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Nigeria's automotive industry plans: What exactly are the expectations? (2)

As laudable as the automotive industry plan may appear to be, a close analysis reveals that it only makes 21st century Nigeria "road centric"

The Nigerian Automotive Industry Development Plan (NAIDP or the Plan) provides for the following fiscal incentives for the initial phase covering the 2013 to 2015 fiscal years. These incentives are targeted at creating an environment for existing assembly plants to thrive and attracting new investors in the sector:

- Commercial vehicles (HS Headings 87.01, 87.02, 87.04, 87.05, 87.16) are to attract 35% duty without levy while cars (HS Heading 87.03) are to attract levy of 35% charged on the Fully Built Units (FBU) in addition to the 35% import duty.
- Tariff on Completely Knocked Down parts[1](CKD), Semi Knocked Down parts I[2](SKDI) and Semi Knocked Down parts II[3](SKDII) for use by local assembly plants will be 0%, 5%, and 10% respectively.
- Assembly plants to import FBU for cars at 35% duty without levy and commercial vehicles at 20% duty without levy, in numbers equal to twice their imported CKD/SKD kits.

In addition to the above incentives detailed in the Plan, the Federal Ministry of Finance in its Circular (ref: BD/FP/DO/09/1/224) confirmed the past President's approval of the following incentives to encourage additional investments in the Nigerian automotive sector:

- All machinery and equipment for tyre production are now duty and VAT free.
- All machinery and equipment imported for the purpose of vehicle assembly will attract zero percent import duty and will be VAT free.
- Pioneer status to be granted to all tyre plants.
- Harmonized 20% duty on car, lorry and bus tyres.

While some of the fiscal incentives relating to increase in tariffs and duty paid for imported cars and reduction of the tariffs for CKDs and SKDs may

not require any amendment to existing laws for the incentives to be valid, others may. For instance, the Value Added Tax (VAT) Act empowers the Minister of Finance to amend, vary or modify the list of VAT exempt / zero rated goods and services through a publication in the federal gazette. To the extent that such a gazette is yet to be issued, would the enjoyment of that exemption be hassle free for the beneficiaries in practice?

It is also pertinent to note that the pioneer list issued by the Nigerian Investment Promotion Council already covers the "manufacture of automotive and other components" as well as "vehicle manufacture". Therefore, the pioneer status for tyre plants is not in any way a new incentive to the sector. However, can existing local assembly plants argue (and if they can, would it be accepted) that they are involved in vehicle manufacture or manufacture of automotive components and on this basis qualify for the pioneer status incentive under the provisions of the Industrial Development (Income Tax Relief) Act?

Beyond the issues around fiscal incentives, the following questions also become pertinent:

- Is the assembling really manufacturing of "made in Nigeria cars" or is this another illusory homage to "made in Nigeria cars"? Can the NAIDP be a veritable platform for the realisation of genuine production line for prototypes of truly "made in Nigeria cars" by Nigerian automakers properly so-called?
- Is a complementary policy for the petrochemical, steel, and tyre manufacturing sub-sectors not required with respect to the NAIDP? Or are these sectors expected to sort themselves out without any targeted intervention?
- How would the power sector interplay with the automotive industry? Or is this no longer relevant in the light of the reforms in this sector? Should beneficiaries take it for granted that they would enjoy stable and secure power supply?
- About 30 assembly plants and counting are licenced; are all these really expected to come on stream? What are the margins of this sector? Would this not result in a glut in the market for automobiles?
- How does this NAIDP galvanise pursuit of multi-modal transport solutions for Nigeria in 21st century?

As laudable as the automotive industry plan may appear to be, a close analysis reveals that it only makes 21st century Nigeria "road centric". A country with over 170 million people being "road centric" would be unthinkable in the 21st century. The pressure on existing road networks needs not be imagined as many citizens in urban areas live through this on a daily basis. This policy thus raises the following concerns that must be addressed:

- Chaotic traffic that must necessarily ensue especially where acquiring a vehicle of your own is a testimony that the much awaited big and good time has arrived?
- Soundness of health of Nigerian commuters as a result of early morning and late evening "road rages" due to grid locks with concomitant results in high blood pressure and fatigue?
- Incalculable productive time that would be lost by very active, capable and enterprising citizens in traffic?

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1 This includes materials supplied loose for final welding and final assembly, or raw body shell and all other parts loose and not assembled.

2 For SKDI, car body and trucks cabin are unpainted with other components supplied as individual units for assembly.

3 For SKDII, car body and truck cabin are fully painted with other components supplied as individual units for assembly

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