



NIGERIA'S ENERGY TRANSITION WATCH – EXPLORING THE VIABILITY OF A CARBON EXCHANGE SYSTEM FOR THE DEVELOPMENT OF A STRUCTURED EMISSION TRADING SYSTEM IN NIGERIA.

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In our previous write-up titled, Carbon Credit in Nigeria, which can be accessed on our [website](#), we examined the intricacies of carbon credits where we among other things, defined carbon credits to mean an instrument representing reduced Green House Gas (GHG) emissions. We further stated that carbon credits allow the owner to emit certain amounts of carbon dioxide or other GHG. Also, we discussed about the carbon market and its fragments i.e., compliance and voluntary. The compliance carbon market is created from regulatory requirements, and it works on a “cap-and-trade” system, while the voluntary carbon market allows companies and individuals to purchase carbon credits voluntarily.

In this article, we will be exploring the carbon exchange system and the need for a carbon exchange system in Nigeria. The succeeding paragraphs will highlight the need for Nigeria to have a carbon exchange system considering its teeming population, market viability, local laws, as well as agreements, treaties, conventions, pacts, and commitments made by the country to reduce its emissions to NetZero by 2060.

Carbon Exchange System/Emission Trading Systems

Globally, there are over twenty-five Emission Trading Systems (“ETS”) that are currently in force which include but not limited to the Austrian National Emission Trading System, New Zealand Emissions Trading Scheme, European Union’s Emissions Trading System, Chinese National ETS, USA-California Cap-and-Trade Program,

Swiss ETS and Korea Emissions Trading Scheme. In the next paragraph, we will briefly highlight the operations of some of these ETS.

European Union's Emissions Trading System (EU ETS)

The European Union set up the first ETS in the world in 2005 and since its establishment, it is considered the most liquid carbon exchange regime globally. This ETS covers the 27 EU member states and 3 European Free Trade Association states viz - Iceland, Liechtenstein, and Norway (who joined within the period of 2008-2012). The total GHG emissions in this jurisdiction amount to 3,893 mega-tons (Mt) per year, making it the second largest ETS in the world.¹



The EU ETS has four phases of compliance. Under these phases, certain sectors of the economy were largely regulated. For example, during its first phase (2005 -2007) some of the sectors that were regulated include:

1. Industries including oil refineries, coke ovens, and iron/steel plants.
2. Operations that produce cement, glass, lime, bricks, ceramics, pulp, paper, and cardboard.
3. Power stations and other combustion installations with less than 20MW thermal-rated input.

¹ <https://carboncredits.com/a-guide-to-compliance-carbon-credit-markets/>

The first phase succeeded in establishing (i) a price for carbon while the penalty for non-compliance was 40 Euro per tonne (ii) free trade in emission allowances across the EU (iii) the infrastructure needed to monitor, report and verify emissions from the businesses covered.

During its second phase (2008-2012), it included the aviation sector into the fold but application for flights to and from non-European countries was suspended. Also, the penalty for non-compliance was increased to 100 euro per tonne. In the third phase, the additional sectors to be regulated under this regime included:

1. Carbon capture and storage installations
2. Production of petrochemicals, ammonia, nonferrous and ferrous metals, gypsum, aluminium, as well as nitric, adipic, and glyoxylic acid

In the fourth phase (2021- 2030), the EU aim to reduce emissions by at least 62% by 2030. The maritime transport has been included as part of the sectors to be regulated during this phase. Also, a new emissions trading system has been created for buildings, road transport and additional sectors.

Under this ETS, it has been projected that there are about 10,569 power plants and manufacturing facilities that participate in the system. Also, it has been projected that the system has collected USD 158.4 billion since 2013, with USD 40.8 billion in 2022 alone.

USA- California Cap-and-Trade Program

This regime began operation in 2012 with the opening of its tracking system for allocation, auction, distribution and trading of compliance instruments. The program is implemented under the authority of the California Air Resources Board (CARB) and it covers the State of California only. The overall GHG emissions in this jurisdiction is projected to be about 425 million tonnes (Mt) per year. Just like the EU ETS, the California ETS was developed in phases. In its first phase (2013-2014), the ETS regulated several sectors some of which are: large industrial facilities (including cement, glass, hydrogen, iron and steel, lead, lime manufacturing, nitric acid, petroleum and natural gas systems, petroleum refining, and pulp and paper manufacturing, including cogeneration facilities co-owned/operated at any of these facilities), electricity generation, electricity imports, other stationary combustion and

CO₂ suppliers. In its second phase (2015-2030), in conjunction with the sectors stated in the first phase, the following sectors are regulated under the second phase suppliers of natural gas, suppliers of reformulated blendstock for oxygenate blending (i.e., gasoline blendstock) and distillate fuel oil (i.e., diesel fuel), suppliers of liquid petroleum gas in California, and suppliers of liquefied natural gas.

The Chinese National ETS (China)

The China National ETS began its operation in 2021 with the objective of contributing to the effective control and gradual reduction of GHG emissions and its jurisdiction covers the People's Republic of China. China National ETS is the world's largest in terms of covered emissions, estimated to cover more than 4 billion tCO₂ and accounting for over 40% of the country's carbon emissions.

The system regulates only the power sector. However, the scheme is set to be further developed over time, to regulate other sectors and introduce additional trading instruments.

Carbon Exchange Regime in Nigeria



On November 18, 2021, the Climate Change Act 2021 ("Act") was signed into law. The Act seeks to provide a framework for achieving low GHG emissions, inclusive green growth and sustainable economic development with the goal of achieving zero emission of GHG by 2050-2070. While the country has a law regulating the emission of GHG, there is no structured ETS. However, in August 2022, the Nigerian government speaking at a meeting with the representative of the United Nations Development Program announced its intention to adopt the ETS and establish the

Nigeria Emissions Trading Scheme which provides policy recommendations and measures for meeting the country's net zero GHG emission target, in line with the Act.

Nigeria currently has a voluntary market where participants trade carbon credits and formulate initiatives aimed at decarbonising the various sectors they operate. A publication released by the National Council on Climate Change ("Council") in 2023² discloses the Council's recognition of the fluidity of Nigeria's voluntary carbon market and the evolving integrity initiatives around it. Based on the foregoing, the Council stated that Nigeria's participation in the voluntary market will be based on government policies and development priorities, bringing credibility and predictability to encourage and protect participants. Hence, the Council would require participants to obtain letters of "No Objection" to obtain approvals for the issuance and transfer of certified credits generated across all sectors, in line with article 6.2 of the Paris Agreement.

Conclusion

Nigeria's path to unlocking her full potential in creating a sustainable ETS is clogged by the lack of clear-cut policy and framework to establish and regulate a structured carbon market and the inability to largely implement the Act. It is our hope that Nigeria explores the possibility of establishing a structured market that will adopt the cap-and-trade system alongside the voluntary market, utilize and operationalise the Climate Fund as provided for in the Act and, formulate policies that will aid in the reduction of emissions across all sectors. It is suggested that a phased approach should be adopted as done in other jurisdictions. The immediate sectors to look at will be high emission sectors such as the: oil and gas sector (upstream producers and refiners), power producers, telcos utilising GHG equipment such as diesel generators and manufacturers.

With respect to trading in the voluntary market, Self Regulatory Organisations such as the current exchanges (i.e. the Commodity Exchange and the Stock Exchange) may explore the possibility of putting a structure to the voluntary market through either

²<https://natccc.gov.ng/publications/NCCC%20Regulatory%20Guidance%20on%20Nigeria%E2%80%99s%20Carbon%20Market%20Approach.pdf>

creating a separate market for carbon trading or a sub-market with the existing exchange.

A survey by African Carbon Markets Initiative's (ACMI) projects Nigeria's capacity to produce up to 30 million carbon credits annually by 2030, which at US\$20 per credit would earn Nigeria more than US\$500 million annually.³ These projections can become our reality if only we are able to formulate, execute and sustain policies; collaborate with international partners and ultimately, operationalise the Act.

³ <https://techcabal.com/2022/11/18/african-countries-are-warming-up-to-carbon-trade/>