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# Chile

## country brief

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### contents

key economic indicators .....	2
overview .....	2
Trans-Pacific Strategic Economic Partnership Agreement .....	4
imports and exports .....	5
sector opportunities .....	7
research & technology developments and infrastructure .....	13
market entry .....	15
foreign investment .....	16
regulatory issues .....	16
freight .....	18
doing business with Chile .....	18
visa requirements .....	19
contacts .....	19
useful web sites .....	19

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## key economic indicators

Economic Indicator	Chile
Population	16,578,000 (2007)
GDP	US\$118.3 billion (2006)
GDP Growth Rate	5.8% (estimated for 2007)
GDP Per Capita	US\$12,088 (2006)
Unemployment	6.7% (2007)
Inflation	5% (January to August 2007)
Investment rate	25.5% of GDP (July 2007)
Total Imports	US\$35.9 billion (2006)
Total Exports	US\$58.1 billion (2006)
Balance of Trade	US\$22.2 billion (2006)
Current Account surplus	US\$3.1 billion (estimated 2007)
Foreign Direct Investment	US\$3.8 billion (2005)
Foreign Debt	US\$49,178 (June 2007)
Corporate Tax rate	17%
Currency	1 peso = 100 centavos
Exchange Rate: NZ\$	1 NZ\$ = Ch \$363 pesos (as at September 2007)
Exchange Rate: US\$	1 US\$ =Ch \$510 pesos (as at September 2007)

Source: ESTRATEGIA

## 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. 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 1970s and early '80s. The overall result has been a positive GDP growth cycle of over 18 years, interrupted only by a 1.1 percent decrease in 1999 due to the Asian crisis. Current growth expectations are in the range of six percent for 2007.

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 at present is its high dependence on imported fuels. Chile's main national source of energy is hydropower. In recent years, however, state policies have favoured sourcing low cost natural gas from Argentina. As a result, Chile is facing increasing uncertainty in assuring energy availability to cover full demand in the short to medium term. During 2007, there have been major gas supply problems originating from a severe reduction of supply from Argentina. As environmental considerations make hydroelectric projects more

uncertain, the state is actively promoting alternative energy sources such as wind, biomass, LNG and geothermal – state energy company ENAP is stating Chile has 3,350 MW unexploited capacity – and more recently even study of nuclear power as options. In today's global scenario, Chile's energy position is risky with the Bachelet government naming a Minister of Energy and including a budget for the establishment of a new Ministry during 2008.

Chile's central and southern regions are 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 equivalents 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 a number of linkages with New Zealand research institutes.

Chile's growth is highly dependent on exports and, therefore, free trade and globalisation are a high priority. Below is a list of countries/regional groupings that Chile has signed free trade agreements with.

Mexico	Bolivia	Columbia
Venezuela	Ecuador	Canada
Peru	Costa Rica	El Salvador
European Union	South Korea	United States
Central America	China	Japan
Mercosur (Brazil, Argentina, Uruguay, Paraguay)	European Free Trade Association	New Zealand, Brunei, Singapore (P4 Agreement)
India		

Chile has also negotiated a number of Double Taxation Agreements, including with New Zealand, and most recently with Argentina.

Chile 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 then 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](http://www.chilecompras.cl) and more than 90 percent of tax returns are filed online. There is a legal digital signature in place and electronic invoicing. E-banking is offered by all banks.

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. There are Chilean companies with investments in Argentina, Brazil, Peru, Uruguay, Mexico, Ecuador and Colombia. In sectors like energy, retail and forestry, Chilean companies are good allies and partners to expand further into South America from a regional base in Chile. The Chilean government 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, seven million affiliates have accumulated a total of US\$130 billion in assets administered by private pension funds. These funds with long-term horizons have been an instrumental source of finance for Chile's significant public infrastructure concessions' programme responsible for new roads, airports and ports.

Chile managed to lower its level of poverty during the 1990s to less than 20 percent of the population. Wide disparities in wealth continue to exist, however.

With a low sovereign risk spread over US Treasury Bonds Chile has been able to differentiate itself from the rest of the region, although it has recently reverted its downward trend. The JP Morgan country risk rating for Chile in late September 2007 is 123.

### Outlook 2008

Estimated GDP growth for 2007 is in the range of five to six percent. The 2008 National Budget announced by the Minister of Finance in late September is considered “reasonably expansive” based on an estimated GDP growth of 5.3 percent and an increase in expenditure of 8.9 percent. A total spend of US\$33.3 billion has a strong social theme including the highest education budget in history (US\$3.5 billion) aimed at schools, scholarships, Ph.D. scholarships and technical training. Pensions, innovation and competitiveness and public works (US\$2.2 billion over four years) through regional initiatives are the other major areas for a significant increase in spending.

### Political

Chile is a democratic republic with a presidential system. Chile elected its first woman president, Michelle Bachelet in 2006 with 53 percent of the vote. She is 54 years old, has three children and is a medical physician, She is the first woman president in South America. Bachelet was a Socialist party member, and was the sole candidate for a coalition of left wing parties known as the Concertacion. Bachelet’s government is the fourth Concertacion coalition government since Chile’s return to democracy in 1989.

The new government took office on March 11. The presidential term is four years, and the next election will be in December 2009.

Bachelet was Minister of Health and then Defence under the outgoing Lagos government. She has announced her government will be marked by greater dialogue and involve participation of all Chileans. There have been several Cabinet changes during the first 18 months of government ,with activist groups from different sectors pressing the Presidential agenda.

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.

## Trans-Pacific Strategic Economic Partnership Agreement (also known as P4)

New Zealand, Singapore, Brunei and Chile completed ratification of a strategic partnership agreement in November 2006 that not only improves market access but encourages development of partnerships and joint ventures.

Under the P4, it will be easier for New Zealand business people to develop business opportunities in Chile. 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. 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](http://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](http://www.nzte.govt.nz/chile).

## imports and exports

### Chile's Top Ten Exports

Chile's Top Ten Exports for the year ended December 2006	US\$ millions (FOB)
Copper	32,835
Processed food & beverages	6,572
Other minerals	3,764
Fresh fruit	2,351
Forestry products & furniture	2,005
Pulp, paper & cardboard	1,846
Chemical products	1,738
Plastics	1,435
Free Zone	1,297
Sub-total	53,843
Others	4,273
<b>Total</b>	<b>58,116</b>

### Chile's Top Ten Imports

Chile's Top Ten Imports for year ended December 2006	US \$ millions CIF
Fuels ( coal, petroleum & natural gas)	5,713
Metal and electrical products	4,908
Machinery and non electric	4,462
Chemical products & plastics	3,824
Transport equipment	3,775
Textiles and leathers	1,795
Processed food & forage	1,698
Iron & steel	1,291
Free Zone	2,452
Sub total	29,918
Others	8,491
<b>Total</b>	<b>38,409</b>

Source: Central Bank of Chile

### Recent Trends

Demand for copper, particularly from China, has taken the price to historical highs of over US\$3.50 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, perceive the opening of new markets for Chilean products under free trade agreement preferences as real opportunities that will require upgrading of processes, plants and machinery for delivery of world-class added value goods. New Zealand Trade and Enterprise (NZTE) 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. This is true for all other exports apart from minerals, normally referred to as the non-traditional export sector. Chile's Minister of Finance, Harvard PhD Andres Velasco has created a fund that invests part of the copper returns overseas, and large pension funds have been allowed to increase their overseas exposure to alleviate internal foreign exchange pressures.

### New Zealand's Top Ten Export Product Groups to Chile

New Zealand's Top Ten Exports to Chile, year ended December 2006	US \$ thousands CIF
Coal	32,273
Pasture seeds, seeds & bulbs	4,502
Caseins	4,152
Dairy products	2,301
Lactose	1,504
Radio navigation equipment GPS	1,494
Protein concentrates	1,477
Veterinary remedies	917
Salt	461
Subtotal	49,081
Other item headings Harmonised System Tariff.	23,494
<b>TOTAL</b>	<b>72,575</b>

Source: NZTE from COMEX ONLINE

#### 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 agritech products.

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, Japan and US 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 remains the main barrier.

## sector opportunities

### Food Processing

Food exports for 2006 merit special mention. Chile exported US\$9.3 billion in processed food products (including salmon) representing 18 percent growth over the previous year. The Chilean processed food export expansion rate is the highest in the world today. Expectation is for continued growth to US \$11 billion in 2007.

Strong future growth is estimated from high investments planned and underway in enterprises. Key challenges: quality improvements, product innovation, sustainability, marketing chains, skills training and export promotion. A projection for 16 percent growth through to 2010 reveals total exports for a value of US\$17 billion.

Private sector industry leaders and state institutions share a vision for Chile to join the top 10 global food powers. The Ministry of Agriculture is adding “and Food” to its title and scope. 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 EU 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 Chilean exporters wishing to fill them. Initial exports of beef began in 2002. Strong points in Chile's favour are its excellent phytosanitary and zoosanitary standards, which are recognised internationally.

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

The local salmon farming industry, which emerged in the 1980s, is carrying out a US\$1.9 billion investment plan to increase the annual salmon export earnings to US\$3.5 billion by 2010. With world demand for fish rising at 10 percent per year, Chile will use its natural resources (fjords & coastline), farming and marketing knowledge to continue expanding the industry and to diversify beyond salmon to species such as turbot, hake and catfish.

**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 and yoghurts.

Chile exported US\$70.6 million worth of dairy products in 2006 – mainly condensed milk and cheese - to Mexico and other Latin American countries. Between January and August 2007, Chile exported US\$19.3 million worth of powdered milk (mainly to Syria, Venezuela and other Latin American countries), US\$35.4 million worth of condensed milk (mainly to Mexico and other Latin American countries) and US\$33.8 million worth of Gouda cheese (mainly to Mexico and South Korea).

Chileans have set up a Technological Milk Consortium for a coordinated approach by the private, public and university/research centres to address the needs of a strongly developing dairy sector. Exporlac, 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%	134.1	3.7%	2,270.2
2014	2.7%	153.2	3.7%	2,713.3

Source: ODEPA

Exports

Year	Volume in million litres	Percent volume of total production exported	Value in million US \$ (*)
2004	287.9	13%	84.2
2009	658.0	22%	192.4
2014	1,107.9	27%	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%	3,011	2,779.2
2014	6%	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 they have to improve their competitiveness and need to introduce leading edge biotechnology, agritech and genetics at the farm level, as well as efficiencies. Most farmers actively participate in technology transfer groups in their regions.

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

**Beef:** During 2006, beef exports totalled US\$37.9 million with the majority going to Mexico. Between January and August 2007, beef exports totalled US\$29.6 million. Markets in 2007 include Mexico, USA, Japan and the EU.

Although coming from a small base, the industry is set to continue to grow strongly. Projections are 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 (source: Agricultura Chilena 2014, Chilean Ministry of Agriculture). The major immediate limitation is beef breeding livestock numbers for quality beef production aimed at niche markets.

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

After three years of negotiations, USDA will authorise entry of Chilean meats (beef, pork and poultry) once a resolution is published and Chilean animal health service SAG inspects export plants to US requirements.

Ministry of Agriculture beef export projections

Year	Aprox. annual growth	Volume	Value (*)
2004	-	9,000	22,949
2009	30%	34,000	86,700
2014	11%	59,000	150,450

Source: ODEPA (\*) Average price US\$ 2.55/kg.

**Lamb:** During 2006, lamb exports totalled US \$47.3 million with the majority going to Mexico. Between January and August 2007, lamb exports totalled US \$32.5 million. Key markets in 2006 and 2007 include Spain, Mexico and other EU and Scandinavian countries

Following are Ministry for Agriculture projections for lamb exports

Years	Annual growth of production (%)	Volume (Tons of meat)		Value* (thousands of USD)	
		2009	2014	2009	2014
Low Hypothesis	5.2	6,925	8,922	25,622	33,011
High hypothesis	7.0	7,534	10,567	27,876	39,098

Source: ODEPA (\*) Average price US\$ 3.7/kg

Projected slaughter and production

	Thousands head	Volumes (tons)
2004 slaughter	664	9,539
Low hypothesis 2009	807	11,301
Low hypothesis 2014	966	13,521
High hypothesis 2009	851	11,910
High hypothesis 2014	1,083	15,166

Source: ODEPA

**Wine:** Wine remains Chile's third largest agricultural export product. Wine export revenue has reached US \$1billion. The United Kingdom is the main market with a 19 percent share followed by the United States with 16 percent. Chile will be competing in niche markets (such as organic wine) and on quality. Chilean wine production and exports are forecast to grow at a robust rate between 2007 to 2011 with export earnings forecast to rise from US\$965.9 million in 2006 to nearly US\$1.5 billion by 2011. Bottled premium wines average US\$27 per case.

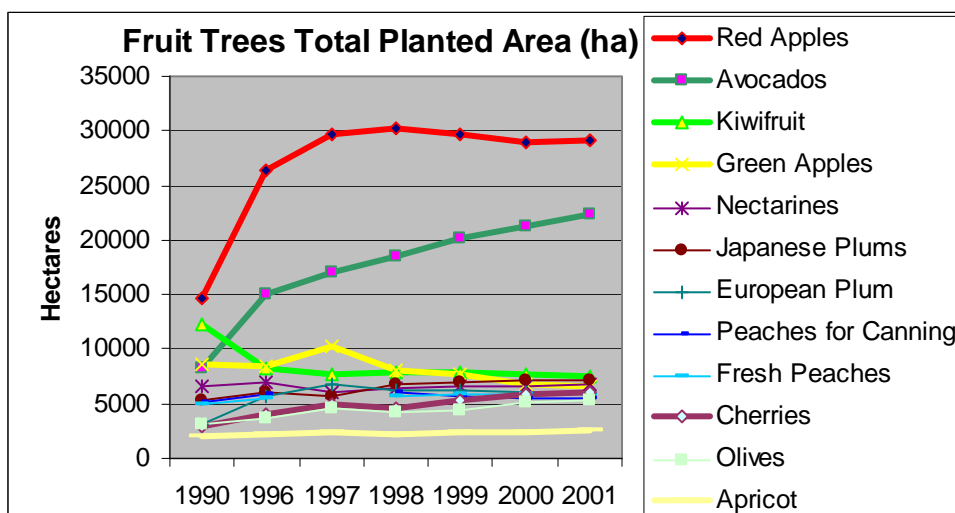
**Fresh fruit:** Chile has a world-class fresh fruit export industry generating export returns of over US\$2.7 billion and growing at approximately six to seven percent per year in volumes. Fruit exports represent 63 percent and US\$4.4 billion of total agricultural non-livestock exports from Chile. The fruit industry is projected to expand further, as Chile gains preferential access to massive new markets such as India and China.

General industry statistics:

Total planted area with fruit species	221,915 hectares (2004)
Total fruit production	4,152,000 tonnes (2004)
Total exports	230,800,000 cases (ASOEX 2005/6 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 2.3 billion (ASOEX 2005/06 season)
Species exported	70+
Number of cold stores	385
Number of packing plants	100
Number of orchard packing satellites	1,000+

Source: ODEPA

Major planted species:



There are positive implications for New Zealand suppliers of the food processing equipment sector, machinery and know-how. 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 to the strong global demand 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. Enterprise strategy is pointing to investment in technology and inputs.

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

A significant opportunity has arisen in agricultural training for middle tier farm workers as demand strengthens for high productivity labour capable of incorporating leading edge technology and maximising output efficiently.

To leverage the above opportunities in favour of New Zealand agritech suppliers, NZTE Chile has progressed the South America NZTE Food Value Chain project focusing action in the pasture-rich southern regions of Chile – mainly Los Lagos and Los Rios. In so doing, NZTE contracted a New Zealand consultant with vast experience and respect in Chile, Mike McBeath, to lead a group in partnership with the local producers organisation APROLECHE Osorno, Austral University and commercial companies Cooprinsem, ECSA and ANASAC, to adapt a New Zealand manual for low cost, seasonal, pasture-based production to southern Chile conditions. As a result of the strong engagement from locals in this project, the Chile project has grown from a manual to a programme known as TecnoKiwi that includes an adapted manual in Spanish and conversion programmes for five monitor farms.

## Energy Generation

Chilean demand for electric power has been rising in recent years at a rate of about eight 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, an investment of US\$400 million which will be commissioned by 2009. Plant & new port facilities will be built in Quintero, Vth Region. Until 2009, Chile will continue its natural gas dependency on Argentinean supplies.

Chile and Argentina governments signed a gas integration protocol in 1995 for Argentina to supply natural gas to Chile. Strong domestic demand in Argentina has put pressure on the Argentine gas supply, with the Argentine government defaulting on supply to Chile resulting in serious reductions in supply to the Trans Andean pipelines. As a result, Chile has increased its use of thermal power stations, fuelled with mainly imported coal and petroleum at a significantly higher cost.

The SIC central Chilean electricity system currently depends 60 percent from hydropower and 30 percent from thermal-fired plants.

The state is providing increasing funding to alternative energy projects as it seeks to diversify generation. 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.

## 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 Lakes Region of Chile is world-class. Fundacion Chile is developing a hake farming project that is estimated to become larger than the salmon industry.

Mussel production in the Lakes Region is growing strongly with significant EU investment, mainly from Spain. Abalone, turbot, scallops and oyster production for export are also increasing.

A recent change in fishing legislation is encouraging 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 15 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). About 75 percent of all plastic resins in Chile are imported. Chile's total demand is projected to have increased 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. Industry specialists projected that the market grew to US\$100 million annually by 2006, considering the need to replace existing machinery, together with the addition of new processing facilities and the overall economic recovery.

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.

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

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), this 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.

### *Hazardous Waste*

After nearly a decade, Chile's regulations for handling hazardous waste were finally approved and published in Chile's Official Gazette on 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 five percent of Chile's annual three million tons of industrial waste is hazardous waste (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 compared with other destinations. New Zealand has low fees and a low cost of living, personal safety, the 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 since 2002, possibly due to the existing work holiday programme. 1,000 visas under this scheme are fully subscribed every year.

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 in July 2005 to help finance tertiary results seeking to improve Chile's innovation capabilities. The 2008 National Budget has an Education budget of US\$740 million aimed at schools and 200,000 scholarships and student loans.

## research & technology developments and infrastructure

### Council of Innovation for Competitiveness

As a result of a royalty payment levy passed by law in mid 2005 on copper exports (five percent tax) the Chilean State has established a fund that will be destined to improve Chile's national competitiveness through innovation in a number of key clusters. A major study conducted by The Boston Consulting Group in early 2007 resulted in recommendations contained in the first White Book presented to Government by the National Council of Innovation for Competitiveness. The vision is for Chile to double its GDP per capita to US\$25,000 by the year 2020.

The National Council-contracted study identified eight key clusters requiring in-depth development programmes where the state will have an effective and efficient funding role in favour of innovation. The pillars of this major national initiative are CORFO, the national development agency, and CONICYT, the National Science and Technology Commission.

The eight key clusters are:

- Aquaculture
- Offshoring / outsourcing
- Tourism ( wine, skiing, fly fishing, thermal)
- Financial services
- Copper mining
- Processed foods
- Fresh fruit
- Pork / poultry

An Innovation Fund (FIC) has been established by the Ministry of Economy, with the Ministry of Finance managing these funds. The 2008 National Budget has specified US\$410 million for innovation.

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". 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 São Paulo and Miami, tied in second place, and by Rio de Janeiro.

Research and development expenditure as a percentage of GDP is 0.5 percent (1996-2002), (compared with one percent in New Zealand). This level of investment is set to double, with funds destined to innovation for a competitiveness programme.

CONICYT is the agency/advisory body to government on science and technology [www.conicyt.cl](http://www.conicyt.cl) and is a pillar of Chile's national innovation for competitiveness programme

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. More recently, CONICYT and Industry Research Limited (IRL) signed an agreement to progress a science and technology programme development.

CONICYT supports seven 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<sup>1</sup>.

## Environment

The Bachelet government announced the establishment of a Ministry of the Environment. A minister was named ahead of the existence of the institution, which will be built on the structure of the existing CONAMA, the National Environmental Commission.

Chile has an environmental protection framework called the Environmental Base Law. 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](http://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 that 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.

## 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.

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<sup>1</sup> Red tide is a phenomenon caused by algal blooms during which algae become so numerous that they discolor coastal waters (hence the name "red tide"). The algal bloom may also deplete oxygen in the waters and/or release toxins that may cause illness in humans and other animals.

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 commercialisation licences to third parties using the secret data.

Under the new law, there will be three courts and 10 judges and this should, at least, be enough to clear backlogs.

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 sophisticated and competitive. Relationship marketing should still be a central part of any entry strategy. Some key points to note:

- Chile is divided into 15 regions. Santiago, the capital city in the Metropolitan Region, is the business, banking, financial and commercial centre.
- Chile has a highly 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. On hundred percent ownership of a locally registered corporation with no time limits is permitted. For further information, [www.foreigninvestment.cl](http://www.foreigninvestment.cl)

There is significant government funding available to potential foreign investors to complete pre-investment studies, human resources support and lease subsidies. For further information: [www.investchile.cl](http://www.investchile.cl) or [www.hightechchile.cl](http://www.hightechchile.cl)

## 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 six percent although effective rate is approximately 1.9 percent as Chile has free trade agreements with over 85 percent of global GNP.

## Bar Codes

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

## 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 six percent on *ad valorem* for all products originating in countries with which it does not have a free trade agreement. A useful website for tariff rates is [www.aranceles.cl](http://www.aranceles.cl)

NZTE can provide free basic information on tariffs at an indicative level to assist companies assess viability of market entry.

Most products from New Zealand enter Chile duty free. Exceptions are on dairy products into Chile and textiles and shoes. The latter exclusion was requested by New Zealand and therefore was incorporated with reciprocity by Chile.

Companies looking to export to Chile should contact Customs New Zealand to obtain the Certificate of Origin which changed with the signing of the P4 agreement.

## Taxation

- Corporate tax in Chile is 17% on profits.
- Remittance of profits on foreign investment in Chile is subject to a 35% tax.
- Value added tax on goods and services is 19%.
- Personal taxes are marginal and progressive to a level of 40%.
- A Double Taxation Agreement between Chile and New Zealand is in effect since 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, seven percent for health insurance, and two to three for worker's compensation in case of invalidity).

## freight

### Air Freight

Air Freight may be shipped via

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

### Sea Freight

There are no direct shipping services from New Zealand to Chile. Current regular service is with transshipment via Panama.

NZTE 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 number one where NZ ranks number six)(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](http://www.codelco.cl)); whiteware [www.cti.cl](http://www.cti.cl); forest products [www.arauco.cl](http://www.arauco.cl) and [www.cmpc.cl](http://www.cmpc.cl); fruit [www.unifrutti.cl](http://www.unifrutti.cl) ; salmon [www.salmones.cl](http://www.salmones.cl); wine [www.ccv.cl](http://www.ccv.cl);
- Chile promotes formation of clusters and technological consortiums. The wine industry consortium website is worth a visit ( [www.vinnova.cl](http://www.vinnova.cl) with English version)
- 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, e.g. 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 staff tends to be away on leave, slowing down general business activity.
- Foreign passport holders are exempt 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.

## contacts

### New Zealand Trade and Enterprise

Phone	0800 555 888
Web Site	<a href="http://www.nzte.govt.nz">www.nzte.govt.nz</a>

### New Zealand Trade and Enterprise Chile

Postal Address	Casilla 112, Las Condes, Santiago, Chile
Street Address	El Golf # 99 - Of. 704, Las Condes, Santiago, Chile
Email	<a href="mailto:info@nzte.govt.nz">info@nzte.govt.nz</a>
Phone	+56 2 426 0070
Fax	+56 2 370 0297

## useful web sites

Organisation	Web Address
Chile Foreign investment Committee	<a href="http://www.foreigninvestment.cl">www.foreigninvestment.cl</a>
Business Chile	<a href="http://www.businesschile.cl">www.businesschile.cl</a>
Mercantil.com Business Portal	<a href="http://www.mercatil.com">www.mercatil.com</a>
Central Bank of Chile	<a href="http://www.bcentral.cl">www.bcentral.cl</a>
Chilean American Chamber of Commerce	<a href="http://www.amchamchile.cl">www.amchamchile.cl</a>
Info Chile	<a href="http://www.infochile.cl">www.infochile.cl</a>

Organisation	Web Address
Pro Chile	<a href="http://www.prochile.cl">www.prochile.cl</a>
Chilean Economic Development Agency (CORFO)	<a href="http://www.corfo.cl">www.corfo.cl</a>
InvestChile	<a href="http://www.hightechchile.cl">www.hightechchile.cl</a>

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