

Chile

INVESTMENT REVIEW

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SANTIAGO, THE BEST CITY TO DO BUSINESS IN LATIN AMERICA

A ranking, published in April by *AméricaEconomía* magazine, identifies Santiago as the best city from which to do business in Latin America. In the publication's three previous annual rankings, this position was held by Miami, which has now slipped into second place.

According to the ranking, which is based on studies by different international consultancy firms and a survey of over 1,700 businesspeople, Santiago not only offers the region's most competitive combination of quality and costs, but is also the city that adds most value to a business, as well as offering an attractive quality of life and the region's highest level of personal security.

The point is that distance isn't noticeable if a city is connected efficiently to the globalized economy, says *AméricaEconomía*. And there, Santiago scores extremely well, offering the region's most competitive telecommunications -with better access to broad-band connections than Miami- as well as the largest number of direct flights to the region's other main business centers. Moreover, according to the executives surveyed, Santiago's airport is the safest and, along with Miami, offers the best services.

In addition, the survey drew attention to the role of government policy in enhancing Chile's competitiveness. As well as building an extensive network of Free Trade

Agreements, Chile has also, the magazine pointed out, introduced incentives to encourage companies to use the country as an investment platform as a way to reduce financial costs.

Santiago's position in the ranking reflects not only its past achievements, but also its commitment to the future. *AméricaEconomía* highlighted the fact that, along with Bogotá, it is one of the few regional capitals to have taken long-term steps to ensure that public infrastructure keeps pace with growing demand, building both new access roads to the city and, through the *Transantiago* plan, improving its public transport.

Which Is the Best City for Doing Business in Latin America? (Out of 40 surveyed cities)

City	RK 2004	RK 2003
Santiago, Chile	1	2
Miami, United States	2	1
Sao Paulo, Brazil	3	2
Mexico City, Mexico	6	5
Brasilia, Brazil	8	8
Buenos Aires, Argentina	11	9
Lima, Peru	25	23
Quito, Ecuador	31	36
Caracas, Venezuela	35	28
La Paz, Bolivia	40	35

AméricaEconomía
(www.americaeconomia.com), April 2004

CHILE ANNOUNCES START OF TRADE TALKS WITH INDIA

Chile announced it will begin trade negotiations with India, almost a year after the Asian giant requested the talks.

Chile, a nation of 15 million, has been a model for Latin America in terms of trade. It reached landmark trade deals in the last two years with the United States, the European Union and South Korea. Negotiations with India will begin in August.

For the moment, Chile's government only sees a partial accord with India covering certain products and not services. "India delivered a proposal that basically contained a list of products with tariff reductions", said Osvaldo Rosales, Director General of Economic International Relations (DIRECON). The list includes some 300 products which represent around 60% of India's exports to Chile. The Chilean government will meet with business sectors to define its proposal.

Chile exported US\$ 225 million worth of goods to India in 2003, 22% more than in 2002, while imports from India totaled US\$ 70 million.

Chile's exports to India, excluding copper, face an average tariff of 28%. Among those products that could benefit from a trade deal are copper cathodes, methanol, salmon, fishmeal, wine, grapes and wood products.

Reuters, April 21

CHILE AND CHINA TAKE FIRST STEPS TO TRADE TALKS

Chile and China -respectively the world's biggest producer and consumer of copper- are taking the first steps toward negotiating a Free Trade Agreement that would be the Asian country's first such pact, their governments said on April 23.

Both countries plan to complete feasibility studies this year ahead of meetings between the leaders of the two countries during the Asia-Pacific Economic Cooperation (APEC) summit in Chile in November. "We agree that starting this joint study is full of historic significance and transcendental for future growth in our bilateral trade", Chinese Vice Premier Hui Liangyu said at a press conference in Chile's capital.

In the last 13 years, bilateral trade between Chile and China has been growing an average of 31% a year. In 2003 Chilean exports to China -mostly copper, wood pulp and fish meal- reached US\$ 1.9 billion, while imports from China -mostly textiles and electronic goods- reached US\$ 1.3 billion. China is Chile's third most important trade partner after the United States and the European Union, with which Chile already has free trade pacts. Rapidly industrializing China is a huge consumer of Chile's main export, copper, which is used in power and telecommunications infrastructure projects in China, and in a booming manufacturing industry including many consumer products.

Chile's Minister of Foreign Relations Soledad Alvear said the Chilean and Chinese studies would set out the groundwork for talks.

Chile, one of Latin America's most fervent supporters of open markets and free trade, already has one free trade pact in Asia, with South Korea. That pact, which went into effect this year, is the first between a

South American and an Asian country. With new free trade pacts under its wing, and prices booming for many of its main exports, Chile sees exports rising to a record US\$ 26.3 billion this year in minerals, copper, fruit, wine, salmon and others.

Reuters, April 23

CHILE AMONG TOP 10 LOCATIONS FOR MULTINATIONAL CORPORATIONS

Chile is one of the Top 10 destinations for multinational corporations looking to set up offshore operations, according to the 2004 *Offshore Location Attractiveness Index* published by US-based consulting firm A.T. Kearney.

Chile is in 9th place among the 25 best destinations in the world in A.T. Kearney's annual index, which measures the viability of countries as offshore destinations based on their financial structure, people skills and availability and business environment.

The 2004 index is led by India, China and Malaysia, while in Latin America, only Brazil ranks before Chile due to its huge labor force and low costs. However, the report underlines that Chile "offers the best business environment and infrastructure in the region, with a robust digital network and good quality satellite service".

The report also describes how Chile's government is aggressively pursuing offshore opportunities and commends the creation of a registry with 15,000 certified English speakers for the labor market. "Along with promoting language skills, the government is also working on ways to protect intellectual property. Chile has established Free Trade Agreements with the United States and the European Union that

include penalties for infringing on IP", says the report, underscoring that "Chile also ranks among the top Latin American countries in the World Economic Forum's *Global Competitiveness Report* and the Economic Intelligence Unit's *Overall Business Environment Ranking*".

"These attributes make Chile a desirable headquarters for Latin America. The Economist Intelligence Unit identifies Santiago as one of the least expensive cities in the world; Citigroup has both a software development center and fund advisory center there. Unilever has invested US\$ 13 million and created 200 jobs in its financial shared services center for Latin America, also located in Santiago. Tata consulting Services and Chilean partner Comicon set up a facility to customize financial services software for export to the rest of Latin America, and 35 multinational companies operate call centers, mainly in Spanish", concludes the report.

Offshore Location Attractiveness Index, 2004 (Selected Economies)	
Location	Rank
India	1
China	2
Malaysia	3
Brazil	7
Canada	8
Chile	9
Hungary	11
Mexico	14
Argentina	15
Costa Rica	16
Israel	24
Turkey	25

A.T. Kearney
(www.atkearney.com), March 30

SKRETTING INAUGURATES US\$ 25 MILLION SALMON FEED PLANT

On April 15, in the presence of President Ricardo Lagos, Skretting inaugurated a salmon feed plant, representing an investment of US\$ 25 million. The new plant positions Skretting, which forms part of the Nutreco group, as Chile's leading producer of salmon feed, with a market share of around 35%.

Located in Pargua, near Calbuco in Region X, the plant is the world's most modern fish feed production facility and incorporates the latest environmental technology, including bio-filters for odor control and a reed field for water treatment. The project, which also envisages the construction of a wharf, is the largest in this field to be developed by Nutreco.

The plant came into operation at the end of 2003, with a staff of almost 150 employees. It currently has an annual production capacity of 150,000 tons but, under its overall design, will be able to reach a total annual output of 450,000 tons. The new facility will allow Skretting to meet the growing demand of its salmon producer clients during 2004, when they anticipate an average expansion in excess of 10%.

The Nutreco group, of which Skretting forms part, has operated and invested in Chile for the past 15 years, and has close to 3,000 employees. Nutreco is also represented in Chile by Marine Harvest, the country's leading salmon exporter.

Nutreco (Press Release), April 15

CHILE'S CORBO SEES CURRENT ACCOUNT SWINGING POSITIVE

Chile's current account will likely swing into positive territory this year, Vittorio Corbo, the President of the Central Bank, said in an upbeat assessment of the economy.

The Bank estimated in January that the 2004 balance would be slightly negative, at a deficit equal to 0.4% of Gross Domestic Product, after registering a gap of 0.8% in 2003.

It's reviewing that forecast and will deliver revised macroeconomic projections to Congress at the end of May. "When we do that number, that number, to be sure, will be positive", Corbo said during a presentation at the Council of the Americas.

The government said on April 19 that it now expects the price of copper, Chile's chief export, to average US\$ 1.20 a pound, up from an earlier forecast of US\$ 0.88/pound, on the back of strong demand for the metal amid a powerful rebound in the global economy.

Corbo estimated that the higher price for copper will generate an extra US\$ 1.3 billion for the government, which owns Corporación Nacional del Cobre de Chile, or Codelco, the world's largest copper producer.

The government also announced on April 19 that it expects the economy to expand 4.9% in 2004, up from a 4.4% forecast in its September budget outlook. Corbo said he's not ready yet to fine tune the Central Bank's growth estimate, which was broadly set at 4.5% to 5.5% in January. "Where we are going to be in that range is too early to tell", he told investors in Manhattan, adding that economic data from February and March were promising after January's numbers came in worse than expected.

On April 21, the IMF raised its 2004 economic growth forecast for Chile to 4.6%, up slightly from 4.5% in September. While that's still below the blistering 7.3% average annual growth booked in the South American country from 1986 to 1997, it's a healthy increase from last year's 3.3% expansion and 2002's more modest 2.1% increase.

Corbo stated that he's not worried about an electricity shortage in neighboring Argentina, which has capped natural gas exports at 2003 levels, curbing Chilean growth. He referred to a Ministry of Finance's estimate that the cost of replacing Argentine gas with oil or coal to fuel electricity generators will be on the order of around US\$ 30 million for Chile. "It's a minor thing", said Corbo, adding that Chilean authorities don't expect to see a power shortage on their soil.

Interest rates also aren't likely to inhibit economic growth, after the Central Bank cut

its benchmark lending rate half a percentage point in December and again in January to push it to 1.75%, a historic low.

Corbo said he expects annualized inflation, which stood at negative 0.7% at the end of March, to reach 2% by December and to rise to 3% by the end of 2005. That would put it back inside the bank's 2% to 4% target range. He reiterated that authorities are "quite comfortable" with the benchmark rate at 1.75%, and aren't interested in quickly lowering rates further to push inflation to 3% earlier. "If you try to rush and go to an interest rate of zero, you are going to bring inflation up, but it's not going to stop at 3%", he said.

Chile's export-oriented economy struggled to grow in recent years amid weak demand and turmoil outside its borders. It was hurt by a financial meltdown in Asia and later by a recession in the US and much of South America. Regional markets experienced turmoil in 2001 and 2002, when Argentina defaulted on its debts and insolvency fears spread to Brazil.

Corbo explained he didn't see Chile importing a new wave of problems from overseas anytime soon, though, amid signs that the global economy will continue to register strong growth in the coming months. He said the two major risks for South America's only investment-grade country are an overheating of the Chinese economy, which imports a lot of Chile's commodities, and swift hikes in interest rates in the US. But those risks "are not too much for 2004 and maybe one can push this very well into 2005". Given the Chilean government's low debt and healthy fiscal surpluses, "the only thing that will be affected is our savings" if external conditions turn stormy again, he added.

Corbo shrugged off recent volatility in the Chilean exchange rate, which rallied 17% against the US dollar in 2003 but has faced some selling pressure recently. "We have the same volatility as the euro and the yen, so there is not a problem", he told investors.

The Wall Street Journal, April 22

IMF FORECASTS GROWTH OF 4.6%
FOR CHILEAN ECONOMY IN 2004

The International Monetary Fund (IMF) has revised up its growth forecast for the Chilean economy in the current year, from 4.5% to 4.6%, according to its April 2004 *World Economic Outlook*. The organization praised Chile's fiscal and monetary policies by pointing out that "the Chilean economy has continued to perform well, and growth is expected to accelerate to 4.6% in 2004, boosted by the improved terms of trade -due to higher copper prices- and increased investment in infrastructure and in the natural resources industry".

The IMF underscored the fact that the Chilean Central Bank "has reduced interest rates as inflation has fallen, while fiscal policy remains consistent with the target of a structural budget surplus of 1% of GDP". Finally, the IMF forecasted that in the year 2005 the Chilean economy is expected to grow 5.5%, the highest estimate for any country in the region so far for the coming year.

GDP Forecast 2004 - 2005				
	Real GDP			
	2002	2003	2004	2005
Western Hemisphere	-0.1	1.7	3.9	3.7
Mercosur ¹	-1.2	1.9	4.0	3.7
Argentina	-10.9	8.7	5.5	4.0
Brazil	1.9	-0.2	3.5	3.5
Chile	2.2	3.3	4.6	5.5
Uruguay	-11.0	2.5	7.0	4.0
Andean Region	0.2	1.2	5.1	3.5
Colombia	1.8	3.6	4.0	4.0
Ecuador	3.3	2.6	5.9	3.6
Peru	4.9	4.0	4.0	4.5
Venezuela	-8.9	-9.2	8.8	1.1
Mexico, Central America and Caribbean	1.1	1.5	3.0	3.5
Dominican Republic	4.7	-1.3	-1.0	4.5
Guatemala	2.2	2.1	2.6	3.5
Mexico	0.7	1.3	3.3	3.3

1. Includes Argentina, Brazil, Paraguay, and Uruguay, together with Bolivia and Chile (associate members of Mercosur).

*International Monetary Fund (www.imf.org),
April 2004*

CHILE: THE BEAUTY OF
BEING BORING

Mineral exports are surging, pulp and paper producers are pumping billions of dollars into new capacity, and with the construction industry booming, Santiago, Chile's capital, resembles a gigantic building site.

After six years of lackluster economic performance -including a recession in 1999- output in 2004 is expected to increase by at least 4%, compared with 3.3% last year. Commodity price rises are underpinning the broader recovery, with copper prices near to 10-year highs, mainly as a result of strong demand from China.

Economic policy has been consistent and fiscal management cautious, helping bring interest rates and inflation towards historic lows and securing macro-economic stability. Unemployment in Chile is at a five-year low of 7.4%. Consumer spending in February expanded 7.5% year-on-year, also the fastest rate for five years.

Indeed, Chile enjoys an impressive grade credit rating and following a steady compression in yield spreads on its international bonds, it now costs the government only 70 basis points more to borrow in dollars than the US. On the trade front, Chile is starting to see the benefits of a recent Free Trade Agreement with the US, which made it easier to export textiles and some agricultural products and could also attract more US investment to the country.

Recovery, however impressive it is in a broader Latin American context, is still not fast enough to satisfy domestic critics. Partly that is because the private sector hankers after the regular 6 to 7% growth rates that Chile achieved in the 1990s. In spite of the revival of the last year or so, the rate of capital formation is still some way off the 26% achieved in 1997. Consumer spending has only recently

begun to recover after a slowdown that depressed the prospects of small and medium-sized businesses that generate most employment.

Ricardo French-Davis, a Chilean economist who works at the United Nations' Economic Commission for Latin America and the Caribbean in Santiago says there "is still a lot of idle productive capacity". Business critics blame inflexible labor laws -even though Chile scores quite well on this area by Latin American standards- for patchy domestic investment and a rise in unemployment from 6% in 1997 to 7.4%.

Finally, exporters are unhappy with the way that the export boom has driven up the value of the Chilean peso -the dollar has depreciated against the peso by 20% since January last year- and have been pressing the Central Bank to intervene in the same way as its counterparts in Brazil and Argentina.

Even so, for all its internal angst, Chile remains the poster boy of economic and social development in a troubled region. Responding to criticisms of its social policies, the center-left administration, led by reform-minded socialist Ricardo Lagos, argues that it is simply addressing the legacy of neglect left by 17 years of military rule. Poverty levels have been cut in half, to 20% of the population, since the return of democracy, partly thanks to the creation of a minimum wage.

And as far as foreign investors are concerned, Chile's stability marks a welcome change with that of its neighbors. "What really stands out about Chile is that it doesn't attract the headlines, that it doesn't suffer the same noise factor as many of the other countries in the region", says Neil Dougall, economist at Dresdner Kleinwort Wasserstein in London.

Financial Times, March 28

BHP APPROVES US\$ 870 MILLION COPPER PROJECT IN CHILE

BHP Billiton said it approved development of an US\$ 870 million project to process low-grade ore at Chile's Escondida copper mine, the world's biggest, amid rising prices for the metal. The project, which will use bacteria to treat stockpiled ore, will produce 180,000 tons a year of copper when it starts up in the second half of 2006, Melbourne-based BHP Billiton said in a statement. The expansion will cost BHP Billiton, the world's biggest mining company, US\$ 500 million.

Using the low-grade ore will allow Escondida to produce copper for at least 25 more years. Base metals, which includes copper, was the second-most profitable of BHP Billiton's eight businesses last quarter, contributing 19% of earnings before interest and tax.

"Escondida has been stockpiling low-grade sulphide material since its inception and has been conducting studies on leaching this material since the mid 1990s", Diego Hernández, president of BHP Billiton's base metals unit, said. "New technological developments allow us today to economically process this low-grade material, previously mined as waste".

The plan comes after the companies approved the US\$ 400 million Escondida Norte expansion project in June, which aims to lift production at Escondida, in the Atacama desert of northern Chile.

The project will process more than 1.13 billion metric tons of ore from Escondida, BHP Billiton said. London-based Rio Tinto Group, which owns 30% of Escondida, said its share of the project will cost US\$ 261 million.

BHP Billiton owns 57.5% of Escondida. The mine's other owners are Japan Escondida Corp. and International Finance Corp. Japan Escondida Corp. is owned by Mitsubishi Corp., Mitsubishi Materials Corp. and Nippon Mining Holdings Inc.

Bloomberg, April 6

CHILEAN GOVERNMENT PROPOSES MINING-FINANCED INNOVATION FUND

On April 19, the Ministers of Finance, Presidential Affairs, and Mining unveiled a proposal for the creation of an innovation promotion fund, financed by the mining industry. The proposal reflects the responsibility that the government of President Ricardo Lagos feels for future generations. It is, as the government has emphasized, fair and necessary that Chile introduces a provision to anticipate for the time when its mining resources become exhausted.

Under the terms of the proposal, mining companies would contribute to this fund in accordance with the economic value of the resources they exploit. The amount of these contributions would not be set a priori, but would vary from 0% to 3% of a company's gross sales, depending on its operating margin. Due to the practical difficulties of applying the scheme to subsistence mining operations and small mining companies, the government has decided that those firms with annual sales of less than approximately US\$ 1.2 million should be exempt. In addition, the contribution would be payable only when a company's operating margin exceeds 5%.

The contribution would take the legal form of an obligation on the owners of mining exploitation concessions. Its introduction will require a modification of Chile's Mining Concessions Law since, under the Constitution, it is the Congress which is responsible for determining the duration of a mining concession, and the rights and obligations attached to it. A measure of this type can only be proposed by the President of the Republic and, under the terms of the Constitution, must be approved by 4/7 of sitting Deputies and Senators.

The government believes that the proposal is fair and efficient in that the

amount of individual contributions would reflect differences between companies and the quality of the resources that they exploit. A mine with a lower grade mineral will, for example, have higher expenditure on inputs and, therefore, a lower operating margin, making its contribution smaller. Similarly, if a mine requires more investment -due, for instance, to the depth at which the mineral is found- its contribution will also be smaller because the company will be able to deduct the depreciation of that investment.

The proposed mechanism also has other advantages. The information needed to calculate a company's contribution is available and can be readily verified. In addition, the system is sensitive to variations in the market prices of minerals and, during periods of weak prices, the contribution would be small, and even zero, avoiding an undue impact on companies during the low phase of the price cycle.

As regards the use to which these contributions would be put, it is important to emphasize that they would not be used for current fiscal expenditures during the remaining years of this government, or spent in any other way in the short term. Instead, they would be accumulated in a fund to promote innovation, expanding the country's stock of technology, and financing research and development to provide alternative future sources of income as mining resources are run down or lose value. By assuming the responsibility of ensuring that future generations are not left to suffer the consequences of the exhaustion of non-renewable natural resources, the proposal is fair across time, and in line with the most advanced practices of other countries.

The government hopes that its proposal will meet a favorable response from all sectors of society and that it will be debated in the spirit that future generations deserve.

Ministry of Finance (Press Release),
April 19

CHILE'S GOVERNMENT PROPOSES NEW FEE ON MINERS

Chile, the world's biggest copper producing country, is proposing a new fee of up to 3% on mining companies' gross sales to try to get more out of its top industry amid the highest copper prices since the mid-1990s. The proposal, which must be approved by Congress, is to charge companies between 0% and 3% on sales, depending on their profitability, and the funds will be used to finance innovations in technology, Minister of Finance Nicolás Eyzaguirre said at a news conference.

The government has been working for months on a plan to get more revenue out of the mining industry. The sector's profits have boomed under Chile's generous tax regime for miners and calls for higher taxes on mining have mushroomed. "The higher the operating margin of a company, the higher will be the fee applied", Eyzaguirre said. "This mechanism links mining companies' contribution to the economic value of the resources that they exploit", he added.

The Minister said there would be no charge to companies that have an operating margin lower than 5%. Operating margin is the percentage of operating profit in relation to sales. Operating profit in Chile is earnings before interest, taxes, non-cash financial charges, some one-time items, and other items. Tax-paying firms will be able to deduct the new fee from their taxes until 2007, Eyzaguirre said. Companies that do not pay taxes, which currently include some of the biggest miners in Chile, will not get that deduction.

Most miners in Chile pay very low taxes because they are allowed accelerated depreciation of their assets and some get tax breaks from investment incentive programs from the 1980s and 1990s. After 2007 the government would collect US\$ 100 million a year from the new fee

if copper prices average 90 cents/lb, Eyzaguirre said.

Copper is the backbone of Chile's economy and represents some 30-40% of its exports. Players in Chile include Phelps Dodge Corp., Anglo American Plc, BHP Billiton, Placer Dome Inc. and Noranda Inc. Half of Chile's copper is produced by foreign-owned private miners who have said that some new projects would not be viable if a new tax is imposed. But market watchers said the new fee was unlikely to slow down investment in Chile given the high prices for copper and the country's low-cost environment.

"The miners' average cost of production is between 45 and 55 cents per lb. So, the (current copper) price is nearly triple their production costs. So, why on earth would they reduce production? I'd be more than happy to pay a 3% revenue tax if I'm trebling my return on investment", said a New York copper dealer, who asked not to be named.

The new government proposal will have to be passed by four out of seven members of Congress to take effect.

Reuters, April 19

S&P SAYS CHILE MINING TAX DISCUSSION A STRENGTH

Standard & Poor's lauded Chile on April 21 for seeking a broad national debate on a controversial new mining tax and said it did not see an immediate economic impact from the measure, if approved.

Chile, the world's number one copper producer, irked mining firms by formally announcing on April 19 a proposed new mining fee of between 0%-3% of gross sales, depending on each mine's profitability.

The proposal, which must be passed by a broad majority in Congress, aims to squeeze more out of miners at a time when

copper prices have recently pushed 9-year highs and is likely to top the political agenda as Chile heads into municipal elections later this year and a presidential race next year.

The formula now on the table represents a compromise between the government's need to generate more cash and upholding mining companies' profit margins, said S&P. "The fact that these issues can be discussed to see what is the most appropriate mechanism of government financing and how that affects companies' margins says a lot about the strength of Chilean institutions", said Diana Mondino, S&P's regional head for Latin America, in Santiago during a seminar on capital market reforms. The bill will enter Congress within the next four weeks where it requires approval of four out of seven members to be passed.

"We've chosen the difficult path", Minister of Mining Alfonso Dulanto told mining industry officials at the start of the CRU World Copper Conference in Santiago on April 21. He acknowledged that its bill may be amended during the debate to come. "We want this to be the result of a broad national consensus".

Government officials have been discussing with industry leaders for at least a year on a variety of formulas for increasing their financial contributions to mining communities, including possible voluntary payments, but those efforts went nowhere. "We value very positively the discussion and whatever the result is, then we will see what economic impact it has", said Mondino.

She added it was unlikely to affect S&P's rating of Chile's country risk. "These classifications have a horizon of 3 to 5 years so the possibility that a change in a tax immediately affects a country's economy is frankly very low", she said.

Reuters, April 21

NESTLE CHILE BECOMES
EXPORT CENTER FOR
BREAKFAST CEREALS

In the presence of the Minister of Economy Jorge Rodríguez; the Minister of Health, Pedro García; the Executive Vice-President of the Foreign Investment Committee, Karen Poniachik; and clients and executives of Nestlé Chile, the company's Executive President, Fernando del Solar, inaugurated the new breakfast cereal plant, located in the Maipú neighborhood of Santiago.

Representing a total investment of US\$ 25 million, the new plant will, together with those in Brazil and Mexico, serve as a center for the export of breakfast cereals. Around 50% of output from the plant, which has a production capacity of 15,750 tons/year, will go to supply markets in Nestlé's Southern American Region (Bolivia, Peru, Argentina, Paraguay, and Uruguay), as well as Colombia, Ecuador, and Australia.

Since 1994, Nestlé has operated in the breakfast cereal market in a joint venture with General Mills, known as CPW (Cereal Partners Worldwide). CPW is currently present in more than 60 countries.

The new plant, which is equipped with the latest technology, comprises two lines of cereal production, as well as six packaging lines. The first production line will manufacture the Chocapic, Trix, Fitness, and Milo brands (the latter for export to Australia), while the second will produce Cornflakes, Zucosos, Gold, Nesquik, La Lechera, and Milo for the domestic market.

Fernando Del Solar highlighted the fact that this investment represents "a strong sign of confidence in Chile, in its solid position, and its economic and institutional stability, which give us the ease of mind to open, from Chile, new world markets". He added that "as a company, we are firmly convinced of Chile's capacity to grow on the basis of its competitive advantages. For that reason, we feel an obligation to take advantage of the tools available for the private sector to look beyond Chile's frontiers, using the country as an unrivalled business platform in the region".

The new facility -which will create approximately 150 jobs- is located in what is known as the "Maipú Complex", which began operations in 1971 as the McKay chocolate factory, and was acquired by Nestlé in 1988. The complex currently houses three plants producing chocolates, cookies and, now, breakfast cereals.

According to the latest *LatinPanel study*, breakfast cereals have achieved a penetration of more than 70%, emerging as one of the product categories that has shown the highest sales growth. The new plant will consolidate Nestlé's leading position in both the domestic and export markets, and will further strengthen its commitment to the Intelligent Breakfast Program, which seeks to increase awareness of the importance of starting the day with a balanced breakfast.

Nestlé Chile (Press Release), April 14

ENAP PRICES US\$ 150 MILLION
BOND ISSUE IN RECORD TIME

Chile's state-owned oil company, the Empresa Nacional del Petróleo (ENAP), took less than twenty-four hours to price a ten-year US\$ 150 million international bond issue. This record time for a pricing was achieved despite market volatility, following the terrorist train bombings in Madrid on March 11.

ENAP announced the placement on Wednesday, March 10 and, during the following week, company executives and representatives of Deutsche Bank had planned to undertake a road show targeting potential investors on the East Coast of the United States. However, the announced placement attracted extraordinary investor interest and was more than 2.5 times oversubscribed, with total demand from a wide range of North American and European institutional investors reaching around US\$ 390 million.

In view of these excellent conditions -unprecedented for a Chilean firm- and the risk that they could be affected by attacks such as the Madrid bombings, ENAP's management preferred to bring forward the

placement, and rapidly modified their strategy, suspending the planned road show.

The placement was led by Deutsche Bank Securities Inc., with Citigroup acting as co-manager.

The bond issue was placed at a yield of 4.92%, equivalent to a spread of approximately 123 basis points over ten-year US Treasuries, with a coupon rate of 4.875%, the lowest ever achieved by a Chilean company for a ten-year bond on the US market. This is ENAP's second international bond offering under Rule 144A/Regulation S and it received an "A" rating from Standard & Poor's and "Baa1" from Moody's Investors Services, the same in both cases as Chile's sovereign risk rating.

Investor interest in the placement is explained by a number of factors, of which the most important are Chile's solid institutions and investors' appetite for Chilean risk. In addition, ENAP represents a solid investment alternative, given its leading position in Chile's fuels market, its high risk classification (recently upgraded by Standard & Poor's), its excellent results, and its increasing international prospects. Investors also highlighted the quality of the company's management, its commitment to the business, and the company's Strategic Development Plan. With this second placement on the US market, ENAP is becoming established as a name that is recognized by investors, who increasingly follow its performance through, for example, the quarterly conference calls that the company implemented in 2003.

This new bond issue forms part of a strategy of liability management and financial restructuring that the company launched at the end of 2002 with the issue of bonds on the international and local markets. This was followed in 2003 by the negotiation of two syndicated loans, designed to extend the maturity of the company's liabilities. The proceeds of the recent bond offering will be used mainly to refinance short-term liabilities, and only US\$ 33 million will be devoted to the company's investment plan for 2004.

ENAP (Press Release), March 12

CHILE-SOUTH KOREA FTA GOES INTO EFFECT

Opening the doors to their respective markets, Korea and Chile began lifting tariffs on more than 11,000 items as a Free Trade Agreement went into effect on April 1. Most local industrial goods will begin entering Chile free of tariffs. Chile, in turn, lifted duties on the majority of Korean farm produce.

A first for Korea, the trade pact was the fruit of a year-long war in the Korean parliament. Threatened by Chile's cheap, quality farm produce, the domestic agriculture sector fiercely opposed the move since trade talks began between the countries in 1999.

Chile is regarded as the bridge linking Korea to the vast South and Central American markets. Korea currently has slightly more than US\$ 8 billion in annual trade with those markets, while trade with Chile stood at US\$ 1.3 billion at the end of 2003.

Korean exporters such as automakers and mobile communication companies have been eagerly awaiting the pact in the hope of raising their market shares in Chile. "Everybody here, both Korean and Chilean, wants closer relations between both countries", said Lee Jum-soo, First Secretary at the Korean Embassy in Chile. Lee predicts mutual benefits from the pact, as Chile could venture into Asian markets such as Japan and China based on the ties with Korea, while Korea should gain a firmer foothold in the rest of South America. "Chile currently has Free Trade Agreements with over 30 nations, but none in Asia", he pointed out.

Following parliamentary passage of the trade agreement in February, the two nations officially signed to scrap duties on nearly 20,000 products, with the deadlines varying from immediate elimination to within five to 13 years.

Korea is to lift duties on nearly 90% of all industrial goods. Chile, for its part, will scrap duties on only 30% of local industrial

products, but open its doors to almost all agricultural goods from Korea. However, 21 agricultural products, including rice, apples and pears, were excluded from the pact due to protests in the Asian country. The two sides will decide the fate of another 337 items after the Doha Development Agenda talks are concluded.

"We aim to nurture more experts to improve the distribution system of agricultural products here, as a better circulation of products will work as a great stimulus to our farming sector", said Agricultural Minister Huh Sang-man.

Mindful of the worldwide trend of bilateral Free Trade Agreements, Korea has been busily tapping countries far and near to sign similar trade pacts.

The Korea Herald, April 1

HYDRO QUEBEC TO FOCUS EXPANSION IN CHILE

Canadian company Hydro Quebec plans to focus its Latin American expansion plans in Chile and Peru in the short and medium term, Hydro Quebec press officer Sylvie Tremblay told *BNamericas*.

The strategy of Hydro Quebec's transmission unit TransÉnergie "is to grow abroad where the division has a solid base, and that means in Latin America and in particular in Chile and Peru", Tremblay said. TransÉnergie is mainly interested in investing in companies "in which the division can play a leading role and thus benefit from the value created by its activities", Tremblay said.

TransÉnergie owns Chile's largest transmission company Transelec and the Transmataro consortium in Peru. The company plans to develop its expansion plan using Transelec's revenues and in partnership with local companies, Tremblay added.

In Chile, TransÉnergie's President, Yves Filion, said he expects power demand to rise by 5-8% annually in coming years and that Chile needs to invest at least US\$ 400 million by 2009 to upgrade its transmission network. "Investing in Chile is our priority. Chile has the clearest legislation in the region", Filion said.

Hydro-Quebec controls about 90% of Chile's transmission network through Transelec and is interested in developing an electrical interconnection project with Argentina. In Peru, the utility is "on the lookout" for potential acquisitions but doesn't see any for now", Filion said. Brazil is another area of consideration. "We're interested in Brazil, it's a big market", he added. "If we go there, it will be with a partner. It's a medium-term goal, so it probably won't happen for another couple of years".

Montreal-based Hydro Quebec owns transmission assets in Australia, Chile, Peru and the US.

Business News Americas, April 6

INTEL COMPLETES 10% SONDA ACQUISITION

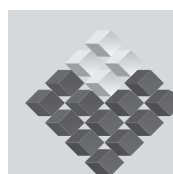
Chilean systems integrator Sonda completed a US\$ 10 million capital increase to allow US microprocessor manufacturer Intel to buy a 10% stake in the company. Sonda first announced its agreement to bring Intel onboard in October 2003, and the 10% stake gives the US firm the power of veto over statutory changes proposed over the next 15 years.

In other news, Sonda's financial services division *Sonda Sistemas Financieros* obtained capability maturity model (CMM) level 2 certification, the company said in a statement. US-based Procesix monitored the certification process.

Business News Americas, April 6

Between January and February of 2004, materialized Foreign Direct Investment totaled US\$ 2.7 billion. The Foreign Investment Statute (DL 600) channeled 92.8% of the inflows. The main recipient sectors were Electricity, Gas & Water

(87.1%), and Transport & Communications (10.2%). During the first two months of 2004, materialized FDI came mainly from North America (43.1%) and the European Union (41.2%).



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

Instrument/Period	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Jan-Feb 2003	Jan-Feb 2004	Growth rate
FOREIGN INVESTMENT STATUTE (1)														
- Capital Contributions	895.6	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	131.3	2,470.8	1,781.8%
- Associated Credits	839.0	976.0	1,235.1	868.7	1,414.7	1,665.7	607.4	484.9	461.6	1,116.4	184.5	0.3	0.0	-100.0%
MATERIALIZED INVESTMENT F.I.S. (DL 600)	1,734.6	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	131.6	2,470.8	1,777.5%
CHAPTER XIV (2)														
- Capital Contributions	204.2	410.2	409.5	441.6	920.6	539.3	688.8	735.6	775.2	446.3	1,187.9	60.1	192.8	220.8%
TOTAL F.D.I. CAPITAL CONTRIBUTIONS (F.I.S. + Chapter XIV)	1,099.8	1,959.2	2,212.1	4,409.1	4,723.7	4,908.0	9,279.8	3,272.2	5,095.4	2,706.4	2,279.8	191.4	2,663.6	1,291.6%
TOTAL F.D.I. MATERIALIZED (Materialized F.I.S. + Chapter XIV)	1,938.8	2,935.2	3,447.2	5,277.8	6,138.4	6,573.7	9,887.2	3,757.1	5,557.0	3,822.8	2,464.3	191.7	2,663.6	1,289.5%
Capital Remittances														
- Foreign Investment Statute (1)	174.1	59.5	396.1	333.6	375.5	443.8	281.8	541.4	955.2	1,744.6	267.0	28.7	2,582.5	8,898.3%
- Chapter XIV (2)	173.2	49.4	392.6	303.4	354.9	119.9	234.0	462.7	665.8	1,712.2	248.2	24.7	2,432.6	9,748.6%
	0.9	10.1	3.5	30.2	20.6	323.9	47.8	78.7	289.4	32.4	18.8	4.0	149.9	3,647.5%

(1) Source: Foreign Investment Committee
(2) Source: Central Bank of Chile.

* Provisional figures as of February 29, 2004

MATERIALIZED FOREIGN INVESTMENT UNDER THE FOREIGN INVESTMENT STATUTE (DL 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
Construction	329	114	279	211	29	164	138	27	27	1,318
Electricity, Gas & Water	479	1,395	495	4,540	860	908	473	150	2,153	11,453
Fishing and Aquaculture	169	12	8	0	92	5	0	10	0	296
Forestry	153	29	38	17	4	1	1	1	0	244
Industry	3,661	627	530	828	240	754	209	234	11	7,094
Mining	9,564	1,703	2,465	1,350	243	958	1,999	383	14	18,679
Transport and Communications	1,370	177	224	374	870	1,281	336	340	252	5,224
Insurance	373	250	702	208	90	265	20	4	0	1,912
Wholesale and retail trade	385	272	190	86	117	110	82	43	12	1,297
Financial services	2,631	459	813	950	261	108	56	41	0	5,319
Other Services	1,247	167	279	614	192	217	60	43	2	2,821
TOTAL	20,539	5,219	6,036	9,199	3,021	4,781	3,376	1,276	2,471	55,918

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

MATERIALIZED FOREIGN INVESTMENT UNDER THE FOREIGN INVESTMENT STATUTE (DL 600) BY REGION OF ORIGIN 1974-2004*
(in nominal US\$ million)



Source: Foreign Investment Committee - Chile
*provisional figures as of February 29, 2004