

**2013 OECD Green Growth and Sustainable
Development Forum**

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**Remarks by the Director of Investment of the
Ministry of Foreign Trade of Costa Rica**

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Dear friends,

I feel privileged to stand here today, on behalf of the Government of Costa Rica, to share with you some fruitful experiences we have gathered over the last several years and a few examples of initiatives we have put in place, which altogether have enabled us to make valuable progress in our quest towards sustainable development.

First, I would like to thank the Organization for Economic Cooperation and Development for providing us with this opportunity. Your invitation represents an honor for a country that has devoted great efforts to advance towards environmental sustainability, set up ambitious goals for the sake of preserving life on Earth and acquired challenging commitments for our near and long term future.

Last September, countries around the world celebrated the International Day for the Preservation of the Ozone Layer. It was a particularly joyful occasion for Costa Rica since we were able to announce to the world the accomplishment of a goal we had set up for ourselves some years ago: the elimination of methyl bromide from our agricultural crops. Achieving this goal represents not only the possibility of adding an ozone friendly tag to those melons, watermelons, flowers and strawberries we export to several countries around the globe but, most importantly, it allows us to demonstrate

that growth and prosperity can go hand in hand with environmental preservation.

From 2002 to 2012, while working on the substitution of methyl bromide with some other biological methods, Costa Rica's exports of flowers increased 35%; those of watermelon almost tripled; those of melon rose 18% and exports of strawberries multiplied more than six times. Today, Costa Rica is the number one supplier of lilies to the United States and Canada; and top three extra European supplier of watermelon and melon to the European Union. In sum, from our standpoint, preserving the environment is paying off!

Over the next two days, we have a great opportunity to reflect upon policies and mechanisms to encourage and leverage private investment for green infrastructure and technology, and about how governments can improve their investment policy frameworks to reduce risk and attract financing in

support of green growth. Of course, we wished there was an integral solution that could be easily implemented by all countries to tackle these challenges but, as we all know, this is certainly not the case. Nonetheless, I would like to share with you today some valuable experiences and good practices put in place in Costa Rica that have proven to be successful for us and which may hopefully be helpful to you as well.

Costa Rica has been a pioneer on environmental sustainability. Early on, the country understood that its natural capital had the potential to be an engine of growth and sustainable development, decided to foster a model of economic growth away from the extractive industry and ever since, has consistently worked to create a virtuous circle in which good environmental practices reinforce growth dynamics.

The creation of the national parks system - which has contributed to reverse dramatically our prior deforestation trend -; the early adoption of carbon

taxes to pay for environmental services and the establishment of a C-Neutrality certification program, among many others, have proven to be successful policies and programs to drive the country towards our desired goal. Within this broad policy framework, aimed at achieving green growth objectives, there are at least 5 core instruments that are worth highlighting:

- First, a National Development Plan, which sets out a number of environmental goals that are directly linked to economic growth, namely: to support the development of a low carbon economy; to boost the development of sustainable tourism; to increase the generation of clean/renewable energy; and to increase the area of forest conservation and forestry plantation covered by the Program for Payment of Environmental Services.
- Second, a Climate Change Strategy which covers 7 sectors – water, energy, agriculture, fisheries,

human health, infrastructure and biodiversity – and 6 thematic areas: mitigation, adaptation, metrics, capacity building, public education and financing.

- Third, a National Plan for Sustainable Tourism, which defines the key policies, objectives and strategies to be followed in order to achieve sustainable development in this sector.
- Fourth, a long term National Energy Plan which aims at increasing investment in diversified energy supply from renewable energies, from 2012 to 2030, through an active participation of the public and private sectors.
- And fifth, a 10 year National Plan for Forestry Development (2011-2020) which seeks to ensure the implementation and consolidation of the country's forestry policy.

These policies and initiatives, along with a solid governance structure head by the Ministry of the Environment, and a robust judicial and administrative

system with a specialized Environmental Prosecutor's Office and an Environmental Administrative Tribunal, have shaped a framework that seeks to ensure that natural assets continue to provide the required resources and environmental services that the country needs. Moreover, they have set the grounds for acquiring ambitious goals, particularly in the areas of renewable energy and sustainable tourism, assigning key roles to both the public and private sectors in achieving them.

Regarding energy, since the 1950's, Costa Rica started harnessing the power of its abundant water to develop a network of hydroelectric projects to supply electricity demand. At its initial stage and for many years, the development and management of the infrastructure required was provided by the Costa Rican Institute of Electricity (ICE), a public institution that plays still today a key role in this sector.

However, since the 1990's, electricity generation has been gradually opened to the private sector. Moreover, other sources of energy have been incorporated into the matrix, including wind, biomass, geothermal and solar projects. Most recently, based on a regulation published in 2012, a special public bidding process for energy purchasing that provides for a more transparent selection process has been put in place. This initiative has brought growing attention from the private sector, and to date, close to 75% of the wind power generation is provided by private projects.

In 2011, the Central Bank began to report data on FDI inflows in the energy sector, which amounted to 18 million dollars for that year. During 2012, FDI inflows in energy reached 134 million dollars, more than seven times the amount for 2011. Preliminary data for 2013 indicates that only during the first quarter of the year, FDI in the energy sector amounted to 88 million dollars,

which suggests that the performance for this period may be quite positive again.

Having said that, despite the enactment of legislation to enable private participation in the energy sector and the positive performance shown during recent years, there are still restrictions preventing the private sector from developing its full potential, including a cap on the percentage of energy to be generated by the private sector out of the total power generated in the National Electric System, a cap on the megawatts to be generated by private parties on renewable energy, which ranks between 20 MW and 50 MW depending on the type of project, and limitations regarding ownership¹.

Although these restrictions are still in place, prospects for further private investment in renewable energy are positive, mostly because much of its potential has not been fully exploited yet. Moreover,

¹ 35% of the capital stock of the company must be owned by Costa Rican nationals.

some legislative initiatives have been submitted to the Costa Rican Congress, aimed at opening participation of the private sector in energy generation.

In sum, today, more than 90% of Costa Rica's electricity is renewable. However, bearing in mind the increasing demand for it – which is growing at an annual rate of 5.3% and is expected to double by 2023 –, the estimated cost of meeting such demand – which reaches around US \$9 billion dollars – and provided the need to ensure a sustainable energy supply, increasing private investment participation in this sector, as well as setting appropriate incentives for boosting renewable energy options are key challenges for the country's development agenda.

In the tourism area, Costa Rica anchored a model that started as eco-tourism and that over the years has evolved into a wide portfolio of sustainable tourism products, all of which make enjoyment, interaction and respect for the natural environment a key component of

the experience for visitors. Last year tourism accounted for 5.1% of the Costa Rica's GDP.

Since the early 90's, ensuring that the tourism industry contributes to the country's sustainable development agenda has been a strategic priority. Two of the very first initiatives put in place to this end were the “**Certification for Sustainable Tourism**”, which was designed to differentiate businesses within this sector based on their degree of compliance with a sustainable model of natural, cultural and social resource management; and the “**Ecological Blue Flag**”, which identified beaches that met certain criteria - such as microbiological quality of ocean waters - and provided incentives to hotels, local tourism boards and coastal communities to work together to protect these areas. In the case of the certificate for sustainable tourism, beyond the reputation attached to it, it awards companies benefits in proportion to their rating, including training, priority participation in world tourism

fairs and events, international and national marketing, etc.

Another initiative launched with the purpose of unlocking private investment into sustainable tourism is the “**Program in Wildlife Protected Areas**”, which is designed to create private investment opportunities related to infrastructure development within them, including entry booths, visitor centers, lodging for staff and tourists, restrooms and sewage systems, viewpoints, bridges, wharves, roads and signs, and maintenance work in general.

Moreover, Costa Rica has also put in place some mechanisms to raise revenue from the use of environmental services, and to dissuade environmental harmful behavior. These mechanisms include a fossil fuel tax to finance the National Forestry Fund; an environmental fee on water bills, water concessions and waste water discharge to make direct payments to owners of forests that provide environmental services

to watersheds; and a National Parks Fee, which is allocated to conservation activities in protected areas.

Most recently, the National Plan for Sustainable Tourism 2010-2016 provides a framework for developing a sustainable tourism industry focusing on niche areas such as adventure travel, green tourism, medical tourism, etc. In order to ensure that development projects are in line with environmental regulations, developers are subject to a range of environmental evaluation and approval procedures by the National Environmental Technical Secretariat. Moreover, they are requested to comply with the Best Environmental Practices Code, and subject to the size of the project, to submit either an Environmental Contingency Plan or an Environmental Impact Assessment to be monitored over time.

As a result of all these efforts, Costa Rica has been recognized by the 2013 Travel & Tourism Competitiveness Report of the World Economic Forum

as number 7 out of 140 countries, for its performance in the conservation of natural resources, highlighting its ability to handle them alongside with a growing tourism industry.

Towards the future, we must remain vigilant to ensure an adequate balance between the growing number of tourists and the need to develop infrastructure.

Dear friends,

Today, Costa Rica remains even more committed than 40 years ago to environmental preservation and will continue undertaking its best efforts to explore innovative ways to address the environmental challenge alongside economic growth. This very same week, a WTO Ministerial Conference is taking place in Bali. There, Costa Rica is joining the pledge of a group of countries, including Australia, Chile, Colombia, New Zealand, Norway and the United States, to push for the

prohibition of harmful fisheries subsidies that contribute to overfishing and overcapacity. We strongly believe that eliminating these subsidies – which add to the depletion of global fish stocks – will help to ensure that the fisheries sector continues to thrive and provide employment for all countries, including in artisanal fisheries in developing countries.

Moreover, we are joining as well another group of nations that is acquiring the commitment to achieve global free trade in environmental goods, those that are expressing their willingness and desire to further explore a deeper liberalization on a broad range of products - beyond the 54 included in the APEC list – which can contribute to trade but also to strengthen the international environmental protection agenda, including the ongoing negotiations to combat climate change and transition to a green economy.

Herein lie lessons that can be useful for other economies hoping to make the transition from

traditional, low productivity economic structures, to more modern, high productivity, open economies, able to afford a better life for their citizens while protecting their natural resources. Helping industries grow alongside green forests and clean air and reducing poverty while abating carbon emissions may not be easy goals to achieve but they are definitely possible. Moreover, reaching this delicate balance it is not anymore an option, it is a MUST!

Thank you very much!