

In The Loop

Newsletter Vol.2

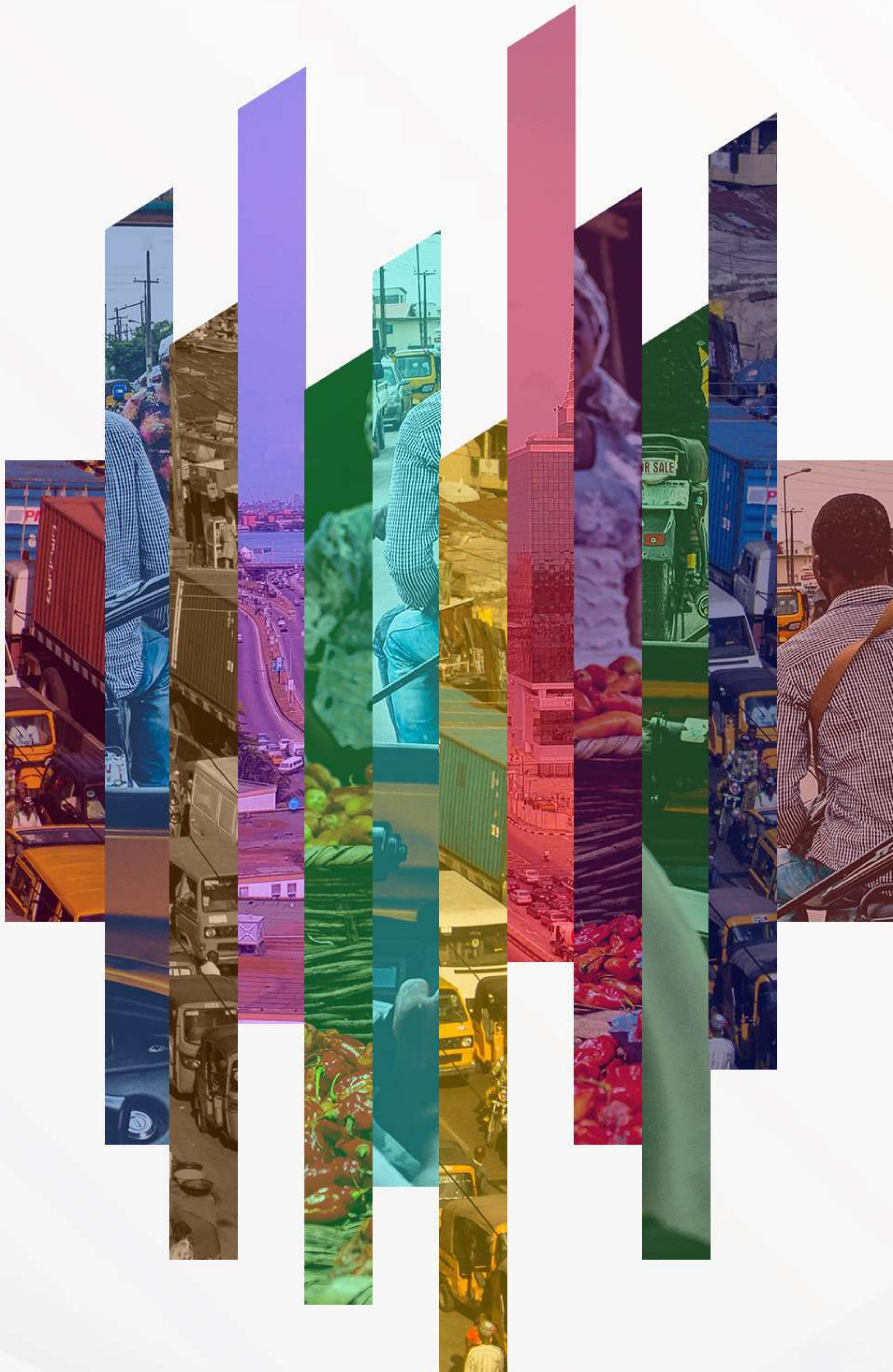


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Introduction

This second edition of In-the-Loop newsletter brings to the fore some burning issues that occurred in the first quarter of 2022, especially the Ukrainian war and its effect on the Nigerian Economy. The newsletter allows us to share insightful contributions from FirstBank and Olaniwun Ajayi team.

This contribution comes at a critical time as the world is faced with increasing disruption caused by the war. In our maiden edition, we highlighted how the sustained recovery from COVID-19-induced recession has affected businesses and individuals alike. Our unwavering commitment to bringing you relevant insights and opportunities that may come with it, is seen in this edition.

You can expect to read about the aviation fuel price hike, suspension of fuel subsidy, hike in food prices, the new Lagos international airport wing as well as the new train lines and their implication on our everyday lives and work.

We therefore invite you, our esteemed customers, to relax and enjoy the read. Our commitment still remains to put YOU FIRST, in everything we do!



Russia – Ukraine War: Impact on Nigeria Economy

On 24 February 2022, Russia invaded Ukraine and created a global series of events that would impact the world economy negatively. Nigeria, the largest economy and largest oil producer in Africa, has had its own share of the war's consequences. One would wonder how a war happening about 8,500 kilometers away would have a devastating effect on a country dealing with its own issues. From individuals to businesses and to large corporations, everyone has had their taste of this bitter pill.

“According to data from CBN, the Nigerian sweet crude, Bonny Light, increased from an average of \$75 per barrel in December 2021 to an average of \$121 per barrel in March 2022.”



The war in Ukraine has led to an increase in oil prices globally as Russian oil was boycotted by multiple countries as a reflection of their disapproval of the invasion. Russia being the 3rd largest oil producer in the world, boycotting its oil naturally created an imbalance in the economics of supply and demand leading to the increase in prices. According to data from CBN, the Nigerian sweet crude, Bonny Light, increased from an average of \$75 per barrel in December 2021 to an average of \$121 per barrel in March 2022. This equates to 62 percent rise, an increase that would see Nigeria importing refined petroleum products at a higher cost since the country does not refine enough for its own consumption.

The impact of the war is not only on oil, but also on food as Russia and Ukraine together, contribute about 30% to the global wheat trade (about 110 million tons per year). According to the National Bureau of Statistics, Nigeria imported about N1.29 trillion worth of wheat in 2021, the highest ever recorded in the country's history.

Please follow us as we further analyze the Russia-Ukraine war:



■ Increase in Aviation Fuel Price



Aviation fuel, also known as Jet A-1, has exponentially increased in price globally, resulting in significant hikes in ticket prices as airlines need to recoup their rising costs. In Nigeria, Jet A-1 went as high as N670 per liter, up from N190 at the end of 2021. A return ticket on the Lagos-Abuja route that used to average N60,000 went as high as N120,000 amounting to a 100 percent increase.

The implication of this is that individuals who have families on one side of the country but have to work on the other side may reduce the frequency of visitation to their families or resort to road transportation as air transportation has become a luxury. For businesses and large corporations, travel costs are expected to soar operational costs that will impact the already small profits they manage to make. Executives may have to make only very important business travels. The tourism sector may also be impacted by this as people may find holidays too expensive to afford.

■ Suspension of Fuel Subsidy

On 24 January 2022, the Federal Government announced the suspension of the earlier announced removal of petrol subsidy by 18 months. The government gave “bad timing” as the reason for doing so. The sum of N443 billion had been provisioned for subsidy from January to June in the 2022 budget, but as things stand, subsidy regime will be in place till June 2023 when this administration must have handed over to another.

As of January 2022, the Nigerian National Petroleum Corporation (NNPC) had presented a bill of N3 trillion to cover the cost of subsidy for the entire year, projecting a daily consumption of 65.7 million liters.

The war in Ukraine may have changed the dynamics of the projections as the earlier requested N3 trillion may not be sufficient to cover the cost of subsidy in 2022. The extension of subsidy removal by the Federal Government will require an amendment to the 2022 Appropriation Act with implications to the recently passed Petroleum Industry Act.

Nigeria may resort to additional borrowing which leaves very little for development as government recurrent expenditure will soar while government spending on critical infrastructure will continue to drop.



■ ■ ■ Unprecedented Spike in Fuel Prices - Petrol & Diesel



“Brent crude price rose to an unprecedented \$139 per barrel, increasing cost of diesel in Nigeria from N270 per liter in the beginning of the year to over N700 after the war commenced.”

The Russian-Ukraine crisis is having an overwhelming effect on businesses in Nigeria. Brent crude price rose to an unprecedented \$139 per barrel, increasing cost of diesel in Nigeria from N270 per liter in the beginning of the year to over N700 after the war commenced.

Nigeria's main port is in Lagos, hence, most imported items being distributed across the country are hauled out of Lagos with diesel-engine trucks. The Council of Maritime Truck Unions and Associations (COMTUA) and the Association of Maritime Truck Owners (AMATO) mentioned that the cost of running haulage businesses in the country has tripled within a month of the commencement of the Russia-Ukraine war. This has led the associations to threaten an increase in maritime container haulage rates, a situation that will see the cost of goods increase across the country.

In addition, the national grid has collapsed a few times in 2022, hence, businesses relied more on diesel generators to generate power. This has had a significant impact on the operational costs of businesses and has in turn, impacted the cost of goods and services to the final consumers.

Perhaps, this is why government changed its mind about removing the subsidy on petrol as the removal would have caused an astronomical increase in transportation costs for individuals, a situation many Nigerians may find unacceptable. Without petrol subsidy, Nigerians may have found themselves buying the commodity at more than N500 per liter. The cost of transportation may become unbearable, and it may have led to complete chaos.



■■■■ Impact on Food Prices



Agricultural produce from the northern part of the country is usually hauled down south for consumption. The trucks depend on diesel to supply the various markets and ensure farmers reach the final consumers with their produce. The rising cost of diesel has impacted the cost of transporting these goods across the country, thereby impacting the cost of food.

Durum wheat, the second highest contributor to Nigeria's import bill and the highest food contributor (according to the National Bureau of Statistics, NBS), is sourced partly from Russia. Ukraine and Russia wheat exports, being part of the top ten world suppliers, have impacted the supply chain of wheat globally, thereby increasing the price to record levels.

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Wheat is used in the manufacture of semolina, pasta, noodles, bread, cereal, pastries etc. There are perhaps, very few Nigerians who will go a day without eating any of the listed items. One can understand why the prices of these food items have suddenly soared in the open markets and supermarket shelves across the country.



■■■■■ Commissioning of the Dangote Fertilizer Plant



As a result, fertilizer prices are typically high. However, it is expected that the new plant will lead to a reduction in fertilizer prices and more small-scale farmers will be supported. Overall, this new fertilizer plant should increase Agriculture's contribution to the economy and ultimately promote food security. It is also expected that the plant would generate \$400 million in foreign exchange earnings.

The Dangote Fertilizer Plant, a 3 million metric ton- capacity urea fertilizer plant located in the Lekki Free Trade Zone in Lagos, was commissioned on 22 March 2022. The granulated fertilizer facility is the largest of such in Africa.

The fertilizer plant will have a positive impact on the Nigerian agricultural sector and the economy as a whole. Agriculture is no doubt a critical sector of the economy, having contributed 27% of the GDP in Q4 2021. The sector employs more than half of the workforce and is a source of sustenance for 90% of people living in rural areas. From reports, the fertilizer plant is expected to create 5,000 direct and indirect jobs. Also, there has been an 80% local fertilizer supply gap which has often been remedied with fertilizer imports.

Apart from achieving self-sufficiency, the fertilizer plant also provides capacity for export. More specifically, the commissioning of the fertilizer plant is expected to, in some way, address the critical global supply gap created by the Russia-Ukraine war. Russia is a big exporter of fertilizer as it produced almost one-fifth of the world fertilizer's exports in 2021. However, the severe economic sanctions have limited Russia's production capacity. Consequently, the price of fertilizer has increased across the world.



Commissioning of the New Lagos International Airport Terminal

On 22 March 2022, the newly built international terminal of the Murtala Muhammed Airport in Lagos was commissioned by President Muhammadu Buhari. The new terminal is one of the five terminals built based on a bilateral arrangement between Nigeria and China; other locations being the Federal Capital Territory, Abuja and Port Harcourt (which have already been completed and commissioned); Kano (which has been completed and is soon to be commissioned) and Enugu.

“The new terminal is expected to generate about 3,000 direct and indirect employment opportunities for Nigerians. This opportunity is important given the 32 percent projected unemployment rate for the country in 2022.”



The new Lagos International terminal is said to have a capacity to process 14 million passengers per annum and is built on a land mass of approximately 56,000 square metres. Some of the facilities in the terminal include 66 check-in counters, 5 baggage collection carousels, 16 immigration desks at arrival, 28 immigration desks at departure, 8 security screening points, 6 passenger boarding bridges, 2 food courts, 4 premium lounges, 22 guest rooms and spa, 16 airline ticketing offices, visa on arrival and port health facility, as well as praying area, more than 3,000 square metres of duty-free space, approximately 5,000 square metres of lettable utility space amongst others. Commendably, Air Peace has become the first to operate a flight from the newly commissioned terminal.

The new terminal is expected to generate about 3,000 direct and indirect employment opportunities for Nigerians. This opportunity is important given the 32% projected unemployment rate for the country in 2022. More so, this development would help increase and improve the country's airport operation and management services, as well as enhance passenger facilitation and comfort at the Lagos airport.



Red Line Train Acquisition By Lagos State

On 18 January 2022, the Lagos State Government marked the purchase of two new speed trains for the Lagos Red Line Rail Project (the Red Line) in a public event held at Milwaukee, United States of America. A project of the Lagos Metropolitan Area Transport Authority (LAMATA), the Red Line is a 37-kilometre intra-city railway system with 11 stations, spanning Agbado to Marina. According to Governor Babajide Sanwo-Olu, the Lagos State Governor, the Red Line is scheduled to start commercial operations by Q4 2022 or Q1 2023. When completed, the Red Line is projected to have a capacity of about 500,000 passengers daily and will be the first operational metro system in West Africa.



“With the Lagos Red line, it is expected that the number of hours spent in traffic would reduce while the workers’ productivity would increase to the benefit of businesses and the State.”

The two speed trains, originally designed for a rail line to run from Madison to Milwaukee in the US, were bought from Talgo Inc., a leading train manufacturer with trains operating all over the world. This acquisition portends good news for Nigeria, and for the hordes of Lagosians in particular, who spend a significant amount of time stuck in traffic on the roads every day. It is estimated that Lagos residents spend an average of 30 hours in traffic weekly. This comes at a massive cost to the Lagos economy and businesses and negatively impacts the productivity of individuals. With the Lagos Red line, it is expected that the number of hours spent in traffic would reduce while the workers’ productivity would increase to the benefit of businesses and the state. For instance, a report notes that a 20% reduction in the 3 billion hours that Lagosians spend in Lagos traffic yearly is projected to save Lagos \$1billion yearly.

In certain quarters, however, there are concerns on the technical suitability of the speed trains acquired for the short-trip shuttles they are meant to run in Lagos. Nevertheless, Lagosians may consider the acquisition as laudable and a step in the right direction by the government if it addresses the traffic and transportation challenges in the targeted routes.



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