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How Nigeria loses $10bn yearly to vehicle importation –CFAO DMD, Jaiyesimi

The Deputy Managing Director of CFAO Motors, Mr. Kunle Jaiyesimi, says that the Nigeria auto industry is on life support and needs urgent government intervention. He said that the sector would die and Nigeria was becoming a dumping ground of automotive products from across the world and Africa. PAUL OGBUOKIRI brings the excerpts

Jaiyesimi

Lack of incentive to those that invested billions in the automobile assembly project

The provision of juicy financial loans with single-digit interest rates for Auto Assemblers should be provided by the government to curb the problem of inadequate capitalisation and funding. Granting tax breaks to assemblers in their first few years of establishment by the government can also serve as a good incentive measure. We have seen the enthusiasm and support of the past government and the present government with regard to public appearance and support of local assemblers. But this should be done holistically to benefit all the local assemblers. The adoption of Innoson by the Anambra State Government as its official vehicle in March 2022 is a milestone in the Industry and this is what the Federal and other state governments should emulate.

According to the Governor of the Central Bank of Nigeria (CBN) Godwin Emefiele, during the introduction of Produce, Add Value and Export (PAVE) to boost export and encourage local production: "To solve the immediate and long-term economic challenges of the country, we needed to create an enabling environment with appropriate incentives to empower innovative entrepreneurs to drive growth and development". This statement shows clearly that auto assemblers in Nigeria need to be incentivized.

There should be revitalization and incentivization of the auxiliary companies (Plastics/ Rubber/ Foam/glass) too since they produce complementary components/parts that are used in the production of vehicles. This will salvage local assemblers from importation of spare parts. Over $10 billion (about N5 trillion) is being lost yearly in Nigeria to large scale importation of fully built vehicles and allied components used for local assembling. Re-emphasizing my viewpoint about a year ago, on the deplorable state of Petrochemical and Steel firms; the demise of Ajaokuta Steel Company, Aladja Steel Rolling Mills and departure of the tyre manufacturers, Dunlop and Michelin and other parts and components manufacturers like batteries, belts and windscreens are big setbacks to the sustenance and development of the Automotive Industry in Nigeria.

Non provision of forex by the CBN for settlement of local automakers Letters of Credit

The failure of the Central Bank of Nigeria (CBN) to provide forex for Auto Assemblers to settle their Letters of Credits (L/Cs) slows down their businesses and puts additional pressure and cost on them even as Auto Assemblers are already overwhelmed by epileptic power supply, high cost of electricity tariff, and scarcity cum hike in the prices of fuel, diesel and gas amongst others weighing down their businesses. The CBN affirmed to this in the Communiqué No 143 of The Monetary Policy Committee (MPC) Meeting held on the 18th and 19th of July, stating that "considerable rise in core inflation resulted largely from the rising cost of production due to high energy prices associated with the persistent disruptions to power supply, hike in electricity tariff, continued scarcity of Premium Motor Spirit (PMS), and rising price of Automotive Gas Oil (AGO)". The CBN is expected to sustain efforts at enhancing efficiency, liquidity and transparency in the foreign exchange market that would give special considerations to Auto Assemblers and other manufacturers via the best favourable windows to settle timely, their Letters of Credit (L/Cs) and ensure its carried to the letter by instructing banks to submit their L/Cs from them for verification and audit. The intentions behind the establishment of the Investors' and Exporters' FX Window on April 21st 2017 by the CBN were meant to be a plus for Auto Assemblers. However, the establishment of the I & E FX Window and the claim in Q1 2022 by the CBN about the stability of the naira at the I & E Window at its 32nd seminar tagged: "Exchange Rate Management and Economic Diversification in Nigeria: The 'PAVE' Option," are yet to yield the desired results as Assemblers still battle to source for foreign exchange amidst the depreciating value of the naira, causing instability in prices.

Non-availability of vehicle finance scheme despite the collection of over N180 billion levies on fully built vehicles by the Nigeria Customs Service on behalf of the Nigerian Automotive Design and Development Council (NADDC)

It is one thing to produce a vehicle and it is another to create an enabling environment to sell it. Local Auto Assemblers are in dire need of schemes that would make Nigerians patronize them. The rate of inflation in Nigeria is very high. Thus, the ability of an average Nigerian to purchase a new vehicle is considerably low. This underscores the need for a Vehicle Finance Scheme that would enable Nigerians to own new vehicles, thereby discouraging the use of imported used ones. But unfortunately, despite the collection of over N180 billion as levies by the Nigeria Customs Service, the auto industry is yet to witness any proper vehicle finance scheme.

In May this year, NADDC through its DG, Jelani Aliyu, announced a N200 billion vehicle financing scheme to enable Nigerians own brand new vehicles at ease. He said that the council was discussing with the Central Bank of Nigeria, Jaiz, Wema and Zenith banks to provide a single-digit auto financing which will allow Nigerians to take a brand new vehicle home and pay over 4, 5 or 6 years. This will be a welcome development if only it can come to fruition as it would make Nigerians patronize made-in-Nigeria vehicles. The worry is that several of such promises by the government have been announced without a later follow up and implementation.

On frequent upgrade of imported vehicles (SKD/ CKD) values by the Nigeria Customs Service

The Nigeria Customs Service believes in the upgrade of the value of imported Semi-Knocked Down or Completely Knocked Down vehicles year by year, considering just model change. This process is faulty as the manufacturer may not have upgraded the vehicle models or might have only done a minor upgrade that actually does not affect all parts of a vehicle. Most manufacturers carry out full model change between 4-5 years. This trend should be discontinued as it discourages Auto Assemblers and mars the objectives of the auto policy.

Delay in vehicles/containers clearing process as a result of bottlenecks at the ports due to activities of various government agencies at the port

The bottlenecks at the ports by the Nigeria Customs Service and other government agencies is a hindrance for Assemblers. For instance, after the issuance of the Pre-Arrival Assessment Report (PAAR) and the inspection and certification by the valuation unit, products can still be impeded by any of these units: Gate/ Releasing/ Customs Police/ Strike Force, discrediting the PAAR that had already been certified after thorough inspection of the vehicles. One can be sent back to any of the units from which one has already been cleared. Many times, even after the bureaucracies by the NCS and other government agencies at the ports, the Federal Operations Units (FOU) are still there to cause further delay on the highway en route warehouses in spite of all the clearing documents from the ports. The poor state of the roads to and fro the seaports and the gridlocks especially that of Apapa is another hellish process for Assemblers. It was reported that Nigerians lost about N90 billion in 2020 due to bottlenecks at the Apapa Seaport.

In Q2 2021, the National Bureau of Statistics (NBS) reported that, majority of the commodity exported out of Nigeria were transported via water, which accounted for N5,033.37 billion representing 99.09 per cent, followed by Air transport that contributed N31.71billion representing 0.62 per cent and Road transport valued at N14.36 billion representing 0.28 per cent. Similarly for imports, goods brought into the country via water transport accounted for N6, 508.63 billion or 93.65 per cent of the value of total imports; followed by Air at N359.70 billion or 5.18 per cent and Road N81.87 billion or 1.18 per cent. With these figures, the need for removing unnecessary bureaucracies at the ports cannot be overemphasized.

To ease congestion and curb extortion, the then Finance Minister, Ngozi Okonjo-Iweala in 2012 cut the number of government agencies allowed to inspect cargo at Lagos Ports. The NCS and other government agencies' activities at the ports are tardy and repetitive. Leaving behind the manual processes and automating them wholly would remove the bottlenecks which lead to demurrage and loss of sales for Auto Assemblers.

Reduction of duty payable for non-assemblers and used vehicle importers

The automotive policy introduced by the Federal Government was targeted at discouraging the importation of fully built vehicles and encouraging local manufacturing. The policy allows local assemblers to import Completely-Knocked-Down (CKD) vehicles at zero per cent duty, and Semi-Knocked-Down (SKD) vehicles at 5 per cent duty, while importers pay a 70 per cent (35 per cent on duty and 35 per cent as levy) on fully built vehicles (new and used). According to reports released by the National Bureau of Statistics (NBS), Nigeria recorded a total sum of N1.28 trillion as the value of "used vehicles" (popularly known as Tokunbo) and motorcycles imported in one year (Q3 2019 – Q2 2020), compared to N899 billion recorded in the corresponding period (Q3 2018 – Q2 2019), implying an increase of 42 per cent. This underscores the importance and urgency of signing the Auto Policy into law to restore investors' confidence. The policy somersault of the government is the reduction of import duty from 35 per cent to 10 per cent and applying the same on SKDs and fully builts commercial vehicles (Buses and Trucks). This flaws the fundamental objective of the automotive policy which is to discourage the importation of fully built vehicles. This is more appalling, considering the fact that Assemblers in the country today are trying to maximize their potentials in the SKD operations and not in the CKD as it should be. No investor would establish an Auto Assembly Plant in a country where the cost of importing an already built vehicle is cheaper than the cost of producing a new vehicle.

Conclusion

The urgency to have the National Automotive Industry Development Plan (NAIDP) Bill critically reviewed and signed into law cannot be overemphasized. The unfortunate thing is that while other nations are making policies that would shape their Auto Industry from 2025 - 2050, we are still lagging behind, discussing what would have been settled almost one decade ago.

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