TRADE POLICY REVIEW MECHANISM

THE REPUBLIC OF CHILE

Report by the Secretariat

In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (L/6490), the Secretariat submits herewith Volume A (Text) of its report on the Republic of Chile. Volume B (Tables and Appendices) is presented in document C/RM/S/14B.

The report is drawn up by the Secretariat on its own responsibility. It is based on the information available to the Secretariat and that provided by the Republic of Chile. As required by the Decision, in preparing its report the Secretariat has sought clarification from the Republic of Chile on its trade policies and practices.

Document C/RM/G/14 contains the report submitted by the Government of the Republic of Chile.

NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.
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SUMMARY OBSERVATIONS

1. Over the past three decades, Chile has experienced a highly volatile economic performance. Annual changes in real gross domestic product have fluctuated between an increase of 10 per cent and a decline of 14 per cent of GDP; inflation varied from 10 to some 1,000 per cent; and unemployment ranged from one-in-twenty to almost one-third of the labour force.

2. These large swings in key economic indicators were related to a variety of structural factors, including Chile's long-standing trade dependency on one commodity, copper. It was only after 1984 that, along with a broadening of Chile's export base, economic development became more steady and robust.

3. In the 1960s, unsuccessful efforts to overcome stagnating growth associated with Chile's traditional import-substitution policies resulted in an economic backlash. Renewed growth was forestalled until after a major market-oriented economic reform programme was implemented in the mid-1970s. Market incentives contributed to a diversification of output and trade in Chile. However, the changes in economic institutions and policies did not prevent a major recession in 1982-83.

4. A new structural adjustment programme, largely implemented during the period 1985-88, cleared the way for sustained recovery. Building on these reforms, the present policy approach remains strongly market-oriented. Chile's trade links with the world economy have been further broadened through the ongoing process of export diversification.

(1) Chile in World Trade

5. Since the mid-1980s, economic development in Chile has been trade- and investment-led. During a period of strong world trade growth, the dollar values of Chile's merchandise exports and imports have expanded ahead of
world merchandise trade (see Chart). As a result, Chile's contribution to world merchandise exports increased from under 0.2 per cent in the mid-1970s to an estimated 0.3 per cent in 1990. (Chile ranks currently 53rd and 54th among world exporters and importers, respectively.)

6. Rapid trade growth has increased Chile's trade orientation. Exports and imports corresponded to 32 and 26 per cent of GDP in 1989, up from 24 and 17 per cent, respectively, in 1985. Links with the world economy have been reinforced by Chile's growing services trade, currently well over US$3 billion, and increased direct investment from abroad, reaching around US$1.7 billion in 1989.
7. Vigorous investment activity and the recent expansion of Chile's export sector has boosted imports of intermediate goods. These continue to dominate Chilean imports, with motor vehicles and agricultural machinery being the most dynamic growth areas. Overall, the product range of imports has remained greater than for exports.

8. Copper is still Chile's single most important export product. The Chilean economy, the world's major copper producer, continues to be vulnerable to fluctuations in the world copper market. However, progressive export diversification has reduced the share of copper in total exports of merchandise to around one-half, down from over 70 per cent in the mid-1970s and around 60 per cent in the early 1980s. Expanding non-traditional exports have included agricultural products like fruit, and processed primary products, especially fishmeal, wood, paper and cellulose.

9. At present, developed countries are the market for almost three-quarters of Chilean exports of merchandise and the source of three-fifths of imports. Over the past decade, exports to the three main single foreign markets, the United States, Japan and Germany, have expanded more rapidly than exports to other destinations, and now account for well over two-fifths of total exports.

10. In contrast, the share in Chilean exports of Latin American countries has halved over the past decade to under one-ninth, reflecting the economic difficulties in major export markets such as Argentina, Brazil and Venezuela. However, Latin American countries, as a group, have maintained their share in Chile's import market of around 30 per cent. Asian developing markets, particularly China, Taiwan and the Republic of Korea, have gained importance as export destinations and as origins of Chile's imports, but in the late 1980s trade with these economies was still well below 10 per cent of Chilean merchandise trade.
(2) Institutional Framework

11. Chile's military rule ended in March 1990 with the inauguration of the current democratically-elected Government. Under the Constitution, ultimate responsibility for the formulation of trade-related policies in Chile rests with the President of the Republic. In practice, these powers are mainly exercised through the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of Economy, Development and Reconstruction and the Central Bank. The recent creation of the Ministry of the President has improved the co-ordination of Government policies in trade and other areas.

12. Although Chile does not have a basic trade law, many fundamental principles and rules affecting trade and industrial policies have been incorporated into domestic laws and regulations. Discriminatory treatment by the Government between different economic or regional activities is prohibited by Article 19 of the Chilean Constitution. Other legislation provide in law the provisions of the General Agreement and contain rules on import and export policies. The Central Bank Law (1989) establishes the right to freely import and export by outlawing the imposition of quotas and prohibitions on merchandise trade, except as retaliation against countries identified to be restricting Chilean trade. The Law on Regulating Imports contains the rules on setting minimum customs values and tariff surtaxes.

13. All major trade-related laws, including changes in tariff levels, must be approved by the National Congress. Chilean trade policies are implemented mainly through ministerial decrees.

14. Formal participation of the private sector in trade policy formulation is rare. The Government consults informally with the private sector on matters of trade policy through consultative commissions involving, in particular, producers and traders. Consumers play a minor role in trade policy setting.
15. Chile has no official agency for regularly reviewing the economy-wide costs and benefits of trade policies and public assistance to the private sector.

(3) Trade Policy Features and Trends

16. Chile acceded to the GATT in February 1949. It has signed three MTN Codes - Technical Barriers to Trade, Subsidies and Countervailing, and Import Licensing Procedures - and is an observer to five other Tokyo Round Codes. Chile has participated actively in the Uruguay Round, both individually and collectively with other Latin American countries and as a member of the Cairns Group.

17. Chile supports the m.f.n. principle. About ninety per cent of its imports come from m.f.n. sources. The major exception is tariff preferences for many imports from members of the Latin American Integration Association (LAIA), entering Chile under complex product-specific bilateral and regional arrangements. Chile's participation in the Global System of Trade Preferences (GSTP) is limited to tariff reductions of 10 per cent for ten products, such as vegetable saps, latex and certain precious and semi-precious stones. These reductions are extended to all GSTP participants.

18. Chile is expanding its bilateral trading arrangements. Presidential agreements were signed last year with Mexico and Venezuela for the creation of bilateral free-trade zones, covering the elimination of both tariff and non-tariff barriers, by 1994. Chile was the first country to engage in formal negotiations following the "Initiative for the Americas" launched by the United States last year, and attaches high priority to the conclusion of a free-trade agreement with this trading partner.

19. Chilean exports receive GSP treatment from developed countries. Withdrawal of GSP eligibility by the United States in 1987 (because of alleged non-acceptance of internationally-recognized worker's rights) was reinstated in February 1991.
(i) Recent evolution

20. In 1973, the incoming military Government launched a major programme to revitalise the economy. The Government's strategy involved comprehensive economic reforms aimed at achieving macroeconomic stability by appropriate fiscal and monetary policies and at facilitating structural adjustment by eliminating past inward-looking trade and industrial policies.

21. Outstanding features of the trade reforms implemented at the time were the depth and the speed of dismantling trade restrictions. The import-licensing régime, including quotas on many foreign products, was phased out within two years. Tariffs were slashed over 5 years from very high and disparate levels, exceeding 200 per cent in some cases, to a uniform rate of 10 per cent. Price controls were removed abruptly, many State enterprises privatized, and the financial sector deregulated. Trade liberalization, involving shock therapy, quickly exposed the economy to external competitive pressures on a broad front.

22. A temporary setback to trade reform occurred in 1984 when, for stabilization reasons, the Government partly reversed its trade-opening policies. Failure to control inflation after the pegging of the Chilean peso to the US dollar in June 1979 had contributed, along with the second oil price shock, increasing international interest rates and world recession, to a severe domestic economic crisis in 1982-83.

23. In response, the Government introduced a stabilization package in 1982, including a major devaluation of the peso, the replacement of the fixed exchange rate régime with a flexible system designed to maintain a competitive exchange rate, and the removal of wage indexation. To counter mounting external imbalances, rising overseas debt and dwindling international reserves, the Government progressively tightened import controls, more than tripling the uniform tariff rate to 35 per cent by 1984. By resorting to higher uniform tariffs as a transparent means of
tackling its short-term difficulties, the Chilean Government avoided major distortions to its trade and industry patterns.

24. These measures were reviewed and complemented in the context of a new structural adjustment programme implemented during the period 1985-88. The programme built on earlier initiatives to strengthen the flexibility of the economy. The uniform tariff was reduced again in two steps to reach, in January 1988, its present rate of 15 per cent. A scheme was introduced to promote export diversification by reimbursing exporters for tariffs paid on imported inputs. The establishment of a Copper Stabilization Fund, a comprehensive debt reduction programme, and improved exchange rate management further contributed to strengthen the resilience of the Chilean economy against external disturbances.

25. Stimulated by these reforms, the Chilean economy recovered. Average annual economic growth of over 6 per cent since 1985 has contributed to halving recorded unemployment to 6 per cent while raising real wages to one of the highest levels in Latin America. The current account deficit declined from 7 per cent in terms of GDP in 1985 to an estimated 3 per cent in 1990, mainly due to rapid growth of non-traditional exports.

26. Chile's trade reforms have been shaped by the Government's belief that economic efficiency would be improved if market forces were allowed to allocate resources according to Chile's comparative advantage. Since 1988, no major trade policy changes have occurred. The present Government has confirmed Chile's strong commitment to a market-oriented foreign trade régime.

(ii) Type and incidence of trade policy instruments

27. The uniform tariff of 15 per cent is the principal instrument controlling Chilean imports. The almost exclusive use of ad valorem tariffs adds to transparency. No quantitative import restrictions are imposed, with the long-standing exception of a prohibition on second-hand motor vehicles. Internal commodity taxes are generally non-discriminatory
(a possible exception being a low consumption tax on pisco relative to the
tax on imported spirits).

28. Chile has maintained an element of flexibility in tariff setting by
binding virtually its entire tariff at a rate of 35 per cent. This
flexibility, used to temporarily raise tariffs in the 1980s in response to
the recession, allows for tightening market access without resorting to
more distortive quantity-based trade barriers. However, at the same time,
tariff predictability is reduced since rates may be more than doubled
within existing binding commitments.

29. Sectoral arrangements provide special treatment to a few important
industries. In particular, variable composite tariffs underpin domestic
price bands set annually by the Government for sugar, wheat and oilseeds.
The price band mechanisms, initially introduced to stimulate domestic
production, are now intended to correct for distortions in international
markets caused by export subsidies and other support measures applied by
trading partners. However, because of the difficulties of isolating
distorted price effects from normal price movements associated with shifts
in world demand and supply, these arrangements have the potential to
substantially increase assistance during periods of falling world prices.

30. In early 1991, ad valorem equivalents of variable tariffs on wheat
amounted to over 100 per cent. Domestic prices for wheat are supported by
the Wheat Trading Enterprise, a State-trading organization. Special tariff
provisions are applied to imported wheat flour, by far the major end-use
for wheat. On top of the uniform rate of 15 per cent, imported wheat flour
is subject to a minimum customs value of US$324.50 per ton, as well as,
since January 1991, a provisional tariff surtax of 12 per cent. While
agricultural self-sufficiency is no longer a stated aim of the Chilean
Government, these sectoral policies for wheat would appear to be an
underlying factor in Chile's self-sufficiency in this product since 1984.

31. Local content requirements have aided the development of the Chilean
automobile industry, especially the components segment, since 1960. In
1991, the local content requirement, originally set at between 15 and 30 per cent, was lowered to 13 per cent. Although not mandatory, motor vehicle assemblers satisfying the minimum local content requirements receive a tax credit (recently reduced from 50 to 40 per cent of the value of local content). Local industry has campaigned for the prolongation of the scheme, due to expire under current legislation in 1995. Tying the payment of tax credits to assemblers achieving export performance targets is also under consideration by the Government.

32. Annually-renewed minimum customs values, reference prices and tariff surtaxes have affected imports of a number of products, such as certain dairy products, tyre cases, textile products, steel products, aluminium products and, as already noted, wheat flour. These arrangements add complexity, raise administrative discretion and reduce transparency of the Chilean tariff system. While any single measure may provide only small assistance, the cumulative effect of these arrangements on restricting import competition may well be substantial.

33. Imported second-hand goods are subject to a tariff surtax of currently 7.5 per cent. Other charges levied on imports are intended to primarily recoup the costs of Government-provided services, such as the airport tax of 2 per cent. A user fee of 5 per cent is imposed on the few goods exempt from customs duties.

34. Except for preferential imports from LAIA countries, Chile does not require certificates of origin. Bilateral partial-scope agreements between LAIA countries often establish stricter rules-of-origin for individual products than the maximum 50 per cent rule generally applied, thus creating some country- and product-specific differentiation of market access.

35. Apart from forestry where substantial production subsidies apply, financial assistance is not used as a major means of promoting the competitiveness of domestic industries. Government assistance to afforestation in the form of plantation and forest management subsidies, amounted to US$5.7 million in 1989. According to an estimate for 1985, the
subsidies to this important growth sector reduced grower's costs by some 30 per cent. Forestry, like mining and petroleum industries, also benefit from special income tax concessions, such as exemptions and rebates. Some assistance is provided to fund agricultural research and development. Irrigation subsidies have been reduced over recent years in line with increased irrigation charges.

36. Government procurement in Chile is not centralized. It remains usually the responsibility of each purchasing body. While there are no restrictions on the eligibility of foreign suppliers to compete for procurement contracts, only large contracts must be generally filled through public bids, with tenders being published in major local newspapers. A previous Government "Buy Chile" campaign, requiring all State-owned companies to source locally whenever price and quality considerations were identical with competing supply from abroad, has been terminated.

37. In the area of standards, the National Standardization Institute of Chile is committed to maintaining international norms, such as those established by the International Organization for Standardization and the Codex Alimentarius Commission. Nevertheless, Chilean standards differ in about one-in-five cases. Generally, more stringent requirements seem to address special concerns such as construction materials satisfying stricter seismic qualities. Discrimination against imports is lessened by Chile applying standards uniformly to imported and domestic goods, and accepting, subject to spot checks, results of overseas tests.

38. A wide range of imported agricultural and animal products are also subject to sanitary and phytosanitary controls. The Government believes that its sanitary regulations, imposed on the basis of an acceptable risk policy, are the minimum necessary to prevent importation of disease. In some cases, phytosanitary regulations impose special requirements on certain import items, or imports from nominated countries. Examples include all imported wheat and maize which must be fumigated on arrival in
Chile, and the treatment of carnation seeds with fungicide if imported from Argentina, Europe, New Zealand and the United States.

39. Strict quarantine requirements apply to many imports of plants and animals. These requirements are generally more stringent than in most other countries, and thus have the potential of being a highly restrictive trade measure. Chile has attempted some fine-tuning of its quarantine restrictions to reflect likely risks by varying requirements between products and suspected diseases.

40. Production and marketing of the main export product, copper, are controlled by the Government-owned Chilean Copper Commission and the Chilean Copper Corporation (CODELCO-Chile). The Commission's statutory powers include the export approval of all copper and copper by-products; allocation of copper reserves between domestic processors; approval of copper imports by local users; and authorization of foreign investment in mining. Around 90 per cent of copper exports are sold directly through the Commission. These arrangements may enable Chile, as the world's leading copper supplier, to influence international prices.

41. Apart from copper, no export licenses or controls are applied by Chile, except those applied to products by the Convention on International Trade in Endangered Species of Wild Flora and Fauna (CITES). There are currently no taxes or other charges on exports.

42. Voluntary arrangements to restrict trade are not permitted by the Chilean legislation. In 1979, Chile turned down a request by a major trading partner to voluntarily restrain exports of apples.

43. Export promotion and marketing assistance is provided by the Export Promotion Bureau (ProChile) of the General Directorate of International Economic Relations. ProChile's activities have benefited mainly small exporters. No preferential lines of credit or insurance schemes exist for Chilean exporters. However, a Guarantee Fund, established for non-traditional exporters in 1987, provides minor assistance.
(iii) Temporary measures

44. Safeguard action by Chile under GATT Article XIX has been limited to the operation of the composite variable tariffs applied to sugar, wheat and oilseeds. Action, implemented in 1984-85, was taken as depressed world prices increased the ad valorem equivalents for these products above the bound rate of 35 per cent. Chile ceased to invoke the provisions of Article XIX in January 1988 when the uniform tariff was reduced to 15 per cent.

45. Safeguard clauses in the framework of the Latin American Integration Association have been used recently on at least two occasions to protect domestic producers from preferential imports. Tariff preferences on imports of fowl meat from Uruguay and phthalic anhydride from Venezuela were suspended to prevent major market disruption until November 1990 and March 1991, respectively.

46. The Import Distortions Investigation Commission is in charge of investigating countervailing cases as well as any other distortions, such as alleged dumping, that may be "seriously prejudicing" national industries. Countervailing cases aside, the Commission can recommend tariff surtaxes and minimum customs values, or both. Investigations are public, and legal appeal procedures are available. Sunset clauses automatically terminate tariff surtaxes or minimum customs values after a maximum of one year. However, these measures have been frequently renewed following subsequent investigations, especially for dairy, textiles and clothing products.

47. Between 1981 and 1986, 135 countervailing investigations were initiated in Chile. In only one case, Portuguese drawn flat glass, a definitive countervailing duty of 10 per cent was imposed. The only new investigation since 1986 led to the imposition of a provisional countervailing duty of 5 per cent on imports of woven cotton fabrics from Pakistan in October 1990.
48. As noted, since 1986 increased use has been made of tariff surtaxes and minimum customs values to correct for what the Chilean authorities consider to be international price distortions due to unfair practices of trading partners. These measures are applied on an m.f.n. basis.

(iv) New initiatives

49. A major new dimension in Chilean trade policies is the high priority attached to the establishment of bilateral trading arrangements, especially with the United States. Greater reliance on bilateral trade is not seen by the Chilean Government as conflicting with its strong commitment and adherence to the objectives of the multilateral trading system.

50. In other respects, the Government has reinforced the current stance of policies affecting Chile's international trade and foreign direct investment, but is not, at this stage, proposing major new reforms. The privatization programme, already well advanced, is to continue, albeit at a reduced pace. Efforts are under way to raise productive capacity and improve income distribution, in particular through increased Government expenditures on health and education.

(4) Trade Policies and Foreign Trading Partners

51. The Chilean experience suggests that rapid trade reforms, when combined with an appropriate mix and sequencing of stabilization policies, are a sustainable recipe for improving economic performance. Trade-opening measures have promoted structural adjustment, including export diversification. As a result, Chile's economy has become increasingly resilient, although its continued vulnerability to fluctuations in the world market for copper remains of concern.

52. Chile's economic policy reforms since the mid-1980s have spurred economic growth and trade expansion. Foreign trading partners have shared in this development through greater availability of competitive Chilean
products and through increasing business opportunities in a growing Chilean market.

53. The firm commitment to a uniform tariff and non-discrimination as a guiding principle for trade-related policies have kept at bay sectoral pressures for protection. This has reduced uncertainty for foreign trading partners about business conditions in Chile. Imports, mainly of capital and intermediate goods, have grown strongly in recent years. Further reductions in the tariff level, still a substantial import barrier, would enhance efficiency gains, especially by reducing the burden on non-traded services and promoting competitive export industries in Chile.

54. Broadening linkages with the world economy have strengthened Chile's interest in, and reliance on, the multilateral trading system. Its participation in the Uruguay Round reflects the belief that a multilateral system, based on the establishment and enforcement of clear and predictable rules, is in the best interest of a small dynamic trader wishing to share in more liberal world trade. Improved access to markets for Chilean goods is seen as essential if Chile is to realize its full economic potential and further reduce its reliance on foreign debt. As a member of the Cairns Group, Chile is particularly interested in stronger rules governing world trade in agriculture.

55. Increasing interventions by foreign Governments in the markets for agricultural products are a major concern to Chile. The Chilean Government has responded by continuing to maintain sectoral arrangements for wheat, sugar and oilseeds. Global trade liberalization would facilitate rationalization of these and other policies of sectoral support, including the policies in place for motor vehicles.
I. THE ECONOMIC ENVIRONMENT

(1) Major Features of the Chilean Economy

1. The Republic of Chile, located on the western seaboard of South America, covers an area of nearly 760,000 square kilometres. About one-third of the land is suitable for agriculture, the main land use being grazing (17 per cent), forestry (11 per cent) and crops (2 per cent). During the 1980s, the Chilean population grew at an annual average rate of 1.7 per cent to reach nearly 13 million in 1990 (Table I.1). The population density is 17 inhabitants per square kilometre. Some 40 per cent of the inhabitants live in the capital, Santiago.

2. Following a deep recession in the early 1980s, Chile has experienced continuous growth since 1984, an exceptional feature by Latin American standards. Annual real GDP growth peaked at 10 per cent in 1989. Sustained economic growth raised Chile's real annual per capita income to about US$1,700 in 1988. A sharp decline in the unemployment rate from almost 20 per cent in 1983 to 7.5 per cent in 1989 accompanied these gains (Table I.1 and I.2).

3. Exports have been a strong element in Chilean growth. Chile is among the leading exporters of minerals, especially copper, and of forestry and fishery products. Merchandise trade, equivalent to over one half of GDP, indicates the country’s heavy dependence on international trade (Table I.1).

(i) Agriculture

4. Agriculture accounts for around 9 per cent of GDP and 21 per cent of total employment (Chart I.1). The removal, over the years, of many impediments to agricultural production through market-oriented policies has exposed activities to competitive pressures and stimulated production. Greater specialization in areas such as crops and livestock most suited to Chile's climate and factor endowments resulted in efficient production of numerous commodities demanded in foreign markets.

5. Agricultural output growth decelerated from about 7 per cent a year in the period 1984-86 to 3.2 per cent in 1987. By 1989, it had recovered to 4.7 per cent, aided by fruit cultivation, one of the fastest growing activities in the agricultural sector.

\[1\] The Chilean Antarctic territory covers a further 1,250,000 square kilometres.
6. The contribution of the agricultural sector to export revenue increased from 7 per cent in 1980 to 12 per cent in 1989, when it reached almost US$1 billion. The main export items are fruit, fish and livestock products.

(ii) Mining

7. The mining sector is the traditional mainstay of the Chilean economy, accounting for 8 per cent of the country's GDP. In 1989, mining exports amounted to nearly US$5 billion or around 60 per cent of total merchandise exports. Copper is by far the dominant mineral resource, accounting for over 80 per cent of total mineral exports. Other important export minerals are molybdenum, iron, silver and gold. Although the contribution of mining to overall employment is around 2 per cent, its regional impact is significant in certain areas.
8. The rôle played by the public sector in mining has been substantially diminished by privatization. However, the publicly-owned National Copper Corporation (CODELCO-Chile) continues to be the biggest producer and exporter of copper.

9. The growth rate of mining production has been slower than that of GDP. After having stagnated in 1987, mining production grew at 4.2 per cent in 1988 and, boosted by foreign investment, by 8.4 per cent in 1989.

(iii) Manufacturing and services

10. The manufacturing sector in Chile accounts for more than 20 per cent of total output, a higher proportion than for other Latin American countries (Chart I.1). The food processing industry contributes for around 40 per cent to manufacturing value added and the chemical industry about 16 per cent. The next two most important industry groups are metal working and paper processing, accounting for 12 and 11 per cent of manufacturing value added, respectively.

11. Led by exports of manufactures, the real growth of manufacturing accelerated from 5.5 per cent in 1987 to 8.7 per cent in 1988. Industries recording particularly high growth rates were seafood products, fishmeal, wood and paper products. In 1989, manufacturing expanded by 10 per cent (Chart I.2).

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2 Major mining enterprises privatized include the Chemical and Mining Company (SOQUIMICH) handling nitrate and iodine production; and the Pacific Steel Company (CAP) which mines and markets all of Chile's iron ore production. The National Coal Enterprise (ENACAR) has been partially privatized.
Chart I.2
Real GDP growth in Chile by sector, 1980-89
Percentage change


12. As in many other countries, services are the largest economic activity in Chile, accounting for well over one-half of total GDP and employment (Table I.1).

(2) Recent Economic Performance

13. Chile, like other Latin American countries, experienced a grave economic crisis in 1982-83. One factor behind this crisis was a real
appreciation of the Chilean peso, which followed the pegging of the currency to the United States dollar in June 1979. The resulting loss in international competitiveness was exacerbated by the world recession in the early 1980s and the rise in international interest rates. From 1979 to 1983, Chile's terms of trade declined by over one-quarter, one of the sharpest falls of any country in the region. In 1982 and 1983, the inflow of financial resources from abroad shrank considerably. Real GDP plunged by almost 15 per cent. Gross investment shrank from 18 per cent of GDP at the beginning of the decade to 8 per cent in 1983.

14. The Chilean Government responded initially with short-term initiatives designed to minimise dislocation to the economy. Main changes included a considerable devaluation of the peso, the establishment of a crawling-peg régime, an infusion of liquidity into the financial system and State guarantees for private debts. In the external sector, a temporary reversal of previous tariff reforms, with steep rises in the uniform tariff rate from 10 to 20 per cent in early 1983 and again to 35 per cent in 1984, reduced imports and helped to control the current account deficit. Real GDP recovered strongly in 1984, growing by 6.3 per cent (Table I.2).

15. These temporary remedies were followed by the implementation of a broadly based structural adjustment programme designed to strengthen production of tradable goods through export diversification away from copper, to stimulate savings and investment by reducing consumption, and to lower external indebtedness (Table I.3). Non-copper exports grew in volume by an annual average rate of 12.5 per cent from 1984 to 1989, while the increase in gross capital formation averaged 12 per cent per year. Economic growth averaged 6.3 per cent annually during the latter half of the 1980s, and by the end of the decade per capita production had regained its 1981 level. Unemployment fell from a rate of 19 to 7.5 per cent, accompanied by an initial reduction in the rate of inflation and largely balanced external accounts. The Government finance deficits have been eliminated and since 1987, surpluses of around 4 per cent of GDP have been registered (Chart I.3).

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3 All economic sectors were affected by the crisis, although the manufacturing sector was hardest hit. The overall rate of unemployment rose to 30 per cent. Many enterprises and leading banks experienced dire financial difficulties, and Chile's external debt and related servicing reached unprecedented levels.

4 Chile's economic programme between 1985 and 1988 was supported by three Structural Adjustment Loans from the World Bank, totalling US$750 million.
16. Chile's strong economic performance has been both investment and trade-led. Increased investment raised productive capacity. Expanding exports has been one of the success stories of the adjustment process. Export volumes grew rapidly until 1989, and import volumes even faster (Table I.4). Rapid expansion of non-traditional exports, particularly fruit, forestry and fishery products, brought a steady rise in export earnings between 1984 and 1989. Trade performance was helped by improved terms of trade in 1987 and 1989, due to buoyant international copper prices, reversing earlier trends. In 1989, exports climbed to roughly one-third of GDP, compared with 24 per cent at the start of the decade.

17. Other vital economic factors were a debt rescheduling agreement concluded with creditor banks in October 1990, postponing half of Chile's repayments until 1991-93, and foreign exchange savings through previous conversions of external debt to investment capital. The use of debt-conversion mechanisms lowered Chile's external debt from nearly US$21 billion in the mid-1980s to US$17.6 billion in 1989 (Table I.2).

18. The current account deficit decreased continuously until 1988, aided by expanding merchandise trade surpluses (Table I.2). The overall balance of payments registered a surplus of US$437 million in 1989, with a current account deficit of US$905 million and a positive capital account balance of US$958 million.

19. During 1989, attempts were made to consolidate the structural adjustment process. Policies were implemented designed to promote exchange rate stability, reduce the external debt, control inflation and to achieve economic growth targets. The Chilean economy performed strongly, real GDP growth reaching 10 per cent. Private consumption grew by 9 per cent and investment rose by 21 per cent to represent one-fifth of GDP. Exports of goods and services climbed by 14 per cent to an unprecedented level of over US$8 billion. Imports of goods and services jumped by one-quarter, driven by a strong performance of the economy, expanding investment and inventory buildups (Table I.3). As a result, the merchandise trade surplus declined by US$640 million.

20. However, capacity bottlenecks signaled an overheated economy, and inflation picked up from 14.7 per cent in 1988 to 17 per cent in 1989. According to Chilean authorities, the major reason behind the rise in inflation was an increase in the monetary base, which started in 1988. An additional factor helping to boost price increases was the mid-year decision to widen the dollar exchange band.

21. In early 1990, the Government undertook certain corrective measures, aimed at containing inflation and balance-of-payments equilibrium. A restrictive monetary policy involving increases in real interest rates limited the expansion of domestic demand.

22. Preliminary estimates indicate real GDP growth of less than 2 per cent in 1990. Manufacturing output stagnated after having grown by 10 per cent in 1989. Despite tighter monetary (and fiscal) polices, inflation escalated considerably, reaching 27 per cent, the highest rate since 1980.

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5The current account deficit is basically explained by a negative balance on the services account (US$2,723 million), partially compensated for by a surplus in the trade balance (US$1,578 million), and net capital inflows (US$240 million).

6In January 1990, imports were rising at an annual rate of 35 per cent, and inflation reached 30 per cent. By the end of July, the corresponding rates had fallen to 12 and 25 per cent.

7Contributing to accelerating inflation were the increases in the value added tax, a severe drought, and the international oil price shock following the onset of the Gulf crisis. The Government has claimed that inflation can be contained provided energy prices do not rise abruptly.
However, export diversification in both products and markets further intensified and merchandise exports continued to increase.

23. Preliminary figures indicate a US$1.4 billion trade surplus in 1990. Merchandise exports grew by 4.5 per cent to US$8.5 billion, despite a fall of over 5 per cent in copper earnings. Non-copper exports increased by over 11 per cent, reflecting continuing export diversification. Merchandise imports increased by 9 per cent to US$7.1 billion. The overall balance of payments had a surplus of nearly US$2 billion.

(3) Trade Performance

24. The 1985 adjustment programme yielded positive results in export performance. Merchandise exports increased by an average 9 per cent per year in volume during 1985-89, compared with 4 per cent during 1980-84. Agricultural and industrial exports increased even more, helped by a realistic exchange rate and incentives, such as drawbacks of customs duties, which redressed the anti-export bias prevailing during 1974-81. Investments in export-oriented activities - particularly in fruits, forestry, agro-industry and mining - have also increased at a significant pace. Expanding exports due primarily to favourable movements in the terms of trade accompanying rising prices for copper and other commodities, helped to finance additional imports.

(i) Commodity pattern of merchandise trade

25. Chile's principal export earner continues to be copper, amounting to about one-half of total exports of merchandise. However, Chile's export structure has undergone substantial changes during the 1980s. Non-ferrous metals' share in total exports decreased from 52 per cent in 1980 to 39 per cent in 1988, largely reflecting the increasing importance of export products such as other minerals, food items and certain manufactures (Table I.6). Between 1973 and 1989, Chile's export range widened from around 140 to nearly 1,500 items.

26. Exports of manufactures, including semi-manufactures, have also grown rapidly, almost tripling their share since 1971 to represent one-third of

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8 This was partly due to the record level of foreign investment, which amounted to more than US$900 million to September 1990. To November 1990, foreign investment reached US$1.1 billion. The overall balance corresponds to variations in international reserves resulting from balance-of-payments transactions, excluding reserve variations such as those produced by revaluations, gold monetarization and assignments of SDR (Central Bank of Chile, Monthly Bulletins).

9 The average copper price rose continuously from US$0.62 per pound in 1986, to US$1.29 in 1989.
total merchandise export earnings in 1989, compared with 12 per cent in 1971. Wood, paper, cellulose and fishmeal are among the most important manufactured export products.

27. Agricultural products have increased in significance from a share in total exports of 3 per cent in 1970 to around 10 per cent in 1989 (Chart I.4). Fruit exports have recorded particularly rapid growth (Table AI.1).

Chart I.4
Merchandise exports of Chile by sector, 1970-89

![Chart showing merchandise exports of Chile by sector, 1970-89](image)

Source: Central Bank of Chile.

28. Non-electrical machinery, chemicals, fuels and automotive products have been leading import items, accounting for 54 per cent of the total in 1988 (Table I.5 and AI.1). Reflecting the sharp increases in investment, the demand for foreign capital goods increased substantially. These items account for almost one-third of total merchandise imports (Chart I.5). In contrast, the share of consumer goods in total imports fell from
24 per cent in 1980 to 14 per cent in 1989, due partly to reduced reliance on imported food products.  

Source: Central Bank of Chile.

(ii) Regional pattern of trade

29. Chile's three most important trading partners are the European Communities (particularly Germany), the United States and Japan. In 1989, these accounted for well over two-thirds of Chile's total merchandise exports and half of imports (Chart I.6). Since 1978, the share of the European Communities in merchandise trade has remained constant. Merchandise exports to the United States expanded more rapidly than those to other destinations while merchandise imports from the United States lagged behind imports from other sources (Tables I.7 and AL.2).

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10 Food imports accounted for 13 per cent of total merchandise imports in 1979, compared with 5.3 per cent in 1988 (Table I.5).
Chart 1.6  
Main trading partners of Chile, 1989
Per cent

<table>
<thead>
<tr>
<th></th>
<th>Imports</th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>United States</td>
<td>20.0%</td>
<td>Japan</td>
<td>10.9%</td>
</tr>
<tr>
<td>EC</td>
<td>10.7%</td>
<td>Argentina</td>
<td>9.9%</td>
</tr>
<tr>
<td>Other</td>
<td>33.1%</td>
<td>Brazil</td>
<td>10.4%</td>
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<tbody>
<tr>
<td>United States</td>
<td>17.8%</td>
<td>Japan</td>
<td>13.7%</td>
</tr>
<tr>
<td>EC</td>
<td>30.0%</td>
<td>Taiwan</td>
<td>4.9%</td>
</tr>
<tr>
<td>Brazil</td>
<td>6.4%</td>
<td>Brazil</td>
<td>6.4%</td>
</tr>
<tr>
<td>Other</td>
<td>21.2%</td>
<td>Argentina</td>
<td>5.9%</td>
</tr>
</tbody>
</table>


30. Other important markets for Chilean exports include Brazil, Taiwan, Argentina and the Republic of Korea. Brazil, Argentina and Venezuela are also main suppliers of Chile's merchandise imports.

31. Preferential agreements with other Latin American countries have so far failed to achieve the intended intra-regional trade growth. Chile's recorded exports to these countries have decreased, while recorded imports have remained constant. A main factor in this have been the debt crises which led most Latin American countries to curtail imports. Relatively prosperous economic performance has enabled Chile to maintain its import levels from neighbouring countries.

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11 Between 1973 and 1989, Chile doubled the number of its trading partners to more than 120 countries.

12 In 1978, one-quarter of Chile's exports went to Latin American countries, whereas in 1988 this share was below one-seventh (Table 1.7).
32. Forecasts prepared in early 1991 estimate an increase in real GDP of between 4 and 5 per cent for the year. This GDP expansion is compatible with the additional productive capacity created in 1990 as a result of the strong investment activity. Inflation was expected to fall to 20 per cent in 1991.\(^\text{13}\)

33. In view of the expected slowdown of growth in the world economy and resulting lower world market prices for copper, the Central Bank also forecast that export earnings would fall by 2 per cent and the trade surplus will shrink to US$550 million in 1991.\(^\text{14}\) Non-copper export volume is expected to increase by over 8 per cent, driven by strong growth in fruit, fishmeal and forestry exports. Merchandise exports are expected to decline to around US$8.3 billion, while merchandise imports are forecast to increase to US$7.8 billion.

34. The current account deficit is expected to increase to nearly US$2 billion, or approximately 7 per cent of GDP. This deficit would be financed by capital inflows and depleting international reserves. Foreign investment is estimated at US$1.8 billion in 1991, partly compensating for likely increases in profit remittances and debt servicing to US$2.2 billion.\(^\text{15}\)

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\(^{13}\) These forecasts were based on an international oil price of US$24 a barrel.

\(^{14}\) The copper price was forecast to slump to US$0.93 per pound in 1991.

\(^{15}\) Central Bank of Chile, Boletin Mensual, No. 753, Noviembre 1990; and Financial Times, 5 December 1990.
II. TRADE POLICY REGIME: OBJECTIVES AND FRAMEWORK

(1) General Framework

35. Chile is a unitary republic. Under its Constitution of 1980, it has a democratic form of government. For administrative purposes, the country is divided into 13 regions and a metropolitan area. The regions consist of provinces which are in turn subdivided into communes. This system has resulted from regional reform policies aimed at administrative decentralization.

36. Since 1990, legislative power is exercised by the National Congress, which consists of a House of Representatives and a Senate. The House of Representatives is composed of 120 members elected for a four-year term. The Senate is composed of 45 senators, 38 elected and seven appointed by the President, each serving an eight-year term. Judicial power is exercised by a Supreme Court of Justice. Members of the Court of Appeal are appointed by the President of the Republic on the recommendation of the Supreme Court.

37. The executive branch is headed by the President of the Republic who, after serving for an eight-year term, cannot be immediately re-elected by popular vote. Cabinet ministers are appointed by the President. All international agreements conducted by the Government must be approved by Congress.

38. Laws may originate in either House, on the initiative of its members or the President of the Republic. Bills accepted in the Congress are passed onto the President for enactment. The President of the Republic has 30 days for returning to the respective House non-approved draft legislation. Laws concerning the financial management of the country must be initiated exclusively by the President. The Budget Law, for example, is presented by the President to the National Congress, which may modify expenditure but not income estimates.

39. Bills must be approved by the National Congress to become laws. The Congress may amend or make additions that relate directly to the proposed bill. Decrees and regulations are signed by the relevant ministers.

1The Constitution, adopted in September 1980, stipulated a gradual return to democracy. In accordance with the Constitution, a plebiscite conducted in late 1988, rejected the presidential candidate nominated by the military Government. Free elections were then held. The democratically-elected transitional Government, inaugurated on 11 March 1990, will govern until 1994.

2Article 50 of the Chilean National Constitution.
40. Public accounting is undertaken by the General Controller of the Republic, who is nominated by the President and approved by the Senate.

41. The Chilean Government encourages open competition in all economic activities. Article 19 of the Chilean Constitution establishes the rule of non-discriminatory treatment by the State among economic and regional sectors. Market forces are to play a major role in allocating resources in Chile, and Government intervention is to be kept at a minimum to encourage private sector activities. Many public sector enterprises have been privatized, and state ownership is now mainly restricted to the minerals, energy, transportation and communications sectors. Privatization programmes since 1985 have focused on enterprises of the state-holding company CORFO, in order to reduce government involvement in non-strategic economic sectors. Many regulatory barriers to competition were removed as part of the privatization process.

42. The Ministry of Foreign Affairs, in coordination with the Ministries of Economy, Development and Reconstruction and Finance, has the authority to regulate commerce with foreign nations.

(2) Structure of Trade Policy Formulation

(i) Legislative and executive branches of Government

43. Responsibility for the formulation and implementation of trade-related policies was transferred to the President of the Republic, through the relevant Ministries, with the enactment of the Constitutional Organic Law of the Central Bank in 1989 (Law 18,840). Government Ministries directly involved in trade-related policy matters are the Ministries of Finance, of Economy, Development and Reconstruction and of Foreign Affairs (through the General Directorate of International Economic Affairs). The Central Bank of Chile, now an autonomous institution, and the Government-owned Chilean

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3Between 1985 and 1988, eleven enterprises were fully privatized, and another five transferred to majority private ownership. Major enterprises fully privatized were SOQUIMICH (Chemical company), IAMS (Sugar company), and LAN Chile (National Aviation Company).

4These arrangements replaced the Monetary Council which had been responsible for formulating and implementing trade policies since 1975. Members of the Monetary Council were the Ministers of Economy, Development and Reconstruction and Finance, the Director of the National Planning Office, the President of the Central Bank and a representative of the President of the Republic. Trade policy was principally the jurisdiction of the Ministries of Finance, who set import duties, and Economy, Development and Reconstruction who was responsible for export promotion and other trade-related matters.

5Ministers and Subsecretaries are directly responsible for all trade matters.
Copper Commission also participate actively in trade-related policy formulation.

44. Major decisions on trade policy are the responsibility of the Ministry of Finance and the Central Bank of Chile. However, according to Chilean officials, some overlap exists in responsibilities for trade policy formulation. In early 1990, the Ministry of the President was established to improve coordination of Government policies in all areas. Decisions are normally taken at the Cabinet level.

45. Implementation of policies concerning international trade falls mainly under the jurisdiction of the General Directorate of International Economic Affairs. This body, belonging to the Ministry of Foreign Affairs, is currently structured into three divisions, two sections and various commercial offices located abroad. The Agency is headed by a Director-General, who is appointed by the President of the Republic and is responsible to the Subsecretary of Foreign Affairs. The Agency also handles bilateral and multilateral trade relations, as well as export promotion (Chart II.1).

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6The Central Bank of Chile became an autonomous institution in October 1989 (Law 18,840). General rules and policies adopted by the Central Bank must, however, be notified to the President and the Senate which also supervises the activities of the Central Bank. The Central Bank Council is composed of five Counsellors appointed by the President of the Republic for a ten-year period. The Ministry of Finance also participates in this Council. The Central Bank is in charge of the implementation of monetary policies in such areas as finance, investment, currency exchange and foreign trade. The Central Bank is also charged with establishing official National Accounts and publishing regularly main macro-economic indicators, including monetary, foreign exchange and balance-of-payments data.
(ii) **Advisory bodies**

46. In Chile, there are no independent bodies to advise on Government policies. The main influence of the private sector on trade policy decisions is through Committees and Consultative Commissions, comprising government representatives and those from the main private organizations. Consumer organizations do not play a significant rôle in the trade formulation process, although they may participate in the setting of standards.

47. Government departments meet frequently with the private sector to discuss trade policy formulation and implementation. Monthly meetings are
coordinated by the Ministry of Economy, Development and Reconstruction. Sub-committees are often formed on specific issues to obtain a consensus between the Government and the private sector.

(iii) Review bodies

48. There are no officially recognized independent bodies in Chile which review publicly matters of trade and industry policy. However, private research institutions often publish wide-ranging studies on the country's general economic policies.

(3) Trade Policy Objectives

49. Until the early 1970s, Chile practised an import substitution strategy designed to insulate the economy from international competition and reduce its vulnerability to fluctuations in world copper prices. The Chilean economy depended heavily on copper exports for generating the foreign exchange needed to finance developmental efforts, and to lessen the strain on the balance of payments.

50. The import substitution strategy was heavily biased towards the protection of the domestic industrial sector. Major restrictions on imports and a system of taxes and subsidies provided high protection to specific sectors. On top, price controls operated for most essential commodities and domestic interest rates were regulated. The policies discriminated against exportable goods, including, in particular, agricultural products.

51. In late 1973, the Chilean authorities implemented a new economic programme. Since then, policies have been followed to reduce the role of the government, to open-up the economy to international trade and capital flows, and to establish a more market-oriented economy (Appendix II.1). Economic decisions are now determined by the principle of non-discrimination established in the Constitution. Few, if any, direct subsidy schemes are currently available for Chilean exporters. Certain production and export promotion measures are available to all sectors.

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7 This policy was delineated during the late 1940s and gained strength in the 1950s.

8 The economic programme had two main components: the stabilization programme and the structural transformation programme, which included privatization, trade and financial liberalization.
(i) **General trade policy objectives**

52. Current economic policy in Chile has two major priorities. On the external side, policies are directed towards expanding export markets for Chilean products and attracting foreign investment. Product diversification, especially towards exports having greater added value, is also an important element of Chile's trade policy objectives. On the internal side, social problems associated with poverty and inequalities in income distribution, as well as the protection of the environment, are major concerns of the Chilean Government.

53. Trade policies in Chile are based on the principle of neutrality. The Chilean Government is committed to maintain an open market economy with little Government intervention. On the export side, promotional activities are directed into areas where the Government believes Chilean industries have a comparative advantage. The Government is attempting to open the economy in other markets, such as services, capital and labour.

54. Chile is committed to the multilateral trading system and attaches great importance to a successful conclusion of the Uruguay Round. In this context, Chile, a member of the Cairns Group, seeks the introduction or strengthening of "rules of law" for the agricultural sector. For its part, Chile is willing to discuss and negotiate on all areas of the Uruguay Round, including trade-related investment measures, industrial property and services.

55. Bilateral arrangements, especially in the context of Latin America and the United States, have gained importance in the last few years. The ultimate objective of Chile's participation in bilateral agreements with Latin American countries is to integrate the sub-continent. Given the importance of the United States' market for its exports, Chile attaches a high priority to the formation of a trade agreement between the two countries. The bilateral agreements are seen by Chilean authorities to be consistent with Chile's multilateral commitments.

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9 Other trade objectives are linked to programmes intended to promote technological innovation and improve the skills of the labour force, as well as providing technical assistance to small and medium-size enterprises.

10 Chile also wants clearer sanitary regulations which may be subject to public scrutiny and scientific evidence. However, Chile does not support the zero-risk policy and believes in the implementation of quarantine regulations which encompass an acceptable degree of risk.
(ii) Sectoral trade policy objectives

56. Chile's economic and trade policies do not support particular sectors. Horizontal treatment across industries and not discriminating between economic sectors or regions is the basis of Chilean trade policies. Few sector-specific trade policy objectives currently exist. Consistent with this approach, import duties have been set at a uniform 15 per cent rate for all products.

57. The only known exceptions to the non-discrimination rule are parts of the agricultural and automobile sectors. In the agricultural sector, a price band mechanism exists for three products. The automobile sector has traditionally benefited from sectoral policies. Special tax credits are, under the current legislation passed in 1985, to be phased-out by 1995. However, the Government is considering extending special arrangements until 1999 linked to targets such as export performance.

(4) Trade Laws and Regulations

58. Trade policies in Chile are established either by laws, which have to be approved by Parliament, or through Presidential decrees. Executive decrees and regulations are issued to implement laws established by Parliament.

59. General rules concerning trade policies in Chile are contained in Law 18,525. This establishes tariff surtaxes, customs valuation procedures and a price band mechanism for certain agricultural products. A Commission for investigating import price distortions was also created by this law.

60. Other important trade-related legislation include the Constitutional Organic Law of the Central Bank (Law 18,840); Presidential decree 341, establishing free trade zones; and various laws establishing export promotion mechanisms issued by the Ministry of Finance. The Compendium of International Exchange Rules, approved by the Central Bank in April 1990, regulates foreign exchange transactions and establishes the import declaration form.11

61. The value added tax affecting sales and services is established by Law 825 of 1974, subsequently amended by Decree-Law 1,606. Sanitary and

11The import declaration form is a document that all importers must provide for statistical purposes to the Central Bank. This document may also be used to verify declared customs values.
phytosanitary regulations are issued by the National Agricultural and Livestock Service.

62. Chile's tariff system switched to the Harmonized System classification in January 1990 (Decree-Law 2 of August 1989). Customs duties are levied, collected and paid in accordance with the Tariff Schedule. The enforcement and collection of duties is a function of the National Customs Service which is part of the Ministry of Finance.

63. Legislation concerning foreign investment in Chile is contained in the Foreign Investment Statute (Decree-Law 600). The main elements of this legislation include free access to domestic markets and economic sectors, and the principle of non-discrimination between domestic and foreign investors. A legal contract between the foreign investor and the Chilean State guarantees the conditions and terms in case of subsequent changes to the legislation.

64. Under Chilean law, any act or agreement designed to restrict competition within the country is illegal. Such acts may include price-fixing arrangements, production quotas, or anything which might restrict production, transportation or distribution. The law provides for imprisonment and substantial fines.

65. Domestic legislation allows recourse to trade remedy measures as retaliation for discriminatory trade practices by foreign countries against Chile. Instruments for applying these measures include import and export prohibitions, but these have never been used.

66. Important developments in trade-related legislation during 1990 included the Law on Industrial Property, aimed at facilitating technological developments; a new Automobile Statute, linking financial incentives (fiscal and export credits) to local content requirements; and the Fish Law, intended to up-date fishing legislation. A Labour Reform programme that would indirectly affect Chilean export competitiveness by setting minimum wages was also discussed.

12 Decree-Law 211, enacted in December 1973, regulates monopolistic behaviour and establishes antitrust regulations.
(5) **Trade Agreements and Arrangements**

(i) **Multilateral agreements**

67. Chile, a participant in the United Nations Conference on Trade and Employment which drafted the General Agreement, acceded to the GATT in February 1949 under the Protocol for the Accession of Signatories of the Final Act of 30 October 1947. Since its accession, Chile has participated actively in all negotiating rounds. It is a signatory to the Protocol Supplementary to the Geneva (1979) Protocol to the GATT. Chile has accepted the Tokyo Round Codes covering Technical Barriers to Trade; Interpretation and Application of Articles VI, XVI, and XXIII of the GATT (the Subsidies Code); and Import Licensing Procedures.

68. The General Agreement has been incorporated into Chilean domestic legislation as Law 9,332, enacted on 17 March 1949. Consequently, Chilean individuals have the right to take legal action against the Government for violation of GATT rules and disciplines. No such action has ever been taken.

69. Chile applies the most-favoured-nation clause to all countries, whether contracting parties to GATT or not. Departures from m.f.n. treatment include preferential agreements signed within the framework of the Latin American Integration Association (LAIA) and the Global System of Trade Preferences between developing countries (GSTP). Chile also participates in the Protocol Relating to Trade Negotiations Among Developing Countries of the GATT (The Committee of Participating Countries).

70. Chile is a member of other international organizations such as the Food and Agriculture Organization of the United Nations (FAO), the World Bank, the Inter-American Development Bank (IDB), the International Monetary Fund (IMF), the Economic Commission for Latin America (ECLA), the Organization of American States (OAS), the International Labour Organization (ILO) and the World Health Organization (WHO).

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14 Chile is not considered a founding signatory to the GATT, even though it actively participated in the preliminary negotiations.

15 Chile has observer status in the Agreement on Government Procurement; the Arrangement Regarding Bovine Meat; the International Dairy Arrangement; the Agreement for Implementation of Article VII of the GATT (the Customs Valuation Code); and the Agreement on Implementation of Article VI of the GATT (the Anti-Dumping Code). Chile does not participate in the Agreement on Trade in Civil Aircraft.
(ii) Regional agreements and arrangements among developing countries

(a) The Latin American Integration Association (LAIA)

71. The Latin American Integration Association, established in 1980 by the Governments of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela, replaced the Latin American Free Trade Association (LAFTA).  

72. Two types of agreements are negotiated in the framework of LAIA. First, regional-scope agreements, in which all member countries participate, include regional tariff preferences and favourable market access for relatively less-developed members. Second, partial-scope agreements binding only their signatories, cover trade and economic complementarity agreements (Appendix II.2).

73. On 15 July 1988, LAIA member countries concluded a Regional-Scope Agreement for the Recovery and Expansion of Intra-regional Trade. Under the Agreement, member countries apply preferential tariffs to imports of specified products. The tariff preference consists of a variable percentage reduction in duties between member countries applied to imports from third countries. Duties on third country imports cover tariffs and other charges discriminating against imports, whether of a fiscal, foreign exchange or other nature. Fees and similar service charges are excluded.

74. In 1990, member countries doubled the level of the Regional Tariff Preference (PAR) across all members to an average of 20 per cent. Chile currently grants a 28 per cent reduction in m.f.n. rates to less-developed LAIA countries, 20 per cent to intermediate-developed members, and 12 per cent to other LAIA members (Table AII.1).

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16 The institutional organization of LAIA is given in Appendix II.3.
17 Relatively less-developed members are Bolivia, Ecuador and Paraguay.
18 In 1990, Chile, together with Argentina, Brazil, Paraguay and Uruguay decided to create an Agricultural Cooperation Council of Southern Area Countries (CONASUR). The Council was initially established for two years to analyse agricultural problems confronting member countries, to propose solutions and to strengthen their negotiating positions in the international fora through greater coordination in setting agricultural policies.
19 ...In order to promote the recovery and expansion of their reciprocal trade, while ensuring adequate reciprocity of results so as to prevent greater imbalances in intra-regional trade, the signatory countries agree to accord a tariff preference to imports of the products covered by the present Agreement,...". (Article 1 of the Agreement - See GATT document L/6531).
20 The tariff preferences are granted at varying levels according to each member country's relative level of development. The LAIA recognizes three levels of development: (i) less-developed: Bolivia, Ecuador and Paraguay; (ii) intermediate-developed: Chile, Colombia, Peru, Uruguay and Venezuela; and (iii) developed: Argentina, Brazil and Mexico.
75. In addition to participating in all regional-scope agreements, Chile has signed partial-scope agreements with all LAIA countries. Five trade agreements, affecting data processing equipment, chemicals, basic petrochemicals, petrochemical products, and dyes and pigments, were also signed with mainly Argentina, Brazil, Mexico and Uruguay. These are aimed at accelerating trade liberalization and increasing trade flows. Other objectives are to promote the development of specific sectors, contribute to the industrial integration and balanced development of the region, and to improve the utilization of regional resources through more effective product specialization among signatory countries.

76. An Economic Complementarity Agreement was signed in 1985 between the Governments of Chile and Uruguay (Table AII.2). The aim of the agreement is to increase and diversify bilateral trade (through tariff preferences and the elimination of import restrictions), and to stimulate economic complementarity. Chile grants tariff preferences, ranging from duty free to a preferential margin of 40 per cent, for 53 Uruguayan products including meat, rice, tobacco, clothing and certain machinery.

77. Within the framework of LAIA, a Reciprocal Payments and Credit Agreement was signed in August 1982. This established bilateral credit lines between the Central Banks to minimize the use of foreign exchange in intra-regional transactions. The bilateral credit lines are expressed in US dollars. A multilateral clearance of balances in the bilateral accounts occurs every four months.

(b) The Global System of Trade Preferences (GSTP)

78. The Agreement on the GSTP entered into force for Chile on 28 October 1989. Chile's GSTP schedule of concessions provides duty reductions of 10 per cent on ten tariff lines, including vegetable saps and extracts, latex and precious and semi-precious stones (see Table IV.4).

(c) The Protocol Relating to Trade Negotiations Among Developing Countries of the GATT (CPC)

79. Chile is an original signatory of the Protocol Relating to Trade Negotiations Among Developing Countries. Concessions offered by Chile comprise fourteen tariff lines, ten of which cover boilers, machinery and mechanical appliances (Chapter 84 of the CCCN). Fixed preferential rates

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21 Trade agreements are exclusively aimed towards trade promotion among member countries, and shall be subject to the specific rules to be established for that purpose (Article 10 of the Montevideo Treaty).
of duty vary between 20 and 150 per cent. Currently, these concessions are not used by other CPC countries since applied rates in Chile are lower.

(iii) Bilateral agreements

80. In October 1990, Chile signed a framework trade agreement with Mexico to eliminate tariffs and non-tariff barriers and establish, by 1994, a free trade area between the two countries. A similar agreement was signed with Venezuela, and official discussions to this effect have been held with Argentina and Brazil.

81. On 1 October 1990, following the announcement by the President of the United States of the "Initiative for the Americas", Chile and the United States agreed to create a Bilateral Council for Trade and Investment. The Council is to establish the basis for a future free trade agreement between both countries, and in the meantime to resolve bilaterally any minor trade problems that may arise. Major concerns of Chilean exporters include the marketing orders and sanitary regulations prevailing in the United States.

82. The first objective of this framework agreement is to fix basic rules for trade liberalization and increased investment opportunities between the two countries. Chile strongly believes that the trade agreement is the most important part of President Bush's Initiative. Increased investment is already occurring between the two countries, and the debt write-off component of the Initiative is considered by Chile to be relatively minor, given the composition of the Chilean external debt.

83. In December 1990, Chile signed a Framework Agreement for Trade and Economic Cooperation with the European Economic Community. The Agreement, concluded initially for a period of five years, requires both parties to undertake efforts to develop and diversify trade. Economic cooperation is encouraged through the opening-up of new markets, increasing investment flows, and protection of the environment. The growth of Chilean small and medium-sized enterprises is to be promoted. Scientific and technological cooperation is also covered by the Agreement. 22

III. TRADE-RELATED ASPECTS OF THE FOREIGN EXCHANGE REGIME

84. The nominal exchange rate of the Chilean Peso is pegged to the US dollar, at a rate adjusted daily according to a schedule based on the estimated difference between the domestic and world inflation rates during the previous month. Exchange rates for other currencies are determined on the basis of cross rates with the US dollar.¹

85. The Central Bank performs its foreign exchange transactions within margins of 5 per cent above and below the official exchange rate. The Central Bank intervenes when the observed market rate exceeds these limits. Commercial banks, exchange houses, and other authorized dealers are free to trade in foreign exchange. Commissions earned on exchange transactions are subject to the 18 per cent value-added tax.

86. The foreign exchange policy applied since 1982 has been a major element behind the boom in Chilean exports.² These have increased by almost 120 per cent, from US$3.7 billion in 1982 to US$8.1 billion in 1989. During the same period, the real effective exchange rate of the peso depreciated by more than 50 per cent (Chart III.1).

87. Export diversification in the 1980s was aided mainly by tariff reductions and real exchange rate adjustments. Export-oriented investment, particularly in the Chilean agricultural and forestry sectors, tended to be attracted into newly emerging industries exhibiting strong export potential. The establishment of stable rules to conduct foreign trade also played a rôle.³

¹The National Customs Directorate publishes monthly exchange rates for 53 foreign currencies with respect to the US dollar.

²A system of pre-announced mini-devaluations prevailed between 1976 and 1979. The nominal exchange rate was then fixed at 39 pesos to the dollar from mid-1979 to mid-1982, the Government believing that any inflation differential between Chile and the United States would soon disappear because of its strict monetary policy. However, continued high inflation rates in Chile relative to the United States led to a severe overvaluation of the peso against the dollar. The peso was subsequently devalued in June 1982. Since then, the exchange rate has been adjusted daily.

³The export "concentration index" of Chile decreased from 0.75 in 1970 to 0.31 in 1986. This is measured by the Hirschmann index normalized to make values ranging from 0 to 1 (maximum concentration). See UNCTAD, Handbook of International Trade and Development Statistics, 1989.
Chart III.1
Effective exchange rate of the Chilean Peso and trade, 1980-89

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
<th>Nominal</th>
<th>Real</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>10</td>
<td>8</td>
<td>120</td>
<td>100</td>
</tr>
<tr>
<td>1981</td>
<td>9</td>
<td>6</td>
<td>140</td>
<td>120</td>
</tr>
<tr>
<td>1982</td>
<td>8</td>
<td>5</td>
<td>160</td>
<td>140</td>
</tr>
<tr>
<td>1983</td>
<td>7</td>
<td>4</td>
<td>180</td>
<td>160</td>
</tr>
<tr>
<td>1984</td>
<td>6</td>
<td>3</td>
<td>200</td>
<td>180</td>
</tr>
<tr>
<td>1985</td>
<td>5</td>
<td>2</td>
<td>220</td>
<td>200</td>
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<tr>
<td>1986</td>
<td>4</td>
<td>1</td>
<td>240</td>
<td>220</td>
</tr>
<tr>
<td>1987</td>
<td>3</td>
<td>0</td>
<td>260</td>
<td>240</td>
</tr>
<tr>
<td>1988</td>
<td>2</td>
<td>-1</td>
<td>280</td>
<td>260</td>
</tr>
<tr>
<td>1989</td>
<td>1</td>
<td>-2</td>
<td>300</td>
<td>280</td>
</tr>
</tbody>
</table>

**Note:** The nominal effective exchange rate was adjusted by a trade-weighted index of the exchange rates of Chile's major trading partners. The real effective exchange rate was adjusted using a trade-weighted index of price indices (CPI) in Chile and in its main trading partners.

**Source:** Central Bank of Chile; and IMF, International Financial Statistics.

88. The Chilean Government intends to continue its policy of maintaining a realistic value for the peso. The objective is to preserve the international competitiveness of Chilean industries, thereby encouraging export diversification in products and markets.

(1) Exchange Rate Movements and Trade

89. Since peaking in 1981, the real effective exchange rate of the Chilean peso depreciated continuously by almost two-thirds until 1988 (Table III.1). This was mainly due to the introduction, in June 1982, of a stabilization package aimed at improving the deteriorating trade balance and economic performance - real GDP had collapsed by around 14 per cent, reversing six consecutive years of growth. Key features of the package were an 18 per cent devaluation of the peso against the US dollar and the
removal of wage indexation. Apart from relatively minor departures in 1982 and 1984, the nominal effective exchange rate tracked the same path as the real effective rate over this period.

90. More recently, the nominal and real effective exchange rates for the peso have diverged. The nominal rate appreciated by almost 10 per cent in 1988 - despite a 4 per cent depreciation in January 1988 to compensate for the reduction in the uniform tariff rate to 15 per cent - and then by 35 per cent in 1989 and 20 per cent during the first 9 months of 1990 (Chart III.1). At the same time, due mainly to accelerating inflation in Chile relative to world rates, the real exchange rate appreciated by 2 per cent in 1989 and remained roughly constant in 1990. The extent of any real appreciation of the peso was reduced, following the termination, in June 1989, of the policy of artificially reducing the inflation differential used to adjust the exchange rate against the US dollar by adding a factor of 4 percentage points to estimates of overseas inflation.

91. The substantial depreciation of the real exchange rate of the Chilean Peso since 1981 has played a significant rôle in improving the international competitiveness of Chilean industries. This has induced a substantial reallocation of resources from inefficient import substitution industries towards the export sector. Depreciation of the real effective exchange rate was accompanied by strong export growth, especially in non-copper exports, and reduced current account deficits. Export volumes have increased continuously since 1984. The ratio of merchandise exports to GDP increased by almost 10 percentage points, from 23½ per cent in 1980 to 32 per cent in 1989.

92. Increasing exports resulted in large surpluses in Chile's trade balance. Merchandise imports declined considerably between 1981 and 1985 and, although increasing since then, remained below 1981 levels in 1989. Chile's current account deficit fell from 11 per cent of GDP in 1984 (US$2 billion) to 0.8 per cent of GDP in 1988 (US$0.2 billion). In 1989, the situation was reversed and the current account deficit increased to 3.6 per cent of GDP. This was accompanied by a real effective exchange rate appreciation of 2 per cent (Table III.1).

93. Chile's improved medium-term trade performance has also been supported by its predominantly horizontal approach towards trade and industrial policies which, by tending to treat all sectors uniformly, rely essentially

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4Between 1982 and 1986, the Central Bank offered preferential exchange rates for servicing private external debt. The preference was increased from 11 per cent in the early months, to 40 per cent in June 1985. Thereafter, it was phased-out by December 1986.
Market forces to allocate resources. In addition, export revenue benefited from favourable movements in Chile's terms of trade, mainly due to higher copper prices during the second half of the 1980s (Chart III.2). A Copper Stabilization Fund, in which export earnings above a benchmark price are deposited, insulated the exchange rate of the peso from the effects of rising copper prices. Thus, increases in the terms of trade were not reflected through appreciations of the real effective exchange rate for the peso.

Chart III.2
Export and import prices and exchange rate movements for Chile, 1980-89
Index 1985=100 (log scale)


94. Maintaining a competitive real exchange rate for the peso has been a major factor behind Chile's export-led economic growth. It has contributed

5 The Fund, created at the end of 1985, was activated only in the second half of 1987 when the international copper price rose above the benchmark price of US$0.75 per pound.
to the development of economic activities building on Chile’s natural resources, thereby promoting export diversification.

(2) Foreign Exchange Allocation

95. Deregulatory reforms between late 1973 and 1980 exposed the financial markets to greater international competition. One of the first steps taken by the Government was to privatize major commercial banks and enhance domestic competition.

96. In 1975, the Chilean Government introduced a privatization programme for financial institutions formerly under state ownership and control. Competition was strengthened by the growth of non-bank financial institutions in response to the removal of controls on interest rates. Market-determined interest rates, combined with less supervision and lower capital requirements, gave non-bank financial institutions a competitive advantage over banks. In addition to new financial institutions, the reforms permitted the entry of foreign banks.

97. Reforms freeing international capital movements were introduced as the final step in the liberalization process. However, the Central Bank still maintained certain restrictions on foreign capital. Capital inflows, for instance, had to be registered with the Central Bank, and to comply with restrictions on maturities and interest rates imposed on international borrowing. Chile maintained these restrictions on short term capital inflows until 1982.

98. In April 1990, the Organic Constitutional Central Bank Law introduced further fundamental changes to the foreign exchange market. Formerly, all foreign exchange transactions required approval from the Executive Committee of the Central Bank. The new law reversed this situation by permitting all operations, unless specifically barred by the Central Bank. The Organic Constitutional Law regulates transactions in the formal market, that is by authorized commercial banks and currency exchange houses. All importers may now freely purchase foreign exchange in the formal market, upon presentation of appropriate documentation. All foreign exchange transactions are permitted in the informal market, unless specifically banned by law.

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6 Currently, 19 of the 20 commercial banks are privately owned.
99. Settlements within the Latin American Integration Association (LAIA) are made through a multilateral clearing system. Balances in bilateral accounts, maintained by the central bank of each member country, are "multilaterally" cleared every four months, and resulting balances paid in US dollars. Interest rates on outstanding balances are purportedly market-determined. In 1990, interest rates were set at 9.03 and 9.0 per cent for the first and second quarters respectively. Settlements with non-LAIA countries are made in specified convertible currencies.

100. Between March 1983 and January 1990, imports were subject to a 120-day minimum financing requirement. Prior to its complete removal, the requirement applied only to imports valued at more than US$50,000. It was phased out as part of the country's transition to a more open trade and foreign exchange system. Importers can purchase spot exchange in advance and deposit these funds at the Central Bank until payment. Imports purchased on credit for a period exceeding one year require prior authorization of the terms by the Central Bank.

101. Specified allowances exist for certain transactions in invisibles, while others require Central Bank approval. The foreign currency limit for tourists travelling to Latin American and Caribbean countries is the equivalent of US$1,000, and US$3,000 for travel to other destinations. Residents are allowed to purchase up to US$200 a month for overseas study, subscriptions to magazines, books, and pension payments, subject to presentation of appropriate documents. Higher amounts may be authorized by the Central Bank of Chile.

102. Foreign exchange proceeds from exports above US$1,000 must be sold within 11 days of being received by exporters to commercial banks, which are authorized to purchase all foreign currency receipts. Commercial

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8Member countries of the Latin American Integration Association are Argentina, Bolivia, Brazil, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

9Under this system, the exporter is paid by his commercial bank, which is credited by the Central Bank of the exporting country. This Central Bank debits the importing country's Central Bank, which must be reimbursed by the importer's commercial bank. Total trade covered by the multilateral clearing system increased from US$9,525 million in 1988 to US$11,146 million in 1989.

10Settlements with the Dominican Republic are also made through clearing accounts established under a reciprocal credit agreement.

11In June 1988, the minimum financing requirement was lifted for imports below US$5,000 as a first step in phasing out the scheme. The exemption was later raised to US$20,000 in December 1988, and to US$50,000 in June 1989.

12These limits apply only to the formal exchange market. Access to the informal market is free.

13Export proceeds must be repatriated to the exporter within 120 days of the date of shipment. When receipts are held as swaps or foreign exchange deposits with resident banks, the maximum period allowed between the date of shipment and sale to the Central Bank is increased from 131 to 210 days.
banks must immediately inform the Central Bank of the transaction or, in the case of copper, the Chilean Copper Commission. Exporters may retain 5 per cent of their proceeds in a special foreign exchange account, subject to annual deposits not exceeding US$500,000 in total. Export receipts of the Copper Corporation (CODELCO-Chile) must be deposited in a special foreign currency account at the Central Bank.

103. In general, foreign exchange proceeds from invisibles need only be sold to the Central Bank when legally required. This is the case for commissions, insurance proceeds, and other benefits related to foreign trade.

104. Monetary gold may be traded only by authorized houses. Ordinary transactions in gold between private individuals may be freely undertaken. Imports and exports of gold are unrestricted, and subject to normal customs procedures.

105. At the end of 1990, Chilean foreign exchange reserves amounted to nearly US$5.4 billion, equivalent to 7 to 8 months of imports. These are expected by the Central Bank to decline in 1991 by approximately US$155 million, due to an anticipated fall in copper prices.

(3) Foreign Direct Investment and Trade

106. Recognizing the important rôle of foreign investment for small economies, Chile maintains relatively liberal foreign investment rules, compatible with its trade régime. Nevertheless, the Government does maintain some regulatory controls over foreign investment and capital outflows.

107. Foreign investment is permitted in all sectors with few exceptions.\(^\text{14}\) The basic principles governing foreign investment are non-discriminatory treatment between foreign and national investors, free access to the foreign exchange market and economic sectors, and minimal State regulation and intervention in business activities. Foreign investors are generally subject to the same laws as Chileans. Government regulations appear streamlined, and necessary approvals are normally issued promptly. There are no restrictions on foreign ownership of local enterprises and joint ventures involving foreign participation.

\(^{14}\)Foreign investment is prohibited in those industries affecting national security. Outward investment needs the prior approval of the Central Bank. Chilean Pension Funds are not allowed to invest abroad.
108. Overseas companies may invest in the exploration and exploitation of minerals, including liquid and gaseous hydrocarbons, gas and oil pipelines, and forestry. The Mining Code (Law 18,248) limits Government involvement to existing State-owned firms, except for hydrocarbons, lithium and mineral deposits in offshore territorial waters and national security zones.

109. Chilean authorities have removed the monopoly on the exploitation of nuclear minerals by allowing foreign participation in the exploration, exploitation and processing of uranium and thorium deposits. However, special regulations cover foreign investment in these sectors. The State Petroleum Enterprise, ENAP, may establish joint ventures with foreigners to explore and develop new oil wells.

110. In general, the authorities do not offer special incentives to direct investment towards specific sectors. However, regional incentives are available and activities deemed fundamental to Chile's development may qualify for special treatment. A number of tax incentives exist to attract industry to regions located in the far north and south of the country and certain tax concessions apply to forestry.

(i) Institutional framework

111. Legislation governing foreign investment in Chile may be classified into three categories, depending on the purpose and type of investment. These are the Foreign Investment Statute of July 1974; Chapter XIX of the Chilean Compendium of Rules on International Exchange; and the Foreign Currency Law.

(a) The Foreign Investment Statute

112. The basic legislation governing foreign investment is the Foreign Investment Statute, or Decree Law 600. This Statute established a régime for permitting long-term capital investment to enter Chile by way of freely convertible foreign currency cleared by an authorized dealer on the formal exchange market; tangible assets brought into Chile under general import regulations; technology in its various forms provided it qualifies as capital; credits associated with foreign investment; capitalization of foreign loans and debts in freely convertible currency; and capitalization of profits for remittance abroad.

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16 It was subsequently amended by Laws 18,065 in 1981; 18,474 in 1985; 18,682 in 1987; 18,840 in 1989; and 18,904 in 1990.
113. Authorization for all foreign investment in Chile is granted by the Foreign Investment Committee through a contract with the investor agreeing that the maximum period of the investment programme for mining projects will be eight years and for others three years.\(^\text{17}\) The maximum term may be extended to twelve years for mining projects and eight years for investments of more than US$50 million.

114. Foreign investment applications requiring approval by the Foreign Investment Committee include those exceeding US$5 million, those relating to public utility services or other activities normally carried out by the State, those made in the communications sector, and those made by a foreign State or public entity. Foreign investment projects outside these areas are normally not subject to in-depth reviews by the Committee. The Committee's Executive Secretary is responsible for processing and authorizing these requests.

115. Export-oriented projects may be granted certain rights by the Foreign Investment Committee. These include the maintenance of the legal provisions and regulations in force at the date of the relevant contract concerning the right to export freely; and the authorization of special arrangements on the return of part or all of the export receipts.\(^\text{18}\) Such authorizations by the Foreign Investment Committee require a favourable report from the Central Bank.

116. There are no general limitations on profit and capital remittances, but specific agreements may be included in the investment contract. Capital contributions for foreign investment projects may be repatriated only after three years, unless otherwise specified in the investment contract. Profits can be repatriated immediately.\(^\text{19}\)

117. Foreign exchange for profit remittances and capital transfers are available on conditions not less favourable than those applying to Chilean importers purchasing foreign exchange. Investment laws apply equally to

\(^{17}\)The Foreign Investment Committee is composed of the Minister of Economy, Development and Reconstruction; the Minister of Finance; the Minister of Foreign Affairs; the Director of the National Planning Office, ODEPLAN; the President of the Central Bank; and the Minister of the sector affected by the planned investment. The Chairman represents the Committee in those investment cases requiring Committee approval; in all other instances, it is the Executive Secretary.

\(^{18}\)In accordance with these arrangements, the holding of foreign currency abroad may be authorized in order to pay obligations approved by the Central Bank, or to make other disbursements.

\(^{19}\)Article 4 of the Foreign Investment Statute.
118. Foreign investors can opt for a fixed income tax rate of 49.5 per cent over a period of ten years, or may choose to operate under the same tax system as domestic corporations.

(b) Chapter XIX of the Chilean Compendium of Rules on International Exchange

119. In May 1985, the Central Bank created a scheme to swap foreign debt for peso assets (debt-equity swaps). Companies and individuals may purchase Chilean debt at discounts, at about 45 per cent, from foreign bank creditors wishing to reduce their exposure. Firms profit in three ways from debt-equity conversions. First, debt denominated in a foreign currency can be converted into cheaper peso loans, often with better terms. Second, the cost of new investments is significantly reduced. Third, the investor can earn interest during the start-up phase of the project.

120. Chapter XIX of the Chilean Compendium of Rules on International Exchange provides the legal framework for debt-equity deals. It regulates the purchase of selected Chilean foreign debt instruments abroad at a discount as well as their repatriation. With the approval of the Central Bank, the foreign currency obligation may be exchanged into a domestic currency obligation, the proceeds of which must be directly invested using a financial institution.

121. Special rules apply to Chapter XIX investments. Capital invested cannot be remitted for 10 years. Initial profits can only be remitted after the fourth year, and then only over four years. Earnings from the fifth year may be freely transferred. The Central Bank reserves the right to insist that a certain amount of the investment be made up-front, in cash, although the Bank has never imposed this requirement.

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20 Notwithstanding Article 9 of Decree Law 600, certain regulations may operate to limit access of foreign investors to internal credit.

21 Eligible instruments are external debts payable in foreign currency outside Chile with a maturity of more than one year, the debtor of which may be either the Treasury, the Central Bank, a public sector entity, the Development Corporation-CORFO, a financial institution, or a private sector resident having a guarantee from a financial institution.

22 The largest single deal using Chapter XIX arrangements involved the construction of a chemical pulp plant. Recently, the Central Bank has given priority to investments in export-related activities. Beneficiaries include communications, data processing, tourism, and activities oriented towards preservation of the environment.
(c) The Foreign Currency Law

122. The Foreign Currency Law was enacted through Decree 471 in October 1977. Article 14 of this Decree stipulates that capital entering Chile as foreign borrowings must be sold, through authorized banks, at the time the investor registers the transaction with the Central Bank. No minimum terms apply to the maturity of foreign loans. Repatriation must normally adhere to the amortization schedule established at the time of registration. Capital may be repatriated after three years, profits on an annual basis and interim profits or dividends on a quarterly basis, provided that they are substantiated by audited statements.

(d) New regulations

123. Chile has recently implemented two new foreign investment régimes. These are the Foreign Capital Investment Fund and Chapter XXVI of the Compendium of International Exchange Rules, which allows for the overseas acquisition of shares in Chilean Corporations.

(ii) Impact on trade

124. Foreign investment has grown considerably in Chile since 1985. It has increased from US$137 million in 1985, to a level of US$900 million in 1989. Investments under the Foreign Investment Statute have increased notably in the second half of the 1980s (Chart III.3). The political and economic stability of Chile have contributed greatly to this growth. According to preliminary estimates by the Foreign Investment Committee, nearly US$1.2 billion reached the country in 1990.
125. The sectoral composition of foreign investment in Chile has changed substantially over the past five years. In 1985, the industrial sector attracted more than 75 per cent of all foreign investment. By 1989, the mining sector accounted for nearly 70 per cent (Chart III.4 and Table III.2).

126. Investment through debt-equity swaps has mainly occurred in industry, agriculture, forestry, fishing and mining. Together, they account for nearly 75 per cent of investments since 1985 (Chart III.5). In 1990, this type of investment was at a low due to the strength of the Chilean economy, which increased the secondary market value of debt paper to over 73 per cent of its nominal value. This has made debt-equity swaps increasingly less attractive relative to investments made through the Foreign Investment Statute (Chart III.6).
Chart III.4
Foreign investment in Chile by sector, 1985 and 1989
Per cent

1985
US$ 421 million

- Industry 78.7%
- Services 15.4%
- Mining 6.7%
- Others 1.2%

1989
US$ 2,959 million

- Mining 66.4%
- Services 22.5%
- Industry 10.1%
- Others 0.9%

Note: Others include agriculture, forestry, construction and transportation.
Source: Central Bank of Chile.
127. The United States continues to be a major source of investment, particularly in mining and, more recently, forestry. Capital from New Zealand and Australia has also been important, especially in dairy and forestry products. Other major sources of foreign investment include Canada and the United Kingdom.

128. Foreign investment has had an important impact on Chile's export performance. More than 45 per cent of direct foreign investment and 12 per cent of debt-equity swaps have been oriented towards promoting mining activities for export. Foreign investment has also been an important contributor to the export performance of the paper and forestry industries.
Chart III.5
Investment in Chile through Chapter XIX by economic sector

Per cent of accumulated figures from 1985 to August 1990

- Agriculture, forestry and fishing: 24.4%
- Industry: 36.6%
- Mining: 13.1%
- Other: 14.0%
- Commerce: 5.8%
- Transportation and Communication: 6.1%

Chart III.6
Foreign investment in Chile through Chapter XIX, 1985-90

Source: Central Bank of Chile.
IV. TRADE POLICIES AND PRACTICES BY MEASURE

(1) Introduction

129. Chile has achieved major progress in opening its economy to international competition. Reliance on market forces is seen by the Government as the most appropriate means of promoting sustainable economic growth and prosperity. Price and marketing arrangements operate for only a few basic items, little restrictions apply to foreign investment, and there are no limits on profit remittances. Tariffs, the principal border measure in Chile, are uniform; in addition, they have been reduced substantially since 1984 from 35 to 15 per cent (still above the 10 per cent rate applying in 1980). Rules on competition and company formation are generally non-restrictive.

130. The Government has opened the economy sequentially. The trade sector was the first to be liberalized. Liberalization of the trading régime, starting in 1974, was almost completed by mid-1979. Non-tariff barriers were eliminated. Uniform tariffs set, with minor exceptions, at 10 per cent were imposed and the exchange rate unified. Progressive deregulation of external capital flows followed, initially of long-term flows and finally short-term flows by 1981.

131. A temporary setback to liberalizing the Chilean economy occurred after the recession of 1982-83, when the Government temporarily reversed several of its important trade reforms. Pressures from worsening external imbalances and the erosion of international reserves, associated with a sharp fall in international copper prices and aggravated by the substantial drying-up of foreign lending, led the Government to increase tariffs from 10 per cent to 20 per cent in 1983. An additional 15 per cent surtax was introduced on imports of 235 items in March 1984. Finally, in September 1984, the government extended, in practice, the tariff surcharge to all imports by implementing a uniform tariff of 35 per cent.

132. The adjustment programme introduced in 1985 gave new emphasis to promoting exports and, once again, to reducing trade restrictions. Import tariffs were reduced from 35 per cent to 30 per cent in March 1985, to 20 per cent in July 1985, and to 15 per cent in January 1988. Trade reforms were complemented by the establishment of a passive crawling peg system for determining the exchange rate. Measures introduced to promote exports included the elimination of value-added tax on export-oriented investment and export credit restrictions; the establishment of a privately-run export credit insurance programme; the introduction of concessionary drawback measures to offset exporters for tariffs on imported intermediate inputs and capital goods; the strengthening of the State export development agency, ProChile; and the establishment of a pilot
Copper Stabilization Fund to smooth out fluctuations in Government revenues resulting from sharp deviations in the international copper price.

(2) **Measures Directly Affecting Imports**

(i) **Registration**

133. All import transactions must be covered by an import document ("informe de importación") issued by the appropriate authority, either the Central Bank of Chile, the Chilean Copper Commission or a banking establishment. In this document, the importer must provide information, such as the import price, freight, insurance and payment terms.¹

134. The legal basis for the import document is the Compendium on International Exchange Rules, which empowers the Council of the Central Bank of Chile to lay down the provisions applicable to foreign trade matters. The Central Bank issues documents for amounts exceeding US$3,000 f.o.b., or in special cases for smaller amounts. For imports of US$3,000 or below, documents are issued by commercial banks.

135. The import document authorizes the purchase of goods by the importer, their clearance through Customs and access to the official foreign exchange market for payment of the goods abroad, in accordance with the relevant provisions. This document is not used to restrict imports, nor to discriminate between products or exporting countries. Applications for import documents cannot be rejected, but may need to be resubmitted if errors or omissions are detected.

136. Documents are generally available within 72 hours from the time of application. They are valid for a period of 120 days, unless extended by the Central Bank. There are no penalties for under-utilization. Certificates are not transferable.

137. Importers must obtain an import document before the date of shipment for goods valued over US$3,000 f.o.b. Other goods may be shipped prior to the certificate being issued.

138. Until February 1990, importers were required to pay a registration tax of 3 per cent of the import duty to obtain the import document. The tax was later offset against the payment of import duty.

¹This information enables the Central Bank to verify that import prices correspond to those existing in the international market.
139. Until January 1990, imports valued at more than US$50,000 were subject to a 120-day minimum financing requirement. The Central Bank was empowered to impose prior import deposits of up to 100 times the c.i.f. value, but since 1973 it has never done so. The Constitutional Organic Central Bank Law now prohibits the establishment of prior import deposits.

140. There is no Register of Importers as any natural or legal person can be granted an import certificate.

(ii) Tariffs

141. On 1 January 1990, Chile fully implemented the Harmonized Commodity Description and Coding System of Tariffs (HS) to replace the eight-digit CCCN nomenclature. The Harmonized System, as used by Chile, is based on six-digit classifications and its introduction greatly diminished the number of tariff lines. This is in marked contrast to the increases in tariff lines resulting from the adoption of the HS in most trading countries.

142. The Harmonized System maintained the uniform ad valorem tariff rate of 15 per cent. Specific tariffs and surtaxes were transferred to the HS at their existing rates.

(a) Form of tariffs

143. In general, ad valorem tariffs are the sole form of tariff levied on imports into Chile. No seasonal tariffs are applied. Nevertheless, Article 12 of Law 18,525 establishes the possibility of fixing specific duties, expressed in US dollars, on imports of wheat, oilseeds, edible oil and sugar. Variable specific duties, when applied, are in addition to the 15 per cent ad valorem duty. These are intended to reduce the influence on the domestic market of international price distortions caused by agricultural policies in the main producing countries. At the end of 1990, variable specific duties were applied to 30 tariff lines.

2More detailed information on the minimum financing requirement is given in Chapter III.

3According to Article 39 of Law 18,840, any person can freely participate in foreign exchange transactions.

4Tariff subdivisions with imports less than US$500,000 were eliminated. In certain cases, the Chilean Customs Tariff may include an eight-digit classification.

5Additional specific duties are applied when import prices fall below a fixed minimum value, the floor price. When import prices exceed a fixed maximum value, the ceiling price, the payment of customs duties is to be reduced. The mechanism of supporting a price band is explained below ("Measures Affecting Production and Trade").
144. The trend in specific duties is shown in Chart IV.1. For all three products, specific duties have fallen from their 1985 levels.

Chart IV.1
Specific duties on certain agricultural products
in Chile, 1985-90
US$/ton

Source: Ministry of Agriculture.

(b) Average tariff levels, tariff ranges and tariff escalation

145. Until 1973, Chile applied tariff rates ranging from zero to 750 per cent. Between 1973 and 1979, tariffs were reduced gradually to a uniform rate of 10 per cent. As noted above, this was temporarily increased to 35 per cent in 1984 following the economic crisis of 1982-83. After the crisis, tariffs were again reduced to 20 per cent in July 1985, and cut further to the current rate of 15 per cent in January 1988 (Chart IV.2).

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Excluded from the tariff increase were the motor vehicle sector and products with bound rates at below 35 per cent. At the time of the tariff increase, all tariff surcharges and specific duties were eliminated (see GATT document L/5499/Add.2).
Chart IV.2
Chile's average tariff rate, 1973-90

Note: Figures correspond to non-weighted annual averages. Free-trade zones and preferential rates are excluded.

Source: R. Ffrench-Davis (1989), "El conflicto entre la deuda y el crecimiento en Chile: tendencias y perspectivas", Colección Estudios CIEPLAN, No. 26, Santiago de Chile.

146. Exceptions to the uniform 15 per cent ad valorem m.f.n. tariff rate include products bound at lower rates in the GATT and items contained in Section 0 of the tariff which are exempted from the general tariff régime. Eleven tariff lines, or approximately 0.5 per cent of total tariff lines in the Chilean Customs Schedule, are duty free.

147. Average tariffs for 1988 are given in Tables IV.1 and IV.2. The simple and trade weighted averages are generally the same at 15 per cent for all categories. Figures for 1990 would correspond to the same uniform rate of 15 per cent.

7 These include documents sent to shipping companies; plans and drawing of non-commercial value; bank notes; travellers cheques; nuclear reactors; particular accelerators; fire-engines; tanks and other armoured fighting vehicles; flying machines fitted with power units; warships; and other ships of a gross registered tonnage exceeding 3,600 tonnes and/or of a length of 120 metres or more.

8 The latest GATT Tariff Study for Chile covers only the year 1988.
148. In principle, tariff escalation does not exist in the Chilean Tariff due to the uniform rate of 15 per cent. Nevertheless, certain tariff concessions introduce in practice an escalation effect.

(c) Tariff bindings

149. All tariff items are currently bound at a uniform 35 per cent ad valorem rate, which is more than twice the generally applied rate. The current level and coverage of bindings reflect the result of the Tokyo Round. Before then, Chile's tariff bindings, contained in GATT Schedule VII, comprised 300 tariff lines, equivalent to around 12 per cent of total tariff lines, bound at rates varying from 10 per cent to 250 per cent. Lower bound rates of between zero and 30 per cent negotiated on 12 items before the Tokyo Round have been maintained.

150. In the context of the implementation of the HS, a waiver requested by Chile from its obligations under Article II of the General Agreement until 30 April 1991 was agreed to by the CONTRACTING PARTIES on 5 December 1989. The Decision suspended the application of Article II to enable the Government of Chile to implement the Harmonized System on 1 January 1990, subject to Chile completing negotiations and consultations with contracting parties by the agreed date.

151. Tariff rates on products that bear a lower bound rate than the current uniform tariff of 15 per cent are applied only to imports from GATT member countries. In principle, imports from other countries must pay the uniform 15 per cent tariff rate.

(d) Tariff preferences

152. Chile grants tariff preferences to a number of selected items imported from Latin American countries under partial-scope or regional-scope agreements within the framework of the Latin American Integration Association (LAIA). Under partial-scope agreements, tariff rates vary from

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9 For most products, tariff bindings became effective as from 1 July 1980. Tariffs in the automobile sector (Chapter 87) were bound at 35 per cent since 1 January 1986.
10 Other bound rates are 3, 10, 15, 23 and 25 per cent. See GATT document TAR/71/Rev.1.
11 See GATT document L/6614.
12 Products having a lower bound rate are bone ash (duty free); merchant ships of gross tonnage above 5,000 tons (3 per cent on two tariff items); and absorbent cotton, ordinary bandages and dressings (10 per cent on two tariff items).
duty free to specified preferential margins.\textsuperscript{13} Chile's total imports from LAIA member countries increased from US$950 million in 1987 to more than US$1,750 million in 1989. At the same time, however, the share of imports under preferences decreased from around 35 to 23 per cent of Chile's total imports from LAIA countries. Different patterns in these shares emerge between member countries over this period. For instance, in 1987, over 60 per cent of imports from Ecuador entered under the preferential scheme, compared with slightly over 20 per cent in 1989. For the same period, the Bolivian share increased from 34 to 55 per cent. Almost all Chilean imports sourced from Paraguay received preferential treatment (Table IV.3).\textsuperscript{14}

153. Since October 1989, Chile has also participated in the Agreement on the Global System of Trade Preferences among Developing Countries (GSTP). Chile's GSTP schedule of concessions is given in Table IV.4. The tariff preference granted by Chile is to reduce the uniform tariff on 10 tariff items by 10 per cent. Prior to 1990, the only import under this scheme was Malaysian latex valued at US$165,000.

154. Chile is also a member of the Committee of Participating Countries of the GATT (CPC). The list of products and the value of imports conducted under this agreement are given in Table IV.5. Fourteen tariff items are included in Chile's schedule of concessions.

(e) Tariff concessions

155. Section 0 of Chile's Tariff grants certain tariff concessions to specified imports. Introduced in 1967, it lists products subject to fixed ad valorem duties that apply only when these are lower than those specified in the normal Schedule. Eligibility for special tariff treatment is determined on the basis of four considerations: the nature of the merchandise (non-commercial value of certain products); the regional destination of imports; the nature of the importer (official or international organizations); or the purpose of imports (assembly plants). The importation of products under Section 0 does not require an import declaration form to be presented to the Central Bank.

\textsuperscript{13} Preferential trade agreements are explained in Chapter II. A list of the regional and partial-scope agreements concluded within LAIA by Chile is given in Table All.2.
\textsuperscript{14} Figures given in Table IV.3 cover only partial-scope agreements. Corresponding data for other agreements are not available.
156. Tariff concessions are granted for 108 functionally-determined tariff lines. These include imports by Government agencies, the armed forces, foreign missions, international organizations, passengers' personal effects, donations, gifts, and non-commercial samples. Ad valorem duties fixed under Section 0 vary between zero and 185 per cent. In 1989, imports under Section 0 were valued at US$126 million, of which nearly 80 per cent were imports of parts and accessories for use in the assembly of motor vehicles. Over the period 1985-89, Section 0 imports represented around 2 per cent of total Chilean imports.

157. In July 1985, the National Customs Service established a list of products subject to special customs duties of zero or 10 per cent (Resolution 2,431). The list comprises 22 tariff items, and includes books, nuclear reactors, particle accelerators, tractors, certain motor vehicles such as fire-engines, tanks and other armoured fighting vehicles, warships, and flying machines.

158. Imports into designated free-trade zones are exempt from customs duties. Tariff concessions are also available for enterprises and investors located in region XII (the Strait of Magellan and Chilean Antarctica).

159. In addition to the normal duty drawback scheme for exports, Chile established, in 1989, a new system of drawback to benefit indirect exporters, i.e. domestic industries providing products to exporters. Under this scheme, domestic producers receive a reimbursement of 10 per cent of the value of products sold and incorporated in future exports.

(f) Customs valuation

160. Chile is not a signatory to the Customs Valuation Code. However the Chilean Government has observer status on the Committee on Customs Valuation.

161. Customs valuation procedures in Chile are established by Law 18,525 of 1986. The main objective of these procedures is to ensure that customs values are based on actual world prices. The customs value of imported goods is the price paid or that would be paid on a sale under free market conditions. A sale under free market conditions is one where price, the

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15 Currently, 33 tariff lines receive duty free treatment. Parts for assembly of automobiles, also included in this section, are dutiable at the fixed rate of 15 per cent.

16 Articles 6 to 9 of this Law relate to customs valuation procedures. These procedures are, in principle, based on the Brussels Definition of Value.
sole consideration, has not been influenced by any commercial, financial or other relationship between the seller and the buyer. The customs value includes all costs, charges and expenses incurred on imported goods prior to customs clearance.

162. The importer must declare the customs value of the goods on an import document. This value is to be verified by an invoice containing details of the goods to be cleared, such as the seller's name, the price for each good, and any price discounts.

163. In cases where the declared value differs from the actual value of the goods, the National Customs Service has the power to determine an alternative value based on a sale under free market conditions. To this end, the Customs Service uses as a basis the value of identical or similar goods sold on the same commercial basis as the goods in the question. The value is determined by the Customs Service taking into account price and sales information from international publications and available price lists. Where not feasible, the price is determined on the basis of historical prices of identical products from the same seller, or historical prices of similar products. Acts modifying declared values may be contested in accordance with legal procedures. Appeals first addressed to the Customs authorities must be decided within 15 days. Further appeals are possible by the importer through the national courts.

(g) Minimum customs values

164. The President of the Republic may establish minimum customs values for goods whose normal price is temporarily reduced and the importation of which at these prices would seriously prejudice national production. This can only be done following a favourable report from the Import Distortions Investigation Commission. The validity period of minimum customs value must not exceed one year. However, it may be extended if the price conditions which conduced to the adoption of this measure persist.

165. During 1989 and 1990, minimum customs values applied to imports of powdered milk, fabrics, textiles, tyres, and aluminium wrought bars (Table IV.6). In the case of wheat flour, a minimum customs value was set on an indefinite basis. Some of these products are also affected by a tariff surtax, generally of 5 per cent.

17 Customs authorities have indicated that the number of cases in which the declared value has been modified is low.

18 According to Chilean authorities, there have been some appeals to national courts. All appeals have resulted in a confirmation of the National Customs Service decisions.
(h) Reference prices

166. Reference prices are set by the National Customs Service on certain products to control the adequacy of customs value declarations. These are based on prices prevailing in the main international markets. A margin of 10 per cent between the declared import price and the reference price is generally tolerated. Where the tolerance margin is exceeded, customs agents must prepare a report on why the price differential exists. However, customs clearance procedures are not interrupted. According to Chilean authorities the use of reference prices has diminished in recent years.

167. However, reference prices continue to be applied for a wide range of products. Reference prices for radios and TVs differ between the imports' country of origin. Reference prices for wheat, edible vegetable oils and sugar, set on a weekly basis, are used for the implementation of a price band mechanism. This mechanism provides for additional duties or reductions to be applied on the payment of ad valorem duties. Reference prices applying to spare parts for trucks and buses are based on an international publication.

168. Most goods imported into Chile are cleared through customs in two working days. Before 1979, customs clearance took 20 to 30 working days.

(iii) Tariff quotas

169. The imposition of tariff quotas is prohibited by law in Chile.

(iv) Variable import levies

170. Variable import levies are not applied in Chile. However, a price band mechanism for certain agricultural products implies, in practice, the application of a variable import levy depending on the import price levels of these products.

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19 The items are powdered milk; butter; cheese; meat of bovine animals; starches obtained from maize; glucose; pastry biscuits and cakes; matches; safety fuses; prepared explosives; low density polyethylene; certain textiles and textile articles; certain fabrics; footwear; umbrellas; unworked glass; breathing appliances; radio telegraphic and radio telephonic transmission and reception apparatus, radio and TV receivers.

20 The "Nutzfahrzeuge, Marktbericht für Gebrauchtfahrzeuge, EINKAUF".
(v) Other levies and charges

(a) Tariff surtaxes

171. Tariff surtaxes may be applied under Article 10 of Law 18,525 on imports of goods that would, due to artificial effects on their market value, seriously prejudice national production. The President of the Republic is authorized to determine the goods subject to surtaxes and their level and duration, which shall not exceed one year, on the basis of a report prepared by the Import Distortions Investigation Commission (Comisión de Investigación de Distorsiones a la Importación).

172. The Commission is required to investigate, upon request by domestic producers, into possible distortions in the price of imported products that threaten serious injury to domestic production. It comprises the Inspector-General of the National Economy, who is the chairman of the Commission, two representatives of the Central Bank, the National Director of Customs, as well as representatives from the Ministries of Finance, Foreign Affairs, and Economy, Development and Reconstruction.

173. Initiation of the investigation has to be announced in the Official Journal within 5 days of formally receiving the complaint. The Commission has 30 days to collect information from the parties involved. Investigations must be concluded in not more than 90 days from the date of publication in the Official Journal. Where the Commission concludes that there exists a price distortion which is causing significant injury to domestic production, it may advise the fixing of minimum customs values, surtaxes, countervailing duties or some combination of these measures.

174. During the first 60 days of the investigation, the Commission may recommend that the President establishes provisional measures pending the outcome of the investigation.

175. Products covered by the surtax at rates of mostly 5 or 8 per cent have included powdered milk, butter and butter oil, cheese, matches, tyres, fabrics and certain garments. Since 1986, the number of tariff lines affected by surtaxes has decreased (Chart IV.3). Tariff surtaxes

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21 Surtax rates may be 3, 5, 8, 10, 12, 15, 18 or 20 per cent ad valorem. The maximum surtax rate was increased from 15 per cent to 20 per cent in January 1989. The rates of 3 and 18 per cent were added in January 1990. Given the uniform tariff level of 15 per cent, applying the maximum rate of surcharge to particular goods is not inconsistent with Chile's binding commitments in the GATT of 35 per cent.

22 Investigations are not initiated automatically after receiving the complaint. The Commission verifies first if all required information is included in the complaint.
applicable in 1989 and 1990 are given in Table IV.7. In 1990, surtaxes were applied to tyre cases and woven pile cotton fabrics. In January 1991, a provisional surtax of 12 per cent was established for wheat flour imports from all sources.

Chart IV.3
Number of tariff lines affected by tariff surtaxes in Chile, 1985-90

Source: Central Bank of Chile.

(b) Other charges

176. Value-added tax is levied at the same rate on all domestically produced and imported goods and services. For imports, the tax is based on the sum of the customs value, freight, insurance and any other duties or taxes. The tax is not imposed on exports. Certain activities are exempt from the value-added tax including several services and some imports.  

23 These are for example private education, public health, insurance, and international and domestic passenger transportation. Cultural items such as maps, newspapers and magazines are also exempt from the value added tax. Other products exempt from the value added tax are natural gas and petroleum derivatives; cigars, cigarettes, and tobacco; goods imported by the Ministry of Defence, by the Agricultural Trading Enterprise, and by representatives of foreign governments and international organizations; goods imported under temporary (Footnote Continued)
The tax, reduced from 20 per cent to 16 per cent in June 1988, was temporarily increased in July 1990 to 18 per cent until December 1993.

177. In addition to the value added tax, the Chilean Government taxes the consumption of certain luxury products, whether imported or produced locally. A 50 per cent tax is levied on the c.i.f. value of some luxury consumer items, including caviar, jewellery, precious stones, fine furs and tapestry, motor homes, trailers, fireworks, and airguns. A 30 per cent tax applies to sailing yachts and competition boats. Taxes are also levied on beverages at rates of 70 per cent on whisky; 30 per cent on liquors; 25 per cent on pisco; 15 per cent on wine; and 13 per cent on non-alcoholic beverages.

178. Manufactured tobacco is subject to an excise tax of between 46 per cent on cigars and 53 per cent on cigarettes. Gasoline and automobile diesel are also subject to excise taxes.

179. The importation of motor vehicles, assembled or not, is subject to an additional tax which is set according to a specified formula. Domestically-produced cars are also subject to this tax.

180. An airport tax applies on cargoes entering via Chile's first-line airports. In September 1989, this tax was reduced from 3 to 2 per cent of the duty payable. All goods partially or totally exempt from customs duties are subject to a user fee of 5 per cent of their c.i.f. value.

181. Imports of used goods shall, over and above the duties laid down for new goods, be subject to a surtax of 50 per cent of import duties, equivalent to 7.5 per cent of customs value. This rate does not apply to certain imports such as capital equipment and goods not of a commercial character with a f.o.b. value not exceeding US$1,000.

(Footnote Continued)

(24) The value-added tax is the main source of tax revenue. In 1988, it accounted for more than 38 per cent of total tax revenues.

(25) The tax on certain products is in practice levied only on imports since there is no domestic production. However, as domestic production would be taxed equally, it does not therefore discriminate against imports.

(26) More details on the application of this tax are given in Chapter V.

(27) Exceptions to the user fee include goods exempt from customs duties under preferential trade agreements, and Section 0 of the Chilean Tariff.
(vi) **Minimum import prices**

182. Chile does not apply any minimum import price as a permanent trade instrument. As noted above, reference import prices are applied on a range of products for the purpose of customs valuation; however, the transaction is not interrupted when the declared value does not correspond to the reference price.

(vii) **Import prohibitions**

183. In August 1981, the list of prohibited imports, which included caviar, synthetic fur clothing, fine pearls and precious and semi-precious gems, was revoked under Decree 330 of the Ministry of Economy, Development and Reconstruction. The free importation of merchandises is now provided for in the Constitutional Organic Central Bank Law (Law 18,840).

184. Imports of all goods are permitted except for second-hand motor vehicles used for transporting merchandise. According to Chilean authorities, the prohibition exists to assist the development of the domestic automobile industry and to avoid the importation of stolen cars. Additionally, it is claimed that the importation of used motor vehicles would aggravate pollution problems. The prohibition does not cover imported vehicles under Section 0 of the customs tariff, nor to those eligible for full or partial exemption from customs duties and other import charges.

185. Goods considered to be offensive to public morality or dangerous to the country's sanitary and phytosanitary conditions are barred from importation. Fruit imports from countries infested with fruit fly are also prohibited.

186. Chile, as a member of the Convention on International Trade in Endangered Species of Wild Flora and Fauna, CITES, applies all rules concerning trade on products covered by this Convention. The importation of products included in CITES' Annex I is prohibited, unless an import permit providing special authorization is obtained from the Chilean

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28 Also permitted is the importation of ambulances, prison vans, fire-engines, fire-escapes, street-cleaning vehicles, snow-ploughs, spraying lorries, crane-lorries, search-light lorries mobile workshops, concrete mixers, mobile radiological units, armoured lorries for the transport of valuables, breakdown lorries, residential motor vehicles, cross-country motor vehicles, and other special-purpose vehicles other than transport equipment such as electrically and/or gas-powered buses.

29 It was reported that in February 1991, the Chilean Government was considering prohibiting imports, especially seafood, from Peru because of health reasons. This was being examined due to the cholera outbreak in Peru.
Scientific Authority (The National Commission of Technological and Scientific Research).

187. The Ministry of Finance may prohibit the importation or exportation of goods from or to countries establishing trade restrictions against Chile (Article 88 of Law 18,840). To date, Chile has never imposed such sanctions.

(viii) Import licensing

188. As a signatory to the GATT Agreement on Import Licensing Procedures, Chile has regularly responded to the GATT Secretariat's questionnaires on import licensing procedures. Imports into Chile are free from licensing requirements. Although import transactions must be covered by an import document, this is not intended to restrict imports.

189. The importation of certain agricultural products subject to sanitary or phytosanitary regulations requires authorization from either the Chilean Agriculture and Livestock Service or the National Health Service.

(ix) Import quotas

190. Quantitative import restrictions are generally not applied in Chile. The imposition of quotas on foreign trade is prohibited by law. Freedom to import is the general rule established by Chilean law.

191. Import quotas may be applied within the framework of preferential trade agreements negotiated by Chile with LAIA member countries.

(x) Import surveillance

192. Apparently, no import surveillance measures are maintained in Chile.

(xi) State trading

193. According to Chilean authorities, two official State-trading enterprises participate actively in the domestic market. The Wheat Trading Enterprise (Comercializadora de Trigo, COTRISA) acts exclusively with a view to support the price band mechanism. COTRISA buys wheat from small

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30 See GATT documents L/5640/Add.8 & Rev.1/Suppl.1-3.
31 Law 18,840, which establishes the constitutional organization of the Central Bank, and Decree 471 of the Ministry of Finance.
32 For example, an annual import quota of 20,000 tons applies to duty-free imports of Bolivian soya-bean oil-cake. Imports above this level pay the uniform 15 per cent tariff.
farmers at a fixed price and sells at market prices. Its share in the
domestic market does not exceed 10 per cent. Farmers are not obliged to
sell their production to COTRISA. The second State-trading enterprise in
Chile is the Enterprise for Supply of Isolated Areas (Empresa Abastecedora
de Zonas Aisladas S.A., EMASA). It provides basic consumption goods to
far-distant areas.

194. A number of other enterprises could equally be considered as
State-trading organizations. These include the National Mining Enterprise
(ENAMI), which buys mining products from small mining industries, and the
Chilean Copper Corporation (CODELCO-Chile) which does import business for
the copper mining industry.\(^33\)

(xii) Import cartels

195. Cartels of all forms are prohibited by law in Chile. According to the
Anti-monopoly Law (Decree-Law 211 of 1973), all acts that prevent or
restrict free trade inside Chile, irrespective of whether such acts occur
in domestic trade or foreign trade, are prohibited and punished by up to
five years' imprisonment.\(^34\)

(xiii) Countertrade

196. There are no countertrade regulations affecting trade with foreign
partners. Chile's main export, copper, sells on a commercial basis at
international prices recorded by commodity exchange quotations.

(xiv) Standards and other technical regulations

197. Chile is a signatory to the Agreement on Technical Barriers to Trade.
The Agreement was ratified by Chile in early 1981, through Decrees 3,569
and 299 of the Ministry of Foreign Affairs.

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\(^{33}\) See UNCTAD, Handbook of State Trading Organizations of Developing Countries, Vol. II,
1990. The functions of CODELCO are explained in Chapter V.

\(^{34}\) Such acts include the establishment of production quotas, market quotas, market areas
(exclusive distribution), and pricing agreements. However, this legislation maintained in
force a number of restrictions imposed or authorized by previous laws in specific areas such
as banking services, industrial property, the production of and trade in copper and
petroleum, transport and coastal traffic. The concession of any monopoly, necessary for the
stability and development of the Chilean economy, is not granted to private individuals
(Article 4).
(a) Standards, testing and certification

198. The National Standardization Institute (INN) of Chile has overall responsibility for matters relating to standards, testing and certification. It is a member of the International Organization for Standardization (ISO), the Panamerican Commission on Technical Standards (COPANT), the Pacific Area Standards Congress (PASC) and the International Laboratory Accreditation Conference (ILAC). The Chilean INN is also a signatory of the American Society for Testing and Materials (ASTM) and the International Electrotechnical Commission (IEC).

199. Chile's general policy in the field of standardization is to promote the adoption of regulations based on international standards. Proposed standards under public inquiry are notified in the Official Gazette. A minimum period of 30 days is allowed for comments to be submitted by interested parties. Chilean standards are approved by consensus at the INN Council and authorized by the relevant Ministry. New standards or revisions to existing standards are published in the Official Gazette (Chart IV.4).

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35 The National Standardization Institute of Chile is a private body established in 1973 by the Production Promotion Corporation (CORFO). Its main objectives are to examine and implement technical standards and to perform the necessary follow-up testing and certification tasks.
200. Chilean standards are generally voluntary, but may be mandatory in cases of specific technical regulations, such as those covering security, health and environmental protection. Whether voluntary or mandatory, standards apply equally to Chilean and imported goods. For imported goods, Chile recognizes testing procedures performed in the exporting country, but conducts spot checks and sampling procedures to ensure that foreign products meet the basic requirements.

201. Chile has around 1,800 official standards which were published in December 1989 by the National Standardization Institute. Twenty per cent
of Chilean standards are identical to those of ISO, IEC or the Codex Alimentarius Commission. A further 50 to 60 per cent are based on international standards with few modifications, and the rest differ substantially from international norms.  

202. For certification purposes, Chilean institutions must refer to one of the following standards: national standards approved by the National Standardization Institute; international standards; or official standards of the trading partner.

(b) Sanitary and phytosanitary regulations

203. Agricultural products subject to sanitary regulations include live animals, meat and edible meat offals; dairy products; certain products of animal origin; animal and vegetable oils; beverages, spirits and vinegar, excluding water and lemonade; and residues and waste from the food industries. The Chilean Agriculture and Livestock Service (SAG) publishes regularly a schedule of diseases considered to be a potential risk to Chile. These are generally internationally recognized animals and plant pests.

204. Imports of animals must be accompanied by a sanitary certificate issued by a recognized authority in the country of origin which states that the animals are in good health and free of contagious diseases.

205. Imports of certain agricultural products must be accompanied by a phytosanitary certificate issued by recognized authorities in the exporting countries. Chilean authorities generally accept these certificates, but regular random sampling occurs for testing purposes.

206. Chilean phytosanitary regulations include special requirements set for certain imports from either all origins or only those from specified countries. For example, certain cereals such as wheat and maize must be

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36 For example, standards on electrical appliances are those of the IEC; labelling standards for consumer products are equivalent to those of ISO and CODEX; and standards on construction materials are stricter than international norms because of the seismic conditions experienced in Chile. Chilean standards apply mainly in the areas of quality of life, safety and health; packaging, handling and transportation; energy; building construction; food products, agriculture and livestock; chemistry; metallurgy and mining; electricity; textiles and leather; and wood products.

37 See GATT document AG/FOR/REV/CHL/1/Add.1.

38 Products subject to phytosanitary regulations include live trees and other plants; edible vegetables; edible fruit and nuts; coffee, tea, mate and spices; cereals; cereal flours; oil seeds and oleaginous fruit; vegetable plateauing materials; cocoa and cocoa preparations; tobacco; and any other part of a plant in its natural state or processed, capable of harbouring plant pests, as well as commodities dangerous to plants.
fumigated on arrival in Chile, and carnation seeds must be treated with an organic mercurial fungicide when sourced from Argentina, Europe, New Zealand and the United States.

207. Quarantine requirements exist for imports of plants and seeds to prevent dissemination of pests in Chile. The Chilean Agriculture and Livestock Service (SAG) determines quarantine restrictions. These may also be applied between the mainland and islands belonging to Chile.

208. Imports of products, which are subject to sanitary or phytosanitary regulations, require the prior authorization of the Chilean Agriculture and Livestock Service (SAG). In addition, the marketing in Chile of any agricultural product intended for human consumption or used for the manufacture of pharmaceutical products or preparations must be approved by the National Health Service (SNS).

209. Regular procedures for importing goods subject to sanitary or phytosanitary regulations include the submission of a written application after the arrival of the goods. The application requesting inspection of the goods, must contain a description of the products, the name and address of the importer, the purpose for which the product is desired, the weight, value and country of origin together with, if possible, the region where grown.

210. Special sanitary and phytosanitary requirements apply to agricultural goods in transit to neighbouring countries.

211. Prior registration with the National Health Service is required for the importation of pharmaceutical specialties, cosmetics, and most biological and biochemical preparations. Special labelling and other requirements may also apply depending upon the nature of the individual product.

212. The Health Code and other special legislation cover the basic regulations concerning pollution control. They tend specifically to limit contamination of the atmosphere and water resources, and to provide for basic conditions of health and security in industries.

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SAG is also the official agency providing phytosanitary certificates for Chilean agricultural exports required by the importing country. The format of the certificate is that adopted by the International Convention on Phytosanitary Protection of the FAO in 1951.
(c) Marking, labelling and packaging

213. All imported consumer products sold in Chile must be marked or labelled with the country of origin. Packaged goods must be marked to show the quality, purity, or mixture, and the net weight or measure of the contents.

214. Shipping cases must be stencilled to show shipping marks and numbers and the gross weight expressed in kilogrammes. There are no other stipulations regarding how shipments must be marked, and common shipping practices are normally accepted in Chile.

215. Goods imported into Chile by sea, in transit to another country must be marked accordingly and enter under a special transit manifest. Chile is a signatory to the 1975 Customs Convention on the International Transport of Goods under Cover of TIR Carnets.

216. Labelling requirements on canned or packaged foodstuffs are the same for domestically produced or imported products. These products to be sold in Chile, must bear labels written in Spanish containing precise labelling specifying net metric contents, the main ingredients including all additives, manufactured and expiration dates, name of the producer or importer, and country of origin. Since 1984, labelling requirements have applied to dried salt meat, whether domestically produced or imported. Special labelling and marking requirements exist for garments and plastic products. These are based on international standards and do not discriminate against imported products.

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40 Marking with a brush is not permitted. Net weight is the actual weight of the merchandise without wrapping or container. Legal weight is the weight of the goods together with that of the immediate container or wrappings, but excluding the crate, box, or other exterior container, and shavings, straw, or other material used for packaging the goods therein. The legal weight of goods, such as powders, liquids, or granules imported loose in barrels or other large containers, includes the weight of such containers. Gross weight is the weight of the merchandise and all containers, wrappers, and packing used in preparing the goods for shipment.

41 Such shipments may enter only through the ports of Arica, Iquique, Antofagasta, Coquimbo, Valparaiso, Talcahuano, Puerto Montt, and Punta Arenas. In-transit shipments to Bolivia are governed by the treaty of 1904 and the convention of 1937. Transit shipments to Bolivia may be stored in Chilean customs warehouses for one year without payment of warehouses charges.

42 The Convention is designed to facilitate the international movement of motor vehicles and containers of goods from the country of origin to the country of destination through one or more intermediate nations without mandatory discharge of cargo at each border point for customs inspection.


44 Goods not meeting these labelling requirements may be imported, but not sold in Chile.
217. Imports of certain goods such as glass, crystal, porcelain, and china may be packed in straw, hay, or plant branches. These must be accompanied by phytosanitary and sterilization certificates. Other goods may not be packed in straw, hay or plant branches.

(xv) Government procurement

218. Chile has observer status in the GATT Government Procurement Code.

219. Government entities are usually responsible for their own procurement. According to the legislation, included in Decree-Law 353 of 1960, large government contracts must be filled through public bids, although procurement by negotiation is permitted in certain cases. Public bids must be submitted on a special document provided by the Bureau of Government Supplies. Bidders must lodge a bank or guarantee bond equivalent to between 1 and 4 per cent of the total bid. This is aimed at ensuring strict compliance with the requirements specified in the tender by the Chilean agency. There are no specified requirements to use a certain percentage of local content. Foreign suppliers of aviation and airport equipment must be registered with the Bureau of Civil Aviation (Dirección General de Aeronáutica Civil). Tenders for public and private bids are published in major local newspapers.

220. In 1984, the Government began implementing a "Buy Chile" policy. The policy called for all state-owned companies to favour locally-produced goods when conditions of price and quality were equal to those of equivalent imports. The aim was to assist local manufacturers and to reduce unemployment, which was over 30 per cent after the 1982 crisis. Chilean authorities maintain that this purchasing preference, which was not compulsory, is no longer operative. Many products are not manufactured in Chile and procurement decisions by state-owned companies continue to be made among competing imports. According to Chilean officials, procurement contracts are based on market considerations and involve no preferential treatment for national suppliers.

221. In 1989, public sector imports amounted to US$1,207 million, representing nearly 19 per cent of total imports.

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45 In general, government procurement is to be made through private or public bids. However, in certain circumstances, such as emergency situations or when products are to be imported from exclusive foreign suppliers, purchase through direct negotiations are permitted.
(xvi) Local content requirements

222. With the exception of the motor vehicle sector, Chile does not apply local content schemes. Local content requirements for motor vehicles, established by Law 1,239 of 1975, initially ranged from 15 to 30 per cent, depending on the type of vehicle produced. These rates have been subsequently reduced. For completely-knocked-down (CKD) kits, required minimum local content now stands at 13 per cent (3.25 per cent of which corresponds to local assembly). Export facilitation arrangements exist whereby exports of automotive products count towards local content.

(xvii) Rules of origin

223. Certificates of origin are not required by Chile unless requested by the importer, the commercial bank or under the terms of the contract. Chile does not have a general system for determining the origin of imports.

224. Specific rules of origin apply to imports receiving preferential tariffs within the framework of the Latin American Integration Association Agreements. LAIA rules of origin generally use the concept of "wholly processed" and "substantial transformation" based on the customs classification criteria. Regulations concerning assembled products require that the c.i.f. value of imported components must not exceed 50 per cent of the f.o.b. value of the final product. Specific rules of origin may be stipulated between countries signing preferential agreements. These are normally stricter than the general LAIA rules.

(xviii) Anti-dumping and countervailing duty actions

225. Chile has observer status to the Agreement on Implementation of Article VI of the GATT (the Anti-Dumping Code). It has no domestic regulations regarding anti-dumping duties. However, Chile applies other measures, such as tariff surtaxes or minimum customs values, to correct for what the authorities consider international price distortions arising from unfair practices of trading partners.

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46 Certain fiscal credit incentives are granted to assembly plants meeting local content requirements.
47 Products obtained from imported inputs must classify in a different tariff position than the components.
48 For example, Chile established specific rules of origin in the partial-scope agreement signed with Brazil. These include for example, that the milk component of cheese must originate entirely in one of the signatory countries. The same applies for the wood component of furnitures and a variety of other products.
226. Chile has been a signatory to the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement (the Code on Subsidies and Countervailing Measures) since its establishment on 1 January 1980. Chilean legislation encompassing this Agreement is contained in the Regulations on Merchandise Imports (Law 18,525).

227. Since December 1989, the Import Distortions Investigation Commission is empowered to initiate, conduct and conclude investigations into the possible existence of export subsidies in foreign countries, and whether imports benefiting from these arrangements are causing or threatening serious injury to domestic industries. The Commission may recommend either the application of a countervailing duty or the rejection of the complaint. The sole authority for applying countervailing duties in Chile, the President of the Republic must, in deciding whether or not to impose a countervailing duty, abide by the law contained in the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the GATT.

228. Investigations are subject to regulations established in Law 18,525 and Decree 545 of the Ministry of Finance. Complaints alleging injury due to subsidized exports must be lodged with the Technical Secretariat of the Commission, the Central Bank, by the party claiming material injury or the threat thereof. Within thirty days from the lodging of the complaint, the Commission must decide whether the evidence is sufficient to justify initiating an investigation.

229. After the initiation of an investigation, the Commission shall within five working days publish in the Official Journal particulars behind the investigation. Persons having an interest in the investigation are allowed, 30 days from the date of publication, to make a submission to the Directorate of Operations. Countries directly involved in the investigation are notified by the Commission, through the Ministry of Foreign Affairs.

230. The investigation must be completed within a period of not more than ninety days from the official publication date. Once completed, the

49 See Section V(a) above for the composition of the Commission. Until 1989, the Central Bank of Chile was designated as the national authority to investigate complaints of injury arising from exports of subsidized products (Decree 742 of the Ministry of Finance).

50 Complaints may be made solely by natural or legal persons to whom the subsidized import is causing or threatening material injury. Although the complaint may be lodged in respect of only one industry, the investigation covers all industries manufacturing the like product.
Commission submits to the Minister of Finance a report detailing the particulars and findings of the investigation. These must be communicated to the complainant within five working days, who may lodge within fifteen calendar days for a review of the Commission's findings.

231. Following a modification to Article 11 of Law 18,525 in September 1990, provisional countervailing duties may now be imposed.

232. Between 1981 and 1986, Chile initiated 135 investigations and applied one definitive duty. The definitive countervailing duty of 10 per cent was imposed from May 1986 on imports from Portugal of drawn flat glass (Table IV.8). Almost half of the investigations initiated by Chile over this period occurred in the first years. No countervailing investigations were notified by Chile as being initiated between 1986 and 30 June 1990 (Chart IV.5 and Table IV.8). In October 1990, Chile introduced a provisional countervailing duty of 5 per cent on imported woven fabrics of cotton from Pakistan.

![Chart IV.5](image)

**Countervailing investigations of Chile, 1980-90**

<table>
<thead>
<tr>
<th>Year Period</th>
<th>Number of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>70</td>
</tr>
<tr>
<td>1981-82</td>
<td>50</td>
</tr>
<tr>
<td>1982-83</td>
<td>30</td>
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<td>1983-84</td>
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<tr>
<td>1986-87</td>
<td>10</td>
</tr>
<tr>
<td>1987-88</td>
<td>10</td>
</tr>
<tr>
<td>1988-90</td>
<td>10</td>
</tr>
</tbody>
</table>

*Source: GATT documents.*

233. Trading partners affected by Chile's countervailing investigations were mainly Brazil (55 cases), Argentina (26 cases), Peru (17 cases), Spain
(11 cases), Korea (8 cases), the European Communities (6 cases), Colombia (3 cases), Uruguay and Taiwan (2 cases) (Table IV.9).

(xix) Safeguard actions

234. No specific domestic legal basis exists in Chile's legislation for implementing safeguard actions. The legal basis for using such measures is Article XIX of the General Agreement.

235. Safeguard actions were taken against imports of raw and refined sugar in July 1984, wheat in November 1984, and edible vegetable oils (soya bean, colza, seed, sunflower seed, maize, olive and other oil) in September 1985 (Table IV.10).\(^5\) Initially, actions took the form of specific-duty tariff surcharges on top of the 20 per cent duty existing at that time. Later, the system was changed to allow for variable specific duties on top of the 20 per cent tariff or a reduction in the payment of customs duties depending upon prevailing world prices. The system established minimum and maximum import price levels expressed in US$ f.o.b., and the corresponding specific duties set accordingly to maintain prices within this margin.

236. The measures adopted by Chile were undertaken to prevent further serious injury to domestic producers caused by deteriorating international prices for these products. According to Chilean authorities, depressed world prices at the time were the direct result of surpluses from some major exporters flooding the world market in response to domestic price support and the payment of large export subsidies.

237. In years of low international prices, the application of high specific duties of more than 15 per cent equivalent ad valorem, when added to the then existing uniform rate of 20 per cent, meant that tariffs exceeded the 35 per cent level bound by Chile in the GATT. Consequently, Chile found it necessary to invoke the provisions of Article XIX of the General Agreement.

238. Chile ceased to invoke the provisions of Article XIX for these products as from 1 January 1989. Although the system of variable specific duties on top of the normal tariff still exists for wheat, edible oils and sugar, Article XIX became no longer necessary following the reduction in the uniform tariff from 20 to 15 per cent. No Article XIX measures have been in place since then.

\(^5\)See GATT documents L/5672 & Add.; L/5861 & Add.; and L/5935 & Add.
239. As a member of the Latin American Integration Association, Chile may apply transitory and non-discriminatory safeguard clauses restricting imports to correct balance-of-payments imbalances or to protect local producers from severe market disruptions caused by too many imports entering under preferential terms.  

Chile applied the LAIA safeguard clause to imports of phthalic anhydride from Venezuela. The tariff preference for this product was suspended until March 1991. A safeguard clause was also applied by Chile until November 1990 on imports of fowl meat from Uruguay.

(xx) Measures implemented in exporting countries

240. Chile is not a party to any voluntary arrangements or other agreements restraining exports to Chile.

(xxi) Balance-of-payments measures

241. Since 1979, Chile has not had recourse to any import restrictive measures to safeguard its balance-of-payments situation. The last consultations with Chile under Article XVIII:B of the General Agreement were held in 1975 and 1978 (BOP/R/97).

(xxii) Free trade zones

242. Two free trade zones were established by Chile in 1975. Imports into these zones, which accounted in 1989 for less than 4 per cent of total imports, are exempt from the payment of customs duties and the value added tax. Goods imported into free trade zones and later transported elsewhere in Chile are not exempt from these charges.

(xxiii) Other measures

243. A new law to provide patent protection for Industrial Property, including pharmaceuticals was adopted in January 1991 (Law 19,039).

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53 Procedures for the application of safeguard clauses within LAIA are contained in each partial-scope agreement.

54 An export embargo on arms imposed by the United States in 1975, was eliminated on 1 December 1990.

55 More details on free trade zones are given in Section 4 below.
244. Chile does not maintain any trade-related investment measures to attract foreign capital in its investment system. \(^{55}\)

(3) **Measures Directly Affecting Exports**

245. Exporters of merchandise or services over US$1,000 must file a one-page export document ("informe de exportación") to the Central Bank prior to shipment. This document is used for statistical purposes and to verify declared export values. All foreign exchange proceeds from exports must be sold through commercial banks (the formal exchange market) within 120 days from the shipment date of the goods and 11 days of being received by the exporter.

(i) **Export taxes, charges and other levies**

246. There are no export duties or taxes applying to Chilean exports. Exports of all products are exempt from the value added tax.

(ii) **Minimum prices**

247. Reference prices for export products set on an f.o.b. basis by the Customs Office are meant to ensure that declared export prices reflect normal competitive prices of identically or similar products. They are expressed in US dollar per metric ton or in the case of wood products, in cubic metres. A margin of 10 per cent is tolerated. Reference prices apply to exports valued above US$1,000.

248. Minimum export prices are not used as a general trade measure in Chile.

(iii) **Export prohibitions**

249. Commodities are freely exportable under Chilean law (Article 49 of Law 18,840). In special cases, the Ministry of Finance may, however, ban exports of agricultural products if production is insufficient to meet domestic consumption.

250. Export prohibitions may be applied under international treaties, such as the Convention on International Trade in Endangered Species (CITES). Chile has registered around 20 and 29 species in Annexes I and II.

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\(^{55}\) GATT document MTN.GNG/NG12/20.

\(^{56}\) An export document is valid for 90 days. Shipment after that time requires a new form to be obtained by the exporter.
respectively since joining CITES in September 1974. Species in Annex I may only be exported under special circumstances authorized by the National Forestry Corporation, the National Fishing Service or the Agricultural and Livestock Service, as appropriate. The National Commission on Technological and Scientific Research is responsible for ensuring compatibility between domestic and international rules.

251. Chile does not export goods which are prohibited from sale on its domestic market for reasons of human health or safety.

(iv) Export licensing

252. Export licences are not required in Chile. Although export transactions must be covered by export documents, these are not intended to restrict exports. The only exception are products included in Annexes I and II of CITES convention which require a special export permit.

(v) Export quotas

253. Chilean legislation prohibits the application of export quotas (Law 18,840 and Decree 471 of the Ministry of Finance). However, export quotas may be imposed by the Chilean Agriculture and Livestock Service in special circumstances to prevent the extinction of certain domestic species. For example, quotas were fixed on exports of alpacas, llamas and vicuñas.

(vi) Export cartels

254. In principle, cartels of all forms are prohibited by law in Chile (see paragraph on import cartels). Copper exports are controlled by the Chilean Copper Commission. However, the Commission does not have a monopoly power over copper exports. In exceptional situations of national security or interest, the President of the Republic may grant the Commission monopoly control over exports of copper and its by-products for a period not exceeding one year.

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57 Annex I of the CITES convention includes those species under peril (or threat) of extinction, the trade of which is prohibited, unless authorized under special circumstances. Annex II contains those species for which strict control is required.

58 GATT document DPG/Notif. 86.2.

59 The monopoly position may be extended beyond one year if warranted by exceptional circumstances (Article 18 of Decree-Law 1,349 of 1976 establishing the Chilean Copper Commission).
(vii) Voluntary restraints, surveillance and similar measures

255. In principle, Chile does not apply export restraints. Legal, administrative and economic reasons prevent the Chilean Government from accepting any voluntary restraint agreement (BISD, 275/106). Chile did not agree to voluntary export restraint arrangements requested by the European Communities which, since 1980, have imposed import quotas on Chile's exports of live sheep, goats and meat thereof.

256. In February 1988, the European Communities replaced voluntary export restraints applied in the major exporting countries, except Chile, with import licences to monitor imports of dessert apples. Restrictive import quotas were subsequently applied to apples imported from Argentina, Australia, Chile, New Zealand, and South Africa. Import quotas were initially set for the period from 15 February to 1 August 1988.

(viii) Export subsidies

257. Chile has regularly notified to the GATT that it does not maintain subsidy programmes within the meaning of Article XVI:1 of the General Agreement.

258. However, a countervailing case in the United States involving imports of standard carnations from Chile found that two programmes used by Chilean exporters provided, when combined, an export subsidy equivalent to 12.25 per cent. Definitive countervailing duties of 10 per cent were imposed by the United States in January 1990.

(ix) Duty and tax concessions

259. Chilean exporters can claim reimbursement of the value added tax paid on the purchase of inputs used in exports, whether domestically produced or imported.

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60 Chile's import quota was set at 142,131 tons, equivalent to around 27 per cent of total distributed quotas. In May 1988, Chile complained to the GATT Council against this measure and requested that a Panel be established. Chile was supported by Argentina, Brazil, Canada, Hungary, Poland, Romania, South Africa and the United States. The case was examined by a Panel in May 1989 (See Chapter VI).

61 The Chilean authorities believe that the application of this measure by the United States does not imply the existence of export subsidies in Chile. Moreover, they noted that the United States authorities had never provided the proof of the injury caused by the Chilean exports.

62 The same tax concession is granted to international air transport services (Decree-Law 1,606 of the Finance Ministry and Decree 348 of the Ministry of Economy, Development and Reconstruction).
260. A drawback system established by Law 18,708 of 1988 allows all exporters to recover customs duties paid on imported inputs, including parts and components, used in the production of exports. The scheme does not permit the reimbursement of tariff surtaxes and countervailing duties. In 1989, drawback of customs duties amounted to US$19.5 million. The main sectors benefiting from the scheme were mining and petrochemicals (Table IV.11).

261. In 1986, Chile established a simplified tax drawback scheme covering the input costs of small non-traditional exporters. Following modifications introduced in December 1990, through Law 19,024, firms are reimbursed at rates of either 10 per cent or 5 per cent of the f.o.b. value of exports. To receive the higher rate, the merchandise export value in the preceding year must be less than US$10 million. The 5 per cent rate applies when the export value exceeds US$10 million. The National Customs Service is charged with certifying the export values of eligible products. Products excluded from the simplified system are fixed annually by the Ministry of Economy, Development and Reconstruction. Exports already benefiting from the drawback of customs duties, as well as copper waste and scrap, bovine hides, and goat skins are ineligible for the simplified scheme. However, the simplified scheme may apply for ineligible products on their domestic or nationalized input value. The value of reimbursements under the simplified drawback scheme has increased continuously, reaching US$66.4 million in 1989 (Table IV.12).

(x) Export finance

262. No preferential lines of credit exist for exporters in Chile. The export sector must obtain credit from banks on the same commercial terms as other economic sectors.

263. To help boost non-traditional exports, the Government has improved the export credit facilities available from commercial banks. Foreign currency promissory notes signed by exporters and due in local currency at the exchange rate in force at the maturity date may be guaranteed by banks, which in turn can discount 100 per cent of their export commitments through Central Bank credit facilities. Exporters may repurchase from the Central Bank.

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63 The rates were 8 and 5 per cent between December 1988 and December 1990. To be eligible, exported goods must be of national origin. Goods are considered of national origin when entirely processed in the country, using domestic or imported inputs representing not more than 50 per cent of the f.o.b. value of the product. 64 Products with an export value exceeding US$15 million are automatically excluded from the simplified scheme. However, modifications introduced in December 1990 established a 3 per cent drawback rate for exports valued between US$15 million and US$18 million.
Bank 5 per cent of the foreign exchange earnings on exports, up to a limit of US$500,000, to cover operating expenses.

264. Commercial banks provide exporters with many types of foreign currency and peso credits. The terms and conditions are set independently by the banks.

(xi) Export insurance and guarantees

265. No preferential insurance scheme exists in Chile. Export insurance is available from several local insurance companies.

266. A Guarantee Fund has operated for non-traditional exporters since September 1987 (Law 18,645). The fund is aimed at guaranteeing public and private financial credits for non-traditional exporters. The Guarantee Fund was created with a starting capital of US$5 million and is managed by the Chilean State Bank. Until June 1990, 418 guarantee operations, representing a total value of nearly US$5.8 million, had been performed.

267. The Fund covers the products eligible for the simplified tax drawback scheme. Main sectors benefiting from the Guarantee Fund are agriculture, wood furniture, fishing and footwear (Table IV.13).

(xii) Export promotion and marketing assistance

268. Since 1985, Chile has operated export promotion measures to assist non-traditional exports. These measures have been primarily intended to speed-up and simplify the paper work involved in exporting. Special warehouse facilities are available for industries producing export goods.

269. One incentive with particular application for export-oriented projects relates to the holding of a certain portion of a project's export earnings in a special foreign exchange account. In 1989, exporters of certain fruits, including grapes, apples, pears, plums, nectarines, strawberry, melons, watermelons and kiwi fruit, were authorized by the government to buy debt documents (títulos de deuda) with their export earnings.

270. An international marketing service within the Production Promotion Corporation, CORFO, promotes Chilean exports. The service helps establish

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Financial credits must not exceed US$150,000. The guarantee is limited to a maximum of 50 per cent of the loans.

This measure was implemented to compensate for financial losses resulting from the grape poisoning crisis with the United States.
contacts with potential foreign buyers, obtains price information and gives instruction on proper packaging, financing and promotion. Industrial associations provide similar advisory services.

271. The Government export promotion agency, PROCHILE, is one of the branches of the General Directorate of International Economic Relations of the Ministry of Foreign Affairs. Its objectives are the promotion of non-traditional exports and the establishment of commercial channels in foreign markets. PROCHILE, created in 1975, aids all exporters in order to increase and diversify high quality exports at competitive prices. The principal functions of PROCHILE are given in Appendix IV.1.

272. PROCHILE also co-finances a variety of promotional activities, principally through export committees in which the private sector participates. An operations department is in charge of planning and coordinating activities in the nine export sectors of agriculture, fishing, forestry, metallurgy, industrial, chemical/mining, services, small and medium companies, and handicrafts/textiles.

(xiii) **Export performance requirements**

273. Chile does not apply any export performance requirements in formulating and implementing its trade policy. Currently, the Chilean Government is reviewing its automobile sector policy with a view to linking the fiscal credit scheme to meeting export performance targets.

(xiv) **Free trade zones, export processing zones**

274. Export-processing activities, such as manufacturing and assembly of imported material are restricted to the free-trade zones of Punta Arenas, Iquique and a sector of Arica that has been granted "free zone extension" privileges.

(4) **Measures Affecting Production and Trade**

(1) **Adjustment assistance**

275. Chile does not have a policy to promote adjustment in industries experiencing longer term structural pressures. No assistance programmes

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67 The General Directorate of International Economic Relations has established 33 commercial offices around the world. These are responsible for providing access to new markets for Chilean products and publishing export offers.

68 These activities include catalogue editing, participation in fairs, commercial missions, advertising in specialized magazines and product development.
have been in place in recent years.

276. Chile does not have programmes for occupational or sectoral mobility of labour in the context of structural adjustment. However, regional mobility of labour is encouraged, especially in the far north and south of Chile.

(ii) Assistance for research and development

277. Research and development incentives are available through special credit lines established by CORFO, the Chilean Production Promotion Corporation.\(^{69}\) CORFO's main research and development objectives are to evaluate production possibilities of natural resources; to investigate and apply new production technologies; to help increase the quality of small and medium enterprises as well as the labour force; to identify and study new investment opportunities; and to achieve widespread dissemination of its research results. Investments by CORFO in research and development reached US$4.2 million in 1989. Research and development investments were mainly made in the fishing sector (37 per cent), the agricultural sector (29 per cent), and in forestry (21 per cent).

278. CORFO's Technological and Production Development Fund (FONTEC) participates in technological research. This fund is intended to promote developmental activities, research and technological innovation. Projects must be oriented towards creating or improving production processes or products, or adapting technology to new applications. FONTEC's financial participation is limited to 60 per cent of the project's total cost. On completion of the research project, the enterprise may either use the results exclusively (sole right) or release them publicly. In the former case, 50 per cent of the credit, that is 30 per cent of the project's total cost, is subsidised by FONTEC. In the latter, the whole credit is converted to a subsidy. FONTEC also finances 80 per cent of the investment in research infrastructure. To January 1991, 350 research projects were approved, mainly in industry and agriculture.

\(^{69}\)The Production Promotion Corporation, CORFO, was established in 1939 as an autonomous corporation with a separate legal entity and its own assets. It was set up to promote production or to support production activities through providing credit and incentives for research and development. The companies established by the Corporation were usually the largest in their field, making CORFO the most powerful holding corporation in Chile. The privatization process in Chile has reduced to 13 the number of companies managed by CORFO. The Corporation does not take public funds. It relies for its resources on the profits generated by its enterprises, loans from multinational organizations and foreign banks and the national budget.
279. Public sector spending on research, agricultural development, training and sanitary inspection is aimed at providing assistance to peasants and farmers. According to Chilean authorities, these are not intended to increase domestic production.

280. Technical and management assistance for small and medium enterprises is provided by the Technical Cooperation Service (SERCOTEC). Its main objective is to promote productivity through research and dissemination of new production and management techniques.

(iii) Production subsidies and tax concessions

281. In general, the Government does not grant extensive incentives to firms establishing themselves in Chile. However, some incentives are available to encourage the development of petroleum resources, forestry and small mining operations. Incentives usually take the form of tax exemptions and rebates.

282. Authorities do not discriminate between foreign and local firms in providing production incentives. Fiscal incentives under Chile’s Forestation Law (Decree Law 701 of 1974) are limited to firms engaged directly in forestation or reforestation of land deemed eligible by the National Forestry Corporation. Such companies pay no real estate taxes and receive a 50 per cent reduction in the additional income tax levied on the exploitation of forests. Profits from wood processing industries are not entitled to this tax concession.

283. Incentives are applied to oil companies engaged in exploration and exploitation of fossil fuels (Decree-Law 1,820). Tax concessions are applied on imported machinery and spare parts used in their operations. Transfers of fossil fuel by the National Petroleum Company, ENAP, in payment for services rendered by subcontractors and contractors are exempt from levies.

284. Incentives for small scale mining operations are available to firms whose capital does not exceed 70 times the annual minimum salary. Small mining firms are subject to reduced income taxes.

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70 The agricultural sector receives general service assistance from the Government. Research, technological transfer, and sanitary and administrative assistance is provided by the relevant government bodies. Public spending on agricultural assistance is given in Table V.1.
285. Profits reinvested in merchant marine activities are exempt from income and other taxes. The exemption applies to 35 per cent of profits (Decree-Law 3,059).

286. In August 1987, Chile established a deferred payment system for customs duties on imports of certain capital goods.\(^{71}\) Imported capital goods eligible for deferred payments are established by the Finance Ministry. Interested persons may request that certain capital goods be added or deleted from the eligible list. A technical commission must make a proposal on the request within 45 days to the Finance Ministry which has 15 days to make its decision. In 1990, some 680 tariff lines were included in the list of eligible capital goods (Table IV.14). Under this system, duty payments can be deferred for up to 7 years.\(^{72}\) Market interest rates apply to the deferred payment of customs duties.

287. To benefit from this system, imported capital goods must exceed US$3,300 c.i.f., except for transport vehicles where the minimum value is US$4,200. These amounts are adjusted annually.

288. Capital equipment imported into Chile reached almost US$2 billion in 1989. More than 70 per cent benefited from the customs duty deferral scheme (Table IV.15).

289. A fiscal credit equivalent to 11 per cent of the sale price is also available to buyers of domestically-produced capital goods. To benefit from the credit system, the capital good must be eligible for the deferred customs duties payment system. Capital goods produced in the free-trade zones do not benefit from this incentive.

290. CORFO conducts feasibility studies, lends to industry and has initiated plant-site preparation. Credit lines are available for projects in the ranching, mining, industrial, fishing and electrical sectors. In December 1989, the Interamerican Development Bank (IDB) granted Chile a multisectoral loan of US$360 million.

\(^{71}\) Law 18,634 established the general conditions for the functioning of the system. The list of capital goods which may benefit from the scheme, initially given by Decree 671, was modified by Decree 1,157 of the Finance Ministry in April 1990. A summary is given in Table IV.14.

\(^{72}\) Import surtaxes and countervailing duties are not covered by the deferred payment system.
291. Price bands consisting of a range of domestic minimum and maximum prices are set under Article 12 of Law 18,525 for wheat, oilseeds, edible vegetable oils and sugar. The President of the Republic is empowered to fix annually the level of additional specific duties necessary to sustain the minimum price. The maximum price is sustained by a reduction in the payment of customs duties to be granted according to international prices.

292. According to Chilean authorities, the band does not constitute a price support mechanism for these products, as it is not used to cover increased domestic production costs. The mechanism is used to correct for artificial distortions in the international markets caused by subsidies and support measures applied by other producing countries. In the first stage (1982-84), the purpose of price bands was to stimulate production by raising the producers' price to a level above the expected border price at harvest time. After 1984, price bands were implemented to reduce the transmission of fluctuations in world prices to domestic prices.

293. To determine the price range, international prices (monthly averages) in major markets are considered for a given period of time (5 years for wheat, oilseeds and edible oils, and 10 years for sugar). These values are "actualized" to December of the preceding year. Twenty-five per cent of extreme values are eliminated for wheat, oilseeds and edible vegetable oils, and 35 per cent for sugar. Normal importing costs are then added to the lower and higher values of the resulting series to construct the floor and ceiling price bands.

294. The levels corresponding to additional variable specific duties and to reductions to be applied in the payment of customs duties are published annually. Reference import prices for the products involved are published weekly by the National Customs Service. These are used for the application of the mechanism. By limiting the variation of the price band system to a few products and using private cooperatives to support the price, the Government preserves a quasi-free market system.

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73 When import prices are below the bottom of the range, variable specific duties are added to the ad valorem tariff rate to bring them to the level of the floor price. When import prices are above the ceiling price, the payment of customs duties is reduced, until they match the upper band.

295. A private marketing board (COTRISA) has an arrangement for buying wheat from the producers at a fixed price, based on the floor price of the band, and selling it on the domestic market. Producers are free to sell to the board or to any other buyer. According to Chilean authorities, around 90 per cent of domestic production is sold to independent buyers.

(v) **Regional assistance**

296. Chile's free-trade zones were set up to promote regional economic development and encourage export industries. Legislation enacted in 1975 established two free-trade zones, one located at Iquique in the northern province of Tarapaca and another at Punta Arenas in the far southern province of Magallanes.

297. Foreign goods of all types may be imported into the free-trade zones, except for arms, ammunition and any other goods which may be prejudicial to morality, health or national security. Preferential treatment granted in the free-trade zones is not available for the mining and fish processing sectors. Imports into the free-trade zones are exempt from customs duty and other taxes such as the value added tax, but are subject to a general 9 per cent tax. Goods from the free-trade zones may be freely exported. Duties and taxes are payable in full for goods shipped to other areas of Chile.

298. Goods imported into a free-trade zone may be stored, exhibited, packed, unpacked, labelled, divided, repackaged, sold, assembled, mounted, finished, and further processed or manufactured.

299. Customs free storage areas have also been established in ten cities to help promote regional economic development and export industries. Storage areas exist in Antofagasta, Arica, Castro, Coquimbo, Coyhaique, Puerto Montt, Santiago, Talcahuano, Valparaiso and Valdivia. Goods imported into storage areas are not for industrial processing, but may be exhibited, unpacked, placed in containers, labelled, divided, and displayed for sale. Foreign suppliers are permitted to store merchandise in these areas for sale in Chile or for re-export to neighbouring countries.

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75 The buying price fixed by COTRISA in March 1991 was at 5,922 Chilean pesos per ton (around US$175 per ton). The floor price of the band was at US$201 per ton.

76 The preferential régime established for the free-trade zones is also applicable to manufacturing enterprises established in Arica.

77 Article 6 of Law 18,164.

78 For assembled goods, this regulation applies only to imported parts and components.
300. Law 18,841 of 1989 decreed the privatization of the free zone of Iquique through the so-called "popular capitalism" scheme. Plans call for the transfer of 34 per cent of the property to the general public, 33 per cent to users of the zone and 33 per cent to its workers.

301. A preferential customs and tax régime was established in January 1985 for a period of 50 years to cover region XII, comprising the Strait of Magellan and the Chilean Antarctica (Law 18,392). Preferences are given to industrial, mining, fishing, transport and tourism activities. First-category income tax (tax on income derived from commercial, industrial and agricultural activities) is exempted for enterprises established in this region. Merchandise imports are exempted from tariffs and taxes.

302. A wage subsidy is granted to employers located in the extreme north and south of Chile. The bonus, paid by the Government until 1992, is equivalent to 17 per cent of the salaries up to a maximum of 10,200 Chilean pesos (around US$30).

303. Since February 1975, special tax incentives have been granted in Region I, in the far north of Chile, and Regions XI and XII and the Province of Chiloé, in the far south of Chile. Taxpayers in these regions had their First-Category income tax reduced by 30 per cent during 1984-85, and by 10 per cent in 1986-87.

304. A regional investment incentive provides for a grant of up to 20 per cent of investments in the extreme northern and southern areas of Chile. It applies to investments of less than approximately US$800,000.

(vi) Other measures

305. The Government promotes irrigation and drainage projects in the agricultural sector (Law 18,450). Beginning in 1985 for a period of eight years, the Government provides credits up to 75 per cent of the project's costs on amounts not exceeding around US$240,000. The Government has provided a total of US$26.2 million on such assistance.

306. The Production Promotion Corporation of Chile, CORFO, helps private investment projects and promotes production activities. Credits, which are

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79 This system imposes limits on the maximum stock ownership of individual agents, giving credits to enable small investors to participate in the privatization process.
80 To be entitled to these preferences, at least 25 per cent of labour and inputs combined must originate in the specified region.
granted either by CORFO directly or channelled through commercial banks, correspond to loans provided by the World Bank or the Inter-American Development Bank. The criteria for an investment project to be financed are its potential to generate employment and foreign exchange, incorporate new technology and preservation of the environment.

307. In 1980, Chile established a Guarantee Fund for Small Entrepreneurs. This Fund guarantees credit provided by recognized financial institutions. They must be directed to investment projects or operation capital needs. The maximum credits that the Fund may guarantee are around US$30,000 for small agriculture and non-agriculture entrepreneurs, and US$10,000 for small industrial entrepreneurs. Credit terms must not exceed 10 years.

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81 Small non-agriculture entrepreneurs are those whose fixed assets do not exceed around US$10,000; small agriculture entrepreneurs are those whose fixed assets do not exceed US$13,000; and small industrial entrepreneurs are those whose fixed assets are between US$10,000 and US$30,000.
V. TRADE POLICIES AND PRACTICES BY SECTOR

(1) Introduction

308. Consistent with attempts by the Chilean Government to rely heavily on market forces and the principles of comparative advantage to allocate resources, import tariffs, applied at a uniform rate of 15 per cent across all sectors, are the major tool currently restricting access of foreign goods to the Chilean market. Many non-tariff barriers, including licensing and quantitative restrictions, were virtually eliminated in the 1970s. Since then, sectoral policies, targeting selective assistance to certain industries, have been used sparingly and are now limited mainly to several important agricultural products, forestry and the motor vehicles and components industries.¹

309. The transformation of the Chilean economy from a highly regulated and closed one to a more open-trading environment was substantial in both the scope of the liberalization process and the pace at which these reductions were implemented. Until 1973, industrial policy had been heavily biased towards encouraging import substitution sectors by insulating them from international competition through high tariff and non-tariff import barriers. Transformation to a more open trading environment has greatly reduced the anti-export bias of Chile's industrial policies and helped stimulate growth of non-traditional exports of manufactures.

310. The agricultural sector developed largely on traditional policies of self-sufficiency. Sector-specific price interventions, including minimum and maximum producer and consumer prices, trade controls, and subsidies on inputs like fertilizers, seed and credit were extensively used to raise production. These practices have now largely been eliminated.

(2) Agriculture

311. The trend towards increasing Government intervention in agriculture was reversed in 1973 with the introduction of more neutral trade and industry policies.² Agricultural prices, were freed, except for wheat, milk and oilseeds. Agricultural research and development, aided by the

¹This Chapter examines the trade policies and practices operating in Chile according to the GATT Tariff Study classification of industries.

²Objectives of government intervention in one area were found to often clash with objectives established for other industries. For example, the policy of setting artificially-low prices of agricultural inputs to raise agricultural output, clashed with the goal of protecting domestic fertilizer producers. From 1974, a uniform import duty was imposed on all agricultural inputs.
activities of the publicly-funded National Institute of Agricultural Research (INIA) of the Ministry of Agriculture, was stimulated, and more active participation by the private sector encouraged. Interest rates on agricultural loans were deregulated to reflect market forces. Public monopolies supplying inputs and most Government-operated marketing boards were eliminated.

312. Tariff reductions introduced for all sectors resulted in a uniform rate of 10 per cent by June 1979. Since then, the uniform tariff rate has varied considerably, but now stands at 15 per cent. Major exceptions to the uniform tariff in agriculture are higher tariffs applied to support the price band mechanisms retained for wheat, sugar beet, and oilseeds, and tariff surtaxes on milk products.

313. The Chilean Government's stated objectives in agricultural policy are to increase agricultural production; to distribute equitably the benefits arising from technical modernization; and to achieve economic growth while preserving the environment. To achieve these objectives, the Government provides several services, such as sanitary and phytosanitary controls; incentives to forestry reforestation; scientific and technological research; and assistance to smallholders. Self-sufficiency in agricultural production is, in principle, no longer considered as a policy objective.

314. Technical assistance is provided to small and medium farmers through the National Institute for Agricultural Development (INDAP) and the National Institute of Agricultural Research (INIA). Public spending on agricultural assistance covers research and technological transfers (70 per cent), and sanitary and administrative assistance (Table V.1). Public investment is channelled mainly to pastures, forestry, cattle, poultry, and small irrigation and drainage projects.

315. Over the past decade, the share of agricultural production in GDP has fluctuated between 8 and 10 per cent. Agriculture is an important source of jobs, employing about 20 per cent of the national labour force. Since

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3 As noted in Chapter IV, the uniform tariff rate for all imports was raised from 10 to 20 per cent in March 1983, and to 35 per cent in September 1984. It was subsequently lowered to 20 per cent in June 1985 and to 15 per cent in January 1988.

4 Government assistance programmes for irrigation and drainage projects, established in 1985 for a period of eight years, provide funding equivalent to 75 per cent of the cost of the project.

5 Around 27 per cent of Chile's total area is considered adequate for cultivation, livestock, or forestry. In 1985, wheat was planted on 41 per cent of the area devoted to (Footnote Continued)
the mid-1980s, Chile's agricultural trade surplus has increased continuously through export expansion and import contraction (Chart V.1).

**Chart V.1**

Trade in agricultural products in Chile, 1983-89

Million US dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
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<td>300</td>
</tr>
<tr>
<td>1984</td>
<td>450</td>
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<td>800</td>
</tr>
<tr>
<td>1989</td>
<td>1000</td>
<td>900</td>
</tr>
</tbody>
</table>


316. Growth of agricultural output decelerated from about 7 per cent a year in the period 1984-86 to 4.5 per cent in 1987, before increasing to 5.7 per cent in 1988, due mainly to strong performances for fruit, beef, and poultry. Agricultural output growth slowed again to 3.1 per cent in 1989, but is estimated to have recovered to 4.8 per cent in 1990.

(Footnote Continued)

crops, while corn accounted for 10 per cent and fruit trees 11 per cent. Other important crops are oats, beans, potatoes, sugar beets, rice, lentils and barley.
(i) Foodstuffs

317. Since 1974, Government price intervention in foodstuffs has been substantially reduced. However, a price band mechanism, supported by a system of variable composite tariffs, maintains domestic producer prices for sugar beet within pre-determined levels set each year by the Government. Apart from sugar, foodstuffs in Chile benefit from the same tariff protection as all other sectors.

318. The price band mechanism on raw and refined sugar was introduced in January 1986. The system of variable composite tariffs on imported sugar comprises specific duties on top of the uniform tariff to support the domestic price. Varying inversely with movements in world prices, the combined composite tariff fills any gaps between the fixed domestic and international price. When the import price is below the floor level of the band, a variable specific duty is applied as well as the uniform rate. At prices above the ceiling level of the band, no specific duty applies and a progressive reduction is made to the duty paid under the uniform tariff. At sufficiently high import prices, the tariff is eliminated. At import prices within the price bands, only the uniform tariff applies. The composite tariff may not, in principle, exceed Chile's binding commitment in the GATT of 35 per cent.

319. Domestic price bands and the corresponding variable composite tariffs are fixed yearly by the Ministry of Finance. For the year ending March 1991, additional specific duties, ranging from US$0.33 to US$246.35 per ton at an international price of US$50 per ton, were to apply to imports priced below US$254 per ton (f.o.b.). For import prices above US$368 per ton, the payment of the 15 per cent duty was to be lowered by US$0.16 per ton, up to a maximum reduction of US$70.11 per ton at an import price of US$426 per ton. No tariff duty was payable at higher international prices.


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6 This replaced tariff surcharges levied on imports of sugar in July 1984. Specific import surcharges of US$149 per ton on raw sugar and US$151.25 per ton on refined sugar, were additional to the uniform 20 per cent duty that was then applied (GATT documents L/5672 and Add.1-3). As the surcharges raised the level of tariffs above Chile's binding commitments, Chile invoked the provisions of Article XIX of the General Agreement. According to the Chilean authorities, the domestic sugar industry had suffered serious injury from the increasing distortions and depressed prices occurring in the international sugar market.

7 Cane and beet sugar imports have increased from US$3 million in 1986 to US$9.8 million in 1989.
price of the band, as fixed by the Ministry of Finance, increased continuously and by 1989-90 was above its 1985-86 level. Between 1988 and mid-1990, the duties paid on sugar imports have been reduced according to the price band mechanism below the uniform rate of 15 per cent (Table V.2). Since then, the decreasing international sugar prices have been compensated for by increasing specific duties, particularly on raw sugar (Table V.3).

321. A private sugar company fixes annually the price at which it buys sugar beet from farmers. For the 1990-91 harvest season, the price was fixed at US$50 per ton.

322. Chile, a net exporter of foodstuffs, earned more than US$800 million in 1989 from exported foodstuffs, mainly fresh fruit. Imports of foodstuffs increased from nearly US$60 million in 1986 to US$95 million in 1989. Main import categories were coffee, tea and mate (Table AV.1). Less than 30 per cent of imported foodstuffs originated from m.f.n. sources.

323. Imports of most foodstuffs, including edible vegetables, fruit and nuts, coffee, tea, spices, cocoa, sugar, products of the milling industry, eggs and honey, are subject to phytosanitary regulations and require the prior authorization of the Chilean Agriculture and Livestock Service. The marketing of these products for human consumption must be authorized by the National Health Service.

324. Food sanitary regulations established in 1982, cover the production, processing, packaging, storing, distribution, sale and importation of foodstuffs (Decree 60 of the Ministry of Health). The National Health Service is responsible for controlling and verifying sanitary regulations and standards. These are the same for domestically-produced and imported goods.

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8For example, for the period April 1988 to September 1989, the payment of the 15 per cent uniform tariff duty on sugar imports was reduced by an average US$21 per metric tonne.

9Chilean farmers argued that a price of US$55 per ton was necessary to cover production costs. According to them, Chile will have to import around 140,000 tons of sugar beet for the period 1990-91 to cover domestic needs.

10Non-m.f.n. imports recorded in Tables AV.1 to AV.20 includes all imports originating from countries participating in preferential trade agreements with Chile. However, since most of these arrangements are product specific, many of these imports are in fact levied the m.f.n. tariff rate. Data limitations precluded the separation of imports subject to preferential tariff.

11See GATT document AG/FOR/REV/CHL/1/Add.1.
325. Fruit acreage and production have grown sharply in recent years as Chile's enhanced competitiveness, including improved yields, has fostered an expansion of exports, particularly to northern hemisphere markets during winter months which coincide with the Chilean summer harvest. Fruit production continued to increase rapidly in 1989-90 by around 13 per cent.

326. Main fruits produced in Chile include apples, grapes and pears which together accounted for 70 per cent of total fruit production in 1989-90 (Chart V.2). Between 1973 and 1990, apple production increased from 120,000 tons to 720,000 tons. During the same period, grape production has also grown strongly, increasing from 58,000 tons to 560,000 tons. Kiwi fruit production, commencing in Chile in 1982, increased from around 200 tons to over 37,000 tons in 1990.

![Chart V.2](image)

**Chart V.2**  
**Fruit production in Chile, 1988-89**  
Thousand tons

- Apples
- Grapes
- Pears
- Peaches
- Plums
- Oranges

**Source:** Ministry of Agriculture.

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12 Fruit exports are one of the most dynamic sectors in the Chilean economy. In the 1988-89 season, shipments totalled 94.5 million boxes - an increase of 4 per cent - despite a controversial grape poisoning incident in the United States' market in March 1989.
327. A high level of investment in the fruit-growing industry has stimulated Chile’s fruit exports. In 1989, Chile exported nearly US$600 million of fresh fruit, compared with US$224 million in 1980 and under US$20 million in the early 1970s. Around 85 per cent of table grape exports from the Southern Hemisphere are Chilean, and for peaches and nectarines the share is over 90 per cent. Chile is also an important exporter of apples, and other fruits such as kiwi fruit and plums. Improved irrigation, refrigeration and packing facilities have been important factors behind this growth.

328. A crisis occurred for Chilean exporters in March 1989 following the discovery of two cyanide-laced grapes in Philadelphia. Although the subsequent bans imposed by the United States on imported fresh grapes and berries from Chile lasted only five days, and eight days on other fruit, the embargo, coinciding with the United States’ winter fruit-importing season, caused substantial losses for Chilean exporters.

329. Government funding was provided to exporters by permitting them to purchase, in the secondary market using foreign currency, debt documents later redeemable in Chile at face value. Exporters were required by law to pass back the benefits to Chilean fruit producers. Transactions under this scheme, estimated to have exceeded US$300 million, have been a vital source of cash for necessary pruning and spraying activities.

330. In October 1990, the Chilean Association of Fruit Producers (FEDEFRUTA, Federación de Productores de Fruta) and fruit exporters agreed to introduce uniform voluntary quality controls on Chilean exports.

(ii) Cereals

331. Government intervention in the cereal market has been reduced considerably since 1974. However, the current price band mechanism was reintroduced as a price stabilization scheme for wheat in April 1983. 


14 Originally introduced in 1977-78 to support domestic prices of wheat, the mechanism was abolished in 1979, largely due to protests from farmers against the ceiling prices being lower than market levels. Until 1983, cereal prices were freely set by the market, subject to the then uniform import tariff rate of 10 per cent. Initially, the purpose of price intervention in wheat was mainly to stimulate production by raising the producer price to a level above import prices. Subsequently, the stated purpose of the price band has been to reduce the impact of fluctuating world prices on domestic wheat prices.
system of variable composite tariffs, similar to that explained above for sugar, supports a domestic price band announced by the Government before planting. This mechanism, adopted by Chile to prevent further serious injury to domestic producers from worsening distortions in international prices, has raised the level of nominal protection to domestic producers. During the first three years, the price band mechanism increased farm-gate prices and led to higher nominal protection than that afforded by the 15 per cent uniform tariff. Subsequently, domestic prices have fallen below the import price of wheat.

332. For 1991, specific duties are to be applied at an international price equal to or less than US$141 per ton f.o.b, ranging from US$1.13 per ton of wheat imported at the floor price to US$111.24 per ton if the international price falls to US$50 per ton. Similarly, the payment of the 15 per cent customs duty is to be lowered progressively above an international f.o.b. price of US$185 per ton, by between US$1.11 and US$33.78 per ton at an international price of US$212 per ton f.o.b. At higher international prices, no tariff is levied.

333. Specific duties on wheat imports fell between 1986 and 1989 in line with the floor price of the band. During the first semester of 1990, the average specific duty was equivalent to US$4.6 per ton (Table V.4). However, since mid-1990, decreasing import prices have led to the application of relatively high specific duties. By December 1990, a specific duty of around US$80 per ton was levied, resulting in a composite tariff with an estimated ad valorem equivalent of nearly 100 per cent (Table V.5).

334. Wheat production in Chile has grown rapidly since 1983 under these arrangements. It increased from 680,000 tons in 1980 to nearly 1,800,000 tons in 1989, largely due to increased yields (from 1.8 to 3.1 tons per hectare during the same period). Wheat accounted for half of the 1.08 million hectares used for cropping in 1988-89.

335. A State-owned marketing board, the Wheat Trading Enterprise (COTRISA), offers to purchase wheat at prices set annually at the beginning of the

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15 Since international prices at the time were below US$131 per ton f.o.b., the applicable specific duty was equivalent to more than 15 per cent ad valorem. The composite tariff thereby exceeded the 35 per cent tariff level bound by Chile. It was therefore necessary for Chile to invoke the provisions of Article XIX of the General Agreement. Composite tariff levels were reviewed regularly in line with international price fluctuations for wheat. See GATT documents L/5861 and Add.1-4.

harvest period. However, producers are not compelled to sell to the board at this price. Procurement prices are set lower than the floor prices of the band to cover storage costs (Table V.4). For March 1991, COTRISA has fixed the buying price at around US$175 per ton (59,220 Chilean pesos), compared with a floor price of US$201 per ton.

336. Wheat imports (CCCN heading 10.01) decreased from US$67.8 million in 1985 to US$4.5 million in 1989. Minor exports have been recorded since 1987 when Chile attained self-sufficiency. In 1989, imports of grains (Tariff Study Category 25) fell by more than 70 per cent to US$15 million, while exports were valued at US$36 million (Table AV.2).

337. Imports of all cereals and their flours are subject to specific phytosanitary regulations, and require the prior authorization of the Chilean Agriculture and Livestock Service. The same technical standards apply to domestic and imported products, and their marketing requires the authorization of the National Health Service.

(iii) **Animals and animal products**

338. Since 1976, imports of live animals or fresh, chilled or frozen beef from neighbouring countries infested with foot and mouth disease - Argentina and Uruguay - have been prohibited. This prohibition is thought to have increased the price of imported beef, and encouraged the growth of the domestic beef industry. Eradication of foot and mouth disease in Chile in 1981 was accompanied by strict sanitary barriers being applied to imported beef. As the only South American country free of foot and mouth disease, Chile sees strict sanitary requirements being essential to prevent contamination.

339. The disease status of cattle raising in Chile benefits from the country's location away from the world's major production and marketing

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17 According to Chilean authorities, a discount rate to cover estimated storage costs is maintained relatively high to make storage by private companies more profitable. In principle, COTRISA's sales of wheat to the mills take place towards the end of the year, unless there is excess supply, in which case the agency seeks other outlets, such as exports, or accumulate stocks in order to avoid depressing domestic prices.

18 According to a recent study, Chile has been self-sufficient in wheat since 1987. In 1983 when the current price band arrangements were introduced, Chile imported around 65 per cent of its apparent wheat consumption. See E. Muchnik and M. Allue, "The Chilean Experience with Agricultural Price Bands, the Case of Wheat", in *Food Policy*, February 1991, pp 67-73.

19 See E. Muchnik and P. Aldunate (1982), "Perspectivas de Precio para el Vacuno en Chile", *Ciencia e Investigación Agraria*, Vol.9, No. 1, Facultad de Agronomía, Universidad Católica de Chile.
centres. In addition, special ecological factors in Chile restrict the spread of diseases. To safeguard its disease-free status, imports of animals and their products are subject to sanitary regulations and require prior approval from the Chilean Agriculture and Livestock Service. Standards are set by the Ministry of Health under Decree 60 of 1982. Chile rejects the zero risk approach to sanitary regulations; authorities believe that these requirements are the minimum necessary to achieve an acceptable degree of risk against importation of serious animal diseases. The marketing of these products for human consumption must be authorized by the National Health Service.

340. In 1989, imports of animals and products thereof were valued at almost US$10 million, and exports reached US$28 million. Fresh and frozen meat represented almost 50 per cent of exports and more than 70 per cent of imports (Table AV.3). Reference prices apply to imports of beef.

341. According to GATT estimates, imports of beef and veal represent less than one per cent of Chile's domestic consumption. Chile's cattle and calf herds totalled an estimated 3.5 million head in 1989.

342. Exports of certain live animals, such as llamas and alpacas are prohibited or subject to quotas to avoid their extinction.

(iv) Oil seeds, fats and oils

343. In April 1984, the Government reintroduced the price band mechanism for edible oils, largely as a means of countering the negative impact of short-run fluctuations in international prices on the development of the domestic oilseeds industry. In the same way as for wheat and sugar, Chile invoked, in September 1985, the safeguard provisions of Article XIX of the General Agreement in respect of edible vegetable oils, including soya bean oil, colza seed oil, sunflower oil, maize oil and olive oil.

344. The price band mechanism operating for oilseeds is similar to that applied to wheat and sugar. Domestic prices are maintained within set limits by a system of variable composite tariffs on imports. The National Customs Service publishes annually the schedule of specific duties that are to be paid in addition to the uniform tariff of 15 per cent, and the corresponding import prices. For the year ending October 1991, specific duties, ranging from a duty of US$0.67 per ton to US$414.96 per ton if the international price falls to US$230 per ton f.o.b., are to apply at a world

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price of US$480 per ton or less. The payment of the 15 per cent uniform tariff is to be reduced at import prices of US$670 per ton and above, starting with a reduction of US$0.93 per ton, and rising progressively to a maximum reduction of US$123.89 per ton at an international price of US$776 per ton. For higher international prices, imports may enter duty-free.

345. Domestic production of refined vegetable oils remained stable at around 60,000 tons between 1985 and 1989. Average specific duties levied on imports of vegetable oils decreased considerably during this period (Table V.6). In 1990 and early 1991, the estimated ad valorem equivalent of composite tariffs paid on imports varied between 19 and 38 per cent (Table V.7).

346. Imports of oilseeds, fats and oils and their products, are subject to sanitary and phytosanitary regulations, as well as technical standards. These are identical, whether produced domestically or imported (Decree 60 of the Ministry of Health). Prior approval is needed from the Chilean Agriculture and Livestock Service for importation. The marketing of these products for human consumption or their use in the manufacture of pharmaceutical products or preparations must be authorized by the National Health Service.

347. Imports of these products increased from US$33 million in 1986 to nearly US$50 million in 1989. Around 85 per cent of imports originate from LAIA countries. The main import item was vegetable oils. Exports of oilseeds, fats and oils were valued at US$26 million in 1989, fish fats and oils accounting for more than 85 per cent (Table AV.4).

(v) Beverage and spirits

348. Beverage production in Chile has been less affected by the 1982-83 recession than other sectors. Although production of beverages in 1987 was still 4 per cent lower than in 1979, it has grown continuously since the mid-1980s. By 1989, production was 38 per cent higher than in 1979. Production is principally consumed domestically. However, certain beverages, such as wine and fruit juices, are becoming important export items.

349. Chile is a net exporter of beverages and spirits. In 1989, exports reached US$56 million. Wine exports, mainly to the United States and

\[\text{The production of beverages accounts for around 5 per cent of industrial production in Chile.}\]
350. Imports of beverages and spirits are subject to sanitary regulations. Prior authorization of the Chilean Agriculture and Livestock Service is also necessary for imports, as well as from the National Health Service. A marketing standard or regulation affects imports of wine from grapes.

351. In 1985, standards were set for the production and marketing of beverages and spirits (Law 18,455). These standards apply equally to exports and imports. Special quality controls exist for wine exports to determine the chemical composition (especially the existence of sorbitol).

352. A sales tax is levied on beverages sold in Chile, whether imported or domestically produced. The rates are 13 per cent for non-alcoholic beverages, 15 per cent for wine, 25 per cent for pisco, 30 per cent for liquors, and 70 per cent for whisky (Table AV.5). The relatively light taxation of the domestically-produced pisco compared with other substitute liquors and spirits is likely to have encouraged greater consumption of pisco at the expense of certain imported alcoholic beverages.

(vi) Dairy products

353. In addition to the uniform 15 per cent tariff, the Chilean dairy industry is protected by a system of tariff surtaxes and minimum customs values. As explained in Chapter IV, these measures are implemented after investigations by the Import Distortions Commission.

354. Until April 1989, imports of milk, butter and cheese were subject to a tariff surtax levied on the c.i.f. value. Introduced in 1986 at a rate of 15 per cent, the surtax was reduced to 8 per cent in March 1987, and to 5 per cent in April 1988.

355. Minimum customs values are frequently applied to imports of certain dairy products, including powdered milk, butter and cheese (Table AV.6).

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22 GATT document AG/FOR/REV/CHL/1.

23 In November 1989, the European Economic Community requested that consultations be organised under Article XXIII:1 of the General Agreement, concerning Chile's internal taxation of spirits. The European Communities claimed that "the application of considerably lower internal taxes on pisco than on other directly competitive or substitutable products, such as whisky, had trade-distorting effects affording protection to domestic production of pisco contrary to Article III:1 and 2" (see Chapter VI).
In October 1990, a minimum customs value of US$1,800 per ton was introduced, for a one-year period, on imports of powdered milk.

356. Imported dairy products are also subject to sanitary regulations, and prior authorization of the Chilean Agriculture and Livestock Service is necessary. Standards, mainly to establish the fat content (Decree 60 of the Ministry of Health), are applied to dairy products. The marketing of these products also needs the approval from the National Health Service.

357. Chile is a net importer of dairy products. Dairy imports have been increasing continuously, except in 1986 when they sharply declined to less than US$0.7 million. Exports of dairy products, mainly milk, have remained around their 1986 levels (Chart V.3). In 1989, dairy imports reached US$32.5 million, up from US$5.1 million in 1985. The main imported products are powdered milk, with a share of over 75 per cent, milk whey and butter (Chart V.4).

**Chart V.3**

*Trade in dairy products in Chile, 1985-89*

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
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<td>1986</td>
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<td>16</td>
</tr>
<tr>
<td>1989</td>
<td>30</td>
<td>30</td>
</tr>
</tbody>
</table>

*Source: Central Bank of Chile.*
Chart V.4
Imports of dairy products into Chile, 1989
Per cent

<table>
<thead>
<tr>
<th>Product</th>
<th>Per cent</th>
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<tbody>
<tr>
<td>Milk whey</td>
<td>10.4%</td>
</tr>
<tr>
<td>Powdered milk</td>
<td>75.4%</td>
</tr>
<tr>
<td>Butter</td>
<td>7.4%</td>
</tr>
<tr>
<td>Butter oil</td>
<td>5.5%</td>
</tr>
<tr>
<td>Cheese</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

Source: Central Bank of Chile.

358. After having plummeted in 1983 and 1984, Chilean milk production expanded in response to favourable prices. Milk production reached 1.29 million tons in 1989 and was projected to further increase by 5 per cent in 1990.

(vii) Fish, shellfish and products

359. Chile has an expanding fishing industry benefiting from one of the longest coastlines in the world. The fishing industry is composed of two

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25 A coastline of approximately 4,500 kilometres and an economic zone of 1,600,000 square kilometres covering 700,000 hectares of continental waters, provide Chile with substantial fishing resources.
parts, depending upon the size of boats and fishing methods used. Industrial fishermen, using large boats, account for approximately 98 per cent of the catch of small pelagic fish, 80 per cent of demersal fish and 70 per cent of crustaceans. Fishermen working from smaller boats catch most of the molluscs and crustaceans and the remainder of the demersal fish.

360. Since the introduction of trade reforms in 1974, output of the fishing sector has grown at an average annual rate of over 14 per cent. More than 75 per cent of the value of fishing production is destined for foreign markets.

361. After rising strongly during the period 1984-86, fishing output declined by almost 8 per cent in 1987. A change in the "El Niño" ocean current substantially reduced the availability of important fish species, and restrictions were placed on other species to avoid overfishing. Fish production recovered by 3 per cent in 1988 as ocean conditions improved, and by a further 22 per cent in 1989. Preliminary estimates for 1990 indicate a decrease in fish production.

362. The fishing industry has become a substantial export earner, ranking second after copper. Although generating less than 1 per cent of GDP, exports of fresh fish and fish products accounted for 11 per cent of Chile's total merchandise exports in 1989. Chile is the world's largest fishmeal exporter, and the fifth largest fish producer after Japan, the Soviet Union, China and the United States.

363. The Chilean authorities believe that continued development of the fishing industry should be based on market forces in line with comparative advantage. Credits for the fishing industry are channelled through commercial banks at market interest rates.

364. Imports of fish, shellfish and products are regulated by the uniform 15 per cent customs duty. Prior authorization is required from the National Fishing Service to import fish or fish products. Standard regulations apply equally to domestic and imported products. Imports, valued at US$6 million, originate essentially from m.f.n. sources.

26 The Chilean Government has relied on three instruments to control the exploitation of overharvested species. These are temporary prohibitions; minimum size of fish; and fishing quotas. Currently, annual catch quotas are fixed for certain fish species in the southern region of Chile.

27 A new fishing law is being discussed in the Parliament. The main elements of the proposed legislation include the creation of a research fund, regulations for coastal fishing and access controls.
A consumption tax of 50 per cent is levied on caviar (Table AV.7).


(viii) **Other agricultural products**

366. This residual category includes cut flowers, vegetable materials, tobacco, and other agricultural products of animal and vegetable origin (Table AV.8). In 1989, the most important export category within this group was flours and meals of fish and crustaceans (US$510 million).

367. Imports of these products are subject to sanitary or phytosanitary regulations and require prior approval from the Chilean Agriculture and Livestock Service. The Ministry of Health has also established various technical standards for these products. Approval must be obtained from the National Health Service prior to these products being marketed for human consumption or used in the manufacture of pharmaceutical products or preparations.

368. Regulations on standards and taxation apply to the production and marketing of tobacco. Domestic producers, importers and distributors must be registered with the Internal Tax Service. Manufactured tobacco is subject to an excise tax of 57 per cent of the retail sales price. Cigars and cigarettes are taxed at 46 and 52.9 per cent, respectively. Exports of tobacco and tobacco products are exempt from this tax. In 1986, the Ministry of Health established specific labelling requirements and advertising regulations.

(3) **Industry**

369. The industrial sector in Chile was relatively favoured by the policies followed in the four decades prior to 1973 which focused on an inward-looking development strategy. Tariff and non-tariff barriers were highly restrictive, and extensive price controls applied. Major changes introduced since 1974 have reversed and largely eliminated many of these measures.

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28 GATT document AG/FOR/REV/CHL/1/Add.1 present lists of those products subject to sanitary and phytosanitary regulations.

29 Decree Law 828 of 1974 established standards for the growing, processing and marketing of tobacco products and the taxation of tobacco.
370. Price controls were used extensively as a means of lowering inflation and redistributing income. By September 1973, more than 3,000 prices, involving agricultural items as well as a substantial number of industrial products, were controlled. Price controls were largely eliminated under Decree 522 of October 1973, which defined three groups of goods and services: those with freely determined prices; those with still fixed prices (33 items); and those with freely determined prices monitored by a Government agency (18 items). By 1974, the average nominal tariffs in the manufacturing sector ranged from 32 per cent to 185 per cent. The highest average applied to clothing, and the lowest to non-metallic mineral products.

371. Since the early 1980s, Chilean economic policy has greatly restricted the use of sectoral plans and the setting of quantitative targets. Industrialization has been based on the growth of export-oriented industries, particularly in areas of natural resource-based products. Privatization and deregulation are key elements of Chile's industrial strategy. Domestic industrial growth and structural change is geared to world market conditions, and the Government generally does not set priorities or attempt to encourage the development of certain industries considered to have special features.

372. Relatively low and uniform tariffs have contributed to improving productive efficiency by inducing a reallocation of resources in line with comparative advantage. Competition has been increased by simplifying procedures for establishing new industries.

373. The export promotion policy consists of maintaining a realistic exchange rate and low tariffs on imports, together with measures such as the reimbursement of value-added tax, operation of a market information system, training for export professionals, and a speeding up of export procedures.

374. Chile's industrial output has become more diversified. In 1989, manufacturing contributed 21 per cent to GDP (at 1977 prices). The food

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30 Goods subject to price controls were steel and copper tubes, sanitary articles, paper, matches, tyres, cigarettes, motor vehicles, detergents, television sets, and liquid gas containers and their valves. On the reported price list were pharmaceutical products, plane glasses for construction, lubricants, vehicle replacement parts, shoes, processed cement products, nails and wire, tableware and aluminium receptacles, materials for handicraft, instant coffee, toiletries, electronic products, beer, pens, glass bottles, and school uniforms.

processing industry, which includes drinks and tobacco, accounts for 40 per cent of manufacturing value added; and the chemicals industry for about 16 per cent. The next two most important groups of industries are metal working (12 per cent) and paper processing (11 per cent).

(i) **Mining, energy and related products**

375. The mining sector is the traditional mainstay of the Chilean export sector. It accounts for some 8 per cent of the country's GDP and for more than 55 per cent of total merchandise exports. Copper, with earnings of nearly US$4 billion in 1989, remains Chile's most valuable export item. However, copper's relative importance has diminished considerably, from over 80 per cent of merchandise exports in 1973, to currently some 50 per cent. Other mineral exports include molybdenum, iron ore, gold, silver, nitrate, and lithium. The contribution of the mining sector to employment, though at 2 per cent not large overall, has a significant regional impact in most mining areas.

376. After expanding at an average rate of about 3.5 per cent in 1984-85, mining production grew by less than 1 per cent in 1986 and 1987. In 1988, it increased by 4 per cent and in 1989 by a further 7 per cent. This growth mainly reflected copper production, which accounts for about three-quarters of the sector, and for other minerals produced in association with copper.32

377. The public sector continues to play a major rôle in the mining and energy sector, predominantly through its involvement in copper mining and production. Over 75 per cent of copper exports are carried out by the Government-owned National Copper Corporation (CODELCO-Chile) and the National Mining Enterprise (ENAMI). The National Petroleum Enterprise (ENAP) participates actively in the petroleum sector. Some other important mining companies were privatized since 1986. These include production of nitrate and iodine by the Chemical and Mining Society of Chile (SOQUIMICH) and the Pacific Steel Company (CAP), which produces iron ore. The National Coal Enterprise (ENACAR) has remained under Government control.

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32 In 1989, copper production increased by 10 per cent, iron by 18 per cent and molybdenum by 7 per cent.

33 ENAMI provides technical assistance for the national mining sector. To receive assistance, enterprises must be 75 per cent domestically owned - that is by either Chilean owners or foreign owners living in Chile for 5 years - and three-quarters of their workforce must be of Chilean origin.
378. The Chilean Copper Commission is a technical and specialized Government agency which possesses regulatory powers to develop the national mining industry, except for coal, oil and gas. It advises the Government on all matters of mining policy, including copper and its by-products, gold, silver, zinc, iron, iodine and nitrates. The Commission also participates in the approval of foreign investment in the sector, including follow-up, audit and verification of approved investments.

379. The Commission authorizes the exports of copper and its by-products; checks the corresponding foreign exchange returns; approves imports by producers; and assigns the copper reserves required by the local manufacturing industry. Its statutory powers and authority are contained in Law 1,349 of 1976.

380. Foreign investment has played a major role in the development of the mining sector. Accumulated investments since 1974, under the Foreign Investment Statute, reached US$8.5 billion by July 1990. Investments of more than US$420 million were also recorded under the regulations of Chapter XIX governing debt for equity swaps.

(a) Copper

381. Chile is one of the main world copper producers. Its copper reserves are estimated to be one-quarter of the world's reserves and its share in world production has increased from around 14 per cent in 1980 to more than 17 per cent in 1989 (Chart V.5).


\[\text{Published in up-dated form as Decree 1 of the Ministry of Mining in the Official Gazette of 28 April 1987.}\]

\[\text{Foreign investment regulations are explained in Chapter III.}\]
Chart V.5
World copper production, 1980 and 1989
Per cent

1980

- United States (15.3%)
- Chile (13.8%)
- Zambia (7.7%)
- Zaire (6.0%)
- Other countries (35.2%)
- Soviet Union (12.7%)
- Canada (9.3%)

1989

- United States (16.4%)
- Chile (17.6%)
- Zambia (5.8%)
- Zaire (4.8%)
- Other countries (36.9%)
- Soviet Union (10.8%)
- Canada (7.9%)

Source: Chilean Copper Commission.
382. Copper output increased sharply from 735,000 tons in 1973 to around 1.6 million tons in 1989. More than 95 per cent of production is exported (Table V.8). The value of copper exports have increased considerably since 1987, mainly due to price increases from US$0.81 per pound in 1987 to US$1.29 in 1989.

383. At the end of 1985, Chile established a Copper Stabilization Fund to moderate the impact on macroeconomic stability resulting from fluctuating copper prices. The Fund accumulates foreign exchange reserves from export receipts of the National Copper Corporation (CODELCO-Chile) when copper prices are above what is considered the long-term trend price of copper. The Fund is a Treasury deposit at the Central Bank. The Fund was activated in the second half of 1987 when the international copper price rose above the then benchmark price of US 75 cents per pound. Accumulated deposits with the Fund reached more than US$1,700 million by end 1989. Additional deposits of US$785 million were made during 1990.

384. Together with Peru, Zaire and Zambia, Chile is a founding member of the Inter-governmental Council of Copper Exporting Countries (CIPEC). CIPEC conducts technical studies on copper and promotes greater cooperation and coordination of national policies on copper production and trade. However, Chilean officials have indicated that CIPEC has not yet been able to establish any longer term policies on copper development.

385. Competition from substitute products, and the effects of technological innovations, have motivated Chile to attempt to increase world-wide consumption of copper. The Chilean Copper Development Centre, founded in September 1988, has as its objective the promotion of copper and its derivatives, and strengthening the development and transfer of technology oriented to this purpose.

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36 Copper production is expected to rise in 1991 with increasing production capacities.

37 The amount deposited is based on a formula that currently allows the Treasury to spend the entire receipts in the first four US cents above the f.o.b. reference price and half of the subsequent 6 cents. At market prices 10 cents above the reference price, all receipts must be transferred to the Fund.

38 These include participation in CIPEC, financing of copper development centres in foreign countries, and increasing participation in research associations. Chile is conscious of the need to engage foreign copper producers and manufacturers as much as possible. For this reason, in addition to cooperating actively with institutions such as UNCTAD and the International Wrought Copper Council, Chile is participating in the "Copper Image Campaign" developed in Europe, and in the founding of an International Copper Association. This organization comprises more than 30 copper producers and manufacturers from various countries. (The Chilean Copper Commission, Annual Reports, 1987 and 1988).
386. In 1989, Chilean copper production increased by around 10 per cent. The State-owned company, CODELCO-Chile, handled more than three-quarters of total production. To maintain operational efficiency and competitiveness in the world market, CODELCO-Chile has programmed capital investments amounting to US$1,250 million for the period 1988-92. The so-called Medium and Small Mining sector is entirely financed by private investment. It is formed by small miners whose production is sold under market conditions to the State-owned smelter and refinery, ENAMI.

387. The local copper manufacturing industry consists of approximately 30 enterprises producing various semi-manufactured and finished products. The four major companies account for more than 90 per cent of the primary copper consumption, which reached 42,900 metric tons during 1989, up from 25,700 metric tons in 1985.

388. Copper export revenue strongly increased in the late 1980s, reaching US$4 billion in 1989, compared to US$1.6 billion in 1984. Primary copper is by far the most important copper export, and accounts for almost 95 per cent. Major markets for copper exports are Germany, Japan, the United States and Italy.

389. Total export earnings from semi-manufactured and manufactured copper amounted to US$79 million in 1989. Principal export markets were Latin America (51 per cent), North America (19 per cent) and Europe (12 per cent). The main obstacles in foreign markets confronting the Chilean manufacturing industry are import duties on higher valued products and export subsidies on copper products applied by certain countries competing with Chile.

(b) Other ores and metals, steel

390. Iron ore is Chile's second most valuable mineral product. Behind Brazil and Venezuela, Chile is the third largest producer of iron ore in South America. Other important mineral products are zinc and manganese. Output of gold has grown significantly in recent years, its exports doubling in value since 1980 to over US$100 million. Chile is the fifth largest steel producer in Latin America. Steel production increased from 689,000 tons in 1985 to 1.1 million tons in 1989.

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39 However, total production of molybdenum, a by-product from treating copper, declined from 18,400 metric tons in 1985 to 16,800 metric tons in 1989.

391. The Government intervenes in the trade and production of some ores and metals by setting minimum customs values. Valid for a maximum period of 12 months, they are fixed for imports of high-pressure hydroelectric conduits of steel and wrought bars, rods, angles, shapes and sections of aluminium. Certain products in this category are also subject to fixed reference prices.

392. Imports of ores and metals increased from US$205 million in 1986 to more than US$480 million in 1989, mainly reflecting a more than doubling in imports of iron and steel semi-manufactured products. More than 60 per cent of imports were sourced from m.f.n. countries (Table AV.9).

(c) Coal, natural gas and petroleum

393. Chile is trying to reduce its dependence on imported oil by developing its hydroelectric and coal resources, but its oil production has been declining steadily due to depleting fields. Domestic petroleum production has decreased from around 14 million barrels in 1984, to an estimated 7.5 million barrels in 1990, whereas imports of crude petroleum have increased continuously (Chart V.6). In 1989, domestic production satisfied less than 20 per cent of Chile’s crude oil requirements.

41 See Table IV.6.
Chart V.6
Production and imports of crude petroleum in Chile, 1984-90
(Million barrels)

Note: Import figures for 1990 were not available. Domestic production for this year is based on projections.

Source: Central Bank of Chile.

394. The National Petroleum Enterprise (ENAP) is the sole producer and refiner of crude petroleum and natural gas in Chile. Because refined products may be freely imported, ENAP maintains a competitive pricing policy, and its selling prices are based on Caribbean spot prices for refined products landed in Chile. ENAP has significantly increased its imports of crude oil over recent years in line with declining domestic production to meet consumption of refined petroleum products.

In January 1991, the Chilean Government established a Petroleum Stabilization Fund with a view to stabilizing the effects on the Chilean economy of fluctuating international oil prices.
395. Chile consumes around 4 million tons of coal per year. Nearly 65 per cent of consumption is produced by the National Coal Enterprise (ENACAR). The rest is imported, mainly from the United States and Colombia.

396. The Government goals for the energy sector are to ensure efficient resource allocation so as to supply energy at least cost and to enhance the efficiency of energy users; to encourage competition and private sector activity; and to meet, to the extent possible, energy demand through indigenous resources. A programme to decentralize and deregulate the operations of the major State-owned energy companies has been carried out to enhance competition, increase managerial autonomy, and to gradually transfer ownership to the private sector. The Government continues, however, to have a key role in the energy sector through the setting or monitoring of energy prices, controlling the investment programmes of the State energy enterprises, evaluating energy resources and requirements, and developing information systems to ensure market transparency and the efficient use of energy resources.

397. The National Energy Commission (Comisión Nacional de Energía, CNE), an autonomous agency created in 1978, is responsible for preparing and coordinating sectoral plans, policies and regulations, and for advising the Government on energy matters. The Ministry of Mining is responsible for negotiating and executing contracts in hydrocarbons on behalf of the State, with technical advice from the National Energy Commission. In hydrocarbons, the National Petroleum Company, ENAP, carries out exploration, production, and refining, and is empowered to enter into associations with foreign firms to develop petroleum reserves in Chile and abroad.

398. Excise taxes imposed on gasoline and automotive diesel are paid on imports and domestic products. Exports are exempt from this tax. The tax on diesel oil is levied only on that consumed in transportation. Other users, primarily industrial, receive full tax reimbursement. The taxes, fixed according to UTM per cubic metre, were equivalent to 42 per cent of the gasoline retail price and 28 per cent of the automotive diesel price in 1986 (Table AV.10).

43 The tax is paid on the first sale or on importation.
(d) Mineral products and fertilizers

399. Chile is a net importer of mineral products and fertilizers. Imports increased from less than US$115 million in 1986 to more than US$230 million in 1989. Manufactured fertilizers accounted for almost 45 per cent of imports. Sanitary and phytosanitary regulations applied to imports of most of these products.

400. The Chilean glass industry has shown considerable development in recent years. Flat glass production increased from around 3 million square metres in 1985 to nearly 6 million square metres in 1989. Imports of glass and glassware have increased in parallel, rising from US$17 million in 1986 to US$48 million in 1989. Tariff protection is the same as for other Chilean industries, except that imports of drawn flat glass from Portugal are subject to a countervailing duty of 10 per cent (Table AV.11).

(ii) Rubber, raw hides and skins

401. In 1989, rubber imports were valued at US$108 million, up from US$61 million in 1986. Manufactured articles accounted for nearly 60 per cent of rubber imports (Table AV.12).

402. The production of rubber tyres in Chile almost doubled between 1985 and 1989, when it reached 1.6 million units. In addition to the uniform 15 per cent tariff rate, the rubber tyre industry has been regularly protected by both a tariff surtax and minimum customs values. The tariff surtax rate was 8 per cent, prior to being reduced to 5 per cent in 1988. A minimum customs value was also set at US$2.90 per net kilogramme. Both the surtax and the minimum customs values were terminated in November 1990.

403. Rubber tyres is the main exporting item in this category. Chilean exports of tyres have sharply increased from US$2 million in 1985 to more than US$18 million in 1989.

404. Imports of raw hides and skins, leather and furskins increased from US$10 million in 1986 to almost US$20 million in 1989. Semi-manufactured products (bovine and equine leather) accounted for 75 per cent. Less than one-quarter of imports originate from m.f.n. sources.

(iii) Wood, pulp and furniture

405. Chile's forests are among the most extensive in South America. The country has over 9 million hectares of natural forest, including larch, native pine, and soapwood. Native timber is supplemented by nearly 1.4 million hectares of planted forest, mainly insignis radiata pine,
suitable for the production of a wide range of pulp and paper grades, sawnwood, and certain types of wood-based panels.

406. The Government has successfully promoted forestation since 1974 through production subsidies and tax concessions. The area planted increased by 63,500 hectares in 1988, and by a further 30,000 hectares in 1989. Forest-based export earnings have risen rapidly, from around US$320 million in 1985 to US$780 million in 1989 (Table V.9). Exports of forest products are reported to have increased in 1990 by more than 10 per cent to US$855 million. Other important export commodities are chemical pulp, newsprint and logs. Chile is a large net exporter of forestry products. While exports have increased since 1983, imports have remained at their 1980 level (Chart V.7).

Chart V.7
Forestry products traded by Chile, 1976-88

Million US dollars

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<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>100</td>
<td>100</td>
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<tr>
<td>1980</td>
<td>200</td>
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<tr>
<td>1988</td>
<td>1,000</td>
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</tr>
</tbody>
</table>

Note: Forestry products as defined by the FAO comprise: roundwood, sawnwood, wood-based panels, pulp, paper and paperboard.

407. Large-scale projects are either under way or about to start in the cellulose sector. A significant expansion is occurring in the export of higher value-added forestry products, including newsprint and wood panels.

408. While the Chilean Government does not provide any specific support towards market diversification, there has been a successful drive to diversify the export markets for forestry products. In 1989, sales were made to 65 different countries, with Japan being the main export market accounting for almost 25 per cent of exports. Other important export markets are the United States, Germany and Belgium. Standards and barriers in foreign markets are a major concern to Chilean exporters.

409. The principal boost to the development of forestry in Chile over the past ten years has been a direct subsidy equal to 75 per cent of the total cost of establishing new forest plantations on land suitable for forestry. Land and income taxes on such forests are also reduced. Since 1979, a forest management subsidy has been introduced to partially reimburse the forest-owner for certain management and production activities prior to planting.

410. The plantation subsidy is paid according to standard cost figures established by the National Forest Corporation (CONAF). These figures, updated each year, are currently around US$200 per hectare. The plantation subsidy of 75 per cent of the assessed cost is paid after inspection by CONAF. The administration subsidy amounts also to 75 per cent of the standard administration cost (established at 783 Chilean pesos per hectare in 1986). The forest management subsidy is paid at the equivalent of 75 per cent of the cost for a first pruning plus thinning (11,375 Chilean pesos per hectare) and 75 per cent of the cost for a second pruning (10,044 Chilean pesos per hectare). The World Bank has noted that the estimated effect of forestation subsidies was to reduce the owner's cost of growing wood by almost 30 per cent of the cost per cubic metre.

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44 The plantation subsidy, introduced in 1974, was temporarily increased to 90 per cent during 1984 and 1985 in order to stimulate employment. It is scheduled for termination in 1994. The administration and forest management subsidies are aimed at stimulating greater market diversification by improving tree quality (Decree-Law 701 enacted in 1974, subsequently amended through Decree 2,565 in 1979).

45 The "Corporación Nacional Forestal", CONAF, is the government institution responsible for promoting forestry in Chile. Its principal functions are to administer the forestry subsidy scheme, coordinate fire protection services, control forest harvesting operations, and undertake long-term strategic planning for the sector. In difficult periods, CONAF has participated directly as an afforestation agency to alleviate rural unemployment. Currently, the Government has decided that all planting should be handled by the private sector and CONAF is not expected to engage in large-scale planting at any time in the future.
411. The forestation subsidy has decreased since 1982, when it reached a peak level of US$8.8 million (equivalent to 1.7 per cent of primary production). In 1989, the forestation, management and pruning subsidies, together amounted to US$5.7 million (equivalent to 0.6 per cent of primary production) (Table V.10).

412. Forestry, like other sectors of the Chilean economy, benefits from certain other forms of assistance. These include research assistance, investment and export incentives as described in Chapter IV. Exports of higher value-added products are not specifically promoted.

413. The forest products' sector (wood, pulp, paper and cellulose) appears to have great economic potential. One of the country's principal advantages is that the pinus radiata, the most favoured forest species, grows faster in Chile than almost anywhere else in the world. Plantations now being exploited yield around 11 million cubic meters of wood per year, around two-thirds of which is exported as logs, sawnwood, chips, newsprint and chemical pulp. According to industry estimates, production will reach 24 million cubic metres by the end of the century.

414. Wood and cork imports increased from US$3 million in 1986 to almost US$10 million in 1989. Nearly 70 per cent were manufactured articles, mainly articles of natural cork. Almost all imports originate from m.f.n. sources (Table AV.13).

415. Paper, paper products, printing and publishing materials together account for 9 per cent of Chilean industrial production. Since 1984, output of these products has increased faster than overall industrial production. In 1989, production of printing and publishing materials grew by nearly 19 per cent. Imports are dutiable at the uniform tariff rate of 15 per cent. Certain printed matters, such as documents sent to shipping companies and airlines or plans and drawings of no commercial value, enter duty free. Paper and paperboard accounted for more than 55 per cent of the US$125 million imports of pulp, paper and paperboard in 1989. Exports of pulp, paper and paperboard reached US$422 million in 1989, up from US$210 million in 1985 (Table AV.14).

(iv) Textiles and footwear

416. The Chilean textiles sector was heavily affected by the trade liberalization measures introduced since 1974. Prior to 1974, the textiles sector, considered as an import substitution industry, enjoyed high levels of tariff protection. Average tariffs for finished textile products were above 125 per cent in 1974. The sharp reduction of tariffs to 10 per cent for all products by July 1979, and the elimination of other import restrictions, exposed the textile industry to international competition. A
number of companies, not able to compete without considerable protection, closed down. Only a few competitive companies remained in the market. Textile output declined until 1977 by more than one-third. The share of textiles, apparel and footwear in total gross output decreased by more than one-half, from 15.5 per cent in 1973 to 7.5 per cent in 1980.

417. Throughout the 1980s, Chile's textile companies improved their competitiveness by streamlining operations, modernizing equipment and increasing productivity. Imports of modern textile equipment and machinery benefited from the low uniform tariff rate. Increasing demand also played an important role in the recovery of the industry. Textile and footwear production has grown during the second half of the 1980s, although at a slower pace than overall industrial production.

418. The textiles, garment and footwear industries now account for approximately 10 per cent of industrial production. Currently, the sector benefits from the same level of tariff protection as any other industrial sector in Chile. However, certain products, such as yarn of man-made fibres, cotton yarn, woven fabrics, bed linen, sacks and bags of cotton and garments receive additional protection from international competition through tariff surtaxes and minimum customs values. These measures, intended to offset price distortions, are implemented for a maximum period of one year. However, they are frequently reintroduced for subsequent periods.

419. Chile is a net importer of textiles and clothing, except for wool fibres. In 1989, textiles and clothing imports reached US$372 million, up from US$289 million in 1988 and US$204 million in 1986. More than 60 per cent of imports come from m.f.n. sources. Main imported items were cotton not cored or combed, woven fabrics and man-made fibres (Table AV.15).

420. Export promotion measures, as explained in Chapter IV, helped increase textile and clothing exports from US$20 million in 1985 to US$83 million in 1989. Main export items are wool, other animal hair and garments. Footwear exports have also increased sharply during the same period from less than US$260,000 to more than US$20 million. However, the two sectors still contribute to less than 2 per cent of foreign exchange earnings from merchandise exports. Chile has not participated in any MFA arrangement.

46 Imports of textile and leather machinery increased from US$29 million in 1986 to more than US$78 million in 1989.

47 Tables IV.6 and IV.7 give a list of textile products affected by minimum customs values and tariff surtaxes.
(v) Chemicals

421. The chemicals industry in Chile accounted for around 12 per cent of industrial production and 4 per cent of export earnings in 1989. More than 80 per cent of chemical exports were elements and compounds, such as iodine, acyclic alcohols and their derivatives, nitrates and carbonates. Exports of nitrates have been dynamic, increasing from US$3,700 in 1985 to more than US$27 million in 1989.

422. A Chilean private company, SOQUIMICH (Sociedad Química Minera de Chile), is the world's largest iodine producer. Iodine exports increased from US$34 million in 1985 to nearly US$80 million in 1989. In 1990, SOQUIMICH began a price-cutting campaign to increase its world trade share. According to some estimates, SOQUIMICH's world share is now around 50 per cent.

423. The chemical industry in Chile does not benefit from special assistance, apart from the uniform 15 per cent tariff. Certain restrictions apply to this sector, including special authorizations by the National Health Service for the production, manufacture, import, export, distribution and sale of pharmaceutical products (Decree 435 of November 1981 of the Ministry of Public Health). Products must also be registered every three years.

424. In October 1990, certain regulations affecting the distribution, advertising and sale of pharmaceutical products were enacted. These regulations are aimed at increasing transparency and avoiding non-competitive (monopolistic or oligopolistic) behaviour. Prices must be clearly displayed to all interested parties, and discounts are only permitted as long as they are non-discriminatory.

425. Chile is a net importer of chemicals. Among the GATT Tariff Study Categories, chemicals ranked second in Chilean imports. In 1989, chemical imports, valued at US$783 million, comprised mainly plastic materials and organic chemicals. More than 70 per cent of chemical imports originate from m.f.n. sources (Table AV.16).

(vi) Electric and non-electric machinery

426. Electric and non-electric machinery account for around 4 per cent of industrial production in Chile. The electric and non-electric machinery industry was heavily affected by both the trade liberalization process initiated in late 1973 - exposing the sector to international competition - and the 1982-83 economic recession. During the second half of the 1980s, however, production has recovered. Production of non-electric machinery took 10 years to recover its 1979 level. Electric machinery experienced a
better performance. Output in 1986 exceeded the 1979 level by 10 per cent, and recorded strong growth in the subsequent years (12 per cent in 1988 and 8 per cent in 1989). The only protection provided to the domestic industry is the 15 per cent tariff on imports.

427. Among the GATT Tariff Study Categories, non-electric machinery ranks first in Chile's total imports, accounting for around 20 per cent in 1989. Almost 90 per cent come from m.f.n. sources. In 1989, the main importing item within this category was construction, mining and handling equipment. Imports of electrical machines and apparatus increased from less than US$250 million in 1986 to more than US$610 million in 1989. Around 80 per cent were telecommunication apparatus and industrial electrical machinery.

428. The payment of import duties on imports of machinery, which qualify as capital goods, may be deferred for a certain period. The importation of some products in these tariff categories is subject to minimum customs values or fixed reference prices (Table AV.17).

(vii) Transport equipment

429. Transport equipment (including automobiles, aircraft, ships, other vehicles and their parts) account for 3 per cent of Chilean industrial production. The assembly of vehicles reached a peak level in 1980, with nearly 30,000 assembled units, mainly cars. Since then, the assembly of cars has decreased, plummeting in 1983 to 3,000 units. Since 1986, trucks have become the main assembly operation in Chile (Chart V.8). The recovery of this industry started in 1987, although by 1989 the number of assembled units was still less than half the 1980 level. In 1990, the three car assembly factories in Chile produced an estimated 15,000 vehicles, representing around 20 per cent of the domestic market.

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48 See Chapter IV, section 4 (iii).
430. The automobile industry started in Chile in 1956 when the Government authorized the assembly of cars. In 1962, the Government decided to introduce a minimum local content requirement for car assembly.

431. Until 1974, the automobile sector was highly protected. Imports of automobiles were subject to customs duties of over 300 per cent ad valorem and a prior import deposit of 10,000 per cent was required. Since 1974, tariffs have been gradually reduced and prior import deposits eliminated.

432. Currently, the principal border measure affecting imports of transport equipment into Chile is the uniform tariff of 15 per cent. However, the importation of used cars is prohibited. According to Chilean authorities, this measure is intended to assist the domestic industry and to avoid the importation of stolen cars into Chile.

433. Transport equipment imports, which have sharply increased from less than US$230 million in 1986 to more than US$940 million in 1989, rank third in Chilean imports of merchandise. In 1989, exports, mainly of parts and accessories of motor vehicles, were valued at US$36 million (Table AV.18).
434. Motor vehicles, whether assembled or not, are subject to an additional tax, which is levied over and above the value added tax and set according to a specified formulae. The percentage tax rate is set by engine capacity in cubic centimetres, multiplied by 0.03 minus 45. For example, a 2,000 cc car must pay a 15 per cent additional tax. The additional tax paid on new automobiles is limited to US$7,339. The maximum amount is up-dated annually. An additional tax of 85 per cent is levied on the customs value exceeding US$9,785 (9,123 until December 1990).

435. The additional tax may be exempted or reduced for passenger vehicles with more than 15 seats, tractors, trailers, and automobiles with engines of less than 1,500 cubic centimetres. According to Law 18,483, the additional tax is to be reduced annually by 10 per cent for 5 years commencing 1 January 1990.

436. Local content requirements continue to operate on car assembly. This requirement has frequently changed. Minimum local content requirements, reduced to 45 per cent of components in 1978 and to 30 per cent in 1979, currently stand at 13 per cent. There is no list of specific local components to be incorporated in the assembly of cars.

437. Car assemblers receive tax credits at a rate of 50 per cent of the local content. The Chilean authorities expect that the tax credit scheme will disappear by 1995, although there is a possibility that it will be maintained until 1999. The tax credit also applies to exported components (parts and accessories) which count towards local content requirements.

(viii) Other industrial products

438. This heterogeneous residual category includes precious stones and precious metals; professional and scientific instruments; photographic supplies; musical instruments; toys; works of art; firearms; office supplies and manufactures not elsewhere specified (Table AV.19 and AV.20). Major import items include professional, scientific and controlling instruments, sound recorders and sound recordings and toys.

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49 The multiplicative factor was 0.06 prior to February 1989, and 0.04 until late 1989. The subtracting factor of 35 until February 1989, was increased to 40 in late 1989.

50 It was 30 per cent in 1963, 50 per cent in 1966, and 70 per cent in 1971.

51 In 1989, the shares of these items in total imports of the residual category were 28.5, 23.0 and 11.1 per cent, respectively.
439. All items are subject to the uniform 15 per cent tariff. Until July 1988, imports of watches were subject to a tariff surtax of 5 per cent ad valorem.
VI. TRADE DISPUTES AND CONSULTATIONS

440. In Chile, there are no statutory domestic procedures for conducting consultations or negotiations with trading partners in case of disputes. Informal contacts with trading partners on issues potentially giving rise to trade friction are relatively frequent. Nine cases involving Chile under GATT Article XXIII - seven as a complainant - have been registered between 1948 and 1990 (Table VI.1).

441. Trade problems with the United States will, in future, initially be discussed within the Council which has been established in the framework of the proposed "Initiative of the Americas". Chile also relies on trade consultation mechanisms established within the framework of the Latin American Integration Association, LAIA. These provisions do not preclude recourse to GATT procedures if necessary.

(1) GATT Dispute-Settlement

442. Three of the seven complaints made by Chile under Article XXIII were undertaken during the 1980s. The two complaints against Chile were also made during this period (Table VI.1).

(i) Articles XXII and XXIII

443. The two Article XXIII complaints against Chile were initiated by the European Communities in April 1984 and in October 1989. The first complaint concerned both the introduction, by Chile, of minimum prices for calculating the ad valorem duties applicable to imports of dairy products, and an increase in the specific duties being applied on top of the ad valorem duties. After consultations, the matter was not pursued.

444. The second request for consultations under Article XXIII:1 concerned Chile's internal taxes on spirits. The European Communities argued that the application of considerably lower internal taxes by Chile on pisco, a domestically produced alcoholic beverage, than on substitutes, such as whisky, had trade-distorting effects and afforded protection to domestic pisco production contrary to Article III:1 and 2.

445. Seven complaints have been initiated by Chile under Article XXIII. The contracting parties involved have been the European Communities, the

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1 Initially, the European Communities requested consultations under Article XXII:1 of the General Agreement. These ended in March 1984 without satisfactory results for the European Community (GATT document L/5653).

2 See GATT document DS9/1.
United States and Australia. A complete list of all complaints initiated by Chile is given in Table VI.2.

(a) Australia - subsidy on ammonium sulphate

446. In July 1949, Chile complained against the removal by Australia of sodium nitrate from the list of nitrogenous fertilizers subsidized by the Australian Government. A Working Party was established in March 1950. The CONTRACTING PARTIES found that there was a prima facie case that the value of a concession granted to Chile had been impaired as a result of the modification to a subsidy that did not conflict with the provisions of the GATT. In November 1950, an agreement was reached between the Governments of Australia and Chile, the terms of which were filed with the Secretariat.3

(b) European Communities - export refunds on malted barley

447. In November 1977, Chile lodged a complaint concerning the export refunds on malted barley by the European Communities. Chile argued that restitutions granted by the European Community to malted barley exporters seriously affected traditional barley exports from Chile to Latin American markets. The matter was not pursued by Chile after referral to the good offices of the Director-General for conciliation between the two parties.4

(c) European Communities - import restrictions on apples

448. In June 1979, the Government of Chile informed that it had requested consultations with the European Communities under Article XXIII:1 on restrictions imposed against imports of apples from Chile.5 Since these bilateral consultations failed to reach agreement, Chile requested the GATT Council to establish under Article XXIII:2 a Panel to examine the compatibility of the EC measures with GATT provisions. The Panel was established in November 1979.

449. The Panel report, adopted on 10 November 1980, found that the EC restriction on imports of apples from Chile was a prohibition or restriction on imports in terms of Article XI:1 and that it was

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3 See GATT, Basic Instruments and Selected Documents, 7S/68, February 1959.
4 See GATT documents C/M/116, 123, 125 and L/4588.
5 The restrictions were implemented following Chile's refusal to apply voluntary export restrictions requested by the Community. Chile argued that "legal, administrative and economic reasons prevented Chilean Government from accepting a voluntary restraint agreement". Voluntary export restraint agreements were reached between the EC and Argentina, Australia, New Zealand and South Africa. See GATT, Basic Instruments and Selected Documents, 27S/98, March 1981.
inconsistent with Article XIII:1. The Panel concluded that there was a 
prima facie case of nullification or impairment of benefits accruing to 
Chile within the meaning of Article XXIII. Both Parties were invited to 
consult bilaterally with a view to arriving at a mutually satisfactory 
solution. The European Communities expressed willingness to enter into 
bilateral consultations with Chile in pursuance of the Panel 
recommendation.

(d) United States - removal of GSP concessions

450. In early 1988, Chile requested consultations with the United States 
concerning the United States' decision to remove Chile from its list of 
countries eligible for the Generalized System of Preferences Scheme. The 
United States' action was based on legislation prohibiting the 
United States' President from granting GSP treatment to a country "that is 
not taking measures to grant its workers internationally recognized 
rights".

451. Chile maintained that the United States' action, as it affected a 
developing country, violated Part IV of the General Agreement. It believed 
that the United States' decision also violated the 1971 and 1979 Decisions 
of the Contracting Parties relating to GSP, particularly the principles of 
non-discrimination. Consultations between Chile and the United States were 
held.

452. The current Chilean Government was able to negotiate with the 
United States reinstatement of Chile to GSP treatment from 6 February 1991.

(e) United States - quality standards for grapes

453. In April 1988, Chile noted that its grape exports to the United States 
had been subject, since 1987, to general quality control standards under 
the so-called "Marketing Order". The United States Congress had included 
in the Omnibus Trade and Competitiveness Act of 1988 authorization for the 
Secretary of Agriculture to require compliance with these standards for a 
period of three years beginning in 1989.

454. Chile complained that, whereas quality inspection for US and Mexican 
grapes were done at the point of origin, Chilean grapes were inspected upon 
entry into the United States. This discrimination was seen by Chile to be 
contravening the national-treatment provision set forth in Article III, as

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6. According to Chilean authorities, the exclusion of GSP benefits cost Chile around 
US$200 million in lost export orders (Financial Times of 30 November 1990).
well as the most-favoured-nation clause set forth in Article I of the General Agreement. Chile requested that the United States eliminate this discrimination and requested consultations on this matter under Article XXIII:1. In January 1989, Chile sought a resumption of consultations with the United States in view of the approval of the United States Omnibus Trade and Competitiveness Act to extend the application of the Marketing Order.

(f) European Communities - restrictions on imports of dessert apples

455. In May 1988, Chile introduced a complaint under Article XXIII:2 of the General Agreement concerning the licensing system applied by the European Communities to imports of apples from Chile, the suspension of import licenses for apples originating in Chile, and the EC's subsequent adoption of a system of quotas for apples imported into the Community.

456. Chile believed that the EC's restrictions on imports of dessert apples nullified or impaired benefits accruing to Chile under the General Agreement and were in breach, inter alia, of Articles I, II, XI and XIII and Part IV of the General Agreement, as well as the provisions of the Import Licensing Code. Chile said that the EC measures had caused serious injury and in view of the perishable nature of the goods involved, urged that a panel be established quickly. This was done in May 1988.

457. As the same matter had been examined in a Panel Report adopted on 10 November 1980, the Panel considered that although it had to take into account the "legitimate expectations" created by the earlier report, it was not legally bound by the 1980 report.

458. The Panel report, adopted in June 1989, found the EC restrictions on imports of apples to be inconsistent with Article XI:1, and not justified by Article XI:2. The administration of the quotas resulted in a discriminatory application of import restrictions contrary to Article XIII, and the operation of back-dated import restrictions as inconsistent with Articles X and XIII.

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7The United States noted that the provision in question was included in legislation which had not yet become law. Should this happen, the United States would be ready to consult with any GATT member concerning this matter. At a Council meeting, held in October 1990, a similar matter was raised by Chile concerning a proposed United States' legislation extending the Marketing Order to kiwis, plums, nectarines and apples.

8By Regulation 962/88, the EC suspended the import of apples originating in Chile for the period 15 to 22 April 1988, extended by Regulation 984/88 to the 29 April 1988 and by Regulation 1040/88 to 31 August 1988.

9See GATT, Basic Instruments and Selected Documents, 365/93, July 1990.
(g) European Communities - Restrictions and charges on imports of sheep meat

459. In March 1990, Chile notified that it had requested the European Economic Community to hold consultations under Article XXIII:1 of the General Agreement in order to pave the way for possible recourse to the GATT dispute-settlement system. In the preceding months, the EC had renewed the Chilean sheep meat export quota of 1,490 tons from 1 January 1990 to 1992. At the same time, the EC had signed voluntary restraint agreements with the main exporters of sheep meat to the Community market, Argentina, New Zealand and Australia, and eliminated the 10 per cent customs duty on imports from these three countries. The Chilean complaint concerned the failure of the EC to likewise exempt the exports of sheep meat from Chile and other countries from the duty. According to the Government of Chile, the adoption of this regulation was blocked by opposition from certain EC member countries.

460. In April 1990, Chile informed the Council that, following consultations, the European Communities had suspended the duty involved and that, consequently, this matter should be considered closed.

461. Chile has also regularly requested consultations under Article XXII of the General Agreement. Besides those already mentioned, Chile sought consultations in 1984 under Article XXII with the Governments of Austria, the EC, Finland, Japan, New Zealand, Norway and Sweden in respect of certain quantitative restrictions or measures having equivalent effects. The purpose of these consultations was to allow examination of the nature and scope of the restrictions, their conformity with the General Agreement and their effects on Chilean exports. In April 1985, Chile notified the GATT Secretariat that consultations with Portugal and Sweden had yielded positive results and accordingly could be considered completed.

462. At a Council meeting in April 1989, Chile recalled that the United States had recently suspended imports of Chilean fruits and vegetables following discovery of poisoned grapes. These measures, also adopted by Canada, caused considerable losses for Chilean exporters. Chile maintained that, while the restrictions had been removed, the experience presented an opportunity for the GATT to decide on how Governments could reconcile the right of every country to protect the health of its consumers with the interests of others. 

10 Austria, Bulgaria, Czechoslovakia, Hungary, Poland, Romania and Yugoslavia. See GATT document DS15/1.
11 The list of products involved was given in GATT document L/5737. These were mainly agricultural products, such as vegetables, grapes, fish paste and natural honey.
with the legitimate right of the exporters to be able to rely on unrestricted and stable access to markets. Informal consultations were organized with a view to define a streamlined mechanism for reconciling the interest of contracting parties in the event of trade-damaging acts. 12

(ii) Tokyo Round Agreements

463. Chile has not been involved in any complaint under the Tokyo Round Agreements.

12 See GATT documents C/W/587 and 611.