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# **CHILE**

## **A GUIDE FOR CANADIAN BUSINESS**

**1998-1999**

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## A PARTNER FOR THE FUTURE

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**Chile's growing concern over sustainable development is creating new demands for the same technologies that Canada has developed to manage its own natural resource problems.**

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Chile's open market economy, stable political system, and clearly-stated investment regulations have created the most dynamic market in Latin America. Huge inflows of foreign investment combined with high internal savings have provided the capital to support an average real GDP growth of 7 percent over the past ten years. Market-oriented policies have encouraged the development of an entrepreneurial spirit and a strong private sector. President Eduardo Frei, who took office in March, 1994, has made it clear that these policies will be continued. He took the lead in initiating new trade contacts in the Americas, Europe and Asia. His goal is to increase Chile's exports to US \$20 billion by the turn of the century.

So far, Canada's trade with Chile has been relatively small, but there are excellent prospects for the future. Chile's growth has been concentrated in the natural resource-based industries such as mining, forestry, agriculture and fishing. Trade is booming in all of these areas and this success underlies the nation's outstanding overall economic performance. But Chileans are increasingly aware that there are limits to growth, and that they cannot continue to deplete their natural heritage indefinitely. There is a growing awareness of the concept of sustainable growth, and a new emphasis on the need to use resources efficiently and to protect the environment. The necessity of diversifying exports to reduce reliance on raw resources and develop value added products has also become apparent. These are all problems that Canada has successfully tackled in the past, in precisely the same industries. Thus, Canada has a great deal to offer Chile, in both technological expertise and resource management know-how.

Our two nations have many other things in common. Both Canada and Chile have small populations spread over immense distances. Limited markets at home have forced the two countries to look outward for business.

These similarities have already led to a great deal of interaction. Canada is already the second-largest foreign investor in Chile and received more new investment approvals in 1995 and 1996 than any other country. After the Miami Summit of the Americas in 1994, Chile was seeking accession to the North American Free Trade Agreement (NAFTA) with Canada, the United States and Mexico. The American Congress, however, was not able to approve fast-track negotiating authority. This prompted Chile and Canada to enter into an interim bilateral free trade agreement. The text of the agreement was signed on December 5, 1996 at Canada Expo '96 in Chile. The agreement was implemented July 5, 1997 and due to the inherent benefits afforded to Canadians, Chile will inevitably emerge as one of Canada's major trading partners for the future. Chile hosted the 1998 Second

Summit of the Americas in Santiago, where the thirty-four leaders of the Americas met to discuss the Free Trade Area of the Americas (FTAA). The FTAA would be negotiated by 2005, and would create greater economic, political, and social co-operation among the nations of the Western Hemisphere.

## **THE AMERICAN DOLLAR**

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In this publication, all monetary amounts are in Canadian dollars unless indicated otherwise. Nonetheless, most statistics cited are in American dollars because this currency is well-established as the standard unit of foreign trade throughout the world, regardless of the specific trading partners involved.

This publication follows the practice of reporting statistics in the unit of currency in which they were originally reported. Thus, recent Statistics Canada data and quotations from Canadian companies are the only numbers reported in Canadian dollars.

Canadian companies interested in moving into Chilean markets are advised to become accustomed the use of American dollars. For most companies this is more than a statistical issue – their trade contracts will probably be in American dollars.

Virtually all of Chile's official statistics are expressed in American dollars, as are most citations in the Chilean business media. The same applies to international agencies such as the United Nations, the Inter-American Development Bank and the International Monetary Fund. It can, therefore, be very inconvenient for the reader if important statistics are quoted in Canadian dollars, because this makes comparisons with other sources difficult.

Conversions back to American dollars are no simple matter. In most cases, Chilean pesos are converted to American dollars on a daily, weekly, monthly or quarterly basis. This means that they cannot be accurately converted to Canadian dollars without knowledge of the initial methods used to move from pesos to American dollars. Even in the case of Statistics Canada trade data, the user must use monthly trade data, combined with twelve exchange rates for each year, to accurately convert import and export data to American dollars. For this reason, Statistics Canada converts its own trade data to American dollars for inclusion in the World Trade Database.

## **THE CHILEAN ECONOMY**

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Chile's stable political system and predictable regulatory environment have encouraged the expansion of both foreign investment and trade. A contributing factor is the healthy state of its public finances. In 1995, there was a budget surplus amounting to 2.6 percent of gross domestic product (GDP), whereas net foreign debt was only about 10 percent of GDP. However, the poor prospects of copper exports, the interest rate hikes of January and February 1998 and the planned budget spending cuts in 1998 will cause economic activity in Chile to slow down during 1998. Despite Chile's forecasted growth of only 5% in 1998, the country is still well above the regional average of around 3%.

Chile was the first Latin American country to unilaterally liberalize trade and dismantle barriers to foreign investment. It reduced its maximum tariff from 220 percent to 140 percent in 1974, to 65 percent in 1976, and achieved 10 percent in 1979. The number of commodities with import prohibitions was chopped from 187 in 1973, to 6 in 1976.

Currently, tariffs are a uniform 11 percent, and Chile trades more than half its GDP. Tariffs will be reduced to 10% as of January 1, 1999. They will subsequently go down by 1% point per year until they reach 6% in 2003.

The policies that Chile adopted in the mid-1970s were considered radical at the time, but are now being copied by many other Latin American countries. Mexico, for example, adopted similar policies more than a decade later. One result of Chile's head start is that the consistent pursuit of market-oriented policies over a 20-year period eventually led to a philosophy of saving and investment that is unique in Latin America. Chile's internal savings rate is predicted at just under 28 percent for 1996, making it the envy of its Latin American neighbours.

A strong internal savings rate combined with a hospitable environment for foreign investment have helped sustain Chile's GDP growth at an average 7 percent over the ten years ending in 1997. Real growth in 1997 was 6.8 percent, according to official central bank estimates. Unemployment fell to 7.5 percent in 1997 and real wages grew by about 3 percent in 1997. Government policies have also been successful in controlling inflation, which fell to 6.2 percent in January 1997 compared with 27 percent in 1991. Chile's widespread indexing system, a legacy of previous high levels of price escalation, has institutionalized some inflation. Nonetheless, the rate of increase in the consumer price index was 6.3 percent in 1997. In 1995, real growth exceeded inflation for the first time in 35 years 1997 saw a continuation of this trend.

## **IMPORT-EXPORT MEASUREMENTS**

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The measurement of the magnitude of merchandise trade between any two countries presents some interesting statistical problems. Trade is measured twice, once by the government of the exporting country and once by the customs authorities of the importing



country. The two estimates rarely agree, and this is especially true for Canada-Chile trade. The reasons are fairly well understood by trade analysts.

The reader should be aware of these statistical issues, and should not be distracted by any apparent discrepancies between different estimates. Such differences are a natural and understandable consequence of well-known measurement problems.

Customs officials are much more rigorous in the collection of import data because it is used to collect duties. Neither Canada nor Chile levy export duties. Both Canada and Chile impose value added taxes, in addition to duties, creating additional incentives for more careful data collection on the import side.

Export data is collected by both countries. In Canada, this is done by collecting "B13" reports from exporters. In the case of the United States, Canada uses American import data to replace its own export data. Other major trading partners have been the subject of special reconciliation projects at Statistics Canada. Chile, however, is not a historically important trading partner, and so far no significant effort has been directed to correcting the measurement problems.

A large proportion of Canada-Chile trade is trans-shipped, mainly through the United States. This is most likely the largest source of statistical error. The errors are probably more important for Chilean statistics than for the corresponding Canadian estimates. The reason is that shipments arriving from the United States require North American Free Trade Agreement (NAFTA) certificates of origin, which must comply with stringent rules of origin. Imports into Chile face the same 11 percent duty and 18 percent VAT regardless of whether they come from Canada or the United States. Therefore, there is little reason for the customs officials to be rigorous about the specific source of a shipment.

Canada values both imports and exports on a free-on-board (FOB) basis. Chile levies imports on a cost-insurance-and-freight (CIF) basis, but measures exports by FOB value. This will tend to over-value Chilean imports, relative to Canadian export estimates. This error, however, is probably swamped by the effect of the trans-shipment problem.

For all of these reasons, no estimate of Canada-Chile trade should be taken as definitive. In this publication, Statistics Canada estimates of two-way trade are used to describe the overall trade relationship. But analysis of Chilean markets is based almost entirely on Chilean customs data. The underlying reason for these choices is that Statistics Canada's estimates are consistent and of a high quality. But they describe only a tiny part of Chile's overall imports. Particularly because Canada is one of Chile's smaller suppliers, Chilean imports from other countries provide a better indication of market potential; as well, evaluating competitive positions is critical.

## FOREIGN TRADE

Chile's exports increased by 17.6 percent in 1997 to reach US \$16.9 billion. Imports grew by 33.5 percent to US \$17.6 billion, leaving the country with a trade deficit of -\$700m. Copper has traditionally been the leading export. Chile has one-quarter of the world's copper reserves and is the largest single producer. Minerals and ores of all kinds made up 48.5 percent of 1995 exports. Food and agricultural products were the next most important export, accounting for 26.5 percent of the total, followed by forest products with 14.4 percent. Chile is dependent on four commodities for almost 60 percent of its export earnings: copper, pulp, fresh fruit and fish meal. In spite of this dependence on primary commodities, the economy is steadily diversifying. Over the past ten years, manufactured goods have risen from about 6 percent to more than 17 percent of Chile's exports. Wine and smoked salmon are two areas where Chile has aggressively developed value-added products based on its primary sector.

Concern over the nation's over-reliance on a small number of export markets has also spurred efforts towards regional diversification. Between 1991 and 1997, Chile entered into trade agreements with Bolivia, Colombia, Ecuador, Venezuela and Mexico. The Canada-Chile Free Trade Agreement, signed in November 1996 came into force on July 5, 1997. The agreement was modelled after the NAFTA, and should provide easy accession to the NAFTA if desired. In October 1996, Chile gained associate member status with the Mercosur trade bloc (Argentina, Brazil, Paraguay and Uruguay). Chile is a member of the Asia-Pacific Economic Cooperation (APEC), and is holding talks with other Latin American countries and the European Union (EU).

Chile's imports are heavily weighted towards the industrial goods needed to boost its own production and exports. In 1995, capital and intermediate goods accounted for 27.6 percent and 52.6 percent of imports, respectively. Consumption goods were only 18.8 percent of all imports, up 17.6 percent from the previous year. So far, the market for consumer goods has been limited by Chile's small population (about half of Canada's) as well as by its low per capita gross domestic product (GDP), which stood at about US \$5,300 in 1997. On a purchasing power equivalency basis, per capita GDP is considerably higher. The government has also implemented a six-year plan to raise per capita income by 50 percent by the turn of the century.

Income is poorly distributed, with the top quintile of the population receiving about 61 percent of all income. On average, this group earns 18 times more than the bottom quintile. The equivalent ratio is 14 for Mexico, 9 for the United States and 7 for Canada. On the other hand, the Chilean economy's 6.5 % rate of expansion in 1997 marked its 18th consecutive year of economic growth and much of the gain has been used to reduce the poverty rate and expand the social security system. Real per capita GDP grew at an average of 5.3 % between 1988-1997, and total real GDP is expected to achieve 5.6% in 1999.

## **THE CANADA-CHILE TRADE RELATIONSHIP**

Canada has a significant and growing trade relationship with Chile. Foreign investment in Chile is regulated by the Comité de Inversiones Extranjeras, Foreign Investment Committee. Canada is the second largest investor in Chile (behind the U.S.), with cumulative actual and planned investment approaching \$8 billion. While the mining sector remains the main destination, Canada also has significant investment in the energy, financial services, equipment manufacturing and telecommunication sectors. According to their estimates at the end of 1997, accumulated materialized Canadian investment in Chile was US \$4.3 billion. In 1997, Canadian investors received approvals for another US \$1 billion, more than any other country. As of year-end 1997, total authorized investment stands at US \$8.6 billion for Canada, (roughly C \$13 billion) compared with US \$19.9 billion for the United States and US \$24.2 billion for the rest of the world.

Estimates of Canada's merchandise trade with Chile vary substantially depending on the source of data. There are always differences between the import and export statistics of trading partners. In the case of the Canada-Chile trade relationship, the differences are especially great because a large proportion of the trade is trans-shipped through other countries, mainly the United States. In general, import statistics are more reliable than export statistics because of the rigour of the customs procedures involved.

According to official statistics from the Central Bank of Chile, 1997 imports from Canada totalled US \$432.5 million, with Chilean exports to Canada reaching US \$235 million. Using only Statistics Canada 1997 data, Chile's exports were estimated at C \$325.0 million and were C \$379.0 million for imports. These numbers are often cited by Canadian officials to indicate the magnitude of the overall trade relationship. On the other hand, Chilean customs data is the only source of detailed information on Chilean markets. Since Chile publishes its official statistics in American dollars, that currency is used extensively in this publication.

The most important import from Chile was fresh fruit, which made up 53 percent of the 1997 total. Wine was next, comprising about 15.8 percent. Machinery and equipment were the most important export, accounting 22.6 percent. Cereals coal were 18.5 and 11.9 percent respectively. But the true magnitude of this trade relationship is seriously understated by these statistics since service exports are not included in the trade data. Canadian service exports to Chile are substantial, especially in such areas as consulting engineering. However, there are no reliable estimates of the size of this trade.

## **THE POLITICAL ENVIRONMENT**

Political risk in Chile is considered the lowest in Latin America. In January 1996, the Economist Intelligence Unit Country Risk Service raised Chile's risk rating from a B to an A, the only Latin American country to achieve this. Some problems linger from 17 years of

military rule but they are not considered de-stabilizing. Chile has made enormous progress in the economic and social sectors since its return to democracy in 1990. Chilean politics are now dominated by coalitions of the right and left. Legislative elections held December 11, 1997 did not significantly change the political configuration in the National Congress (Senate and Chamber of Deputies). The next presidential election is scheduled for December 1999, and the race to succeed President Frei - prohibited by the constitution from a second consecutive term - is underway. Former ruler Augusto Pinochet retired as Commander of the Army and took up a lifetime seat in the Senate in March 1998. There was substantial opposition to the accession of General Pinochet to the Senate.

## **CHILE AND THE NORTH AMERICAN FREE TRADE AGREEMENT**

There is a strong consensus in Chile in support of both democracy and the free-market economy. Combined with the nation's 20-year experience in operating competitive enterprises, these factors have made Chile the most qualified South American nation for membership in The North American Free Trade Agreement (NAFTA). The Summit of the Americas, held in Miami in December 1994, declared a goal of hemispheric free trade by 2005. At the end of the summit, Chile was formally invited to begin negotiations for entry into NAFTA. The lack of fast-track negotiating authority in the United States has prevented further talks on NAFTA enlargement.

Meanwhile, Canada negotiated and signed a bilateral free trade agreement with Chile, based on the NAFTA model so as to provide easy accession to the NAFTA, should that be desired at a later date. The signing of the bilateral free trade agreement during President Frei's visit in November 1996, and its implementation of this agreement on July 5 1997, has been a major development in our relationship.

Prime Minister Chrétien and President Frei have met again on several occasions at the APEC Summit in Vancouver in November 1997; the Team Canada mission which Prime Minister Chrétien led to Santiago in January 1998; and the Summit of the Americas which was held in Santiago in April 1998. The excellent rapport between leaders is reflected at all levels and areas of the relationship, and we see each other as partners. Ties have been strengthened by a series of meetings at the ministerial level involving, among others, the Minister of Foreign Affairs, the Minister for International Trade, the Minister of Agriculture, the Minister of Labour, the Minister of Transport, the Minister of Finance, the Minister of the Environment as well as the Secretaries of State for Latin America and Africa, Agriculture, and Science, Research and Development. Canada and Chile cooperate closely on a range of issues at the UN, OAS and APEC, while the Summit of the Americas process underlines the similarity of approaches to regional issues. Canada has supported Chilean membership in APEC and NAFTA, positions which have added to our growing political partnership.

## **HISTORY**

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### **PRE-HISPANIC PERIOD**

The indigenous cultures that populated Chile when Europeans first arrived were subjects of the Incas, but they were divided into many scattered independent communities. The northern tribes cultivated maize and potatoes while fishing was the principal livelihood of the southern communities. Residents of the higher elevations raised llamas and alpacas.

### **THE COLONIAL ERA**

In 1540, an expedition led by Pedro de Valdivia left Peru with a mission to conquer Chile. The expedition crossed the northern desert, reached the Mapocho Valley, and founded the city of Santiago in February 1541. In spite of some losses as a result of Indian counterattacks, the Spaniards quickly occupied most of what is today central Chile. The tribes to the south proved to be difficult to subdue, however, and Valdivia himself was killed by the Mapuche in 1553.

Land and rights to native labour was assigned to prominent Spaniards. Indian labour was exploited for both mining and agricultural endeavours. But the native population was decimated by European diseases, against which they had no immunity. Soon, Mestizos, predominantly of native and Spanish ancestry, outnumbered the natives.

Because of its relative isolation, Chile developed differently than the rest of Latin America. One distinguishing feature was the establishment of huge feudal estates, a practice normally discouraged by the Spanish Crown. But Chile was too far from Spain for effective control, and Valdivia awarded large land grants to his followers. Mestizos, who could not own land, became tenant farmers on these haciendas. Attempts to break up this system of land tenure and its associated master-servant social structure have been an enduring element of Chile's politics.

### **THE REPUBLIC OF CHILE**

The rise of the Criollos, Latin American-born people of Spanish descent, is considered the underlying force behind the revolutions that swept Latin America around 1800. The army of José de San Martín crossed the Andes from Argentina to occupy Santiago and independence was declared in 1810. Bernardo O'Higgins was appointed Supreme Director of the new Republic of Chile, and the constitution that he drew up was ratified by the Chilean people in 1818. British and North American merchants assisted the new regime, in the hope of opening up new trade opportunities. A former British Royal Navy officer, Thomas Cochrane, became Commander of the Chilean Navy. Thus European influence continues to be a prominent feature of Chile today.

The new republic benefitted from relatively few racial or regional conflicts, and it quickly prospered. The economy was dominated by powerful landowners who eventually expelled

O'Higgins because of his attempts at limited land reform. The constitution that was developed by his successor, Diego Portales, preserved the power of the landowners.

The new republic was less than half the size of modern-day Chile, but in the mid-19th Century, it began to expand, mainly due to the new railways. In 1881, it incorporated territory south of the Río Biobío formerly held by the Mapuche Indians. Two years later, following the War of the Pacific, Chile acquired the nitrate- and copper-rich Atacama desert in the north. Finally, in 1888, Chile annexed Easter Island.

## **THE 20th CENTURY**

An ongoing struggle between conservative landowners and leftist reformers seeking a redistribution of land and power has characterized Chile's history throughout the 20th century. The presidency was weakened by successive expulsions of elected officials by the military who were acting in the interest of landowners. The hacienda system continued to control more than three-quarters of the nation's agriculture. During the 1960s, the Christian Democrats emerged as the focus of a leftist-centrist coalition. Opposition came from a leftist coalition led by Salvador Allende on the left, and the National Party on the right, among others. The Christian Democrats, elected in 1964, led by Eduardo Frei, were unable to implement their promises of reform. Running under the Popular Unity banner, Salvador Allende won the most votes in the 1970 presidential election — but he needed support from the Christian Democrats to form a government. The Allende government was in trouble from the beginning because it tried to impose its socialist agenda in the face of both stiff opposition from the Chilean Congress as well as from international interference. Production faltered and inflation soared to 500 percent. There was a strong backlash to Allende's policies, which included breaking up the haciendas and nationalizing the copper mines.

## **MILITARY RULE 1973 TO 1989**

On September 11, 1973 a bloody coup was led by General Pinochet. Ironically, he had just been installed as head of the armed forces, following another attempted coup earlier the same year. Pinochet assumed the presidency and his regime ruled the nation until democracy was finally restored in 1990. The Pinochet regime was characterized by brutal repression of leftists and Allende sympathizers. Several murders of prominent Chileans were carried out abroad, including the 1976 murder of Orlando Letelier in Washington DC, who was foreign minister under Allende.

## **RESTORATION OF DEMOCRACY**

Two successive Christian Democratic governments have been elected since the restoration of democracy. The re-emergence of this party as the focus of leftist-centrist concentration has been credited with the present broad consensus about Chile's goals and priorities. Conservative landowners continue to wield disproportionate power with the help of Senators appointed by the military. But political debate generally concerns the pace of reform, not its underlying democratic principles.

## **THE REGULATORY ENVIRONMENT**

Government policy is to minimize interference with private business and to rely on market forces to promote the efficient allocation of resources. In keeping with this policy, the most aggressive form of government intervention is the prevention or regulation of monopolies.

The Ministerio de Economía, Fomento y Reconstrucción (MEFR), Ministry of Economics, Development and Reconstruction, has overall responsibility for business regulation. Direct regulation is exercised by the Superintendencia de Valores y Seguros (SVS), Superintendency of Securities and Insurance, and the Superintendency of Banks and Financial Institutions.

## **PUBLICLY-TRADED CORPORATIONS**

Corporations with shares offered to the public are called open corporations. They are subject to the regulations of the Superintendencia de Valores y Seguros (SVS), Superintendency of Securities and Insurance. Annual financial statements as well as director's reports must be filed with the Superintendency and must be published.

## **ANTI-MONOPOLY LEGISLATION**

Decreto 311, Decree Law 311, prohibits interference with free competition. This includes prohibitions against price fixing, agreements to limit production and exclusive agencies. This law is administered by the Anti-trust Commission and two other quasi-judicial bodies. The telecommunications sector provides an example of how this regulatory power has been applied. In 1989 the government privatized its two telecommunications companies, Compañía de Teléfonos de Chile (CTC), and Empresa Nacional de Telecomunicaciones (ENTEL) by selling stock. A private company, Teleónica de España purchased large holdings in both companies. In 1992, the Anti-trust Commission ordered the company to divest its holdings in one of the two companies. The law has also been used to break up monopoly power in civil aviation, but it is not systematically applied and there are significant oligopolistic blocks in some industries.

## **CONSUMER PROTECTION**

Food and drug products are regulated by the Ministerio de Salud (MS), Ministry of Public Health, under Decree 60, of 1982. The use of additives is regulated, along with various aspects of production, distribution and sale of food. The regulations also include requirements for the labelling of food products.

The *Sociedad Nacional de Agricultura*, Chile's National Agricultural Service, administers regulations concerning the import of food products. Sanitary and phytosanitary regulations have been used to prohibit the import of a number of agricultural products, including fruit from the US, and chicken.

The Instituto de Salud Pública de Chile, National Health Institute, is responsible for the regulation of pharmaceutical products. All production, imports, exports and sales of pharmaceuticals are subject to prior authorization. All pharmaceutical product must be registered. Initial registrations are for three years, with an automatic renewal for another three years in most cases. Unregistered products cannot enter Chile.

## **ENVIRONMENTAL PROTECTION**

New environmental legislation was enacted in 1994. The Ley General de Base del Medio Ambiente, General Environmental Law consolidated Chile's diverse regulatory practices under the Comisión Nacional del Medio Ambiente (CONAMA), National Environment Commission. Once these regulations are fully operational, Chile will have the most advanced environmental regulating body in Latin America. The new law requires prior environmental assessments of new projects. Direct enforcement remains in the hands of several different Ministries, and consistent policies have yet to emerge. Several other laws, including the Código de Salud, Health Code, and the Ley de Protección de Agricultura, Law of Protection of Agriculture, also contain environmental protection provisions.

In addition, Canada and Chile have established a very extensive and solid relationship with regards to environmental cooperation. A Memorandum of Understanding (MOU) on environment was signed. The intent of this MOU is to promote environmental cooperation and build capacity by sharing environmental management knowledge and experience through the establishment of a work programme and the involvement of the private sector. Its activities have focused on mining, forestry, norms and standards, water, cleaner production and public participation.

In July of 1997 Canada and Chile enacted the Canada-Chile Agreement on Environmental Cooperation (CCAEC). This side Agreement to the Canada-Chile Free Trade Agreement includes commitments by the two countries to enhance environmental cooperation and to effectively enforce modern environmental laws, such as those governing water, air, toxic substances and wildlife. The goal of the agreement is to ensure that environmental laws and regulations in both countries provide for high levels of environmental protection. An annual work plan will be approved by the Council and it is expected that the MOU will align its activities with the CCAEC programme thus, involving the private sector in bringing support to enhance responsible environmental management in both countries.



## **INTELLECTUAL PROPERTY**

Chile has ratified the major international conventions covering intellectual property rights. It is a member of the World Intellectual Property Organization and adheres to the Paris Convention. The Ley de Propiedad Industrial, Industrial Property Law of 1991 governs patents, trademarks and other industrial rights. Patents are for 15 years or for the remaining term of any foreign patents held. Industrial designs are protected for a non-renewable ten-year period.

Trademark registrations are for an initial ten-year period and are renewable. The courts have supported foreign firms in disputes with local companies that have stockpiled foreign trademarks, but which have made no investment to develop them. Copyrights are for the life of the author plus 50 years. Video and audio products are specifically protected.

There are, however, a number of important exclusions that will concern some Canadian investors. The law does not allow patents for several important product categories. These include plant and animal varieties, human and animal food, beverages, and chemical products as well as financial or commercial systems. Pharmaceuticals have been patentable only since 1991, and there is inadequate protection for products developed before that time. An estimated 80 percent of computer software is pirated, in spite of the fact that software is legally protected intellectual property.

## **LABOUR RELATIONS**

All employment is subject to written contracts. An individual labour contract sets out minimal details such as the place of work, the duties of the employee, compensation, working hours and the term of the agreement. Collective labour contracts frequently involve more than one trade union but rarely more than one employer. Labour relations are governed mainly by the Código del Trabajo, Labour Code. Unions can be formed by a majority of the workforce in companies with 50 employees or less, but the proportion required is much lower for larger companies. For companies with more than 250 workers, any number of employees can form a union and a company could have several unions.

On the other hand, the scope of collective bargaining is much more limited than it is in Canada. Mandatory arbitration replaces the right to strike in public service enterprises including those that are privately owned. A labour agreement cannot by law contain a clause restricting the hiring of non-members or the type of technology to be used. If a majority of employees continue working during a strike, the work stoppage is deemed to be not approved. Some industries set up labour-management committees to involve workers in decision-making, but these are not required by law. About 13 percent of the labour force is unionized, but only 10 percent is covered by collective bargaining.

A proposal to reform the collective bargaining system went before Congress in early 1996.

But it has been stalled by strong opposition from business groups, led by the Confederación de la Producción y del Comercio (CPC), Federation of Production and Commerce. The proposal would make it easier for unions to organize, as a means of increasing the scope of collective bargaining. The government's objective is to extend unionization to seasonal workers in construction, farming and forestry who generally face long hours, dangerous conditions and low pay. The proposal would also permit cross-company unions to organize small employers, a move that business groups say would expose small business to outside agitators. Observers doubt that the Senate will pass these changes.

Monthly wages range from an average of about US \$500 for a skilled worker to roughly US \$2,500 for professional staff. The minimum wage in 1995 was approximately US \$160 per month, although only about 15 percent of workers earn that little. The work week is a maximum of 48 hours.

Profit sharing is required by law, although it does not apply to companies that pay certain other bonuses. If the company opts to share profits, the statutory amount is 30 percent of taxable income, subject to some adjustments. Companies that pay bonuses of 25 percent of annual employee remuneration, up to a maximum of 4.5 times the minimum monthly wage (about US \$720) are exempt from profit sharing. Labour agreements may contain a different profit sharing provision. Annual paid vacations of 15 days are required after one year of service.

Termination pay of one month's salary per year of service is required by law (to a maximum of 11 months) unless the termination was for cause. There is also a requirement for one-month's notice of unilateral termination, or pay in lieu of notice. This provision is reportedly the biggest single source of legal disputes between workers and management. It is also a major cause of labour immobility, since it is the only effective source of unemployment benefits. A proposal to replace this provision is expected to go before Congress soon. The proposal, which apparently enjoys wide backing, would substitute a system of individual worker's savings accounts, financed by employer contributions and optional employee contributions.

Pensions are part of the social security system, but under Chile's innovative privatized system they are administered almost entirely by private pension fund administrators. Employees must contribute 10 percent of their taxable income to the pension fund, plus a similar amount for other social security benefits. There is no cost to employers. Worker's compensation benefits are provided by a publicly-operated Asociación Chilean de Seguridad, Labour Accident and Occupational Disease Fund. Employers contribute to this fund depending on the risks associated with their operations. The maximum contribution is 3.4 percent of labour compensation.

The Ministerio del Trabajo y Previsión, Ministry of Labour and Social Security, administers

training programs paid for by employers. The cost is offset by a tax credit. Training is delivered by the Servicio Nacional de Capacitación y Empleo (SENCE), National Training and Employment Service, or by authorized private sector training companies.

To complement the CCFTA, Canada and Chile signed an Agreement on Labour Cooperation in 1997. Its goal is to promote the improvement of working conditions and living standards in the two countries and to protect, enhance and enforce basic workers' rights. An important dimension of the Agreement is the establishment of joint co-operative programs on key labour questions. This co-operative forum encourages government, business and labour to strengthen their contact, discuss best practices and develop knowledge and expertise about each country's practices and systems. Under the Agreement, joint seminars are being held, on topics such as labour standards and occupational health and safety (Santiago, January 1998) and industrial relations (Ottawa, April 1998). Another major feature of the Agreement is that it commits each country to the effective enforcement of its labour laws. This commitment applies to eleven basic labour principles covering industrial relations matters such as freedom of association and the right to organize, employment standards, and occupational safety and health standards.

## **BUSINESS ENTITIES**

Almost any Canadian business that will operate in the Chilean market will require some form of local presence. This is essential if business is to be conducted in Chile, and is advisable even for exporters of goods. The minimum level of local representation is a commission agent. In return for a percentage of sales ranging from 5 to 10 percent, these agents will secure the necessary import permits, expedite customs clearance and take care of local delivery.

Companies with a medium- to long-term interest in the Chilean market will usually want to establish a more substantial local presence. This is usually done through limited partnerships with domestic firms, or through the establishment of Chilean branches of Canadian corporations.

Chilean law offers several alternative forms of business entity. The law is neutral towards the different types and business considerations should be the only guiding force. A wholly-owned branch of a Canadian corporation will have equal access to almost every sector of the economy, at least in legal terms. Any type of business entity can be created quickly and inexpensively, with a minimum of red tape.

## **CORPORATIONS**

A Chilean corporation is called a sociedad anónima (S.A.). Corporations with publicly-traded stock are called "open corporations" and they are subject to much stricter regulation. If a corporation has more than 500 shareholders or when 100 or more shareholders own at least 10 percent of the capital, it is required by law to register with the stock exchange. All other corporations are "closed" and, unlike open corporations, they are not subject to regulation by the Superintendencia de Valores y Seguros (SVS), Superintendency of Securities and Insurance. Another difference is that closed corporations need not publish their financial statements. In addition, there are minimum dividend provisions for open corporations that do not apply to closed corporations.

A corporation is formed by executing a public deed before a notary public. Within 60 days of the issuance of the deed, the company must publish its bylaws in the Official Gazette and record them in the Commercial Registry. The process takes about three weeks and involves only minor fees. There is no minimum capital requirement. One-third of the authorized capital must be paid in on formation and the balance within three years.

## **LIMITED LIABILITY PARTNERSHIPS**

Corporations or individuals, including foreigners, can form a sociedad de responsabilidad limitada (SRL), limited liability partnership. These are governed by the Código Comercial, Commercial Code. The liability of each partner is limited to its own share of the capital, or

a larger amount specified in the partnership deed. The public deed, which includes the bylaws, is executed by a notary public. A summary of the deed must be recorded in the Commercial Register within 60 days. No financial reports are required, but financial records must be available for inspection by government authorities. Limited liability partnerships cannot engage in banking or insurance activities.

A rarely-used form of partnership, the sociedad colectiva, general partnership, has the same requirements as the SRL, except that liability is unlimited. Another variant is the asociación o cuentas en participación, silent partnership, which allows one party to act in its own name on behalf of unnamed partners. This type of entity has no legal status, except for tax purposes.

## **FOREIGN COMPANY BRANCHES**

Canadian companies can set up branches in Chile, provided that they appoint a local agent with a broadly-defined power of attorney. Documents demonstrating that the company legally exists in Canada, that show the company's bylaws and its power of attorney are filed with a notary, and then translated into Spanish by the Ministerio de Relaciones Extranjeras, Chilean Ministry of Foreign Relations. Then the agent executes a public deed, which must include certain statutory declarations which make the branch's assets subject to Chilean law. Within 60 days, an abstract of this information must be published in the Official Gazette and recorded in the Commercial Register.

## **SOLE PROPRIETORSHIPS AND JOINT VENTURES**

Two other types of entity are worthy of note. An individual can operate a business as empresario individual, sole proprietor. There are also provisions in the tax laws which recognize unincorporated joint ventures. They allow two companies to share expenses and revenue for a particular endeavour. This form is cumbersome and involves detailed tax reporting and therefore not widely used.

## **DOING BUSINESS IN CHILE**

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Canadians who have conducted business in Chile typically comment that the business environment there is closer to Canada's than in any other Latin American country. The principles of free enterprise and expeditious government regulation are well-entrenched. Corruption in business and government is minimal. More than twenty years of free market operation have left the nation with a well-developed business infrastructure. As one business executive put it, quoted in *Canadian Business*: "You can get business done without bribes, the red tape is reasonable, crime and drugs are not a disproportionate problem, the phones work and deliveries are punctual." Moreover, none of the Canadian companies interviewed for this handbook reported any problems with shipping or customs delays. Canadian business visitors do not require visas to enter Chile, but passports are obligatory. Effective July 1, 1998, a new entry fee in the amount of US\$50 is imposed on all Canadian travellers to Chile. This entry fee, valid until expiry of the passport, must be paid in cash or traveller's cheque on arrival at Chilean Customs and Immigration. There is still no requirement for a visa for Canadian tourists or business travellers.

While Chile is different from other Latin American countries, it still has features in common with the rest of the region. In particular, business transactions take longer than they do in Canada. Decisions on bids and other proposals are not always acted upon quickly. One Canadian executive with experience in Chile says that it is important to anticipate delays: "when they tell you it looks like June, don't expect a decision until November", he says. Canadian companies conducting market research in Chile report that interviews with senior executives can be difficult to get. Government officials tend to be very specialized and it is sometimes necessary to interview two or three from the same organization to get a broad picture.

## **LANGUAGE**

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Chilean business executives and government officials usually speak some English, but visiting Canadians should expect to operate in Spanish. Interpreters are readily available. The cost varies between C \$200 and \$325 per day, depending on the technical complexity involved. The higher rate applies to interpreters with specialized expertise in scientific terminology. Translation costs for printed material are in the order of C \$35 per page (225 words) for non-technical material. Most major hotels can arrange for interpreters or translation, and the Canadian Embassy can also assist in locating competent assistance.

When speaking Spanish, it is customary in Chile to address new acquaintances as "usted", with "tu" being gradually introduced once familiarity is established. There are no special local customs which a business visitor needs to be aware of. In Chile, titles are not nearly as important as they are in some other countries in the region. Acquaintances often address each other by their first name, preceded with Don as in Don Esteban. The practice of addressing superiors as patron is now mainly limited to the poorer regions.

## **TIME ZONES AND WEATHER**

Santiago, Chile's capital, is situated due south of Montreal at roughly 70 degrees West longitude. All of Chile falls within the eastern standard time (EST), and daylight savings time is observed from October to February. The seasons are the reverse of Canada's, but the bulk of the country is closer to the equator, so on the whole, the climate is warmer.

## **CURRENCY AND STANDARDS**

The Chilean peso, written as \$ (C \$ outside the country), is divided into one hundred cents. In early 1996, one Canadian dollar was worth roughly \$300 Chilean pesos. Currency can be freely exchanged at local banks. Numbers are written with periods separating thousands, and commas designating fractions. The metric system is the official standard of measurement.

## **WORKING HOURS**

The working day is about one hour longer in Chile than it is in Canada. In the Santiago region, most business offices open at 8:30 or 9:00 a.m. and close at 5:30 or 6:00 p.m. Government offices are open from 9:00 a.m. to 6:00 p.m. Most banks are closed to the public after 2:00 p.m. Outside of Santiago, some businesses follow the practice of closing for up to two hours for lunch, and extending working hours into the evening.

## **VACATIONS AND HOLIDAYS**

February is a difficult time to obtain appointments because much of the country shuts down for summer vacation. Visitors should also be aware of statutory holidays, which are mainly religious and military observances. Holidays falling on a Thursday are usually accompanied by a Friday off.

**STATUTORY HOLIDAYS -- 1998**

New Year's Day	January 1
Good Friday	Variable
Labour Day	May 1
Navy Day	May 21
Corpus Christi	June 11
Saint Peter and Saint Paul's Day	June 29
Assumption	August 15
11 de Septiembre	September 11
Independence Day	September 18
Armed Forces' Day	September 19
Columbus Day	October 12
All Saints' Day	November 1
Immaculate Conception	December 8
Christmas Day	December 25



## PARTNERING FOR MARKET ENTRY

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***A strong local presence is essential for Canadian companies entering the Chilean market. Partnerships with local firms are the most popular vehicle.***

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## WHAT PARTNERING CAN ACHIEVE

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Unless the Canadian company has its own branch in Chile, or is selling directly to a large corporation or institution, some form of local representation is required. This is necessary because the importer must petition the Banco Central de Chile, Central Bank of Chile, for an import licence. The simplest form of representation is a commission agent. There are many such importing agents in Chile. They may serve both as the importer of record and the customs broker.

Most Canadian firms operating in Latin American markets find that partnerships with local firms are a more effective means of entering an unfamiliar market. These partnerships may take the form of agency agreements, strategic alliances, or free-standing joint ventures. There are also a wide range of possible licensing, franchising and co-manufacturing arrangements. Any of these forms of business organization can help Canadian companies move into Chile.

The driving force behind these partnerships is the need to overcome barriers to Canadian participation in Chilean markets. Barriers can arise from a variety of sources, including cultural and language differences, oligopolistic power of local competitors, differing consumer tastes, and government regulations. A Chilean company that is familiar with customer needs and the local business environment, and which also has a network of local contacts, can help to circumvent these obstacles.

In return, Canadian companies bring many strengths to a partnership. They have knowledge of advanced technologies and have established track records in developing practical applications. Moreover, this experience is concentrated in the sectors where Chile's productive capacity is growing most rapidly: natural resources, agriculture, and telecommunications. Canadian experience with the flexible manufacturing techniques that are required for a relatively small market also has direct applications in Chile.

Partnering works best when there is a close mesh between the capabilities and strategic plans of both companies. A tight fit creates a synergy that can make both companies stronger and better equipped to compete in today's global marketplace. A number of critical elements underlie this synergy:

- ***Division of labour:*** the partners are free to concentrate on what they do best and where they can operate most cost-effectively.

- **Economies of scale:** the combined size of the two companies can help them to enter markets that neither could tackle on its own.
- **Risk sharing:** risk is allocated between partners in such a way that each is in a good position to assess the uncertainties.
- **Teamwork:** the pooled resources of both firms makes the partnership better equipped to keep pace with a rapidly changing market.
- **Expanded capabilities:** each party acquires new capabilities from the other, making the partnership more powerful than the sum of its parts.
- **Market exposure:** each company can take on a larger number of markets by entering into multiple non-competitive partnerships.

The Chilean economy is growing very rapidly. The overall economy grew at an average rate of 7 percent over the ten years ending in 1995. The most dynamic markets are growing at 20 or even 30 percent annually. This means that an effective market entry strategy is a necessary but not a sufficient condition for success. Companies must balance systematic planning with the flexibility needed to adapt to constantly changing market conditions. Partnering makes it easier to keep up with these changes, because each partner can focus on the aspects of the market that it knows best.

Another attraction of partnering in Chile is that it can create a competitive advantage by combining low-cost Chilean value-added with sophisticated Canadian technology and management expertise. Products that combine these elements are likely to be competitive in other emerging markets throughout Latin America.

Canadian firms have been active in Chile for many years, but there has been a particular surge of partnering activity since the restoration of democracy in 1990. Almost all of the companies interviewed for this publication stated that partnering was an essential element of their market entry strategies. The case studies presented here provide an overview of the styles of partnership that have proven effective, and the benefits that Canadian companies have achieved.

## **BENEFITS OF PARTNERSHIPS BETWEEN CANADA AND CHILE**

The objectives of sharing risk and pooling resources are obvious motivations for forming any partnership. But certain characteristics of the Canadian and Chilean economies lead to special benefits.

- Canada's domestic markets are relatively small, and the industrial structure is characterized by a very small number of large firms in each sector, combined with a large number of small- to medium-sized enterprises (SMEs). Smaller

companies generally lack the marketing resources to tackle an unfamiliar and distant market on their own.

- Chile's markets are even smaller than Canada's, and SMEs there must compete with a large number of foreign competitors. While Chile is well-known for its high level of entrepreneurial activity, its smaller businesses rely on foreign technical expertise to stay competitive. Outside assistance is especially important to ensure that Chilean firms can keep abreast of rapidly changing technology.
- By necessity, Canada's manufacturing sector has developed a high level of expertise in short, flexible production runs. This allows them to work closely with Chilean partners to customize products for the relatively small local market.
- Chile is struggling to establish sustainable growth in several key sectors. Most of them are areas where Canada has faced similar problems and has developed solutions. Both countries have a small population dispersed over long distances, are reliant on the export of natural-resource based products, and face strong foreign competition in their home markets for manufactured products.
- Canada's experience with managing the environmental impacts of its resource-based industries, combined with its success in linking a dispersed population through state-of-the-art telecommunications, are particularly relevant to Chile's situation.
- Chile's modern communications systems, strong entrepreneurial tradition and open markets make it a good location for Canadian companies seeking a Latin American base.

## **DEVELOPING A PLAN**

Partnering is a widely used mechanism for moving into Chile, but it is not for everyone. Each company must assess its own unique situation to decide whether partnering is appropriate and, if so, what form it should take. Locating prospective partners and negotiating an agreement will be a time-consuming and costly process. Companies should not embark on such a complex venture without a clear idea of what they expect to gain from, and contribute to, a partnership.

- The first step in developing a partnership plan is for the company to clearly set out its own goals. What does it expect to accomplish by expanding into Chile? How does Chile fit into the firm's long-term strategy? What other objectives will be displaced by the diversion of resources to Chile?

- The next step is to assess the company's capabilities and weaknesses. What advantages will the company enjoy in Chile? Is there a demand for the product? Will it have to be adapted for the local market? What competition will it face? What capabilities does the company lack?

A thorough evaluation of these two points usually requires careful research. The results can help indicate gaps in the company's product and service offering that can be filled by a Chilean partner.

It is possible that the evaluation will show that there is no need for a partner. Some Canadian mining companies, for example, have set up their own Chilean subsidiaries and have proceeded independently. This approach is most likely to work for relatively large companies dealing in commodities. Smaller companies with products that are differentiated from the competition are more likely to need a partner.

While there are many advantages to partnering, there are also a number of costs. Developing and managing a partnership takes time and resources. The Canadian firm may have to give up some of its options, and it may be called upon to provide a disproportionate share of the needed capital. To balance these benefits and costs, the Canadian firm must be absolutely clear about what it wants from a prospective partner.

## **CHOOSING THE TYPE OF PARTNERSHIP**

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When it has decided that a partnership will be part of its market entry strategy, the Canadian company should consider what type of partner it is seeking. A partnership can take many different forms, depending on the objectives of the companies involved. The goals for the partnership can range from joint marketing, to technological transfer, to creation of new greenfield facilities. The following sections describe the most common forms that a partnership might take.

## **AGENT OR DISTRIBUTOR**

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The Canadian Embassy publishes guidelines on the selection of a Chilean agent. Agencies and distributors are the simplest form of partnership. There are about 2,800 import specialists in Chile, most of them small- to medium-sized enterprises (SMEs). In these arrangements, a Chilean company agrees to provide marketing and distribution for a Canadian product. The principal difference is that a distributor takes title to the goods, and is actually more of a customer rather than a partner. An agent acts on behalf of the Canadian company, and agrees not to handle competing products. The advantage of an agent over a distributor is that the Canadian company is in a better position to influence the price of the product and the way that it is presented to the market. Typically, an agent would be the exclusive Chilean representative for several non-competing manufacturers. A distributor may handle several competing lines.

When contracting with an agent, care should be taken to ensure that the individual will not be considered an employee under the Código del Trabajo, Chilean Labour Law. Otherwise, complex obligations may be involved. A commercial commission contract is recognized under Chilean civil law and is not subject to the Código del Trabajo. It should clearly set out specific performance criteria and contain provisions for termination. The contract should be reviewed by a Chilean lawyer.

## **JOINT PRODUCTION**

Under joint production agreements, companies use existing resources to jointly produce a product or service. This can involve a range of merchandise from components to entirely new products, as well as consulting, engineering or other services. A strategic alliance is a related form of partnership, where the firms agree to work together to develop new markets, but where they retain independent operations.

## **JOINT VENTURE**

A joint venture is a distinct corporate entity existing independently of its parent firms. This is the most common form of partnership in those cases where local production will be undertaken, or where a complex marketing venture will be required for the Chilean market. Joint ventures offer the advantage that ownership does not have to be split equally. The main disadvantage is that as a separate company, it requires considerable organizational and management resources. The investments required also limit this form to relatively long-term ventures.

Joint ventures have long been used to avoid restrictions placed by many governments on the activities of foreign-owned companies. This is not an important consideration in Chile, because foreign firms receive national treatment, at least legally. Nonetheless, a joint venture can still be an effective way of dealing with local purchasing preferences, especially those of government entities.

## **LICENSING AND FRANCHISING**

Licensing does not in itself constitute a partnership, but it is a common element of many partnerships. A typical arrangement would be for a Canadian firm to license rights to its products or services to a Chilean firm. Usually this would be on an exclusive basis for all or part of the Chilean market. The Canadian firm retains ownership and therefore control over the product. This is common where technology, trademarks or business methods will be used by the Chilean company for local production.

Franchising is a special kind of licensing, where the franchisee pays for the use of a comprehensive product and marketing package. This form of partnership has been growing rapidly in Chile, with about 50 franchises operating in 1994. Most of them are in

the fast-food business, but observers point to emerging opportunities in personal and business services.

## **CO-MANUFACTURING OR CO-MARKETING**

Co-manufacturing agreements are used where companies want to manufacture each other's products. Under co-marketing agreements, companies agree to advertise and sell each other's products. These forms may be combined. They may involve cross-licensing, or other arrangements to protect the rights of the original product developer.

Co-marketing on its own can be an effective way for companies in both countries to gain access to each other's markets. It works best for companies in closely-related fields that have gaps in their product lines that can be filled with the partner's product. A co-marketing agreement makes maximum use of existing marketing and distribution channels, with little additional investment.

## **THE PARTNERING TEAM**

Locating a Chilean partner and negotiating an agreement is best accomplished using a team approach. The company should appoint a team that is representative of each area of specialization within the firm, and all of the management levels that will deal with the partnership. The team should include expertise in all of the relevant technical and legal areas. For some companies this may mean bringing in outside lawyers, accountants as well as other advisors.

A leader will be needed to act as a champion for the Chilean venture. This must be a person with sufficient clout to overcome organizational obstacles and make things happen. The leader will become the driving force behind the partnership initiative, and is typically also the chief negotiator. Ideally, the leader will have a working knowledge of Spanish and will have experience in foreign markets.

If the negotiations are successful, some team members will be responsible for operating the partnership. Team members who will deal directly with the partner must have the interpersonal skills needed to overcome cultural differences and establish rapport with individuals on the other team. They must also have enough influence within the firm to be able to act on agreements with the partner.

## **STEPS IN THE PARTNERING PROCESS**

1. Conduct preliminary market research to determine whether there is a market for the firm's products in Chile. The nearest International Trade Centre, or the Department of Foreign Affairs and International Trade's (DFAIT's) InfoCentre in Ottawa can provide current market information. Look for niches, evaluate competitors and identify potential partners.

2. Contact a trade commissioner at the Canadian Embassy in Santiago and provide him or her with advance information regarding the firm's products, capabilities and expectations. The DFAIT guide, Working with Your Trade Commissioner, outlines their capabilities and information needs.
3. Travel to Chile. Meet with the trade commissioner and other contacts listed in the DFAIT publication. These resources may be able to identify additional potential partners and arrange introductions.
4. Contact the most promising potential partners and arrange for meetings. Discuss the prospects for some form of partnership and visit their facilities.
5. Return to Canada and thoroughly evaluate the alternatives. Obtain follow-up information by fax, phone, e-mail or courier.
6. Assuming that one of the potential partners seems to be suitable, return to Chile and open formal negotiations. Professional advisors such as Chilean accountants and lawyers may be brought in to assist.
7. If the negotiations are successful, execute a partnership agreement.
8. If the partnership will be a corporation, register it with the Chilean authorities. Make applications to the Banco Central de Chile, Central Bank of Chile, or the Comité de Inversiones Extranjeras (CIE), Foreign Investment Committee, to have the Canadian contribution approved and protected.
9. Finalize financing arrangements and establish a Chilean bank account.
10. Obtain all necessary government approvals and begin operations.

## **FINDING THE RIGHT PARTNER**

When the right type of partnership has been chosen, and the Canadian firm has established a partnering team, the next step is to search for suitable candidates. Canadian companies that have not succeeded in their initial attempts to break into Latin American markets frequently say that the failure to find the right partner was the most important problem. Chilean companies are open to partnerships and are seeking sources of state-of-the-art technology as well as managerial know-how. And they see joint ventures with foreign firms as a good way of developing export markets. But enthusiasm in itself is not sufficient for success. The prospective partner must also have established market access, adequate financial and human resources, and a compatible management style.

## **PREPARATION**

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Finding a partner and structuring a deal will consume considerable resources. Cross-cultural negotiations are time-consuming and they can be frustrating. Bringing them to a successful conclusion will require patience as well as realistic expectations.

The complexity of the negotiations will depend on the amount of interaction that the partnership will require. As the scope of the partnership broadens and the number of markets grows, the partnership agreement must include a larger and larger number of items. Also, large differences in size, operating methods or management styles will increase the complexity of the arrangements.

These factors will have major impacts on the negotiating processes. It is essential that the team considers them in advance and makes appropriate preparations.

## **LOCATING CANDIDATES**

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The next step is to prepare a list of prospective partners. If the company already has business contacts in Chile this is an excellent place to start. Chileans tend to see business development more in terms of relationships than sales. A pre-existing business relationship in Chile can get the process off to a quick start.

The company should also poll its business contacts in Canada to see if any of them have experience in Chile. Customers, suppliers and industry associations are all potential sources of information. The Alliance of Manufacturers and Exporters Canada (AMEC) operates a business linkage program in co-operation with CIDA Inc. Trade Commissioners at the Canadian Embassy in Santiago can also help to identify prospective partners and to arrange for introductions.

Each prospective partner should be carefully screened from the perspectives of compatibility, financial stability, commitment and credibility in the Chilean market. If none of the candidates meets all of the requirements, it is usually preferable to pursue other approaches. Alternatives such as licensing, strategic alliances or agency agreements that were rejected earlier may still be preferable to an unsatisfactory partnership.

## **NEGOTIATING THE DEAL**

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There is more to negotiating than simply setting out the initial terms of the deal. The negotiations set the tone for continuing relations between the partners and they establish the management processes that will run the partnership on a daily basis. Negotiators should keep in mind that they are building a relationship for the long term, and not just trying to get the best possible deal at the expense of the other party. The interests of both parties must be clearly stated and satisfied if the agreement is to endure.



## **ESTABLISHING PERSONAL TRUST**

The win-win approach is even more important in Chile than it is in Canada, because like most Latin Americans, Chileans base their business relationships on personal trust and friendship. An informal approach to negotiations that stresses personal respect, as well as the mutual interests of the partners, is the best way to earn this trust. Conversely, an overly legalistic or adversarial negotiating style can sour relations from the beginning.

The emphasis on trust does not suggest that concerns about the partner's future performance, or about the security of proprietary information, should not be tackled head on. In an atmosphere of trust these issues can and should be discussed frankly. Failure to include these potential problems explicitly in the partnership agreement can leave hidden traps that can be fatal to the relationship later.

## **ROLES OF TEAM MEMBERS**

Successful negotiating teams have found that the role of the team leader needs to be managed carefully. Once negotiations are underway, most of the discussions should be led by members with a good technical understanding of the issues. In their efforts to maintain a collegial atmosphere, senior executives may gloss over difficult issues, on the assumption that they can be sorted out some other time. Later in the negotiations, the top leader can play an invaluable role in breaking deadlocks, especially if he or she was not present when the problems arose.

## **MEMORANDUM OF UNDERSTANDING**

It is good practice to prepare an interim agreement, once the basic intentions of the parties have been laid out. This might be in the form of a memorandum of understanding that establishes the scope of the negotiations and a timetable for their completion. The agreement might also include a non-disclosure provision covering proprietary information that will be exchanged. It is usual to preclude any negotiations with competitors during the rest of the process.

## **THE FINAL AGREEMENT**

The final agreement will have to anticipate as many contingencies as possible. Including "what if" scenarios from the beginning can avoid conflict later. On the other hand, it is essential that the agreement, and the people who will implement it, are flexible enough to adapt to a constantly changing external environment. It has been said that in successful partnerships, the negotiations never really stop.

## **RECONCILING TWO SETS OF GOALS**

Some of the prospective partner's goals will be explicitly stated, but some of them may be implicit. Careful preparation and study of the partner's business before the negotiations begin can help to ensure that the unstated goals are understood. The emphasis on meeting the objectives of both sides does not suggest that their goals have to be identical. Two companies can have completely different goals within the context of their own businesses. This is not a problem as long as the goals are complementary and compatible with a common business strategy. For example, the Canadian firm may want to increase its sales of a mature and proven technology. It might want to enter foreign markets because the Canadian market for this product is saturated. The Chilean company, on the other hand, might want a new technology to maintain its domestic market share in the face of foreign competition. These different goals could be met by a common strategy based on technology transfer. But if the ultimate needs of both parties are not explicitly addressed, future problems can arise. For example, what happens if an opportunity arises that meets the needs of only one party?

Understanding the objectives of both parties, and anticipating future pitfalls takes time, resources and patience. But getting it right the first time is worth the effort. A good agreement avoids future delays and misunderstandings and it has the flexibility to keep the partnership viable and competitive as circumstances change.

## **SHAPING THE RELATIONSHIP**

The partnership agreement should provide a framework for the long-term management of the venture. Each party must have a level of control over the business that is consistent with its contribution. And there must be an agreed-upon method of placing a value on those contributions. Moreover, the role of each party in the day-to-day management of the business must be established, along with the policies that will guide strategic decisions.

## **OWNERSHIP AND CONTROL**

Early in the negotiations, the issue of control will have to be resolved. The parties must balance their desire for sufficient control to keep the business on track with the need to avoid a bureaucratic log-jam that could cripple the business.

From the Canadian firm's perspective, a majority control arrangement could be seen as a guarantee that the venture will continue to be operated in its best interests. On the other hand, dominance by one party could undermine the other partner's commitment and impair the performance of the business. An equal split can protect both party's interests and encourage their full commitment, but it can also lead to an impasse. Whichever route is taken, it is essential to make this decision early, since it will affect virtually every other aspect of the agreement. In particular, it will determine the size of each party's financial contribution.

## **MANAGEMENT**

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In some ways, the roles that each party will play in the management of the venture are more important than ownership. The management of a business does not have to mirror its ownership and control structure. Each party must have influence over aspects of the business that affect its core business, but this does not necessarily imply control over the whole venture. For example, the Canadian company might have a level of influence over technological decisions that was greater than its ownership position might suggest. At the same time, the Chilean partner might have greater control over marketing issues. In some joint ventures, it might be preferable to establish an autonomous management structure that is independent of both sides.

The choice of management approaches has a major impact on costs. In general, the more cooperation and consultation that is needed to make a decision, the greater the cost. An independent management team, with a mission and policy guidelines imposed by the owners, is often the least expensive approach.

## **VALUATION**

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Valuation issues arise where the contributions of one or more of the parties are in kind rather than purely financial. Non-financial contributions might include land, equipment, human capital, technology, access to preferential financing, access to sales opportunities, and goodwill as well as a wide variety of intangibles. The parties may have differing opinions about the worth of such contributions.

The partnership agreement must establish a value for all of the initial contributions, and it should also establish a method of valuing any future in-kind contributions. Fluctuations in exchange rates can alter the balance between the partners unexpectedly; therefore, appropriate provisions must be included.

## **POLICIES AND PROCEDURES**

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If the partnership agreement includes explicit policies and procedures for the daily management of the venture, the level of consultation needed will be substantially reduced. The Canadian and Chilean partners are likely to have different policies for their own businesses, and these issues can require considerable negotiation.

Financial issues include accounting practices, reporting, budgeting, transfer pricing, profitability assessment and dividend practices. Some of these are a matter of choice, but others will be influenced by the tax laws of both countries. The Chilean legal environment will also affect policies regarding such issues as personnel practices, health and safety and environmental protection measures.

Establishing clear management policies and practices from the beginning will save considerable time and resources later. If the parties have difficulty agreeing on these

points, this may be a warning sign that the partnership itself may not be viable. It is usually better to abandon the negotiations at this point than to expend further resources on an unproductive relationship.

### **MANY SUITORS FOR CHILEAN PARTNERSHIPS**

While many Chilean companies are looking for foreign partners they have many suitors in the international business community. For many years, the government has sought to reduce its dependency on a small number of export products, by diversifying the foreign markets it operates in. As a result, many competitors from Europe, Asia, Australia and the United States have moved into Chile, or are considering doing so. This competition gives Chilean companies a wider choice and can delay negotiations considerably.

Another consequence is that invariably, Canadians must travel to Chile to find a partner. Chileans are interested in Canada but they perceive it as being very distant, and few of them are willing to travel to Canada in search of partners.

## **FINANCING ACTIVITIES IN CHILE**

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**Chile has an efficient financial sector, featuring a full range of debt and equity instruments. But capital is limited and most large projects require funding from abroad.**

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Chile's banking system is considered the most sound in Latin America. It is comprised of the Banco Central de Chile, Central Bank of Chile, the Banco del Estado, the state bank, as well as 37 national and foreign commercial banks.

The Banco Central is an autonomous judicial institution responsible for the nation's monetary policy. It issues currency, regulates other financial institutions and oversees foreign exchange transactions.

The Banco del Estado handles all of the government's banking and financial operations and also pursues some commercial business. In 1994, it held 15 percent of all loans and 19 percent of deposits.

### **COMMERCIAL BANKS**

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The largest Chilean commercial banks include Banco de Chile, Banco de Santiago, Banco Santander-Chile and Banco O'Higgins. The Banco Santander, from Spain, is the largest foreign bank. 20 foreign banks operate in Chile including Citibank, Chase Manhattan, Bank of Boston, Banco do Brazil, Banco de Espana, and Bank of Tokyo. Foreign banks operating in Chile must create local branches. Representative offices may act as agents, but they may not conduct banking business. Canadian banks are also present in Chile: the Bank of Nova Scotia owns 30% of Chile's sixth largest bank: Banco Sud Americano; and both the Royal Bank of Canada, and Toronto Dominion Bank have rep offices in Chile.

Chilean banks are modern and employ state-of-the-art communications and information systems. They were privatized and deregulated beginning in 1974. The government intervened during the recession of 1982 and 1983 to prevent the collapse of some banks. The Central Bank purchased their overdue loans. As a result, some banks have large debts owing to the Central Bank.

The Central Bank is encouraging mergers among private banks on the grounds that the number of financial institutions in Chile is not justified by the size of the market. In January 1996, merger plans were announced between Banco de Santiago, and Banco O'Higgins. In April, Banco Santander acquired Banco Osorno, making Banco Santander-Chile the largest bank in the country.

## **FOREIGN EXCHANGE**

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Exchange between the Chilean peso and foreign currency occurs in two parallel markets. The formal market, also called the inter-bank market is available to foreign-owned enterprises. In fact, the Banco Central has the power to require that certain foreign transactions be conducted only through the formal market. The informal market is operated separately from the banking system. The exchange rates in the two markets are usually within one half of one percent of each other.

The peso is allowed to float within a 20 percent band around a central rate. This so-called "crawling peg" is adjusted periodically to reflect Chile's inflation experience relative to that of its major trading partners. In recent years the peso has appreciated significantly against the American dollar. There was a small depreciation beginning in April 1995, but the peso returned to January levels by the end of the year. The formal exchange rate at the beginning of 1996 was \$407 pesos to the American dollar.

## **STOCKS AND BONDS**

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Chile's principal stock exchanges, the Bolsa de Comercio de Santiago, and the Bolsa de Comercio de Valparaíso, collapsed during the Allende administration as the government nationalized or controlled most of the listed companies. Under General Pinochet's regime, nationalized companies were returned to the private sector and the market was restored. The market collapsed again during 1982 to 1984 but it has enjoyed strong growth since 1989. The number of companies listed on the stock exchanges rose to 332 at the end of 1994 from 274 at the end of 1991.

Stock and bond issues have become an increasingly popular means of raising capital for new ventures in Chile, and the use of bank debt has decreased among larger companies. Both the Moody's and Standard and Poors' investment ranking services have given Chile their highest ratings in Latin America. American Depository Receipts (ADRs) sold on American stock exchanges have also grown in popularity. In 1994, they were the source of US \$1.7 billion, compared with US \$822 million a year earlier.

## **DEBT FINANCING**

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Local debt financing is available, but large-scale financing must usually be obtained from outside the country. There are provisions for the Banco Central de Chile, Central Bank of Chile, to restrict access by foreign investors to local financing, but no such restrictions are in effect. But availability of funds is limited and short-term bank loans are the most common vehicle. Local interest rates are also considerably higher than international rates. Subsidized home mortgages for low-cost housing are provided by the Ministerio de la Vivienda, Ministry of Housing.

## **THE PRIVATE PENSION SYSTEM**

Chile's pension system consists of a small public fund plus 16 separate private pension administrators, known Administradora de Fondos Pensiones (AFPs). They have control over about US \$25 billion and are a major source of capital for Chilean companies. Restrictions on AFP investments in foreign bonds and equities were relaxed in 1994, although only a few of them have exercised this option so far. The AFPs are being encouraged to diversify their holdings following losses in 1995 caused by over-reliance on investments in electricity utilities.

## **NATIONAL DEVELOPMENT AGENCY**

The Corporación de Fomento de la Producción (CORFO), the national development agency, is a major investor in industrial enterprises, both wholly-owned and joint ventures. CORFO has recently announced a redefinition of its goals. It will now focus on investing in projects that are unattractive to private-sector lenders.

## **FOREIGN LOANS**

Foreign loans are subject to a mandatory non-interest-bearing deposit with the Banco Central de Chile, Central Bank of Chile, of 30 percent of the loan for one year. Alternatively, the borrower can purchase Banco Central securities for the equivalent amount and then immediately re-sell them to the bank at a discount equal to the interest that was charged.

## **INTERNATIONAL FINANCIAL INSTITUTIONS**

Funding for large projects is available from international financial institutions, including the World Bank Group and the Inter-American Development Bank. Both are active in Chile and provide loans for approved projects executed by a local agency. Increasingly, however, Chile has been reducing its reliance on this source of funding. For large projects, equity and debt securities may also be sold in international capital markets, including those in Canada.

Both Canada and Chile are members of the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group. MIGA encourages the flow of foreign direct investment to developing member countries by providing certain guarantees to foreign private investors. The Agency guarantees against the risks of currency transfer, expropriation, war and civil disturbance in developing countries. It also provides technical assistance and advisory services to developing countries on means to promote private investment in their economies.

## **BUILD-OPERATE-TRANSFER SCHEMES**

Build-operate-transfer (BOT) schemes are fairly new to Chile, but they appear to hold out some promise as a means of financing public infrastructure projects. BOT financing is popular in other Latin American countries, mainly because governments lack the funds to build badly-needed infrastructure projects. Under these arrangements, investors build the facility, operate it until its costs have been recovered, and then turn it over to the government. A variation is the build-lease-transfer (BLT) arrangement, whereby the facility is leased back to the government for a fixed period and then transferred.

Chile has achieved balanced public finances and its public sector is in much better financial shape than any of its Latin American neighbours. Moreover, the nation has a policy of licensing infrastructure operations to private companies, as it has done with electricity and telecommunications. Nonetheless, BOT and BLT schemes as well as other non-traditional financing methods are becoming increasingly attractive for some projects.

The Ministerio de Obras Públicas, Ministry of Public Works, is already proceeding with a plan to build 12 infrastructure projects under BOT concessions. The first was a 2,500 metre highway tunnel north of Valparaíso. Túnel Melón, a consortium controlled by Endesa, was awarded this concession in January 1993, six months after the bid offering was issued. The tunnel opened in September 1995, and the company began seeking refinancing of the project's US \$25 million cost. The concession period is 23 years. Interim construction funding came from bank loans including one from the state bank, as well as from consortium participants. The financial community is watching closely to see if Melón will find long-term financing now that the project is completed. The Ministry has issued specifications for another 14 other projects including highways, urban roadways and airport terminals. The largest project is the proposed Autopista la Dormida y Ruta 68: Santiago-Valparaíso which is tentatively valued at US \$200 million.

## **EXPORT FINANCING**

### **LETTERS OF CREDIT**

The safest way of financing export sales of merchandise to Chile is by irrevocable letter of credit (L/C) from a Chilean financial institution. These are usually payable upon receipt of notice of shipment or receipt of the goods. Proof of shipment or delivery is provided to a corresponding Canadian bank, which arranges for quick payment in Canada. In cases where there is an established business relationship between a Canadian seller and a Chilean buyer, sales may be made on open account. Terms of from 60 to 90 days are not uncommon.



## **EXPORT DEVELOPMENT CORPORATION (EDC)**

The EDC helps Canadian exporters compete in world markets by providing a wide range of financial and risk management services, including export credit insurance, financing to foreign buyers of Canadian goods and services, and guarantees.

Buyer credit financing is available for exports of both goods and services to Chile. The EDC purchases promissory notes from the buyer, lines of credit (L/Cs), as well as direct loans. The latter are normally used for large transactions with long repayment periods.

The usual arrangement is for the EDC to lend money to a Chilean financial institution, which then re-lends to the purchaser. Normally, support is provided for transactions ranging from US \$50,000 to US \$5 million. The EDC currently has pre-arrangements with two Chilean banks and with the Compañía de Teléfonos de Chile. In 1995 the EDC issued \$90 million worth of short-term insurance and almost \$82 million in investment insurance to Canadian companies active in Chile.

## **EDC CONTACTS FOR CHILE EXPORT FINANCING**

Banco O'Higgins handles a US \$10 million line of credit with loans repayable over two to eight years. Contact in Chile: tel.: (562) 630-4168; fax: 562-671-7152.

Banco Sudamericano handles a US \$10 million line of credit with loans repayable over two to eight years. Contact in Chile: tel.: (562) 692-6558; fax: (562) 692-6570.

Compañía de Teléfonos de Chile (CTC) has a US \$15 million line of credit with loans repayable over three to eight years. Contact in Chile: tel.: (562) 698-0163; fax: (562) 696-1319.

## **TAX CONSIDERATIONS**

Chile's tax system, administered by the Servicio de Impuestos Internos, Internal Revenue Service, is designed to be neutral towards different forms of business organization. The government has pursued a policy of emphasizing indirect taxes, including the value-added called the impuesto al valor (IVA), tobacco, fuel and stamp taxes. Income taxes were the source of only one quarter of government revenues in 1995. Taxes on business and personal income contributed 16.7 percent and 8.1 percent respectively. The value added tax is by far the largest source of tax revenue, with a 44.5 percent share.

There are two levels of corporate income tax, which combine to create an incentive for reinvestment of profit. The Impuesto de Primera Categoría, first category tax, is 15 percent of taxable income. Profits distributed to foreign shareholders are subject to a 35 percent additional tax, but this is reduced by the first category tax, for a net taxation rate on repatriated profits of 35 percent. Profits distributed to Chilean partners are subject to a

surtax based on a progressive rate system. With a few exceptions, capital gains, royalties and interest receipts are taxed as normal business income. Canada and Chile have negotiated a tax agreement which, when implemented, will avoid the double taxation of repatriated profits.

The Impuesto a la Renta, Income Tax Law, includes a number of other incentives for foreign investors. Capital depreciation on fixed assets is on a straight-line basis over one-third of the useful life of the asset. This provision also applies to used assets imported from abroad. Foreign investors have the choice of paying the current tax rate applicable to local firms or a 42 percent rate which is fixed for ten years. For industrial or extractive projects costing US \$50 million or more, the 42 percent rate can be locked-in for 20 years.

## EXPORT FINANCING

Chile's tax system, administered by the Servicio de Impuestos Internos, Internal Revenue Service, is designed to be neutral towards different forms of business investment. The government provides special capital incentives, including the value-added tax (VAT) exemption for export services. Additionally, the government provides a 2 percent and 5 percent export surcharge on the value added tax (VAT) for the export of goods and services. The VAT is a 19 percent tax on the sale of goods and services, and is levied on the sale of goods and services. There are two levels of corporate income tax, which combine to create a 15 percent investment of profit. The Impuesto de Fomento Corporativo, flat category tax, is 15 percent of taxable income. Profits distributed to foreign shareholders are subject to a 35 percent additional tax, but this is reduced by the flat category tax for a net taxation rate on repatriated profits of 35 percent. Profits distributed to Chilean partners are subject to a

## **PREPARING YOUR MARKET STRATEGY**

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**Clear goals and systematic planning, balanced by the flexibility needed to adapt to changing market conditions, are key elements in a successful market entry strategy for Chile.**

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Chile is a rapidly growing market with many opportunities for Canadian companies. But entering the Chilean market is not a simple process. A systematic market entry strategy is necessary to ensure that critical decisions are made at the right times and are based on accurate and timely information.

A good market strategy starts with preliminary assessment of the company's strengths and weaknesses, and how its product offerings fit in the Chilean market. If this initial evaluation is encouraging, more detailed market research will be needed. If thorough analysis supports a decision to move into Chile, the next step is to develop a comprehensive market entry strategy, including a detailed action plan.

Every company is unique; thus, any overview will not be completely applicable to everyone. But the principal elements are similar for any market strategy.

### **WHY CHILE?**

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Chile has a strong record of sustained economic growth, combined with open markets and liberal trading environment. Its high-growth sectors represent those where Canada has an excellent track record. These factors alone warrant serious attention by any company interested in expanding its markets through foreign trade.

But these general considerations are insufficient to justify action by any individual company. Experience has shown that Canadian companies have the greatest success where their products fit closely with the target country's specific needs. Identifying such niches is a prerequisite for further action.

If foreign trade appears to be the most effective method for the company to expand its markets, it remains to decide which countries are most promising. Therefore, opportunities in Chile must be compared with those in other markets. Few Canadian firms have the resources to develop more than one new foreign market at a time. Thus, deciding whether the opportunities in Chile are more promising than those in the next best market is an essential first step.

## **ARE YOU READY FOR CHILE?**

If a preliminary analysis suggests that Chile offers the best prospects for new market development, the company must then assess whether it has the capabilities and resources to succeed in this market. Consider the following general categories.

<b>Information sources</b>	Do you have information about the Chilean markets for your products? Do you know where to get it?
<b>Language and cultural barriers</b>	What barriers stand in the way of your company's market entry? Do you have staff who can work in Chilean Spanish? Can you overcome the cultural barriers?
<b>Resources</b>	What resources will be required? Do you have someone on staff who can lead the project? What other projects should be abandoned to pursue this opportunity?
<b>Financing</b>	Does your company have sufficient financing to cover the development costs until revenues are generated? Will additional financing be needed? Do you have access to outside funding?
<b>Contacts</b>	Do you have contacts in Chile? Do you have any Canadian associates who do? Do you have sources of outside assistance?

## **MARKET RESEARCH**

If it appears that there are good prospects for the company's products in Chile and that the essential resources are available, the next step is to conduct detailed market research. The more the company knows about the Chilean market, the better it will be prepared for success. The minimum data requirements are listed below.

<b>Buyers</b>	Who are the potential Chilean buyers of your product or service? What quantities can they be expected to buy?
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<b>Competitors</b>	What competitors are presently supplying comparable products, and how does their product stack up against your own?
<b>Pricing</b>	Can you deliver your product in Chile at competitive prices? How much will it cost to ship the product and pay customs duties and taxes? What commissions will local agents require?
<b>Market trends</b>	How is the market for your product or service changing? Will next year look as good as last year? What new products will be in demand in the future?
<b>Promotion</b>	How will you inform buyers about your product? How are competitor's products marketed and distributed?
<b>Regulatory environment</b>	What government regulations will affect your ability to operate in Chile?

## **MARKET ENTRY STRATEGY**

Canadian companies trying to export have several market entry strategies available to them. They range from direct sales to consumers or end users to joint-venture partners. If a partnership is chosen, there are several forms it can take. Canadian companies exporting to Chile are most likely to choose some form of partnership because Chile is a relatively small market and distance is an obstacle for casual sales. Moreover, Chile's per capita income of about US \$4,700 annually is unevenly distributed, which excludes the vast majority of Chileans from the markets for imported consumer goods. Many of the larger firms that are active in Chile are multinational corporations with locked-in sources of supply. While direct sales to government entities are feasible, the need for after-sales service requires a local presence. Therefore, except for large Canadian companies with the resources to set up offices in Chile, some form of alliance with a local firm is usually the best choice.

## **STRATEGIC CONSIDERATIONS**

A Canadian company that will provide technology or proprietary information as part of its contribution to a partnership should carefully evaluate what it is prepared to share with the partner and what will not be shared. Regardless of how much is revealed, it is essential for the company to protect itself from damage that would be caused by the unauthorized transfer of information to competitors.

The partnership agreement should contain clauses restricting the use of proprietary information. The company will have to consider the limits of Chilean intellectual property legislation, and provide for civil remedies if there are unauthorized disclosures. If possible, key components of the information can be kept out of the partnership.

These contractual provisions are all the more important because of certain gaps in Chile's intellectual property laws. The most serious of these is for pharmaceutical products. Products patented before the Ley de Propiedad Industrial, Industrial Property Law, was proclaimed in 1991 are not fully protected. Foreign firms face onerous registration requirements and some say they are vulnerable to the sale of imitations by local firms. In addition, the Banco Central de Chile, Central Bank of Chile, can disallow access to the inter-bank exchange market for royalties that exceed 5 percent of sales. Chile's intellectual property laws are discussed in greater detail in the Chapter on Investment Opportunities.

## **FINANCING THE VENTURE**

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Most companies have a good understanding of their own cost structures. They know, or can estimate, the cost of producing a product in Canada. Developing the Chilean opportunity and marketing the product there involves many additional costs. The strategic plan should include an estimate of these costs, along with a strategy for allocating them either to the product price or to overheads.

In most cases, ongoing costs will be considered product costs, and one-shot expenses will be absorbed by the partners. The up-front costs of market entry may be substantial and the partners may need outside financing to bridge the gap between expenses and revenues. Financing may be available from commercial banks, government programs in Canada or Chile, or international agencies.

## **MAJOR MARKET ENTRY COSTS**

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- ◆ market research
- ◆ travel to Chile
- ◆ translators, lawyers, accountants
- ◆ product modifications
- ◆ transportation costs
- ◆ agents' and distributors' fees
- ◆ sales commissions
- ◆ marketing and promotion

## **IMPLEMENTATION**

When an agreement with a Chilean partner or distributor has been concluded, it remains to implement the deal and launch the venture. The strategic plan should consider a concrete action plan for making this happen. As a minimum, it should include the following provisions:

- ◆ a list of tasks to be carried out;
- ◆ the staff who will be delegated to execute each task;
- ◆ basic operating procedures and principles that will guide the actions of staff;
- ◆ milestones for each project phase;
- ◆ a timeframe for each milestone;
- ◆ a projection of costs and revenues;
- ◆ a plan for distributing or re-investing profits;
- ◆ a plan for assessing the success of the venture at specific intervals; and
- ◆ an exit plan in case the venture is unsuccessful.

Shipping Line	Company Name	Phone Number	Location
Canada	CCNI	(514) 282-8602	East/Vancouver

## **SHIPPING TO CHILE**

**Ocean shipping can be time-consuming but once goods arrive, entry into Chile is a simple and streamlined process for most products.**

Exporting goods to Chile requires compliance with both Canadian and Chilean regulations, and the completion of a set of standard forms. Chile has a longer tradition of open foreign trade than any other Latin American country, and it has developed efficient and streamlined procedures for most products. Nonetheless, there are certain formalities that must be adhered to. All imports must be registered with the Banco Central de Chile, Central Bank of Chile. Special regulations apply to some specific products, especially agricultural goods. Most exporters find that the simplest approach to handling these formalities is to retain the services of a freight forwarder or customs broker.

## **MODES OF TRANSPORTATION**

Chile is situated between 4,000 and 7,000 kilometres south of Toronto and Montreal. Bulk shipments can be shipped by sea from Vancouver or Montreal, but most smaller shipments travel through the United States, by rail or by truck. The major airports and sea ports serving Chile are New York, Miami and Los Angeles. Canadian freight forwarders have arrangements for shipments through any of these centres.

Air freight is prohibitively expensive except for products with a high value to weight ratio. Ocean shipments are much cheaper but they take approximately 30 days to reach Chile.

Chile has ten international airports distributed throughout the country and several well-equipped ports on the Pacific Ocean. The state port authority, Emporchi, competes with four highly-automated private cargo ports. The main ports are Valparaíso and San Antonio, both of which are about 100 kilometres west of Santiago. Other important ports are Arica, Iquique, Antofagasta, Talcahuano, and Punta Arenas. Inland transportation by truck or rail is efficient and competitively priced.

## **SEA**

Exporters in Eastern Canada have several alternatives for shipments to Chile, with nine lines vying for business. In total, there are at least two sailings available each week. One line, GLSL Shipping, offers a direct service from Canadian ports, normally Montreal and Quebec. The others receive cargo at their Canadian terminals for shipment from a U.S. port, usually New York; two or three days should be allowed for transit to the U.S. port. Almost all lines include at least Arica and Valparaiso on their itinerary in Chile, while calls into any of Antofagasta, Iquique, San Antonio and Punta Arenas are also commonly found on carrier schedules. Ocean sailing time varies according to destination port, and may be between 18 and 27 days.



From Western Canada there are five lines serving Vancouver, while other lines operating from the Gulf of St. Lawrence and eastern seaboard may be accessed through intermodal services. Ocean sailing time ranges from 26 to 30 days.

Many lines accept smaller lots of cargo (less than-container-load) and arrange for cargo consolidation and stuffing. While port-to port service and pick-up in Canada is provided by all carriers, only some lines quote door-to-door rates, and will arrange inland movement or drayage within Chile. Containers are carried by all carriers; certain carriers transport reefer cargo, while others can provide specialized equipment and containers. Sometimes the latter could entail container repositioning charges.

There is no liner conference from Canada to Chile, and hence no common freight rate tariff established for carriers operating on that route. Therefore, exporters should seek competitive freight rate quotations from several carriers. Freight rates are generally quoted in U.S. dollars on an all-inclusive basis, ie including all terminal, ocean and other charges and surcharges. Rates can be requested on a terminal-to-terminal or other basis. Carriers appear ready to provide a breakdown of charges when quoting a rate.

**The following shipping companies service Chile:**

Shipping Agent	Shipping Line	Main Office	Location
Bermar	Seaboard Marine	(905) 602-6060	East Coast
Greer Shipping	Columbus Line	(604) 891-7300	West Coast
Inchcape Compagnia Chile de Navigacion Interocianica	Shipping Services	(514) 861-1216	East Coast
Kerr	CCNI	(514) 282-9692	East/West
Maersk	Maersk	(514) 861-1216	East Coast
McLean Kennedy	PoNedloiid	(514) 849-6111	East Coast
Montship Inc.	Hoeghlines	(514) 286-4646	East Coast

Shipping Agent	Shipping Line	Main Office	Location
Nortec Marine Agencies	CSAV	(514) 845-5201	East/West
Norton Lilly	Grancolumbiana	(604) 669-8866	West Coast
Protos Shipping	GLSL Shipping	(514) 866-7799	East Coast
Robert Reford	CSAV	(514) 845-5201	East/West
S/S Steamship	Mediterranean Shipping Company	(514) 844-3711	East Coast
Westward Shipping	Maruba	(604) 684-6141	West Coast

## AIR

Many international airlines offer Canada-Chile flights, these include Canadian and Lan Chile connections through Miami or Los Angeles; Canadian and American through Dallas and New York ; Air Canada and United through New York and Miami, and Continental Airlines via New York. Exporters may choose Canadian Airlines International Limited (CAIL) or route through the U.S. or other international airports. The CAIL service is routed through Brazil as there are no direct scheduled air services between Canada and Chile. CAIL has flights every day but Monday between Toronto and Santiago via Sao Paulo, from which the service is operated by Varig Brazilian Airlines. Flights are about 16 hours, yet the airline recommends planning for two days. Minimum freight charge is \$80, and there is a sliding scale per kilo depending on the total weight of the shipment; prices range from \$10.92- \$657 per kilo. For information on air freight, contact CAIL at 1-800-667-7000.

## FREIGHT FORWARDERS AND CUSTOMS BROKERS

The small or inexperienced exporter can benefit greatly from the assistance of freight forwarders and customs brokers. Freight forwarders plan the details of a shipment, make arrangements for packing, prepare documentation and organize transportation. Customs brokers help to ensure that shipments meet all customs requirements and that the accompanying documents are completed correctly. Other brokers provide insurance coverage for freight shipments, although insurance can often be obtained directly from the carrier.

To take advantage of these services, the product must be properly prepared, unitized, and/or containerized; otherwise, carriers may refuse to carry the goods and insurance companies may refuse to cover any damage or losses. Here are a few simple rules for preparing a shipment:

- assess the total transportation route and pack for the toughest leg;
- determine the frequency of trans-shipment or unloading and/or reloading, and prepare the goods for multiple handling;
- determine the packaging requirements that apply in the country of origin, for each carrier, at all ports of exit and entry, and in the country of destination;
- know the packaging capabilities: the strengths and weaknesses of goods, their stackability, and their susceptibility to weather;
- package the goods to minimize internal movement and to protect corners, edges, finishes, valves, dials and knobs, or upholstery and material;
- use appropriate unitizing devices and place, load and secure goods properly; and determine the kind of handling equipment to be used and its availability at trans-shipment points.

## **FREIGHT FORWARDERS**

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Freight forwarders are independent companies that handle export shipments for a fee. They provide advisory, administrative and physical services to facilitate exports. Freight forwarders can arrange shipments for Canadian exporters using any mode of transportation. They offer a complete service package that can be especially valuable to the first-time exporter. They are an excellent source of information on regulations, documentation and shipping methods and can save the exporter money on transportation rates because of economies of scale. The services provided by freight forwarders typically include the following:

- ▶ providing or arranging shipment handling, including packing and crating, marking, inspection and storage;
- ▶ preparing documents for shipping and customs, as well as translating, certifying and transmitting documents, and obtaining permits, licences and certificates;
- ▶ providing financial assistance such as negotiating letters of credit (L/Cs), arranging collections, placing insurance, and filing insurance claims; pre-paying and collecting freight charges;
- ▶ providing advice about foreign requirements, transportation, government regulations, customs procedures, and project management; and
- ▶ assisting with transportation arrangements, including selecting routes and carriers, negotiating rates, booking transportation space, securing charters, consolidating shipments, arranging local delivery, tracing shipments, and leasing equipment.

## **CUSTOMS BROKERS**

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Customs brokers facilitate the importation process and can be a valuable business tool. They are familiar with complex international trade laws and regulations, not only in Chile, but elsewhere in the world. Typically, the Canadian exporter will deal with a single Canadian broker who will make arrangements with counterparts in the United States and Chile to handle the shipment every step of the way. Nonetheless, it is useful for the exporter to understand the respective roles of the three brokers.

## **CHILEAN BROKERS**

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All shipments to Chile must be cleared through customs by a Chilean customs broker. Many Canadian customs brokers have arrangements with their counterparts in Chile, which means that the shipper needs to deal only with a local broker. Some Chilean import agents have arrangements with particular brokers, but they can also work with the broker of the shipper's choosing.

## **CANADIAN BROKERS**

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Regardless of the arrangements at the Chilean port of entry, the exporter is responsible for preparing a commercial invoice and other documents before the goods leave Canada. Many exporters retain a Canadian customs broker to complete these documents. If the shipment will travel via the United States, the Canadian broker deals with an associated American broker to obtain a Transit and Exportation (T&E) bond. This bond must be cancelled by American authorities at the point of departure. The Canadian broker also sends the necessary documents to the Chilean broker, before the shipment arrives. Some brokers verify receipt of the documents by the Chilean broker before the shipment leaves Canada.

## **SERVICES OFFERED BY CUSTOMS BROKERS**

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- ▶ customs valuation
- ▶ tariff classification
- ▶ customs clearance
- ▶ international trade consulting
- ▶ Electronic Data Interchange (EDI)
- ▶ freight management and consolidation
- ▶ import and/or export management
- ▶ obtaining permits and authorizations
- ▶ reviewing documents sent by the exporter, making the import petition, and preparing the customs declaration
- ▶ inspecting shipments at the border to ensure that they correspond to the invoice and packing list

- ▶ obtaining a guarantee or bond on temporary imports
- ▶ covering all expenses related to the operation on behalf of the customer
- ▶ providing advice on letters of credit, insurance, taxes, warehousing and duty drawbacks
- ▶ providing information on modes of transportation and carriers, as well as on tariffs and transportation time
- ▶ shipping merchandise from the port of entry to the final destination
- ▶ regional and national warehousing
- ▶ non-resident import services
- ▶ rulings requests
- ▶ other specialized logistics services

## **SELECTING A CUSTOMS BROKER**

When selecting a customs broker, talk to other companies, use personal referrals, if possible, and take the time to make a thorough assessment. Look for evidence of the broker's reliability and reputation, and do not forget to make cost and/or service comparisons between several candidates.

### **Questions to ask a prospective customs broker include:**

- ▶ How long has the broker been in business?
- ▶ Does the broker specialize in certain commodities and/or shipping methods?
- ▶ What resources does the broker have for clearing and delivering goods?
- ▶ What kind of physical facilities does the broker have? Do they include secure areas for high-value commodities or hazardous materials?
- ▶ Are the offices of the broker located in the major ports of entry that will be used?
- ▶ What kind of security systems and procedures does the broker have?
- ▶ What insurance coverage is carried by the broker for facilities and operations?
- ▶ What records maintenance does the broker offer?
- ▶ Can the broker's bond be used to provide the necessary surety coverage?
- ▶ What are the terms of payment and financial arrangements?
- ▶ What is the broker's financial stability?
- ▶ How does the broker advise clients of delays in handling or clearance? Will the broker offer suggestions on how to avoid such delays?

When you find a good customs broker, remain loyal and do not try to go around the broker, even if the services cost more than doing it yourself. Think of your broker as a representative and a partner in your business. It is not appropriate, for example, to contact Customs directly if you have engaged a customs broker.

## SHIPPING DOCUMENTS

Every shipment of goods to Chile must be accompanied by the standard set of documents that is generally used in all international trade. In addition, import licences from the Banco Central de Chile, Central Bank of Chile, are required for all shipments, and special certificates are required for some categories of goods. Chilean authorities also require copies of letters of credit (L/Cs) or other payment documents.

## EXPORTING TO CHILE: GENERAL REQUIREMENTS

### DOCUMENTS REQUIRED IN EACH COUNTRY

Document	Canadian Customs	US Customs	Chilean Customs
Import licence			Always
Commercial invoice	Always	If goods enter US	In Spanish, with details matching the import licence
Packing list			If the invoice is not fully itemized and there is more than one package
Bill of lading	Always	If goods enter US	Always
Letter of credit or other payment documents			Always
Transit and exportation (T&E) bond		If goods enter US	
Special certificates			For goods subject to product standards or health regulations
Export declaration (Form B-13)	Always		

## **IMPORT LICENCE**

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The Banco Central de Chile, Central Bank of Chile, requires an Informe de Importación, import licence, for all imports into the country. This is more a matter of data collection than control. Licences are free and are routinely issued without difficulty. Special licences are required for a few products such as weapons and pharmaceuticals.

The importer obtains a pro-forma invoice from the Canadian supplier or its Chilean agent. The importer submits this invoice to an authorized commercial bank, which processes it through the Banco Central de Chile. This must be done before the goods leave Canada. Licences are usually issued within five days, and the shipment must be made within 120 days. The commercial bank can directly approve imports valued at US \$500 free on board (FOB) or less. If the FOB value is less than US \$3,000, the shipment can be made prior to issuance of the permit. For example, the Comisión Chilena del Cobre (COCHILCO), the Chilean Copper Commission, issues licences for copper imports.

The pro-forma invoice must contain the names of the importer and the exporter as well as a detailed description of the merchandise, including the country of origin. The terms of payment, including the cost of shipping and insurance, and any other items included in the cost, insurance and freight (CIF) price, must also be included.

## **COMMERCIAL INVOICE**

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A commercial invoice must accompany every shipment. At least four copies are required. Invoices can be in English or Spanish. The invoice must show the free on board (FOB) or free alongside ship (FAS) value as well as the cost, insurance and freight (CIF) value. Each item must be separately priced, the FOB or FAS values must match those on the import licence, and the licence number must be shown on the invoice. The invoice must also show the country of origin of the goods. This is accepted in lieu of a certificate of origin. If the goods come from more than one country, separate invoices are required.

Copies of all shipping documents should be faxed to the Chilean importer and customs broker before the shipment leaves Canada. The original documents should accompany the goods. The exporter should also advise the importer and/or broker exactly when and how the goods were shipped, including the bill of lading (B/L) number.

## **PACKING LIST**

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A packing list is customary when more than one package is shipped, although it is not a formal requirement. It is sufficient for the commercial invoice to convey this information. The list should include the number of packages and a detailed list of merchandise contained in each package. The net, gross and legal weight of each package and of the

total shipment must be shown in metric units, along with the volume or measurements of each package and of the total shipment. Depending upon the mode of transportation, several copies may be needed.

### **BILL OF LADING (B/L)**

The B/L is the shipper's acknowledgement of receipt of the shipment. A shipment may involve a set of B/Ls. The exporter should keep one set on file and send one to the importer and one to the customs broker. The original should accompany the goods. This document should show the types of packages in the shipment and their metric weights and measurements. The import licence number must be shown, along with the total charges, which must agree with those on the import licence. The carrier's official acknowledgement of receipt on board of the goods for shipment is required as well as the shippers signature. If any details of the B/L must be changed, this must be done with a letter of correction rather than by alternations to it. Ideally, this should be done by a customs broker or freight forwarder.

For air shipments an air waybill is used instead of the B/L. The import licence number must appear on the waybill.

### **PAYMENT DETAILS**

A copy of the letter of credit (L/C), or other financial instruments involved in payment for the goods must accompany the shipment.

### **SPECIAL CERTIFICATES**

With the implementation of the Canada-Chile Free Trade Agreement, Canadian exporters should be aware of the necessity of a Certificate of Origin. It is through this certificate that Chilean tariffs are removed on Canadian products. The form is available at any of Revenue Canada's regional offices (Customs section). The form is called the Canada-Chile Free Trade Agreement Certificate of Origin and is listed as form "B240E". When the goods transit through a third country (such as the United States), Chileans Customs will often require proof that the goods remained under customs control during their transit.

A number of products require special import permits, some of which are subject to inspection upon entering Chile. This includes pharmaceutical products and a wide variety of plant products. The procedures for documenting compliance with sanitary, phytosanitary and other health regulations can be complex. The requirements for fresh fruits and chicken are considered by some observers to be non-tariff barriers to trade rather than purely health-motivated. United States trade officials have complained, for example, that Chile's salmonella testing procedures are an unwarranted barrier to imports of American chicken.



Canada exported less than C \$2 million worth of meat of all types to Chile in 1995, yet Canadian officials do not consider the sanitary regulations to be an unreasonable barrier. Wheat is by far Canada's most important food export to Chile. It is covered by a special bilateral agreement and receives expedited phytosanitary clearances.

In the case of food products, an import permit from the Chilean Ministerio de Agricultura, Ministry of Agriculture, is required before the goods leave Canada. For plant products, after arrival of the goods the importer must submit an application to the Departamento de Protección Agrícola, Agricultural Protection Department, requesting inspection of the product. The application must contain details of the shipment and its intended use in Chile. The Canadian phytosanitary certificate must accompany the application. Meat products are also subject to inspection and must be accompanied by Canadian sanitary certificates.

Pharmaceuticals, cosmetics and biological products must be registered with the Institute of Public Health, prior to importation. Registration must be obtained by a legally-appointed representative of the manufacturer. Some of these products must comply with special labelling requirements. In most cases, the registration number must appear on the label. Generally a certificate from a Chilean consulate in Canada is required to certify that the product is legally sold in Canada. Formulas and claimed therapeutic properties must also be declared.

There are no official notices of forthcoming rule changes for any of these products. The Canadian exporter is, therefore, advised to rely on a Canadian customs broker and the Chilean importer for specific advice for the particular product involved.

## **EXPORT DECLARATION FORM**

Under the provisions of the Ordenanza de Aduanas, Customs Act, goods exported from Canada must be reported to Canada Customs in a prescribed manner. Exporters must complete an export declaration known as a Form B-13. This form provides input into the federal government's System of National Accounts, particularly the Balance of Payments (BOP) and Gross Domestic Products (GDP), and is used in the formulation of trade and budgetary policies. Governments, exporters, manufacturers and shipping companies use these trade statistics to monitor export performance, commodity prices and volume changes, and to examine the transportation implications.

The exporting company is ultimately responsible for the preparation and submission of the export declaration to customs. In most cases, agents, brokers or carriers prepare and submit Form B-13 on behalf of the exporter.

- Goods that require an export declaration include:
- commercial shipments valued at C \$2,000 or more;
- controlled, regulated or prohibited goods, i.e. products exported under a permit or certificate, regardless of their value;

- goods in transit through the US;
- goods exported from a bonded warehouse;
- goods repaired in Canada when the repairs or additions to the goods are valued at C \$2,000 or more; and
- gifts, donations and company transfers valued at C \$2,000 or more.

## **CUSTOMS CLEARANCE**

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Customs clearance procedures are relatively simple, compared with some other Latin American countries. Clearances rarely take more than two days, and pre-clearances can be arranged by fax. As in other countries, including Canada, seemingly small errors or omissions in paperwork can delay clearance considerably.

## **DUTIES, TAXES AND NON-TARIFF BARRIERS**

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Chile's system of import duties is quite simple. The classification of goods is according to rules established by the General Agreement on Tariff and Trade (GATT) and there is a uniform duty of 11 percent (10% as of January 1, 1999, going down by 1% per year until it reached 6% in 2003) on all goods, except for those produced and exported by Canada. Duties can be up to 50 percent higher for used goods, except for machinery and equipment. There are provisions for countervailing duties on goods that are deemed to be unfairly imported by the Fair Trade Commission. For example, the Commission imposed countervailing duties on Chinese shoes after 1994 imports surged to 46 percent. Complaints against Brazilian and European shoe manufacturers are under investigation. In the Canada-Chile Free Trade Agreement, Canada and Chile have negotiated a mutual exemption from the application of anti-dumping duties. Certain goods are subject to luxury tax. They include automobiles with engines bigger than 1,500 cubic centimetres, yachts, jewellery, some fabrics and others.

Imports from countries with which Chile has preferential trading agreements are subject to lower rates of duty. A value added tax called the impuesto al valor (IVA) of 18 percent is assessed on all goods sold in Chile. In the case of imports, the tax applies to the cost, insurance and freight (CIF) value of the goods, plus duties.

There are two free trade zones in Chile: Zona Franca De Iquique (ZOFRI), the Free Zone of Iquique, in the far north and the Zona Franca de Punta Arenas (PARANEZON), Free Zone of Punta Arenas in the far south. The former includes the free ports of Arica and Iquique. Goods may enter the surrounding Regions I and XII, with the payment of only 6 percent duty and no IVA. Goods entering the rest of Chile are subject to full duty and IVA. These zones are equipped with transportation and storage facilities and can be used to maintain local inventories and to expedite trans-shipments to other countries. Transactions within the free trade zones are exempt from the IVA and there are certain corporate income-tax exemptions as well.

Non-tariff barriers present obstacles for some categories of goods. There is a price band system for several agricultural products, including wheat, wheat flour, vegetable oils and sugar. Special duties are levied on imported commodities to keep domestic prices higher than international prices. Sanitary and phytosanitary regulations have also been used as non-tariff barriers. Fruit from the United States has been severely restricted by these regulations, but Canadian Durum wheat is exempted under the terms of a bilateral agreement. Pharmaceutical products do not receive adequate legal protection in Chile, and there have been complaints about its tax policies concerning imported liquor.

The importation of used vehicles is prohibited, with certain exceptions. Several categories of public-service vehicle are exempt from this restriction. They include ambulances, fire engines, armoured cars, road-cleaning equipment and cement mixers, among others.

### **SAMPLES AND GOODS FOR EXHIBITION**

A Chilean importer or potential purchaser can obtain a temporary admission certificate from Chilean customs for goods that will be used as samples, for demonstrations or exhibition. The goods may remain in the country for up to six months, without payment of duty or value added tax, subject to some conditions.

### **PRODUCT STANDARDS AND LABELLING**

There are presently no product standards governing goods imported into Chile, other than health regulations. Buyers, however, sometimes request products that conform to standards of other countries.

Chile's labelling regulations apply only to consumer goods, customarily sold to the public. The country of origin must always be shown on the label. Processed food products must be labelled in Spanish and must show ingredients, date of manufacture and expiry, and the sizes and weights according to the metric system. The name of either the importer or the producer must appear on the label. These regulations apply only to products sold at retail and they are not enforced at the border.

### **VISAS FOR FOREIGN WORKERS**

Canadian companies conducting business or providing services in Chile must comply with a number of requirements if they wish to assign Canadian staff there for extended periods. Visas can be obtained from a Chilean consulate in Canada or in Chile. In addition to its embassy in Ottawa, Chile maintains consulates or honorary consulates, in Vancouver, Edmonton, Winnipeg, Toronto and Montreal.

Tourist visas can be obtained at the airport on arrival in Chile and are valid for 90 days. If travelling on business, Canadians don't need an advance visa. A special visa is available from Chilean consulates for business visitors who will stay for more than 90 days but less than one year. These can be obtained in Canada and renewed for a second year in Chile.

Employees who go to Chile to undertake a specific job may be granted a Resident Under Contract Visa, which covers the worker's immediate family. In general, this is only possible if the employer is domiciled in Chile — and the visa is only valid for that particular job. The local company must employ at least 85 percent Chilean workers, although there is an exclusion for skills which are not available in Chile. The worker must possess a contract that includes return air fares for the worker and his or her family. Such visas are issued for up to two years and are renewable in Chile. Unless the worker will remain covered by Canadian social security benefits, both the employer and the employee must pay Chilean social security contributions. Contributions to the Asociación Chilena de Seguridad, Labour Accident Fund, are required in any event. Special permits may be required for technical work undertaken in the vicinity of Chile's borders.

#### SAMPLES AND GOODS FOR EXPORT: DUTY AND TAXATION

A Chilean company may export samples of its products to Canada for testing and analysis. The company must first obtain a permit from the Chilean Ministry of Economy and Development. The permit is issued for a period of 12 months and is renewable. The company must also provide a copy of the contract for the samples. The samples must be used for testing and analysis only and may not be sold or otherwise disposed of in Canada. The company must also pay a fee for the permit. The fee is 10 percent of the value of the samples. The fee is paid to the Chilean Ministry of Economy and Development. The company must also provide a copy of the contract for the samples. The samples must be used for testing and analysis only and may not be sold or otherwise disposed of in Canada. The company must also pay a fee for the permit. The fee is 10 percent of the value of the samples. The fee is paid to the Chilean Ministry of Economy and Development.

#### VISAS FOR FOREIGN WORKERS

Chilean citizens may apply for a visa to enter Canada for employment. The visa is issued for a period of 12 months and is renewable. The applicant must be a Chilean citizen and must have a contract for employment in Canada. The contract must be for a period of at least 12 months. The applicant must also have a valid passport and a return ticket to Chile. The applicant must pay a fee for the visa. The fee is 100 Canadian dollars. The fee is paid to the Canadian Consulate in Chile. The applicant must also provide a copy of the contract for employment. The contract must be for a period of at least 12 months. The applicant must also have a valid passport and a return ticket to Chile. The applicant must pay a fee for the visa. The fee is 100 Canadian dollars. The fee is paid to the Canadian Consulate in Chile.

## **A GATEWAY TO LATIN AMERICA**

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**Chile offers excellent opportunities in its own right, but it is also an excellent stepping stone for doing business throughout Latin America.**

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This publication outlines a wide range of opportunities for Canadian companies for investing in Chile or exporting goods and services to Chilean customers. The two countries have much in common. Canada has a strong track record in virtually all of Chile's key sectors. Chile's sustained economic growth, which has averaged 7 percent over the last ten years, is creating substantial markets throughout the economy. Growth is particularly robust in the natural resource sector, telecommunications, and other industries, using advanced technologies. Its location in the southern hemisphere means that produce and fish are in season when Canada's equivalent products are not.

## **A FOCUS ON SUSTAINABLE DEVELOPMENT**

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The opportunities are all the more appealing because of the growing recognition of the concept of sustainable development. Chileans have begun to recognize that the nation must manage its resources more effectively and reduce the impact of the resource industries on the environment. Chile must also reduce its dependence on non-renewable resources. For example, copper reserves will begin running out within the next few decades and will be exhausted in 60 years according to the Servicio Nacional de Geología y Minas (SERNAGEMIN), National Geology and Mining Service. The decline of Chile's native forests has also reached serious proportions. These are all problems that Canada has already successfully addressed. Canada has proven technologies that can be applied to Chile's problems in forestry, fishing, aquaculture, agriculture, geomatics and mining.

## **INDUSTRIAL DIVERSIFICATION**

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Another attraction of the Chilean market for Canadians is that the government has aggressively pursued a policy of developing diversified markets. It has developed active trading relationships with Europe, Asia, and Australia, and North America as well as other South American countries. By diversifying its markets, it hopes to reduce the vulnerability that comes from its reliance on a small number of export commodities. Four commodity groups make up almost 60 percent of Chile's exports, so it makes sense to sell them in as many markets as possible.

With respect to imports, this policy of diversification means that the United States, Canada's principal Latin American competitor, has a much smaller market share than it does in some other countries in the region. Overall, the US supplies less than one-third of Chile's needs. This compares with more than two-thirds in Mexico. Even though competition in Chilean markets is stiff, the fact that no single country dominates the market makes it easier for smaller countries to enter the market.

## **A LATIN AMERICAN BASE**

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Clearly, Chile offers substantial opportunities in its own right. But part of its attraction is the potential for using a Chilean operation as a stepping stone to other markets in Latin America. Chile has entered into trade agreements with Bolivia, Colombia, Ecuador, Venezuela and Mexico. The Canada-Chile Free Trade Agreement, signed in November 1996 came into force on July 5, 1997. The agreement was modelled after the NAFTA, and should provide easy accession to the NAFTA if desired. In October 1996, Chile gained associate member status with the Mercosur trade bloc (Argentina, Brazil, Paraguay and Uruguay). It is also a member of APEC, and is holding talks with other Latin American countries and the European Union. Chile is a proponent of free trade, and hosted the Summit of the Americas in April 1998, where the thirty-four leaders of the Americas met to discuss the Free Trade Area of the Americas (FTAA). The FTAA would be negotiated by 2005, and would create greater economic, political, and social co-operation among the nations of the Western Hemisphere

Chile is a major investor in other Latin American countries, and Chilean companies are considered a good vehicle for investing elsewhere in the region. For example, Chile's largest paper manufacturer Empresas, owns Uruguay's leading tissue paper manufacturer, and is a partner with Procter & Gamble in a plant in Argentina. Chile's second-largest supermarket chain acquired Peru's Scale and Mass chains, and has now moved into Paraguay. And Chile's Coca-Cola bottler, Embotelladora Andina, bought out Río de Janeiro Refrescos, Brazil's second-largest bottler. These are only examples of widespread Chilean investment throughout the region. Chilean investment abroad increased by 47 percent in 1995 to reach US \$4.4 billion, about 60 percent of it in Argentina, where Chile is the largest source of foreign investment.

Companies that have set up Latin American bases in Chile point to several advantages over alternative countries. The business environment is stable, and the door is open for foreign companies to set up branches or partnerships with a minimum of red tape. Once established, these businesses receive national treatment. The communications system is state-of-the art and very competitively priced. The transportation system works efficiently. Chile has a disciplined and hard-working labour force and its business people are educated, friendly as well as efficient. There is virtually no corruption, and only minor problems with drugs and other crimes. These features set Chile apart from most other countries in the region. And yet, in terms of Hispanic culture, Chile is very similar. As one Chilean executive put it: "Chileans are different from the rest of South Americans, but not that different". Thus, it is in an ideal position to be a cultural stepping stone for Canadian companies that want to branch out throughout the region.

Chile offers many advantages over other potential Latin American bases, but there are also disadvantages. The first is distance. Santiago is about 5,800 kilometres south of Montreal and Toronto, and about 7,200 kilometres from Vancouver. There are no direct air connections, and the trip from Toronto or Montreal involves a 14 to 16-hour overnight flight

to Santiago, via Miami, New York or Sao Paulo. Return air fares range from roughly C \$4,500 for business class to about C \$3,000 for economy, although cheaper excursion fares are often available. The other main disadvantage is that Chile has a relatively small overall market and a particularly small one for most consumer goods. The average income is not only very low, but also badly distributed. This makes the upper classes at least as affluent as their counterparts in Mexico, but in Chile's case there are less than 3 million of them versus the 20 million in Mexico.

The good news is that Chile's economic successes are being used to improve this situation. Real per capita income is growing at about 4.5 percent per year, while it has fallen in several other countries in the region. Government social programs are pouring large amounts of money into the poorest regions of the country and the poverty rate has fallen steadily. Educational, medical, health and safety and housing programs have become the most advanced on the continent. In addition, Chile's ultra-modern telecommunications system compensates for distance to some extent. In particular, electronic mail (e-mail) is reliable and widely used. Thus, in spite of its problems, Chile is leading other countries in the region both economically and technologically, and is increasingly seen as a model that can be applied elsewhere. Canadian companies that partner with Chile and participate in its further development will find open doors throughout the continent.

## **KEY CONTACTS IN CHILE**

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### **CHILEAN GOVERNMENT OFFICES IN CHILE**

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Chilean Navy  
Oceans Committee  
Armada de Chile  
Comité Oceánico (CONA)  
Errázuriz 232  
Valparaíso, Chile  
Tel.: (56-32) 282-697  
Fax: (56-32) 283-537

Chilean Navy  
Merchant Marine Branch  
Armada de Chile  
Dirección General de Territorio Marítimo y Marina  
Mercante  
Errázuriz 537  
Valparaíso, Chile  
Tel.: (56-32) 208-000  
Fax: (56-32) 208-296

Ministry of Internal Affairs  
Ministerio del Interior  
Palacio de La Moneda  
Santiago, Chile  
Tel.: (56-2) 690-4000  
Fax: (56-2) 697-2054

Ministry of Agriculture  
Ministerio de Agricultura  
Teatinos 40, Piso 9  
Santiago, Chile  
Tel.: (56-2) 696-5896  
Fax: (56-2) 696-4496

National Agricultural Service  
Sociedad Nacional de Agricultura (SNA)  
Tenderini 187  
Santiago, Chile  
Tel.: (56-2) 639-6710  
Fax: (56-2) 633-7771

Agrarian Studies and Policies Office  
Oficina de Estudios y Políticas Agrarias  
(ODEPA)  
Teatinos 40, Piso 8  
Santiago, Chile  
Tel.: (56-2) 696-3241  
Fax: (56-2) 695-7795

Ministry of Economics, Development and  
Reconstruction  
National Fisheries Service  
Servicio Nacional de Pesca  
Ministerio de Economía, Fomento y  
Reconstrucción  
Teatinos 120, Oficina 806  
Santiago, Chile  
Tel.: (56-2) 698-0543  
Fax: (56-2) 696-0784

Ministry of Mining  
Ministerio de Minería  
Teatinos 120, Piso 9  
Santiago, Chile  
Tel.: (56-2) 671-0742  
Fax: (56-2) 698-9262

Ministry of Public Works  
Ministerio de Obras Públicas  
Morandé 59-71  
Santiago, Chile  
Tel.: (56-2) 361-3000  
Fax: (56-2) 672-6609

Ministry of Public Works  
Secretariat of the Metropolitan Region  
Secretaría Ministerial de Obras Públicas  
Región Metropolitana  
Bombero Salas 1347-1351  
Santiago, Chile  
Tel.: (56) (2) 696-6966  
Fax: (56-2) 698-7390

Ministry of Transportation and  
Telecommunications  
Ministerio de Transportes y Telecomunicaciones  
Amunátegui 139  
Santiago, Chile  
Tel.: (56-2) 672-6503  
Fax: (56-2) 671-1978

Secretariat of Communications and Culture  
Secretaría de Comunicaciones y Cultura  
Palacio de la Moneda, Piso 3  
Oficina 315  
Santiago, Chile  
Tel.: (56-2) 697-0612  
Fax: (56-2) 697-0605



## **CHILEAN GOVERNMENT OFFICES IN**

### **CHILE** (continued)

Technical Cooperation Service  
Servicio de Cooperación Técnica (SERCOTEC)  
Huérfanos 1117, Piso 9  
Santiago, Chile  
Tel.: (56-2) 696-1177  
Fax: (56-2) 696-6109

National Customs Service  
Servicio Nacional de Aduanas  
Plaza Sotomayor 60  
Valparaíso, Chile  
Tel.: (56) (32) 217-911  
Fax: (56-32) 212-819

National Development Agency  
Corporación de Fomento de la Producción  
(CORFO)  
Moneda 921  
Santiago, Chile  
Tel.: (56-2) 638-0521  
Fax: (56-2) 671-1058

Forestry Institute  
Instituto Forestal (INFOR)  
Huérfanos 554  
Santiago, Chile  
Tel.: (56-2) 639-6189  
Fax: (56-2) 638-1286

National Copper Association  
Corporación Nacional de Cobre de Chile  
(CODELCO)  
Huérfanos 1270, Piso 9  
Santiago, Chile  
Tel.: (56-2) 690-3000  
Fax: (56-2) 690-3059

Chilean Copper Commission  
Comisión Chilena del Cobre (COCHILCO)  
Agustinas 1161, Piso 4  
Santiago, Chile  
Tel.: (56-2) 671-2539  
Fax: (56-2) 672-3584

National Energy Commission  
Comisión Nacional de Energía (CNE)  
Teatinos 120, Piso 7, 2 Hall  
Santiago, Chile  
Tel.: (56-2) 698-1757  
Fax: (56-2) 695-6404

National Commission for Scientific and  
Technological Research  
Comisión Nacional de Investigación Científica y  
Tecnológica (CONICYT)  
Canadá 308  
Santiago, Chile  
Tel.: (56-2) 274-4537  
Fax: (56-2) 223-4165

National Environment Commission  
Comisión Nacional del Medio Ambiente  
(CONAMA)  
Obispo Donso 6  
Providencia Santiago, Chile  
Tel.: (56-2) 240-5600  
Fax: (56-2) 244-1262

Foreign Investment Committee  
Comité de Inversiones Extranjeras (CIE)  
Teatinos 120, Piso 10  
Santiago, Chile  
Tel.: (56-2) 698-3246  
Fax: (56-2) 698-9476

Federation for Production and Commerce  
Confederación de la Producción y del Comercio  
(CPC)  
Monseñor Nuncio Sótero Sanz de Villalba 182  
Santiago, Chile  
Tel.: (56-2) 231-9764  
Fax: (56-2) 231-9808

National Television Council  
Consejo Nacional de Televisión  
Constitución 74  
Santiago, Chile  
Tel.: (56-2) 735-2490  
Fax: (56-2) 735-2490

National Petroleum Company  
Empresa Nacional del Petróleo (ENAP)  
Ahumada 341, Oficina 6  
Santiago, Chile  
Tel.: (56-2) 639-1845  
Fax: (56-2) 638-0164

**MAJOR CHILEAN BANKS**

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Central Bank of Chile  
Banco Central de Chile  
Agustinas 1180  
Santiago, Chile  
Tel.: (56-2) 670-2000  
Fax: (56-2) 698-4847

Fundacion Chile  
Parque Antonio Rabat Sur 6165  
Santiago, Chile  
Tel.: (56-2) 218-5211  
Fax: (56-2) 242-6900

Banco del Estado de Chile  
Av. Lib. B. O'Higgins  
Santiago, Chile  
Tel.: (56-2) 670-7000  
Fax: (56-2) 670-5711

Banco de Santiago  
Bandera 172  
Santiago, Chile  
Tel.: (56-2) 692-4000  
Fax: (56-2) 695-3585

Banco O'Higgins  
Bandera 201  
Santiago, Chile  
Tel.: (56-2) 630-4000  
Fax: (56-2) 671-7152

**CANADIAN BANKS WITH AFFILIATIONS IN CHILE**

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Bank of Nova Scotia  
Banco Sud Americano  
Morandé 226  
Gerencia de Cambios no. 766073  
Santiago, Chile  
Tel.: (56-2) 692-6000  
Fax: (56-2) 698-6008

Royal Bank of Canada  
Representative Office  
Oficina de Representación  
Av. Andrés Bello 2687  
Santiago, Chile  
Tel.: (56-2) 203-9050  
Fax: (56-2) 203-9053

Toronto Dominion Bank  
Correspondent Bank  
Banco de A. Edwards  
Huérfanos 740  
Santiago, Chile  
Tel.: (56-2) 631-3000  
Fax.: (56-2) 638-0904

**BUSINESS AND PROFESSIONAL ORGANIZATIONS**

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Information Technologies Association  
Asociación Chilena de Empresas de Tecnologías  
de Información (ACTI)  
Av. Santa María 0508, Piso 4  
Santiago, Chile  
Tel.: (56-2) 735-5755  
Fax: (56-2) 735-5754

Association of Banks and Financial Institutions  
Asociación de Bancos e Instituciones  
Financieras de Chile, A.G.  
Ahumada 179, Piso 12  
Santiago, Chile  
Tel.: (56-2) 671-7149  
Fax: (56-2) 698-8945

## **BUSINESS AND PROFESSIONAL ORGANIZATIONS** (continued)

**Pork and Egg Producers' Association**  
Asociación de Productores de Huevos y de Cerdos  
Manuel Rodríguez 83  
Santiago, Chile  
Tel.: (56-2) 204-4440  
Fax: (56-2) 204-4440

**Public Service Industries' Association**  
Asociación de Empresas de Servicio Público, A.G.  
Av. Andrés Bello 1051  
Torre A., Oficina 2001  
Santiago, Chile  
Tel.: (56-2) 235-7374  
Fax: (56-2) 236-1204

**Wood Product Manufacturers' Association**  
Asociación de Industriales de la Madera (ASIMAD)  
Av. Andrés Bello 2777, Piso 5  
Santiago, Chile  
Tel.: (56-2) 203-3339  
Fax: (56-2) 203-3340

**Association of Metallurgists**  
Asociación de Industrias Metalúrgicas y Metalmeccánicas (ASIMET)  
Av. Andrés Bello 2777, Piso 4  
Santiago, Chile  
Tel.: (56-2) 203-3026  
Fax: (56-2) 203-3025

**Salmon and Trout Producers' Association**  
Asociación de Productores de Salmon y Trucha de Chile  
Av. Libertador B. O'Higgins 949  
Oficina 2502  
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Fax: (56-2) 671-3765

**Chilean Broadcasters Association**  
Asociación de Radiodifusores de Chile (ARCHI)  
Pasaje Matte 956  
Oficina 801  
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Tel.: (56-2) 639-8755  
Fax: (56-2) 639-4205

**Chilean Pulp and Paper Association**  
Asociación Técnica de la Celulosa y el Papel de Chile (ATCP Chile)  
Lincoyán 199, Piso 2  
Concepción, Chile  
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**Environmental Research and Planning Centre**  
Centro de Investigación y Planificación del Medio Ambiente (CIPMA)  
Av. Holanda 1109  
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Tel.: (56-2) 334-1096  
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**Metallurgic Research Centre**  
Centro de Investigación Mineray Metalúrgica (CIMM)  
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**Chilean Wood Association**  
Corporación Chilena de la Madera (CORMA)  
Agustinas 814  
Oficina 407  
Santiago, Chile  
Tel.: (56-2) 633-5728  
Fax: (56-2) 639-7485

**Capital Goods Producers' Association**  
Corporación de Bienes de Capital (CBC)  
Silvina Hurtado 1844  
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Fax: (56-2) 225-6950

**National Forestry Association**  
Corporación Nacional Forestal (CONAF)  
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Fax: (56-2) 671-5881

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**Federación de Procesadores de Alimentos y Agroindustriales de Chile (FEPACH)**

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**Fruit Producers' Professional Association**

**Federación Gremial Nacional de Productores de Fruta de Chile (FEDERFRUTA)**

San Antonio 220

Oficina 301

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Fax: (56-2) 632-7327

**Fisheries Development Institute**

**Instituto de Fomento Pesquero (IFOP)**

José Domingo Cañas 2277

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**ProChile**

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**Association of Chilean Manufacturers**

**Sociedad de Fomento Fabril (SOFOFA)**

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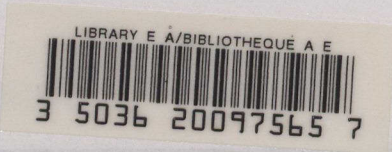
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