



## **Problems and Potentials of Chittagong Port: A Follow-up Diagnostic Study\***

**Tanvir Mahmud  
Juliet Rossette†**

### **Background**

Chittagong Port is considered the heart of the economy of Bangladesh. The geographic location of this port creates the opportunity of easy and cost-effective foreign trade to be carried out through this port with all the South Asian countries as well as other Asian countries. Besides, sufficient and low-cost labour is readily available here. For these reasons, Chittagong Port holds much potential as a highly promising regional sea-port.

However, despite immense potential, the port's reputation has been tarnished due to a number of irregularities, corruption, bureaucratic complexities and lack of safety for ships; as a result, Chittagong port has been known as one of the costliest and riskiest ports in the world. The port management has been held captive by an unholy alliance of the corrupt officials and employees of the port and customs, dock-workers, clearing and forwarding (C&F) agents, stevedores and others involved. This has tainted the country's image over the years. Such irregularities attribute to the increase of sufferings of the common people through harming the national economy.

Corruption has taken an institutional form in the offices of the Chittagong Port Authority and the Customs Department of Bangladesh. Everybody assumes that no job can be done here on time without taking recourse to bribery or tips. The rules of law and accountability have become almost non-existent. The labour organisations have made the port hostage in upholding the interests of political parties as well as their own.

### ***Rationale and Objectives of the Study***

Some improvements can, however, be observed with regard to the Chittagong Port since the declaration of emergency in January 2007, and subsequent improvement of surveillance along with some decisions taken since March 2007. The present caretaker government started implementing a number of action-plans for ensuring qualitative improvement of port management.

After studying the extensiveness of problems faced by Chittagong Port, TIB had recommended a few suggestions on an urgent basis through an in-depth diagnostic study conducted in 2004. The suggestions aimed at increasing the capacity for handling commodities and reducing expenditure. Based on the suggestions, the authority introduced 'one-stop service' for minimising procedural stages and reducing harassment. However, effective steps could not be taken for solving various outstanding problems related to labour owing to political influences. In the mean time, publication of reports on allegations of corruption in Chittagong Port and the Customs House continued in the mass media.

This follow up research was undertaken with the aim to present a comparative picture between the current and previous situation at the backdrop of a firm stand taken against corruption by the caretaker government, and the significance of Chittagong Port in the country's economy. The major objective is to undertake an advocacy programme addressing the prevailing problems. The specific objectives of this research are: (a) present a comparative picture of corruption in Chittagong Port between 2004 and

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† The authors work with TIB as Research Officer and Research Assistant, respectively.

2006, (b) evaluate the changed situation in the port in 2007, (c) analyse the causes and impact of corruption and irregularities, (d) analyse the relationship between the stakeholders and the port authorities, (e) analyse the impact of the measures undertaken, and (f) offer a set of recommendations for the sustainable growth of the port.

This study was conducted from February to April 2007. The sources for collecting information include port authority, C&F and shipping agents, importers and exporters, direct observation, and several published/unpublished documents.

## **Major Findings**

### ***Insufficient human resource and equipment***

Over 8,000 personnel are currently employed in the offices of Chittagong port and customs. 31.9% posts in port and 33.3% in customs are vacant against approved posts. Both these offices lack educated, experienced and efficient manpower, which is essential for operating highly technology-dependent environment. It was found that many officials working in Chittagong Customs House cannot verify import-export documents without the direct cooperation of C&F agents and cannot operate computers by running ASYCUDA++ software.

Along with inadequate and inefficient human resource, lack of sufficient equipment is also quite apparent. At present, there is a 24% deficit with respect to sanctioned equipments. Besides, a large segment of existing equipments remains inoperative or out of order most of the time.

### ***Irregularities in dock-worker management***

Because of inefficiency, lack of discretion and corruption of dock-workers' management board, many dock-workers above 57 years of age still continue to work by showing themselves younger on paper. Many of them drew their wages on 28 February 2007 on the latest. The number of such workers is more than 400. There are also some labourers who draw wages by giving their cards to replacement workers, as they are either physically incapacitated or do not go to work for various reasons.

### ***Illegal occupation of land***

329.48 acres (which is 19% out of total 1708.63 acres) of land belonging to the port is currently under illegal possession. Of these, 232.31 acres are under possession of government/semi-government offices, 1.95 acres under trade unions or clubs and 95.22 acres under illegal possession of local people.

### ***Irregularities in import and export***

A complex and lengthy procedure is followed at the port and customs for exporting and importing commodities via Chittagong Port. This encourages corruption. Besides, the 'one-stop service' turned into 'one-room service', where the representatives and agents of importers and exporters move from one table to another and invariably pay bribes.

It was reported in the 2004 TIB study that a shipping agent had to pay bribes in at least 8-10 spots for anchoring a ship at Chittagong Port under normal circumstances. It was observed in March 2007 that corruption of almost the same degree was in vogue. However, now bribery takes place by reaching an understanding through agents located outside the port. The pilots of the port take Tk 10,000 as tips for anchoring a ship at the jetty and then for taking it to outer anchorage. However, in case of over-drafting of ships, this rate rises up to more than Tk 100,000 through negotiations.

The main problems faced during loading and unloading goods into/from ships at Chittagong Port include: unjustified formation of labour gangs, excessive bribes and tips, engaging staff from stevedoring staff union, inability to control workers by the dock-workers' management board, frequent occurrences of worker movements and threats of movements under the influence of CBA leaders, execution of tasks by inefficient workers, and failure of equipment workers to join work on time and leaving the place of work before scheduled time. If tips are not paid at agreed rate, handling is not done and containers are deliberately damaged. The equipments remain out of order if the unjust demands of equipment workers are not paid attention to, and no replacement takes place if the

equipment goes out of order. A 'go slow' policy is adopted if the amount of tips is not satisfactory. Artificial problems are created if one is asked to work according to the schedule.

***Corruption and irregularities by Pre-shipment Inspection (PSI) companies***

The number of writ petitions in High Court and appeal cases in the Appellate Division is gradually rising due to detection of false declarations arising from non-transparent and weak PSI arrangement. As a result, indiscipline in revenue management is observed. According to Section 29 of Pre-shipment Rules, 2002, there is a compulsion to form monitoring committees comprising of maximum five members at customs buildings or stations for the purpose of monitoring at central and local levels under the PSI system. However, no such monitoring committees have been formed till now. Taking advantage of this situation, incidents of importing goods through false declarations are taking place. Among the consignments of CRF commodities brought between the periods July 2005 – February 2006 and July 2006 – February 2007, the total number of consignments imported through false declaration revealed through manual examination was 490. During the same period, the customs authorities detected 695 incidents of false declarations by examining the CRF certificates. The amount of revenue involved in such cases was Tk 4 crore. On the other hand, between July 2006 and February 2007, the number of consignments of imported commodities which did not undergo PSI/CRF despite their eligibility for such screening was 440. The credibility and performance of the PSI organisations has been put to question due to detection of such large numbers of false declarations from among maximum 5-6 percent on-the-spot random checks which are carried out by the customs.

***Bribe givers, bribe receivers and the affected group***

The bribes and tips which are extracted by the officers-employees of customs and port from shipping agents, stevedoring agents and C&F agents are indirectly elicited from the buyers later. These agents collect the bribe money from the importers and exporters under 'miscellaneous head' and then pass those on to the port and customs officials. But in reality, the agents siphon off a portion of the extracted bribe themselves. Actually, it is the importers and exporters who supply the entire amount given as bribes. Naturally, the importers raise the prices of imported commodities to compensate this loss. In this way, money is actually collected from the consumers and the common people. A win-win situation is created between the importers/exporters and officials of port/customs, while a win-loss situation is created between the businessmen and the common people.

***Financial losses due to corruption***

It is observed that, if all papers are in order, bribes are usually paid at 12-13 spots for taking release order of consignment from the Customs House. This number increases at various levels if there is a problem with any of the documents. Bribes have to be paid at 8 spots when commodities are checked at the jetty. On the other hand, bribes have to be paid in at least 18 places for releasing a consignment from the port. Therefore, bribes have to be paid in at least 30 spots for releasing a consignment from the customs and the port. Speed money amounting to Tk 12,000 – 15,000 has to be paid at various layers for a 20-feet container during its unloading after payment of port charges and customs duties by the C&F and shipping agents. The situation in 2004, if compared to 2006, it is observed that the rate of bribes in some sectors for importing or exporting goods via Chittagong Port remained the same, while in some sectors, the rates increased. It can be claimed that the transaction of bribes and tips at every step of import and export via Chittagong Port has assumed an institutional shape.

In 2006, 4,40,982 TEUs of import and 4,35,204 TEUs of export via Chittagong Port took place. On the basis of Tk 13,500 to be paid for import and Tk 8,000 to be paid for export items as bribes on an average for a 20-feet container, bribes worth Tk 595 crore 32 lakh 57 thousand were transacted for import and Tk 348 crore 16 lakh 32 thousand for export during the year 2006 were paid. The total amount of bribes, therefore, was estimated at Tk 943 crore 48 lakh 89 thousand. Besides, corruption also takes place in various development projects of the port including procurement of equipments, repair and maintenance, and dredging of rivers.

***Congestion surcharge and Rate Restoration (RR) charge***

The shipping companies extracted US\$ 130 per container from the importers through their agents in the name of congestion surcharge during the period 5 June to 15 September 2006. During this period,

total import stood at 133,356 TEUs (20-foot containers). As a result, US\$ 1,73,36,280 was collected in the name of surcharge. However, once this surcharge was lifted, the shipping companies extracted US\$ 200 per 20-foot container in the name of rate restoration charge between January and March 2007. The quantity of import during the period stood at 115,412 TEUs. On that basis, \$ 2,30,82,400 was collected as rate restoration charge during this period. It indicates that the shipping companies collected US\$ 4 crore 4 lakh 18 thousand 680 (Tk 274 crore 84 lakh 70 thousand 240) from the importers in the name of surcharge and rate restoration charge in approximately 6 months. Those charges have now been withdrawn.

***Illegal collection of tolls in the name of various charges***

Previously, the Chittagong Chamber of Commerce used to collect Tk 1,000 per container in the name of LMD, the freight forwarders took illegal money for providing no-objection certificate, and the 'Panama Truck Stand' collected tolls from each truck in the name of giving gate pass for entering the port area illegally. These illegal tolls raised import expenditure. The concerned authorities have banned these tolls.

***Misappropriation of money in the name of fake workers***

The number of workers above 57 years of age is more than 400. They are still in service because of the inefficiency, indiscretion and corruption of Dock Workers Management Board. Around Tk 35 crore are wasted or usurped in the form of payment for wages of these workers.

**Corruption in Chittagong Port/Customs: Cause-Impact Analysis**

The main problems facing Chittagong Port and Customs include lack of efficient and sufficient manpower; a weak security system due to insufficient scanner machines, CCTV cameras and other equipments, long and complex procedures, wanton acts and lack of accountability of officers and employees of the customs and the port, negligence of duties by the customs and port officials, lack of internal and inter-departmental coordination within and between the customs and the port authority, political influence, absence of proper planning, inefficient and non-transparent pre-shipment inspection arrangement, and insufficient computer applications. These lead to irregularities and rise of amounts required during transactions.

Unregulated trade unions and lack of coordination create hindrances and increase harassment towards port users. Political influence plays a key role in planning and framing of policy by the port. Proper planning and their implementation are hampered because of such influence. The CBA leaders are so menacing that they regularly threatens of crippling the port through strikes on various pretexts. Large political parties also use the labourers including CBA leaders for implementing their agenda. No punitive measures are taken even when allegations of irregularities are raised against the Dock Workers' Management Board. Inefficient management and lack of proper planning are responsible for such lapses.

The ministry-centric port management system is a complex bureaucratic process. It leads to unnecessary delays and opens up opportunities for wielding political influence. The port authority has to depend on the ministry for sanctions and advices on important decisions. As a result various complexities arise with regard to delayed decision-making, increasing the harassment of port-users.

Infrastructures and communication system including information technology are still very weak. Facilities for transporting cargo directly from the port are also inadequate. For these reasons, interest is not shown now-a-days for transforming Chittagong Port into a regional trade hub.

As there is no accountability in the administrative set-up of the port and customs, the officials lack transparency and responsibility. Above all, there is an acute shortage of efficient and trained manpower. Consequently, reform of the whole system and introduction of new processes cannot be carried out for making the port more dynamic.

It is observed that the growth of cargo and container handling in recent years by the port is not continuous and balanced. The turn-around time of ships in Chittagong Port is over four days on an

average. This turn-around time is much higher compared to other ports of the world. The importers have to pay US\$ 10,000 to 15,000 per ship as rent for stay at the port each extra day, which ultimately has an adverse impact over the prices of commodities.

Writ cases filed in the High Court is another serious problem faced by the Chittagong Customs House. If any objection is raised by the customs against release of any consignment, the importers resort to writ cases. Many importers are going for such cases with or without any valid ground over the past few years. Basically, most cases are lodged arguing against the certified prices fixed by the pre-shipment company. The number of such cases till February 2007 was 10,033. The amount of blocked or unrealised revenue is increasing each year due to these cases. Revenue collection fell short by 17.40% or Tk 1,437.48 crore compared to the target during July 2006 – February 2007. The blocked revenue due to 10,033 writ cases from 1990-91 to 2006-07 fiscal years amounted to almost Tk 1,233 crore. The official activities of Chittagong Customs Office are thereby put under strain due to so many cases. Only five officers/employees of the Customs deal with around 10,000 writ cases in addition to usual official duties. The staff includes one law official equivalent to a district judge, three officers and one employee.

Through Chittagong Port 80 percent of the country's import and export takes place. The security system of this port should have been top-class. Mismanagement in the port encourages incidents such as piracy. Because of these incidents, the International Maritime Bureau has identified Chittagong Port as a very risky one. According to their report released in 2006, 47 incidents of piracy, the second highest in the world, had taken place in Bangladesh out of a total 239 incidents worldwide.

#### **Recent Developments in Chittagong Port**

A number of steps have been taken during the last few months to remove container and traffic congestions inside the port and stop toll collection through illegal means. These include all empty containers removed in the night, container shipments to Kamlapur ICD in three shifts instead of two shifts daily, nine commodities unloaded outside the port, port access road opened to traffic, rotten food and other items lying idle for long destroyed, collection of full container (FCL) by the importer from the hook point, the number of off-dock ICD increased, and an extended area of NCT put to use.

Apart from the above, steps have also been taken for reducing undue influences of workers. These include introduction of three shifts for dock workers, curtailing the influence of trade unions, removal of wage discrimination for night shifts, and controlling gang booking by workers.

Other measures undertaken so far include rescinding of LMD, stoppage of illegal toll collection by freight forwarders, banning surcharge/rate restoration charge, re-fixation of container transfer and goods transportation charges, stoppage of toll collection by Panama truck stand, complete handover of CCT operation to a private company, reduction of two layers in container delivery through one-stop service, cancellation of two postings, and fixation of new cut-off time. However, long-term measures need to be undertaken for reducing procedural complexities.

#### **Outcome of decisions**

The above steps may be termed as a beginning of resolving long-standing problems. It is observed that the transaction of bribery openly has declined to some extent, and some of the irregularities and indiscipline have diminished. This has been evident after the transfer of some officers/employees of Chittagong Port and Customs on charges of corruption, arrest of some of them red-handed with bribes, freezing of bank accounts of the arrestee and their spouses, and putting some of them under temporary suspension. However, transactions of bribery still continue through agents outside the port and customs offices. Fundamental reforms need to be carried out for sustainable development by giving permanent shapes to various measures.

'Saif Power Tech' started container handling at jetty numbers 11-13 of CCT, Chittagong Port, with the aid of four expensive and modern key gantry cranes. However, their work was previously confined to only loading-unloading of cargo. Serious problems emerged with regard to operational coordination between Saif Power Tech and other multi-purpose authorities. As a consequence, the

objective for which the operation of key gantry cranes was handed over to private operators could not be achieved. To overcome the problem, the present caretaker government awarded operational responsibility to Saif Power Tech from the vessel point to the cargo-delivery point for the next two years under an agreement. It started its operation on 7 March 2007. This initiative was taken to reduce turn-around time and infuse dynamism in the workings of the port. As a result, the system of stevedoring and dock-workers is abolished. The whole work is being done by operators and labourers employed by this company. Still some workers have been employed from among unregistered dock workers on the basis of their experience and skill.

Before the commencement of single-point operation, Saif Power Tech used to handle 564 containers with 4 gantry cranes on an average. This figure rose to 632 containers once the single-point operation was introduced. This increase in the number of container handling, however, has not been proportionate. The reasons behind it included long waiting time of export goods for containers, power disruption, insufficient space in the yard, inadequate number of trailers, and long wait for stevedores. Operation of one key-gantry crane had to be suspended for eight hours because of wait for export-commodities' container at CCT between 20 February and 20 March 2007. Although the unloading time from ships has come down to 12 hours, there are delays in loading due to non-arrival of export-commodities' containers on time. As a result, the turn-around time of ships has not decreased substantially. The phenomenon of bribery which was observed up-to the delivery point during the stevedoring days is apparently non-existent in the privately operated CCT.

At present the private operators at the CCT bear the responsibility of transporting containers from the warehouse area to the delivery yard. Their job is to make arrangements for labourers, movers and trailers on the deck and below the crane checker after the berthing of a ship at CCT jetty, and to operate key-gantry crane, rubber-tyre gantry crane and strudel carrier. The C&F agents have to rely on the port authority for taking out the goods from the yard. Exchange of bribes starts once again from here. The agents pay fees in banks after taking delivery order from shipping agents for assessment of imported goods, tax and VAT. They work inside the port for preparing various bills including the container storage bill of the traffic department. After all payments are made at the bank, these papers are added to the papers for delivery of commodities the next day. Then containers are loaded on trucks by the traffic and mechanical departments, merchant labourers and sailors. While working here, the C&F agents have to be paid bribes.

The magnitude of problem including formation of excess labour gangs and compulsion of engaging workers from the dock labourers and stevedoring union during its research carried out in 2004 made TIB recommend for changing the system on an urgent basis for improving goods handling and reducing cost. Recently, steps have been taken to ensure that only the labourers who work are paid wages on the basis of 'no work no pay' principle. As a result, the interference by stevedores has declined. In addition the implementation of the decision to abolish stevedoring system and engage berth operators instead has led to the reduction of complexities centring around labourers in the port and concomitant hassles. This system would work like a one-stop service. The berth operators would not only load and unload commodities to and from ships with the help of labourers, they would also perform the task of supplying goods single-handedly at the same time. In the light of allegations that the port authorities were forced to employ surplus workers, their number for gang bookings has been brought down to a justifiable level through reductions during February and March 2007. As a result, gang bookings have declined by 19.5% in March 2007 compared to December 2006 and labour bookings came down by 57.43%. This has led to reduction of expenses by Tk 3 crore.

The situation rapidly improved after some senior officials as well as some trade union leaders of Chittagong Port and Chittagong Customs House were arrested by the Joint Forces in March and April of 2007 on charges of corruption. Now the officers/employees refuse bribes even when offered by shipping agents, C&F agents and others.

Although discipline has returned to some areas including clearing of container congestion, the task is still not performed in full gear due to inefficiency, negligence of duty, lack of transparency and accountability of officers/employees working in the customs and the port.

Finally it can be stated that the decisions taken by the present caretaker government with the assistance of Joint Forces have yielded some positive results, but on a temporary basis. Sustainable development of the port is not possible without fundamental reforms and radical changes in the system.

A set of recommendations are offered below. It is hoped that the government will keep up its efforts to establish Chittagong Port as a modern and efficient port through implementation of these recommendations.

### **Recommendations**

1. The Port Authority Act 1976 should be amended for reducing bureaucratic complexities involving port authority and the ministry, and for increasing decision-making powers to resolve problems.
2. Online methods should be introduced in the operations of the port and customs house in place of the present manual system. This would lead to enhanced coordination between the customs and port authorities. Banks having online facilities may be deployed to reduce hassles faced by importers, exporters and other service receivers.
3. The manpower structure of the port and customs should be reviewed immediately and vacant posts should be filled up with efficient human resources equipped with modern technological knowledge. Adjustments should be made after examining the need for manpower in the customs house in the light of increase in private ICD.
4. A committee should be formed comprising of service recipients, service-providers and specialists; the number of layers for import and export should be reduced on the basis of its recommendations.
5. All political activities should be banned in Chittagong Port after declaring it as an 'Essential Service Providing Organization'.
6. A 'zero tolerance' policy should be pursued by the authority with respect to irregularities and corruption in Chittagong Port.
7. Taking into consideration the importance of the port in the national economy and incidence of corruption in the sector, the Anti-Corruption Commission can form a monitoring cell at Chittagong Port.
8. For the purpose of commercialisation, the loading and unloading operations at the port should be handed over to private management under 'land-lord' system. For increasing competition and reducing discretionary powers, some organisations can be given this task with attached conditions for specific periods through open tenders.
9. A 10-member autonomous regulatory body may be formed like the shipping maritime council for supervision of all stakeholders of the port.
10. Arrangements should be made for exemplary punishment of the corrupt after identifying corrupt officers and employees in the port and customs. Much information on corruption would emerge if stock is taken of their wealth.
11. In accordance with the Public Procurement Act 2003, agreements may be made with two companies for container handling at New Mooring Container Terminal (500 meters for each company) under the 'Land Lord' system once 3-4 gantry cranes are procured. Transparency should be maintained in this award process.
12. The number of Inland Container Depot (ICD) should be increased to increase space for containers.
13. Arrangements should be made for transfer of officers/employees from/to Mongla Port, BIWTC, Marine Academy and Shipping Ministry as and when required.
14. Dredging should be undertaken in a planned manner at the confluence of the Karnaphuli.
15. Steps should be undertaken for equipping Bangladesh Navy and the Coast Guard properly.
16. Proper investigation of the financial solvency of businessmen should be done before opening of an LC. Steps should also be taken for verifying the addresses of importers for opening the LC in order to deter imports made through false declarations. The instructions of Bangladesh Bank should be followed strictly regarding verification of the address and identity of the subscriber during opening of LC.
17. Security should be ensured by installing CCTV and VTA system. All commodities should be checked through scanner machines. No commodity should be released without the consent of the customs authority as well as examination of the scanning report.

18. The customs authorities should take steps for checking misuse of green channels by approved garments factories. At the same time, BGMEA and BKMEA should also undertake intensive supervision.
19. An analysis for identifying revenue risks should be undertaken on the commodities under HS code which have been granted special waiver.
20. Intensive monitoring of the work of PSI companies for proper realisation of revenue should be done. Allegations of irregularities and corruption against them should be sent to the ACC and appropriate measures should be taken after proper enquiry.
21. An effective one-stop service centre should be launched at the customs house. Booths of other relevant organisations should also be set up in the same building.
22. The auditing function in the port and customs should be strengthened. Joint auditing ventures should be undertaken for observing the present state of those commodities which have not been released despite noting in the bill of entry or where duties have not been realised despite their imposition, or where noting has not been done at all.
23. Initiatives should be taken for collecting the blocked revenue of Tk 1200 crore after resolving all pending writ cases lying with the customs including those under the purview of review committee and the tribunal. Two retainers or legal counsels should be appointed for the Chittagong Customs House.
24. Domestic communication network inside the country should be developed rapidly.
25. Arrangements should be made for auctioning of the containers that are not delivered on time or were seized.
26. The container handling capacity of the railway should be strengthened.
27. An additional 2.5 megawatt generator should be procured for gantry cranes during load-shedding.
28. While placing in the Customs House from the National Board of Revenue as class one/two non-cadre officers, candidates should be assessed on the basis of educational qualification, computer expertise, knowledge of issues related to customs, experience, age, and dedication to duty.