

# Chile



2018 Discovering Business

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CHILEAN PROMOTION BUREAU



Department for  
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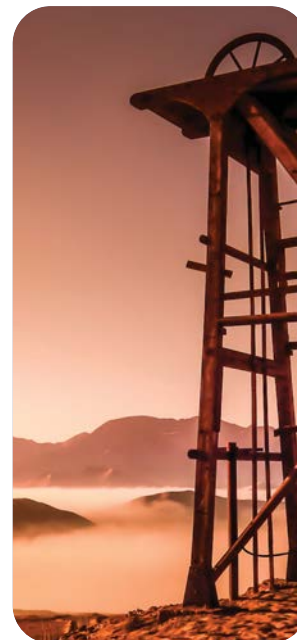
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## Chile charts a new course

Chile is a Latin American success story. Over recent decades it has largely escaped the traumas that have troubled many of its neighbours, collecting instead a string of international accolades for its record of political stability and strong economic performance.

A programme of economic liberalisation and a clear commitment to free trade – Chile now has trade deals with more than 60 countries – set the country on course for steady growth back in the 1990s, with the economy expanding by an average 5% per year between 2003 and 2013.

One clear mark of its new international standing came in 2010, when Chile became the first country in Latin America to join the Organisation for Economic Cooperation and Development (OECD), which groups the world's 35 most advanced economies.

For many Chileans, the result of economic reforms has been a steady rise in wealth. Between 2000 and 2015, the proportion of the

population living in poverty dropped from 26% to 7.9%, according to the World Bank, and Chile now boasts the highest GDP per capita in South America.

Much of the country's success can be explained by rising demand for copper, Chile's principal export, but plentiful Foreign Direct Investment (FDI) has also played a part: Chile remains the second largest recipient of FDI in South America after Brazil. Among its attractions: a business-friendly and moderate tax regime.

A reputation for honest dealing provides one more attraction for investors: in 2016, Chile took 24th place worldwide in the annual Corruption Perception Index, published by Transparency International, ahead of all other countries in South America except Uruguay.

For good measure, Chile has plenty of attractions besides the strictly commercial to lure businesses and expatriates. The capital city, Santiago, with a Mediterranean climate and conveniently placed

between the mountains and the sea, ranked third among Latin American cities in Mercer's 2017 Quality of Living Survey, behind Montevideo and Buenos Aires.

Fiscal prudence has been central to the Government's handling of the economy. In times of growth and high copper prices it has put aside surpluses in sovereign wealth funds, largely invested outside the country and kept separate from the Central Bank's reserves.

But recent years have also seen serious setbacks. In 2010, a massive earthquake rocked central Chile, triggering a tsunami that devastated some coastal cities. 2017 brought the worst forest fires in decades, destroying more than 1,500km<sup>2</sup> of woodland.

At the same time, a slump in commodity prices induced partly by a downturn in demand from China, has slowed the pace of economic growth, which fell to 1.6% in 2016. Unemployment and inflation have both edged upwards, and economists warn that productivity remains low.

The benefits of economic success have been uneven – a report in 2016, from the OECD concluded that Chile suffered the highest rate of income inequality of any of its member states – feeding a mood of discontent

A promise to address the perceived unfairness of Chilean society was crucial to the election of President Bachelet, who took office in 2014, but much remains to be done, especially over access to higher education, a key concern for younger Chileans who often face high university fees.

Responding to the challenges, the Government has put forward a range of measures intended to diversify the economy and reduce its exposure to the fluctuating price of copper and other minerals. It is also promising extra spending to improve the nation's often outdated infrastructure, seen as a major brake on development.



In particular, the authorities are boosting innovation through promoting Chile as a regional hub for smart technology; to enhance the already growing agricultural export sector; and to exploit the country's huge tourist potential, particularly in the booming area of eco-tourism.

Given the fiscal pressures, the Government is keen to share the costs of development with private investors whether from Chile or abroad. In 2016, it set up a new investment promotion agency, InvestChile, which helps foreign companies to explore new opportunities and establish themselves in the country.

The five sectors identified as priorities are mining industry services, the sophisticated food industry, exportable technological services, sustainable tourism, and improvements to the energy and logistics infrastructure. ■

# H.E. Roland Drago

Chilean Ambassador to the UK



H.E. Roland Drago

In 2018, we will be celebrating an important bilateral occasion, the 50th anniversary of the State visit of her Majesty the Queen and the Duke of Edinburgh to Chile. It was the first visit of a British monarch to our shores and it marked a significant point in the relationship between the two countries.

It is interesting to see that five decades later, the bonds between the two nations are stronger yet, as there is so much we share in common. We are both trading nations; Chile is an open economy promoting free trade, with probably more free trade agreements signed than any other nation on the planet. This gives us access to over four billion people across five continents.

Britain has an even longer tradition as a trading nation. Now that the country is in the process of leaving the European Union and in search of new deals with the world, we believe that there are many opportunities arising. At the moment we export mainly fruits and wine to the UK, but I believe there is so much scope for diversification.

Britain has also been a great investor in Chile, particularly in mining, but there are so many areas in which we could collaborate, such as transport, public works, science and technology, to mention just a few.

In June 2017, we celebrated the seventh version of “Chile Day” in London, an important event that

gathers more than 300 business people from Chile and the UK, mainly from the financial sector. As always we had the support of the Foreign Office and the City of London.

But our future is not just restricted to trade and investment. There are other areas, like education, that have become relevant. The UK is the most popular destination for Chilean graduate students. There are over 800 of them building networks, conducting joint research and bringing back home the best of what the UK can give them. We want to expand those ties and increase the number of joint ventures between Chilean and British academic institutions. Apart from a number of agreements between the education institutions of both countries, we have an agreement of mutual recognition of university degrees, which will further contribute to the exchange of academics and professionals between the two countries.

So much has changed since the Queen’s visit in 1968. Chile is today a middle-high income country, with the highest per capita income in Latin America. We have a strong democracy and a very stable economy. The challenges we face now are not too different from those of the UK and other nations, so it is essential to work together to further strengthen those bonds that will contribute to the prosperity of both nations. ■

# David Gardner

Director, Department for International Trade



David Gardner

I am delighted to be writing an introduction to Chile – Discovering Business 2018. The chances are that if you are reading this, you are thinking about Chile as the next port of call for your business. So I hope you will allow me to make sure that it is.

Chile has some unique characteristics that set it apart from anywhere else in the region. It is not just a land of wine and mining, though these are important parts of what it is. It has a strong relationship with the UK, sharing our beliefs in safeguarding the rule of law, upholding human rights and most importantly, it is a fervent supporter of free trade.

It has just been named by the World Bank as the No 1 destination for ease of doing business in South America. Its open economy, its membership of the OECD, its hallmark stability, transparency and competitiveness make it an excellent starting point for business and investment. Coupled with the Free Trade Agreements that it has with 64 countries, more than any other in the region, it is also a good jumping off point for those of you that want to expand your business elsewhere in the region.

Chile is a member of the Pacific Alliance, the other members being Colombia, Peru and Mexico. Its aim is to deepen integration between its members to boost growth, development and competitiveness through free

movement of goods, services, capital and people. The UK enjoys observer status to the group and provides support in innovation, competition and education. We look to deepen that relationship further.

A few key facts – Chile is one of a very small group of countries with no net national debt. Its GDP growth in 2016 was 1.6%. Copper prices, which drive much of its economy, are on the way up and the economy is in relatively good shape. The UK's main exports to date are cars, medical equipment, whisky and acrylic polymers. But that is not the whole story. British brands are here in force and there are opportunities in a myriad of sectors – we have British companies working in the transport sector, mining including its supply chain, infrastructure, defence and security sectors. The Chileans are hungry for hi-tech or innovative solutions to old problems across the spectrum and have, for example, adopted similar standards in Building Information Modelling as the UK for all public buildings from 2020 – a sign of the healthy relationship between our two countries.

The expert opinions in this publication will fill you in on much of the detail. I hope I have managed to paint a broader picture of the healthy trading and political relationship. I urge you to give Chile a good look. And don't just take my word, come and see. You will not be disappointed. ■



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# Legal perspective in Chile

BAZ | DLA Piper

## 1 | Why Chile?

As a place for doing business, Chile offers a stable economic and political environment with a reputable legal framework designed to guarantee the protection of investments and the ability to operate in accordance with normal business practices. The strength of Chilean institutions has been recognised by the most prestigious international rankings.

The 2017 World Bank Doing Business Report placed Chile first in South America for starting a business. The report also gave the country the maximum score possible for its strong protection of shareholder rights.

Since 1990, Chile has consolidated its position as an attractive international partner by building an extensive network of Free Trade Agreements and other types, such as economic association agreements with many countries, including some of the world's largest economies and unions, such as the European Union, the United States, China, Japan and Australia, plus an extensive network of double taxation treaties with the main economies of the world. As of 2015, trade represented more than 60% of the Chilean GDP, according to the World Bank. Furthermore, Chile continues extending this network by adding new business partners and increasing its strengths by being members of organisations such as the OECD.

Worldwide investors have recognised this favourable environment and have chosen Chile as an investment destination. According to statistics

from the World Bank, net inflows of foreign direct investment (FDI) in the country grew from US\$50 million in 1975, to more than US\$20.4 billion in 2015.

## 2 | Attractive economic sectors

As noted above, the Chilean economy has received large amounts of foreign investment. According to statistics from the Central Bank of Chile, from 2009-2014, economic sectors that have received these funds include mining; services; water, gas and electricity; industry; and construction, among others.

### (a) Energy sector

During the last few years, the Chilean energy sector has been very active, especially with regard to non-conventional renewable energy (NCRE) sources, which include biomass, solar, wind, small hydro and geothermal, among others. Chile's special geographical conditions mean there is vast potential for growth in NCRE. According to the Chilean Ministry of Energy, the country has the highest solar radiation in the world, strong wind power and enormous potential for marine energy, as well as a large capacity for developing biogas and geothermal resources.

As a law firm, we have witnessed explosive development of new NCRE markets in the last few years, such as the photovoltaic solar energy market. As a result, renowned international companies have come to Chile to take advantage of the country's investment opportunities.

Several factors explain the growth of NCRE in Chile. In addition to the favourable geographic conditions highlighted above, there have been significant regulatory efforts taken by the Chilean Government. In 2008, Chile issued Law No. 20,257 reforming the Electrical Law to foster the use of renewable energy in the country. In general terms, it requires that each electrical company withdrawing energy from certain electrical systems to commercialise it with distributors, or final clients must prove that a percentage of the withdrawn energy has been injected by their own or contracted NCRE sources. As general rule, the required percentages for 2017 and 2018 are 9% and 10%, respectively. These percentages will increase annually in accordance with the schedule specified in the law until reaching 20% in 2025. If companies do not comply with this obligation, they will be fined.

Additionally, Decree 244, containing the rules for non-conventional and small generation means, established in the Electrical Law, waives toll payments — total or partial — for the use of main ('trunca' in Spanish) transmission installations from the respective electrical systems for certain NCRE sources.

Law No. 20,805 (2015) amended electrical project bidding requirements for clients who are subject to price regulations. This law created the "supply block," which breaks up the day into different time periods, allowing the participation of NCRE projects in the bidding process, among others. As a law firm, we have assessed different NCRE projects in the most recent biddings organised by the National Energy Commission (Comisión Nacional de Energía - CNE), and we have seen growing participation of these types of projects. For 2017, there is a new electrical bidding process, which is expected to have the same successful outcomes as those of prior years.



All of these measures have had a positive impact on the Chilean NCRE market, and figures published by the Chilean Ministry of Energy reflect this trend. For example, investment in wind plants grew by about 130% from 2014 to 2016, and solar power plants under construction in the Central Interconnected System and the Great North Interconnected System, increased by more than 400MW from March 2014 to January 2017. At that date, the NCRE represented 45% of the total of generation plants under construction in both systems.

We believe the Chilean electrical sector will continue offering new investment opportunities. The Chilean Ministry of Energy has ambitious long term goals, and Chile intends to generate at least 70% of the nation's energy from renewable sources by 2050.



For 2017, there is a new electrical bidding process, which is expected to have the same successful outcomes as those of prior years.



#### (b) Infrastructure Sector

The Government has defined infrastructure as key to continue transforming Chile into a developed country. According to data collected by the World Bank, from 2011 to 2015, private investment in infrastructure projects averaged more than US\$25 billion and included 72 projects that reached financial closure. This sector has traditionally received significant foreign investment.

In Chile, the concession of public works is the primary way to contract through PPPs. In the 1990s, Chile implemented a concessions system, which has since become widely respected because of the positive results it has achieved. The success is due, largely, to the underlying respect for the rule of law, which protects the interests of all parties involved.

Currently, there are several infrastructure projects that are in different stages of development, such as the international projects Agua Negra and Las Leñas Crossing Binational Tunnels. These projects will improve the connection with Argentina and with other nearby countries.

The Public Works Concession Coordination department from the Chilean Ministry of Public Works, has defined a concession agenda for

2014 to 2020, containing many different infrastructure projects such as highways, roads, airports and even a funicular. Some of these projects are in process while others have not yet been started.

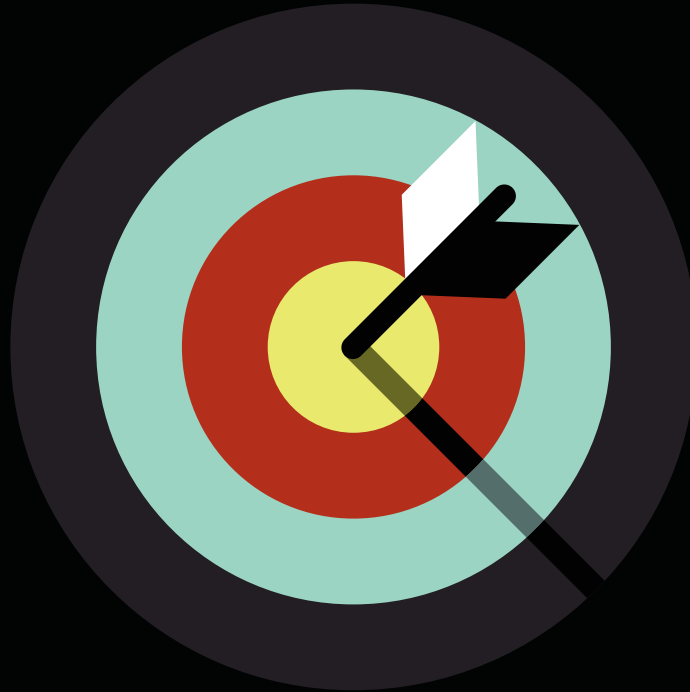
As BAZ|DLA Piper, we have assisted multiple national and international clients in their investments in Chilean infrastructure. We believe that all these projects are attractive for investors seeking new opportunities.

#### 3| Challenges for the near future

Challenges facing investors in the near future in the country will largely be determined by certain legal reforms driven by the Government, such as the tax and labour reforms. For example, on 1st April 2017, the most profound labour reform in 40 years came into force. The reform provides more relevance to unions and creates a new collective bargaining system.

New regulations sometimes are burdensome, but they also create new opportunities. Chile is not only far in advance of neighbouring countries in terms of development, but offers a welcoming environment for those doing business in country as well as those seeking a LatAm hub to take advantage of the numerous opportunities in the region. ■

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# The mergers and acquisitions paradox and how taxes contribute

Deloitte Advisory Ltda



Joseph Courand,  
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Chile has been undergoing a downturn in its domestic economy – according to the Central Bank National Accounts Report dated 18 November 2016, Chile has experienced low economic growth (the GDP grew only 1.6% in the third quarter of 2016 and 1.8% year to date). Paradoxically, the downturn appears to have given considerable impetus to M&A activity in the country. The paradox may only be superficial: in fact, it is not unusual for an economic downturn to cause a business owner to cash-out an underperforming investment, thereby creating an opportunity for a new owner to enter a market at an attractive price, provided the medium to long term expectations for such a market are positive.

Another contributory factor to the dynamism of Chile's M&A cycle, is the positive medium to long term outlook for investors. This is evidenced in the United Nations Conference on Trade and Development's World Investment Report of 2016, which states that, during 2015, Chile was the seventh worldwide developing country, and second in Latin America, after Brazil and before Mexico.

The economic sectors with the most M&A transactions in Chile are retail (26% of the agreements) and financial services (21% of the agreements). The M&A transactions with the highest value, however, are in the

real estate sector, which reached US\$1.194 million (48% of the transactions stake).

Chile has developed a strong tax-legal framework basically aimed at encouraging investment by reducing or eliminating tax-related economic barriers, such as duties on commerce and double taxation on income from investments.

During the 1990s, Chile was a pioneer of open commerce, both in Latin America and worldwide, and it now has an open commercial market with Asia, Europe and the United States. Chile currently has free trade agreements and/or commercial agreements with Australia, Canada, China, the European Union, Hong Kong, Korea, Mexico, New Zealand, Norway, Switzerland and the United States, among others.

Chile also was a pioneer in Latin America in taxation matters and has been working to bring its rules in line with prevailing international standards, both in terms of developing a strong tax treaty network and in combating tax avoidance as the first Latin American country admitted as an OECD member.

Chile has concluded tax treaties with a number of its important trading partners, building a strong network covering Latin America and beyond. Chile currently has

tax treaties in force with Austria, Australia, Belgium, Brazil, Canada, Colombia, Croatia, Denmark, Ecuador, France, Ireland, Korea, New Zealand, Norway, Paraguay, Peru, Poland, Portugal, Russia, Spain, Sweden, Switzerland, Thailand and the United Kingdom. Treaties have been signed with Argentina, China, Italy, Japan, the United States and Uruguay, but these have yet to be implemented.

Largely due to its status as an OECD member country, Chile has made considerable progress in recent years in the areas of transparency, including the exchange of information among tax authorities, and combating tax avoidance. Chile successfully completed Phases I and II of the Global Forum Peer Reviews conducted by the OECD, indicating a level playing field in Chile in terms of transparency, access and exchange of information (including banking information) among tax administrations.

The last tax reform (2014) carried out was a milestone in the fight against tax avoidance: a general anti-avoidance rule (GAAR) and

controlled foreign company (CFC) rules were introduced for the first time, and were the only provisions in the reform package that were not criticised.

Notwithstanding the advantages of Chile's economic opportunities, crucial questions must be answered to implement a transaction in Chile; for example, how should an acquisition be structured and how to develop an exit strategy.

The 2014 tax reform included changes to the taxation of capital gains from the sale of a company by imposing a 20% corporate income tax rate on the gains as from 2014, and increasing the rate to 24% for 2016, provided certain requirements were met. As from 2017, capital gains will be taxed at the same income tax rate as ordinary income, and will be subject to the 35% withholding tax against which the corporate income tax is fully creditable. Thus, as from 2017, the overall tax rate on capital gains will be 35%. Despite the higher tax burden on capital gains as from 2017, it is possible to structure

Table 1: Latin American Growth

% Growth/Annual	Average 2000-2007	Average 2010-2014	2015	2016	2017	2018
World	3.2	3.1	2.5	2.2	2.6	2.8
USA	2.6	2.1	2.6	1.5	2.2	2.3
China	10.5	8.6	6.9	6.5	6.2	6.0
Latin America*	3.5	3.6	-0.5	-0.9	1.7	2.0

Source: Chilean Central Bank, September 2016 – (\*) Excluding Chile

investments so that the increased capital gains tax burden can be mitigated when an investment is disposed of.

Of course, taxation is only one of the issues to be considered in planning any M&A transaction - labour, financial and other non-tax matters also must be addressed.

Chile clearly is an emerging location for business investment in Latin America. The tables below show that while Latin America has experienced an economic slowdown over the last two years (though a recovery is expected to be underway from 2017), and while Chile itself has experienced a slower growth rate than it did in

the previous decade, the Chilean economy has continued to grow (unlike Latin America's average). Its stability, assets, open market environment and investment-friendly rules have made Chile a suitable location for the creation and development of business in Latin America.

**For more information please contact:**

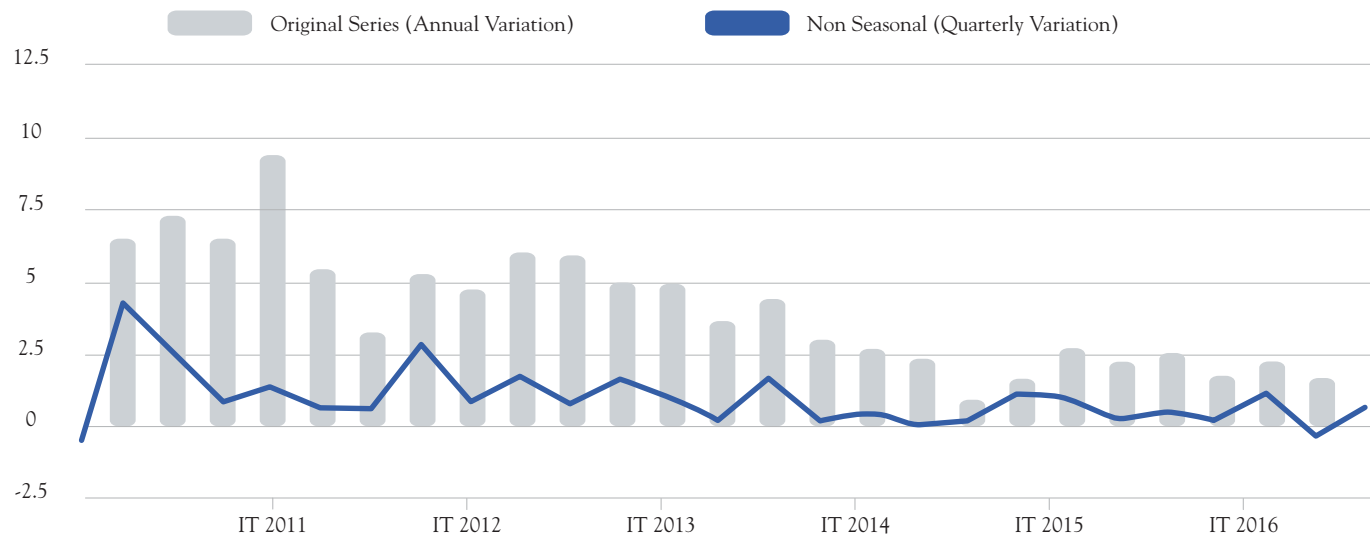
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**Table 2: Chilean Gross Domestic Product Increasing**



## Banking on solid foundations

A vigorous financial sector is always a vital engine of economic development, and Chile's leading banks are in robust health, rated among the strongest in Latin America.

Analysts say their track record for profitability is strong, and lending practices sound. A survey of 22 countries by the investment research company Morningstar, ranked Chile's national banking system above Germany, France, the US and the UK for stability.

The banks' ratio of non-performing loans – debts that are unlikely to be repaid – stood at a respectable 1.9% in 2016, below the figure achieved by some leading European economies, according to the World Bank, while the return on assets after tax was above 14%.

The thrifty habits of Chilean savers provide one useful advantage. Pension savings were privatised back in 1981, forcing employees to set aside 10% of their income for their retirement and thus providing banks with a rich source of deposits to invest.

Evidence of the system's strength was apparent during 2008–2009, when Chile's banks survived the world financial crisis without serious damage, thanks in part to their limited exposure to the international market. Banking remains a modest sector of the economy: financial services, accounting for just 2% of exports.

The system's present standing is in marked contrast to the industry of three decades ago when Chile's banks fell victim to an economic crisis in 1982, a near meltdown which saw many banks seized, nationalised or dissolved. GDP fell by 13.6% and unemployment soared to more than 20%.

Since then, Chile has effectively rebuilt the entire sector, tightening regulation and improving the standard of oversight. Today the system

is under the control of the Superintendent of Banks and Financial Institutions (SBIF) and the Chilean Central Bank.

Their stewardship has won widespread praise. A report by the credit ratings agency Fitch, concluded that the "Chilean market is viewed as attractive due to its history of stability and steady growth, as well as a solid regulatory framework and strong supervision."

When the country joined the OECD in 2011, a report noted that "Chile's financial system is now well-developed by emerging market standards, and even by the standards of many OECD members".

Today a handful of leading companies dominate a list of 25 commercial institutions, with five banks controlling more than 70% of the country's banking assets: Banco Santander de Chile, Banco de Chile, Banco del Estado de Chile, Banco de Credito e Inversiones, and Itau Corbanco.

Their rise to supremacy follows a wave of mergers, starting in the 1990s, which was prompted by the need to improve efficiency and sales. For instance, the country's leading bank, Banco Santander de Chile, with assets worth US\$55 billion and a network of more than 500 branches, is the product of seven mergers between 1993 and 2002.

As elsewhere in the economy, foreign influence is considerable. Overseas banks, such as Santander, BBVA and Scotiabank, together hold more than half the banking system's assets. Among their leading domestic rivals are Banco de Chile and the state-owned Banco del Estado de Chile.

The merger wave of the 1990s, brought opportunities for several of the country's larger retailers to enter the market, sometimes building on their existing consumer loan businesses. On the list of newcomers are



Banco Ripley, Banco Falabella and Banco Paris. All now also operate in Peru.

And the retailers are not the last to join the sector. In 2016, the China Construction Bank won authorisation to launch operations in Chile, making it the first clearing bank for the Yuan in the region. China is Chile's leading trade partner taking 20% of its exports and it's hoped the move will now boost Chinese direct investment in the country.

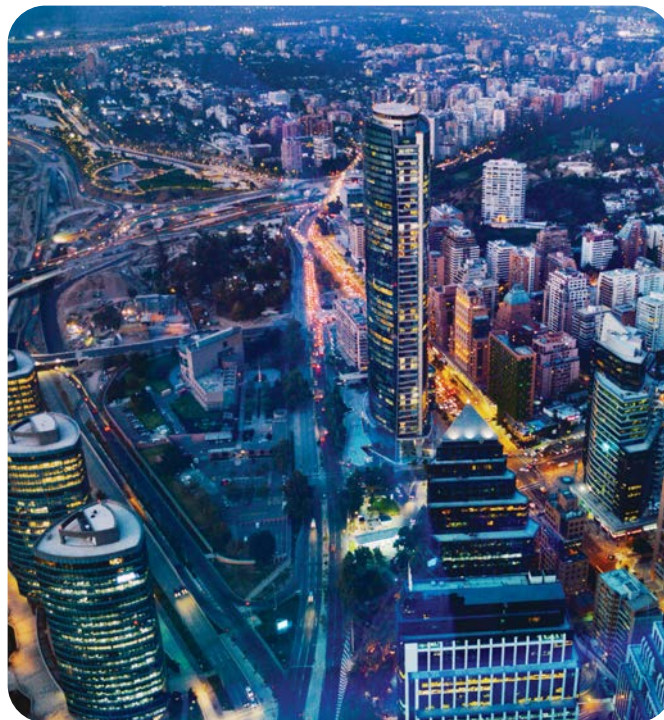
Inevitably, the Chilean financial sector has suffered along with the rest of the economy from the collapse in the commodity price and the slowing growth in some of its leading export markets, notably China and Brazil, which threaten a spell of economic uncertainty or even recession.

In particular, the banks face higher risks when it comes to making loans to smaller and medium-sized businesses, as well as to companies operating in areas of the economy vulnerable to cyclical downturns such as transport, retail, and construction.

At the same time, Chile's banks – like all others – are squaring up to the challenge of meeting the new international Basel III rules. Designed to avoid a repeat of the world financial crisis, they will require banks to have sufficient capital to finance their business and reduce risk.

Reflecting the economic disquiet, the credit ratings agency Moody's, in 2016, lowered its outlook for the Chilean banking sector to negative, concerned about the likely impact of the lower copper price on profits and the effect of slower growth on the value of the banks' assets.

"Chile's weak economic activity will continue to drag on borrowers' ability to service debts, and on banks' business volumes," said Felipe Carvalho, a senior Moody's analyst. "This will continue to weigh on earnings at a time when banks are already facing a host of other



pressures, including intense competition, interest caps on consumer loans and higher liquidity requirements."

Nonetheless, Moody's and other analysts are quick to stress the system's underlying strengths, not least the backing of financially sound government, capable of providing support if required. What's more, most of the banks' liabilities are in Chilean Pesos, making it easier for the central bank to help.

Similar conclusions on the system's long term health were reached by The Economist Intelligence Unit (EIU), which pointed to the banks' stock of foreign currency assets, offering a cushion from external risks. In the words of an EIU report: "We expect the system to be resilient in the face of tighter global liquidity." ■

# Insurance in Chile

José Ignacio Lathrop, CEO, JLT Chile



José Ignacio Lathrop

## How mature is the country's insurance sector?

The insurance industry in Chile is highly developed and sophisticated. With regard to the operational point of view, it is open to the international market, having strong competitive advantages, when we take into consideration a very low taxation system in comparison with other countries in Latin America. It is allowed to offer both admitted and non-admitted policies, which means we can sell freely all types of insurance in Chile and also introduce different and advanced products into our market. In general terms, it is an industry that moves quickly.

## What is the role of JLT Chile in the insurance sector?

Being a specialty insurance and reinsurance broker, our permanent goal is to add as much value as possible to the market, specifically in those areas where we operate. Thus, over the last couple of decades our company has been investing heavily in our people, focusing on attracting the most talented executives in the market. Today we can proudly say that we have one of the best teams of professionals in each specialty.

JLT is a 'Client First' organisation; therefore we put all our effort and resources into understanding our clients' activities and needs, to provide the best risk transfer solutions and advise permanently on risk management improvements. This job is done by our engineers, who are the only National Fire Protection

Association (NFPA) certified within an insurance broker in the Chilean market.

The specific areas of insurance in which we operate are: Property and Casualty, Mining, Energy, Cargo, Construction, Surety and Bonds, Financial Lines, Employee Benefits, Marine, Aviation and Agriculture. Almost all of these lines are strongly supported by our reinsurance arm JLT Re, where our professional and well known team works with strong links to our headquarters in London and also to all the regional and European markets, bringing to the local companies and our clients the best insurance solutions available.

According to the World Bank, Chile has been one of Latin America's fastest growing countries over the last decade, although there has been a slowdown over the last couple of years.

## What's the view of JLT for the next few years in the insurance market?

Chile has been hampered with a lack of new projects in recent years, due to the reforms implemented by the current Government in areas such as tax, labour and education, together with very strict environmental regulations, which has created a less attractive environment for investors. This scenario should change in the future so we expect greater economic growth and new projects should be carried out in specific areas; for instance, in mining, infrastructure and, in the short term, in some energy projects.



According to the World Bank, Chile has been one of Latin America's fastest growing countries over the last decade.



The insurance market has been soft recently, mainly because reinsurers have had access to very cheap sources of capital, considering the low interest rates in the US financial system. This large capacity has not been affected by the catastrophic losses suffered in the last few years. At the present time the rate trends in the US market are changing, so we expect shrinkage of these cheap reinsurance capacities; thus the insurance rates are expected to start increasing.

**How closely are JLT's Chile based businesses linked with the group's London and other global operations?**

JLT Chile is fully integrated with JLT group operations in London. We collaborate with and work in a coordinated manner across five continents, in more than 135 countries, having 11,000 employees worldwide. Collaboration is key to JLT to articulate the world's largest geographic footprint within the insurance industry. In Latin America JLT has presence in: Chile, Argentina, Peru, Colombia and Brazil, in addition to our representative offices all over the region, having a leading competitive position in each territory.

**What are the development strategies of JLT in Chile? Which economic sectors are likely to provide most business growth over the next few years?**

At JLT we are optimistic in our future growth as we are very well prepared to face the next few years' challenges. The ending of the commodity super cycle has caused the mining companies to redesign their cost structure – where insurance is today an item to

be reviewed – and to look for better ways to transfer their risk. This gives us a unique opportunity to show our capabilities and differentiate ourselves from competitors bringing the best insurance solutions and risk management service to our clients and prospects.

JLT is one of the largest energy players in the insurance market and, in Latin America, JLT is leader in this line of business in Colombia, Brazil and Peru. Additionally in Chile, we have a very strong power and energy team and without a doubt we will be a local market leader in this field too.

In manufacturing and heavy industry, we will continue growing, based on a deep understanding of our clients' and prospects' needs, supported by highly professional risk engineering and strong reinsurance support.

**What product lines are being developed by JLT Chile?**

As a speciality broker, JLT is always looking for innovative solutions and to add value by creating bespoke policies. Furthermore, we are developing the cyber risk area when today most corporations are exposed to a new kind of catastrophic hazard. Other lines on which we are working is Mergers and Acquisitions insurance, where both buyers and sellers can protect themselves against eventualities beyond their control. Both areas have grown strongly worldwide in recent years, so we want to continue at the forefront in leading these areas, as we have previously done in aviation, construction and energy, becoming the largest insurance and reinsurance broker in these lines of business in the world. ■



Department for  
International Trade

# Department for International Trade in Chile

Chile, a long and narrow strip of land located between the Andes Mountains and the Pacific Ocean, has long been overlooked by UK companies. It's a long way from the UK and until recently, there were no direct flights. Knowledge of what Chile has to offer businesses was limited. But this is changing. Chile is making its presence felt. It is a member of the OECD and has strong institutions. It has massive copper and lithium reserves. It is the world's largest copper producer, the income from which provides over 50% of Chile's export earnings. State owned CODELCO is the largest copper firm in the world. Add to that an easy business environment - Chile ranks in the top ten of the Index of Economic Freedom, top fifty of the World Bank's ease of doing business ranking and has more Free Trade Agreements than any other nation, 26 covering 64 countries. The introduction of a BA direct flight in early 2017, has made it easier to get here. More and more British companies have made the move to take advantage of Chile's attractive and dynamic business climate, its high levels of foreign trade and its reputation for strong financial institutions and sound economic policies. Chile has the strongest sovereign bond rating in South America. There are now a number of major UK companies established here and many more who are

winning business. This guide has been written by leading experts in the market and it underlines why you should make this market your next. I urge you to read it and get in touch.

In Santiago, the Department for International Trade (DIT) team stands ready to help British companies export and grow into the Chilean market. On the flip side, we help Chilean companies locate to the UK, creating jobs there bringing prosperity for all. In Chile, our main focus is on the mining, healthcare, defence and life sciences sectors. We strive to facilitate the introduction of cutting-edge technology, innovations and British know-how, to the Chilean market to drive efficiency and, through that, competitiveness.

All other sectors of business are covered by our Business Delivery Partner, the Chilean British Chamber of Commerce (CBCC), who are co-located in our offices. Together, both teams work to make your path to market a smooth one by:

- Highlighting business opportunities
- Offering relevant contacts in your sector
- Linking your business with the right local partners and suppliers

- Providing local language skills
- Offering in-depth knowledge of business and legal practices & procedures
- Produce bespoke market analysis and practical market entry strategies specific to each company
- Supporting UK companies at strategic exhibitions and trade shows in Chile
- Planning and delivering visits, trade missions, financial and investment initiatives
- Supporting commercial campaigns with public & private sector clients
- Organising launch events for new products and services.

**Globally, we:**

- Develop, coordinate and deliver our new trade and investment policy, promoting UK business
- Raise awareness of long term government and private sector requirements and match-make demand with the UK offer
- Develop and negotiate free trade agreements and market access deals;
- Negotiate multi-lateral trade deals (focused on specific sectors or products)
- Provide operational support for exports and facilitate inward and outward investment.

We work to market the UK as the natural choice for overseas investment, to create employment in the UK and bring prosperity to all concerned by:

- Offering insight as to why an overseas business should invest in the UK



- Providing sector specific information about the UK economy, including advanced manufacturing, aerospace, automotive, creative industries, energy, financial and professional services, food & drink, life sciences, retail and technology
- Putting Chilean businesses in contact with relevant specialist teams who can guide them through the setting-up shop process.

We are passionate and we believe in what we do. We constantly review our services in light of customer feedback and the impact they generate, which means they will vary from time to time.

I hope this guide has convinced you as to what you are missing by not being here. We know that Chile should be your next market, so take a look, get in touch and realise your potential. We, in DIT and CBCC, are here to guide you. If you are looking to grow your business through exports, whether products or services, or simply need our support for existing business, please don't hesitate to contact us. Our aim is for you to succeed. ■

# Chile and the UK: A fruitful relationship

## ProChile

Chile is the country in the world that has signed the largest number of Free Trade Agreements. Our country is globally connected and committed to globalisation and, what is more, integration and technology have enabled us to become the gateway to the Pacific Alliance.

With 26 Free Trade Agreements signed with 64 countries, Chile has free access to the biggest markets in the world. We also have preferential access to 64.1% of the world's population and 86.3% of global GDP.

But Chile is about more than just trade. The dynamism of our people, their entrepreneurial spirit and creativity have been recognised around the world. Our country is the location of the tallest building in Latin America. Thanks to Chile's transparent skies, we are home to many telescopes that are transforming our country into a window onto the universe. You can cross from the Andes mountain range to the Pacific Ocean in just two hours.

These are among the reasons why the world visits us and they also help explain why for many years - even centuries - we have been building a relationship with the UK that includes trade, political and cultural components. During the last century, many British immigrants arrived in Chile and formed large colonies throughout the country that still exist today. Cities like Valparaíso, Punta Arenas, Santiago, Concepción, Viña del Mar, Temuco, Antofagasta and Coquimbo all have a significant British presence.

In terms of trade, our relationship is also of long standing and has grown over the years. The UK is now an important trading partner for Chile, above all with regard to shipments of Chilean agricultural products.

In 2016, Chilean exports to the UK amounted to US\$630 million. The UK now represents 1.04% of all of Chile's foreign shipments and 8.2% of our shipments to the EU.

Of these, 99.6% are for products other than those from the mining and cellulose industries (US\$627 million). By value, 62% of our exports consist of fruit and wine, at US\$244 million and US\$149 million respectively. The principal products we export to the UK are: fresh blueberries and grapes, avocados, wine, cardboard, apples, plywood, poultry meat, prunes, raisins, cherries and salmon.

The UK is Chile's second biggest export market in the EU (excluding mining and cellulose products), accounting for 18% of the total to the EU, after the Netherlands (22%). For example, it is the biggest market for a number of varieties of Chilean bottled wine, such as Sauvignon Blanc, Merlot, Pinot Noir and Riesling. It is also the biggest market for Chilean shipments of peach juice, Braeburn apples, rosehip seeds and loin of lamb.

ProChile, Chile's export promotion bureau is part of the Foreign Affairs Ministry. ProChile has an office in London to respond to the needs of both Chilean exporters and British importers. It carries out a range of activities to promote Chilean products in line with the interests of consumers and also provides support for attracting investment to Chile and fostering tourism.

We understand Britain's position following the decision to leave the EU. Our country has continued to hold meetings with the British authorities and has also maintained a dialogue with the private sector in Chile in order to understand their concerns with regard to this matter.

Today, thanks to the EU-Chile Association Agreement, many Chilean goods enter the UK duty free. As a country, we hope our future trading relationship will be like we have at present.

With regard to British investment in Chile, between 2009 and 2015 the UK was the sixth biggest investor, accounting for 5% of total capital flows into Chile, equal to US\$6.744 billion, according to the official figures published by Chile's Central Bank.

According to information from InvestChile, Chile's foreign investment promotion agency, the investment by British companies has particularly focused on the mining and financial services industries.

It is worth highlighting that the services offered by InvestChile include providing general information about the advantages of investing in Chile, specialist industry-specific advice and statistics and organising on site visits and scheduling meetings. They can also provide legal advice, information about the national and regional incentives available, support for setting up a business and they can take up queries and concerns with public sector organisations.

Tourism is also an essential part of Chile. Our country has great natural beauty which is open to the world's tourists. The eighth wonder of the world is Chile's Torres del Paine national park, which is open to visitors. Meanwhile, in the north of the country, the outstanding landscapes of the world's driest desert are ready to welcome tourists. Our long coastline spans the entire length of Chile, while the magnificent Andes mountain chain offers ski centres, hotels and spectacular places to go on holiday.

In 2016, 51,611 British tourists came to Chile, 11% more than in 2015, when the number was 46,520. By April 2017, 23,902 British tourists had already visited our country.



The relationship between Chile and the UK has proved to be very fruitful over the centuries, yielding nothing but positive results and Chile hopes that it will continue to grow and prosper in the years to come.

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For general information on Chile visit:  
[www.prochile.cl](http://www.prochile.cl) | [www.thisischile.cl](http://www.thisischile.cl) ■



Cámara  
Chileno **Británica**

BRITISH CHILEAN CHAMBER OF COMMERCE

100  
years  
1917-2017

# A 100 YEARS OF SUPPORTING BRITISH BUSINESS IN CHILE



MARKET OVERVIEW &  
ANALYSIS



INTRODUCTIONS &  
APPOINTMENTS

IDENTIFICATION OF POTENTIAL  
BUSINESS PARTNERS



# British Chilean Chamber of Commerce

Greg Holland, CEO, BCCC



Greg Holland  
CEO, BCCC

Britcham Chile has been supporting British business in Chile since 1917. It currently has 180 members from 40 different sectors, which include large multinationals involved in sectors such as mining, banking, health services, retail, insurance, energy, engineering and importing. Britcham focuses on putting UK companies in touch with local business opportunities, and providing information and support to ensure full understanding of the local market. Equally Britcham provides access for Chilean companies who wish to do business with the UK.

Britcham Chile Services (BCS) works closely with the Department for International Trade to provide market entry and soft-landing services to UK companies who want to export to, or invest in Chile. Every enquiry is treated on an individual basis, and information is provided to first ensure that an opportunity exists, before then proceeding to find the most suitable path to market entry. BCS has deep local knowledge to identify the most suitable distribution partners, good access to specifiers and end-clients, and has extensive experience in organising events and visit programmes that favourably position its clients and their products and services.

BCS is fully accredited by the British Chambers of Commerce in the UK, and operates a quality management

system to ensure that consistent, timely and accurate work is delivered to customers' satisfaction. After care support is provided to maximise the successful implementation of clients' operations in the market. It has a team of experienced bilingual Trade Advisors with many years' experience across the region, and through its regional connections provides services in Chile and various Latin American cities.

Chile is emerging as the ideal first landing step for companies who want to enter the region, and has become the regional hub for many international companies who find that the combination of ease of doing business, competitiveness, rules based thinking and like mindedness, create an excellent and unrivalled platform to successfully manage their Latin American operations.

Britcham Chile works with the other regional British chambers of commerce which form part of the BRITLAC group, to ensure that companies with regional interests can find and have confidence that they are working within a "joined up" infrastructure.

For more information please go to [www.britcham.cl](http://www.britcham.cl), or write directly to [karl.royce@britcham.cl](mailto:karl.royce@britcham.cl). You can also call us on +56 2 2370 4107. ■



# Canning House

## Where the UK meets Latin America and Iberia



President Juan Manuel Santos  
of Colombia at Canning  
Lecture



President Enrique Peña Nieto  
of Mexico at Canning  
Lecture



President Michelle Bachelet  
of Chile at Canning  
Lecture



President Luis Guillermo Solís  
of Costa Rica at Canning  
House Business Lunch

Canning House is the UK's leading forum for informed comment, contacts and debate on Latin American politics, economics and business.

For more information about Corporate Membership contact:

**corporate@canninghouse.org +44 (0)20 7811 5603 www.canninghouse.org @Canning\_House**

# Hispanic & Luso Brazilian Council - Canning House

Founded in 1943, Canning House, is the UK's leading corporate membership organisation and forum for informed comment, contacts and debate on Latin American politics, economics and business. It also celebrates and promotes awareness in the UK of the languages, culture and history of Latin America, Spain and Portugal. For over 70 years it has been at the forefront of British efforts to broaden and deepen the relationship between the UK and Latin America. It does this in full alignment with the UK Government's "Canning Agenda" and in the best interests of British business. Canning House works with the Foreign and Commonwealth Office in the UK and the region, as well as all the Latin American and Iberian Embassies in London. No other institution in the UK is better placed to help businesses optimise their success through understanding the realities and opportunities of this complex and dynamic region.

Canning House is named after the former British Prime Minister, George Canning, who was British Foreign Secretary from 1807- 1809, and again from 1822-1827. Canning was widely respected and admired throughout Latin America as a friend and supporter of the newly emerging republics in their struggle for independence, and as the man who led the British to early recognition of these new states. He foresaw the important political and economic advantages to the UK of strategic relationships with the emerging Latin American countries.

Our history, combined with our status as an independent, non-political, not-for-profit organisation, gives us unparalleled access to key players and experts throughout both regions; and we are optimally positioned to facilitate the contacts, knowledge and understanding that businesses and individuals require in order to succeed in their Latin American endeavours.

Our corporate members benefit from a unique blend of first-hand information and contacts, delivered through circa 50 corporate events per annum (briefings, roundtables, lectures, seminars, debates and conferences), plus regular publications.

The highlights of Canning House's annual events programme are the Canning Lecture, which is delivered by a Latin American or Iberian Head of State or Government, and the Canning Conference, addressed by leading experts. Both of these flagship events attract numerous influential attendees, including politicians, diplomats, senior business executives, academics and thought leaders.

Our corporate members include well-known companies operating in the region such as, AngloAmerican, BAE Systems, Baker McKenzie, BAT, BBVA, CAF Latin American Development Bank, Shell, and Sodexo, as well as a diverse portfolio of other leading businesses across a variety of sectors and specialisms. ■



# Latin iQ

INTELLIGENCE ON LATIN AMERICA

## Don't get cold feet about investing in Chile

Latin iQ is a dynamic provider of bespoke business intelligence and strategic insight. Because we're anchored in Latin America, we're genuinely in touch with what's happening on the ground.

We can give you the competitive edge in appraising business opportunities in Latin America by uncovering the hazards and mitigating the risks that can arise when engaging with individuals, companies and governments.

Integrity Investigation | Due Diligence | Risk Assessment

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# Specialist expertise in risk assessment

Andy Webb-Vidal, CEO, Latin iQ Corporation



Andy Webb-Vidal

**Tell us about Latin iQ and how you've seen demand evolve for your services in Latin America...**

Latin iQ specialises in undertaking reputational due diligence and business risk assessments in Latin America. I have operated in the region for about 25 years, and set up Latin iQ a decade ago following a career as a financial journalist. The people in my team know better than anyone who's who in Latin America, and what's going on behind the scenes. One of the key trends we've seen is how the need for due diligence has changed. Our clients understand that basic box-ticking compliance exercises and a quick check of a government sanctions list is plainly inadequate action in today's world. There are several reasons for this. One is the rise and growing awareness of far-reaching anti-bribery legislation, such as the UK Bribery Act and the US FCPA, and its enforcement. There is also a progressive tightening of anti-corruption laws in different countries within Latin America, and most recently a growing level of international cooperation among anti-corruption prosecutors within the region and their counterparts in Europe and the US. Another factor is that with the rising power of social media, incidents of

misconduct can consequently be publicised with astonishing speed, meaning companies are exposed to reputational damage on an unprecedented scale. This all means that businesses and investors have to be far more careful than ever before.

**How does Chile fit into that wider picture, and what would your advice be to UK companies looking at the country?**

All companies investing and operating in Latin America are exposed to some corruption risks, as they invariably have to interact with officials possessing a diverse range of ethical standards. The theme has really come to the fore over the past two years, as a result of the scandal that erupted in Brazil stemming from the judicial investigation into the payment of hundreds of millions of dollars in bribes, by some of the country's biggest private construction firms, to secure public works contracts across the region. The interesting thing is that Chile was strikingly absent from the list of countries where the most prominent Brazilian company involved in the scandal, Odebrecht, admitted paying bribes on an industrial scale. That says something very positive about Chile: that bribery and corruption is much less prevalent

than elsewhere in Latin America. But that's not to say you should let down your guard. Even in Chile it's important to do your homework, and to run comprehensive checks on potential joint venture partners, acquisition targets and trade partners.

#### So why is the corruption and bribery risk so low in Chile?

Firstly, the country has an exemplary range of laws in place, designed to prevent and punish corruption. Secondly, public institutions which issue permits, licences and oversee public tenders, really are robust by regional standards. Thirdly, when incidents of corruption are detected, the relevant authorities have been swift and thorough in their investigations right through to the stage of prosecution. Importantly, punishment is enforced. In the Chilean corporate sphere, there is also a wider understanding of the need to implement compliance systems. None of that is to say things are impeccable. In 2014, two cases of fraud, influence-peddling and improper payments to politicians emerged, both involving large Chilean private companies. Then there was an investigation into the alleged use of confidential information by a member of President Michelle Bachelet's family. But sometimes scandals like these have to happen for things to be shaken up, and fortunately that's exactly what's happened in Chile. In 2015, Bachelet appointed an independent commission to review the existing anti-corruption framework. Since then, various reforms and new laws have been implemented. For example, the corporate criminal liability law, which dates back to 2009, stipulated that companies introduce compliance systems voluntarily. The commission recommended that



compliance procedures be mandatory for all companies above a certain size. A government lobbying law was passed in 2014, and is applicable down to the municipal level. In 2016, a probity law was published which has required not only legislators, but also about 60,000 officials, to file mandatory asset and interest disclosures. Various other mechanisms have been enhanced to prevent conflicts of interest, such as the use of blind trusts.

**Chile has long been seen as an economic success story – is that really the case? And what are its main challenges ahead?**

The Chilean development model has been described as a 'miracle', and on the whole that's true when you compare its performance over the past three decades with other countries in Latin America. The economy is well managed, and Chile has a Norwegian-style macroeconomic stabilisation fund. But Chile does have some



The Pacific Alliance countries are among those in the region that are growing at the fastest rates and attracting greater levels of foreign investment.



problems to be tackled. It relies on imported fuel so it's vulnerable in that area, although it has fostered the growth of hydropower. The pensions system, privatised back in 1981, is not delivering the returns it once did, and that is causing some tensions. However, reforms are underway, and it is not a critical fiscal burden as it is in many other countries. Tackling income and social inequalities without upsetting business confidence is a challenge, as it is anywhere else.

#### **What about political risk, does that present particular problems for investors?**

Chile has been a fully functioning and stable democracy since its transition in 1990. Its recent history has not been marred by social and political upheaval leading to presidential impeachments or the overthrow of incumbents. The separation of powers between the executive, legislature and judiciary is well defined and balanced. In addition to that, the principal political parties are, in reality, all relatively centrist – they're generally all market-friendly but with diverging policies on themes such as taxation, education and social issues. The risk of nationalisations or politically-driven expropriations of businesses is very low in Chile. Those risks are probably on the same scale as that of compulsory purchase orders in the UK.

#### **Finally, are there any other advantages you see in Chile for foreign investors looking at Latin America for the first time?**

Yes. Chile is a member of the Pacific Alliance, a trade bloc which was set up in 2012 with Peru, Colombia and Mexico. There's free trade in goods and services among the member states, although tariffs still have to be lifted in some key sectors. The member states have also integrated their respective securities markets. As a single bloc, the four economies account for almost 40% of GDP of the whole of Latin America. There are also a couple of interesting dynamics at play. Firstly, the Pacific Alliance countries are among those in the region that are growing at the fastest rates and attracting greater levels of foreign investment. Secondly, it is also outward-looking in that it was configured with an eye on the Asian market. The Pacific Alliance contrasts with Mercosur, which has been left dysfunctional by political interference and messy disputes. The challenge for Chile is to position itself to develop higher value intellectual property and services. Beyond that, Chile also has one of the lowest crime rates in Latin America, which is of course a positive feature.

To contact Andy Webb-Vidal please email: [aww@latin-iq.com](mailto:aww@latin-iq.com) ■

## The desert's buried treasure

Chile's greatest economic asset lies buried deep underground. With the world's largest copper reserves, it dominates the world market for the metal and is responsible for at least 30% of global output. Copper exports – at times worth more than 50% of the total – make a vital contribution to the nation's economy.

In recent decades, the Chinese in particular, have proved keen consumers. As China continues its relentless expansion, it has come to account for almost half of global demand for the refined metal – used for everything from household wiring to power grids – and it looks to Chile for much of its supplies.

Such a ready market has transformed Chile's economic prospects and brought much needed stability. For more than 30 years the Government has stowed much of its copper revenues in sovereign wealth funds, untouched in good times but drawn on to keep the country out of recession when mineral prices fall and the economy falters.

But Chile's subterranean riches extend far beyond copper. The country is also the world's leading producer of both iodine and lithium, and the third largest producer of molybdenum, a by-product of copper mining much used in alloys. For good measure, it is among the top 20 suppliers of gold and silver.

Miners have been digging in Chile since the 16th century but large-scale industrial production only began in the early 1970s, when the private sector, including foreign investors, was allowed a major role. Since then private copper production has grown more than 20-fold.

One more boost came in 1992 when the giant state-owned copper concern, Codelco, was allowed to form joint ventures with private companies, both foreign and domestic, to work unexploited deposits, triggering a much needed surge in FDI in the mining industry.

Today, Codelco remains the largest company in the country's copper industry, with a 30% production share. But some 25 other companies undertake large-scale mining, including some of the biggest multinationals, such as BHP Billiton, Rio Tinto, Anglo-American and Xstrata.

The industry's good health has been far from consistent. In recent years, a downturn in demand has prompted a sharp drop in the copper price; productivity has reduced; copper grades have fallen, and rising operating costs have dented profits. Power and water supplies are problematic and Chile has toughened its environmental rules, slowing investment decisions.

Industrial relations are also a worry. The world's largest copper mine, Escondida, responsible for 5% of global production in 2016, saw the Chilean mining industry's longest strike in a generation. The dispute over pay and benefits with operators BHP Billiton, took over six weeks to conclude.

That said, analysts are confident of good times ahead. Chile's national mining association, Sonami, is forecasting a "substantial" shortfall in copper supplies that will shortly push up prices. "Long term price expectations should be much higher from 2018, if we are



optimistic or from 2020, if we are pessimistic,” Sonami Chairman, Diego Hernandez, told the 2016 Copper Industry conference.

Drivers are likely to include population growth and further urbanisation in China and other emerging countries, as well as a possible increase in US demand if it goes ahead with ambitious plans to overhaul the country’s infrastructure.

One more positive factor, according to Sonami, is the switch to green energy sources. Renewable energy systems such as wind power and solar need between eight and 12 times more copper per KW than traditional means of generation. At the same time, Chile’s growing use of solar power has already helped to drive down the industry’s all important energy costs.

What’s more, the global lithium market is booming, thanks to increasing demand for rechargeable batteries in electric vehicles, as well as in mobile phones. And with 54% of global lithium reserves, Chile is well placed to profit from the surge.

After rising 20% in the five years to 2015, the 160,000 tonne demand for lithium is forecast to more than double to around 350,000, as the market for new generation of electric vehicles takes off, according to a report from the Chilean Government.

Competition for lithium reserves could be fierce, and China’s BYD, the electric car and battery manufacturer, has already said that it is talking to producers in Chile about securing supplies. Chile now wants to see foreign manufacturers base themselves in the country to make battery components, such as electrolytes and cathodes.



At present, just two companies, the giant US producer Albermarle and Sociedad Quimica y Minera de Chile, extract lithium from the Atacama Desert. Early in 2017, Albermarle signed an agreement with the state development agency, CORFO, to raise its authorised production of lithium to 80,000 tonnes a year, up from 25,000 tonnes in 2015.

To modernise and keep pace with demand, the authorities reckoned in 2015, that the Chilean mining industry would need US\$50 billion in investment over seven years, with much of it coming from abroad. Money was needed for 1,800 off-road trucks at open-cast mines, loader drills for use underground, mill balls for grinding and blending materials, conveyor belts, explosives and training worth a total US\$4,880 million. ■

## From phosphates to forests

If mining and minerals provide the Chilean economy with its core strength, related industries, often involved in processing raw materials, have also flourished.

Currently manufacturing accounts for around 12% of Chile's GDP with a list of products ranging from copper wire and fertilisers – Chile has been home to a nitrates industry since the 19th century – to chemicals, processed foods and textiles.

The country still has its own small steel industry, three major oil refineries run by the state-owned Empresa Nacional del Petróleo (ENAP), which also exploits the country's own supplies of oil and natural gas, coal mines in the south, and a rapidly expanding renewable energy sector.

Despite recent setbacks that have brought a sharp decline in industrial output, the manufacturers' trade body, The Chilean Federation of Industry (SOFOPA) boasts a membership of some 2,500 businesses.

Many are based in or around Santiago and Valparaiso, with others to be found in the cities of Concepcion, Antofagasta, and Puerto Montt, a centre for one of the world's largest salmon aquaculture industries.

In the year to April 2017, the manufacture of basic chemical products rose by 2.4% and the pulp and paper industry saw production climb by almost 10%, according to SOFOFA.

Given the temperate climate and excellent soil of much of Chile, it's no surprise that the forestry products sector has proved especially

successful, meeting the rising demand which has accompanied the widening of Chile's trade links. China in particular, has become a valuable market since the signing of a free trade agreement in 2005.

Yields are high and the weather conditions mean trees such as pine and eucalyptus will grow faster in Chile than the same species elsewhere, and more than a fifth of the country is now forest, according to industry trade body, CORMA. Chile is now one of the few producer countries which has actually increased its forest cover.

After years of growth, the industry contributes some 14% of the country's exports, 2.6% of the economy, and employs directly or indirectly, some 330,000 people, equating to one in 20 of the national workforce.

Dominating the industry are two large companies, Arauco, which have operations across Latin America as well as in Canada and the US, and Forestal Mininco - CMPC. Together they enjoy combined annual sales of more than US\$10 billion, much of it from pulp and timber sales to the US.

Among the industry's leading products, according to the Government's ProChile agency, are lumber, paper and paperboard, wood panels and veneers, sawmill waste and woodchip.

The industry insists that it operates to high environmental standards. Managed plantations supply 99% of industrial production, and 70% of those plantations are internationally certified, 40% ahead of the world average.

Chile's forests have proved dangerously vulnerable to fire. A devastating blaze earlier in 2017, blamed on record high temperatures and nearly a decade of drought, consumed more than 1.4 million acres. Losses to the forestry industry have been reported at some US\$350 million.

The country's vast mining sector has fostered the growth of a chemical industry which makes use of the same mineral resources. Sales from some 300 chemical companies contributed around 4% of GDP in 2014, and made up around a quarter of the total industrial sector.

Among the industry's biggest names are some world-class companies, notably the giant Sociedad Química y Minera (SQM) group, which has a global presence in a long list of areas – plant nutrition, iodine and its derivatives, lithium products, industrial chemicals and potassium.

One clear attraction for producers is the vast Atacama Desert of northern Chile, where the saline deposits and brine are a plentiful source of numerous non-metallic mineral compounds. Moreover, a desert setting allows for the easy to use low cost technologies, such as open pit mining.

Chile is hoping to use its place as the source of most of the world's lithium – vital for the rechargeable batteries used in electric cars – to persuade foreign investors to manufacture cathodes or batteries in the country. Chile currently exports high-grade lithium carbonate but manufacturing takes place elsewhere.

In the past, energy shortages and rising costs have proved an obstacle to industrial growth but Chile can now depend on rising imports of Liquid Natural Gas (LNG) imported through newly-built terminals as well as an increasing supply of renewables.

The Government is committed to providing 20% of the country's energy from renewable sources by 2025, and 70% by 2050. It is now



well on course, thanks in large measure to the huge potential of the Atacama Desert for generating solar power.

A fast growing food business of which exports have climbed at an average annual rate of 10% over the past decade, according to the UN's Food and Agriculture Organisation, has spawned a sophisticated packaging and processing industry.

Already, Chile is supplying more than 150 countries with fresh and processed food and beverages but the Government is eager to encourage further growth and is seeking foreign investment to install and develop new technologies.

Multinational food manufacturers have a long history of investing in Chile. Nestlé which first arrived in 1934, now has seven plants across the country, making everything from milk powder to coffee and breakfast cereals. Other major companies include Unilever and Pepsico. ■

# Feeding the world

Blessed with a largely Mediterranean climate, fertile farming land and a huge range of soil types, Chile has emerged as a leading global food and wine producer, linked to markets around the world through free trade agreements with more than 60 other countries.

As an agricultural exporter it also profits hugely from its location in the southern hemisphere, which allows for “counter-seasonal” exports to the wealthy nations of the northern world, with the United States, China and Japan as its leading customers.

What’s more, the country is protected by useful natural barriers – the arid Atacama Desert to the north, the Andes to the east, the Pacific to the west, and the icefields of Patagonia to the south – against the spread of crop-destroying pests and diseases, most notably fruit fly. And its sheer north-south length means a diverse climate with possibilities for year round production.

No less important, the waters of the Pacific Ocean – warm in the north, chilly in the south – are home to a wealth of different marine life which supports the country’s long established and thriving fishing and aquaculture industries, with fish farms now dotting much of the coastline in the south.

The official Invest in Chile agency is looking for foreign investment for the development of new plants, both for the processing of fish and for producing fish feed.

Fish is largely exported fresh to the United States, and frozen to other destinations such as Japan and Europe, according to SalmonChile. But demand has been growing for high added value processed salmon, in the form, for example, of loins, fillets or spiced fish.

Launched in the 1970s, the industry has suffered a series of problems over the years, notably a devastating outbreak of Infectious Salmon Anaemia (ISA) in 2007, and the spread of harmful algae in 2016, but salmon still ranks as the country’s most valuable export after copper.

Such powerful natural advantages, supplemented by strict environmental and food security standards, help to explain why the Government is seeking investment to exploit further the potential of an agricultural sector, which already accounts for 25% of the Chilean economy and its greatest source of exports apart from minerals.

Recent decades have seen steady growth. Over the ten years to 2015, food exports climbed by an annual average of 10%, with Chile becoming the world’s largest exporter of grapes, prunes, cherries, dried apples, blueberries, frozen whole salmon and mussels. Salmon exports alone are worth US\$5 billion a year.

For good measure, Chile is among the top three global exporters of shelled walnuts, fresh plums, fresh salmon fillet, frozen raspberries and grape juice. Growing global demand is also rapidly driving production in particular sectors. The total area planted with olive trees

for example, has soared from just 6,000 hectares in 2006, to 25,000 in 2016, with an eightfold leap in production to 17,500 tonnes over the same period.

The gradual liberalisation of world trade has proved a powerful boost. China in particular, is proving an enthusiastic client for Chilean exports. In the 2015–2016 season, the Chinese took 500,000 tonnes of fresh fruit from Chile – almost half the total exported to Asia and up 81% over the previous year.

Chilean wine, too, has proved a favourite with the Chinese, helping Chile to its place as the world’s eighth largest wine producer and fifth largest exporter – it is estimated that more than eight million people a day around the world now drink a glass of Chilean wine, with the Americans and the British the keenest consumers.

Wine growing in Chile is a centuries-old tradition, dating back to the arrival of the earliest colonists from Spain, who brought their own Spanish grapes, to be mixed in the 19th century with varieties introduced from France and elsewhere in Europe.

It is only in the last 40 years that serious investment and the advice of foreign winemakers, has transformed the industry’s prospects. Today the country boasts more than 100 wineries, largely in the temperate valleys of central Chile, and wine exports are worth more than US\$2 billion a year to the economy.

More than 20 varieties are now cultivated, principally Cabernet Sauvignon, Pais and Merlot among the reds; and Sauvignon Blanc and Chardonnay among the whites. A growing network of tourist wine trails also offers potential for development.

For growers, Chile’s strengths include the range of different terroirs and the low risk of summertime frosts or rain at harvest time. The dependable weather means there is little change in quality between vintages, and the warm days and cold nights help to give the wine its particular flavour.



The Government has ambitious targets to build on the existing success of the agricultural sector, aiming to join the list of the world’s top ten overall food exporters by 2020, with agriculture accounting for 35% of GDP by 2030.

Areas for expansion include the development of high added value niche markets such as the supply of kosher and halal foods to the Jewish and Muslim communities, as well as specialist olive oil, flavoured mineral waters, jams, wine jellies, native potatoes and premium quality wines.

Future success will inevitably depend on further investment both domestic and foreign. Among the opportunities highlighted by the Government are the mechanisation of harvesting in the fruit farming sector, the cultivation of new fish species, and the building of new packaging and processing plants. ■

## Building for prosperity

Chile has earmarked US\$28 billion to spend on expanding and upgrading its national infrastructure, from roads and reservoirs to dams and hospitals by 2021, with the declared goal of bringing standards up to the level of other developed nations by the end of the decade.

Ambitious plans for a nationwide overhaul, with foreign investors taking a role, were first set out in 2014, by President Bachelet's administration, which proposed increasing the share of GDP spent on public infrastructure from 2.5% to 3.5% under its Development Inclusion Agenda 30-30.

For good measure, the Government in 2016 unveiled proposals for a US\$9 billion state infrastructure fund, 99% controlled largely by the Treasury, to spur further investment in public works and help revive the sluggish economy, hit by falling copper prices.

Much of the Agenda 30-30 financing – some US\$18 billion – has come from public funds and will be spent on regional transport and water schemes, but in line with a long established policy the Government also want to establish PPPs worth almost US\$10 billion to carry out the work, opening the door to massive international input.

Such PPP projects were first sanctioned by Chilean law in 1991, and have since become common for construction schemes including roads, ports and airports, allowing foreign contractors to tender for projects alongside local companies in bidding rounds organised by the Ministry of Public Works.

Under the 30-30 scheme the Government has been looking for private partners to invest in a range of projects, among them the expansion of four airports, the construction of tunnels, bridges and highways – including a major urban toll road in Santiago – and two cable car lines, now a popular feature of urban regeneration schemes in Latin America.

With such extensive work planned or underway, demand for building equipment is increasing. The importing of construction machinery and equipment grew by 1.6% between 2014 and 2015, and was expected to have grown by around 1.5% in 2016. In a country where energy costs are high, demand is especially strong for energy efficient equipment.

Chile's public infrastructure, including its inter-city road network, is considered among the most advanced in Latin America despite the

devastating effects of the 2010 earthquake, which caused up to US\$30 billion in damage, destroying roads and bridges across much of the country.

But it is still far behind much of the developed world and may be losing its edge. In the World Economic Forum's Competitiveness Report 2016-17, Chile took 46th place out of 160 countries, ahead of all Latin American countries except Panama, but this represented a drop from 32nd place out of 150 in the 2006-07 report.

To tackle its infrastructure shortcomings, the Chilean Chamber of Commerce (CChC) estimated in 2016 that the Government would need to invest US\$151.4 billion – equivalent to two thirds of its 2016 GDP – over the next ten years, with US\$54 billion to be spent on transport and roads, principally around Santiago, where some 40% of the population lives.

As in much of Latin America, Chile could benefit hugely from upgrading its urban and minor roads. Less than a quarter of its 90,000km road system is paved, in contrast with the 79% average for member states of the OECD and some 4,500 of the country's 7,500 bridges are wooden, limiting the weight they can carry. Half are now thought to need replacing.

Huge investment, according to the CChC, is also needed to ensure dependable water supplies and protection against flooding, as demand for water increases and the threat from climate change grows. In practice, that should mean more spending on reservoirs and desalination plants.



The report also suggests that the private companies who run Chile's telecoms network will need to invest US\$26.3 billion on widening access to mobile and fixed broadband, as well as trunk fibre optic cabling if Chile is to match or close the gap in standards with other OECD nations.

Prosperity is one more incentive. In recent years, the entire infrastructure has come under mounting strain caused by increasing traffic – Santiago's rush-hour congestion is among the worst in the world caused by rising tourist numbers at airports, and the growth in business at seaports, which handle 80% of the country's export business.



Chile's public infrastructure, including its inter-city road network, is considered among the most advanced in Latin America.



Total container capacity at Chile's ports more than doubled in the ten years from 2004, but there is now a real risk of saturation as trade increases. Investment in new infrastructure between 2015 and 2023, is expected to total US\$5.3 billion, with possible construction of a vast new container facility – the Puerto Gran Escala – at Valparaiso.

To ease the pressure, projects recently put out to tender by the Government include the “Vespucio Oriente 2”, completing the unfinished expressway around the metropolitan area of Santiago, and the 20km Costanera Central Highway connecting the Puente Alto district to the Autopista del Sol motorway.

Work is already underway on new Metro lines in Santiago and on the expansion of the city's Comodoro Arturo Merino Benítez International Airport, one of the busiest in Latin America with more than 19 million passengers a year.

A new terminal, to be built by The Nuevo Pudahuel consortium – comprising Aéroports de Paris (45%), VINCI Airports (40%) and Astaldi (15%), and other facilities, will increase the airport's capacity to 30 million. In total, airport infrastructure projects should be worth US\$1.2 billion for the period between 2015 and 2018, and US\$1.7 billion between 2015 and 2023.

But the focus on new investment is not exclusively on the capital. The Government has been looking for bidders for a US\$200 million Loa motorway, and the US\$225 million Los Vilos-Lar Serena motorway in the north; and the US\$254 million Nahuelbuta Highway and the Puerto Montt airport in the south.

Already completed is the giant Maria Elema Thermo Solar Park in the Atacama Desert in the far north. Built by the giant American multinational SunEdison, it ranks as the largest solar thermal plant in South America. Chile plans to derive 19% of its energy from solar plants by 2050.

Among other schemes are several tunnels under the Andes to connect Chile and Argentina, a new railway line between Santiago and Valparaiso; a cycle route along the Mapocho River; a four-lane highway between Caldera and Arica, part of the road link between northern and southern Chile.

The south will also benefit from plans to connect the provinces of Aysen and Magallanes with a submarine fibre optic cable, allowing for better connections to one of the country's remotest regions, while the arid north will see 20 water projects, including desalination and wastewater plants. ■



## Past successes – and learning the hard way

Chile takes pride in the transformation of its educational system with the number of students attending universities or colleges almost doubling to more 500,000 in the last ten years.

The leap in numbers reflects in part, a substantial state investment. In real terms, government spending on education has risen 100% since 1990, and now accounts for more than 4.5% of GDP, according to the OECD.

The rising enrolments also testify to a rapid expansion in the number of universities. Before sweeping reforms in 1981, which encouraged the development of private universities, only a handful of so called ‘traditional’ universities existed across the country.

Today there are more than 50 universities, varying widely in size and character, as well as a range of other professional institutes and technical training centres which offer shorter courses leading to degree-level vocational qualifications.

Among the universities are some of the finest in Latin America: the Pontifical Catholic University of Chile in Santiago, took third place in the 2016 annual rankings for the region, published by the Times Higher Education Supplement, with the University of Chile, also in Santiago, one place lower. Overall, Chile’s universities took 11 of the top 50 places, second only to Brazil.

Education has widened at lower levels too. Since 2003, secondary education has been free and compulsory for all Chileans under the age of 18, with the state now responsible for guaranteeing access for a total of 12 years of schooling.

Furthermore, Chile claims the highest literacy rate in the region at 96%, and the country has the best educational record in Latin America in some key academic subjects, according to the results of the 2015 PISA survey, which assesses the ability of 15 year olds.

The steep rise in student numbers is accompanied by the demand to study English as a foreign language, creating investment opportunities for foreign companies both for supplying teachers and for the sale of software and classroom equipment.

The enrolment of foreign students in Chilean universities has also risen hugely, having grown by 700% in the ten years to 2011, with North American students leading the field. Grants and lower fees have sometimes been available to attract overseas students.

Education remains a divisive topic for many Chileans. The key problem facing the sector is its cost: at 65% the private share of higher education spending is above the OECD average. Chile’s universities – both state and private – are among the most expensive in the world when compared to average incomes.

Many students have been forced to take out loans or mortgages to cover the cost of their courses and the intake at leading universities is dominated by the children of the richer middle class. Standards at some universities have also been widely questioned.

In line with the free market thinking of the 1980s, Chile has also experimented with a radical system of payment for education at levels: the state guarantees a certain amount of money for each child's education but these funds can be used in either state or private schools.

The system has divided expert opinion, with critics claiming that it favours wealthier families who can afford to top-up their education vouchers at private schools, while the poorer continue to attend state schools in deprived neighbourhoods'.

Drop-out rates are high and recent years have seen regular large-scale, and sometimes violent, street protests by students demanding universal access to free education, to end a system widely blamed for perpetuating inequalities in Chilean society.

A pledge to overhaul the education system and to widen access was central to the election campaign of President Michelle Bachelet, in 2014, and her administration introduced or proposed far-reaching changes on several levels.



In 2015, the Chilean congress approved a new law granting free university education to many of the country's students, helping some 200,000 of those from low-income families attending state universities, and the Government said that it hoped to extend free education to all by 2020.

Other measures include an increase in the number of places available at state nurseries, forcing privately owned schools supported by the Government, to phase out top-up fees charged to parents, an increase in teachers' pay and new entry and evaluation requirements for the profession. ■

# Chilean education within an international context

Victor Barahona, Chile Managing Director, Cognita



Victor Barahona  
Chile Managing Director

The last 20 years has seen significant progress in raising educational standards in Chile. Education has become a priority, with the Ministry of Education taking an active role in monitoring, assessing and overseeing public investment. Developments such as the mandatory school day for all government-financed schools – which came into effect in 1996 – and the 2015 law implementing mandatory pre-school education, are all helping to improve Chile's results in international assessments (PISA) and other measures.

Against this backdrop of efforts to improve the quality of Chile's public education, Victor Barahona, Chile Managing Director for the worldwide schools group Cognita, considers as follows, the role played by the private education sector.

## 1 | How does the private education sector contribute to rising standards in Chile?

Private education has been developing considerably in terms of scope and quality. At Cognita, a leading

operator of private schools in Chile and elsewhere in the world, the educational experience we offer children and young people focuses on delivering educational excellence alongside character development and a global mindset. We have well qualified and inspirational teachers who set high expectations for students – in schools where achievement is rewarded and the environment supports a well rounded educational experience. Private schools play a key role in helping drive educational standards and improvement of the school system as a whole in Chile.

## 2 | What proportion of secondary education is provided by the private sector in Chile?

According to Ministry of Education data, there are more than 3,400 educational establishments for secondary education. Out of this total, 72.6% provide a scientific-humanist education and 6.3% is rural. The private sector, including subsidised private schools and fully private schools, represents 66.8%.

**3|** In 2013, Cognita expanded into Chile through its partnership with Desarrollos Educacionales (DDEE) and the latter's Manquecura and Pumahue schools. What brought the two together and how has it benefitted the schools?

At that time, DDEE was exploring how to improve the academic offering and overall experience in its Manquecura and Pumahue schools. Meanwhile Cognita was seeking a strategic ally in Latin America to expand its international network. In June 2013, after a rigorous process of discussion and analysis, it was clear that the two entities had a good fit, so we did form this strategic partnership which has taken the schools from strength to strength.

Cognita is now the full owner of DDEE and its ten schools in Chile. Drawing on Cognita's British heritage, the partnership has brought a number of benefits to the Chile schools, including the sharing of best practice and expertise between the 68 diverse schools in our network and greater pathways for educators to build their careers within our worldwide group. We also bring greater security and investment opportunities for our schools, enabling them to build success and high standards for the long term.

**4|** How many students and staff do these schools have?

Between them, our schools in Chile educate more than 11,000 students and Cognita employs almost 900 people.



Colegio Manquecura Ciudad de los Valles

**5|** What is the curriculum offered by Cognita schools in Chile?

Cognita's ten schools in Chile offer the Chilean curriculum – Traditional plan from Play Group (aged two years) to twelfth grade (aged 18 years). A Bilingual Plan is offered in several of Cognita's Chilean schools, from Pre-kinder (aged three years) to the First Grade (aged six years).

**6|** What British educational attributes does Cognita bring to the schools it has invested in?

Each Cognita school keeps its unique spirit and philosophy, with curricula and programmes tailored to the needs of the families in its community. We value open communication with all members of our

educational communities, using surveys for staff, students and parents which help us improve the administrative and pedagogical practices in our schools. That sense of academic autonomy and respect draws on our British roots – as does the specialism in English language learning in our schools.

#### 7 | How important is the study of English in the curriculum of these schools?

Every aspect of the teaching of English is fundamental to the education we provide in our Chilean schools. Our enhanced programme of teaching English as a second language is in place in all our Pumahue and Manquecura schools, enabling students to acquire the language by developing all four linguistic skills (listening, speaking, reading and writing).

In addition, we offer the option in half of our schools to have a fully bilingual programme of education in which the students access the full curriculum in both English and Spanish. Meanwhile we have also increased the number of students taking international Cambridge tests through the Instituto Chileno Británico. Following a year of preparation, 513 students from the Pumahue-Manquecura network took the Starters-Movers-KET-PET and FCE tests in 2017. This leads to official certification, valid all over the world.

#### 8 | What educational links do Cognita schools in Chile have with other schools in the group's international portfolio?

Cognita is a diverse family of nearly 70 schools in eight countries. We are working all the time to develop new and better ways for our



Colegio Pumahue Peñalolen

educators to benefit from the extensive knowledge and expertise of their Cognita colleagues around the world. This ranges from events bringing our educators together to exchange opportunities for students and staff.

#### 9 | Are there further plans for expansion by Cognita in Chile?

Exploring new opportunities to improve the educational standards our schools provide and to expand our network is part of our philosophy at Cognita. We are always looking at how best to invest in our schools, enabling them to go from strength to strength as part of our worldwide family. ■

## Towards a healthier future

Chile can claim one of Latin America's oldest public healthcare systems, and a commitment to improving care has been central to Government policy.

Under the country's 2016 budget, the Ministry of Health was awarded almost US\$10 billion, a 5% increase over the previous year, and the share of the nation's wealth devoted to healthcare has increased steadily in recent years.

Today's figure, 7.4% of GDP, still trails the average for the advanced nations of the OECD, but Chile is comfortably ahead of many of its Latin American neighbours on many international health measures.

Life expectancy at birth has risen from 55 years in 1955 to 78 in 2012 – not far behind the United Kingdom and the United States – and over the same period the infant mortality rate fell from 120 per 1,000 live births to fewer than eight per 1,000.

This is due partly by the spread of preventive medicine and the rising living standards that have accompanied the decades of economic growth, but also by wider public access to treatment: a first national health system paid for out of general taxation, loosely modelled on Britain's NHS, was introduced in the 1950s.

Any improvements are more impressive because annual health spending per capita is low by the standards of the developed world at just US\$1,568. Standards of hospital care can be among the best in the region, with leading private clinics in Santiago scoring high in international ratings.

But healthcare finance remains a deeply divisive political issue and successive governments have talked of introducing comprehensive reform to address the wide disparities between the health services enjoyed by the rich and the poor.

Under arrangements dating back to the pre-market reforms of the 1980s, the country operates a two-tier healthcare system which allows wealthy Chileans to opt out of the public insurance scheme and pay their contributions directly to private insurance companies known as ISAPRES.

In practice, that means far higher standards for the 20% of Chileans – one of the highest figures worldwide – who take out private insurance, often part funded from their own pockets. Others must depend on services financed by the National Health Fund (FONASA), the state's own insurer.

Patients insured through FONASA can use private healthcare providers and tend to do so when care in the public system is restricted by waiting times. But when they do, they have to pay part of the cost.

Moreover, private insurers have come under attack for refusing cover or charging excessive premiums to those with the highest needs. More than half of all Chile's healthcare spending now comes from private sources, and many Chileans must pay for their own medication.

At the same time, the country suffers from many of the problems that affect other richer nations with an ageing population prone to long term conditions and diseases that will often require expensive treatment.

Cancer, diabetes, heart disease and obesity are all on the rise. One in four adults in Chile are now obese, six points above the average for the OECD. Smoking is far more prevalent in Chile than in many advanced countries.

To help tackle the problems, in 2005, the Government established its Universal Access with Explicit Guarantee System, which promised all insured patients – 6% of Chileans have no insurance – a basic level of treatment for 80 of the most common complaints. Topping the list are hypertension, depression, diabetes and hyperthyroidism.

Patients are promised that they will receive care according to prescribed clinical guidelines and wait no longer than pre-set periods for diagnoses, treatment and follow-ups. In addition, out-of-pocket expenses have been capped.

With rising needs, Chile offers a rich market for imports, especially as its own healthcare sector remains small. According to official



figures, Chile accounts for 0.14% of world sales and just 3% of sales across Latin America. The Chilean pharmaceutical industry makes up 1.2% of GDP.

Total exports for the Chilean healthcare sector were worth just US\$16 million, according to figures from the Chilean Central Bank. By contrast, the figures showed healthcare imports running at an estimated US\$687 million in 2016 and are likely to rise to US\$700 million in 2017.

Promising export sectors identified by the US Government – America currently enjoys a share of the Chilean market worth US\$240 million – include senior home care equipment, modern orthotics, orthopaedic devices, trauma equipment, central monitors, surgical tables and surgical equipment. ■

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# Pharmaceutical business in Chile

Jaime Jankelevich, Managing Partner, Etika Consultores



Jaime Jankelevich

The Chilean pharmaceutical market represents a very attractive opportunity for Pharma companies planning to expand their operations beyond their borders, investing in territories where the entry strategy is relatively simple, the required professional skills are available, the business environment is favourable to foreign investment and the rule of law is effective, which is the case in Chile.

Chile is a free market economy and welcomes foreign companies who want to do business in our country. A US\$2.5 billion pharmaceutical market (to Sept. 2017) offers excellent opportunities for new players. The retail sector stands at US\$1.7 billion, with an average per capita expenditure in pharmaceuticals close to US\$100. The public and private institutional investment in medicine is around US\$800 million, acquired through public tenders, controlled by ChileCompra ([www.chilecompra.cl](http://www.chilecompra.cl)), which is the official institution administering the public acquisitions of the State, and by tenders in the private healthcare ecosystem.

The public tenders are published and supported by an online platform where the suppliers present their bids. This is the leading system in Latin America.

In the last five years, the Chilean pharmaceutical market experienced an important shift. From being a marketplace dominated by Chilean companies, both in the manufacturing sector as well as in retail, today, multinational corporations concentrate the leadership.

Laboratorio Chile, Recalcine, Andromaco and Saval were the four leading players, owned by local stockholders. Today, Lab Chile is a TEVA company, Recalcine was acquired by Abbott and Andromaco became a member of Grünenthal. Only Saval remains a Chilean stockholder corporation.

This internationalisation trend also had an impact at the retail level. Of the three major pharmacy chains, representing over 90% of the total sales, two were the subject of M&A operations. Farmacias Cruz Verde was acquired by the Mexican group Femsa and Farmacias Ahumada, indirectly by Walgreens, when the American group incorporated Boots, who had acquired Farmacias Ahumada before their takeover by the American behemoth. Only SB, the third major player, remains a Chilean Corporation, owned by an important local financial group.

To take advantage of the opportunities in this market, we at Etika are your perfect partner. Established in 1988, we advise our clients on their most critical issues: strategy, marketing, business intelligence, market analysis, new business development, human resources and now in the field of Artificial Intelligence. Multiple international and national companies in Chile, Argentina, Brazil, Ecuador, Colombia, Venezuela, Mexico, Uruguay have trusted in our services as well as European and American companies interested in these territories.

Welcome to Chile, a country of opportunities. ■

## From star-gazing to whale-watching: the country with everything

For nature-loving tourists, Chile is the country with everything. Stretching more than 4,000km along the Pacific, its narrow strip of territory embraces the arid moonscapes of the Atacama desert in the north, the lush lowlands of the winegrowing country, rain forest, numerous volcanoes and hot springs, and the lakes and icefields of the far south. For added drama, the snowcapped peaks of the Andes form a spectacular backdrop along almost its entire eastern frontier.

Small wonder then that the Government has identified tourism as a key area for investment and growth. Currently the sector accounts for 3% of GDP; by 2030, the authorities expect that figure will double. And such optimism looks well founded. The World Tourism Organisation (WTO) anticipates that international tourism will in future rise far faster in emerging markets – including Chile – than elsewhere.

Much of that growth is likely to come from the surging interest in eco-tourism, and the Chilean Government has drawn up a Sustainable Tourism Development Plan, supported in 2015 by its own US\$100 million development fund, with the goal of improving the nation's tourism infrastructure and raising the quality of service and training in the industry.

Already, the tourism market is growing rapidly. Since 1995, the number of foreign visitors has more than trebled to 5.6 million a year. And the pace has continued to quicken. In the last decade alone, the figure for annual arrivals has risen by over 100%, climbing by an average 8% a year, and increasing by 26% in 2016. In 2017, a record 6.4 million international tourists are expected. Tourist spending in Chile in 2016 totalled US\$2.6 billion, 30% more than in 2010.

Much of that increase is down to a worldwide surge in nature and adventure tourism, the focus of Chile's investment plans. But improved travel links, the streamlining of visa procedures and good publicity have also helped. In 2016, Chile picked up the prize for the world's best adventure tourism destination in the World Travel Awards, and Lonely Planet recommended the country as one of the top destinations for 2017, as did both The Guardian and The Daily Telegraph.

Almost every holiday pastime, from wine tours to star-gazing in the world's clearest skies, is on offer. Skiers can choose between many of the best resorts in the southern hemisphere, some within easy reach of Santiago; the beaches of the Pacific coast are a magnet for surfers, and fly fishermen head for the rivers of Patagonia. With its diverse terrain,

Chile also provides near-limitless opportunities for trekking, mountaineering, rafting, kayaking, horse-riding and cycling.

For good measure, Chile can boast a uniquely diverse wildlife. Of the world's 5,100 species of flora and fauna, almost half are found only in Chile. Whale-watchers can observe grey and humpback whales offshore; there are condors to be spotted in the mountains and giant hummingbirds in the lowlands. Add political stability, a reputation for safety, an intriguing colonial heritage, the rich cultures of the indigenous peoples, such as the Mapuche, and a rare tourism package is complete.

The Government knows that meeting its targets will depend on providing the high quality infrastructure and facilities which eco-tourists will require. Surveys suggest that Chile's natural attractions are the principal draw for at least half the country's foreign visitors, it cannot yet supply all the hotels, lodges, information centres, and other services needed to meet rising demand. Many provincial cities, for example, still lack three or four-star hotels.

In particular, Chile is seeking to attract the high spending, long-stay visitors from outside South America. At present, foreign tourists spend an average of just US\$600 in Chile, compared to US\$900 in Peru or US\$3,000 in New Zealand. Most tourists still come from Argentina although visitor numbers from the UK and the USA rose last year by 9% and 11% respectively, and the Chinese market is expanding fast.

That's why the Government has introduced a series of initiatives designed specifically to stimulate investment in particular areas. In 2016, for example, it called on both local and foreign companies to



help fund a range of sustainable projects worth some US\$32 million on almost 55,000 hectares of state land in nine separate regions. Under the Invest Tourism (InvierteTurismo) programme, businesses and individuals were invited to bid for 27 separate projects, with concessions lasting up to 30 years.

In a further boost to nature tourism, the Government, in 2017, declared an extra ten million acres of wilderness as protected national parkland, which will be added to the one million acre private park built up by the founder of the North Face clothing company, Douglas Tompkins, and presented to the state by his family. In time, that will lead to the creation of a "Route of Parks", a network of parks spanning more than 2,400km from Puerto Montt to Cape Horn.

Diversification is at the heart of the Government's strategy. At present, Chile can claim three internationally recognised tourist destinations; the mysterious Easter Island far out in the Pacific, famous for its outside statuary; the startling landscapes of the vast Atacama Desert, and the soaring mountains, glaciers and fjords of the Torres del Paine National Park in Patagonia. But the authorities believe that there is scope for further development in almost every region.

Among areas earmarked for development are the Altiplano plateau, high in the Andes where Chile converges with Peru and Bolivia; the Elqui and Colchagua Valleys, home to some of Chile's finest vineyards; the remote Juan Fernandez islands where Robinson Crusoe was supposedly marooned; the spectacular glacier country of the Aysen region; and the wildernesses of Tierra del Fuego and Cape Horn, where the sea teems with marine life and is home to rare colonies of king penguins.

But it's not only natural wonders that are targeted. Also on the list are the capital Santiago, now fast shedding its somewhat staid reputation, and acquiring one as a popular host city for business conventions, chosen for more than 70 international events in 2016. The city's immense squares and elegant boulevards offer a wealth of architectural treasures as well as plenty of pavement cafes to be enjoyed in a balmy



Mediterranean climate. Tipped in 2017, as one of the world's ten top cities to visit by National Geographic Traveller, it has been rated the safest city for foreign tourists in Latin America and the region's cleanest metropolis.

Elsewhere, the authorities see greater tourism potential in the port city of Valparaiso. Listed as a World Heritage Site by UNESCO, since its Bohemian atmosphere and multi-hued houses cascading down the hillsides have earned it the title "Little San Francisco". To the south, the Government is keen to market the attractions of Chiloe Island, renowned for its wooden churches, and one more of Chile's five World Heritage Sites; while in the North it will be promoting the city of Arica, known for its surfing and beach life. ■

## Cinema's creative powerhouse

When the Cannes Film Festival released its 2017 programme, it featured no fewer than four films from Chile among its official selections, a tally comparable only to Argentina among Latin American countries.

For cinema goers and observers of the cultural scene, this was just one more reminder not only of Chile's new status as a regional leader in the film industry but also of the country's artistic renaissance since the dark years of the Pinochet dictatorship.

One look at the country's recent record at international festivals offers conclusive evidence of a film industry transformed by a new generation of directors, supported rather than suppressed by the policies of the Chilean state.

Over the last five years, four Chilean Directors, Andres Wood, Sebastian Silva, Alejandro Fernandez Amendras and Marialy Rivas, have been prize-winners at the Sundance Film Festival in America, while Pablo Larrain won at Cannes for "No", at Berlin for "The Club", and at Venice and Toronto for "Jackie".

The rewards have come at box offices worldwide with healthy takings for foreign-language Chilean films. Larrain's "No" and Sebastian Lelio's "Gloria" earned US\$9 million and US\$10.3 million respectively. But the work of Chile's new generation of film-makers is no less popular at home, where cinema ticket sales have leapt from ten million in 2001, to 27.5 million in 2016, according to Variety magazine.

The latest crop of directors stand in a distinguished line. Raul Ruiz, who left the country soon after the military coup of 1973, won international acclaim after settling in Paris. By the time of his death in 2011 – marked in Chile by a National Day of Mourning – he was responsible for more than 100 films.

More recently, veteran Director, Patricio Guzman, has collected a clutch of awards for his radical political documentaries, such as "The Battle of Chile" and "Nostalgia for the Light", examining the Pinochet coup and its impact which remains a major theme for Chilean film-makers.

Behind the success of Chilean cinema lies a history of state support – in 2004, the country passed legislation to fund, protect, and promote its film industry – and the chances offered by a variety of new film festivals: Santiago has hosted its own annual international festival (SANFIC) since 2005. For good measure, aspiring professionals can now choose between a range of film-making courses.

The industry has even spawned its own movement. Led by Director, Nicolas Lopez, “Chilewood” is dedicated to producing a class of genre films outside the control of the big Hollywood studios.

But the sound of international acclaim is hardly new for the Chilean art world. For a small country of just 18 million people, it can boast a rich artistic history which spans literature, painting and music, with the state sometimes a keen sponsor.

Every year since its foundation in 1992, the state-backed arts fund, FONDART, has allocated financial support through a bidding system – open to any Chilean citizen or organisation – to scores of projects intended to educate, promote or preserve art in a range of areas from dance and drama to craft, photography and new media.

In literature, Chile holds a distinguished place as the homeland of the 1971 Nobel Prize-winner, Pablo Neruda (1904-73), – also the recent subject of a Pablo Lorrain biopic – who was described by his fellow Nobel laureate, Gabriel Garcia Marquez as the “greatest poet of the 20th century in any language.” Three of his homes in Chile are now museums.

The country can also lay claim to the only Latin American woman to have won the Nobel Prize for Literature, Gabriela Mistral (1899-1957), and to Nicanor Parra, a regular Nobel Prize nominee, who in



2011, won the Cervantes Prize, the world’s leading award for Spanish language literature.

Today, the foremost representative of that literary tradition is the novelist Isabel Allende, who ranks as possibly the most widely read author in the Spanish speaking world. Allende’s books have been translated into more than 30 languages and sold some 55 million copies worldwide.

The State’s interest in the arts goes beyond patriotic sentiment. As part of wider moves to diversify the commodities-based economy, the official ProChile agency has been busy, for example, promoting the interests of Chile’s burgeoning design industry overseas. Among its



One look at the country's recent record at international festivals offers conclusive evidence of a film industry transformed by a new generation of directors.



stars: the GT2P (Great Things to People) studio which has exhibited works at New York's Museum of Arts and Design and created an installation for the Victoria and Albert Museum in London.

At home, the Government also funded the creation of a new showcase for contemporary art, based at a disused airport, Los Cerrillos, close to Santiago, which opened in early 2017. The National Centre for Contemporary Arts will provide not just exhibition space for the state's own collection but also libraries, a digital archive centre, and conservation and research laboratories.

It was public support too, that made possible the transformation of an infamous prison in Valparaiso, used to incarcerate dissidents under the Pinochet regime, into a vast new cultural centre. Opened five years ago, the Ex Carcel Cultural Park incorporates space for dance and theatrical productions. Art exhibitions, sometimes featuring work by former inmates, are held in cell blocks that retain their original bars.

Architecture is one more area that has brought Chile to international attention. In 2017, the visionary Chilean architect Alejandro Aravena, famous for his work on social housing, took the international Pritzker Prize, the profession's highest accolade, at the age of just 48. In a mark

of international esteem, he also served as curator of the architecture section of the 2016 Venice Biennial.

He is not alone as an international figure. As Chile has prospered and urbanised, demand for a new and bolder architecture has grown. And the international reputation of Chilean architects has grown to match. Smiljan Radic – responsible for the 2014 Serpentine Pavilion in Hyde Park – Mathias Klotz, and the Pezo von Ellrichshausen practice are all praised by international architectural press.

The music scene too has undergone a rapid transformation. Over the years, Chile has produced a huge variety of music from the traditional cueca – also the national dance, – to the “New Song” movement, strongly associated with the political activism of the 1960s and 1970s, suppressed under the Pinochet dictatorship.

Today, tastes are diverse, from rock to folk and original Andean music. To enjoy a flavour of each, tens of thousands of visitor's flock to the annual Vina del Mar Music Festival, one of the largest of its kind in the world and broadcast across the Spanish-speaking world. Although built around pop and folk-singing competitions, its greatest draw is the appearance of leading international artists. ■

## ‘Chilecon Valley’ beckons the world

Chile is pushing ahead with ambitious plans to become a Latin American digital powerhouse, as part of the Government's wider strategy to broaden the base of the economy and escape its old dependence on mining and heavy industry.

A range of initiatives are aimed not only at promoting the IT sector and improving the nation's digital infrastructure, but also at pulling in foreign investors and fostering an entrepreneurial start-up culture.

Under its Digital Agenda 2020 scheme, the Government expects to see the digital economy, still only a small fraction of the total, accounting for 10% of the nation's GDP by 2020, approaching the level of some of the world's most advanced economies.

Targets include reaching 90% of Chilean homes with broadband and 20% of it by fibre optic, linking all the nation's schools to the web, keeping patients' medical data online, putting in place a new data protection law and stimulating the use of ICT by medium-sized and smaller businesses.

Reaching its goals will require hefty investment and the Government will be offering support, including a large subsidy towards the creation of a new, partly submarine, 300km fibre optic which will connect the country's remote, southernmost regions.

In fact, the country is already among Latin America leaders when it comes to IT, with one of the recent highest rates of mobile telephone

penetration, and almost 80% of the population classified as internet users in 2016, up 7% in a single year.

The latest Global Connectivity Index, compiled by the Chinese telecoms multinational, Huawei, put Chile in 25th place ahead of any other Latin American nation. Even remote Easter Island, some 3,500km out in the Pacific, is now served by broadband.

Already, the country has become Latin America's largest investor in IT, according to the Association of Chilean Information Technology Companies (ACTI). Sales of IT services have more than doubled in the last ten years, according to ACTI figures.

There are promising prospects for further increases. Business Monitor International reckons that IT Services sales will rise from US\$1.38 billion in 2017, to US\$2 billion in 2021, not least because of a developing market for “smart mining” technology in the extractive industries.

Full competition across the telecoms market is encouraged by the regulatory regime, and the market-oriented economy has proved a lure for local and foreign investors. The long established telco, Telefonica, trading as Movistar, faces competition from GTR Globalcom, the GTD Group, Entel and Claro.

Close to the heart of the Government's strategy is its Start-Up Chile initiative launched in 2010, which has helped more than 1,300 new



companies, largely from outside the country, not only with financing but also with mentoring, premises, and networking opportunities.

Each company receives up to US\$90,000 paid by the Production Development Corporation (CORFO), the state's business development agency, with very few conditions attached. Crucially, the Government requires no equity stake in the business. Special packages are available to encourage women entrepreneurs.

CORFO's mission statement is to "transform Chile into a global innovation and entrepreneurial hub", and it is a measure of Start-Up Chile's success that the scheme has been widely imitated elsewhere, including in Brazil and Peru.

Every year up to 3,000 fledgling companies apply to take part and some 250 are accepted. Only around 25% are Chilean, the large foreign component demonstrating the Government's determination to put Chile at the centre of a global community.

Of the businesses which have benefitted from the scheme, more than half are still operating – a good survival rate for the IT industry – and the Government's US\$40 million investment, has created businesses with a total value of US\$1.35 billion.

Recent successes include Epiclist, an app which allows adventure seekers to put together pictures, stories and locations, to create mobile-friendly summaries of their most interesting trips. The latest version was tested in Chile's remote Patagonia region.

Among Chile's attractions for the incomers, according to official sources, are a supportive government, a low tax burden, a high level of political and economic stability, a reasonable cost of living, competitive salaries and a highly educated local workforce.



It's a combination which helped to earn Chile the award of "best country for innovation in Latin America" in the 2016 Global Entrepreneurship Index and the place of regional leader in the World's Economic Forum's 2014 Global Information Technology Report.

As an emerging IT hub, Chile is also a popular offshoring base. In 2016, the country ranked ninth in the A.T.Kearney Global Services Location Index, which measures the relative merits of different offshoring countries. Its position was four places higher than in 2015, and just one behind Brazil

In a clear demonstration of confidence, in 2013, Google chose Chile for the site of its first data centre in Latin America, built at a cost of US\$150 million, citing the country's reliable infrastructure and skilled workforce. ■

## Featured Contacts

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British-Chilean Chamber of Commerce (BCCC): [www.britcham.cl](http://www.britcham.cl)

Canning House: [www.canninghouse.org](http://www.canninghouse.org)  
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Deloitte Advisory Ltda: [www.deloitte.cl](http://www.deloitte.cl)  
Department for International Trade (DIT): [www.gov.uk](http://www.gov.uk)

Etika Consultores: [www.etika.cl](http://www.etika.cl)

JLT Chile: [www.jlt.cl](http://www.jlt.cl)

Latin iQ Corporation: [www.latin-iq.com](http://www.latin-iq.com)

ProChile: [www.prochile.gob.cl](http://www.prochile.gob.cl)

The Santiago Chamber of Commerce (SCC): [www.ccs.cl](http://www.ccs.cl)





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