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New Zealand TRADE & ENTERPRISE

Chile

country brief

contents

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Chile Country Brief

April 2006

key economic indicators

Economic Indicator	Chile
Population	16,206,000 (2002)
GDP	US$115,295 million (2005)
GDP Growth Rate	6.3 % (2005)
GDP Per Capita	US$7,088 (2005)
Unemployment	8.1% (2005)
Inflation	4 % (12 months to March 2006)
Investment rate	29% of GDP (2005)
Total Imports	US$30,394 million (2005)
Total Exports	US$40,574 million (2005)
Balance of Trade	US$10,180 million (2005)
Foreign Direct Investment	US$3,750 million (2005)
Foreign Debt	US$44,847 (2005)
Currency	1 peso = 100 centavos
Exchange Rate: NZ$	1 NZ$ = Ch $326 pesos (as at April 2005)
Exchange Rate: US$	1 US$ =Ch $ 510 pesos (as at April 2005)

Source: GESTION

overview

Chile is the lowest risk country in Latin America with a long-term foreign currency sovereign credit rating of A from Standard and Poor's since mid 2004. Socio economic stability, macroeconomic balance, prudent fiscal and monetary policy, a robust financial system and a relatively high internal savings rate are relevant considerations in analysing the Chilean economy. This good performance is the outcome of deep restructuring that took place in Chile during the late seventies and early eighties. The final result has been a positive GDP growth cycle of over 18 years, interrupted only by a 1.1% decrease in 1999 due to the Asian crisis. Current growth expectations are in the range of 5.2 percent to 6 percent for 2006.

Chile is a mining country. Mineral exports from the northern regions, predominantly copper, represent close to 50 percent of national foreign exchange earnings. The price of copper is the third most relevant economic variable for the Chilean economy, after interest and exchange rates. Due to the strength of the global economy, China in particular, the copper price has been at historically high levels.

A major structural weakness in Chile is its high dependence on imported fuels. Chile's main national source of energy is hydropower. However, in recent years State policies favoured sourcing low cost natural gas from Argentina. Unfortunately, this has not been without issues as Chile faces difficulties in assuring energy availability to cover full demand in the short to medium term. Environmental considerations are making hydroelectric projects more uncertain while the State is considering alternative energy resources such as geothermal (ENAP, the State energy company is stating Chile has 3,350 MW unexploited capacity), wind, biomass and LNG. In today's global scenario, this position would be considered risky.

Chile's central and southern regions are very similar to New Zealand. In Central Chile export-oriented horticultural and viticulture activity is predominant, while in the south forestry, fishing, aquaculture, beef, dairy and sheep farming are the main economic activities. New Zealand technology, equipment and know how are highly sought after in these sectors. New Zealand research and development institutes have no equivalent in Chile and are, therefore, highly regarded. Chile's quest for relevant technologies to apply to productive sectors similar to ones in New Zealand has led to New Zealand research institutes. Likewise, New Zealand CRI's have identified Chile as a relevant country to offer their expertise.

Chile's growth is highly dependent on exports and, therefore, free trade and globalisation are a high priority. Chile has signed free trade agreements with

- Mexico
- Bolivia
- Colombia
- Venezuela
- Ecuador
- Canada
- Mercosur (Brasil, Argentina, Uruguay , Paraguay)
- Peru
- Costa Rica
- El Salvador
- European Union
- South Korea
- EFTA
- United StatesA.
- Central America
- New Zealand, Brunei and Singapore (pending Congressional approval)
- China

Negotiations are underway with Japan and India.

Chile has also negotiated Double Taxation Agreements which allow enterprises paying taxes in one of the countries not to pay in the other, with a number of countries. The most recent one is with Argentina. An agreement has been reached with New Zealand but has yet to pass Congressional approval.

The Chilean state is encouraging the establishment of a strong information technology industry in order to become the technological centre for South America. An E-government policy came into effect in 2001 and since there has been significant progress with several government agencies serving the public via Internet based services, government purchasing is undertaken electronically via www.chilecompras.cl and more than 85 percent of tax returns filed via the Internet. There is a legal digital signature in place and electronic invoicing

E-banking is offered by all banks.

Quantitative improvement in the quality of education and training are the country's major challenges as Chile strives to become a developed nation by the year 2010. English language skills are a major constraint for business development in a global market.

Despite Chile's small size in the Latin American context; it is the country with the highest foreign business presence in the region. The Chilean Stock Exchange value reached values in 2005 that are higher than GDP. There are Chilean companies with investments in Argentina, Brazil, Peru, Uruguay, Mexico, Ecuador and Colombia. In sectors like energy, retail, forestry, Chilean companies are good allies and partners to expand further into South America from a regional base in Chile. The Chilean state is positioning the country as a business platform into South America.

Chile introduced private superannuation in 1981 with mandatory contributions by all working population of 10 percent of their individual income based on a maximum salary base of NZ$2,500. As a result, by March 2005 seven million affiliates accumulated a total fund of US$60 billion. in assets administered by private pension funds. These funds with long term horizons have been instrumental as a source of finance for Chile's significant public infrastructure concessions' programme responsible for new roads, airports, ports, etc.

Chile managed to lower its level of poverty during the 1990s to less than 20 percent of the population. However, wide disparities in wealth continue to exist. Unemployment continues to be a problem, at around 8 percent.

Chile's very low (78 as at April 2006) sovereign risk spread over US Treasury Bonds has helped the country differentiate itself from the rest of the region.

The World Economic Forum's World Competitiveness Report ranked Chile 23rd in 2005.

A.T. Kearney survey placed Chile 8th in global country ranking for attracting investment. List is headed by India, China and Malaysia. Chile's strengths are in costs of doing business, particularly financial and tax.

POLITICAL

Chile is a democratic republic with a presidential system. Chile elected its first woman President, Michelle Bachelet (54 years old, three children, medical physician), with 53 percent of the vote. She is the first woman President in South America and a Socialist party member, and was the sole candidate for a coalition of left wing parties known as the Concertacion. This is the 4th Concertacion government since Chile's return to democracy in 1989.

The new President received the country in a positive economic mode, described by the Central Bank President as on its way to a growth trend.

Bachelet was Minister of Health and then Defense under the outgoing Lagos government. She has announced her government will be marked with greater dialogue and participation of all Chileans. The new Cabinet of twenty members, composed, as promised, of 10 women and 10 men, surprised for being highly technical.

The new government took office on March 11th. The Presidential term is four years; next election will be in December 2009.

The Legislative power consists of a Congress with a Senate House and a Chamber of Deputies. The seat of Congress is at the port of Valparaíso, 90 minutes from Santiago.

The Judiciary is a separate power and is headed by a Supreme Court. The judiciary system in Chile is undergoing a major modernisation of the penal processing system; the legal system in Chile is based on code law.

THE TRANS-PACIFIC STRATEGIC ECONOMIC PARTNERSHIP AGREEMENT

New Zealand and Chile have recently signed a strategic agreement that not only improves market access but encourages development of partnerships and joint ventures.

The Trans-Pacific Strategic Economic Partnership Agreement (Trans-Pacific SEP) is an agreement between Brunei, Chile, New Zealand and Singapore. Negotiations were completed in June 2005, and the agreement is expected to enter into force in mid 2006 (subject to the completion of parliamentary processes in each partner country).

Under the SEP, it will be easier for New Zealand business people to operate in Chile, Singapore, and eventually Brunei Darussalam. New Zealand businesses will also be on a much firmer footing to compete for government procurement contracts, particularly in Chile.

Besides improving market access, the agreement has a strong focus on strategic cooperation between the four countries involved. This is New Zealand's first agreement with a Latin American country.

For more information on the Trans-Pacific SEP please visit the Ministry of Foreign Affairs website www.mfat.govt.nz.

A series of workshops were held in November 2005 looking at ways in which businesses can take advantage of New Zealand's new trading relationship with Chile. Download the presentations and an overview report from www.nzte.govt.nz/chile.

imports and exports

Chile's Top Ten Exports

Chile's Top Ten Exports for the year ended December 2005	US $ millions (FOB)
Copper cathodes	9,584
Copper concentrates	6,042
Molybdenum	3,261
Fine copper	1,706
Bleached pulp	1,050
Fresh grapes	925
Salmon	913
Wine	718
Sawn timber & others	697
Methanol	611
Sub-total	25,507
Others	14,029
Total	**39,536**

Chile's Top Ten Imports

Chile's Top Ten Imports for year ended December 2005	US $ millions CIF
Petroleum	3,778
Transport vehicles	2,038
Gas oil	911
Mobile phones and other telecom equipment	557

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Chile's Top Ten Imports for year ended December 2005	US $ millions CIF
Natural gas	522
Beef	299
Liquid propane	235
Medical remedies w/vitamins	217
Tractors	150
Coal	145
Sub total	**8,852**
Others	23,689
Total	**32,541**

Source: Central Bank of Chile

Recent Trends

Chile is highly dependent on imported fuels.

Demand for copper, particularly from China, has taken the price per pound to historical highs at US 3.25 per pound. In addition, other commodities exported by Chile have had strong prices internationally resulting in high returns. Added value industries such as fresh salmon, wine, fresh fruit, processed fruit and vegetables and forestry products have all been performing exceptionally well.

Industry clusters involved in production of export goods, particularly fresh food and agro industrial products, are perceiving the opening of new markets for Chilean products under free trade agreement preferences as real opportunities that often times will require upgrading of processes, plants and machinery for delivery of world class added value goods. New Zealand Trade and Enterprise therefore expects growing demand for leading edge technology, equipment, machinery, genetics and know how from countries such as New Zealand with vast experience in food supply.

The real challenge for Chile is to enter global markets competitively when the local currency has been appreciating strongly due to the strong market for copper, particularly with high demand from China. This is true for all other exports apart from minerals, normally referred to as the non-traditional export sector. Discussion on a longer term policy is underway with consideration being given to a Norwegian type fund that would manage excessive returns from copper exports separate to the mainstream economy, possibly overseas. A Chilean solution is expected from the brilliant new Minister of Finance, Harvard PhD Andres Velasco.

New Zealand's Top Ten Export Product Groups to Chile

New Zealand's Top Ten Exports to Chile, year ended December 2005	US $ thousands CIF
Coal	16,849
Dairy products	3,066
Pasture seeds	2,529
Agriculture equipment & machinery	1,932
Food processing equipment & machinery	1,629
Protein concentrates	1,448
Timber fungicides	1,191
Casein	935

New Zealand's Top Ten Exports to Chile, year ended December 2005	US $ thousands CIF
Other food ingredients	574
Lactose	524
Subtotal	30,677
Over 450 item headings of the Harmonised System Tariff.	10,271
TOTAL	**40,948**

Source: NZTE from Indicadores de Comercio Exterior Central Bank of Chile

Recent Trends

It is expected that New Zealand exports of non-dairy products will continue to grow in coming years, including food ingredients, pasture seeds and genetic material for the beef and dairy sectors as well as flowering bulbs, equipment for telecommunications, expertise and equipment for food processing, and hortitech and agritech products.

The strong global economic environment and the China effect should continue to drive strong demand for Chile's main export sectors which are world class and very competitive. Preferential trade access to large high personal income markets such as the EU, EFTA, South Korea and US will have a significant effect on Chile's export sectors.

The strong Chilean peso will play in favour of New Zealand exporters as Chileans will be more prone to import. A possible trend will be B2B as Chileans are increasing connected through the Internet. Language will be the barrier.

sector opportunities

Telecom

Leading edge technologies are present in Chile, which is seen as a trial ground for new telecommunication technologies in South America. International companies like Siemens, NEC, Alcatel, Motorola and Lucent Technologies dominate this sector.

The most dynamic segments are wireless loop, wide band, high-speed communications, fibre optics, data transmission and Internet related technologies. Rural communications are important due to Chile's topography, which is similar to New Zealand's. Fundacion Chile has contacted New Zealand companies to learn more about the government broadband project called PROBE as they have found that the scale of the project is relevant to Chile.

Chile's telecommunications sector is completely privatised and one of the most advanced and competitive in Latin America. With sizeable investment, Chile's telecom industry grew an average of 20 percent annually over the last decade.

Recent statistics register 10 million mobile phones in Chile (3.4 million fixed lines). Movistar (48 percent market share) and ENTEL (40 percent market share) will face the entrance of Smartcom now controlled by Mexican Slim who has announced investment of US 200m to grow market share to 25 percent. A Smartcom price strategy will probably be used in the pre-paid segment while mobile service packages will be offered to clients with contracts. ENTEL will target mobile services for corporate clients who represent 60 percent of their invoicing.

Cable TV dominated (93 percent market share) by VTR who is the only one that offers digital TV channels, Internet and telephone packages. Other companies offering cable television are Direct TV (satellite), Zap and Telefonica. The latter is due to enter the battle field with Imagenio during the second semester of 2006. Imagenio will offer clients the possibility of designing their own programming and controlling the state of reproduction (advance, repeat, stop, etc). Mass buy-in with an aggressive price policy is critical to generate the economy of scale required to justify US 200m. investment over the next 4 years. In anticipation, VTR is investing US 150 million in transferring clients from premium coded services to digital aiming for 2 million clients by 2010.

There are 940,000 internet connections in Chile. Telefonica and VTR are major IP providers through copper cable lines. ENTEL does not own lines and is betting on wireless technologies which, due to price, are mainly targeting corporate clients. Telmex, controlled by Mexican Slim, also offers wireless to companies.

Wideband connections increased by 40 percent to 700,000 during 2005.

Telmex obtained the national concession for WLL (25 MHz of the 800 Mhz) while VTR won the I[st] and XII th Region concessions. At present the most efficient connections in costs and flexibility are physical network lines so WLL will initially be targeting corporate clients. Telmex are converting to GSM.

Yahoo! set up its first Technological Research Centre outside the US with the University Of Chile Department Of Computer Science. Director P. Raghavan says Chile has a high rate of internet penetration and the right investment conditions plus U Chile impressed them as having talented and competent young people.

Chile's Undersecretariat of Telecommunications (SUBTEL) regulates the sector, sets standards and issues licenses and concessions. At present, the two main regulatory issues before SUBTEL are regulations for VoIP and unbundling of the network.

The telecommunications market in Chile is highly competitive. Mergers and acquisitions are common. During 2004, Chilesat (long-distance) was purchased by Telmex (Mexico) and Bellsouth (cellular) was bought by Telefónica (Spain). In cable TV, VTR (United Globalcom) is merging with Metropolis (Liberty Media).

Chile does not manufacture telecommunications equipment. The U.S is Chile's largest telecom equipment supplier, accounting for approximately 30 percent of total imports. The largest market potential is in mobile telephony and broadband access. WiFi is spreading rapidly as is WiMaxi and the government of Chile is also looking for technology to improve rural telephony and broadband access to remote areas (Source: EIU).

Food Processing

Food exports for 2005 merit special mention. Chile exported US $8 billion in food products representing 13 percent growth over the previous year. Food export expansion rate is the highest in the world today. Expectation is for continued growth to US $9 billion in 2006. (+ 10 percent to 20 percent). Meats were the leading product group with 38 percent (US $592 million); fish foods 20 percent (US $2.7 billion, mainly salmon); wine 7 percent (US $903 million) and fruit 2 percent (US $2 billion). Strong future growth is estimated from high investments planned and underway in enterprises. Key challenges: quality improvements, innovation in production, marketing chains, skills training and export promotion.

Private sector industry leaders and State institutions have a shared vision for Chile to join the top ten global food powers.

The Chilean food industry has realised it has the potential to become a supplier of high value food to global niche markets.

As a result of the signing of a free trade agreement with the E.U. in June 2002, most Chilean products enter the European markets free of duty. A number of agricultural products have been allocated duty free quotas. These quotas are generating great interest by Chileans exporters wish to fill them. Initial exports of beef began in 2002. Strong points in Chile's favour are its excellent phytosanitary and zoosanitary standards recognized internationally.

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Japan and South Korea recognise Chile's exceptional plant and animal health status granting access to Chilean products. The Chilean Ministry of Agriculture SAG has been advancing on access protocols for horticulture and meat products to Japan, Korea, China and India.

Dairy: Chile has entered a virtuous cycle in dairy production as a result of opportunities in the global market for high value Chilean dairy products such as cheese, condensed milk, yoghurts, etc.

Chile exported US $115 million worth of dairy products in 2005, mainly condensed milk and cheese, to Mexico and other American countries.

Chileans have set up a Technological Milk Consortium for a coordinated approach by the private, public and universities/research centers to address the needs of a strongly developing dairy sector. Expolac, an association of dairy exporters has also been formed to facilitate all requirements for export of dairy products to high value, demanding markets.

Ministry of Agriculture have published the following projections for the dairy sector (Agricultura Chilena 2014; ODEPA):

- Internal consumption

	Per capita Consumption		National Consumption	
Year	***Growth rate***	***Volume in litres***	***Growth rate***	***Volume in million litres***
2004		117.4		1,888.6
2009	2.7 percent	134.1	3.7 percent	2,270.2
2014	2.7 percent	153.2	3.7 percent	2,713.3

Source: ODEPA

- Exports

Year	***Volume in million litres***	**Percent Volume exported / Total production**	**Value in million US $ (*)**
2004	287.9	13 percent	84.2
2009	658.0	22 percent	192.4
2014	1,107.9	27 percent	324

Source: ODEPA (*) at 2004 prices

- National production

Year	**Annual growth rate**	**National production in million litres**	**National supply for human consumption (*)**
2004		2,250	2,029.5
2009	6 percent	3,011	2,779.2
2014	6 percent	4,029.4	3,767.5

Source: ODEPA (*) the difference between national production and national supply for human consumption is animal consumption (calves' feed) and on farm loss.

Leading Chilean dairy farmers understand that they have to improve their competitiveness and need to introduce leading edge biotechnology, agritech and genetics at the farm level and efficiencies as they add value, most farmers actively participate in technology transfer groups in their regions.

There is a clear opportunity for NZ agritech companies to increase their presence in Chile through promotion and marketing of their products to the pastoral based sector.

Beef: Beef exports rocketed during 2005 to US$54 million, representing a 137 percent increase. Albeit a small base , the industry is set to continue to grow strongly with projections of 30 percent growth to 2009 equivalent to 34,000 export tonnes and 11 percent growth thereafter to 59,000 tonnes estimated at US $150 million in revenue. (Agricultura Chilena 2014, Chilean Ministry of Agriculture). The major immediate limitation is beef breed livestock numbers for quality beef production aimed at market niches.

New Zealand companies have a presence in the local market through exports of genetics and breeding systems.

After three years of negotiations USDA will authorize entry of Chilean meats (beef, pork and poultry) once resolution is published and Chilean animal health service SAG inspects export plants to US requirements. A trial shipment was received at the port of Philadelphia.

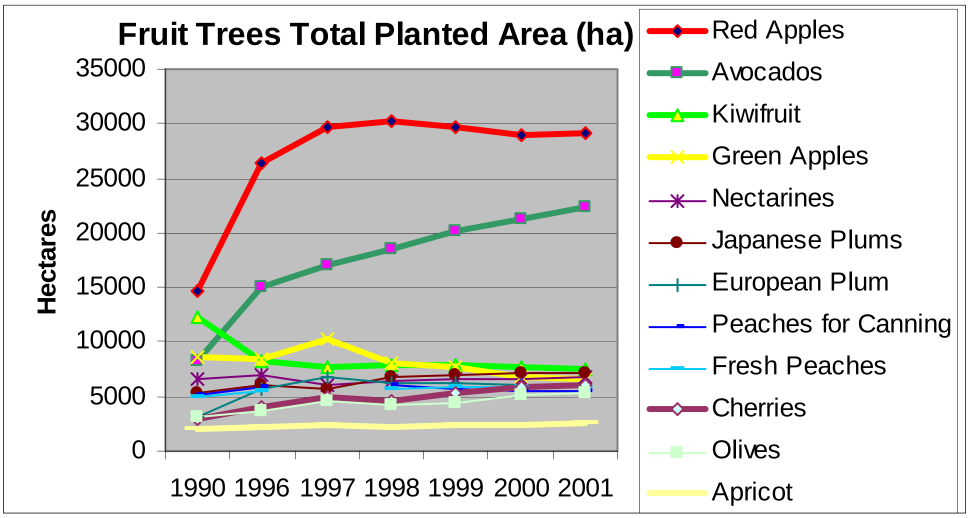
Wine: Wine export revenue reached US $883 million in 2005, a rise of 4.7 percent on 2004. Over 78.8 percent of wine exports are bottled and with denomination of origin, with 71 percent of this volume represented by red wines. The United Kingdom is the main market with a 19 percent share followed by the United States with 16 percent.

Fresh fruit: Chile has a world class fresh fruit export industry generating export returns of over US$2.7 billion (+8.1 percent over 2004) and growing at approx 6 to 7 percent per year in volumes. Fruit exports represent 63 percent and US$ 4.4 billion. of total agricultural non livestock exports from Chile.

Following are general industry statistics:

Total planted area with fruit species	219,540 hectares (2003)
Total fruit production	3, 972,500 tonnes (2003/4)
Total exports	2 11,000,000 cases (ASOEX 2004/5 to 15 July 2005)
Number of growers	7,800
Number of export companies	518
Number of countries receiving fresh fruit exports	+70
Export returns	USD 1.7 billion
Species exported	70 +
Number of cold stores	385
Number of packing plants	100
Number of orchard packing satellites	+ 1,000

Following is a graph with the major planted species:



There will be positive implications for New Zealand suppliers of the food processing equipment sector, machinery, know how and others. Opportunities on the production side range from pasture seeds to genetics, equipment to electric fence systems and agritech products.

The main problem for food exports from Chile is the strong Chilean currency appreciation due mainly the strong global for copper. To aspire to enter the global market Chileans are forced to high productivity levels that will allow them to be competitive with a strong local currency.

Agritech

After the highly productive mining sector, agriculture productivity has improved most significantly. Structural changes are an explanation: greater investment in capital equipment and inputs while there is growing scarcity of rural labour. A statistic: over ten years to 2005, worker numbers dropped by 9.4 percent. Agricultural workers in Chile represented 13.2 percent of the working population in 2005 (1990: 19.2 percent). Enterprise strategy is pointing to investment in technology and inputs.

Chile is a growing and significant market for New Zealand pasture seeds and animal genetics. As the beef and dairy sectors redefine their future and establish grounds for future development, higher technology products will be in greater demand to reduce costs and remain competitive.

Training programmes for middle tier farm workers are increasingly in demand as this is where the technology gap occurs between New Zealand and Chile. Workers do not have the education and training to incorporate higher agritech products to their processes.

Forestry

Chile's total forested area is approximately 16 million ha with large areas of beech (*Nothofagus* species) and mixed temperate forest in the southern IX th, X th, XI th and XII th Regions.

Chile's plantation forest area is approximately 2.1 million ha (73 percent radiata pine, 19 percent eucalyptus, < 1 percent Douglas fir) and is concentrated in the VII th, VIII th and IX th Regions where there is available land and favourable climate plus water and electricity for processing operations.

Employment in the Chilean forestry sector accounts for 120,000 jobs. Current and future emphasis is increasingly on added value production of furniture, mouldings, doors, parts and pieces, etc.

Harvest from the Chilean plantation forest industry is today around 25 million m^3 p.a. and may reach 40 million m^3 by 2020.

Approximately 80 percent of the Chilean harvest is *Pinus radiata* and 20 percent is *Eucalyptus globulus, E. nitens* etc. The growth in *E. nitens* plantation area to provide for higher quality sawn hard wood is a new development.

Less than 0.5 percent of Chilean forestry exports (by value) are logs, which represents 1.2 percent of total harvest by volume. In comparison, logs from NZ made up 20 percent of all forestry exports by value and 35 percent of New Zealand's harvest by volume.

Current annual planting rates of 90,000 ha have dropped from the peaks of early and late 1990's (which reached up to 130,000 ha p.a.) mainly as a result of lower *Pinus radiata* plantings, but eucalyptus establishment (*Eucalyptus globulus* and *E. nitens*) has remained level at around 38,000 ha since the late nineties.

60 percent of Chile's forests have been certified so far. Much of this area has been certified under the Chilean forestry system "CertFor" which has been set up in a joint effort by Fundación Chile and Infor (the Chilean Forestry Institute).

Added value products exports have increased 910 percent between 1990 and 2003. Currently they account for 27 percent of all exports.

Seafreight costs are very competitive from Chile to northern hemisphere markets. Distance to the developing Chinese market for wood products is a problem but not insurmountable.

Announced investment in the wood industries for a total of US$2.954 billion to 2010 is planned with new pulp mills, new sawmills and existing plant upgrades. Environmental issues and associated costs will remain a very high priority especially in the pulp and paper sectors given the frequent proximity of agricultural and aqua cultural industries, along with fragile ecosystems.

Two new green-field wood pulp mills being built in Chile's Eighth region; one at Rio Itata north of Concepción and the other at Nascimiento near Los Angeles. The Rio Itata project (Arauco Group) involves the construction of a sawmill and plywood plant costing USD 120 million which is underway and will be completed by the end of 2004 with the pulp mill construction starting soon after.

The first of Chile's new wave of pulp mills, the Arauco Valdivia Plant in the X Region, began production of 450,000 t p.a. in December 2003. In late 2004 it was paralysed by the COREMA, regional environmental authority, for environmental reasons and has market a before and after of environmental compliance in Chile.

Forest industry exports from Chile in 2005 are expected to be around USD 3.5 billion and are increasingly able to access markets through Chile's FTAs with North America, the EU and Korea.

Forest industry exports for 2010 are estimated by CORMA (the Chilean industry's private sector grouping) to reach USD 4.5 billion. In the long term, the Chilean forest industry aims to eventually overtake mining as No 1 exporter. The latter is currently exporting USD 8.7 billion p.a. mainly from copper production.

Chile's participation in world forestry export volumes is quite low for solid products (0.8 percent of world exports for both sawn timber and panels), but it is an important player in the wood pulp trade, with 5.5 percent of world exports.

Two main corporate groups accounted for nearly two thirds of all of Chile's forestry exports: Arauco 35.7 percent and CMPC 28.4 percent. Three others, e.g. Copihue, accounted for 1 to 4 percent each and the rest was from companies that exported less than 1 percent of total exports.

The new ARAUCO Celco US$1.2 billion pulp plant was paralysed for environmental reasons in mid 2005. As a result, the Chilean industry is taking another stance on environmental compliance which will result in higher standards and global recognition if dealt with properly.

Estimated investment to 2010 of US$4 billion will be in new pulp plants (Arauco: Itata; CMPC: Nascimiento), three new sawmilling plants and re-manufacturing plants producing boards and veneers. The main market for Chile's value added timber products is the United StatesA.

First semester 2005 forestry product exports totalled US$1,734 million. Over 36 percent of this amount was represented by pulp and a growing share by added value products such as sawn timber (20 percent), mouldings (10 percent), boards and veneers (8.2 percent), and doors, windows and building materials (7 percent) . Major market is the United StatesA. then China in second place followed by Japan, Mexico, EU.

An Instituto Forestal paper reveals eucalyptus nittens plantations in Chile will increase significantly during the next 18 years. Availability could be between 12 and 14 million cubic meters with plantings increasing to 46,000 hectares per year. By 2018, a planted area of 500,000 hectares is projected to produce approx. 343 m^3 per hectare. Harvesting age is between 8 and 12 years for the nittens specie that is suitable for higher value sawn timber as opposed to pulping eucalyptus grown in the past.

The challenge for Chile is to, in addition to producing and exporting forest products, create an internal market for the forest products it produces.

Energy Generation

Chilean demand for electric power has been rising in recent years at a rate of about 8 percent a year. There are several hundred million dollars worth of business opportunities resulting from ever-rising demand for an additional 400-500MW of power each year. The Chilean Energy Commission (CNE) publishes recommendations for future investments based upon their current and projected energy demands. CNE has made public their plans regarding the development of geothermal and other renewable sources of energy (Source: EIU).

CNE has identified four geothermal sites for development expecting to produce 600 MW. Overall national geothermal potential is estimated at 3,350 MW by ENAP.

British Gas (BG Group Plc.) won the ENAP State contract to build a Liquid Natural Gas re gasification plant. Investment of US 400 m. For production capacity of 8m cu3/day initially and to 15m. cu3 /day in the medium term will be commissioned 2009. Plant & new port facilities will be built in Quintero, Vth Region. Until 2009, Chile will continue its natural gas dependency on Argentinean supplies.

The La Niña phenomenon is expected to be active in 2006. During its last occurrence in 1998, Santiago rainfall dropped 72 percent and there was electricity rationing.

Chile and Argentina governments signed a gas integration protocol in 1995 for Argentina supply of natural gas to Chile. In February, 35 Chilean industries were paralyzed without natural gas supply and a further 200 with a 30 percent reduction during certain days. Price is US 3.5 /MMBtu.

The SIC central Chilean electricity system currently depends 60 percent from hydropower and 30 percent from natural gas fired plants. Predictions of a dry year are aggravating Chile's energy scenario.

Environmental authority COREMA authorised the first non conventional renewable energy (ERNC) mini hydro plant project to ENDESA ECO. Plant specifications: 9 MW with investment of US$15.23 million for transmission to 154kV line.

Construction

Industry analysts forecast strong growth in construction thanks to a growing economy, strong demand for new housing, 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 US$15 billion by 2006. Public works in Chile rely 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 US$6 billion in close to 40 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. United States-made products have roughly a 50 percent market share (Source: EIU).

Building Products

Builders are always receptive to innovative products, particularly if competitively priced.

State housing programs require over 80,000 new units per year, and low cost, competitive building products are highly sought after.

Medical Equipment

Chile spends approximately 7 percent of its GDP on health care and the government's budget allocation for healthcare has increased every year since 1990. Chile's healthcare budget for 2005 totals US$2.8 billion, representing an increase of 8.5 percent over 2004. These funds are for primary and emergency medical services.

Chile's medical sector is small but extremely competitive. Chile produces and exports a limited amount of medical products. Chile's medical products exports amounted to US$1.5 million in 2004.

The Ministry of Health is undergoing a major improvement of its hospital infrastructure that will require investment of about US$600 million in equipment and infrastructure for the next five years. Investment includes the construction of 22 new hospitals and 33 new medical attention units. The government will finance construction of 18 of these hospitals, whereas four will be opened to concession. Concessions will only be applied to the construction and repair of the hospitals and to the non-clinical areas of the hospitals, such as parking, security and catering.

Thanks to this concession approach, the government believes it will have more resources to purchase needed equipment: X-Ray equipment, ultrasound equipment, magnetic resonance and tomography equipment (Source: EIU).

Marine Resources and Aquaculture

Chile has become the leading world producer and exporter of fresh and frozen salmon. The industry cluster that has developed around the X th Region of Chile is world class.

Fundacion Chile is progressing in a hake farming project that is estimated will develop into a larger than salmon industry.

Mussel production in the X th Region is growing strongly with significant E.U. investment, mainly Spanish. Abalone, turbot, scallops and oyster production for export are also increasing.

A recent change in fishing legislation is expected to encourage the establishment of more value adding plants for higher value deep-sea fish species.

Plastics Industry

The Chilean plastics industry has grown steadily for the last fifteen years. 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 close to 600,000 metric tons/year and is worth about US$550 million (2004). Roughly 75 percent of all plastics resins in Chile are imported. Chile's total demand is projected to increase by 15 percent by 2006. The market for plastics machinery and equipment, largely imported as well, accounted for a US$50 million market in 2004. 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 should grow to US$100 million/annually by 2006.

The Chilean market – made up of some 500 mostly smaller plastics transforming companies, of which 80 percent are concentrated in the capital, Santiago – is competitive and price sensitive. Customer service and after-sales support are also critical 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.

In spite of inroads made by Asian and Latin American suppliers, the United States remains one of Chile's main suppliers of plastics material and resins, with a growing 16-18 percent share. On the equipment side, European suppliers dominate the plastics machinery market with almost a third of the market. ENAP, the Chilean oil and gas state owned company, has recently announced investments close to US$1 billion dollars to erect two new petrochemical plants to produce ethylene, polyethylene and polypropylene, mostly to cope with increasing domestic demand for resins (Source: EIU).

Exporters are increasingly demanding sophisticated packaging for their higher value products. Although still relatively small in volume, this is a trend to monitor closely as this niche is not as price sensitive.

Environmental Engineering

In early June 2005 the most recently built pulp plant involving an investment of US$1.2 billion by the COPEC Holding was paralysed due to environmental reasons. The regional environmental commission proved that the plant was operating at over its authorised capacity and was affecting a local fauna with its treated discharges. As a result of this environmental crisis Chile will need to strengthen its environmental framework to reinstate confidence, reliability and application of technical criteria.

Environmental regulations being implemented will generate demand not only for pollution control equipment, but also for technical environmental engineering and consulting services.

Water Sector

According to Chilean regulation, all wastewater will have to be treated by 2010. The norms regulating discharge of industrial wastewater into the sewage system were published in the Official Gazette in September 2004. According to the Superintendence of Sanitary Services (SISS), the Chilean government office responsible for enforcement of this mandate, this overall effort will require an investment of US$1.4 billion before 2010. A number of projects are already underway and industry sources estimate imported equipment accounts for approximately 20 percent of the total cost of new water treatment plants.

Solid Waste Sector

The Metropolitan Environmental and Health Service estimate the Santiago Metropolitan Region alone generates approximately seven million tons of waste per year, 50 percent of which is residential waste. The solid waste management equipment and service sector is still a new market in Chile. There are a fairly limited number of companies that can handle solid waste and necessary capital resources remain scarce.

Hazardous Waste

After nearly a decade, Chile's regulations for handling hazardous waste were finally approved and published in Chile's Official Gazette June 16, 2004. The regulations establish the procedure for identification and classification of hazardous waste and the standards for collection, transport, recycling, incineration and final disposal. The approval and implementation of these regulations should lead to investment in the market for hazardous waste handling. It is estimated that 5 percent of Chile's annual 3 million tons of industrial waste is hazardous waste (Source: EIU).

Safety and Security Equipment

The Chilean market of residential, commercial and industrial security equipment and services is expected to grow 6 percent this year. Local companies are open to incorporate new technologies to guarantee a better quality service for residences, companies, institutions, and industries. Within the safety/security equipment sector, the United States had the highest market share last year (21.23 percent), followed by France (18.31 percent) and China (12.9 percent) (Source: EIU).

Education

The Chile market for studying abroad is estimated at 2,000 students per year and growing. The main demand is for English language training (94 percent). The overwhelming majority of Chileans that study abroad are young people between 18 and 30 years of age, and the traditional destination is the USA. Most people travel during the summer months (January to March) and the average length of preferred courses is four weeks.

New Zealand has distinctive competitive advantages against other destinations with low fees and low cost of living, personal safety, same school year/seasonal cycle, the summer season in New Zealand coinciding with Chilean school holidays, and high education standards. Since July 2002 there has been a direct air flight from Santiago to Auckland.

New Zealand as a destination is growing its market share, particularly during 2002, possibly due to the existing work holiday programme. 200 visas under this scheme were fully taken during the first six months.

As of May 2003, Chileans are guaranteed by law 12 years of free education in the public system.

One of Chile's education objectives is to become the first Latin American bilingual Spanish/ English country.

The World Bank approved a US$25 million. loan (July 2005. 4 years of grace; 18 years) to help finance tertiary results seeking to improve Chile's innovation capabilities.

Recommended reading: *PACE 2006 Chile Country Profile*

research & technology developments and infrastructure

The Chilean government passed a law in mid 2005 implementing a 5 percent tax or royalty on profits to be paid by large mining companies operating in Chile on a yearly basis. This royalty is to endow a technology development fund to finance research and technology projects with approximately US$150 million per annum. This Innovation Fund is being established to generate the resources to create new assets that will replace the income generating capacity of non renewable resources. In the past, Chile has invested 0.56 percent of GDP in research and development (2000 = US$380 million). State investment represented 71 percent and private sector industry 18 percent or US$65 million.

An Innovation for Competitiveness National Council was set up to define a national innovation strategy that will be the basis for innovation fund expenditure.

Chile has a Digital Agenda agreed to by private and public entities to progress Chile through to full digital government. At present there are 239 public sector services available online including: tax returns, registry of trade marks and patents, and social security contributions.

In its 2004 e-Readiness Rankings, the Economist Intelligence Unit identified Chile as "Latin America's most e-ready market", highlighting the country's introduction of electronic invoicing. In 2004, Chile obtained an overall score of 6.35 (on a scale of 1 to 10), taking 29th position out of 64 countries. Its highest scores were for business environment (8.00), legal and policy environment (7.69), and supporting e-services (7.13), while in the fields of social and cultural environment, consumer and business adoption, and connectivity; it scored 6.88, 6.26 and 3.82, respectively.

In another study, the Latin America Telecom Competitive Ranking, prepared by US-based Pyramid Research, Santiago was identified as Latin America's top city in terms of broadband, fibre optic, and other networks, scoring an average of 4 points on a scale of 1 to 5. It was followed by Sao Paulo and Miami --both tied in second place-- and by Rio de Janeiro.

The Research and Development expenditure as percent of GDP is 0.5 percent (1996-2002), (compared to 1 percent in New Zealand).

The National Commission for Scientific and Technological Research (established 1967) CONICYT is the agency/advisory body to Government on Science and Technology.

The New Zealand Ministry of Research Science and Technology (MoRST) and CONICYT signed a Scientific and Technological Cooperation Agreement in December 2002 covering areas of mutual interest such as: geophysics, marine and fishing research, climate change and material sciences.

Under CONICYT the FONDAP programme supports 7 centres of excellence:

- Biomedicine;
- Material sciences;
- Applied mathematics;

- Astrophysics;
- Environment and biodiversity;
- Oceanography research;
- Molecular cell studies.

Other relevant activities include the Chile Genome Initiative; Bio Mining; Aquaculture and a new programme addressing Red Tide Research.

ENVIRONMENT

Chile has an environmental protection framework called the Environmental Base Law (Ley Sobre Bases Generales Del Medio Ambiente 1994). A National Environmental Commission (CONAMA) is the institution in charge of environmental policy administration through 13 regional offices (COREMA).

The regulations of this law require that all new projects be presented to the relevant regional environmental commission with a completed environmental impact study.

See www.conama.cl for more information.

More recently legislation and high energy costs have forced companies to analyse their production processes with the objects of controlling:

- Energy savings
- Water conservation
- Industrial waste

New legislation means from September 2006, whey must be treated before discharge. CONAMA have asked the entire Chilean dairy industry to present projects that provide a solution to their whey discharge and its consequent contamination of the environment.

These projects are to be presented by September 2005. During April & May 2006 COREMA will visit and review dairy plants to verify adequate action has been taken. The new legislation will be enforced from September 2006, and any company not abiding to the law will face fines.

INTELLECTUAL PROPERTY

Chile has recently introduced reforms to its IP laws to bring them in line with the requirements of the WTO TRIPs Agreement. It should be noted that in Chile the rule of law is strong.

Intellectual property issues in Chile are managed by two separate laws, the Industrial Property Law which governs patents, trade marks, industrial designs and utility models, and the Copyright Law number 17,336 which governs copyright.

New standards:
In addition to existing forms of protection, such as patents, trade marks, utility models and industrial designs, the new IP law includes the following new forms:

- Industrial drawings: figures in a two-dimensional plane, for incorporation in an article of manufacture, with ornamental purpose. They must offer a novel aspect to the product. This kind of two-dimensional right will be granted for a non-renewable period of 10 years from the application.

- Schemes and topographies of semiconductor products: protection of the three-dimensional shape of elements in an integrated-circuit semiconductor chip. Protection is for a non-renewable term of 10 years from the application or from its first commercial exploitation in any part of the world.

- Geographical and origin indications: recognition of geographical and origin indications, similar to rules set forth in the TRIPs Agreement, and protection through special registrations is envisaged.

- Trade secrets and undisclosed information: protection of trade secrets is defined as the knowledge of products or industrial processes, of which continued secrecy confers on the owner an improvement or competitive advantage. The undisclosed information refers to the data submitted to the Public Health Institute (ISP), or the Cattle and Agronomic Service (SAG), for obtaining marketing approval of pharmaceutical and agricultural chemical products. According to the new legislation this data will have to be undisclosed and secret for five years for pharmaceuticals and 10 years for agricultural chemicals, during which time the official agent cannot give commercialization licenses to third parties using the secret data.

Under the new law, there will be three courts and ten judges and this should, at least, be enough to clear backlog.

In addition, the law will expand the Department of Industrial Property, which forms part of the Ministry of Economy. The number of patent examiners has already been increased from nine to 21, and the Department is investing in training on the new law, not just for its own staff but also for judges, customs services and the private sector.

market entry

Chile has followed open market principles for more than 25 years. As a result, the business environment is very sophisticated and competitive. Relationship marketing should still be a central part of any entry strategy.

Some key points to note:

- Chile is divided into thirteen regions. Santiago, the capital city in the Metropolitan Region, is the business, banking, financial and commercial centre.
- Chile has an extremely price sensitive market.
- Chile is a trade fair centre for relevant sectors, i.e. mining, forestry, fruit, fishing/aquaculture, and defence technologies.
- Importers are normally also distributors, usually demanding exclusivity.
- Chile has a major Free Trade Zone in Northern Chile: ZOFRI Iquique.
- E business, particularly B2B is growing quickly. Over 40 percent of businesses are Internet connected.
- Chile is a cost-effective operational centre for servicing the Southern Cone region of South America. Communications are competitive and living conditions are relatively good with reasonable cost of living.
- Chile is seen as a model and leader in economic development in the region.

Financing/commercial credit is an essential item in the importing/purchasing decision. Although it will be accepted that the first operations will be done through letters of credit, in the longer term and as the relationship is developed, New Zealand exporters should be prepared for requests for credit and longer terms of payment. Payment terms vary according to the activity.

foreign investment

Since 1975 Chile has effectively encouraged direct foreign investment flow. Full repatriation of capital can be undertaken by foreign investors, with no restrictions. 100 percent ownership of a locally registered corporation with no time limits is permitted.

For further information: www.foreigninvestment.cl

regulatory issues

Following is an outline of some of the regulatory issues New Zealand exporters need to be aware of.

Currency Exchange

The US dollar is freely exchanged in the local market.

E-Business

- There are no restrictions on electronic commerce.
- Chile currently has an electronic signature certification service.
- E-purchases from abroad are subject to import duties like any other import.
- Chile has legal digital signature and invoicing.
- All banks offer e-banking.

Environmental

Environmental impact studies (EIA) are required for all new projects. Legislation (Law 19.300) was passed in 1994 as the first attempt to regulate environmental issues.

This included:

- Creation of the Environmental Consultative Commission (CONAMA at national level and COREMA at regional level)
- Environmental impact assessment framework and guidelines (E.I.A.)
- Standards on environmental quality and emissions

Key areas of concern are air pollution in the Metropolitan Region, liquid and solid waste treatment, and industrial growth.

Health Regulations

- Food products require Ministry of Health SESMA approval for import.
- Products of animal origin also require Ministry of Agriculture resolution/permit.
- Pharmaceutical products require Ministry of Health I.S.P. authorisation.

Import Barriers

- Chile has an open market with low import barriers.
- Flat uniform tariff is 6 percent although effective rate is approximately 1.9 percent.

Bar Codes

The Chilean National Chamber of Commerce manages bar code registration in Chile. The supermarket trade requires that all products be bar coded.

Packing and Labelling

Chile has detailed requirements for labelling of food products.

All food products that are transported or sold packaged must have a label or sign stating the following information, in Spanish:

- food name
- net content expressed in units of the decimal metric system
- name and legal name and address of the manufacturer, packer, distributor or importer of the food product
- country of origin
- the number and date of the resolution and the name of the Health Service that authorises the establishment, that elaborates or packs the product, or allows entry
- the date of manufacture or date of packing of the food product
  - the day, with two digits
  - the month, either with two digits or the first three letters of the month
  - the year, with two digits
- the date of expiry
- all ingredients and additives must appear on the label with the specific names in quantity or percentage, in decreasing order
- additives
- storage instructions

Product Liability

Chilean law does not contain any provision for product liability.

Safety Regulations

Normally UL or European safety standards are recognised and accepted in Chile. Although some electric products require local testing by SEC,

Tariffs and Duties

Chile uses the Harmonised System for tariffs and a uniform import duty of 6 percent on advalorem for all products originating in countries with which it does not have a free trade agreement

New Zealand Trade and Enterprise can provide free basic information on tariffs at an indicative level to assist companies assesses viability of market entry.

Useful website: www.aranceles.cl

Taxation

- Corporate tax in Chile is 17 percent on profits.
- Remittance of profits on foreign investment in Chile is subject to a 35 percent tax.
- Value added tax on goods and services is 19 percent.
- Personal taxes are marginal and progressive to a level of 40 percent.
- Signing of a Double Taxation Agreement between Chile and New Zealand is expected during 2006.
- In addition to the above taxes, employees are obliged to pay social security contributions on gross salaries. (10 percent to an individual pension fund, 7 percent for health insurance, and 2 - 3 percent for worker's compensation in case of invalidity.)

freight

Air Freight

Air Freight may be shipped via

- Qantas on a direct five times a week service from Santiago to Auckland
- Lan Chile and Air New Zealand via Papeete
- Lan Chile, United via USA

Sea Freight

There are no direct shipping services to Chile. Current regular service is with transhipment in Panama.

New Zealand Trade and Enterprise has basic information on air and shipping freight options to this market, but for details on rates and schedules, exporters will be referred to a range of appropriate service providers.

doing business with Chile

Cultural and Business Tips

- In Chile business culture, relationships and "insider" status are much more important than in the English speaking world.
- "Managers have a sense of entrepreneurship" (Chile ranks **# 1** where NZ ranks # 6)(WEF)
- Business strategies are often dominated by short-term considerations.

- Business is often opportunistic and should be followed up quickly when the opportunity arises.
- The business environment is very competitive with price considerations normally dominant.
- Chile is a technologically avid country .
- Chile has world class industries in relevant sectors: Codelco copper mining (www.codelco.cl); white ware www.cti.cl; forest products www.arauco.cl and www.cmpc.cl; fruit www.unifrutti.cl ; salmon www.salmones.cl; wine www.ccv.cl;
- It is not unusual that Chilean business people do not answer emails, faxes, letters, or phone calls promptly. Acknowledging messages is not a common habit and many business people might not respond until there is an opportunity or something definite to answer.
- In person, Chileans are normally formal and polite. As such, they might feel obliged to praise the product or service that the New Zealand exporter is offering. However, this does not necessarily mean that they are ready or able to buy.
- Over-promising and under-delivering are frequent. Arrangements should be carefully checked and double-checked.
- Arrive for scheduled appointments on time.
- Spanish is the national language. Middle managers and engineers in large companies generally speak English, although English speaking is less frequent in medium and small companies.
- Dress codes are generally formal and conservative - suit and tie for men and discreet business suit (skirts or trousers) for women. Business attire becomes less formal in the regions of the country or in certain sectors.
- Chileans use two surnames on business cards - the father's first and then the mother's. When addressing the person, use only the father's surname. Juan Francisco Montero Marin; Mr. Montero.
- The climate is mainly moderate and dry. Summer months (January and February) are hot and dry with temperatures up to 34 degrees C.
- Avoid business visits in the months of January and February as executives and staffs tends to be away on leave, slowing down general business activity.
- Foreign passport holders are exempt of VAT on hotel bills if paying with credit cards or cash.

visa requirements

New Zealand businesspeople travelling to Chile do not need a visa for visits of up to three months.

exporter information tools

contacts

New Zealand Trade and Enterprise

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useful web sites

www.foreigninvestment.cl
www.businesschile.cl
www.mercantil.com
www.bcentral.cl
www.amchamchile.cl
www.infochile.cl
www.prochile.cl

exporter information tools

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April 2006