# Appendix B issues for future reviews

This appendix summarises issues raised that were not considered in this review, but that could be considered in future reviews.

## B.1 25-year permanence option

Under the CFI, sequestration projects were subject to a 100-year permanence obligation. Several stakeholders noted that this obligation acted as a barrier to participation for some types of projects, in part due to concerns about the potential adverse effects on future generations of landholders.

To address this concern, the ERF includes a 25-year permanence option. The number of credits issued for projects that take up this option will be discounted by 20 per cent relative to 100-year projects. This discount reflects the potential cost to government of replacing carbon stores if 25-year projects are later discontinued.

Although several stakeholders supported the 25-year permanence option, there are issues to consider:

* Discount calculations are very sensitive to assumptions about future carbon prices, and the probability, timing and pace of reversal (Macintosh 2012). The appropriateness of the 20 per cent discount depends on whether these underlying assumptions are reasonable, given available information, and the level of financial risk the government (and public) is willing to accept.
* Using a uniform discount of 20 per cent reduces administrative complexity but may not reflect differences in risks across different types of projects.
* Without a binding cap or an obligation for future governments to replace any carbon stores that are reversed, the environment may ultimately bear the cost.

## B.2 Deductions for risk of reversal and leakage

Under the CFI, a risk of reversal buffer of five per cent was applied to all sequestration projects, meaning that for every 100 tonnes of carbon stored by a project, 95 credits were issued. This risk buffer was to account for some carbon stores being temporarily lost, for example through bushfire. The risk of reversal buffer is unchanged under the ERF.

Fares Rural (sub. 3, p. 6) submitted that the risk of reversal buffer should be set at a lower level based on the real incidence of fire and other reversal in Australia.

Under the CFI, methods can apply a deduction to credits for leakage, which refers to the risk that the project will trigger an increase in emissions from sources, or reduction in removals by sinks, that occurs outside the project boundary. In practice, no CFI methods included a deduction for leakage.

As noted in Chapter 2, leakage can be influenced by various factors (including commodity prices) and can occur at different spatial scales and over time. Consequently, it is difficult to estimate.

## B.3 Project aggregation

The ERF aims to support aggregation in the land sector by relaxing the requirement that project developers need to own the land (or hold another relevant property right).

The National Farmers’ Federation noted there are benefits and risks associated with participation in an aggregated project; risks include that individuals could be misled into participation by unscrupulous aggregators. To address this risk, National Farmers’ Federation proposed a consumer protection framework similar to the model used for residential tenancy (sub. 5, pp. 2-3).

RAMP Carbon advocated the development of a dedicated mechanism to promote aggregation, similar to the programmatic approach under the Clean Development Mechanism or accredited certificate provider under GGAS/ESS. To the extent this is not feasible in the short term, RAMP Carbon suggested an interim step would be to create flexibility within the legislative rules to allow less stringent audit requirements for project aggregators (sub. 15, p. 4).

## B.4 Negative list

Poorly designed projects can lead to perverse outcomes (for example a forest project may put excessive pressure on water resources). Like the CFI, the ERF manages negative impacts through requirements to:

* hold required water, planning and environmental approvals
* take account of regional natural resource management plans.

It also excludes projects that could pose social and environmental risks (via the ‘negative list’).

In principle, where the concerns apply generally (and are not unique to ERF projects) other policies should address them. For example, an afforestation project under ERF could draw up large volumes of water, thereby degrading local wetlands and/or depleting water resources available to towns or irrigators. This problem could arise with any afforestation project—not just one supported by the ERF. An appropriate response would be to have a general policy that included, for example, a requirement for forest plantations in particular areas to buy a water licence. ERF and non ERF projects would all have to comply with this requirement.

In practice, however, such general policies are not always in place. As a result, the ERF could reasonably play a role in mitigating negative impacts, either by making some types of projects ineligible or by putting obligations into methods. This should be the exception rather than the rule.

## B.5 Improving transparency

The ERF includes a number of measures to promote transparency and provide opportunities for public input to methods and reviews. Stakeholders identified some opportunities for improvement, including:

* reviewing the outcomes achieved and the effectiveness of the Carbon Farming Futures – Extension and Outreach program (National Farmers’ Federation, sub. 5, p. 1)
* publishing the Minister’s final decisions on methods, along with the ERAC’s advice
* publishing the reasons for prioritising or not prioritising particular methods, along with any accompanying analysis
* formalising arrangements for individuals outside the technical working groups to contribute to method development (Law Council of Australia 2014, p. 5).