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## Costa Rica Aims For Carbon Neutrality

by Mike Leffert

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Costa Rica, already something of a paragon of virtue in things environmental, is seeking to burnish its credentials to a higher luster with President Oscar Arias' announcement that by 2021 the country will be the first in the world to become carbon neutral. The president told an audience at the Wharton Global Alumni Forum on Business and the Environment that the goal is made possible by Costa Rica's long commitment to environmentalism.

"While other countries were cutting down their trees, Costa Rica was planting for our future, creating a 10% gain in the amount of territory blessed with leafy vegetation," said Arias. Many experts agree that increasing forest cover and cutting down on greenhouse gases is crucial in achieving the goal. Urban Costa Rica doesn't look anything like an environmental mecca. Its heavy traffic and aged rolling stock pukes fumes and blankets of smog to rival any developing country. But here, the right to pollute is subject to painful taxes, making gasoline and diesel more expensive than anywhere else in Central America, and 3% of the taxes go to the Fondo Nacional de Financiamiento Forestal (FONAFIFO).

An added benefit to the fuel tax is its use as matching funds. US\$50 million from this taxation was leveraged to get a US\$40 million World Bank loan and a US\$10 million donation from the Global Environment Fund to be used for sustainable forestry activities, biodiversity preservation, and related projects. FONAFIFO was legally set up in 1990 and in 1997 began the Environmental Services Payments program (ESP). It is a relatively autonomous organization within the State Forest Administration. It finances small and medium-sized producers to manage and plant forests, establish forest nurseries, and rehabilitate deforested areas. It pays landowners to grow trees, nearly US\$15 million a year to more than 8,000 owners.

"Today, Costa Rica is the only developing country to have adopted a tax on hydrocarbons. An ounce of prevention is worth a gallon of crude," said Arias. Environment and Energy Minister Roberto Dobles added that plans to cut down on emissions will include promoting hybrid vehicles and public transportation. There will also be a tree-planting campaign. Jesus Ugalde of the Instituto Nacional de Biodiversidad (INBio) said the country is 45%-51% forested, and the forested areas are growing. The International Panel on Climate Change (IPCC) has said that this kind of cover acts as a counterweight to greenhouse emissions by absorbing carbon dioxide and preventing it from contributing to global warming.

Plans are also in place to emphasize the use of renewable energy sources, and here is where the plan to meet the 2021 deadline could go awry. The Instituto Costarricense de Electricidad (ICE) estimates that 80% of the power generated and used in the country is hydroelectric, 14% is geothermal, and 6% thermal, from hydrocarbons, making it among the planet's greenest. It is 108th in the world in emissions.

Tiny as it is, Costa Rica produces just 0.1% of the world's carbon dioxide. The US accounts for 24.3%, and emerging China, 14.5%. No one has suggested that Costa Rica's contribution will tip the scales or change a wisp of the global miasma. Until just weeks ago, the leading source of atmospheric filth, the US, did not even officially recognize a relationship between its own profligacy and global warming.

The hope is that Costa Rica might set an example. "The solution to global climate change will be driven by individual countries' domestic policies, and people looking long term, as Costa Ricans are, will help drive change globally," said Chris Taylor, a British economist who co-authored a recent report on the global economic price of climate change. Taylor attended the Wharton meeting.

### *The spoilers climate, avarice, and governmental failure*

One factor that could push Costa Rica off its timetable in the countdown to 2021 is climate change. The ICE figure of 80% hydroelectric generation is already beginning to chip away as a prolonged drought in the region dries up generating sources. The expected rains of late April and early May never came, and malfunctioning aged diesel generators could not keep up. The result was several days of rolling blackouts and energy rationing.

On April 19, there was a national power outage. ICE said three of these generators failed simultaneously, shifting the whole load to a single plant, and the system collapsed. Businesses and industries claimed losses in the range of US\$20 million. The abnormal weather played into the hands of these powerful economic sectors. They immediately blamed ICE, which is a state monopoly and a central factor in the coming referendum on whether Costa Rica will join the Central America Free Trade Agreement (CAFTA). For the country to satisfy US requirements to enter into the agreement, ICE would have to open to competition, effectively privatizing power generation and distribution, as well as telecommunications.

Arias, vehemently pro-CAFTA, piled on. He ignored entirely the history of governmental failure, going back at least four administrations, to invest in ICE, despite years of warnings that the country was headed for this very crisis. In a show of concern, he appeared to forget the commitment to clean energy and declared a state of emergency that would permit the immediate purchase of a US\$150 million oil-burning generating plant.

On May 2, economist and former minister of planning Juan Manuel Villasuso published a Chronicle of Announced Blackouts going back to 2001, exposing the government's failure to respond to the crisis at hand. He took as reference the pages of the country's major newspaper La Nacion and found: Aug. 17, 2001. ICE engineer Carlos Luis Corrales said, "The electrical demand on ICE will grow 6% in the next ten years, meaning that projects of more than 900 megawatts must be built, an investment of more than US\$1.8 billion. If ICE cannot deal with the growth in demand, there will be electricity rationing."

Dec. 6, 2001. Journalist Hazel Feigenblatt wrote, "In past months [the public services regulating agency] and ICE have argued about the possibility of an electrical crisis in the coming years, because

the demand has grown more rapidly than generation. Investments, both public and private, in this area advance slowly."

Sept. 13, 2002. The Treasury Ministry orders that ICE must generate a budget surplus of about US\$20 million a year to make up for deficits outside the sector, with the result that "projects to guarantee the supply of electricity and fixed telephone lines...will be [adversely] affected."

Sept. 21, 2002. President Abel Pacheco justifies the financial burden on ICE "to help the government contain the deficit in public finances." Later in the month, Pacheco relented a little, allowing ICE to invest some of its income to "deal with the emergencies that occurred in past months," but he nevertheless forced the company to buy millions in government debt paper.

And so it went, a month-by-month chronicle of a government bleeding the country's sole power supplier and failing to heed warnings of a coming permanent crisis, punctuated with warnings from experts, like one in November 2003 from the Comision de alto Nivel para el Analisis de la Situacion Financiera that ICE already generated surpluses and the government had to stop "sacrificing investments that ICE must make to disguise the financial results of the central government." Another warning in 2004 from other experts told the legislature to pass laws that would enable the company to meet its obligations.

Still others exposed the game of blaming ICE for its failures in order to force privatization, culminating in April 2007 with "the business sector demands that the board of directors of ICE and the government authorities, with absolute transparency, explain to the country how they arrived at this situation." Or, they could simply refer to the pages of their largest newspaper for a blow-by-blow description that even includes, in a 2005 ad paid for by ICE employees, the prediction of a crisis in the summer of 2007, and this without even mentioning weather anomalies.

Economist Villasuso ended his chronicle with a series of questions about whether anyone or any entity would be held accountable for the current state of affairs. But what is playing out is an unmistakable trend toward demonizing the electric company in favor of CAFTA and of privatization, with Arias in the lead. In his May 1 report to the nation, he went after "the ideological prejudices that cloud the understanding of some very important actors in the decisions of ICE. These prejudices have satanized the participation of the private sector in the generation of electrical energy and have looked upon it as a betrayal of ICE."

The environmentalist president went on to charge, "The direct result of these ideological ravings are to be seen: in a moment when oil has reached almost US\$70 a barrel, ICE is obligated to generate more and more energy through the use of thermal plants because it is prevented by law from buying more energy from private generators that produce it from renewable sources." He said this before he himself authorized the purchase of a diesel plant. He did not explain how these private enterprises, suffering from the same drought as was ICE, would come up with renewable energy, nor did he mention that electrical energy from any source, at current prices, would cost more than double what it costs ICE to produce. Nor did he mention that his family business, Ingenio Taboga, is in the ethanol business, with plans to generate electricity from that commodity.

Emergency, expediency, and economic opportunism are just three of the characteristics that might ultimately derail any genuine change in the global environmental crisis. "Developing countries have the right to expand their economic growth, but not the way the industrialized world did things, by damaging the environment. If they do that, we will need another planet," said Nobel chemistry laureate Mario Molina. Molina did the research on chlorofluorocarbons (CFCs) that led to the first major international environmental treaty, the Montreal Protocol of 1987. Speaking in Mexico at a forum organized by the UN Development Programme (UNDP) and the Inter Press Service news agency, Molina said that, with the industrial revolution, the planet had entered a new geological era, the Anthropocene, where humans rival nature in their environmental impact. "On current projections," he said, "humanity will be using two planet's worth of natural resources by 2050 if those resources have not run out by then."

Whether Costa Rica will reach its carbon-balance goal or become deviated by the exigencies of the other nature human cannot be foretold. But, as an example, this Central American country may be the best the world has. It plans to spend fully 15% of GDP on the environment, on clean energies, on biofuels, on hybrid vehicles, etc. The UN, at a recent conference in Kenya, agreed to closely monitor Costa Rica's progress on this initiative and duplicate its successes elsewhere in the world.

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