The Nigerian Automotive Policy and its Implementation

by

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Outline

• The Importance of the Industry

• The Nigerian Automotive Industry Development Plan
  – Automotive Policy
  – Fiscal Provisions
  – Support Programmes

• The Plan Implementation

• Local Value Added/ Local Content Development

• Conclusions
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:

– **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. It employs directly and indirectly, 600,000 people in Egypt and attracted an investment of over $5 billion. It is the second source of foreign exchange after the Suez Canal;

– **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;
Importance of the Industry

- Small, Medium and Micro-Enterprises (SME) development in respect to automotive parts, components and services and attendant job creation;

- Skills development: The manufacture of vehicles has 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.
Importance of the Industry

• 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.

• The automotive industry is 130 years old and in 2014, 40 countries produced 89,747,430 vehicles, about a quarter of which are commercial vehicles. About a billion vehicles are in use worldwide.
Importance of the Industry

The industrial added value of the auto industry accounts for a large share of the GDP. The average numbers are:

- Western European countries: 7%
- Japan: over 10%
- America: over 5%

The annual output of the industry is at over US2 trillion.
Scope

The Automotive Industry

- Transportation of People, Goods and Services
- Manufacturing
- Agriculture
- Defense
- Power Generation
- Marine Engines
- R&D, Advanced Manufacturing Technologies
- Farm Mechanisation
- Personnel Carriers, Tanks, Motorised Artillery, Ship and Aircraft Engines.
Main Activities

The Automotive Industry

- Design
- Development
- Manufacture
- Marketing/Sales
- Maintenance
Automotive Materials

The Automotive Industry

Metals
Iron and Steel, Aluminium, Copper, Lead, Zinc, Magnesium, etc

Electrical/Electronics

Non-Metals

Plastics, Rubber, Glass, Textiles, etc.

Chemicals, Paints
The Automotive Industry Value Chain

**Upstream**
- Mining
- Metals, Primary and Fabricated (Steel, Aluminum, Copper, Lead, Zinc, magnesium, etc.)
- Plastics, Rubber, Glass, Electronics
- Fuel

**Core**
- Original Equipment manufacturers
  - Cars
  - Buses
  - Lorries and Trucks
  - Motorbikes
- Component and Part Manufacturers
- Others
  - Defense (Tanks, motorised artillery, etc)
  - Agric (Tractors, harvesters, etc.)
  - Ship Engines

**Downstream**
- Finance and Insurance
- After market (Servicing, Spare Parts)
- Used Car Market
- Care hire/Rental
- Fuel Supply
- Transportation
- Advertising
- Logistics/Warehousing

A job a vehicle assembly plant, creates three others in the component industry and seven others in the upstream industries.
Table 1. Value of Nigerian Automotive Imports (US$M)

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicles</td>
<td>5,407</td>
<td>4,012</td>
<td>5,592</td>
<td>4,082</td>
<td>6,364</td>
<td>6,212</td>
<td>5,691</td>
</tr>
<tr>
<td>Tyres and Spare parts</td>
<td>883</td>
<td>895</td>
<td>1,132</td>
<td>1051</td>
<td>1,005</td>
<td>1,313</td>
<td>1,383</td>
</tr>
<tr>
<td>Motorcycle, Cycles, Agric Machinery</td>
<td>908</td>
<td>493</td>
<td>731</td>
<td>980</td>
<td>1,137</td>
<td>1,216</td>
<td>1,521</td>
</tr>
<tr>
<td><strong>Total Imports</strong></td>
<td><strong>7,198</strong></td>
<td><strong>5,400</strong></td>
<td><strong>7,455</strong></td>
<td><strong>5,113</strong></td>
<td><strong>8,506</strong></td>
<td><strong>8,741</strong></td>
<td><strong>8,595</strong></td>
</tr>
</tbody>
</table>

Source: UNCTAD
The Nigerian Automotive Industry

- Brief historical facts:
- Some private companies started SKD assembly in the 60s;
- By early 70s and 80s, the federal government set up 2 car, and 4 light and heavy commercial vehicle assembly plants, assembling vehicles from CKD parts
- These were all privatised by December 2012.
National Automotive Industry Development Plan (NAIDP)

The National automotive policy was re-launched in 2013 and a definite plan for implementation, NAIDP, was announced with very clear fiscal guidelines and programs to run, initially for 10 years with periodic properly phased reviews.

Its main objective is to bring back vehicle assembly operations and develop local content.

To gain investors confidence, additional effort was made to legislate and it passed both houses successfully as a package of incentives. ECOWAS has adopted the policy for as one of its four priority industrial development areas. The others are agro-processing, pharmaceuticals and construction.

The ECOWAS is organising a Workshop the development of the automotive industry in West Africa on 3-4 Dec 2015 in Lagos.
NAIDP: Support Programmes

A. Standards:
Safety and products standards are crucial to the development of a viable automotive industry. Specifically:

i. **Test Centre.** The NADDC and the Standards Organization of Nigeria (SON) have developed over 130 vehicle safety standards while NADDC has reached almost 70% completion stage in the establishment of world class automotive test laboratories for emission, components and materials. So far about N5billion has been committed by government;

ii. **SONCAP for Imported Vehicles:** At our request, the SON planned to start implementing SONCAP on imported vehicles by requiring that all used vehicles imported into Nigeria have a roadworthiness certificate from their country of origin. Unfortunately, this was misunderstood by the previous management of the NCS.

iii. **Product Quality:** Vehicle assembly plants and local content manufacturers are being encouraged and assisted to produce good quality items and obtain ISO 9001 QMS quality certification.
Market Development

(i) Credit Purchase Scheme: 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.

The newly introduced levy on imported Fully Built Units (FBU) of Cars is to be applied to fund this project for which Council has procured a technical partner. Council has applied to the CBN for the proposed entity operating licensee and concessions to attract additional funding from Development finance Institutions.

(ii) Used Vehicles: The 35% levy on used vehicles has been suspended until: (a) the successful launch of the low cost vehicle credit purchase scheme and (b) the establishment of safeguard against anticipated smuggling and diversion of goods to neighboring ports.

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.

(iii) Patronage by Government: This would show government’s commitment to job creation and industrialisation, besides setting example for others to follow.
iv. **Smuggling:** A program 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](http://www.narp.gov.ng) to capture the 17 Digit Vehicle Identification Number (VIN) obtained by Nigeria Customs Service upon payment of Duties. Effort is still ongoing to get NCS to share this data which will be made available to all vehicles licensing offices nationwide for verification before license issuance.

v. Dealership licensing and after sales programs are also being implemented.
C. Manpower Development:
NAIDP has 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.

A new curriculum for teaching automotive mechanics and associated textbooks were developed and are now part of the Nigerian Vocational Qualification Systems. We have trained over 4,000 mechanics with the new curriculum. Currently, we are partnering with RTEAN, who are taking over the FMW auto workshops nationwide to train mechanics in collaboration with Bosch Aftermarket.

A degree program in Automotive Engineering was developed with NUC and is being offered by the University of Ibadan, Abubakar Tafawa Balewa University and Elizade University. Others are expected to follow suit.
D. Infrastructure:
NAIDP recognize the infrastructural challenges for investors in Nigeria and 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.

Nearly 500 Hectares of land have been acquired in Oshogbo, Kaduna and Nnewi for automotive industry supplier parks. The process of procuring a consulting firm to facilitate investment is nearing completion.
Plan Implementation

• The plan objective is to have vehicle assembly operations with increasing local content incorporation. This may be achieved in the assembly stages below. The transition from one stage to another should not exceed 12 months. (i.e. a maximum of 36 months from start of SKD 2 to CKD operations (including 12 months set-up period)):

**SKD 2**
- Assembly starts with Car/ truck cabin body fully painted and glazed.

**SKD 1**
- Assembly starts with Car body/ trucks cabin unpainted.

**CKD**
- All materials supplied loose for final welding and final assembly.
The NAIDP Implementation

• Since the approval of the policy in October 2013, 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. Sixteen other 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 just started assembling Ford ranger pick-up, with an SUV to follow later.
The NAIDP Implementation

• 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 and are on track to start assembly operations this year.

• These will add over 100,000 vehicles annual capacity, bringing the total installed capacity to 200,000 (single shift), which, when complemented with allowed imports of other models by the assembly plants will meet all our requirements by the end of this year. Our focus has now shifted to local content development.
Local Content Development

• OEMs require their supplies to have the ability to supply components at competitive cost, with the required quality and at the required delivery times. They also require them to keep pace with the rapid technological developments in the sector. Any local content strategy must therefore enable local suppliers meet these OEMs demands.

• OEM suppliers usually follow their clients when the annual volume of vehicles produced reaches certain limits (about 10,000 for cars and 5,000 for CV)

• We developed a local content strategy that aims to develop technically competent suppliers who can keep abreast of developments in the industry. The strategy addresses three major issues: technical competence, industrial performance and government policy.
Local Content Development

• Our local content development programme is through the following steps:
  – Identification of the parts/components to be developed.
  – Conduct Industry diagnosis to identify the gaps.
  – Take remedial action to remedy the gaps.
  – Provide incentives.
  – Monitoring

• The parts we will start with are those that are common to all vehicles like batteries, brake pads, filters, lubricants, paints, etc.

• In 2016, we will intensify contacts with the Japanese, South African and Indian automotive component manufacturers with a view to opening doors for joint ventures and technical collaboration with our manufacturers.
Conclusions

The automotive industry is important for:
- The transport of people, goods and services;
- Employment Generation;
- Acquisition of technology;
- Forex savings and earnings.

That is why the following countries developed their automotive industry through an automotive policy: Japan (1910), Brazil (1951), India (1950s), South Korea (1970s), Thailand (1970), Malaysia (1985), China (1985), South Africa (1910 & 1994), Indonesia (1980s) The Philippines (2014).
• Thank you for your attention!

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