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## Putting a Price on Pollution: Can Carbon Taxation Drive Sustainable Development in Nigeria?

### Introduction

"We are running the most dangerous experiments in history right now, which is to see how much carbon dioxide the atmosphere can handle before there is an environmental catastrophe," said Elon Musk, CEO of Tesla Motors.

The consequences of climate change in Nigeria and Africa are now a stark reality rather than a hypothetical concept. The concept of putting a price on carbon dioxide emissions, or a "carbon tax," emerged worldwide as a response to climate change. In recent times, this innovative tendency has been gradually sweeping the globe, and Africa is one of its emerging markets.

In response to this new wave, the Federal Government of Nigeria enacted a Climate Change Act in 2021 on the back of which it announced, in Q1 2023, its intention to institute a Carbon Tax and Credit policy. This article explores Nigeria's intention to implement a Carbon Tax and Credit policy, and the potential of carbon credits and taxation to serve as a driver of sustainable development in Nigeria.

### How Carbon Taxation Works

The term carbon tax is essentially shorthand for a tax regime which makes it more expensive for producers of goods and services to emit greenhouse gases ("GHG") that contribute to global warming and adverse climate change. According to the Organisation for Economic Co-operation and Development (OECD), a carbon tax is "an instrument of environmental cost internalisation. It is an excise tax on the producers of raw fossil fuels based on the relative carbon content of those fuels."<sup>1</sup>

<sup>1</sup> Climate Change, 'Addressing Climate Change through Carbon Taxes' (June 2021) < <https://www.weforum.org/agenda/2021/06/addressing-climate-change-through-carbon-taxes/>> accessed 24 March 2023.

Companies are then issued permits or allowances (i.e., carbon credits) that represent the right to emit a certain amount of greenhouse gases, and they can buy or sell these allowances in a carbon market.

## The Case for Carbon Taxes

Carbon taxes, according to many economists, are the most effective and economical method to stop climate change and deal with the issue of global warming. According to research, imposing a fee or tariff on carbon-based fuels can effectively lower global greenhouse gas emissions and pollution levels.<sup>2</sup>

Taxing GHG emissions promotes financial investment in renewable energy sources and propels further technical advancement. Recent research has demonstrated that solar energy is now more efficient and effective for lowering pollution expenses thanks to technology and innovation.<sup>3</sup>

Additionally, the adoption of a carbon tax policy can generate substantial income for nations, which can then be applied to the problems created by using fossil fuels in the global economy.

The adoption of the carbon tax policy in British Columbia, Canada, is one notable example, which has been effective in lowering the level of GHG emissions in the province without compromising economic growth and development.<sup>4</sup> African countries such as South Africa have also taken part in the implementation of carbon taxation schemes.<sup>5</sup>

## The Case against Carbon Taxes

Despite these desirable advantages, taxing carbon has risks, which are more obvious in developing countries. The hampering of industrial development due to carbon taxation could result in harsh economic realities in the short term. Effective compensation programs could be used to offset these impacts using the tax money generated, but less developed mechanisms for effective revenue redistribution are frequently found in poorer nations.

Furthermore, to achieve the beneficial effects of reducing GHG, there is a strong argument for global coordination around the world, such that the sources of emissions are not simply shifted to jurisdictions where it is less expensive to emit.

## Carbon Taxation Regime in Nigeria

The Federal Government of Nigeria's planned introduction of a carbon tax and credit policy and budgetary system (the "**Policy**") for Nigeria is in line with the provisions of Nigeria's Climate Change Act 2021 (the "**Act**"). Specifically, the Act mandates cooperation between the National Council on Climate Change (the "**Council**") and the Nigerian Federal Inland Revenue Service to create a carbon tax system for Nigeria.

Although the Policy is yet to be released, it is anticipated that the Policy will set a cap on the amount of GHG that both public and private entities are permitted to emit over a given period, as well as set out the rate of tax that entities which exceed their limits are required to pay as a result of their pertinent activities. It is also expected that the Policy will introduce emission reduction certificates which can be translated into carbon credits

<sup>2</sup> David L., 'Carbon Taxes could make Significant Dent in Climate Change, study finds' (April, 2018) Massachusetts Institute of Technology <<https://news.mit.edu/2018/carbon-taxes-could-make-significant-dent-climate-change-0406>> accessed 24 March 2023

<sup>3</sup> Economics, 'Help Carbon Tax- Advantages and Disadvantages' <<https://www.economicshelp.org/blog/glossary/carbon-tax/>> accessed 24 March 2023

and sold to potential buyers. This indicates that Nigeria's Policy might combine the carbon tax model and cap-and-trade models discussed earlier in this article.

The Climate Change Fund created by the Act will receive funding from the tax generated in accordance with the Policy.<sup>6</sup>

## Can the Carbon Tax Policy Drive Sustainable Development in Nigeria?

Nigeria's revenue stream could be greatly enhanced by a carbon tax on businesses that burn fossil fuels given that Nigeria is an oil-producing nation. This revenue can be invested in clean energy and other low-carbon technologies, or it can be used to fund other public functions.

The implementation of a carbon tax in the biggest country in Africa may also encourage a more large-scale switch to renewable energy sources. Companies and people may be strongly persuaded to switch to cleaner, more sustainable energy sources like wind, solar, and hydropower when the alternative is to pay for carbon emissions, which may not be cost-effective for them. Companies may also be encouraged to reduce their emissions by purchasing infrastructure or technology specifically designed to reduce carbon output in order to receive carbon credits.

Lastly, the development of the Policy might strengthen Nigeria's ties with international organizations and nations. This could increase foreign investment in Nigeria's clean energy sector, accelerate the country's energy transition plan, and make the country more appealing to projects, funds and investments which are centered on low-carbon initiatives.

However, these benefits might not materialize if the tax system does not have a robust structure for tracking and disclosing carbon emissions.

Irrespective of the risks, a successful carbon tax Policy could give Nigeria a powerful means to boost its economy while upholding its local and international environmental obligations.

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<sup>4</sup> Kathryn H., 'Lessons From British Columbia's Carbon Tax' (July, 2019) Policy Options Politiques < <https://policyoptions.irpp.org/magazines/july-2019/lessons-from-british-columbias-carbon-tax/>> accessed 24 March 2023

<sup>5</sup> Price, R.A. (2020). Lessons learned from carbon pricing in developing countries. K4D Helpdesk Report 799. Brighton, UK: Institute of Development Studies.

<sup>6</sup> Section 15 of the Climate Change Act 2021.