

Nigeria's Carbon Market Framework and the Oil and Gas Industry (2026)

Nigeria's oil and gas industry stands at the intersection of economic necessity and climate responsibility. As the nation advances its carbon market infrastructure through the National Carbon Market Activation Plan (NCMAP) 2024 and obligations under the Paris Agreement, operators in the sector face a rapidly evolving regulatory landscape that transforms carbon from an externality into a measured, valued, and tradable commodity.

Q: What is Nigeria's Carbon Market Framework and how does it apply to the oil & gas industry?

A: Nigeria's Carbon Market Framework is a system of laws, policies, and institutional mechanisms designed to reduce greenhouse gas (GHG) emissions by putting a measurable value on carbon. For Oil and Gas companies, the legal instruments that constitute this framework create binding obligations around gas flaring, methane emissions, monitoring and reporting, and participation in carbon credit markets - whether as credit generators or as entities required to offset excess emissions.

Q: Can Oil and Gas companies participate in both the compliance carbon market and voluntary carbon market?

A: Yes, they can – depending on the company's activities and emissions profile. While the compliance carbon market is government-mandated: companies that exceed their permitted emission levels must purchase certified carbon credits to offset the excess or face penalties, the voluntary carbon market allows companies to trade carbon credits voluntarily, typically to meet corporate net-zero pledges or improve their Environmental, Social and Governance (ESG) ratings without a legal obligation to do so.

Q: Who are the key regulatory bodies overseeing carbon market compliance for oil and gas companies in Nigeria?

A: There are five most relevant bodies; National Council on Climate Change (NCCC), Nigerian Upstream Petroleum Regulatory Commission (NUPRC), Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA), Federal Ministry of Environment (FMEnv), Department of Climate Change (DCC).

These bodies operate concurrently and their compliance requirements often overlap, making it essential for oil and gas companies to appoint dedicated regulatory liaison personnel.

Q: What are a company's methane reporting obligations under the Nigerian Carbon Market Framework?

A: The NUPRC requires all upstream operators to record and report daily volumes of natural gas produced from licensed and permitted facilities, covering: (a) total gas produced; (b) gas flared; (c) gas vented deliberately; (d) gas lost through incomplete combustion; and (e) fugitive emissions. This data must be submitted by affected companies in the format prescribed by the NUPRC, as the current Measurement, Reporting and Verification (MRV) system relies substantially on operator self-reporting while independent third-party verification is being phased in.

Q: What is an MRV system and what does it require oil and gas companies to do in practice?

A: MRV stands for Monitoring, Reporting, and Verification - the three-step process by which a company's GHG emissions (and any reductions) are tracked and validated.

In practice, this means: (a) Monitoring: continuously measuring emissions from flaring, venting, fugitive leaks, combustion and operational processes using approved methodologies and properly calibrated metering equipment; (b) Reporting: submitting standardised GHG reports to the NUPRC (upstream) or NMDPRA (midstream/downstream) at prescribed intervals, using the formats and data parameters specified by the respective regulator; and (c) Verification: having those reports independently reviewed by an accredited third-party verifier to confirm their accuracy before any carbon credits are issued.

Nigeria's current MRV regime is partly self-reported, but the NCMAP 2024 is introducing mandatory third-party verification as the market matures. Companies are advised to begin building verifiable MRV infrastructure now, as retroactive data collection is difficult and regulators are known to reject projects that cannot demonstrate continuous, credible monitoring from inception.

Q: Does an oil and gas company need to register with the Nigeria Carbon Registry to participate in the carbon market?

A: Yes, an oil and gas company needs to register with the Nigeria Carbon Registry to participate in the carbon market. Any oil and gas company wishing to: (a) register a carbon project; (b) issue carbon credits from that project; (c) sell credits domestically or internationally; or (d) retire credits to offset its own emissions must be registered on this Registry. The Registry is the single source of truth for Nigerian carbon credits and is designed to prevent double-counting in line with Paris Agreement requirements.

Q: Can an oil company be penalised for non-compliance with the carbon market framework even before a formal Emissions Trading System (ETS) is enacted?

A: Yes! The absence of a formal ETS does not mean there are no current penalties. Gas flaring fines under the NUPRC Regulations 2023 are active and enforced today.

EIA and environmental compliance obligations under the EIA Act 1992 and EGASPIN 2018 are also enforceable. Additionally, failure to comply with Climate Change Act 2021 obligations including, submitting required climate change action plans, can result in sanctions under that Act.

Q: What is the commercial opportunity for oil and gas companies in relation to Nigerian carbon credits?

Nigeria's NCMAP 2024 targets attracting USD 2.5 billion in climate investment by 2030 and the Africa Carbon Market Initiative (ACMI) projects that Africa could generate over 300 million carbon credits per year by 2030. For oil and gas companies, the commercial opportunity is particularly concentrated in: (a) gas flare capture projects; (b) methane abatement and Leak Detection and Repair programmes; (c) Carbon Capture Utilization and Storage; and (d) energy efficiency improvements at production facilities.

Q: Are carbon credits and carbon market revenues subject to Nigerian tax, and how does the Nigeria Tax Act 2025 interact with this?

A: Yes, carbon credits and carbon market revenues are taxable in Nigeria under the Nigeria Tax Act 2025 (NTA) and the Nigeria Tax Administration Act 2025 (NTAA). Carbon credit revenues generated by oil and gas companies would be treated as income subject to Petroleum Profits Tax (PPT) or Company Income Tax (CIT), depending on the nature of the company and the contractual arrangement under which the revenue is generated. There are also potential Value Added Tax (VAT) implications on the transfer of carbon credits, particularly in cross-border transactions.

Q: Can a foreign oil company operating in Nigeria, export Nigerian carbon credits to international markets, and is government approval required?

A: A foreign company can participate in generating and trading Nigerian carbon credits, but government approval

is mandatory before any credits are exported internationally. Under the NCCC Regulatory Guidance 2023, all international transfers of carbon credits (ITMOs) require prior authorisation from the Nigerian government to ensure corresponding adjustments are made in Nigeria's NDC accounting, preventing double-counting under Article 6 of the Paris Agreement. The NCMAP 2024 further establishes that Nigeria will screen all proposed international carbon credit transactions to ensure they do not undermine Nigeria's ability to meet its own NDC targets.

Conclusion

Nigeria's Carbon Market Framework represents both a regulatory obligation and a strategic opportunity for oil and gas companies. The framework is not aspirational - it is operational, enforceable, and backed by penalties that apply today, even ahead of a formal Emissions Trading System. Companies that treat carbon market compliance as a compliance afterthought rather than a core operational imperative risk financial penalties, reputational damage, and exclusion from emerging revenue streams in a market projected to generate billions of dollars by 2030.

Disclaimer

This publication is provided for general informational purposes and does not constitute legal advice. Given the evolving nature of Nigeria's carbon market framework, stakeholders are encouraged to seek specific legal guidance tailored to their operations.

For tailored advisory on carbon compliance and aviation regulation, kindly contact our Climate & Carbon Markets Advisory Desk: info@pthlp.com