THE FEDERAL GOVERNMENT OF NIGERIA'S AUTO POLICY, INCENTIVES AND DUTY.

INTRODUCTION

The automotive industry in most countries around the world plays a stimulating role in economic development. The importance of the industry cannot be over emphasized as its scope covers transportation of people, goods and services; manufacturing; agriculture; defense, power generation and more.

Industry statistics of countries with robust auto industry show that the design, manufacture and sales of automobiles not only drive economic growth, but that it also provide direct and indirect employment opportunities and huge export potential.

Past and present governments of Nigeria have realized the importance of the automotive industry, which is why the industry has been identified in the Nigeria's Industrial Revolution Plan (NIRP) as one of the ways to rebuild the economy.

This paper seeks to provide information on the Nigerian automotive industry.

PROGRESSION OF THE NIGERIAN AUTOMOTIVE INDUSTRY

Nigeria, with its population of over 190 million people[1] and a fast growing middle class, provides a ready market for investors in the automotive sector. As a result of lack of domestic vehicle production, Nigeria is highly dependent on imports of vehicles to meet its demand.[2] It must be noted that this was not always the case. Formerly in the 1960s, some private companies such as the UAC, Leventis, R.T. Briscoe and SCOA started the assembly of Completely-Knocked Down (CKD) and Semi-Knocked Down (SKD) vehicles in Nigeria; and by early 1970s -1980s, the Federal Government of Nigeria in agreement with European Original Equipment Manufacturers (OEM) had set up 2 car, and 4 light and heavy state owned commercial vehicle assembly plants that were assembling vehicles from Completely Knocked Down (CKD) parts.[3] The OEMs were established across three core regions/zones of Nigeria as follows:

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[1] www.worldmeters.info/world-population/nigeria-population/ accessed on 26/01/2018.

[2] Deloitte Africa Automotive Insights, "*Navigating the African Automotive Sector: Ethiopia, Kenya and Nigeria*" page 33.

[3] Engr. Aminu Jalal, "*The Nigerian Automotive Policy and its Implementation*", available at http://www.nigeriamanufacturingexpo.com/uploads/Pages/site160_32338_en_file1.pdf, accessed on 26/01/2018. See also Deloitte Africa Automotive Insights, "*Navigating the African Automotive Sector: Ethiopia, Kenya and Nigeria*" page 37; PricewaterhouseCoopers Limited "*Africa's Next Automotive Hub*" Page 6, available at https://www.pwc.com/ng/en/assets/pdf/africas-next-automotive-hub.pdf, accessed on 26/01/2018.

- North: Peugeot Nigeria Limited (PAN), Styer Nigeria Limited and National Truck Manufacturers;
- South: Volkswagen of Nigeria Limited (VON), Leyland Nigeria Limited; and
- East: Anambra Motor Manufacturing Company (ANAMMCO).[4]

According to reports, these assembly plants had a combine capacity of generating between 149,000[5] - 168,500[6] units of vehicles.

The Federal Government made further efforts in 1982 to boost the industry by partnering with five more international automotive companies to establish assembly plants across five states of the Federation; but this plan never came to fruition.[7] If it had, it would have seen the establishment of Isuzu plant in Maiduguri, Mazda in Umuahia, Mitsubishi in Ilorin, Nissan in Minna, and Peugeot in Gusau.[8]

The 1990s saw the beginning of the collapse of the automobile sector as the utilization of the assembly plants dropped to approximately 10%-20%.[9] This was due to Nigeria's increased dependence on oil that resulted in the automotive industry, just like every other sector, to collapse under the neglect brought about by the sole concentration on oil as a source of revenue for the country. The period between 2001-2005 saw the Government privatize its stake in Volkswagen and Peugeot and the companies loose their exclusive right to government tenders.[10] The privatization started the gradual systemic decline of the industry to the extent that Peugeot completely stopped production activities in 2010 and by December 2012, all automotive manufacturers had been privatized and the assembly of vehicles non-existent.[11]

Further factors that contributed to the death of the automotive industry in Nigeria are infrastructural deficit, corruption and inconsistent policy implementation.

With an inactive automotive industry, importation of vehicles went on the rise with used vehicles constituting most of the vehicles being imported. Deloitte

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4 PricewaterhouseCoopers Limited *"Africa's Next Automotive Hub"* Page 6, available at https://www.pwc.com/ng/en/assets/pdf/africas-next-automotive-hub.pdf, accessed on 26/01/2018.

5 Deloitte Africa Automotive Insights, "*Navigating the African Automotive Sector: Ethiopia, Kenya and Nigeria"* page 37.

6 See Note 4 above.

7 Deloitte Africa Automotive Insights, "*Navigating the African Automotive Sector: Ethiopia, Kenya and Nigeria"* page 38.

8 Ibid.

9 see Note 4 above.

10 Ibid.

11 See Notes 3, 4 and 7 above.

Africa Automotive Insights study reported that in 2014, passenger vehicles constituted the second-largest import category in Nigeria after petroleum oils or bituminous minerals.[12] The speedy economic decline made it impossible for an average Nigerian to be able to afford brand new cars. The high 20% interest rate and a further 10% down payment required by the banks was a further deterrent to the ability of an average Nigerian to purchase new vehicles.[13] According to a report by PricewaterhouseCoopers Limited, used vehicles accounts for about 74% of vehicles imported into Nigeria in 2014[14] whilst Deloitte puts it at 80%.[15] A survey report by Deloitte also shows that in 2016 only 2% of Nigerian population was able to afford new vehicles and that the business community accounts for 70% of overall purchase of new vehicles.[16]

The attendant revenue loss to Nigeria's increasing need for importation of vehicles is not minimal. The National Automotive Council reported that Nigeria witnessed an importation of US$6.2billion worth of vehicles in 2013.[17] This figure went up to US$6.9billion in 2014.[18] In an ideal situation, these monies would have been better spent in Nigeria to contribute to the revenue of the country but what we see instead is that these monies are pumped into the development of the economy of countries like the United States, United Kingdom and Germany where the cars are being imported from.

In a bid to address the deficit in the economy, the Nigerian Government initiated the National Automotive Industry Development Plan (NAIDP) with the aim to attract Foreign Direct Investment (FDI), curtail the dependence on importation of vehicles, and promote local production of automobiles. The NAIDP is part of the Nigerian Industrial Revolution Plan and was gazetted on 29 January 2014.[19] The Nigeria Automotive Council (NAC), a parastatal of the Federal Ministry of industry, Trade and Investments, now referred to as the National Automotive Design and Development Council (NADDC), is tasked with ensuring that the purpose of the NAIDP is fully realized.

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[12] See Note 2 above.

[13] Deloitte Africa Automotive Insights, "*Navigating the African Automotive Sector: Ethiopia, Kenya and Nigeria"* page 35.

[14] PricewaterhouseCoopers Limited *"Africa's Next Automotive Hub"* Page 26, available at https://www.pwc.com/ng/en/assets/pdf/africas-next-automotive-hub.pdf, accessed on 26/01/2018

[15] Deloitte Africa Automotive Insights, "*Navigating the African Automotive Sector: Ethiopia, Kenya and Nigeria"* page 35.

[16] Ibid.

[17] National Automotive Council, "*Measures to Transform the Nigerian Automotive Industry and Attract Investment into the Sector"*, Page 2.

[18] See Note 2 above.

[19] Deloitte Africa Automotive Insights, "*Navigating the African Automotive Sector: Ethiopia, Kenya and Nigeria"* page 41.

THE AUTOMOTIVE INDUSTRY TODAY

The NAIDP is the government policy driving the automobile industry today. To gain investors' confidence, effort was made to legislate and it successfully passed both houses of the National Assembly as a package of incentives. The NADDC in September 2015 listed 35 companies that have been granted licenses to assemble vehicles covering over 40 brands.[20] ECOWAS has adopted the policy as one of its four priority industrial development areas.

The introduction of the NAIDP in 2014 and the subsequent increase in import tariffs for vehicles attracted the interest of leading international car manufacturers and led to the resumption of small-scale vehicle assembly. However, despite the increased focus on the automotive industry, it is reported that the sector's contribution to Nigeria's GDP remains low at 0.07% in second quarter of 2015.[21] The absence of a sufficient assembly base that could provide substitutes for imported vehicles is a hindrance to the growth of the automobile industry. It was reported that Nigeria produced 4,000 vehicles in 2014 and approximately 2500 units in 2015.[22] The volume of used cars imported into the country in 2014 far outweighs the locally produced new cars. It was estimated that about 410,000 vehicles were imported into Nigeria in 2014 out of which about 74% of those cars were used cars.[23]

The government is cognizance of the fact that the current manufacturing output is insufficient to meet local demand and as a measure to encourage local production, made effort to provide car manufacturers with local production an import levy exemption for the import of two vehicles for each vehicle produced.[24]

The NAIDP encompasses key elements to ensure its success and they are:

- **Industrial Infrastructure:** NAIDP recognize the infrastructural challenges for investors in Nigeria and thus made provision for the development of critical infrastructure to enable investors especially those engaged in the manufacture of components and parts to set up with ease.

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[20] PricewaterhouseCoopers Limited *"Africa's Next Automotive Hub"* Page 33, available at https://www.pwc.com/ng/en/assets/pdf/africas-next-automotive-hub.pdf, accessed on 26/01/2018; Deloitte Africa Automotive Insights, "*Navigating the African Automotive Sector: Ethiopia, Kenya and Nigeria"* page 39.

[21] Deloitte Africa Automotive Insights, "*Navigating the African Automotive Sector: Ethiopia, Kenya and Nigeria"* page 39.

[22] Ibid.

[23] PricewaterhouseCoopers Limited *"Africa's Next Automotive Hub"* Page 26, available at https://www.pwc.com/ng/en/assets/pdf/africas-next-automotive-hub.pdf, accessed on 26/01/2018.

[24] Deloitte Africa Automotive Insights, "*Navigating the African Automotive Sector: Ethiopia, Kenya and Nigeria"* page 41.

Nearly 500 Hectares of land have been acquired in Oshogbo, Kaduna and Nnewi for automotive industry supplier parks.[25] The three existing auto-clusters in Nigeria, namely Lagos-Ogun-Oyo, Kaduna-Kano and Enugu-Anambra, also serve as established zones around which NAC will strategically facilitate more investments by international Original Equipment Manufacturers (OEMs), and their strategic global suppliers that are expected to accompany them into Nigeria.[26]

Outside of these clusters, OEMs have the option of assembling in the Free Trade Zones (FTZ), which offer several incentives including tax and customs duty exemptions, free land rent for construction, and up to 100% foreign ownership of the business.[27]

- **Skills Development:** NAIDP launched automobile manpower development program nationwide through partnership with stakeholders including technology leaders like Robert Bosch of Germany with whom it has signed an MOU.[28]

  A new curriculum for teaching automotive mechanics and associated textbooks were developed and are now part of the Nigerian Vocational Qualification Systems. Over 4,000 mechanics have been trained with the new curriculum.[29]

  Also a degree program in Automotive Engineering was developed with the National University Commission (NUC) and is being offered by the University of Ibadan, Abubakar Tafawa Balewa University and Elizade University. Other universities are expected to follow suit.[30]

  The Industrial Training Fund (ITF) worked with SENAI in Brazil to design auto-training centers similar to what they have in Brazil in the three auto clusters. The aim is to train Nigerians to maintain and service vehicles, and also train them to manufacture spare parts.[31]

- **Standards:** Safety and products standards are crucial to the development of a viable automotive industry. The NADDC and the Standards Organization of Nigeria (SON) have developed over 130 vehicle safety standards. At the request of NAC, the Standard Organization of Nigeria

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[25] Engr. Aminu Jalal, "*The Nigerian Automotive Policy and its Implementation*", available at http://www.nigeriamanufacturingexpo.com/uploads/Pages/site160_32338_en_file1.pdf, accessed on 26/01/2018.

[26] National Automotive Council, *"Information Document on the Nigerian Automotive Industry Development Plan"*, Page 6.

[27] PricewaterhouseCoopers Limited *"Africa's Next Automotive Hub"* Page 30, available at https://www.pwc.com/ng/en/assets/pdf/africas-next-automotive-hub.pdf, accessed on 26/01/2018.

[28] see Note 20 above.

[29] Ibid.

[30] Ibid.

[31] National Automotive Council, "*Measures to Transform the Nigerian Automotive Industry and Attract Investment into the Sector*", Page 5.

(SON) started implementing SONCAP on imported vehicles by requiring that all used vehicles imported into Nigeria have a roadworthiness certificate from their country of origin.[32] Also, vehicle assembly plants and local content manufacturers are being encouraged and assisted to produce good quality items and to obtain ISO 9001 QMS quality certification within two years of start of operation.

- **Market Development:** NAIDP provides for a credit purchase scheme to ensure that funds are available cheaply, as loans to civil servants, haulage and passenger commercial companies and the general public to purchase made in Nigeria Vehicles. Nigerians buy used vehicles largely because they are cheap but most have no integrity with considerable safety and environmental hazard. Money used by Nigerian to buy used vehicles can be made as down payments for new cars assembled locally.
  To curtail smuggling and goods diversion on the imposition of protective tariff and levy, NADDC has established an Electronic online solution www.narp.gov.ng to capture the 17 Digit Vehicle Identification Number (VIN) obtained by Nigeria Customs Service upon payment of Duties.[33]

INVESTMENT INCENTIVES FOR THE AUTOMOBILE SECTOR.

In addition to the general investment incentives available to investors, there are specific incentives for the automotive industry as described below:

- Pioneer Status (tax holiday) granted for 3 years and renewed for the next two years
- 100 percent repatriation of profit net of taxes
- Capital allowance not restricted. Granted in full -100%
- Investment Promotion and Protection Agreement: The IPPA helps to guarantee the safety of investment of the contracting parties in the event of war, revolution, expropriation or nationalization.
- 35% Import duty rate and 0% levy on concessionary Fully Built Unit (FBU) import by assembly plants (APs).
- 20% Import duty rate and 0% levy on concessionary FBU import by assembly plants (APs).
- 5% Import duty rate on local tyre manufacturing plants: Importation of tyres equal to twice the production for two years from the date of commencement of production
- The requirements to access tariff based incentives are
  - Evidence of registration with the Corporate Affairs Commission;
  - Tax compliance by means of Tax Identification Number; and (c) Certification by relevant Ministry…

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[32] See Note 21 above.

[33] See Note 21 above.

FISCAL STRUCTURE OF THE NAIDP

The NAIDP sets tariffs at a maximum of 70% (35% duty plus 35% levy) for fully built up cars and 35% duty without levy for commercial vehicles in the first phase. This level will decrease as the sector grows and becomes more competitive. Completely Knocked Down parts (CKD) and Semi-Knocked Down parts (SKD) for assembling will be charged 0% and 5%-10% duty. As an incentive measure, local manufacturing operations are allowed to import fully built cars without the levy and commercial vehicles at 20% in proportion to their local production. Tariff on these inputs will increase as well once local manufacturing capacity strengthens.

The objective of this policy is to establish vehicle assembly plants that source many of their local content locally. An assembly plant may start operations with SKD2 assembly and move to SKD1, CKD and finally assembly operations, or skip some of the phases. The maximum time to move from SKD2 to full assembly is 54 months.

TABLE 1: KEY FISCAL DRIVERS OF THE 10-YEAR NIGERIAN AUTOMOTIVE INDUSTRY DEVELOPMENT PLAN, 2014 TO END 2024

Year	Objective	Incentive	Remarks
2014-2015	Create an environment to allow existing assembly plants to survive and attract other OEMs.	(i) Cars (HS Heading 87.03): Levy of 35% charged on Car FBU in addition to 35% duty. (ii) Commercial vehicles (HS Headings 87.01, 87.02, 87.04, 87.05, 87.16): Levy of 35% duty without levy. (iii)Tariff on CKD*, SKD1 (HS Heading 87.06) and SKD2 (HS Heading 87.07) at 0%, 5% and 10% local assembly plants. (iv) Assembly plants to import FBU at 35% and 20% duty without levy for cars and commercial vehicles respectively in numbers equal to twice their imported CKD/SKD kits**.	The levy to be used for the development of the automotive industry, including the creation of automotive supplier parks, an affordable vehicle financing scheme and a credit guarantee scheme. The APs and NAC to develop and implement a local content incorporation programmes
2016-2018	Create an environment to allow existing assembly plants to grow and continue to attract other OEMs, in particular, local content suppliers.	(i) Levy on Car FBU reduced to 20%. Tariff remains at 35%. (ii) Duty on CV FBU remains at 35% without levy. (iii) Tariff on CKD, SKD1 and SKD2 remain at 0, 5% and 10% respectively.	

		(iv) Concessionary FBU import by APs to be up to half of their imported CKD/SKD kits. (v) Concessionary FBU import by APs to be equal to their CKD/SKD imports	
2019-2024	Institute incentive for local Content incorporation	(i) Levy on Car FBU reduced to 20%. Tariff remains at 35%. (ii) Duty on CV FBU remains at 35% without levy. (iii) Tariff on CKD, SKD1 and SKD2 remain at 0, 5% and 10% respectively. (iv) Concessionary FBU import by APs to be up to half of their imported CKD/SKD kits.	

NATIONAL AUTOMOTIVE DESIGN AND DEVELOPMENT COUNCIL SKD/CKD DEFINITIONS

Title	Definition by Process	Definition by Equipment
SKD	Car, Truck, Bus body painted or not. The engine, gearbox, axles, suspension, driveshaft, steering, tyres, batteries, exhaust system are supplied as sub-assemblies for assembly in Nigeria.	(i) Assembly line, miscellaneous tools. (ii) Wheel alignment tester, Turning radius tester, Head light tester, Sideslip tester, Speedometer tester, Brake dynamometer and Shower testing. Test Track (iii) Paint booth and oven (optional).

CKD	Body sides, Roof and Floor pan are supplied loose final welding, painting and final assembly. The engine, gearbox, axles, suspension, driveshaft, steering, seats, tyres, batteries, exhaust system, electrical, etc. are supplied as sub-assemblies for assembly in Nigeria.	(i) Welding guns, Jigs, Templates, Metrology Equipment (3-D measuring machines), etc. (ii) Conveyors, paint tanks, paint both, drying oven, etc. (iii) Assembly line, miscellaneous tools. (iv) Wheel alignment tester, Turning radius tester, Head light tester, Sideslip tester, Speedometer tester, Brake dynamometer and Shower testing. Test Track.

CONCLUSION

Since the approval of the NAIDP, the 14 existing assembly plants and body builders, which were on the verge of closure, had a new lease of life and obtained or renewed technical partnership agreements with global OEMs. Some of these, like VON, PAN, Innoson, Anammco and Leyland-Busan have started assembling new products in 2014. Other car manufacturing companies have signed commitments with technical partners to set up assembly operations as follows:

- Nissan, VW, Hyundai, Kia and Honda cars and SUV, Shacman , Sino, FAW and MAN Trucks and Ashok - Leyland and FAW buses are now assembled in Nigeria. Ford also assembles in Nigeria.
- New companies, including Century Auto (Toyota), TATA, Coscharis Auto (FORD, Joylong , Dongfeng), Globe Motors (Higer), Leventis (FOTON-Diamler), Kewalram Chanrai (GM, Mitsubishi) and Tilad (Shinery), Aston have been jointly assessed by NAC, NCS and FMF and issued certificate to assemble vehicles.

Though there have been challenges, there is no doubt that the Nigerian automotive sector (and indeed every other sector of the economy) is a viable one for any would-be investor. With over 190 million people and a fast growing middle class, the huge gap between the demand and supply reveals enormous opportunities that guarantee a ready market for an investor. Coupled with that is the determination of the Government to diversify the economy, and the yearning of the people for a decent lifestyle. The new auto industry plan which raises import duties on imported cars makes the used car market less attractive whilst encouraging the setting up of assembly plants to serve the need of the people.

Asides from vehicle production, other gaps in the industry like repairs and servicing; supply of equipment and components to local manufacturers; vehicle distribution system (how the vehicles get to the market after production); and vehicle leasing and fleet outsourcing provides immense opportunities for investors.

No doubt Nigeria is on the cusp of becoming the hub of automotive industry in Africa and there is no better time for investors to join in than now.

Thank you.

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