POTEN & PARTNERS

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POTEN TANKER OPINION

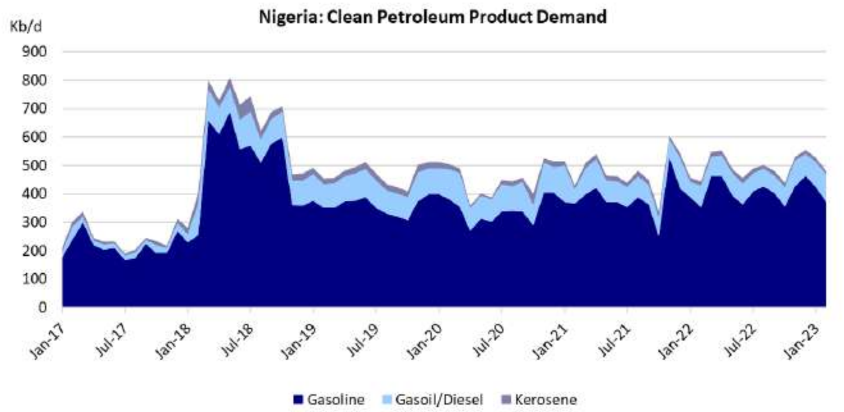
A New Dawn Or A False Start?

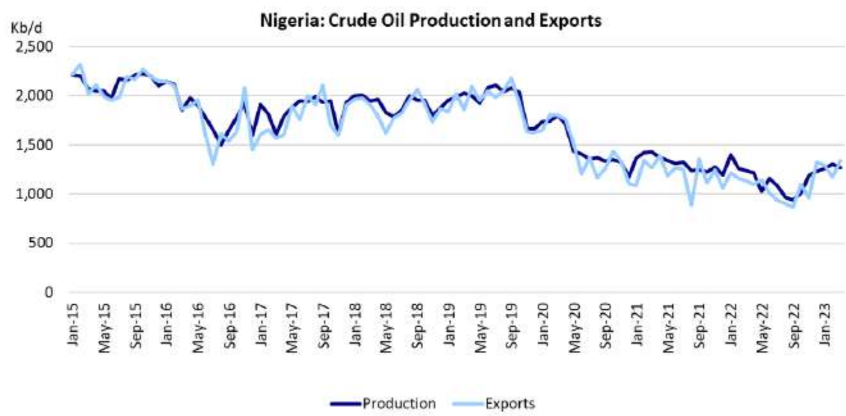
A new President has created excitement and uncertainty

Since the election of the new Nigerian president, Mr. Bola Ahmed Tinubu, who was inaugurated on May 29, 2023, the country has been frequently in the news. Nigeria, Africa's most populous nation, faces many challenges, both economic and social. The oil and energy industry, one of the most important economic drivers in Nigeria and its primary source of foreign exchange, faces significant challenges of its own, including fuel shortages and declining crude oil production. Not surprisingly, many of the changes that the new government has introduced touch the oil and shipping sector, both directly and indirectly.

At his inauguration, President Tinubu announced the removal of Nigeria's fuel subsidies as per July 1. This could increase prices at the pump from an estimated $0.40/liter to $1.20/liter. The fuel subsidies are popular with the Nigerian people, but the costs for the government have become prohibitive. The National Nigerian Petroleum Company (NNPC) estimates that the fuel subsidies cost the government $867 million per month. The President plans to spend the money saved on things like education, health, jobs and infrastructure. Yesterday, Nigerian regulators authorized two new crude oil export terminals that could handle more than 400,000 b/d of crude oil. Nigeria currently has 31 export terminals, but only 23 of those are active. During his campaign, President Tinubu promised to boost Nigeria's crude oil output to 2.6 Mb/d by 2027. This is an ambitious target. Nigeria's current production capacity is estimated to be 2.2 Mb/d, while actual output is around 1.25 Mb/d. The last number is well short of the country's OPEC production quota of 1.74 Mb/d. As a result of its inability to produce up to its quota, Nigeria agreed to lower its OPEC production quota to 1.380 million b/d from January to December 2024.

It is not the first time that a President has tried to remove the fuel subsidies, which have been in place in one shape or form since the 1970s, but previous attempts always led to widespread protests, ultimately forcing the government to back down. If the government stays the course this time, higher prices could reduce gasoline consumption in Nigeria by some 20%, analysts expect, from 310,000 barrels/day (b/d) to about 250,000 b/d. This reduction in demand will initially translate in an equivalent reduction in gasoline imports, since Nigeria imports almost all its refined products. The country has four state-owned refineries, technically capable of meeting domestic demand, but they have been out of commission since 2020 and it is unclear if they will be brought back online. This leaves the new Dangote refinery. When this 650,000 b/d refinery comes online, it will allow Nigeria to eliminate its petroleum product imports and potentially become a net exporter of refined





Sources: Jodi

products. However, the start data of this refinery has been delayed several times and commissioning is now expected by the end of 2023. The start of the Dangote refinery will also cut into Nigeria's crude oil exports, since the refinery is expected to source a significant portion of its crude oil domestically.

The most recent story that hit the news and – at least in the short term – the most impactful for the tanker sector, is the notices of Nigerian back tax claims that have arrived in the mail boxes of various shipowners. The Nigerian Federal Inland Revenue Services (FIRS) is issuing assessment notices to non-resident entities within the maritime sector that carried out operations in Nigeria during the period 2010-2019 who are allegedly liable for tax pursuant to Section 14 of the Companies Income Tax Act (CITA). For some shipowners, the amounts involved run into the millions of dollars (including penalties and interest). Several shipowners have decided to refrain from Nigerian business until this situation is clarified, while others have decided to request an additional clause in the charter party to protect themselves. It is uncertain if charterers are willing to accept this clause. In the meantime, the list of vessels that is available for Nigerian business has thinned and freight rates have moved up. Tanker owner organization Intertanko recommends that members who have received a letter from the FIRS notify their P&I Clubs.

The situation in Nigeria is uncertain and changeable. In a tight tanker market, the short-term risks have already led to higher freight rates and this situation will likely persist until there is clarity about the potential tax liability of trading with Nigeria. Longer term, the changes in trade flows could be even more impactful, but at the moment, they remain highly uncertain.