

1.0 INTRODUCTION

1.1 BACKGROUND INFORMATION

According to Ndikom (2006), The Word freight rate connotes the reward usually payable to the carrier for the carriage and arrival of the goods in a mercantile condition ready to be delivered to the merchant. Maritime shipping services are usually priced in conjunction with land mode of transport and are dependent on the forces of demand and supply. Moreover, the demand and supply of International sea-transport services are basically derived from the demand and supply of commodities (Goods) carried by sea and is therefore affected by the elasticity (changes in prices and demand cum supply) for those commodities. Basically normal times, an important factor affecting the exact elasticity of demand for shipping service, is the cost of transport in relation to the market prices of the goods carried.

Although, it may be small, the cost of sea transport is often a significant element of components in the final market prices of many important commodities. Ekwerina (2003) posits that in developing countries, particularly those of the sub-saharan African region, transport cost (Freight rate) consist about Fifteen (15%) to twenty (20%) percent of the costs of imported and exported commodities. Thus, a commodity that may have attracted a low price to purchase in the international market tends to cost 150% to 200% higher than the actual cost of purchase after it must have entered the sub-saharan African

market. The impact of this is that inflation tends to be the order of the day for imported commodities in Nigeria causing a continuous high rise in the prices of imported goods. Experts thus assert that there exist a direct correlation between market prices of imported goods and the shipping (transport cost) freight rate such that a positive change (upward increase) in liner freight rate brings about an upward increase in the costs of imported goods while a negative change (downward decrease) in liner freight rate brings about a downward (decrease) change in prices of imported products in Nigeria. Over the years however, the frequency of positive changes (increases) in liner freight rate with attendant Increase in market prices of imported products has been so high that it becomes customary for prices of imported products to continue to go high without room for decline in market prices.

Ndikom (2006) posit that the continued increase in liner freight rate in sub-saharan African countries can be traced to a number of factors among which are: high port tariffs and dues charged to ship owners by Government Agencies and terminal operators in ports, high ship turn-round time (STRT) in sub- African ports necessitating the payment of demurrage by ships; delay in cargo clearing processes by customs and other government agencies in ports, lack of national shipping lines to carry the countries share of water-borne trade and insecurity in the waters of the region causing panic to ship- owners that trade in the

sub-saharan sea-routes. The effect of this is that, even in the face of port reforms that sort to address majority of the problems of the shipping industry, freight rate in Nigeria has continued to be negatively affected as a result of high cost of doing business in Nigeria ports which has invariably impacted negatively the market prices of imported goods in Nigeria and turning the economy into an inflation ridden economy,

In the View of Okon (2006), freight rate, insurance, import duty and handling costs constitutes an important element in the determination of the value of many export and import commodities and also influence the demand for such commodities in the import market. This in essence means that shipping freight rate is an element that increases the cost of products, and thus, the prices of export and import goods in the market as well as exportation and importation is the main vector of our commercial exchange, since the largest percentage of Nigerian international trade is carried by sea Hampton,1989). The research will however seek to evaluate the correlation between liner freight rate and market prices of imported products in Nigeria.

CARGO FREIGHT RATE IN LINER SHIPPING AND ITS CORRELATION TO HIGH PRICES OF IMPORTED GOODS IN NIGERIA

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