IV. TRADE POLICIES BY SECTOR

(1) INTRODUCTION

1. Since the previous Review of Chile in 1997, GDP shares have, in broad terms, remained constant for the agriculture sector and most service subsectors (Table IV.1). The contribution of manufacturing and construction to total GDP has tended to decrease. Growth rates have been relatively high for mining, transport, and communications.

Table IV.1
GDP shares, 1996-02
(Per cent, based on 1996 prices)

	1996	1997	1998	1999	2000	2001	2002
GDP (1996, Ch$ billion)	**31,237**	**33,301**	**34,377**	**34,115**	**35,537**	**36,626**	**37,412**
Agriculture	4.2	4.0	4.1	4.1	4.2	4.2	4.3
Agriculture	1.2	1.2	1.2	1.1	1.1	1.2	..
Fruits	1.3	1.1	1.2	1.2	1.3	1.2	..
Fishing	1.2	1.3	1.1	1.2	1.3	1.4	1.5
Mining	6.7	7.0	7.3	8.2	8.1	8.4	8.2
Manufacturing	17.5	17.2	16.3	16.3	16.3	15.9	16.0
Food, beverages and tobacco	5.5	5.2	5.0	5.1	5.1	5.2	..
Textiles	1.6	1.5	1.4	1.3	1.2	1.0	..
Chemicals and petroleum	3.5	3.4	3.3	3.4	3.4	3.4	..
Electricity, gas and water	2.8	2.9	2.9	2.8	2.9	2.8	2.9
Construction	9.3	9.3	9.2	8.3	7.9	7.9	7.9
Commerce, hotels and restaurants	11.1	11.2	11.3	10.8	10.8	10.7	10.7
Transport and communications	6.4	6.7	6.9	7.0	7.3	7.7	7.7
Financial services[a]	12.1	12.2	12.5	12.5	12.5	12.5	12.4
Real estate	7.5	7.3	7.4	7.6	7.5	7.4	7.5
Private (personal) services[b]	10.6	10.6	10.5	10.8	10.7	10.7	10.7
Education	4.1	4.0	3.9	4.0	4.0	4.0	..
Health	4.4	4.4	4.4	4.5	4.6	4.6	..
Other	2.1	2.2	2.2	2.2	2.2	2.1	..
Public administration	4.0	3.8	3.8	3.9	3.8	3.7	3.7
Other	6.3	6.5	6.7	6.4	6.7	6.6	6.6
Bank imputations	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3
Value-added tax	7.4	7.5	7.6	7.6	7.6	7.6	7.6
Import duties	2.2	2.3	2.4	2.1	2.4	2.3	2.3

.. Not available.

a Includes financial services, insurance, building rent and services to companies.
b Includes education, public health, and private and other services.

Note: Data for 2000 and 2001 are provisional; data for 2002 are preliminary.

Source: Central Bank of Chile.

2. Agriculture, including fisheries and forestry, retains a significant role in employment and the generation of foreign exchange, as Chile is one of the world's largest exporters of fruit, fish and fishmeal, and forestry products. Tariff protection for agricultural goods has decreased since Chile's last Review but three products (wheat, sugar, edible oils) are subject to a price band system, and a tariff rate quota is applied for sugar. There is no specific protection for agricultural products, although these have tended to be the focus of safeguard measures, and some are subject to longer

tariff phase-out periods under Chile's preferential trade agreements. A number of measures are in place to increase productivity in this sector.

3. The highly productive mining sector generates more than 42% of Chile's merchandise export revenues and is the most important recipient of foreign direct investment; copper is its most important single export product. The manufacturing sector centres around the processing of agricultural, forestry, and mineral products. In principle, Chile's uniform applied MFN tariff of 6% provides neutral treatment for traded goods, although the existence of duty drawbacks and preferential trade agreements could distort the structure of protection. The use of trade-related investment measures in the automotive sector was ended in February 2003, but the production of copper products still benefits from the copper reserve programme, which gives it priority access to a limited volume of copper inputs.

4. In terms of contribution to GDP and employment, services is the most important sector in the economy. Conditions for foreign participation in Chile's services sector are far more liberal than implied by its GATS commitments. Chile ratified the Fourth and Fifth Protocols to the GATS, on Telecommunications and Financial Services, respectively. Foreign participation in Chile's services sector is substantial, most notably in the financial services and telecommunications sectors.

5. There are no major restraints on foreign direct investment other than exemptions to market access in fisheries and maritime transport, and exemptions to national treatment for radio and television broadcasting. State involvement in the economy is very limited, with the exception of the mining sector, where the State owns the world's largest copper producer. Since 1997, various seaports have been given in concession to private operators as part of Chile's privatization policy.

(2) AGRICULTURE, FORESTRY, AND FISHING

(i) Main features

6. Chile's agriculture sector (excluding the processing of agricultural goods) is important in terms of production, employment, and trade. Its contribution to GDP was 4.3% in 2002, about the same as in 1996. Depending on the season, Chile's agriculture sector employs between 12.5% and 13.8% of the economically active population.

7. In 2001, Chile exported agricultural goods (WTO definition) to a total value of US$6,966 million, equivalent to some 37% of its total exports.[1] Chile is an important exporter of grapes, wine, and apples (Table IV.2). Its main export markets for agricultural products are the United States, the European Union, and Japan. In 2002, Chile imported some US$1,404 million of agricultural products, of which about 35% came from Argentina; agricultural imports are led by bovine meat and maize.

8. According to the 1997 National Agricultural Census, Chile had almost 330,000 farms, including just over 100,000 subsistence farms and 176,000 small farms. While the small-farming sector tends to specialize in vegetables, flowers, and dairy farming, Chile's 17,000 medium-sized farms and 9,500 large agricultural operations, which together control 77% of usable farmland, tend to focus on forestry, fruit growing, and cattle raising. Chile's total area used for farming, stock-breeding, and forest plantations is about 17.7 million hectares. The authorities note that, as a consequence of trade liberalization, a diversification in agricultural production has taken place over the last few years, including a shift from annual crops to fruit and vegetable production and stock-breeding (Table IV.3).

[1] Trade data are based on UNSD, Comtrade database, unless otherwise indicated.

Table IV.2
Chile's main agricultural exports, 1996-02
(US$ million, f.o.b.)

Product	1996	1997	1998	1999	2000	2001	2002
Grapes	612	628	603	597	663	580	674
Wine with appellation of origin	187	268	370	388	435	455	472
Apples	270	211	278	248	202	240	281
Avocados	23	32	82	101	74	80	141
Corn for seeds	39	51	85	64	68	66	65
Kiwis	87	78	101	67	68	66	90
Other wines	51	79	68	65	66	70	55
Plums	78	72	60	76	65	71	71
Wine in recipients of up to 2 litres	46	57	61	56	64	62	70
Pears	102	85	82	83	64	60	66
Tomato pulp and juice	89	72	87	99	58	61	56
Raisins	34	42	37	46	49	36	39
Apple syrup and juice	67	47	30	58	46	46	34
Pork	5	23	30	24	45	69	106

Source: Chilean authorities.

Table IV.3
Changes in the use of farmland, regions III to IX, 1988-02

Category	Surface ('000 ha)			Total variation %	
	1988	1997	2002[a]	1997 - 02	1988 - 02
Annual farming	1,075	834	810	-2.9	-24.7
Fruits and vineyards	237	284	334	17.8	41.2
Vegetables and flowers	70	80	126	57.0	79.0
Artificial pasturelands	375	424	500	18.0	33.5
Natural grasslands	3,854	3,235	3,200	-1.1	-17.0
Forest plantations	1,182	1,800	2,100	16.7	77.7
Total	**6,792**	**6,657**	**7,070**	**6.2**	**4.1**

a Preliminary.

Source: Data provided by the Bureau for Agricultural Policies and Studies.

(ii) Policy objectives and instruments

9. Policies for the agriculture sector are formulated by the Ministry of Agriculture. The Ministry supports the sector both directly and through a number of dependent organizations, including the Institute for Agricultural Development (INDAP), the Office for Agricultural Research and Policy Development (ODEPA), the Agricultural and Livestock Service (SAG), and the National Forest Corporation (CONAF). The authorities indicate that the penetration of new international markets is one of the main priorities of Chile's policy for the agriculture sector.

10. Reflecting the sector's economic importance, Chile has participated actively in the ongoing WTO negotiations on agriculture. Chile has made proposals in this regard as part of the Cairns Group, of which it is a founding member. At the Doha Ministerial Conference in 2001, Chile reiterated the importance of agriculture for a new round.[2] It suggested that clear objectives should be

[2] WTO document WT/MIN(01)/ST/48, 10 November 2001.

established for the elimination of export subsidies, for a substantial reduction in trade-distorting domestic supports, and for substantial reductions in the barriers to market access.

11. Chile and other Members, proposed that, as a part of the agricultural negotiations, WTO Members should agree to discipline the activities of governmental and non-governmental enterprises and marketing boards which benefit from monopoly import or export rights, with a view to avoid distorting effects on the market.[3]

12. Moreover, Chile and other Members proposed that agricultural export credits, export credit guarantees and export insurance programmes should be brought under specific multilateral discipline under the WTO with a view to ending government subsidization of such credits.[4]

13. Since Chile's last Review in 1997, tariff protection for agricultural products has decreased in line with Chile's progressive liberalization of the trading regime. An MFN tariff of 6% applies to all agricultural goods, with the exception of edible oils, sugar, wheat, and wheat flour; for these products a price band system (described below) is in place. While Chile bound most tariff lines contained in HS Chapters 1 to 97 at a uniform rate of 25%, various agricultural products are bound at 31.5%. This list of products in Chile's Schedule includes: dairy products, wheat and wheat flour, oil-seeds and oleaginous fruit, and vegetable fats and oils. Following Article XXVIII negotiations, the bound rate for sugar was increased to 98%.

14. Under most of Chile's preferential agreements, various agricultural products are subject to longer phase-out periods and face higher average tariffs than non-agricultural goods. The average tariff rate for agricultural imports (March 2003) is 0.9% for Canada, 1.5% for Costa Rica, 1.8% for El Salvador, 1.3% for the European Union, 0.8% for MERCOSUR countries, and 0.5% for Mexico (Table III.2). Sugar, wheat, and vegetable oils are subject to particularly long phase-out periods.

15. The majority of the definitive safeguard measures imposed by Chile since the enactment of its safeguard legislation in 1999 affected agricultural goods and food products (see also Chapter III(2)(ix)); the products concerned were wheat, sugar, edible vegetable oils, fructose and fructose syrup, and powdered and liquid UHT milk. Chile's definitive safeguard measure on sugar led to consultations in the WTO requested by Colombia, later joined by Cuba, Guatemala, Nicaragua, and El Salvador.[5] Argentina requested consultations on the provisional safeguard measure on mixtures of edible oils and on the definitive safeguard measure on fructose.[6] None of the consultations, however, has as yet led to the establishment of a panel.

16. The role of the State in agricultural production and marketing is very limited. Chile has notified Comercializadora de Trigo (COTRISA) as state trading enterprise (Chapter III(4)(iii)).[7] The state does not own commercial agricultural land.

17. Chile has notified the WTO that it does not provide agricultural export subsidies.[8] According to the authorities, Chile provides domestic support for agricultural research as well as training, inspection, infrastructure and other related services; the total value of this support was about Ch$59 billion in 2000 (about US$110 million). The authorities further note that there are no price restrictions or production controls and no direct income support is given for agriculture.

[3] WTO document G/AG/NG/W/104, 27 January 2001.
[4] WTO document G/AG/NG/W/139, 21 March 2001.
[5] WTO document WT/DS228/1, 22 March 2001.
[6] WTO document WT/DS226/1, 22 February 2001, and WTO document WT/DS278/1, 8 January 2003.
[7] WTO document G/STR/N/7/CHL, 10 October 2001.
[8] WTO document G/AG/N/CHL/13, 15 May 2001.

18. Public investment in Chile's agriculture sector is mainly in irrigation projects, for which the Chilean Government provides annual support of about US$70 million. For the period from 2000 to 2010, the Government has plans for new irrigation projects covering an area of 300,000 hectares and for improving existing projects on 400,000 hectares.[9] The National Commission for Irrigation (CNR) formulates, coordinates, and implements national irrigation policies. The Commission is also in charge of administering Law No. 18.450 of 30 October 1985, which provides for subsidies for small-scale private irrigation projects.

19. Agricultural producers with net annual sales below 14,000 U.F., equivalent to about US$333,200, have access to the Guarantee Fund for Small Enterprises, which provides credit guarantees for investment projects and exports (Chapter III(3)(vi)). In addition, ProChile's Food and Agrobusiness Division helps agricultural companies to diversify their exports by providing information about trade opportunities and assistance in establishing contacts with foreign buyers.

20. INDAP and SAG are jointly implementing a programme to support the recovery of exhausted soil. The programme has a budget of about US$35 million and provides financial support for the purchase of fertilizers and soil conservation.

21. The Agricultural and Livestock Service (SAG) is responsible for all issues relating to animal and plant health and has also been notified as Chile's national SPS enquiry point.[10] SAG is also responsible for negotiating bilateral certification agreements. The authorities emphasize the high level of Chile's sanitary and phytosanitary standards and, most notably, that it is free of BSE and foot and mouth disease.

22. The Ministry of Agriculture instituted an agricultural insurance scheme in 2002 that allows farmers to insure against crop losses resulting from various weather phenomena. The insurance is offered by private companies, but the State contributes 50% to the premium plus a fixed sum of 1.5 U.F., up to a maximum amount of 55 U.F. per agricultural operation.[11] The budget for 2003 provides for contributions of US$2.5 million to this scheme.

23. Agricultural research and development is supported by the Foundation for Agricultural Innovation (FIA) of the Ministry of Agriculture. The Foundation's objective is to stimulate agricultural innovation; it contributes up to 70% of the cost of individual agricultural R&D projects. FIA's budget for 2003 was Ch$4.4 billion (about US$6.2 million). The Ministry of Agriculture also has its own research institute, the Institute of Agricultural Research (INIA), with a budget of Ch$7.3 billion for 2003 (US$10.2 million).

24. A number of policy measures are in place to improve the situation of small agricultural producers. The Institute for Agricultural Development (INDAP), as the main governmental institution in this field, offers services such as micro-credits, programmes for irrigation and recovery of depleted soil, support for cooperatives and general capacity-building measures. INDAP's budget for 2003 is Ch$107 billion (about US$150 million).

[9] Government of Chile (1999).
[10] WTO document G/SPS/ENQ/12, 4 July 2001.
[11] One U.F. (Unidad de Fomento) is equivalent to about US$23.80.

(iii) Key subsectors

(a) Agri-food

25. Chile is one of the world's largest exporters of fresh and processed fruits. It has about 7,800 fruit producers, farming over 211,000 hectares in 2003, up from 187,000 hectares in 1996. Production is concentrated on grapes, apples, avocados, and pears; industry output expanded to 3.3 million tonnes in 2000.

26. Besides benefiting from a favourable climate and geography, Chile's location in the southern hemisphere allows producers to target off-season northern hemisphere markets, giving exporters, especially of fresh fruits, an important competitive edge. Furthermore, about 35% of Chile's cropland is irrigated, compared with an average of 13.7% in Latin America.

27. Farming in northern Chile (Regions I to VII), which and relies on artificial irrigation is export-oriented. On the other hand, producers in southern Chile (Regions VIII to XII), where cattle farming and annual crops predominate, cater mostly for the domestic market.

28. Chile's production and exports of wine have continued to grow strongly. The area planted with wine grapes rose to 102,000 hectares in 2002, up from 54,000 hectares in 1995. Exports of wines with appellation of origin grew from US$187 million in 1996 to US$473 million in 2002; exports of other wine grew from US$46 million to US$126 million during the same period.

29. Foreign direct investment in farming and stockbreeding averaged US$30 million annually between 1996 and 2002. Foreign investors are granted the rights laid down in the Foreign Investment Statute (Chapter II(4)). The presence of overseas companies has helped to increase the sector's productivity, contributing to far-reaching modernization that has included not only production methods but also marketing and branding techniques, and has increased the industry's integration into international trading and distribution circuits. Foreigners may own agricultural land without limit.

30. Chile maintains a price band system (PBS) for edible oils, sugar, wheat, and wheat flour (Chapter III(2)(v)).

31. In June 1997, the European Union requested consultations on Chile's taxation regime for alcoholic beverages; these did not reach a mutually satisfactory solution. The WTO dispute settlement panel, which was set up subsequently, concluded that Chile acted inconsistently with Article III:2 of GATT 1994 (on national treatment) by according preferential tax treatment to pisco *vis-à-vis* certain other alcoholic beverages.[12] Chile's revised legislation, Law No. 19.716 of 9 February 2001, established a gradual adjustment of tax rates for various alcoholic beverages for a transitional period ending in March 2003; since then all spirits have been subject to the same specific rate of 27%.

32. A tariff quota on refined sugar introduced as a result of Chile's Article XXVIII renegotiations, entered into force in January 2002 (Chapter III(2)(vi)). The applied out-of quota rate, which is determined by the price band system, stood at 40.6% in March 2003; the in-quota rate is 0% for an annual quota of 60,000 tons. The authorities indicate that in both 2002 and 2003 the quota was filled within a few days.

[12] WTO documents WT/DS87/R and WT/DS110/R, 15 June 1999.

(b) Forestry

33. Chile has large softwood plantations, consisting mostly of pine trees and eucalyptus. Its forest plantations cover 2.1 million hectares, equivalent to 18% of the total surface covered by forests and 2.8% of the national territory.

34. According to estimates provided by the authorities, the forestry sector contributed about 0.7% to GDP in 2001. In addition, the processing of wood and wood products contributed about 1.4%, and the production of paper accounted for another 1.9% of GDP. In 2001, Chile's exports of wood products amounted to US$968 million. Chile is the world's third-largest exporter of woodchips and also exports nearly 50% of its saw timber, panels, and softwood pulp production. Paper production is mostly consumed domestically.

35. Chile's forestry sector is regulated by the National Forest Corporation (CONAF) of the Ministry of Agriculture, in accordance with the Forest Law (Supreme Decree No. 4363) of 1931, Decree Law No. 701 of 1974, and Law No. 19.300 of 9 March 1994. In addition, the Forest Institute (INFOR) of the Ministry of Agriculture undertakes research with a view to promoting a sustainable use of Chile's forests.

36. Pursuant to Decree Law No. 701, CONAF must authorize the use of land for forest plantations following a request by an enterprise and an analysis of the territory. The Law also provides for re-afforestation requirements for the exploitation of planted forests. There are special provisions for small-scale enterprises engaging in forestry; for example they are exempt from providing re-afforestation studies and utilization plans but not from re-afforestation requirements. Law No. 19.300 lays down the principles of environmental protection in Chile. In addition, the authorities indicate that legislation is before Congress (as at June 2003), with a view to make a more sustainable use of Chile's native forests.

(c) Fishing and aquaculture

37. The contribution of fishing and aquaculture to GDP increased from 1.2% in 1996 to 1.5% in 2002. Compared with other sectors of the economy, foreign direct investment is relatively limited in the fishing sector, with annual FDI averaging less than US$27 million between 1996 and 2002. While the importance of aquaculture has tended to increase, the Chilean catch has decreased since the mid-1990s (Table IV.4). According to the authorities, this decline reflects overexploitation of dwindling stocks in some highly migratory species, mainly due to fleets from third countries operating near Chilean territorial waters; more stringent controls; and shrinkage in the national large-scale fleet to 370 boats from around 900 at the beginning of the 1990s.

38. Exports of fishery products increased from US$1,772 million in 1996 to US$1,959 million in 2002 (Table IV.5). Chile remains the world's second largest exporter of fishmeal and farmed salmon.

39. Aquaculture has become increasingly important; by 2001 more than 2,250 concessions had been issued for the cultivation of fish, molluscs, and seaweed. Fish cultivation (711 concessions) takes place mainly in Regions X and XI in southern Chile; salmon and trout are the most important cultivated species. The cultivation of molluscs (740 concessions) and seaweed (693 concessions) is concentrated in Region X. Based on a favourable geographic location and low-cost inputs, Chile has become the world's second-largest producer of farmed salmon after Norway, with a world market share of 20%.

Table IV.4
Catch of principle species, 1997-01
(Thousand tonnes)

	1997	1998	1999	2000	2001
Fish	5,904	3,362	5,118	4,485	4,151
Anchovies	1,757	523	1,983	1,701	853
Mackerel	212	72	120	96	365
Jack mackerel	2,917	1,613	1,220	1,234	1,650
Sardine and common sardine	481	346	1,028	783	347
Hake	71	354	310	91	162
Mussels	93	109	110	110	138
Shellfish	37	40	39	37	26
Algae	282	266	261	281	300
Others	49	48	58	58	48
Total	**6,365**	**3,826**	**5,587**	**4,971**	**4,663**

Source: Ministry of Economy, Sub-secretary of Fishing.

Table IV.5
Main exports of the fisheries sector, 1996-02
(US$'000)

Item	1996	1997	1998	1999	2000	2001	2002
Frozen	621,908	724,353	748,642	900,745	951,137	948,628	953,751
Fresh	257,994	286,290	332,071	339,305	419,175	404,993	419,680
Fishmeal	612,339	552,350	348,152	281,795	235,198	257,308	319,888
Preservatives	112,535	143,045	121,805	128,271	133,322	123,033	115,174
Agar-agar	44,581	42,483	24,085	32,371	39,044	33,891	32,575
Smoked	6,807	10,883	8,979	13,179	19,594	19,337	29,198
Carragenina	13,578	16,373	20,741	18,775	21,988	21,379	25,023
Dried algae	25,212	26,863	26,280	26,297	21,721	22,013	22,208
Salted	26,153	45,925	25,833	17,913	17,902	17,495	19,204
Oil	43,623	14,779	3,495	14,166	4,271	2,416	12,873
Dehydrated	1,016	1,562	1,393	2,692	3,364	4,577	3,332
Total	**1,771,917**	**1,872,603**	**1,673,751**	**1,784,005**	**1,874,739**	**1,861,102**	**1,959,408**

Source: Chilean authorities.

40. In accordance with the Law on Fisheries and Aquaculture of 21 January 1992, the fisheries sector is regulated by the Sub-secretary of Fisheries, a dependency of the Ministry of Economy. The National Fisheries Service (SERNAPESCA) is responsible for issuing and enforcing technical regulations and sanitary requirements in the fisheries sector.

41. In order to attain a sustainable level of exploitation of the existing resources, the Law on Fisheries and Aquaculture establishes specific systems to limit access to fishing: (i) a general access regime; (ii) a regime for species in full exploitation; (iii) a regime for fisheries that are replenishing; and (iv) a regime for incipient fisheries. Permits to exploit species classified under the general access regime or the full exploitation regime are generally granted automatically, but may not be if, *inter alia*, the request is made by a factory ship. Licences to exploit species that are incipient or in the process of regeneration are granted for ten years through public bids. The licences are transferable and are specified as a share of a global quota.

42. New legislation on fisheries is before Congress (June 2003). The authorities indicate that the draft law provides for a revised quota system with quotas based on installed hold size and average historic catches.

43. The first five maritime miles off the Chilean coast, as well as the fjords and channels of the Austral zone, are reserved for small-scale fishing, defined as vessels with a length not exceeding 18 metres and a size below 50 gross tonnage. In addition, the small-scale fisheries sector has access to the Guarantee Fund for Small Enterprises and to the Fund for Small-Scale Fishing, which finances investment in equipment of up to Ch$15 million (US$21,200). The fisheries sector is excluded from the benefits of the free-trade zone regime and the public export-credit programmes.

44. Foreigners are not permitted to fish in Chilean waters or own aquaculture centres, unless they are registered as a Chilean company or are permanent residents. To register a fishing company in Chile, more than 50% of the capital must be of national origin and the investment must be approved by the Foreign Investment Committee (Chapter II(3)). However, under Article 11 of Decree Law No. 2.222 of 31 May 1978, foreign ownership in the fisheries sector is possible without capital restrictions on condition of reciprocity.

45. Pursuant to Article 80 of the Law on Fisheries and Aquaculture, concessions for enterprises engaging in aquaculture are issued by the Ministry of Defence. These concessions are transferable; any new concession or transfer thereof is published in the National Registry of Aquaculture. A concession, issued by SERNAPESCA, is required for aquaculture. The law further establishes that the aquaculture industry has exclusive rights to use certain territories (portions of water or of the ocean bed).

46. For sanitary reasons, imports of fish products require authorization by SERNAPESCA if they are to be used as inputs to produce exportables, or as bait. Chile's sanitary norms in the fisheries sector are published online.[13] SERNAPESCA recognizes all official test results and certificates provided by the country of origin.

47. Fishing vessels are among the 95 tariff lines that can be imported duty-free. A luxury tax of 15% is levied on caviar (Chapter III(2)(vii)).

48. The Fisheries Research Fund (FIP) finances research activities with a view to improving the administration of fisheries and aquaculture. The Fund is financed by public budget allocations and fees for fishing and aquaculture licences. It is administered by the Council for the Administration of Fisheries, which establishes the annual research programme. Individual research projects are announced in the *Official Gazette* and in a newspaper of major circulation. Research institutions that wish to receive funding must participate in a public competition. The Fund is financing 30 projects worth Ch$2 billion, equivalent to about US$2.9 million.

49. In January 1998, the United States imposed provisional anti-dumping duties on Chile's exports of fresh and chilled Atlantic salmon; the measure became definitive in July 1998 with anti-dumping margins ranging from 0.16% to 10.69%. The European Union initiated anti-dumping investigations on Chile's salmon exports in July 2002; no measure has been taken to date (mid 2003).[14]

50. In April 2000, the European Union (EU) requested consultations with the Chile regarding measures affecting the transit and importation of swordfish, claiming that under Chilean legislation

[13] SERNAPESCA online information. Available at: http://www.sernapesca.cl/paginas/regulacion_sectorial/listado.php?c=001006003.

[14] WTO document G/AD/N/98/EEC, 12 March 2003.

EU fishing vessels were not allowed to land their swordfish in Chilean ports either for warehousing or for transhipment onto other vessels.[15] As no mutually satisfactory solution was reached, the European Union requested the establishment of a panel in November 2000.[16] In March 2001, both parties communicated to the WTO that they had reached a provisional arrangement and agreed to suspend the process for the constitution of the panel.[17] The provisional arrangement provides for a joint investigation of the issue while temporarily allowing four EU vessels access to Chilean ports for unloading or transhipping swordfish.

51. Together with other Members, Chile has submitted an issues paper to the Negotiating Group on Rules, calling for an improvement of WTO disciplines in the fisheries sector.[18] In addition, Chile and other Members have submitted a communication outlining different approaches to classification of fisheries programmes and subsidies.[19]

(3) MINING

52. The mining sector contributed 8.2% to Chile's GDP in 2002, up from 6.7% in 1996. Employment in the sector decreased from 1.8% of the labour force to 1.3% over the same period, reflecting a strong increase in the sector's labour productivity. Foreign direct investment in mining is substantial; annual FDI flows averaged over US$1.3 billion between 1996 and 2002. Chile's mining exports amounted to US$7.9 billion in 2001, equivalent to 42.1% of total exports.

53. With a wide variety of high-quality minerals, and well over a century of mining experience, Chile has one of the largest and most-developed mining industries in the world. Chile is the world's leading supplier of copper and copper ores and concentrates, with 165 million tonnes of proved copper reserves. Chile is also an important producer of gold, manganese, molybdenum, silver, and zinc. Production of most minerals has continued to increase since Chile's last Review in 1997 (Table IV.6).

54. Chile's total copper production reached around 4.6 million tonnes in 2002 (Table IV.7). Exports of copper products in 2001 totalled US$6.5 billion, including US$4.1 billion of copper cathodes and US$2 billion of copper concentrates. Chile's main export markets for copper are the United States, Japan, China, Italy, and France.

Table IV.6
Production of selected minerals, 1996-02
(Tonnes)

	1996	1997	1998	1999	2000	2001	2002
Refined copper ('000 tonnes)	3,116	3,392	3,687	4,391	4,602	4,739	4,581
Refined molybdenum	17,415	21,339	25,297	27,309	33,187	33,492	29,466
Refined lead	1,374	1,264	337	608	784	1,193	2,895
Refined zinc	36,004	33,934	15,943	32,263	31,402	32,762	36,161
Manganese mineral	62,887	63,673	48,931	40,505	41,716	31,320	12,195
Refined gold	53.2	49.5	45.0	48.1	54.1	42.7	38.7
Refined silver	1,147	1,091	1,340	1,380	1,242	1,349	1,211

Source: Chilean Copper Commission.

[15] WTO document WT/DS193/1, 26 April 2000.
[16] WTO document WT/DS193/2, 7 November 2000.
[17] WTO document WT/DS193/3, 6 April 2001.
[18] WTO document TN/RL/W/3, 24 April 2002.
[19] WTO document TN/RL/W/58, 10 February 2003.

55. The State still plays a crucial role in Chile's mining sector, especially in the production of copper. State participation in production is through the National Copper Corporation (CODELCO) and the National Mining Company (ENAMI); these state-owned enterprises are the world's first and the eighth exporters of copper products. According to the authorities, there are no plans to privatize these enterprises.

Table IV.7
Production of copper, 1996-02
(Thousand tonnes, refined copper)

	By product				National consumption[c]
	Refined[a]	**Blister**	**In bulk[b]**	**Total**	**Refined**
1996	1,748	243	1,125	**3,116**	91.0
1997	2,117	154	1,121	**3,392**	79.7
1998	2,335	176	1,176	**3,687**	83.6
1999	2,666	170	1,555	**4,391**	75.2
2000	2,668	164	1,769	**4,602**	83.0
2001	2,882	159	1,698	**4,739**	90.0
2002	2,850	323	1,408	**4,581**	81.5

a Includes electrolytic copper from Tres Estrellas and Mantos Blancos.
b Includes cement copper, concentrates, slag, and ores.
c Copper deliveries to national manufacturing industries (i.e. production of tubes, wire, etc.) for domestic consumption and manufactured exports.

Source: Central Bank of Chile, Chilean Copper Commission (COCHILCO).

56. CODELCO continues to be the world's largest single producer of copper; it is also one of the main producers of molybdenum. In 2001, CODELCO produced 1.7 million tonnes of copper (Table IV.8), equivalent to about 12.5% of world output, up from 1.2 million tonnes in 1996. A fixed 10% of the value of CODELCO's external sales is allocated to the Armed Forces, whereas CODELCO's profits are paid into the general State budget. CODELCO also has joint ventures both with national and foreign companies, in Chile and abroad, for exploration, production of electricity, production of mining equipment, and production of manufactured products such as metal wires.

Table IV.8
Production and sales of CODELCO, 1996-02

	Copper production[a] ('000 tonnes)	**Sales** (US$ million)	
		Copper[b]	**Total[c]**
1996	1,246	2,684	**2,940**
1997	1,326	3,097	**3,426**
1998	1,501	2,117	**2,730**
1999	1,615	2,292	**2,944**
2000	1,612	2,742	**3,610**
2001	1,699	2,585	**3,422**
2002	1,630	2,990	**3,490**

a Includes CODELCO's share of El Abra.
b Includes sales of copper acquired from third parties.
c Includes sales of copper acquired from third parties, and sales of by-products.

Source: Corporation Nacional del Cobre (CODELCO), Chilean Copper Commission (COCHILCO).

57. As in other sectors, foreign investors in Chile's mining industry can opt to conclude a contract with the State of Chile under Decree Law No. 600, which authorizes and protects the investment (Chapter II(4)). Under this statute, investors in the mining sector have eight years to bring in the

capital; in other sectors the period is three years. The period may be extended by the Foreign Investment Committee to up to twelve years when prior exploration is required.

58. Policies for the mining sector are formulated by the Ministry of Mining. In addition, each regional government has its own Regional Ministerial Secretary for Mining. The Ministry has two main advisory bodies, the Chilean Copper Commission (COCHILCO) and the National Service of Geology and Mining (SERNAGEOMIN). COCHILCO advises the Government on mining policy, supervises and evaluates the performance of the state-owned mining enterprises, and advises the Foreign Investment Committee on approvals of investment contracts. SERNAGEOMIN is responsible for the geological survey of Chile, for updating data on mineral resources, for keeping and updating a registry of all mining concessions and the official mining land registry, and for monitoring safety conditions in the mining sector.

59. The Mining Council, founded in 1998, represents Chile's major mining companies. It comprises 17 foreign and national enterprises, including state-owned companies. The privately owned mining enterprises are united in the National Mining Society. The Mining Metallurgic Research Centre (CIMM), a private institution specialized in applied research, serves both the state-owned and private mining companies.

60. Article 19, No. 24 of the Chilean Constitution stipulates that the State is the sole owner of all the minerals *in situ*, independently of who owns the surface land. However, under a system of concessions, foreigners are allowed to explore for or exploit minerals, and are granted national treatment; the price of these concessions is unrelated to actual production.

61. Procedures for the granting of exploration and exploitation licences are laid down in the Constitutional Organic Law on Mining Concessions (Law No. 18.097) of 21 January 1982 and the Mining Law (Law No. 18.248) of 14 October 1983. Concessions may be granted on all mineral substances, including minerals that lie under the ocean and are accessible from land through tunnels.

62. However, concessions may not be granted for the exploitation of lithium, hydrocarbons in any state, and for any deposits located under the ocean and not accessible from land. The State can, however, extend an operating contract, which allows an individual (national or foreign) to exploit minerals for which concessions are not granted. These contracts allow exploitation of a specific mineral for a fixed period for which the State provides the necessary permits and licences; such contracts are being granted to exploit petroleum.

63. Imports of minerals are subject to the usual tariff of 6%. Mining companies are excluded from the benefits of the free-trade zone regime, the export finance programmes, and the simplified duty drawback system. However, as established by Supreme Decree No. 135 of the Ministry of Finance of 18 April 1983, mining and petroleum refineries may import raw materials at concessional duties and taxes, provided these are exported after processing. Furthermore, Law No. 19.707 of 10 January 2001 established the free-trade zone of Tocopilla, which has a system of benefits similar to the existing free-trade zones; these are confined to enterprises of the mining sector (Chapter III(4)(iv)).

64. The authorities indicate that there is no special tax treatment for the mining sector. With a view to reducing the volatility of fiscal income, the Government operates a Copper Stabilization Fund (Chapter I(2)(ii)).

65. Law No. 16,624 of 15 May 1967 established the Copper Reserve. Pursuant to this law, all mining companies with an annual output of more than 75,000 tonnes of refined, electrolytic or blister copper are obliged to supply the national manufacturing industry at prevailing international f.o.b.

prices. To this end, national manufacturing enterprises submit an annual request specifying their copper demand to COCHILCO, which administers the Reserve. According to the authorities, the volume of copper administered under this scheme is about 80,000 tonnes annually. The authorities further indicated that the draft law on miscellaneous WTO-related matters provides for the abolition of the Copper Reserve (Chapter II(2)(iii)).

(4) ENERGY

66. Chile's electricity sector is regulated by the National Energy Commission (CNE) in accordance with the Electricity Law (Decree with Force of Law No.1 of 1982). The CNE is responsible for policy formulation for the energy sector and for regulating electricity tariffs; its Ministerial Council is composed of the Ministers of the Economy, Mining, Finance, and Defence, and the Secretary-General of the Presidency. The Economic Load Dispatch Centre (CDEC) is an autonomous organization that groups the main generating companies in each regional grid; it coordinates the operation of the generators and transmission lines. The Superintendency of Electricity and Fuels (SEC) is in charge of setting and enforcing technical regulations in the energy sector. Market behaviour in the electricity market is supervised by Chile's competition authorities (Chapter III(4)(i)).

67. About 38% of Chile's installed power generation capacity is hydroelectric. Chile's generating capacity is around 11,146 MW; actual electricity production reached 45,483 GWh in 2002. The copper industry is by far the most important industrial energy consumer. Chile's energy sector was privatized in the 1980s; this process was completely finalized in 1998 when the State sold its controlling share of the generating company Edelaysen S.A. to a private investor.

68. Most Chilean power generation companies are organized around four separated grid systems: the Northern Grid (SING), which has about 33% of Chile's capacity; the Central Grid (SIC), with about 61% of installed capacity; and the Aysen and Magallanes Grids in the South, with less than 1% of installed capacity each. In addition, self-producers account for about 5% of generating capacity. Private-sector companies transmit electricity sold by the generating companies to power distribution companies, final customers, and other power generating companies. Chile has 13 major power distributors.

69. Under the Electricity Law, a concession is required for the construction of hydro-electric power plants and transmission lines. Antitrust resolutions establish that generators are not allowed to own transmission assets. Foreign investment is allowed in all activities, including transmission and hydroelectric generation. The authorities indicate that the main share of the generation and transmission capacity is foreign-owned.

70. There are two types of consumers in the Chilean market, classified by their power requirements. Those that require 2 MW or more are considered free consumers – about 100 large industrial and mining companies – and are eligible to negotiate power purchase agreements with generators. Consumers that require less than 2 MW are considered regulated consumers and pay a fixed tariff calculated by the CNE. Every four years, the distribution value component of the tariff is determined and node prices are updated.

71. Chile's Central Grid's dependence on hydro-power was severely tested by a 1998-99 drought, when, instead of producing their normal 80% of energy consumption, hydro-power plants produced only 60%. Prior to that crisis, the CNE had already considered increasing the share of fuel alternatives, and imports of Argentinian natural gas started in 1997. The use of natural gas in Chile's energy mix is expected to be approximately 33% by 2010.

72. In 2001, Chile imported 1,386GWh of electricity worth US$32.6 million; all of it was imported by the Northern Grid and came from an isolated Argentinian power plant. The CNE has announced that it will facilitate private investments in interconnections between the Northern and Central Grids, and, if economically feasible, an interconnection between the Central Grid and Argentina's grid. A transmission line to export power to a mining project in Bolivia is also under consideration by the private sector.

73. Expanding rural electrification has been one of the government's priorities since 1994, when it established the Rural Electrification Programme (PER), coordinated by the CNE. The original objective of the programme was to reach 75% of rural households by 2000. The CNE surpassed this goal, by achieving a 78% national coverage rate by December 2000, and has revised its target to 90% by the end of 2005.

74. A draft law on electricity is currently before Congress. The Law is expected to modernize Chile's electricity sector, addressing issues such as the regulation of transmission prices and complementary services, and the procedures for the calculation of the node price.

75. Companies engaging in the transport, storage, or sales of combustibles must register with the Superintendency of Electricity and Fuels. In 2001, Chile imported crude petroleum and derivatives for about US$2.1 billion. Chile's domestic production of petroleum is equivalent to about 3% of national demand. The import tariff on crude petroleum and petroleum products is 6%, although the actual tariff paid is much lower as most petroleum is imported from countries with which Chile has preferential trade agreements.

76. About 90% of Chile's demand for fuels is met by local refineries owned by the state-owned National Petroleum Company (ENAP). The authorities emphasized that ENAP's refineries compete with imported products and that any interested investor can enter the refining market.

77. With a view to stabilizing internal prices of petroleum products, the Government created the Fund for the Stabilization of Petrol Prices (FEPP) in 1991. The Fund operates on the basis of a price band for five petroleum products (gasoline, kerosene, diesel, fuel oil, and liquid gas). The limits of each price band are 12.5% above and below a central reference price, which is set weekly. The limits of the price band are compared to a parity price, which is based on relevant average international prices plus cost, insurance, freight, and customs duties. When the parity price exceeds the upper limit of the price band, this difference is fully compensated by disbursements of the Fund. If the parity price falls below the lower limit of the band, this difference is fully paid into the Fund. As of mid 2003, the Fund is endowed with US$10 million.

78. Some vehicle fuels are subject to specific taxes in addition to VAT. The tax on gasoline is currently equivalent to about US$171 per cubic metre (about US$0.17 per litre), and the tax on diesel is equivalent to US$28.5 per cubic metre (about US$0.28 per litre). Fuels used in the production process by the industrial sector and electricity generators are not subject to these specific taxes.

(5) MANUFACTURING

79. Although its value added in real terms has increased, the contribution of manufacturing to GDP has declined, from 17.5% in 1996 to 16.0% in 2002. The authorities indicate, however, that this percentage does not include the activities of smelting, refining, and alloying, which are imputed to the value added of the mining sector. Employment in the sector decreased from 16.3% in 1996 to 14.2% in 2002. Chile's manufacturing sector makes intensive use of local natural resources, specifically within the fishing, forestry, and mining sectors. The most important manufacturing activities include agricultural processing and packaging and production of chemical goods, paper, and steel products

(Table IV.9). Annual foreign direct investment in the manufacturing sector averaged US$567 million between 1996 and 2002.

Table IV.9
Value-added in the manufacturing sector, 1996-02
(Per cent and CH$ billion)

Sector	1996	1997	1998	1999	2000	2001	2002
Contribution of manufacturing to GDP (1996, Ch$ billion)	**5,468**	**5,727**	**5,595**	**5,567**	**5,788**	**5,815**	**5,979**
Food, beverages and tobacco	31.3	30.4	30.7	31.4	31.2	32.6	..
Textiles	8.9	8.7	8.4	7.9	7.3	6.1	..
Wood and wood products	7.8	8.5	8.3	8.5	8.8	8.6	..
Paper	11.6	11.3	11.6	12.2	12.1	12.3	..
Chemicals and petroleum	19.7	19.9	20.5	21.0	21.1	21.4	..
Mineral products	5.5	5.5	5.8	4.9	5.2	5.3	..
Raw metals	3.6	3.7	3.3	3.4	3.3	3.2	..
Steel products	11.2	11.6	11.0	10.5	10.7	10.2	..
Others	0.4	0.4	0.4	0.3	0.3	0.3	..

.. Not available.

Source: Central Bank of Chile.

80. Based on the SITC classification of goods, Chile exported manufactured goods for US$3,184 million and imported manufactured goods for US$11,804 million in 2001. The most important export destinations for Chile's manufactures include the United States (20.9%), Argentina (10.6%), Peru (9.1%), Mexico (8.9%), and Brazil (8.7%). Manufactured imports originate mainly in the United States (28.7%), Brazil (8.9%), Germany (5.5%), and Argentina (5.3%). Chile is a net importer of all major categories of manufactured goods; its most important manufactured exports are chemicals and other semi-manufactures. Imports centre around machinery, transport equipment, and chemicals.

81. The State's involvement in manufacturing activities is very limited. There are three manufacturing enterprises: ASMAR, a military shipyard, with annual sales of about US$70 million in 2002; ENAER, the national aeronautical enterprise, with annual sales of US$100 million in 2002; and FAMAE, which fabricates mainly firearms and other products related to national defence, with annual sales of US$1 million in 2002.

82. Chile has generally restricted the use of trade policy measures as instruments of industrial policy. Based on the ISIC definition, the average tariff for the manufacturing sector is 5.9% (as of March 2003). With the exception of 95 tariff lines that are duty-free, all manufactured goods are subject to an MFN tariff of 6%. In the Uruguay Round, Chile bound all its manufactured goods at a uniform rate of 25%, with the exception of six items that already had lower bound rates as a result of pre-Uruguay Round Commitments (Chapter III(2)(iv)(b)). Like other activities, the manufacturing sector is eligible for two duty drawback systems and a system of deferred payment of customs duties and tax benefits (Chapter III(3)(v)).

83. Since its last Review in 1997, Chile has taken four definitive anti-dumping actions against imports of various steel products from Russia and the Ukraine; however, none of these measures is still in place. Since its adoption of legislation on safeguard measures in 1999, two of the six definitive measures taken by Chile affected manufactured goods: socks of synthetic fibre; and various steel products (Chapter III(2)(ix)(b)).

84. In addition to the value-added tax of 18%, specific taxes apply to some manufactured products. The goods affected include jewellery, alcoholic and non-alcoholic beverages, vehicles, and tobacco products (Chapter III(2)(vii)). The taxes apply to national and foreign goods alike.

85. Since 1997, no major changes have taken place in the legal framework governing foreign direct investment in the manufacturing sector. Chile's FDI regime is generally based on the principle of non-discrimination between nationals and foreigners (Chapter II(4)).

86. Chile's automotive industry is relatively small, consisting of two minor motor vehicle assembly plants. Production, which has been falling since 1996, consists of pick-up trucks and passenger motor vehicles; 12,524 and 1,468 units were produced, respectively, in 1999, the last year for which data were available. Chile maintained trade-related investment measures in the automotive sector until February 2003 (Chapter III(3)(vii)). Since then, no special programme for the automotive industry has been in place. Other measures that apply to the automotive sector include: (i) a specific tax on vehicles applicable above a specific c.i.f. value, and (ii) an import prohibition on used automobiles (Chapter III(2)(vii) and (viii)).

(6) SERVICES

(i) Principal characteristics

87. In 2002, the service sector contributed 52.7% to GDP, up from 51.7% in 1996.[20] Employment in the sector grew faster than in others; in 2002, 62.8% of the economically active population worked in the services sector, up from 57.9% in 1996. In 2001, Chile's services exports amounted to Ch$2,342 billion and imports amounted to Ch$1,884 billion.

88. According to figures provided by the Foreign Investment Committee, annual foreign direct investment in the services sector averaged US$1,762 million between 1996 and 2002. Foreign investment in Chile's services sector is subject to the provisions of the Investment Law or of Chapter XIV of the Central Bank's Compendium of Foreign Exchange Regulations (Chapter II(4)). Sectoral exceptions to market access remain in maritime transport.

89. As a consequence of Chile's long running privatization policy, state involvement in services is limited. The State retains ownership of BancoEstado, the postal and railway services, and public television. The State also owns major seaports and airports; however, these have been increasingly given in concession to private operators. The authorities indicate that involvement of the State in any of the sectors mentioned does not in any way preclude private participation. Since Chile's last Review in 1997, the privatization process has focused on water management and seaports.

90. In the context of preparations for the 1999 Ministerial Conference, Chile, together with Australia and New Zealand, proposed that the services negotiations should improve market access significantly for developed and developing countries. To this end, the negotiations should achieve higher levels of liberalization in all services sectors, including air and maritime transport; simplification of schedules, and greater transparency in commitments; limitation of scope and number of MFN exceptions; and the development of binding rules on domestic regulation.[21]

91. In the ongoing negotiations on services, Chile has emphasized the importance of eliminating the lack of symmetry in the commitments undertaken by Members in respect of the different modes of

[20] Following the UN System of National Accounts, the construction, electricity, and water industries are part of the industrial sector.
[21] WTO document WT/GC/W/204, 14 June 1999.

supply recognized by the GATS.[22] It noted with concern that commitments in mode 4, i.e. the supply of services through the presence of natural persons, are primarily horizontal and these horizontal commitments are subject to many kinds of limitations. Further, they are bound for only a small subset of service personnel related to commercial presence and at higher levels, and very few commitments extend to independent movement. Chile indicated as main sectors of interest: professional services, construction and engineering, transport services, telecommunication services, distribution services, and energy services.

(ii) Overall commitments under the GATS and other agreements

92. Chile's Schedule of Specific Commitments under the WTO General Agreement on Trade in Services (GATS) includes commitments in seven of the twelve categories of services (Table IV.10).[23] In general, Chile's GATS commitments tend to bind the policy framework in place at the time of the Uruguay Round negotiations. In most cases, however, the policy applied is more liberal than those commitments.

93. Chile's horizontal limitations contain a provision under which authorization for foreign investment in service industries may be contingent on a number of factors, including employment, the use of local inputs, and competition. Under the horizontal limitations, foreign investors are not allowed to transfer their capital abroad until the elapse of three years. However, in practice, the Foreign Investment Statute (Decree Law No. 600) allows for the transfer of capital one year after it has been brought to Chile, and capital brought to Chile under Chapter XIV of the Central Bank's Compendium on Foreign Exchange Regulations can be transferred at any time (Chapter II(3)).

Table IV.10
Summary of Chile's commitments under the GATS[a]

	Market access				National treatment			
Modes of supply:								
Cross-border supply	**1**				**1**			
Consumption abroad		**2**				**2**		
Commercial presence			**3**				**3**	
Presence of natural persons				**4**				**4**
Commitments (■ full; ◨ partial; □ no commitment; – not appearing in Schedule)								
Horizontal limitations	No	No	Yes	Yes	No	No	Yes	Yes
Commitments in specific sectors								
1. Business services								
A. Professional services								
Legal services: solely advice on matters of public international law and international commercial law.	□	□	■	◨	□	□	■	◨
Accounting and auditing: financial auditing, accounting review.	□	□	■	◨	□	□	■	◨
Architectural services: advisory and pre-design architectural services, architectural design.	□	□	■	◨	□	□	■	◨
Engineering services: engineering design services for industrial processes and production, engineering design services relating to sanitary works, mechanical engineering design services, electrical engineering design services, chemical and process engineering design services, environmental engineering design services.	□	□	■	◨	□	□	■	◨

Table IV.10 (cont'd)

[22] WTO document S/CSS/W/88, 14 May 2001.

[23] WTO documents GATS/SC/18, 15 April 1994, GATS/SC/18/Suppl.1, 28 July 1995, GATS/SC/18/Suppl.2, 11 April 1997, and GATS/SC/18/Suppl.3, 26 February 1998.

	Market access				National treatment			
Modes of supply:								
Cross-border supply	**1**				**1**			
Consumption abroad		**2**				**2**		
Commercial presence			**3**				**3**	
Presence of natural persons				**4**				**4**
Commitments (■ full; ◨ partial; □ no commitment; – not appearing in Schedule)								
E. Leasing services (without operator)								
Leasing or rental services concerning private cars, leasing or rental services concerning aircraft, leasing or rental services concerning agricultural machinery and equipment, leasing or rental services concerning construction machinery and equipment.	□	□	□	◨	□	□	■	◨
F. Other business services								
Management consulting services: general management consulting services, financial management consulting services, marketing management consulting services, production management consulting services, human resources management consulting services.	□	□	■	◨	□	□	■	◨
2. Communications services								
C. Telecommunications services.								
Telephone services, packet-switched data transmission services, circuit-switched data transmission services, telex services, telegraph services, facsimile services, private leased circuit services, domestic and international satellite services and satellite links/capacity, mobile/cellular services, personal communications services, paging services, mobile data transmission services.	■	■	◨	□	■	■	■	□
4. Distribution services	–	–	–	–	–	–	–	–
5. Education services	–	–	–	–	–	–	–	–
6. Services related to the environment	–	–	–	–	–	–	–	–
7. Financial services								
A. Insurance and reinsurance								
Sale of health insurance (excluding insurance related to social security institutions), sale of direct general insurance, credit insurance.	□	□	■	◨	□	□	■	◨
Reinsurance and retrocession	◨	□	■	◨	◨	□	■	◨
Broking and agency services	■	□	◨	◨	■	□	■	◨
Securities services: intermediation of publicly offered securities except shares, intermediation of publicly offered shares in corporations, securities risk rating; securities custody undertaken by securities intermediaries, financial advisory services provided by securities intermediaries, financial portfolio management by security intermediaries, general deposit warehouses (warrants)	□	□	■	◨	□	□	■	◨
B. Banking services								
Acceptance of deposits, purchase of publicly-offered securities, operation of credit cards, discounting or acquisition of bills of exchange and promissory notes, endorsement and guarantee of third party liabilities in Chilean currency, securities custody, financial leasing, advisory and other auxiliary financial services.	□	□	■	◨	□	□	■	◨
Credit granting, issue of credit cards,	■	□	■	◨	■	□	■	◨
8. Social and health services	–	–	–	–	–	–	–	–
9. Tourism and travel-related services								
A. Hotels and restaurants								

Table IV.10 (cont'd)

	Market access				National treatment			
Modes of supply:								
Cross-border supply	**1**				**1**			
Consumption abroad		**2**				**2**		
Commercial presence			**3**				**3**	
Presence of natural persons				**4**				**4**
Commitments (■ full; ◨ partial; □ no commitment; – not appearing in Schedule)								
Hotel lodging; motel lodging, apartment-hotels; camping services, full restaurant services, meal serving service in self-service facilities, caterer services, bars without entertainment, bars with entertainment.	□	■	■	◨	□	■	■	◨
B. Travel agency and group travel services								
Travel agencies and tour operators, tourist guide services	□	■	■	◨	□	■	■	◨
11. Transport services								
C. Air transport services								
Opening of offices, issue and sale of air-transport fares and tickets, ground operation of support equipment, aircraft maintenance.	□	□	■	◨	□	□	■	◨
Computer reservation systems.	■	□	■	□	■	□	■	□
12. Other services	–	–	–	–	–	–	–	–

a The only authentic source of information on these commitments is Chile's Schedule of Specific Commitments contained in documents GATS/SC/18 (15 April 1994), GATS/SC/18/Suppl.1 (28 July 1995), GATS/SC/18/Suppl.1/Rev.1 (4 October 1995), GATS/SC/18/Suppl.2 (11 April 1997) and GATS/SC/18/Suppl.3 (26 February 1998).

Note: Subsectors not listed under each sector do not appear in the Schedule either. Horizontal limitations apply even in case of full specific commitments.

Source: WTO Secretariat.

94. Horizontal limitations also cover the temporary presence of natural persons. Restrictions apply to the presence of senior and specialized foreign personnel, who must have worked in their company for at least two years and must be domiciled in Chile. Limits are also set on the proportion of foreigners allowed to work in foreign companies: foreign natural persons may not make up more than 15% of the total staff employed in Chile. All providers of services are admitted on a temporary basis for a renewable period of two years. Temporary admission also applies to foreign personnel in other sectors of the economy.

95. Chile's MFN exemptions include measures establishing dispute settlement procedures contained in existing or future bilateral treaties on the protection of investment, reciprocal measures concerning access to freight by Chilean vessels, international maritime freight transportation exceeding 900 tonnes with Brazil, the taxation of maritime freight rates and commissions, maritime cabotage, international land transport, and audiovisual services.[24]

96. In addition, most of Chile's preferential trade agreements contain provisions to facilitate trade in services. The bilateral agreements with Colombia, Ecuador, and Venezuela establish the commitment to facilitate trade in services, and there are specific commitments regarding maritime and air transport. The agreements signed with Canada, Mexico, Costa Rica, and El Salvador contemplate a NAFTA-type liberalization of services with a negative list, while the agreement with the EU contains a positive list of sectors to be liberalized. Chile's agreement with MERCOSUR provides for the liberalization of services based on the parties' respective GATS commitments.

[24] WTO document GATS/EL/18, 15 April 1994.

(iii) Financial services

97. In 2002, financial services (including rent of buildings) accounted for 12.4% of GDP, up from 12.1% in 1996. Employment in financial services increased from 6.8% of the labour force in 1996 to 7.8% in 2002. Foreign direct investment plays a crucial role in the sector and totalled US$12.9 billion between 1996 and 2000.[25] According to the Central Bank, Chile's imports of financial services were Ch$684 billion in 2001, equivalent to about US$1.08 billion; exports amounted to Ch$274 billion (about US$432 million).

(a) Banking

98. As of December 2002, Chile's banking system held about US$63 billion in assets, equivalent to about 98% of GDP. Chile's banking sector comprises fifteen private banks (of which six are controlled by foreign banks), one Government-owned bank (BancoEstado), and nine branches of foreign banks. Foreign-owned or controlled banks and branches account for about 45% of total deposits and loans. BancoEstado is a commercial bank subject to the same regulatory environment as privately owned banks; it seeks to ensure banking services to all regions, maintaining a large volume of passbook savings accounts and making a substantial amount of low-income housing loans.

99. Chile's banking sector has undergone significant changes in recent years, most notably various mergers and acquisitions, which has led to increasing concentration in the sector. The ten largest banks account for some 85% of deposits and loans. Interest rates have been decreasing since 1998 (Table I.1). The average spread between lending and deposit rates has ranged between 3.7% and 5.7% since 1996. As at March 2003, the lending rate stood at 5.7% and real interest rate at about 1.6%. Dollarization of Chile's banking system remains relatively low; by the end of 2002, 10% of bank deposits were dollar-indexed.

100. Chile's banking sector is regulated by the Superintendency of Banks and Financial Institutions, an autonomous institution linked to the Ministry of Finance, and the Central Bank of Chile.

101. Registration and approval procedures for banks are laid out in Articles 27 to 39 of the Bank Law of 26 November 1997 (Decree with Force of Law No. 3/1997), which consolidates a number of former legal instruments. An application to establish a bank must be submitted to the Superintendency; a prospectus must describe the fundamental characteristics of the project and be accompanied by a business plan for the first three years and a guarantee for 10% of the joint capital. The minimum capital requirement is 400,000 U.F.[26] Under Article 28 of the Bank Law, founding shareholders with a significant participation must meet the requirements of solvency and integrity. The Superintendency may reject the brochure, within a period of 180 days, by means of a resolution stating that the founding shareholders do not meet these requirements. There is no economic needs test.

102. There are no limits to the shares a single investor may own in a bank, or to the overall percentage of the banking system an investor may control. For public interest reasons, however, any person acquiring, directly or through third parties, more than 10% of a bank's capital must obtain the prior authorization of the Superintendency.

103. Foreign banks may establish subsidiaries or branch offices in Chile. Pursuant to Article 29, the home country of the parent company must enforce adequate supervision of the bank's operations.

[25] Due to the use of different methodologies, Central Bank figures do not match those provided by the Foreign Investment Committee.

[26] As at August 2003, one U.F. (Unidad de Fomento) was equivalent to US$23.80.

Foreign banks incorporated in Chile and branch offices are allowed to undertake the same range of activities as national banks and are subject to the same regulations. The authorities indicated that since Chile's last Review in 1997 no request by foreigners to establish a bank or branch office in Chile has been denied.

104. The Bank Law also contains provisions on the activities of Chilean banks abroad. Pursuant to Article 76, Chilean banks may open branch or representation offices abroad, but must to obtain the approval of the Superintendency and the Central Bank.

105. Chile participated in the extended GATS negotiations on financial services, and signed the Fifth Protocol to GATS. Under Chile's specific GATS commitments, for financial services no limitations are entered on market access and national treatment for the commercial presence of foreign suppliers for a number of individual banking services (Table IV.10). However, Chile's schedule provides for the right to use an economic needs test, limit individual shareholdings, and oblige foreign banks to localize capital.

106. In addition to the horizontal measures in Section I of Chile's Schedule of Specific Commitments its new section on financial services provides for an economic needs test for foreign investment in financial services.[27] Foreign financial services providers that wish to establish a commercial presence in Chile must obtain authorization from the Superintendency of Banks and Financial Institutions in the case of banking services and from the Superintendency of Securities and Insurance in the case of insurance services. Authorization depends on market conditions and national interest. Furthermore, foreign as well as national banks are allowed to offer insurance services only through specially incorporated subsidiaries, with own capital and following authorization by the Superintendency of Banks and Financial Institutions.

107. Chile's schedule of commitments permits foreign investors in the financial services sector to transfer their capital abroad two years after bringing it into Chile. In practice, however, the Foreign Investment Statute (Decree Law No. 600) allows for the transfer of capital one year after it has been brought to Chile; no such restriction exists for capital brought under Chapter XIV of the Central Bank's Compendium on Foreign Exchange Regulations (Chapter II(3)).

(b) Insurance

108. At the end of 2002, there were 55 insurance companies operating in Chile, of which 23 were providers of property insurance and 32 were life insurance companies. Since 1997, three new general and nine life insurance companies have been incorporated, and four general and nine life insurance companies have closed down or were absorbed through mergers and acquisitions.

109. Chile's insurance sector is governed by the Insurance Law (Decree with Force of Law No. 251 of 1931). The Superintendency of Securities and Insurance is responsible for the enforcement of the Law and for regulating the Chilean sector.

110. Licences for insurance and reinsurance providers are granted by the Superintendency of Securities and Insurance. Any interested legal or moral person must meet a minimum capital requirement of U.F. 90,000 (equivalent to US$2.7 million) for an insurance company, and U.F. 120,000 for a reinsurance company (US$3.6 million). The Superintendency must be informed of the identity of any shareholders with a participation of 10% or more, who must fulfil the requirements of integrity and solvency. Foreign insurance providers that wish to offer insurance or reinsurance services in Chile must incorporate a Chilean company. In addition, foreign providers establishing a Chilean reinsurance

[27] WTO document GATS/SC/18/Suppl.1, 28 July 1995.

company must have an international risk rating of at least BBB. Companies providing life insurance are not allowed to offer property insurance and vice versa. Insurance premiums are set freely by the individual companies and are not subject to approval by the Superintendency.

111. Chilean nationals may buy insurance abroad with the exception of compulsory insurance, such as automobile liability and pension and invalidity insurance, which must be contracted with companies established in the Chilean market. The authorities note that there are no obligations on domestic enterprises to employ specified insurance companies.

112. According to Article 46 of the Insurance Law, the business of insuring or covering risk based on premiums can be undertaken only by insurance and reinsurance corporations that are exclusively dedicated to carrying out insurance and other related activities.

113. Chile's Schedule of Commitments lists no limitations on market access and national treatment for the commercial presence of foreign suppliers for a number of individual services (Table IV.10). However, the Schedule also establishes that insurance services may be supplied only by incorporated capital companies that provide either life or property insurance.

(c) Capital markets

114. Since Chile's last Review in 1997, the Government has taken a number of measures aimed at modernizing the domestic capital market and allowing for greater financial integration. In particular, Law No. 19.769 of 11 October 2001 introduced a number of institutional and fiscal reforms. The law provides for a deregulation of the rules governing mutual funds, most notably by improving the flexibility of investment limits and thus allowing the design of more efficient portfolios. It also created the post of the General Fund Administrator, which allows asset managers to simultaneously manage mutual funds, investment funds, and housing funds. The law introduced various tax reforms, reducing stamp taxes, capital gains taxes, and interest taxes for foreign investors.

115. The authorities indicate that a draft law for venture capital is under preparation.

(iv) Telecommunication

116. The Chilean telecommunications industry has expanded rapidly in recent years. The contribution of the communications subsector to Chile's GDP increased from 1.9% in 1996 to 3.1% in 2002. Growth rates have been particularly high for mobile connections, which increased more than 17-fold between 1996 and 2002 (Table IV.11). There are 14 fixed-net service providers, five providers of mobile services, and 20 companies providing international telecommunications services. Telefónica CTC has a dominant market position as a fixed-net provider in 10 of Chile's 13 regions. Since the early 1990s, Chile's telecommunication sector has been fully privatized; the State is not involved in the provision of telecommunications services.

117. The telecommunication sector is regulated by the Sub-secretary of Telecommunications (Subtel). Subtel is in charge of implementing and overseeing the application of the Telecommunication Law (Law No. 18.168 of 2 October 1982).

118. Pursuant to Article 8 of the Telecommunication Law, a concession is required for offering public telecommunications services. Concessions are granted by Subtel by means of supreme decrees. Once granted, a concession to provide telecommunication services is valid for 30 years. A concession or licence is required for the use of the radio-wave spectrum; the fees for the different types of concessions or licences are set out in Article 32 of the Telecommunication Law.

Table IV.11
Telephone connections in Chile, 1996-02
(Number of lines/subscriptions and per cent)

	1996	1997	1998	1999	2000	2001	2002
Fixed							
Number of lines	2,264,342	2,693,286	3,046,698	3,108,799	3,302,506	3,478,490	3,531,734
Penetration (%)[a]	15.6	18.3	20.4	20.6	21.6	22.4	22.7
Mobile							
Number of subscriptions	319,474	409,740	964,248	2,260,687	3,401,525	5,271,565	5,714,088
Penetration (%)[a]	2.2	2.8	6.5	15.0	22.2	34.0	36.7

a Defined as the quotient between number of lines/subscriptions and population.

Source: Sub-secretary of Telecommunications (Subtel).

119. Service providers are free to set prices or rates for telecommunication services. Article 29 of the law provides for the possibility of official price setting by the regulatory authorities when market conditions are considered insufficient; according to the authorities this provision has been applied several times since the law entered into force.

120. In accordance with Articles 25 and 30 of the Telecommunication Law, interconnection charges are set by Subtel through decrees.

121. In 1994, the Chilean Government established the Telecommunications Development Fund to encourage improved telecom service to rural and low income areas. The original goal of the fund was to provide public telephone service to about 6,000 unserved localities, a target that was met over the five-year period 1995-99. After this objective was achieved, the government redefined the fund to support community telecenters, which offer various kinds of communication services, including internet access, to the public. An initial target is to install telecenters in about 90 municipal towns with over 8,000 rural inhabitants. By 2006, there would be telecenters in all 341 municipalities. The Fund is administered by Subtel and financed by contributions from the government budget.

122. The Telecommunication Law provides for a number of exceptions to national treatment for television and broadcasting companies. Pursuant to Article 22 of the law the presidents, managers, administrators, and legal representatives of such companies must be Chilean nationals. The Law further establishes that, while directors may be of foreign nationality, the majority must be Chilean nationals. However, there are no equity limits to foreign investment.

123. Chile participated in the Negotiating Group on Basic Telecommunications and has signed the Fourth Protocol to the General Agreement to Trade in Services. The adoption of the Fourth Protocol expanded Chile's commitments for numerous telecommunication services, most notably for mode 2 supply (consumption abroad). Chile's Schedule of Commitments in telecommunications services allows the commercial presence of foreign companies, provided that they obtain a concession issued by Subtel, but excludes basic local telecommunication services.[28] In the context of this Review the authorities indicated that this exclusion reflected policy considerations at the time of the negotiations. Long-distance telephone services may be provided only by listed companies. In addition, the Schedule includes measures to prevent major telecommunications service providers from engaging in anti-competitive practices.

[28] WTO document GATS/SC/18/Suppl.2, 11 April 1997.

124. In the ongoing service negotiations, Chile has supported extensive liberalization of all basic telecommunication services, based on the principle of non-discrimination.[29] In Chile's view, such liberalization must be effected by each Member as an extension of its current commitments, within the framework of its legal system and its institutional regulations.

(v) Transport

(a) Introduction

125. Chile's transport sector accounted for 5.0% of GDP in 2001, up from 4.5% in 1996. The Ministry of Public Works, through the Subsecretary of Transport is responsible for regulating Chile's transport sector.

126. Chile's GATS commitments for transport services are relatively limited, but no limitations are listed on market access and national treatment for the commercial presence of foreign suppliers for a number of services related to air transport (Table IV.10). In the ongoing WTO negotiations on services, Chile expressed its hope that substantial progress would be achieved in the liberalization of air and maritime transport services, which have remained subject to weaker disciplines with little or no liberalization.[30]

(b) Maritime transport

127. Chile's main maritime ports in volume terms are San Antonio, San Vicente, Patillos and Huasco/Guacolda (Table IV.12). Chile's national merchant fleet has about 800,000 gross registered tonnes.

128. Since Chile's last Review in 1997, the State has further reduced its role in maritime transport. As part of its privatization policy, the Chilean state gave various seaports in concession in 1999 and 2000. These include the ports of Valparaíso, San Antonio, Iquique, and San Vicente. Furthermore, the ferry company Transmarchilay was privatized in 1999.

Table IV.12
Major Chilean ports, handled cargo, 1996-01
('000 tonnes)

	1996		1997		1998		1999		2000		2001	
Ports	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export
San Antonio	3,233	1,696	3,154	1,554	3,583	1,863	3,885	2,197	4,305	2,376	3,731	2,464
San Vincente	2,493	2,894	1,961	2,798	2,036	2,558	2,245	2,142	2,783	2,434	2,587	2,873
Patillos	..	3,822	..	3,037	..	2,058	..	2,827	..	2,559	..	4,195
Valparaíso	2,494	2,090	1,909	2,068	1,714	2,178	1,389	2,220	1,372	1,781	1,338	2,569
Huasco/Guacolda	605	3,491	547	3,568	544	3,785	699	3,258	725	3,757	526	3,422
Quintero	3,096	121	3,113	121	3,409	216	3,892	434	4,079	870	2,465	686
Guayacán	20	3,394	44	3,074	..	3,062	..	2,381	..	2,747	..	2,774

.. Not available.

Source: General Directorate of the Maritime Territory and Merchant Marine.

129. Maritime transport is regulated by the Subsecretary of Transport of the Ministry of Public Works, the Merchant Marine Commission, and the General Directorate of the Maritime Territory and

[29] WTO document S/CSS/W/88, 14 May 2001.
[30] WTO document S/CSS/W/88, 14 May 2001.

Merchant Marine of the Ministry of Defence (DIRECTEMAR). The Subsecretary of Transport regulates commercial aspects of international transport and cabotage. The Merchant Marine Commission is in charge of ensuring that the principle of reciprocity is enforced. The General Directorate of the Maritime Territory and Merchant Marine is in charge of safety at sea, and grants licences to crew members.

130. Maritime transport is governed by Decree Law No. 2.222 of 31 May 1978 and the Maritime Transport Law (Law No. 3059 of 21 December 1979). Chile has been a member of the International Maritime Organization since 1972 and has signed several international conventions on maritime transport.[31] Chile has made no GATS commitments on maritime transport.

131. Article 11 of Decree Law No. 2.222 establishes that only a Chilean national or company incorporated in Chile is allowed to register a ship in Chile. However, ships, other than for fishing, owned by foreigners may be registered as Chilean ships if the foreigners are domiciled in Chile, if the principal location of their business is Chile or if they exercise permanently a profession in Chile. The chairperson, managers, and directors of such a shipping company must be Chilean, and more than 50% of the capital of the company must be owned by Chileans.

132. Pursuant to Article 3 of the Maritime Transport Law, national maritime cabotage is reserved for Chilean enterprises. However, foreign vessels may participate in normal coastal trade when the volume concerned exceeds 900 tonnes; prospective carriers must participate in a public tender for a concession. For cargo inferior to 900 tonnes, foreign vessels may also be used when no Chilean vessel is available. Furthermore, foreign vessels are allowed to engage in cabotage of empty containers under the principle of reciprocity. Transport from and to the harbour of Aríca is not considered national cabotage.

133. In the WTO ongoing service negotiations, Chile has stated that the negotiations should seek to promote an international maritime transport system based essentially on market competition between shipping companies, with a minimum of interference and regulation. Negotiations should thus focus on international maritime transport services, auxiliary maritime services, and access to and use of port infrastructure and services.[32] Chile is a proponent of meaningful liberalization of maritime transport services.[33]

134. Chile signed a bilateral maritime transport agreement with Brazil in 1974, under which all maritime transport between the two countries must be carried on vessels flying the Chilean or Brazilian flag; oil and its by-products and natural liquid gas are exempt from this provision. Transport in vessels that are neither Chilean nor Brazilian is allowed only if no other means of transportation is available; cabotage is excluded from the agreement.

(c) Air transport

135. Air transport in Chile is governed by the Law on Commercial Aviation (Decree Law No. 2.564) of 22 June 1979. The air transport policy laid down in this law is based on the principles

[31] Chile has signed the International Convention for the Safety of Life at Sea (SOLAS), the Convention on the International Regulations for Preventing Collisions at Sea, the International Convention for the Prevention of Pollution from Ships (MARPOL), the Convention on Facilitation of International Maritime Traffic, the International Convention on Load Lines, the International Convention on Civil Liability for Oil Pollution Damage, the International Convention for Safe Containers, the International Convention on Maritime Search and Rescue, the Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation, and the International Convention on Oil Pollution Preparedness, Response and Co-operation.

[32] WTO document S/CSS/W/88, 14 May 2001.

[33] WTO document TN/S/W/11, 3 March 2003.

of open skies, free competition between airlines, and freedom of price-setting. Chilean and foreign airline companies are allowed to supply commercial air transport services both domestically and internationally. However, pursuant to Article 2 of the Law on Commercial Aviation, the participation of foreign companies is allowed only on the basis of reciprocity.

136. Commercial air transportation is supervised by the Civil Aeronautics Board (JAC) of the Ministry of Transport, while the General Directorate of Civil Aeronautics (DGAC) is responsible for operational matters. The JAC and the DGAC approve the entry of new airlines to the Chilean market; approval is contingent on compliance with technical requirements and reciprocity conditions. The National Directorate of Airports (DAP) supervises investments in Chile's airports.

137. The DGAC supervises 35 airports. The most important is Santiago international, which receives more than 90% of all international passengers and cargo. In 2002, there were more than 3 million international passenger arrivals and departures, up from 2.4 million in 1996. National air transport also carried over 3 million passengers in 2002. Out of 27 airlines operating in Chile, six are private national companies.

138. Chile's airports are state-owned, but their construction and administration, including the provision of terrestrial auxiliary services, has been given in concession to private enterprises. With the exception of air traffic control, the State is not involved in the provision of air transport or auxiliary services. The State fixes and collects the fees for the use of airports and air traffic control.

139. Chile's GATS commitments for air transport services lists no limitations on market access and national treatment for the commercial presence of foreign suppliers for the opening of offices, the issue and sale of air-transport fares and tickets, ground operation of support equipment, and aircraft maintenance (Table IV.10).

140. Chile has concluded international air transport agreements with several countries (Table AIV.1); 14 further agreements have been negotiated but not yet ratified. Provisions on international air transport are also contained in Chile's preferential trade agreements with Costa Rica, El Salvador, and Mexico.

141. In 2002, a Multilateral Agreement on the Liberalization of Air Transportation concluded by seven APEC members entered into force. The Agreement eliminates the traditional ownership provisions found in most bilateral agreements and creates a multilateral process for dealing with issues like accession, amendments to the agreement, dispute resolution and outside relationships. In 2003, Chile, together with Brunei, New Zealand, and Singapore, also signed an optional protocol to the agreement allowing national cabotage and the 7th freedom for passenger transport.

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