Woodrow Wilson International Center for Scholars
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Costa Rica Faces Obstacles to Generating Foreign Currency Needed to Protect Environment

Country Captures Less Than 1% of World Carbon Market
Once a Pioneer in the Carbon Market, Today Receiving Crumbs
Countries like Brazil have a Bigger Share of the $144 Billion Industry

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Currently, Costa Rica is receiving less than 1% of the economic benefits of the world carbon market. In 2009, the market grew to about $144 billion, almost five times the amount of Costa Rica's GDP. But the country has received only a pittance because forest protection—what the country knows how to do best—is not a highly valued part of the trading.

Costa Rican beneficiaries include 8,345 farmers from all of the provinces who protect a little over 650,000 hectares of forests, wetlands, and areas where forest species are planted. For each hectare they protect, they receive between $64 and $75 a year.

Some businesses involved to the production of hydroelectric energy and cement production are also participating in the market.

René Castro, Costa Rica's foreign minister and an expert in the carbon market, recognizes that only a minimum benefit is being received.

In 1997, however, it was the Costa Rican government that inspired the creation of the carbon market when it created its first carbon bonds and sold them to Norway. Today thirteen years later, the country is a small, almost nonexistent, partner in the business.

The Carbon Game

The idea behind this market is to limit the emission of so-called greenhouse gasses in order to fight global warming.

According to investigations and scientific publications, human activities have led to a high concentration of greenhouse gasses.

These gasses are trapped in the atmosphere and concentrate solar rays, causing a greenhouse effect and raising temperatures.

The global warming it produces alters biological cycles and threatens thousands of species.

In this context, the carbon market is like a “table game” for preventing emissions.

First, the amount of emissions that the planet can tolerate is calculated and then, the amount that each country—or “player”—is allowed to emit is determined. If this “player” produces and emits less gas than the amount assigned to it, then it has a “surplus” that it can sell to others.

On the other hand, if the player emits more greenhouse gasses than it is allowed, it has a deficit that it must offset by buying a certificate from a country or business that has a certificate showing a surplus.

Janet Peace, economist and Vice President of Markets and Business Strategy for the Pew Center for Climate Change, explains that Costa Rica belongs to the first group of players. That is, the country is in a position to sell carbon emissions to industrialized nations that emit more greenhouse gasses than they are allowed.

However, international analyst and Director of Climate Focus, Charlotte Streck, adds that since this is a market of scale and Costa Rica is small, larger developing countries like Brazil have more opportunities because they can offer larger and cheaper emissions packages.

Richard Baron, an expert in the carbon market and the head of the Climate Change Unit of the International Energy Agency, agrees: “I don’t even see Costa Rica as an actor in this market. It is too small and this is an economy of scale.”

Two Options

There are two different kinds of carbon markets: the official (regulatory) carbon market and the voluntary market.

The official market is determined by what is called the Kyoto Protocol, an agreement signed by industrialized countries—except for the United States—in which they commit to reducing their greenhouse gas emissions to 5% below 1990 levels between 2008 and 2012.

To achieve this reduction, the market uses a tool called the Clean Development Mechanism, or CDM, through which developed countries pay other countries like Costa Rica to compensate for the emissions they have not yet been able to reduce.

The mechanism has been validated by the United Nations and projects primarily involve making changes in energy and waste management systems.

There are 2,400 CDM projects in the world, but only six approved projects are in Costa Rica, with another four in the process of evaluation.

According to William Alpízar, the head of Costa Rica’s Climate Change Department under the Ministry of the Environment, Energy, and Telecommunications (MINAET), few possibilities exist for CDM projects in Costa Rica because the certification processes are complex and expensive, some costing as much as $500,000.

The other problem is that carbon emissions mitigation through forest protection—a strong point for Costa Rica—is not widely accepted in this market. That is because the carbon a tree absorbs is released into the atmosphere when the tree dies, and therefore the reduction is not permanent.

Voluntary Market

The other market that exists is voluntary. Two parties come to an agreement about how much carbon one country will stop producing and how much the other country will pay it for that effort.

Several independent voluntary carbon markets exist such as the Chicago Climate Exchange and the European Climate Exchange.

In Costa Rica, the National Fund for Forestry Financing (FONAFIFO) is taking the lead in the voluntary market through Payment for Environmental Services (PES). The idea is to recognize property owners who take care of their forests.

Most of the payments made here are related to the protection of forest areas and springs.

The PES is financed by a 3.5% tax on fuel (which brings in about $8 million a year) and by two World Bank loans for about $30 million each.

Costa Rica´s participation in these kinds of markets does not appear to be growing, but the problem is not just ours.

"The carbon market will be depressed as long as uncertainty exists over what will happen in 2013 when the Kyoto Protocol expires, and even if there is a supply, the demand will be very low," said Costa Rican Christianna Figuerres, Executive Secretary of the United Nations Framework Convention on Climate Change.

This research was conducted from the Washington Post *newsroom with the support of the Woodrow Wilson International Center for Scholars.*

[photo captions]
Forest protection, what our country knows how to do best, is not yet highly valued

The idea behind the carbon market is to limit greenhouse gas emissions to protect endangered species like green macaws

[Sidebar on first page]
IN BRIEF

How does this market work?

The carbon market is a mechanism designed to reduce the level of greenhouse gas emissions into the atmosphere. Its goal is to create incentives for emissions producing countries and corporations to reduce their contamination of the atmosphere.

Both the regulatory and the voluntary carbon markets are organized by an administrative authority, such as the United Nations or a monitoring entity in a country. This authority establishes the maximum level of emissions permitted for each participant.

Once this level is established, each participant is assigned a volume of allowable emissions. Then, if the participant produces a lower level of emissions than it is allowed, it is authorized to sell the unused volume to those who exceed their allowed limits. This creates a system of positive and negative incentives.

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Low participation
Costa Rica has only six of the 2,400 projects in the official carbon market

[Sidebar on page 2]
Nation Faces Contraction in International Donations
With only a small share in the carbon market, the country must visualize other spaces and opportunities to bring in resources and fund its conservation activities.

However, the world economic crisis and political missteps have also made it difficult to make progress in this area.

Even Costa Rica’s good reputation is becoming an obstacle. Officials of the World Wildlife Fund (WWF) and Conservation International (CI) agree that since Costa Rica´s forests and natural resources are not “in imminent danger,” the eyes of the world, and its money, are being redirected toward countries with more problems and needs,

“We have not had enough political participation in the scenarios where money is being channeled for conservation,” said Carlos Manuel Rodríguez, CI Vice-President and Former Minister of the Environment.

Rodríguez also pointed to missteps by the former administration. “I think potential private donors are still recovering from certain actions taken by the Arias government against protected areas and by the controversy around mining and conservation in general. This led to the fact that no significant conservation-related grants were made to the country during the previous administration. We have to get past that dark cloud,” he said.

La Nación attempted to include the opinion of Roberto Dobles and Jorge Rodríguez, both former ministers of the environment during the Arias administration. Rodríguez was out of the country, however, and efforts to find Dobles vía his cell phone and home phone were not fruitful, though a message was left.

Finally, another factor that has made it difficult to bring grants into the country is the fact that NGOs are struggling to survive in today's worldwide economic crisis. Some previous grant sources have dried up and other new grants have been impossible to obtain. The Nature Conservancy, for example, is already eliminating its Costa Rica office, and CI is evaluating the possible reduction of staff.

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Interview
“We Continue to Be Leaders”
René Castro
FOREIGN MINISTER AND CARBON MARKET EXPERT

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Diplomat says the country has done what it can,
but the rules of the market make it difficult to participate more actively.

Today, Costa Rica is not receiving the benefits it expected from the carbon market. It is not even receiving international funding to protect the environment. Why is that? What happened?

“I agree with you completely and my hypothesis is that it is a reflection of the fact that the world was not ready for a relationship between equals.

“There is a historic relationship between donor countries and receiver countries and so, when market-based mechanisms were proposed, many countries said yes, but they don’t really understand it, and they end up acting in other ways that don’t always favor developing countries.

“On top of that, we have the world economic crisis. The priorities of many countries and businesses have changed, which has had a negative effect on us. For example, I am not even seeing the money that countries once promised towards reaching the Millennium Development Goals and fighting poverty.”

But going back to the carbon market, why does Costa Rica have only six projects in the market that grew out of the Kyoto Protocol? Isn’t that too few?

“This has occurred because the main actors in the world carbon market, like the United States, didn’t join the market that was promoted through that international agreement. So the official market was handicapped from the start. It was only a partial agreement, and that affected the demand for carbon bonds.
“In that scenario, the European Union took advantage of the opportunity to create its own market, but in trying to guarantee the legitimacy of the processes, it put together a system with excessive regulations and conditions.”

What kind of conditions?

“There are methodological limitations, and expensive bureaucratic processes for certifying projects. They have included all kinds of obstacles so that, in practice, the transaction costs are so high that only large-scale projects are interesting propositions. Those projects are in large developing countries like China, not here.

“But beyond that, the fact that the United States did not ratify the Kyoto Protocol created a great deal of insecurity in the carbon market because it reduced the demand for mitigation certificates. Reduced demand also reduced prices.

“In addition, and this is perhaps more serious, it eliminated the interest that world experts might have had in creating innovative financial mechanisms to make the most out of this new market.”

What kind of mechanisms?

“Mechanisms that perhaps would have favored us more and favored the sale of the kind of forest protection that we have.

“But what happened was something else entirely. Given the insecurity of the carbon market proposed in Kyoto, the developed world decided to leave many other opportunities for buying and selling carbon certificates in limbo.

“For example, all of the biologically based projects—like those having to do with the reduction and mitigation of carbon emissions through the production of pineapple, bananas, and African palm—were left in limbo.

“Unfortunately, this limits part of the supply that developing countries like Mexico and Costa Rica have to offer. In countries like ours, the projects that have to do with plants and agriculture represent 75% of the supply.

“So the overall situation is clear. On the one hand, market demand is reduced because the United States didn’t join the process and, on the other hand, our supply is reduced because biological projects were left out.”

Some NGO environmentalists say that Costa Rica doesn’t qualify for international aid because our natural resources are not in imminent danger. What do you think about that?

“That’s a very common thing. It happened with social indicators as well. When preference is given to the neediest, we get left off the list. We need to innovate in order to receive support again.”

Some say that environmental missteps during the Arias administration contributed to the contraction in external financing. Do you agree?

“That’s not true. There is a much more complicated world context that affects the issue (…) Besides, if that were true it is because of the myopia of NGOs, because the country is looking for ways to develop.”

What is the future you see for the country?

“I am an optimist and I see opportunities and new struggles for new mechanisms to be recognized. We will continue to be leaders in ideas and proposals. We haven’t lost that leadership and we won’t lose it.

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