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Exploring the Implication of EU's Carbon Border Adjustment Mechanism on Nigeria

Taofeeq N. Alatise

Abstract

The EU's Carbon Border Adjustment Mechanism (CBAM) aims to address the problem of carbon leakage and enhance the competitiveness of EU local producers by imposing carbon tax on imports from non-EU nations. However, CBAM will have significant economic implications for developing countries, including Nigeria, who have not established carbon tax policy similar to the EU's Emission Trading System (ETS). Nigeria is one of the major exporters to the EU but does not currently have a carbon tax policy that is aligned with the EU's ETS. This potentially puts additional compliance costs on Nigerian Exporters, raising the price of their products in EU market and loss of competitiveness. This paper aims to explore the impacts of CBAM on Nigeria's exports. The article argues that given that Nigerian does not currently operate a compliance carbon pricing regime, CBAM could have significant effect on the country's exports to the EU. It proposes a stronger legal framework that promotes transparency and integrity of Nigeria's carbon market system and long-term policy alignment with the EU's carbon trading system.

Keywords: European Union, CBAM, Carbon Border Adjustment Mechanism, Nigeria, Carbon Trading Scheme

Introduction

Since 2005, the European Union (EU) has launched the world's first Emissions Trading System (ETS) to regulate emissions by setting a limit on the total greenhouse gases (GHG) that a sector can emit; creating allowances and a carbon trading system (Meadows et al., 2024). However, while the ETS framework is designed to bring the EU's overall GHG emissions down and generate revenue to finance its green transition, the long-term economic implications of the ETS on EU producers and industries have become major concerns (Erdogdu, 2025). One such concern is that stringent and ambitious climate policies such as the ETS are bound to endanger the competitiveness of the EU's local producers and create the risk of carbon leakage (Zhong & Pei, 2024).

To address this concern and protect its local producers, the EU introduced a carbon border policy known as 'Carbon Border Adjustment Mechanism (CBAM)' in 2023. CBAM was launched by the EU to primarily address the problem of 'carbon leakage,' a situation where strict climate policies in one region push its carbon-intensive producers to other regions with weak climate policies (Morone & Alfino, 2025; Babiker & Rutherford, 2005). By this policy, the EU is imposing a carbon levy on specific imports (fertilisers, aluminum, iron and steel, cement, etc.) from non-EU countries with weaker carbon pricing policies (Erdogdu, 2025). The ultimate objective is to level the field for EU and non-EU producers and also promotes the broader goal of reducing the EU's carbon emissions (Article 1, CBAM Regulation). While developed countries with stronger carbon tax systems like the ETS are to a large extent insulated from CBAM's impacts, developing countries like Nigeria that do not have a mandatory carbon tax policy will be significantly impacted by CBAM (Morone & Alfino, 2025; Erdogdu, 2025).

Despite the prospects of CBAM to the EU economy**,** there are concerns about its implications for developing countries like Nigeria**.** Reports show that the Global South and indeed African countries will bear the majority of the negative implications of the CBAM framework due to their carbon-intensive production processes and heavy reliance on the EU market (Corvino, 2026). Specifically, the EU is an influential and strategic trading partner to Nigeria, with 39% of Nigeria's total exports going to Europe (Nigeria Bureau of Statistics, 2025). The implication of this is that any additional tax on EU imports – like the CBAM – will have significant implications on Nigeria's exports to the region. This is especially so because Nigeria does not have a carbon tax policy that is aligned with the EU's Emissions Trading System. This makes Nigeria's exporters to the EU risk paying the full CBAM's levy

on the embedded carbon emissions in their products, thereby raising the cost of their products in the EU market and leading to a loss of competitiveness. Therefore, this paper explores the potential impacts of CBAM on Nigeria's exports in the light of the country's lack of a carbon tax policy.

Problem Statement

Countries lacking a carbon tax policy similar to the EU's ETS will be significantly affected by CBAM when their products enter the EU market. Nigeria is one of the major exporters to the EU but does not currently have a carbon tax policy similar to the ETS. This potentially places additional cost on Nigerian exports to the EU. This extra cost makes Nigerian products more expensive in the EU market, and therefore less competitive. If this is not addressed, Nigerian exports to the EU will significantly drop, affecting Nigeria's volume of trade.

Research Objective

This paper aims to explore the implications of the EU's Carbon Border Adjustment Mechanism on Nigeria's exports to the EU in the light of the country's lack of a carbon tax policy.

Methodology

This paper employs a doctrinal legal research approach and content analysis method for the examination of primary and secondary sources. It relies on the EU's Emission Trading System, Carbon Border Adjustment Mechanism, Nigeria's Climate Change Act, 2021, National Carbon Market Framework (NCMF). It also relies on journal articles, regulations, reports, policies, published books and materials.

Implementation and Function of Carbon Border Adjustment Mechanism (CBAM)

CBAM is a form of carbon tax mechanism put in place by the EU to achieve both its economic and environmental objectives (Article 1 (1), CBAM Regulation May 2023). It was established pursuant to Regulation of the European Parliament and the Council (Regulation 2023/956: May 2023). The mechanism was introduced as part of the EU's 'Fit for 55' agenda, to reduce the EU's carbon emissions by 55% by 2030 from 1990 levels (Morone & Alfino, 2025). CBAM is designed to complement the EU Emissions Trading System and address the 'carbon leakage' concerns (Article 1(2) CBAM Regulation). By this policy, the EU is imposing a carbon price

on specific imports from non-EU countries with weaker carbon pricing policies. The CBAM policy applies to goods from non-EU countries listed in Annex 1 of the CBAM Regulation, including fertilizers, cement, aluminum, iron and steel, hydrogen, and electricity (Article 2 CBAM Regulation). In reality, CBAM seeks to impose an additional carbon tax on imported goods from non-EU countries that lack a carbon tax framework based on their embedded emissions in the production processes. The policy requires EU importers to purchase CBAM certificates to cover the embedded carbon emissions in their goods and to annually surrender the certificates corresponding to the declared emissions associated with their goods (Article 6, 20, 21 CBAM Regulation).

However, CBAM will not apply to non-EU countries and territories listed in Annex III of the Regulation (Article 2 (4) CBAM Regulation). A country is only eligible to be listed in Annex III where the EU ETS is applicable in that country, and the carbon price is charged on GHG emissions embedded in the goods from the country, without any rebates beyond the ones applicable in the EU ETS (Article 2 (6) CBAM Regulation). The implication of this is that non-EU countries that fulfill the conditions in Article 2 (6) of the CBAM Regulation are exempted from its application. However, goods from countries not exempted may also be able to deduct the corresponding amount of the CBAM certificates if they can show that an equivalent carbon price has been effectively paid in the country of origin (Article 9(1) CBAM Regulation; Morone & Alfino, 2025). It has been observed that Article 9 of the Regulation will prevent a situation of double taxation on the CBAM Declarant (importers) (Morone & Alfino, 2025). However, where the country of origin has no carbon pricing system or if its actual carbon emissions cannot be adequately determined or verified, EU importers will be susceptible to the default CBAM charge, which is based on the average emission intensity of exporting countries for such kind of goods (The African Climate Foundation and LSE Firoz Lalji Institute, 2023).

The implementation of CBAM is now fully in force since January 2026 after the transitional period from 2023 to 2026. The gradual rollout and implementation of CBAM is to provide time for critical stakeholders to adapt to these changes (Erdogdu, 2025). However, while CBAM currently applies to limited goods from non-EU countries, the prospect of its expansion to other goods is real. According to the EU, 'the ultimate objective of the CBAM is broad product coverage (European Commission, 2023). Scholars believe that an expansion of the scope of CBAM over time could significantly impact the economy of developing and least developed countries, whose economies are largely dependent on carbon-intensive production

processes, while also lacking a carbon pricing system for monitoring and measuring embedded carbon content in their export products (The African Climate Foundation and LSE Firoz Lalji Institute, 2023; Erdogdu, 2025).

It has been observed that by addressing the challenge of carbon leakage, CBAM has reshaped the global response to climate change, while also opening opportunities for non-EU countries to be strategic in their efforts to tackle climate change (Verde and Borghesi, 2022). Also, CBAM has the potential to incentivise non-EU countries with carbon-intensive manufacturing processes to adopt innovative and clean technologies in order to gain a competitive advantage in the EU markets (Willner & Perino, 2022). Developing and least developed countries have the opportunity to receive financial support to finance green projects that could accelerate the shift to a low-carbon economy (Naegele & Zaklan, 2019; Mehling & Ritz, 2023).

Despite this, CBAM has significant economic implications for non-EU nations. While developed countries are expected to experience relatively low impacts due to their advanced industrial capacities and viable market alternatives for their goods, developing and least developed countries will face substantial economic impacts because of their heavy reliance on the EU market and carbon-intensive production processes (Morone & Alfino, 2025; Erdogdu, 2025). The desire to generate foreign exchange revenues and expand markets for their exports is already pushing many developing and least developed countries to access global markets, and the EU has become a strategic trading partner to many of these countries (Rumble & Gilder, 2024). Therefore, CBAM places higher compliance costs on developing nations, which could further exacerbate economic inequalities.

Implication of CBAM on Nigeria's Exports

Early analysis of the implications of CBAM on African exports indicates that it could have a considerable impact on Africa's economy, especially the least developed countries (The African Climate Foundation and LSE Firoz Lalji Institute, 2023). A recent report indicates that CBAM may reduce African exports to the EU from 6 billion EUR to 3.9 billion EUR in 2030 (The African Climate Foundation and LSE Firoz Lalji Institute, 2023). Also, CBAM may cause a reduction in African exports to the EU of about 3.1% for cement, 8.2% for iron and steel, 13.9% for aluminum, and 3.9% for fertilizer (The African Climate Foundation and LSE Firoz Lalji Institute, 2023). However, while emerging research suggests a modest impact given the limited coverage of CBAM to a few African exports, an expansion of the

scope of CBAM to other export goods – which is the broader goal of the EU - could significantly impact the export capabilities of many African countries, including Nigeria, to the EU market (Okoro, 2025). Nigeria is not listed in Annex III of the CBAM Regulation, and therefore not exempted from its application. Consequently, Nigeria's exporters of goods such as fertilizers, aluminum, iron and steel to the EU will be required to purchase CBAM certificates.

Nigeria has been described as a 'CBAM-vulnerable' country for so many reasons; however, the most significant of them are its heavy reliance on the EU market and its carbon-intensive industrial infrastructures (Corvino, 2026). This increases the economic cost on its exporters to comply with CBAM. This is all the more problematic because Nigeria has not established a carbon pricing policy that mandates carbon-intensive industries to pay carbon tax on a ton of CO2 embedded in their goods, like the EU's ETS. The figure below shows that the majority of Nigeria's exports go to Europe, representing 39% of Nigeria's total exports in 2025. This demonstrates just how significant the EU market is to Nigeria, and the impact CBAM could have on the country presently and in the future when the scope of CBAM is expanded to other Nigerian exports.

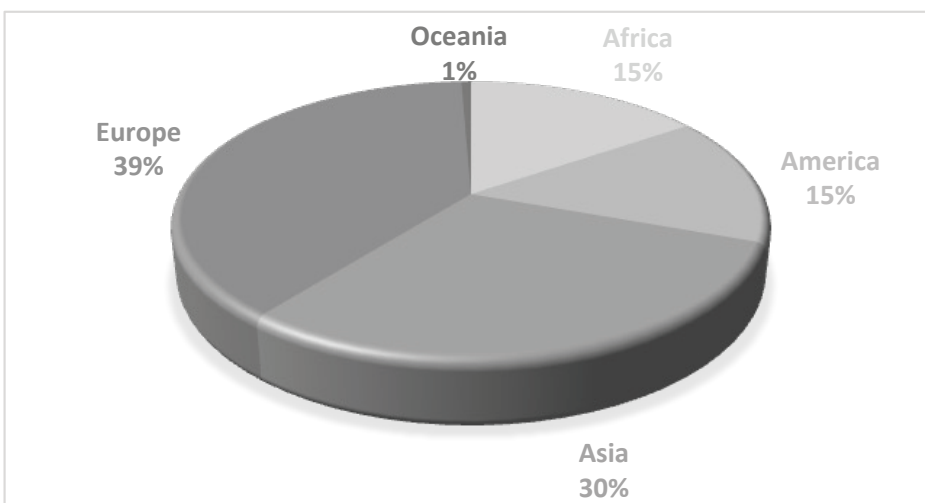


Figure 1. Nigeria's exports across regions in 2025

Source: Nigeria Bureau of Statistics (2025).

At present, the oil and gas sector constitutes 90% of Nigeria's exports to the EU, while only 10% of Nigeria's non-oil exports go to the EU (Nigeria Bureau of Statistics, 2025). It may be argued that since CBAM does not currently affect the oil and gas sector, which is the biggest chunk of Nigeria's exports to the EU, its impact on Nigeria's overall Nigeria's exports may be minimal. However, this argument ignores two crucial points: firstly, the EU has made it very clear that its long-term goal is to expand the scope of CBAM to other sectors, implying that there is the potential that other Nigerian exports could be affected in the near future.

Secondly, the current CBAM framework is targeting the very products that Nigeria is building its economic diversification around, to achieve competitive advantage and gain more access to the EU market (Rumble & Gilder, 2024). For instance, Nigeria exports significant fertilizer/urea ($91.43 worth in 2025) to the EU (UN Comtrade, 2025), and there are efforts by the government to also ramp up exportation in aluminum, iron, and steel to the EU market (BusinessDay, 2026). Fertilizer, aluminum, and iron and steel are currently covered by CBAM, implying that Nigeria's exporters of these goods will now begin to pay a CBAM levy to access the EU market. And the fact that Nigeria does not yet have an equivalent domestic carbon tax policy similar to the EU will make its exporters susceptible to paying the full default CBAM tax**.** This reality could make Nigeria's exports (fertilizer and aluminum) more expensive, compared to the EU local products, leading to loss of competitiveness and the eventual reduction in the country's exports to the EU.

It is important to recognise that Nigeria has recently put in place a Climate Change Act, 2021 and a carbon market framework. In 2025, the Nigerian government established the National Carbon Market Framework (NCMF), an initiative that operationalizes Nigeria's Climate Change Act, 2021, and aligns with the requirements of Article 6 of the Paris Agreement. The policy outlines the operational procedures for voluntary carbon markets in Nigeria, such as carbon credit registration, issuance, and verification. NCMF seeks to achieve a 124.7 MtCO2e reduction in carbon emissions and attract $2.5 billion in market value by 2030. However, it remains a non-binding framework, failing to create enforceable legal obligations on the stakeholders. The implementation of the framework largely relies on voluntary cooperation of the stakeholders rather than a legal obligation (Akinola & Oladipo, 2023; Ebohon & Alabi, 2021; Afeonkhai & Vandu, 2025). Experts have observed that the major weakness of the NCMF is its reliance on administrative Monitoring, Reporting and, Verification (MRV) of the carbon credit policy (Shasore, 2025). The absence of a statutory obligation in monitoring, reporting and verification makes

Nigeria's carbon credits system vulnerable to integrity risks, raising credibility issues about the system (Shasore, 2025). This limits the extent to which the Nigerian carbon market can be accepted as complying with best practices by its international trading partners like the EU. One key limitation of the framework is that it is a voluntary carbon market system, and not a compliance carbon pricing structure like the EU's ETS (Fwadwabea et al., 2025; Afeonkhai & Vandu, 2025).

The big question is to what extent Nigerian exporters can rely on the NCMF to avoid or cut the CBAM levy? Article 9 of CBAM allows foreign exporters to deduct the carbon price paid in the country of origin if it is mandatory, verifiable, and covers the same goods. However, Nigeria's NCMF is not a carbon pricing framework. NCMF is a voluntary market for project-based emission reduction that is largely self-regulated and relies on the voluntary cooperation of stakeholders (Shasore, 2025). The framework does not put a mandatory carbon price or tax on emissions from carbon-intensive goods such as fertilizers and aluminum. To that extent, Nigerian exporters of fertilizers and aluminum to the EU will not be able to rely on NCMF to avoid or cut the CBAM levy. Also, the monitoring, reporting and verification (MRV) of carbon credits is essentially administrative and self-regulated, without legal obligation to preserve the integrity of the system (Shasore, 2025; Fwadwabea et al., 2025), which is less likely to meet the condition for verification of embedded emissions in Article 8 of CBAM. Therefore, Nigeria's exporters may not be able to rely on the MRV framework to determine the actual emissions in their goods. In both cases, Nigerian exporters may pay the full CBAM default value, which could drive the price of Nigerian goods in the EU market and make them less competitive

Findings

Based on the thrust of this study, we find that the CBAM Regulation will have long-term implications for Nigeria's exports to the EU. The lack of a carbon tax policy, which ensures that carbon-intensive producers pay for the embedded emissions in their products, makes Nigeria's exports susceptible to the default CBAM levy. We also find that the current NCMF policy is a carbon credit policy which does not put a cap on GHG emissions of carbon-intensive sectors, and therefore cannot be used by exporters to seek reduction in the CBAM charges.

Recommendation

Aligning Nigeria's carbon market with the EU's Emission Trading System is the surest way the country can seek exemption from the application of CBAM. This will ensure compliance with Article 2 (6) of the CBAM regulation. To achieve this, Nigeria's carbon market must include a carbon pricing regime that puts a price on every tonne of carbon emission, allocate allowances, and a trading scheme similar to the ETS. However, while these changes may not be immediate, Nigeria can improve the integrity of the NCMF policy on monitoring, reporting, and verification (MRV) of actual carbon emissions of carbon-intensive industries in Nigeria. The MRV processes of NCMF should be strengthened and transparent in line with the requirements of CBAM. Nigeria's exporters can then be able to use this information to comply with Article 8 of CBAM and seek reduction under Article 9.

Conclusion

Nigeria is not only heavily reliant on the EU market; its industries rely on carbon-intensive infrastructure to manufacture their goods for domestic and foreign exports. The CBAM regulation is capable of causing a significant reduction in Nigeria's exports to the EU unless Nigeria aligns its carbon market framework with international best practices. Specifically, Nigeria needs to establish a carbon pricing regime targeting carbon-intensive industries producing goods currently covered by CBAM. The good news is that Nigeria is not starting from ground zero, given the existence of the Nigeria Carbon Market Framework (NCMF). All that the country needs to do is to include in the framework a carbon tax policy targeting goods covered by CBAM, and improve its monitoring, reporting and verification (MRV) process in line with the CBAM requirements. This will enable exporters to deduct the carbon tax already paid in Nigeria in line with Article 9 of the CBAM Regulation, and also avoid the risk of a default fee.

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