UNVEILING NIGERIA'S CARBON MARKET: POLICIES, PROGRESS, AND PROSPECTS.

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INTRODUCTION

World leaders gathered in Paris during the 2015 UN Climate Change Conference (COP21) to endorse the Paris Agreement; an International Energy Treaty grounded in the 1992 United Nations Framework Convention on Climate Change (UNFCCC). Within this pact, they committed to curbing the global rise in temperature to under 2 degrees Celsius above pre-industrial levels, aiming to avert the severe consequences of climate change. Their specific pledge included slashing greenhouse gas (GHG) emissions to 1.5°C by 2030. Nigeria ratified the Paris Agreement in May 2017 and formulated its Nationally Determined Contributions (NDCs), committing to a 20% emissions reduction below Business as Usual (BUA) levels by 2030. Notably, the targets set for the oil & gas sector include eliminating gas flaring entirely by 2030 and achieving a 60% reduction in fugitive methane emissions by 2031.[1]

In 2021, Nigeria announced its net-zero commitment at COP26 in Glasgow. This was followed by the passing of Nigeria's Climate Change Act 2021 and the subsequent establishment of the National Council on Climate Change (NCCC) vested with the powers to make policies on matters concerning climate change in Nigeria. The Act applies to all Ministries, Departments, Agencies, and public and private entities within the territorial boundaries of Nigeria aiming to foster the development and execution of mechanisms that promote a low-carbon, environmentally sustainable, and climate-resilient economy.

In a continued demonstration of its commitment, Nigeria, alongside several other African leaders, CEOs, and experts in carbon credits, launched the African Carbon Markets Initiative (ACMI) during the COP27 summit in November 2022.[2] This initiative was conceived to encourage private investment in Africa's energy development and significantly amplify Africa's involvement in carbon credit markets. These markets enable foreign entities to purchase carbon credits, offsetting their carbon dioxide (CO2) emissions and thereby funding clean energy projects. The carbon credit market presents a significant opportunity for the continent,

[1]FGN, 'Nigeria's Nationally Determined Contribution update 2021: Being Required Under Article 4.2 of the UNFCCC' (2021, July 2). https://climatechange.gov.ng/wp-content/uploads/2021/08/NDC_File-Amended-_11222.pdf accessed on 15th December 2023.
[2]Conrad Onyango, 'African Countries are Warming up to Carbon Trade' (2022, November 18) https://techcabal.com/2022/11/18/african-countries-are-warming-up-to-carbon-trade/ accessed 13th December 2023.

generating substantial revenue to meet climate finance obligations, while also improving energy accessibility, creating employment opportunities, preserving biodiversity, and advancing climate action.

The Concept of Carbon Credits

Carbon credit refers to a tradable unit representing one metric ton of carbon dioxide emissions that were either avoided or sequestered from a project.[3] It serves as a license permitting a nation, entity, or individual to generate a defined quantity of carbon emissions. These credits are transferable and can be traded if the allocated emission limit isn't fully utilized. When an entity purchases a carbon credit, it acquires the authorization to release an equivalent ton of emissions within legal bounds. Recognized as a market-driven tool, carbon credits enable companies, governments, and organizations to manage their greenhouse gas (GHG) emissions by financing initiatives that either reduce or eliminate carbon dioxide or other detrimental GHG emissions from the atmosphere. Consequently, these resulting credits are bought and sold within the carbon market.

The goal of carbon credits is to create financial incentives for businesses to reduce their carbon footprint and invest in cleaner, more sustainable business practices. The carbon market is divided into 2 fragments: compliance and voluntary. The former is created from regulatory requirements, while voluntary markets allow private companies and individuals to purchase carbon credits voluntarily.[4] In recent years, a growing number of countries have adopted carbon pricing instruments as an approach for achieving low carbon development and the implementation of their current and future Nationally Determined Contributions (NDCs). The value of the voluntary carbon market quadrupled to around $2 billion in 2022 and is widely expected to grow by a factor of at least 15 by 2030, as governments and companies seek to use offsets to help achieve net-zero emissions targets.[5]

Regulatory Framework for Carbon Credits Structure in Nigeria

In Nigeria, the dynamics of carbon credits are significantly shaped by international treaties that address climate change, specifically the Paris Agreement. The NCCC has stated that Nigeria's engagement with carbon markets must be strongly linked to its development priorities contained in its NDCs.[6] Article 6 of the Paris Agreement sets out the rules for global trade in GHG emissions reduction. It is an essential enabler for international emissions trading, providing countries and businesses with a pathway to meet and accelerate their climate goals.

[2] Conrad Onyango, 'African Countries are Warming up to Carbon Trade' (2022, November 18) https://techcabal.com/2022/11/18/african-countries-are-warming-up-to-carbon-trade/ accessed 13th December 2023.
[4] Nextier, 'Developing Nigeria's Carbon Credit Market' (2023, August 22) https://thenextier.com/developing-nigerias-carbon-credit-market/ accessed 13th December 2023.
[5] NCCC & UNFCCC at the Validation Workshop for the Assessment of Carbon Pricing Initiatives in Nigeria, 'Collaborative Instruments of Ambitious Climate Action (CIACA)' https://unfccc.int/sites/default/files/resource/Carbon%20Pricing%20Initiatives%20Validation%20Workshop_RCCWAC%20Africa.pdf accessed 13th December 2023.
[6] FRN & NCCC, 'Regulatory Guidance on Nigeria's Carbon Market Approach' (2023, June) https://natccc.gov.ng/publications/NCCC%20Regulatory%20Guidance%20on%20Nigeria%E2%80%99s%20Carbon%20Market%20Approach.pdf accessed 12th December 2023.

Article 6.2 of the Paris Agreement provides for voluntary cooperation between and among contracting countries by enabling trade in mitigation outcomes. Mitigation outcomes in carbon trading are the measurable and quantifiable results or reductions in GHG emissions achieved through projects or initiatives designed to mitigate climate change. These outcomes signify the actual impact or reduction in emissions that result from the implementation of activities by a contracting party aimed at reducing or offsetting carbon dioxide and other GHGs in the atmosphere.

The trade-in mitigation outcomes allows two contracting state parties to enter into an agreement whereby one party reduces carbon emissions in line with its NDCs and transfers the credits gained from the reduction to the other party who counts it towards its own NDC targets. This is usually followed by financial compensation paid by the receiving party which must be earmarked to fund low-carbon projects in the selling party's state. Under the structure proposed by Article 6.2, all the mitigation outcomes from Nigeria are placed within the purchasing country's ledger under Internationally Transferred Mitigation Outcomes (ITMOs), or other International Mitigation Purposes (OIMP), in the case of the private sector.

It is crucial to emphasize that the ITMO sold won't contribute towards the selling party's NDC goals. Both parties involved must appropriately adjust their accounts to meet their individual NDC commitments. For the selling nation, the emissions sold are subtracted from its 'account', and they will not be recognized as meeting its NDC obligations. The Paris Agreement's accounting system mandates nations to establish precise mechanisms to prevent double counting of emission reductions. Only emissions reductions sanctioned by state actors, termed Authorized Emissions Reductions (AER), are subject to the 'corresponding adjustments.'[7]

Nigeria's Carbon Market Approach

On June 24, 2023, the NCCC published a notice titled "Regulatory Guidance on Nigeria's Carbon Market Approach"[8] where it disclosed that Nigeria's evolving carbon markets approach must necessarily target investments to improve climate disaster, risk reduction and adaptive capacities of communities and institutions while expanding opportunities in agriculture, forestry, water conservation and land-based interventions. Following a preliminary analysis aimed at establishing an effective governance structure and procedural framework for the implementation of cooperative mechanisms outlined in Article 6 of the Paris Agreement, the NCCC determined that Nigeria's strategy involves harnessing the collaborative efforts of government MDAs, the Central Bank of Nigeria (CBN), the Ministry of Petroleum Resources, UNFCCC, the United Nations Development Programme (UNDP), World Bank, and the private sector. This collaborative approach is designed to prioritize access to carbon markets in alignment with the cooperative model outlined in the Paris Agreement.

In pursuit of this objective, the Federal Government has announced that future engagement in the carbon market will hinge upon evolving government policies and developmental agendas that will be progressively formulated. As it stands, the Climate Change Act currently lacks specific provisions or guidance regarding involvement in the voluntary carbon market. This absence allows for a degree of self-regulation and the establishment of standards by independent organizations for projects involving carbon credits. Acknowledging the crucial involvement of domestic private sector players in Nigeria's carbon market success, the NCCC has affirmed that regulatory approval in the form of a 'No Objection' will not be mandated for the issuance and transfer of certified credits produced across all sectors, aligning with the directives outlined in Article 6.2 of the Paris Agreement.

CONCLUSION

The carbon credits trading system is a better way to incentivize companies to eradicate carbon emissions, rather than the traditional methods of enacting legislation that prohibits gas flaring and imposes penalties. Bans and imposition of fines for non-compliance are by themselves seldom sufficient to substantially alter commercial behaviour. However, it is expected that the NCCC will within the shortest time possible, issue regulations and rules that will govern participation in the Nigerian carbon market and set out its central parameters. The lack of comprehensive governance frameworks and operational procedures among participants in the carbon market poses the risk of fostering exploitative market practices. Such behaviours have the potential to multiply and significantly diminish the advantages of Nigeria's Emissions Trading System (ETS). It is advised that Nigeria follows the example set by the EU, USA, and India regarding their ETS, where governmental agencies have implemented robust legal and policy frameworks, along with specific rules, regulations, subsidies, and favourable carbon tax structures to effectively steer their carbon markets.

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