

# Chile

# INVESTMENT REVIEW

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Foreign Investment Committee • Teatinos 120, 10<sup>th</sup> Floor, Santiago • Telephone: (562) 698 4254 • Fax: (562) 698 9476 • [www.doingbusinessinchile.cl](http://www.doingbusinessinchile.cl)

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## A FAREWELL MESSAGE

Dear Investment Review readers,

In 2000, I had the privilege of being appointed as Executive Vice-President of the Foreign Investment Committee by President Ricardo Lagos. On March 10, I will be leaving this post to serve as Minister of Mining and Energy in the government of President Michelle Bachelet.

I would like to take this opportunity to thank you for the collaboration and support you have given me in the task of promoting Chile as an attractive destination for foreign investment. Chile's success in this field, as attested to not only by the investment materialized, but also by its position in so many international rankings, is a source of great satisfaction to me as I look back at the past six years.

With my very best regards,  
Karen Poniachik

## CHILE CENTRAL BANK SEES 2006 GDP GROWTH OF UP TO 6.25%

Chile's Central Bank maintained its forecast for 2006 economic growth of up to 6.25% amid booming domestic demand and sustained high copper prices, but said the powerful peso could lose some steam. In a report to Congress, the Bank said 2006 economic growth would likely range between 5.25% and 6.25%. It explained its preliminary forecast for Chilean economic growth in 2005 was 6.3%, compared with 6.1% growth in 2004.

The Central Bank lowered an outlook for 2006 inflation to 2.7% from 2.8%. "The evolution of the macro-economy continues to indicate that the current, expansive economic cycle has not compromised price stability", the Central Bank said in the report, the latest of its thrice-yearly presentations to Congress. Central Bank President Vittorio Corbo said the Bank would continue, however, its policy of monetary tightening, albeit more moderately, after it held its benchmark lending rate steady the second week of January.

The Bank began to gradually hike the key rate at its monthly meetings in September 2004. Adjustments intensified in the middle and toward the end of last year when oil prices sky-rocketed. "What we see going forward is that rate adjustments will be more moderate, because we did part of the job in the second half of 2005", Corbo said.

The Bank also raised its average copper price outlook to US\$ 1.70/lb, 38 cents higher than previous estimates and 3 cents higher than the US\$ 1.67/lb average copper price in 2005, when prices hit repeated record highs. Chile is the world's largest copper producer and record prices for the red metal have helped turn it into Latin America's star economy.

"With respect to the real exchange rate it is viewed as a given that the peso, in real terms, will depreciate moderately within the projection horizon, in line with a base scenario of a gradual normalization of external conditions", the Bank said.

*Reuters, January 18*

## CHILE 2005 BUDGET SURPLUS JUMPS TO 4.8% OF GDP

Chile's budget surplus, bolstered by soaring prices for its No. 1 export copper and swelling consumer spending, soared to an 18-year high at 4.8% of Gross Domestic Product in 2005.

The figure, more than double the 2004 budget surplus of 2.2% of GDP, outstripped the forecasts by private economists and the government's 4% forecast last November.

"The consolidated 2005 surplus represents a record for the past 18 years for which there are comparable fiscal statistics and comes amid favorable conditions of economic activity, domestic demand and, especially, the price of copper", said Budget Director Mario Marcel.

Almost all of the multibillion-dollar profit of state-owned mining giant Codelco, the world's largest copper producer, goes to government coffers.

The budget surplus figures encompass the public sector, including Codelco, the biggest government company. The surplus was used in part to pay down debt to reduce public sector indebtedness to 7.8% of the GDP at end-2005, he said.

With the GDP growing an estimated 6.3% in 2005, consumer demand swelled, boosting valued-added tax receipts. In November the government had estimated its 2005 budget surplus of around 4%.

*Reuters, February 2*

**CHINA, CHILE SET UP MINING JOINT VENTURE IN US\$ 2 BILLION DEAL**

China Minmetals Corporation and Nacional del Cobre de Chile (Codelco) signed a US\$ 2 billion deal on February 22 on a joint venture to mine copper resources in Chile.

The deal represents the first major copper mining project between firms from China, the world's biggest copper consumer, and Chile, the world's No. 1 copper producer.

According to the deal, the first-phase of investment in the project involves US\$ 550 million, and the total investment will reach US\$ 2 billion in the final phase of the cooperation.

Codelco, the world's largest copper producer, will provide, through the joint venture, 836,250 tons of copper to China Minmetals Non-ferrous Metals Co., which is controlled by China Minmetals, in the coming 15 years. Accordingly, China Minmetals has the right to buy, in around 2009, a 25% stake in Gaby, a copper mine newly exploited by Codelco.

The joint venture, known as Copper Partners Investment Co. (CuPIC), will be split down the middle. CuPIC will buy copper from Codelco under a long term supply contract in 55,750 tons of copper cathodes per year for the next 15 years, according to a statement. CuPIC will pay Codelco US\$ 550 million up-front and has agreed to pay towards shipments during the contract, says the statement. "CuPIC will sell the copper to Minmetals, at market prices, under a long term sale agreement", it reads.

The China Development Bank will provide a loan of US\$ 330 million for a term of 11 years for the initial phase of the cooperation. Zhou Zhongshu, president of China Minmetals Non-ferrous Metals Co., said his company and Codelco enjoy a history of long-term cooperation, and the deal has brought the two companies closer still. He said the deal will have a positive impact

on economic and trade cooperation between the corporate worlds of the two countries, and promote political and economic ties between the two countries.

Juan Villarzu, president of Codelco, said a stable supply of refined copper to the Chinese market will help his company lower production costs and increase investment in technological innovation.

It is evident that the two parties complement each other and the choice of the Chinese partner will bring both technology and capital with no competition risks, said the president.

Codelco, the world's biggest copper producer and the biggest state-owned firm in Chile, produced 1.724 million tons of copper last year, 11% of the world's total.

China Minmetals Corp, China's biggest metal and mineral product giant, registered a total of US\$ 17.78 billion in business volume in 2005.

*Xinhuanet, February 22*

**CHILE COMMENDED FOR INVESTMENT HOSPITALITY**

According to a new ranking launched in February by Forbes magazine, Chile is the world's 20th most hospitable country for foreign investment. In the Index of 135 countries, led by Denmark and Finland, Chile is positioned immediately after Canada and ahead of countries like Japan, The Netherlands and France.

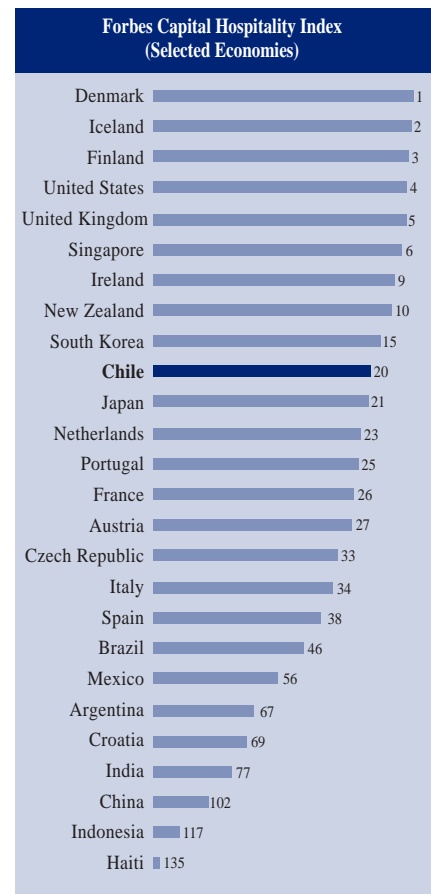
The Forbes Capital Hospitality Index is a composite ranking, drawing on sources that range from the World Bank and the World Economic Forum to Transparency International, the Heritage Foundation and Moody's Investors Service.

It measures a country's performance in ten different areas -foreign restrictions, wage and price freedom, regulation, competitiveness, technology, days to start a business, investor protection, corruption,

personal freedom and tax rates- and a score of, for example, 80 indicates that a country performs better than 80% of the 135 countries in each of the ten categories for which data is available.

With an overall score of 83.4, Chile performed best on personal freedom, for which it obtained the highest possible score (100), followed by wage and price freedom (99) and foreign restrictions (92). Its lowest scores were for technology (70) and investor protection (68).

In its report, Forbes notes not only Chile's 8% average GDP growth between 1991 and 1997, but also the fact that during the subsequent slowdown, triggered by a global financial crisis, it maintained its reputation for strong financial institutions and sound policy. It also notes that Chile has the strongest sovereign bond rating in South America.



Source: Forbes (www.forbes.com), February 6

## CHILE: STILL A LATIN TIGER?

Chile has elected its first female President, in Michelle Bachelet. As head of the left-leaning coalition which has led Chile since the country's return to democracy in 1990, the new leader has promised continuity, though with a promise of more jobs and social justice. Tackling these issues could indeed make a difference, even if the economy has fared relatively well, as our OECD experts explain.

The Chilean economy is booming again. Not that it ever really declined. True, a small dip in GDP of 0.8% in 1999 spelt the end of a long period of growth that had lasted since the mid-1980s. In that 15-year period, Chile became known as "Latin America's Tiger", with an economy whose growth performance showed more in common with dynamic countries in southeast Asia than its neighbors. Indeed, though not a member of the OECD, Chile outperforms some OECD countries, in labor productivity, for instance.

Since 1999 growth remained relatively sluggish by Chile's standards, before rebounding in 2004 with a rise of 6% in GDP. Opinions are divided on the main causes of that slowdown, some blaming cyclical and external developments, others emphasizing internal structural weaknesses. Both camps are right. But the strength of the recovery leaves little doubt that the Chilean economy can notch up fast growth, especially when external conditions are favorable. Copper prices are at a 15-year peak, and copper accounts for about 40% of exports. Overall fixed investment leapt by nearly 13% last year, while private consumption also rose by nearly 6%, the fastest expansion in years. Chile's GDP per capita has risen faster than, say, in Mexico or Turkey. However, as a recent OECD survey argues, Chile needs to sustain robust growth over the longer term if it is to close the gap in living standards with the OECD area as a whole.

There can be no sustained growth without a sound economic foundation and Chile has done a great deal to create one. Monetary policy is working well, delivering low, stable inflation, at 2.4% in 2004. Fiscal management has also been exemplary. Those high copper prices have helped, of course, but the government has nonetheless managed to resist pressures to spend the

revenue windfalls. This is because the authorities introduced a fiscal rule in 2000 requiring copper-related revenue windfalls to be saved in good times and to retire debt and finance spending in lean years. Compliance with this rule is paying dividends.

The public debt is coming down, too. The net debt of the central government and Central Bank combined accounted for less than 6% of GDP in 2004, down from about a third of GDP in 1990. This has allowed the government to begin to spend more on social programs and reduce its dependency on foreign financing—the Achilles' heel of many economies in the region. In fact, Chile is now the only region. In fact, Chile is now the only country in Latin America, other than Mexico, to have an investment-grade sovereign credit rating.

The new administration that takes office in March 2006 should build on these achievements. It should maintain the fiscal rule for a start, while preparing the budget for contingencies, particularly those associated with ageing and retirement in the years to come. Chile pioneered pension reform in the early 1980s, replacing a pay-as-you-go, government-funded pension regime by a system in which workers save for retirement through contributions to a personal pension fund. While the system is working well, it has not fulfilled all of its promises. Individual workers' contribution records are patchy, and many of those who contribute regularly do so at a level that is not sufficient to ensure a satisfactory income after retirement.

Resolving such challenges is important for the country's future public finances and will help Chile lift its growth potential. Other actions would help, too, beyond the essential condition of delivering economic stability. One is to boost innovation, and several conditions are already in its favor. Real interest rates are low, the international trade and foreign investment regimes are fairly liberal, and regulation in product and labor markets is reasonably pro-competition. While Chile's research and development spending in GDP terms may seem comparable with some poorer OECD countries, it is still too low, at 0.7% of GDP in 2002, and financed predominantly by the government in a rather fragmented institutional set-up. The authorities intend to provide more support by using the proceeds of a new mining tax. They also plan to create a council linked to the

president's office to advise the government on innovation policy. But for these initiatives to bear fruit, public funds will have to be spent wisely in a transparent, cost-effective and competitive manner, and on R&D projects that exploit Chile's comparative advantages. This may include developing technology for agribusinesses and mining, for instance.

A second challenge is to continue to strengthen the investment climate in network industries. Current regulation works reasonably well, but there is still scope for improvement. In electricity, for example, a new law was approved to ensure the security of supply against a backdrop of repeated cuts in natural gas shipments from neighboring Argentina. The option of unbundling retailing from distribution should also be considered. This would encourage more efficiency by allowing retailers to design price schedules adapted to consumer preferences.

Public-private partnerships have helped to reduce Chile's "infrastructure deficit" over the years, in areas like roads and ports. But, as this deficit narrows, governance within those partnerships will need to be enhanced.

Chile's growth potential also requires making better use of the labor force. This is the third challenge: to find ways to encourage people to work and to upgrade their skills. Labor-force participation is fairly low in Chile, especially for females and youths. There may be cultural reasons for this low participation, though a lack of affordable options for day care and pre-school education also makes it difficult for women to work. Major long-term gains can be expected from making more progress in accumulating so-called human capital, especially in today's knowledge-based economy.

This is the area in which Chile lags the most in relation to the OECD. In this sense, improving the quality and results achieved at all levels of the education system is probably the single most important challenge for the years ahead. Meeting it would not just boost Chile's long-term growth potential, but help reduce income inequality, too. Although social indicators have improved over the years, including a fall in poverty, Chile remains a highly unequal society.

*OECD Observer (Op-ed article by Luis de Melo and Nanno Mulder), January 17*

## NATIONAL ENERGY COMMISSION TO LAUNCH INTERNATIONAL TENDERS FOR POWER SUPPLY

Under Law 20.018 -also referred to as Short Electricity Law II- which came into force in May 2005, all electricity distributors operating in Chile must invite bids for the supply of the power required to meet the full projected demand of regulated clients (consumers) within their concession area. This mechanism is designed to foster competition in the power generation market and to ensure that the system is adequately supplied, protecting regulated clients against supply failures. Between September and November 2005, the Chilean government's National Energy Commission (CNE) issued three resolutions, establishing the deadlines, requirements and conditions of these bidding processes. The law stipulates that the distribution companies are responsible for preparing the bidding sheets, establishing procedures that are public, open, transparent, and non-discriminatory.

These bidding sheets were approved by the CNE and the distributors -including Saesa, Chilquinta, and Emel- must proceed to put out the corresponding tenders in March. As a result of this process, all distributors must, as from 2009, have long-term contracts with generators that ensure supply for their clients. These contracts can have a duration of up to 15 years, thereby providing incentives for the construction of new power plants or the expansion of existing plants as a means to taking part in the bids. Contracts will be awarded to the bidder offering the lowest energy price and this price will be maintained throughout the life of the contract, except for any changes arising from indexation mechanisms included in the bids.

Both local and overseas companies can present bids, either individually or as part of a consortium or alliance. Companies that do not currently operate in the Chilean generation market may also participate. Companies interested in monitoring this process and in possibly presenting bids can find more information and the relevant documents (in Spanish) on the National Energy Commission's website at: [www.cne.cl/electricidad/f\\_licitacion.html](http://www.cne.cl/electricidad/f_licitacion.html) The text of Law 20.018, as well as all other electricity sector regulation (in Spanish), is available on: [www.cne.cl/normativas/f\\_normativas.html](http://www.cne.cl/normativas/f_normativas.html) National Energy Commission (Press release), February 26

## A GLOBALIZED CABINET

Contrary to what you may have read about Chile's Socialist president-elect Michelle Bachelet, the most amazing thing about her is not that she will be her country's first woman president.

What's much more interesting is that she has assembled what may be Latin America's most globalized Cabinet.

About 70% of her Cabinet ministers speak English, and many of them have doctorates from top US and European universities. By comparison, in most other South American countries, less than 10% of Cabinet members speak English, or any other foreign language.

Bachelet herself, who studied medicine in East Germany, speaks English and three other languages. Outgoing President Ricardo Lagos, also a fluent English speaker, has a doctorate in economics from Duke University.

Before we get into the question of whether Latin American countries would be better off with multilingual top government officials -some of you may recall examples of Latin American leaders who were fluent English speakers and turned out to be disastrous to their countries- let's look at Bachelet's appointments:

- Alejandro Foxley, a former Finance Minister with a doctorate in economics from the University of Wisconsin, will be Foreign Minister.
- Andrés Velasco, a tenured Harvard Professor who got his master's degree at Yale University and his doctorate in economics from Columbia University, will be Finance Minister.
- Karen Poniachik, a former business-programs director at the Council of the Americas in New York who holds a master's degree in international relations from Columbia, will lead the Mining Ministry, one of Chile's key Cabinet jobs.
- Vivianne Blanlot, who got her master's degree in economics from American University in Washington, D.C., will be Defense Minister.
- Eduardo Bitrán, who holds a doctorate in economics from Boston University, will be minister of public works.

The list goes on, but you get the idea.

A significant portion of Bachelet's 20 ministers are Socialists and Christian Democrats who didn't spend their exile years in the United States or Europe crying over their personal dramas, but were preparing themselves for the future in some of the world's best universities.

In a telephone interview in mid February, I asked current President Ricardo Lagos whether having a multilingual government is a major asset for a Latin American country, or just an anecdotal circumstance. "I think it's something of enormous help to a government in the 21st century", Lagos told me. "In my experience of the last few years here [in government], it makes a big difference to be able to talk directly, looking into the eyes of a foreign head of state in a language both of us understand. It makes a tremendous difference".

Many analysts say that Chile's economic success -the country has grown at a faster pace than Latin America's average for nearly two decades, and has been the only country in the region to reduce poverty in half over that period- is tied directly to its success in penetrating foreign markets, and taking full advantage of the global economy.

In that sense, Bachelet's Cabinet will mark the strengthening of an existing trend, they say. "Many of the men and women close to Bachelet have a personality and style that is strongly marked by their US experience", says Patricio Navia, a Chilean political scientist who teaches at New York University and who is close to several of the soon-to-become ministers. "They characterize themselves for privileging free discussion over dogmatism, and for weighing the strength of ideas rather than where they come from".

My conclusion: Granted, having an English-speaking Cabinet is no guarantee of excellence, and the fact that many of Chile's soon-to-become Cabinet ministers have spent so much time abroad could also be a problem, in that they may no longer fit into Chile's way of doing things.

But in a world in which countries' futures increasingly depend on their ability to compete in the global economy, having a multilingual president and English-speaking Cabinet members can't hurt. It's definitely better than having none, like several South American countries.

*The Miami Herald (Op-ed article by Andres Oppenheimer), February 22*

## WOMEN GET HALF OF CHILE CABINET JOBS

The Chilean President-elect, Michelle Bachelet, has unveiled a cabinet made up of an equal number of women and men.

Ms Bachelet, Chile's first female leader, had made a campaign promise to create an equal opportunity government. Among the roles to go to women are the Defense, Economy and Health ministries. Her Chief-of-staff will also be female.

"This cabinet represents a historic step for equality between men and women".

Ms Bachelet said. She and her cabinet will be sworn in on March 11.

The 54-year-old became Latin America's third directly-elected woman president after a convincing poll win on January 15.

Ms Bachelet said the 10 men and 10 women picked for her cabinet were "people with considerable intellectual, professional and political prestige".

The team combined new faces with experience, she said, and reflected the major challenges which lie ahead for Chile. Engineer Vivianne Blanlot was named as the country's next Defense Minister, the post held by Ms Bachelet under outgoing President Ricardo Lagos.

Other women appointed include Paulina Veloso as Chief-of-staff, Ingrid Antonijevic as Economy Minister, Clarisa Hardy as Planning Minister, Maria Soledad Barría will be in charge of Health, and Karen Poniachik will head the Ministry of Mining & Energy.

Ms Bachelet's nominations kept a balance between the different parties making up the governing centre-left alliance.

The president-elect has promised to tackle the country's embedded social divide and build a more equitable and tolerant society.

BBC News, January 31

## JAPAN, CHILE START FORMAL FTA TALKS IN TOKYO

Japan and Chile began official negotiations in Tokyo aimed at concluding a bilateral Free Trade Agreement, hoping to strike a deal by the end of the year. Japan is represented in the first round of FTA talks by Seiichi Kondo, Japanese Ambassador in charge of International Trade and Economy, and the Chilean team is led by Carlos Furche, a Senior Chilean Foreign Ministry official.

Kondo said in an opening remark that the two countries "have the potential for drawing more benefits" from each other through the negotiations, citing how Chile provides Japan with "very crucial natural resources" such as copper. Furche, in response, assured Japan that Chile will make the FTA talks a "special priority" this year and expressed hope of securing a "good agreement hopefully in a short period of time".

Japan and Chile agreed last November to launch formal FTA talks after the two countries conducted a joint study for nearly one year on the feasibility of an FTA accord.

Chile is the first South American country to hold FTA talks with Japan. Tokyo has free trade arrangements with Singapore and Mexico, while Chile has FTAs with 36 economies, including the United States, Canada, the European Union, China and South Korea, according to Japanese officials.

A senior Japanese Foreign Ministry official said an FTA with Chile would serve as a gateway to South American markets for Japanese businesses.

According to Japanese Trade Ministry officials, Chile is an important provider of mineral resources such as copper and molybdenum to Japan and an FTA would help Japan secure such raw materials.

Japanese businesses have complained about disadvantages in competing with the country's FTA partners in the Chilean market and urged the government to speedily sign the pact, the

officials said. For example, South Korean automakers have increased their share in Chile since the FTA entered into force in April 2004, they added. Vice Economy, Trade and Industry Minister Hideji Sugiyama told a press conference that Japan aims to have Chile lower tariffs on Japanese auto exports through the FTA. In 2004, Chilean exports to Japan, mainly copper ore, salmon, trout and pork, totaled US\$ 3.7 billion, while imports from Japan, mostly automobiles and other manufactured goods, stood at US\$ 800 million.

Chile imposes a 6% import tariff on Japanese industrial goods, while Tokyo has tariffs on major Chilean imports including salmon, pork, trout and sea urchin.

*Kyodo News, February 23*

## PANAMA, CHILE REACH FREE TRADE PACT

Panama and Chile signed a free trade deal on February 4, ending their 15th round of Free Trade Agreement (FTA) talks. Chile has accepted Panama's proposals on financial service, professional service as well as market access for agricultural and industrial products, said Alejandro Ferrer, Panama's Minister of Commerce and Industry.

He said Chile has also acknowledged the important role Panama's Colon Free Zone has played in the regional and world trade. Ferrer emphasized that most of the Panamanian products will enjoy a zero tariff when entering Chile's market. And tariff reduction for 8 percent of Panama's exports to Chile will be completed within 10 years.

The two sides excluded some sensitive issues from the agreement such as market access for agricultural products. Free trade negotiations between the two countries failed in 1998 due to big differences on financial services. The talks resumed in July 2004. During this round of negotiation, Panama and Chile agreed to start talks on financial services within two years.

*Xinhuanet, February 4*

## SPANISH COMPANY LAUNCH CHILE PLATFORM

Corporación Financiera Valora XXI, a Barcelona-based real estate, asset management and private equity group, has announced that two of its subsidiaries -Emergia Contact Center and Presence Technology- will move part of their operations to Chile, establishing a platform from which to penetrate Spanish-speaking markets around the world while, at the same time, streamlining operating costs.

Emergia Contact Center, created in 2004, provides customer service support to companies in sectors that include telecommunications, financial services and publishing. In Chile, the company plans to invest US\$ 4 million over the next three years, hiring some 560 employees, and is initially serving clients in Spain, before targeting the Hispanic market of the United States and, in a third stage, Latin American countries. In the case of Presence Technology, a developer of software for contact centers, the estimated investment in Chile will reach US\$ 20 million and will involve the transfer from Spain of the company's Research & Development and Professional Services Divisions, creating 170 new jobs.

From Chile, the company plans to provide technical support to clients around Latin America and in the United States, as well as developing software for international distribution. Valora indicated that the move seeks to take advantage of Chile's competitive costs. In addition, the company attributed its decision to the high technical standards found among Chilean professionals.

*Corporación Financiera Valora XXI  
(Press Release), January 2006*

## BROADBAND CONNECTIONS REACH 700K IN 2005

The number of broadband connections in Chile reached 700,000 in 2005, up 40% compared to 2004 and representing a 4.6% penetration rate, according to the Chilean unit of US network equipment manufacturer Cisco Systems.

Cisco Chile, along with the local unit of US IT consultancy IDC, started monitoring broadband penetration in 2003 and suggested the country should aim to have one million such connections in service by the national bicentenary in 2010.

"Based on our analysis last September, we already estimate we will meet this goal and have one million connections in the country by 2010 and even earlier", said IDC Chile analyst Natalia Vega.

Comparing current statistics with the first study, Chilean ISPs have seen the number of broadband connections grow 255%, positioning Chile among the leaders in broadband adoption in Latin America, although far behind Asian countries such as South Korea where penetration reaches 25%, at speeds of over 1Mbps. In Chile, most connections reach speeds of 256-512Kbps.

"(The introduction of) higher speed connections are associated with local content development. We are at a stage where we are seeing content development and as long as this development grows and there is a higher penetration of video or television over the internet, we will see bandwidth growing among users", Vega added.

*Business News Americas, January 17*

## IT SALES HIGHEST SINCE 1997

Chile's IT sector saw sales grow to US\$ 1.12 billion in 2005, according to preliminary figures compiled by IT industry association Acti, the highest annual total since 1997, Acti general manager Aldo Signorelli told reporters.

During 2005, the Services sector accounted for 56% of IT sales, followed by hardware with 25% and software with 19%. Overall, the industry's sales were up 5.4% compared to 2004. "2005 was the highest year in sales

since 1997. We have been growing less than GDP, but for 2006 (the gap is expected to narrow) - if expected GDP growth is nearly 7.5%, we aim to grow 7%", Signorelli said. "Our growth is always expected to be below the economy's, since our industry is a promoter for the overall GDP increase", he added. "One of the most relevant tasks for 2006 is related to the need for the country and its companies to increase investments in research, development, innovation and technology as a key element for its development", Acti President Alfredo Piquer told reporters.

*Business News Americas, January 25*

## CHILE EXPORTS SOAR 24% IN 2005, SET RECORD SURPLUS

Chile posted a record annual trade surplus of US\$ 9.236 billion in 2005 as its exports climbed by nearly a quarter to almost US\$ 40 billion, boosted by the soaring price of copper, according to Central Bank figures. In December, Chile had a trade surplus of US\$ 1.173 billion, compared with US\$ 1.102 billion in December 2004. In 2004, Chile's trade surplus was US\$ 9.019 billion. For the year, Chile's exports totaled US\$ 39.536 billion, up 23.5% from 2004, while imports rose 31.7% to US\$ 30.300 billion.

The new record surplus came after prices for copper, Chile's chief export, reached heights that exceeded even some of the most optimistic forecasts. Chile is the world's top copper producer and its exports of the metal were valued at US\$ 1.199 billion in the first three weeks of December.

Total exports for the month came in at US\$ 3.707 billion, up 11.9% from the same month of 2004. High copper prices have helped power Chile's economy, which has grown near 6% for the past two years and is expected to come close to repeating that performance again in 2006.

*Reuters, January 9*

## ASIA BECOMES MAIN DESTINATION FOR CHILE'S EXPORTS

Asian countries have become Chile's main export destination, with sales there growing by 25.3% in the first 11 months of last year, compared with the same period a year earlier, Chile's Central Bank said in a report published on January 9. Chile exported more than US\$12.5 billion of goods to Asia, and bought around 4.8 billion worth of goods, during the January to November 2005 period. Imports grew 37.3% compared with the same period a year earlier.

Exports to Japan accounted for the largest single chunk of Chile's exports to Asia - US\$ 4.1 billion, up 20.3%. Chile's purchases from Japan were US\$ 843.5 million, up 24.8%. South Korea is one of Chile's largest customers in Asia, buying nearly US\$ 2 billion worth of goods, up 19.4%. Chile bought US\$ 894.9 million from Seoul-based exporters, up 58.9%. The Central Bank report said that India merited a special mention. Chile's exports there rose 9.7% to 427.5 million, and the country has begun to be an important commercial partner, it said. From January to November 2005, Chile's imports from India rose 31.6% to US\$ 110.3 million.

*Xinhuanet, January 9*

## LENDING IN CHILE ROSE 13.8% IN 2005

Total net loan portfolios in Chile's banking sector, which includes 26 institutions, rose 13.8% in 2005 compared with 2004, the banking regulatory agency said on January 20. Net profit in Chile's banking system rose 12.78% to 778 billion pesos (US\$1.51 billion) in 2005, compared with a year earlier, the Superintendency of Banks and Financial Institutions said in a statement.

Consumer lending rose 20.33% in 2005, the Superintendency said, and home mortgages grew 16.24%. Business lending rose 12.51%. The Superintendency said Chile's biggest bank, Santander Santiago, a unit of Spain's Santander, had net profit in 2005 of 239.71 billion pesos (US\$ 466 million).

*Reuters, January 20*

## SOUTHERN CROSS TO START DIESEL-FIRED PLANT OPERATIONS IN AUGUST

Latin American private equity fund Southern Cross plans to start diesel-fueled operations of the first stage of the Campanario thermoelectric generation project in southern Chile's Region VII in August, the company said in a statement.

The first stage of construction will take place between March and July and carries an investment tag of US\$ 70 million. It includes the installation of two 60MW turbines that will supply energy to the central grid (SIC) through the Charra substation, the statement said.

The plant will begin operations using natural gas in the first half of 2007, the statement added.

The project is designed to generate 260MW with open cycle turbines burning gas and/or diesel, and could be transformed into a combined-cycle generator with 360MW capacity by adding a 120MW steam turbine, Southern Cross said.

The project also includes the construction of a 25km gas pipeline extension to transport Argentine natural gas from the existing Gasoducto del Pacífico pipeline. Construction of this branch will begin during the first half of 2006 and it should start operations in the first half of 2007, the statement said.

Local gas distributor Innergy currently owns the Campanario project but Southern Cross has signed an agreement to take 100% control of the project through its subsidiary, Energía Andes del Sur.

The project's total US\$ 190 million investment will be financed by Southern Cross' own funds as well as structured loans from Chilean bank Banco BCI, the statement said. Southern Cross manages almost US\$ 1 billion in assets throughout Latin America.

Innergy is 30% owned by Chilean gas distributor Gasco, 30% by Canada's Nova Gas Sur, 25% by state oil company Enap and 15% by Chilean company Trigas.

*Business News Americas, February 23*

## BRITISH GAS GROUP WINS CHILE LNG PLANT BID

British gas and oil firm BG Group Plc won a bid to build and supply a liquid natural gas regasification plant on the central Chilean coast, the company and government energy company Enap said on February 15. BG committed to invest US\$ 350 million in a terminal that will receive LNG shipments, a pipeline, and a plant that will convert the liquefied fuel into natural gas for the Chilean market.

The LNG plant is a key piece of Chile's effort to diversify its energy sources. The country produces very little of its own petroleum and natural gas. BG, Enap, and two major natural gas consumers signed a letter of understanding that gives BG the exclusive right to negotiate the building of the plant. A final contract will be signed before the end of the year.

Enap and the natural gas consumers who are committed to buying fuel from the plant will create two companies - one to build the terminal and another to purchase LNG and distribute it to consumers.

"I can say that BG will have minority ownership", Antonio Bacigalupo, coordinator of the project at Enap, said at a news conference.

Under the final contract Chilean power company Endesa Chile and natural gas distributor Metrogas, which supplies natural gas for domestic heating and cooking, will commit to buying from the BG plant. Endesa and Metrogas signed the letter of understanding with BG, but two other natural gas consumers, power companies Colbun and AESGener, opted out of signing but have until the end of March to join the letter.

Enap did not say what price BG offered for supplying LNG for the plant or why BG's offer had won.

Among other companies that took part in the bidding were French utilities group Suez and Spain's Repsol YPF.

Chile plans to build the plant on the Quintero bay to reduce its dependence on natural gas supplied by Argentina, which has cut back on shipments to Chile in recent years to meet its own growing demand. The terminal will include a regasification plant with a maximum capacity of 15 million cubic meters a day.

*Reuters, February 15*

## CHILE'S INDUSTRIAL PRODUCTION ROSE 7.7% IN JANUARY

Chile's industrial output grew at its fastest pace in nine months in January, led by durable goods production and oil refining. Output rose 7.7% from the year-earlier period after increasing 6% in December, the National Statistics Institute said on February 28. The growth rate was the highest since a 10.1% surge in April.

"The figure was very strong", said Diego Grunwald, an economist at Larrain Vial SA in Santiago. He said he expects overall economic growth of 6% for the month. Growth in the South American country is showing few signs of slowing down, fueling speculation that central bankers will keep raising the benchmark lending rate in a bid to curb consumer demand and rein in inflation. Grunwald predicts policy makers will raise the overnight rate two more times this year, bringing it to a four-year high of 5.25% from 4.75% today.

Finance Minister Nicolas Eyzaguirre said last week he expects economic growth -which has been fueled in part by a surge in the price of copper, Chile's biggest export- to slow to a range of between 5.5% and 6% this year from an estimated 6.3% in 2005. Economists had expected industrial production growth of 8% in January, according the median of five forecasts in a Bloomberg survey. A separate government report today showed that the jobless rate rose to 7% in the month from 6.9% in December. Economists had predicted the jobless rate would drop to 6.8%, according to the median of seven forecasts.

*Bloomberg, February 28*

## MOPTT: CONCESSIONS ATTRACT US\$ 7 BILLION IN INVESTMENTS

Chile's Public Works Ministry (MOPTT) has attracted a total US\$ 7 billion in investments in 50 concession projects in the 2000-2006 period, newspaper local press quoted MOPTT's Concessions Department Coordinator Camilo Rojas as saying. Of that sum, US\$ 860 million was generated by highway concession contracts; US\$ 250 million in concessions to run prisons and US\$ 250 million in concessions to run hospitals, the official said. In the meantime, Transantiago public transport modernization plan for capital Santiago has brought investments worth US\$ 175 million, Rojas said.

During the 2000-2006 period, "we have managed to put four urban highways (in capital Santiago) in operation and we have also carried out the bidding process for the Chacao bridge (in Region X), one of President Lagos' proposals when he himself served as (public works) minister", Rojas said. During 2004 alone, concessions in the country attracted a total US\$ 1.2 billion in investments, "a record figure", Rojas said.

The concessions for 2005 brought in a total US\$ 1 billion in investments. Further, between this year and next, the concessions department expects to sign concession contracts worth a total US\$ 3 billion, Rojas said.

Rojas forecasts some of the most relevant infrastructure projects would include the US\$ 150 million Vespucio Oriente project to build two 10.5km-long tunnels under the east side of Santiago's Américo Vespucio beltway; the US\$ 25 million concession to build underpasses to free up traffic at Santiago's congested Pérez Zujovic roundabout in the Vitacura district; and the US\$ 75 million concession to perform expansion works from two to four lanes on the Puerto Montt-Pargua stretch of the country's Panamerican route 5 in Region X.

*Business News Americas, January 6*

| CONCESSIONS PROJECTS, 2005-2007                                 |                |
|---|----------------|
| Suiza-Las Rejas Underpass                                       | 22             |
| Panamerican Highway, Northern Access La Serena - Caldera        | 140            |
| Santa Rosa Bus Lane   | 63             |
| Transantiago Public Transport Terminals                         | 40             |
| Infrastructure for Ferry Services, Region X                     | 20             |
| Central TransAndean Railway                                     | 70             |
| Vehicle Removal Compound, Greater Santiago                      | 26             |
| Bridge over Maipo River - Santa Rita Pirque                     | 4.5            |
| Salvador Infante Hospital Complex                               | 150            |
| Prisons Concession Program, Phase IV                            | 60             |
| Connecting Road Melipilla - Highway 66                          | 20             |
| Concession Highway 160  | 100            |
| Concession Highway 66 (Camino de la Fruta)                      | 64             |
| Ancoa Reservoir   | 55             |
| Connecting Road La Dormida                                      | 30             |
| Barros Luco Trudeau - Exequiel González Cortés Hospital Complex | 80             |
| Sótero del Río Hospital   | 50             |
| Pumilla Reservoir   | 190            |
| <b>Total</b>  | <b>1,184.5</b> |

Source: Public Works Concessions Unit ([www.concesiones.cl](http://www.concesiones.cl)) For more information contact: [oirs.cgc@moptt.gov.cl](mailto:oirs.cgc@moptt.gov.cl)

## AUTOPISTA CENTRAL RAKES IN US\$ 48 MILLION PROFITS DURING 1ST YEAR

Chilean tollroad concessionaire Autopista Central reported net profits of 25.5 billion pesos (US\$ 48 million) in 2005, the first full year the expressway was operating, the concessionaire said in a filing with the country's securities regulator (SVS).

The passage of nearly 225 million vehicles along the expressway last year meant revenues of 43.6 billion pesos, with operating profits coming in at 18.5bn pesos.

The traffic flow observed on the tollroad was equivalent to almost 35% of the cars owned in capital city Santiago, the company said.

The Autopista Central corridor was the first free-flow tollroad in Chile and began operations on December 1, 2004, crossing Santiago north-south in two stretches.

One 39.6km stretch is operational and connects with the Américo Vespucio beltway and Ruta 5 Norte.

The second 20.9km stretch along General Velásquez street is under construction and scheduled to wrap up by mid-year.

The Autopista Central consortium is comprised of Dragados (48%), Skanska (48%), Belfi (2%) and Brotec (2%).

It won a 30-year concession in 2000 to operate a total 61km of roadways in the Metropolitan Region, which includes Santiago.

*Business News Americas, February 10*

## AUTOSTRADA, ITALY'S GAVIO TO EACH HOLD 45% IN CHILE'S COSTANERA NORTE

Autostrada SpA and Italy's Gavio group said they will each take 45% in Autostrada Sud America, which is buying a 77.9% stake in Chile's Costanera Norte SA motorway concession.

Mediobanca SpA will take the other 10% in Autostrada Sud America, they said in a joint statement.

The Costanera Norte stake was acquired from Impregilo SpA in December for US\$ 220 million.

*AFX News, February 10*

## CHILE IN THE EYES OF WALL STREET

*The following are excerpts from Wall Street Investment Banks' reports on Chile:*

*From Merrill Lynch's  
"Emerging Markets Daily",  
January 18:*

As expected, ruling center-left Concertación candidate Michelle Bachelet will become Chile's first woman president. The success was also a victory for the Concertación, as it will now serve its fourth consecutive term. Moreover, Bachelet will be backed by a new Congress, in which the Concertación will hold majority in both Houses for the first time. Due to the removal of appointed and lifetime senators, the Concertación gained the majority in the Senate, with 20 seats out of a new total of 38. Although the majority would not be enough to pass changes in the Constitution, it does strengthen the Concertación's governing position in the lower house. The Concertación will hold 65 seats in the lower house, versus the opposition's 54. The newly elected President and Congress will take their seats on March 11th.

**Due to Chile's consensus' embracing the current economic model, we expect little change on the economic policy front.** Bachelet has indicated that she supports the current 1% of GDP structural fiscal policy rule, which has produced excellent results when dealing with a volatile copper price. The rule obliges the government to "calibrate" spending, in order to produce such a surplus, and assumes an economy that is producing at potential and is using a long-run price of copper.

We update our macroeconomic forecast for Chile, which includes our latest forecasts on the CLP and some of the closing data for 2005. We see the economy decelerating in 2006 (5.5%), when compared to the rapid growth of 2005. We believe that copper prices will drop only

slightly on average. We expect inflation to pick up next year, due to higher oil prices, but we expect the core to stay well within the Central Bank's 2-4% band.

*From Santander Investment's  
"Latin American Equity Research",  
January 12:*

**After the weak performance of the Chilean market in the last months of 2005, we expect the market to resume a positive trend in the coming months.** Since its 2005 high of 2,214 points on August 2, the market slid 11.3%, ending the year with a return of 9.4% and 18.9% in peso and US dollar terms, respectively. The market decline started with the increase in interest rates in October, following the trend of Latam markets in general. However, the decline continued in November and December, decoupling from the other emerging equity markets.

While we do not see a major change in the fundamentals to justify such decoupling, we attribute the year-end weakness to a technical issue: selling pressure coming from local mutual funds. In our opinion, the fundamental strength of the Chilean market remains unchanged for 2006. Looking at 2006, we expect the estimated 6.6% growth in private consumption to contribute to 12.1% EBITDA growth in our sample and support the 16.0% upside expected for the market from current levels. In dollar terms, upside should be lower, as we expect a 5.7% depreciation of the peso from current levels. The main risk factors to our base scenario can be found on the external front, such as movements in the prices of copper and oil, or financial conditions. In addition, we believe that the exposure of Chilean companies to Argentina and developments in the electricity sector are two potential sources of risk to our base scenario.

**We believe that the leading push for GDP growth in 2006 will be private consumption. Higher employment continues to boost private consumption and consumer confidence.** We believe that there is still some upside space in this regard, as we forecast the average unemployment rate in 2005 will reach 8.1%, while for 2006, we expect this number to fall to 7.4%. Regarding wages, we are starting to observe some increases in real wages after several years of weak increases, with an expected increase in real payrolls of 2.6%. The most important effect of the better performance of the labor market has been the increase in consumer confidence and the improvement in outlook for the future performance of the economy. The conjunction of the consequent increase in wages, expansionary monetary conditions, and the general sentiment of a positive economic outlook for the medium term after years of meager growth has been reflected in the growth of private consumption, which was the last variable to joint this positive economic cycle. For 2005, we expect an increase of 7.4%, up from our previous estimate of 6.7%, while for 2006, we forecast that this figure should be 6.6%, higher than our earlier estimate of 5.9%.

**Retail Sector:** In our opinion, Chilean retailers offer the most attractive alternative for gaining exposure to increased consumption in Chile. **According to our economic forecast, consumption should post 6.6% growth in Chile in 2006.** This, in our opinion, should continue to impact positively the sector's operations in the country as, on a consolidated basis, 80% of retailers' sales are generated in Chile.

**Banking Sector:** **We expect the Chilean Banking sector to continue benefiting from the positive economic environment in the country, with strong loan growth and low credit risk.**

## CHILE IN THE EYES OF WALL STREET

In our opinion, the sector's results will continue to be robust, thanks to positive loan growth, a higher exposure to the consumer segment, and lower provisions.

**Risks To Monitor: The main risks to monitor in our opinion are associated with the external front.** As usual, if copper or oil prices are significantly different from what we forecast and financing conditions differ from our expectations, these factors could affect our view of the market. Our base scenario assumes an average copper price of US\$ 1.74 per pound, compared with US\$ 1.67 per pound last year, and an oil price of US\$ 56 per barrel. On a more specific note, looking at 2006, we highlight two issues that are important to follow: (1) the political and economic developments in Argentina, given the exposure of Chilean companies to that market; and (2) the evolution of the current and expected demand/supply balance in the electricity sector in Chile.

**Exposure To Argentina:** Conducting business in Argentina will remain a risk for Chilean companies during 2006, in our opinion. According to our estimates, 10.1% of the sales from our sample (which represents 72.5% of the IPSA index) will be generated in Argentina during 2006, while EBITDA generated in this country will make up 7.6% of the consolidated EBITDA of the sample. Therefore, political and economic developments could affect the outlook for some Chilean companies. Also specific issues related to some companies and sectors are important to monitor, among them, we highlight the reduction of the natural gas supply, the timing of price increases in the distribution of electricity, and the evolution of the price agreements imposed on supermarkets.

The uncertainty regarding the supply of natural gas coming from Argentina is not expected to go away in 2006.

However, when looking at 2006, there is some reason to be a little more optimistic when comparing the potential impact of the reduction in the performance of the sector in 2006 and the effects it had on our 2005 exercise. This relates to the current level of the reservoirs, after a rainy 2005, and the higher level of the regulated rates, after the implementation of the new electricity law.

We believe that current reservoir levels should reduce the impact of the reduction of the flow of natural gas from Argentina. While there could be some relief at the beginning of 2006, given the lower number of wells undergoing maintenance, expectations are that in 2006 and beyond, the flow of natural gas from Argentina to Chile will be reduced, mainly because the Argentine government recently published a resolution favoring the domestic market over the export market.

This implies that the expected flow of natural gas from Argentina to Chile is expected to decline every year going forward. However, the situation is less tight than it was at the beginning of 2005, given that 2005 proved to be a quite rainy year, and this has increased the water in the system's reservoirs. As of November 17, 2005, the total dammed energy in the central grid's reservoirs was 4,956.1GWh, 44% higher than the historical average since 1997.

The new electricity law, which increased regulated prices, eased the situation for generators and should drive investments in new installed capacity. In order to address the new scenario, the Chilean government changed the electricity law to allow regulated prices to meet the new reality of lower levels of natural gas. Because of this, node prices rose 50.1% in 2005, a trend that it is expected to continue this year (given the expectations that the flow

of natural gas from Argentina will fall in the coming years), which should maintain the system's marginal costs at very high levels. Currently, node prices are US\$ 59.29 per MWh, following the 6.9% adjustment in January 2005, and they are expected to remain at levels in the US\$ 60.00 - US\$ 65.00 per MWh range in the long term, considering the expected level of the system's costs after the entrance of the LNG project in 2008-2009.

*From UBS' "Emerging Markets  
Daily Economic Comment",  
February 8 & 10*

The January trade balance registered a surplus of US\$ 758.6 million, below that of January 2005 (at US\$ 768.6 million) and below expectation (US\$ 890 million), but showing strong growth in both exports and imports. January's exports totaled US\$ 3.65 billion, up 23% year over year, about the same rate as the accumulated 12-month rate. Disaggregated data for the first three weeks of the month (the latest available figures) indicate that mining exports performed the best, rising 38% year over year, with copper up 41%, comprising nearly half of exports for that period. Industrial exports (about 30% of the total through the period) rose 15% and agricultural exports rose 6%.

January's imports totaled US\$ 2.89 billion, up 31.4%, also similar to the accumulated 12-month rate. On a CIF basis, during the first three weeks of January, the broad sector capital goods grew the most, by 32% year over year. However, consumer goods rose 24%, and intermediates rose 25% (although that group was led by energy imports, up 45% year over year). For the twelve months through January, the trade balance registered a surplus of US\$ 9.2 billion, a strong figure only slightly below that of December (US\$ 9.3 billion).

## CHILE IN THE EYES OF WALL STREET

Even though the trade surplus was below expectation in January, it continues to signal good news about the drivers of Chile's economic activity. The continued strong growth in exports signal that external demand for Chilean commodities and industrialized products remains firm, while strong capital goods import growth is a good sign for investment growth going forward.

At its February monetary policy meeting, the Central Bank re-established its tightening cycle, announcing a 25bp hike of the target inter-Bank lending rate to 4.75%, as expected. In its statement, the Bank noted that external conditions remain favorable for the Chilean economy, with high copper prices and a positive international financial environment.

The Bank continued to characterize domestic conditions as expansive, noting that domestic demand growth has begun to moderate but economic activity continues to expand at an above-trend pace. The Bank said that this behavior confirms that the economic deceleration observed during the third quarter of 2005 was partly transitory, in line with the expected outlook discussed in the latest monetary policy report. It added that while the annual rate of employment creation has begun to moderate, employment of salaried workers continues growing vigorously.

On the inflation front, the Bank said that the headline rate is slightly above 4%, and the core measures already stand around the 3% level. It noted that while headline inflation is expected to remain above 4% over the short term, it should converge to 3% over the course of the year, in line with the base case scenario discussed in the last monetary policy report. The Bank noted that other indicators of inflationary trend as well as inflation expectations remain well anchored around the midpoint of the 2-4% target band.

In its conclusion, the Bank said that in the most probable scenario, it will continue to gradually reduce the prevailing monetary stimulus in order to keep inflation in its trajectory toward the 3% level over a 12-24 month horizon.

We expected the Bank to raise the monetary policy rate after standing pat for two consecutive months. As we wrote, economic activity growth has remained solid and a tightening labor market could offer inflationary upside risks, which the Bank is likely to confront in line with its commitment to price stability.

We believe the reference to domestic economic conditions as expansive alongside its stated plans to continue tightening at a gradual pace offer clear signals of the direction in which the Monetary Policy Authority is headed. We forecast three further 25bp-hikes, bringing the monetary policy rate to 5.50% by year end.

*From JP Morgan's  
"Economic Research Global  
Data Watch", February 24*

The Bachelet administration, with Finance Minister Andres Velasco at the helm of economic policymaking, takes office on March 11. Despite enjoying high terms of trade, it will inherit an economy with no obvious excesses. Real GDP growth is cruising at just a half percentage point above the potential rate and core inflation stands squarely at the mid-point of the inflation target range. These results trace to the institutionalization of countercyclical fiscal policy (which delivered a reported primary surplus of 4.8% of GDP in 2005) and the implementation of preemptive monetary policy (which is nearing neutral rate levels). Efficient demand management tools and the free trade agreements already in place are generating expectations of

lower business cycle volatility and broad access to major markets. Thus, the new administration will be challenged to seek progress on other fronts: multiple micro-reforms that target broad goals like raising potential growth and improving income distribution, along with social ones to upgrade education and review the shortcomings of the social security framework. Households are cheering the new government: consumer sentiment is up smartly since October. While partly fueled by enthusiasm surrounding the political transition, household confidence is also firmly rooted in job growth and real wage gains.

In contrast, business sentiment has been slipping despite strong expansion in gross fixed investment (nearing 30% of GDP by end 2005). Several factors may be affecting moods, including unresolved energy issues with Argentina (from which Chile imports natural gas) and the ongoing controversy over the presumed burden that a strong peso places on noncopper exporters. Effectively, noncopper exports have slowed lately (to 12.6% oya) but this owes partly to a high base of comparison. High fiscal savings reaped from copper price windfalls and high dividend repatriation by copper companies are limiting the full impact that a high copper price could otherwise be exerting on the peso. In fact, appreciation of the peso has lagged that of other metal exporter currencies.

Velasco is keen to promote Chilean competitiveness, which in the medium term involves overhauling existing labor, tax, environmental policy, anti-trust, and public-sector regulations. More immediately, the risk of direct policy measures to check the peso's appreciation are increasingly likely. JPMorgan has lately revised its CLP-USD forecast to 540 at year end.

## RENEWABLE ENERGY PROJECTS EXEMPT FROM TRANSMISSION TOLLS

Chile's government has approved legislation to provide incentives for investments in alternative energy projects with less than 20MW installed capacity by exempting them from paying transmission tolls, state energy regulator CNE said in a statement.

Law 19.940 was promulgated on January 17, the statement said. The law will come into effect 30 days after its promulgation, and companies developing renewable energy projects will have the right to this benefit from that day forward, including those already operating in the country, a CNE spokesperson told BNAmericas.

Eligible generation projects include geothermal, wind, solar, biomass, wave power, cogeneration and small hydroelectric plants.

The law also establishes a separate regulatory framework for small-scale renewable energy projects with less than 9MW installed capacity aimed at diversifying and expanding power generation from domestic energy sources.

The framework includes rules for distribution companies and small generation companies for interconnecting to the grid, a price stabilization mechanism for energy payments and mechanisms for coordinating a company's operation in the grid when they opt to participate in the wholesale market.

*Business News Americas, January 20*

## CORFO DOUBLES FUNDS TO ENCOURAGE IT INVESTMENTS

Chile's economic development agency Corfo has estimated a total budget of 2 billion pesos (US\$ 3.77 million) for 2006 for its program to promote and attract investments in high technology, the government said in a statement. This figure nearly doubles the funds used in 2005, when Corfo helped to create 655 jobs, opened an IT center in Valparaíso and promoted foreign investments within its program *Chile País Plataforma*.

For 2006 Corfo plans to continue promoting foreign investments through new offices in the US and Germany, and strengthen offices already established in Spain, Sweden and Italy.

In 2005, Corfo invested 500 million pesos in its *Chile País Plataforma* program, mostly to support innovation projects. This program also helped to install operational centers in the country for different companies such as Delta Airlines, Unilever, Altec, Citigroup, Shell, Software AG and Air France.

*Business News Americas, February 3*

## VESPUCIO NORTE EXPRESS TOLLROAD BEGINS OPERATIONS

The north and northwest segments of Chilean capital Santiago's Américo Vespucio express beltway have begun operations after a US\$250 million investment, the concessionaire responsible said in a release. The 29km-long highway connects Santiago's districts of Huechuraba, Recoleta, Conchalí, Quilicura, Renca, Cerro Navia, Pudahuel and Maipú and is expected to cut travel time along the route by 50%, the release said.

The six-lane tollroad connects the Arturo Merino Benítez international airport with northern Santiago's El Salto avenue -home to one of the capital's largest industrial areas- in 14 minutes. At its southwest end in Maipú district, the expressway links with the Autopista del Sol (Route 78) tollroad, which leads to Region V's Valparaíso and San Antonio ports.

Works for the expressway included the construction and upgrade of four bridges, 20 crossings and overpasses and 25 pedestrian bridges, as well as 50km of drainage systems to prevent floods, the release said.

Users will have the option of paying highway fees via the electronic free-flow system (dubbed Tag) or by purchasing a daily pass, at a cost of 3,500 pesos (US\$ 6.79) for light vehicles and 7,000 pesos for heavy trucks.

Using the Tag electronic free-flow toll system, the tariff to make a round trip on the entire 29 km road will be 1,676 pesos.

The Vespucio Norte Express concessionaire is controlled by Spanish infrastructure group ACS, Germany's international construction service provider Hochtief and local construction companies Belfi and Brotec.

The expressway is expected to benefit some 2 million inhabitants.

*Business News Americas, January 5*

## WINE AND VINE: CHILE AIMS TO GO UP-MARKET

Chile has great appeal to those whose average wine-spend is around a fiver a bottle. Currently, it forefronts the UK and Ireland as a reliable source of good value, fruit-driven, easy drinking reds and whites.

There's a solid history of Chilean wine-making going back some 400 years, since Spanish Franciscan missionaries introduced the Pais grape for altar wine. Of indifferent quality, it's still used for box-wines at home.

More recent immigrants played a big part in developing Chile's wine industry, particularly Spanish Basques, already influenced by French wine-making techniques. Significantly, Chile's South American isolation meant that it was spared the scourge of phylloxera, the vineyard louse which devastated European wine-regions in the 19th century. But, the international breakthrough finally came with Cabernet, Merlot, Chardonnay and Sauvignon Blanc, stainless steel and a touch of French oak.

Local climatic conditions, long even-ripening days, cool breezes from the Pacific and irrigated water from the Andes did the rest. Cabernet and Merlot in particular are suited to the local terroir in regions like Maipo and Aconcagua. Interestingly, DNA testing reveals that much of what local wine-makers believed to be Merlot is really Carmenere, a lesser Bordeaux variety.

Casablanca Valley is increasingly the base for reliable dry aromatic whites including Sauvignon Blanc and Chardonnay. Again, some of the Sauvignon Blanc turns out to be Sauvignon Vert, another lesser varietal. Chardonnay, fashionable on the market, is generic Chard, usually with little to distinguish it as Chilean.

But Chile's remarkable success at the lower end of the international market carries its own problems. Good value, easy-drinking wine can become a bit predictable, even boring. Those after something more complex are tempted by top Bordeaux or Burgundy.

Currently, the major task for Chilean producers is to persuade the market that they can produce high-price, serious quality wines with the complexity, layered palate and elegance of top Bordeaux.

*The Belfast Telegraph, February 5*

During 2005, materialized Foreign Direct Investment reached US\$ 3.75 billion, as compared to US\$ 7.15 billion for 2004. The Foreign Investment Statute (D.L. 600) channeled 51.1% of the gross inflows. The main recipient sectors of D.L. 600 FDI were Mining (42.9%); Transport &

Communications (29.6%); Services (17.1%); Electricity, gas & water (5.1%) and Industry (4.4%). In 2005 materialized D.L. 600 FDI came mainly from Australia (27.3%); Mexico (26.7%); United Kingdom (13.5%); Spain (10.8%); Canada (4.2%); United States (4.1%); Belgium (3.7%) and Japan (2.5%).

Foreign Investment Committee  
 Teatinos 120, 10<sup>th</sup> Floor  
 Telephone: (562) 698 4254  
 Fax: (562) 698 9476  
[chileinvestment@cinver.cl](mailto:chileinvestment@cinver.cl)  
[www.doingbusinessinchile.cl](http://www.doingbusinessinchile.cl)

### FOREIGN DIRECT INVESTMENT REPORT: INFLOWS & OUTFLOWS / January - December 2005\*

(in nominal US\$ million)

| Instrument/Period                                       | 1995           | 1996           | 1997           | 1998           | 1999           | 2000           | 2001           | 2002           | 2003           | 2004           | 2005           | Growth rate   |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| <b>FOREIGN INVESTMENT STATUTE (DL 600)</b>              |                |                |                |                |                |                |                |                |                |                |                |               |
| - Equity Contributions                                  | 1,803.1        | 3,967.5        | 3,803.0        | 4,368.7        | 8,591.0        | 2,563.0        | 4,320.8        | 2,315.0        | 1,109.1        | 4,021.7        | 1,767.5        | -56.1%        |
| - Other Capital   | 1,228.1        | 870.7          | 1,422.3        | 1,670.3        | 594.6          | 476.0          | 695.9          | 1,066.5        | 177.1          | 982.5          | 150.7          | -84.7%        |
| <b>MATERIALIZED INVESTMENT (DL 600) (1)</b>             | <b>3,031.2</b> | <b>4,838.2</b> | <b>5,225.3</b> | <b>6,039.0</b> | <b>9,185.6</b> | <b>3,039.0</b> | <b>5,016.7</b> | <b>3,381.5</b> | <b>1,286.2</b> | <b>5,004.2</b> | <b>1,918.5</b> | <b>-61.7%</b> |
| <b>CHAPTER XIV</b>                                      |                |                |                |                |                |                |                |                |                |                |                |               |
| - Equity Contributions                                  | 409.5          | 441.6          | 920.6          | 539.3          | 688.8          | 653.7          | 737.5          | 1,020.5        | 1,131.1        | 1,018.8        | 1,579.7        | 55.0%         |
| - Other capital   |                |                |                |                |                | 1,276.9        | 299.8          | 633.6          | 202.5          | 1,125.1        | 252.6          | -77.5%        |
| <b>TOTAL INVESTMENT CHAPTER XIV (2)</b>                 | <b>409.5</b>   | <b>441.6</b>   | <b>920.6</b>   | <b>539.3</b>   | <b>688.8</b>   | <b>1,930.6</b> | <b>1,037.3</b> | <b>1,654.1</b> | <b>1,333.6</b> | <b>2,143.9</b> | <b>1,831.8</b> | <b>-14.6%</b> |
| <b>TOTAL F.D.I. MATERIALIZED (DL 600 + Chapter XIV)</b> | <b>3,440.7</b> | <b>5,279.8</b> | <b>6,145.9</b> | <b>6,578.3</b> | <b>9,874.4</b> | <b>4,969.6</b> | <b>6,054.0</b> | <b>5,035.6</b> | <b>2,619.8</b> | <b>7,148.1</b> | <b>3,750.0</b> | <b>-47.5%</b> |
| <b>REMITTANCES</b>                                      |                |                |                |                |                |                |                |                |                |                |                |               |
| - DL 600 (1)  | 660.1          | 606.4          | 797.8          | 600.6          | 1,284.0        | 1,249.9        | 1,384.5        | 3,093.5        | 947.6          | 4,776.7        | 2,576.7        | -46.1%        |
| - Equity  | 392.6          | 303.4          | 354.9          | 419.9          | 234.0          | 462.7          | 665.8          | 1,712.1        | 248.2          | 3,191.6        | 1,996.0        | -3.5%         |
| - Other capital   | 267.5          | 303.0          | 442.9          | 480.7          | 1,050.0        | 787.2          | 718.7          | 1,381.4        | 699.4          | 1,585.1        | 580.7          | -63.4%        |
| - CHAPTER XIV (Equity) (2)                              | 3.5            | 30.2           | 20.6           | 323.9          | 47.8           | 177.4          | 85.5           | 419.8          | 780.9          | 1,167.1        | 624.4          | -46.5%        |
| - Equity  | 3.5            | 30.2           | 20.6           | 323.9          | 47.8           | 78.6           | 282.2          | 39.0           | 16.0           | 461.7          | 319.7          | -30.8%        |
| - Other capital   |                |                |                |                |                | 98.8           | 573.3          | 380.8          | 764.9          | 705.4          | 304.7          | -56.8%        |
| <b>TOTAL REMITTANCES (DL 600 + Chapter XIV)</b>         | <b>663.6</b>   | <b>636.6</b>   | <b>818.4</b>   | <b>924.5</b>   | <b>1,331.8</b> | <b>1,427.3</b> | <b>2,240.0</b> | <b>3,513.3</b> | <b>1,728.5</b> | <b>5,943.8</b> | <b>3,201.1</b> | <b>-46.1%</b> |

(1) Source: Foreign Investment Committee

(2) Source: Central Bank of Chile, figures for Other capital are not available for the period 1995-1999

\* Provisional figures as of December 31, 2005

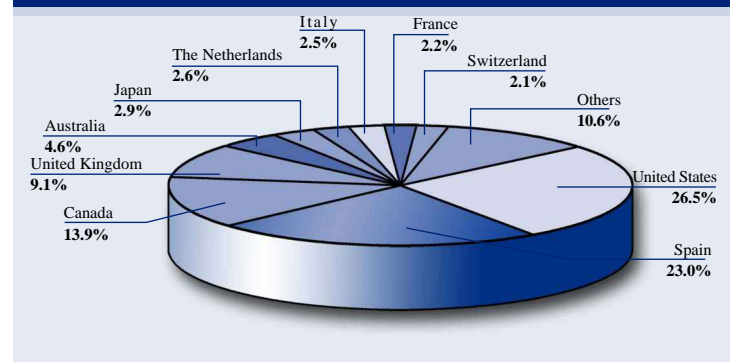
### MATERIALIZED FOREIGN INVESTMENT, GROSS INFLOWS UNDER THE FOREIGN INVESTMENT STATUTE (D.L. 600) BY SECTOR 1974-2005\* (in nominal US\$ million)

| SECTOR/PERIOD              | 74-97         | 1998         | 1999         | 2000         | 2001         | 2002         | 2003         | 2004*        | 2005*        | TOTAL         |
|----------------------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Agriculture & Livestock    | 193           | 13           | 21           | 23           | 10           | 2            | 0            | 0            | 1            | 263           |
| Fishing & Aquaculture      | 181           | 8            | 0            | 92           | 5            | 0            | 10           | 0            | 0            | 296           |
| Forestry                   | 182           | 38           | 17           | 4            | 1            | 1            | 1            | 0            | 7            | 251           |
| Mining                     | 11,233        | 2,469        | 1,337        | 234          | 1,136        | 2,003        | 392          | 350          | 823          | 19,977        |
| Industry                   | 4,290         | 530          | 828          | 241          | 809          | 209          | 234          | 428          | 85           | 7,654         |
| Electricity, Gas & Water   | 1,873         | 495          | 4,540        | 860          | 908          | 473          | 150          | 2,193        | 98           | 11,590        |
| Construction               | 437           | 279          | 211          | 29           | 164          | 138          | 29           | 119          | 8            | 1,414         |
| Transport & Communications | 1,547         | 224          | 374          | 870          | 1,281        | 336          | 340          | 1,797        | 569          | 7,338         |
| Wholesale & Retail Trade   | 657           | 190          | 86           | 143          | 110          | 82           | 43           | 17           | 8            | 1,336         |
| Financial Services         | 3,829         | 821          | 950          | 263          | 121          | 59           | 44           | 12           | 131          | 6,230         |
| Insurance                  | 623           | 702          | 208          | 90           | 265          | 20           | 4            | 49           | 107          | 2,068         |
| Other Services             | 675           | 271          | 614          | 190          | 206          | 58           | 39           | 39           | 81           | 2,173         |
| <b>TOTAL</b>               | <b>25,720</b> | <b>6,040</b> | <b>9,186</b> | <b>3,039</b> | <b>5,016</b> | <b>3,381</b> | <b>1,286</b> | <b>5,004</b> | <b>1,918</b> | <b>60,590</b> |

Note: Materialized investments include amounts authorized each year and in all forms accepted under the Foreign Investment Statute  
 Source: Foreign Investment Committee

\*Provisional figures as of December 31, 2005

### MATERIALIZED FOREIGN INVESTMENT GROSS INFLOWS UNDER THE FOREIGN INVESTMENT STATUTE (D.L. 600) BY COUNTRY OF ORIGIN 1974-2005\* (in nominal US\$ million)



| COUNTRY         | VALUE         | SHARE         |
|-----------------|---------------|---------------|
| United States   | 16,050        | 26.5%         |
| Spain           | 13,927        | 23.0%         |
| Canada          | 8,413         | 13.9%         |
| United Kingdom  | 5,507         | 9.1%          |
| Australia       | 2,779         | 4.6%          |
| Japan           | 1,787         | 2.9%          |
| The Netherlands | 1,555         | 2.6%          |
| Italy           | 1,506         | 2.5%          |
| France          | 1,351         | 2.2%          |
| Switzerland     | 1,270         | 2.1%          |
| Others          | 6,445         | 10.6%         |
| <b>Total</b>    | <b>60,590</b> | <b>100.0%</b> |

Source: Foreign Investment Committee

\*Provisional figures as of December 31, 2005