

## **2.3 NAFTA AND THE NEW BILATERAL TRADE AGREEMENT BETWEEN CANADA AND CHILE**

With the release of the Leader's Statement at the Miami Summit of December 1994, the plan to bring Chile into NAFTA was solidified. The main features of NAFTA include: (i) elimination of tariffs and trade barriers (including non-tariff barriers) among the partners; (ii) the creation of a transparent mechanism for dispute settlement; (iii) national treatment for investors from NAFTA party countries; (iv) the opening of some previously protected sectors such as banking and telecommunications, and (v) the inclusion of services. There are certain interests in each country which have been excluded from NAFTA such as cultural interests in Canada, broadcasting in the USA, and petroleum in Mexico. In June, 1995, Ministers of the three NAFTA partners and Chile announced the commencement of Chile's accession to the agreement. Several quadrilateral negotiation meetings were then held between July and September 1995.

Towards the end of 1995 however, internal political issues within the United States put NAFTA negotiations with Chile on hold indefinitely. Consequently, in an effort to maintain the momentum of market liberalization and strengthen economic relations, Canada and Chile agreed to pursue an interim bilateral trade agreement, which will provide a bridge to full NAFTA accession and be fully compatible with current NAFTA obligations. Delegations from both countries exchanged proposals on market access, investment, trade, goods and services and other NAFTA disciplines. Canada is interested in negotiating a double taxation treaty with Chile and a Foreign Investment Protection Agreement will likely be included in the bilateral agreement. The second round of negotiations took place at the end of February 1996 in Ottawa, and a third round is planned for the end of March in Santiago.

### ***Chile's Energy Sector and Bilateral Trade***

As a large exporter of energy products (US\$ 16 billion in 1991), the liberalization of the energy sector is in Canada's interest. Chile's energy sector is very liberal, and is unlikely to cause any significant conflict during the bilateral negotiations.

As already stated, prices of energy products are freely determined by the market for all products, except those where a natural monopoly exists. The latter is the case of electricity, where a clear regulation exists, and prices are set on the basis of marginal costs. Foreign investors are allowed to participate in all sub-sectors, and imports are subject to the regular 11% tariff as the only trade barrier.

The only departure from a total liberal setting that Chile's Constitution stipulates that the state is the sole owner of all hydrocarbon deposits. As such, private exploration and exploitation of hydrocarbon fields can only occur with concession from the State. This restriction however, is unlikely to create a conflict in the free trade