

NATIONAL AUTOMOTIVE COUNCIL

MEASURES TO TRANSFORM THE NIGERIAN AUTOMOTIVE INDUSTRY AND ATTRACT INVESTMENT INTO THE SECTOR

1. INTRODUCTION

2.1 Importance of the Industry

In many countries around the world, the automotive industry plays both a strategic and catalytic role in economic development in respect of the following:

- Employment creation. According to the International Organisation of Motor Vehicle Manufacturers (OICA), the auto industry **directly employs over nine million** people, 5% of the world's total manufacturing employment;
- GDP contribution. In South Africa, the auto industry alone contributes 7% of GDP and 12% of exports, and is the second largest employer of labour;
- Economic Linkages. The beneficiation of raw materials and local industrialisation through the value chain which spans a range of activities including design and development, manufacturing and service related activities such as marketing and sales and maintenance / after sale service;
- Small, Medium and Micro-Enterprises (SME) development in respect of automotive parts, components and services;
- Skills development: The manufacture of vehicles have evolved over the years and has been a trail blazer in the development of production methods, from mass production, quality control, lean manufacturing, computer aided design, manufacturing and engineering, branding, globalisation, mergers and acquisitions.
- Technology and innovation. The auto industry worldwide spends over US\$100 bn annually on R&D according to OICA.

An automotive industry will create significant good quality employment and a wide range of technologically advanced manufacturing opportunities. This industrial base can then form the foundation of other modern advanced manufacturing activities. For example, commercial vehicle production will lead to the manufacture of agricultural, mining and railway equipment, military hardware and transport.

1.2 Benefits of a Vibrant Automotive Sector to the Nigerian Economy

The Nigerian automotive industry currently assembles only commercial vehicles as they are easier to produce, while Nigeria needs car assembly/production to fully benefit from the industry's potentials.

All over the world, major vehicle manufacturers (Toyota, Nissan, GM, VW, etc.) now concentrate on assembly and produce only about 30% of the over 2,000 parts in a car, and outsource the rest to component suppliers. A job in a typical assembly plant generates **three** others in the component supply and **seven** others in the raw materials supply industry. The industry therefore creates many SMEs, as well as direct and indirect jobs. This value chain is detailed in Annex I. Nigeria is well positioned to be a major assembly hub for international auto companies due to our existing installed auto capacity, large labor force, significant local demand, and strategic location for exports. OEMs have a number of joint venture relationships with partners who supply most of their parts, which leads to significant investment from JV partners who in turn can partner with the numerous SMEs in Nigeria.

Data from the Nigerian Automotive Manufacturers Association (NAMA), the Nigerian Bureau of Statistics (NBS), and the United Nations Conference on Trade and Development (UNCTAD), detailed in table 1, shows that:

- i) Vehicles worth **₦1.2 Trillion (US\$6.2 billion)** and **₦260 billion (US\$1.3 billion)** were imported in 2013 as detailed in table 1.
- ii) Potential value added, if imports were locally assembled today will be ₦200 billion, with additional value incidental if local content programs are vigorously pursued;
- iii) At full capacity, the Nigerian automotive industry has the potential to create 70,000 skilled and semi-skilled jobs along with 210,000 indirect jobs in the SMEs that will supply the assembly plants. 490,000 other jobs would also be created in the raw materials supply industries. In 2013, 2,584 persons were directly employed by the assembly plants;
- iv) The manufacture of vehicles would enable us acquire the technologies of mass production, quality control, lean manufacturing, computer aided design, manufacturing and engineering, which we can use to develop other sectors of the economy and industrialize.

Table 1. Total Automotive Products Import into Nigeria (UNCTAD)

Year	2008 (US\$M)	2009 (US\$M)	2010 (US\$M)	2011 (US\$M)	2012 (US\$M)	2013 (US\$M)
Total Imports	7,198	5,400	7,455	5,113	8,506	8,741

Table 1B. Import of Vehicles into Nigeria (UNCTAD)

Year	2008 (US\$M)	2009 (US\$M)	2010 (US\$M)	2011 (US\$M)	2012 (US\$M)	2013 (US\$M)
Motor Vehicles for transport of goods, special purpose	914	826	1,464	763	1,161	1,292
Motor Vehicles for the transport of persons	2,340	1,704	2,637	2,100	3,637	3,269

Road Motor Vehicles	911	720	814	588	735	784
Tractors	62	55	39	32	43	43
Trailers and Semi-trailers	96	84	81	97	165	130
Civil engineering and contractors plant and equipment	1,084	623	557	502	623	694
Total	5,407	4,012	5,592	4,082	6,364	6,212

Table 1C. Import of Tyres and Spare Parts into Nigeria (UNCTAD)

Year	2008 (US\$M)	2009 (US\$M)	2010 (US\$M)	2011 (US\$M)	2012 (US\$M)	2013 (US\$M)
Rubber tyres, tyre threads of flaps and inner tubes	466	387	444	510	642	727
Parts and accessories of vehicles	417	508	688	541	363	586
Total	883	895	1132	1051	1005	1313

Table 1D. Import of Motorcycles, Cycles and Agric. Machinery into Nigeria (UNCTAD)

Year	2008 (US\$M)	2009 (US\$M)	2010 (US\$M)	2011 (US\$M)	2012 (US\$M)	2013 (US\$M)
Agricultural machinery (excluding tractors and parts)	72	64	78	82	116	92
Motorcycles and cycles	836	429	653	898	1,021	1,124
Total	908	493	731	980	1,137	1,216

2. AUTOMOTIVE INDUSTRY DEVELOPMENT PLAN

2.1 The Prospects of the Automotive Industry in Nigeria.

Nigeria and Bangladesh are the only countries in the top 10 by population

without a developed automotive industry! With our current population and economy, our potential vehicle market is about a million vehicles a year! This is more than sufficient to support an automotive industry. We also have the following advantages:

- 7th most populous economy in the world, a growing middle class (38 million), and a potential vehicle market of one million vehicles annually.
- Annual spending on vehicles import is over N550 billion (US\$3.5 billion) and growing, making it the **number two user of foreign exchange** in 2012 after Boilers, machinery and appliances.
- Nigeria has not bound its tariff on vehicles at the WTO, except for ECOWAS and we expect the auto industry to be within the common tariff exclusion list.
- Regional Export potential into the West and Central African market; and

- Availability of a large and trainable workforce.

The other prospects of the automotive industry in Nigeria are detailed in Annex iv.

2.2 Elements of the Automotive Development Plan

The Auto Sector is a key component of the Nigerian Industrial Revolution Plan (NIRP). The NIRP is a 5 year programme developed by the Federal Ministry of Industry, Trade, and Investments to diversify Nigeria's economy and revenues through industry and to increase manufacturing's contribution to GDP from 4% today, to 6% by 2015, and finally above 10% by 2017. Within the NIRP, the automotive sector has been identified as a strategic industry group due to its large domestic market, labour intensive characteristics, strong industrial linkages, existing installed base, and export potential into ECOWAS. The Automotive Industry Development plan was developed after extensive consultations with existing local auto manufacturers, international OEMs, as well as MDAs . **Finally, FMITI had offsite sessions with other countries that have successfully implemented automotive development programmes.**

The companies listed in Annex iv, in particular, **Nissan, Renault, and Toyota have indicated keen interest to invest in Nigeria** if we develop a comprehensive automotive development plan. Nissan, and Renault have already reached agreement to assemble cars in the former Volkswagen plant, now VON Nigeria Ltd in Lagos. Toyota and others are now conducting a feasibility study on vehicle assembly in Nigeria, assuming that a comprehensive automotive development plan would be in place. The elements of the plan which will ensure competitiveness and increase productivity of the sector are discussed below.

(i) Industrial infrastructure

Automotive supplier parks and clusters are where industries can share infrastructure, resources, information, knowledge and technical expertise. This will enhance competitiveness, enhance learning and technical innovation. This will reduce production costs due to inadequate infrastructure and high logistics costs and attract investment in local content production. NAC has started discussions with some state governments and the various industrial clusters to facilitate the formation of these parks. The three existing auto-clusters in Nigeria, namely Lagos-Ogun-Oyo, Kaduna-Kano and Enugu-Anambra, will also serve as established zones around which NAC will strategically facilitate more investments by international OEMs, and their strategic global suppliers that will also accompany them into Nigeria.

(ii) Skills development:

(a) *OEMs and their Global suppliers* have extensive manpower development programmes, both local and international. NAC will work with pioneer OEM investors to fill skills gaps in auto operations, by ensuring all lower skilled and mid-skilled roles are immediately filled by Nigerians, and with concrete plans to staff high-skilled positions with Nigerians over first 4 to 6 years.

(b) *The Industrial Training Fund (ITF)* is already working with SENAI in Brazil to design auto training centres similar to what they have in Brazil in the three existing Nigerian

auto clusters. **These centers will not only train Nigerians to maintain and service vehicles, but will also train them to manufacture spare parts.**

(c) *The National Automotive Council (NAC)* has been putting in place foundational skills development for the automotive industry for the longer term. NAC, with the Nigerian Universities Commission and other stakeholders, has been working on University degree programmes by developing a curriculum for a degree in automotive engineering. Two Universities, Abubakar Tafawa Balewa University (in Bauchi) and Elizade University (in Ondo) already have plans to offer the programme. In addition, NAC, with the National Board for Technical Education (NBTE), Federal Ministry of Labour and Productivity and other stakeholders, have developed a new curricula for teaching automotive mechanics. This forms part of the new National Vocational Qualifications (NVQ) scheme approved by the government recently.

(iii) Standards

Safety and products standards are crucial to the development of a viable automotive industry. Local content manufacturers would be encouraged and assisted to produce good quality items and obtain ISO quality certification. NAC has been working with the Standards Organization of Nigeria (SON) and other stakeholders, and have developed 106 vehicle safety standards in the last two years. The Council is also building automotive component test centers where products can be tested to ensure conformity with standards. Finally, the Council has been in contact with the states' Motor Vehicle Administration Departments to review and reform the vehicle inspection and certification system. The strategic targeting of international OEMs into Nigeria's auto industry will also enhance overall product quality and standards.

(iv) Investment Promotion

While the provision of appropriate tariff measures, patronage, supplier parks, etc, will attract investors, a deliberate campaign will be mounted to attract them when this plan is approved. The following are also prerequisites for investment in the automotive sector:

- (a) *Fiscal Measures:* The incentives and support measures required by the industry can be achieved through appropriate fiscal measures and patronage as detailed in table 2.
- (b) *Checking Smuggling:* It is important that smuggling of vehicles into Nigeria is checked. NAC is already working with the Federal Road Safety Commission (FRSC) and the Nigerian Customs Service (NCS) on this issue. Details on measures to control auto smuggling are detailed in paragraph 2.4.
- (c) *Policy consistency by government through legislation:* The industry is long-term in nature, with companies that started the industry over 100 years ago still around in one form or the other (Daimler-Benz, Peugeot, Ford, GM, etc). Accordingly, our development plan should also be long term, 10 years, to be reviewed every five years. It is proposed that key aspects of this plan should be legislated to give comfort to investors that there will be no abrupt policy changes.

(v) Market Development

The Nigerian vehicle market as it is can support an indigenous automotive industry. The following will be implemented to develop and sustain the market for local automotive industry:

(a) *Affordable vehicles:* About three quarters of the vehicles sold in Nigeria are used cars, due to the relatively low purchasing power of many Nigerians, as well as a taste for big cars and SUVs. However, vehicle manufacturers have designed strategies for producing affordable vehicle models. For instance, Nissan has re-introduced the Datsun brand as a low cost vehicle for developing countries. They launched it in India in early August and are looking for a manufacturing base to produce it for African countries. Nigeria has the opportunity to be that manufacturing base. The Nigerian auto strategy is to encourage OEMs to focus primarily on assembly of lower-end less expensive models in Nigeria, which can be purchased within the same price range of existing used vehicles imported into the country that are typically priced around NGN 1.2 million to NGN 1.5 million. The auto development plan therefore expects higher-end expensive models will continue to be imported into the country, in the initial phase.

(b) *Vehicle purchase scheme:* The established OEMs usually have vehicle financing schemes in the countries where they operate. NAC will work with OEMs to establish domestic dealership networks, setup captive finance operations, and integrate into the existing banking system in Nigeria. Some banks, including a specific bank that currently finances one third of vehicle purchases in South Africa, are already in a position to support this scheme and have expressed interest.

(c) *Patronage:* While Federal Government purchase of vehicles (N6 billion in 2013 budget) is a small percentage of annual vehicle purchase (N550 billion in 2012), patronage of locally produced vehicles provides an example and sends a strong signal to others, by indicating a mark of confidence in the industry. It also shows that government is serious about job and wealth creation and technological development. The new mass transit programme will also benefit from this.

2.3 Key Fiscal Drivers of the Automotive Industry Development Plan, 2013-2024.

Taking cognizance of the requirements for automotive industry development in the previous paragraphs, table 3 summarizes the key fiscal drivers of the automotive development plan.

Table 3. Key Fiscal Drivers of the 10-year Nigerian Automotive Industry Development Plan, 2013 to end 2024

Year	Objective	Incentive	Likely effects	Mitigation Measures	Remarks
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2013-2015	Create an environment to allow existing assembly plants to survive and attract other OEMs like Nissan, Renault, GM and Toyota, who expressed interest in Nigeria	<p>(i) Cars (HS Heading 87.03): Levy of 35% charged on Car FBU in addition to 35% duty.</p> <p>(ii) Commercial vehicles (HS Headings 87.01, 87.02, 87.04, 87.05, 87.16): Levy of 35% duty without levy.</p> <p>(iii)Tariff on CKD*, SKDI (HS Heading 87.06) and SKDII (HS Heading 87.07) at 0%, 5% and 10% local assembly plants.</p> <p>(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.</p>	A short-term price rise of vehicles.	<p>Importation of FBU by APs at concessionary duty will moderate price rise.</p> <p>At least one of the OEMS intend to assemble/import affordable vehicles in the region of \$6000-\$7000 (₦0.96m-₦1.12m)</p>	<p>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.</p> <p>The APs and NAC to develop and implement a local content incorporation programmes</p>
2016-2018	Create an environment to allow existing assembly plants to grow and continue to attract other OEMs, in particular, local content suppliers.	<p>(i) to (iv) as above</p> <p>(v) Concessionary FBU import by APs to be equal to their CKD/SKD imports</p>			<p>As above.</p> <p>The assembly plants to intensify the implementation of local content programmes.</p>
2019-2024	Institute incentive for local Content incorporation	<p>(i) Levy on Car FBU reduced to 20%. Tariff remains at 35%.</p> <p>(ii) Duty on CV FBU</p>			

	remains at 35% without levy.			
	(iii) Tariff on CKD, SKDI and SKDII remain at 0, 5% and 10% respectively.			
	(iv) Concessionary FBU import by APs to be up to half of their imported CKD/SKD kits.			

* CKD/SKD Definitions in annex II.

2.4 Control of Used Vehicle Imports and Smuggling

The Auto Development Plan will implement initiatives to check the issue of vehicle smuggling into the country. Smuggling of vehicles can be controlled as they cannot be used without registration. Smuggling of vehicles is facilitated by the failure of states' vehicle licensing offices to make registration details available to the Nigerian Customs Service to check for non-payment of duty. The following measures will drastically reduce the smuggling of vehicles:

- (i) The new National Vehicle Identification System (NVIS) introduced by the Federal Road Safety Corps (FRSC) fits this purpose. The details of the owner, including passport photograph, copy of driver's license and evidence of duty payment are submitted before the vehicle license is issued. The registration details are stored electronically and can be accessed via the internet, and the licence plate is non-transferable to other vehicles. In case of change of ownership, the details of the new owner will be captured during the annual vehicle licence renewal. The Nigerian Customs Service (NCS) should have access to the registration data base to check that correct duties are paid. The NAC and NCS should undertake regular reviews and annual audits.
- (ii) There should be dedicated ports with car terminals. This will allow a customs secure zone for the importation of vehicles.
- (iii) All vehicle dealers and importers for sale to the public should be licensed for effective monitoring and control of used and grey vehicle imports. It will also facilitate the resolution of consumer complaints. This is done, for example, by the states' in the USA.
- (iv) To control under declaration of vehicle value to reduce duty paid:
 - a. The NCS should publish the price of new vehicles annually; and
 - b. To provide a transparent benchmark to determine the value of used vehicles, the NCS should use the value of a new vehicle depreciated by 10% and 7%

per annum for cars and commercial vehicles respectively (implying a 10 year and 15 year depreciation for cars and CV), but never below 30% of the value of the new vehicle equivalent.

2.5 Local Content Development

(a) Introduction

The Auto Development Plan will facilitate a steady increase in the local content of vehicles assembled in Nigeria. In early years, it is expected that most vehicle parts will be imported, with Nigeria basically focused on assembly. However, over time, specific parts will be manufactured locally as Nigerian suppliers develop key competencies.

In its initial phase, the Auto Development Plan will facilitate local content increases in the following vehicle parts:

- **Welded parts** (exhaust system, Seat frames),
- **Elect Parts** (batteries, trafficators, wiring harness),
- **Plastic and Rubber Parts** (tyres, tubes, fan blades, seat foam, oil seals, hoses, radiator grills, etc),
- **Radiator, Cables, Filters, Brake pads/linings, Windscreens, side glasses, fibre-glass parts, paints, etc.**
- **Rubber products – (tyres)**

(b) Requirements for the Development of Local Content:

The lack of integrated plans and efforts to develop local content was one of the reasons the industry failed. The development of local content will depend on the following:

- An automotive industry with sufficient sales (at least 5,000 units per model).
- Availability of needed raw materials locally. These are Iron and Steel, Plastics, Elastomers, Aluminium and other non-ferrous metals.
- Availability of other engineering infrastructure like forge and foundry shops, precision machine shops, heat treatment facilities.
- Test centres to test the quality of automotive safety parts, undertake vehicle homologation and assist in R&D.
- The development of a local content development programme with the industry and providing appropriate incentives.
- Charging import duty of 35% on automotive components that are locally produced at competitive prices and of good quality.

(c) Immediate Opportunities in the Nigerian Tyre Industry:

It should be noted that the Nigerian tyre industry already presents strong opportunities to increase local content in the auto sector. The industry was established in 1962 and 1963 by Dunlop and Michelin respectively, and by 2005 had a combined annual capacity of 2.25m tyres (1.5m car and 0.75m truck tyres). The market size (units) for tyres was about 3 million units (car- 2.0m and truck- 1.0m) in 2005, valued at over ₦30 billion and 5 million units now. The local production as at 2005 met 75% of demand, however today Nigeria's tyre plants have shut down and the country now imports almost all its tyre needs. This was due to a radical change in government policy in 2005, through the **drastic reduction of tariff**

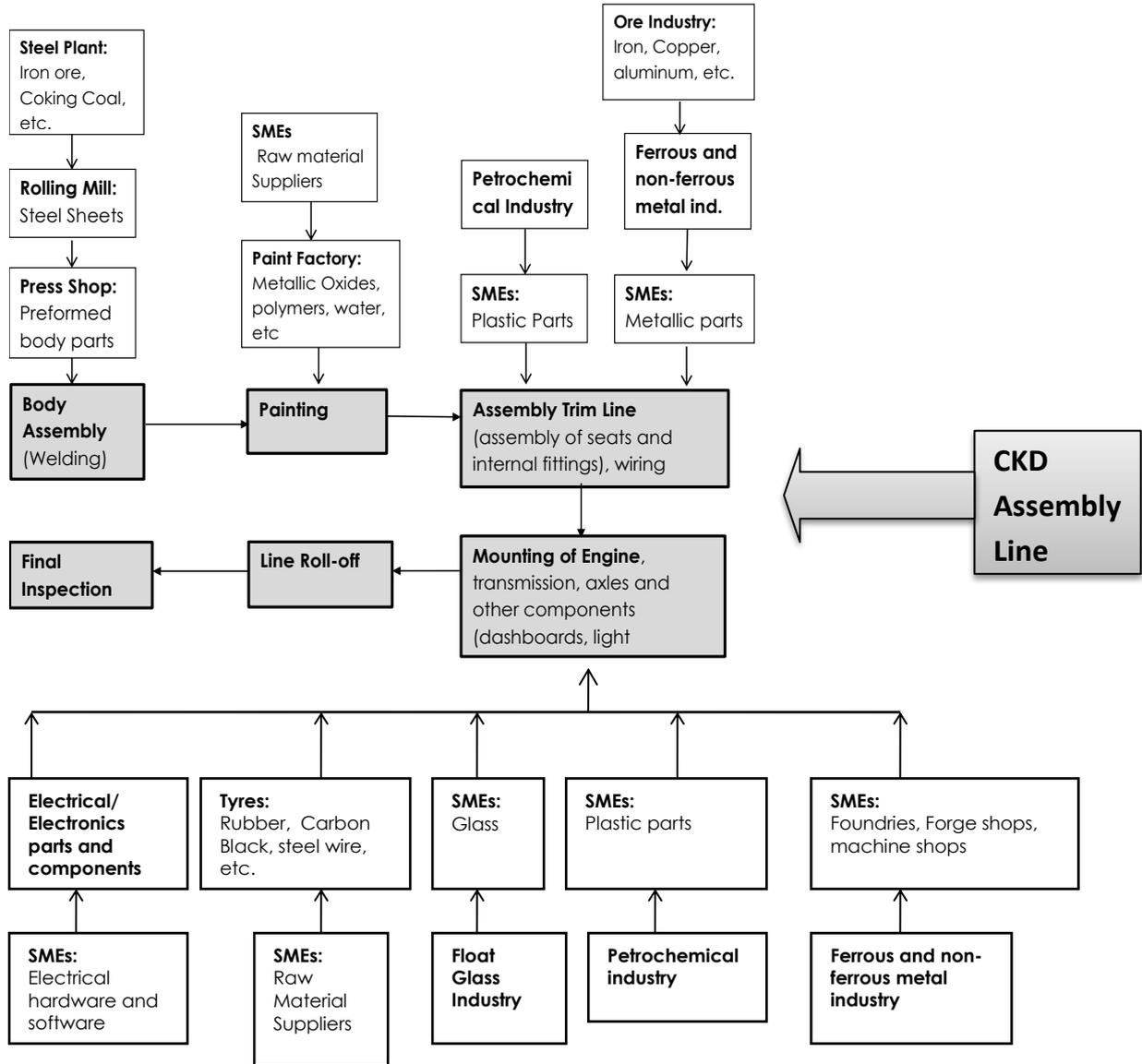
on imported truck tyres from 40% to 10% (while keeping tariffs on car tyres the same), which has made local producers uncompetitive against imports from Asia and Europe. Although Car tyre tariffs were kept at 40% (20% duty and 20% levy) the disparity in car and tyre tariffs has led to a situation where imported car tyres were declared as truck and bus tyres so as to pay 10% duty instead of 40%. This led to the closure of both tyre manufacturing plants in Nigeria. Because the tyre operators had rubber plantations in the country (e.g. in Cross River State), they and are **now exporting the rubber from their plantations (and receive EEG) and importing tyres from, amongst others, South Africa and Algeria.**

The Auto Development Plan recommends the following immediate actions to revive the tyre industry:

- (i) Harmonize the tariff on car and truck tyres back to 20% to avoid unwholesome malpractices and wrongful declarations;
- (ii) Allow equipment for tyre production to be imported duty free.
- (iii) Give pioneer status to all tyre plants, including those who resume production, as a major revival incentive; and
- (iv) Allow tyre manufacturing plants to import tyres at 5% import duty to meet the shortfall between production and demand for an initial period of two years.

It is estimated that these recommendations can immediately create over 3,000 direct jobs, and save Nigeria NGN 120 billion annually (Car Tyres: 5m at ₦50 billion, truck tyres: 1m at ₦70 billion) which is currently used to import tyres into the country.

Fig. 1. Vehicle Assembly Process and Associated Supply Chain.



NAC

October 2013.

Annex II. CKD/SKD Definitions

Title	Definition by Process	Definition by Equipment
SKD	<p>Car, Truck, Bus body painted or not.</p> <p>The engine, gearbox, axles, suspension, driveshaft, steering, tyres, batteries, exhaust system are supplied as sub-assemblies for assembly in Nigeria.</p>	<p>(i) Assembly line, miscellaneous tools.</p> <p>(ii) Wheel alignment tester, Turning radius tester, Head light tester, Sideslip tester, Speedometer tester, Brake dynamometer and Shower testing. Test Track</p> <p>(iii) Paint booth and oven (optional).</p>
CKD	<p>Body sides, Roof and Floor pan are supplied loose final welding, painting and final assembly.</p> <p>The engine, gearbox, axles, suspension, driveshaft, steering, seats, tyres, batteries, exhaust system, electrical, etc. are supplied as sub-assemblies for assembly in Nigeria.</p>	<p>(i) Welding guns, Jigs, Templates, Metrology Equipment (3-D measuring machines), etc.</p> <p>(ii) Conveyors, paint tanks, paint both, drying oven, etc.</p> <p>(iii) Assembly line, miscellaneous tools.</p> <p>(iv) Wheel alignment tester, Turning radius tester, Head light tester, Sideslip tester, Speedometer tester, Brake dynamometer and Shower testing. Test Track.</p>