

San José, Costa Rica
October 9, 2018

Dear Members of the 26th Participants Committee
Dear Members of the 11th Participants Assembly
Dear Observers
National and International Community

Ladies and Gentlemen:

I must start with a reminder that Costa Rica was the first developing country that managed to reverse deforestation and increase its forest cover, going from 20% 1980s until reaching 53% of the national territory at present, which was possible due to the implementation of several public policies which included the prohibition of change in the use of forest land, the expansion of protected areas to cover 25% of the continental territory, the creation of a tax on fossil fuel consumption that generates resources to encourage the decreased rates of deforestation and degradation, the promotion of the conservation and restoration of forests, and the improvement of carbon stocks forestry through the Payment for Environmental Services Program.

On the basis of these successful experiences, noting high rates of deforestation on the planet, Costa Rica led, along with other countries, the creation of a global mechanism to reduce deforestation and forest degradation, promoting the conservation of tropical forests and the improvement of forest carbon stocks. This process was carried out within the framework of the United Nations Framework Convention on Climate Change (UNFCCC), which after 10 years of negotiations, culminated with the adoption of what we now know as REDD+. Global concern about deforestation and forest degradation as one of the main causes of global warming, which between 2000 and 2010, registered a net loss of forests of 7 million hectares per year in tropical countries, has been the foundation for the development of the Forest Carbon Partnership Facility (FCPF) and its associated Carbon Fund.

Not only was Costa Rica a pioneer in the creation of REDD+, but has been an enthusiastic participant in the preparation process, being the first country that submitted an R-PIN and signed a letter of intent for the sale of emission reductions with the FCPF. However, there are structural elements of the negotiation process that put the country's participation in the Fund at risk through the signing of an Emission Reduction Purchase Agreement (the so-called ERPAs).

For that reason, in this Assembly, we want to express our position on some key elements, so they are considered by the donor countries to the Carbon Fund and so it can serve as feedback to other countries with similar concerns about the negotiation process. We believe, and regret, that the path of this negotiation process is not only asymmetric, but also unfair for countries like Costa Rica, which have historically made an enormous effort to reduce deforestation and forest degradation, and consequently, the emission reductions derived from said activities, intended

for this purpose are large volumes of public and private resources along with country-specific costs, which are greater and very different from those recorded in other realities.

Our country has historically invested a large amount of public and private resources to protect its carbon reserves, which currently stands at an amount of \$60 million dollars per year, designated to the management and administration of the Wild Protected Areas and transferring more than \$30 million dollars per year to small and medium forest producers for the concept of Payment for Environmental Services (PSA) that dates back to 1997, and around one million dollars per year through reimbursable financing schemes. Additionally, as part of our early efforts, we subscribed two credits with the World Bank for an amount of \$62.6 million dollars to strengthen the PSA.

As a result of its policies and actions, Costa Rica has managed to reverse the processes of net deforestation, thus having contributed to the fight against climate change, although its emissions are minimal; and it has become a global point of reference when dealing with participatory processes for the conservation and management of natural resources in recent decades.

Costa Rica's forest policy is based on a regulatory framework that promotes the permanence of forest carbon reserves, with 26% of the territory under the Wild Protected Areas system, and an additional 9% through payment for environmental services. This same regulatory framework fully supports progress in the implementation of the Sustainable Development Goals, contributing to the achievement of other objectives such as gender equality, the reduction of inequalities and the fight against poverty, considering the positive impact of these programs on the rural communities neighboring forests, and especially the indigenous communities and small agroforestry producers. All this has been duly documented in the preparation of the REDD+ Strategy.

Approximately 65% of the country's forest cover is owned by small and medium-sized private forest producers and indigenous communities and the vast majority currently does not receive any incentive for their protection, due to restrictions on public financing. It is important to note that, in Costa Rica, more than 80% of farms have a surface area of less than 20 hectares, which qualifies us as a country of small- and medium-sized landowners.

Also, the maintenance of the forests and therefore the carbon reserves of Costa Rica, generate a series of benefits for the world, since they contain 4% of global biodiversity and are, to a high degree, responsible for the protection of the hydrographic basins where the fundamental water resource is protected for the existence of an electrical matrix with 98% renewable sources.

On the other hand, Costa Rica has become a laboratory where models of governance and scientific development related to forest management, conservation and use of forests are generated. The Payment for Environmental Services Program has been replicated in many countries in Latin America and in several countries around the world. As a pioneering country,

the contributions derived from the construction of the REDD+ Strategy are being used as a model for the implementation of baseline studies in other countries at an early stage.

All of these contributions from Costa Rica to the world, including the reduction of 140 million tons of CO₂e between 1986 and 2012, have represented a high financial burden for the Costa Rican society, not only for the direct financial contribution; but also because the forestry sector and its derived industries, which, together with the agricultural sector, have reduced their capacity to produce due to the recovery of forest areas for forest use, have generated global benefits that are not adequately rewarded and instead penalized.

For the 2018-2024 period, an investment of more than one trillion dollars has been planned, which will allow for the full implementation of the actions proposed in the REDD+ Strategy; as it is the case of the Contracts for the Reduction of Forest Emissions, which is a policy proposal with key actions to increase the conservation level by 213%. These actions are not considered in the current national budget and will require financing through the sale of emissions reductions to the Carbon Fund or other sources that suit the country.

Costa Rica will continue to share its programs and lessons learned with the world, despite the high economic and social cost. For Costa Rica REDD+ is not about experiencing new elements; but to strengthen known instruments to implement actions, among others, through the signing of an ERPA with the Carbon Fund of the FCPF, in case the conditions are finally favorable for the country, given that we still have fundamental concerns:

In our opinion, the following elements should be taken into account for a thorough review of the mechanism:

- We consider the offered price of US\$5 per ton of CO₂ reductions to be insufficient to motivate climate action and achieve the expectations regarding the reduction of deforestation, the reduction of emissions and the achievement of global climate goals raised by the international community. Studies sponsored by the World Bank, such as the State and Trends of Carbon Pricing 2017, point out that in order to promote climate action, the increase in carbon prices must be promoted, which will send a stronger price signal and will promote more investments in technologies with low carbon emissions. The High-Level Commission on Carbon Prices identified that prices should be in the range of US\$40-80 / tCO₂e in 2020 and US\$50-100 / tCO₂e by 2030, to achieve the required multiplier effects. I must emphasize that each country has different costs based on its own reality and therefore the setting of a universal price is completely counterproductive and could generate harmful perverse incentives in many countries due to the lack of equity in the consideration of national circumstances.
- Another aspect that we consider inappropriate and that should be reviewed is the administration of the buffer, its possible release and current and future use; Because in practice, the proposed solutions become a price reducer, and as a result, reduces the possible income to the country.

- Likewise, we consider it necessary to review the terms of the ERPA's validity and adjust it to national circumstances. It is not fair that countries like Costa Rica, with more than 10 years of early efforts in preparation and execution, shorten the term of the sale of reduced emissions, as this translates into a decrease in revenues, an indirect decrease in price per ton and in less financial resources to execute REDD+ actions and guarantee a sustained effort in the long term.
- Special consideration requires the issue of the transfer of rights from emission reductions to third parties, as this is not part of the REDD+ agreements at the UNFCCC and also limits the capacities of developing countries to increase their ambition towards national contributions under the Paris Agreement.
- Costa Rica also has a genuine concern about the inflexibility of the methodological frameworks that are used, which in practice do not enable the achievement of the REDD+ objective of generating positive incentives for the conservation of natural forests, since in the end, only with difficulty was it possible for the reference levels have been able to include only avoided deforestation, using an additionality criterion that does not contribute to the efforts made for the conservation of forests and the carbon that remains fixed in them. We think that this is a great debt of the current mechanisms with the principles and philosophy of REDD+. The current figures on deforestation and degradation clearly indicate that without incentives for the conservation and sustainable management of forests, it will not be possible to meet global emission reductions targets.
- Finally want to raise another item that is of special concern to many of our countries and refers to the inflexibility to guarantee investments to scale if there are no prepayments of sufficient volume to ensure the sustainability of the emission reduction targets. Our countries could assume a large-scale investment commitment without certainty that the real costs of such investments are adequately compensated, as it is in the current circumstances.

Costa Rica is in the best position to adjust to the necessary controls to carry out a transparent REDD+ investment process, not only to international agencies and donor countries; but also before our citizens. However, we also request a negotiation process that encourages the construction of fair agreements and with the participation of all parties as it should be in a collaborative process and thus meet with the goals established both in the Paris Agreement and in our NDC. If we do not see real signs of flexibility on the aforementioned issues, we will reserve the right as sovereign country to assess the desirability of continuing the negotiation of an ERPA in the present terms.

Sincerely,

Carlos Manuel Rodríguez,
Minister of Environment and Energy, Costa Rica