
# Beyond the Ton: Carbon Credits Are Not What You Think They Are.

Carbon credits are NOT trees, they are NOT donations and certainly NOT CSR points for your ESG report.

July 2026

## Introduction

Carbon credits have arguably become one of the most misunderstood assets in modern commerce, despite their growing economic significance. Originally conceived as an environmental policy tool to reduce greenhouse gas emissions, carbon credits have evolved into commercially valuable intangible assets that influence investment decisions, underpins multi-million-dollar transactions and increasingly raise important questions around commercial law, private property and taxation. To some, they are synonymous with tree-planting campaigns or a convenient means by which large corporations compensate for pollution. Others view them simply as another metric within Environmental, Social and Governance (ESG) reporting. However, both perceptions capture only a fraction of what carbon credits have become. This article therefore examines what a carbon credit really is, their regulatory landscape especially in Nigeria, why companies are willing to spend billions acquiring them and why these instruments increasingly deserve attention not merely as environmental tools, but as assets with significant legal, commercial and tax implications.

## The Legal Nature of Carbon Credits

A carbon credit is neither carbon itself nor a licence to pollute. Rather, it is a legally recognised and independently verified claim that one metric tonne of carbon dioxide equivalent ($tCO_2e$) has been reduced, removed or avoided through an approved climate mitigation activity. Once verified and recorded within an authorised registry, that environmental benefit may be owned, transferred, traded or permanently retired. To create a carbon credit, a climate mitigation project such as reforestation, renewable energy generation, methane capture or climate smart agriculture must first demonstrate that it has produced measurable emission reductions beyond an established baseline. Those reductions are then independently verified and certified for tradeable credits.

What distinguishes carbon credits from conventional forms of property is that they are entirely intangible. They exist mainly as digital entries within electronic registries and derive their economic value from a verified environmental attribute rather than any physical object. In this regard, they resemble other modern intangible assets, such as intellectual property rights or certain financial instruments, whose value depends upon legal recognition, enforceability and market confidence rather than physical possession.

***Section 2 of the Conveyancing Act 1881 (UK)*** adopts an expansive conception of property, encompassing both real and personal property together with any estate or interest therein. Although Nigerian courts have not yet definitively considered the proprietary status of carbon credits, courts in other common law jurisdictions have recognised that intangible assets capable of legal recognition, transfer and exclusive control may constitute property. The UK Jurisdiction Taskforce's ***Legal Statement on Cryptoassets and Smart Contracts (2019)*** recognised that novel digital assets may be capable of constituting property under English law despite being intangible. This position was subsequently endorsed by the English Court of Appeal in ***Tulip Trading Ltd v Bitcoin Association for BSV & Others (2023) EWCA Civ 83.***

The above comparative approach lends support to the view that carbon credits, although existing only as verified electronic registry entries, may properly be regarded as a form of personal property capable of ownership and transfer under Nigerian law. Whether this position ultimately prevails will depend upon future legislative and judicial developments.

## Legal and Regulatory Landscape for Carbon Credit Markets in Nigeria

Carbon Credit markets operate broadly between the compliance markets, established by law, where regulators cap the emissions a given industry may produce and require entities that exceed their cap to purchase credits or fund offsetting projects; and voluntary markets, where businesses buy credits independently of any legal obligation, usually to support climate commitments or manage reputational and investor risk. The European Union's Emissions Trading System (EU ETS) and California's cap-and-trade programme are good examples of a compliance system capping emissions and allowing trading that has driven measurable reductions in greenhouse gas output across the power, industrial and aviation sectors, among others.

Nigeria currently participates primarily through the voluntary carbon credit market, where individuals and organisations acquire verified carbon credits from an independent crediting scheme to offset their carbon footprint without any legal compulsion to do so. The country's participation is shaped by a combination of domestic legislation and international climate commitments.

- **The Climate Change Act 2021:** The principal domestic legislation governing climate policy in Nigeria is the Climate Change Act, 2021. The Act establishes a framework for mainstreaming climate action, introduces a system of carbon budgeting, and creates the National Council on Climate Change **(NCCC)** to coordinate the implementation of Nigeria's climate policies. Although it does not expressly establish a carbon market, it provides the institutional and policy foundation upon which such a market can develop. Pursuant to its mandate, the NCCC issued the

Regulatory Guidance on Nigeria's Carbon Market Approach in June 2023, which reaffirms Nigeria's commitment to ***Articles 6.2, 6.4 and 6.8 of the Paris Agreement*** and outlines a preliminary governance framework, including a proposed "No-Objection" mechanism that requires regulatory approval before certified carbon credits generated in Nigeria may be issued or transferred internationally.

- **Kyoto Protocol (1997):** Nigeria is also a party to the Kyoto Protocol **(the Protocol)** to the United Nations Framework Convention on Climate Change (1997), having ratified the Protocol in 2004 and its Doha Amendment in 2020. Recognised as a "non-Annex I" (developing) country under the Kyoto framework, Nigeria is not subject to legally binding greenhouse gas (GHG) emission reduction targets imposed on industrialised nations, but it is, however, eligible to participate in international climate cooperation mechanisms that support sustainable development through carbon credit projects.

- **The Paris Agreement and Nigeria's NDCs:** Building on the Kyoto framework, Nigeria signed the Paris Agreement in September 2016 and ratified it in March 2017, committing to reduce its greenhouse gas emissions through successive Nationally Determined Contributions (NDCs). Nigeria's latest NDC 3.0, submitted in September 2025 commits the country to an unconditional 29 percent and a conditional 32 percent reduction in greenhouse gas emissions by 2030 relative to 2018 levels, which places the country on a pathway towards net-zero emissions by 2060. Importantly, ***Article 6.2 of the Agreement*** permits parties that voluntarily participate in cooperative approaches involving internationally transferred mitigation outcomes (ITMOs) to count these towards their NDCs, provided they promote sustainable development, maintain environmental integrity and apply robust accounting to avoid double counting.

- **The National Carbon Market Framework:** In October 2025, President Bola Tinubu approved Nigeria's National Carbon Market Framework **(NCMF)**, alongside the operationalisation of the Climate Change Fund and the restoration of the NCCC to the national budget line. The NCMF is designed to establish a transparent, regulated system for generating, trading and managing carbon credits in Nigeria, ensuring compliance with international standards under the United Nations Framework Convention on Climate Change **(UNFCCC)** and Article 6 of the Paris Agreement, and is projected to unlock between $2.5 billion and $3 billion annually in carbon finance over the following decade. It is complemented by the Nigeria Carbon Market Activation Policy **(CMAP)** 2025, which seeks to strengthen Nigeria's carbon market architecture by providing a coordinated framework for emission reduction, investor confidence, fiscal incentives and alignment with national climate targets, while positioning Nigeria to become an active participant in the Paris Agreement Crediting Mechanism **(PACM)** under Article 6.4.

- **Nigeria's National Carbon Registry (NNCR):** The NNCR established under the oversight of the National Council on Climate Change (NCCC), is the country's official digital registry for carbon market activities. Operational since 2024, it records the lifecycle of carbon credits generated in Nigeria, including project registration, credit issuance, transfer, retirement and cancellation, while providing a transparent and verifiable system for tracking carbon market transactions. The Registry also supports Nigeria's implementation of Article 6 of the Paris Agreement by preventing double counting, facilitating corresponding adjustments for authorised Internationally Transferred Mitigation Outcomes (ITMOs), and strengthening regulatory oversight and investor confidence in Nigeria's emerging carbon market.

## Why Companies Are Paying Billions for Carbon Credits

As carbon emissions increasingly influence business competitiveness and access to capital, companies are purchasing carbon credits not merely as an environmental gesture, but as a strategic business tool. The principal drivers of this growing demand are discussed subsequently.

- **Achieving net-zero targets:** In compliance markets, credits function as a form of licence. Hence, an organisation that exceeds its permitted emissions cap must either pay a penalty or acquire an equivalent volume of credits, whether by purchasing them from the market or funding an offsetting project of at least equivalent value. In voluntary markets such as the Verra Verified Carbon Standard **(VCS)**, the world's largest voluntary carbon crediting program, and the Gold Standard (established by environmental NGOs), companies purchase high-integrity carbon credits to support net-zero strategies or respond to demands from investors and supply-chain partners. Notably, purchasing carbon credits complements, rather than replaces direct emission reduction efforts by corporate entities.

- **Preserving Market Access and Investor Confidence:** For many companies, purchasing carbon credits has become a commercial necessity for maintaining access to capital, customers and international markets. Large institutional investors increasingly evaluate climate performance when making investment decisions, while multinationals are requiring suppliers to demonstrate credible decarbonization strategies as part of procurement and due diligence processes. Companies that cannot immediately eliminate all emissions may therefore use high-integrity carbon credits to address residual emissions while implementing long-term emission reduction plans.

- **Risk management strategy:** Carbon credits have accordingly become part of a broader corporate risk management strategy, less about environmental stewardship alone and more about protecting market access and remaining competitive within climate-conscious supply chains. For instance, under the Carbon Offsetting and Reduction Scheme for International Aviation **(CORSIA)**, participating airlines must offset certain emissions through eligible units, showing how an environmental instrument can evolve into an operational business requirement.

- **Financing Green Projects:** Beyond compliance and reputational considerations, carbon credits have become a genuine financing mechanism. Revenues generated from the sale of credits help fund renewable energy installations, reforestation and afforestation schemes, methane abatement projects and clean cookstove programs that might otherwise struggle to attract commercial investment. For project developers in emerging markets, carbon credit revenue can be the difference between a green project remaining a proposal on paper and one that is actually built, since it provides an additional, often more bankable, income stream layered on top of a project's core revenues.

## Conclusion

As carbon markets continue to mature, the conversation must move beyond whether carbon credits contribute to climate action. Equally important are the legal and commercial questions they raise regarding who owns carbon credits and how should they be treated for accounting, financing and tax purposes. These are no longer theoretical issues but practical considerations that will shape the future development of carbon markets and the confidence of those who participate in them.

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