



M. J. Numa & Partners LLP  
Trial Attorneys & Transaction Advisors

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# **COMPRESSED NATURAL GAS (CNG) IN NIGERIA: HERE TO STAY OR A FLASH IN THE PAN?**

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## INTRODUCTION

As the world tilts towards the use of renewable energy in a bid to reduce emissions into the atmosphere to the bare minimum with the core aim of reducing ozone layer depletion due to global warming, there have been alternative modes of power generation that are environmentally friendly. Globally, especially in Europe, there has been an increasing need to make laws bordering on the generation of eco-friendly power to ensure full compliance. Compressed Natural Gas (CNG), which is not totally a renewable source of energy is one of the trending sources of power generation around the world today.<sup>1</sup>

Likewise, Nigeria has embraced the use of compressed natural gas with the government issuing various policies, chief of which is the introduction of compressed natural gas vehicles due to the removal of fuel subsidy to mitigate the hardship faced by Nigerians. The rationale for this is to provide a cheaper and more environmentally friendly alternative for Nigerians.<sup>2</sup>

We shall now discuss what CNG entails, and the legal framework amongst other things that the Federal Government has put in place

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<sup>1</sup> Met Group, “CNG VS LNG: WHAT ARE THE DIFFERENCES?”; < <https://group.met.com/en/media/energy-insight/cng-vs-lng>> last accessed 19<sup>th</sup> April 2024.

<sup>2</sup> Pi-cng, “Introducing CNG”;<<https://pci.gov.ng>> last accessed 19<sup>th</sup> April 2024.

to ensure that the use of CNG is not just another political optic but indeed a reality.

### **WHAT IS COMPRESSED NATURAL GAS?**

Compressed Natural gas is a natural gas that is primarily made up of methane and is considered or used as an alternative to Premium Motor Spirit (PMS). Its uniqueness can be attributed to the fact that it is odorless compared to other forms of gas. It is usually stored in high-pressure tanks; thus, it occupies less space than the other forms of gas.<sup>3</sup>

More so, CNG is considered to be eco-friendly due to its non-toxic nature and reduced harmful emissions to the atmosphere owing to the compressed nature of the methane down to less than one percent.<sup>4</sup>

### **REGULATORY FRAMEWORK**

The Petroleum Industry Act (PIA), which came into effect in August 2021, gives the Minister of Petroleum Resources authority over the creation of policies on Nigeria's petroleum industry as well as the oversight functions of the industry. Additionally, the PIA established two new regulators which are the Nigerian Upstream Petroleum Regulatory Commission (the Commission) and the Nigerian

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<sup>3</sup> Energy Education, "Compressed natural gas"; [https://energyeducation.ca/encyclopedia/Compressed\\_natural\\_gas](https://energyeducation.ca/encyclopedia/Compressed_natural_gas) last accessed 19<sup>th</sup> April 2024.

<sup>4</sup> Homewood Disposal Service, "What is CNG? – A Short Guide"; <https://mydisposal.com/what-is-cng-a-short-guide> last accessed 19<sup>th</sup> April 2024.

Midstream and Downstream Petroleum Regulatory Authority (the Authority). The scope of each regulatory agency's jurisdiction and that of the Minister are clearly defined, even though the PIA does not expressly guarantee the independence of the regulators from the Minister.

Furthermore, the laws contain crucial checks and balances that restrict petroleum sectors. For example, the Minister can only grant, renew, or withdraw a downstream license per his recommendation to the Commission. A wide range of enforcement powers, such as the power to issue cease and desist orders, and the power to seize and close premises, shall be conferred on each regulatory agency utilizing technical and commercial regulatory powers.

Matters relating to the environment, including activities that may harm the environment, such as the installation of gas transport and storage facilities, are regulated by the Federal Ministry of the Environment (FMoE). Before such facilities are built, an environmental impact assessment shall be carried out and certified by the FMoE.

Another relevant agency in this regard is the Nigerian Content Development and Monitoring Board, which ensures that local content objectives are met. Under Administrative Law, a dissatisfied party may challenge decisions by the Minister or agencies at the Federal High Court, subject to compliance with pre-action requirements under relevant legislation.

## LEGAL FRAMEWORK

The new Petroleum Industry Act (PIA) establishes a new regulatory and fractional control regime for upstream gas activities. However, the existing upstream title holders' rights under the Petroleum Act (the previous legislation governing the sector) are maintained until the expiry of the issued licenses and leases under that legislation, or until the holders of those licenses or leases decide to convert their licenses into Petroleum Prospecting Licenses (PPLs) and Petroleum Mining Leases (PMLs) established under the new Act.

Holders of existing oil mining and prospecting leases are still subject to the Petroleum Act's regulations, such as the Petroleum Regulations, the Petroleum (Drilling and Production) Regulations, and the National Gas Supply and Pricing Regulations. To the extent that the Petroleum Act supports these regulations, they will continue to be in effect and be incorporated into the new PIA regulatory framework.

The Nigerian Upstream Petroleum Regulatory Commission (the Commission) is now saddled with the responsibility of granting petroleum exploration licenses. The PIA also gives the Minister of Petroleum Resources the authority to grant PPLs and PMLs, which allows the grantee to extract, process, transport, and dispose of petroleum.

## INCENTIVE POLICIES

To further strengthen the belief that the introduction of CNG in Nigeria is indeed a reality, the Federal Government has rolled out different policies to see the implementation and use of CNG by Nigerians. These policies range from taxation waivers to the provision of CNG vehicles and terminals. These incentive policies will now be discussed in detail anon.

### Taxation

As a way of supporting the use, sale, and production of CNG in Nigeria, the Federal Government in December 2023 granted a 100% waiver of Value Added Tax. The Circular which was issued by the Ministry of Finance signaled some level of seriousness on the part of the government as it will encourage stakeholders to go into the business of marketing CNG.<sup>5</sup>

The waiver also includes CNG equipment such as pipelines, conversion kits, and so on. A portion of the Circular reads as follows:

**“Pursuant to Part 1, Section 5 of the Customs and Excise Tariff Act, which grants an Import Duty Waiver on machinery, equipment and spare parts imported into Nigeria for the utilization of Nigerian gas (‘Gas Utilization Waiver’), the importation of all equipment related to Compressed Natural Gas**

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<sup>5</sup> Nduibusi Francis, “FG Approves 100% VAT Waiver on CNG, LPG”;<  
<https://www.thisdaylive.com/index.php/2023/12/29/fg-approves-100-vat-waiver-on-cng-lpg>> last accessed 19<sup>th</sup>  
April 2024.

**and Liquefied Petroleum Gas into the Nigerian market shall attract zero percent (0%) import duty rate.”**

### **Provision of CNG vehicles**

The Federal Government aims to produce 600 buses before the end of the year. Additionally, a new plant on the Lagos-Ibadan Expressway will assemble thousands of tricycles. The Chinese company, LUOJIA in collaboration with its Chinese partners will support the supply of CNG tricycles set for shipment to Nigeria. It is envisaged that about 2,500 of the tricycles will be ready before May 29, 2024.<sup>6</sup>

Furthermore, the Federal Government is targeting the purchase of 5,500 CNG vehicles (buses and tricycles), 100 electrical buses, and over 20,000 CNG conversion kits, alongside spurring the development of CNG refilling stations and electric charging stations.

### **Launch of CNG Terminals**

The Nigerian National Petroleum Company (NNPC) Limited in partnership with NIPCO Gas Limited, is to construct 35 CNG stations across the country. According to NNPC Ltd, once fully operational,

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<sup>6</sup> Emmanuel Egobiambu, “Subsidy Removal: FG To Launch CNG Buses, Tricycles In May”; <<https://www.channelstv.com/2024/04/22/subsidy-removal-fg-to-launch-cng-buses-tricycles-in-may/>> last accessed 23<sup>rd</sup> April 2024.

the station would service over 200,000 vehicles daily, hence, significantly reducing the cost of automobile fuel for Nigerians and the cost of transportation.<sup>7</sup>

The first phase; comprising 21 CNG stations, will support intra-city transportation and be ready by the first quarter of 2024, while the second phase; comprising 35 CNG stations, will support inter-city transformation and will be ready by late 2024. This will be further complemented by an additional 56 stations to be deployed by NNPC Ltd Retailers across the country.

## CONCLUSION

It is apparent that the government has taken necessary steps to ensure that the use of CNG in Nigeria becomes a reality and not just for the headlines. However, the question that begs the answer is whether these initiatives have been able to not just make CNG available but affordable to the common man, as the major reason behind the introduction of CNG was due to an increase in the price of fuel. Therefore, the underlying objective is to reduce the cost of transportation in Nigeria.

It is rather sad to say that despite the introduction of these laudable initiatives by the government, the reality is that CNG is not readily

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<sup>7</sup> Victor Ejechi, "NNPC, NIPCO partner to construct 35 CNG stations nationwide"; < <https://www.thecable.ng/nnpc-nipco-partner-to-construct-35-cng-stations-nationwide/> last accessed 23<sup>rd</sup> April 2024



available and it is also not affordable as envisaged. This has led to outcries from stakeholders in the gas business.<sup>8</sup>

The Government therefore needs to take further measures to ensure that its objective concerning the introduction of CNG is not a flash in the pan but a reality.

## **M.J Numa & Partners LLP**

Trial Attorneys & Transaction Advisors.

🏠 Triple A Villa, 495 Adegboyega Atanda Street,  
Mabushi, Abuja.

☎ +2347033740393

✉ mj.numa@mjnuma.com

🌐 www.mjnuma.com



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<sup>8</sup> Dare Olawin, “CNG too expensive in Nigeria, says Zip-Tech Energy”;< <https://punchng.com/cng-too-expensive-in-nigeria-says-zip-tech-energy/>> last accessed 19<sup>th</sup> April 2024.