some of the problems, which has been facing the shipping agencies in Tanzania for more than thirty years. Those problems could be divided into political, institutional, technical and indirect problems that had significant influence to the Company's performance.

Given the above sighted problems it is obviously that NASACO performed poorly because of the monopolistic tendencies and misuse of the public resources, adding all these two and others could not let NASACO resist the wind of the global changes which calls for structural reforms of commercial activities.

## CHAPTER 04

### GOVERNMENT RESPONSE TO THE AGENCIES PROBLEM

#### 4:0:0:0 Privatisation, Restructuring and Licensing Strategies and its impacts

There are different forms of privatisation which exist in the world today and the choice of one or another can have a critical effects on the success or failure of the whole entire programme.

Before proceeding in the details the author of this work deem it fit to describe the concept of privatisation as it is popular used, the term privatisation denotes, “ a radical change and a complex exercise in structural adjustment programme. It is basically

*“ the transfer of the ownership from the public to the private sector.”* (UNCTAD 1995, p. 63)

The definition of privatisation may vary greatly depending on different environment and the user himself, however it basically constitute three key wording thus, transfer of ownership rights, operating right and development rights. Depending on the form of privatisation chosen, the private sector may acquire any one of these rights or combination of them.

It should be put clear that transfer of financial risk. For example, management contract transfers operating rights to private operator, but it does not involve any financial risk for the latter – should the enterprise fail to make profit, it is the government that is finally responsible for any loses.

Restructuring can be explained as

*“ The composite of all actively taken organisational changes aimed at transforming the relationships within the enterprise, and between it and its environment, in order to give it a new focus, character scope, goals and purpose for existing. “ (SMAK, Kaombwe.)*

The quotation in this case bring the sense that restructuring is a particular programme introduced in any organisation for the purpose of making services in a more efficient and cost effective manner by changing the way it is posed, controlled and operated. Restructuring involves such changes as management structure, strategic orientation, capital structure, legal form, size and composition of the employees etc.

So, restructuring of the Shipping Agencies in Tanzania which is public enterprise create the concept of allowing private sector to be involved in economic activities in running commercial activities through commercialisation and privatisation. In a nutshell, commercialisation implies the introduction of a commercial, business like environment, in which the Shipping Agent is accountable for its decision and performance. The main objective of the commercialisation is to increase management autonomy and accountability.

#### **4:2:0 Objectives of privatisation**

The objectives of the privatisation are interrelating world wide in that they focus only on the gains from rebalancing the roles of the private and public sectors to enhance the productive power of the economy. A general conclusion which is generally derived among many scholars is the superiority of economic performance of private sector over the public enterprise, also there is spread of view that resources will be used more productively if they are in the hands of the private sectors.

At the national level there may be various objectives but interlinked. The objectives can be political, economic, fiscal, social, or can be the combination of several of them. To a large extent achieving one objective means to achieving another. For example reducing public debt can lead to stabilising of the economy and thus promoting savings and investment. Achieving social objectives like widening share of ownership can motivate people politically.

However the main objectives of privatisation can be grouped as follows:

#### **4:1:1:1 Promotion of economic efficiency**

The primary objective of privatisation is to promote economic efficiency by fostering well functioning market and competition. It is generally considered that private ownership can enhance economic efficiency by exposing management to market incentives and allowing resource allocation decision to be determined by private sector responses to relative price signals. In well functioning markets, relative prices give signals about the relative scarcity or abundance of various resources and about the needs and wants of consumers and users of products and services. In a free market economy, profit-seeking responses to market price signals will lead to efficient allocation of scarce resources, and thus serves the objective of economic efficiency.

Many Economists believe that, in order to achieve efficiency gains there should be competition in place and regulation where necessary, thus the achievement of economic efficiency is mostly likely to be achieved when healthy competitive markets can be created however appropriate regulation has a vital role when competition is not feasible.

#### **4:1:1:2 Reduction of the fiscal burden of loss – making state enterprises**

In many countries one of the major reason for launching privatisation is to assist state to regain fiscal control and macroeconomic stability. Excessive fiscal deficits associated with the fiscal burden of subsidies to support the Public Enterprise has been pointed out as one of the key factors underlying monetary instability and macroeconomic imbalances in many countries, at all levels of economic development. Loss making public enterprises contributes significantly to disenchantment with previous strategies for industrialisation and economic growth, and the need to regain fiscal control has become an urgent priority.

By mobilising financial resources through sales, privatisation serves to reduce public debt and associated recurrent fiscal burdens of debt service.

For the case of Tanzania, in 1990 the country had a total public debt of about US\$ 4.3 billion while the Gross National Product was US\$ 3.7 billion, it is correct to say that the accumulated losses were about 120 % of the GNP in 1990.

The government of Tanzania realised the excessive high price for public sector dominance, which threatening double-digit inflation and worsening of the living standard of the people

Such level of public debt can be said to be unmanageable proportions, and debt service was consuming an excessive share of current government revenues, to the detriment of core government functions So by contributing to healthier public finances, debt reduction can also allow more capital to be made available at lower cost for private investment, thus promoting private sector can lead to economic growth.

Privatisation of NASACO was crucial in reduction of the burden, losses and inefficient state enterprise indeed this could lead for the state to release limited state funds for the financing of other activities including project to fight poverty.

#### **4:1:1:3 Balancing the role of the Public and Private sector**

One of the objective governing privatisation is to redefine the role of the state so that the state can concentrate on its major functions, including that of promoting efficient functioning of market for the public interest, while leaving the private sector to do what it does best. Some of the core business of the government includes creating a sound legal and macroeconomic framework, protecting the environment, ensuring order and security and providing efficient public service, including essential infrastructure, education and social protection. These are all key elements of the role of government in creating market conditions for dynamic economic growth.

#### **4:1:1:4 Attract foreign investment**

Privatisation can attract new technology, management skills, as well as new business partners, for enterprise growth. Privatisation tends to free the enterprises from the budgetary constraints and political interference from the state and allows it to raise private capital and enter into alliances with strategic partners.

#### **4:1:1:5 Spread and democratise share ownership**

It was considered that privatisation can help allocating a proportion of shares to small investors and to employees and creating a new group of stakeholders in the well being of the shipping agency and hence boosting the national economy at large. Further to that it was considered that privatisation could give employees a stake in the success of their enterprises leading to change labour attitudes, improve management labour and enhance productivity

#### **4:2:0 Some methods of achieving Privatisation**

##### **4:2:0:1 Public offers**

In such case where the shares of the company are quoted on the stock exchange and can be freely traded, the government may decide on an offering. It may also decide

to retain a major part of the stock in order to exercise some influence over future company activities.

#### **4:2:0:2 Management /employee buyout**

In this situation the government decides to divest its shares to the employees so that the latter assumes ownership of the company. A buyout will be more appropriate whenever employees are highly motivated and keen on buying the company. Demand prospects must be stable and the size of the company should be rather limited.

#### **4:2:0:3 Private placement**

Through a process of competitive tendering, various potential private investors can submit a quotation. By negotiation the government can then decide which offer is the most attractive. It is possible that a consortium of companies makes offers by banks.

#### **4:2:0:4 Sale of asset**

This alternative can be considered when a private investor are not interested in acquiring the whole of the company, or when better results can be expected through a partial rather than an outright sale.

#### **4:2:0:5 Joint venture**

A joint venture represent an enterprise in which two or more private companies, or a State Owned Enterprise (SOE) and private investor (s), jointly owns the equity of the company.

#### **4:3:0 The Road to Privatisation.**

Privatisation should not be taken under superficially attempt, as it may be dangerous and misleading particularly when such policy shows success in some other countries of the world. Thorough understanding of all their implication should be taken into

account. This is due to the fact that this policy is too sensitive thus need comprehensive analysis which will ensure that proper institution are in place.

The author is of the opinion that the future of privatisation and countries economic development will be at high risk if proper procedures will not be taken into account.

For some economists, privatisation is seen as a short-term means of generating revenue and longer-term methods of expanding tax revenues from more profitable private operations.

Usually privatisation involves competitive bidding leading to conflicting interest at stake, thus selection of the attractive bid is an exercise that requires powerful skills, transparency and objectiveness.

The author of this dissertation is a true casualty of a privatised Company so basing on his experience he think the following steps deems to be fit followed prior to privatising company.

#### **4:4:0:1 Communication and campaigning for privatisation**

The author begins this section by making citation from Samuelson, 1998, p.188,

*“Risk varies inversely with knowledge “ Irving Fisher (1930)*

What Fisher tries to narrate here is that risk in any project can be minimised by having more information thus, the more the knowledge in a project, the higher the chances for success for that particular project is. So information is power!

Privatisation is similar to any other project that has an element of risk coefficient, meaning that there is a chance for the assumed objectives of this policy not to be achieved.

So one of the technique used to make this strategy successful is to create proper information and knowledge to all participants through communication.

Once management has decided to launch privatisation as the need may seen to be. The management is duty bound to communicate to all employees and public, inform. Communication is important as it plays a role of:

- Creating transparency and confidence to the staff of the company and public at large.
- Bring a sense of democracy,
- It also overcomes resistance to change (normally there are personnel who are afraid of reforms since they are afraid of losing their key position.)
- Communication also creates credibility to both the public and to the investor, since the investors will be convinced that laws and conditions of sale will not be violated.

In summing up, the state owned company, which needs to be privatised needs extensive publicity campaign initially at home and abroad. Detailed financial information included in the prospectus drawn up in accordance with the normal criteria for stock market floatation. In some cases where the Company is going to be sold information should be publicised in the newspaper, and television as well. Employees need to be well informed about the prospects and their future benefits regarding privatisation to be launched.

#### **4:3:0:2 Legal reforms**

It is now clear that, Privatisation of Public Enterprises involves transfers of Public property to the private hands, however, and the transferred properties may worth billions of money.

Given the fact that, history is full of corpses of corruption and disputes and lack of trust.

It is on this cornerstone that, comprehensive and detailed legal framework is crucial so as to avoid the likely disputes that might happen during the course of privatisation.

Review of the country's legal system and the legal status of PE's in order to determine whether there are particular legal issues such as ownership rights or problems arising from the transfer of the PE's to the private sector. The constitution should address the legal structure and the nature of the PE's included in the privatisation programme.

Establishment of property and ownership right is very important, property right must be stable, clearly defined and should be legally enforceable. Participants must be able to use these right freely and to transfer them to other parties unhindered. Unbiased and free judicial platform should be established to deal with property right and contractual obligations. A well-defined property right protected by law is crucial to the operation of the competitive economy.

Structuring of privatisation of the legal system can be of specific legislation for each privatised enterprise or can be legislation that covers the entire privatisation programme. Specific privatisation legislation can facilitate and speed up the process, even if privatisation is already technically permitted by law.

Legal framework should also be supported by reviewing institutions, control or enforce the rules as well a dismantling the excessive and unnecessary bureaucracy. By doing so there shall be avoidance of conflicting responsibilities.

Laws that provide guarantee to the investors are very important since they build confidence to them there should be provisions that guarantee foreign investors non-discriminatory treatment and mechanism to guarantee foreign capital and tax stability.

Labour laws and legislation regarding employment should also be in place as part of legal framework. These laws need to be sufficiently flexible to allow new investors to conduct any organisational reforms for the purpose of improving economic efficiency of the enterprise. The condition of the employment safeguarding the interest of the employees, stipulating retrenchment condition, compensation for loss of employment and pension schemes.

Privatisation will work smoothly under conducive business environment, and this is possible once the government establishes entities to work on, these entities may include contract law, company law, insolvency law, trade law, accounting and

auditing legislation, laws regarding the transfers of liabilities, foreign investment laws, laws on arbitration and dispute settlement, capital market and securities legislation, commercial banking laws, laws on taxation, competition laws and environmental legislation contract law and company law should also be included.

Finally, legal framework as an important element in privatisation process should address the capital matters, such as the minimum paid up capital for PE's. The tasks and duties of the directors and corporate officers needs to be clearly defined. Shareholders' right should be protected.

#### **4:3:0:3 Tendering procedure**

Another popular procedure in launching privatisation of the company while ensuring transparency is called "tendering procedures" It may include the following steps

- All bidders should be provided with the clear objectives of the company privatisation and the requirements that the bidders have to meet should be stated in as much detail as possible.
- A standard format should be adopted regarding information that should be submitted by the bidder (company profile and the structure , financial performance capabilities etc )
- Tenders should include a detailed business plan on envisaged operations, encompassing the inevitable market research.

The author concludes that, to ensure the objective appraisal of all competing bids, the evaluation should rely on several clearly defined criteria. However, a completely objective judgement is extremely difficult, as assignment of weights to the various evaluation criteria is always subjective. Since the case of one bidder clearly dominating all others at all points occurs rather seldom, priority consensus, and possibly quantification, on the weight to be attributed to the various evaluation. Agreement on this basis can substantially ease the onerous task of the evaluation team, it adds transparency and shortens the decision time.

As it has been said before that privatisation involve long process and should not taken at surprise neither as an overnight decision. Privatisation should always be taken with great care.

However, the author is highly convinced that there is no clear model for restructuring as it all depends on many factors including geographical, economical, social values of the society, level of technology and so on.

#### **4:4:0 Implementation of Privatisation Policy**

In my previous chapter 03, I have explained the problems of the Shipping Agencies Company in Tanzania and indicated the need for the government to launch reforms at earliest. This was responded by the government to formulate special commission responsible for specifying corporations which need to be restructured and also to executes plans for reforms.

The formation of PSRC in 1993 i.e. Parastatal Sector Reform Commission assumes state responsibility of restructuring the ear marked companies.

At the moment over 68% of the companies have been already privatised including Shipping Agencies (NASACO), making a total of about 395 companies.

Many other enterprises are in the process of privatisation including public utilities, infrastructure, financial institutions, Port Authority just to mention few.

Care must be taken in conducting privatisation, sufficient studies must be taken, consultancy services should be provided and regulatory framework should be in place. Without those mentioned matters the author has the feeling that there shall be no clear difference between privatisation and selling of the local companies at a take away price.

#### **4:4:1:0 The challenges facing the Privatisation Policy in Tanzania**

The pace of privatisation in Tanzania and in third world in general can be attributed to many factors some relating to practical problems of implementation, others reflecting reservations as to repercussion, that would follow the adoption of programme of privatisation.

The more difficult the environment the greater the likelihood that privatisation comes up short- even though it is precisely in the more difficult environments that the gains from privatisation are most needed.

In weak economies, implementing successful privatisation programme becomes a daunting challenge. Certainly those responsible for managing the programme, from the policy makers at the highest levels to the managers charging to the carrying out the transactions.

However, there is no standard solution to the often perplexing problems that crop up in translating a policy commitment to privatisation into results, indeed there is no universal “cook book solutions” to the challenges of privatisation.

Having given the above briefing, the author wishes to explain some of the main challenges facing privatisation in Tanzania and developing world in general.

It is to the understanding of the author that once below mentioned problems are solved then implementation of privatisation programme will be successful.

#### **4:4:1:2 Lack of capital market**

It is obvious that Tanzania being one of the developing country is facing the problem of capital market thus there is insufficient capital to handle large equity of sales. The absence of a well-developed financial system means that divestiture will have to be made by direct placement with local or foreign interests large enough to handle the transaction. This means that the local government may be unwilling, however, to have its assets transferred to certain groups of potential buyers, if it results in a further concentration of wealth of the fewer. In some countries, it will be politically unacceptable to sell enterprises to wealthy minority groups. In this respect objection may be raised to increased ownership by foreign interest.

#### **4:4:1:3 Uncertainty of the Gains**

One of the major constraints on the pace of the privatisation policy in Tanzania may result from uncertainty as to economic benefit of privatisation. This is due to the fact

that the divestiture may do little to improve the economic performance of the enterprise if it simply transfers the ownership from public to private sector. In this regard financial benefits may also be limited, if, for example, tax and subsidy concessions are offered as inducement to the sale of loss making enterprises.

#### **4:4:1:3 Resistance to Change**

The resistance from interest groups that stands to lose from privatisation is likely to form a powerful political constraint. This opposition will come from labour force employed in the public enterprises that fear job losses, and from government officials whose areas of authority and opportunity for patronage will be reduced. In some places where liberalisation is threatened, further resistance will come from those groups who currently enjoy the protected economic rents created by the system of regulation and control. The opposition by various sectional interests that are threatened by privatisation may well be more immediate and more vocally expressed than the anticipated longer-term benefits from greater economic efficiency.

#### **4:5:0 Alternative Reform Methods**

In this section the author will discuss about some of the alternative methods which can be used in the reforms for creating efficient and competitive market condition. In this regard a collective efforts from both the private sector and the government is needed in achieving the projected objectives. These reforms place responsibilities for the ownership, development, operation and provision of labour based on various criteria.

- Sometimes these reforms are called non- divestiture options, which can be an intermediate step towards sales by demonstrating commercial viability of PEs to be sold. Non – divestitures range from corporation to management contract, which typically involves the removal of subsidies, as well as exposure of the private sector PE to private sector ethics and competition. The main pe of non-divestiture options includes

- Commercialisation and corporatisation
- Privatisation of management (management contract, leases or concession) contracting out.

#### **4:5:0:1 Commercialisation**

This is the strategy which involves the changes of public enterprise into commercially viable. In this regard the management of the PE is given the autonomy and accountability for decision and its performance. In order to achieve commercial viability the PE should introduce structural and management changes or it may be contracted out. If the management is contracted out, then it should spell out the obligation and responsibilities, which are based on negotiation between the government and the PE managers. A clear contract plan, which is simple and preferably short specifying the enterprises objectives in terms of goals, and quality of services or goods produced and the desired overall social impact should be stipulated clearly.

It is believed that one of fundamental purpose of this strategy is to expose the PE to operate within the ethics of market leading to more efficient services greater flexibility and less dependence on government support. Commercialisation is being regarded as precondition towards privatisation, further to that, this step enables the management of the PE to gain experience towards private sector involvement.

Commercialisation of the PE should address inter alia the following issues:

- I. The role of the government should be limited in service provision i.e. should not directly be involved in competition with private sector.
- II. Streamlining the decision making process for the purpose of realising cost effective and accountability.
- III. Making the PE responsible to users by providing services according to market demands, abiding to market discipline and commercial principles.

There are number of advantages for the PE to undergo commercialisation

- a) Higher efficiency in management of the PE, this will be achieved by management motivation which is included in the management agreement.
- b) It is possible to achieve accountability due to the introduction of cost / profit centres focuses on efficient use of resources.
- c) Operational efficiency can be realised by exposing the PE to market condition of competition without government support such as subsidies. This makes the enterprise to focus on customer requirement by improving the quality of services so as to attract and keep customers.
- d) The management will have authority to utilise earnings to improves competitiveness in technology and personnel training without interference from the government.

However some of the weaknesses of the commercialisation strategy are as follows:

- a) The strategy may require some additional resources from the state, this may be a barrier to the achievement of the commercialisation, this said to be one of the block because most of the government are experiencing financial crisis and many world financial institutions are waging campaign against the government to stop further investment in the public enterprises.
- b) Commercialisation gives limited autonomy leading to limited flexibility in achieving strategic goals especially those related to foreign business or investment opportunities,
- c) Commercialisation does not get rid of bureaucratic constraints as fast as it is supposed to be thus commercialisation is a slow process and its effectiveness depends on a number of factors such as
  - i) Gradual introduction of more commercial policies especially in the areas of marketing and customer servicing.
  - ii) It requires changes in the structure and size of the labour force, which involves re- negotiation of the terms and condition of employment . This can hardly be achieved in Tanzania due to the

existence of weak trade union, which is, affiliated with the ruling party also the low size of the official working group.

- iii) Changes in attitude and cultures in tuning to that of private sector and that of management and staff. This has been a long outstanding problem in many of the PE's that may not be easy to change in a short run. This may further require a very strong leader to change the style of the management.

However putting the weakness and the strength of the commercialisation strategy in the fair balance sheet, the author still would prefer this method to have been used in reforming of NASACO as it suits the culture and the working environment of the Company.

#### **4:5:0:2 Corporatisation**

These goes further than commercialisation, this kind of strategy involves the transmission of the PE into a corporation or other business organisation as determined by relevant laws. In other words is like converting the PE into a legally and economically independent legal person with board of directors. In this regard the government continue to retain its equity ownership but finally the government share equity can be sold, for example, once the company has secured a market position and has become reasonably profitable.

Some of the advantages of this strategy include that of allowing the enterprise to adopt to the generally accepted accounting principles of the private sector and it is also adopt the private management principles of competition and rewards linked to performance.

It was not easy for the Tanzania Shipping Agency to enjoy the corporatisation strategy simply because it has never be given fully autonomy for discharging its responsibilities freely from the government approval.

#### **4:5:0:3 Deregulation / Liberalisation**

This involves the processes of the government to untie the monopolies statues by relaxing the rigid or constraint of economic regulation hence creating free market environment, operators are then provided greater flexibility to invest, fixing of business and make it possible to negotiate tariffs.

The main purpose of deregulation and liberalisation policies is to create better performance in a competitive market situation. Deregulation makes it possible for the Public enterprise to compete equally with the private enterprise. This can be achieved by having rules and regulations that are attractive to Private Sectors.

Some of the advantages of this policy include

- a) Flexibility and efficiency can be realised by allowing free market environment.
- b) Reduction of unnecessary bureaucracy thus reducing cost.
- c) Price setting becomes feasible and closer to the social optimum due to relaxation of unnecessary regulations.

For the case of Tanzania, this alternative has been greatly implemented since 1985 by elimination of the State Price Commission which was responsible for setting prices of goods and services all over the country. This shows the extent of which the government of Tanzania were prepared towards private sector.

#### **4:6:0 The Impacts of Reforms and the Critique of Reforms Commission**

##### **4:6:1 Background information**

The impact of structural adjustment programmes on employment depends strongly on the pre existing economic situation, the magnitude and speed of technological change, the external environment, the nature of the programme itself and the functioning of the labour market. In general structural adjustment reforms tend to lead to reductions in employment in the short term, but if the key objective are met they should promote long term employment growth.

However the retrenchment strategy has the advantage of solving the financial problem of the company more quickly, this can be attained by improving profitability through reduction of loss making units indeed the strategy can decrease the operating cost that could otherwise be involved in these business and finally the strategy can optimise the investment portfolio by spending money in business whose return are more certain

#### **4:6:2 Weaknesses of Reforms Commission**

It should be recalled that in 1995, the shipping agency of Tanzania retrenched about 250 employees and three years later it retrenched about 230 employees leaving about 200 in a master payroll. The retrenchment strategy, which was conducted in two phases, had the following weaknesses.

- **Lack of transparency** – the divestiture programme was not clear to many of the employees, workers were less involved in participation of the whole process. So when, the programme was launched most workers were not prepared. In a true democratic community divestiture of Companies should be done in a transparency manner. Workers need to be informed so that they can budget and plan for their future arrangements. PSRC (Parastatal Sector Reforms Commission) as the state arm in carrying structural reforms is duty bound to educate public about the expected reforms, such openness will clear some those rumours that the appointed institution is corrupt. According to one of EU mission to Tanzania headed by Mr. Peter Christiansen (<http://www.ippmedia.com/guadian/>, May 2000) he told Reuters that Tanzania Government is not doing enough in fighting corruption, he further argued that reforms in the country are mainly blocked by corruption. He finally summarised by saying the following,

*“ We donors feel that the government has not forcefully enough Implemented the anti – corruption strategy and the action plan has not been given total strength needed to be effective “*

One of the ways of clearing such strong words should be practising transparency not only within the country but also outside Tanzania.

The author wishes to put his position very clear that he is not accusing the Commission for being corrupt, but rather the manner in which it conducts and execute his obligation are rather questionable and full of doubts:

- The programme has resulted in a massive loss of jobs, and to make the matter more badly, those who were made redundant were not fairly compensated and oftenly the payment is associated with undue delays in effecting payments. This has greatly affected the morale of the workers greatly due to uncertainty of future employment.
- Lack of common formula in computing terminal benefits among workers was one of the experienced problems. NASACO as a state owned enterprise had its own terms and conditions of service on which terminal befits and retrenchment packages were based. Employees of different sections of the same Enterprise were awarded differently packages ranging from golden handshake to empty handed regardless of years in service

#### **4:6:3 The weaknesses of PSRC in Divesting**

As I have briefly indicated in the previous chapters about the role of the PSRC in conducting privatisation the author has observed some weaknesses as per reforms commission:

- a) **Lack of financial capability** – The commission is severely in shortage of funds for carrying out some programmes including that of retrenchment., consequently to this, terminal benefit for retrenched Parastatal employees has been slashed by abolishing the generous employment terminal benefit packages used to be paid to retrenched. The new package provides for as little as one months' salary as terminal benefit, while in the previous the benefits started as at least 44-months'

salary. The package is applicable to all workers being retrenched, irrespective of the number of years served in the state owned firm.

**b) Indigenous Financial constraints**

PSRC is paying little attention for the indigenous in buying shares or equity, what the Commission cares most is one who wins the bid, consequently many firms are now owned by foreign companies. It is well understood that many indigenous Tanzanians have no sufficient capital, skill, and technology in running those firms that are being reformed. However, the PSRC was supposed to design models and strategies of which could enable the indigenous to participate in the on going reforms

**C) Poor monitoring of post privatisation effects**

The PSRC after authorising reforms for some companies and possibly collect the required revenue, the commission does little efforts to monitor the progress of the new investors. It appears that the Commission is only interested in short run gains.

**4:7:0 Licensing of Private Agents aims and impacts**

NASACO as a National State enterprise has been serving about 40 shipping lines. Problems of such PE's has been explained in the previous chapters especially chapter 03.

One of the solutions in facilitation of the whole idea of trade liberalisation that started in Tanzania in mid 1980's was to issue trade licence to private ship agents. The authorisation of licensing was issued from the Ministry of Trade and Transport and became effective in 1998, actually there were no written agreement between the lines which run their own agencies and the Tanzania government.

Within the period of less than a year about 35 ship's agent were already registered with the state. With the authorisation, nearly all the major lines now operates their own agency business, those lines includes P&O Nedlloyd, MSC, CMBT / Safmarine, Maersk, Inchcape and others.

However, the withdrawal of those major shipping lines led NASACO to be in a critical financial crisis as nearing the closure of the shipping services.

On other hand, the licensing process has created reasonable relief to many shipowners / principals as manifested by the following quotation,

*” It took a while, but the Tanzania ships agency sector can now accord itself the status of being totally free, liberalised and competitive...In the past all work had to be channelled through the government organisation, NASACO, which was less than effective and almost totally ineffective. This in turn led to all major shipping lines having to operate a ” protecting agency ” along side the state one that they were forced to use.”* Lloyd’s list No. 57524 pg. 19

The advantages of this process are similar to those already mentioned in the previous chapters in respects of deregulation and liberalisation in general. However the major one can be said that there has been considerable increased in effective documentation leading to many ships to spend less time in port hence saving on demurrage. In this aspect it can also be said that speed of the vessels turnaround has increased.

Claims and other queries that formerly had to be channelled to NASACO can be replied within few minutes hence trade has been facilitated.

However, the procedure suffers a number of weaknesses. Taking into consideration that the authorisation was not documented a number of issues needs to be addressed. The authorisation of licensing does not lay clear grounds for the application procedures indeed it does not indicate the qualification of the applicants.

The authorisation does not show as how the Government will monitor and control the activities of the shipping services in terms of tax collection or in case of an offence committed by the agent thus the legal framework in this particular case has not been covered

#### **4:8:0 Conclusion of the chapter**

In this chapter we have seen various methods and process of restructuring of the Public Enterprises as response to poor performance inefficiency leading to financial losses. The reason for privatisation and its consequences has been also mentioned.

In this case, privatisation of the shipping services in Tanzania believed to have more advantages than disadvantages. At the moment it is not easy to establish financial details regarding the success of the programme since it has been launched hardly a year ago.

Further to that, the author is optimistic that, the fundamental principles of divesting of the shipping agencies have not been followed accordingly.

Caution need to be taken not to assume that privatisation is the general solution (panacea) for every inefficient or loss making PE neither the policy option should not be over exaggerated. The author further views that an improvement in economic performance of the PE is more likely to become successful if there is an increase in market competition than just a matter of changing ownership. *Laissez –faire* should be the logical response to this conceptualisation with considerable influence of the state power to secure necessary conditions under which stable market relation can be reproduced.

## **CHAPTER 05**

### **5:1:0 GLOBAL CHALLENGES FACING THE AGENT AND THE RECOMMENDED STEPS FORWARD**

In the previous chapter, we have seen as how the Public shipping agency has been affected by government policies attributed by the global economic changes, we have also seen various reforms strategies like privatisation, commercialisation aiming at restructuring the agencies in Tanzania.

Privatisation and its impacts have been discussed at length. All these reforms had many purposes including that of possibility of reviving the Organisation.

However, having critically analysed the role of the intermediaries and the ship agent today, the author is afraid that even if NASACO could be re - empowered his monopoly power, still his roles and functions could have been strictly limited due to some challenges that exist today. The author would like to mention some of those challenges of which the ship agents and other intermediaries like shipbrokers are facing, these challenges creates a sort of limitation to these agents.

#### **5:1:1 E-commerce**

Information Technology is changing our business environment in a way few could ever have thought possible and even fewer were prepared for the changes.

In the modern world today due to technological changes especially on the IT and internet in particular, ship agent seems to be limited in his daily operational functions.

Consider a case prior to internet, the functions of the ship agent as before the arrival of the ship, the agent had a numerous obligations including that of informing the port authority for the arrangement of pilotage, tugs, security, cargo owners, customs, ship clearance, co- ordinate port operations, signing the bills of lading, cargo canvassing and pays all the expenses of the ship in the port just to mention few. The details regarding the functions of the ship agents has been explained in chapter 02.

In this particular case the agent uses paper, telex, telephone, or fax to communicate and discharge his due obligations in a due and diligence manner to the relevant parties.

So shipowners and or cargo owners had to appoint ship agent in various port so as to carry out those mentioned tasks.

But with the introduction of Internet and e- commerce, (i.e. making business electronically) maritime and shipping industry seems to take a different image. E-commerce is about internet, and particularly the Web which many have perceived has significant advantages over the others like EDI.

The Web uses Transmission Control Protocol (TCP) / Internet Protocol (IP) which is multi – platform non-proprietary protocols, and can therefore be used in any suitably equipped computer. It allows exchange of data in non – structured message formats marking it significantly more flexible than EDI.

Internet seems to take some of the space that was once occupied by the ship agent.

With the internet some shippers have possibility of making screen booking via the internet and at a lower rate than they could have clinched personally as rebate are sometimes being offered as incentives for using the facilities, the shippers will not even pick a phone. Screen booking makes the possibility of the shippers to know the freight rate, name of the ship, exchange rate arrival and departure of the ship indeed payment can also be done through Internet.

The core purpose of the screen booking is to consolidate shipments from the small shippers and fill up excess space on ship, hooking shippers onto their systems with the promise of lower rates. By consolidating small shipments, and filling up excess

space; these ventures aim to offer shippers more attractive rates than they would be able to negotiate normally.

It is possible now for a shipper or shipowner to know exactly where the ship is at any given time, the information being completely accessible from their desk top simply by using website and using a series of instructions, making the vessel's position to be identified.

Cargo booking could be made possibly through the website hence limiting the functions of the ship or port agent.

One shall have to agree that with internet which is high level of technology at the moment making the shipping activities to become more faster, and relatively transparent than before leading to reasonable economies of scale, quality and safety measures has also been tremendously improved.

#### **5:1:2 Decline in Freight Rate**

For some reasons including that of improvement in ship technology leading for the ships to be faster, Asian economic crisis, increased carrying capacity all these and others have contributed to the general decline of freight rate as from 40% to 6% during 1990's and the unit cost of the sea freight fell some 70% in real terms during the past twenty years. (Payer p. 269)

Decline of the freight rate has impacts to the ship agent, this is due to the fact that, one of the source of his income is derived from the cargo booking computed on the basis of freight commission. Thus if the freight rate is higher than the agent will have higher commission and viz. versa. So, given the fact that there is a decline of the freight it is automatically that the revenue received to the ship agent will be also low thus fluctuation on freight rate has impact to the ship agent too.

#### **5:1:3 Mergers, Acquisition, Alliances and take over.**

There has been a great pace of shipping lines to merge or to form alliances and take over, some of the purpose for this is being an attempt to achieve better slot utilisation and lower operating cost. With alliance it is possible to serve more ports more often

and be more responsive to customers with dramatically less investment than it would have taken for single shipping line indeed tracking and tracing of containers in the multiple port, from the port of loading to the retailing centres becomes more easier. In such situation whereby there is mergers or alliances, it is obviously that one of the ship agent will be redundant.

The logic behind this redundancy is very simple. Consider a situation like when CMA merges with CGM, which were late 1998. In this case prior to merging each had separate agent in different port. So, when they merged together means that they will consolidate their services and provide as one entity, hence keeping two ship agents in each port will be economically not accepted. Hence one of the ship agent has to be declared redundant.

## **5:2:0 Alternative Strategies for the Agents and intermediaries**

### **5:2:1 Pondering About the Future**

*“It is better to light a candle than to curse darkness.” Roosevelt, 1884-62*

At the moment the Company is at the *crossroad*, with about 200 employees in a master payroll with assets worth more than \$20 million. The business of agency is not doing well any more for the reason already explained. So the company needs to do something for the purpose of generating income for the future. The critical question one has to ask is what kind and which new business should the company venturing for?

In making decision as a response of the above question, in commencement of any type of commercial venture, one needs to have a clear indication of the size of the capital, expertise of the employees and the possibility of the already existing network and geographical location hence from this point the nature of the business can be projected.

As I have indicated before, NASACO has capital assets worth more than \$20 Million ([www.africaonline.co.tz/nasaco/nasaco/htm](http://www.africaonline.co.tz/nasaco/nasaco/htm)), the money being in assets form that is in warehousing, container depot, various estates. With such amount of capital the company can still venture some business which may generate reasonable income.

One of the advantages for this is that Banks and other financial Institutions do have confidence hence they can provide loan or other support when required.

Having such assets gives confidence to the customers that, the business is not conducted by fly by night operators, thus, possession of tangible assets gives the impression of trustworthiness of the company.

Another important aspect in consideration of the new business to be ventured should be based on the previous experience. NASACO has been dealing with the shipping agencies for about thirty years, thus dealing with all kind of import and export documentation and other shipping arrangements.

Some of the staffs are well trained in financial management, maritime and freight forwarding education. Other expertise as per general functions of the ship agents includes ship chandelling, cargo tallying etc.

Location wise, NASACO is having three major offices each of them being located around the port areas in three different regions, the distribution of these offices are as follows, Dar es salaam, Tanga and Mtwara. The company also has three more branch offices located in Mbeya, Kampala and Kigoma. Having such network the company can benefit from the advantages of contact and marketing advantages.

With regards to international network, NASACO, has been involved in dealing with about 40 shipping lines in each year, thus international contact is not a problem. The author is convinced that, contact for the NASACO is not a barrier for venturing other business.

### **5:2:2 Selected Alternative for the Prospects**

Shipping professionals needs to be on the alert for the changes with respects to environment. This requires a lot of activity, creativity, flexibility, imagination and

vigour. Without these characteristics the future for the ship agents would be very little and narrow in this new millennium.

In the similar truth of lines NASACO also need to understand that, “vessel cost represent only 10% of the carrier cost and on the other hand, land side expenses represent more than two third of the average carrier’s cost. So, there is so much on rail and trucking business in addition to managing ship”. (*International Container Review 1998*, p. 35)

The author looks the future of the ship agency and other intermediaries to be in the premises of doing logistics services, which creates value added to the customers.

One of the major reason for my suggestion is based on the fact that, customers are looking for transportation and logistic providers who meet their requirement by cutting inventory through just in time deliveries, cut transit time, cost and enhance overall efficiency of their operations.

Service providers needs therefore to focus more on customer requirements due to globalisation of economic activities.

More indeed, shippers are looking to carriers to help quickly and simplify their operations and make their supply chain more efficient.

These are services with additional functions necessary for supporting logistics movement and flow of many economic transactions and eventually facilitating the sale of goods and services in Tanzania regions and to the other landlocked countries like Burundi, Congo, Uganda, Rwanda, Malawi and Zambia (see the inserted map). This is possible due to the fact that NASACO is located near the port of Dar es Salaam hence possible to make arrangement of transit cargo. Other pre qualification has been already mentioned above.

In order for the NASACO to be service provider of the value added services the company in question has to become primarily NVOCC and other logistic provider as explained hereafter. In this case NASACO shall have to undertake the following functions;

- Consolidation services

- Intermodal inland and co ordination of transit cargo
- Warehousing and storage
- Logistic planning expertise
- Packaging
- Tailoring of information services that will allow the agent to have total and continuous shipment trucking with visibility to inventory in transit, which reduces cost and transit time.
- Depot administration

A good example of Ship Agents who undertake some of the above mentioned functions include Bay Shipping A/S of Aarhus – Denmark , Nederlands Bevrachtirgka of Rotterdam, UNIMAR –Unimar Agenciamentos Maritimos Ltd of Uruguay etc.

### **5:2:3 Consolidation and shipment cargo**

This is the combination of various products from various shippers into a single container, normally the status of this container is called, LCL Less than Container Loads. In many parts of the world, this kind of job is being performed by NVOCC i.e. Non Vessel Operating Common Carrier they do consolidates small shipment from different shippers into full container loads and accept responsibility for all details of the international shipment from the exporter’s dock including paper work and transportation.

The author is convinced that if NASACO will assume some of the responsibilities of NVOCC there might be some success and bright future.

NVOCC are Multi modal transport operator who offer services for transport of goods to any part of the world and may also undertake to perform a variety of functions on behalf of the consignor such as groupage of LCL cargo, documentation, packaging, warehousing, customs formalities, cargo insurance etc.

NVOCC are normally referred to as Freight Forwarder, simply because they do not own means of transport but they do operate by sub contracting logistics activities from other service providers like railways, shipping companies and road hauliers.

The extended advantage of NASACO being NVOCC is that he can extend his services into door to door transport chain leading to considerable increase of the business's income. Having already involved in door to door transport the next step will be to organise the entire movement of goods from consignor to consignees on behalf of the cargo owner. In this case NASACO will handle the transport of goods from and to certain locations. Thus, he will be serving local clients and the neighbouring countries like Burundi, Rwanda, Zaire, Malawi, and Zambia (these are landlocked countries as mentioned earlier) The map below indicate as how goods will be transported to other regions to the landlocked countries.

By doing this kind of job NASACO will be receiving some fees from the clients for the service that has been rendered.



Map: Tanzania main transport routes and land locked countries

(Source: [www.africaonline.co.tz/nasaco/map.htm](http://www.africaonline.co.tz/nasaco/map.htm))

#### **5:2:4 Packaging**

Logistically, packaging provides during storage and transport. This is especially important for long distance over multiple transportation modes.

Packaging can ease movement by properly designed for the warehouse configuration and material handling equipment. The best package increases service decreases cost, and improves handling. Good packages can have a positive impact on layout design and overall warehouse productivity.

Thus, NASACO being the company with expertise personnel can handle the business of packaging as a means of earning revenue. Packaging serves mainly functions of marketing and logistics. On the marketing side, packaging provides customers with information about the product and promotes the products through the use of colour and shape. The package provides the final interface between the consumer and the customer. Consumers generally choose to buy from the image they perceive that a product has, and what they perceive is heavily influenced by the cues given on the product's packaging brand name, colour and display. The best way in making packaging is to use unambiguous symbols like the UPS (Universal Product Code).

From a logistics perspective, the function of the packaging is to organise, protect and identify products and materials. Some advantages of good packaging

- Lighter packaging may save transportation cost
- Careful planning of packaging size/ cube may allow better space utilisation of warehousing and transportation.
- More environmentally conscious packaging may save disposal cost and improve company's image.

#### **5:2:5 Warehousing**

As I have pointed earlier that NASACO is having one warehouse located in Dar es Salaam and located just near the port. Warehousing supports time and place utility by allowing an item to be produced and held for later consumption. The fact that the

warehouse has been located near the port gives the opportunity for the cargo to be transported in hinterlands and other places for future consumption.

Traditionally, warehousing provide storage of products (referred to as inventory during all phase of logistic process.

However, increasingly, warehousing is used as “*flow through* “ point rather than a “ holding point or even bypassed (e.g. scheduled deliveries direct to customers), as organisations increasingly substitute information for inventory, purchase smaller quantities, and use of warehouses as “*consolidation points*” to receive transportation rates and service levels.

#### **5:2:6 Reasons for warehousing**

- Achieve transportation economies
- Achieve production economies
- Take advantage of quantity purchase discount and forward buys.
- Maintain source of supply
- Support the firm’s
- Meet changing market condition (e.g. seasonally demand fluctuations, competition )
- Overcome the time and space differentials that exist between production and consumers.
- Accomplish least total cost logistic commensurate with desired level of customer service.
- Support just in time programs of suppliers and customers.
- Provide customers with a mix of products instead of a single product on each order.
- Provide temporary storage of material to be disposed of or recycled (i.e. reverse logistics).

#### **5:2:7 Location analysis**

NASACO warehouse have been located near the port, this is the best location for the warehouse since it can render services to a greater number of consumers including

port users and some factories that are located near the warehouse. The site selection decision has been approached by macro and micro perspectives. The macro perspectives examines the issue of where to locate warehouse geographically within general area so as to improve the sourcing of materials and the firm's market offering (reduce and/or reduce cost) The micro perspective examines factors that pinpoint specific location within the large geographic areas.

NASACO is having an added advantage in selecting and locating site for its warehouse, the following factors that are presumed to be advantages are worth mentioning:

- Quality and variety of transportation carriers serving the site,
- Quality and quantity of the available labour.
- Labour rates are reasonable.
- Cost and quality of industrial land.
- Potential for expansion.
- Tax structure.
- Nature of community environment.
- Cost of construction.
- Cost and availability of utilities.
- Cost of money locally.

### **5:3:1 Strategies for the Success**

The best way for the NVOCC and the value added service provider to become successful is to try to understand and satisfy his client. Some of the methods employed in achievement for this is to do the following;

- Listening from client and have an understanding of what the client want.
- Asking the client as how he thinks that he can be served better.
- Investing heavily to the existing clients
- Doing marketing that adds value

### **5:3:2 Marketing tools**

- The company should conduct sufficient research, by analysing client profile and media tracking.
- They should conduct in house seminars inviting some core customers, Customs Officials, Port Authority, and other related officials.
- Writing articles and get quoted in the press.
- Speeches and conferences.
- Networking referral sources.
- Sponsorship and exhibition.
- Mailshots and brochures.
- Advertising in different media e.g. Television, Radio, and thanks to the Internet they can also create web site hence becoming global advertised.

### **5:3:3 Formation of the Ship & Brokers Association**

The Shipping Agencies of Tanzania needs to form association such as Kenya Shipping Association (KSA), Federation Shipping Association of Antwerp etc and join with FONASBA of which in each country has to be represented by a national association. This will put shipping agent at par with other national organisations like owners, shippers etc. The statutory purpose of such federation or association among others includes;

- To defend the profession of the ship agent or broker and to be consulted whenever the problems arise.
- To encourage a sound and fair practice of the profession among the members by representing, studying and defending interests of its members by insuring an efficient exchange of information.
- To protect the port interests as well as to the shippers.

The major important point of interest is statutory recognition of the profession. In Tanzania at the moment, it appears that the ship agent and brokers profession is still an open profession and indeed there is no clear law on establishment. Nevertheless, the business is confronted with increasing responsibilities in many matters like customs, dangerous goods and so on.

For example, when seamen are signing on and signing off subject to visa requirements, the agent in this case is held responsible for the payment of all possible accommodation and repatriation expenses in case the seamen involved disappears.

The agent also carries considerable responsibility for the notification of the dangerous goods within the scope of local and international regulations, such as the minimum requirements of the vessels bound for or leaving the port and carrying dangerous goods or polluting the port.

#### **5:3:4 ISO Certificates**

Acquiring quality assurance certificates ISO 9000 and 9002 and investing in the latest generation of computer and information technology system. This will offer them a rapid response and provide the highest quality service to the customers, a good example of such kind of Ship agent who provides these services include the Spanish Ship Agencies. The author is convinced that the move will make the agent to have a clear focus in this century that is governed by complex, competitive and ever changing maritime environment.

#### **5:3:5 Training need**

Training is very important, the author considers this as a wheel for lubricating development. Thus, the government and well financially investors need to open various colleges, which deals with logistics and ship agencies. Various certificates like those issued by the ICS (International Chamber of Shipping) need to be introduced.

Training will improve working culture of the staff involved in this sector of agency, hence training will improve workers attitudes, and indeed training will enable the involved parties to adopt new technologies.

Further to that it is expected that training shall reduce mistakes of which can cause accidents and may be very expensive.

### **5:3: 6 Change of Company name and Logo**

Given the fact that the discussed company had overdue problems as stipulated in chapter three, the author would like to advise the management to change its name since many customers have lost confidence on its performance.

Having changed its name then it should diversify its activities into logistic supply chain or value added services. In this case it will be possible to capture the growing market.

### **5:2:7 Conclusion of the chapter**

In this chapter we have seen as to how electronic commerce exerting some considerable influence on the way freight transportation services are being transacted. The information technology has become the key element in determining the prices and service differentiation in transportation services. E- commerce is transforming the commercial relationship between carriers, intermediaries, shippers and the consignees. Most parties on the transportation chain are getting greater internet access thus calling for the players to be more competitive.

Traditional ship agents therefore needs to diversify their activities so as to adopt or cope with technological changes, it is thus advised that the intermediaries needs to involve themselves in value added services and the associates logistics services like warehousing, packaging, storage, freight forwarding etc.

## **CHAPTER 06**

### **CONCLUSION**

For any country in the world that aim at achieving economic development needs to improve transport and it's associated logistics. Inefficient transport logistic could lead to low level of country participation in the international trade. Many development economists believe that, there is close correlation between transport and economic development.

For countries like Tanzania that is having port, generally they have added advantages in the participation to the international trade and that has also a function of transporting transit cargo to the land locked countries. In consideration of port it covers not only the point between sea and lands but also logistics part of it. Logistical constrains contributes to the general increase of the prices of import and export cargo.

Shipping agents have some significant role in the logistic chain hence they have to provide higher services with higher quality services, reliability and above all the focus should be on customer requirement.

The establishment of the State Company dealing exclusively with Shipping Agencies had the purpose of introducing common ownership of the means of production, at the same time the formation ignored the problems that could crop up leading to barriers to trade.

Structural changes were inevitable as the crisis in the shipping industry was at its peak. The author at this juncture wishes to congratulate the government for its intervention for allowing private sector to participate in the Agency business, though this decision came late, it is true to say that better late then never!

Myopic people do consider that privatisation is evil simply because it leads to redundancy to some workers. Such ideas are purely not correct since the focus should be on the way it has been aimed, designed, and implemented. The purposes of introducing free market economy are very obvious this includes promotion of economic efficiency, attracting foreign investment just to mention few of them.

The reforms would allow the Tanzania ship agents to cope with the global challenges, which affects the practicability and the general functions of the ship agents and other intermediaries.

The fast ever growing of Information and Technology (IT) especially the *Internet* is a major threat to the traditional intermediaries. The ability of client to make cargo booking, freight payment, access to ship schedule through the computer screen all these and others limits the functions of the ship agents.

Basing on this fact the author has given various recommendations as a tool for the intermediaries to succeed in this new working environment. Some of those recommendations include diversification of the activities by providing value-added services like NVOCC, packaging, warehousing, improved training, and formation of the Shipping and Brokers Association just to mention few.

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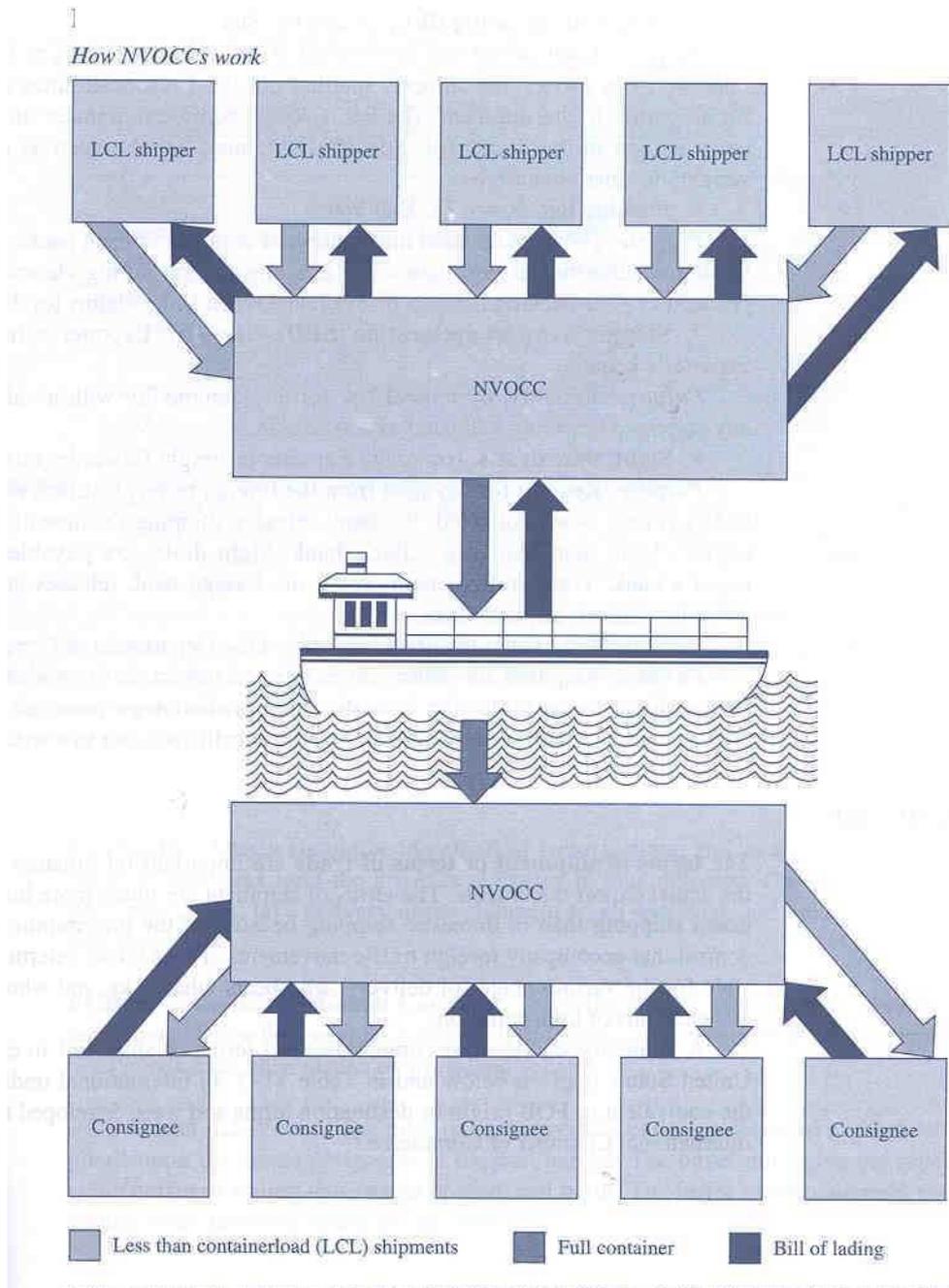
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**Above: How the NVOCC work (Source: Lambert p.407)**