

**SUBMISSION BY COSTA RICA ON BEHALF OF DOMINICAN REPUBLIC,
GUATEMALA, HONDURAS, MÉXICO, PANAMÁ, PARAGUAY AND PERÚ**

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Subject: Reducing Emissions from Deforestation in Developing Countries

Preamble

In order to ensure the equitable participation by all interested developing countries, proposed mechanisms to Reduce Emissions from Deforestation (RED) should be able to accommodate different national circumstances so that countries may be able to increase their participation as they enhance their capacities, thus allowing for a wide participation while guaranteeing the environmental integrity of the Climate Change regime.

Deforestation around the world and particularly in Latin America and the Caribbean is linked with important economical activities, the off-set costs of which cannot be ignored. Forest degradation is also acknowledged as a concern that requires further attention.

The Stern report (2006) suggest that the opportunity cost of forest protection in 8 countries responsible for 70 per cent of emissions from land use could be around \$5 billion annually, initially, although over time marginal costs would rise. The real cost of avoided deforestation would be even higher as institutional re-organization, monitoring, protection cost, agricultural intensification, etc. need to be taken into consideration. Any RED mechanism to be designed will then require adequate and predictable long-term sources of funding.

A basket of incentives should be designed to be complementary and address the different dynamics of deforestation in developing countries. Within this context, the RED mechanism should include a menu of options, which are outlined below.

RED Mechanism

Within the context of national circumstances, a RED mechanism should be made available to developing countries to reduce emissions from deforestation via both non-market and market instruments.

A. Credit for Early Action

Immediate access to the carbon market and other financial mechanisms for developing countries wishing to reduce emissions from deforestation is critical. If the Parties wait until the end of the first commitment period, based upon current rates of global deforestation, they will have foregone significant potential emissions reductions. Furthermore, early action will provide important early learning for developing countries wishing to reduce emissions from deforestation at an adequate scale. Immediate decisions by the Parties and the CoP can send a clear signal and promote the creation of further market conditions. Emission reductions generated by Parties engaged in early

action should be credited in any future commitment periods post-2012 following transparent monitoring and verification rules.

B. Avoided Deforestation Carbon Fund (ADCF)

A Fund would be created aimed at providing resources for the implementation of specific activities that should directly reduce emissions from deforestation in developing countries, and for activities in developing countries which have very low rates of deforestation and want to maintain their forest cover and avoid carbon stock losses.

To continue, reinforce and expand RED, a possibility is that such activities could generate credits and provide participants with an entry to the carbon market (e.g. CDM) that would in turn entail additional funds and incentives.

Additional to voluntary contributions and in order to increase the level of funding and predictability required to significantly reduce emissions from deforestation in developing countries, we propose that the ADCF shall be fed *inter alia* by:

- (i) an X % levy on Emissions Reductions Units issued or Assigned Amounts first traded in the carbon market similar to the one imposed on CERs and/or
- (ii) a tax on carbon intensive commodities and services in Annex I countries.

This Fund's replenishment instruments are based on the polluter pays principle which justifies the issuance of credits from the ADCF.

It is necessary to reaffirm that without clearly identifying a source of sufficient, long-term and predictable replenishment from Annex I countries, the Fund will not work.

C. Enabling Fund

The creation of a Fund to support capacity building and piloting activities related to avoiding emissions from deforestation in developing countries should be considered urgent and independent of the approaches eventually adopted to deal with such emissions. Early financial resources are necessary to ensure maximum participation at the earliest opportunity. Sources for replenishment of the Fund should be identified and additional ODA is urgently required. Negotiations of this Fund and its rules should start immediately.

D. Market –based

According to expected needs of financial resources for reducing emissions from deforestation, the Clean Development Mechanism (CDM) and other market mechanisms should be considered to complement efforts and to maintain the integrity of the regime.

Market mechanisms would only be able to stimulate actions if coupled with an appropriate demand. Such demand could be created by increased commitments of Annex 1 countries in the Kyoto Protocol's (KP) second and subsequent commitment periods. This will contribute to the fulfillment of the ultimate objective of the Convention.

The CDM as well as other market options to be explored, could allow a wide scope of activities, from small to programmatic, sectoral and national ones, thus offering options for countries with different circumstances and capacities. RED-CDM activities should be included in LULUCF negotiations for the KP's second commitment period.