

# Chile

# INVESTMENT REVIEW

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## PRESIDENT LAGOS NAMED TRADE LEADER OF THE YEAR

Chilean President, Ricardo Lagos; Salvadoran President, Francisco Flores Pérez; and Dell Computer CEO, Michael Dell are among the trade and business leaders to receive the Eighth Annual Bravo Business Awards from Latin Trade magazine. All of the Bravo winners share a common concern for their constituents and clients, as well as a strong belief in integration and innovation.

The list of Bravo candidates was long. Nearly half a million Latin Trade readers worldwide nominated a broad array of Latin American leaders in government, business, finance and technology, as well as mavericks in environmental and humanitarian fields. Latin Trade narrowed the field, consulting with international executives, government officials and leading academics. Finally, it whittled down the list of finalists and chose this year's recipients of the Latin Trade Bravo Business Awards for their leadership and their contributions to progress in Latin America.

Chile is the oldest and most strident supporter of free markets in Latin America, but President Ricardo Lagos is taking the country's policies to new heights with agreements in 2002 with the European Union and, most likely, the United States.

**Achievements:** President Lagos has guided Chile's steady growth since taking power in 2000. During 2002, he forged free trade agreements with the European Union, Costa Rica and El Salvador, as well as an automotive accord with Argentina to cut tariffs to zero by 2006. Lagos will likely sign a trade pact with the United States before the end of the year.

**Future:** Free trade deals in the works with South Korea and the European Free Trade Association (EFTA), plus a US\$ 3 billion health care reform.

*Latin Trade*, October 2002

## MINISTER OF FINANCE ACCEPTS TRADE LEADER OF THE YEAR AWARD FOR PRESIDENT LAGOS IN MIAMI

The Lagos government has continued to win international accolades for following market policies that please Wall Street and Washington. Chilean Minister of Finance, Nicolás Eyzaguirre, was in Miami October 25 to accept the *Latin Trade Bravo Award* for Lagos, who was named trade leader of the year by the magazine.

Despite the drop in world commerce, falling domestic demand and a slowdown in foreign investment, Chile has managed to maintain its economic growth path, a task made more difficult because of the country's dependence on trade, which has dropped.

"From the government's perspective, we ask ourselves how we have managed to keep growing", Eyzaguirre said, adding that the current circumstances would have triggered a recession in the past. To illustrate the problem, the Minister of Finance noted that Chile's volume of exports had jumped by 50% since 1997, but the value was just the same because of falling world prices for commodities.

But because the government had made national savings during goods times, it had money to spend to counteract the recessionary tendencies today. Chile forecasts its 2002 economic growth will top 2%.

Eyzaguirre, former International Monetary Fund Director, has first-hand experience reining in the jitters of world financial markets that are spooked over the debut of a leftist-leaning government in the midst of economic problems. So he had some advice for the new President of Brazil, Luiz Inácio Lula da Silva.

Cutting Brazilian government spending will make investors more confident in Brazil and lower the interest rates that Brazil pays its creditors. This in turn would slash the cost of financing the debt, saving the government enormous expenditures and averting default on the debt. "The upside is so great", Eyzaguirre added.

Latin American countries are also focused on the outcome in Brazil because market turbulence there has been felt around the hemisphere. But Eyzaguirre said Brazil, which now has a debt two-thirds the size of its entire economic output, will need more help from lending agencies such as the International Monetary Fund and private bankers to avert fears of forcing a debt rescheduling.

Eyzaguirre said the center-left government of Chilean President Ricardo Lagos faced similar problems when it took office in 2000, with Wall Street skeptical about a large budget deficit. But taking its cue from Prime Minister Tony Blair's Labor government in Britain and exercising prudence in spending paid off. "They had to build a reputation. We did exactly the same thing", Eyzaguirre said. "Since then we have had the confidence of the markets", he said. "That is what we want for Lula".

*Miami Herald*, October 26

## KOREA & CHILE REACH FREE TRADE AGREEMENT

South Korea said it had reached a free trade agreement (FTA) with Chile, the first such pact for the world's 11th largest economy, paving the way for widening tariff-free transactions and globalization.

The deal was particularly significant as Seoul was currently holding similar trade talks with Japan and planned to approach Mexico, Singapore and other Asian nations to agree duty-free trade in the future, a Foreign Ministry official said. "It is an important milestone in Korea's economic and foreign policies and a step forward in its globalization", said Song Ki-jae, an economist at the Korea Institute for Industrial Economics and Trade.

Overnight the two countries wrapped up week-long meetings in Geneva, the sixth round of talks since they agreed to open trade negotiations in September 1999. "The FTA with Chile will provide a springboard (for South Korea) to advance into Latin America", the Ministry said in a prepared statement. "It will also help accelerate the pace of ongoing talks with Japan and other countries".

Under the agreement, Korean exporters of electronics, autos and mobile phones could actively make inroads into Chile and other Latin American countries, although washing machines and refrigerators were excluded from the duty-free list. For example, 7% duty on imported cars from South Korea will be lifted, sharpening their price competitiveness against products from rival Japan and others.

The final agreement is expected to take effect in the first half of 2003 after the two country's parliaments approve the FTA. About 66% of South Korean exports, including passenger cars, computers and mobile phones, will immediately be exempted from tariffs and the rest over a 10-year period.

*Reuters, October 24*

## SINGAPORE, NEW ZEALAND, CHILE TO START TALKS ON TRILATERAL FTA

Singapore, New Zealand and Chile have agreed to begin negotiations on a trilateral free

trade agreement (FTA), leaders from the three countries announced on Saturday 26.

The three countries will meet in the first half of next year to establish a structure for the talks, which will officially begin in the second half of 2003. If all goes well, they will be able to sign the so-called closer economic partnership agreement when Chile hosts the APEC economic leaders' meeting in 2004.

This will be the first time three countries in three different continents are negotiating a trade pact. A successful conclusion would put the economies further on the path of a "Pacific Five" free trade area, comprising Singapore, New Zealand, Chile, the US and Australia. All five members either have FTAs signed or are in different stages of bilateral FTA negotiations.

Singapore and Chile's trade volume in the last two years has been relatively small, ranging between US\$ 100 million to US\$ 150 million yearly. Chile's biggest exports to Singapore are copper, fruits and nuts, wine products and seafood, while Singapore exports machinery and electronics items. The two countries' trade development organizations also have a memorandum of understanding in cooperation between small and medium enterprises.

Since Chile's exports to Singapore are already tariff-free, an FTA between the two is more likely to have the effect of boosting trade volumes, especially in food items. Chile is the world's second-largest exporter of salmon after Norway. The agreement will also likely jump-start business and investment activities between the two countries, with both acting as stepping stones to the wider South-east Asian and Latin American markets.

Chile and New Zealand, whose own negotiations will also begin at that time, are just now ironing out one of their biggest bilateral issues - agriculture. The two are working on an agreement on primary industry cooperation, allowing for investments, joint ventures, expertise sharing, research and other efforts in agricultural industries.

Calling the decision to start trilateral talks a "very important historical moment", Chilean President Ricardo Lagos told reporters: "We look forward to the negotiations, for a happy end to the negotiations, which sometimes can be a

little bit difficult, but I am sure we are going to get".

New Zealand Prime Minister Helen Clark said the discussions would lead to a "strategic agreement which ranged across the Pacific, and a model agreement which would be one for other APEC economies to look at as we move towards our 2010 goals". By 2010, APEC members expect to have free trade in goods and services among developed member economies. This will expand to cover all APEC economies by 2020.

Minister of Trade and Industry George Yeo, who is representing Prime Minister Goh Chok Tong, called the potential trilateral agreement an "antipodal" FTA, referring to the linking of two countries on opposite sides of the globe. Yeo said the agreement "will create jobs, open up new opportunities for businessmen, and build upon a very successful free trade agreement we have had with New Zealand".

*The Business Times (Singapore), October 28*

## RUSSIA AND CHILE TO BOOST TRADE AND ECONOMIC COOPERATION

Russia and Chile are going to create an intergovernmental commission for trade and economic development, according to an announcement made by the Russian President's press office.

After talks in Moscow with his Chilean counterpart Ricardo Lagos, President Vladimir Putin remarked that there were excellent prospects for collaborative work in the spheres of high technology, space research and atomic energy, as well as in the non-ferrous metallurgy, mining, energy and transport sectors.

According to the Russian President, Chile is "the most stable country in Latin America in political and financial-economic spheres". It sets "a good example to Russia". Putin also expressed hope that the visit "by such a representative Chilean delegation" to Russia "will boost bilateral relations", taking account all the good prospects, especially "traditional friendly relations" between the two countries and Chile's stable development.

*Pravda, October 4*

## GOVERNMENT REPORT UNDERLINES LOW LEVEL OF PUBLIC DEBT

On October 18, Minister of Finance Nicolás Eyzaguirre presented a detailed report on Chile's public debt. The report - designed to provide analysts, investors, academics and the general public with a clearer understanding of the country's debt situation - brought together figures that were previously available from different publications, issued by the Central Bank and the Ministry of Finance. Covering the period from 1989 to June 2002, the report includes details of the assets and liabilities of the central government, the Central Bank and other relevant public institutions.

The report shows that general government debt - which, in Chile, where local governments are not allowed to issue debt, is the same as central government debt - totaled 17% of GDP in gross terms as of June 2002, down from 44% in 1989.

This represented a slight rise on a low of 13% in 1998. However, two thirds of the increase was explained by the depreciation of the Chilean peso. Dollar-denominated debt, raised from Central Bank, represents 58% of the central government's liabilities and the increase in their value was offset by a corresponding rise in the value of the Central Bank's assets.

Chile's central government debt compares favorably with levels seen in other countries. In 2001, the public debt of the OECD countries represented an average 73% of GDP, while figures in emerging markets ranged from 24% to 70%.

However, net general government debt - discounting the value of the government's assets - provides a better measure of financial exposure. In Chile's case, this totaled 10.7% of GDP in June 2002, down from 40.1% in 1989.

As of June 2002, the Central Bank

had net assets equivalent to 1.5% of GDP. As a result, if the Central Bank is consolidated with the general government, Chile's net public debt drops to 9.1% of GDP, as compared with 43.3% in 1989. Since the Central Bank became autonomous in 1989, it has not undertaken quasi-fiscal operations. However, part of its present liabilities date back to the last operation of this type, carried out during a financial crisis in 1983.

In June 2002, the net financial debt of state companies represented 5% of GDP. However, the government-guaranteed liabilities of state companies amounted to only 1% of GDP.

In order to facilitate ongoing access to fiscal data, the government plans to increase the frequency of its publications. As from 2003, updates on budget implementation will be released monthly, instead of quarterly.

In addition, the Budget Office will issue a quarterly report on the fiscal balance, tax revenue and the general government debt, as well as consolidated accounts for state companies. With technical assistance from the International Monetary Fund, it is also designing a comprehensive annual report on public finances, of which the first is scheduled to be available in June 2003.

*Ministry of Finance (Press Release), October 18*

## CANADA, CHILE AGREE TO FURTHER EXPAND AGRICULTURAL TRADE

Ongoing agricultural trade between Canada and Chile and ways to expand opportunities in this sector were discussed between Agriculture and Agri-Food Canada Minister, Lyle Vanclief, and Chilean Minister of Agriculture, Jaime Campos, during bilateral meetings held in Santiago on October 14.

Agricultural trade between Canada and Chile has grown significantly over the past

several years and will continue to do so as both countries work together to further open markets for business, Vanclief said. During their meeting, Minister Campos confirmed his interest in negotiating a Memorandum of Understanding that would pave the way for exports of Canadian beef to Chile.

Vanclief and Minister Campos also discussed Canada's review of Chile's inspection system for pork and poultry. Vanclief indicated to Minister Campos that Canada would soon be in a position to recognize Chilean inspection systems on poultry. The approval process for exports of pork is in the final stages and both Ministers instructed officials to finalize the remaining outstanding technical issues.

Under the Canada-Chile Free Trade Agreement, a sanitary and phytosanitary committee will be formed. The committee will advance discussions on technical issues to ensure a smooth flow of trade between the two countries.

This year marks the fifth anniversary of the Canada-Chile Free Trade Agreement, which is recognized as one of the most successful bilateral relationships in the Americas. In terms of cooperation, Canada has assisted Chile to develop a farm income safety net program and will help Chile create a crop insurance program. This will assist Chilean farmers to better manage the risk of farming and secure economic growth.

Vanclief said since 1997, when the Canada-Chile Free Trade Agreement was introduced, bilateral trade between Canada and Chile has increased 33% to US\$ 1.25 billion. Canada's top export to Chile is durum wheat. With the advent of the free trade agreement, Canadian exports to Chile of pulses, pet food and canary seed have risen dramatically.

Chile is Canada's second-largest supplier of fruits and nuts after the US. Last year, Canada imported over US\$ 160 million worth of apples, nectarines, plums, kiwi, raspberries and cranberries, among other fruit.

*Resource News International, October 16*

**COLLAHUASI'S  
UJINA-ROSARIO  
TRANSITION PROJECT**

The Board of Directors of copper mine *Compañía Minera Doña Inés de Collahuasi* (in Region I) approved the construction of a new grinding circuit at its Ujina concentrator. This is part of the Ujina to Rosario transition project, which also involves transferring mine production from the Ujina to the Rosario orebody. Mine development activities are already underway and the construction of the new grinding circuit and related facilities will start in the fourth quarter of 2002.

It is forecast that the modified concentrator will start milling ore from Rosario in June 2004. The project will increase Collahuasi's concentrator throughput design capacity to 110,000 tons per day from 60,000 tons per day and will compensate the expected decline in ore grade, thereby enabling Collahuasi to maintain copper production at approximately current levels. The total capital cost of the transition and concentrator expansion project is estimated at US\$ 654 million.

### **Questions & Answers**

***Do you expect the transition project to adversely affect an already weak copper market? Why is Collahuasi expanding while other producers appear to be cutting production?***

The transition project considers an expansion of the ore treatment capacity and will not result in a material increase in copper production when compared to current levels. The expansion of the concentrator will compensate the future decline in copper ore grade and maintain the current copper production of approximately 450,000 tons per year. The project will be completed in mid-2004, by when we expect copper demand to have recovered significantly.

There will therefore be no negative impact on the copper supply/demand balance. In the immediate future, Collahuasi's copper production will decline due to the lower ore grade, especially in 2003 and the first half of 2004.

***How much milling capacity is being added by the project?***

The new grinding circuit will increase mill design treatment capacity from currently 60,000 tons per day to 110,000 tpd.

***This is significant increase in milling capacity. Why will there be no increase in Copper production?***

Because ore grade is anticipated to decline from 1.8-2.0% at present to approximately 1.2%.

***Why is mine production being shifted from Ujina to Rosario?***

Because by 2004 Collahuasi will have depleted the high grade ore reserves of its Ujina orebody. Remaining reserves in Ujina at that time will still be very substantial, but of a lower grade than those of the Rosario deposit. The Rosario reserves are also significantly larger than Ujina, thereby permitting a very long mine life, even at the higher ore treatment rate of 110,000 tpd.

***What is the investment in the transition project?***

The total cost of the project is estimated at US\$ 654 million, including the cost of pre stripping.

***Why would Collahuasi invest US\$ 654 million if there is no increase in copper production?***

Without the transition project and as highlighted in the original feasibility study, Collahuasi's copper production

would decline markedly, eventually reaching levels of approximately 200,000 tons per year. The transition project enables Collahuasi to maintain its present production of approximately 450,000 tons per year.

***How is the transition project being financed?***

A combination of internally generated cash flow and a new debt facility provided by Kreditanstalt für Wiederaufbau, Export Development Canada, and El Cobre Ltd.

***Who will build the project?***

Pre-stripping of the Rosario orebody and construction of mining-related infrastructure will be executed and managed by Collahuasi. The modifications at the concentrator and related facilities will be executed by Bechtel under an EPC contract.

***What will be the environmental impact of the project?***

The EIA of the Ujina-Rosario transition, which was approved in 2001, demonstrates that the impact of the project will be minimal and properly addressed in accordance with the high environmental standards adopted since start-up of commercial operations in 1999.

***What will be the impact of the project on employment?***

At the peak of construction, a workforce of approximately 4,500 will be required. Collahuasi will encourage the hiring of workers from Chile's Region I, which presently has high unemployment. There will be a modest increase in operating staff.

*Collahuasi (Press Release), October 21*

## CHILE IN THE EYES OF WALL STREET

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

*From UBS Warburg's "Latin American Economic & Strategy Perspectives", October 2002:*

- **It is no surprise that Chile, the most open economy in the region, has been significantly affected by the adverse regional and global economic shocks.** The Argentina and Brazilian shocks brought financial and real contagion with it, and the still uncertain global economic recovery plays a direct effect in the Chilean economy through trade and capital flows.

- **As long as global recovery falters, the Chilean economy is likely to falter as well.** What is surprising, however, is the fact that local expectations continue fragile, despite the Administration's strong and enduring popularity. That is somewhat troublesome, because it may prevent the economy from growing at high levels when and if the global environment is restored. **Note that we revised our macro economic forecasts, and we now expect GDP to grow 2% this year and 3.3% in 2003, with a weaker peso, slightly higher inflation, and a smaller current account deficit.**

- **In its September Monetary Policy Report, the Central Bank lowered its GDP growth estimates for 2002 and 2003, the third consecutive downward revision this year. The revision was driven by the significant deterioration in the global outlook, which is relevant for Chile's open economy. The Central Bank expects this year's GDP growth to be in the +2 -2.5% range, compared to the previous +3% outlook. Similarly, the 2003 GDP forecast was lowered to 3.5-4.5% from 5.8%, recovering to approximately 5% growth by 2004. The Chilean economy has been hit this year by contagion from Argentina and Brazil (both real and financial), as well as by the slower-than-expected recovery**

in the US. While (adverse) external factors play a major role, weak domestic confidence also contributes to the relatively weak recovery.

- **As mentioned above, we think GDP this year will be closer to 2% than 2.5%, with weak 3Q internal demand.** Note that even the Central Bank recognizes that first semester growth was based largely on inventory accumulation due to decelerating sales during the period. Going forward, the Central Bank believes that GDP growth will improve, helped by a gradual recovery in international macro fundamentals, and the impulse from monetary policy. Recall that the Central Bank has eased continuously this year to reach the current 3% nominal rate.

- The Central Bank also expects a current account deficit of 0.5% of GDP this year, compared to 1.9% of GDP in 2001, and a similar external deficit in 2003, at 0.3% of GDP. Meanwhile, inflation this year is expected to end slightly higher than 3%, which is higher than the May forecast of 2.5%, the result of continued currency depreciation and its effects on fuel prices and regulated services prices. Consensus expectations have also fallen sharply over the last month, driven by the deteriorating external environment. **This deterioration, combined with lack of pro-active policy options, recent retrenchment in copper prices, high oil prices, and ongoing regional uncertainty, underpins our low growth scenario prospect.** The latest monthly economic expectations survey shows a sharp fall in GDP expectations for 2002 and 2003.

*From Crédit Suisse First Boston's "Emerging Markets Economics", September 30:*

- **Outlook is not as bad as Chileans think:** Chile's fundamentals remain the soundest in Latin America, despite subpar growth in 2001-2002. **We project a gradual acceleration in economic growth to**

**continue to be led by the external sector.** The government remains committed to fiscal discipline, notwithstanding the temptation to stimulate the economy through fiscal spending. This commitment is generally shared by the private sector and by opposition parties, despite their persistent frustration about the economic downturn. **External imbalances are narrowing as a result of low growth and of reduced capital availability from abroad.** Currency weakness is more a reflection of regional jitters and record low interest rates, than of external imbalances. Potential for further peso weakness should keep monetary policy on hold, in our opinion. We anticipate some progress on the structural reform agenda before year-end, particularly on initiatives affecting the labor market and the health system. **Benefits from other initiatives, including free-trade agreements and changes in the local fixed-income market, should support a higher sovereign rating over the medium term.**

- **Growth in Chile remains below potential, despite the fiscal and monetary easing in recent quarters. Like other economies in the region, the Chilean economy appears increasingly dependent on a global recovery.** We now expect GDP growth to reach 2.4% in 2002, compared to our previous forecast of 2.9%. We are also reducing our growth forecast for 2003 from 4.5% to 3.8%. We note external demand has buffered the downturn in domestic demand, which has posted negative year-on-year growth during the last five quarters. Investment continues to suffer from a lack of domestic confidence, lower investment inflows from abroad and excess installed capacity across sectors. We are projecting yoy growth of 0.7% in fixed investment this year, down from 2.0% growth in 2001. Meanwhile, growth in private consumption remains weak, as fears of further job losses and lack of confidence about the economic outlook have generally offset the

## CHILE IN THE EYES OF WALL STREET

benefits to consumers from falling interest rates.

- We expect private consumption to fall by 0.3% yoy in 2002. Finally, the fiscal stimulus that was particularly evident in the first half of the year should moderate in coming quarters.

- **The government now intends to keep this year's fiscal deficit at 1.0% of GDP. To meet this, it recently announced spending cuts worth approximately 1.5% of this year's budget. The lack of opposition to this measure highlights, in our view, the country's overall commitment to sound fiscal policies.** This is particularly notable in the current low growth environment. This year's budget originally called for a deficit of 0.3% of GDP, which was subsequently revised to a deficit of 0.7%, and more recently to 1.0%. In the first half of the year, revenues fell 2.1% year-on-year, while expenditures were up 7.6%; these rates compare to the government's original estimates of 4.8% real growth in revenues and 4.9% growth in expenditures.

- **Though inflationary pressures are non-existent, further interest rate cuts seem increasingly unlikely, in our view.** Twelve-month inflation is near the low-end of the Central Bank's target range of 2.0% to 4.0%, as pass-through to inflation from currency weakness remains negligible. In our view, the Central Bank's easing cycle has most likely come to an end, mainly due to the risk of further peso weakness. Benefits from additional cuts to the monetary policy (nominal) reference rate of 25 or 50 basis points would not compensate for, in our opinion, the costs associated with the market's potential interpretation that the bank is stimulating growth through the export sector, via a weak peso. **We now expect the peso to end the year near the 720 pesos per dollar level, compared to our previous forecast of 670 pesos per dollar.** Also, we now expect

the currency to end 2003 at 730 pesos per dollar, compared to our previous forecast of 690 pesos per dollar. Factors supporting these changes include record low local interest rates, a higher degree of risk aversion globally, lower-than-expected global growth and low copper prices.

- We expect the current account to swing into a small deficit in the second half of the year to reach a total of 0.2% of GDP by year-end (compared to our previous estimate of a deficit of 0.5% of GDP), mostly due to seasonal factors. We expect to see greater dynamism in exports and imports in 2003 as a function of the expected global economic recovery and of the benefits derived from the free-trade agreement with the European Union. For 2003, we are now projecting a current account deficit of 0.5% of GDP. Finally, we note Chile has not been immune to the fall in foreign direct investment inflows to the region.

*From Dresdner Bank Lateinamerika's "Latin America Spotlight", October 21:*

- The budget plan presented by the central government at the beginning of October provides for a 0.7% GDP deficit in 2003. **In our opinion, this slight deficit appears to be consistent with stability; against the backdrop of the low level of public-sector debt, we do not consider a stricter austerity policy necessary (as has been called for by some voices in the country).** The deficit is to be financed by means of a bond issue with a volume of up to US\$ 1.5 billion; it has not been determined yet at this point whether this sum should be raised on the domestic market or abroad.

- Chile's economy continues to sputter along only at half throttle. The increase as measured by the monthly economic activity indicator (IMACEC) of 2.1% year-on-year in July (1.7% yoy in August) does not mean a trend reversal and in the forthcoming months we expect an average

growth rate of just around 1.5% (GDP growth 2002 of 1.8%): **We predict that due to the bleaker international growth forecasts and the uncertainties in the region emanating from Brazil, the acceleration in growth anticipated for the first half of 2003 will turn out weaker than expected.** As a result we have lowered our growth forecast for 2003 to 3% (previously: 4.5%).

- The depreciation of the Chilean peso against the US dollar and the increasing prices of crude oil triggered a 0.8% rise in consumer prices month-on-month (2.3% year-on-year) in September. As a result the consumer price increase and likewise the core inflation rate (2.0%) are currently at the lower end of the inflation band of 2 to 4% targeted by the Central Bank. **Due to high oil prices, strong growth in wholesale prices (6.7% year-on-year) and statistical base effects, the inflation rate should rise to 3.2% year-on-year at the end of the year, reducing the Central Bank's leverage for a decrease in the key interest rates accordingly.** In August, imports recorded a surprising increase of 21% after having previously declined year-on-year for 13 months in succession. We do not consider this a trend reversal but are expecting that due to the high oil prices the declining trend in imports will come to an end in the forthcoming months.

- Export performance in August (-13.3% yoy) is attributable to an exceptionally low volume of copper exports. **Since the forthcoming months will also see significantly lower copper prices than previously anticipated, we are lowering our forecast for the trade balance surplus for the year 2002 as a whole to US\$ 2.4 billion.** The performance of the Chilean peso against the US dollar reflects a high correlation with the Brazilian real over the past several months. A slight recovery of copper prices from their current level and a moderate calm-down in Brazil should cause the peso to appreciate to around 700 pesos/US\$ by year-end.

## CHILEAN FIRMS TURN TO MEXICO

Chile's multinationals are turning their attention to Mexico, Latin America's only other investment-grade economy. A flurry of deals has brought almost US\$ 100 million of Chilean capital to Mexico in the past year. While that is a pittance compared with the billions of dollars Chilean companies invested in the 1990's in their Southern Cone neighbors, these financial forays may prove more successful.

For Mexico, Chile's interest helps compensate for job losses suffered with the US recession. It also means quicker delivery times for the Chilean companies' customers in the US.

One example of the new wave: a US\$ 45 million investment by Chile's Molibdenos & Metales in Cumpas, a tiny desert community 160 kilometers south of the Arizona border. Molymex is a state-of-the-art facility for converting molybdenum sulfide—a mineral found with copper deposits but rarely processed in Mexico—into an oxide coveted by makers of stainless steel. Chileans once took molybdenum from the Mexican state of Sonora to South America for refining before re-exporting to the US and Japan. Now molybdenum travels from mine to steel mill in a week. “We used to choose: Be close to the supplier or be close to the buyer”, says Adolfo Carvajal, Molymex's General Manager. “In Mexico, we're both”.

That logic is driving the Chilean move to Mexico, which sits halfway between Chile and its main markets in the US, Japan and Europe. Elsewhere in Sonora, one of Chile's largest engineering firms, Boytec Sondajes, is opening a quarry for Mexican cement firm Cemex. The state-owned copper company Codelco is also in Sonora, prospecting for deposits in a joint venture with Mexican miner Industrias Peñoles.

Some Chilean producers see local partnerships as a way to extend their global reach. Soquimich, a Chilean nitrate

processor, exports raw material to a new plant in Guadalajara to make fertilizer, while Soprole, Chile's largest dairy producer, recently began shipping raw material to three Mexican cheese manufacturers who, like Soprole, are controlled by New Zealand's Fonterra. In one imaginative scheme, Chilean berry packer Hortifrut finances some 300 farmers in Michoacan to raise blueberries and raspberries for shipment to the US. The arrangement allows Hortifrut to extend its summer harvest season - adding months of production in the Northern Hemisphere just as winter begins in Chile. This is all rather new.

When both countries signed a free-trade deal in 1992, planners expected Mexico to become Chile's trampoline into markets in the US, Europe and Asia. But after 10 years, bilateral trade is just US\$ 1.5 billion a year, modest by the standards of two export powerhouses. Moreover, Mexican investment in Chile has far outpaced Chilean investment in Mexico. “Traditionally, Chileans don't like investing in places they can't get to quickly”, explains Gabriel Rodriguez, Chile's Commercial Attache in Mexico City.

In August, Farmacias Ahumada spent almost US\$ 50 million for a controlling stake in Farmacias Benavides, Mexico's leading pharmacy chain with 600 health and beauty-aids stores modeled on the Walgreen's chain in the US.

The Mexican group's strong cash flow and Mexico's low cost of capital made the decision to pull back from Brazil easy, says Alejandro Roseblatt, Chief Financial Operator at Farmacias Ahumada. “Mexico's peso stability really lowers our risk”, he says, explaining that a similar investment in South America would mean paying an interest rate on debt of 23% annually, compared with 15% in Mexico. What matters these days, Roseblatt adds, “is not the duration of the plane ride, but the structure of the business. And the return on the investment”.

*The Wall Street Journal Americas,*  
September 17

## REGULATOR: WATER UTILITIES' 1H02 SALES UP 15.4%

Rates increases and new service charges helped boost Chile's waterworks sector sales 15.4% to US\$ 301 million in the first half of 2002, compared to the same period last year, the country's waterworks regulator SISS said.

The information reflects results from the 20 waterworks companies that provide drinking water distribution and wastewater collection services to 99.6% of the country's clients. Operational results for the same period jumped 23.4%, while net profits climbed 23.9%. Higher water production and administrative and sales costs saw total costs climb an average of 9.9%.

Total assets for the sector also rose 10% in real terms, principally due to the construction of treatment plants and investments in related companies. Water utilities Aguas Andinas, Esva and Essbio account for more than 78.8% of sector investment.

Aguas Andinas, controlled by Spain's Aguas Barcelona, which serves most of capital Santiago's Metropolitan Region and is the country's largest water utility in terms of users (5.4 million), comprised 37% of sector investment, due principally to the construction of the El Trebal and La Farfana wastewater treatment plants.

Region V's Esva (controlled by UK's Anglian Water) came in second with a 28% share of investment due to remediation work on the Aconcagua river and its related wastewater treatment plant; while Region VIII's Essbio (controlled by UK's Thames Water) came in third with a 14% share due to construction startup of wastewater treatment plants in regional capital Concepción and the provincial city Los Angeles.

*Business News Americas,* October 14

## MEDIUM-SIZED BANKS GAIN GROUND AFTER MEGA-MERGERS

Medium-sized banks in Chile's financial system are gaining ground after a series of mega-mergers, local and international banking analysts say. After the merger of Banco Edwards with Banco de Chile and that of the two banks belonging to Spain's SCH, Banco Santander and Banco Santiago, local press and some analysts predicted these new mega-banks would rule the market with little or no business left for the remaining players.

However, the opposite has happened with medium-sized banks such as Bci and BBVA Banco Bhif gaining ground in the commercial loan segment. The financial system has also seen a boom in the number of new niche banks that have opened their doors during the last two years. These include Banco Falabella and Banco Ripley, which are owned by local department store-chains, and Banco HNS and Banco Monex.

Bci and BBVA Bhif have managed to increase their loan market share this year from 8.9% to 9.3% and 5.5% to 6%, respectively, local brokerage Larrain Vial's analyst Carlos Ballon said. The two banks are involved more in lending to small- and medium-sized companies (SMEs) because they usually depend on two or three banks for their financing, and after the two mega-mergers there were two banks less to obtain financing from, he noted.

The medium-sized banks are taking advantage of the funding vacuum produced by a new scenario where mega-mergers have cut the number of medium and large players, Santander Investment's analyst Raimundo Morales said. Businesses are using the same diversification strategy in their funding as the banks are using for their lending, to avoid a high degree of concentration in one bank or company, international rating agency Fitch Ratings analyst Gustavo Lopez said.

Ballon believes that Bci and BBVA Bhif will be able to continue growing their loan market share this year, predicting the two would end the year with market shares of 9.5% and 6.3%, respectively.

Chile's financial system is very developed and that is why there are only two strategies open to banks - a cost-oriented strategy or a differentiation strategy: "The mega-banks have opted for the cost-strategy as they can reap economies of scale from their size, but other banks have opted for differentiation strategies to complement the mega-bank's commercial offering", Ballon said.

The presence of very large banks has boosted efficiency and competition in the local financial system, which has created opportunities for medium-sized and niche banks, Lopez said. According to him, it is no surprise that banks like Bci and BBVA Bhif, as well as niche banks, are performing well. Although the system's overall growth is limited by the sluggish economy, there is growth potential in certain segments and for new products, he added.

Chile has very high banking penetration in Latin America and that provides banks with a greater variety of business lines, Lopez said. Domestic credit as a percentage of Chile's GDP was 75% in 2000, ahead of larger economies such as Brazil, Mexico, Argentina, he said, adding that the figure for Chile remains roughly the same today.

Investment house Larrain Vial is bullish on the best performing medium-sized banks this year with a "Strong Buy" recommendation for both Bci and BBVA Bhif. Bci should be able to improve its ROE slightly from 19% to 20% this year and BBVA Bhif should up its ROE from 9.1% to 10%, Ballon said.

**Scotiabank Aims For 7% Loan Growth In 2002:** Chilean bank Scotiabank Sudamericano aims to grow its loan portfolio by 6-7% this year in real terms, according to the bank's CEO Luis Fernando Tobon. Interest rate cuts have driven growth in the bank's consumer lending business despite the sluggish local

economy, Tobon said. Chilean banks have now transferred the Central Bank's rate cuts to loans, which has encouraged people to borrow, he said.

Scotiabank Sudamericano's corporate area has shown "excellent development" this year, with the bank participating in several syndicated loans, Tobon said. "In this segment total back-up from the parent company is very important because it permits us to exceed the clients' indebtedness limits", he noted.

According to Tobon, the bank expects commission revenues to represent about 15% of its total revenues this year. "The bank has seen an increase in commissions from different financial services", he said. Scotiabank Sudamericano is a medium-sized bank in the Chilean financial system and is a subsidiary of Canada-based Scotiabank.

*Business News Americas*, October 14

## IMAX WILL OPEN TWO THEATERS IN CHILE

IMAX Corporation, the world leader in large format entertainment technology, announced its launch into South America, signing agreements for a total of four IMAX theatres to be located in Chile and Ecuador. These state-of-the-art giant screen theatres providing the world's best cinematic experience continue the company's progress on its international expansion efforts.

"IMAX's entry into South America is an exciting moment for our company and is really only the beginning for us", said Richard L. Gelfond and Bradley J. Wechsler, co-CEOs and co-Chairmen, IMAX Corporation.

Both Chile and Ecuador will have two IMAX theatres. The ones in Chile will be operated by Megascreeen, with the first - utilizing IMAX 3D technology - to be located in Santiago. A location for the second IMAX theatre in Chile is yet to be determined. All are scheduled to open by the end of 2003.

*IMAX (Press Release)*, October 16

## VTR TO BEGIN IP UPGRADE NEXT DECEMBER

Chilean cable TV provider VTR Globalcom plans to start upgrading its network to an IP platform in December. This move —part of VTR's US\$ 30 million telephony investment plan for 2003— will allow the company's network to handle TV, Internet and telephony traffic over the same infrastructure. VTR will change the interconnection interface with other companies at a later date when the necessary technology is available.

Following the conversion, VTR expects to compete with Chile's largest fixed line operator Telefónica CTC Chile in communities of less than 20,000 inhabitants. IP technology allows traditional lines to function as 10 IP lines and reduces line installation costs to US\$ 500/line instead of US\$ 800/line.

VTR has hired Canadian equipment supplier Nortel Networks to carry out the upgrade.

*Business News Americas*, October 14

## ALPINE AIR EXPRESS ANNOUNCES NEW CHILE OPERATIONS

Alpine Air Express, a leading provider of regional air cargo transport and logistics services, introduced on October 3 the management team for Alpine Air Express Chile ([www.alpineairchile.com](http://www.alpineairchile.com)), its majority owned subsidiary based in Santiago, Chile. Originally announced on September 16, 2002, the newly formed subsidiary expands Alpine's operations into South America and will provide regularly scheduled seven-day air cargo service in Chile.

Eugene Mallette, CEO of Alpine Air Express, commented: "Chile represents a tremendous growth opportunity for Alpine".

Founded in 1975, Alpine Air provides competitively priced scheduled air cargo flights throughout the Western and Southwestern United States and Chile. The Company has an established client base that includes various contract operations for the US Postal Service, freight forwarders, and other cargo and logistics firms.

*Business Wire*, October 3

## US EXPECTS FREE TRADE WITH CHILE BY YEAR'S END

The US Trade Representative, Robert Zoellick, said the administration was optimistic that deals could be concluded by the end of this year with Chile and Singapore.

The US strategy is to use the free trade deals with Chile and the Central American countries to build momentum for its bigger goal of achieving the world's largest free trade zone, to cover all 34 democratic countries in the Western Hemisphere by 2005 with a Free Trade Agreement of the Americas.

Negotiations to establish free trade agreements with Chile and Singapore began during the closing months of the Clinton administration. Bush announced this year he wanted to open free trade talks with Morocco and the five Central American countries.

Currently, the US is party to free trade agreements with only four countries - Canada and Mexico, partners in the North American Free Trade Agreement, and Israel and Jordan.

After an eight-year impasse, Congress passed in August the

legislation Bush needs to negotiate new free trade agreements. Passage of trade promotion authority allows Bush to strike deals to be sent to Congress for up-or-down votes, without amendments.

*The Associated Press*, October 1

## MOBILE PENETRATION AT 50% BY 2006

One of every two Chileans will have a mobile phone by 2006, according to figures international telecoms and IT consultancy IDC released at an IBM-organized seminar in Miami.

"Chile is a market that I have compared many times with Europe, and with the most advanced European countries", Mario Cavestany, VP of communications for IBM Latin America, said. "When there is a project that is being done in Europe or the US and I see it having an application in Latin America, I always follow one simple rule: I want it in Chile and any of the larger markets, which is to say, Mexico or Brazil", he added.

At end-2001, Chile led Latin America in mobile penetration, with 32.8% of Chileans having mobile phones. The country was followed by Venezuela (27.3%), Mexico (21.8%) and Brazil (16.5%). Average mobile penetration in Latin America was 16.4% last year, which IDC expects to grow to 19.1% by end-2002, and 27.3% by end-2006, when there will be approximately 153 million handsets in the region.

Mobile penetration in Chile is expected to grow at 11% a year between 2001 and 2006. Meanwhile, growth across the region is expected to be a bit higher at 12.1%.

*Business News Americas*, October 9

## CHILE - US TRADE TALKS: BACK IN BUSINESS

It was touch-and-go, but, on July 27, President George W. Bush -putting in a rare personal appearance on Capitol Hill- wrestled broad trade negotiating powers from a reluctant Congress. The closely-fought vote was hailed as a victory not only for the Bush administration itself, but also for free trade around the world. For Chile, it holds out the real promise of a long-awaited agreement with its main trading partner and foreign investor.

Chile's trade talks with the US go back to the early 1990's. In December 1994 President Clinton invited Chile to join the North American Free Trade Agreement (NAFTA), formed by the US, Canada, and Mexico. Those negotiations didn't prosper, however, largely because Congress refused to renew President Clinton's fast-track trade negotiating authority.

This authority, which President Bush has now obtained, empowers his administration to negotiate trade deals that Congress will only be able to accept or reject, but not amend. The decision to grant trade promotion authority (TPA) is, said President Bush, "a landmark agreement" -a view that is shared by Chile's Minister of Foreign Relations, Soledad Alvear, who described the vote as "a great victory for the Bush administration, one that again positions the US as a country interested in free trade".

But does TPA mean that Chile and the US now have their proposed free trade agreement (FTA) in the bag? As authorities on both sides have warned-complacency should be avoided. "But this time, it's for real", predicts John Murphy, Vice-President for western hemisphere affairs at the US Chamber of Commerce, the largest business association in the world.

Chile and the US have already covered a lot of negotiating ground in eleven rounds of talks, held since December 2000. That head-start, says Kathleen Barclay, president of AmCham Chile, is largely

thanks to President Ricardo Lagos who, in late 2000, decided to push ahead with talks, despite an imminent change of US government and despite the fact that the new administration had no guarantee of obtaining TPA.

The talks now appear likely to be concluded early next year, if not before the end of this year. The US administration will then have three months to present the deal and its implementing legislation to Congress, which, in turn, will have three months to give the agreement the thumbs-up or, although improbably, the thumbs-down.

**The Home Run:** The TPA vote does, in fact, offer some clues as to the US position on labor and the environment. "The school of thought that these issues have nothing to do with trade policy has clearly been rejected", argues John O'Leary, US Ambassador to Chile from 1998 to 2001. But it does leave some unanswered questions, principally that of whether the two issues should form part of the main agreement or be dealt with in a side agreement.

And that is not a negligible point. Putting them in the main agreement would make it more difficult to avoid trade sanctions if either side were guilty of infringements, and that is a concession that Chile has consistently refused to contemplate.

Chile will be looking for a deal along the lines of its FTA with Canada, says Ricardo Lagos-Weber, director for multilateral economic affairs at the Ministry of Foreign Relations. Under that agreement, both sides undertook to abide by their own labor and environmental codes and, instead of trade sanctions, infringements carry a fine that goes toward improving standards in the offending country.

But it shouldn't be too difficult to hammer out a deal, predicts Murphy. "Chile's labor standards are extremely high, and any attempt to use labor conditions as an argument against an FTA wouldn't have a leg to stand on", he says, adding that he is confident that the

deal won't include trade sanctions.

Agriculture is likely to be another tricky issue, not helped by the Bush administration's decision earlier this year to boost farm subsidies. But the agricultural issue really comes down, in practice, to two products -wheat and sugar- points out Ricardo Ariztía, president of Chile's Confederation of Trade and Industry.

"The conclusion won't necessarily be simple, but I do expect it to be fast", says Murphy. And, although he recognizes that Chileans may rightly have felt jilted by US promises over the last decade, he recommends that they now take heart and work hard to seal an agreement.

**Getting the Story Across:** Perhaps the single most important guarantee for a successful outcome to the talks is the enormous political investment that the Bush administration made in obtaining TPA. That means it will be eager to deliver by completing free trade agreements with Chile, as well as Singapore.

"If the United States can't reach an agreement with Chile, who can it reach one with?", asks Barclay. Chile's political and economic stability, combined with its open economy and free-market policies, make it an ideal candidate. And, because Chile is small, it doesn't perturb many vested US interests. "The US didn't use a dartboard when it chose Chile for trade talks", says Barclay.

US businesses clearly stand to gain from an FTA with Chile. It may be a small market, but it is one in which US companies feel comfortable. And it is also one in which their competitiveness has been eroded by the trade agreements that Chile has signed with other countries, including Canada and Mexico, and, most recently, the European Union. At an AmCham Chile breakfast in 2001, US Trade Representative, Robert B. Zoellick, lamented that fast-food chains in Chile were starting to buy frozen potatoes from Canada, instead of the US.

That is just one example of the problems that US exporters have faced in Chile. The share of the US in Chile's

imports has dropped steadily from 23.1% in 1996 to 16.8% in 2001 and, although many US-based multinationals continue to supply the Chilean market, they often do so from plants in Canada or Mexico. And that is bad for US jobs. According to the US National Association of Manufacturers (NAM), the lack of an FTA with Chile means that the US loses US\$ 800 million a year in exports -or 10,000 jobs- and that was before the Chile-EU agreement.

But it's important to realize, warns Barclay, that Chile's virtues -or the gains from an FTA- won't be the only factor driving the debate in the US That makes it doubly important to ensure that Chile's message gets across, not only to politicians, but also to businesses around the US.

Chile's private sector has played an increasingly active role in the country's free trade negotiations, helping the government to understand how a proposed deal would affect individual sectors. "Especially after our experience in the talks with the EU, we feel fully incorporated into the process", reports Ariztia. In the case of the US, the private sector has an additional role to play by ensuring that US businesses -and their representatives- are aware of the advantages of an FTA. Lobbying, in which AmCham Chile has played a key role, clearly has to continue with renewed vigor.

But, once an agreement has been worked out, could Congress still reject it? The majority vote which granted President Bush TPA was, after all, razor-thin -just three votes in the House of Representatives- and a Congressional election to renew the entire lower house and a third of the Senate will be held in just a few weeks. According to Murphy, the possibility of a thumbs-down shouldn't be ignored, but it is unlikely. Votes on TPA are, he points out, always harder to win than on other trade bills, just because, unlike an FTA with Chile, they offer no immediate spin-offs.

**The Gains for Chile:** Almost 2,000 Chilean firms currently sell to the US, which with its 270 million inhabitants is

by far Chile's largest export market, ahead of Japan and the UK. In 2001, that meant export revenue of US\$ 3.4 billion, or 19.4% of total returns. Perhaps surprisingly, therefore, major export sectors, including the fresh fruit and wine industries, do not attach much importance to tariff reductions. That's because import duties in the US are already pretty low — an average 2.6%— and many key products, including, for example, table grapes and peaches, pay negligible, or even zero, tariffs. But for some products, particularly in the textile sector or those that involve a higher level of added value (and are, therefore, more labor-intensive), duties can be much higher.

But even producers that already pay low tariffs see an important advantage in an FTA. "We're interested mostly in locking-in access conditions", says Ronald Bown, president of the Chilean Exporters' Association, which represents fresh fruit exporters. Currently, around 16% of Chile's exports rely on the US generalized system of preferences (GSP) for duty-free access and, as a result, face a situation that can vary from year to year. Melons, onions, and tomatoes are just a few of the products that use the GSP, and the exporters' association hopes that they will soon have permanent duty-free access.

That would, of course, still leave the fraught issue of US anti-dumping legislation - "so complex that you need a university course to understand it", complains Bown. But that will almost certainly be left for upcoming multilateral talks under the auspices of the WTO. Nine out of ten US Congressmen have, after all, indicated that they would oppose concessions on this issue, points out Murphy.

Chile's Ministry of Foreign Relations calculates that, in the medium term, the volume of Chilean exports to the US could increase by 18% as a result of an FTA, but recognizes that it is still too early to estimate the impact on GDP growth.

However, Chile's single most important gain from an FTA would

probably be the enhancement of its already spruce international image. "It's not that Chile will become a serious country because it gets an FTA; it will get an FTA because it is already a serious country", argues Hernán Somerville, President of the Bank Association.

**Wider Implications:** The gain to Chile's international standing would encourage the inflow of welcome investment dollars -since 1974, US companies have contributed almost a third of total foreign direct investment in Chile- and help to reduce the international borrowing costs of Chilean companies. And it would give extra impetus to the Chilean government's strategy of promoting Chile as a platform for exporting to, and investing in, the rest of Latin America.

What is at stake is the proposed Free Trade Area of the Americas (FTAA), on which talks are supposed to be completed in 2005. That is probably overambitious, but the precise date is not particularly relevant, argues O'Leary. "I think about Simón Bolívar and his dream of regional unity; from his perspective, does it really matter whether it happens in 2005 or 2008?" he wonders.

Simply by obtaining TPA, the Bush administration has improved the chances for the FTAA. Its efforts, and success, on TPA have not only polished its free-trade credentials - somewhat tarnished by its protection of local steel production and the increase in farm subsidies- but are also seen as a renewal of its avowed commitment to Latin America.

What is also clear is that if the US-Chile talks were to fail, the outlook for an FTAA would be, at the very least, poor. That doesn't mean that an FTAA agreement would be a photocopy of the Chile-US agreement, nor does it mean that the US would try to saddle Chile with clauses written with an eye on other countries. But it does mean that the negotiations will set an important precedent and will, as a result, be followed extremely closely by the rest of the region.

## RAILAMERICA'S CHILEAN RAILROAD SIGNS AGREEMENT WITH NORGAS

RailAmerica, the world's largest short line and regional railroad operator, announced that its Chilean railroad, Empresa de Transporte Ferroviario (Feronor), entered into a five-year rail transportation agreement with Norgas of Valparaiso (in Region V), the largest supplier of compressed natural gas (CNG) to northern Chile, valued at US\$ 9 million.

Under the US dollar-denominated agreement, Feronor will transport CNG in tank cars, on a prepaid basis, from northwest Argentina to locations in the northern region of Chile. The CNG will then be distributed via truck to surrounding industrial and commercial customers.

"This new agreement is yet another success story for our Chilean operation where we have more than doubled revenues since acquiring it in 1997", said Gary O. Marino, Chairman, President, & CEO of RailAmerica. "Under our ownership, Feronor has signed more than US\$ 420 million in long-term transportation agreements".

RailAmerica purchased a 55% interest in Feronor, a 2,250 kilometers railroad based in Coquimbo (Region IV), Chile, from the Chilean government in February 1997 for US\$ 6.7 million. The operation consists of two regional railroads that serve the mining region of northern Chile and northwestern Argentina.

*PRNewswire, September 27*

## REGULATOR INTRODUCES NEW INSURANCE RISK MODEL

Chile's Securities and Exchange Commission (SVS) introduced a new investment risk evaluation model for insurance companies, SVS regulator Alvaro Clarke said at the ninth annual insurance supervision conference that was held in the capital Santiago.

The new model, called VaR (*Valor en Riesgo*) is an international model that permits the insurers to quantify the

probable maximum loss associated with the companies' investments, when different risk factors are altered. Although VaR is an international model it has been adapted to Chile's insurance industry and capital market, Clarke said.

The new model will permit insurance companies to better foresee when they have to strengthen their equity and when market volatility affects their investments in the capital market, Metlife Chile CEO Victor Hassi said.

*Business News Americas, October 11*

## NETWORK ASSOCIATES ACQUIRES CHILE'S BY SUPPORT TO EXPAND IN LATIN AMERICA

Network Associates, a leader in network security and availability solutions, announced the acquisition of Bysupport, one of the largest security solutions resellers in Latin America and commercial representative for Network Associates products. The acquisition leverages Bysupport's leading position in Chile and growing local presence in Guatemala, Panama, El Salvador, and Costa Rica to offer security, network availability and service desk solutions.

The acquisition will expand Network Associates' presence in markets where it had not previously maintained a direct sales presence. Bysupport has a reputation as experts in marketing and customer support across the regions. This expertise offers Network Associates a unique opportunity to significantly expand its customer base and market share in Latin America.

"We are very excited to have acquired such a well respected company as Bysupport in Chile and Central America", said Wilson Grava, Vice-President for Latin America and Caribbean for Network Associates. "This reinforces Network Associates' commitment to the development and growth of the Latin America region".

The acquisition brings direct benefits for current Bysupport customers in Chile and Central America who will receive the high quality services and support via Network Associates Technical Support Team. Customers outside Chile and Central America will benefit from the expansion of Bysupport's innovative and highly successful "Virus Alert"

solution, based on Network Associates' world-class McAfee research and protection.

"This acquisition signals Network Associates commitment to Chilean and Central America's customers", said Juan de Dios Fernández, Chief Executive Officer of Bysupport. "Network Associates' product brands, are valuable to customers around the world. We look forward to offering both our loyal and future customers all the benefits of these powerful security and networking technologies", he added.

*Network Associates (Press Release), October 17*

## ESSBIO, ESSEL MAKE MERGER EFFECTIVE

Chile's Region VIII water utility Essbio and Region VI water utility Essel officially merged and started operating as a joint company, the utilities' majority owner, UK-based Thames Water, said. This is the first merger of its type in Chile's waterworks sector and creates the second largest water utility in terms of clients after capital Santiago's Aguas Andinas (36.4% market share and 1.28 million clients), and will have a 15.1% market share serving 530,000 clients in the two regions.

Essbio and Essel will continue to use their respective names, logos and corporate image.

The merger is part of Thames' growth and consolidation strategy in Chile, and the UK utility expects the move to increase efficiency and unify systems such as informatics and customer service. The Chilean government's Economic Development Agency, Corfo, owns the remaining shares of the utilities.

Essbio boasts 99.3% drinking water coverage and 86.7% sewerage coverage, and has pledged to raise its current 6.1% sewage treatment rate to 95.2% by 2005 and 99.7% by 2010; while Essel drinking water and sewerage coverage stands at 99.2% and 80% respectively and wastewater treatment reaches 30%.

Essbio's SISS investment pledge calls for spending some US\$ 123 million through 2010, while Essel has vowed to invest US\$ 42.4 million in the same period.

*Business News Americas, October 23*

Between January and August of 2002, materialized Foreign Direct Investment reached US\$ 1.5 billion, as compared to US\$ 4.1 billion for the same months of 2001. The Foreign Investment Statute (D.L. 600) channeled 82.7% of the inflows. The main recipient sectors were

Transport & Communications (25.2%); Mining (24.0%); Electricity, Gas & Water (18.1%). During those months, materialized FDI came mainly from the United States (37.0%), Spain (19.3%), Belgium (10.9%) and Canada (9.0%).



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### FOREIGN DIRECT INVESTMENT REPORT / January - August 2002 (in nominal US\$ million)

Instrument/Period	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Jan-Aug 2001	Jan-Aug 2002	Growth rate
<b>Foreign Investment Statute(1)</b>														
- Capital Contributions	572.6	691.8	894.3	1,544.6	1,802.1	3,948.6	3,825.5	4,382.8	8,606.9	2,541.3	4,334.1	3,283.4	1,084.6	-67.0%
- Associated Credits	409.5	307.1	839.8	976.7	1,238.5	873.3	1,404.3	1,589.9	478.7	436.0	399.4	207.0	126.1	-39.1%
<b>Materialized Investment F.I.S. (D.L. 600)</b>	<b>982.1</b>	<b>998.9</b>	<b>1,734.1</b>	<b>2,521.3</b>	<b>3,040.6</b>	<b>4,821.9</b>	<b>5,229.8</b>	<b>5,972.7</b>	<b>9,085.6</b>	<b>2,977.3</b>	<b>4,733.5</b>	<b>3,490.4</b>	<b>1,210.7</b>	<b>-65.3%</b>
<b>Chapter XIV (2)</b>														
- Capital Contributions	98.1	157.8	204.2	410.2	409.5	441.6	920.6	539.3	688.8	735.6	775.2	607.0	253.1	-58.3%
<b>Total F.D.I. Capital Contributions (F.I.S. + Chapter XIV)</b>	<b>670.7</b>	<b>849.6</b>	<b>1,098.5</b>	<b>1,954.8</b>	<b>2,211.6</b>	<b>4,390.2</b>	<b>4,746.1</b>	<b>4,922.1</b>	<b>9,295.7</b>	<b>3,276.9</b>	<b>5,109.3</b>	<b>3,890.4</b>	<b>1,337.7</b>	<b>-65.6%</b>
<b>Total F.D.I. Materialized (Materialized F.I.S. + Chapter XIV)</b>	<b>1,080.2</b>	<b>1,156.7</b>	<b>1,938.3</b>	<b>2,931.5</b>	<b>3,450.1</b>	<b>5,263.5</b>	<b>6,150.4</b>	<b>6,512.0</b>	<b>9,774.4</b>	<b>3,712.9</b>	<b>5,508.7</b>	<b>4,097.4</b>	<b>1,463.8</b>	<b>-64.3%</b>
<b>Capital Remittances</b>	<b>36.4</b>	<b>62.7</b>	<b>174.1</b>	<b>59.5</b>	<b>396.1</b>	<b>333.6</b>	<b>375.5</b>	<b>443.8</b>	<b>281.7</b>	<b>541.4</b>	<b>963.8</b>	<b>340.6</b>	<b>500.3</b>	<b>46.9%</b>
- Foreign Investment Statute (1)	34.4	61.6	173.2	49.4	392.6	303.4	354.9	119.9	233.9	462.7	674.4	295.9	477.3	61.3%
- Chapter XIV (2)	2.0	1.1	0.9	10.1	3.5	30.2	20.6	323.9	47.8	78.7	289.4	44.7	23.0	-48.5%

(1) Source: Foreign Investment Committee - Chile. Provisional figures as of August 31, 2002.  
(2) Source: Central Bank of Chile. Provisional figures as of August 31, 2002.

### FOREIGN INVESTMENT UNDER THE FOREIGN INVESTMENT STATUTE (D.L. 600) BY SECTOR 1974 - 2002\* (in nominal US\$ million)

SECTOR	AUTHORIZED INVESTMENT									MATERIALIZED INVESTMENT								
	74-95	1996	1997	1998	1999	2000*	2001*	2002*	Total	74-95	1996	1997	1998	1999*	2000*	2001*	2002*	Total
Agriculture and Livestock	292	14	89	25	22	22	18	3	<b>485</b>	163	16	14	12	21	22	10	2	<b>260</b>
Construction	429	49	159	155	415	95	218	164	<b>1,684</b>	303	26	114	280	216	29	166	112	<b>1,246</b>
Electricity, Gas & Water	891	626	1,695	718	5,729	1,882	704	377	<b>12,622</b>	93	406	1,395	495	4,560	860	908	219	<b>8,936</b>
Fishing and Aquaculture	195	4	102	17	2	100	7	5	<b>432</b>	129	21	12	9	1	94	6	0	<b>272</b>
Forestry	205	59	50	38	14	4	3	3	<b>376</b>	133	20	29	37	19	4	1	1	<b>244</b>
Industry	3,980	1,611	510	471	880	516	1,131	118	<b>9,217</b>	2,731	917	593	530	779	191	755	148	<b>6,644</b>
Mining	23,307	642	3,659	1,503	502	1,347	4,799	310	<b>36,069</b>	8,558	999	1,705	2,393	1,221	242	898	291	<b>16,307</b>
Services	5,341	2,866	1,295	2,966	2,585	953	658	392	<b>17,056</b>	2,686	1,958	1,197	2,006	1,910	665	705	133	<b>11,260</b>
Transport & Comm.	1,441	1,072	335	183	631	2,275	479	483	<b>6,899</b>	906	459	171	211	359	870	1,284	305	<b>4,565</b>
<b>TOTAL</b>	<b>36,081</b>	<b>6,943</b>	<b>7,894</b>	<b>6,076</b>	<b>10,780</b>	<b>7,194</b>	<b>8,017</b>	<b>1,855</b>	<b>84,840</b>	<b>15,702</b>	<b>4,822</b>	<b>5,230</b>	<b>5,973</b>	<b>9,086</b>	<b>2,977</b>	<b>4,733</b>	<b>1,211</b>	<b>49,734</b>

Note: Materialized investments include amounts authorized each year and in all forms accepted under the Foreign Investment Statute.  
Source: Foreign Investment Committee - Chile. \*Provisional figures as of August 31, 2002.

### MATERIALIZED FOREIGN INVESTMENT UNDER THE FOREIGN INVESTMENT STATUTE (D.L. 600) BY REGION OF ORIGIN 1974 - 2002\* (in nominal US\$ million)

