

News Release

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CANADA, CHILE TO SEEK INTERIM TRADE ACCORD TO FACILITATE CHILE'S NAFTA ACCESSION AND ENHANCE TRADE

The Honourable Roy MacLaren, Minister for International Trade announced today that the governments of Canada and Chile have agreed to pursue an interim bilateral trade agreement that will enhance trade and investment between the two countries as well as facilitate Chile's accession to the North American Free Trade Agreement (NAFTA).

Mr. MacLaren said the two countries have agreed to begin work by mid-January on a bilateral accord that will encompass trade in goods, services, investment and dispute settlement.

"Canada and Chile are both committed to the successful negotiation of Chile's accession to the NAFTA," Mr. MacLaren said. "But since these talks cannot currently proceed as quickly as we all would prefer, because the U.S. Administration and Congress have not yet agreed on 'fast-track' negotiating authority, we have decided to seek an interim bilateral agreement. This agreement will provide a bridge to full NAFTA accession for Chile and will be folded into the NAFTA once the accession negotiations are eventually completed."

Mr. MacLaren noted that Canada has a clear interest in strengthening economic relations with Chile since bilateral trade and investment ties are increasing and the Chilean market offers a range of opportunities for Canadian producers of goods and services as well as investors.

Canadian exports to Chile continue to grow, amounting to \$264.6 million in the first nine months of this year. Imports in the same period were also up, at \$233.2 million. Canadian annual exports are expected to exceed the \$314.4 million achieved last year. Canada is also one of the largest foreign investors in Chile, with total current and planned investment amounting to \$7 billion in mining, telecommunications, energy distribution, light manufacturing and other industries.



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In addition to pursuit of an interim trade agreement, exchanges of technical information in preparation for Chile's full NAFTA accession will continue during the coming months among the three present NAFTA partners, Canada, Mexico and the United States, and Chile.

"Canada remains strongly committed to furthering trade liberalization throughout the hemisphere," Mr. MacLaren said. "An interim Canada-Chile agreement will assist Chile's accession to the NAFTA, which in turn will increase momentum to an eventual Free Trade Agreement of the Americas."

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For further information, media representatives may contact:

Media Relations Office
Department of Foreign Affairs and International Trade
(613) 995-1874

Backgrounder

CANADA-CHILE TRADE AND INVESTMENT RELATIONS

Two-way Canadian-Chilean trade has more than doubled over the past decade from a total of \$202.4 million in 1983 to a high of \$547.8 million in 1994. During that same period, Canadian exports of wheat, pulp and paper machinery, mining equipment, telecom equipment, automotive parts and iron and steel products increased by several hundred per cent. In 1994, the value of Canadian exports to Chile reached \$312.1 million, an increase of almost 50 per cent over 1993.

The only Latin American country with an "investment grade BBB" debt rating, Chile attracted a record US\$1.69 billion of total foreign investment in 1993. Canadian investment flows to Chile have increased sharply during the last four years, making Canada one of Chile's largest foreign investors. The cumulative total of actual Canadian foreign investment to July 1995 was \$2.4 billion, while the cumulative total of actual and planned investment is \$7 billion. The bulk of these funds are located in the mining sector, chiefly in mine development, although other sectors such as energy, banking and communications are beginning to attract more interest.

Canadian commercial objectives centre on the Chilean mining, forestry, power and energy, communications and informatics, agriculture and environmental sectors. Canada and Chile's resource-based economies have much in common, and Canada enjoys an excellent reputation as an advanced supplier, which enhances the potential for sales of goods and services and for technology transfer. There are more than 50 Canada-Chile joint ventures operating in Chile, ranging from fighting forest fires to building industrial machinery.

Indications are that the Canada-Chile commercial relationship will continue to expand. Chile's relatively small population of 14 million and geographic distance from Canada does not limit its possibilities as a base for third country operations, which are supported by a sophisticated industry, professional business culture and rich resource base.

In January 1995, Prime Minister Jean Chrétien led the first-ever trade delegation to Chile; it consisted of more than 250 business people representing more than 185 companies. During the visit, 33 Canadian business people signed deals worth more than \$1.7 billion, including \$918 million in contracts and \$846 million in agreements in principle with Chilean partners. The companies represented a broad range of industries and technologies from across Canada including the mining and energy sectors. In May 1994, EXPOMIN '94, held in Santiago, Chile,

attracted a record-breaking 140 Canadian mining equipment and services companies.

Several other official visits have taken place in the last year or so, signalling the importance of Canada-Chile relations. In March 1995, Minister of Agriculture and Agri-Food Ralph Goodale led a business delegation of 30 companies and associations to Chile. In April 1995, Secretary of State (Science, Research and Development) Dr. Jon Gerrard led an environmental mission of 43 companies to Chile.

Substantial Canadian investments in Chile have placed a priority on developing bilateral instruments to protect more effectively these investments in the medium to long term. Currently, investment in Chile is eligible for foreign investment insurance from the Export Development Corporation (EDC). The EDC has financing lines of credit with both the Banco Sud Americano and Banco O'Higgins, as well as with the Compañía de Telefonos de Chile (CTC). The EDC's programs are open to both the private and public sectors. Reaching a Double Taxation Agreement with Chile has also been an important objective for Canada. Accession of Chile to the NAFTA would make a Foreign Investment Protection Agreement with Chile unnecessary. The NAFTA addresses foreign investment under Chapter 11.

The Canadian International Development Agency's (CIDA) Industrial Co-operation Program (INC) is currently the most active CIDA mechanism in Chile. CIDA Inc has identified Chile as a priority market in Latin America and focusses its support on technology transfer and joint ventures. Projects range from highly technical engineering and geological services through demonstration projects, such as those in hydroponics and forest firefighting, to niche technology development, such as automated construction and financial software. By 1994-1995 there were 43 projects with a total value of \$1.9 million.

Several new agreements and memorandums of understanding (MOUs) between Canada and Chile were signed during the Prime Minister's visit in January. These agreements included the establishment of a Canada-Chile Permanent Binational Commission on political, economic and commercial relations. The Business Council on National Issues signed a strategic alliance with the Confederacion de la Produccion y del Comercio to foster direct business-to-business linkages within the context of the NAFTA. New environment, telecommunications, transportation and parks MOUs were also signed.

A number of co-operative agreements are already in place. The Canadian Manufacturers Association and SOFOFA (the Chilean equivalent) have established a formal relationship exchanging high-level missions to Chile in September 1992 and to Canada in June 1993. CANMET of Energy, Mines and Resources Canada and CIMM

(the Chilean mining and metallurgy institute) signed an MOU in August 1991 to pursue co-operative research in mining technology; the Pacific Research Centre of Forestry Canada and INFOR (the Chilean forestry research institute) have begun a seed exchange program; the Canadian Centre for Remote Sensing of Natural Resources Canada and the Instituto Geografico Militar (Chile's cartographic agency) signed an MOU on technical exchanges in December 1993; and the Association of Consulting Engineers of Canada signed an information and technology exchange with its Chilean counterpart the Asociacion de Ingenieros Consultores de Chile in October 1993.

Backgrounder

CHILE

Political Situation

Mr. Eduardo Frei, candidate of the governing centre-left coalition Concertación Nacional, achieved a solid victory during the December 1993 elections, garnering 58 per cent of the vote. His nearest opponent, representing an alliance of right-wing parties, Senator Allesandri, gained 24 per cent of the vote. The Concertación held its majority in the lower Chamber, but failed to secure a majority in the Senate, where eight unelected conservative senators, appointed by former President Pinochet, maintain their seats.

Former president Aylwin led the Concertación to victory in 1990 in the first elections following General Pinochet's resignation. Aylwin made the transition from military to civilian government an outstanding success. He launched important social reforms, which are being pursued by President Frei. The latter has indicated that his main priorities will be the further eradication of poverty (down from 40 per cent in 1989 to 30 per cent at the end of 1993), the achievement of a higher standard of living as well as education and health systems reform. The President is placing a strong emphasis on improved productivity, skills upgrading and diversification to higher value-added exports as the means to achieve this goal.

Economic Situation

With one of the most open and vibrant economies in Latin America, Chile has a robust economic record of an annual average real gross national product (GNP) growth rate of 6 per cent for 10 straight years. Economic growth reached a record 10.3 per cent in 1992. In 1994, gross domestic product (GDP) grew by 4.3 per cent compared to 6 per cent in 1993. Inflation fell from 12.7 per cent in 1993 to 8.9 per cent last year - its lowest level since 1960. Unemployment increased slightly to 5.4 per cent in 1994 from 4.3 per cent in 1993, which was the lowest level in two decades, when a record number of jobs were created.

Tight, responsible fiscal policies have created an attractive investment climate in Chile for both nationals and foreigners. Capital investment reached an unprecedented high in 1993 (27 per cent of GDP) with foreign investment at record-breaking levels for two consecutive years. Investment has grown from 14 per cent of GNP in the middle of the 1980s to an average of 20 per cent in the last three years.

The Central Bank of Chile's reserve requirement of 20 per cent for one year for all foreign currency inflows continues to be a

mild irritant for some investors, as is the stamp tax on investments of approximately 0.1 per cent per month, to a maximum of 12 months or 1.2 per cent. Profits on foreign investments can be repatriated immediately, while the original capital outlay can be repatriated only after one year.

Chile is very competitive in a number of foreign markets with exports, worth an estimated US\$14.5 billion in 1994, being almost equally divided between the Americas, Asia and Europe. Chile is pursuing a policy of export diversification both in terms of markets and products, and a policy of trade liberalization with countries of the hemisphere.

Due to strong investment and export performance, the Chilean economy, by October 1995, had grown by 8.4 per cent in the previous 12 months. Overall, continued growth means the growth of income for most workers and growing government revenue to fund increased social expenditures. This situation will allow the government to continue its fight against poverty.

Canada-Chile Merchandise Trade Exports and Imports

January to December 1994 (C\$000)

	Total Exports to Chile	Imports from Chile	Total Two-Way Trade
1992	154 683	202 491	357 174
1993	212 515	209 305	421 820
1994	314 400	235 706	550 106

Source: Statistics Canada, Merchandise Trade Statistics.