

COUNTRY COMMERCIAL GUIDE

FISCAL YEAR 2004

CHILE

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CHAPTER 1. EXECUTIVE SUMMARY

Chile and the United States are about to open a new chapter in the history of their commercial relationship. Following approval by the U.S. Congress, the U.S.-Chile Free Trade Agreement (FTA) was signed into law by President Bush on September 3, 2003. Prospects are good that the Chilean legislature will follow suit by the end of October 2003. Therefore, the FTA should enter into force on January 1, 2004, ushering in new opportunities for U.S. exporters in what is already one of Latin America's most open, stable and attractive markets.

Under the FTA, some 85% of bilateral trade between the two countries will be duty free immediately, with most other tariffs phased out over the course of the next four years. All trade between the two countries will be duty free by 2015. Key U.S. exports such as autos and auto parts, computers and IT equipment, medical devices and construction and agricultural equipment will win immediate duty free entry. In addition, Chilean tariffs on more than three quarters of U.S. farm products will also be eliminated within four years. U.S. exporters, including service providers, will benefit further from the agreement's provisions on non-discriminatory treatment, stronger enforcement of intellectual property laws, transparency in public procurement, and provisions to permit the temporary entry of personnel as well as the establishment of business subsidiaries in Chile.

Although, in terms of population (15 million inhabitants), Chile is not a huge trade partner, it is one of Latin America's most open and dynamic markets. Its strengths include the professionalism of its entrepreneurs, the transparency of its regulations, and the predictability of its decision-makers. Chile has one of the region's simplest and most transparent regulatory systems for trade and business, but U.S. companies should carefully review Chilean regulations in order to ensure trouble-free operations. Chile does maintain import and export licensing requirements, but this is primarily for the purpose of gathering statistical data. Only agricultural products and a few sensitive items face significant restrictions.

Chile is a particularly promising market for exports of high technology and capital goods (see best sales prospects in Chapter 5). However, while there are ample opportunities for U.S. goods and services of all types in Chile, competition is stiff, especially from countries such as Canada, Mexico and the European Union, which have previously negotiated free trade agreements with Chile. The U.S. is Chile's number one trading partner, and traditionally, its single largest supplier as well. Argentina recently took over the top spot among suppliers on account of the significant advantage its depressed currency affords in cross border trade with Chile. In 2002, the U.S. exported \$2.6 billion worth of goods to Chile, making it our 34th largest market.

Over the last two decades, Chile has avoided many of the persistent economic problems that have plagued some of its neighbors. Prudent economic policy-making and a strong focus on diversified trading links with North and South America, Europe and Asia have provided Chile with stable long-term growth unknown in most of Latin America. In fact, capitalizing on its reputation as a reliable trading partner, and thanks to the availability of a skilled workforce, reliable and inexpensive telecommunications services and good transportation links, especially by air, Chile is working to positioning itself as the logical choice for foreign firms looking to establish a South American regional hub.

Chile is the only investment-grade economy in South America. As of September 2003, Standard & Poor's gave Chile an "A-" rating. Over the last 15 years, Chile has witnessed the most impressive real growth rates in its history. From 1987 to 1997, the country's GDP grew an average of 7.9 percent. While the world economy entered recession, the Chileans economy managed to grow at an average of 2.6 percent from 1998 to 2002. The government of Chile and several independent economists estimate the economy will grow 3.2 in 2003, and expand to 4.0 to 4.5 percent in 2004.

The domestic savings and investment rate has hovered at 20 percent of GDP and is fueled by private pension funds created in 1981. International reserves remain constant at just above \$15 billion, which enables the government of Chile to maintain its policy of a structural budget surplus of 1 percent.

A strong, independent central bank maintains prudent fiscal management that keeps the country's inflation within a target range of 2 to 4 percent. The 2003 rate of inflation is expected to level off at 2.1 percent. The latest unemployment figures support a seasonally adjusted average annual unemployment rate of 8.5 percent, relatively unchanged from 2002. Single-digit unemployment rates in Chile are the envy of Latin America, a region that struggles with levels double or triple the Chilean rate.

In sum, a sound and stable economic policy and Chile's continued commitment to expand the number of free trade agreements with all its principal trading partners should enable Chile to maintain steady growth. Come January 2004, the Chile U.S. FTA is expected to increase U.S. jobs and expand Chile's economy, a win/win situation for two important economies in the Western Hemisphere.

CHAPTER 2: ECONOMIC TRENDS AND OUTLOOK

Major Trends and Outlook

The Chilean economy has benefited from exceptionally sound management over nearly two decades. It has enjoyed growth rates well above those of the rest of Latin America over that period, while at the same time avoiding acute financial crises and instability. Growth over the last five years has been considerably slower than the 6-7 percent annual average through the early and mid-1990s, however. Chilean growth is driven largely by exports concentrated in raw materials and processed natural resources (principally copper, fresh fruit, and forestry and fisheries products); the world economic slowdown and consequent decline in commodity prices pulled Chile's average annual GDP growth down to an average of 2.6 percent 1999-2002. Dramatically lower foreign investment was also a factor. The Chilean economy appears poised to return to more rapid growth over the next year; official projections and most private estimates call for 3-3.5 percent economic growth in 2003 and better than 4 percent growth in 2004. While domestic consumption has increased somewhat, the strength of Chile's reactivation will depend primarily on the economic picture in the U.S. and other developed markets. Unemployment, which rose to an annual average of 9.2 percent in 2001-2002, has been declining somewhat and is expected to average 8.6 in 2004.

Chile has maintained low and stable inflation for the last several years. Expectations of inflation for 2003 are about 3 percent. The Central Bank maintains a target inflation rate of 2-4 percent and uses interest policy and other tools to pursue that goal. The Central Bank has maintained benchmark interest rates at historically low levels because it sees no threat of inflation through the end of 2003.

Chile's credit rating remains the best in Latin America, ranked A- by Fitch Ratings for long-term foreign currency, A+ for long-term local currency and F1 for short-term foreign currency with a stable outlook. Since Chile first received an investment-grade rating in 1992, domestic firms have raised funds abroad by borrowing, selling bonds, and issuing stock. Chilean firms attract a substantial amount of international investment, and some \$40.8 billion of foreign-sourced investment has entered the country since 1996 (\$5.6 billion in 2001 and \$3.8 billion in 2002). Because most of these flows represent direct investment, Chile is less susceptible to crises caused by shifts in volatile, short-term capital flows than some other emerging markets. External debt reached \$40.4 billion in December 2002, up from 37.8 billion over 2001 due mainly to higher external borrowing of the private sector. The foreign debt-to-GDP ratio has deteriorated even more, from 57 percent at the end of 2001 to 62.6 percent at the end of 2002, due to the erosion of the peso's value. Chile's high domestic savings rate (fostered in part by mandatory retirement contributions administered by private pension fund management firms) continues to ameliorate dependency on short-term foreign capital to finance investment. As of the end of August 2003, the country risk spread applied in international financial markets to Chilean sovereign debt was as low as 120 basis points. Under President Lagos, the Chilean government has placed sovereign bonds in international markets four times, with country risk premiums amongst the lowest in the developing world.

Chile's reliance on exports and its desire for market diversification have led it to seek opportunities to expand several current or potential markets. Chile joined the Asia Pacific Economic Cooperation (APEC) organization in 1994 and has expressed strong interest in ultimately becoming a full member of MERCOSUR. The country has signed

bilateral trade agreements with a host of nations in various regions of the world, including NAFTA-like free trade agreements with Canada and Mexico, and an FTA with the European Union. In the last two years, Chile has signed additional FTAs with the United States, South Korea and The European Free Trade Association (EFTA). Chile also remains an active participant in negotiations on the Free Trade Area of the Americas (FTAA). This network of FTAs, along with a package of new legislation to implement the agreements, will significantly improve market access for Chilean products and exports. Both the product mix of exports and the markets for Chilean goods are becoming increasingly diversified. Dependency on copper is gradually declining. Chile sends roughly 30 percent of its exports to Asia, 25 percent to the European Union, 20 percent to NAFTA countries, and the rest to Latin American and other smaller markets.

Government Role in the Economy

Although the state retains holdings in several industries, businesses in Chile are predominantly owned and controlled by private interests. The most important public corporation is CODELCO, the world's largest copper company, which the government has said it will not sell. Prices, except those of regulated utilities, are set by the market.

The Chilean government derives much of its tax revenue from personal income taxes, corporate taxes, import tariffs, and the 19 percent (as of October 1, 2003) value-added tax. The government pursues a budgetary policy of a "structural surpluses" equivalent to one percent of GDP, designated to allow a moderate level of counter-cyclical fiscal spending during economic downturns. In 2002, the central government incurred a deficit equivalent to 0.8 percent of GDP, an increase over the 0.3 percent of GDP deficit registered in 2001. In order to finance the budgets, the Government has issued bonds. The Government has also increased taxes on corporate earnings and, more recently, the value added tax in order to address budget shortfalls.

Balance of Payments Situation

Chile's international reserves, more than \$15.3 billion, represent nearly one year's worth of imports, and the overall 2002 trade account enjoyed a \$2.5 billion surplus. The Central Bank projects a balance of payments deficit for 2003 equal to approximately 1 percent of GDP.

Infrastructure Situation

Chile's infrastructure is generally modern and reliable, and continues to improve thanks to government concessions. For example, Chile's regional airports are being upgraded to accommodate increasing air traffic. The U.S. and Chile signed an Open Skies aviation agreement in 1999. The government has also awarded service and management concessions to accommodate expansion in each of Chile's seven ports. The principal ports are Valparaíso and San Antonio (both 80 miles from Santiago, but 50 miles one from the other). The government also awarded over \$1 billion worth of 15 to 20-year concessions to private firms for maintenance and upgrading of the highway network. Much of this has been used for the 1,000-mile extension of the Pan-American Highway between La Serena and Puerto Montt.

Chile's rail network, the fourth largest in Latin America (5,511 miles, or 8,870 kilometers), needs to be upgraded and expanded. The railroads are mostly property of the state-

owned company “Empresa de Ferrocarriles del Estado (EFE),” but the government plans to concession to private firms the right to operate the company’s passenger services. Two railroads connect Chile to Bolivia; one of these is privately owned. EFE approved during the first quarter of 2003 an investment of \$700 million to upgrade and modernize the railroad system between 2003 and 2005.

The Santiago metropolitan subway has been in operation since 1976. It is efficient and well maintained, and expansions to the system continue. The largest projects (in terms of required investments) are related to a plan for restructuring the transportation system in Santiago, and for creating a series of new urban highways in the capital.

“TranSantiago,” the key project for Chile’s Ministry of Public Works, Telecommunication and Transportations (MPWTT), aims to create a new system for interconnected bus transportation in Santiago.

A new plan to permit the construction of rainwater drainage systems in most Chilean cities is also under consideration as part of the concession plan of the MPWTT. Chile would need to spend a total of \$1.5 billion to implement the system.

The country’s telecommunications infrastructure is one of the best in the hemisphere, thanks largely to heavy U.S. and Spanish investment. For more information, please see “Telecommunications” under the Best Prospects section in Chapter 5.

The Ministry of National Property is also carrying out a process of concessions for developing Chile’s tourism industry, as part of its “Large Territories, New Opportunities Program”. The Program consists of 94 tourist and real estate projects with up to 50 years concession or sale.

CHAPTER 3: POLITICAL ENVIRONMENT

Major Political Issues Affecting the Business Climate

U.S.-Chilean relations are excellent. Chilean President Ricardo Lagos took office in March 2000 and met with President Bush in Washington in April 2001, shortly before the Summit of the Americas in Quebec City, Canada. Chile is an active participant in numerous international organizations and supports a wide variety of U.S. policy objectives. Chile currently holds a non-permanent seat on the United Nations Security Council.

Chilean politics is marked by broad consensus among the major parties about the importance of a democratic political system and a free-market economy. Key differences between the center-left governing coalition and the center-right opposition involve strategies for and the role of government in addressing issues such as poverty eradication, health care, infrastructure, education, and reform of the tax and labor codes.

Brief Synopsis of the Political System

President Ricardo Lagos, a U.S.-educated economist and founder of the Party for Democracy, leads a center-left coalition composed of four parties. President Lagos took office after defeating the center-right coalition's candidate in an extremely close second-round vote. The president has put in place a top-notch economic team; his principal economic advisors are U.S.-trained and internationally renowned for their technical expertise, and they share President Lagos's strong commitment to Chile's successful free-market economic model.

President Lagos heads Chile's powerful executive branch, and his center-left coalition enjoys a majority in the lower house (the Chamber of Deputies.) The upper house (the Senate) is composed of elected and appointed senators plus one former president who is a senator for life. On most controversial issues, the Senate is evenly divided (24-24) between senators who identify most closely with the governing coalition and senators who usually find themselves supporting the opposition.

For much of this century, Chilean politics was marked by a three-way division between the political right, center and left, with each holding roughly one-third of the vote. Today, Chilean politics revolves around two large political blocs: the center-left governing coalition and the center-right opposition. The former includes the centrist Christian Democratic and Radical parties, the moderate leftist Party for Democracy, and the Socialist Party. The opposition coalition includes the rightist Independent Democratic Union and the center-right National Renovation Party. Chile has several fringe-left parties (including a largely unreconstructed Communist Party), which, though not represented in the executive branch or in Congress, have elected representatives in some local governments.

Election Schedule

December 2005:	Presidential and Congressional (all Deputies and half of the elected Senators)
March 2006:	Presidential inauguration

CHAPTER 4: MARKETING U.S. PRODUCTS AND SERVICES

Distribution and Sales Channels

Establishing a local subsidiary or branch office in Chile offers would-be exporters the best guarantee of efficient service and appropriate product promotion. Any corporation legally constituted abroad may form, under its own name, an authorized branch (agencia) in Chile. This method of market penetration involves a considerable investment, but is justified if sales are large in volume or when local service support and/or inventory are key to success.

Another practical and more common market entry strategy, especially for new-to-market exporters, is appointing an agent or representative with good access to relevant buyers and with solid technical expertise. Most manufacturing, trade and service activities in Chile are managed from Santiago, the capital. However, Chile's distances are great, so larger representatives often have branch offices in different regions as well.

Typical retail outlets include traditional "mom and pop" storefronts as well as large department stores and supermarkets, such as Lider and Jumbo. Discount retailers are less prevalent than in the U.S., but Carrefour and other similar stores have recently opened up. Well-designed shopping malls similar to those found in the U.S. are popular venues for shopping in Santiago and the larger cities throughout Chile. These malls are anchored by one or two large department stores, usually Almacenes-Paris, Falabella or Ripley, surrounded by a collection of specialty boutiques.

Use of Agent and Distributor: Finding a Partner

About 3,000 importers currently operate in Chile; some of them also act as export agents. Most are small-to-medium size firms. Several large firms handle different lines of products and are large wholesalers. Almost all the firms have their main offices in Santiago. The larger ones have branch offices throughout the country, including in the free-trade zones of Iquique and Punta Arenas. Other firms employ specialized traveling salespeople.

In general, foreign suppliers enter the Chilean market by appointing an agent, distributor or wholesaler. Agent/representative commissions normally range from 5 to 10 percent, depending on the product. For contract requirements, see "Need for a Local Attorney" in this chapter.

The selection of a Chilean agent or representation is an extremely important decision for U.S. exporters that merits a thorough review of possible candidates, their qualifications and capabilities. U.S. companies are invited to make full use of the wide range of market entry and partner search services offered by the Commerce Department's U.S. Commercial Service (www.buyusa.gov), or for agricultural exports, the Department of Agriculture's Foreign Agricultural Service (www.fas.usda.gov).

Franchising

Franchises began to develop significantly in Chile in the early 1990s. About 50 franchises currently operate in Chile with over 914 locations. The sector provides direct employment for 12,500 employees and accounts for sales reaching \$200 million.

Chile has no special laws on franchises. Franchise companies operating in Chile are subject to regular trade laws. The withholding tax on royalties is 35 percent and the value-added tax (VAT) is 19 percent (as of October 1, 2003).

Most franchises currently operating in Chile belong to the fast-food sector, including McDonald's, Domino's Pizza, Pizza Hut, KFC and Burger King. A few service-oriented franchises have opened, including Mailboxes Etc., AlphaGraphics and Powerhouse Gym. However, the market for franchising in full-service restaurants, nightclubs, amusement parks, automotive services, cosmetics, repair and rental services, cleaning (home and industrial), clothes, fitness centers, real estate business, education and training, childcare, hotels/motels, supermarkets and others remains largely unexplored in Chile.

Direct Marketing

Direct marketing is well established in the services sector, especially in banking/finance and telecommunications services, etc. Catalog sales are not common. Chilean consumers generally prefer to browse in shops rather than to purchase through catalogs. Customers want to know there is a store that can provide after sales service or address any problem that might arise. Exchange of products in Chile is made more complicated due to value added tax (VAT) considerations. Credit card penetration is lower in Chile than in the U.S., but growing.

Electronic Commerce

Internet use in Chile is growing rapidly. It has been projected that the number of Internet users in Chile will reach some 4 million by the end of 2003 and 4.5 million by the end of 2004. This represents roughly 30% of the total populace. Chile's government has set as a goal that, by 2005, the Internet should be just as accessible in Chile as it is in the developed world.

Chileans recognize the importance of the Internet and are making efforts to employ it in e-commerce, e-learning and e-government. Local businesses are incorporating information technology in their business processes and communicating with other businesses and with clients through the Internet. In terms of e-commerce, it is estimated that 25 percent of Chileans will buy over the Internet and total sales via the Internet will reach \$6 billion annually in Chile by 2004. The Government of Chile supports the development of the Internet and is fostering a public-private alliance to: 1) increase access to the Internet; 2) create secure and trusted methods of payment and certification; and 3) enhance product distribution throughout Chile. The Government also intends to make public services available on-line and already allows on-line filing of income tax returns.

In February 2000, Chile became the first country in Latin America to sign a Joint Statement on Electronic Commerce with the United States, highlighting the countries' agreement that the private sector should take the lead on the establishment of business practices related to electronic commerce. In addition, on January 15, 2002 the Chilean Congress passed a law authorizing the use of digital signatures, another important step in developing e-commerce. The U.S.-Chile FTA also confirms that both governments

will refrain from applying duties to digital products and will continue to cooperate with each other on ways to improve and facilitate e-commerce.

Joint Ventures/Licensing

In Chile, joint ventures and licensing arrangements require the participation of a legally established local partner who can be responsible for Chilean legal and tax obligations. The various administrative, commercial, profit distribution and other issues involved in the association are established in contracts drawn up between the partners in accordance with Chilean law and tax regulations.

Steps to Establishing an Office

Incorporating in Chile is not expensive (approximately \$1,000) and takes about two months. Chile has no minimum local participation requirement, and the inclusion of local partners is guided only by commercial considerations.

The first step for a U.S. citizen, corporation or entity wishing to establish a business in Chile is to present a declaration of intent to invest in Chile to a Chilean Consulate, stating the nature of the business and the capital to be invested, simultaneously requesting a Permanent Residence Visa. This confers official residence status on the company, without which it will be barred from conducting commercial activities in Chile.

Within the framework of Chilean law, business entities can choose to set up in a variety of different corporate forms, each with different legal and tax implications. Since Chilean tax treatment of the various forms of businesses is similar, the choice of entity type is often guided by U.S. tax considerations.

Selling Factors/Techniques

Depending on the product or service, price can be the key sales factor in Chile. Price-competitive products from places such as Taiwan or South Korea often outsell more expensive European or North American products, especially in consumer product categories such as electronics, appliances and automobiles.

Where dependability becomes more important, such as in advanced electronics and heavy machinery, Chilean customers often prefer more expensive North American or European products. While price remains a factor in purchasing decisions, considerations of quality, durability, technology, customer support and availability of service will also influence the purchase decision, with the order of importance depending on the industry, the customer and the application.

Many of the larger distributors and representatives have regional offices in addition to their Santiago headquarters, or work with a commissioned sales force to cover all of Chile. More technical product categories are generally sold by traveling salespeople who can demonstrate products to clients in their offices. Technical support personnel often assist the salesperson during such client visits.

Advertising and Trade Promotion

Television, radio, newspaper and magazine advertising are used heavily to reinforce in-store-merchandising methods. Private agencies handle most advertising. Most of these agencies belong to the Asociacion Chilena de Agencias de Publicidad (Chilean Association of Advertising Agencies, ACHAP), located at Fidel Oteiza 1921, Of. 801, Tel: (56-2) 269-9578 or 269-9579, Fax: (56-2) 274-8793.

ACHAP estimates about \$477 million was spent on advertising in Chile in 2002. Television accounted for some 49.7% of all spending on advertising, followed by newspapers (29.9%), radio (9.4%), billboards/posters (6.3%), magazines (4.2%) and films (.42%).

Chile uses the NTSC system for TV broadcasting. Chile has five national broadcast television networks. All of them, including the state-owned but autonomous National Television (TVN), are self-supporting through advertising.

TV broadcasting stations in Santiago are: Channel 4, La Red; Channel 5, Universidad Católica Valparaíso (UCV); Channel 7, Televisión Nacional (TVN); Channel 9, Megavisión; Channel 11, Chilevisión; Channel 13, Corporación de Televisión de la Universidad Católica; and UHF television station ABTV Television, Channel 21.

Programming depends heavily on foreign series and movies. Dubbed U.S. programs dominate, but Mexican, Venezuelan, Brazilian, Argentine, and Japanese material can also be seen. Locally produced news, magazine shows, variety shows and soap operas are of similar quality and draw large prime-time audiences.

Cable TV

Cable/satellite television reaches an estimated 800,000 households in Chile, 51 percent of them in Santiago. Two major cable systems (Metropolis-Intercom and VTR-Cablexpress) operate in 95 percent of the country. Both rebroadcast all local stations, as well as major international channels from the United States, Italy, France, Germany, Argentina, Brazil and Mexico. U.S. offerings include CNN International, HBO, MTV, TNT, Worldnet, ESPN, Cartoon Network and MSTV.

Radio

Reaching into the most remote areas, radio is Chile's most extensive mass medium. Nearly all Chilean stations operate commercially, and six have network affiliates. The National Radio Association (ARCHI) reports 179 AM and 614 FM stations in the country, with 24 AM and 32 FM stations in Santiago. An estimated 93 percent of Chile's population listens to radio. The figure for Santiago is 97 percent. ARCHI's statistics state that there are 17 million radio sets in Chile.

The principal national networks are Radio Cooperativa (76 AM and 93.3 FM), number one in the metropolitan area; Radio Chilena (66 AM and 100.9 FM), Radio Agricultura (57 AM and 92.1 FM), and Bio Bio (99.7 FM). Other major musical and commercial FM radios are Rock & Pop, Duna, Pudahuel, Corazon, Romantica and Activa.

Newspapers

Chile has approximately forty newspapers ranging from nationally distributed dailies to small-town tabloids. Distribution ranges from as many as 300,000 copies (Sunday edition of Santiago's *El Mercurio*) to regional papers with 3,000 copies. Santiago has 8 major newspapers with a combined daily circulation of approximately 479,000. The circulation of local dailies in the regions is approximately 220,000. Considering an average readership of three persons per newspaper, total readership countrywide is estimated at more than 2,000,000.

Two major established newspaper enterprises operate in Chile: the *El Mercurio* chain, owned by the Edwards family, which has 15 dailies affiliated throughout Chile, and Consorcio Periodístico de Chile (COPESA), owned by Alvaro Saieh, Alberto Kasis and Carlos Abumohor, which distributes nationally *La Tercera*, popular *La Cuarta*, daily free tabloid *La Hora* and the newsweekly *Que Pasa*. *El Mercurio* of Santiago is Chile's most influential paper and competes with *La Tercera* for the largest readership.

Also published in Santiago are economic and financial newspapers *El Diario* and *Estrategia*, government-owned *La Nacion*, mass-oriented *Las Ultimas Noticias* (El Mercurio-owned) and the *El Mercurio* chain's afternoon *La Segunda* and free tabloid *Publi Metro*.

Virtually all towns of any size in Chile have newspapers that focus on local news. Apart from the *El Mercurio* chain dailies, approximately 25 other independent regional dailies are published for local audiences. The most important regional daily is Concepcion's *El Sur*, with a circulation of approximately 30,000.

Chile's leading newspapers carry weekly inserts or supplements on issues such as travel, home fashion, entertainment, agriculture, construction, computers, etc.

Magazines

The major Santiago newsmagazines published for nationwide readership are the weeklies *Que Pasa* (approx. 20,000), and independent leftist *Siete+7* (approximate circulation 15,000); these cover current events and political analysis. The conservative biweekly *Ercilla* has an approximate circulation of 10,000. Three business oriented publications – the biweekly *Capital* and monthlies *AmericaEconomía* and *Gestion* – focus on business and professional audiences. Two biweeklies with *Life*-magazine style formats -- *Cosas and Caras* – feature photos and illustrations accompanying their “beautiful people” interviews and articles on national and international topics. Other publications include *El Siglo*, the weekly Communist Party official publication; *Punto Final*, a biweekly publication of the extreme-left group Movimiento de Izquierda Revolucionario (MIR); *Paula*, a women's magazine; *Mensaje*, an intellectual monthly published by the Jesuits; and several sports and TV/motion picture magazines.

Approximate circulation for Santiago's major newspapers and magazines:

Dailies:	Monday-Friday	*Sunday
La Tercera	100,000	230,000
El Mercurio	90,000	300,000
Las Ultimas Noticias	110,000	110,000
La Cuarta	100,000	100,000

Total:	400,000	740,000
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*All circulation figures represent projected daily nationwide sales and are only estimates since Chilean dailies do not publish circulation figures.

Useful web links for mayor Chilean publications

El Mercurio chain website --includes links to all *El Mercurio* chain dailies:

<http://www.emol.cl>

Consorcio Periodistico de Chile (COPESA) owner of the newspapers *La Tercera*, *La Cuarta* and *La Hora* dailies and newsweekly *Que Pasa*: <http://www.copesa.cl>

Regional daily *El Sur* of Concepcion: <http://www.elsur.cl>

Economic and financial daily *Estrategia* and monthly economic publication *Gestión*: <http://www.estrategia.cl>

Economic and financial daily *El Diario*: <http://www.eldiario.cl>

Economic and business biweekly *Capital*: <http://www.capital.cl>

Biweekly *Cosas*: <http://www.cosas.cl>

Biweekly *Caras*: <http://www.caras.cl>

Useful web links for mayor Television stations

National Television (TVN): <http://www.tvn.cl>

Catholic University of Chile TV (TVUC): <http://www.canal13.cl>

Mega TV: <http://www.megavision.cl>

Chilevision TV (CHV): <http://www.chilevision.cl>

Useful web links for mayor Chilean radio networks

Radio *Cooperativa*: <http://www.cooperativa.cl>

Radio *Chilena Solo Noticias*: <http://www.radiochilena.cl>

Radio *Agricultura*: <http://www.radioagricultura.cl>

Pricing Products

Pricing in Chile starts with a fairly straightforward formula based on CIF costs plus generally constant ship-to-warehouse expenses. Gross margins for consumer goods are generally 30-50 percent or more for direct sales to consumers, or 20-30 percent each for the importer/distributor and the retailer when a distribution chain is in place. The final price for mass-market items should be competitive with imports from Asia and/or Brazil. Higher-priced items must identify niche market segments to prosper. More specialized products are sold by stocking distributors or by commissioned agents who generally earn margins of 5-10 percent on their sales.

When the U.S.-Chile FTA comes into force on January 1, 2004, Chilean tariffs on 85% of U.S. goods exported to Chile will be eliminated immediately. However, Chile's value added tax (called IVA) was raised to 19% as of October 1, 2003. Any tariff and value added tax is usually paid by the importer and not by the supplier. There are some exceptions: government entities do not pay these fees, and some luxury goods have higher tariffs.

Sales Service/Customer Support

Customer service and support are fundamental to successfully penetrating and retaining market segments for most products and services. Any product that requires operator training or needs after sales technical service must have, in effect, a qualified local company ready and able to assist the customer. Due to Chile's relatively close-knit market, company reputations can be made or lost in a fairly short period of time.

Selling to the Government

Chile is not a party to the WTO Agreement on Government Procurement, but the U.S.-Chile FTA calls for open tendering in public procurement, in general. Tenders must be in writing and winning bids published, including the name of the supplier and the value of the contract. The FTA provisions cover procurements by twenty Chilean central government entities for non-construction purchases over \$56,000. It also covers local government non-construction procurements over \$460,000. In both cases, higher limits apply for construction work. The agreement also calls for non-discriminatory "national treatment" for either country's suppliers. Tender opportunities should be published at least thirty days in advance and technical specifications or requirements should be performance-based. The agreement further establishes an impartial authority to review any challenges lodged against specific procurement awards.

A government of Chile procurement website (www.compraschile.cl) was established in March 2000 to increase transparency, enhance opportunities and reduce government procurement costs. Foreign and local bidders on government tenders must register with the Chilean Direccion de Provisionamiento del Estado (Bureau of Government Procurement Supplies). They must also post a bank and/or guarantee bond, usually equivalent to ten percent of the total bid, to ensure compliance with specifications and delivery dates. Bidding is best done through a local agent who is registered, well connected and familiar with Chilean government bidding procedures.

Protecting Your Product from IPR Infringement

Chile belongs to the World Intellectual Property Organization, and patents, trademarks, industrial designs, models, and copyrights are protected in Chile by the provisions of the International Convention for the Protection of Industrial Property (the Paris Convention). However, Chile's intellectual property regime is currently not WTO/TRIPS compliant. The U.S.-Chile FTA requires Chile to accede to several international IPR agreements, e.g., the Patent Cooperation Treaty (1984) and the Trademark Law Treaty (1994). In general terms, the FTA provides that full implementation of the agreement's various IPR obligations must be completed by each country within two to five years.

Under the terms of the FTA, Chile also agreed that trademark applications can be opposed and that procedures for preventing or canceling the registration of a mark that is similar or identical to a well-known trademark will be established. In the past, foreign companies wishing to begin operations in Chile have often found individuals or companies have already registered their trademarks in Chile. Chilean courts have been supportive in cases where trademarks have been "stockpiled," but gone unused, but less so in cases where investments were made in use of the trademark. In either case, proceedings have been lengthy (2-4 years) and expensive (\$5,000-\$10,000+). In fact, for the sake of expediency, some firms have preferred to negotiate with the infringer in lieu of going to court. The FTA ought to improve the situation, but U.S. firms should still register their trademark as soon as they have any intention of doing business in Chile.

Ownership of the trademark is not prejudiced by lack of use in cases where the registered party makes use of the mark in other countries, and trademarks may be perpetually registered in periods of ten years at a time. Firms wishing to register their trademarks should do so with the Ministry of Economy, Departamento de Propiedad Industrial, Tel: (56-2) 688-3124 or on the web at www.dpi.cl.

Since 1992, Chilean law has set copyright protection at the author's life plus 50 years. The U.S.-Chile FTA should strengthen copyright protection in Chile. It stipulates that authors, performers and producers have exclusive rights to authorize or prohibit reproductions of their work, and that the term of protection is not less than the life of the author and 70 years after the authors death, or not less than 70 years from the end of the year of the first publication of the work, if the term is not based on the life of a person. As part of the FTA, the Government of Chile also confirmed its commitment to use only legitimate computer software. With implementing legislation and good enforcement, the FTA should, therefore, help U.S. companies who have been suffering estimated annual losses of some \$50 million due to copyright infringement in Chile.

The U.S.-Chile FTA will also require Chilean authorities to adjust patent terms to allow for unreasonable delays encountered in granting the patent. Data exclusivity is guaranteed for 5 years for pharmaceuticals and 10 years for agricultural chemicals.

The FTA seeks to beef-up IPR enforcement as well. In civil proceedings, the rights holder will now be able to request destruction of goods that have been found to be pirated or to bear counterfeit marks. Rights infringers can be liable for actual damages or statutory damages where actual damages are unknown. Law enforcement is given the authority to seize suspected counterfeit or pirated goods, as well as the equipment used to produce such goods. For more information on IPR issues in Chile, see the Investment Climate Statement, Chapter 7.

Need for a Local Attorney

Because contracts with Chilean firms must abide by Chilean laws, U.S. companies entering the Chilean market should have all legal documents drawn up or checked by qualified legal counsel. The Commercial Section of the U.S. Embassy in Santiago provides a list of legal firms in Santiago on our web site at www.buyusa.gov/chile/en/.

Suppliers can establish their legal relationship with a local representative in one of two ways: an ordinary work contract regulated by Labor Law 19.010, for which some legal guidance is advisable, or the more customary commercial or commission contract, by which the parties establish their own terms and conditions and are not bound by requirements of Law 19.010, especially its severance conditions.

The Chilean legal system, while fair, is not suited for speedy commercial dispute resolution. Therefore, U.S. firms should be aware of the availability of the Chilean American Chamber of Commerce's Arbitration Center (see www.amchamchile.cl) and may wish to include an arbitration clause in their commercial contracts. In establishing a contractual relationship with a local representative, the U.S. supplier should also ascertain its contractual liability vis-a-vis any agent or representative under Chile's labor laws.

The Chilean-American Chamber of Commerce (Amcham) is a non-profit organization with over 500 corporate members. Amcham conducts a variety of activities designed to promote bilateral trade and investment and provides a good way to meet U.S. and Chilean businesspeople. The U.S. Embassy in Santiago works extensively with the Amcham on a variety of issues and activities. The Amcham publishes a monthly magazine, *The Journal*. For more information on Amcham and its activities, please contact Jaime Bazan, General Manager, tel. (562) 290-9700, 290-9747 fax (562) 212-0515, web page www.amchamchile.cl.

CHAPTER 5: LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENTS

Best Prospects for Non-Agricultural Goods/Services

1. MINING EQUIPMENT AND SUPPLIES

Mining is the traditional cash cow for Chile, contributing about 9 percent of total GDP and 44 percent of all exports in 2002. Mining is expected to continue to grow 5 percent annually through 2006, with projected investments exceeding \$6 billion during the same period. However, growth expectations for 2003-2004 will hinge on continued strong demand for and reduced inventories of copper, and the stabilization of international copper prices above the current 85 cents per pound.

Chile's mining sector exported \$6.2 billion of products in 2002. Exports are supported by the output of a well-developed industry, which uses state-of-the-art production technology, particularly in copper mining. Mining production will continue to lead Chile's economy with significant foreign and domestic investment in developing new mines and/or modernizing and expanding existing ones. The state-owned mining company, CODELCO, is the world's largest copper producer, but privately owned mines (including those with international ownership) account for about half of Chile's copper production and look to increase their share of the market steadily.

Mining sector experts foresee a growth in production of 8-10% for 2003-2004, which compares favorably with the 5% growth experienced in recent years. Investment in the sector may exceed \$4 billion through 2005, but this will depend largely on international prices, especially for copper. Investments in the sector could double if copper prices bounce back to traditional levels of 85 to 90 cent per pound on a permanent basis. To illustrate the impact of copper prices on Chile, at current copper exports levels, a 1 cent per pound increase in price would generate an additional \$120 million in revenue for the country. Also, these projected investment figures may be underestimated, since they include only mining projects already identified and under construction.

Within the mining industry, U.S.-made equipment enjoys great receptivity. Close to half of all the equipment installed in new and expanding mining projects comes from U.S. makers because of the perceived excellent quality, good after-sale service and high compliance with delivery dates that the U.S. suppliers provide. However, Brazilian, Canadian, German, Korean and Japanese manufacturers are aggressive competitors in the Chilean market and most, except the Japanese, enjoy lower tariff barriers as a result of their bilateral free trade arrangements. The U.S.-Chile FTA should help level the playing field so that U.S. makers can compete head-to-head with other international suppliers. Under the terms of the FTA, Chile will immediately eliminate its 6% tariff on U.S. construction and mining machinery, except in the case of certain cranes, which will see their tariffs phased out over the course of the next eight years.

MINING EQUIPMENT/SUPPLIES MARKET SIZE (Millions of US\$)

	2001 (Actual)	2002 (Actual)	2003 (Estimate)
Total Market Size	398	398	500
Total Local Production*	240	240	250
Total Exports	11	1	20

Total Imports	169	127	270
Imports from the U.S.	67	28	120

Note: Figures are unofficial estimates

2. ENVIRONMENTAL TECHNOLOGIES AND SERVICES

Beyond reducing tariffs, the U.S.-Chile FTA also calls on the Government of Chile to enforce Chile's domestic environmental regulations. Therefore, we anticipate growing demand in Chile not only for U.S. pollution control equipment, but also for technical environmental engineering and consulting services.

Water Sector

Due to the Chilean Government's efforts to privatize and regulate the Chilean water sector, we anticipate good opportunities for U.S. suppliers of water treatment equipment and related expertise in this area.

Regulations passed in 2002 require that Chile's industrial manufacturers and sanitary (water & sewage) companies treat all wastewater by September 2006. The Superintendency of Sanitary Services (SSS) is the Chilean government office responsible for the control and enforcement of water regulations throughout the country. According to SSS, full compliance with current regulations will require an investment of at least \$2.5 billion. A number of projects are already underway and industry sources suggest imported equipment accounts for approximately 20% of the total cost of new water treatment plants.

Solid Waste Sector

Increasing industrial production and rising consumption levels in Chile have led to a growing solid waste problem. The solid waste management equipment and service sector is still a new market in Chile, with a fairly limited number of participating companies.

Since the mid-1990s, Chile has been working towards establishing the legislative framework and regulatory infrastructure to oversee the collection, transport, intermediate handling and final disposal of solid waste, in particular hospital and industrial hazardous solid waste. The approval and implementation of such regulatory laws will open the market to investment in such handling and treatment facilities.

Currently, capital resources to develop the infrastructure needed to handle Chile's solid waste remain scarce. Chilean production of specialty equipment and technologies used in the treatment of solid waste is practically nonexistent. However, market demand in this sector should increase in the medium to long-term. U.S. companies may wish to develop their long-range plans (5 to 10 years) for promoting their equipment and service in this sector.

WATER EQUIPMENT MARKET SIZE (Millions of US\$)

	2001 (Actual)	2002 (Actual)	2003 (Estimate)
Total Market Size	287	381	496

Total Local Production	Negl.	Negl.	Negl.
Total Exports	Negl.	Negl.	Negl.
Total Imports	57.4	67.2	99.2
Imports from the U.S.	17.2	20.1	29.7

Note: Figures are unofficial estimates, based on information from Chile's Superintendencia de Servicios Sanitarios. Figures for environmental technologies as a whole were not available at time of print.

3. PLASTICS PRODUCTION MACHINERY AND RESINS

Chilean per capita consumption of plastics jumped from 37.4 pounds in 1991 to 103.7 pounds in 2002. Overall demand for plastic materials and resins in Chile is about 538,000 metric tons/year and is worth about \$450 million (2002). Roughly 78 percent of all plastics resins in Chile are imported. Chile's total demand is projected to increase by 25 percent by the year 2005. Plastics machinery and equipment, almost all imported, accounted for a \$51 million market in 2002. Looking at the need to replace existing machinery together with the addition of new processing facilities and the overall economic recovery, industry specialists project the market will grow to \$100 million/annually by 2004.

The Chilean plastics industry has grown steadily, and at a rate exceeding that of the overall economy, for the last fifteen years. In spite of inroads made by Asian and Latin American suppliers, the U.S. remains one of Chile's main suppliers of plastics material and resins, with a 12 percent share. On the equipment side, European suppliers clearly dominate the plastics machinery market with a combined 72 percent share. U.S. exports of plastics processing machinery and equipment account for a market share of about 10 percent.

Chile's plastics industry consists of some 500 plastics transforming companies, of which 80 percent are concentrated in the capital, Santiago. By U.S. standards, the Chilean plastics industry can be characterized as dominated by small businesses; over half of all local companies employ an average of between 50 and 200 worker. The whole industry provides employment to some 30,000 workers.

The Chilean market is very competitive and highly price sensitive, but customer and after-sales support are critical determining factors in local buyers' purchasing decisions. A long-term presence in the market and frequent contact with local clients, distributors and/or representatives are critical to carving out market share. Client technical assistance through distributors is the best way to promote products. U.S. firms may also consider inviting Chilean customers to visit plastics trade shows in the U.S.

PLASTICS PRODUCTION MACHINERY/RESINS MARKET SIZE (Millions of US\$)

	2001 (Actual)	2002 (Actual)	2003 (Estimate)
Total Market Size	513	484	540
Total Local Production*	223	302	323
Total Exports	84	42	46
Total Imports	374	224	263
Imports from the U.S.	57	25	32

Note: Figures are unofficial estimates

4. ELECTRIC POWER EQUIPMENT

The electric power industry in Chile has been a dynamic part of the economy for more than a decade. Chilean demand for electric power has been rising in recent years at a rate of about 8% a year. Electricity in Chile comes via two separate grids, the SING and SIC.

The Northern Interconnected System (SING) – 100% derived from thermal generation -- supplies Chile's mining companies and urban consumer demand from sparsely populated cities spread all throughout Northern Chile. In 2001, the SING received a huge increase in available electric power supply, traditionally based on coal-fired power plants. The major transformation of SING was brought about by the introduction of natural gas imported from Argentina via two large gas pipes to several gas-fired combined-cycle power plants. These technological changes introduced a new generation of power plants to Chile -- units larger than 300MW -- and have, altogether, more than doubled the electric generation capacity that existed just five years ago. However, the increased electric power generation also brings risks since Chile's electric power system is now reliant upon only a handful of power plants. There are good business opportunities for companies able to supply technological solutions to increase the quality of service or lessen the systems vulnerability.

The Central Interconnected System (SIC) largely relies on hydroelectric power generation. The introduction of natural gas imported from Argentina brought major changes to this system as well. However, SIC still relies heavily on hydroelectric power generation and is vulnerable to prolonged or successive droughts that tend to affect Chile every 7-11 years. As natural gas reaches larger areas of the central southern part of Chile, new generations of combined-cycle gas-fired plants are replacing the older and more expensive to operate units. Nevertheless, thermal generation based on coal and diesel will remain as the third, but more expensive, source of back-up power. Currently, some analysts are forecasting short to medium term energy shortages in the SIC. The Chilean congress is currently looking at the issue and the electric power sector as a whole.

There are several hundred million dollars worth of business opportunities resulting from ever rising demand in SIC for an additional 400-500MW of power each year. There are several possible solutions:

- Interconnection of SING (which has over capacity) with SIC. Necessary investment would be in the \$250-400 million range.
- Expansion and/or construction of gas pipelines coming from Argentina and/or Bolivia that would supply new combined-cycle gas-fired plants at some \$400 million each.
- Interconnection of SIC with the Argentine grid. However, the connection would require a 300 km connection including 140 km through the Andes mountain range. Option would also require political and economic policy coordination in both countries.

- Expansion of the transmission grid managed by SIC.

ELECTRIC POWER EQUIPMENT MARKET SIZE (Millions of US\$)

	2001 (Actual)	2002 (Actual)	2003 (Estimate)
Total Market Size	129	125	137
Total Local Production*	42	102	105
Total Exports	8	2	3
Total Imports	95	25	35
Imports from the U.S.	19	8	15

Note: Figures are unofficial estimates. The market could be 10 to 15 times larger, subject to the development of several pending projects, involving electric power generation, transmission and distribution.

5. TELECOMMUNICATIONS EQUIPMENT AND SERVICES

Chile's telecommunications sector, the most advanced in Latin America, is completely privatized. Telecom providers include 18 operators of fixed telephony, six mobile operators, 33 long-distance carriers, and 52 Internet Service Providers. Chile's Undersecretariat of Telecommunications (SUBTEL) regulates the sector, sets standards and issues licenses and concessions. Since privatization began in 1988, huge infrastructure investments have been made by the private sector. As a result, Chile's telecom industry grew an average of 20 percent annually over the last decade.

According to SUBTEL, there were 7 million cell phones in use in Chile as of June 2003. Less than two years ago, there were only 5 million cell phones in Chile. Among service providers, Entel has 37% market share, followed by Telefonica Movil (29%), BellSouth (18%) and Smartcom PCS (16%). The growth in cell phone use is generating demand for more cell phones and equipment.

Telecom imports are critical since high-end telecom equipment is not manufactured locally. U.S. products are highly regarded for their high quality. The U.S. is Chile's largest telecom equipment supplier, accounting for approximately 30% of total imports. Chief U.S. telecom exports to Chile include cellular phones (39%) and transmission apparatus (17%). With the U.S.-Chile FTA in place, U.S. suppliers will enjoy a level playing field in which to compete against Canadian and European companies already enjoying duty free access. However, with a Chile-South Korea trade agreement also coming into force, competition among global suppliers will only intensify. Much of the success of telecom equipment suppliers will depend on standards adopted by Chile's telecom carriers.

In 2002, investment in Chile's telecom sector totaled \$610 million. Local and mobile telephony made up the majority of such investments with 33% and 35% shares, respectively. According to SUBTEL, investment in the telecommunications sector decreased in 2002 compared to the previous year due to the maturation of the market and the general slowdown in the telecom sector worldwide. Investment is expected to remain more or less at the same level in 2003 and 2004.

Competition is fierce among telecommunications companies in Chile, resulting in a range of choices and lower prices for Chilean consumers. Most telecom companies look for a

competitive edge by providing advanced technologies and services. Some of the best opportunities for U.S. companies are in value-added services and corporate communications services. Value-added services such as 800 numbers, hot lines, home security services and automatic collect-calls, as well as corporate communications services, such as videoconferences, teleconferences and business TV, are some examples of services used by telecom companies to compete and keep their customers. U.S. carriers interested in servicing the Chilean market should also note the FTA reaffirmed Chile's commitment to an open telecommunications market, including network access and interconnection rights for non-incumbents, regulatory transparency and competitive safeguards.

TELECOM EQUIPMENT MARKET SIZE (Millions of US\$)

	2001 (Actual)	2002 (Actual)	2003 (Estimate)
Total Market Size	451	277	296
Total Local Production	Negl.	Negl.	Negl.
Total Exports	Negl.	Negl.	Negl.
Total Imports	451	277	296
Imports from the U.S.	123	91	97

Note: Figures are unofficial estimates

6. CONSTRUCTION EQUIPMENT

Chile's construction sector has been a backbone of the Chilean economy during the last decade. However, construction went from being the fastest-growing sector seven years running (above 10% per year) to being the laggard in 2002. With Chile experiencing stronger economic growth this year, construction spending should recover during the second half of 2003. Industry analysts forecast public and private construction projects worth over \$20 billion will be undertaken in Chile between 2003 and 2006. This forecast is based on the reduction in Chile's stock of new houses, on-going public infrastructure projects, and expansion and construction of new shopping malls, jails, hospitals and several specialized industrial parks.

The public infrastructure construction program alone should account for a total investment of about \$15 billion by 2006. This program relies on a very successful long-term private concessions program (based upon 15 to 30 year contracts) dedicated to constructing airports, highways, jails, schools and eventually hospitals. Currently, private investors (both Chilean and foreign) have invested over \$5.2 billion in 35 such concessions.

Chile manufactures limited types of construction equipment, therefore, the majority of such equipment is imported to Chile. Even where domestic producers exist, imported construction machinery and supplies are often preferred for their high quality and advanced technology. U.S.-made products, with roughly a 40% market share, are highly regarded by Chilean users.

CONSTRUCTION EQUIPMENT MARKET SIZE (Millions of US\$)

	2001 (Actual)	2002 (Actual)	2003 (Estimate)
Total Market Size	467	488	500

Total Local Production*	260	280	290
Total Exports	10	12	15
Total Imports	217	220	225
Imports from the U.S.	79	89	95

Note: Figures are unofficial estimates

7. COMPUTERS AND PERIPHERALS

The U.S. is the largest supplier of computers and peripherals to Chile, with PCs representing the bulk of those imports. Chile is the sixth largest market in Latin America for U.S.-made computer equipment. Computer equipment enters Chile duty-free.

In 2002, total IT spending in Chile amounted to more than \$1 billion. Of this, computer hardware products represented \$538 million and software products \$128 million. Chile's computer hardware and peripherals market actually declined somewhat over the last two years, but growth of 6% is forecast to return in 2004. On the other hand, Chile's software and computer services markets increased 3.2% and 2.8% respectively in 2002.

Nearly 4 million Chileans, about a quarter of the total population, now use the Internet. For 2003, Chile's e-commerce transactions - mainly B2B - are expected to exceed \$3.8 billion. The government is also putting a lot of emphasis on e-government and e-learning. It's no surprise, therefore, personal computers, both desktops and laptops, along with printers continue to show strong demand in the market. Chile's PC sector is dominated by branded computers (e.g., Dell, Compaq, and IBM), but clones are also widely available.

COMPUTER HARDWARE MARKET SIZE (Millions of US\$)

	2001 (Actual)	2002 (Actual)	2003 (Estimate)
Total Market Size	611	538	549
Total Local Production	191	105	108
Total Exports	.012	.06	.014
Total Imports	420	433	440
Imports from the U.S.	252	260	264

Note: Figures are unofficial estimates

8. FRANCHISING

The economic slowdown over the last few years has slowed the growth of new businesses in Chile, including franchises. Chile's economy has recently been strengthening and industry specialists agree that the market is now ready for new franchises. There is still room for certain types of restaurant-related franchises, but most of the growth is likely to come in other areas.

Approximately 50 franchise businesses now operate in Chile, with around 250 outlets. This industry sector provides direct employment for 12,500 employees and accounts for sales reaching \$200 million. Most franchises now in Chile focus on the fast-food sector, including McDonald's, Domino's Pizza, Pizza Hut, KFC and Burger King. A few service-oriented franchises have opened, including Mailboxes Etc., AlphaGraphics and

Powerhouse Gym. However, the market for franchising in full-service restaurants, nightclubs, amusement parks, automotive services, cosmetics, repair and rental services, cleaning (home and industrial), clothes, fitness centers, real estate business, education, childcare, hotels/motels, supermarkets and others remains untested. Some franchises, e.g., Au Bon Pain and Baskin Robbins, have not proven successful in Chile and have shut down operations here.

Other franchise business opportunities in Chile could include electronic trade and information technology, education and training, and other sub-sectors such as co-branding and multiple-concept centers. In early education, only a few training franchises and no pre-school chains currently operate in Chile.

Many successful Chilean companies have also franchised their businesses and even exported their concepts. Homegrown franchises currently account for 32% of the total market. Franchise operations of U.S. origin account for 55% of the total Chilean market. The franchising industry is projected to grow by 2% this year.

Franchise companies operating in Chile are subject to regular trade laws. Even though there is a franchise association, AFICH, in Chile, it is not particularly active. Since trademark/brand stockpiling is rather common in Chile, U.S. companies are encouraged to register their trademarks as soon as possible if they are considering Chile as a potential market.

FRANCHISE MARKET SIZE (Millions of US\$)

	2001 (Actual)	2002 (Actual)	2003 (Estimate)
Total Market Size	198	200	204

Note: Figures are unofficial estimates

Market Composition:

U.S. market share	55%
Local market share	32%
Third country market share	13%

9. FOOD PROCESSING AND PACKAGING EQUIPMENT

Chile's economic expansion in the late 1980's caused the food processing and packaging industry to develop more rapidly. Chile's food processing and packaging companies had to become competitive to survive, and invested large sums for technology upgrading and productivity enhancement. The market expanded significantly, and Chile became a major player as exporter of agro-industrial products, and an important recipient of foreign investment in the sector.

One of the Chile's traditionally important food sectors, commercial fishing, has been severely affected by overexploitation, largely reducing the country's production levels. However, Chile's aquaculture industry is slowly replacing it, and has had enormous success in marketing farmed salmon and trout. During the last 15 years, aquaculture has developed significantly, with Chile now poised to challenge Norway as the world's largest exporter of trout and salmon. Total Chilean exports of such products reached almost \$1 billion during 2002. In the past year, the industry has become more

concentrated, with a focus on producing value-added products and a growing concern for clean production. As new foreign markets develop, salmon and trout farming are expected to continue growing, and new aquaculture products such as abalone, scallops, tilapia, oysters, and mussels are successfully being farmed.

Chile's overall food industry is also becoming more competitive and efficient in order to compete and take advantage of free trade agreements recently signed by Chile with other countries such as Mexico, Canada, South Korea, the European Union, and the United States. Moreover, Chile's unique geographic situation and climate make it the perfect complement for Northern Hemisphere markets. Wine, fresh fruit, olive oil, salmon and trout are among the most promising growth sectors for food. As a result, there are great opportunities for new technologies, food processing and packaging machinery and equipment that allow for improved quality, efficiency and greater production of processed food items. Traceability, food safety, best practices programs and certification are becoming important issues for Chilean exporters.

The U.S. is an important supplier of machinery for this industry, but Italy, Germany and other European countries are aggressive competitors, especially since the Chile-EU FTA went into effect in January 2003. The new U.S.-Chile FTA should help level the playing field and open the door to more U.S. food packing and processing equipment.

FOOD PROCESSING/PACKAGING EQUIPMENT MARKET SIZE (Millions of US\$)

	2001 (Actual)	2002 (Actual)	2003 (Estimate)
Total Market Size	163	165	169
Total Local Production*	N/A	N/A	N/A
Total Exports	9	8	9
Total Imports	172	173	178
Imports from the U.S.	98	91	95

Note: Figures are unofficial estimates

10. AIR CONDITIONING AND REFRIGERATION

The Chilean market for air conditioning and refrigeration (ACR) is largely composed of imports. Over 75% of such imported products come from Brazil, Italy, the United States, South Korea and Germany. U.S. market share is approximately 10%. The market for household air conditioning is small, due to Chile's temperate climate and modest per capita income level. The main market is for industrial and commercial use. According to industry sources, local manufacturing of A/C and refrigeration equipment is on the rise. U.S. exporters should benefit from the free trade agreement's elimination of the 6% tariff on imports as of January 2004.

Goods are generally sold via local representatives or distributors and, lately, directly by manufacturers such as York, Carrier and Trane. Local vendors offer what are known as industrial refrigeration projects that provide a complete integrated solution for each client. In country, sustained, high quality services are essential to maintaining market share. The primary industrial clients are construction, fishing, fresh fruit, meat and dairy products processing, chemical industries, laboratories, hotels, supermarkets, restaurants and automobiles.

Opportunities exist in most industrial sectors. One particular example is the salmon industry, in which ACR is heavily used in processing and transport. The supermarket industry is also promising with several chains continuing their expansion plans this year. The burgeoning fresh-fruit export industry could provide additional opportunities. Refrigeration for small trucks and light pick-ups is an attractive niche to supply growing distribution networks for perishable goods.

A/C AND REFRIGERATION EQUIPMENT MARKET SIZE (Millions of US\$)

	2001 (Actual)	2002 (Actual)	2003 (Estimate)
Total Market Size	121	85	88
Total Local Production	51	40	42
Total Exports	38	29	30
Total Imports	108	74	76
Imports from the U.S.	18	7	8

Note: Figures are unofficial estimates

11. SAFETY & SECURITY EQUIPMENT

The safety and security sector in Chile offers ample opportunities for U.S. exporters, due to the unfortunate evidence of growing incidents of crime in Santiago and other parts of Chile, according to recent studies. The safety and security sector overall is projected to grow some 4 percent this year. Personal safety products, access control devices/systems, fire detection systems, home automation, CCTV equipment, outdoor photoelectric beam detectors for perimeter protection, integrated security systems, fire retardant sprinkler systems, and safety signage and lighting, all continue to be in high demand in the market, as well as guard services for residences and institutions. The majority of homeowners in the most upscale neighborhoods of Santiago subscribe to private guard services that offer a home alarm system coupled with roving patrols. Chilean security service providers are also looking to incorporate new safety and security technologies to guarantee a better quality service for their residential and corporate/industrial clients.

During 2002, Chilean imports of safety and security products came mainly from the U.S. (29.9 percent), followed by China (16.9 percent) and Brazil (5.9 percent).

SAFETY/SECURITY EQUIPMENT MARKET SIZE (Millions of US\$)

	2001 (Actual)	2002 (Actual)	2003 (Estimate)
Total Market Size	32.1	30.4	31.6
Total Local Production	2.2	2.8	2.9
Total Exports	1.9	2.5	2.6
Total Imports	31.8	30.1	31.3
Imports from the U.S.	8.5	9	9.3

Note: Figures are unofficial estimates

12. MEDICAL EQUIPMENT

Chile currently spends 7% of its GDP on healthcare. In 2002, public spending on healthcare reached \$1.97 billion, of which \$888 million came directly from the government and most of rest came through the public health insurance program, Fonasa. In 2003, Chile's public healthcare budget increased to \$2.05 billion, including \$959 million in direct government expenditure.

The Chilean government guarantees healthcare coverage as a constitutional right and is committed to improving the national public-health system that provides healthcare for approximately 70 percent of the Chilean population. Recently, several large-scale purchases of modern medical equipment have received government approval as part of an ongoing effort to upgrade both the public and private health facilities.

The Ministry of Health, private hospitals, and clinic operators show great interest in contacting U.S. manufacturers of medical equipment. Chile's receptivity to U.S. medical equipment, and U.S. medical products in general, is due to the good reputation that U.S.-made products enjoy for quality and after-sales service. In addition, many Chilean physicians have received some form of medical training in the U.S., giving U.S. products good exposure, especially in the X-ray and cardiology fields.

The U.S. continues to be, by far, Chile's most important supplier of medical equipment and services, with 46% of the import market, followed by Brazil and Holland with 5% each. However, practically all-major international brands are well represented; distributors/retailers commonly represent and market more than one brand.

MEDICAL EQUIPMENT MARKET SIZE (Millions of US\$)

	2001 (Actual)	2002 (Actual)	2003 (Estimate)
Total Market Size	233	226	171
Total Local Production*	9	15	18
Total Exports	4	3	3
Total Imports	220	208	150
Imports from the U.S.	110	95	70

Note: Figures are unofficial estimates

* Local production is composed primarily of hospital furniture

13. TRAVEL AND TOURISM SERVICES

Despite recent challenges faced by the global tourism industry, the U.S. remains the number two destination for Chilean travelers, second only to neighboring Argentina. During 2002, a total of 281,777 Chileans travelled to the U.S., representing 20 percent of the total outbound market. In the period January to June 2003, Chilean travellers to the U.S. totalled 133,502, representing 16% of the total market compared to a 14% share for Europe. The conflict in Iraq may have contributed to the decline in number of Chileans travelling to the U.S. during that period, but it is expected that the stronger peso will lead to more Chileans travelling to the U.S. in the second half of the year.

The U.S. attracts Chilean visitors because of its excellent tourism infrastructure, entertainment, and shopping and recreational activities, including beaches and shopping malls. Chileans travel to the U.S. for four primary purposes: business, vacation, visiting

relatives/friends, and study/training. Increasing numbers of Chilean students and professionals travel to the U.S. to learn English or obtain post-graduate degrees.

With the implementation of the U.S.-Chile FTA, more and more Chileans are likely to be travelling to the U.S. for business and/or training. The main U.S. destinations for Chilean business travellers continue to be Miami, Los Angeles, New York, Dallas, and Atlanta.

In Chile, wholesale operators generally provide services to travel agents who, in turn, provide services to consumers. Chileans generally prefer to make their travelling arrangements through a travel agent, however, use of the Internet to make travel reservations is on the increase.

The peak travel season for Chileans, representing 30% of travel, are the months of January and February (Chile's summer season). July and September (winter and spring school break, respectively) are also busy travel times.

The Visit USA Committee in Chile is an association that promotes tourism to the U.S. Membership in the committee offers real benefits. For example, the committee organizes the Destino USA Show. Sponsored by the U.S. Commercial Service, this show is the most important annual event in Chile for promoting the U.S. as a travel destination. The next show will take place on March 2004. For further information visit: www.visitusa.cl

TOURISM MARKET SIZE (Thousands of Chileans traveling)

	2001 (Actual)	2002 (Actual)	2003 (Estimate)
Total Chilean Outbound Travelers	1,580	1,417	1,640
Chilean Travelers to the U.S.	319	282	270

Note: Figures are unofficial estimates

Best Prospects for Agricultural Products

Summary: The Chilean farm sector produces a wide variety of crops, but Chile is still a net importer of most bulk and intermediate commodities. Chile also has its own competitive food processing sector, as well as an extended growing/harvest season due to its extreme north-south geography. As a result, a wide variety of domestic fresh fruits and vegetables are available much of the year. It is estimated that only about 100,000 households, or 400,000 consumers, can afford to purchase imported consumer-oriented food products on a regular basis. Based on size, market growth rates and the U.S. competitive position in the market, the following individual products have the greatest potential for sale in Chile: corn; wheat; corn gluten feed; forage seeds; pet food; soy protein isolates and concentrates; oak for wine barrels; and snack foods/high value processed foods. Competition from Mercosur suppliers remains fierce for grains, soybean products and pet food, while domestic and European imports present the greatest challenge to U.S. processed foods.

Bulk Commodities: U.S. exports of bulk commodities to Chile should increase even though the United States will likely remain a residual supplier due to higher prices relative to Argentina, Brazil and other suppliers. An important U.S. advantage is our reliable menu of grains and feed ingredients available throughout the year, which

creates good opportunities for sales whenever other suppliers are short. Mixed cargoes of commodities also are sometimes an attractive option that helps U.S. exporters to be competitive in this market.

Intermediate Products: We see steady growth potential for feeds, fodders and genetics as Chile expands its production of pork and poultry. Chile will also continue to be a strong market for planting seeds. Growth in these U.S. exports will be further stimulated as the result of the U.S.-Chile FTA.

Food Ingredients for Food Processing Sector: Chile has a very competitive food manufacturing/processing sector that supplies a wide range of products, including: poultry and pork products, dairy products, seafood, processed fruits and vegetables, cookies, chocolates, candies, pasta, powdered beverages, soft drinks, bakery products, canned peaches, marmalades, tomato sauces and wine. Chile has worked steadily to improve food safety standards, and has become a leader in this area in the South American region. The Chilean food processing industry is growing and its latest Free Trade Agreements with the European Union and the United States are expected to provide further impetus to this sector.

The principal constraint in the market is that currently most low cost imports for this sector come from other Mercosur countries (Argentina, Uruguay, Paraguay and Brazil). However, we believe there is a need for US high tech food ingredients. Also, we believe the U.S.-Chile FTA will open up new markets for previously prohibited inputs of meat, fresh fruits and dairy. In general, opportunities exist for food ingredients for the following processed food categories: dairy, bakery products, snacks, processed meats, etc. In addition to the domestic food processors that dominate the market, there are several foreign food processors that have invested in Chile to make products specifically for sale in Chile and in the region.

Consumer-Oriented Products for the Retail Sector: Chile has a modern, highly competitive supermarket sector. Chile's supermarket industry reported sales of \$4.3 billion in 2002. The sales forecast for 2003 is \$4.5 billion. The market for consumer-ready food products and imports is concentrated in the Santiago where both population density and higher incomes create 40% of consumer demand. Supermarkets, i.e., stores with 3 or more check-outs, serve about 58% of the grocery market and number about 667. Traditional neighborhood mini-markets, beverage stores, vegetable stands, etc. serve about 23% of the market and number about 90,000. Convenience stores, gas marts and kiosks sell limited quantities of imported candy and snack foods. In general, they do not import, but purchase from local wholesalers/distributors. The average gas mart has an area of 100-150 m² and sells around \$600,000 annually. Gas mart profit margins are reportedly about 10% on sales, about double that of supermarkets. However, the introduction of hypermarkets and larger supermarkets is reshaping the industry. These stores now account for 20% of total sales, offering customers fresh bakery goods, delicatessen items, fresh seafood, coffee bars, prepared salads, pizzas and meat dishes, in addition to fresh, frozen and dry grocery products. Warehouse outlets and wholesale clubs have not yet made an appearance. About 10-15% of products sold in supermarkets is imported, but this segment has grown by 85% over the last five years. The U.S.-Chile FTA has prompted new interest in U.S. products and opened new opportunities for previously prohibited products, such as red meat, certain fresh fruits, and dairy products. The following foreign food imports are in the highest demand: sardines, tuna, baked goods, crackers, cookies, grain products, jams/jellies,

canned & jarred fruits and vegetables, fruit juices, sweets, gum, chocolates, breakfast cereal, condiments, salsas and seasonings.

High Value Food Products for Institutional Food Service: There are three institutional food service companies who dominate the Chilean market and do about \$300 million in business annually in Chile. Mines and educational institutions are the leaders in offering meal benefits. However, reportedly 80 percent of businesses provide their employees in-house food services or vouchers to eat at local restaurants and sandwich shops. Approximately 50% of the raw materials are imported for these meals, with the bulk of these imports coming from Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay). The three giants currently are not importing from the United States because of prices. With export pricing on institutional unit sizes, the following products offer good opportunities: tuna, rice, oil, palm hearts, crackers, cheese and other dairy products, cookies and pasta.

2002 Agricultural, Forestry & Fish Imports by Chile (millions of dollars)

Total (from world)	1,660
From the U.S	151
U.S Share	9%
Chilean Surplus with U.S	1,800

2002 Principal U.S. Agricultural Exports to Chile (millions of dollars CIF)

Mixed feeds & fodders	23.1
Wheat	18.1
Forest Products	8.4
Rice	6.8
Planting Seeds	5.5
Cotton	4.7
Sugars and Sweeteners	4.6
Petfoods	4.0
Snack foods	3.9
Dairy Products	3.3
Processed Fruits & Veg	3.0
Corn	2.0

Source: World Trade Atlas

2001 Principal U.S. Agricultural Imports from Chile (millions of dollars CIF)

Fresh Fruits	746.1
Forest Products	555.3
Fish Products	507.7
Wine & Beer	137.0
Planting Seeds	101.2
Fruit & Veg. Juices	55.5
Processed Fruits & Veg.	39.3
Spices	10.5
Cut Flowers	5.8
Tea	3.7
Live Animals	3.5

Source: World Trade Atlas

For more detailed trade statistics and reports on US food and agricultural export opportunities, visit: www.fas.usda.gov/commodity.html

Significant Investment Opportunities

Chile remains open to foreign investment (see Chapter 7), and investment opportunities mirror the best prospects (see sectors described above). Additional information on specific projects can be obtained through the U.S. Commercial Service in Santiago. For official information on investing in Chile, contact:

Comite de Inversiones Extranjeras (Foreign Investment Committee)
Karen Poniachik, Executive Vice President
Teatinos 120, P. 9, Santiago, Chile
Tel: (56-2) 698-4254; Fax: (56-2) 698-9476
www.foreigninvestment.cl

Email: cinver@tmm.cl

CHAPTER 6: TRADE REGULATIONS AND STANDARDS

Trade Barriers

Chile generally has few barriers to imports or investment allowing foreign firms to enjoy the same protections and operate under the same conditions as local firms. The U.S.-Chile Free Trade Agreement further addresses most of the trade barriers Chile does impose. For example, under the FTA, Chile agreed to eliminate the 50% surcharge (9% duty vs. 6%) applied to used goods originating from the U.S. In addition, Chile agreed to phase out its luxury tax on U.S.-made automobiles. This tax will drop from the current 85% of vehicle value over CIF \$16,361 (currently) to zero over the next four years. Certain other imported "luxury goods" incur an additional 15% tax upon entry into Chile. These include: beer, chicha, cider, wine and champagne; gold, platinum, and white ivory articles; jewelry and natural or synthetic precious stones; fine furs; mobile home trailers; caviar conserves and their derivatives; pyrotechnic articles, such as fireworks, petards, and similar items (except for industrial, mining or agricultural use); air or gas arms and their accessories (except for underwater hunting); and fine carpets and similar articles. Other liquors, such as grape pisco, whisky, aguardiente and liquorice wines face a 27% tax. Tobacco products, such as cigarettes, cigars and processed tobacco, are subject to additional 61%, 51% and 57.9% taxes, respectively. Additionally, all imports are subject to the same 19 percent (as of October 1, 2003) Value Added Tax (IVA) imposed on domestic goods.

In terms of agricultural products, while dairy and beef establishments no longer have to be individually inspected by the Chilean Ministry of Agriculture, processed poultry and pet food establishments still do. Imports of fresh/chilled poultry are still prohibited. Many import restrictions on fresh fruits have been resolved, as a result of technical talks held in tandem with the FTA negotiations. Consequently, new market access is available for a wider range of fruits and vegetables, although exporters should still check with the Department of Agriculture/APHIS to check on any restrictions before shipping to Chile.

Chile only approves the import of processed food products on a case-by-case basis. There is no blanket approval process for permitting identical products from different companies to enter Chile after they have been tested and found in compliance with local health regulations. To bring in a product, the importer must obtain the permission of the Health Service Officer at the port of entry, who will take samples and perform the necessary tests. This process raises the overhead cost of introducing new products into the market. Labeling and fortification standards are also unique to Chile's Health Ministry and sufficiently distinct from U.S. standards that some U.S. processed food products must be labeled and/or formulated especially for Chile. These issues are being addressed in bilateral negotiations with the Government of Chile (see the Foreign Agricultural Service's Food and Agricultural Import Regulations report at www.fas.usda.gov/scripts/attacherep/default.asp).

Customs Valuation

Chilean customs valuation uses the normal value of merchandise, without special discounts, plus freight and insurance (CIF). Used goods are valued by the customs service according to the current new value of similar merchandise, discounting ten

percent per year of use, up to a 70-percent discount. For more information, see the Chilean Customs web page at http://www.aduana.cl/home_ingles.htm.

Import/Export Documentation

Commercial forms used by both local importers and exporters are commercial invoices, certificates of origin, bills of lading, freight insurance and packing lists. Special permission, certificates, and approval documents, such as phytosanitary certificates, are required in special cases and can be obtained from National Health Service (Servicio Nacional de Salud, SNS), the Agricultural and Livestock Service (Servicio Agrícola y Ganadero, SAG), and the National Fishing Service (Servicio Nacional de Pesca, SERNAP), depending on the nature of the products to be imported. For documentation requirements specific to agricultural imports, see the Foreign Agricultural Service's Food and Agricultural Import Regulations report at www.fas.usda.gov/scripts/attacherep/default.asp.

Temporary Entry

Under the terms of the U.S.-Chile FTA, Chile will permit duty-free temporary admission of professional equipment necessary for carrying out the business activity of a business person who qualifies for temporary entry under Chilean law. Temporary duty-free admission of goods intended for display or demonstration and commercial samples is allowed. For temporary entry of food samples, see the Foreign Agricultural Service's Food and Agricultural Import Regulations report at www.fas.usda.gov/scripts/attacherep/default.asp.

Labeling, Marking Requirements

Imported products customarily consumed by the public must display the country of origin before being sold in Chile. Packaged goods must be marked to show the quality, purity, ingredients or mixtures, and the net weight or measure of the contents.

Canned or packaged foodstuffs imported into Chile must bear labels in Spanish for all ingredients, including additives, manufacturing and expiration dates of the products, and the name of the producer or importer. All sizes and weights of the net contents also must be converted to the metric system. Goods not complying with these requirements may be imported but not sold to consumers until conversion is made. Thus, foodstuffs labeled in English have to be re-labeled in Chile before they can be sold. For information on Chile's labeling requirements for food, see the Foreign Agricultural Service's Food and Agricultural Import Regulations report at www.fas.usda.gov/scripts/attacherep/default.asp.

Prohibited Imports

The importation of used passenger and cargo transportation vehicles is prohibited. Exceptions include the importation of used ambulances, armored cars, mobile homes, prison vans, street and highway cleaning vehicles, cement-making vehicles, hearses, and fire-fighting vehicles.

Standards

In general, standards are not mandatory, but companies can voluntarily comply with them, especially in industries where such compliance constitutes a kind of “seal of approval.” However, certain imported products, such as those related to industrial safety, building and construction materials, and the gas and electricity industries, must comply with specific requirements of the supervising entity. For example, there are specific regulations pertaining to the seismic resistance of new construction. The National Standards Institute (Instituto Nacional de Normalizacion, INN; see www.inn.cl) is promoting ISO 9000 standards among local manufacturers. The chemical industry is one of the few industries that have incorporated the ISO 9000 standards in its industrial processing lines.

For agricultural products, the FTA included an agreement on red meat grading standards, which now allows U.S. products to be sold in the Chilean market according to U.S. standards.

Free Trade Zones/Warehouses

Chile's two free-trade zones are the Free Zone of Iquique (ZOFRI) in the northern tip (Region I) of Chile and the Free Zone of Punta Arenas in the southern tip (Region XII). ZOFRI encompasses the free ports of Arica and Iquique. ZOFRI is a major transit point for products bound for Bolivia and to a lesser extent for products going to Peru, Paraguay and northern Argentina. Punta Arenas also has a free port. Modern facilities for packaging, manufacturing and exporting exist in each zone. For more information, see also Chapter 7: Investment Climate Statement.

Although the U.S.-Chile FTA will allow immediate duty free entry into Chile for 85% of U.S.-made goods, under certain circumstances, U.S. exporters may still want to look at the advantages offered by Chile's free-trade zones. Regardless of the applicability of the FTA,

- a) imports entering and remaining in Chile's free-trade zones pay no duty or VAT;
- b) imports leaving the free trade zones but remaining in regions I or XII (considered "extended" duty-free zones) pay a reduced 4.4 percent import duty (if not FTA-partner origin) but no VAT. This tax is deductible when the merchandise is exported to the rest of the country;
- c) imports leaving the free-trade zones to enter the greater Chilean market pay full tariff (if not FTA-partner origin) and VAT charges;

Imported goods may remain in customs warehouses for 90 days. If said goods are unclaimed after the 90-day period, the goods will be declared abandoned by Customs and sold at public auction.

The U.S.-Chile FTA calls for the eventual elimination of duty drawback rights. Full drawback rights will remain for the first 8 years the FTA is in place and will then be phased out over the following four years. At present, Chile has a simplified duty drawback program for non-traditional exports, which is mandated by Law 18,480. Chile reduced the amount of the duty drawback to no more than 3% of the value of the exported products, in order to make the systems WTO compliant. To qualify for this drawback, exports for that product during the last year, should not have exceeded \$17.9 million FOB.

Special Import Provisions

Animal Health and Phytosanitary Requirements: Chile continues to have animal health, phytosanitary and sanitary requirements that impede imports, although great progress has been made on a number of fresh fruits, dairy and red meat. However, the entry requirements for poultry remain a non-tariff barrier. All food products entering Chile are subject to sampling and analysis by health authorities.

Firearms can be imported, but they require a special permit from a military authority in Chile.

The import of pharmaceuticals, cosmetics and most biological and bio-chemical preparations requires prior registration with the Institute of Public Health (Instituto de Salud Publica; see web site at www.ispch.cl) and may be subject to special labeling and other requirements, depending on the nature of the product.

Imported goods that are considered inconsistent with Chilean "morals, public health, national security, or environment" require special authorization to enter into Chile. These include certain chemicals/processes and some media products that face review and possible censorship. All films, videos and TV programs, imported or locally produced, are currently reviewed for suitability.

Membership in Free-Trade Agreements

Chile has signed free-trade agreements with Canada, Mexico, the European Union, Central America (5), the European Free Trade Association (EFTA), South Korea and the United States. It also has Complementary Economic Agreements that provide certain sector-specific tariff reductions or eliminations with Bolivia, Colombia, Cuba, Ecuador, Peru and Venezuela. Chile is an associate member of Mercosur (full members: Argentina, Brazil, Paraguay and Uruguay) and remains an active participant in negotiations on the Free Trade Area of the Americas (FTAA). This network of FTAs, along with a package of new legislation to implement the agreements, will significantly improve market access for Chilean products and exports. Both the product mix of exports and the markets for Chilean goods are becoming increasingly diversified. Dependency on copper is gradually declining. Chile sends roughly 30 percent of its exports to Asia, 25 percent to the European Union, 20 percent to NAFTA countries, and the rest to Latin American and other smaller markets.

CHAPTER 7. INVESTMENT CLIMATE

Openness to Foreign Investment

A key feature of the government of Chile's development strategy is a welcoming attitude toward foreign direct investment, embodied in the country's 1974 foreign investment statute, known as DL (Decree Law) 600. DL 600 has been the main regulatory norm for foreign direct investment in Chile during the last 30 years, due to the benefits and assurances that it establishes. Under DL 600, a foreign investor may sign a contract with the Chilean State, and the Foreign Investment Committee (FIC) of the Chilean Government, which is the entity responsible for administering DL 600, and establish the terms and conditions of the investment. By signing such a contract, the investor agrees to be bound by the rights and obligations summarized in Article 1 of the statute. Applications are typically approved within a matter of days and almost always within a month. The authority of the Foreign Investment Committee to reject a foreign investment is severely limited by the Chilean Constitution. The Foreign Investment Committee's decision can be appealed if an investor believes he has been discriminated against.

The contract may not be modified unilaterally by the Chilean State or by the enactment of any legal regulations after it has been signed. Any foreign individual or foreign legal entity, as well as Chilean individuals with residence abroad, can invest in Chile through DL 600. The contract acknowledges as foreign investment:

- Freely convertible currency;
- Capital goods;
- Technology.

The general regulations, terms, interest and other modalities of foreign credit contracts, as well as surcharges related to total costs to be paid by the debtor, including commissions, taxes and expenses, must, in addition, be authorized by the Central Bank of Chile. The investors can, under DL 600, increase the capital of their investment through both the capitalization of credits made under Chapter XIV of Central Bank regulations and the obligations derived from current imports and pending payments. DL 600 allows capital increases through the capitalization of transferable profits.

Foreign investors may request a maximum of three years to implement their investment. Investments of more than US\$50 million for industrial or non-mining extractive projects can request a time limit of up to eight years. In the case of mining projects, the time limit is eight years, but if previous exploration is required, the FIC is empowered to extend it to up to twelve years. In the event that more favorable regulations than those in the contract are subsequently enacted, the investor will have the right to request an amendment.

The contracts also give investors the following rights:

- to receive non-discriminatory treatment;
- to participate in any form of investment;
- to hold assets indefinitely;

- to remit or reinvest earnings immediately and to remit capital after one year. (or immediately with authorization from the FIC);
- to acquire foreign currency at the inter-bank rate of exchange; and
- to opt for either national tax treatment, under which local firms are currently taxed at a rate of 35 percent on fully distributed earnings, or for a guaranteed tax rate currently set at 42 percent. This 42 percent invariability can be extended 20 years.

On June 6, 2003, the FIC raised the minimum investment under DL 600 to \$5 million per investor, and increased it to \$250,000 in the case of fixed assets, technology, debt capitalization, and profit reinvestments after that date. Capital investments below the new minimum level can be channeled through Chapter XIV of the Central Bank's Compendium of Foreign Exchange Regulations.

Title I, Chapter XIV of the Chilean Central Bank's Compendium of Foreign Exchange Regulations is another mechanism provided for transferring foreign capital into Chile. Chapter XIV establishes regulations applicable to investors that govern foreign exchange operations related to credits, deposits, investments and capital contributions originating abroad. The procedure is applied to operations whenever the amount involved is greater than \$10,000 or its equivalent in other foreign currencies.

In November 2002, the Chilean Government launched an Investment Platform initiative aimed at attracting international operations headquarters for the region to Chile. As part of this initiative:

- A company that is set up exclusively as a platform for investments abroad and in Chile is exempt from Chilean earnings tax on the profits that overseas shareholders derive from its investments outside Chile. These platform companies can be either publicly or privately-held but in the latter case must submit to the same regulation as public companies;
- Up to 75 percent of the platform company's shareholders may be resident in Chile; non-resident shareholders may not reside in tax havens;
- Shareholders in the platform company can contribute capital either in the form of shares or equity in other companies, as well as in foreign currency;
- If a platform company invests in Chilean assets, it must pay tax on profits derived from these investments. Similarly, the earnings of the platform company paid to Chilean shareholders are liable for the same tax (and have the same right to tax credits) as an investment abroad that repatriates profits to Chile;
- Platform companies that invest in Chile must distribute earnings in the order in which they were obtained, starting with the oldest. As a result, separate accounting is required for earnings from investments abroad and on assets in Chile;
- There are no restrictions on domestic borrowing by a platform company, but its overseas debt cannot exceed the value of the capital contributed by overseas shareholders;
- The platform company may not invest in tax havens;

-- Platform companies are not entitled to bank secrecy;

By exempting platform companies from Chilean tax on overseas earnings, the initiative addresses the problem of the three-way taxation and provides foreign investors with additional incentive to invest in Chile. This initiative is expected to foster regional joint ventures between foreign investors and Chilean partners. Also, in order to facilitate the entry of foreign capital into Chile, the initiative allows companies that are already established in the region to move their operation centers to Chile without incurring the transaction costs involved in selling and re-buying assets.

For most of the 1990s, the Chilean economy attracted large inflows of foreign capital, particularly direct investment, especially in the mining sector. Chile's total stock of foreign direct investment between 1974 and 2002 reached US\$58.2 billion. Almost 90 percent of this amount entered after 1990. These figures represent the largest stock of FDI per capita and the highest FDI to GDP ratio of the major economies in Latin America. FDI rose in 2001, buoyed by large acquisitions in the telecommunications, electricity and pharmaceuticals sectors. Foreign direct investment totaled \$3.8 billion in 2002, however, a drop of close to 33 percent from the previous year.

Although Chile encourages foreign investment, some barriers do exist. Foreigners may not invest in Chilean fishing companies or media unless their country has a reciprocity arrangement with Chile. The European Union signed such an agreement in 2002 with regard to commercial fishing companies. There are no restrictions on foreign investment in telecommunications, but investors must acquire a license, and the number of licenses available is limited in some new sectors of the industry. Certain types of investment projects require additional authorization beyond that of the FIC. For example, projects in the mining sector require the Chilean Copper Commission's authorization; for investments in the fishing sector, projects require the Undersecretariat of Fishing's approval; authorization from the Bank and Financial Institutions Regulatory Agency is required to operate in the banking sector and the Securities and Exchange Commission for activities in insurance and investment funds. Other authorizations are required from the Pension Funds and Private Health Insurance regulatory agencies to participate in those sectors. For those projects with a potential environmental impact, authorization is required from the National Environmental Commission (CONAMA) or the Regional Commission (COREMA), depending on the case.

On June 6, 2003, the United States and Chile signed a Free Trade Agreement (FTA) that, pending approval by the Chilean legislature, should come into effect January 1, 2004. The chapter on investment is modeled on the classic standards found in agreements throughout the world: the NAFTA investment chapter, the investment chapters in Chile's FTAs with Mexico and Canada, U.S. bilateral investment treaties, and customary international law. It incorporates innovations and improvements based on the experiences of both countries in implementing investment agreements, and responds to new U.S. objectives set forth in the Trade Promotion Act (TPA) of 2002. The main objective of this chapter is to provide stability and security to investors. The chapter provides six basic forms of protection:

- Non-discriminatory treatment, based on the national treatment and most-favored-nation-treatment, relative to domestic and third party investors;
- Freedom from performance requirements;
- Free transfer of investment funds;

- Expropriation only when effected consistent with customary international law;
- A minimum standard of treatment in accordance with customary international law;
- The ability to hire key managerial and technical personnel without regard to nationality

Conversion and Transfer Policies

In the late 1980s and early 1990s, the Government of Chile imposed strict controls on short-term capital inflows. By the end of the decade, capital inflows had considerably diminished. In May 2000, the Central Bank lifted the one-year withholding period requirement for foreign capital entering Chile under Chapter XIV. This type of investment capital may now be repatriated immediately without penalty.

A second major move in 2000 was the virtual elimination of the “encaje” or lock-in, which required foreign investors to deposit a percentage of foreign-sourced loan funds and portfolio investment with the Central Bank in a non-interest-bearing account for up to two years. In response to pressures on current account and international financial crises since 1997, the Central Bank reduced the “encaje” rate by late 1998 to zero. The Central Bank retains the power to re-impose the “encaje” mechanism in the future if circumstances warrant.

Additional reforms in 2001 and 2002 eliminated controls on flows of foreign capital into Chilean debt and equity markets and freed outflows associated with capital returns, dividends, and other investments from the need for Central Bank approval. A capital market reform was implemented in December 2001 that aimed to increase the liquidity of domestic markets, encourage savings and improve access to investment finance. In June 2003, the GOC sent to Congress a second package of incentives for the development of local venture capital.

Pursuant to recent changes in regulations governing foreign exchange, investors, importers, and others are guaranteed access to foreign exchange in the official inter-bank currency market without restriction.

The Central Bank reserves the right to deny access to the inter-bank currency market for royalty payments in excess of five percent of sales. The same restriction applies to payments for the use of patents that exceed five percent of sales. In such cases, firms would have access to the informal market. The Chilean tax service reserves the right to prevent royalties of over five percent of sales from being counted as expenses for domestic tax purpose.

Under the Investment Chapter of the FTA, each government must allow transfers related to an investment that is covered by the chapter to be made freely and without delay into and out of its territory. These include transfers of profits, royalties, sales proceeds, and other remittances related to the investment. However, for certain types of short-term capital flows, the chapter allows Chile to impose transfer restrictions for 12 months, as long as those restrictions do not substantially impede transfers. If restrictions are found to substantially impede transfers, damages accrue from the date of the initiation of the measure.

Expropriation and Compensation

Chilean law grants the government authority to expropriate property, including property of foreign investors, only for public or national interests on a non-discriminatory basis

and in accordance with the due process of law. The law requires the payment of compensation without delay at fair market value, in addition to any applicable interest. The 1973-1990 military regime and the three subsequent democratically-elected governments have not nationalized any private firm, and nothing suggests that any expropriation is likely in the foreseeable future.

The Investment Chapter of the FTA, following directives contained in the TPA of 2002, includes an annex that expands upon aspects of U.S. expropriations law and clarifies the relationship between indirect expropriations and domestic regulations.

Dispute Settlement

Except for U.S. investment covered by Overseas Private Investment Corporation (OPIC) insurance, disputes involving U.S. investors have been typically settled in negotiations between the investor and the concerned government entity. Any dispute not resolved in this way has been referred to local courts for adjudication, although the time required may have made this an unattractive option for foreign investors. Accordingly, litigants often chose to settle out of court. Suits may be brought under expedited procedures in cases involving the abrogation of constitutional rights.

Chile has signed several bilateral investment protection agreements with other countries allowing for binding international arbitration. Different agreements contain varying procedures; some allow the investor to choose either the host country's legal system or international arbitration but not both, while others specify that disputes must pass through the host country's legal system before recourse to international arbitration. Chile joined the International Center for Settlement of Investment Disputes (ICSID) in 1991.

Although the U.S. and Chile do not have a bilateral investment treaty (BIT), the Chilean-American Chamber of Commerce (Amcham) has established an arbitration panel consisting of local experts and businessmen to hear international contractual disputes. Formed in cooperation with the American Arbitration Association, the panel is meant to provide an alternative to judicial court procedures, and companies electing to utilize the panel agree to abide by its decision. Many issues normally covered in a BIT are addressed in the recently signed FTA. Section C of the Investment Chapter provides a mechanism for investors to pursue a claim against a host government that is in breach of the FTAs investment obligations, an investment agreement, or an investment authorization.

Investment authorizations under D.L. 600 are not subject to this mechanism and only agreements signed beginning 2 years from the date on which the treaty enters into force may make use of this dispute settlement mechanism. Under this section, the investor pursuing a claim may choose the arbitral forum - including the International Center for Settlement of Investment Disputes (ICSID), the Additional Facility of the Center - under the UNCITRAL arbitration rules, or any other mutually agreed upon arbitral institution. The rules chosen will govern the proceedings except to the extent modified by the FTA.

An investor may initiate a proceeding up to 6 months after the event giving rise to a claim. All claims must be brought within 3 years of the date the claimant acquired knowledge of the breach and/or injury. The chapter on investments encourages consultations or negotiations before the settlement of claims. If the parties fail to resolve the matter, the investor can submit a claim for arbitration. Arbitration must be by mutual

consent. Provisions in Section C ensure that the proceedings are transparent by requiring that all documents submitted or issued by the tribunal be available to the public, and by stipulating that proceedings be public. The tribunal must also accept amicus curiae submissions. The section establishes clear and specific terms for making proceedings more efficient and avoiding frivolous claims. Domestic law is to be applied to all contracts. However, arbitral tribunals decide disputes in accordance with FTA obligations and applicable international law.

The judicial system in Chile is transparent and independent of government involvement. The likelihood of government intervention in court cases is very low, but possible. If a state-dependent firm is involved in the dispute, the Government of Chile may become involved through the Defense Council of the State (Consejo de Defensa del Estado). In cases where courts determined a firm is bankrupt, a receiver is named to distribute the debtor's assets to the creditors.

Performance Requirements and Incentives

The Foreign Investment Committee does not apply performance requirements in its review of projects. The Investment Chapter in the FTA establishes the rules prohibiting performance requirements that apply to all investments, whether by third party or domestic investors. The chapter also regulates the use of mandatory performance requirements as a condition for receiving incentives, and explicitly states relevant exceptions. These include: government procurement, qualifications for export and foreign aid programs, and non-discriminatory health, safety and environmental requirements.

Chile does not subsidize foreign investments nor does it offer any special tax exemptions. There are, however, some regional incentives linked to isolated geographical zones and to the information technology sector. These benefits relate to co-financing of feasibility studies as well as to incentives for the purchase of land in industrial zones, the hiring of local labor and facilitation of project financing. Other important incentives include accelerated depreciation accounting for tax purposes, special tax treatment for retained earnings, and legal guarantees for remitting profits and capital.

Right to Private Ownership and Establishment

Except for the fisheries and media sectors noted above, Chile does not restrict the right to private ownership or establishment.

Protection of Property Rights

Chile has a very strong regime for the protection of property rights, including secured interests in property. A well-functioning legal system safeguards investments of Chileans and foreigners alike. In protecting intellectual property rights, however, shortcomings have kept Chile on the U.S. Trade Representative's Special 301 watch list of countries with deficient intellectual property rights protection regimes since 1989.

Chile, as a member of the WTO and its agreements, including TRIPS, chose to qualify as a developing country for meeting its obligations as a TRIPS signatory. As a result, the final deadline for harmonizing national legislation to the multilateral organization's

norms was January 1, 2000. As of mid-2003, the Chilean Congress had not yet approved legislation to bring the country into compliance with TRIPS obligations. The Chilean Congress is considering legislation to modify Law 19,039 on industrial property, as well as a so-called Miscellaneous Law, which incorporates other norms related to intellectual property and a third bill that would create an Institute for Intellectual Property.

Current Chilean copyright law grants recording companies the right to authorize the use of a work for 50 years. U.S. recording industry representatives contend the law grants more power to authors relative to producers than is the industry norm. Efforts to enforce copyrights in Chilean courts are generally successful, if somewhat slow. Lenient sentencing by judges fails to deter future violations. The FTA commits Chile to offer longer terms of protection for works and phonograms (life plus 70 years for works measured by a person's life and 70 years for corporate works); includes anti-circumvention obligations to prevent tampering with anti-piracy technology; and manage access to and compensation for music, programs, and literary works provided over the internet, in accordance with U.S. law. Regarding information technology, the FTA requires that governments use legitimate computer software products, and establishes limited liability for Internet service providers.

Chilean law provides for the protection of registered trademarks and places priority on trademark rights according to filing dates. Currently, local use of the brand is not required for registration. Payments for the use of trademarks may not exceed one percent of sales. The FTA reinforces the first-in-time, first-in-right principle for trademarks vis-a-vis geographical indications. Currently, trademark protection is less than airtight. Many third parties register well-known trademarks owned by U.S. companies. When challenged, Chilean courts usually vacate such trademark registrations, but because the process may require several years and substantial expense, foreign claimants often opt to buy back trademarks rather than file suit.

Although Chile's intellectual property regime is in some respects compatible with international norms, its protection of patents remains deficient. Patent protection provided by the 1991 industrial property law (fifteen years from the date of grant) is inconsistent with the international norm of twenty years from filing. Chile also lacks comprehensive trade secret protection and a sui generis statute for protecting the design of semiconductors. Plant and animal varieties are not considered patentable subject matter under the current law, but the FTA obligates Chile to ratify and implement the UPOV 1991 agreement in this area. No transition, or pipeline, protection of pharmaceutical patents is provided. The FTA provides for patent term extension to compensate for unreasonable administrative or regulatory (including marketing approval) delays. It would also mandate protection for test data submitted for marketing approval against unfair commercial use through data exclusivity for 5 years for pharmaceuticals, and for 10 years for agricultural chemicals.

As a practical matter, U.S. pharmaceutical firms have found that the lack of effective links between Chile's patent authority and the Institute of Public Health have allowed a large number of unauthorized copies of patented medicines to enter the market. Court remedies for these patent violations are time consuming and costly. The FTA will require linkage between marketing approvals and patent protection to ensure that marketing approval is not granted for a product that violates a patent.

Government regulation runs from nonexistent in some areas to overbearing in others, but opening a business is far easier in Chile than most other Latin American countries. Chilean regulatory systems tend to be transparent. Government regulators generally have little discretion. However, rulemaking processes do not generally include formal provisions for public hearing or comment. The FTA will create some additional obligations for transparency in regulatory processes.

Efficient Capital Markets and Portfolio Investment

Chile's capital markets are well developed and open to foreign portfolio investors. Credit is allocated on market terms and is available to foreigners, although the Central Bank does reserve the right to restrict foreign investors' access to internal credit if a credit shortage exists. To date, this authority has never been exercised.

Publicly traded Chilean companies attract substantial international investment. Along with the elimination of the one-year capital residency requirement in May 2000, the Central Bank reduced to zero the "encaje" - a tax on short-term inflows - and eliminated other controls on capital flows. The Bank also authorized the issuance of peso-denominated bonds overseas. In late 2000, the Chilean congress also approved legislation (known as the OPA law) on public stock tenders that provides greater legal protection of minority shareholder rights.

In November 2001, the core measures in a far-reaching reform of Chile's capital markets came into force. One interesting aspect of the reform was the creation of an agricultural commodities exchange. The exchange project - which became law in 2002 - is an attempt to create a more transparent and efficient market for trade in agricultural products. In another modification, rules governing Chile's private pension fund industry now allow fund administrators (AFPs) to operate various funds with different risk-return profiles instead of the single fund for all affiliated workers.

Chile's 2002 capital market reforms leveled the playing field for foreign investors in the local market and those who invest through Chilean bonds abroad. This has slowly increased demand for local debt instruments among new foreign investors. The reforms also eliminated discrimination that affected commercial paper issues related to stamp taxes, and created a new tax exemption for cross-border bank lending. This will allow banks to compete on more equal terms. The reforms increased incentives for personal savings through tax-deductible schemes to encourage voluntary contributions to private pension funds administered by traditional AFPs and other financial service companies. The package also eliminated capital gains taxes related to short selling of shares and offered a capital gains tax exemption on the sale of widely-traded equities purchased after April 19, 2001. The new law also created an emerging markets stock grouping whereby investors can claim exemption from capital gains taxes for the first three years after a company's initial offering, or until 2006.

Other important reforms deal with the insurance industry and mutual funds portfolio investing. Insurance companies now face fewer regulatory restrictions in their investment portfolios, allowing for more flexible use of the range of assets offered by modern capital markets. Restrictions on mutual fund investment portfolios were also relaxed. Mutual fund administrators can undertake complementary activities, and net-worth requirements have been standardized. The reforms also allow for different

investment funds (mutual funds, private equity funds and real estate funds) to be managed by a single company.

The main institutional investors and suppliers of capital to local companies are the pension fund administrators, life insurance companies, and mutual funds. They manage a total investment portfolio of about \$50.4 billion, financing Chilean companies directly through \$4.3 billion in corporate bonds, \$5.2 billion in stock and \$9.4 billion in bank deposits.

The Government sent a second capital market reform package to Congress in June 2003. This package proposes a set of legal initiatives and norms to encourage the development of a more robust venture capital industry, reduce transaction costs, improve corporate administration regimes, improve supervision mechanisms, and promote alternative voluntary pension plans (including one that mirrors the U.S. 401K option).

The Chilean banking system is sound and competitive and meets Basle standards. There are currently 26 banks, of which 12 are foreign-owned. Foreign banks can compete on the same terms as their domestic rivals. There is one state-owned bank, Banco Estado, which is the nation's second largest. Private banks manage most corporate business. Six large, high-volume banks control roughly 68 percent of the market. The banking system has become aggressively consumer-oriented, diversifying from basic functions such as home loans and big business credit into fund management, leasing and securitization, factoring, insurance brokerage, credit cards, etc. Chilean banks have also established a presence in other regional markets, such as Argentina, Costa Rica, Peru and Venezuela.

The Chilean banking industry is characterized by the quality of its loan portfolio, due partly to strict limits on lending to a single debtor or group of related companies. This is capped at 5 percent of the capital and reserves of a bank for collateral free loans, and at 25 percent for collateral loans (fixed assets).

Summary of Chilean Banking System (March 2003)
(US\$ Millions)

Total Loans	43,694
Deposits	49,347
Net Income	216
Total Assets	63,091
Shareholder's Equity	5,719

Source: Superintendency of Banks and Financial Institutions.
Forecast: Banco de Chile. US\$ = 727.36 Ch\$ (March 31, 2003)

In a bid to increase competition within the banking sector, the capital market reforms have also introduced some liberalizing changes in banking regulations regarding minimum capitalization requirements and controlling shareholders obligations and has permitted local banks to participate in international loan syndicates.

The legislation on public stock tenders, known as the "OPA LAW" (Law 19,705), regulates public offers and acquisitions of shares, and establishes a regime for corporate governance. According to the law, any individual or group that intends to take direct or indirect control of a corporation that has publicly listed shares must inform the general public prior to the action. Title XXV of the law, known as "The Public Offer For Share Acquisition," indicates that a public offer for share acquisition must be made when the purchase stake would allow the buyer to take control of a corporation, or when the purchase target controls another corporation which represents 75 percent or more of the target's consolidate assets. Except regarding fishing companies or the media (as already mentioned), there are no restrictions or prohibitions against foreign direct investment or control.

The foreign exchange market is quite deep for spot operations and short-term currency forwards (up to 360 days). Daily trading on these markets is estimated at around \$800 million and \$600 million, respectively.

General Information on the Financial Market (March 2003)

- Financial System: 26 participants. Total Loans: \$44 billion
- Pension Funds: 7 participants. Funds under management: \$36 billion
- Insurance Companies: 54 participants. Financial investments: \$12 billion

Political Violence

Chile is considered a low threat country. Over the last ten years there have been relatively few incidents of politically motivated attacks on projects or installations. Anti-American sentiment, civil disorder, and terrorism are rare, and there have been no incidents involving international terrorist groups. However, some violent incidents have occurred in forestry plantations and farms in the south of Chile. These incidents are related to the land claims of indigenous people in the VIII and IX Regions. Other such incidents involving indigenous groups and environmental advocates have been registered where a privately-owned electrical power company is building a dam and power plant in Region VIII.

Corruption

Corruption in Chile has always been limited, although a number of cases have emerged recently. The GOC responded with vigor in 2003 to a succession of uncharacteristic public and financial sector scandals related to corruption and influence peddling in the government's domestic development agency (CORFO), the Ministry of Public Works (MOP) and the Central Bank. In the wake of the scandals, the GOC, the courts and Congress enacted a number of legal and administrative reforms. These include: judicial rulings that clarify and modernize the way public employees are paid, new campaign finance legislation, the establishment of a permanent budget commission to oversee government spending, simplified administrative procedures, the establishment of ethical guidelines for civil servants, and reforms to the manner by which the MOP awards government contracts. There is general agreement that the measures, along with the financial market reforms mentioned previously in this report, should improve Chile's transparency.

Chile has signed and ratified the Organization of American States (OAS) Convention against Corruption. Chile is also a signatory to the Organization for Economic

cooperation and Development (OECD) Convention on Combating Bribery, which was ratified in March 2001. Chilean law has not yet been modified to make bribing a foreign official a criminal act, but a wide range of bribery is punishable as a crime under the penal code. Investigating all forms of bribery is the responsibility of the Inspector General. There is a chapter of Transparency International in Chile, and the country ranked 18th on the organization's corruption index in 2001 (with the U.S. ranking 16th). On the same index, Chile ranked first among Latin American countries.

Bilateral Investment Agreements

In 1991, Chile became a signatory of the Washington Convention of 1965 that created the International Center for Settlement of Investment Disputes (ICSID). Since then, Chile has negotiated Bilateral Investment Treaties (BITs), agreements through which Chile provides additional protection both to inward and outward foreign investment flows. As of May 2003, Chile had negotiated 51 BITs, of which 37 are in force, including agreements with Spain, Germany, Switzerland, France, the United Kingdom, Australia, Malaysia, China, Argentina, Brazil, Cuba and Venezuela. The government has expressed its intention to negotiate bilateral investment protection agreements and treaties on double taxation with other countries.

OPIC and Other Investment Insurance Programs

A Bilateral Investment Agreement with the Overseas Private Investment Corporation (OPIC) took effect in 1984.

Chile is a party to the convention of the World Bank's Multilateral Investment Guarantee Agency (MIGA).

Labor

Chile has enjoyed generally calm labor relations over the last decade, and strikes have been relatively infrequent. Strikes and public protests have been concentrated in the health, education, transportation and communication sectors.

Union membership is voluntary, and approximately 12 percent of the workforce is unionized. Multiple unions exist in many companies, and management can negotiate collective agreements with any of the unions or with ad hoc groups of workers. Unions can form confederations or nationwide labor centrals and can affiliate with international labor federations. Contracts are negotiated at the company level; multi-company bargaining is permitted on a voluntary basis. Minimum wage, workday, overtime, paid annual vacations and holidays are established by law. Women are entitled to state-funded maternity leave for a period of 6 weeks before and 12 weeks after childbirth. Layoffs are not permitted between conception and one year after the female employee has returned from maternity leave.

Significant reforms to the Labor Code entered into force on 1 December 2001. During 2002, private company representatives, the government and labor organizations explored changes to the Labor Code that could allow more flexibility in labor relations, particularly with respect to non-standard work schedules. Chilean workers have a reputation for discipline and moderately low labor costs. Top executive salaries are on a par with European countries, although well below those in the U.S. Chile's low

additional wage costs, such as social security contributions, are also an important factor in the competitiveness of Chilean labor. In order to improve productivity and sustain Chile's international competitiveness, the GOC offers financial support for labor training programs. Chile allows companies to deduct set training costs (up to 1 percent of annual payroll) from corporate tax payments. A company can also use 10 percent of the rebate to finance a diagnosis of its training needs, and 15 percent to run a training department.

Foreign Trade Zones and Free Ports

Chile has two tax-free zones, one is in the northern port of Iquique (Region I) and the other in the southern city of Punta Arenas (Region XII). Merchants and manufacturers in these zones are exempt from corporate tax and from VAT and customs duties. Goods can be re-exported without paying taxes, but products that are sold within Chile must pay VAT and import duties upon leaving the zone (except to immediate geographical area in which a lower tax rate applies). The same exemptions also apply to manufacturers in the Chacalluta and Las Americas Industrial Park in Arica (Region I). For more information, see Chapter 6: Trade Regulations, Customs and Standards.

Foreign Investment

Between 1974 and 2002, US\$86.7 billion in foreign direct investment was authorized under Chile's DL 600 and projects worth US\$58.2 billion were implemented. Almost 90 percent of that investment entered the country after 1990. During the 1990s, investment under DL 600 expanded at an average annual rate of 19.7 percent in nominal terms. As a result, by December 2002, over four thousand companies from more than 64 countries had invested in Chile. Foreign direct investment flows as a percentage of GDP reached a yearly average of 6.4 percent of GDP from 1990 to 2000, and 8.3 percent of GDP from 1995 to 2000. In 2000, foreign direct investment declined somewhat to \$2.9 billion (a 67 percent drop compared to 1999). In 2001, FDI recovered to US\$4.8 billion, but it slowed again in 2002 due largely to the economic crises in Latin America.

Implemented foreign direct investment between January and December 2002 totaled US\$3.7 billion) a 33 percent drop in relation to the previous year. Eighty-eight percent of the total 2002 amount (US\$3.3 billion) was channeled through D.L. 600. Capital that entered the country though Chapter XIV totaled US\$446.3 million. FIC expects that for 2003 FDI inflows will increase, attracted by the opportunities created by FTAs with the European Union, South Korea and the United States.

During 2002, the mining (58.2 percent), electricity, gas, water, transportation, and communications sectors attracted most of the FDI entering Chile. Mining has attracted just over half of total FDI inflow since 1974, while around one-quarter has been channeled into service sectors. Between 1990 and 2001, investments in natural resource industries (mining, forestry, fishing, aquaculture and agriculture), represented 33 percent of total materialized foreign direct investment. Service industries accounted for another 23 percent, followed by electricity, gas, water industries, and manufacturing. Regulatory reform in the financial services industries, as well as energy-related industries and the government's infrastructure concessions program (including road, port and water treatment facilities), has recently helped to attract significant investment beyond the traditional mining, forestry and fishing sectors.

The U.S. remains the single largest direct investor, accounting for around 40 percent of inflows through most of the 1990s. Since 1997, however, FDI from Europe as a whole has surpassed that of the U.S., primarily due to Spanish acquisitions in the energy and telecommunications sectors. For the period 1974-2002, the United States led foreign direct investment, accounting for 30.5 percent of the total. The U.S. was followed by Spain (18.5 percent), Canada (13.5 percent), the United Kingdom (8 percent), Australia (3.8 percent) and Japan (3.1 percent). In 2002, the United Kingdom was the most important investor with 45.1 percent of the total. The United States had 16 percent, Canada had 14 percent, and Spain had 7.3 percent.

According to Central Bank statistics, total flows of Chilean investment abroad, principally in Mercosur and other neighboring countries, have surpassed \$18 billion since 1995. The economic and financial instability in the region prompted Chilean capital to move to more stable markets, however. By 2003, the United States, Canada and Mexico became the most important recipients of Chilean FDI. Chile's net investment abroad neared \$3.4 billion through May 2003. During 2002, Chile invested \$1.7 billion abroad.

Statistical Annexes.

Foreign Investment DL 600
Authorized and Materialized by Selected Country of Origin
January-December 2002 (in nominal US\$ thousand)

Country	Authorized Investment	Actual Investment
Argentina	13,730	9,049
Australia	4,843	168,902
Belgium	150,000	132,000
Brazil	21,600	9,325
Canada	624,900	895,006
Cayman Island		1,312
France	61,599	20,235
Germany	62,660	7,902
Italy	80,345	29,664
Japan	28,420	45,015
Mexico	4,500	2,689
Liechtenstein	2,000	929
The Netherlands	80,576	40,731
Norway	60,000	38,664
South Africa	0	274
Spain	353,515	241,604
Sweden	5,950	27,785
Switzerland	2,400	6,550
United Kingdom	1,722,777	1,499,207
United States	876,031	529,883
Total	4,160,346	3,706,726

Source: Foreign Investment Committee

Foreign Direct Investment (DL 600) By Year: 1974-2002

(in nominal US\$ millions)

Period	Authorized Investment	Actual Investment
1974-89	14,075	5,110
1990	1,536	1,315
1991	3,395	982
1992	3,015	999
1993	2,171	1,834
1994	5,901	2,521
1995	5,987	3,040
1996	6,943	4,822
1997	7,894	5,230
1998	6,076	5,973
1999	10,780	9,086
2000	7,194	2,977
2001	8,018	4,848
2002	3,730	3,322

Source: Foreign Investment Committee

Materialized Foreign Investment by Sector: 1997-2002 (In US\$ millions)

Sector	1997	1998	1999	2000	2001	2002	Total
Agriculture	14	12	21	22	10	17	96
Construction	114	280	216	29	166	138	943
Elect., Gas & Water	1,395	495	4,560	860	908	490	8,708
Fishing & Aquaculture	12	9	1	94	6	0	122
Forestry	29	37	19	4	1	1	91
Manufacturing	593	530	779	191	755	208	3,056
Mining	1,705	2,393	1,221	242	898	1,934	8,393
Services	1,197	2,006	1,910	665	705	211	6,694
Transp. & Comm.	171	211	359	870	1,284	335	3,230
Total	5,230	5,973	9,086	2,977	4,733	3,322	31,321

Source: Foreign Direct Investment

Chilean Investment Overseas (US\$ million gross inflow by destination)

Country	Direct Investments	Financial Investments	Other Investments	Total
North America	1,134	13,552	2,177	16,863
United States	929	13,499	2,053	16,481
Canada	23	-27	58	54
Mexico	182	80	66	328
South America	5,530	326	495	6,351

Argentina	3,420	90	161	3,675
Peru	653	15	67	735
Brazil	477	167	142	786
Uruguay	329	24	12	365
Paraguay	44	0	0	44
Bolivia	115	9	1	125
Europe	921	1,234	688	2,843
England	172	317	403	892
France	34	672	12	718
Spain	110	67	3	180
Germany	55	13	32	100
Liechtenstein	130	10	0	140

Source: Central Bank

CHAPTER 8: TRADE AND PROJECT FINANCING

Brief Description of Banking System

Chile's banking system offers many of the asset and liability products available in international markets. Foreign trade financing and money exchange operations are particularly well developed and efficient compared to the rest of Latin America.

Chile's Superintendency of Banks and Financial Institutions (www.sbif.cl), an agency under the Minister of Finance, regulate the financial sector. Chile's Central Bank, which is autonomous from the government in conducting monetary policy and regulating foreign capital movements, also regulates bank operations.

Some Chilean banks with direct presence in the United States are Banco de Chile, which has branches in New York and Miami, and Banco Santander-Santiago, Scotia Bank, Banco de Credito e Inversiones, and CorpBanca, each with representative offices in New York.

U.S. banks operating in Chile (see list at end of chapter) concentrate on corporate lending for multinationals and capital market activities (wholesale), although Citibank and BankBoston are active in retail banking as well. There are also a number of banks in Chile that offer U.S. Export Import Bank (EXIM) Export Insurance Programs.

Foreign Exchange Controls Affecting Trading

Foreign exchange operation is relatively active and efficient in Chile. As a general rule, currency may be freely traded in two markets: the informal and the interbank market (formal). Prior to receiving authorization, Chile's Central Bank requires confirmation that the trade finance transactions, foreign loans, capital flows, and profit repatriation will be executed through a commercial bank (formal market).

In April 2001, the Chilean Ministry of Finance, in conjunction with Chile's Central Bank, announced a series of new measures designed to eliminate obstacles and restrictions on foreign capital. They eliminated restrictions on incoming and outgoing foreign capital, the reserve requirement for external capital, and the prior authorization requirement to enter funds associated with external loans, investment, working capital, bonds and ADRs. Limitations on capital and profit repatriation were also eliminated. Now, foreign trade finance operations (both import and export) are allowed to perform their foreign exchange transactions on the open market.

General Financing Availability

In Chile, financing sources include direct investment, bank debt, bonds, stocks, and, since 1993, issuance of American Depository Receipts on the New York stock exchange (Some 26 Chilean ADRs are currently traded on the NYSE). Euro and Samurai bonds are also utilized. Larger corporations use a variety of financing sources ranging from bank debt to public offerings of stocks and bonds issued in local and/or international capital markets.

Dating back to 1990, Chile has consistently received investment grades. As of September 2003, both Standard & Poors and Fitch rated Chile as 'A-.

How to Finance Exports / Methods of Payment

In Chile, payment to foreign suppliers is often made via an irrevocable letter of credit from a Chilean commercial bank. This is relatively fast and simple, with no lengthy delays in the remittance of foreign currency. Payments are made upon receipt of notice of shipment of goods. Other methods of payment to suppliers include cash against documents and open account. Suppliers willing to offer an open account generally do so only after developing a long-standing relationship with the buyer. An alternative attractive and low-cost method of securing payment is via the Export Credit Insurance Program available via the U.S. Export Import Bank (EXIM). It is becoming a very popular means of financing the purchase of U.S. non-capital goods in Chile. More information can be obtained at www.exim.gov or by contacting U.S. Commercial Service Santiago Commercial Specialist Marcelo Orellana at marcelo.orellana@mail.doc.gov.

Types of Available Export Financing and Insurance

The U.S. Export Import Bank (EXIM) and Overseas Private Investment Corporation (OPIC) provide credit and insurance programs for U.S. exporters and U.S. investment in Chile. In addition, the Inter-American Development Bank (IADB) and World Bank loan programs are available for certain projects in Chile. For agricultural and food products, the U.S. Department of Agriculture Commodity Credit Corporation offers export credit guarantees for U.S. exporters.

Private companies can take advantage of different programs like the World Bank's International Finance Corporation (IFC), which provides financing to private sector companies involved in certain types of infrastructure projects. The IFC is particularly interested in non-traditional industries, cross-border operations and asset securitization.

Available Project Financing

Major project financing is available through issue of equity and bonds in international capital markets and through syndicated loans. EXIM and OPIC also offer project financing in Chile. See www.exim.gov and www.opic.gov for full details.

U.S. Banks in Chile	Phone (56-2)	Fax (56-2)
Bank of America NA	751-1400	751-1401
BankBoston	686-0000	686-0760
The Chase Manhattan Bank NA	425-5100	425-5415
Citibank NA	338-8000	338-8155
Republic National Bank of NY	695-2002	698-7512
HSBC Bank USA	299-7200	299-7393
Wachovia N.A.	365-9733	365-9709

Banks offering EXIM programs in Chile	Phone (56-2)	Fax (56-2)
Wachovia N.A.	540-5410	540-4485
PNC Bank N.A.	232-5954	334-2150
First International Bank	247-1221	243-8724

National City Bank	362-0310	362-0313
Riggs Bank	231-5780	334-8757
BAC Florida Bank	248-1504	234-3720
The International Bank of Miami	(US) 305-459-8492	(US) 305-569-0544

Chilean Banks	Phone (56-2)	Fax (56-2)
Banco BHIF	679-1000	679-1350
Banco BICE	692-2000	696-5324
Corp Banca	687-8000	696-0271
Banco de A. Edwards	388-3000	388-4012
Banco de Crédito e Inversiones	692-7000	695-3750
Banco de Chile	637-1111	637-3434
Banco de Santiago	648-4000	695-1138
Banco del Desarrollo	674-5000	671-5547
Banco Internacional	369-7000	369-7367
Banco Security	270-4000	270-4025
Scotia Bank	692-6000	698-6008
Banco del Estado	670-7000	670-5478

Other foreign banks operating in Chile	Phone (56-2)	Fax (56-2)
ABN Ambro Bank	396-5000	396-5666
Banco Dresdner Banque Nat. de P.	688-0411	688-0422
Banco de la Nación Argentina	671-2045	698-7341
Banco Do Brasil	336-3001	336-3005
Banco do Estado de Sao Paulo	695-1307	672-2459
Banco Exterior	385-7000	385-7099
Banco Santander	320-2000	672-3166
ING Barings	330-0600	330-0650
The Bank of Tokyo Ltd.	203-1180	203-1190
Banco Sudameris	638-1514	633-0957

CHAPTER 9: BUSINESS TRAVEL

Business Customs

U.S. business people will find that business practices in Chile and the United States are very similar. The business day usually begins at 9 a.m. and ends between 6 and 7 p.m. Lunch breaks usually do not begin before 1 p.m. If there is business to be conducted, two or even three-hour lunches are not uncommon. Although social occasions rarely begin at the indicated time, business meetings usually do.

Many Chilean business people are well-educated professionals who travel internationally and speak English. However, not all speak English, and foreign business people will often find the ability to speak Spanish very useful, if not an absolute must. Product marketing or company promotional literature should be in Spanish.

Travel Advisory and Visas

There are no current travel warnings or public announcements regarding Chile specifically. Nonetheless, visitors should be aware of the criminal environment in Santiago. Street crime, endemic to many South American cities, is a concern. One should be particularly alert in the downtown area, taking care not to visibly wear expensive jewelry. There is also potential for violent student and/or political protests. These may occur at any time during the year and generally take place within proximity of government buildings. There is currently a possibility for violence against United States citizens and interests throughout the world in response to tensions in the Middle East. Official precautions should be taken seriously and visitors should maintain awareness of their surroundings. See the State Department consular information sheet for Chile at www.travel.state.gov

SAFETY AND SECURITY: The U.S. Government remains deeply concerned about the security of Americans overseas. As a result of U.S. military actions in Afghanistan in response to the September 11 terrorist attacks, there is a potential for retaliatory actions to be taken against U.S. citizens and interests throughout the world by terrorists and those who harbor grievances against the United States. The Department of State urges Americans to review their circumstances carefully and to take all appropriate measures to ensure their personal safety. Americans are urged to monitor the local news and maintain contact with the nearest American embassy or consulate. The Department will continue to develop information about potential threats to Americans overseas and to share with them credible threat information through its Consular Information Program. Information is available on the Internet at www.travel.state.gov and the Embassy's website at www.usembassy.cl.

Due to the presence of suspected terrorist organizations in the Tri-Border Area (Argentina, Brazil, and Paraguay), activities related to terrorism are a concern in the entire region. However, there are no reports of credible threats directed specifically against American interests in Chile. Traditionally, September 11-18 is an active period for public demonstrations in Chile. Violent political, labor, or student protests can occur at other times also, often near government buildings in Santiago and Valparaiso or in the vicinity of major universities. Regardless of when or where such assemblies occur, American citizens traveling or residing in Chile are advised to take common-sense precautions and avoid any large gatherings or any other event where crowds have

congregated to demonstrate or protest. Additional advice about demonstrations, particularly during the September period, may be obtained from the U.S. Embassy at the telephone numbers listed below.

There are credible reports that land mines may pose a danger to hikers in remote sections of several popular national reserves and parks near northern border areas, including Lauca and Lullailloco National Parks, Salar de Surire National Monument, and Los Flamencos National Reserve. Visitors should check with park authorities before entering less-traveled areas and observe all warning signs. There are also demarcated land mine fields in the Magallanes region of southern Chile, between Punta Arenas and the Torres del Paine National Park, and on Tierra del Fuego, which should be strictly avoided.

CRIME: The U.S. Embassy is receiving an increasing number of reports of the theft of purses, wallets, backpacks, and luggage containing passports, credit cards, and money. Thefts have been reported in restaurants, bus stations, airports, and other places frequented by tourists. There has also been a rise in the report of thefts from hotel rooms, including rooms in better hotels.

Street crime is a problem in metropolitan Santiago in general and specifically in the city center. One should be particularly alert while walking in the downtown area, especially in the late afternoon, after dark, or on weekends, even in well-traveled areas. In Santiago and other large Chilean cities, thieves thrive on crowds on the street during rush hour and aboard public transportation.

Petty crime is also prevalent at crowded tourist locations, at Metro (subway) stations, on trains and buses, and occasionally in taxis. Rates of such crime have increased markedly in the last year. Persons wearing expensive-looking jewelry or carrying luggage or cameras are favorite targets for pickpockets and purse-snatchers. Bags and briefcases may be stolen from chairs in restaurants and outdoor cafes. Outside Santiago, robberies and assaults have occurred most frequently in the Vina del Mar and Valparaiso areas, which become increasingly crowded during the height of the Chilean summer season (December through March).

Individuals whose passports are stolen will be required to obtain duplicates of their tourist cards from the Policia Internacional before they can depart the country.

The loss or theft abroad of a U.S. passport should be reported immediately to the local police and the nearest U.S. Embassy or consulate. U.S. citizens may refer to the Department of State's pamphlets, [A Safe Trip Abroad](#) and [Tips for Travelers to Central and South America](#), for ways to promote a more trouble-free journey. These publications are available by mail from, [the Superintendent of Documents, U.S. Government Printing Office](#), Washington, DC 20402; via the Internet at www.access.gpo.gov/su_docs; or via [the Bureau of Consular Affairs home page](#) at www.travel.state.gov/.

Business people who visit Chile usually enter on a regular tourist visa, which is issued by immigration officers at the airport upon arrival. American citizens must pay a fee of \$100 at the international check-in point and must be prepared to pay the exact amount in dollars; the visa is valid for ten years or the date of expiration of the U.S. traveler's passport, whichever comes first. Business and tourist visitors are granted stays of 90

days, which can be extended for an additional 90 days by the Registro de Servicios e Identificaciones, Oficina de Extranjeria (Tel: (56-2) 550-2400), or the Gobernacion Provincial outside of the capital. For further information see www.chile-usa.org.

Individuals who intend to stay in Chile for more than 90 days but less than a year for business purposes should obtain a visa from a Chilean consulate in the U.S. Once in Chile, holders of this visa should register at the Policia Internacional (located at Barros Borgono 1052), where they will be issued a Certificado de Registro. Individuals temporarily residing outside Santiago should register at the corresponding Gobernacion.

Business people may also be granted a Resident Subject to Contract (Residente Sujeto a Contrato) visa. This visa is issued to those who have been contracted to carry out a specific job, requiring certain qualifications. It is valid for up to two years, and such visa holders are allowed to have their spouses and children also reside in the country. A new visa is required if the visa holder changes companies. This visa is also obtained at the Registro de Servicios e Identificaciones, Of. de Extranjeria (Agustinas 1235, 4th floor - Phone: (56-2) 550-2400, Santiago, Chile).

For those business people who intend to make sizeable investments in Chile, a temporary resident visa may be advisable. This visa is valid for one year, and can be extended for a second year. It may be obtained at the Registro de Servicios e Identificaciones, Of. de Extranjeria (Agustinas 1235, 4th floor - Phone: (56-2) 550-2400, Santiago, Chile).

Travelers considering scientific, technical, or mountaineering activities in areas classified as frontier areas are required to obtain authorization from the Chilean Government at least 90 days prior to the beginning of any expedition.

For current information concerning entry and customs requirements for Chile, travelers can contact the Chilean Embassy in Washington, D.C. or the nearest Chilean Consulate to their U.S. residence. (See Chapter XI, "U.S. and Country Contacts")

Americans traveling abroad are strongly advised to consult their medical insurance company to confirm whether their coverage applies overseas and whether it will cover emergency expenses. Although Medicare and Medicaid programs typically do not cover expenses incurred overseas, many travel agents and private companies can provide insurance plans that do. Americans should also consider that many doctors and hospitals require payment in cash before providing service. For more information see www.cdc.gov.

Driving in Santiago is similar to the United States, although extra awareness is advised. In order for a foreigner to drive in Chile legally, he/she must have an international driver's permit. Offenders can be fined or detained. Some Chileans drive more aggressively than what is customary in the U.S. Drivers sometimes exceed posted speed limits and weave in and out of lanes without signaling. It is also worth noting that some Santiago streets switch direction during the morning and evening hours in order to ease rush hour traffic. Chile's anti-smog laws also limit the number of automobiles eligible to be driven downtown on certain days. License plate numbers dictate which automobiles are eligible on which days.

Holidays

The following are Chile's main holidays for 2004. Some dates will vary on an annual basis.

Holiday	Date
New Year's Day	January 1
Good Friday	April 9
Easter Sunday	April 11
Labor Day	May 1
Commemoration of the Battle of Iquique	May 21
Corpus Christi	June 7
Saint Peter and Saint Paul	June 28
Assumption Day	August 15
Independence Day	September 18
Day of the Army	September 19
Columbus Day	October 11
All Saints' Day	November 1
Immaculate Conception	December 8
Christmas Day	December 24/25

Business Infrastructure

Business operations develop in a climate of free enterprise and free trade. Simplified bureaucratic procedures are the rule, making the Chilean business environment one of the most transparent and friendly in Latin America. The labor force is regarded as generally competent, productive, and relatively well educated. Current trends include innovation in export products and in a wide range of services for the domestic market. High foreign and domestic investment have added new technologies to industrial processes and increased competition in distribution and marketing.

A number of business groups control large segments of the economy but, at the same time, the number of medium-size and small companies is growing. Large-scale business is conducted through local corporations whose shares are quoted on the stock market. Since the 1970's, the Government of Chile has carried out a very successful privatization program that has transferred hundreds of companies and public services to private operators, many with foreign capital participation.

U.S. companies established in Chile have maintained successful operations in Chile for decades. The Chilean-American Chamber of Commerce has a large membership of U.S., Chilean and international firms and effectively represents the interests of the corporate community in Chile.

CHAPTER 10: ECONOMIC AND TRADE STATISTICS

Country Data

Population	15.7 million
Population growth rate	1.05%
Size of labor force	5.9 million
Religion –	
Catholic	89%
Protestant	11%
Government System	Republic
Language	Spanish

Source: The World Factbook (www.cia.gov/cia/publications/factbook/)

The Domestic Economy (In millions of dollars unless otherwise indicated)

	2000	2001	2002	2003*
Nominal GDP	71,273	74,123	66,420	68,310
Real Growth (%)	4.4	3.1	2.1	3.2
Per Capita GDP (USD)	4,928	4,314	4,414	4,490
Inflation (%)	4.5	2.6	2.8	2.1
Unemployment (%)	9.2	9.1	9.0	8.5
Government Spending/GDP	25.0	25.0	24	24
Reserves (year-end)	15,110	14,400	15,351	15,331
Exch. Rate (pesos/USD)	539.5	634.9	689	N/A
Foreign Debt (year-end)	36,477	38,032	40,395	42,739

* Estimates only

Source: Chile Central Bank (www.bcentral.cl)

Trade Statistics Chilean-U.S./Imports and Exports (Millions of dollars)

	2000	2001	2002
Chilean Exports	19,210	18,465	18,340
Chilean Imports	17,091	16,412	15,827
Imports from U.S.	3,384	2,889	2,569
Exports to U.S.	3,184	3,352	3,665
U.S. Pct. of Imports	20	18	16

Source: Chile Central Bank (www.bcentral.cl)

Investment Statistics: see Chapter 7: Investment Climate Statement.

CHAPTER 11: U.S. AND CHILE CONTACTS

Chile Government Agencies -- <http://www.gobiernodechile.cl/>

Ministerio de Relaciones Exteriores
(Ministry of Foreign Relations)
Soledad Alvear V., Minister
Catedral 1158, P. 3; Santiago, Chile
Tel: (56-2) 696-2574
Fax: (56-2) 696-8796
www.minrel.cl

Ministerio de Hacienda
(Ministry of Finance)
Nicolás Eyzaguirre G., Minister
Teatinos 120, P. 12; Santiago, Chile
Tel: (56-2) 671-0706
Fax: (56-2) 671-6479
www.minhda.cl

Ministerio de Economía y Energía
(Ministry of Economy and Energy)
Jorge Rodríguez, Minister
Teatinos 120, P. 10; Santiago, Chile
Tel: (56-2) 698-3115 or 672-5164
Fax: (56-2) 696-6305
www.economia.cl

Ministerio de Minería
(Ministry of Mines)
Alfonso Dulanto Rencoret, Minister
Teatinos 120, Piso 9; Santiago, Chile
Tel: (56-2) 671-2488
Fax (56-2) 698-9262
www.minmineria.cl

Ministerio de Defensa Nacional
(Ministry of Defense)
Michelle Bachellet Jeria, Minister
Villavicencio 364, Santiago, Chile
Tel: (56-2) 222-1202
Fax (56-2) 446-5634
www.defensa.cl

Ministerio de Trabajo y Previsión Social
(Ministry of Labor and Social Security)
Ricardo Solari, Minister
Huerfanos 1273, P. 6; Santiago, Chile
Tel: (56-2) 753-0500
Fax: (56-2) 753-0505
www.mintrab.gob.cl

Ministerio de Obras Publicas,
Transportes y Telecomunicaciones
(Ministry of Public Works, Transportation
& Telecommunications)
Javier Etcheberry, Minister
Ministerio de Obras Publicas
Morande 59, P. 6; Santiago, Chile
Tel: (56-2) 361-3000
Fax(56-2) 672-6609
Ministerio de Transportes y
Telecomunicaciones
Amunátegui 139Tel: (56-2) 421-3000
Fax: (56-2) 421-3131
www.moptt.cl

Subsecretaria de Telecomunicaciones
(Undersecretariat of Telecom)
Christian Nicolai, Undersecretary
Amunátegui 139; Santiago, Chile
Tel: (56-2) 421-3502
Fax: (56-2) 421-3553
www.subtel.cl

Ministerio de Salud Publica
(Ministry of Public Health)
Pedro García Aspillaga, Minister
Mac Iver 541, P. 3; Santiago, Chile
Tel: (56-2) 630-0412 or 630-0413
Fax: (56-2) 632-2405
www.minsal.cl

Ministerio de Vivienda, Urbanismo y
Bienes Nacionales (Ministry of Housing,
Urbanism & State Property)
Jaime Ravinet, Minister
Alameda 924, P. 4; Santiago, Chile
Tel: (56-2) 351-3401
Fax: (56-2) 633-3892
www.minvu.gob.cl

Ministerio de Agricultura
(Ministry of Agriculture)
Jaime Campos, Minister
Teatinos 40, P. 9; Santiago, Chile
Tel: (56-2) 393-5000
Fax: (56-2) 671-6500
www.minagri.gob.cl

Chilean Government-Related Agencies

Banco Central (Central Bank)
Vittorio Corbo, President
Agustinas 1180; Santiago, Chile
Tel: (56-2) 670-2000
Fax: (56-2) 697-2271
www.bcentral.cl

Banco del Estado (State Bank of Chile)
Jaime Estevez Valencia, President
Alameda Bdo. O'Higgins 1111
Santiago, Chile
Tel: (56-2) 670-7000
Fax: (56-2) 670-5008
www.bancoestado.cl

Comision Nacional del Medio Ambiente
(CONAMA) (National Environmental
Commission)
Gianni Lopez, Executive Director
Obispo Donoso 6; Santiago, Chile
Tel: (56-2) 240-5600
Fax: (56-2) 244-1262
www.conama.cl

Comite de Inversiones Extranjeras
(Foreign Investment Committee)
Karin Poniachik, Exec. Vice President
Teatinos 120, P. 10; Santiago, Chile
Tel: (56-2) 698-4254
Fax: (56-2) 698-9476
www.foreigninvestment.cl

Corporacion Nacional del Cobre
(CODELCO) (National Copper
Corporation)
Juan Villarzu, Executive President
Huerfanos 1270; Santiago, Chile
Tel: (56-2) 690-3221
Fax: (56-2) 696-6092
www.codelco.cl

Corporacion de Fomento de la
Produccion (CORFO)
(National Production Promotion
Corporation)
Oscar Landerretche, Executive VP
Moneda 921, P. 8; Santiago, Chile
Tel: (56-2) 631-8200
Fax: (56-2) 638-4003
www.corfo.cl

Direccion General de Aeronautica Civil
(Civil Aviation Administration)
General Enrique Rosende, Director
General
Avda. Miguel Claro 1314; Santiago,
Chile
Tel: (56-2) 205-2092
Fax: (56-2) 209-5000
www.dgac.cl

Direccion General de Relaciones
Economicas Internacionales (General
Directorate of International Economic
Relations)
Osvaldo Rosales, Director General
Hugo Lavados, ProChile Director
Alameda Bdo. O'Higgins 1315, P. 2
Santiago, Chile
Tel: (56-2) 565-9000
Fax: (56-2) 696-0639
www.prochile.cl

Empresa Nacional del Petroleo
(ENAP) (National Petroleum Company)
Daniel Fernandez, General Manager
Vitacura 2736; Piso 10, Santiago, Chile
Tel: (56-2) 280-3000
Fax: (56-2) 280-3199
www.enap.cl

Servicio Nacional de Aduanas
(National Customs Service)
Raúl Allard, National Director
Plaza Sotomayor 60; Valparaiso, Chile
Tel: (56-32) 20-0505
Fax: (56-32) 23-0591
www.aduana.cl

Chilean Trade Associations/Chambers of Commerce

Asociacion Nacional de Importadores
(National Association of Importers)
Jose A. Oyarzun, General Manager
Merced 230; Santiago, Chile
Tel: (56-2) 365-4000
Fax: (56-2) 365-4001

Asociacion de Exportadores de Chile
(Chilean Exporters Association)
Ronald Bown, President
Cruz del Sur 133, P. 2; Las Condes,
Santiago, Chile
Tel: (56-2) 206-6604
Fax: (56-2) 206-4163
www.cffa.org

Chilean-American Chamber of
Commerce
(Amcham)
Richard Diego, President
Jaime Bazan, General Manager
Av. Kennedy 5741, Torre Poniente,
Suite 201
Tel: (56-2) 290-9700
Fax: (56-2) 206-0911
www.amchamchile.cl

Camara de Comercio de Santiago
(Santiago Chamber of Commerce)
Carlos Jorquiera, President

Monjitas 392, P. 18; Santiago, Chile
Tel: (56-2) 360-7000
Fax: (56-2) 632-9897
www.ccs.cl

Camara Nacional de Comercio,
Servicios
y Turismo de Chile (National Chamber
of
Commerce, Services and Tourism)
Fernando Lihn, President
Merced 230; Santiago, Chile
Tel: (56-2) 365-4000
Fax: (56-2) 365-4001
www.cnc.cl

Visit USA Committee Chile
Barbara Urzua, President
Zurich 221, Of. 13; Santiago, Chile
Tel: (56-2) 334-0385
Fax: (56-2) 334-0378
www.visitusa.cl

World Trade Center Santiago
Pedro Alamos, President
Nueva Tajamar 481, Of. 102; Santiago,
Chile
Tel: (56-2) 339-7000
Fax: (56-2) 339-7001
www.wtcs.cl

Washington-Based USG Country Contacts

Dinah McDougall, Chile Desk Officer
U.S. Department of Commerce
Office of Latin America, Rm 3203
14th Street & Constitution Avenue, N.W.
Washington, D.C. 20230
Tel: (202) 482-0703
Fax: (202) 482-4726
www.ita.doc.gov

U.S. Department of Agriculture, Rm
5094S
14th and Independence Avenue, S.W.
Washington, D.C. 20250
Tel: (202) 720-3223
Fax: (202) 720-5183
www.usda.gov

U.S. Department of State
Office of Brazil & Southern Cone Affairs
2201 C Street, N.W.
Washington, D.C. 20520
Tel: (202) 647-2296
Fax: (202) 736-4415
www.state.gov

U.S. Department of State
Office of Public Diplomacy/Public Affairs
Bureau of Western Hemispheric Affairs
2201 C Street, NW
Washington, D.C. 20520
Tel: (202) 647-7186
Fax: (202) 647-7445/736-7247
www.state.gov/p/wha/

Other Agencies

Export-Import Bank (EXIM)
811 Vermont Avenue, N.W.
Washington, D.C. 20571
Tel: (202) 565-3946
Fax: (202) 565-3731
www.exim.gov

Fax: (202) 408-8958
www.opic.gov

Overseas Private Investment
Corporation (OPIC)
1100 New York Avenue, N.W.
Washington, D.C. 20527
Tel: (202) 336-8400

U.S. Trade and Development Agency
(TDA)
1000 Wilson Blvd. Suite 1600
Arlington, VA 22209
Tel: (703) 875-4357
Fax: (703) 875-4009
www.tda.gov

Chilean Government Agencies in the U.S.

Chilean Embassy in the U.S.
Andres Bianchi L., Ambassador
1732 Massachusetts Ave. NW
Washington, D.C. 20036
Tel: (202) 785-1746, 785-2370
Fax: (202) 887-5579
www.chile-usa.org

For Chilean Consulates in San Francisco, Houston, New York, San Juan, Miami, Los Angeles, San Francisco, and Philadelphia, refer to: www.consuladoschile.org

Other Chilean Government-Related Entities in the U.S.

Empresa Nacional del Petroleo
(ENAP) (National Petroleum Company)
3040 Post Oak Blvd.. Suite 1160
Houston TX 70056
Tel: (713) 623-8001
Fax: (713) 623-8002
www.enap.cl

Corporacion Nacional del Cobre
(CODELCO) (Nat. Copper Corp.)
CODELCO U.S.A., CODELCO METALS
177 Broad Street, 14th Floor
Stanford, Connecticut 06901
Tel: (203) 425-4321
Fax: (203) 425-4322
www.codelco.com

Chilean Government Trade Offices in the U.S.

ProChile
1732 Massachusetts Ave. N.W.
Washington D.C. 20035
Tel: (202) 530-4143
Fax: (202) 659-3220

For more information on ProChile's offices in Washington D.C., New York, Miami, Los Angeles, and Chicago, please refer to www.prochile.cl

CHAPTER 12: MARKET RESEARCH

Industry Reports

The U.S. Commercial Service of the U.S. Department of Commerce publishes market research reports for the use of U.S. exporters. Reports include International Market Insights (IMIs) that briefly highlight a market opportunity and Industry Sector Analyses (ISAs) that provide more in-depth analysis of a market sector. The U.S. Commercial Service Santiago plans to publish the following Industry Sector Analyses of the Chilean market in the next year:

- Advanced Telecommunications Services Broadband (Wi-Fi/Voip)
- Advertising Services Market
- Aircraft and Parts
- Aquaculture
- Architecture, Construction and Engineering Services
- Chemical Production Machinery
- Environmental Consulting and Engineering Services
- Food Processing Equipment
- Information Services Market
- Medical Device / Regulatory Systems
- Safety and Security Industry
- Textile Machinery
- Vitamins and Nutritional Supplements

The Foreign Agricultural Service of the U.S. Department of Agriculture similarly offers annual reports on agricultural market opportunities and key agricultural sectors by commodity.

All of the reports above, from the U.S. Commercial Service and the Foreign Agricultural Service, are available through the U.S. Government's export portal at www.export.gov/marketresearch.html.

The U.S. Commercial Service Santiago also provides "snapshot" profiles of key industry sectors in Chile. The following profiles are available online at www.buyusa.gov/chile/en/:

- Architecture, Construction and Engineering Services
- Computer Hardware/Software and Services
- E-Business
- Environmental Technology and Services
- Financial Services
- Food Processing Equipment and Services
- Franchising
- Logistics Services
- Material Handling Equipment
- Medical Equipment and Services
- Mining Equipment and Services
- Plastics Machinery and Resins
- Power Generation
- Security Equipment and Services
- Telecom Equipment and Services

CHAPTER 13: TRADE EVENT SCHEDULE

U.S. exporters can find a comprehensive list of international trade exhibitions and events on the U.S. Government's export portal at www.export.gov/tradeevents.html.

In addition, the following are some key trade events the U.S. Commercial Service Santiago will be working on in 2004:

Aquasur 2004 (Acuaculture)
Puerto Mott, Chile
March 24 - 27, 2004

FIDAE 2004 (Aerospace)
Santiago, Chile
March 29 - April 4, 2004

EXPOMIN 2004 (Mining)
Santiago, Chile
April 20 - 24, 2004

Textiles Trade Mission to South America
(Argentina, Chile, Uruguay)
May 10 - 14, 2004

ExpoNaval (Marine)
Vina del Mar, Chile
November 30 - December 4, 2004

Security Industry Trade Mission to South America
(Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Venezuela)
Dates TBD

For more information about any of these events, please contact the U.S. Commercial Service Santiago at santiago.office.box@mail.doc.gov. or visit www.buyusa.gov/chile/en.

Information on other trade shows happening in Chile can be found at various web sites, such as tsnn.com, www.fisa.cl, www.casapiedra.cl and www.espacioriesco.cl.