

# Chile

# INVESTMENT REVIEW

## INTERNATIONAL PRESS SELECTIONS OCTOBER 2004

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### HIGH MARKS FOR CHILE IN NEW COMPETITIVENESS REPORT

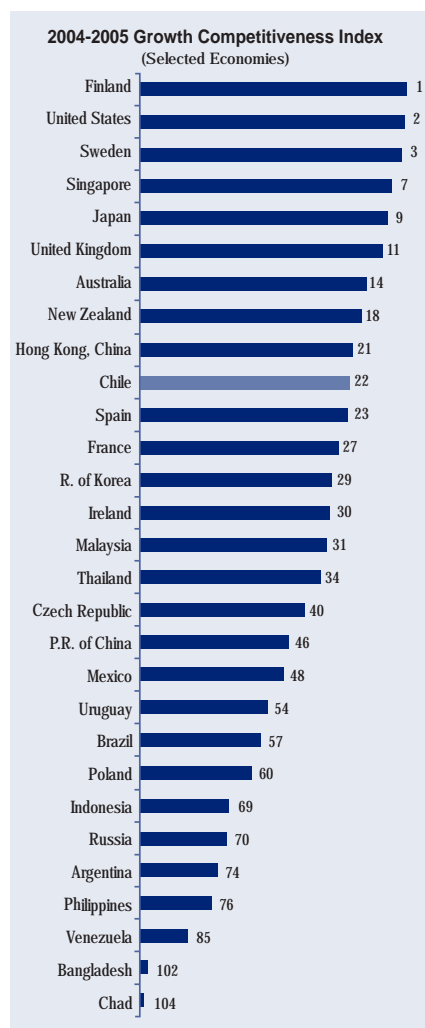
Chile is the most competitive country in Latin America according to the 2004-2005 *Growth Competitiveness Index*, recently released by the Geneva-based World Economic Forum (WEF). In the overall ranking, Chile is placed 22<sup>nd</sup> among 104 economies, ahead of Spain (23<sup>rd</sup>), Belgium (25<sup>th</sup>), France (27<sup>th</sup>), Republic of Korea (29<sup>th</sup>), Ireland (30<sup>th</sup>), the Czech Republic (40<sup>th</sup>) and P.R. of China (46<sup>th</sup>), among others. The ranking is headed by Finland, the US and Sweden.

According to the report, Chile has sharply improved its position with respect to 2003, when it ranked 28<sup>th</sup>. Augusto López-Claros, Chief Economist and Director for the Global Competitiveness Program and one of the study's author, notes that the country has managed to grow faster than many other economies in the developing world, boosting per capita income and making further progress to reduce poverty levels. "It has done so against a backdrop of fiscal discipline and rapidly declining public debt levels, while maintaining an admirably open trade and foreign investment regime, and improving to a remarkable degree the quality of its public institutions, which have played a stabilizing and pivotal role in the country's recent evolution". He added that "There is a sense in Chile that whatever the government does, it is for the public good".

The index -which was first released in 1979- is drawn from the results of the *Executive Opinion Survey*, conducted by the WEF, which this year polled over 8,700 business leaders in 104 economies worldwide. It ranks countries according to economic growth prospects based on technological progress, the quality of public institutions and the macroeconomic environment. The index is divided into three sub-indices:

Macroeconomic Environment, Public Institutions and Technology, in which Chile ranked 27<sup>th</sup>, 20<sup>th</sup> and 32<sup>nd</sup>, respectively.

(To download a copy of the WEF report entitled "*Chile: The Next Stage of Development*" in pdf format, please visit the Publications section of the Foreign Investment Committee's website at: [www.doingbusinessinchile.cl](http://www.doingbusinessinchile.cl))



World Economic Forum (Press Release), October 13

### CODELCO ISSUES US\$ 500 MILLION IN BONDS

Chile's state copper corporation Codelco has issued US\$ 500 million in bonds on international markets at "record" spreads and interest rates, the company said in a statement.

The yield on the issue is 95 basis points over 10-year US treasury bonds, with a coupon of 4.75% a year. Demand for the Codelco bonds topped US\$ 1 billion, the company said, adding the issue "ratifies its leadership in international financial markets". The issue was led by HSBC and CitiGroup, and co-led by Royal Bank of Canada and Bank of Tokyo Mitsubishi.

Codelco is the world's largest copper producer, and is expected to turn out 1.78Mt of the metal this year.

*Business News Americas*, October 21

### A NEW SERVICE FOR FOREIGN INVESTORS

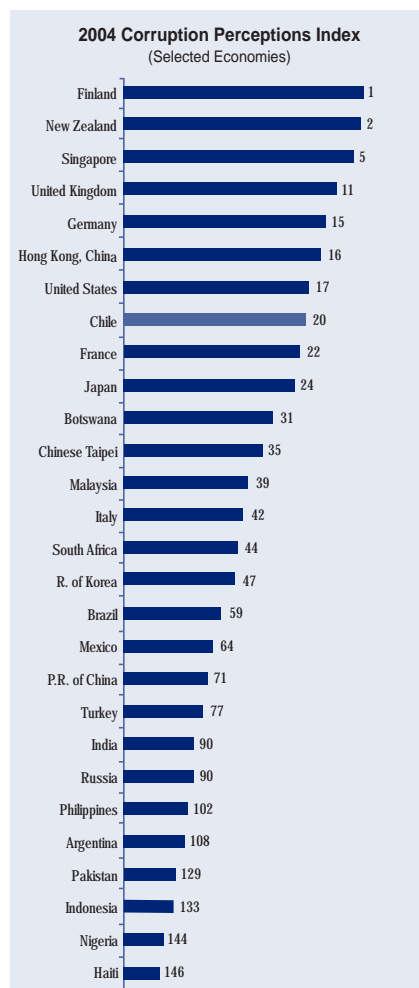
On Wednesday, November 10, Chile's Internal Revenue Service (SII) will launch a new service to facilitate tax compliance by foreign investors. The information contained in the SII's new Internet webpage for foreign businesses ([www.sii.cl/portales/investors/index.html](http://www.sii.cl/portales/investors/index.html)) addresses issues related to international taxation, the Chilean tax system and tax procedures for foreign investors.

The unveiling ceremony will be presided by Juan Toro, Director of the Internal Revenue Service, and Karen Poniachik, Executive Vice-President of the Foreign Investment Committee. If you wish to attend the event -which will take place at 10:00 AM at the SII's Regional Office for East Santiago located in General del Canto 281, Providencia, Santiago- please send an email to: [invitacion@sii.cl](mailto:invitacion@sii.cl)

## WORLD LEADERS IN TRANSPARENCY

Chile stands as the most transparent country in Latin America and in 20<sup>th</sup> place among a total of 146 economies, according to the recently released Transparency International's *2004 Corruption Perceptions Index (CPI)*. The ranking is led by Finland, New Zealand, Denmark and Iceland. Chile appears better rated than France (22<sup>nd</sup>), Spain (23<sup>rd</sup>), Japan (24<sup>th</sup>), Italy (42<sup>nd</sup>) and the Republic of Korea (47<sup>th</sup>), among others.

The *2004 Corruption Perceptions Index* ranks a record 146 countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. A total of 106 out of 146 countries score less than 5 points against a clean score of 10, according to the new index. Sixty countries score less than 3 points out of 10, indicating rampant corruption. Chile scored 7.4 points.



Transparency International (Press Release),  
October 20

## CHILE-CHINA SEE TIGHTER TIES THROUGH TOURISM DEAL

Chile expects an additional US\$ 20 million in annual tourism revenue after P.R. of China authorizes travel to the country, but its ambitions partly hinge on Beijing granting similar permits to Brazil and Argentina, officials said. Up until now Cuba has been the only Latin American country the Chinese government allows its citizens to visit.

But P.R. of China is in advanced talks to grant Approved Destination Status (ADS) for Argentina and Brazil and the Approved Destination Status Chile will be signed in Santiago in November during the summit of the 21-nation Asia Pacific Economic Cooperation Forum, APEC. Chile and P.R. of China, the world's biggest copper producer and importer, have been building closer ties and also hope to announce during the APEC summit the launch of free trade talks, as well as the formalization of a strategic link up for mining investment and supply.

"Chile's tourism revenue would gain US\$ 20 million extra a year due to China", said Oscar Santileces, director of the Chilean National Tourism Bureau, Senatur. "We're talking about a small market, not massive, but with an average spending that is even higher than the Europeans. Its an elite that would spend between US\$ 200 and US\$ 250 a day in each country they visit", he said.

Chile -a stable country known for its vineyards, ski resorts and rugged landscape of fjords, lakes and volcanoes- took in about US\$ 1.05 billion from tourism last year and saw tourism revenues rise by 30% in the first half of this year. It aims to triple the number of Chinese travelers landing on its soil by 2005 to 10,000 from the current 2,800 who have visited with official invitations or as part of government delegations.

The World Trade Organization predicts that by 2020, P.R. of China will be the fourth largest source of tourists in the world but Chinese law requires countries to obtain Approved Destination Status before allowing leisure travel to those countries.

Chilean businesses have already begun to lay the groundwork for a future influx of tourists from P.R. of China in a delegation to Beijing that included the country's flagship airline LAN. Chilean tour operators make optimistic forecasts but admit they need to put together more attractive South American packages for future Chinese visitors who are defined as "very demanding". For starters, Chile could help reduce the traveling time

from Shanghai or Beijing to Santiago by offering more direct flights. It now takes 30 hours with stopovers in Europe. The South American nation also needs to import interpreters and offer more diversity on its hotel menus.

Reuters, September 21

## BHP BILLITON APPROVES US\$ 990 MILLION COPPER PROJECT IN CHILE

BHP Billiton announced the approval of the US\$ 990 million Spence Copper Project in northern Chile. The project will have a designed capacity to produce 200,000 tons of copper cathode per annum and will have a mine life of 19 years. First cathode production is scheduled for the fourth quarter of 2006.

Project development will consist of the construction of a new open-cut mine with associated infrastructure, a 50k ton per day crushing circuit, two separate leach pads, two parallel solvent extraction (SX) plants and an electrowinning (EW) circuit to produce copper cathode.

BHP Billiton President Base Metals Diego Hernández said, "Spence is the best undeveloped copper orebody known in the world today. Its large reserves, low operating cost structure and high return potential will enable it to operate as one of the world's top tier mines. Its proximity to critical infrastructure such as power, water and road and rail transportation will facilitate development and improve the associated economic returns. We are excited about its prospects and its future contribution to BHP Billiton".

The Spence orebody consists of both copper sulphide and oxide ores that will be mined from one open-cut mine but processed separately in order to achieve higher recovery rates.

Hernández said, "This project, which enjoys investment protection under the D.L. 600 Foreign Investment Statute in Chile, continues to demonstrate our commitment to develop our world class projects and operations in Chile, where we have a long-established track record of corporate social responsibility".

Proven and probable ore reserves for the Spence orebody are estimated to be 310 million tons of copper ore with an average total copper grade of 1.14% at a total copper cut-off grade of 0.30%. These ore reserves are divided between 79 million tons of heap leach oxide ore at a grade of 1.18% total copper and 0.88% acid soluble copper, and 231 million tons of heap leach sulphide ore at a grade of 1.13% total copper, both at a total copper cut-off of 0.3%.

BHP Billiton (Press Release), October 25

## THE LATIN AFFAIR

*Despite the distance, Chile is proving a popular base for Australian firms wanting to do business in South America.*

At the foothills of central Chile's Andes Mountains, Australian renewable energy company Pacific Hydro is preparing to upgrade two power stations it bought this year for US\$ 75.6 million. Just to the south, the company is negotiating financing for a US\$ 250 million joint venture that will see Chile account for half of its total energy production by 2008. From its foothold in Chile, Pacific Hydro will look to climb into other Latin American markets such as Peru and Argentina.

Meanwhile in Melbourne, Chilean-owned Comymet Duratray is running the ruler over joint venture opportunities in Southeast Asia and Africa, building on its existing presence in Indonesia and PNG. Chile's Comymet bought Australian mining truck-tray maker Duratray from Pacific Dunlop three years ago. Nowadays Comymet managing director Manuel Medel divides his time between his native Chile, the US and Australia.

These two cases give warm fuzzy feelings to trade promoters in both Australia and Chile, who in recent years have marketed their countries as gateways to more challenging and potentially lucrative markets in their respective regions.

In Chile's case, the 'Springboard Into New Markets' campaign appears to be highly successful. Many of the 3,000 foreign firms with operations in Chile use the country as a first port of call, and others use it to manage investments around the region. The foreign contingent in Santiago includes 60 Australian or Australian-affiliated companies, while 100 others are represented in the country, according to Austrade, Australian Trade Commission.

Chile's attraction, especially for small and mid-sized investors, canters on comfort. "It's very important for a listed Australian company - for the board and its investors, institutions and analysts - to get comfortable with Latin America and from our point of view the ideal place to start is Chile", says Pacific Hydro Chairman Bernard Wheelahan.

Foreign firms draw comfort from Chile's status as one of only two countries in the region with an investment-grade credit rating; a Transparency International ranking above France and Spain; a World Bank *Doing Business* ranking ahead of New Zealand, the US and Singapore; sustained economic growth

(conservatively estimated at 4.8% this year) combined with fiscal responsibility; well-developed infrastructure; and Free Trade Agreements with US and Europe.

Of course, as a developing country, Chile is not without its problems such as the wide gap between rich and poor and an overdependence on copper, which despite diversification into fruit, forestry and fish farming, still accounts for 35% of the country's export revenue. And recent debate over the government's proposal to introduce a 3% mining royalty has caused considerable indigestion among mining companies in the country. However, compared to the ever-changing, playing fields of some of its neighbors, doing business in Santiago certainly has an air of familiarity about it for Australian firms.

The Big Australian led the first wave of Australian investors in Chile, drawn in the country's copper deposits, the largest in the world, and foreign investment-friendly rules established under the 1973-1989, military dictatorship. Today, BHP Billiton operates the largest copper mine in the world in northern Chile's Atacama Desert and its in the process of relocating its global base metals headquarters to Santiago, under the management of local executive Diego Hernández.

The development of Chile's copper industry and the participation of global heavyweights such as BHP saw a surge of Australian suppliers and providers entering Chile. But as the country's economy diversified and markets matured, an array of non-mining firms such as Hoyts, James Hardie, AGI, Nufarm and Rip Curl have successfully taken the plunge.

And the newcomers are not limited to large corporations. Perth-based recruiter Downing Teal set up an office in Santiago four years ago, focusing on the country's buoyant mining industry. Despite posting losses in its first year, Chile is now the company's largest operation outside of Australia, and since December the Santiago team oversees an office in Peru.

As José Blanco, Chairman of the Australia-Latin America Business Council, points out, "If Chile was in Asia, it would rank as one of Australian favorite destinations, both for business and pleasure. It may lack the population base of our Asian neighbors, but it has many of the features that we look for when selecting a business destination".

Cases of Chilean companies using Australia as a soft landing to the Asia-Pacific are much harder to find. However, according to Chile's Ambassador to Australia Fernando

Schmidt, there is a plenty of scope for Chilean and Australian wineries, for example, to join forces and target Asian markets, especially P.R. of China. Ambassador Schmidt also points to Australia as an attractive destination for Chile's private pension funds, which hold contributions from seven million workers and retirees, and in August had US\$ 13.5 billion invested overseas. Due to the lifting of their foreign investment ceiling earlier this year, the funds are on the look-out for more blue ship opportunities abroad and Australia's large and profitable companies, as well as its state bonds, would appeal to them, he said.

The small size of the Chilean economy means cashed up local investors are forced to look abroad for opportunities, Chile's Banking Association President Hernán Somerville told a recent investment briefing in Sydney. Traditionally they have targeted Argentina and Mexico, but with growing interest in the Asia-Pacific region, Australia and New Zealand are well positioned for Chilean investment, he said.

Tourism is another industry identified by Chilean trade authorities, who are actively promoting the country's appeal among Australians. And it seems to be working, with the number of Australian tourists to Chile almost doubling in the last couple of years.

In terms of bilateral trade, the numbers are still modest, with Australia exporting just AU\$ 123 million to Chile last year, compared to the AU\$ 143 million Chilean imports hitting Australian shores. In the past, trade has been constrained by the similarity of both countries as southern hemisphere with an orientation towards the Asia-Pacific region.

But trade promoters and observers agree there is a lot of room for improvement. Education is one area identified as crucial for further developing relations, with the Australians government recently setting up a presence in Santiago in an attempt to turn around low tertiary student flows. Prickly visa process and restricted (but improving) air links are also seen as barriers to increasing business between the two countries, as are language and cultural divides, although the 35,000-plus Chileans living in Australia represents a significant cultural bridge.

The biggest barrier and, paradoxically, the greatest opportunity to further development of the bilateral relationship seems to be the two countries' respective successes and aspirations in Asia. The challenge, according to Ambassador Schmidt, is to focus less on areas of competition and more on areas of complementation.

*The Diplomat (Australia), October 2004*



## CHILE SCORES WELL IN OPACITY INDEX

According to the 2004 *Opacity Index*, recently released by the Kurtzman Group ([www.kurtzmangroup.com](http://www.kurtzmangroup.com)), Chile has the lowest degree of “opacity” -defined as the lack of transparency in a country’s legal, economic, regulatory and governance structures- in Latin America. The country is ranked 17<sup>th</sup> among 48 economies with regards to the indirect costs of corruption to businesses and foreign investors.

Since 2000, the *Opacity Index* annually studies a variety of economies, seeking to identify their degree of “opacity”. Higher levels of opacity strongly correlate with slower growth and less foreign direct investment in all markets. The index expresses the cost of opacity as a “risk premium”. In practice, it means that if a US investor wants to do business in Chile, he/she needs to receive a return 1.71% greater than in the US to offset the risk.

**2004 Opacity Index**  
(Selected Economies)

Economy	Risk Premium/ Discount (%)
Finland	-1.83
United Kingdom	-0.44
Canada	0.48
Singapore	0.65
Chile	1.71
Spain	2.86
Hungary	3.40
R. of Korea	3.52
France	3.53
Brazil	4.29
Czech Republic	4.56
Mexico	5.01
Argentina	5.06
Russia	5.64
P.R. of China	6.49
Indonesia	8.54
US = 0.00%	

*The Kurtzman Group*  
([www.kurtzmangroup.com](http://www.kurtzmangroup.com)), October 2004

## ENDESA OPENS CHILE’S BIGGEST HYDROELECTRIC PLANT

Endesa Chile, Endesa’s Latin-American generating subsidiary, inaugurated the Ralco plant, Chile’s biggest hydroelectric project, on September 27. With 570 MW of installed capacity and estimated annual output of

3,100 GWh the new plant will supply 9% of the electricity needs for Chile’s Central Grid (SIC). Investment in the plant was US\$ 570 million. The Ralco hydroelectric plant is located in Region VIII, on the upper reaches of the Bío-Bío river some 120km southeast of Los Angeles and 30km upstream from Endesa Chile’s Pangue plant.

Ralco represented a landmark in civil engineering. It meant throwing a dam across the river to create a 1.2 billion m<sup>3</sup> reservoir with a maximum surface area of 3,467 hectares. Water flows into the plant from the reservoir through a 7km tunnel to the machine cavern, where it drives two 285 MW generators. At its highest point the dam is 155mt high and 360mt long. It is the fourth largest in the world built using roller-compacted concrete (RCC). Its construction required a monthly average of 3,000 people working directly on the project and 1.6 million m<sup>3</sup> of concrete.

Endesa Chile operates in five Latin American countries (Argentina, Brazil, Colombia, Chile and Peru) and owns 45 power plants, with a combined installed capacity of 12,211 MW, of which 72% are hydroelectric and 28% conventional plants. An Endesa subsidiary, it is Chile’s leading power generator and one of the country’s largest companies, with a total 4,355 MW of installed capacity. Including the 780 MW of its associate Atacama, it provides close to 40% of the country’s installed capacity. It has 20 plants linked to the Central and Norte Grande grids, Chile’s two main grids.

*Endesa (Press Release), September 29*

## BANCOESTADO AND METLIFE ENTER INTO ALLIANCE TO PROMOTE BANCASSURANCE

MetLife, through its subsidiary MetLife Chile Inversiones, and BancoEstado announced an agreement, whereby MetLife will purchase a 49.9% equity stake in BancoEstado Corredora de Seguros, a wholly-owned brokerage company of BancoEstado. MetLife paid approximately US\$ 30 million and will make a second payment at the end of 2009, with a maximum value of approximately US\$ 40 million, subject to the success of the business plan. The transaction is subject to regulatory approval.

This joint venture is between one of the largest Chilean banks, BancoEstado, and the largest life insurance company in the US. BancoEstado serves a client base of more than eight million persons through the most extensive network of branches in Chile, and MetLife has more than 136 years of experience in life insurance, provides best-in-class services, and is the leading provider of life insurance in the US and one of the largest in Latin America.

The executives who signed the agreement, Jaime Estévez, President of BancoEstado, and William J. Toppeta, President of MetLife International, agreed that this alliance would allow BancoEstado to become the most important distribution channel of insurance products in the Chilean market. They explained that, in alignment with the strategic objectives of both companies, this partnership will be a powerful tool for growing this industry and providing life insurance to all Chileans, regardless of their income level.

"We are very happy to initiate this alliance with one of the oldest, largest and most respected banks in Chile", Toppeta said. "This alliance will help MetLife grow its customer base in Chile, as well as its individual and group life insurance businesses and will diversify the company's portfolio of products. We look forward to a successful partnership that will combine MetLife's expertise in the life insurance and annuity businesses with BancoEstado's outstanding brand, reputation for reliability and established distribution capability. The alliance will enable both companies to work together to offer a wide range of products and services targeted to the needs of the Chilean marketplace", added Toppeta.

Estévez said that they are very satisfied because "BancoEstado will partner with the United States' most important life insurance company. Their world class experience will benefit our present clients and all Chileans that at present time do not have access to insurance. Likewise, BancoEstado will receive important technical knowledge and will be able to create a wide range of innovative and economical insurance products. This is very important for us because we will carry out our social responsibility to offer insurance to everyone".

*MetLife (Press Release), September 13*

## LATIN AMERICA'S REBIRTH

*The following are excerpts from a cover story by Latin Finance magazine, published in September 2004:*

Latin America is profiting mightily from the commodity boom. Better still, it may yet escape a looming commodity bust. As the region emerges to become a vital part of the global economy, important lessons can be learned from Chile.

Chile, Latin America's best-run country, which has led the way in economic reform and institution-building for 20 years, is beginning to cautiously debate how to construct a post-commodity economy -one that is based on knowledge and technology, not raw materials.

**Healthy Outlook:** José Luis Machinea, a former Argentine Minister of Economy who now heads the UN's Economic Commission for Latin America and the Caribbean (ECLAC), insists that the region is in much better health than many believe: "The regional economic picture is quite good. Poverty has increased, but the fiscal situation is under control and inflation is in single digits. There are some worrying points, of course, and there is concern. But as a whole, the region has been very responsible".

This marks quite a change from Latin America's long, inglorious history of excess and upheaval. And if Chile's example is a guide, then Latin America could mature into stable, quietly prosperous market economies.

Chile has shown that sound economic policies and a very basic, commodity-based economy can generate considerable wealth. It has created strong institutions even as the country emerged from the rubble of a failed Socialist experiment in the early 1970s and then a brutal 17-year military regime. Chile has suffered only one year of recession -in 1999- over the last decade. It has an independent Central Bank that has delivered low inflation and minuscule interest rates. Poverty has declined. Chile has Free Trade Agreements with the European Union and the US.

This formula has made Chile wildly successful by Latin American standards and most Latin American governments have adopted Chilean-style policies with varying degrees of success.

**Reaping Benefits:** The results are now beginning to appear. Chile, Latin America's best-managed economy, is growing at 4.5% as copper exports surge.

Chile now faces some major challenges to its export-oriented, free-market formula. It needs to begin rethinking, or at least, refining its model. Machinea said: "Chile showed that natural resources are not a curse but a blessing and it used these resources intelligently. The question now is to add value". The commodity boom will wind down sooner rather than later, so the region needs to create a broader basis for growth. A debate has begun whether a laissez-faire approach still makes sense, or whether the state should play a more active role.

**Education Push:** The Concertación coalition that runs Chile since 1990 has focused on maintaining economic stability. A strong capital market with US\$ 75 billion in assets, low interest rates -the Central Bank's benchmark rate is 1.75% a year- and a pro-business climate are a vital advantage. Education is a focus. The government has increased teachers' pay and put Internet connections in all schools. Minister of Finance Nicolás Eyzaguirre wants every Chilean to become bilingual.

"We believe that a private sector that risks its capital is better equipped to see where the opportunities lie than bureaucrats who work with other people's ideas, who can be creative without using their own money", says Eyzaguirre.

Drillco, a small company based in a muddy corner of Santiago's industrial fringe, is an example of what Eyzaguirre is talking about. Rolando Carmona, the company's President, says Drillco came to corner the local market in drill bits used by the local mining industry. Then, as that business became less attractive, the company branched into more sophisticated heavy pneumatic hammers for use in mining. "We believed that this would be a more value-added business. These hammers are like little machines. Bits were disposable", says Carmona. Drillco can charge more for its hammers because they incorporate proprietary design features and software. Drillco invests about 5% of its revenues in research and development. It now exports around the world and sells to a wide range of industries.

Sonda, a Santiago software company, is another, more famous success story. Andrés Navarro built it up over 30 years to become the country's preeminent software developer.

It has attracted investment from the International Finance Corporation, the World Bank's private sector division, and Intel Capital, the US chipmaker's investment arm. However, it remains a privately held company that reveals scarcely any financial information.

Pablo Giménez, an Intel director based in Santiago, says: "We invest in companies that are strategic for us. In Latin America, we invest in companies to develop markets for our products. With Sonda, the idea is to use it to develop products that use our products and encourage clients to use our products". Sonda is now a mature business with 2,500 employees and is mulling an IPO.

The Santiago stock market has seen a succession of recent share offerings -retailers alone have raised over US\$ 2 billion from equity investors this year- and the country's pension funds, with US\$ 65 billion assets under management, are hungry for more.

Chilean executives say that raising financing -uniquely in Latin America- is not much of a problem. Bankers agree. Gonzalo von Wersch, partner at Santiago investment bank IM Trust, says financiers are flush with cash, partly because companies are not investing much. "In the 1990s, everyone expected Chile would keep growing at 7%-8%. But after the Asia crisis, companies faced excess capacity and now they are somewhat afraid of taking a leap", he says. With less issuance, but money from contributors piling into their coffers, fund managers are searching desperately for investment opportunities.

Although Chile's 20-year track record of stability and its investment grade rating have brought low interest rates and abundant capital, there is curiously little entrepreneurial ferment in Santiago. Instead of financing, entrepreneurs complain about the limitations of their domestic market. Chile has a population of 15 million and a GDP of only US\$ 72 billion. Chilean companies tried to overcome this limitation by expanding into larger neighboring countries in the 1990s, focusing heavily on Argentina and then Peru and Brazil.

**State Support:** Fundación Chile, a quasi-government organization created in 1976, is still operating and supports new ventures and industry clusters. It has a good record at this, playing a crucial role in pioneering Chile's salmon-farming industry and fruit exports. Its focus now is on transferring technology and helping natural resource sectors move up the value chain by exporting more sophisticated products.

*Latin Finance, September 2004*

## CHILEAN BANKS MOST PROFITABLE IN LATIN AMERICA THIS YEAR

Chilean banks were the most profitable banks in Latin America so far this year with an average ROE of 17.3%, according to the investment banking arm of German Deutsche Bank. The Chilean banks were also the second most profitable in the world during the same period.

Deutsche Bank singled out the stock of Chile's largest bank Banco Santander Santiago as an attractive investment opportunity due to the growth potential of Chilean retail banking and to the fact that the stock is trading at a discount compared to other equities. Santander Santiago is the largest bank in the Chilean financial system in terms of overall market share and it is controlled by Latin America and Spain's largest financial group Grupo Santander.

*Business News Americas*, September 1

Banking Strength Index 2004		
Ranking	Economy	Index
1	Denmark	85.0
3	United Kingdom	83.3
6	United States	75.0
13	Ireland	71.7
14	France	71.2
21	Chile	56.5
23	Germany	46.7
31	Mexico	37.4
41	Brazil	24.3
46	R. of Korea	20.0
52	Japan	12.0
54	China	10.0
60	Argentina	00.0

*\*Index score from 0 to 100; 100 = highest strength*

*Global Financial Stability Report, International Monetary Fund (www.imf.org), September 15, 2004.*

## CHILE JAN-SEPT BANK SECTOR PROFITS UP REAL 11.1% ON YEAR

Chilean banks and financial institutions earned a combined 473.47 billion Chilean pesos (US\$ 1=CLP 615.00) in the first nine months of 2004, up 11.1% on an inflation-adjusted basis from the same period in 2003, according to the Banks and Financial Institutions Regulatory Agency (SBIF).

At the end of September, bank loans over 90 days past due totaled 508.99 billion Chilean pesos, down 0.5% from a month earlier and 16.2% lower than the same date a year earlier. Past-due loans are at their lowest level in half a decade.

Total loans were up 7.8% on the year at 36.66 trillion Chilean pesos, SBIF added. Consumer loans, which have been buoyed by record low interest rates and aggressive marketing, came in 17.6% higher on the year and up 2.4% on the month at 3.58 trillion Chilean pesos. Local economic growth has also gradually accelerated, helping stimulate consumer confidence, although unemployment levels have stagnated as more people have begun to look for work.

However, the Central Bank began tightening rates in September and has indicated it will gradually raise rates further in upcoming months as the real interest rate is below zero, as inflation tops interest rates.

*Dow Jones*, October 20

## TRANSELEC INAUGURATES IMPORTANT POWER TRANSMISSION PROJECT

Transec, Chile's main power transmission company and a subsidiary of Canada's Hydro-Québec, inaugurated the 500kV Transmission System Upgrade, the most important power transmission project to be developed in Chile in the last twenty years. The project increases the capacity of Chile's trunk transmission system between the Charrúa substation in Region VIII and the Alto Jahuel substation near Santiago.

The inaugural ceremony took place at the Ancoa Substation in Region VII on September 10 in the presence of President Ricardo Lagos and Minister of Economy Jorge Rodríguez. The project required an investment of US\$ 125 million and, during the 18-month construction period, created 1,500 jobs, directly benefiting nearby communities.

The project, which was launched in 2001, increases the transmission capacity of the Charrúa-Ancoa section of Chile's Central Interconnected Grid (SIC) from 550 MW to 1,300 MW, and the Ancoa-Alto Jahuel section from 900 MW to 1,400 MW. This upgrade of the trunk transmission system equips it to handle the output of new power plants in southern Chile, as well as increasing the Grid's security and reliability.

In one of the project's key technical features, it introduced new transmission technology into Chile, including series compensation on 500kV lines located at the Ancoa substation, and automatic reactor control equipment.

By compensating for failures and other contingencies that can occur not only in transmission lines, but also in power plants, these technologies mean greater supply security in the Grid as a whole. In this context, the

project not only makes for a robust transmission system, but will also permit maximum competition between generators, resulting in lower tariffs for end users.

The Vice-President of Transec's Board of Directors, Jacques Régis, underlined the project's importance, particularly as regards security. "We can now affirm that energy flows more securely through the trunk system from the large power producers to millions of users", thanks to technological innovation to which Hydro-Québec has made a major contribution, he said.

In addition, Régis said that Hydro-Québec welcomed the reform of Chile's electricity legislation enacted in the first quarter, emphasizing that the company trusts that the fine-tuning of transition procedures will result in the appropriate application of the new legislation.

Referring to a long-term need for interconnections in which, he indicated, Transec would be willing to participate, Régis also said that Chile must identify the sources of energy that most favor its development.

*Transec (Press Release)*, September 10

## WEBSITES AT 33% OF CHILEAN COMPANIES

The number of Chilean companies with websites has grown to 33% from 25% in the last year, the Santiago Chamber of Commerce (CCS) found in a study. Among large companies, almost 90% have websites, according to the study. Internet access increased one percentage point in 2004 to 70%, considering medium and large-sized enterprise have almost all been connected since 2003 and small companies with no access will connect slowly and partially.

Of small businesses without access, 80% have no plans to install an Internet connection. Almost half of the companies have local networks, most of them wired. Only 2% of local firms have wireless networks, but among large companies the percentage is 13%. The use of online banking has increased to 82% of companies from 58% in 2003, while companies working online with public institutions increased to 73% from 53% and those declaring or paying taxes online grew to 67% from 48%.

E-commerce is still unimportant for most Chilean companies since only 15% of firms with Internet access purchase online and 12% sell online. CCS expects this percentage to grow more as suppliers register with government procurement site *Chilecompra* to increase their participation. Finally, 5% of local firms make use of e-learning technology.

*Business News Americas*, October 19



## NEW RECORD ON REAL ESTATE SALES

Real estate sales in Chile registered a record increase of 30.7% in August this year compared to the same month of 2003, the Construction Sector Trade Association (CChC) reported. Sales in the eighth month totaled 4,680 units. The increase was led by apartment sales, increasing by 36.6%. House sales registered an increase of 24.8%.

CChC President Fernando Echeverría said August's increased real estate activity is a consolidation of the upward trend registered during the last few months of this year.

*ISI Emerging Markets, September 29*

## MANUFACTURE PRODUCTION INCREASED 7.2% IN FIRST HALF 2004

The Index of Manufacture Production in Chile rose 7.2% in the January-July of 2004 period, while sales increased 7.3%, according to the National Statistics Bureau (INE). These are figures from the new Index of Production and Manufacture Sales, whose base year is 2002.

*Latin American News Services, September 23*

## COMMERCE INVESTMENTS RISE BY 18.7% IN CHILE

Investments in the commerce sector totaled US\$ 1.36 billion in the first half of 2004 in Chile, which means an 18.7% increase compared to the end of 2003, according to the Chilean Chamber of Commerce (CNC). However, if compared to the same period of the last year, investments fell by 2.7%. The appearance of new projects tends to boost investments in this period, with initiatives that reach US\$ 8 million to US\$ 40 million summing up to US\$ 240 million. The CNC has informed that 43.8% of these projects are currently in progress.

*Latin American News Services, September 15*

## CHILE GOVERNMENT ESTIMATES 2005 GDP GROWTH OF 5-5.5%

The Chilean government forecasts 2005 economic growth of between 5.0% and 5.5% compared with an outlook of about 5.0% growth for 2004.

Domestic demand, which includes business investment and consumer spending, should grow between 6.5% and 7% next year, the Ministry of Finance said in a report to Congress on next year's budget proposal. Economists are focusing on domestic spending for signs that Chile's export-led economic upturn is also trickling down to consumers and local businesses.

Chile, the world's top copper producer, is on track for robust expansion this year largely due to a rally in global metals prices and stronger prices for other commodities like wood pulp and fishmeal. "We expect a greater recovery of private and public consumption", the report said.

The government sees a slight weakening in global demand for its goods next year. "The positive external environment, which will nonetheless be slightly less dynamic, allows for a significant real increase in exports", it said.

The Ministry of Finance also announced that Chile will issue all of its government debt next year -US\$ 1.2 billion- in local currency. Funds from the new debt will be used to pay off bonds that mature next year instead of using money from this year's budget surplus, which is estimated to reach 2% of Chile's US\$ 90 billion gross domestic product, Minister Nicolás Eyzaguirre told reporters.

"It's more important to develop the local bond market. We don't need dollars", Eyzaguirre said. He also said Chile should start issuing longer-term bonds. Chile's longest-term peso debt has a 10-year maturity. "To develop the peso bond market, the State and the Central Bank have to lengthen the maturity curve", he said. He did not give any details on concrete plans or timings for longer-term paper.

In its budget proposal for 2005, the government asked Congress for authorization to issue US\$ 1.2 billion in public debt next year.

The government has pursued a counter-cyclical fiscal policy that restricts spending in periods of strong economic growth and expands it during the slump in the cycle. The government estimates the 2005 fiscal surplus will be the equivalent of about 2% of GDP. The estimated surplus revenue will be used to replenish a rainy-day copper fund from which the government draws when copper prices fall in order to buffer the impact on the economy. The funds will also be used to reduce the net public sector debt.

Lagos said his administration's priority next year will be to bring down the jobless rate, pumping state money into labor-intensive public works projects and other initiatives that aims to create 90,000 jobs next year.

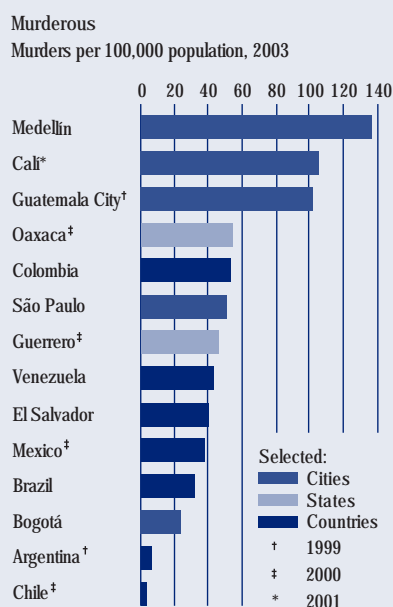
*Reuters, October 7*

## EL ABRA TO INVEST US\$ 18.5 MILLION TO PROCESS LOW-GRADE ORE

Chile's El Abra copper mine, controlled by US miner Phelps Dodge with 51%, plans to invest US\$ 18.5 million in a project to leach 516Mt of low-grade mineral material, the company told the country's National Environmental Commission (CONAMA). The project will provide jobs for 400 people in the construction phase and for four workers once it is in operation, it said. The project involves the construction of new leaching equipment. Subsequently, the copper-rich material will be processed in El Abra's existing SX/EW plant. State copper company Codelco has the remaining 49% of El Abra in northern Chile's Region II. The mine produces over 200,000t/y of cathodes.

*Business News Americas, September 1*

### The Battle for Safer Streets



Sources: Government agencies; United Nations; Interpol; Inter-American Development Bank; The Economist estimates; CIDAC

*The Economist, September 30*

## ERCO DIVISION TO CONSTRUCT A SODIUM CHLORATE MANUFACTURING PLANT IN CHILE

Canada's ERCO Worldwide reached an agreement with Chile's CMPC Celulosa S.A. (CMPC), a Division of Empresas CMPC S.A. for ERCO Worldwide to supply CMPC with sodium chlorate by constructing and operating a manufacturing plant adjacent to the CMPC Pacifico mill, located in Region IX, Chile. The agreement will be subject to the finalization of certain commercial and operating conditions and to obtaining the environmental permits from the Chilean authorities.

A new company, ERCO Chile LLC was established to conduct ERCO's Chilean operations. The capital cost of this world scale manufacturing facility is expected to be in the CDN\$ 65 million range and would increase ERCO's annual sodium chlorate capacity to 635,000 tons. The plant is scheduled to start up in mid-2006.

Paul Timmons, President of ERCO Worldwide, said: "The construction of this sodium chlorate manufacturing facility provides significant synergies to our off-shore movements and is a significant step in ERCO's growth strategy. We are excited with the opportunity to be an important supplier to CMPC". Sergio Colvin, CEO of CMPC commented: "This agreement is part of CMPC's effort to a continuing expansion of pulp production and a significant step in maintaining CMPC's global competitive position". Geoff Mackey, President and CEO of Superior Plus added: "This world scale plant will supply CMPC for the long term. The transaction provides ERCO with a strong foothold in the growing South American market and is expected to be accretive to unitholders upon commercial start-up".

The Superior Plus Income Fund (the "Fund") holds 100% of Superior Plus Inc., which has four operating divisions: Superior Propane is Canada's largest distributor of propane, related products and services; ERCO Worldwide, a leading supplier of chemicals and technology to the pulp and paper and water treatment industries; Winroc, the seventh largest distributor of walls and ceilings construction products in North America; and Superior Energy Management which provides natural gas supply services, predominantly to commercial and industrial markets in Ontario.

*Erco (Press Release), September 1*

## TRADE SURPLUS MORE THAN QUADRUPLES

Chile's trade surplus more than quadrupled in August as a global economic expansion fueled a jump in demand for copper, the country's top export.

The surplus widened from US\$ 171 million in the year-end period and US\$ 699 million in July to US\$ 802 million, the Central Bank said. Exports rose from US\$ 1.69 billion in August 2003 and US\$ 2.71 billion in July to US\$ 2.78 billion.

This year's 49% surge in exports is leading an expansion that the government expects to reach 5% by year's end. In addition to the jump in copper sales, Chilean exports of such manufactured goods as Donkey Milk Farm's facial cream are growing as the economies of such trade partners as Japan and the United States expand.

"This is like a wheel turning that you can't stop", said María Piedad Barros, a founder of the company, which makes its facial cream from donkey milk, in an interview in Santiago. "We'll need more people". Rising exports will boost Donkey Milk Farm's sales from less than US\$ 1 million last year to US\$ 1.2 million this year, said Barros, adding that she was looking for additional pasture land. Donkey milk, she said, contains vitamins that soften and smooth skin.

The United Nations estimates that Chile, the world's biggest copper producer, will post economic growth of at least 4.8% this year, the fastest since 1997, after growing 3.3% in 2003. Soaring exports of such products as metals, oil and soybeans from such countries as Argentina, Brazil and Peru will help the region grow 4.5% this year, the UN's Santiago-based Economic Commission for Latin America and the Caribbean said. Copper prices have jumped 51% the past 12 months.

In San Antonio (Region V), a cargo port in central Chile, freighters are offloading cars and electronics and loading up with copper from the nation's mines, said Rubén Alvarado, the port's CEO. The port imported more cars in the first seven months of the year than in all of last year, according to its website. "This will be a record year", Alvarado said in a phone interview last month. "From my window, I see car after car after car being driven off the ships".

*Bloomberg News, September 8*

## CHILEAN IMPORTS RISE AS GROWING ECONOMY SPURS DEMAND

Chile's imports rose in September to the highest monthly level since at least 1990 as an economic expansion spurred demand. Imports rose to US\$ 2.09 billion, the most since records have been kept, from US\$ 1.99 billion in August and US\$ 1.45 billion a year earlier, the Central Bank said. The country's trade surplus narrowed to US\$ 336.5 million from US\$ 787.6 million in August. Exports fell to US\$ 2.43 billion from US\$ 2.78 billion.

"Domestic demand is starting to accelerate", said Chilean Minister of Finance Nicolás Eyzaguirre in a press conference in Santiago. "That will be the most dynamic factor pushing the economy next year".

The economy expanded 7.4% in August from a year earlier, the fastest growth since March 1998, the Santiago-based Central Bank said. Chile's gross domestic product grew 5.1% in the second quarter from a year earlier, while domestic demand rose 5.7%.

Chilean consumer confidence rose 16% in September, according to a statement by the Santiago Chamber of Commerce. Chile's trade surplus rose from US\$ 140 million in September 2003 as exports rose from US\$ 1.69 billion.

*Bloomberg, October 7*

## PESCA CHILE INVESTS US\$ 18.5 MILLION IN FISH PROCESSING PLANT

Chilean fish processing company Pesca Chile, a subsidiary of the Spanish fishing and fish processing company Pescanova, is expected to invest US\$ 18.5 million in the construction of a fish processing plant, Pesca Chile said. The plant will be located in Punta Arenas (Region XII), southern Chile. The plant is expected to be able to freeze some 70,000 tons of fish daily.

The sales of Pesca Chile totalled US\$ 120 million in 2003 and the company is among the five largest Chilean fishing companies. Up to the moment Pesca Chile has four fish processing plants in the country. Pesca Chile exports its production to the European Union (EU), South America, Asia and the US.

*Business Digest, September 2*



## INDRA IMPLEMENTS A €3.5 MILLION PROJECT FOR CONTACT-LESS CARDS IN CHILE'S RAILWAY

The State-owned railway company (EFE) awarded Spanish information technologies company Indra contracts amounting to 3.5 million euros (US\$ 4.3 million) to implement contact-less ticketing systems based on intelligent cards in three of the major network renovation projects for suburban trains. With this, Indra enters into the railway network, opening up an important potential market for business.

Merval, a subsidiary of EFE constituted specifically to build and develop the regional Valparaíso network (Region V), has chosen Indra's intelligent contact-less card ticketing system for the new suburban railway network which will be in service next year. The Valparaíso network will be comprised of a 43km network and 20 train stations connecting the metropolitan area and outskirts of Valparaíso with Limache, with an expected 22 million passenger traffic a year.

EFE has also awarded Indra the updating of the ticketing systems for the Santiago de Chile (Alameda station)-San Fernando line, totalling 143km, and of the Bio Vías service (Region VIII), under construction, which implies substituting the existing railway network with a suburban train covering the Talcahuano-Hualqui area and the Concepción-Michauihue branch line in the metropolitan area of Concepción.

Both contracts include the necessary systems for controlling the entrance and exit, charging by distance covered, type of user and timetable and data processing regarding passenger transit for the central system. The technology will be the same as Indra developed for the Santiago de Chile underground.

The ticketing system to be implemented by the Spanish company is based on an intelligent card, equip with a chip for contact-less recognition. This system has already been implemented by Indra in the Santiago de Chile underground and is in the process of being implemented in the public bus transport, Metrobus. These transport cards are called Multivia and will be implemented for the first time in the railways of Chile. With this, Indra is positioned for the updating of all the operators ticketing systems in the country.

*Indra (Press Release), October 7*

## EFE ANNOUNCES 2ND 2003-2005 INVESTMENT PLAN CONCESSION

Chile's State-owned railway company EFE ([www.efe.cl](http://www.efe.cl)) began selling bidding rules for the second concession contract that falls under its US\$ 998 million 2003-2005 investment plan. The 16-year, US\$ 78 million-plus contract entails renovating and maintaining the rail network's central zone (Zona Centro), which covers the Alameda-San Rosendo, San Rosendo-El Ancla and Concepción-Lomas Coloradas stretches for a total of 751km. Offers are due November 15, with economic offers to be opened December 6 and the contract awarded that same month. Works are slated to begin in January.

Works will benefit passenger and cargo transport between capital Santiago's Metropolitan Region and Region VIII, in particular Region VIII capital Concepción's Bio Vías public transport program. In August, EFE awarded Spain's Comsa group the first concession contract that falls under the investment plan. The 16-year contract entails rehabilitating and maintaining the rail network's northern zone (Zona Norte). This zone covers the Alameda-Limache, Limache-Puerto Valparaíso, Alameda-Talagante, Talagante-Barrancas and Paine-Talagante stretches for a total of 376km. Comsa submitted a bid of US\$ 32 million that corresponds to the rehabilitation works, which had a reference price of US\$ 38 million. The Spanish group will be paid a fixed payment plus a variable payment based on tons/km transported on the stretches.

*Business News Americas, September 8*

## METRO OPENS LINE 2 EXTENSION

Chilean capital Santiago's state-owned subway company Metro opened on September 7 a 1.6km extension of line 2, the government announced. The US\$ 58 million extension runs northward from station Cal y Canto, line 2's terminus before September 7, and includes stations Patronato and Cerro Blanco. Construction began in June 2001. In April, Metro launched the bidding process to carry out civil construction works on a 4.7km extension from Cerro Blanco, which entails the construction of Cementerios and Einstein stations, as well as inter-station works.

The 4.7km extension will run north to the Américo Vespucio beltway. Cementerios

and Einstein are two out of a total of five stations on this extension. The Metro (lines 1,2 and 5) moves some 203 million passengers a year. Construction of a US\$ 1.03 billion fourth line (line 4) began in 2002 and is due for completion late next year.

*Business News Americas, September 9*

## HYDRO APPROVAL IN CHILE

Renewable energy company Pacific Hydro (Australia) received Chilean environmental approval for two of its major hydroelectric projects in the South American nation. The company said a detailed environmental impact study had been approved for its 155 megawatt La Higuera and 145MW La Confluencia projects on the Tinguiririca River, about 140km from Santiago. The projects have an estimated cost of US\$ 260 million.

Pacific Hydro said this approval was the key requirement for construction and operation of the hydroelectric plant in Chile. Agreements with local landowners are progressing and there were no indigenous peoples in the area, Pacific Hydro managing director Jeff Harding said. "The approval marks further progress in the company's international expansion", he said. "Chile is an important market for the company, and our operating Coya and Pangal projects are delivering excellent returns".

Pacific Hydro and its joint venture partner Statkraft Norfund (Norway) have an exclusive option to buy the water rights, and this option is expected to be exercised later in the year. Hydro power generation projects were considered attractive alternatives to proposed natural gas-powered stations in Chile and as major providers of employment for local people, Pacific Hydro said.

The projects are also believed to be compatible with the region's existing tourism, wine and agricultural industries and as a means of opening further tourism development. Pacific Hydro has said it intends to seek further acquisitions in Chile, a country with a power market growing at a steady 7% a year and with a preference for hydro.

The company has more than 2000MW of hydroelectric and wind farm projects at varying stages of development across Australia, the Philippines, Fiji and Chile.

*Herald Sun (Australia), September 15*

## NAVY DISCOVERS GAS HYDRATES OFF CONCEPCION COAST

The Chilean and US navies have extracted for the first time traces of methane hydrates - frozen methane and water - from the waters off the coast of southern Chile's city of Concepción. The discovery was made on October 17 at a distance of 72km from the coast in water depths of 780 meters. Methane hydrates were discovered two years ago and on-going studies have shown there are sizable reserves between Valdivia (in Region X) and Valparaíso (Region V). The discovery has led to expectations of gas production in no more than 10 years, the team's geophysicist leader Juan Díaz said.

Previous expeditions had detected methane hydrates from Valparaíso as far south as Magallanes, but "now we have found pure gas hydrates off the coast of Concepción in an area that has the highest concentration", Díaz said. Chile's economy minister Jorge Rodríguez said earlier this year that the discovery could transform Chile into a gas exporting country in the long-term. Chilean scientists will present a new methane hydrates exploration project to the government's science and technology fund (Fondef) to keep investigating the gas hydrates in the next "couple of weeks".

*Business News America*, October 25

## INDIA, CHILE PLAN TO SIGN TRADE AGREEMENT

Indian exporters to Chile can soon look for some sops. The Latin American nation is in the process of signing a Preferential Trade Agreement (PTA) with India. The agreement is expected to be signed by the two nations sometime in January 2005 when Chile's President, Ricardo Lagos, will be on his maiden visit to India.

"The PTA will act as an important foundation for improving bilateral ties between the two nations. Union minister of state for commerce and industry, SS Palanimanikkam, has recently confirmed India's stand on the issue. A negotiation session is slated in October in New Delhi", said Jorge Heine, Ambassador of Republic of Chile to India. Heine was speaking at an

interactive session organized by the Confederation of Indian Industry (CII).

Though the final list of products for the PTA is yet to be finalized, India has identified about 300 products and Chile about 800 products. "We are expecting to sign the PTA with India sometime in mid-January when our President will visit India", Heine added.

President Lagos' visit to India is seen as an important step towards improving bilateral ties between the two nations. This will also be the first visit by any Chilean President to India. Chile's export to India have grown five times from 1998 to 2003. While it was about US\$ 50 million in 1998, the exports grew to US\$ 230 million in 2003. As of May 2004, Chile has exported close to US\$ 200 million-worth of goods to India. India's exports to Chile stand at US\$ 70 million in 2003.

The PTA will decrease the gap in the balance of trade between the two nations. "While copper accounts for 90% of Chile's exports to India, we are now diversifying into other product segments like wine, fish meal, fish and wood products. India's exports include products like cars, drugs and chemicals, IT services and textiles. In fact, retailers in Chile regularly organize 'India Week' to sell Indian dresses and products which are in good demand", Heine said.

Heine said that i-Flex recently won a US\$ 10 million contract from one of Chile's oldest bank, Bank of Chile. Similarly, Maruti has targeted to sell about 20,000 cars in Chile by the year-end.

*The Economic Times (India)*, September 22

## CHILE, YET ANOTHER LINK IN IDENTA'S CHAIN OF SUCCESS

India's Identa Corp. announced that it successfully marketed and begun selling its drug detector kits in Chile. After many months of ongoing work and effort through a local company that was granted a license to sell Identa products, the company received an initial order for several thousand kits. The order is for Policía de Investigaciones de Santiago, which recently conducted a successful trial of Identa products. Following the successful trial, Identa received its first significant order in from Chile.

In 2005 the use of Identa kits will be expanded to all units of the Policía de

Investigaciones in Chile. Chances are good that Identa will be able to expand use of the kits to other professional agencies in Chile. Identa has made progress in penetrating its products to the branches of the Chilean military as well as to a small chain of drug stores (approximately 80 stores) and the Chilean Ministry of Education.

Identa Corp. develops, manufactures, and distributes proprietary on-site drugs-of-abuse testing products (chemical kit) for the professional and civil markets. The Company's products include rapid test kits (substance only) for the detection of Marijuana/Hashish, Ecstasy, Cocaine/Crack, and Heroin.

*Identa Corp. (Press Release)*, October 14

## RECORD FISHERIES EXPORTS

Chilean fisheries exports reached US\$ 1.5 billion during the first seven months of 2004, a 12.8% increase over the same period last year indicating that the US\$ 2.5 billion target for the whole twelve months can be achieved, reported the Fisheries National Society, SNP.

Molluscs and shellfish were the most dynamic item with a 38.5% increase totaling US\$ 93.7 million. Frozen fish sales expanded 21.3% from US\$ 620 million to US\$ 752 million. Canned fisheries grew 13.1% reaching US\$ 95 million.

Fish meal exports in the first seven months totaled 340,677 tons, equivalent to 42% of all fisheries exports. The ton of fish meal last July was selling at an average US\$ 680 the ton, which is a 10.9% increase over the same period in 2003.

SNP also reported that a joint Chilean-Peruvian trade mission who visited the main European capitals had returned after strongly lobbying against EU restrictions on feeding fish meal to ruminants. The ban was imposed in 2001 as a direct consequence of the "mad cow" epidemics that swept Europe at the time.

The ministerial level delegation also included representatives from the Chilean and Peruvian private fisheries sector. Peru and Chile are the world's main suppliers of fish meal.

*Mercopress*, October 5

## CHILE IN THE EYES OF WALL STREET

*The following are excerpts from Wall Street Investment Banks' reports on Chile:*

*From Goldman Sachs' "Latin America Economic Analyst", October 8*

The Ministry of Finance unveiled the 2005 budget, which will be oriented towards job creation by giving priority to labor-intensive public investment projects and programs. The budget is consistent with a 1% structural surplus (i.e., adjusted for the real business cycle and above average copper prices). Fiscal policy remains solid. Real activity remains strong. Real GDP (proxied by the IMACEC) increased by 7.4% yoy in August and industrial production grew 9.0% yoy. The tradable goods sector of the economy continues to drive the growth cycle as the non-tradable sectors are still affected by a sluggish labor market.

Consumer prices, headline and core, increased by 0.1% in September. Year-on-year inflation dropped: headline to 1.5%, and core to 1.1%. Both are still below the 2004 inflation target, which reduces the pressure on the Central Bank to be more aggressive in removing the accommodative bias of monetary policy.

*From UBS's "Latin American Economic Perspectives", October 15 & October 22*

- At its October monetary policy meeting, the Central Bank opted to leave its target interbank lending rate unchanged at 2.0%. The decision followed a 25 bp rate hike in September that ended a four-year easing cycle. The easing cycle had come to an end because the Bank determined that, given the greater than expected strength in the economy and the faster than expected speed at which inflation was normalizing, the time had come to remove the significant accommodation in the system. However, in October, the Bank interrupted its tightening cycle, saying that even though the pace of economic growth

was strong, except for the effects of high international prices for energy, inflation remained subdued. This could be seen, according to the Bank, in core inflation, labor costs, and import prices ex-energy. For that reason, the Bank decided to leave rates unchanged in October. However, even though the Bank kept rates on hold in October, we still believe that the direction of rates (higher) is clear. Given the most recent inflation measures, the Bank is under no pressure to act rapidly. Even so, we expect the Bank to continue to remove the monetary stimulus, as it indicated it would, with the pace of adjustment depending on the macroeconomic data flow. We expect the adjustment process to bring the target interbank lending rate to 2.5% over the next six months, and more likely, by year-end.

- In our view, the results of the municipal elections to take place on October 31 will be important mostly for what they suggest about the presidential and congressional elections to be held in December 2005. The municipal election results are expected to be close, but the prospects for the ruling center left coalition, Concertación, are better now than they appeared to be last year, possibly because of gains made on the national level in health care and constitutional reform. We will be watching to see if the Concertación coalition can win more than the 48-49% share of the vote now predicted by the polls.

*From Credit Suisse First Boston's "Debt Trading Monthly", October 15*

We maintain a positive view on Chile, short- and medium-term, but we continue to see limited potential for its sovereign bonds to outperform, as their already tight yield spreads over comparable US treasuries remain near record lows. We continue to see Chile's sovereign bonds as a safe haven during times of EM turmoil (clearly not the current environment) given their high ratings and

scarcity value. The government's recent announcement that it will not tap the external debt market in 2005 should add support to prices in the event of a sell-off, which we do not currently foresee.

We expect Chile's macroeconomic performance to remain strong in upcoming quarters, notwithstanding the recent return of a monetary tightening cycle and some weakness in copper prices. We anticipate real GDP growth to remain near 5.0% in upcoming quarters, which should gradually contribute to the closing of the output gap. In our opinion, Chile's main macro problem continues to be the high unemployment rate, but the government is addressing this as its top priority in its 2005 budget proposal, while adhering to the fiscal surplus structural rule. Meanwhile, the Central Bank's recent decision to leave the monetary policy reference rate unchanged at 2.0% in October may lead some observers to re-assess forecasts about the speed of the tightening cycle. We still view this as a gradual process that is likely to be accomplished within twelve to eighteen months, as core inflation remains unexpectedly low near 1.0% in September.

In the near term, we expect the main discussions on the economic front to be related to the pace of the Central Bank's return to a neutral monetary stance and congressional approval of the 2005 budget proposal. Our central scenario is still that the Central Bank will tighten monetary policy by another 25 basis points before year-end, most likely in the November 11 meeting. Finally, congress will likely approve the 2005 budget proposal by the end of October without making many changes to the original proposal. Lastly, while Chileans will likely follow closely the outcome of the October 31 municipal elections, we do not expect this event to have a material impact on prices of Chilean assets.



## CHILE: BOTTLED WINE EXPORTS JUMP 19%

Exports of Chilean bottled wine jumped 19.2% between January and July this year, compared to the same period last year, to US\$ 363.3 million, according to the private Wine Producers' Trade Association Viñas de Chile.

Viñas de Chile, which is made up of 45 wineries, responsible for 90% of Chilean bottled wine exports, said the increase was made despite the US dollar devaluation in Chile.

There was also a rise in volumes of 17.8%, which amounted to 15,134,702 boxes of bottled wine. Concha y Toro remained the country's leading exporter.

*Just-drinks.com*, September 21

## CHILEAN WINES HOPE TO BECOME UK LEADER

The UK market currently receives 20% of Chilean wine exports, which in 2003 signified sales of US\$ 128 million. There were over 500 people at the Annual Trade Tasting among importers, distributors and specialized press, who were able to taste the wines too. "This country is the one that imports most wine in the world and it still has enormous potential. It's an expanding market from which Chile can benefit as it is in a very good position and growing at a rate of 15%", said Ricardo Letelier, Manager of Wines of Chile.

The entity was set up in July 2002 to strengthen the image of Chilean wine and represent wine producers interests. Since then it opened an office in London and has been able to increase the sale of wine significantly, obtaining a 6% share of the United Kingdom market and sixth place in the ranking of wines sold in the country.

During the first six months of 2004, sales increased 15% and Chile was among the three most mentioned countries by the specialist British press. Market studies show that Chilean wine has attained a better image in the eyes of the British consumer, who is prepared to spend more money on the products.

"In the long term we want to concentrate on the wine with greater added value, because it is the only way we can have a healthy industry. Partly because the more expensive wines are more profitable, but also because they allow us to cope better with fluctuating exchange rates", said Letelier.

The 89 participating vineyards in the Annual Trade Tasting included already well known firms in the United Kingdom such as Concha y Toro, Cono Sur, Valdivieso, Santa Rita and San Pedro and some top class ones such as Casa Marín and Leyda. "This event is important to us as it is the best place to meet purchasers and the specialist press", said Cristian López from Concha y Toro, the only Chilean make to be among the top twenty for value. Their aim is to be among the top ten.

*MercoPress*, September 16

## PRESERVING AN OLD-FOREST WILDERNESS AT THE ENDS OF THE EARTH

Tierra del Fuego is a harsh, desolate and unyielding place, hostile to most human endeavors. But from the ruins of a failed logging venture here at "the uttermost part of the earth", an innovative effort to manage and preserve the world's southernmost old-forest wilderness is about to begin.

The origins of the project, announced officially in the southern city of Punta Arenas (Region XII) on September 10, mark a departure from the way conservation is usually practiced here. Instead of the usual sponsorship by a government or university, the initiative is the result of a partnership between two American institutions, the New York investment banking and management firm Goldman Sachs and the Wildlife Conservation Society at the Bronx Zoo.

After Goldman Sachs acquired the logging operation in 2003, executives there wondered whether they "should seek to maximize its economic value, which is what we would have done if this were a shopping mall or an apartment building", or do something else, explained Larry Linden, an advisory director who supervised the project. In the end, he continued, "we decided to do what we thought was the right thing" and donate the land so as to allow it to return to a more natural state.

Successful economic logging would be damaging since trees grow slowly in the harsh environment. The tallest of the beech and evergreen trees that dominate local forests are little more than 60 feet high, which represents about 200 years of growth.

The reserve, which at more than 1,000 square miles is about the size of Rhode Island, occupies most of the central section of Chile's portion of Tierra del Fuego. Immediately to the east is the Argentine part of the island, while to the south, on the other side of the sound called Seno Almirantazgo but still in Chilean territory, is the spectacular Darwin Range of snow-capped mountains, which includes the imposing Marinelli glacier.

As is always the case in Patagonia, the project must take into account potential political pitfalls. In both Chile and Argentina, foreign-led efforts to preserve natural habitats are often viewed with suspicion, with some local people even convinced that such programs mean to wrest Patagonia from their control in order to establish an independent state.

To avoid such problems, the Wildlife Conservation Society, which has been involved in other projects in Patagonia since the 1960s, plans to administer the reserve here, as yet unnamed, in conjunction with an advisory council. Steven E. Sanderson, president of the Wildlife Conservation Society, said that while the exact composition of that group had not yet been determined, the majority of its members would be Chilean.

The new reserve's greatest value, suggest those who will be helping to administer it, may simply be that it exists. Though this may be a remote place studded with romantic associations, it faces many of the same threats that are bearing down on rare or unusual natural habitats all over the world.

"Tierra del Fuego has a mystique that has to do with history and all of the names we know so well, from Magellan and Drake to Darwin, with the lure of open spaces and the relative rarity of temperate forests, especially here in the Southern Hemisphere", Dr. Guillermo Harris, Southern Cone Coordinator for Wildlife Conservation Society, said. "It's important to make sure we don't lose that, and there is a real risk that we might if we're not careful".

*New York Times*, September 14

## THE TRAVELLER'S GUIDE TO CHILE'S WINE REGIONS

The Chilean poet Pablo Neruda may have described Chile as "gentle as the grape", but there is nothing gentle about the diversity of its landscape. Within this thin ribbon of land, 4,300km long and no more than 170km wide, the geographical and climactic differences are so great, it's the same as traveling from Norway to the Sahara. So, if you like your vineyards and wine tastings framed by spectacular backdrops, look no further.

It is widely believed that vines were first brought to Chile in 1548 by two Spanish friars -Bartholomé de Terrazas and Francisco de Carabantes- to celebrate Mass, although others attribute it to Juan Bohon, the founder of La Serena.

By the end of the 1850s, the founding fathers of the Chilean wine industry, who included Silvestre Ochagavía Echazarreta, brought French winemakers and grape varieties to Chile. Chile's natural geographical barriers -the Pacific Ocean, the Andes and the Atacama Desert- create some excellent grape-growing conditions. Combine this with cold winters, long hot summers and cool nights with infrequent frosts, and you have what is often referred to as a New World wine-makers dream.

The majority of wines produced in Chile are red from grape varieties such as Cabernet Sauvignon, Merlot, Syrah and Carmenere. A smaller percentage of white wine is produced using mainly Chardonnay and Sauvignon Blanc grapes, and increasingly there are plantings of aromatic varieties such as Riesling and Viognier.

The highest concentration of vineyards are located in Chile's central plain, north and south of the capital Santiago. Many of the regions are located in the valleys that spread out from the main highway that runs the length of Chile, the Panamericana. From north to south the main wine-producing valleys are: Elqui, Limari Valley, Aconcagua, Casablanca, San Antonio, Maipo, Cachapoal, Colchagua, Curicó, Maule, Itata, Bio-Bío and the most southerly, Malleco Valley, located 700km from Santiago.

Many of the vineyards are open to the public, although for some you will need to make an appointment. Several larger wineries have vineyards in more than one valley but usually welcome visitors in the main winery.

An increasing number of valleys are also organizing themselves into wine routes. These include the Ruta del Vino del Valle de Curicó ([www.rvvc.cl](http://www.rvvc.cl)), Ruta del Vino Colchagua ([www.colchaguavalley.cl](http://www.colchaguavalley.cl)), Ruta del Vino Casablanca ([www.casablancavalley.cl](http://www.casablancavalley.cl)), Ruta del Vino Aconcagua ([www.aconcaguavinos.cl](http://www.aconcaguavinos.cl)), Ruta del Vino Cachapoal ([www.cachapoalwineroute.com](http://www.cachapoalwineroute.com)) and Maule Valley Wine ([www.chilewineroute.cl](http://www.chilewineroute.cl)).

The closest vineyards to Chile's capital are those of the Maipo Valley, home to some of the most historic vineyards in the country. It is perhaps best described as Chile's answer to the French Medoc, producing some of the country's best Cabernet Sauvignon wines. Here you can visit some of the big names in Chilean wine such as Concha y Toro ([www.conchaytoro.cl](http://www.conchaytoro.cl)), Viña Santa Rita ([www.santarita.com](http://www.santarita.com)) and Undurraga ([www.undurraga.com](http://www.undurraga.com)). The first offers tours and tastings of its historic Casona de Pirque, built in 1875, and adjoining cellars. English-language tours are offered Monday-Friday 11.30am- 3.30pm and cost US\$ 6 per adult.

Two-and-a-half hours south of Santiago, the Colchagua Valley is often referred to as the Napa Valley of South America. The Colchagua's main route, Route 72, lined with fruit stalls selling whatever is in season, is dotted with grand haciendas in varying architectural styles, peeking through lush gardens and approached by grand avenues. The Colchagua's wine route, the Ruta del Vino Colchagua ([www.colchaguavalley.cl](http://www.colchaguavalley.cl)), is one of the most tourist-friendly wine routes: its guided tours combine visits to several vineyards including Casa Lapostolle ([www.casalapostolle.com](http://www.casalapostolle.com)), MontGras ([www.montgras.cl](http://www.montgras.cl)), and Viña Cono Sur ([www.conosur.com](http://www.conosur.com)). A full-day tour costs US\$ 147 per adult which includes three vineyards, lunch, a guide and transfers or US\$ 95 for two.

Visit the MontGras vineyard, a 200-hectare estate tucked in the San José Valley. Its visitor center is a colonial-style building with a tasting room, airy courtyards in the traditional Chilean hacienda style. Guided tours are available every day and cost US\$ 13. A memorable afternoon or evening can be spent horse-riding through its prestigious organically managed Ninquen vineyard situated on a high plateau facing the Andes. This costs US\$ 73 per adult, including guide and lunch or dinner on the vineyard. Book in advance.

The colonial settlement of Santa Cruz is the principal town of the Colchagua valley. The area's wine harvest is celebrated on the first weekend in March at the annual Fiesta de la Vendima, held in the Plaza de Armas. For a sense of the region's history visit the Colchagua Museum ([www.museocolchagua.cl](http://www.museocolchagua.cl)). This has an extensive and impressive collection of pre-Colombian art from all over South America as well as extensive colonial exhibits and agricultural machinery from times gone by. It opens daily 10am-7pm and admission costs US\$ 4.

The Casablanca wine region is located between Chile's capital Santiago and the coastal city of Valparaíso (Region V). Casablanca is one of Chile's main white wine producing areas and is home to vineyards such as Veramonte ([www.veramonte.com](http://www.veramonte.com)). For more details contact the Wine route of Casablanca ([www.casablancavalley.cl](http://www.casablancavalley.cl)).

This year also marks the 100<sup>th</sup> anniversary of the birth of one of Chile's best-loved poets, Pablo Neruda. Visit one of his homes, La Sebastiana, which has been converted into a small museum and also affords wonderful views of Valparaíso from Bellavista Hill ([www.lasebastiana-neruda.cl](http://www.lasebastiana-neruda.cl)). It opens daily except Monday, 10am-6pm, admission US\$ 3.

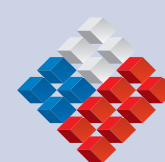
The vineyards of the Cachapoal Valley huddle in the foothills of the Andes, to the north of the Colchagua Valley. For details of specific vineyards contact the Ruta del Vino Cachapoal ([www.cachapoalwineroute.com](http://www.cachapoalwineroute.com)). This part of the central plains is also prime cowboy, or huaso, territory. Spend a night at the Hacienda Los Lingües ([www.loslingues.cl](http://www.loslingues.cl)). This is home the Aculeo Stable, established in 1760 and said to breed some of the finest horses in South America. The historic hacienda, which has been painstakingly renovated, accepts guests; rooms start from US\$ 396 double, without breakfast. It also offers guests the chance to visit local rodeos and go fly-fishing.

The Chilean Tourism Promotion Corporation offers a limited amount of tourism advice from its Santiago headquarters ([www.visitichile.org](http://www.visitichile.org)), though the Washington DC office may be more helpful if you do not speak Spanish. For specific information on wine, contact Wines of Chile at [www.winesofchile.org](http://www.winesofchile.org) or email: [info@winesofchile.org.uk](mailto:info@winesofchile.org.uk)

*The Independent-UK*, September 18

Between January and August of 2004, materialized Foreign Direct Investment totaled US\$ 5.2 billion. The Foreign Investment Statute (D.L. 600) channeled 87.2% of the inflows. The main recipient sectors of D.L. 600 FDI were Electricity, Gas & Water (47.9%); Transport &

Communications (38.7%); Mining (5.9%); and Industry (2.6%). During those months, materialized D.L. 600 FDI came mainly from Spain (87.1%); Mexico (3.1%); United Kingdom and Canada (2.1%) each; United States (1.9%) and Australia (1.8%).



Foreign Investment Committee  
Teatinos 120, 10<sup>th</sup> Floor  
Telephone: (562) 698 4254  
Fax: (562) 6989476  
[chileinvestment@cinver.cl](mailto:chileinvestment@cinver.cl)  
[www.doingbusinessinchile.cl](http://www.doingbusinessinchile.cl)

### FOREIGN DIRECT INVESTMENT REPORT / January - August 2004\* (in nominal US\$ million)

Instrument/Period	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Jan-Jun 2003	Jan-Jun 2004	Growth rate
FOREIGN INVESTMENT STATUTE (DL 600)													
- Equity Contributions	1,549.0	1,802.6	3,967.5	3,803.1	4,368.7	8,591.0	2,536.6	4,320.2	2,260.1	1,091.9	769.6	3,593.6	366.9%
- Other Capital	976.0	1,235.1	868.7	1,414.7	1,665.7	607.4	484.9	461.6	1,116.4	184.5	63.9	971.4	1420.2%
MATERIALIZED INVESTMENT (DL 600) (1)	2,525.0	3,037.7	4,836.2	5,217.8	6,034.4	9,198.4	3,021.5	4,781.8	3,376.5	1,276.4	833.5	4,565.0	447.7%
CHAPTER XIV													
- Equity Contributions	410.2	409.5	441.6	920.6	539.3	688.8	653.7	737.5	442.4	1,188.6	614.7	520.0	-15.4%
- Other capital							875.9	172.8	111.0	111.4	81.1	152.0	87.4%
TOTAL INVESTMENT CHAPTER XIV (2)	410.2	409.5	441.6	920.6	539.3	688.8	1,529.6	910.3	553.4	1,300.0	695.8	672.0	-3.4%
<b>TOTAL F.D.I. MATERIALIZED (DL 600 + Chapter XIV)</b>	<b>2,935.2</b>	<b>3,447.2</b>	<b>5,277.8</b>	<b>6,138.4</b>	<b>6,573.7</b>	<b>9,887.2</b>	<b>4,551.1</b>	<b>5,692.1</b>	<b>3,929.9</b>	<b>2,576.4</b>	<b>1,529.3</b>	<b>5,237.0</b>	<b>242.4%</b>
REMITTANCES													
- DL 600 (1)	208.9	656.2	553.2	746.2	569.4	1,226.1	1,181.1	1,336.3	3,240.1	885.3	400.7	3,658.9	813.1%
- Equity	49.4	392.6	303.4	354.9	119.9	234.0	462.7	665.8	1,712.1	248.2	46.7	2,916.6	6145.4%
- Other capital	159.5	263.6	249.8	391.3	449.5	992.1	718.4	670.5	1,528.0	637.1	354.0	742.3	109.7%
- CHAPTER XIV (Equity) (2)	10.1	3.5	30.2	20.6	323.9	47.8	168.4	460.5	270.0	387.3	282.0	616.6	118.7%
- Equity	10.1	3.5	30.2	20.6	323.9	47.8	78.6	282.2	32.0	20.3	4.8	408.8	8416.7%
- Other capital							89.8	178.3	238.0	367.0	277.2	207.8	-25.0%
<b>TOTAL REMITTANCES (DL 600 + Chapter XIV)</b>	<b>219.0</b>	<b>659.7</b>	<b>583.4</b>	<b>766.8</b>	<b>893.3</b>	<b>1,273.9</b>	<b>1,349.5</b>	<b>1,796.8</b>	<b>3,510.1</b>	<b>1,272.6</b>	<b>682.7</b>	<b>4,275.5</b>	<b>526.3%</b>

(1) Source: Foreign Investment Committee

(2) Source: Central Bank of Chile, figures for Other capital are not available for the period 1993-1999

\* Provisional figures as of August 31, 2004

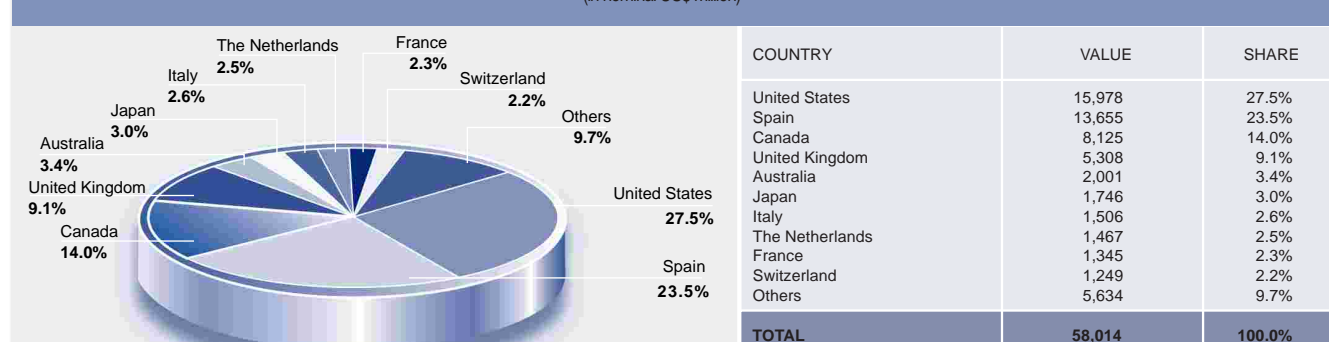
### MATERIALIZED FOREIGN INVESTMENT UNDER THE FOREIGN INVESTMENT STATUTE (D.L. 600) BY SECTOR 1974-2004\* (in nominal US\$ million)

SECTOR/PERIOD	74-96	1997	1998	1999	2000	2001	2002*	2003*	2004*	TOTAL
Agriculture and Livestock	178	14	13	21	23	10	2	0	0	261
Fishing and Aquaculture	169	12	8	0	92	5	0	10	0	296
Forestry	153	29	38	17	4	1	1	1	0	244
Mining	9,570	1,703	2,465	1,350	243	958	1,999	383	269	18,940
Industry	3,662	627	530	828	241	754	209	234	118	7,203
Electricity, Gas & Water	478	1,395	495	4,540	860	908	473	150	2,187	11,486
Construction	323	114	279	211	29	164	138	27	115	1,400
Transport and Communications	1,370	177	224	374	870	1,281	336	340	1,765	6,737
Wholesale and Retail Trade	385	272	190	86	117	110	82	43	17	1,302
Financial Services	3,346	483	821	950	263	121	59	44	8	6,095
Insurance	373	250	702	208	90	265	20	4	49	1,961
Other Services	532	143	271	614	190	205	58	39	37	2,089
<b>TOTAL</b>	<b>20,539</b>	<b>5,219</b>	<b>6,036</b>	<b>9,199</b>	<b>3,022</b>	<b>4,782</b>	<b>3,377</b>	<b>1,275</b>	<b>4,565</b>	<b>58,014</b>

Note: Materialized investments include amounts authorized each year and in all forms accepted under the Foreign Investment Statute  
Source: Foreign Investment Committee

\* Provisional figures as of August 31, 2004

### MATERIALIZED FOREIGN INVESTMENT UNDER THE FOREIGN INVESTMENT STATUTE (D.L. 600) BY COUNTRY OF ORIGIN 1974-2004\* (in nominal US\$ million)



Source: Foreign Investment Committee

\*Provisional figures as of August 31, 2004