



# The Business of Tourism

**Fuel subsidy implications for the Nigerian hospitality, travel and tourism industry**

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Credit: Premium Times

## Strategic considerations for the Nigerian hospitality, travel & tourism industry

Red Clay

### Brace up for an interesting ride

On May 29th 2023, during his inaugural speech, **President Bola Ahmed Tinubu** announced the full subsidy removal of premium motor spirit (PMS or fuel), bringing an end to nearly five decades of unsuccessful attempts across several administrations.

Within minutes of the announcement, the country experienced a meltdown; pump prices across the country rose from ₦184-₦199 per litre to around ₦488-₦557 per litre, transport fares sky-rocketed, while endless queues of anxious drivers filled fueling stations waiting to purchase fuel at now inflated prices.

The fuel subsidy removal will no doubt have ripple economic effects across various sectors. For the hospitality and tourism industries in Nigeria, we analyze the **implications** and the **opportunities** these present in our insights.

### What exactly is a fuel subsidy?

A subsidy is a form of reverse tax which the government pays to producers and consumers. While the government collects normal taxes from the consumers, the subsidy is paid by the government to the producers on behalf of the consumers. **The subsidized product is cheaper.**

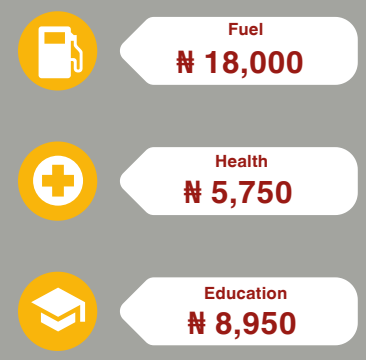
# A brief history of fuel subsidy in Nigeria

- 1977 Nigeria first introduced fuel subsidies in 1977 during the military rule of former President Olusegun Obasanjo to mitigate the impact of the 1973 oil price shock.
- 2012 The presidency of Goodluck Jonathan made an effort to eliminate fuel subsidies as part of the complete deregulation of the oil and gas sector downstream. This decision triggered a nationwide protest known as "Occupy Nigeria" which lasted for two weeks.

2020	Total Spent on Subsidy	₦ 134bn	
2021	Total Spent on Subsidy	Crude oil Revenue	Crude oil Expenditure
	₦ 1.77trn	₦ 8.12trn	₦ 14.57trn
2022	Total Spent on Subsidy	Crude oil Revenue	Crude oil Expenditure
	₦ 4.39trn	₦ 10.13trn	₦ 16.39trn
2023	Total Spent on Subsidy (until June)	₦ 3.6trn	

Source: NBS

## Sectoral subsidy per capita



## The way forward

### Implications of fuel subsidy removal

- 1 Impact on visitor numbers
- 2 Increased operational costs for hotels, airlines and destinations
- 3 Change in traveller behaviour

- 1 Come up with more exciting packages for groups.
- 2 Demonstrate ESG-friendly & sustainable practices
- 3 Present travel, tourism and hospitality as a treat/respite
- 4 Drive up quality and improve customer experience
- 5 Key into the soft life/self-care narrative for leisure
- 6 Diversify markets to more inclusive range of clients

# The implications of the fuel subsidy removal for the hospitality, travel and tourism industry

## 1. Hike in the price of transportation will impact visitor numbers.

The transportation sector was the first to reflect the price increase. **Bus fares increased by over 100 per cent in some areas.** Drivers for ride-hailing services such as Uber and Bolt embarked on a strike since they felt they were not being compensated enough.

The price increase by these ride-hailing firms stood between 25 to 30 per cent, which is far from the **demand for a 200 per cent increase** by The Amalgamated Union of App-based Transport Workers of Nigeria, and a 50 per cent reduction in commission respectively.



Under these circumstances, **alternative forms of transportation may experience increased demand.** People might consider options like **carpooling** or **travelling in large groups** to mitigate the impact of rising transportation costs.

Although rail travel could be an attractive option, there might be challenges related to timetabling and connectivity that could affect its popularity among tourists.

## 2. Increased operational costs for hotels, airlines and destinations

The elimination of fuel subsidies will increase the operating costs of businesses in the hospitality and tourism industry. With the plans to hike electricity tariffs by 40 per cent increase from July 2023, costs will go rise higher.

**These increased costs will be passed on to customers,** although they might be met by reduced demand, requiring some strategic planning and responses. The customer profile for the hospitality and tourism industry will change.

### 3. Traveller behaviour will change with shorter trips favoured over long-haul tour trips

The removal of fuel subsidies leading to increased transportation costs can result in a change in traveller behaviour. Tourists may choose to embark on **shorter trips to destinations within their own city** or opt for budget-friendly places.

Day visits may become more popular as visitors seek to save money by avoiding overnight stays. However, this shift in demand toward closer and more affordable destinations is likely to be temporary and contingent upon the stabilization of the economy.

It is important to note that long-haul trips, especially during the holiday season, and occasional visits to far-flung tourist hotspots by adventurous individuals, will still occur.



As tourism becomes more expensive, people who are already struggling with recession or financial difficulties may require more financial resources and/or reasons to engage in leisure/tourism activities.

This could potentially lead to a decrease in tourism demand from these segments of the population.

Overall, the removal of fuel subsidies and subsequent increases in transportation costs may bring about changes in travel patterns and preferences, with a focus on more affordable and accessible options.

However, the long-term effects will depend on economic stability and the ability of individuals to allocate sufficient funds for tourism expenses.

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# What can the industry do?

## 1. Come up with more exciting packages for groups.

- Destinations, hotels and restaurants that show flexibility in catering to a more inclusive range of customers put themselves in strong positions to remain resilient during this period.
- Hotels and restaurants may consider introducing more budget-friendly meal options to attract diverse guests.
- An untapped market for the tourism industry is tour packages for seniors. Tourism and recreation are not only for the young and adventurous.

## 2. Demonstrate environment-friendly and sustainable practices that can drive efficiency.

- Businesses that are proactive in implementing sustainable and ESG-friendly practices will stand out for investors and customers.
- Taking practicable steps to reduce waste, conserve energy and water, design eco-friendly facilities and support local supply chains in purchasing foods and raw materials can go a long way in growing the industry.

## 3. Present travel, tourism and hospitality as a treat/respice in spite of what is happening in Nigeria.

- Let's face it, even the world's most attractive destinations have their fair share of challenges and insecurities. Yet, they have successfully branded their destinations as "must-visits".
- Nigeria is an absolute treat waiting to be enjoyed, and businesses must design and market their packages to make tourism and hospitality in the country as an adventure of a lifetime.

## 4. Key into the soft life/self-care narrative as a way to spoil/treat oneself.

- Tourism and hospitality are closely linked with mental health and well-being. Anxiety and stress levels are on the rise, and tourism offers a great way to unwind and relax.



Credit: ALMAT Farms, Abuja | Website

## What can the industry do?

### **5. Drive up quality and experience - do more and show up better - time to differentiate and be different!**

- Customers will be very conscious about how they spend their time and money, and so the experience and service has to be wholesome to count for them.
- Businesses must pay more attention to improving their services and becoming more innovative to stay competitive, retain existing customers and attract new ones.

### **6. New market to cater to groups of people, offers for post-work hangouts in groups, weekend group activities (family etc)**

- Shared hospitality and tourism experiences are a great way to bond. They also offer value for money, as there are opportunities to carpool, share rooms and meals, and are generally safe with a wider range of inclusive activities.
- Businesses that explore group tours stand to gain lots of profits.



## The way forward

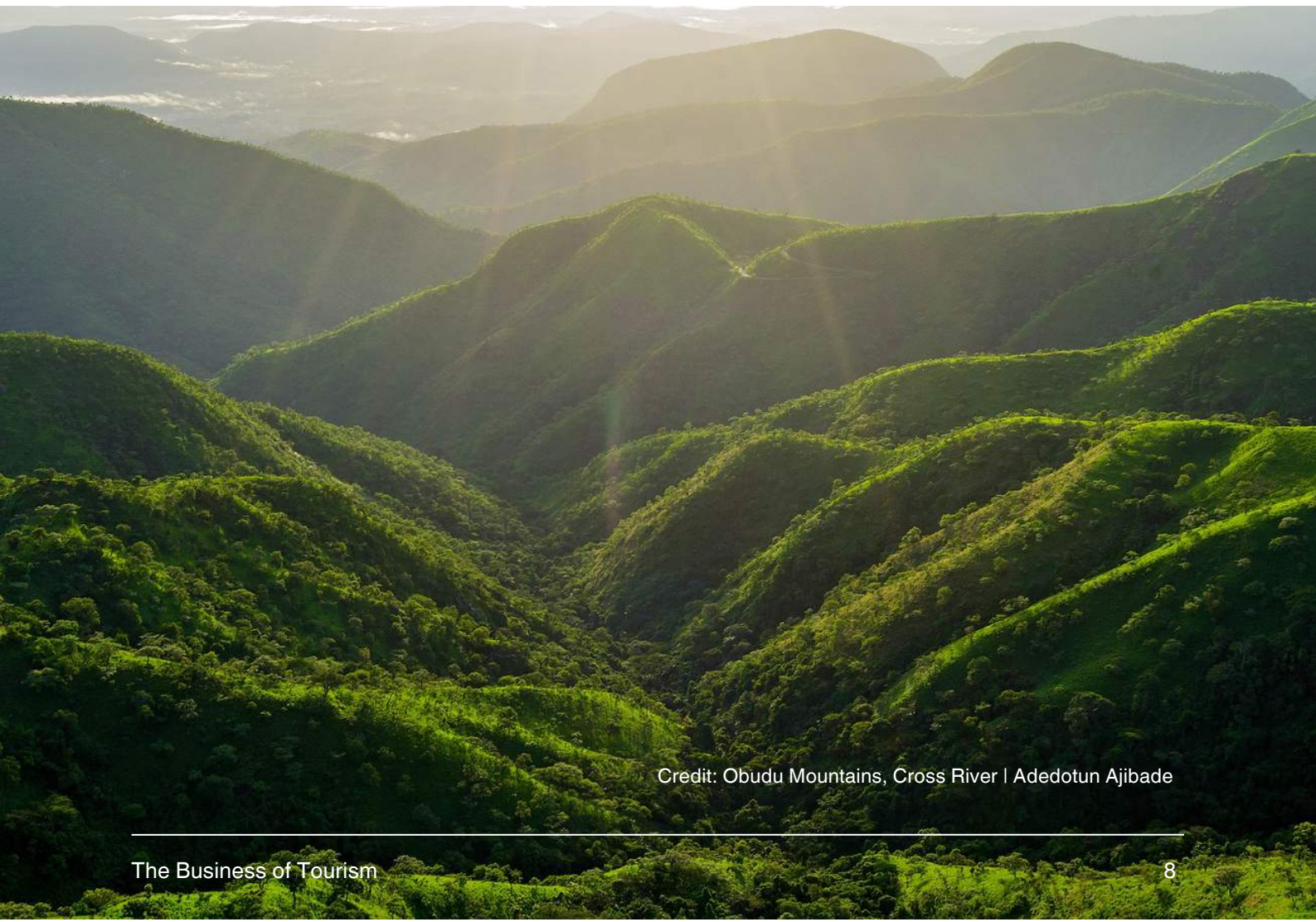
The road ahead will be **bumpy in the short term**, but there are reasons to remain optimistic if the saved funds are redirected towards capital expenditure instead of recurrent expenses like salaries and wages can yield medium and long-term benefits.

**Investing in capital projects** that enhance the livability of cities and towns will stimulate demand for leisure and tourism activities. This, in turn, will generate more employment opportunities and contribute to the development of safer and more secure communities.

As a result, Nigeria will become a more appealing destination for tourists and attract increased investments.

**With the right incentives and support** from both the private and public sectors, the hospitality and tourism industry can navigate through this challenging period and achieve economic stability sooner rather than later.

By focusing on **sustainable growth, strategic planning, and collaboration**, the industry can overcome the initial obstacles posed by fuel subsidy removal and thrive in the long run.



Credit: Obudu Mountains, Cross River | Adedotun Ajibade

# Sustainability Implications

## For Tourists

- Consciousness in supporting sustainable activities in hotels and restaurants, e.g. travelling with reusable water bottles, towels and food containers.
- Sharing rides while traveling and using more eco-friendly modes of transport within destinations (walking, cycling and hiking) to reduce carbon footprints.
- Strengthening bonds with host communities by respecting the cultural and natural heritage, and patronizing local businesses to boost the economy.

## For Businesses

- Applying sustainability thinking in identifying potential investments and growth opportunities for hospitality and tourism businesses.
- Sustainability and ESG becoming deal breakers for major investors in securing their assets and investments. This means that operations, and management need to integrate sustainability to remain relevant.
- Impact assessments before embarking on projects and ESG/DEI strategies to guide development decisions going forward.

## For Policymakers

- Capacity building for the ministries, commissions and agencies, to understand more deeply the potential and opportunities for tourism
- Investment in the development of new tourism destinations, implementing favourable policies, and enhancing transportation.
- Review of existing tourism development plans to identify gaps, ascertain progress and enable better planning with sustainable tourism strategies.
- Power sector reform to transition from being a fuel-dependent economy, and adoption of eco-friendly and sustainable alternatives for energy and transport (long-term)



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**Red Clay** is a tourism advisory practice working to harness the transformative potential of tourism in Africa. Red Clay provides strategic, project management and development advisory to hotels, investors, destinations, governments and development agencies.

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