U.S.-Chile Free Trade Agreement

Comprehensive Gains

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On December 11, 2002, U.S. Trade Representative Robert Zoellick and Chilean Foreign Minister Soledad Alvear announced the successful conclusion of negotiations for the U.S.-Chile Free Trade Agreement (FTA). The FTA will not only eliminate tariffs on goods, but also reduce barriers to services and investment, protect intellectual property, ensure regulatory transparency, and set parameters for the enforcement of labor and environmental standards.

Over the past two years, U.S. trade negotiators and agency specialists met with their counterparts during 14 rounds of official negotiations, as well as numerous related meetings and videoconferences. During the final round of negotiations in Washington, D.C., more than 230 negotiators from both countries worked for nine straight days to resolve outstanding issues.

Within the U.S. Department of Commerce, trade analysts from the International Trade Administration (ITA) addressed U.S. industry concerns throughout the negotiations and helped to ensure that U.S. industry received optimal benefits in the final agreement. During the negotiations, the ITA consulted with U.S. industry representatives on a variety of market access issues. Trade analysts collected advice from U.S. industry members, and they referred to this input while helping to develop U.S. positions at the negotiations. In addition, ITA staff worked with various industry advisory committees to gauge sectors' reactions to Chilean proposals. Although the overall negotiation process has ended, the ITA continues to consult with U.S. industry groups to review the final text.

BENEFITS FOR U.S. EXPORTERS

One of the immediate benefits of the U.S.-Chile FTA will be the rapid elimination of tariffs on industrial goods. More than 85 percent of bilateral trade in industrial and consumer products will become duty-free immediately upon the entry into force of the FTA. The majority of remaining items will become duty-free within four years, and all tariffs will be phased out within 10 years. In addition, Chile's luxury tax on automobiles will be phased out over four years, while the number of vehicles subject to the tax will drop sharply upon implementation of the agreement. Sectors to benefit from immediate duty-free access include heavy machinery and equipment, automobiles and automotive parts, computers and other IT products, medical equipment, and wood and paper products.

Negotiators secured important benefits for agricultural goods, with more than 75 percent of agricultural tariffs to be eliminated within four years, and remaining tariffs to be phased out over 12 years. An additional bonus for U.S. exporters is the phaseout of Chile's price bands on staple goods such as wheat, wheat flour, edible vegetable oil, and sugar. Special provisions in the FTA will help protect U.S. farmers and ranchers from surges in imports from Chile that may result from the pact. Key farm products to benefit from improved market access include beef and beef products, pork and pork products, soybeans, durum wheat, potatoes, feed grains, and processed foods. Tariffs on wines will be equalized with the current U.S. tariff rates and then phased out.

Exporters will also benefit from simplified rules of origin, which establish whether a good contains enough regional value content to qualify for duty-free treatment. Exporters familiar with NAFTA rules of origin will find the rules under the U.S.-Chile FTA more clear-cut.

Service providers eager to expand in the Chilean market will also receive important benefits. In addition to

EXPORTERS TO CHILE

Source: Banco Central de Chile.

facilitating market access, the FTA includes provisions to ensure that regulatory authorities use open and transparent administrative procedures, consult with interested parties before issuing regulations, provide advance notice and comment periods for proposed rules, and publish all regulations. While commitments to improve market access apply to nearly every service sector, the FTA includes special provisions regarding financial services, telecommunications, and e-commerce.

The U.S.-Chile FTA will provide many other benefits, including government procurement guidelines, provisions for temporary entry of personnel, and protection of labor and environmental standards. The agreement contains high-level, state-of-the-art protection of intellectual property, such as copyrights, patents, trademarks, and trade secrets, as well as strong measures to counter piracy and counterfeiting. U.S. investors will be granted the right to make, acquire, and operate investments in Chile on equal footing with Chilean investors in almost all circumstances, in addition to receiving due process protection and expropriation rights.

BENEFITS FOR SMALL BUSINESSES

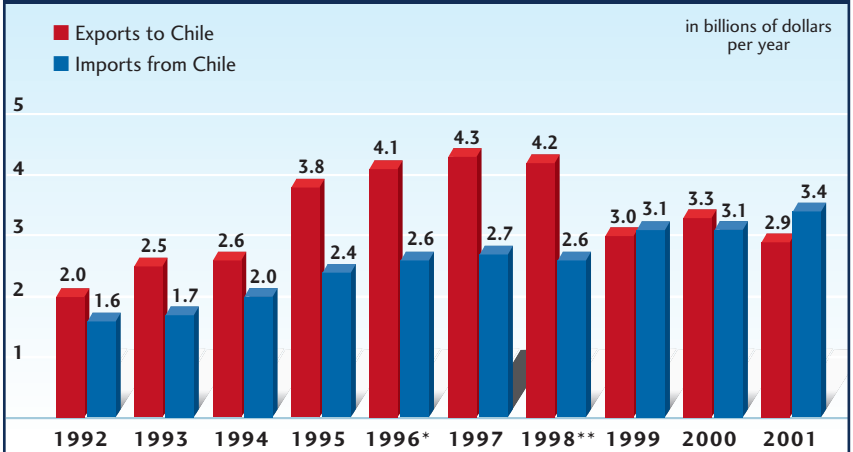
Emerging markets like Chile provide excellent opportunities for fast growth in exports, particularly for small and medium-sized enterprises. In 1999, 79 percent of all U.S. firms that exported to Chile were small businesses, according to the U.S. Small Business Administration. Unfortunately, many emerging markets are characterized by a lack of regulatory transparency and high trade barriers. Small businesses have taken advantage of previous trade agreements designed to eliminate trade barriers. For example, since the introduction of the North American Free Trade Agreement in 1994, exports to Canada and Mexico have accounted for nearly a third of all exports by small and medium-sized businesses.

Small and medium-sized enterprises will especially benefit from the tariff-eliminating provisions of the U.S.-Chile FTA. In recent years, several U.S. companies have faced competition from firms in Canada and Mexico who already enjoy the benefits of these countries' free trade agreements with Chile, signed in 1996 and 1998 respectively. For example, a 140-horsepower grader-tractor exported to Chile from the United States is currently subject to $13,090 in duties, while the same tractor made in and exported from Canada could enter Chile duty-free. Providing a level playing field is especially important for small and medium-sized firms, which generally cannot shift production facilities to countries that already enjoy the benefits of free trade with Chile. Anticipating the small-business benefits that the FTA would provide, the U.S. Small Business Administration (SBA), the Technical Cooperation Service of Chile, and the Chilean Economic Development Agency signed a memorandum of understanding on December 5, 2002, designed to promote linkages between Chilean and U.S. small businesses. See page 36 of this issue of *Export America* for details about SBA activities regarding Chile.

REGIONAL TRADE

The completion of the U.S.-Chile FTA emphasizes the Bush administration's intention to negotiate and conclude trade pacts in Latin America, and it opens the door for future trade agreements within the region. Currently, the United States is engaged in negotiations for the Free Trade Area of the Americas (FTAA); these talks are scheduled to conclude in January 2005. Last month, the administration began Central America Free Trade Agreement (CAFTA) negotiations. While the administration considers the unique circumstances of each economy with which it negotiates trade agreements, the broad scope and high standards of the U.S.-Chile FTA should spur

U.S.-CHILE TRADE IN GOODS



*Chile signs FTA with Canada, 1996. **Chile signs FTA with Mexico, 1998.

Source: U.S. Department of Commerce.

Photo courtesy of Embassy of Chile.

Santiago, with more than 5 million inhabitants, is the capital and heart of Chile.

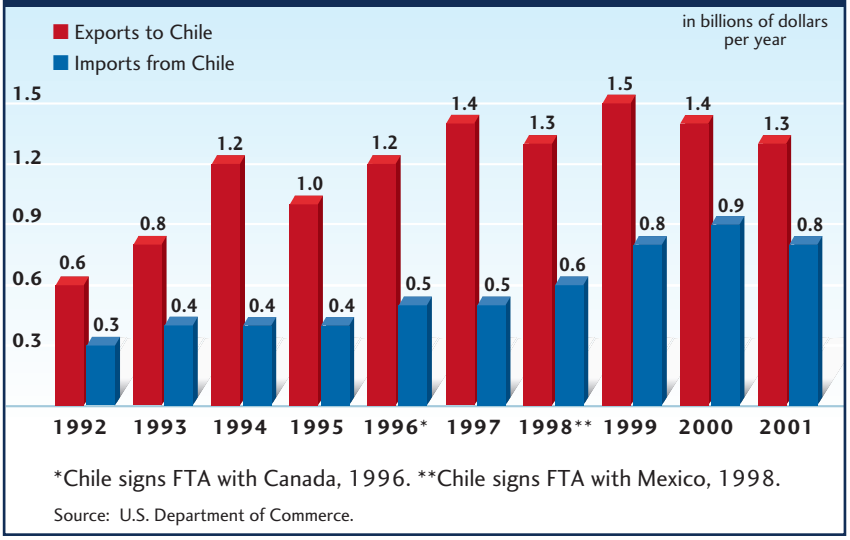
additional trade and investment liberalization in Latin America and help set the tone for future trade negotiations.

ON THE HORIZON

Under the Trade Act of 2002, the president must notify Congress at least 90 days before signing the agreement. The administration expects to notify Congress of its intent to sign the FTA early this year. After the final text is agreed and signed by both countries, Congress must approve implementing legislation before the FTA can enter into force.

In the meantime, the U.S. Department of Commerce provides a myriad of resources for firms interested in doing business with Chile. The main Commerce Department site for the U.S.-Chile FTA (www.export.gov/chilefta) provides a gateway through which interested parties can readily locate information on Chile provided by different ITA offices, as well as get specific information on the official text as it becomes available. In addition, businesses can contact their local U.S. Export Assistance Center to find out about upcoming events in their area that address the benefits of the U.S.-Chile FTA.

U.S.-CHILE TRADE IN SERVICES



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Source: U.S. Department of Commerce.

ON-LINE INFORMATION

U.S. businesses that have questions regarding the U.S.-Chile FTA are encouraged to visit the International Trade Administration at the site listed below, or contact Dinah McDougall at (202) 482-0703. Other questions about doing business in Chile should be addressed to the Trade Information Center at (800) USA-TRAD(E). The following sites contain useful information about trading with and doing business in Chile:

International Trade Administration
www.export.gov/chilefta

Office of the U.S. Trade Representative
www.ustr.gov

U.S. Commercial Service in Chile
www.buyusa.gov/chile/en

Chilean-American Chamber of Commerce
www.amchamchile.cl

Chilean Trade Commission
www.chileinfo.com

Chile-U.S. Chamber of Commerce
www.chileus.org