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New Zealand's Nationally Determined Contributions – Potential Fiscal Costs Associated with Offshore Mitigation

New Zealand Treasury Paper 26/01

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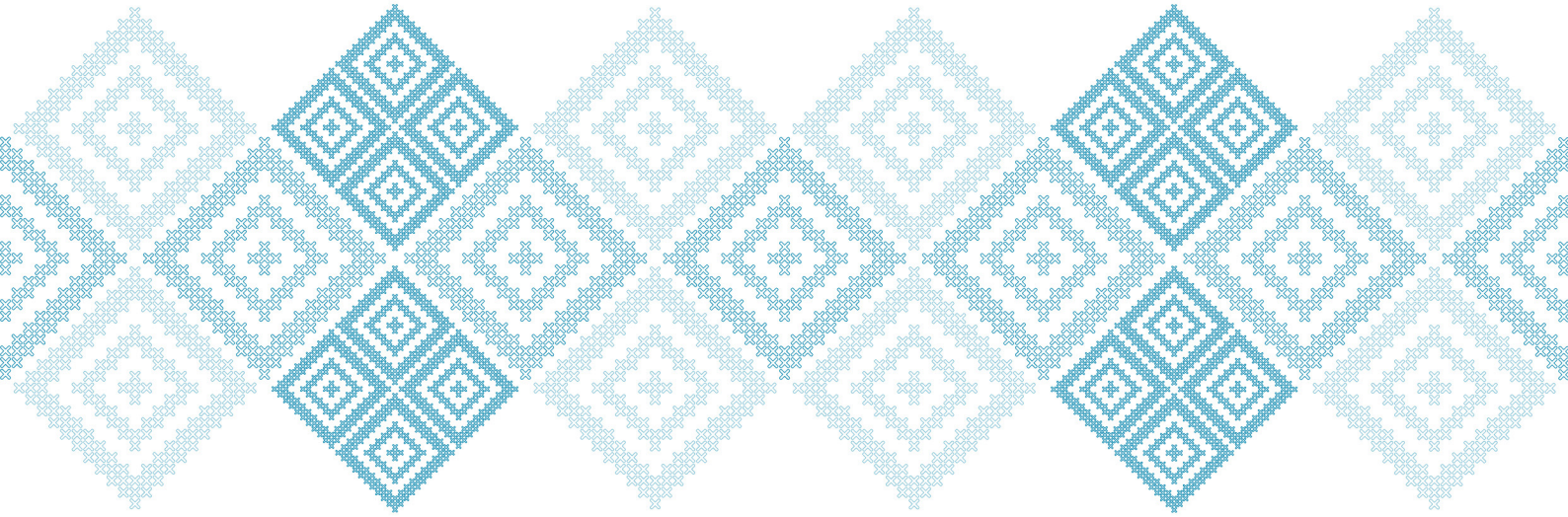

New Zealand Government
Te Kāwanatanga o Aotearoa

NZ TREASURY PAPER 26/01

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About this publication

This publication provides indicative estimates of the potential fiscal costs that could be associated with purchases of offshore mitigation made towards New Zealand's first and second Nationally Determined Contributions (NDCs) under the Paris Agreement. It examines potential costs under different domestic emissions scenarios, using purchase price assumptions based on observed international mitigation transactions.

The Treasury discloses a Specific Fiscal Risk relating to NDCs through its Economic and Fiscal Updates (EFUs). This publication expands on those disclosures, quantifies the possible fiscal costs, and provides additional explanation. The information is provided to support transparency over possible future costs; it does not reflect Government decisions or intentions regarding offshore mitigation. Assessing the feasibility of the considered purchase volumes is also outside the scope of this analysis.

The estimates in this publication represent the Treasury's best evaluation of possible fiscal costs based on currently available information. This analysis only considers the potential fiscal costs arising from purchasing offshore mitigation to meet NDCs; it does not seek to reflect the broader range of actions New Zealand may undertake under the Paris Agreement or other climate-related commitments. The results should be read as an assessment of fiscal risk, rather than a set of expected costs, intentions, or recommendations. Actual costs will depend on future policy decisions, market developments, and international arrangements, and the results do not attempt to capture the full range of possible outcomes.

This report has been authored by the Treasury, in consultation with the Ministry for the Environment. Questions about the report should be directed to the Treasury in the first instance, at media@treasury.govt.nz.

Overview

New Zealand has submitted two Nationally Determined Contributions (NDCs) under the Paris Agreement; these NDCs set economy-wide targets to reduce greenhouse gas emissions. New Zealand's NDCs are not precisely aligned with domestic emissions targets over the same periods, and domestic action alone may not be sufficient to fully meet the NDCs. If there is a gap, New Zealand could use offshore mitigation (paying for verified emissions reductions or removals in other countries) to address this gap.

The estimated cost ranges presented for each NDC below illustrate how offshore mitigation costs could vary under different domestic emissions pathways.

NDC1

New Zealand's first international emissions reduction commitment under the Paris Agreement (NDC1) is defined as a 50% reduction in net emissions below gross 2005 levels by 2030. This is equivalent to an emissions limit of 575 Mt CO_2e (megatonnes of carbon dioxide equivalent) over 2021–2030.

This analysis shows that there could be significant fiscal costs associated with purchases of offshore mitigation towards NDC1. Under the scenarios examined, possible costs are modelled at between **$4.4 billion** and **$5.0 billion**.

NDC2

New Zealand's second NDC (NDC2) represents New Zealand's international emissions reduction commitment over the 2031–2035 period. NDC2 closely aligns with New Zealand's domestic emissions budget over the same period, while retaining the option to use offshore mitigation.

Because NDC2 closely aligns with the corresponding domestic emissions budget, any gap between domestic emissions and the NDC2 target will likely be much smaller than for NDC1. Estimated offshore mitigation costs for achieving the start of the NDC2 target range (51%) are from **$0.2 billion**. Costs are greater for scenarios where the end of the range (55%) is achieved, estimated at up to **$1.6 billion**.

Key uncertainties

There is a high degree of uncertainty regarding the overall cost of offshore mitigation to meet New Zealand's NDCs. Uncertainties include:

- **Domestic policy settings:** Domestic decisions will affect the level of mitigation New Zealand achieves onshore. This in turn will influence the volume of offshore mitigation required to meet New Zealand's NDCs.
- **Offshore mitigation prices:** This analysis relies on observed prices for offshore mitigation transactions that have been initiated by other countries to date. Only a small number of transactions have occurred so far, many of which lack published details, and most relevant markets are still developing. Additionally, the types of offshore mitigation transactions that have been disclosed may not be representative of the broader market. As a result, these initial price signals provide only a limited indication of possible future costs.

- **Procurement strategy:** Future decisions on how New Zealand procures offshore mitigation will also influence costs. These decisions include the types and sources considered, the selection criteria applied, and any maximum price limits that New Zealand sets. A key factor influencing prices will be how risks related to the quality, delivery, and timing of mitigation outcomes are allocated between transaction parties.

Background

Summary

- New Zealand has submitted two Nationally Determined Contributions (NDCs) under the Paris Agreement; these NDCs set economy-wide targets to reduce greenhouse gas emissions.
- New Zealand's NDCs are not precisely aligned with domestic emissions targets over the same periods, and domestic action alone may not be sufficient to fully meet the NDCs.
- If there is a gap, New Zealand could use offshore mitigation (paying for verified emissions reductions or removals in other countries) to address this gap.

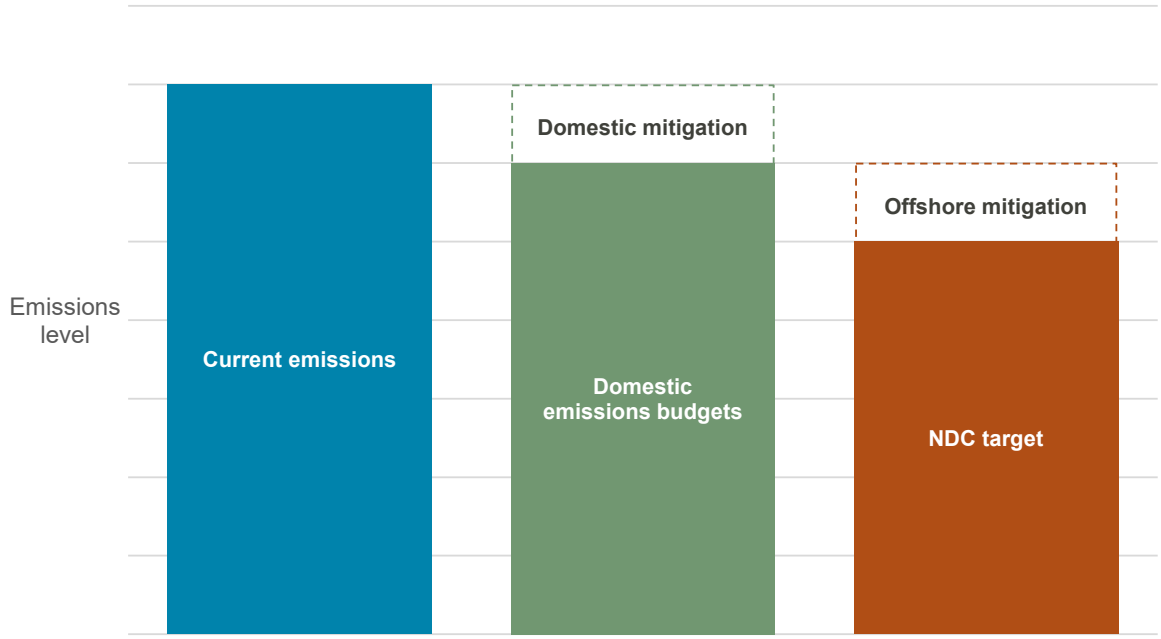
The role of offshore mitigation

As a party to the Paris Agreement, New Zealand is required to prepare, communicate and maintain successive Nationally Determined Contributions (NDCs) that it intends to achieve. New Zealand has announced two NDCs, which set economy-wide targets to reduce greenhouse gas emissions over the periods 2021–2030 and 2031–2035.

While NDCs represent New Zealand's highest possible ambition for its contribution to global emissions reductions, the country also has legislated domestic targets ('domestic emissions budgets') for emissions within New Zealand over the same timeframes. NDCs do not necessarily align with their corresponding domestic emissions budgets. Therefore, it is possible to achieve the domestic emissions budgets for a particular period but still have a 'gap' to achieving the corresponding NDC.

This analysis considers scenarios in which New Zealand makes up any such gap to its NDCs through *offshore mitigation* (funding emissions reductions or removals in other countries and counting them towards New Zealand's NDCs). It examines what these costs might be in cases where New Zealand exactly meets its domestic emissions budgets, as well as those where emissions deviate from them.

Figure 1: Example of using offshore mitigation to meet an NDC gap



For offshore mitigation to count towards New Zealand's NDCs, it must be authorised under the Paris Agreement framework, properly accounted for, and transferred as *internationally transferred mitigation outcomes* (ITMOs). A number of countries have signalled their intention to use ITMOs to help meet their NDCs and are putting enabling arrangements in place.

Purchasing is not the only method by which ITMOs could be obtained; for example, they could also be procured in exchange for investment, capacity building, or access to technology.[1] This analysis does not examine those possibilities; it solely considers scenarios in which ITMOs are acquired through purchasing by the Government.

[1] United Nations Framework Convention on Climate Change (UNFCCC). 'Article 6.2: Cooperative approaches.' https://unfccc.int/process-and-meetings/the-paris-agreement/article-6/article-62

New Zealand's Nationally Determined Contributions

New Zealand currently has two NDCs, both of which contain economy-wide emissions reduction targets covering all sectors and all greenhouse gases:

NDC	Period covered	Form	Emissions reduction target
First NDC (NDC1)	2021–2030	Point-year target,[2] managed through a multi-year emissions limit over 2021–2030	**50% reduction in net emissions below gross 2005 levels by 2030** *(equivalent to a provisional emissions limit of 575 Mt CO_2e over 2021–2030)*
Second NDC (NDC2)	2031–2035	Point-year target only	**51–55% reduction in net emissions below gross 2005 levels by 2035** *(equating to a provisional emissions target of 39–42 Mt CO_2e in 2035)*

NDC1 represents New Zealand's international target for the 2021–2030 period. Despite being a point-year target, it is managed as a multi-year emissions limit; achievement is assessed based on total emissions from 2021 to 2030.

New Zealand's first and second domestic emissions budgets (covering 2022-2025 and 2026-2030 respectively) occur during the NDC1 period. In total, these domestic emissions budgets permit total net emissions of 595 Mt CO_2e across 2022–2030, compared with the NDC1 emissions limit of 575 Mt CO_2e across 2021–2030. Therefore, achieving NDC1 will require greater emissions reductions than those needed to meet domestic budgets alone.

NDC2 represents New Zealand's target for 2031–2035 but is expressed *only as a point-year target*; achievement of NDC2 is assessed solely based on emissions in the year 2035. Accordingly, offshore mitigation would only be required to achieve NDC2 if emissions exceeded the target level in 2035.[3] The NDC2 target is also expressed as a *range* (a '51–55% reduction'); this analysis presents estimated costs for both ends of that range.

NDC2 is closely aligned with the third domestic emissions budget, which covers the same period. However, they have different assessment approaches; achievement of the third domestic emissions budget is assessed on total emissions across 2031–2035, whereas NDC2 is assessed solely on emissions in 2035. Achievement of the two targets can align or diverge depending on how emissions are distributed over time. For instance, meeting the third domestic emissions budget could place emissions on a pathway consistent with achieving the NDC2 target range in 2035. However, this outcome is not guaranteed; some possible emissions pathways meet the third domestic emissions budget while still exceeding the NDC2 target level in 2035.

[2] A target emissions level to be achieved in a single specified year.

[3] Note the use of offshore mitigation remains at the Government's discretion.

Methodology

Summary

- This analysis estimates the potential fiscal costs of offshore mitigation separately for NDC1 and NDC2 by multiplying assumed purchase volumes by an assumed purchase price.
- Three volume scenarios are used to reflect different possible paths for domestic emissions, which determine how much offshore mitigation may be needed.
- A single price assumption is used, based on observed offshore mitigation transaction prices.

Overall approach

This analysis sets out separate estimates of the potential fiscal costs of offshore mitigation purchased towards NDC1 and NDC2. To estimate these potential costs, the assumed *purchase volume* each year is multiplied by the assumed *purchase price*. Three scenarios are considered for possible purchase volumes, while a single scenario is considered for purchase prices.[4]

Volume scenarios

The gap to NDCs (and therefore the implied volume of required offshore mitigation purchases) depends on the level of domestic emissions. For this analysis, scenarios for offshore mitigation purchase volumes were based on three sources for possible domestic emissions pathways: Allowed emissions under domestic emissions budgets, and the two primary pathways from official emissions projections. This section describes how these sources are used to construct offshore mitigation volume scenarios for both NDC1 and NDC2.

NDC1

The NDC1 emissions limit is 575 Mt; to achieve NDC1, total domestic net emissions over 2021-2030 minus purchased offshore mitigation must remain within this limit. This means the level of offshore mitigation required to achieve NDC1 is equal to the amount by which domestic emissions exceed 575 Mt in this period. Table 1 below describes each scenario considered for offshore mitigation volumes under NDC1, based on different hypothetical pathways for domestic emissions.

[4] See the Technical Annex for detailed methodology.

Table 1: NDC1 – Offshore mitigation volume scenarios (for emissions over 2021–2030)

Volume scenario	Description	Implied offshore mitigation volume (CO_2e)
Volume Scenario 1: *Implemented or announced domestic policies*	Assumes domestic emissions align with official emissions projections published in 2025, using the 'With Additional Measures (WAM) – Central' scenario. *WAM – Central* includes the impact of policies in the second emissions reduction plan that have not yet been implemented, in addition to existing policies. It takes mid-range assumptions for key drivers such as population growth and GDP.	85 Mt
Volume Scenario 2: *Implemented domestic policies only*	Assumes domestic emissions align with official emissions projections published in 2025, using the 'With Existing Measures (WEM) – Central' scenario. *WEM – Central* is the Government's baseline emissions projection. It reflects currently implemented and adopted policies and measures as of 2025. It does not include the impact of additional policies that are proposed but not yet implemented (including policies in the second emissions reduction plan). It takes mid-range assumptions for key drivers such as population growth and GDP.	86 Mt
Volume Scenario 3: *Achieve domestic emissions budgets*	Assumes domestic emissions align with New Zealand's first and second domestic emissions budgets exactly.	96 Mt

NDC2

This analysis considers three volume purchase scenarios for NDC2 reflecting three potential pathways for domestic emissions (Table 2 below).[5] Across all scenarios, projected emissions in 2035 exceed the NDC2 point-year target (as noted above, this is an assumption taken by this analysis and is not guaranteed). Where this exceedance occurs, the required offshore mitigation to address the gap is calculated according to Paris Agreement rules.[6] Table 2 presents the resulting implied offshore mitigation volumes at both the start (51%) and end (55%) of the NDC2 target range.

The current *WEM* and *WAM* emissions projections show overachievement of the first and second domestic emissions budgets (which occur during NDC1), but *under*achievement of the third domestic emissions budget (which occurs during NDC2). Therefore, 'Achieve domestic emissions budgets' represents the highest-emissions volume scenario considered for NDC1 but the *lowest*-emissions volume scenario for NDC2.

[5] These scenarios were chosen to illustrate a range of potential outcomes and do not reflect an assessment of likelihood.

[6] See the Technical Annex for NDC2 volume methodology.

Table 2: NDC2 – Offshore mitigation purchase volume scenarios (for emissions over 2031–2035)

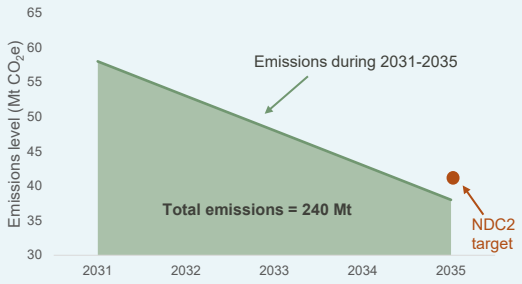
NDC2 volume scenario	Description	Implied offshore mitigation volume (CO_2e)	
		Start of target range (51%)	End of target range (55%)
Volume Scenario 1: *Achieve domestic emissions budgets*	Assumes domestic emissions align with New Zealand's first, second and third domestic emissions budgets exactly. Box 1 below explains why this Volume Scenario shows offshore mitigation purchases despite the close alignment between NDC2 and the third domestic emissions budget.	4 Mt	14 Mt
Volume Scenario 2: *Implemented or announced domestic policies*	Assumes domestic emissions align with official emissions projections published in 2025, using the 'With Additional Measures (WAM) – Central' scenario, as described in Table 1 above. This scenario does not include the impact of any policies from the Government's forthcoming third emissions reduction plan, which will focus on emissions reductions during 2031–2035.	13 Mt	23 Mt
Volume Scenario 3: *Implemented domestic policies only*	Assumes domestic emissions align with official emissions projections published in 2025, using the 'With Existing Measures (WEM) – Central' scenario, as described in Table 1 above. This scenario does not include the impact of any policies from the Government's forthcoming third emissions reduction plan, which will focus on emissions reductions during 2031–2035.	23 Mt	33 Mt

Box 1: Why does Volume Scenario 1: *Achieve domestic emissions budgets* indicate the use of offshore mitigation to meet NDC2?

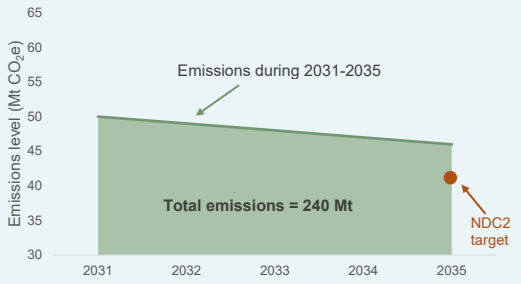
Meeting the third domestic emissions budget may or may not be sufficient to achieve the NDC2 target in 2035, depending on the exact emissions trajectory. This is because the domestic emissions budget is assessed against total emissions over the period 2031-2035, whereas NDC2 is a point-year target assessed against emissions in 2035 only.

To illustrate this point, the graphs below show two different hypothetical emissions trajectories over 2031–2035 which exactly meet the third domestic emissions budget of 240 Mt. Under the first trajectory, the NDC2 point-year target is also met, whereas under the second trajectory it is not:

Emissions meet the third domestic emissions budget and **meet** the NDC2 target:



Emissions meet the third domestic emissions budget but **miss** the NDC2 target:



Note: For simplicity, only the start of the NDC2 target range is shown

For Volume Scenario 1: *Achieve domestic emissions budgets*, this analysis assumes that emissions decline by a constant percentage each year such that the domestic emissions budgets are exactly met. This assumption was chosen because it provides a simple and transparent way to model an emissions trajectory without relying on judgements about the timing of emissions reductions. Under the resulting trajectory, emissions would exceed the NDC2 target in 2035 and offshore mitigation would therefore be required. However, as described above, other assumptions could be adopted in which the 2035 NDC2 target is achieved under this scenario.

Assumed purchase prices

Several countries have begun entering transactions for ITMOs, and the first transfers for NDC use have occurred, providing initial indications of potential prices. We consider this to be the best evidence currently available of what future purchase prices for offshore mitigation might be. As such, this analysis uses assumed purchase prices (presented in Table 3 below) based on an average of observed global ITMO prices to date:

Table 3: Assumed offshore mitigation purchase prices (for both NDC1 and NDC2)

Price source	Description	Price per tonne (NZD, nominal)
Average of observed ITMO prices to date	Weighted average of publicly known prices for ITMO transactions, announced by Switzerland, Singapore, Malawi and Japan. Prices are then assumed to rise at the rate of global inflation each year.	$54.40 in 2027, rising to $69.97 in 2035

Prices for offshore mitigation are expected to vary according to the integrity and risk profile of mitigation outcomes, including factors like additionality, permanence, and delivery certainty. This analysis draws exclusively on observed prices for offshore mitigation transactions that meet the Paris Agreement requirements for international transfer. In total, the transactions used to construct the assumed prices represent over 13 Mt of offshore mitigation purchases.

While recent developments in offshore mitigation markets have provided a basis for assessing potential offshore mitigation costs, these markets remain early-stage and only a small number of transactions have taken place. Of the transactions that have occurred, very few have made transaction information publicly available. Additionally, while these early purchases are currently the best available benchmark, they may not be fully representative of the broader market or future market conditions.[7] As a result, the actual prices which New Zealand might obtain for offshore mitigation could diverge from those used here.

Given the remaining uncertainty, we have also undertaken sensitivity analysis (presented in the Technical Annex) to illustrate how results may change under higher or lower price assumptions.

[7] Factors that could influence future prices include the evolution of emerging mitigation approaches, developments in ITMO markets, and New Zealand's future policy direction for offshore mitigation sources. To reflect these uncertainties, the Technical Annex includes a sensitivity analysis that tests the implications of higher and lower offshore mitigation prices on the overall cost estimates.

Results

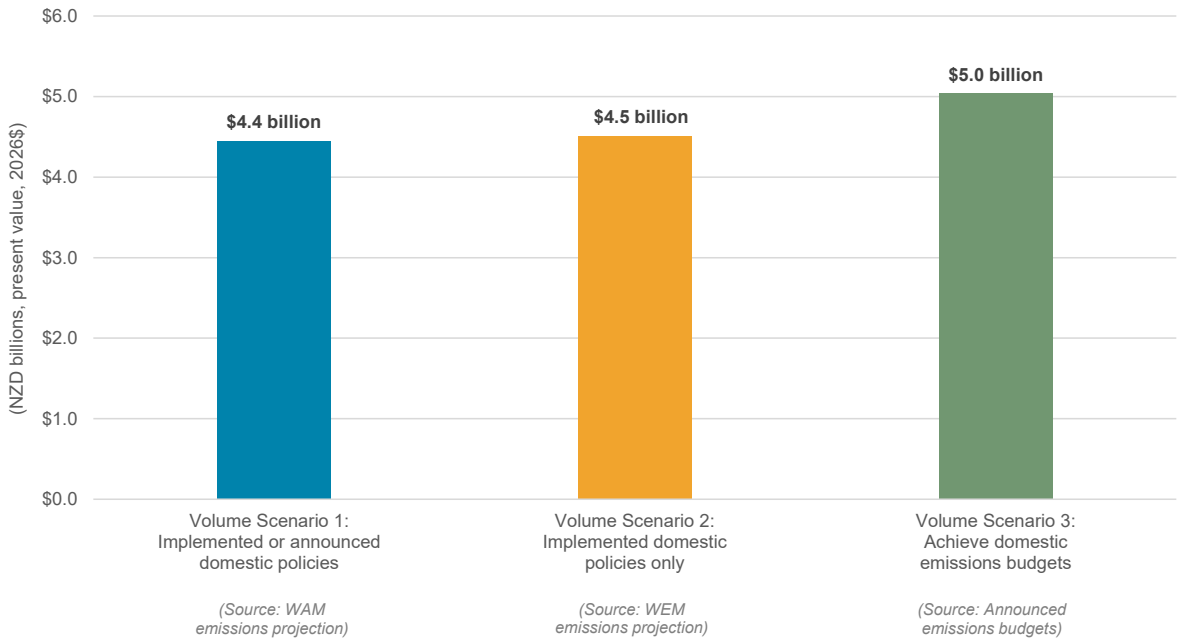
Summary

- For NDC1 (2021–2030), estimated offshore mitigation costs range from **$4.4 billion** to **$5.0 billion**.
- For NDC2 (2031–2035), estimated offshore mitigation costs for the start of the target range (51%) are from **$0.2 billion**. For the end of the range (55%), estimated costs are up to **$1.6 billion**.
- These estimates are highly uncertain. Actual costs may differ significantly due to unresolved policy decisions, offshore mitigation sourcing arrangements, and changing external conditions.

NDC1

Figure 2 below presents estimates of the possible fiscal costs of purchasing offshore mitigation to achieve NDC1:

Figure 2: NDC1 – Possible fiscal costs of offshore mitigation purchases



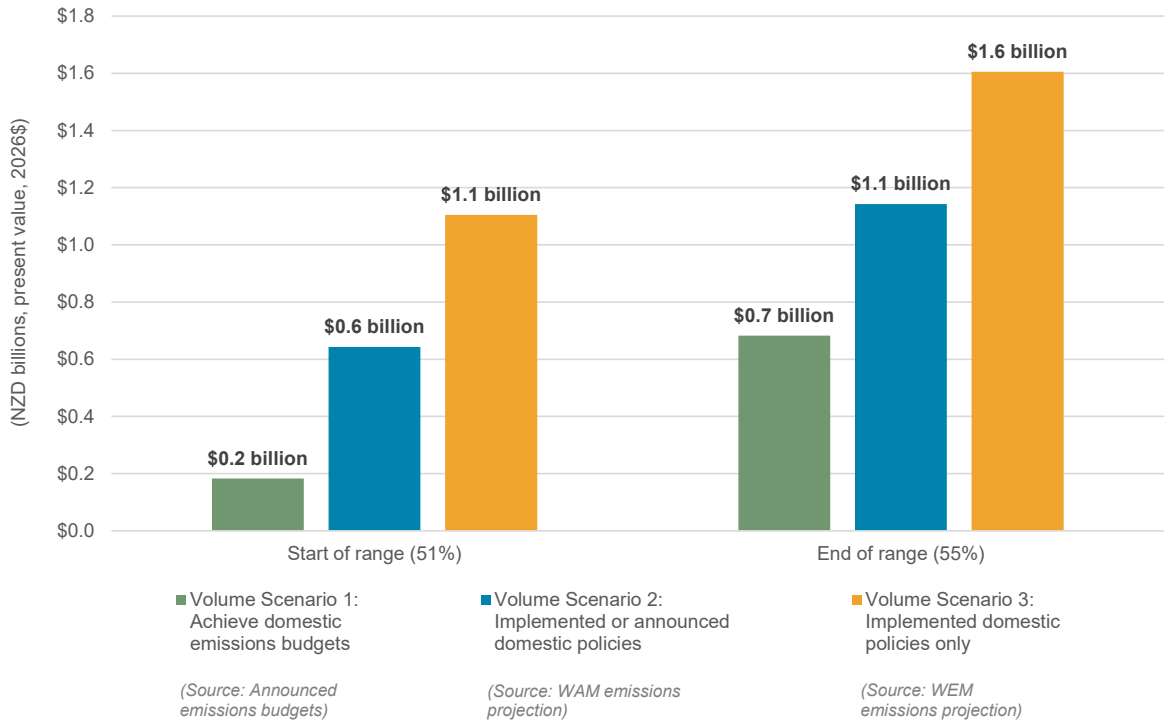
These scenarios suggest that, if offshore mitigation prices at the time of purchase were to align with currently observed ITMO prices, the fiscal cost of purchasing offshore mitigation to achieve NDC1 could be between **$4.4 billion – $5.0 billion**.

These estimates are towards the lower end of the cost range that was previously published as part of the 2023 Climate Economic and Fiscal Assessment (CEFA), which estimated cost scenarios for NDC1 at $3.3 billion – $23.7 billion.[8] This is primarily because the prices observed in ITMO purchases, which underpin the price scenario used in this analysis, have been towards the lower end of the price range considered in the CEFA. In addition, revised emissions projections suggest that New Zealand is now on track for lower domestic emissions over the NDC1 period than previously forecast.

NDC2

Figure 3 below presents estimates of the possible fiscal costs of purchasing offshore mitigation to achieve NDC2 (for both the start and end of the target range).

Figure 3: NDC2 – Possible fiscal costs of offshore mitigation purchases



Estimated offshore mitigation costs for achieving the start of the NDC2 target range (51%) are from **$0.2 billion**. Costs are greater for scenarios where the end of the range (55%) is achieved, estimated at up to **$1.6 billion**.

The higher end of this cost range (under *Volume Scenario 3: Implemented domestic policies only*) does not capture the emissions impact of the Government's forthcoming third emissions reduction plan, which will target domestic emissions during the NDC2 period, or policies from the second emissions reduction plan that have not yet been implemented.

[8] However, the overall size of the range presented here is not directly comparable with the size of the CEFA range, which used multiple price scenarios rather than a single price assumption.

As noted above (see Box 1), the implication that offshore mitigation is required even where the third domestic emissions budget is met (Volume Scenario 1) results from the assumptions about the trajectory that emissions would follow under that scenario. It is also possible that achieving the third domestic emissions budget could place emissions on a trajectory consistent with meeting NDC2, in which case no offshore mitigation would be required for that period.

The potential costs of offshore mitigation required to achieve NDC2 are significantly lower than those required for NDC1. This is primarily because the discrepancy between the NDC2 target and its corresponding domestic emissions budget is significantly smaller than that between NDC1 and its corresponding domestic emissions budgets. As a result, achieving domestic emissions budgets puts New Zealand much closer to achieving NDC2 than to achieving NDC1.

Caveats

These estimates represent an assessment of possible fiscal costs based on limited current information. They are not intended to precisely forecast future costs, to predict policy decisions, or to capture the full range of factors involved. The analysis is subject to several caveats, as follows.

Caveat	Description
Additional costs	This analysis considers only the direct purchase costs of offshore mitigation. It excludes other possible costs such as for establishing institutional arrangements, managing a portfolio of mitigation opportunities, setting up new cooperative arrangements, and the 5% contribution to the Adaptation Fund for transfers through the centralised market under the Paris Agreement. Because these additional costs are expected to be minor relative to the main mitigation costs, they were not estimated in this analysis.
Responsibility for costs	For the purposes of this analysis, it is assumed all ITMOs will be purchased and that the Government would fund the full cost of purchasing offshore mitigation, although no policy decisions on these points have yet been made.
Source/type of offshore mitigation	The range of offshore mitigation sources New Zealand could use to support its NDCs remains uncertain. Decisions about which sources are used, the volumes involved, and the nature of the cooperation arrangements will influence the prices New Zealand pays. Procurement at scale would likely involve a portfolio of sources with differing prices. In addition, offshore mitigation could be accessed through mechanisms other than direct purchase.
Feasibility of purchases	Evaluating the feasibility of the assumed purchase volumes is outside the scope of this analysis, including how these volumes can be acquired within the specified timeframes.
Price uncertainty	Offshore mitigation prices are likely to evolve over time due to overall market conditions and the actions of others, including other governments and private actors.
Exchange rate volatility	Currency values will change over time and will affect the price of offshore mitigation.
Domestic emissions performance	The volume of offshore mitigation needed to close the gap between domestic abatement and the level required to achieve NDCs will depend on how much domestic mitigation is achieved. This analysis does not make judgements about the merits or otherwise of purchasing offshore mitigation compared to pursuing additional domestic efforts. The purpose of the analysis is solely to provide fiscal transparency about a scenario in which the Government chooses to address the gap to its NDCs using offshore mitigation. This analysis examines the purchase of offshore mitigation towards NDCs only; it does not consider any possible application to domestic emissions budgets.
NDC ambition	New Zealand may communicate an NDC at any time. Under Article 4 paragraph 3 of the Paris Agreement, each successive NDC will represent a progression. The total required volume of offshore mitigation could therefore be different from that required under New Zealand's current NDCs.

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Glossary

Term	Definition
CO_2e (Carbon dioxide equivalent)	A standard unit that expresses the impact of different greenhouse gases in terms of the amount of carbon dioxide that would have the same global warming effect.
Discount rate	The rate used to convert future costs or payments into present-value terms.
Domestic emissions budget	A cumulative limit on New Zealand's domestic greenhouse gas emissions over a specified multi-year period, set under the Climate Change Response Act 2002.
EB1	New Zealand's first domestic emissions budget, limiting net emissions to 290 Mt CO_2e over 2022-2025.
EB2	New Zealand's second domestic emissions budget, limiting net emissions to 305 Mt CO_2e over 2026–2030.
EB3	New Zealand's third domestic emissions budget, limiting net emissions to 240 Mt CO_2e over 2031–2035.
ITMO (Internationally transferred mitigation outcome)	An emissions reduction or removal that is transferred between countries under the Paris Agreement and counted towards a country's NDC. ITMOs are subject to accounting rules, including corresponding adjustments, to avoid double counting.
Mt (Megatonne)	One million tonnes.
Multi-year emissions limit	A cumulative limit on net emissions across multiple years.
NDC (Nationally Determined Contribution)	The Paris Agreement states that each Party shall prepare, communicate and maintain successive nationally determined contributions that it intends to achieve. New Zealand's NDCs are emissions reduction commitments, setting out the contribution it intends to make towards achieving the Agreement's long-term temperature goal.
NDC1	New Zealand's first Nationally Determined Contribution under the Paris Agreement, covering emissions over the period 2021–2030.
NDC2	New Zealand's second Nationally Determined Contribution under the Paris Agreement, covering emissions over the period 2031–2035.
Offshore mitigation	Funding emissions reductions or removals in other countries and counting them towards New Zealand's NDCs.
Point-year target	A target emissions level to be achieved in a single specified year (distinct from a 'multi-year emissions limit' as described above).
Present value	The value today of a future stream of costs or payments, adjusted using a discount rate to reflect the time value of money.
With Additional Measures (WAM)	A scenario in New Zealand's official domestic emissions projections that includes existing measures as well as additional policies and measures that have been announced or planned but are not yet fully implemented.
With Existing Measures (WEM)	A scenario in New Zealand's official domestic emissions projections, based on policies and measures that are already implemented and in force.