Costa Rica
Market Readiness Proposal

Final Presentation

March 2013
Costa Rica Domestic Carbon Market

- Domestic carbon market to align **sustainable development**, **eco-competitiveness** and mitigation efforts to achieve a **carbon neutral economy** by 2021.
- Costa Rica seeks PMR support to further the development, design and implementation of the three key components of its domestic carbon market: market infrastructure, demand and supply.
Due to the weak international carbon markets the focus is on an internal carbon market: demand created by the C-neutrality declaration and supply by domestic sector offset programs.
PMR Support: Exploring the progression beyond a domestic voluntary approach

I. Setting of key market elements

- C-neutrality standard, incl. UCC definition
- Governance integrity
- Regulatory/legal reforms
- Institutional arrangements
- International standards for market credibility
- Int’l third party audit
- Data tracking and registry
- Consistency of national and corporate C-neutrality
- Integration of REDD+
- C-Neutrality country definition

II. Voluntary participation

- Setting of C-neutrality standard for corporations
- Pilot of market trade and corporate programs with private sector champions
- Capitalizing the demonstration-effect
- Voluntary demand partially assessed
- Promotion of sector GHG mitigation programs

III. Policies for increasing demand & international participation

- Assessment of potential supply
- Convergence demand-supply
- Compulsory elements
- GHG reporting for industry
- Benchmarks and sectoral caps
- Integration to international markets
Key clarifications and challenges
(based on PMR Assembly Feedback)

Key themes:
• Creation of a market instrument: the UCC
• Robustness of Offset Standard and C-carbon neutrality program
• Ensuring integrity and independence of governance bodies
• International alignment – international third party audit process
• Promotion of sector GHG mitigation programs
• Strengthening of demand
• Relationship with REDD+
• Linkages with international markets and sector mitigation programs
Creation of a market instrument: the UCC - Costa Rican carbon offset unit

- Created as a tradable offset to help participating entities meet Carbon Neutrality objectives;
- Guide market activities for domestic GHG mitigation;
- Focus on sector offset programs;
- Support new low carbon investment, technologies and efficient production processes;
- Provide opportunities and unlock investment in sectors not sufficiently covered by the CDM;
- Streamlined process and expected lower transaction costs compared to the CDM.

Backed by robust standard developed by the Technical Standards Institute of Costa Rica - ICONTEC
Robustness of Offset Standard and C-neutrality program

- UCCs are to be created under a robust regulatory and institutional framework, considered critical to the credibility of the domestic carbon market.
- Accounting System to ensure offsets are real, measurable, permanent, independently verified, unique and traceable.
- Registry/tracking system will ensure appropriate accounting of C-neutrality declaration from companies and national goal.
- Registry to assures that UCC’s used by a company will not be used by another carbon account by assigning a specific serial number to each UCC (to prevent double counting).
- Protocols will follow international standards for baseline, mitigation methodologies and MRV.
- Looking for future fungibility with international markets through multilateral agreements with no conflict with the C-neutrality pledge.
Ensuring integrity and independence of governance bodies

- To ensure **independence, transparency and integrity**, MINAE is assessing the **composition** of the carbon board by national organizations.
- Each of these organizations will appoint **representatives independently** and individually.
- Secretariat will provide **staff** to support a **robust technical and legal** decision making process.
- Recommendations from **carbon experts**, with **accreditation from professional associations**.

- **Adequate technical training** for Carbon Board.
- **PMR Implementation Phase** will support these objectives and activities.
International alignment – international third party audit process

Costa Rica intends to achieve international recognition of its carbon market through an international third party audit process. PMR Implementation Phase to further explore the form and scope of this process.

At this stage, it is envisioned that the process will consider:

• The effectiveness and efficiency of the scheme as a whole.
• The effectiveness of emissions reporting and coverage.
• The effect of, and potential for, international linking.
• Governance arrangements.

• Process will take place at the beginning of the market implementation (first year of operation).
• Frequency has not been defined; a period from three to five years is being considered;
• The third party entity for the auditing will be an internationally recognized entity with proper accreditation.
Strengthening of Demand

- Market **initially** based on voluntary participation;
- Demand-side participants to be motivated for Carbon Neutral certification in order to achieve competitive product differentiation and access to markets with high environmental standards;
- PMR will support assessments leading to better **demand estimate** for making decision process;

**Demand stimulus** will involve:
- **Capacity building** of market and sector institutions and key actors.
- Using the PMR Implementation Phase to explore **policy options** to stimulate demand to meet supply potential and reach C-neutrality goal.
  - Implementing pilot activities with large Costa Rican firms pursuing C-Neutrality
  - Demonstration-effect outreach
  - Examining mandatory GHG reporting framework
  - Exploring the feasibility of sector emission caps.
Development of Sector Mitigation Programs

- UCC supply may come from **individual projects**, but mostly from **sector mitigation programs**.
- **Program protocols** will define mitigation activities, eligibility criteria, procedures, definitions, boundaries, crediting levels, etc.
- Protocols shape sector programs as umbrella structures that can include individual mitigation activities.
- **Individual activities** set their baseline, mitigation, boundaries, leakages issues and permanence in accordance with **program protocol**.
- **Initial** sectors: Renewables, Transport, Agriculture, Waste Management and Sustainable Construction.
Integration of REDD+: Scaling-up the Environmental Services Payment Program

• PMR complementary with REDD + initiative.

• REDD+ focused on removal of barriers discouraging massive use of timber and on promoting production and consumption of sustainable timber from natural primary and secondary forests.

• REDD+ based on Environmental Services Payment (ESP) for maintenance and recovery of forest cover.

ESP financed by a 3.5% fuel tax, two World Bank loans and two GEF grants ($400 million with 9,000 private landowners).
Linkages with international markets and sector mitigation programs

• The domestic carbon market considers the use of standards such as those behind CERs and VERs as alternative to UCC trade. However, proper agreements and acceptance by the Carbon Board will have to be in place.

• Costa Rica will assess and encourage sector mitigation programs linked to international support and crediting. It will avoid double accounting and ensure consistency with the country’s carbon neutrality goal.
Update on relevant Costa Rica context since Sydney meeting

- MINAE has drafted **Presidential Decree** for Carbon Market Regulation to ignite **market operation**.

- **Technical office** to coordinate PMR and related processes (‘PMR Office’) established, in collaboration with the German Agency for International Cooperation (GIZ).

- PMR work plan reviewed to take due account of progress made in other ongoing and planned sector mitigation initiatives.
Government has issued **official C-Neutral brand** to the first **7 companies**. These firms are part of the “champion firms” pilot plan & outreach campaign.

Companies met stringent standard for "Declaration of Carbon Neutrality"

Process verified & certified by INTECO, first accredited verifier (accredited by the Costa Rican Accreditation Entity, ECA).
Process Preparing and Revising the MRP

Proposal design
- Market requirements assessment
- Consultation process
- Authority engagement for key sector programs
- Donors coordination
- Identification of potential programs
- Generation of data
- Proposal design

Expert revision
- Feedback provided
- Expert group conference call
- Consolidated feedback provided to country team
- 2 day in-country meeting to discuss feedback and strategies to advance the MRP
- Country team clarifications and corrections
- Revised MRP

Partnership Assembly feedback
- Feedback made and clarifications required during PA4
- Country team clarifications and corrections:
  - UCC standard rational
  - Governance transparence
  - Robustness of UCC standard, C-neutrality program, registry and MRV
  - Sector program operation
  - International linkage

Pre-implementation
- Final MRP
- Beginning of pre-operation activities for implementation phase
## Implementation Phase Activities
### Component I: Domestic Market infrastructure

<table>
<thead>
<tr>
<th>Activity</th>
<th>Main deliverables</th>
<th>Timing</th>
<th>Funding</th>
</tr>
</thead>
</table>
| 1) Design and implementation of the legal, institutional and economic framework | • Decree for market regulation  
• Market business plan  
• Carbon Board and bodies  
• International auditing | 16 months | Overall Budget 600,000  
Request to PA 555,000 |
| 2) Design and implementation of the registry and tracking system         | Registry and tracking system                                                     | 10 months | Overall Budget 700,000  
Request to PA 500,000 |
| 3) Generation of protocols and methodologies for sector offset programs and MRV | Initial protocols for market implementation  | 7 months | Overall Budget 200,000  
Request to PA 170,000 |
| 4) Capacity building and social awareness                                | Design of training and capacity building programs  
Workshops and training activities                                     | 24 months | Overall Budget 200,000  
Request to PA 100,000 |
| 5) Pilot Project of C-neutrality certification of initial companies (CHAMPIONS) | Transaction of UCC for pilot phase -firms with C-Neutrality | 12 months | Overall Budget 150,000  
Request to PA 60,000 |
## Implementation Phase Activities
### Component II: Strengthening of Demand

<table>
<thead>
<tr>
<th>Activity</th>
<th>Deliverable</th>
<th>Timing</th>
<th>Funding</th>
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</thead>
<tbody>
<tr>
<td>1) Design and implementation of strategy of policy options to promote C Neutrality and LEDS</td>
<td>Recommendation of demand policy options</td>
<td>10 months</td>
<td>Overall Budget 150,000</td>
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<td>Request to PA 100,000</td>
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<tr>
<td>2) Outreach of activities on private sector for C Neutrality adoption</td>
<td>Industry level program for of C-Neutral and eco competitiveness awareness</td>
<td>10 months</td>
<td>Overall Budget 300,000</td>
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<td>Request to PA 240,000</td>
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<tr>
<td>3) Sector base discussions on policy and instrument for C-neutral objective and LEDS</td>
<td>Proposal of offset sector program</td>
<td>10 months</td>
<td>Overall Budget 100,000</td>
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<td>Request to PA 50,000</td>
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<tr>
<td>4) Pilot Project of scaling up of offset program from experience with initial companies (CHAMPIONS)</td>
<td>Plan for second phase of initial “champion” companies</td>
<td>10 months</td>
<td>Overall Budget 50,000</td>
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<td>Request to PA 50,000</td>
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<tr>
<td>Activity</td>
<td>Deliverable</td>
<td>Timing</td>
<td>Funding</td>
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<tr>
<td>1) Studies supporting the market participation of the sector</td>
<td>Proposal of offset sector program, work plan for protocol adoption, projects, and costs</td>
<td>12 months</td>
<td>Overall Budget 1,600,000</td>
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<td>Request to PA 420,000</td>
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<tr>
<td>2) Improving GHG data generation, sector baseline/sector benchmark methodologies and MRV</td>
<td>Strategy for adoption of protocols, application of methodologies for baselines, mitigation potential and support MRV system</td>
<td>12 months</td>
<td>Overall Budget 1,100,000</td>
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<td>Request to PA 230,000</td>
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<td>3) Institutional and capacity building for the implementation</td>
<td>Design of sector training and capacity building program</td>
<td>12 months</td>
<td>Overall Budget 550,000</td>
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<td></td>
<td>Sector workshops and training activities</td>
<td></td>
<td>Request to PA 120,000</td>
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<tr>
<td>4) Stakeholder consultation processes</td>
<td>Sector workshops, and sector key stakeholders meetings</td>
<td>12 months</td>
<td>Overall Budget 250,000</td>
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<td></td>
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<td>Request to PA 80,000</td>
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Summary of Total PMR Funding Request (Implementation Phase)

<table>
<thead>
<tr>
<th>Building Block</th>
<th>Total Budget</th>
<th>Request to PA</th>
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<tr>
<td>Domestic Market infrastructure</td>
<td>1,800,000</td>
<td>1,400,000</td>
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<tr>
<td>Strengthening of Demand</td>
<td>500,000</td>
<td>440,000</td>
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<td>Generation of Supply</td>
<td>3,500,000</td>
<td>850,000</td>
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<td><strong>TOTAL</strong></td>
<td><strong>6,960,000</strong></td>
<td><strong>3,000,000</strong></td>
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PMR Implementation Institutional Arrangements

MINAE DCC

Carbon Board (Committees)

Cooperation Agencies

Sector Authorities (Inter-minister Committee on CC)

Financial Sector

Sector work teams
Sector mitigation programs, development of methodologies, data generation, specific studies, capacity building activities, etc.

Accreditation entities
- Roster of carbon experts
- Verification/certification entities
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Final Presentation

Muchas Gracias