

EXECUTIVE SUMMARY

The Chilean Economy entered into its 9th year of consecutive growth- averaging 6% or better - remaining a leader in Latin America. Gross Domestic Product in 1991 increased by 6%; unemployment dropped to 4.8%; inflation was 18.7%; foreign debt was reduced to US\$ 16 B - slightly more than half of GDP; the trade surplus was US\$ 1.6 B, with exports growing approximately 5.5% and imports by 5.7%. Moreover, Chile continues to lead Latin America in attracting foreign investment, reaching almost 4% of GDP in 1991.

This positive economic trend is expected to continue in 1992; inflation will drop to 15% or less; unemployment should be under 5%; foreign debt as a percentage of GDP will be reduced further; exports will increase by 10% (to US\$ 9.5 B or 30% of GDP); and, foreign investment will surpass last year's record.

Mining will remain the number one sector in the Chilean economy. It represents 7.6% of GDP; 2.3% of total employment; has attracted 50% of the total foreign investment; and most importantly, it represents 55% of total exports (80% of which are copper).

For almost two decades Chile's open-market economic policy has welcomed foreign investment. The main legal mechanisms used are the Decree Law 600 that regulates the inflow and outflow of foreign capital, and Chapter XIX, which is a debt-equity-swap mechanism that regulates the exchange of Chilean foreign debt owned by foreigners into equity in a local investment.

Foreign investors have used both mechanisms extensively as shown by the size of the investment figures. In particular, Canadian companies have led the mining community in their decision to operate in Chile as evidenced by the 17 mining companies that are currently established in the country. On the other hand, an undetermined number of Canadian suppliers of equipment and services are marketing their products in Chile and increasing their participation in the market.

Supply of Equipment and Business Opportunities

From this study we concluded that Chile will continue to attract foreign investment to the mining sector and therefore the market for equipment and services will grow accordingly.

There is a need for technological solutions to the problems faced by the largest and oldest mines, as well as a growing concern to preserve the environment. These provide new business opportunities. Similarly, the new Codelco law now allows the state-owned company (owner of more than 30% of Chile's mining concessions) to associate itself with private companies and undertake new projects.

This study shows that the current stock of mining equipment in Chile is US\$ 3 billion (mining companies only, not including contractors). Investment projects of more than US\$ 7 billion in the mining sector over the next 5 years will further increase the demand for and stock of equipment. Purchases of equipment are estimated to be approximately 400 M per year for the next 5 years. The US\$ 3 billion stock of equipment only refers to equipment owned by the mining companies and used directly in the mine operation (including flotation cells and plant equipment), and not equipment used in construction, buildings and owned by contractors.

Demand for New Equipment

As a result of the technological needs of mines in production and the investment projects of new mining companies, investment for the next five years could reach approximately US\$ 1.2 billion per year. Purchases of equipment for projects being developed and future ones have been estimated in Section 6. The following points summarize our findings:

- More than 90% of the equipment required will have to be imported. Local manufacturing of mining equipment has not developed sufficiently, i.e. companies are small and do not have economies of scale, hence they are less competitive in price and variety of goods offered.

- Purchases of mining equipment by mining companies over the next 5 years is estimated to be a minimum of US\$400 M per year. Annual purchases of equipment depends on the start-up date of the projects which can vary; therefore, figures are only estimates (annual figures have been corrected according to historical figures, based on Editec's import records).