

A Primer on Exporting to Chile¹

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Introduction

Every year the U.S. Department of State publishes extensive Country Commercial Guides for a large number of countries. These guides provide a great deal of information useful to individuals interested in developing export markets either through direct exports or through direct foreign investment. This paper provides an abridged version of the Country Commercial Guide for Chile as well as supplemental information of direct relevance to agribusiness firms. It is hoped that the information contained in this report provides a useful starting point for individuals interested in exploring export or investment opportunities in Chile.

Note: County Commercial Guides are available for U.S. exporters from the National Trade Data Bank's CD-ROM or via the Internet. Please contact Stat-USA by telephone (1-800) STAT-USA for more information. Country Commercial Guides can be accessed via the World Wide Web at <http://www.stat-usa.gov>, <http://www.state.gov>, and <http://www.mac.doc.gov>. They can also be ordered as a hard copy or on diskette from the National Technical Information Service (NTIS) by telephone (1-800) 553-NTIS. American exporters seeking

general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by telephone (1-800) USA-TRADE; or by fax (202) 482-4473.

Economic and Political Overview

Chile is one of the region's most dynamic and promising markets. Its strength and attractiveness lie not in its size (population 15 million), but in the energy and professionalism of its entrepreneurs, the transparency of its regulations, and the predictability of its decision-makers. Market-led reforms over the past 25 years and an increasingly diversified economy with strong ties to buyers and suppliers in the Americas, Europe, and Asia have given Chile a wide range of options for further growth. Prudent economic policy-making has secured long-term stability unknown elsewhere in Latin America. The U.S.-Chile Free Trade Agreement (FTA) was signed into law on September 3, 2003. Prospects are good that the Chilean legislature will follow suit by the end of October of 2003. Therefore, the FTA should enter into force on January 1, 2004, ushering in new opportunities for U.S. exporters in what is already

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one of Latin America's most open, stable, and attractive markets.

Under FTA, some 85% of bilateral trade between the two countries will be duty free immediately, with most other tariffs phased out over the course of the next four years. All trade between the two countries will be duty free by 2015. Key U.S. exports such as agricultural equipment will win immediate duty free entry. In addition, Chilean tariffs on more than three-quarters of U.S. farm products will also be eliminated within four years. American exporters will benefit further from the agreement's provisions on non-discriminatory treatment, stronger enforcement of intellectual property laws, transparency in public procurement, and provisions to permit the temporary entry of personnel as well as the establishment of business subsidiaries in Chile.

Chile has one of the region's simplest and most transparent regulatory systems for trade and business, but U.S. companies should carefully review Chilean regulations to ensure trouble-free operations. Chile does maintain import and export licensing requirements, but this is primarily for the purpose of gathering statistical data. Only agricultural products and a few sensitive items face significant restrictions.

Chile is a particularly promising market for exports of high technology and capital goods. However, while there are ample opportunities for U.S. goods and services of all types in Chile, competition is stiff, especially from countries such as Canada, Mexico, and the European Union, which have previously negotiated free trade agreements with Chile. The United States is Chile's number one trading partner and, traditionally, its single largest supplier as well. Argentina recently took over the top spot among suppliers because of the significant advantage its depressed currency affords in cross border trade with Chile. In 2002, the United States exported US\$2.6 billion worth of goods to Chile, making it our 34th largest market.

Over the last two decades, Chile has avoided many of the persistent economic problems that have plagued some of its neighbors. Prudent economic policy-making and a strong focus on diversified trading links with North and South America, Europe,

and Asia have provided Chile with stable long-term growth unknown in most of Latin America. In fact, capitalizing on its reputation as a reliable trading partner (thanks to the availability of a skilled workforce, reliable and inexpensive telecommunications services and good transportation links, especially by air), Chile is working to position itself as the logical choice for foreign firms looking to establish a South American regional hub.

Chile is the only investment-grade economy in South America. As of September of 2003, Standard & Poor's gave Chile an "A-" rating. Over the last 15 years, Chile has witnessed the most impressive real growth rates in its history. From 1987 to 1997, Chile's GDP (Gross Domestic Product) grew an average of 7.9%. While the world economy entered recession, Chile's economy managed to grow at an average of 2.6% from 1998 to 2002. The government of Chile and several independent economists estimate the economy will grow 3.2% in 2003, and expand to 4.5% in 2004.

A strong, independent central bank maintains prudent fiscal management that keeps Chile's inflation within a target range of 2% to 4%. The 2003 rate of inflation is expected to level off at 2.1%. The latest unemployment figures support a seasonally adjusted average annual unemployment rate of 8.5%, relatively unchanged from 2002. Single-digit unemployment rates in Chile are the envy of Latin America, a region that struggles with levels double or triple the Chilean rate.

Marketing U.S. Products and Services

There are a number of factors that should be considered in exporting products to Chile. This section provides a brief overview of many critical factors that must be considered.

Establishing a Business

Incorporating in Chile is not expensive (approximately US\$1,000) and takes about two months. Chile has no minimum local participation requirement; the inclusion of local partners is guided only by commercial considerations.

The first step for a U.S. citizen, corporation, or entity wishing to establish a business in Chile is to present a declaration of intent to invest in Chile to a Chilean Consulate, stating the nature of the business and the capital to be invested, while simultaneously requesting a Permanent Residence Visa. This confers official residence status on the company (no one can conduct commercial activities in Chile without it).

Within the framework of Chilean law, business entities can choose to set up in a variety of corporate forms, each with different legal and tax implications. Since Chilean tax treatment of the various forms of businesses is similar, the choice of entity type is often guided by U.S. tax considerations.

Distribution / Sales Channels

Establishing a local subsidiary or branch office gives the best guarantee that the exporter will receive efficient service and appropriate promotion of its products. Any corporation legally constituted abroad may form, under its own name, an authorized branch in Chile. This method of market penetration may involve a considerable investment, but can be justified if sales are large in volume or when local service support and/or inventory are necessary.

Another practical and more common market entry strategy is to appoint an agent or representative with good access to relevant buyers and with technical expertise. Distances are great in Chile, so larger representatives usually have branch offices in different regions.

Agents / Distributors: Finding a Partner

About 3,000 importers currently operate in Chile; some of them also act as export agents. Most are small- to medium-size firms. Several large firms handle multiple lines of products and are large wholesalers. Almost all the firms have their main offices in Santiago. The larger ones have branch offices throughout the country, including the free-trade zones of Iquique and Punta Arenas. Other firms employ specialized traveling salesmen.

In general, foreign suppliers enter the Chilean market by appointing an agent, distributor, or wholesaler. Agent/representative commissions

normally range from 5% to 10%, depending on the product.

The selection of a Chilean agent or representation is an extremely important decision for U.S. exporters, which merits a thorough review of possible candidates and their qualifications and capabilities. American companies are invited to make full use of the wide range of market entry and partner search services offered by the U.S. Commercial Service's Commerce Department, or for agricultural exports, the U.S. Department of Agriculture's Foreign Agricultural Service.

Direct Marketing

Direct marketing is well established in the services sector, especially in banking/finance and telecommunications services. Catalog sales are not common. Chilean consumers generally prefer to browse in shops rather than order from catalogs. Customers want to know there is a store that can provide after sales service or address any problem that might arise. Exchange of products in Chile is made more complicated due to value added tax considerations. Credit card use is lower in Chile than in the United States but is growing.

Internet use in Chile is growing rapidly. It has been projected that the number of Internet users in Chile will reach some 4 million by the end of 2003 and 4.5 million by the end of 2004. This represents roughly 30% of the total populace. Chile's government has set as a goal of the Internet being as accessible in Chile as it is in the developed world by 2005.

In terms of e-commerce, it is estimated that 25% of Chileans will buy over the Internet and total sales via the Internet will reach US\$6 billion annually in Chile by 2004. The government of Chile supports the development of the Internet and is fostering a public-private alliance to increase access to the Internet, create secure and trusted methods of payment and certification, and enhance product distribution throughout Chile.

Franchising

Franchises began to develop significantly in Chile in the early 1990s. About 50 franchises currently operate in Chile, with over 914 locations. The sector provides direct employment for 12,500 employees and accounts for sales reaching US\$200 million.

Chile has no special laws on franchises. Franchise companies operating in Chile are subject to regular trade laws. The withholding tax on royalties is 35%, and the value-added tax is 19%.

Joint Ventures / Licensing

In Chile, joint ventures and licensing arrangements require the participation of a legally established local partner who can be responsible for Chilean legal and tax obligations. The various administrative, commercial, profit distribution, and other issues involved in the association are established in contracts drawn up between the partners in accordance with Chilean law and tax regulations.

Selling Factors / Techniques

Depending on the product or service, price can be the key sales factor in Chile. Price-competitive products from places such as Taiwan or South Korea often outsell more expensive European or North American products, especially in consumer product categories such as electronics, appliances, and automobiles.

Where dependability is more important (e.g., advanced electronics and construction machinery), the customer often prefers more expensive North American or European products. While price remains a factor in purchasing decisions, considerations of quality, durability, technology, customer support, and availability of service also influence purchase decisions, with the order of importance depending on the industry, the customer, and the application.

Many of the larger distributors and representatives have regional offices in addition to their Santiago headquarters, or work with a commissioned sales force to cover all of Chile. More technical product categories are generally sold by

traveling salesmen who demonstrate products in client's offices. Technical support personnel often assist salesmen during client visits.

Advertising / Trade Promotion

Television, radio, newspaper, and magazine advertising are used heavily to reinforce in-store merchandising methods. Private agencies handle most advertising. Most of these agencies belong to the Asociacion Chilena de Agencias de Publicidad (Chilean Association of Advertising Agencies, or ACHAP), located at Fidel Oteiza 1921, Of. 801 (telephone 56-2-269-9578, or 56-2-269-9579; fax 56-2-274-8793).

Cable television reaches an estimated 800,000 households in Chile, 51% of them in Santiago. Two major cable systems (Metropolis-Intercom and VTR-Cablexpress) operate in 95% of the country. Both broadcast all local stations and major international channels from the United States, Italy, France, Germany, Argentina, Brazil and Mexico (U.S. offerings include CNN International, HBO Ole, MTV, TNT, Worldnet, ESPN, Cartoon Network, and MSTV).

Product Pricing

Pricing starts with a fairly straightforward formula based on CIF costs plus generally constant ship-to-warehouse expenses. Gross margins for consumer goods are generally 30% to 50% (or more for direct sales to consumers) or 20% to 30% each for the importer/distributor and the retailer when a distribution chain is in place.

After the U.S.-Chile FTA comes into force on January 1, 2004, Chilean tariffs on 85% of U.S. goods exported to Chile will be eliminated immediately. However, Chile's value-added tax (called IVA) was raised to 19% as of October 1, 2003. Any tariff and value added tax is usually paid by the importer, not by the supplier. There are some exceptions: government entities do not pay these fees and some luxury goods have higher tariffs.

Selling to the Government

Chile is not a party to the World Trade Organization Agreement on Government Procurement (WTO-AGP), but the U.S.-Chile FTA calls for open tendering in public procurement, in general. Tenders must be in writing and winning bids published, including the name of the supplier and the value of the contract. The FTA provisions cover procurements by 20 Chilean central government entities for non-construction purchases over US\$56,000. It also covers local government non-construction procurements over US\$460,000. In both cases, higher limits apply for construction work. The agreement also calls for non-discriminatory “national treatment” for either country's suppliers. Tender opportunities should be published at least 30 days in advance and technical specifications or requirements should be performance-based. The agreement further establishes an impartial authority to review any challenges lodged against specific procurement awards.

Chile established a government procurement website at <http://www/compraschile.cl> in March of 2000 to increase transparency, enhance opportunities and to reduce government procurement costs. Foreign and local bidders on government tenders must register with the Chilean Direccion de Provisionamiento del Estado (Bureau of Government Procurement Supplies). They must also post a bank and/or guarantee bond, usually equivalent to 10% of the total bid, to ensure compliance with specifications and delivery dates. Bidding is best done through a local agent who is registered, well-connected, and familiar with Chilean government bidding procedures.

IPR Infringement Protection

Chile belongs to the World Intellectual Property Organization (WIPO), which protects all patents, trademarks, industrial designs, models, and copyrights in Chile under the provisions of the International Convention for the Protection of Industrial Property (the Paris Convention). However, Chile's intellectual property regime is currently not WTO/TRIPS compliant. The U.S.-Chile FTA requires Chile to accede to several international IPR agreements.

Under the terms of FTA, Chile agrees that trademark applications can be opposed and that procedures for preventing or canceling the registration of a mark that is similar or identical to a well-known trademark will be established. In the past, foreign companies wishing to begin operations in Chile have often discovered that other individuals or companies had already registered their trademarks in Chile. Chilean courts have been supportive in cases where trademarks have been “stockpiled” but unused, but have been less supportive in cases where investments were made using trademarks. In either case, proceedings have been lengthy and expensive. FTA rules should improve the situation, but U.S. firms should still register their trademark as soon as they have any intention of doing business in Chile. Firms wishing to register their trademarks should do so with the Ministry of Economy's Departamento de Propeidad Industrial (telephone 56-2-688-3124).

The U.S.-Chile FTA will also require Chilean authorities to adjust patent terms to allow for unreasonable delays encountered in granting a patent. Data exclusivity is guaranteed for five years for pharmaceuticals and ten years for agricultural chemicals.

Need for a Local Attorney

Because contracts with Chilean firms must abide by Chilean laws, U.S. companies entering the Chilean market should have all legal documents drawn up or checked by a qualified legal counsel. The Commercial Section of the U.S. Embassy in Santiago can supply a list of attorneys practicing in Santiago.

Suppliers can establish their legal relationship with a local representative in one of two ways: an ordinary work contract regulated by Labor Law 19.010, for which some legal guidance is advisable, or the more customary commercial or commission contract, by which the parties establish their own terms and conditions and are not bound by requirements of Law 19.010, especially its severance conditions.

The Chilean legal system, while fair, is not suited for speedy commercial dispute resolution. Therefore, U.S. firms should be aware of the availability of the Chilean American Chamber of

Commerce's Arbitration Center and may wish to include an arbitration clause in their commercial contracts. In establishing a contractual relationship with a local representative, the U.S. supplier should also ascertain its contractual liability vis-à-vis any agent or representative under Chile's labor laws.

Agribusiness Industry Prospects

The Chilean farm sector produces a wide variety of crops, but Chile is still a net importer of most bulk and intermediate commodities. Chile also has its own competitive food processing sector, as well as an extended growing/harvest season due to its extreme north-south geography. As a result, a wide variety of domestic fresh fruits and vegetables are available much of the year. It is estimated that only about 100,000 households, or 400,000 consumers, can afford to purchase imported consumer-oriented food products on a regular basis. Based on size, market growth rates and the U.S. competitive position in the market, the following individual products have the greatest potential for sale in Chile: corn, wheat, corn gluten feed, forage seeds, pet food, soy protein isolates and concentrates, oak for wine barrels, and snack foods/high value processed foods. Competition from MERCOSUR suppliers remains fierce for grains, soybean product, and pet food, while domestic and European imports present the greatest challenge to U.S. processed foods.

Bulk Commodities

American exports of bulk commodities to Chile should increase even though the United States will likely remain a residual supplier due to higher prices relative to suppliers such as Argentina and Brazil. An important U.S. advantage is our reliable menu of grains and feed ingredients available throughout the year, which creates good opportunities for sales whenever other suppliers are short. Mixed cargoes of commodities also are sometimes an attractive option that helps U.S. exporters to be competitive in this market.

Intermediate Products

We see steady growth potential for feeds, fodders, and genetics as Chile expands its production of pork and poultry. Chile will also continue to be a

strong market for planting seeds. Growth in these U.S. exports will be further stimulated as the result of the U.S.-Chile FTA.

Food Processing Sector

Chile has a very competitive food manufacturing/processing sector that supplies a wide range of products, including poultry and pork products, dairy products, seafood, processed fruits and vegetables, cookies, chocolates, candies, pasta, powdered beverages, soft drinks, bakery products, canned peaches, marmalades, tomato sauces, and wine. Chile has worked steadily to improve food safety standards; it has become a leader in this area in the South American region. The Chilean food processing industry is growing and its latest free trade agreements with the European Union and the United States are expected to provide further impetus to this sector.

The current principal constraint in the market is that most low cost imports for this sector come from other MERCOSUR countries (Argentina, Uruguay, Paraguay, and Brazil). However, we believe there is a need for U.S. high-tech food ingredients. Also, we believe the U.S.-Chile FTA will open up new markets for previously prohibited inputs of meat, fresh fruits, and dairy. In general, opportunities exist for food ingredients for the following processed food categories: dairy, bakery products, snacks, and processed meats. In addition to the domestic food processors that dominate the market, there are several foreign food processors that have invested in Chile to make products specifically for sale in Chile and in the region.

Retail Sector

Chile has a modern, highly competitive supermarket sector. Chile's supermarket industry reported sales of US\$4.3 billion in 2002. The sales forecast for 2003 is US\$4.5 billion. The market for consumer-ready food products and imports is concentrated in Santiago, where both population density and higher incomes create 40% of consumer demand. Supermarkets (i.e., stores with three or more checkouts) serve about 58% of the grocery market and number about 667. Traditional neighborhood mini-markets, beverage stores, and vegetable stands

serve about 23% of the market and number about 90,000. Convenience stores, gas marts, and kiosks sell limited quantities of imported candy and snack foods. In general, they do not import, but purchase from local wholesalers/distributors. The average gas mart sells around US\$600,000 annually. Gas mart profit margins are reportedly about 10% in sales, about double that of supermarkets. However, the introduction of hypermarkets and larger supermarkets is reshaping the industry. These stores now account for 20% of total sales, offering customers fresh bakery goods, delicatessen items, fresh seafood, coffee bars, prepared salads, pizzas, and meat dishes, in addition to fresh, frozen, and dry grocery products. Warehouse outlets and wholesale clubs have not yet made an appearance. About 15% of products sold in supermarkets are imported, but this segment has grown by 85% over the last five years. The U.S.-Chile FTA has prompted new interest in U.S. products and opened new opportunities for previously prohibited products, such as red meat, certain fresh fruits, and dairy products. The following foreign food imports are in the highest demand: sardines, tuna, baked goods, crackers, cookies, grain products, jams/jellies, canned & jarred fruits and vegetables, fruit juices, sweets, gum, chocolates, breakfast cereal, condiments, salsas, and seasonings.

Institutional Food Service Sector

There are three institutional food service companies who dominate the Chilean market and do about US\$300 million in business annually in Chile. Mines and educational institutions are the leaders in offering meal benefits. However, 80% of businesses provide their employees with in-house food services or vouchers to eat at local restaurants and sandwich shops. Approximately 50% of the raw materials are imported for these meals, with the bulk of these imports coming from MERCOSUR countries (Argentina, Brazil, Paraguay, and Uruguay). The three giants currently are not importing from the United States because of prices. With export pricing on institutional unit sizes, the following products offer good opportunities: tuna, rice, oil, palm hearts, crackers, cheese and other dairy products, cookies, and pasta.

Trade Regulations and Standards

Trade Barriers

Chile generally has few barriers to imports or investment. Foreign firms operating in Chile enjoy the same protection and operate under the same conditions as local firms. The Chilean tariff rate is currently 9% on nearly all products from most countries, although many products from countries with which Chile has trade agreements enter with lower or no duties. The U.S.-Chile FTA further addresses most of the trade barriers Chile does impose.

In terms of agricultural products, while dairy and beef establishments no longer have to be individually inspected by the Chilean Ministry of Agriculture, processed poultry and pet food establishments still do. Imports of fresh/chilled poultry are still prohibited. Many import restrictions on fresh fruits have been resolved as a result of technical talks held in tandem with the FTA negotiations. Consequently, new market access is available for a wider range of fruits and vegetables, although exporters should still check with the U.S. Department of Agriculture/APHIS to check on any restrictions before shipping to Chile.

Chile only approves the import of processed food products on a case-by-case basis. There is no blanket approval process for permitting identical products from different companies to enter Chile after they have been tested and found in compliance with local health regulations. To bring a product into Chile, the importer must obtain the permission of the Health Service Officer at the port of entry, who will take samples and perform the necessary tests. This process raises the overhead cost of introducing new products into the market. Labeling and fortification standards are also unique to Chile's Health Ministry and sufficiently distinct from U.S. standards that some U.S. processed food products must be labeled and/or formulated especially for Chile. These issues are being addressed in bilateral negotiations with the government of Chile (see the U.S. Department of Agriculture, Foreign Agricultural Service's Food and Agricultural Import Regulations report).

Customs Valuation

Chilean Customs valuation uses the normal value of merchandise, without special discounts, plus freight and insurance (CIF). Used goods are valued by the Customs service according to the current new value of similar merchandise, discounting ten percent per year of use, up to a 70% discount.

Standards

In general, standards are not mandatory, but companies can voluntarily comply with them, especially in industries where such compliance constitutes a kind of “seal of approval”. However, certain imported products, such as those related to industrial safety, building and construction materials, and the gas and electricity industries, must comply with specific requirements of the supervising entity. For example, there are specific regulations pertaining to the seismic resistance of new construction. The National Standards Institute (Instituto Nacional de Normalizacion, or INN) is promoting ISO 9000 standards among local manufacturers. The chemical industry is one of the few industries that have incorporated the ISO 9000 standards into its industrial processing lines.

For agricultural products, the FTA included an agreement on red meat grading standards, which now allows U.S. products to be sold in the Chilean market. According to U.S. standards, electricity industries must comply with specific resolutions applying to the supervising entity.

Labeling Requirements

Imported products customarily consumed by the public must display the country of origin before being sold in Chile. Packaged goods must be marked to show the quality, purity, ingredients or mixtures, and the net weight or measure of the contents.

Canned or packaged foodstuffs imported into Chile must bear labels in Spanish for all ingredients, including additives, manufacturing and expiration dates of the products, and the name of the producer or importer. All sizes and weights of the net contents also must be converted to the metric system. Goods not complying with these requirements may be

imported but not sold to consumers until the conversion is made. Thus, foodstuffs labeled in English have to be re-labeled in Chile before they can be sold. For information on Chile's labeling requirements for food, see the U.S. Department of Agriculture, Foreign Agricultural Service's Food and Agricultural Import Regulations report.

Temporary Entry Provisions

Under the terms of the U.S.-Chile FTA, Chile will permit duty-free temporary admission of professional equipment necessary for carrying out the business activity of a businessperson who qualifies for temporary entry under Chilean law. Temporary duty-free admission of goods intended for display or demonstration and commercial samples is allowed. For temporary entry of food samples, see the U.S. Department of Agriculture, Foreign Agricultural Service's Food and Agricultural Import Regulations report.

Import Controls

Commercial forms used by both local importers and exporters are commercial invoices, certificates of origin, bills of lading, freight insurance, and packing lists. Special permission, certificates, and approval documents, such as phytosanitary certificates, are required in special cases and can be obtained from National Health Service (Servicio Nacional de Salud, SNS), the Agricultural and Livestock Service (Servicio Agrícola y Ganadero, SAG), and the National Fishing Service (Servicio Nacional de Pesca, SERNAP), depending on the nature of the products to be imported. For documentation requirements specific to agricultural imports, see the U.S. Department of Agriculture, Foreign Agricultural Service's Food and Agricultural Import Regulations report.

Chile continues to use animal health, phytosanitary, and sanitary requirements that impede imports, although great progress has been made on a number of fresh fruits, dairy and red meat. However, the entry requirements for poultry remain a non-tariff barrier. All food products entering Chile are subject to sampling and analysis by health authorities.

Firearms can be imported, but they require a special permit from a military authority in Chile.

The importation of pharmaceutical specialties, cosmetics, and most biological and bio-chemical preparations requires prior registration with the Institute of Public Health (Instituto de Salud Publica) and may be subject to special labeling and other requirements, depending on the nature of the individual product.

Imported goods that are considered inconsistent with Chilean “morals, public health, national security, or environment” require special authorization to enter into Chile. These include certain chemicals/processes and some media products that face review and possible censorship. All films, videos and TV programs, imported or locally produced, currently are reviewed for suitability.

The importation of used passenger and cargo transportation vehicles is prohibited. Exceptions include the importation of used ambulances, armored cars, mobile homes, prison vans, street and highway cleaning vehicles, cement-making vehicles, hearses, and fire-fighting vehicles.

Free Trade Zones / Warehouses

Chile's two free-trade zones are the Free Zone of Iquique (ZOFRI) in the northern tip (Region I) of Chile and the Free Zone of Punta Arenas in the southern tip (Region XII). ZOFRI encompasses the free ports of Arica and Iquique. ZOFRI is a major entry point for products bound for Bolivia and to a lesser extent for products going to Peru, Paraguay, and northern Argentina. Punta Arenas also has a free port. Modern facilities for packaging, manufacturing, and exporting exist in each zone.

Although the U.S.-Chile FTA will allow immediate duty free entry into Chile for 85% of U.S.-made goods, under certain circumstances, U.S. exporters may still want to look at the advantages offered by Chile's free-trade zones. Regardless of the applicability of the FTA:

- Imports entering and remaining in Chile's free-trade zones pay no duty or VAT.

- Imports leaving the free trade zones but remaining in regions I or XII (considered "extended" duty-free zones) pay a reduced 4.4% import duty but no VAT.
- Imports leaving the free-trade zones to enter the greater Chilean market pay full tariff and VAT charges;
- Imported goods may remain in Customs warehouses for 90 days. If said goods are unclaimed after the 90-day period, the goods will be declared abandoned by Customs and sold at public auction.

Membership in Free Trade Agreements

Chile has signed free-trade agreements with Canada, Mexico, the European Union, Central America, the European Free Trade Association, South Korea, and the United States. It also has Complementary Economic Agreements that provide certain sector-specific tariff reductions or eliminations with Bolivia, Colombia, Cuba, Ecuador, Peru, and Venezuela. Chile is an associate member of MERCOSUR and remains an active participant in negotiations on the Free Trade Area of the Americas (FTAA). This network of FTAs, along with a package of new legislation to implement the agreements, will significantly improve market access for Chilean products and exports.

Investment Climate in Brief

- A key feature of the Chilean government's development strategy is a welcoming attitude towards foreign investors, embodied in the country's foreign investment law, known as D.L. (Decree Law) 600.
- On June 6, 2003, the FIC raised the minimum investment under DL 600 to US\$5 million per investor, and increased it to US\$250,000 in the case of fixed assets, technology, debt capitalization, and profit reinvestments after that date. Capital investments below the new minimum level can be channeled through Chapter XIV of the Bank's Compendium of Foreign Exchange Regulations.

- In November of 2002, the Chilean Government launched an Investment Platform initiative aimed at attracting international operations headquarters for the region to Chile. By exempting platform companies from Chilean tax on overseas earnings, the initiative addresses the problem of the three-way taxation and provides foreign investors with additional incentive to invest in Chile. Also, to facilitate the entry of foreign capital into Chile, the initiative allows companies that are already established in the region to move their operation centers to Chile without incurring the transaction costs involved in selling and re-buying assets.
- Foreigners may not invest in Chilean fishing companies or media unless their country has a reciprocity arrangement with Chile.
- On June 6, 2003, the United States and Chile signed a free trade agreement (FTA) that, pending approval by the Chilean legislature, should come into effect January 1, 2004. The chapter on investment is modeled on the classic standards found in agreements throughout the world. It incorporates innovations and improvements based on the experiences of both countries in implementing investment agreements, and responds to new U.S. objectives set forth in the Trade Promotion Act (TPA) of 2002. The main objective of this chapter is to provide stability and security to investors.
- Except for U.S. investment covered by Overseas Private Investment Corporation insurance, disputes involving U.S. investors typically are settled in negotiations between the investor and the concerned government agency. Any dispute not resolved in this way is referred to local courts for adjudication.
- Chile does not subsidize or offer incentives specifically to attract foreign investment, although corporate tax exemptions are available to both foreign and Chilean firms investing in the extreme northern or southern areas of the country.
- Except for the fishing sector and others noted above, Chile does not restrict the right of establishment.
- Chile has a very strong regime for the protection of property rights, including secured interests in property. A well-functioning legal system safeguards investments of Chileans and foreigners alike. In protecting intellectual property rights, however, shortcomings have kept Chile on the U.S. Trade Representative's Special 301 watch list of countries with deficient intellectual property rights protection regimes since 1989.
- Opening a business is far easier in Chile than most other Latin American countries. Chilean regulatory systems tend to be transparent.
- Chile is considered a low threat country. Over the last ten years there have been relatively few incidents of politically motivated attacks on projects or installations. Anti-American sentiment, civil disorder, and terrorism are rare, and there have been no incidents involving international terrorist groups. However, some violent incidents have occurred in forestry plantations and farms in southern Chile. These incidents are related to the land claims of indigenous people in the VIII and IX Regions.
- Corruption in Chile has always been limited. Corruption exists, but only on a small scale.
- Chile has enjoyed generally calm labor relations since the return to democracy in 1990. Strikes have been few in the private sector, but public employees in health, education, and coal mining have held strikes in the last few years.

Business Customs

Travel Advisory and Visas

There are neither current travel warnings nor public announcements regarding Chile. Nonetheless, visitors should be aware of the criminal environment in Santiago. Street crime, endemic to many South American cities, is a concern. One should be particularly alert in the downtown area. For more information, check with the the U.S. State Department's website for consular information for Chile and the U.S. Embassy's website concerning Chile.

Business people who visit Chile usually enter on a regular tourist visa, which is issued by immigration officers at the airport upon arrival. American citizens must pay a fee of US\$100 at the international check-in point and must be prepared to pay the exact amount in dollars; the visa is valid for ten years or until the date of expiration of the U.S. traveler's passport, whichever comes first. Business and tourist visitors are granted stays of 90 days, which can be extended for an additional 90 days by the Registro de Servicios e Identificaciones, Oficina de Extranjeria (telephone 56-2-550-2400), or the Gobernacion Provincial outside of the capital. For further information, check the Chile-USA website at <http://www.chile-usa.org>.

Business Infrastructure

Business operations develop in a climate of free enterprise and free trade. Simplified bureaucratic procedures are the rule, making the Chilean business environment one of the most transparent and friendly in Latin America. The labor force is regarded as competent, productive, and relatively well educated. Current trends include innovation in export products and in a wide range of services for the domestic market. High foreign and domestic investment have added new technologies to industrial processes and increased competition in distribution and marketing.

American businessmen will find that business practices in Chile and the United States are very similar. The business day usually begins at 9 a.m. and ends between 6 and 7 p.m. Lunch breaks usually begin at 1 p.m. and are an hour long, unless business is being conducted, in which case two- to three-hour lunches are common. Although social occasions rarely begin at the indicated time, business meetings nearly always do.

Many Chilean businessmen are well-educated professionals who travel internationally and speak English. However, not all speak English, and foreign businessmen will often find the ability to speak Spanish very useful, if not an absolute must. Promotional literature should be in Spanish.

Useful Web Sites

CHILE:

- American Chamber of Commerce
<http://www.ecamcham.com>
- Chile Embassy of the United States
<http://www.chile-usa.org>
- Lanic Resources on Chile
<http://www.lanic.utexas.edu/la/chile>
- US Trade with Chile 2001
<http://www.census.gov/foreign-trade/sitc1/2001/c3370.html>
- CIA Factbook-Chile
<http://www.cia.gov/cia/publications/factbook/geos/ci.html>

UNITED STATES:

- USDA Foreign Agricultural Service
<http://www.fas.usda.gov>
- Small Business Administration Export Express
<http://www.sba.gov/OIT>
- US Export Information Center
<http://www.export.gov>
- Basic Guide to Exporting
<http://www.unzco.com/basicguide/index.html>

HEMISPHERIC:

- Hemispheric Guide on Customs Procedures
http://alca-ftaa.iadb.org/hgcp_eng.htm
- Hemispheric Trade and Tariff Database
http://alca-ftaa.iadb.org/eng/ngmadb_e.htm