



PERMANENT MISSION OF COSTA RICA TO THE UNITED NATIONS

Statement
President Oscar Arias Sanchez

Meeting of the Coalition for Rainforests Nations and guests countries,
Rockefeller Center

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It is a pleasure to be here tonight as member of the Coalition for Rainforests Nations, initiative which is lead by Prime Minister Somare of Papua New Guinea, Costa Rica and many other tropical developing nations who strive to derive economic incentives for conserving tropical forests to improve poor people's livelihoods, while at the same time contributing to greenhouse gas reductions. We are determined to move this Coalition forward in order to effectively align market incentives with sustainable outcomes.

Climate change has become a critical challenge for humanity and it is even more important for developing countries because they are most vulnerable to its impact. In the developing world, efforts to prevent or mitigate climate change must be taken in the context of the need to fight poverty and achieve sustainable development. We believe that there are win-win solutions that can help us make progress on both fronts.

As you know, global climate negotiations are presently at a stalemate. The Kyoto commitments take us only to the year 2012 and the absence of the United States, the largest emitter of greenhouse gases, poses a serious challenge to the future of these negotiations. Development of mechanisms whereby developing nations can assume "voluntary" emission reductions, would provide an important incentive for the developing world to start making commitments.

Deforestation accounts for about one quarter of greenhouse gas emissions worldwide, yet actions to prevent deforestation are not eligible for financial compensation under the Kyoto Protocol. Carbon coming from forests is not treated like carbon coming from fossil fuels. Improvements in energy efficiency or replacing coal with natural gas are eligible for credits, while emissions avoided by preserving forests or managing them in a sustainable way are not eligible. We believe that this is a shortcoming that must be corrected in the post-Kyoto period. Our history demonstrates that it is possible to achieve

both greenhouse emissions reductions and sustainable development at the same time. Allow me to briefly explain what we have done.

During the last fifty years Costa Rica experienced a period of rapid forest loss that peaked in the 1970's when we were losing about 1% of our land area per year. When I came into office for the first time in 1986, Costa Rica had only one third of its land area under dense forests. This concern for rampant deforestation led me to create the Ministry of Environment and Energy twenty years ago.

Since then, our country has devoted considerable effort to experiment with a number of forest incentives geared to protect, manage, restore and re-plant our forests. We have tried many different mechanisms to promote reforestation and forest management including soft loans, tax credits and direct grants to small landowners. Although we have made some mistakes and we have learned by doing, overall, these policies are responsible for the remarkable turnaround in our forest cover during the last few years, which now exceeds 45% of Costa Rica.

In 1988 with resources from a debt-swap financed by the Government of the Netherlands, we launched a new generation of forest incentives for small landowners. This was the model for our present system of payment for environmental services. Over the last decade, Costa Rica has spent over \$110 million in forest incentives to over 7,000 private land-owners. This is a huge investment for any developing country, equivalent to the effort required to protect our national parks.

Starting in 1997, Costa Rica took the important step of starting to tax imported fossil fuels and devoting the resources to carbon management. This was not something required by the Climate Change Convention or the Kyoto Protocol, it was an internal decision required to finance our programs since there was no external market. Since that time, a 3.5% carbon tax levied on all fuels consumed in the country goes to a national fund that is used to pay for the carbon storage services provided by the forests under the program. These resources have been complemented by loans and grants, and the cumulative incentives now surpass 400,000 hectares. Costa Rica is the only developing country in the world to have passed a carbon tax whose revenue goes to finance a national system of payment of environmental services.

In a very real sense, Costa Rica has pre-paid for carbon storage to 7,000 landowners, and it has used resources from the fuel tax, loans and grants to pay for the carbon, yet it has not received any compensation from the international community for these services. Only Norway, in a symbolic but important transaction, purchased \$2 million of Costa Rican carbon.

Although we are proud of our achievements in both conservation and sustainable development, as you can see, they have come at a very high cost. Not all tropical developing countries have the resources to follow this example. We need a systemic change that will facilitate the path for others to join.

We believe that global markets for ecosystem services, of which carbon storage is one, are part of the solution to move forward in the post-Kyoto period. Carbon credits from reduced deforestation should be tradable in carbon markets just like other offsets. The Costa Rican experience demonstrates that tropical developing countries can manage forest carbon in an efficient and transparent way, it is now necessary to complete the cycle and recognize that this service requires compensation and develop the mechanisms to make it effective. I hope that Costa Rica's experience can be useful to move this Coalition forward and we stand ready to help in this important task.

I would also like to thank Prof. Stiglitz and Columbia University for their support to this timely and critical initiative.