

Chile

The Chilean economy shares much in common with Australia, including its openness and strong agriculture and resources sectors. Geographic and economic similarities, coupled with a record of strong growth, offer considerable potential for Australian companies to build successful trade and investment relationships with Chile.

Trade Outcomes and Objectives Statement 1999

Introduction

9.1 Chile is located on the western side of the South American continent facing the Pacific Ocean. It is elongated in shape being wedged between the Andes and the Pacific Ocean, is just 177 kilometres wide and stretches for some 4400 kilometres. Chile has an area of 757,000 square kilometres and borders Peru and Bolivia to the north, Argentina to the east and the Pacific Ocean to the west. As Rafael Aldunate puts it so eloquently in his publication *Guide to Business in Chile*:

The Andes mountains are to blame for this mapmaker's nightmare, effectively sealing off the country from its neighbours on all but its northernmost coastal border with Peru.²

9.2 Geographically, the country is divided into 12 regions and a metropolitan area that includes the capital Santiago. In the regions there are 51 provinces and 336 cities.³

1 TOOS'99, p. 181.

2 Aldunate, Rafael V, *Guide to Business in Chile, 1999-2000*, Inversiones Divisas Limitada, Santiago de Chile, 1999, p. 15.

3 *ibid.*

- 9.3 Chile was founded on 12 February 1541 by the Spanish explorer Pedro de Valdivia. Spanish rule lasted for 270 years and bolstered by democratic movements in France and the United States, Chile declared independence on 18 September 1810.⁴
- 9.4 In 1822 a new Constitution was achieved which remained the basis of political life until 1925. Falling nitrate sales and rising inflation fueled dissatisfaction among middle and working classes after World War 1.⁵ In 1925 the military intervened and returned the reformist president Arturo Alessandri Palma to power and backed the enactment of a new Constitution that lasted until 1973 when General Augusto Pinochet came to power.
- 9.5 Pinochet remained in power from 1973 to 1989 and the military government was formalised in the Constitution of 1980. The Constitution included specific transitional provisions for a return to civilian democratic government. On 5 October 1988, in a constitutionally mandated plebescite, voters decided against an additional eight-year term for General Pinochet. A year later Chile had open and free presidential and legislative elections and President Aylwin was elected.⁶ In December 1993 President Frei was elected and his term expired in December 1999. As DFAT notes:
- The Aylwin and Frei administrations have carried forward the market-oriented macroeconomic policies established in the late 1970s. Privatisation and deregulation continue, with further liberalised trade and microeconomic reforms encouraging export growth and diversification.⁷
- 9.6 Presidential elections were held in December 1999 with a second round of elections required. The second round elections held on 16 January 2000 saw Ricardo Lagos, of the centre left ruling coalition win. The new government was inaugurated on 11 March 2000 and it is expected that the Lagos administration will continue Chile's policy of economic and trade liberalisation.
- 9.7 There have been waves of migration to Chile that have shaped Chile's culture and society. From the 19th century European countries such as Germany, Yugoslavia, Italy and England have provided migrants. As the Chilean economy has grown, Canadian, Scandinavian, Japanese, Korean and US immigrants have begun to impact on the social structures of the

4 *ibid.*

5 *Chile Facing the Year 2000*, Ministerio de Relaciones Exteriores, Chile.

6 *ibid.*

7 DFAT, Submission, p. 287.

country.⁸ The official language is Spanish while English is the second most used language.

- 9.8 According to the *Guide to Business in Chile*, 83 per cent of the population of 15 million live in urban areas and around 39 per cent live in the Metropolitan Region (which includes Santiago), which has 5.8 million inhabitants. Furthermore nearly 70 per cent of the country is under 40 years of age, 38 per cent are under 20, 7 per cent are over 65 and it is estimated that the population will reach 17 million by 2010 with an average age of 29.⁹

Overview of the Economy

- 9.9 Chile is one of the most open economies in the world having embraced unilateral trade liberalisation including the elimination of most non-tariff measures. It has been one of the big movers in South America over the past decade.
- 9.10 Chile's credit rating is the best in South America and on EFIC's short-term country grading Chile scores a 2, in line with Greece, Qatar and Taiwan, being the South American country with the lowest political and economic risk.
- 9.11 In 1999 the Chilean economy experienced a 1.1 per cent contraction in GDP and it was generally regarded as a 'lost year'. This was the first time the economy had contracted since 1983 and followed a decade of strong economic growth that averaged around 6-7 per cent. In discussing the problems faced by Chile over the last year, DFAT noted that Chile faced a decline in economic demand given its significant relationship with Asia. Furthermore Chile:
- ... to a lesser extent, [has] been embroiled in regional difficulties, and importantly, ... the El Niño drought effect has had a significant impact. But probably the most important problem has been low copper prices. Copper in Chile accounts for 40 per cent of all exports.¹⁰
- 9.12 Sharp declines in world prices for fish meal and cellulose also had a severe impact on the economy. Additionally there was a sharp drop in domestic consumption in 1999 as a result of high interest rates.

8 Aldunate, Rafael V, *Guide to Business in Chile, 1999-2000*, op cit.

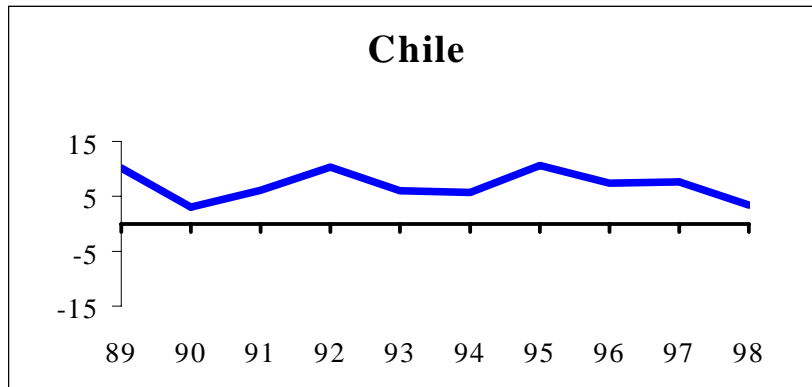
9 *ibid.*

10 DFAT, Transcript, 13 August 1999, p. 10.

9.13 There are indications that the economy is on the mend. Growth in the 4th quarter of 1999 was 3.7 per cent, the first positive balance after four consecutive quarters of contraction. There are signs that domestic spending is up and prices for Chile's major exports have recovered. Overall inflation in 1999 was 2.3 per cent the lowest in sixty years.

9.14 Real GDP growth is set out in Figure 9.1 for the period 1989 to 1998.

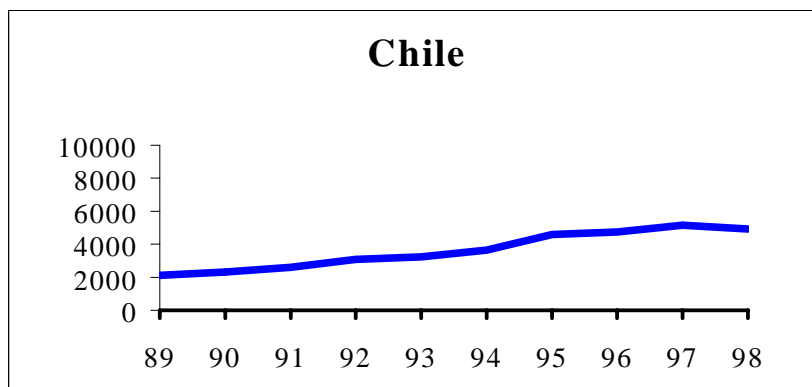
Figure 9.1 Real GDP Growth – 1989-1998



Source *Australia's Trade with the Americas, 1993-94 & 1998, Department of Foreign Affairs and Trade, Canberra.*

9.15 Chile has the third highest GDP per capita of the South American countries after Argentina and Uruguay, followed closely by Brazil. Figure 9.2 shows GDP per capita for the period 1989 to 1998.

Figure 9.2 GDP Per Capita – 1989-1998



Source *Australia's Trade with the Americas, 1998, Department of Foreign Affairs and Trade, Canberra, and IMF/IFS and EIU Country Reports.*

9.16 One of the notable things about Chile's economy according to DFAT is its linkages with other economies:

Chile has been a leader in establishing preferential arrangements.
Chile has free or preferential access to much of Latin America and

Canada, and has further interest in the US, EU and Korean markets.¹¹

- 9.17 There are no restrictions on foreign investment in Chile with foreign and domestic companies being treated equally. Businesses can be 100 per cent foreign owned and operated, as there is no minimum local participation requirement. Austrade points out that all business enterprises are subject to a 15 per cent First Category tax on accrued taxable income. A 35 per cent additional tax is imposed on the repatriation and distribution of profits, but a credit is given for First Category tax.¹² Therefore foreign investors normally pay a total tax on profits, once remitted, of 20 per cent.

The Nature of the Trade and Investment Relationship

- 9.18 After Brazil, Chile is Australia's second largest merchandise export market in South America. However, as DFAT notes:

... in commercial terms, Chile's importance to Australia derives from our significant investment links. Put by official estimates at US\$869m, Australian investment in Chile is probably closer to US\$1.3bn. The Australian investment base continues to grow. The past few years have seen substantial development of existing and new mining projects and diversification into areas such as venture capital, entertainment, and wine production and marketing.¹³

- 9.19 In 1999, Chile was ranked 50th on the value of merchandise trade with Australia. In that year, Chile purchased \$127.334 million in merchandise exports from Australia, making Chile Australia's 48th largest market for these goods. This represents a decrease of 45.9 per cent over the previous year's exports. The trend for Australian exports to Chile from 1994 to 1999 was an increase of 5.7 per cent.
- 9.20 In 1999, Chile ranked 51st as a source of merchandise imports, accounting for some \$60.342 million worth of goods sold to Australia. This is a fall of 5.5 per cent over the previous year, and the trend from 1994 to 1999 shows that the value of imports from Chile fell by 1.7 per cent.
- 9.21 Australian imports from Chile in 1999 included fish fresh chilled or frozen - \$15.404 million; pulp and waste paper - \$5.536 million; fertilisers (excluding crude) - \$3.956 million; and prepared seafood - \$3.923 million. Australia's main exports to Chile included coal - \$63.112 million; coated

11 *ibid.*

12 Austrade information brief, *Latin America – expand your horizons*, April 2000.

13 DFAT, Submission, p. 288.

flat-rolled steel - \$8.849 million; pumps for liquids - \$8.652 million; and specialised machinery \$6.976 million.

- 9.22 The Australian Government in 1997 identified Chile as an emerging market for Australia along with the Mercosur countries. Progress in the Chilean market was examined in TOOS'99 and the outcomes are set out in Table 9.1.

Table 9.1 Progress on Objectives Outlined in TOOS 1997

Priority Objectives	Desired Outcome	Progress/Outcomes Achieved
Protect and promote Australian export and investment interests in light of Chile's recent free-trade agreements and its expected accession to NAFTA	Progress in examining the scope for concluding a bilateral instrument to promote two-way trade in services.	A bilateral trade and investment agreement was signed with Chile in May 1998 and a successful first meeting of the Bilateral Trade and Investment Commission was held in Santiago in November 1998. Agreement between Australia and Chile in August 1998 to increase significantly the capacity and provide greater flexibility for Australian airlines on routes between Australia and Chile and beyond, including unlimited cargo flights on the specified routes.
	Progress in discussion on tariff reductions and elimination of specific market access barriers.	Signature of MOU on Beef Grading and Certification, allowing exports of Australian beef to Chile. Establishment of a technical dialogue between AQIS and SAG (Chilean quarantine agency), to facilitate cooperation in quarantine matters.
Bring specific opportunities to the attention of Australian suppliers to the mining sector in Chile.	Increased market awareness of export and investment opportunities in Chile.	Austrade has facilitated exports of mining equipment, services and technology through analysis and dissemination of strategic information of key mining projects in Chile, making this information available to Australian companies.
	Report to Australian industry/suppliers and assist companies with market entry and market expansion strategies.	Launch of joint DFAT – Austrade study <i>The Future of Australia's Trade and Investment Relationships with South America</i> in May 1997. In May 1998, Austrade organised a National Pavilion at <i>Expomin '98</i> which featured 64 Australian exporters of mining supplies and services, half of whom were new to the market. Export impact to date is around \$2 million.

Source TOOS'99, p. 183.

- 9.23 The Australian Government has set out further priority objectives and outcomes, for 1999 and 2000, to advance its trade and investment relationship with Chile. Table 9.2 sets out the objectives and the desired outcomes.

Table 9.2 Priority Objectives and Outcomes: 1999 and 2000

Priority objectives	Desired Outcome
To facilitate commercial contact and opportunities for business through the Australia - Chile Bilateral Trade and Investment Commission.	Negotiation of a Double Taxation Agreement. Ratification of the Investment Protection and Promotion Agreement. Signature of the new Air Services Agreement. Development of the Chilean market for Australian beef. Expansion of bilateral trade in services. Increased cooperation in science and technology.
To bring specific opportunities to the attention of Australian suppliers of mining equipment, services and technology in Chile.	Chile remains a major market for Australian mining exports, promoted through, inter alia, <i>Expomin 2000</i> .

Source TOOS'99, p. 185.

9.24 In May 1998 the Australia-Chile Bilateral Trade and Investment Commission (BTIC) was established. The Commission's work program will focus on improving the framework for commercial relations as well as coordinating strategies to achieve multilateral objectives.¹⁴

9.25 BTIC first met in November 1998 in Chile and among the main outcomes were:

... the signature of a Memorandum of Understanding on Beef Grading and Certification, the establishment of a technical dialogue between the quarantine agencies of both countries to facilitate addressing respective quarantine requirements, confirmation of the intention to negotiate a double taxation agreement, identification of areas of potential closer cooperation in science and technology, and agreement to coordinate strategies in relation to specific multilateral trade negotiations.¹⁵

9.26 In the late 1980s there were two Australian companies with resident offices in Santiago now there are over forty Australian or Australian-affiliated offices based in Santiago. Table 9.3 shows Australia's major investment activity in Chile.

14 TOOS'99, p. 184.

15 *ibid.*

Table 9.3 Major Australian Investment Activity in Chile

Type	Company	Activity
Mining	BHP AMP	BHP holds a 57.5 per cent stake in La Escondida - currently the world's biggest copper mine. AMP Investments currently has two joint ventures on mining, one with the state copper corporation, CODELCO, the other with a private company, Anaconda, owned by the Luksic Group.
Entertainment	Hoyts	Hoyts holds 25 per cent of the national and 65 per cent of the downtown cinema market in Chile.
Energy	AGL	AGL has a fifty per cent stake in Gas Valpo which provides a natural gas distribution network in Chile's fifth region.
Wine	BRL Hardy Mildara Blass	There are two notable joint ventures in wine production and marketing - Viña Cánepa/BRL Hardy and Viña Santa Carolina/Mildara Blass.

Source DFAT, Submission, p. 289.

9.27 Regarding investment in Chile the Department of Industry, Science and Resources, in its submission made, the following points:

- Mining provides 8.5 per cent of Chile's GNP and 50 per cent of Chile's exports. Its copper mines provided 84 per cent of mineral exports.
- Much specialised infrastructure such as ports and power grids have been developed to support the mining industry.
- Chile is politically stable with good laws; and property rights for domestic and overseas investors are enshrined in the Constitution.
- Chile also has few restrictions on the movement of capital and the repatriation of profits. Chile also has an innovative approach to the payment of taxes on major projects which offer long term certainty to investors.
- Few mining companies are listed on the stock exchange. There is thus no well-established link between mining companies and capital markets, or much stock market supervision of mining companies. The situation is beginning to change to accommodate the rapid growth of Chilean pension funds.
- Skilled labour costs in mining in Chile are on par with North American costs, lowering Chile's competitiveness. Industrial disruption from union activity has also been low in recent years, and new laws may amend existing labour laws.

- Because of the long tenure available to landowners, land for exploration and mining can be scarce. There is also no statutory requirement to surrender land after a specified time.¹⁶
- 9.28 In May 1998 CSIRO signed the Codelco/CSIRO Research Relationship Agreement to facilitate the sharing of confidential information and the development of proposals for collaborative research, contract research consultancies and licence agreements.¹⁷ Other CSIRO activities in Chile are:
- Work on bio-availability of copper from mine-impacted waters, a collaborative project between CSIRO Energy Technology and the Catholic University of Chile, Santiago.
 - Radio astronomy, via the radio telescope that forms part of the European Southern Observatory, north of La Serena.
 - Viticulture research.
 - Deliberations of the Valdivia Group, a group of temperate Southern Hemisphere countries focusing on climate change, biological diversity, forests, ozone and desertification.¹⁸
- 9.29 The Chilean market offers considerable potential for increased export flows although Chile's increasing interest in regional preferential trade arrangements is putting Australia's export trade under pressure. The Mercosur association agreement and the Canada-Chile Free Trade Agreement have the potential to impact negatively on Australia's ETM exports to Chile which is the export that is exhibiting the strongest growth.¹⁹
- 9.30 On the issue of bilateral trade agreements, of which Chile is an exponent, Australia's Senior Trade Commissioner in South America told the Committee that they would make Australian products and services more competitive in the region and therefore are of significant value. He illustrated the point very well:
- ... in Santiago, I had a meeting with a gentleman who was the purchasing director for a company by the name of Chilquerer, the single greatest importer of Australian products into Chile, so they are quite significant to us. They are the largest independent power producer in Chile. Their consumption rate of imported product is between three million and four million tonnes per annum, so it is

16 DISR, Submission, pp. 416-417.

17 CSIRO, Submission, p. 7.

18 *ibid.*

19 TOOS'99, pp. 184-185.

not insignificant. Three years ago Australia's share of that three to four million tonnes was 55 per cent; at the time I sat with him he said we were sitting at 30 per cent and falling. I asked why that was. He said it was because the Colombians and the Canadians have a bilateral trade agreement with them whereby they pay duty of – according to my recollection – only 3.5, 2.2, one and zero per cent over the next four years reducing, whereas Australia pays the standard rate. He said the bottom line was that we just did not cut the money on bottom line competitiveness.²⁰

- 9.31 The Trade Commissioner from the Trade Commission of Chile, located in Sydney, discussed bilateral trade agreements with the Committee noting that Chile signs them as a way of locking market access. He believes the time is ripe for Australia to explore such an agreement with Chile. He said:

We have been studying the possibility of seeing if it is a New Zealand, Australia plus Chile arrangement, or perhaps it might include Singapore, but we are willing to study all those possibilities so that your coal can be exported without any tariffs and that you can use not only Chile as a gateway but as a way of securing your investments towards Latin America.²¹

- 9.32 Chile is a member economy of APEC, a forum that remains central to Australia's regional trade policy. As part of its commitment under APEC to trade liberalisation, Chile will reduce its general applied tariff rates to 6 per cent by 2003. It has one of the least protected economies in the world with a flat rate of import duty of 10 per cent in 1999, plus 18 per cent VAT, reducing by 1 per cent each year until the 6 per cent is reached in 2003. Only a handful of products attract import duty greater than the flat rate. Products imported into the mining sector attract zero import duty.
- 9.33 Chile hosted the 15th APEC Transportation Working Group in April 1999 and a seminar on electronic commerce was held, the purpose of which was to promote the use of electronic commerce within the APEC region and to raise the profile of APEC electronic commerce activities in South America. Mincom, an Australian company, has developed a basis for electronic commerce for the Chilean mining sector – it has not been implemented as Chilean law still does not recognise electronic documents.
- 9.34 In the Joint Declaration signed at the conclusion of the inaugural meeting of the Australia-Chile Bilateral Trade and Investment Commission, Chile expressed its strong interest in learning from Australia's experience of

20 Austrade, Transcript, 22 October 1999, p. 285.

21 ACCC, Transcript, 1 October 1999, p. 245.

electronic commerce. Ministers agreed that there should be an exchange of experts in this area in the near future.

- 9.35 Chile, along with Argentina, Brazil, Colombia, Paraguay and Uruguay, is a member of the Cairns Group of Agricultural Fair Traders. The 19th Ministerial Meeting of the Cairns Group was held in Buenos Aires, Argentina on 28-29 August 1999 in anticipation of the WTO meeting in Seattle that November, and the next Ministerial Meeting will be held in Banff, Canada on 10-12 October 2000. The Assistant Secretary of the Agriculture Branch in the Trade Negotiations Division of DFAT described the value of the Cairns Group to Australia's relations in South America as 'adding to the ballast of our relationship with each of the countries'.²²
- 9.36 In May 2000 Senator the Hon Richard Alston, MP, on his visit to South America, was in Chile to launch the first Chile-Australia Science and Technology week. As part of the activities he signed the Bilateral Science and Technology Agreement between the Australian Department of Industry, Science and Resources (DISR) and the Chilean National Science and Technology Commission (CONICYT). He opened the Questacon exhibition - *Innovative Australians* - an exhibition that profiled and updated perceptions about Australia in key target markets in Chile.
- 9.37 Furthermore the visit enabled the Minister to sell Australia as a country of excellence in IT and knowledge-based sectors, both areas that the President of Chile has given priority to for development. The Minister was accompanied on the visit by a science and technology delegation from academia, research and industry.

Opportunities for Australian Business

- 9.38 In examining opportunities for Australian business it is important to point out that Chile is a fast-paced market undergoing much change - new regulatory systems, privatisation and a lot of foreign investment. With many European and North American companies in Chile and with cheap finance from abroad, Chile is a tough market. AGL says that companies need to be agile in the market.
- 9.39 Key export and investment opportunities in Chile have been identified in mining including equipment, services and technology; telecommunications equipment; infrastructure; wine and beef (see TOOS outcomes). A number of other opportunities arose through the Inquiry

including R & D. It is interesting to note that Austrade's marketing strategy for Chile for 1999-2000 is focused only on mining.

Mining

- 9.40 Chile sees itself as a 'beachhead' from which companies can launch into regional markets such as Argentina, Brazil, Mexico and Peru. Its stable legislative, business and political environments, along with Chile being the largest, most technologically advanced and competitive mining nation in the region provide the platform for 'beachhead' activities. In 2000 Chile expects about \$150 million in mineral exploration expenditure and about \$1.5 billion in new mining investments.²³
- 9.41 Business opportunities, according to Austrade, can be found for Australian exporters of mining equipment, services, and technology that bring 'smart solutions' to Chilean mining companies and assist in reducing operating costs and increasing productivity. Market segments that look particularly attractive include environmental management, vocational training and mine safety.²⁴

Research & Development

- 9.42 An interesting example of Chile as a 'beachhead' into the rest of South America is the special arrangement CSIRO has with Austrade. Since February 1995 CSIRO maintains a marketing manager in the Australian mission in Santiago. The primary role of the marketing manager is to represent the interests of the CSIRO divisions from the Minerals & Energy Alliance concerned with minerals, exploration and mining in South American countries where there is an active or developing mining industry.²⁵
- 9.43 CSIRO sees a number of likely sources of future business opportunities especially resulting from the industry focus on cost reductions generating a co-dependent need for R & D that is focused on specific company goals. Furthermore:

The Codelco/CSIRO Research Agreement will help ensure that CSIRO is a preferred provider of this R & D to companies in Chile. Additionally, there are opportunities for CSIRO to provide packaged or turn-key solutions to ensure technology uptake by Australian companies operating throughout South America.²⁶

23 Austrade, Exhibit No 54.

24 *ibid.*

25 CSIRO, Submission, p. 7.

26 *ibid.* p. 8.

Agribusiness Technology and Services

- 9.44 Agriculture, Fisheries and Forestry Australia (AFFA) says there may be some opportunities for exports of consultancy services in grain handling technology and R & D to Chile.²⁷
- 9.45 Australia has been working with the Chileans on drought issues including the El Niño effect and this ‘may also provide further opportunities for the provision of agribusiness consultancy services’.²⁸ AFFA raised the fact the Chilean government is establishing a national trust, based on the Australian NHT (National Heritage Trust) model, to deal with their soil degradation problems. There could well be further spin-offs as a result of this.

Food and Beverages

- 9.46 Although the trading relationship is modest and has been constrained by the similarity of the countries’ resource-based economies and small market size, DFAT points out there is increasing recognition of the potential for strategic alliances between Australian and Chilean companies in areas where they have been competitors – the wine sector has led the way with two notable joint ventures: Viña Cánepa/BRL Hardy and Viña Santa Carolina/Mildara Blass.
- 9.47 Following the signing of the MOU on beef grading and standards, a small quantity of Australian beef entered the Chilean market for the first time in January 1999. The limited export presence in the region, AFFA says, is a reflection of Argentina, Uruguay and to a lesser extent Brazil being largely producers and exporters of beef. They are major natural competitors to Australia and Australian meat exports to the region face additional disadvantages as a result of preferential agreements and poor freight links.²⁹
- 9.48 AFFA told the Committee that Chile’s domestic food processing industry has grown significantly in response to domestic demand and Chile’s success as an exporter of agricultural products. In describing the situation AFFA said:

Multinationals such as Nestle, Unilever and Evercrisp (Pepsico) have processing plants in Chile. Traditionally, Chile’s food processing sector has not imported many raw materials and ingredients (except for wheat, milk powder, sugar and tropical

27 AFFA, Submission, p. 499.

28 *ibid.*

29 *ibid.* p. 498.

products), but demand for processing inputs is expected to grow. The growth of supermarkets and fast food chains is not fully supplied by the domestic industry and this may indicate opportunities for Australian food products and ingredients and for investment, particularly where Australian firms have relevant expertise and technology.³⁰

- 9.49 In addition the Chilean government has been encouraging foreign investment, and investment in new plant and equipment in food the processing sector. This AFFA says may create opportunities for joint ventures in Chile for processing for export to other countries in South America (ie to overcome barriers to imports created through the preferential trading agreements such as Mercosur).³¹

Information Technology & Automation Equipment

- 9.50 The Chilean IT market has grown 200 per cent since the beginning of the 1999s and the current estimated IT market size is US\$1.2 billion. In 1998 the market for management software grew by 66 per cent with sales totalling US\$50 million. There is major growth in the use of the Internet both domestically and commercially. In the banking sector Internet transactions are doubling on a yearly basis. Austrade points out that the average expenditure by banks on information technology is estimated at US\$8 million per year. The commercial cards market is growing at rates of 20 to 35 per cent per year. This opens opportunities for trade in cards and for POS systems suppliers.³²
- 9.51 Austrade says there is strong growth and competition in the retail sector with companies aware that technological innovations are critical to improving logistics, achieving greater efficiencies and lowering costs. In response to the growing importance of new technology to the retail industry, small operators formed an alliance to help them compete with the big players. Members of the Trade Sub-Committee visited Jumbo supermarket while in Santiago. Requirements for distribution systems and automation equipment could provide openings for Australian providers.

30 *ibid.* p. 488.

31 *ibid.*

32 Austrade, Submission, p. 226. POS – point of sale; refers to payment terminals such as EFTPOS terminals (Electronic Funds Transfer Point of Sale).

Telecommunications

- 9.52 Telecommunications has been one of the fastest growing sectors in the Chilean economy, growing 14 per cent per annum since privatisation in 1989. Austrade points out that the regulatory environment is set by the Telecommunications Subsecretaria (Subtel) within the Ministry of Telecommunications and Transport and their policy priorities include:
- Regulatory modernisation, especially for personal communications.
 - Industry supervision by promoting market transparency and technical quality.
 - Ensuring access for all Chileans, including a development fund which subsidises rural telephony.
 - Promotion of value added services, especially multimedia services.³³
- 9.53 As a result, for companies looking to sell to Chile, there are opportunities in corporate telecommunications such as datacom, voice systems, dedicated lines, remote telephony and ISDN lines. Opportunities exist for telecommunications operators in areas such as digitalisation, cellular fibre optics and rural telecommunications.³⁴

Infrastructure

- 9.54 Chile is privatising infrastructure and as part of that process legislation to allow the privatisation of ports was approved by Congress in 1998. Recent transport privatisations in Chile included build/operate/transfer (BOT) concessions to private sector firms worth at least US\$2 billion per year in the period 1997-2000.
- 9.55 The Chilean Concession System offers a range of projects for privatisation and in July 1999 the Ministry of Works held a two day seminar to launch the 1999-2001 projects to a select number of businesses in Chile and abroad. For 1999-2001 the Ministry of Public Works invited bids for approximately US\$1.5 billion worth of projects covering urban and inter-urban highways, as well as airport and irrigation projects. The Committee sees the need for Austrade to promote the Chilean Concession System to Australian companies and ensure they are extended an invitation to attend the seminars.

33 *ibid.*

34 *ibid.* p. 227.

Education

- 9.56 Australian Education International's 1998 market research study into opportunities for Australian education in South America identified major opportunities in Chile for international students in the areas of English and postgraduate studies.
- 9.57 The AEI report noted that:
- Chile is looking to increase its exports to Asia and this offers opportunities for Australian institutions to market their Asian studies, international business and MBA programs. Postgraduate education in all areas is in high demand particularly in management, law, medicine and engineering. The emergence of a limited range of graduate diploma level courses in Chile offers an opportunity for Australian institutions to market their graduate certificate and graduate diploma programs. One year programs in agriculture, agribusiness, fish husbandry, communications, social sciences (particularly philosophy), mining, environmental protection, pollution management, oceanography, astrophysics and ecology have been identified by the Chilean National Commission for Scientific and Technological Research (CONICYT)³⁵ as being of particular interest.³⁶
- 9.58 The Department of Education, Training and Youth Affairs (DETYA) advised the Committee that within APEC, Chile and Mexico have expressed interest in participating in an Australian project on trade and investment in education services. The project, which commenced in June 2000, under the auspices of the APEC Committee on Trade and Investment's Group on Services seeks to identify measures affecting trade and investment in education services and study the potential impact of free and open trade in the education services sector.³⁷
- 9.59 Prochile, Chile's Austrade equivalent, informed the Trade Sub-Committee in Santiago that they are particularly interested in education, environment and recycling. Australian firms should explore if there are possibilities in doing business in these areas. One Australian business that has recently developed education links in Chile is Educación Destinos Australia.³⁸

35 CONICYT administers a number of scholarship programs for study abroad.

36 AEI, Exhibit No 4.

37 DETYA, Submission, p. 181.

38 See Educación Destinos Australia Submission.

Market Access Issues

- 9.60 Although the Chilean government is committed to reduce tariffs to reach 6 per cent in 2003, a few remaining anomalies afford a measure of protection to the agricultural sector. The most significant is the import price band system for wheat, wheat flour, vegetable oils and sugar.³⁹
- 9.61 The Joint Declaration signed at the conclusion of the inaugural meeting of BTIC in late 1998 recognised that the relatively infrequent and indirect shipping services between Australia and Chile was a problem for both countries' exports and did little to encourage trade. Both governments called on the private sector and key shipping countries to undertake discussions aimed at rectifying the current situation, especially in relation to time sensitive products.
- 9.62 The freight issue is a market access barrier. The Australian Ambassador to Chile, Mr John Campbell says that freight is an issue for coal exports given the preferential terms and the cheaper transport costs that attach to Canadian coal.
- 9.63 The Committee took evidence from Mr Holyman from Mitsui OSK Lines (Australia) Pty Ltd, the only company that operates a direct service to the West Coast of South America. Mitsui advised the Committee that the service they provide today is Australia, New Zealand, Peru, Chile, Argentina, Brazil, Chile and back again. The Mitsui service is founded on a three-vessel service offering monthly calls.
- 9.64 Mitsui points out that:
- We have, as part of that service, a feature of extremely fast transits between Australia, New Zealand and the west coast of South America, and direct calls nevertheless to east coast South America, albeit that the transit times are a little longer. Some of the ports which we have serviced traditionally we have now made on an inducement basis. That is in response to a declining trade volume over the past 12 months.⁴⁰
- 9.65 Mr Holyman did say that if there are sufficient containers or forecasts of cargoes, Mitsui will still make direct calls to those ports, but they need to know that those cargoes will be there otherwise they will not make the call.
- 9.66 The main commodities supporting the Australia-New Zealand-South America Mitsui service east bound are dairy products and it is the volume

39 DFAT and Austrade, *Doing Business in Latin America: An Introductory Guide*, Commonwealth of Australia, 1999, p. 16.

40 Mitsui, Transcript, 1 October 1999, p. 261.

from New Zealand to South America that sustains the service. Mitsui said there are dairy products moving from Australia as well, but:

... frankly, to give you some perspective, we would lift around 140 containers between Australia and South America each month on direct calls. We would expect to lift somewhere between 250 and 350 containers from New Zealand, of which 80 to 90 per cent is New Zealand Dairy Board cargo.

- 9.67 The service has been on the point of extinction on a number of occasions in the past eighteen months to two to three years. Mitsui has taken a number of steps to prevent this from happening such as the rationalisation of the number of ships operating the service to a change in port rotations. However if the volumes from the New Zealand Dairy Board are maintained then the service will continue but if they fall off then 'a direct service between Australia and South America is in dire straits'.⁴¹
- 9.68 In response to BTIC's concern over shipping links an outline paper on freight was released in 1999. As part of the portfolio Action Agenda for Latin America, a further more comprehensive paper detailing air and sea freight will be commissioned for the benefit of businesses. The Department of Transport and Regional Services, shipping and airlines, and freight forwarders will be involved in the information gathering and analysis exercise with DFAT and Austrade.

Free Trade Zones

- 9.69 Free trade zones are an inducement to business with essentially tax concessions. There are number of zones in South America as already mentioned and Chile has the Iquique Free Trade Zone in the north of the country. The Chilean Ambassador said there are great opportunities in the free trade zone. There is a system in which goods are brought into the free trade zone and if they are not sold then they can be kept there for a long period of time without paying any tax. Apparently Asian companies are taking advantage of Chile's free trade zone. There may be benefit in Australian businesses exploring the inducements conferred through the free trade zone system.

41 *ibid.* p. 262.