

Chile

INVESTMENT REVIEW

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Foreign Investment Committee • Teatinos 120, 10th Floor, Santiago • Telephone: (562) 698 4254 • Fax: (562) 698 9476 • www.doingbusinessinchile.cl

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CHILE STRONG PERFORMER; SUSTAINING GROWTH OVER LONG TERM IS A CHALLENGE

The Organisation for Economic Cooperation and Development (OECD) Chile remains a strong performer but faces the policy challenge of sustaining productivity-driven growth over the long term through continued structural reform initiatives.

Exemplary macroeconomic management continues to deliver robust public finances and low, albeit recently rising, inflation, the OECD said. The policy-setting combining rules-based fiscal management, inflation-targeting and a flexible exchange rate is serving the economy well in a period of unprecedented strength in the price of copper.

The structural budget surplus target will be reduced from 2008 without endangering macroeconomic equilibrium in the short run, it added.

The OECD said an important challenge is to strengthen the provision of social services in ways that maintain a lean public sector in a low-tax, low-debt environment.

Comfortable public finances have laid the groundwork for further policy action to enhance social development, especially in the areas of education, health care and housing, but there remains much room for raising efficiency in service delivery to the level of the best performers in the OECD area, especially in education, the OECD said.

The OECD added there is scope for tackling

informality in the labour market and in the business sector. While enforcement has been stepped up, product market regulations can be made less burdensome on enterprises, especially SMEs, and employment protection legislation more flexible.

Low human capital remains an important obstacle to reducing labour informality. Therefore, policy initiatives to improve the skills of the labour force through the education system, and labour training and skill certification would contribute to reducing informality in the future, the OECD said.

It also said efforts should be made to further raise labour force participation, especially among females and youths. Policy action to encourage more flexible arrangements in working-time allocation and to facilitate access to affordable child care would provide an alternative for mothers with young children to reconcile household and work responsibilities, the OECD said.

Thomson Financial, November 26

CHILE'S RATING RAISED TO A+ BY STANDARD & POOR'S ON COPPER WINDFALL

Chile's investment-grade credit rating was raised one level by Standard & Poor's Ratings as a rally in copper, the country's biggest export, boosts the government's budget surplus.

S&P raised Chile's foreign debt rating to A+ from A, saying the government strengthened its finances by setting aside this year more than US\$10 billion of windfall revenue to

cover social program and pension costs when copper prices decline. The rating, the highest in South America, is above rankings on South Korea and China and is on par with Italy and Iceland.

"Chile has consistently followed very disciplined policies," said Alonso Cervera, an economist at Credit Suisse Group in New York. "Chile's treatment of excess revenues is an example other countries should follow. The upgrade is well deserved."

Moody's Investors Service may follow S&P in raising Chile's rating. On Dec. 13, Mauro Leos, a sovereign debt analyst at Moody's, said the company may boost Chile's rating outlook to "positive" from "stable" early next year. Moody's rates Chile A2, the fifth-lowest investment-grade rating and one level below S&P's rating for the country.

Chile's peso gained, breaking through the 500-per-dollar level, after the S&P announcement. It rose 0.2 percent to 499.55 per dollar at 3:14 p.m. New York time, extending its advance to 6.8 percent this year and to 39 percent over the past five years.

Record Surplus

Stocks rose, driving the benchmark IPSA index up 0.1 percent. Government peso bonds declined, pushing the yield on the benchmark note due in 2015 up 2 basis points, or 0.02 percentage point, to 6.42 percent, according to HSBC Bank USA Chile.

Chile will have a record budget surplus equal to 8.1 percent of gross domestic product this year, Budget Director Alberto Arenas said

Oct. 30. The surplus was 6.5 trillion-peso (US\$13.1 billion) in the first nine months of the year, Arenas said.

"Chile is in the most solid situation of its history, the fruit of good fiscal policy, good monetary policies and the construction of institutions," Finance Minister Andrés Velasco said at a news conference in Santiago.

Copper prices have more than doubled in the past three years, buoying government revenue from state-run Codelco, the world's biggest producer of the metal. Copper exports increased 21 percent in November to US\$2.99 billion, bolstered by growing demand from China.

"Chile has been able to manage the upward part of the cycle by significantly strengthening its credit profile, creating the conditions to muddle through a period of higher instability better than in the past," S&P said in a statement. "Its economy is more resilient than ever before."

Inflation Surge

The economy, South America's fourth largest, expanded 4.1 percent in the third quarter after growing 6.2 percent in the second quarter. Growth may keep slowing as the Central Bank raises interest rates in a bid to stem a surge in inflation.

In José de Gregorio's first meeting as President of the Central Bank last week, policy makers raised the benchmark lending rate a quarter-percentage point to a five-year high of 6 percent. Annual inflation soared to 7.4 percent in November, the fastest pace since 1996, as fuel and food costs jumped. The Central Bank targets inflation of between 2 percent to 4 percent.

The inflation pickup will provide "additional tests to the reputation already gained by Chile's Central Bank in the implementation of monetary policy," S&P said in the statement.

S&P also affirmed Chile's AA local currency debt rating.

Bloomberg, December 18

MOODY'S MAY BOOST CHILE'S RATING OUTLOOK TO POSITIVE NEXT YEAR

Moody's Investors Service may boost Chile's credit rating outlook next year to "positive" from "stable" as rising copper exports swell the country's budget surplus, said Mauro Leos, a senior sovereign debt analyst.

"The first step, as it is in all cases, would be to change the outlook to positive," Leos said in an interview in New York. "The factors seem to point in this direction and I think early in the year we would have to evaluate if that's how we'll go."

Moody's rates Chile's foreign debt A2, the fifth-lowest investment grade rating. Moody's hasn't changed the rating since July 2006, when it bumped it up two levels from Baa1. Standard & Poor's rates Chile's international debt A, in line with the Moody's rating.

President Michelle Bachelet's administration has set aside more than US\$10 billion of copper windfall revenue this year to help cover pension costs and social programs when prices for the metal are lower. Chile is the world's biggest copper producer.

The government's "ordered" fiscal management and budget surpluses may turn Chile into a net creditor, Leos said.

Bloomberg, December 13

MONEY MATTERS: CHILE'S ECONOMIC DEVELOPMENT

In the past, Latin America was associated, in people's minds, with instability and economic crises, but lately this perception has changed as Latin America created great opportunities for investors as the world economy has provided for a strong growth environment.

Indeed, the last four years have probably been the best for the region since the 70s. In the period from 2003-2006, Latin America registered a 5.3 percent average annual growth rate. The poverty rate fell from 44% in 2002 to 38% in 2006, and the average GDP per capita increased by 16%. During the same period, the region's contribution to

global economic growth grew by 9%.

During 2003-2006 and the first half of 2007, accommodating liquidity conditions and strong international demand for commodities stimulated strong capital inflows into the region, enhancing growth and strengthening local currencies. Commodities exports - oil and gas, as well as coal, metals, chemicals and agricultural produce - were main growth engines, although fast improvement of living standards helped boost domestic demand. Stronger external balances and rising capital inflows have led to a rapid accumulation of currency reserves. The region's governments have used profits to solidify debt profiles and prepay external debts.

As local governments continue to accumulate higher foreign currency reserves and reduce debt, the effects of an adverse impact of the U.S. economic slowdown and credit crisis on the region's economies will be significantly reduced. Latin America is better placed than in the past to cope with unfavorable external conditions; the most developed countries in the region, such as Chile and Mexico, should be able to weather the current turmoil, thanks to their healthy and consistent fiscal policies, stronger domestic markets and better external liquidity.

Though most global investment houses have sited Brazil and Mexico as Latin America's flagship economies; Chile is catching up. Chile borders Argentina, Bolivia and Peru. It has a population of 16 million, with a GDP per capita of US\$8,947. Chile is a presidential republic and a democracy. The chief of state and head of government is the president Michelle Bachelet, elected in 2006 on a pledge to invest in the education and health system and to implement pension reforms.

Chile has a developed market economy with a competitive and large private sector. It is a relatively open export driven economy, particularly copper. Chile attracts strong investment inflows, allowing for steady economic growth: 5% per annum in 2003-2006, 5.9% expected this year and 5.0-5.5% in 2008. Chile's economic growth rate may not be the highest in the region, (especially in comparison with Venezuela or Argentina) but unlike others, Chile's growth is steady and sustainable led not only by commodities

exports, but also by consumption and investment in producing a rise in domestic demand.

Chile is the world's largest copper producer supplying about 35% of the world's copper. Copper revenues represent about 35% of government revenues and 55% of export goods. This makes the economy somewhat vulnerable to price fluctuations, although during the last four years copper prices quadrupled and the trend is not expected to shift. The high price of copper is prompting more companies to invest in the mining industry in Chile and the authorities expect that annual copper production will increase 15-20% by 2011. Demand for the metal is easing in the US, due to the collapse of the US housing market, but China has overtaken the US as the world's main copper importer.

Chile's fiscal position is stronger than most non-oil producers in the region. The government's official forecast for its fiscal surplus for 2007 is 8.1% of GDP. Chile's macroeconomic performance has been characterized by vigorous public financing within a healthy fiscal framework as well as an effective and credible monetary regime amid a freely floating currency. The inflation rate is rather high lately, driven by food and energy prices, but still low by Latin America's standards. Chile's 2007 CPI is expected to rise by 5.5%. A relatively high interest rate (5.75%) and a strengthening currency are expected to help curb inflation. Chile's success in effectively reducing public debt levels, over the last two decades, contrasts with the experience of the rest of the region and has allowed the country to reduce the burden of interest payments.

Chile's tax regime is simple and relatively stable; it is also the most effective, in Latin America, in terms of collection. These factors, coupled with a highly liquid financial system and political consensus on key economic policies, have ensured macroeconomic stability, steady GDP growth, and growing resilience to external shocks. International credit rating agencies, such as Standard & Poor's, Fitch and Moody's recognize Chile as a highly creditworthy country. It is rated "A" by S&P and "A2" by Moody's (Israel is rated "A-" and "A2," respectively). It is widely expected that Chile's economy will continue

growing by 4-5% annually and that the government will pursue sound economic policies. It is these factors that will prompt the country's shift to a "developed economy" category.

The World Economic Forum's annual competitiveness report named Chile as the most competitive economy in Latin America. Chile ranked 26th among the WEO's list of the world countries. It was far ahead of Mexico, who took second place in the region and 52nd in the world (Israel ranks 17th). The country outperformed the region, as well as many developed countries, in macroeconomic stability, infrastructure and institutions development, market efficiency and other parameters. According to Office National du Dueroire, Chile is the safest investment in Latin America when it comes to war, expropriation, nationalization or transfer risk. Surely, Chile is a part of Latin America, and as such, it is affected by the region's political, economic and financial volatility. It is also susceptible to the copper prices change on the world markets, but analysts forecast that given ever increasing demand from China, copper prices are not likely to drop significantly over the medium- to long-term.

It looks like Chile, as well as Latin America's other most developed economies, is weathering the US economic slowdown well. From the trade point of view, a slowdown in the US won't be a deathblow to Chile since Chile exports only about 15% of its products to the US.

Sound, market-oriented policies have created significant opportunities for foreign capital to participate in the country's impressive economic growth. For the last three decades, foreign investments have been an essential part of Chile's economic development. Chile's business climate is generally straightforward and transparent; corruption is rare. The Chilean banking system is healthy and competitive; banks are characterized by the high quality of their loan portfolios, due partly to the government's strict regulation on lending. Chile's capital markets are well-developed and open to foreign institutional investors. Capital market reforms, implemented by succeeding governments, leveled the terms for foreign investors in the

local market and those who invest through Chilean bonds abroad. This has increased demand for local debt instruments among foreign investors.

Equity markets in Chile are less volatile than other Latin markets. Chile's stock exchange - Santiago - was established in 1893. The exchange trades in stocks, bonds, investment funds, stock options, futures, gold and silver coins minted by the Chilean Central Bank and US dollars. Three stock market indices are published. The general IGPA index is a market capitalization-weighted index that measures price variations of the majority of the exchange's listed stocks, classified by sectors. The most cited index is the selective IPSA, composed of the 40 most heavily traded stocks. There is also the Inter-10 Index - the volume weighted index of the 10 main Chilean stocks listed in foreign markets through ADRs. From the beginning of 2007 to mid-October the IGPA index has risen by 24%, IPSA - by 27%, and Inter 10 - by 26%; during the last three years these indexes have risen by 75%, 95% and 94%, respectively. The markets have been volatile July through September, but from mid-September to mid-October all losses have been recuperated.

Exchange Traded Funds (ETFs), that invest in multiple stocks, allowing for broader diversity, are seen as a handy tool for investing in Latin America. Unfortunately, most of the ETFs do not concentrate solely on Chile, investing in a range of Latin America markets and allocating to Chile typically less than 10% of total exposure. However, ABN Amro Bank NV offers a number of Chilean ETFs, such as, for instance, Chile Inter 10 Certificate, which since its inception in December 2006 till the end of October 2007, has risen around 45%. There is also Credit Suisse's closed-end ETF, The Chile Fund (CH), which has generated a return of approximately 25% year-to-date.

Despite market volatility and the fallout from the US subprime crisis, Latin American stock markets have been hugely profitable and investors from all over the world are still drawn by the opportunities. However, most institutional investors are concentrated in Brazil, while Chile offers comparable potential for growth with lower risk. Notwithstanding their relatively small size,

financial markets in Chile continue to develop, broaden, deepen and evolve in ways that will no doubt blaze trails for future products and transactions in markets across the region.

The Jerusalem Post, November 11

MOP DESIGNS 2008-20 INFRA MASTER PLAN

Chile's Public Works Ministry (MOP) is working on an infrastructure master plan designed to increase the country's overall competitiveness by 2020, public works minister Eduardo Bitran said during a conference.

The master plan underway includes the development of logistics, access routes to ports and airports, national highways and multimodal corridors.

Logistics matters

The development of logistics is a basic need for raw material-exporting countries and a major need for Chile, said Bitran.

Although the country recently ranked first in Latin America according to a worldwide logistics study carried out by the World Bank, it still has a long way to go, as it continues to rank far below those nations with really competitive logistics processes, the minister said.

According to Bitran, Chile still lacks an integrated multimodal vision to create efficient and integral infrastructure projects, designed to increase the country's competitiveness in a number of sectors.

This strategic vision would greatly benefit the fishing, forestry and mining industries, which are the ones in greatest need of highway development and multimodal transport, he said.

Access to ports is the sector with most deficiencies within the intermodal framework, said the minister, adding that cabotage has not been developed in Chile, in spite of having the lowest transport costs available for the internal transport of goods and materials.

Authorities are carrying out studies to determine the real potential of this type of transport and the actual amount of deficit, said the minister, adding that four cabotage concession projects are already underway to serve the country's region IX.

Other projects underway include port investments in region VII, also known as Maule, to increase handling capacity for coal and cellulose, the minister said, adding that nearly all goods in that region are currently transported by land.

Annual salmon production is expected to increase from 160,000t to 400,000t within the next 15 years, and infrastructure development must be planned to cope with this boost, he said.

Rail systems

According to Bitran, it is also necessary to change the business model of the country's state-owned rail system EFE.

EFE's cargo transport services currently compete with the company's passenger services in a number of areas throughout the country, the minister said.

The costs of passenger transport, however, make this industry practically unfeasible in a country such as Chile, while cargo transport would greatly reduce the costs associated with the transport of produce such as fruits, vegetables and raw materials, he said.

The minister said it is necessary to analyze EFE's business strategy and design a new one that is more compatible with both the company and the country's best interests.

Administrative changes

In order to modernize all of Chile's infrastructure, a major change is required in the administrative sector, Bitran said.

Some of these changes include the decentralization of the public works sector; the creation of an independent public works regulator; the promotion of the multimodal model; and increasing the amount of concession projects to attract further private investment, he said.

However, Bitran also said it is necessary to have legitimate studies regarding infrastructure demand, efficiency and tenders; to have accountability; and to implement the new concessions law, which is to be submitted to congress next week.

Business News Americas, December 6

CHILE CENTRAL BANK KEEPS OVERNIGHT RATE UNCHANGED

Chile's Central Bank kept its overnight lending rate unchanged for a second month, betting slower gains in food prices will curb overall inflation.

Policy makers left the benchmark rate at 5.75 percent today, matching estimates from 22 of 24 economists surveyed by Bloomberg. The other two analysts had expected the bank to lift the rate for a fourth time since July to 6 percent.

The easing of food price inflation last month to the lowest since May indicated the bank correctly assessed at its last meeting that a surge in food costs was the temporary result of a harsh winter that cut harvests. Higher costs for fruits and vegetables have helped drive inflation over the bank's annual target of 2 percent to 4 percent.

"Excluding food from the consumer price index would give an inflation rate of 3.5 percent, within the bank's target," Rodrigo Aravena, an economist at Banchile Inversiones, said in a telephone interview from Santiago.

The bank said today in a statement accompanying the rate decision that economic growth in the third quarter was lower than forecast in the last monetary policy report on September 5. At the time, the bank said Chile would record economic growth of 5.75 percent to 6.25 percent this year. Today's report didn't give an annual forecast.

Policy makers have increased the overnight rate this year to the highest since February 2002, seeking to stem quickening inflation led by the fastest annual gain in food prices in more than a decade.

Bank Statement

“The price of some foods, perishable and non-perishable, have started to show some signs of reversion,” the bank said in the statement today. “Inflationary expectations in the medium and long term are anchored at about an annual 3 percent.”

The bank said future decisions on the benchmark rate will be based on changes in wages and prices, international markets, inflationary expectations and other factors.

Following the bank's October 11 decision to pause, consumer prices rose 0.3 percent in October, the smallest gain since February, down from a 1.1 percent rise in September. The annual rate rose to 6.5 percent, from 5.8 percent a month earlier.

South America's fourth-largest economy expanded 2.8 percent in September from a year earlier, compared with a 4.5 percent expansion in August.

'Inflationary Risks'

“There may remain some inflationary risks, but the slowing economic expansion argues for extending the rate pause,” said Aldo Lema, an economist at Banco Security in Santiago, who expected the bank to keep the rate unchanged. “A longer period of slowing growth will probably lead to lower inflation.”

Aravena said the bank also sought to prevent further strengthening of the peso that might reduce exports, which account for about 35 percent of the country's gross domestic product.

The peso strengthened to an eight-year high against the dollar earlier this year, making Chilean exports more expensive in international markets.

The peso was little changed at 507.44 per dollar today. On October 11, it reached 491.85, the strongest since May 1999.

Local economists this month raised their median forecast for 2008 inflation to 3.4 percent from 3.3 percent, according to the Central Bank's monthly survey.

The bank's overnight lending rate will end

2008 at 5.75 percent, according to the median forecast of 33 economists surveyed by the bank, compared with the 6 percent forecast in a survey a month ago.

Economists expect the economy to expand 5.3 percent this year, down from a previous forecast of 5.5 percent, according to the survey.

Bloomberg, November 13

CHILE'S PESO GAINS AFTER CENTRAL BANK UNEXPECTEDLY LIFTS RATES

Chile's peso had its biggest gain in more than a week after the Central Bank unexpectedly raised its benchmark lending rate, making local fixed-income assets more attractive.

Policy makers boosted the overnight rate a quarter- percentage point to 6 percent, the highest since February 2002, in a bid to stem a surge in inflation.

That puts Chile's overnight rate 1.75 percentage points above the 4.25 percent benchmark rate in the U.S. Only eight of 25 economists surveyed by Bloomberg forecast a rate increase in José de Gregorio's first policy meeting as bank president.

“The interest rate differential between the U.S. and Chile is wider, and that makes the carry more attractive,” said Alberto Ramos, a Latin America economist at Goldman Sachs Group Inc. in New York. “The Central Bank left the door open for more rate hikes. The expectation of monetary policy will be the driver for the peso.”

The peso rose 0.3 percent, the most since Dec. 6, to 498.72 pesos to the dollar at 3:20 p.m. New York time.

The yield on Chile's 8 percent peso bonds due 2015 climbed 3 basis points to 6.40 percent, according to HSBC Bank USA Chile. A basis point is 0.01 percentage point.

The peso pared gains after the biggest monthly increase in U.S. consumer prices in two years damped expectations that the Federal Reserve will keep cutting interest

rates. The Fed has lowered its benchmark rate three times this year, bringing it down from 5.25 percent and widening the gap with Chilean rates.

Inflation Pickup

De Gregorio raised the overnight rate yesterday after a surge in fuel and food prices pushed Chile's monthly inflation rate up to 0.8 percent in November from 0.3 percent in October.

The annual inflation rate soared to 7.4 percent, the highest since July 1996. Chile's economy, South America's fourth largest, expanded 4.1 percent in the third quarter, the slowest pace in a year.

De Gregorio, 48, succeeded Vittorio Corbo as Central Bank chief on Dec. 7. Two days earlier, De Gregorio said in a speech in Santiago that inflation is “very high” and policy makers will aim to bring the annual rate down to its goal of between 2 percent and 4 percent within two years.

“The bank's communique no longer characterized the spike in inflation as being ‘transitory,’ contrary to the bank's practice in the past four policy statements,” Alonso Cervera, an economist at Credit Suisse Group in New York, wrote in a research note today. “This reflects a greater degree of awareness by the bank that the rise in inflation has been broader than previously acknowledged.”

Inflation will slow next year to 3.6 percent, according to a survey of 37 economists by the Central Bank.

Argentina's peso was little changed today at 3.1430 per dollar. The yield on Argentina's 5.83 percent inflation-linked peso bond due in 2033 rose 20 basis points, the most since Nov. 21, to 8.31 percent, according to Citigroup Inc.'s unit in Argentina. The bond's principal is adjusted based on the inflation rate.

Peru's sol gained 0.1 percent to 2.9745 per dollar. The yield on the country's 8.6 percent sol-denominated bonds due 2017 was unchanged at 6.38 percent, according to Banco BBVA Continental Lima.

Bloomberg, December 14

CHILE RAISES COPPER PRICE FORECASTS ON CHINA'S DEMAND

Chile, the world's biggest copper producer, increased its price forecasts for the metal because of stronger demand from China and slowing output increases.

Copper will average between US\$3.20 and US\$3.30 a pound this year and US\$3.10 a pound in 2008, compared with US\$3.05 in 2006, the government-run Chilean Copper Commission said today at a news conference in Santiago. The group said in August copper would trade at an average US\$3.20 a pound this year and US\$2.70 in 2008.

"China keeps being a surprise," said Eduardo Titelman, the group's executive vice president. "Stockpiles are very low."

Purchases of copper wire and pipe in China, the top consumer of the metal, and labor strikes at mines in Chile and Peru have added to a 16 percent rally in the price of copper this year. Chile will produce 5.54 million tons of the metal this year, 2.3 percent less than forecast in August, the commission said.

Next year, supply increases won't be enough to replenish stockpiles, which should buoy the price, Titelman said. The group's 2008 price forecast is "conservative," he said. A slowdown in the U.S., the second-largest user of the metal, still could slow demand next year, Titelman said.

In 2008, production from Chile will rise 3.9 percent to 5.76 million tons from 2007, the group said. Output in 2006 was 5.36 million tons. Production at Chilean government-owned Codelco, the world's biggest copper miner, will rise after sliding this year, the group said.

Global Percentage

Global copper supplies from mines will rise 3.7 percent this year, down from a prior forecast for a 7.7 percent gain, the commission said.

Chile will produce 36 percent of the world's mined copper this year, the commission said

today, higher than its previous estimate. Exports of the metal from Chile will slip to US\$36.8 billion in 2008 from an estimated US\$37 billion this year, the commission said.

Production of molybdenum, used to strengthen steel, will rise 3 percent to 44,500 tons in Chile this year from 43,200 tons last year, the group said. The price will average about US\$30 a pound this year, compared with about US\$24.8 a pound last year.

Bloomberg, November 6

CHILE, GERMANY SIGN 50 MILLION-EURO ENERGY PACTS

Chile and Germany on Tuesday signed two aid agreements to develop renewable energy and energy efficiency.

The pacts, which are worth a total of 50 million euros (US\$ 74 million) were signed by Alejandro Foxley, Chile's Foreign Minister and visiting German Economy Minister Michael Glos.

The agreements is part of a long-term Chilean strategy to boost energy security. Glos said energy development and environment were of special concerns.

At present, the nation has little gas or petrol reserves and most of its electricity depends on hydro-electric dams.

Xinhua, November 20

SOCIAL UNITY: THEME OF THE 17TH IBERO-AMERICAN SUMMIT

The 17th Ibero-American Summit began at the coordinators' level at the close of this edition, and is set to end on November 10 with the presence of 22 leaders from the region.

The Summit's central theme is social unity, according to Prensa Latina.

Those who had confirmed their plans to attend included UN Secretary General Ban Ki-moon.

The event included the accreditation of at

least 700 Chilean and foreign journalists, who together with delegates from participating countries reserved 336 hotel rooms in the capital.

Some 150 artists from 14 Ibero-American nations were in Santiago and other provinces at the start of the event, at the summit's so-called "cultural embassies." Most of the summit was to take place at the Espacio Riesco convention center outside the capital.

The modern facilities, now dubbed the "Ibero-American City," which has an international press center, meeting rooms and offices for delegates from the participating countries, was inaugurated by the Summit's organizers.

These include interim secretary, Carlos Portales, general secretary Enrique Iglesias and executive secretary Javier Luis Egaña. According to the program, special activities were also to take place at La Moneda Palace, Club Hípico and a restaurant at the centrally-located Cerro San Cristóbal.

The web page of Radio Universidad de Chile reported that during the summit, which is bringing together heads of state and government and representatives from 22 countries to sign a plan of action and a social security agreement and to define the creation of an institution for investigating social inequalities.

These and other proposals in areas such as cooperation in tourism and education were made in 11 meetings among Ibero-American ministers and experts preceding the summit.

Respecting the multilateral agreement on social security, which will allow workers to receive pensions even if they have worked in different countries, Chilean Foreign Minister Alejandro Foxley noted that it stems from "the workings of the globalization process and increased emigration."

Emphasis will be placed on the idea of social dialogue and the need for economic and political agreements in the region for achieving greater social unity, the Chilean minister explained.

Granma International, November 12

ARGENTINA AND CHILE TO SIGN HUGE ANDEAN SHARED MINING PROJECT

The governments of Chile and Argentina will sign an agreement this week pushing forward the development of another massive bi-national mining project.

The deal is intended to hurry approval of work at "Las Flechas" mineral deposits by using existing treaties and protocols to govern its construction.

Under the agreement, the US\$ 1.5 billion project, straddling Chile's Region III and Argentina's San Juan Province, would fall under the scope of the nearly ten-year old Treaty of Integration and Mining. That deal was signed by the two nations during the approval process for the controversial Pascua Lama mine and its protocols have also been used to streamline the development of the Amos-Andre and Vicuña bi-national mine projects.

Chile's Undersecretary of Mining Marisol Aravena will travel to Buenos Aires Wednesday to sign the agreement with her Argentine counterparts. Officials note that while this is only a "first step" in the approval process, the use of extant protocols is a valuable tool in expediting two-party talks.

Investment at "Las Flechas" is a joint venture between the Japanese Jommec and Brazilian CVRD mining companies. While the project remains in its infancy, production estimates and extraction techniques are not concrete. Other projects approved under the same treaty -such as the massive Pascua Lama mine also set for Region III- have been met with considerable public debate over the environmental consequences of development despite a government stamp of approval.

For their part, the financiers of "Las Flechas" have a mixed environmental record.

Jommec has a large division centred on making mine production less damaging to the environment. However, CVRD has come under criticism in the past for pollutants emitted at some of its plants.

Mercopress, November 29

BRAZIL, CHILE, BOLIVIA REACH ATLANTIC-PACIFIC HIGHWAY DEAL

The presidents of Bolivia, Brazil and Chile met here Sunday to clinch a deal for South America's first east-west highway, linking Brazil's Atlantic coast to Chile's Pacific coast via Bolivia.

The massive project is expected to be finished in 2009, according to Brazilian President Luiz Inacio Lula da Silva, and will benefit the three nations by speeding up trade between them and with the rest of the world.

Local businessmen said the future 4,700-kilometer (2,900-mile) highway will especially benefit Brazilian exporters to Asia and Asian companies seeking greater access to Brazil's 180 million consumers.

For landlocked Bolivia, the transcontinental highway will carry 70% of its exports, said Bolivia's Highway Administration President Patricia Ballivian.

Chile said it would invest US\$ 92 million to improve roads leading from its coastline to Bolivia, while Brazil announced a similar, US\$ 162 million investment on its end of the proposed roadway.

During his two-day visit to La Paz, Lula is also expected to announce Monday the resumption of Brazilian investment in Bolivia's energy sector, to the tune of US\$ 750 million.

Brazil's and Bolivia's state-run oil companies, Petrobras (PBR) and YPF respectively, will sign an agreement for the joint exploitation of Bolivia's gas and crude oil resources.

During her five-hour stay in La Paz, Chilean President Michelle Bachelet was also to discuss Bolivia's long-standing demand for an outlet to the Pacific Ocean, which it lost in a war with Chile in the late 19th century.

On her arrival here Sunday, Bachelet said she was "convinced (Bolivia and Chile) should integrate as sibling nations."

In route to Bolivia's presidential palace, Bachelet broke protocol by descending from

her car and shaking hands with people outside the building, many of whom were waving Bolivian and Chilean flags and asking her to let Bolivia regain a chunk of Pacific coastline.

Meanwhile, Bolivian President Evo Morales on Sunday called for talks with the governors of four rich western provinces of Bolivia who on Saturday announced steps toward greater autonomy, triggering countrywide demonstrations for and against Morales' leftist government.

Bolivia is in the grips of a constitutional crisis after an assembly run by Morales supporters approved a draft constitution enshrining a socialist agenda that includes redistributing the country's wealth from the rich lowlands to the poor highlands.

AFP, December 16

CHILE SEEKS TO BE BRIDGE IN TRADE BETWEEN ASIA, LATIN AMERICA

Chile is making headway in its goal to become a bridge linking Asia and Latin America in trade by signing free trade agreements with Asian countries.

Chile has signed free trade agreements with the world's biggest economies, including the United States and the European Union (EU). This year, it signed similar agreements with India and Japan.

Chile, which enjoys political and macroeconomic stability and has set clear trade rules, has export-oriented economy that largely depends on international trade.

Asia's gross domestic product (GDP) will be 8.3 percent in 2007 and it is expected to be the most dynamic region in coming years, as forecast by the Asian Development Bank.

In that context, the "Pacific Arch," which groups Chile, Mexico, Peru and Panama, aims to promote trade and investment among the Pacific countries. Chile has free trade agreements with the three Latin American countries.

In September, Chile signed a free trade agreement with Japan, the second largest

economy in the world and Chile's third largest trade partner. Chile's exports to Asia totaled US\$ 7.184 billion annually and it imported US\$ 1.1147 billion worth of goods from Asia each year.

Chile is also attracted to Malaysia, a country with a population twice as large as Chile's and an economy nearly twice the size of Chile's. With a per capita earnings of around US\$ 5,000, Malaysia is also an exporter of manufactured goods.

On its part, Malaysia sees Chile as a favorable platform for reaching other Latin American markets.

According to Chile's National Customs Service, trade between Chile and Malaysia reached US\$ 302 million in 2006, a 32 percent increase over 2005 and a 226 percent increase over 2002. Fresh trade negotiations will start in March 2008.

In August, Chile and India ratified the Partial Range Accord.

The accord is very important since India is the leader among developing economies with 1.100 billion people. With a 7.5 percent annual growth rate, India is one of the engines for global economic growth.

In 2006, trade between Chile and India totaled US\$ 1.653 billion. Chile has become a major importer of products from India, above Argentina, Brazil and Mexico.

In August, Chile and Australia began negotiations for a free trade agreement.

Chile is the main Latin American investor in Australia in mining, viticulture, technology and other sectors.

From 2000-2006, Chile's exports to Australia registered a 19-percent annual increase while its imports from that country increased 12 percent.

Chile and Australia will hold a new round of negotiations in December to seek an accord on assets, services, investment and public contracts.

Analysts believe Chile will need to increase

added value of its exports, such as copper and molybdenum, to have greater impacts on trade between Asia and Latin America.

Xinhua, December 20

PAYING TAXES, EASY IN CHILE

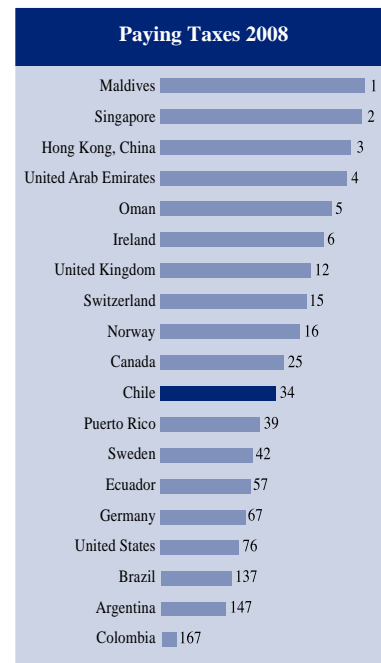
According to Paying Taxes 2008: The Global Picture, a study released recently by the World Bank, Chile ranks 34th out of 178 countries around the world as regards the ease with which businesses can comply with their tax obligations.

The study, carried out in conjunction with PricewaterhouseCoopers, measures the total tax burden on companies, including not only corporate income tax but also labor and sales taxes, as well as the number of annual payments required and the time taken to make these payments.

On the total amount of tax levied on businesses, Chile ranked 18th with a total rate of 25.9%. According to the World Bank, this comprises corporate income tax of 18.3%, labor taxes of 3.8% and other taxes of 3.8%. In this, Chile is an exception to an international trend detected by the report under which corporate income tax accounts for an average of only 37% of the total taxes paid by businesses.

On the number of annual tax payments required, Chile ranked 21st but on the time involved in making these payments, dropped to 121st place. The report estimates that businesses in Chile devote 316 hours a year to complying with their tax obligations, with labor and sales taxes accounting for 137 hours each as compared to just 42 hours for corporate income tax.

The Paying Taxes 2008 study is carried out as part of the World Bank's broader Doing Business project which monitors business regulations and their enforcement around the world. In its latest Ease of Doing Business ranking, released in October, Chile took 33rd place out of the 178 countries, performing particularly strongly on investor protection and the transparency of business transactions.



Source: World Bank

HIGH SCORE FOR CHILE IN NEW LOGISTICS INDEX

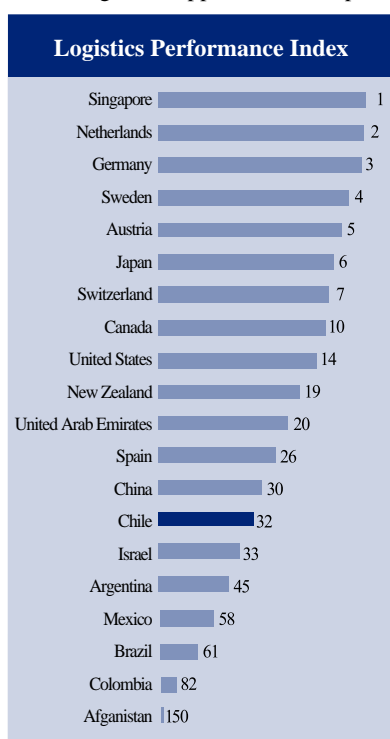
According to the report Connecting to Compete: Trade Logistics in the Global Economy, released by the World Bank Group in November, Chile is one of the world's most successful emerging economies as regards the quality of its logistics infrastructure and services. In the study's Logistics Performance Index (LPI), Chile ranked 32nd out of a total of 150 countries, well ahead of all other Latin American countries.

"Well connected countries can have access to many more markets and consumers: a country as distant from most major markets as Chile can be a major player in the high-end world food market, supplying fresh fish and perishable fruits to consumers in Asia, Europe, and North America," the report noted.

The LPI, whose results are based on a survey of international freight forwarders and express carriers, divides a country's logistics performance into seven areas: customs procedures, infrastructure quality, ease and affordability of international shipments, domestic logistics costs, the competence of local operators, ability to track and trace shipments, and timeliness in reaching a destination.

The report noted that in developing countries where trade has been an important factor in accelerating growth, logistics performance is generally better than in other countries with a similar level of income. As well as Chile, examples of this phenomenon among upper-middle income countries include South Africa (24th), Malaysia (27th) and Turkey (34th).

Chile's best score was for the efficiency and effectiveness of customs clearance on which it ranked 24th while on both the quality of logistics infrastructure and the ease of making international shipments, it took 34th position. However, on domestic logistics costs, which include local transport, terminal handling and warehousing, it dropped to 115th place.



Source: World Bank

CHILE TOPS LATIN AMERICA IN PISA EDUCATION SCORES

Chilean students received the highest scores among participating Latin American countries on the science and reading sections and second-highest on the mathematics portion of the 2006 PISA examinations, Minister of Education Yasna Provoste announced Tuesday.

The Programme for International Student Assessment (PISA) is a triennial test given to 15-year-old schoolchildren in 57 countries

to test and compare scholastic performance in reading, math and science. The implementation of the test is coordinated by the Organisation for Economic Cooperation and Development (OECD).

Still, Argentina, Brazil, Chile, Colombia, Mexico and Uruguay were the only Latin American countries to participate in the assessment.

"We are all very pleased," said Provoste. "This is a source of pride for our country. It's the result of the sustained efforts of the educational policy of the Concertación government, which today allows the test... '85 to show Chile topping the Latin American rankings."

Provoste said the test results show that Chile is closing the gap with the developed world, given that the score increase of Chilean students was the highest of the participating countries. The results also show that students from the lowest socioeconomic levels scored best compared to their peers in Latin America.

Most of the students who took the test in Chile are in their second year of high school. These students were the first to be affected by the 1997 education reforms since their first year of basic school and have had all their education with the current curriculum.

"This shows that the measures we have implemented in our country ... '85 have resulted in Chile's improvement on the reading test," Provoste said.

More than 400,000 students from 57 countries that make up close to 90 percent of the world economy took part in PISA 2006. The assessment also collected data on student, family and institutional factors that could help to explain differences in performance.

The average science scale score in Chile was 438 points, which placed the country 40th overall, but ahead of all other Latin American countries, who averaged 408 points. The top three countries on the science scale were Finland, with an average of 563 points, Hong Kong-China and Canada.

Chile had an average score of 442 on the reading scale, which was an increase of 33

points from its average on the PISA 2000. Korea was the highest scoring country, with an average of 556 points, followed by Finland and Hong Kong-China.

On the mathematics scale, Chile's average was 411, second among Latin American countries behind Uruguay's 427 points. Taiwan was top with an average score of 549 points and Finland was second, followed by a third-place tie between Korea and Hong Kong-China.

CHILE LIFE EXPECTANCY INCREASES TO 78, SAYS UN REPORT

Chile now ranks 27th worldwide with a life expectancy of 78.3 years, according to a U.N. report on average ages in 177 countries. The figure represents a four-year increase since 2000. Chile has also moved past the United States, which fell to number 29 with an average life expectancy of 77.9.

Japan has the highest life expectancy with an average age of 82.3, while Zambia's figure is less than half that, only 40 years. For countries with a high human development index the average is 76.2. The Latin American average is 72.8. Chile is ranked second for Latin American nations, behind Costa Rica's 78.5.

Carlos García, a geriatrician at the Clínica Las Condes, said Chile's increased life expectancy is due to a combination of factors: a decrease in infant mortality, a declining birthrate and enhanced access to better medical services.

Still, living longer does not necessarily translate into a better quality of life, said García. Presently 80% of illnesses that affect the population correspond to cardiovascular problems, diabetes, hypertension and cancers. These are illnesses that develop over a long period of time, are debilitating and are very costly to treat. The principal causes of these diseases are poor eating habits, obesity and a lack of exercise.

In Japan, for example, the typical male consumes roughly 2,300 calories per day. Proteins represent 12% of that figure, fats 25% and carbohydrates 63%. Also, the Japanese perform plenty of physical activity,

which is often included in their workplaces. In the United States, by contrast, men consume on average 2,700 calories per day, according to a 2004 report by the Centers for Disease Control.

"It is important for people to eat well-balanced meals, whatever their diet: Japanese, Mediterranean or vegetarian" said García. "Physical activity is also important. An adult needs to exercise 20 minutes a day, at least three times a week.

Mercopress, December 27

CHILE PREPARES ROAD SHOW FOR 4TH MOBILE OPERATOR

Chile is preparing a road show to invite investors from the United States, Europe and Asia to invest in its mobile phone market, where close to 90 percent of the market already uses a cellular phone.

Deputy telecommunications Minister Pablo Bello told journalists on Tuesday the government hoped to convince investors of the benefits of becoming a fourth player in the mature market.

Chile currently has the highest level of mobile phone and broadband penetration in Latin America and market watchers say that by 2010 just about every Chilean who knows how to use a mobile phone will own one.

The government and analysts say that would not prevent healthy competition from new providers.

Chile's mobile telephone market is led by Movistar, a unit of Spain's Telefónica, with more than 6 million clients.

The next biggest competitor is Entel PCS, owned by Entel SA and which has a little over 5.4 million clients, followed by Claro, owned by the Mexican cellphone giant America Movil SA, with more than 2.6 million clients.

"We are going to invite investors to be a part of our market, and if they reach the conclusion that there effectively is space in the market for a fourth player and for further competition in Chile, I'm sure they'll go

ahead," Bello said.

With the user market mature, mobile phone companies are marketing products to specific niches, such as children or lovers of extreme sports.

Bello said the government was working on designing the bid package for a new, third-generation mobile network, which allows quick Internet connection through mobile connections.

Reuters, November 20

CHILE TO LEAD WORLD IN NEW COPPER PROJECTS 2006-2015

Chile will lead the development globally of new copper mines over coming years, keeping a hold on its pole position as the world's largest producer of the red metal, the Chilean government Copper Commission (Cochilco) said on Thursday.

Cochilco Chief Analyst Aldo Picozzi said Chile will become host to 26 new copper developments from 2006-2015, adding 2.37 million tonnes of output, nearly 20 percent of the global production to come on line in that period.

Cochilco said 14 of the new mines will produce copper cathodes from SX/EW operations, and 12 will produce copper in concentrates.

Next after Chile in terms of new mines or brownfield development comes Peru, with 19 new projects due over the nine-year period. Canada will see 18 new projects, Australia 14 and the Democratic Republic of Congo 12.

Africa will remain the world leader in ore grades for copper, with percentages rising to near 1.84 percent, compared with 1.41 percent in 1980.

World ore grades will average at about 0.70 percent in the period, versus 0.87 percent in 1980 and Chilean ore grades are seen at 0.74 percent.

Chile, which produces about 35 percent of

global copper, has seen its ore grades fall off since a mining boom in the 1990s, but Picozzi said the country is becoming a leader in the development of brownfield projects.

Brownfield projects refer to those where miners have come back to a deposit to either develop new mineral, or mine mineral that was considered too low-grade with technologies available 30 years ago.

Global miner Anglo American Plc said on Wednesday it will spend US\$1.74 billion to expand its Los Bronces mine in Chile, creating one of the world's biggest copper mines as it tries to nearly triple output over the coming decade.

Anglo American Base Metals President Brian Beamish said much of its future expansion would come in Chile, where most of its copper stakes are, but some would also come from Peru and potentially from Alaska and the Philippines.

Reuters, November 29

CHILE EXPECTS US\$378 MILLION INVESTMENTS IN 2008 FOR RENEWABLE ENERGY PROJECTS

Chile expects US\$378 million of private investments to enter the country in 2008 for renewable energy ventures. Carlos Alvarez, executive vice president of the Chile Economic Development Agency, said the green energy projects are expected to produce 250 megawatts of generating capacity.

He made the announcement at the three-day second annual Conference on Renewable Energy in Santiago, which ended Friday. The conference gathered more than 1,000 power experts and financiers from 30 nations, indicating Chile's serious effort to rely more on cleaner forms of energy.

The state's legislature passed in 2004 the National Renewable Energy Law. It set a 15 percent target of green energy usage by 2010. At present, Chile's power mix from renewable sources, particularly wind, solar and geothermal energy, comprise only 2 percent. The Energy Law mandates large electrical companies to source at least 5

percent of their capacity through green sources by 2015.

Sara Larraín, head of the non-governmental organization Chile Sustentable, proposed Thursday for the government to further bring up gradually the clean energy mix to 18 percent by 2024.

If all the expected US\$328 million private investment comes in next year, it will produce 60 percent of the nation's goal.

Chile's available natural resources has still sufficient reservoir to provide green energy. Only 7 percent of its hydro resources has been tapped, compared to Europe's 60 percent.

Among foreign companies that have invested in Chile's hydro power ventures are Australia's HydroChile, which plans to raise US\$100 million venture capital through an initial public offering targeted to be issued by middle of 2008.

AHN News, November 16

CHILE ASSIGNS OIL EXPLORATION BLOCKS IN SOUTH

Chile's government said on Thursday it assigned nine oil exploration blocks to France's Total S.A., Apache Canada, U.S. company Pan-American Energy, New Zealand's Greymouth Petroleum, and U.S.-Swiss consortium IPR-Manas.

The exploration areas are in the Magallanes basin in the extreme south of Chile. The mining ministry said in a statement it expected the companies to invest US\$267 million in exploration in the area.

"In the (southern hemisphere) summer we will sign the contracts and I hope that once signed the companies will start to operate immediately, although they have six months to initiate operations," Mining Minister Karen Ponjachik told reporters.

Chile opened 10 blocks for bidding in June as part of efforts to increase domestic energy supplies as natural gas imports from Argentina have slumped since the

neighboring country is favoring its own domestic market.

Seven companies and consortiums made offers on nine of the blocks, but no one bid on one of the blocks, Ponjachik said in a telephone news conference from Tocopilla. She was visiting the epicenter of a large earthquake that hit Chile on Wednesday, killing two people and interrupting mining activity.

Of the nine blocks assigned, six will be explored exclusively by the foreign companies and the other three will be developed together with Chile's state oil firm ENAP.

The contracts have a maximum life of 35 years and plan on exploration periods of seven years.

Chile has produced oil and gas from Magallanes for decades, but only in modest quantities. The country imports 98 percent of the crude oil it consumes and most of the natural gas.

Reuters, November 15

GREYMOUTH PETROLEUM WINS RIGHTS TO CHILE OIL EXPLORATION

Greymouth Petroleum has been awarded rights to explore, exploit and produce petroleum in four permits covering an area of 9,000 sq km in, and adjacent to, the Straits of Magellan in Chile.

Winning bidders were announced by Chilean Mining Minister Karen Ponjachik at a ceremony in Punta Arenas on November 15.

New Zealand-owned and operated Greymouth Petroleum was among several successful bidders including Total S.A. of France, Apache of the US, and Pan American Energy (an operating unit of BP).

The company said today that in one permit concession area it would operate an oil and gas investment programme for, and in joint venture with, the Chilean government-owned oil and gas company ENAP (Empresa Nacional del Petróleo).

"Through the award of these permit areas, Greymouth has established a core petroleum acreage position in the heart of the Magallanes Basin, where there have been a number of earlier oil and gas discoveries," company spokeswoman Lara Walker said.

"Greymouth now holds a very significant petroleum acreage position in Chile, alongside ENAP and is moving to establish a Chilean operating company to be based in Punta Arenas."

Greymouth chief operating officer John Sturgess said the company had identified gas and oil potential in the Straits of Magellan equivalent to the Turangi-Pohokura gas-condensate area in New Zealand.

The Magallanes Basin is part of the same geological formation as Argentina's Austral Basin, which has produced more than 500 million barrels of oil and 10 trillion cubic feet of natural gas.

In June, 2007 the Chilean government invited bids for 10 permit areas in the Magallanes Basin covering an area of 32,000 sq km.

The Chilean government is devoting efforts to the promotion of investment through the energy supply chain, including hydrocarbon exploration and production and in electricity generation.

Stuff.co.nz, November 19

TOTAL GETS EXPLORATION LICENSE IN SOUTHERN CHILE

Total SA, Europe's third-largest oil company, got an exploration license in the Magallanes Basin in southern Chile, entering the country for the first time.

Total will get a 100 percent interest in the Otway Block, which covers an area of 5,965 square kilometers (2,303 square miles), the Paris-based company said today in an e-mailed statement.

The contract will be signed "in the coming months" and exploration will start in 2008, according to the statement. The agreement includes 1,500 square kilometers of three-dimensional seismic acquisition and the

drilling of two wells, Total said.

Last week, Chile awarded companies including Total, Greymouth Petroleum Ltd. and Apache Corp. the rights to explore for fuels at the tip of South America. The country is seeking alternative sources of natural gas after Argentina further reduced exports, creating a shortage.

Total plans to increase production of oil and gas by an average rate of 4 percent a year between 2006 and 2010 through new projects at fields in Angola, Norway and Qatar.

"Total's entry into Chile is in line with its strategy of diversifying its exploration assets," the company said today.

Bloomberg, November 21

APACHE AWARDED RIGHTS TO EXPLORE 2 BLOCKS IN CHILE

Oil and gas company Apache Corp said it has been awarded rights to explore the Lenga and Rusfin blocks on the island of Tierra del Fuego in Chile's Magallanes Basin bid round.

Houston-based Apache will operate both the Chilean blocks with a 50-percent interest in Lenga and a 100-percent interest in Rusfin.

The company has committed to acquire 232 square miles of three-dimensional seismic and drill two exploration wells for a combined investment of US\$18.3 million during the first phase of the exploration period, Apache said.

Reuters, November 28

METHANEX ANNOUNCES AGREEMENT WITH GEOPARK TO SECURE NATURAL GAS FOR CHILE OPERATIONS

Methanex Corporation announced today that it has signed a natural gas prepayment agreement with GeoPark Holdings Limited. Methanex will provide US\$40 million in financing to support and accelerate GeoPark's natural gas exploration and development activities in the Fell Block in Southern Chile. Under the arrangement,

GeoPark will also provide Methanex with natural gas supply sourced from the Fell Block under a ten year supply agreement. GeoPark has been increasing its gas supply to Methanex since 2006 and its goal is to provide up to 10% of Methanex's total natural gas needs in Chile by the end of 2008.

Methanex's Latin America Senior Vice President, Paul Schiodtz, commented, "This prepayment agreement represents an important step to restore secure, long term gas supply to our plants in Chile. We are delighted to be working closely with GeoPark who have been very successful both discovering new gas and investing in infrastructure to increase natural gas deliveries to our plants."

Mr. Schiodtz continued, "We are also very pleased with the results in the bidding process for oil and gas exploration in the south of Chile. The Chilean Government recently announced the participation of five other international oil and gas companies in gas exploration and development in areas which are all very close to our plants."

James Park, CEO of GeoPark added, "This strategic alignment of Methanex and GeoPark strengthens both companies - by increasing the supply of natural gas in Chile for Methanex and by underpinning the long term development of GeoPark's natural gas reserves. The agreement secures an economic long term market for all of GeoPark's Chilean gas production while also providing a source of financing to accelerate capital investment."

CNNMoney.com, November 26

CHILE CGE CONCLUDES TENDER FOR 97.9% OF PPL LOCAL UNIT

Chile power company Compañía General de Electricidad SA concluded its stock tender for 97.9% of PPL Corp.'s (PPL) local electricity distributor, Empresas Emel SA, CGE said in a Tuesday advertisement in local newspapers.

"In light of the fact that we've received favorable responses for 97.94% of Emel shares, the bidder declares the offer successful and acquires 14,261,090 Emel shares," CGE said in the ad.

CGE offered US\$47.51 a share or about US\$667.6 million for the stake.

In September, CGE announced it had reached an agreement to buy PPL's 95.4% stake in Emel for US\$660 million.

According to local securities laws, however, a takeover must be carried out through a public share tender where all shareholders are offered the same price.

PPL put its Latin American assets up for sale in March. In mid-July, PPL completed the sale of its businesses in Bolivia and El Salvador.

"There was strong interest in PPL's Latin American operations, particularly in Chile, which resulted in a successful process that was completed more quickly than we had anticipated," said Rick L. Klingensmith, president of PPL Global, the company's international subsidiary.

PPL expects to record a fourth-quarter gain on the sale of US\$205 million to US\$ 225 million, or 53 cents to 58 cents a share.

Overall, PPL has received US\$851 million in proceeds from its Latin American divestitures. The company expects the sale of its combined Latin American portfolio to result in a 2007 gain of US\$251 million to US\$271 million, or 66 cents to 71 cents a share.

Emel is Chile's fourth-largest electricity distributor with 575,000 customers.

Emel controls seven smaller power companies that operate on both the northern SING and central SIC grids.

Recently CGE issued local bonds worth US\$113.8 million and obtained two loans totaling about US\$517 million to finance its acquisition of Emel.

Dow Jones, November 6

XSTRATA PLANS TO DOUBLE MOLYBDENUM CAPACITY AT PLANT

Xstrata Plc started studying the feasibility of more than doubling molybdenum

processing capacity at its Altonorte metallurgical facility in Chile after the price of the steelmaking ingredient rose sevenfold since 2002.

Construction is expected to start in the second half of 2008 with production commencing in the second half of 2009, Zug, Switzerland-based Xstrata said today in a statement distributed by the Regulatory News Service.

The cost of the expansion is estimated at US\$40 million. Capacity would increase to 28,000 metric tons a year, from 12,000 tons currently. The company is also spending US\$28 million on environmental projects at Altonorte, including the upgrade of a dust-treatment plant.

Bloomberg, November 26

SCOTIABANK CHILE'S NO. 6 BANK AFTER ACQUISITION

Bank of Nova Scotia said on Monday it finalized its purchase of Banco del Desarrollo in a transaction that will make it Chile's sixth-largest bank.

Bank of Nova Scotia concluded the deal, worth US\$1.02 billion, through a public offer for 99.5 percent of Banco del Desarrollo.

The combined operations of Scotiabank's Chilean unit, Scotia Bank Sudamericano, and Desarrollo will have 6.53 percent of Chile's bank loans - a share James Callahan, Scotiabank's general manager in Chile, plans to grow.

"This merger will allow us to make a big jump toward our strategic goal of controlling 10 percent in each market," Callahan said.

Banco del Desarrollo has assets of more than US\$5.1 billion and a network of 74 branches specialized in mid-market commercial lending, small- and micro-business lending, and consumer finance.

Chilean banking is dominated by Santander Chile, a unit of Spain's Santander, and its nearest rival, Banco de Chile, which recently entered into a strategic alliance with Citigroup Inc.

Callahan said achieving 10 percent of the market through organic growth would take time and that it was open to making other acquisitions, though Chile was not a buyer's market.

"In Chile now there are more potential buyers than there are sellers, and that gets reflected in the prices," he said.

Separately, Scotiabank signed an exclusive agreement last week to negotiate the acquisition of Peru's Banco del Trabajo, controlled by Chile's Altas Cumbres group.

Reuters, November 26

ANGLO APPROVES US\$1.7 BILLION CHILEAN COPPER EXPANSION

Anglo American Plc decided to expand its Los Bronces copper mine in Chile, taking the value of projects approved by Cynthia Carroll since she became chief executive officer in March to more than US\$4 billion.

The US\$1.7 billion expansion will almost double production at the mine to 400,000 metric tons a year, from 226,000 tons, Anglo said today in a statement. In August, the company agreed to spend US\$1.43 billion on an Alaskan copper mine. It announced a US\$1.15 billion Brazilian iron-ore investment in April.

The Los Bronces plan underscores Anglo's focus on industrial metals as the booming economies of China and India fuel demand for the raw materials needed for buildings, cars and domestic appliances. Anglo, the world's second-largest mining company after BHP Billiton Ltd., announced in 2005 it was switching its focus away from gold and paper.

"Cynthia, in a short space of time, has been able to demonstrate that she is serious in growing the company," Patrice Rassou, who helps manage the equivalent of US\$51 billion at Sanlam Investment Management in Cape Town, said in an interview.

The expansion at Los Bronces, 65 kilometers (40 miles) northeast of Santiago, will be complete in three years and the mine's life

will exceed 30 years, the company said. Molybdenum output will rise to 5,400 tons a year, from 2,123 tons.

"This development is the first stage in Anglo American's strong pipeline of copper expansion projects, which aims to increase copper production to approximately 1.7 million tons per annum by 2016," Anglo said. Anglo's attributable copper production in 2006 was 643,800 tons, according to a February statement.

Bloomberg, November 28

ENDESA CHILE TO INVEST US\$1.2 BILLION IN HYDRO PLANTS

Endesa Chile, the nation's largest electricity generator, plans to invest US\$1.2 billion through 2011 to build hydroelectric plants to feed the country's ravenous energy needs, the company said on Thursday.

Endesa Chile President Mario Valcarce said the investment would be part of a broader five-year plan to invest US\$2.5 billion in Chile's electrical sector, including thermoelectric and alternative sources of energy.

"Looking toward the next five years, Endesa is going to invest about US\$2.5 billion in Chile projects," Valcarce said after inaugurating a wind-generation plant in the northern Chilean town of Canela.

"Of those, US\$1.2 billion will go to additional hydro projects that we are building."

Valcarce said that figure did not include the US\$4 billion Hidroaysén project that is being planned by Endesa and generator Colbún.

Reuters, December 6

PACIFIC HYDRO PLANS CHILE RENEWABLE ENERGY PROJECTS

Australia's Pacific Hydro said on Monday it plans to invest some US\$500 million to develop renewable energy projects in Chile once the Andean country passes new legislation for the sector.

"Once the Renewable and Non-conventional Energy law is approved we expect to develop projects to generate some 250 megawatts, with investment of some US\$500 million," Pacific Hydro said in a statement.

Pacific Hydro and mine giant BHP Billiton said in November they signed an agreement to develop wind power in excess of 100 megawatts in Chile's northern mining region.

Chile's government is working on a law that could see 5 percent of the nation's electricity generated through renewable means by 2010.

The law has been approved by the lower house, or Chamber of Deputies, and the Senate is expected to give it a green light in the first months of 2008.

"Pacific Hydro will continue to invest in wind power in Latin America," said Luis Arqueros, the company's head of commercial development in Latin America.

"In Brazil we have begun construction on our second wind park, Vale dos Ventos, which we expect will start operations at the end of 2008, and have installed capacity of 45 Megawatts," he said.

The company also announced the start of operations for its Millennium wind park in northern Brazil. With 10.2 megawatts of capacity, it will provide electricity for 40,000 homes in the region.

"Brazil has a favorable regulatory framework for renewable energy investments that will allow us to develop a portfolio of more than 300 megawatts of clean power that could be put into operation in the next four years," said Janine Hoey, Pacific Hydro's Latin America chief executive.

Reuters, December 10

SUN INTERNATIONAL WINS APPROVAL FOR CHILE CASINO LICENSE STAKE

Sun International Ltd., South Africa's biggest lodging company, won regulatory approval to purchase a 40 percent stake in the holder

of a 15-year Chilean casino license.

Sun International didn't disclose what it will pay for the stake in San Francisco Investment SA. The US\$200 million casino and family entertainment development will be near the cities of Rancagua and Santiago and will include 1,500 slot machines, the Johannesburg-based company said in an e-mailed statement today.

Bloomberg, December 10

PSEG CLOSSES CHILQUINTA, LUZ DEL SUR SALE

PSEG Global, a subsidiary of US firm PSEG, has closed the sale of its 50% interest in Chilean distributor Chilquinta Energía and 37.9% share in Peruvian distributor Luz del Sur for US\$685 million to Houston-based energy company AEI.

The transaction had a total value of roughly US\$885 million including PSEG's proportional share of net debt on these investments, PSEG said in a statement.

"The sale of Chilquinta and Luz del Sur supports the long-term financial goals of Energy Holdings and is in keeping with PSEG's intent to focus on its core markets," PSEG Energy Holdings president Thomas O'Flynn said.

"This acquisition marks AEI's entry into the Chilean market and further strengthens the company's presence in Peru," AEI said in a statement.

San Diego-based Sempra Energy owns the other 50% of Chilquinta and a 38% stake in Luz del Sur. The remaining ownership of Luz del Sur is publicly traded on the Lima stock exchange.

Chilquinta is Chile's fourth largest distributor, serving more than 541,000 customers in port city Valparaíso and the surrounding area. Chilquinta also owns Energas, a natural gas distribution business that serves over 35,000 customers.

Business News Americas, December 14

ONTARIO TEACHERS' PENSION PLAN ACQUIRES CONTROLLING STAKE IN ESVAL OF CHILE

Ontario Teachers' Pension Plan has completed the purchase of 69.4 per cent of Chilean water services operator Esval SA and its subsidiary, Aguas del Valle SA, for US\$ 570 million.

Teachers' agreed last August to acquire a 48.92 per cent stake from Consorcio Financiero and other shareholders, conditional on securing a 50.1 per cent interest through a public tender, as required under Chilean law.

CORFO, a Chilean government agency, continues to hold about 30 per cent of the company. And Esval continues as a public company traded on the Santiago Stock Exchange, with the local management team led by Gustavo González Doorman.

Esval "will generate predictable returns over many years to help meet the plan's pension obligations," Stephen Dowd, Teachers' vice-president for infrastructure, said in a release Monday.

"As a strong, long-term shareholder in Esval, Teachers' looks forward to supporting the company's future development and its delivery of high-quality services to the community for many years."

Esval is one of the three largest water services operators in Chile, providing water services to more than 500,000 customers. Its subsidiary, Aguas del Valle, provides sanitary services to more than 165,000.

They serve the regions of Coquimbo and Valparaíso, and together represent 16.5 per cent of Chile's regulated market.

The Ontario Teachers' Pension Plan is Canada's largest single-profession pension plan, with C\$106 billion in assets as of last Dec. 31. It invests the pension fund's assets and administers the pensions of Ontario's 167,000 elementary and secondary school teachers and 104,000 retired teachers.

The Canadian Press, December 24

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

From JP Morgan, "Economic Research", December 17

Chile well positioned to weather global growth risks

• **Chile's growth outlook confronts greater risk from a US economic slowdown.** In the third quarter, real GDP growth decelerated to 4.1% oya. This was partly owing to supply-side shocks like natural gas shortages. But other factors may moderate consumption in the quarters ahead: first, recent labor market figures show a moderation in the pace of job growth; second, food price inflation has pushed up headline CPI to the neighborhood of 7%, which is pinching purchasing power. Fiscal policy will be expansionary next year. But a growing likelihood that global growth may decelerate visibly warrants a revision of the 2008 real GDP forecast to 4% (from 5%). The downward adjustment largely reflects a revised drag from the external sector, as consumption is expected to

rebound once the food price shock fades.

The Central Bank (BCCh) is also increasingly concerned with the risks to global growth. This means that the BCCh will most likely keep policy rates stable in the upcoming quarters, despite the upswing in headline inflation. The change of Central Bank president does not change expectations. Consumer price pressures look set to ease in early 2008 following a visible acceleration in 2007, as softer inflation would be underpinned both by external food price deceleration and potential domestic food price deflation. While the potential passthrough of food price increases to wages needs to be monitored, inflation expectations have remained well anchored so far.

• **We expect CLP to remain rangebound.** The return of the peso to levels above USD/CLP 500 has moderated exporter anxiety about appreciation undermining competitiveness. We highlight that recent CLP strength reflected US dollar weakness, and that in multilateral terms the real exchange rate remains close to

its 15- year average and does not look misaligned. While global growth worries may increase downside risks for copper prices, Chile's countercyclical policies have guarded the economy against CLP excess appreciation in the upswing and suggest limited downside risk for the currency if prices for the red metal slip.

From Santander Investment, "Latin American Economic Research", November 16

A treasure-building treasury

In March 2007, the Ministry of Finance, under the fiscal responsibility law, created two funds to manage the surplus originating from the structural fiscal surplus rule in addition to a strong commodity price scenario. This law currently states that the fiscal surplus will be invested through these two funds. The Pension Fund receives a minimum deposit of 0.2% of GDP (up to maximum of 0.5%). The Social and Economic Stabilization Fund, which is the continuation of the former copper fund, receives the entire fiscal surplus in excess

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of 1% of GDP.

As of September 2007, the assets under management (AUM) of the Social and Economic Stabilization Fund and the Pension Fund reached US\$11.1 billion and US\$1.4 billion, respectively.

• **We expect the two funds together to reach US\$46 billion by the end of 2010.**

According to our estimates, the Chilean economy could see a sound fiscal surplus of 8.6%, 6.0%, and 4.8% of GDP in 2007, 2008, and 2009, respectively. Thus, assuming an internal rate of return (IRR) of 4.5%, the pension fund could reach US\$4.3 billion by the end of 2010, and US\$41.9 billion in the case of the Social and Economic Fund. It's important to note that our forecast of a fiscal surplus is highly dependent on the copper price, which we forecast will average US\$3.09 per pound in the period. If the current crisis in U. S. financial markets prompts a decrease in world economic growth and therefore in commodity prices, we could see a lower fiscal surplus in the coming years. In the most likely scenario funds could reach US\$46 billion by the end of 2010. This figure is low compared

with other sovereign wealth funds, such as the ADIA (Abu Dhabi Investment Authority), the Government Pension Fund of Norway, and the Singapore Investment Corporation, which all have assets over US\$100 billion, according to Morgan Stanley. Chilean funds could become more important for the local economy, as they could account for 24% of the forecasted 2010 GDP, compared with 8% estimated for 2007.

• **We expect funds to continue to be invested overseas.** Apart from guaranteeing funding of pension obligations of the former state pension system, which was replaced by a mandatory private system (AFPs) in 1980, and supporting the countercyclical fiscal policy, fund policy has encouraged investment overseas, which is intended as a way to deal with Chilean peso appreciation resulting from increasing copper-related revenues in U.S. dollars. As of September, 100% of these assets are invested overseas, mostly in sovereign bonds (67%) and banks (30%). In our opinion, this investment policy is not going to change in the short

to medium term, as the government has a surplus in U.S. dollars but a deficit in Chilean pesos, and in order to finance the difference the Ministry of Finance will issue Treasury bonds in pesos to avoid putting pressure on the local currency. Thus, in our view, there is little incentive to invest these funds in the local market.

• **The new investment framework would allow equity exposure, while the management of the funds will be auctioned to private agents.** A special Finance Advisory Council of the Ministry of Finance has proposed a new investment framework for the funds. Currently, most of the assets are in sovereign debt and time deposits. The council has proposed allowing 15% of assets under management of both funds to be invested in global equities and 20% in global corporate debt, in a measure intended to maximize the return/risk balance of the funds. We do not expect the surplus to be invested inside Chile. While the increasing interest rates worldwide in 1H07 pushed the fund's IRR to up to 2.45% annualized, the

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change in the portfolio composition should boost long-term return as it did with the Norwegian fund, which has a higher exposure to equities (40%) and has shown an average real return of 4.57% since 1996.

In addition, the council proposed the hiring of an external consulting service to prepare an auction of the investment management service of the fund. The process should include the rules and requirements for investment management services entering the auction process. According to the Finance Ministry timeline, this process could be finished by the end of this year, with an auction in 2008. In our view, in addition to the rules regarding equity and fixed income exposure, the council could propose an ethics policy for the investment framework. We think the ethical requirements could include not investing in companies or countries with human rights issues, involvement in the arms market, and some environmental issues.

• **After this reform, we expect the**

focus to move away from the desired return/risk balance to a discussion centered on the long-term objective of maintaining such huge savings. For the short term it is clear that the existence of these surplus funds allows the economy to diminish its reliance on copper prices, in addition to preventing a strong appreciation of the local currency, a process that could negatively pressure the noncommodity export industry and thus slow the economy. However, we see little evidence of the positive impact of accumulating assets in the long term in a developing country, apart from increasing domestic saving. In this regard, we studied a scenario of some wealth transfer from the government to consumers through the mechanism of financing a portion of the VAT with the finance income from the funds. Based on a simple model, we concluded that starting in 2010 it could be possible to reduce VAT to 17% from the current 19% without diminishing the fiscal revenue and the capital part of the Social and Economic Stabilization Fund, as the finance income of the fund could offset the reduced VAT. As we

assumed a nominal IRR of 5.75%, it is important to increase the return of the funds through the new investment framework to be discussed in the coming months.