

Section 2 (Liability – who and at what times): Bernhard by May 24

2.1 Options

2.1.1 Liabilities

Define why there is a liability and what are the actors that could be liable. Establish a difference between liability in the Kyoto context (e.g. Annex I parties vs. non Annex I parties), and liabilities in the carbon chain (business, transfers, etc, before CERs enter national accounts). Include the role of insurance (include buyer seller pooling concept). Introduce bottles example. The question of carbon property rights and liability: inscribing this into the land title could be possible in some countries such as the US or Australia, but probably not possible (nor necessary?) in CDM?

2.1.2 Rental options (Louise by May 3)

This section can start by describing the initial Colombian proposal, Chomitz: the concept of renting credits. This description will flow into options of establishing fixed contracts for renting

2.1.4.1 Period determined by the project participants (Colombian / rental (Gregg) proposal as it stands).

2.1.4.2 Period fixed by COP, e.g. to commitment period (e.g. French method – measure 2012 and apply to CP2 vs. measure over CP1 and apply to CP1 – Bernhard’s chart of measuring avg stocks in CP1)

2.1.2 Ton year accounting (one sentence referring to set of criteria and then drop it from further discussion)

2.1.3 Jackson proposal

2.1.4 Overview table of all 6 options (see flipchart)

2.2 Lifetime of the project. Contract period should be long enough so that project cost can be recovered (risk minimization). In order to avoid risk to investor of higher TCER prices in the future, the

contract could specify the price situation. (counter Don's argument).

2.2.1 Crediting period issues (we believe that long crediting is needed to avoid perverse incentives e.g. fast growing monocultures). We assume that credits can only be issued once the carbon has been sequestered. For energy projects the crediting period is 10 or 7+7+7. We can show that this is not viable for forestry projects.

2.2.3 Renting period issues (we suggest strongly that there be no limit).

Lifetime of project \geq any COP defined minimum lifetime of project (if any) \geq TCER renting period (if any)

2.3 Additional issues

2.3.1 AAU; L-unit issuance and accounting;

Registry requirements in practice, e.g, interaction between TCER and AAU generation, TCER cancelling and provisions for the liability units to expire and being subtracted from the AA.

Other questions: Bankability pre 2008? If yes: if there is a debit pre 2008, how should it be accounted for?

Creation of TCERs is done by the Executive Board.

2.3.2 Albedo, hydrology, climate change impacts, discounting, additionality, leakage, biodiversity, local incomes \rightarrow link with WG 3; (Gregg)

2.3.3

Section 4 (model)

- Input: **net accumulated C** / ha sequestration profile (we assume that all C flows, such as the fossil fuel expenses are included in this carbon curve), various input parameters such as CO₂ price, transaction costs, discount rate. Not to include project costs such as tree planting, because this is indifferent between accounting options. We should clearly say that these are omitted for reasons of simplicity. We may have to include project costs if we want to know the relative (rather than absolute) change in NPV among options. Doug will come up with different project costing numbers.

Help on costing numbers from Sandra Brown through Louise; Staffan; Ben de Jong with Richard Tipper through Louise; Andre.

- OUTPUT. CERs over time and accumulated, NPV of the project (taking into account carbon revenues and transaction cost and monitoring/certification cost at least, if not also the other project costs)
- Time horizon 120 years, in annual time steps.

We can create “scenarios” which are the most sensible 3-4 combinations of “accounting rules” and “liability options”. The selection is done as follows: Accounting rules are checked against the criteria and only the most sensible retained. Then, the liability options are checked against the criteria and the most sensible retained. Then accounting rules and liability options are combined, and some more may fall out because these combinations do not match the criteria. The remaining 3-4 combinations would then be analysed with the model (plus sensitivity analysis), and presented in the paper.