

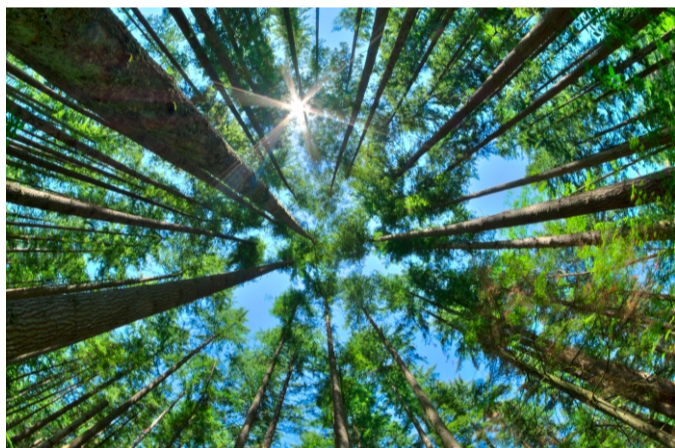
Decarbonising Nigeria's Economy



While the world has plunged into a deadly pandemic, scientists believe once more that climate change remains the greatest threat to human health in recorded history. Although the earth has warmed and cooled continuously throughout its history, it is worth noting that two-thirds of the 1 degree Celsius rise in temperature since the industrial revolution only occurred from 1986 to the present. This means that the warmest years in recorded history of the earth occurred within the last two to three decades. In 2017, scientists found that the oceans were extremely warmer than they were in 2015 which used to be the warmest ocean temperature year. Amongst the dreadful consequences for ocean warming is acidification, which is particularly threatening to phytoplankton that produce half the oxygen we breathe. Given the huge climate crisis facing the planet, world leaders are determined to set in motion the near and long-term actions to support low carbon economic growth and deliver climate deals that are sufficiently robust to prevent catastrophic climate change.

Nigeria's commitment to a sustainable future

At the COP26 of 2021, we have seen numerous developments in climate action e.g., the move away from fossil fuels, tackling greenhouse gas emissions (GHG), and protecting nature and biodiversity. Notwithstanding, collaborative efforts by all countries are still needed in achieving a low carbon economy in the years ahead. To this extent and together with other nations, Nigeria took on three major pledges at the COP26. On the net-zero pledge, Nigeria committed to reach net-zero emissions by 2060. On the global methane pledge, Nigeria joined over 100 countries aiming to reduce global methane emissions by at least 30 percent from 2020 levels by 2030. On the Glasgow leaders' declaration on forests and land use, Nigeria was amongst the 141 countries that agreed to conserve and restore forests over the next ten years.



The Climate Change Act as a decarbonisation driver

At the completion of the Glasgow Climate Pact, Nigeria's President Muhammadu Buhari signed the Nigerian Climate Change Bill promoting it to an Act which provides a framework for achieving low greenhouse gas emissions, inclusive of green growth and sustainable economic growth. The Act ensures that Nigeria formulates programmes for achieving its long-term goals on climate change mitigation and adaptation; facilitating the coordination of climate change action needed to achieve long-term climate objectives; and mainstreaming climate change actions in line with national development priorities. It also ensures facilitating the mobilization of finance, and other resources necessary to ensure effective action on climate change; so that climate change policies and actions are integrated with related policies for promoting socio-economic development and environmental integrity; etc.

One prominent highlight of the Act is the creation of the National Council on Climate Change (the Council) which will have the powers of policymaking and decisions on all climate change matters in Nigeria. The Council will coordinate and implement sectoral targets and strategies for the regulation of GHG emissions and other man-made causes of climate change. Other tasks of the Council include the implementation of the National Climate Change Action Plan; mobilising financial resources to support climate change action; collaborating with the Federal Ministry responsible for Environment and Federal Ministry responsible for Transport toward implementing a mechanism for carbon emissions trading; and collaborating with the Nigerian Sovereign Green Bond to meet Nationally Determined Contributions (NDCs).

The membership of the Council is comprehensive. The President of Nigeria is the Chairman of the Council while the Vice President is the Vice Chairman. A total of eleven ministers of the Federal Republic of Nigeria are also members of the Council. These are ministers responsible for environment; petroleum resources; budget and national planning; justice; mines and steel development; finance; agriculture and rural development; power; women affairs; transportation; and water resources. Other members of the Council are Governor of the Central Bank of Nigeria; National Security Adviser; Chairman of the Nigerian Governors' Forum; President of the Association of Local Governments of Nigeria; a representative of the private sector on climate change or environment related matters; representatives of women, youths, and persons with disabilities; and representative of environment related civil society organisations.

The Energy Transition Plan as a pathway to Nigeria's net zero target

On 2 February 2022, the Federal Executive Council of Nigeria approved the nation's Energy Transition Plan (ETP) that defines a pathway to achieving net zero target in 2060. Nigeria is so far the only African country with an ETP. The ETP seeks to lift over a 100 million people out of poverty through driving economic growth, connecting the population to modern energy services, and managing the potential job loss in the oil sector because of global decarbonisation. The ETP recognises that the net zero target can focus on technologies that maximise emission reduction across the following sectors with higher emissions:

- 1) The buildings sector: Emissions reduction will be driven primarily by a shift to electricity and biogas-based cooking;
- 2) The oil and gas and industrial sectors: Emissions reduction will be enhanced by the global response to climate change mitigation using technologies such as carbon capture and storage (CCS), direct air capture, hydrogen fuel, etc;
- 3) The transport and power sectors: Emissions will be largely decreased by the uptake of electric vehicles (EVs) and renewables from solar energy, respectively;
- 4) The power sector: Emissions will be reduced by increases in the use of solar energy as renewables replace natural gas as a transition fuel.

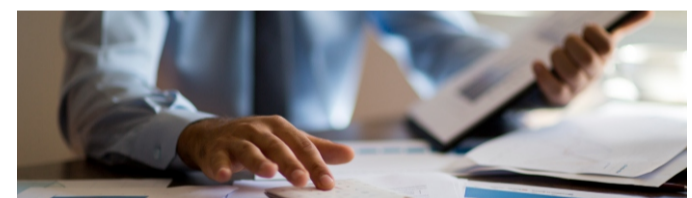
The ETP further recognises that the 2060 net zero target may be affected by slower replacement of firewood stoves by less emitting cooking technologies in buildings; lower rate of adoption of EVs in transport; delayed implementation of hydrogen furnaces in the industries; etc. However, as one of Africa's most populous countries with a vibrant economy, Nigeria has a credible opportunity to become an African leader in climate policy just as the United Kingdom being the birthplace of the Industrial Revolution became the first country in the world to legally mandate GHG emissions reduction through the Climate Change Act in 2008. The coming into existence of Nigeria's Climate Change Act is an ambitious forward step from a major economy in Africa.



Carbon taxes and international trade

The Nigerian Climate Change Act provides for the Council to collaborate with the Federal Inland Revenue Service to develop a mechanism for carbon tax in Nigeria. A Climate Change Fund will also be established and maintained by the Council into which shall be paid carbon tax and emissions trading. This is in line with policy initiatives by many countries to limit or reduce GHG emissions from the industrial sector. For example, the European Union and the United Kingdom emission trading schemes operate by having a limit on total emissions from covered installations which is reduced each year. Within the limit, companies can buy and sell emission allowances as required. Thus, this 'cap and trade' approach grants companies the flexibility to cut their emissions effectively. Under the 'cap and trade' approach, two permitting systems exists. First, based on the Integrated Environmental Permits (IEPs) and Best Available Techniques (BATs); while the second is based on allowing GHG emissions to operate independently from each other. At the same time, instruments establishing incentives for implementing BATs, EE development and recycling various materials may provide for the reduction of GHG emissions in the industry.

The European Union and the United Kingdom are also considering new proposals known as carbon border taxes or border adjustments. These are import levies founded on the quantity of emissions ensuing from the production of a given product. In the case of the European Union proposal, these measures are aimed partly in reducing 'carbon leakage', which implies that companies could relocate from countries with lower standards. The measures would also serve as incentives/penalties for countries considered to be addressing the issue of climate change insufficiently. Additionally, as part of the European Commission's 'Fit for 55' package (with the objective of reducing GHG emissions from the European Union by 55 percent by 2030 compared with 1990 levels), a Carbon Border Adjustment Mechanism (CBAM) has been proposed. The proposed CBAM would be a levy on the importation of specified goods (e.g., cement, fertilisers, iron and steel, aluminium, and electricity) into the European Union. For additional discussion of the CBAM and other proposed measures, see PwC Tax Policy Alert, European Commission releases a number of 'green taxation' measures, July 16, 2021 (<https://www.pwc.com/gx/en/tax/newsletters/tax-policy-bulletin/assets/pwc-european-commission-releases-a-number-of-green-taxation-measures.pdf>).



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