Chile

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Chile	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	Not on EU White list equivalent jurisdictions
Medium Risk Areas:	Compliance with FATF 40 + 9 Recommendations US Dept of State Money Laundering assessment Failed States Index (Political Issues)(Average Score)

Major Investment Areas:

Agriculture - products:

grapes, apples, pears, onions, wheat, corn, oats, peaches, garlic, asparagus, beans; beef, poultry, wool; fish; timber

Industries:

copper, lithium, other minerals, foodstuffs, fish processing, iron and steel, wood and wood products, transport equipment, cement, textiles

Exports - commodities:

copper, fruit, fish products, paper and pulp, chemicals, wine

Exports - partners:

China 23.9%, US 12.2%, Japan 10.6%, South Korea 5.8%, Brazil 5.5% (2012)

Imports - commodities:

petroleum and petroleum products, chemicals, electrical and telecommunications equipment, industrial machinery, vehicles, natural gas

Imports - partners:

US 21.9%, China 18.2%, Argentina 6.7%, Brazil 6.5% (2012)

Investment Restrictions:

Chile's business climate is generally straightforward and transparent. Foreign investors receive treatment similar to Chilean nationals in nearly all sectors. There are generally no special exemptions or incentives for FDI as a matter of policy.

There are no restrictions on foreign investment in telecommunications, but investors must acquire a license, and the number of licenses available is limited in some new sectors of the industry. Certain types of investment projects require additional authorization beyond that of the FIC. For example, projects in the copper mining sector require the Chilean Copper Commission's authorization; investments in the fishing sector require the approval of the Under-Secretariat of Fishing

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Section 1 - Background

Prior to the arrival of the Spanish in the 16th century, the Inca ruled northern Chile while the Mapuche inhabited central and southern Chile. Although Chile declared its independence in 1810, decisive victory over the Spanish was not achieved until 1818. In the War of the Pacific (1879-83), Chile defeated Peru and Bolivia and won its present northern regions. It was not until the 1880s that the Mapuche were brought under central government control. After a series of elected governments, the three-year-old Marxist government of Salvador ALLENDE was overthrown in 1973 by a military coup led by Augusto PINOCHET, who ruled until a freely elected president was inaugurated in 1990. Sound economic policies, maintained consistently since the 1980s, have contributed to steady growth, reduced poverty rates by over half, and have helped secure the country's commitment to democratic and representative government. Chile has increasingly assumed regional and international leadership roles befitting its status as a stable, democratic nation.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Chile is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Chile was undertaken by the Financial Action Task Force (FATF) in 2006. According to that Evaluation, Chile was deemed Compliant for 8 and Largely Compliant for 15 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 2 of the 6 Core Recommendations.

US Department of State Money Laundering assessment (INCSR)

Chile was deemed a Jurisdiction of Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Chile has a large and well developed banking and financial sector with an established AML/CFT regime. Chile's economic stability makes it an attractive location for the financial operations of criminal groups. Recent legislation has addressed many of the systematic vulnerabilities of Chile's past AML/CFT regime, to include deficiencies in detection and prevention of money laundering, easing of bank secrecy laws, and increase in oversight of public institutions. Some issues remain such as a lack of sufficient resources for investigators and prosecutors.

Given Chile's extensive trading partnerships and long borders, its largely unregulated free trade zones (FTZs) are additional vulnerabilities. Chile has three FTZs, the Free Zone of Iquique (ZOFRI), the free port of Arica in northern Chile, and the Free Zone of Punta Arenas in the south. ZOFRI is a major entry point for products bound for Bolivia and has industrial, retail, and commercial areas. Punta Arenas also has a free port. Imports entering and remaining in Chile's FTZs pay no duty or value added tax and entities established in the zones pay no corporate tax.

While the size of the market for illicit or smuggled goods is unknown, there have been seizures of counterfeit goods by Chilean Customs officials. There have been incidences of public corruption.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:
"All serious crimes" approach or "list" approach to predicate crimes: List approach
Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:
Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO
KYC covered entities: Banks and credit unions; pension funds; mutual fund administrators; securities brokers and dealers; leasing and factoring companies; credit card issuers and operators; insurance brokers and companies

REPORTING REQUIREMENTS:
Number of STRs received and time frame: 2,356: January - September 30, 2015 Number of CTRs received and time frame: 244,678: January 1 - September 30, 2015 STR covered entities: Banks and representative offices of foreign banks; mutual and investment fund managers; pension fund administration companies; custom agents; securities depository, securities and commodities brokers and dealers; futures and options markets operators, and commodity and stock exchanges; nonprofit savings and loans companies and savings and loan cooperatives; money transfer and transportation companies and currency exchange offices; auction houses; casinos, floating casino games, gaming houses, and horse tracks; the Foreign Investment Committee; insurance companies; real estate registrars, brokers, and management companies; credit card issuing and operating companies; financial leasing, financial factoring, and securitization companies; notaries; entities authorized to receive foreign currencies; FTZ users and administration companies; sports clubs (stock companies) and professional sport organizations; general fund managers; and public institutions

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 100: January 1 - October 30, 2015
Convictions: 79: January 1 - October 30, 2015

RECORDS EXCHANGE MECHANISM:
With U.S.: MLAT: NO Other mechanism: YES
With other governments/jurisdictions: YES

Chile is a member of the Financial Action Task Force of Latin America (GAFILAT), a FATF- style regional body

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

The Government of Chile has strengthened its AML/CFT efforts over the past year, making progress towards meeting international standards and addressing many of the vulnerabilities in its previous regime. Particularly noteworthy was the 2015 passage of Public Law 4426-07, designed to expand the scope and depth of detection, investigation, and prosecution of money laundering crimes. The Chilean system previously had many organizations in place to address money laundering and terrorist financing; however, there were issues of communication as well as resource scarcity. The new law gives greater power and resources to relevant agencies to address these issues.

Public Law 4426-07 addresses one of the most significant obstacles to money laundering investigations – bank secrecy. Previously, prosecutors were severely limited in their ability to gather evidence and banking information and, as a result, were unable to move forward on many investigations. With the passage of Public Law 4426-07, prosecutors, working with a judge, now have the ability to gather information from banks regarding an individual's banking account and relevant transactions, a substantial improvement in both the investigation and prosecution of money laundering crimes. Also noteworthy is the law's expansion of what is included as a 'crime' with relation to money laundering. A previous limitation to prosecutors was the narrow scope of what was considered a money laundering crime, which prevented investigation of crimes that were likely connected to money laundering. The new law now includes such offenses as tax crimes, smuggling, and crimes against intellectual property as 'predicate offenses' and therefore open to investigation. Together, these changes have provided the Chilean government an expanded scope of power and influence in both investigating and ultimately prosecuting money laundering crimes.

In its first year of enforcement of Public Law 4426-07, Chilean agencies have already seen a marked increase in reporting of suspicious activity and a general mobilization within all government organizations to combat money laundering and terrorist financing. This is a direct result of the expanded reporting requirements included in the new law. Previously, only private organizations had any reporting requirements, meaning some 600 public institutions had no internal AML/CFT mechanisms, leaving their transactions largely unchecked. With the new law, it is now a requirement for each public institution to have internal mechanisms to detect and report suspicious activity, leading not only to greater oversight over these organizations but greater communication between them. In addition, Chile's enforcement agencies can now coordinate directly with those public institutions to ensure potential illicit activity is reviewed and investigated accordingly.

One of the principal limiting factors of the new law is its lack of retroactivity. The law only pertains to activity taking place after its passage in February 2015, meaning previous activity is outside the scope of enforcement. Moreover, while public institutions are now required to report suspicious activity, enforcement organizations must still rely on court orders to obtain further information, such as copies of documents or information related to bank operations once suspicious activity has been reported.

While the new law focuses on expanding the scope and definition of what constitutes money laundering (to now also include contraband and falsification of bank documents), Chilean authorities nevertheless remain focused on drug trafficking. This is primarily due to resource allocation. Regardless, the expanded scope of what is considered a crime will enable Chilean authorities to dedicate more time and resources to the investigation and prosecution of these activities. Previously, these activities could not be used as predicate offenses in money laundering investigations as they were not technically crimes.

In 2015, the Government of Chile helped fund the country's first bitcoin/peso exchange. The Chilean Financial Intelligence Unit (FIU) will provide AML/CFT oversight. Another key advancement is the expanded scope of STR-covered entities, to include free trade zone users and administrators and credit card operating companies.

Following passage of Public Law 4426-07, Chile should now focus on increasing resources for its enforcement agencies as well as providing training to public institutions embarking on new AML/CFT regimes. While resource scarcity will remain an issue, the greater issue facing public institutions is a lack of knowledge and understanding of an AML/CFT regime. For many, there were no mechanisms in place to report suspicious activity and although they are now required to do so, many lack the understanding of how to best implement this. To that end, Chile should continue focusing on providing the requisite training needed to sufficiently comply with the new law. Chile also should adopt enhanced due diligence procedures for both foreign and domestic politically exposed persons (PEPs).

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Chile conforms conforms with regard to all government legislation required to combat money laundering

EU White list of Equivalent Jurisdictions

Chile is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Chile is not considered an Offshore Financial Centre

US State Dept Narcotics Report 2015:

Chile is a transit country for Andean cocaine destined primarily for Europe. Long, porous borders with Argentina, Peru and Bolivia present special challenges to its efforts to combat drug trafficking. Restrictions on inspecting Bolivian-originated shipments (pursuant to a Bolivia-Chile treaty) impede efforts to interdict shipments of illegal narcotics. Chile is not a major producer of organic or synthetic drugs.

Drug control is a priority for Chile. Chile has invested heavily in counternarcotic efforts in the north of the country through its Northern Border Plan, a four-year initiative begun in 2011 and overseen by the Ministry of Interior. The $70 million program focuses on combatting drug and contraband smuggling along roughly 590 miles of border with Peru and Bolivia. Also in 2014, the Government of Chile began developing a national strategy to combat drug trafficking, which will include enhanced interagency cooperation (currently a significant impediment to information sharing), institutional development and international cooperation.

Operations Capricorn and Masquerade were among Chile’s major counter narcotics accomplishments of 2014. Operation Capricorn, the result of a four month wiretap investigation, culminated with the arrest of eight Chilean nationals and the seizure of over 1.79 metric tons (MT) of cocaine base, 1.21 MT of marijuana, and three MT of cocaine hydrochloride (HCL cocaine). The seven-month long operation Masquerade resulted in the seizure of 1.87 MT of marijuana and 539 kilograms of cocaine base.

Despite relatively static figures in internal consumption of HCL cocaine and cocaine base, there have been significant escalations in the amounts of drugs seized and number of drug processing labs found. For example, 17 drug processing labs were raided in the Santiago Metropolitan area in 2014 compared with six in 2013. In addition to enhanced drug interdiction capacity, senior officials in the Ministry of Interior have suggested that the rise in drug seizures and processing laboratories indicates an increase in the use of Chile as a conduit country for drug exportation.

The National Service for Drug and Alcohol Prevention and Rehabilitation continued effective demand reduction and drug treatment programs in 2014.

The United States partners with Chile to strengthen the capacity of Chilean institutions to confront drug trafficking and actively collaborates in the areas of container inspection, advanced drug interdiction techniques and fighting the production and distribution of synthetic drugs. The Government of Chile also coordinates assistance, dialogue and information sharing on counternarcotics efforts with other governments in South and Central America, as well as Europe.

The United States and Chile are parties to an extradition treaty that entered into force in 1902. A new treaty is awaiting ratification in both countries. The United States and Chile do not have a mutual legal assistance treaty, but cooperate under the Inter-American Convention on Mutual Assistance in Criminal Matters.

US State Dept Trafficking in Persons Report 2014 (introduction):

Chile is classified a Tier 2 country - A country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Chile is a source, transit, and destination country for men, women, and children subjected to sex trafficking and forced labor. Chilean women and children are exploited in sex trafficking within the country, as are women and girls from other Latin American countries, including Argentina, Bolivia, Peru, Paraguay, the Dominican Republic, and Colombia. Men, women, and children—primarily from Bolivia, Peru, Paraguay, Colombia, and Ecuador, but also from other countries—have been identified as forced labor victims in Chile's mining, agricultural, and hospitality sectors, and in domestic service. In 2013, authorities identified 12 Indian men in forced labor in a restaurant in Santiago and a large number of Bolivian labor trafficking victims in construction. Authorities report that Chinese immigrants may also be vulnerable to both sex trafficking and forced labor. Chilean authorities identified more than 200 children involved in illicit activities in 2013, including drug trafficking and robbery; some of these children may have been trafficking victims. Chilean authorities indicate that Chile is a transit country for trafficking victims from other countries.

The Government of Chile fully complies with the minimum standards for the elimination of trafficking. During the reporting period, Chilean authorities strengthened anti-trafficking law enforcement efforts through building police and prosecutor capacity and achieved the country's first convictions for labor trafficking. In 2013, the government increased interagency coordination and institutional capacity to respond to trafficking through publishing a national action plan and a victim assistance protocol. Chilean authorities continued to offer specialized services to child sex trafficking victims and adult female victims and provided protective services to significant number of labor trafficking victims. Government officials, especially front-line officials outside the capital region, continued to lack adequate training and resources to identify trafficking victims and refer them to protective services.

US State Dept Terrorism Report 2011

Overview: The Government of Chile continued its efforts to counter domestic terrorism, a phenomenon mainly composed of local anarchist groups carrying out small-scale bomb attacks. U.S. and Chilean officials collaborated on several counterterrorism projects throughout the year, including investigating whether an international smuggling network had any nexus to terrorism and carrying out several training programs that strengthened Chile's ability to prevent and counter terrorism.

2011 Terrorist Incidents: There were approximately 23 improvised explosive devices (IEDs) that were detonated, deactivated, or found, the vast majority of which were located in Santiago. Officials believed that these IEDs were tied to anarchist activity. The typical modus operandi was to place IEDs composed of gunpowder inside of a fire extinguisher in front of businesses; banks were most frequently targeted. The majority of the IEDs were crudely built, characterized as "noise bombs," were used late at night, and did not appear to be designed to kill or injure people. However, they did have the potential to injure passersby in the immediate vicinity. The only casualty in 2011 occurred when one of the anarchists was severely burned and lost his hands when the device he planted detonated prematurely.

On March 21, a small explosive device detonated outside the U.S. Binational Centre in Vina del Mar. The explosion caused minor damage, but no one was injured. The bombing occurred hours prior to President Barack Obama's arrival. No group claimed responsibility for the attack.

Two IEDs detonated at a memorial to former Chilean political figure Jaime Guzman, directly across the street from the U.S. Embassy. Neither caused injuries nor was aimed at U.S. citizens. The first IED detonated on August 14; the second was used on August 16.

Anarchists targeted high-profile areas, such as the National Cathedral, Grupo Copesa headquarters (a major media publisher), and a Public Prosecutor's office following the October 4 release of 13 terrorists accused of planting bombs following a court decision to dismiss evidence it determined was obtained illegally.

Chilean law enforcement agencies also confronted sporadic low- level violence throughout the year related to indigenous land disputes. The Coordinadora Arauco Malleco, a domestic group primarily operating in the Biobio and Araucania regions of Chile that seeks recovery of former indigenous lands – sometimes through violent means – claimed responsibility for several of the attacks.

Legislation and Law Enforcement: The U.S. Federal Bureau of Investigation finalized an agreement with the Chilean Investigative Police to exchange biometric information under the South American Fingerprint Exchange program. U.S. officials collabourated with the Servicio Medical Legal (Chile's official forensic service) to implement the latest version of the Combined DNA Indexing System, certify the labouratory, and ensure that labouratory personnel receive appropriate training. Chile is the only country in South America using this version, and as such, is a regional leader in biometrics. Chile participated in the Department of State's Antiterrorism Assistance program.

Countering Terrorist Finance: Chile is a member of the Financial Action Task Force on Money Laundering in South America, a Financial Action Task Force-style regional body and the Egmont Group. In 2011, a bill was introduced that would modify and establish specific roles for the Financial Analysis Unit in tracking the financing of terrorist activities. Chile has a large and well- developed banking and financial sector with an established Anti- Money Laundering/ Counterterrorism Financing regime. All banks, financial institutions, and companies involved in money transfers were required to report suspicious transactions. Chile used a “list” approach to identify predicate offenses for money laundering, which include narcotics trafficking, terrorism in any form, the financing of terrorist acts or groups, illegal arms trafficking, kidnapping, fraud, corruption, child prostitution, pornography, and some instances of adult prostitution.

For further information on money laundering and financial crimes, we refer you to the 2011 International Narcotics Control Strategy Report (INCSR), Volume 2, Money Laundering and Financial Crimes: http://www.state.gov/j/inl/rls/nrcrpt/index.htm.

Regional and International Cooperation: Chile is actively involved in both multilateral and regional organizations, including the United Nations (UN), Organization of American States (OAS), and Asia Pacific Economic Cooperation (APEC), and incorporated their recommendations into its security strategy. Chile also collabourated on bilateral and subregional activities to prevent terrorism through the Southern Common Market, and participated in international initiatives such as the Global Initiative to Combat Nuclear Terrorism.

During the year, the Chilean government was involved in UN discussions on the framework of the Global Counterterrorism Strategy, and also participated in programs carried out by the Executive Secretariat of the OAS' Inter-American Committee Against Terrorism and the Terrorism Working Group of APEC's Counterterrorism Task Force.

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	66
World Governance Indicator – Control of Corruption	88

US State Department

Corruption in Chile is limited. Since 2003, Chile has had laws in place that establish a more efficient and professional civil service through performance-based incentives and a reduction in political appointee positions in public service positions. In 2005, the GOC passed a law to regulate political party and candidate financing to further deter corrupt government practices.

Chile has signed and ratified the Organization of American States (OAS) Convention against Corruption, as well as the UN Anticorruption Convention. Chile is also a signatory to the OECD Convention on Combating Bribery, fulfilling the necessary accession processes, including implementation of its Anti-Bribery Convention obligations. Chile is an active member of the Open Government Partnership (OGP).

In 2007, a new law came into force that provides protection for public employees who denounce irregularities or violations in accountability standards. At the same time, Chile ratified the United Nations Convention against Corruption. In 2009, Chile passed a transparency law obligating government offices to public information about expenditures, employee salaries, and other fiscal data. It also mandates that citizens be provided up-to-date information on how to access government services and request information. The law created an autonomous Transparency Council which is charged with implementing the requirements of the law. The administration of President Piñera (2010-2014) launched a campaign to educate citizens about their right to access public information and created Chile Atiende, an online and in-person platform to streamline access to common government services.

As noted previously, Chile ranked 22nd out of 177 countries in Transparency International's 2013 Corruption Perceptions Index (with 1 being the lowest perception of corruption).

Corruption and Government Transparency - Report by Global Security

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Section 3 - Economy

Chile has a market-oriented economy characterized by a high level of foreign trade and a reputation for strong financial institutions and sound policy that have given it the strongest sovereign bond rating in South America. Exports of goods and services account for approximately one-third of GDP, with commodities making up some three-quarters of total exports. Copper alone provides 19% of government revenue. From 2003 through 2013, real growth averaged almost 5% per year, despite the slight contraction in 2009 that resulted from the global financial crisis. Chile deepened its longstanding commitment to trade liberalization with the signing of a free trade agreement with the US, which took effect on 1 January 2004. Chile has 22 trade agreements covering 60 countries including agreements with the European Union, Mercosur, China, India, South Korea, and Mexico. Chile has joined the United States and nine other countries in negotiating the Trans-Pacific-Partnership trade agreement. The Chilean Government has generally followed a countercyclical fiscal policy, accumulating surpluses in sovereign wealth funds during periods of high copper prices and economic growth, and generally allowing deficit spending only during periods of low copper prices and growth. As of 31 December 2012, those sovereign wealth funds - kept mostly outside the country and separate from Central Bank reserves - amounted to more than $20.9 billion. Chile used these funds to finance fiscal stimulus packages during the 2009 economic downturn. In May 2010 Chile signed the OECD Convention, becoming the first South American country to join the OECD.

Agriculture - products:

grapes, apples, pears, onions, wheat, corn, oats, peaches, garlic, asparagus, beans; beef, poultry, wool; fish; timber

Industries:

copper, lithium, other minerals, foodstuffs, fish processing, iron and steel, wood and wood products, transport equipment, cement, textiles

Exports - commodities:

copper, fruit, fish products, paper and pulp, chemicals, wine

Exports - partners:

China 23.9%, US 12.2%, Japan 10.6%, South Korea 5.8%, Brazil 5.5% (2012)

Imports - commodities:

petroleum and petroleum products, chemicals, electrical and telecommunications equipment, industrial machinery, vehicles, natural gas

Imports - partners:

US 21.9%, China 18.2%, Argentina 6.7%, Brazil 6.5% (2012)

Banking

Chile's banking system offers many of the asset and liability products available in international markets. Foreign trade financing and money exchange operations are particularly well developed and efficient compared to the rest of Latin America.

Chile's Superintendence of Banks and Financial Institutions an agency under the Ministry of Finance, regulates the financial sector. Chile's Central Bank, which is autonomous from the government in conducting monetary policy and regulating foreign capital movements, also regulates bank operations.

Stock Exchange

The Santiago Stock Exchange (SSE) (Spanish: Bolsa de Comercio de Santiago), founded on November 27, 1893, is Chile's dominant stock exchange. About a decade ago the Chilean government implemented important reforms and measures aimed at promoting savings in investment securities including the exemption of capital gain tax on highly traded stocks of publicly traded companies, lowering taxes for foreign investors on interest payments, and advancing the integration of Chilean capital markets to the international financing market.

Section 4 - Investment Climate

Executive Summary

Chile is an attractive destination for investors, boasting an open market economy, well-developed institutions that support financial growth and strong rule of law. The country has a positive disposition toward foreign direct investment (FDI), viewing it as key to sustaining Chile's impressive economic trajectory over the last two-plus decades. Its laws and regulations encourage investment by foreigners and very few restrictions upon FDI exist. Chile's conversion and transfer policies are similar to those found in highly-developed countries like the U.S. The government does not expropriate assets or holdings.

Chile's legal framework for attracting and protecting FDI is solid. Disputes can, however, take several years to reach conclusion in the courts, making arbitration and mediation attractive alternatives for resolving business controversies. Chile is party to the New York Arbitration Convention and the International Centre for Settlement of Investment Disputes (ICSID) convention; disputes under the U.S.-Chile bilateral Free Trade Agreement (FTA) are resolved under the latter framework. Chile is compliant with its WTO/TRIMS obligations. Chile does not apply performance requirements in reviewing proposed investment projects.

Rights to the broad range of private ownership and establishment are observed in Chile. Mineral, hydrocarbon, and fossil fuel deposits within Chilean territory cannot be owned by, but can be licensed by the government to private enterprise. Real and intellectual property (IP) rights are generally respected, but Chile is not fully compliant with the obligations concerning IP set forth in the U.S.-Chile FTA. The regulatory system in Chile is generally transparent.

Chile's capital markets are well-developed and open to foreign portfolio investors. The World Economic Forum's Global Competitiveness Report for 2013-2014 ranks Chile as the most competitive country in South America. CODELCO, which dominates the lucrative copper mining industry, is one of only a few state-owned enterprises (SOEs). SOEs generally operate on equal footing with private companies. There is growing awareness of the importance of corporate social responsibility in Chile. Political violence is rare and is unlikely to affect foreign investors. Corruption exists in Chile but on a much smaller scale than is the case with most Latin American countries. Chile ranks 22nd of 177 countries on Transparency International's 2013 Corruption Perceptions Index (with 1 being the lowest perception of corruption).

Chile has 40 bilateral investment agreements in force, including a 1984 agreement with the United States, through the Overseas Private Investment Corporation (OPIC). Chile is a party to the convention of the World Bank's Multilateral Investment Guarantee Agency (MIGA). A treaty between the U.S. and Chile to avoid double taxation has been signed but not yet ratified. Chile's labor laws are viewed by some employers as cumbersome. Unemployment is low, at 5.7 percent at the end of 2013. Chile has tax-free zones.

According to the UN Conference on Trade and Development (UNCTAD), FDI inflows to Chile in 2012 reached USD 27.1 billion, and fell to USD 20.4 billion in 2013. Total FDI stock from the U.S. stood at USD 39.8 billion in Chile at the end of 2012.

1. Openness to, and Restrictions upon, Foreign Investment

Attitude Toward FDI

For over three decades, Chile has made FDI an essential part of its national development strategy. Chile's sound, market-oriented policies have created significant opportunities for foreign investors to participate in the country's steady economic growth. Chile's business climate is generally straightforward and transparent. Foreign investors receive treatment similar to Chilean nationals, and there is no overall economic or industrial strategy that has discriminatory effects on foreign investors or foreign-owned investments. A broad political consensus on the advantages of foreign investment means that Chile's policies toward FDI are unlikely to change.

Laws/Regulations of FDI

FDI in Chile enters under either the Foreign Investment Statute Decree Law 600 (DL600) or Chapter XIV of the Central Bank's Compendium of Foreign Exchange Regulations (CFER). The minimum investment under DL600 is USD 5,000,000 in currency and USD 2,500,000 in the case of fixed assets, technology, debt capitalization, and profit reinvestments. FDI valued below these levels but above USD 10,000 is made through Chapter XIV of the Central Bank's CFER.

Chile's openness and transparency to FDI are embodied in DL600. This law has been the main regulatory norm for FDI in Chile during the last 40 years. At the time of publication of this report, the Chilean Congress is debating a bill that could do away with DL 600.

Under DL600, a foreign investor signs a contract with the Government of Chile (GOC) establishing the terms of the investment. The general regulations, terms, interest, and other modalities of foreign credit contracts as well as surcharges related to total costs to be paid by the debtor, including commissions, taxes, and expenses must also be authorized by the Central Bank of Chile. DL600 allows for capital increases in a given investment. A principle benefit of investing under DL600 is the option to lock in a ten-year, invariable total effective income tax rate (of 42 percent in 2013).

Chile's Foreign Investment Committee (FIC), the entity responsible for administering DL600, establishes the terms and conditions of investments made under DL600. Applications are typically approved within a matter of days and almost always within a month. The FIC's authority to reject a foreign investment is limited by the Chilean Constitution. The FIC's decision can be appealed if an investment is rejected.

Use of DL600 is optional; an investor can choose to go through Chapter XIV of the Central Bank's regulations if so desired. Chapter XIV establishes regulations that govern foreign exchange operations related to credits, deposits, investments, and capital contributions originating abroad. Investments made under Chapter XIV do not involve signing a contract with the Chilean state. Instead, the Central Bank grants authorization for a given investment. FDI made under Chapter XIV must be in a foreign currency and does not convey any special rights to the investor, such as access to a guaranteed tax rate. The investor must inform the Chilean Central Bank of the investment through a commercial bank or other authorized financial institution. FDI valued at less than USD 10,000 does not require Central Bank approval.

In 2002, the Chilean Government launched an Investment Platform Initiative ("the Initiative") aimed at attracting international corporations' Latin American headquarters to Chile. As part of the Initiative, an eligible company can make use of a variety of incentives, including tax exemptions for overseas shareholders based on certain criteria and a lack of restrictions on domestic borrowing by a platform company. The Initiative addresses the problem of three-way taxation by exempting platform companies from Chilean tax on overseas earnings and provides foreign investors with additional incentives to invest in Chile. This Initiative is meant to foster regional joint ventures between foreign investors and Chilean partners. To facilitate the entry of foreign capital into Chile, the Initiative also allows companies that are already established in the region to move their centers of operation to Chile without incurring the transaction costs involved in selling and re-buying assets.

Foreign investors are unlikely to experience government interference in Chile's legal system.

Industrial Strategy

The Chilean government seeks to attract foreign investment to **industrial and mining sectors** through tax incentives. For example, subject to approval on a case-by-case basis by the Foreign Investment Committee, a foreign investor can lock in a ten-year invariable tax rate (42 percent in 2013) for up to 20 years, as opposed to the maximum ten-year limit afforded to investments in other sectors under DL600. For more information about benefits of investing in **industrial development and the extractive industries**, see DL600, http://unctad.org/sections/dite_dir/docs/wir2013/wir13_fs_cl_en.pdf. See the FIC's "Foreign Investor Guide" for information about tax treatment and foreign investments generally: http://www.ciechile.gob.cl/wp-content/uploads/2010/10/Foreign_Investors_Guide_in_Chile.pdf.

Limits on Foreign Control

There are no limits on foreign ownership or control of business entities or assets in Chile. See the "Right to Private Ownership and Establishment" section, below, for restrictions applicable to all investors.

Certain types of investment projects require additional authorization beyond that of the FIC and the Central Bank. There are no restrictions on foreign investment in telecommunications, but investors must acquire a license, and the number of licenses available is limited in some new sectors of the industry. The requirements for obtaining certain licenses in the **telecommunications sector** remain unclear as the industry evolves; at least one U.S.-based firm experienced significant delays in 2013 attempting to secure licenses due to opaque license granting requirements. Projects in the **copper mining sector** require the Chilean Copper Commission's authorization; investments in the **fishing sector** require the approval of the Under-Secretariat of Fishing; authorization from the Bank and Financial Institutions Regulatory Agency is required to operate in the **banking sector**; and the Securities and Exchange Commission must authorize projects related **to insurance and investment funds**. Additional authorizations are required from the **Pension Funds and Private Health Insurance** regulatory agencies to participate in those sectors. For projects with a potential **environmental** impact, authorization is required from the Environmental Evaluation Service, a decentralized service related to but independent from the Ministry of Environment. Chile also maintains national security related restrictions on investments in the areas of **nuclear energy, defense, maritime transportation, real estate, and mining**.

Profit remitted, withdrawn or distributed to foreign investors is subject to a withholding tax. Dividends paid to foreign shareholders are subject to an additional 35 percent tax on distribution, but a credit of 20 percent is given against the additional tax where the amount at issue is subject to Chile's First Category tax. The company must withhold the additional tax. The same tax procedure applies to remittances of profit made to partners and to profit withdrawn by foreigners. As noted, though, the effective tax rate – including taxes on remittances - for foreign investment occurring through DL600 can be capped at the ten-year invariable rate (42 percent in 2013).

Competition Law

Foreign investors are not required to seek a ruling on the potential competition implications of a planned investment before investing. Chile's anti-trust law, the Chilean Free Competition Act (1973), prohibits mergers or acquisitions that would prevent free competition in the industry at issue. An investor may voluntarily seek a ruling by an Antitrust Court that a planned investment would not have antitrust implications.

U.S.-Chile Free Trade Agreement

The United States-Chile Free Trade Agreement (FTA) entered into force on January l, 2004. The chapter on investment is modeled on the standards found in agreements throughout the world such as U.S. bilateral investment treaties and customary international law. The main objective of the FTA chapter is to provide stability and security to investors. It provides six basic forms of protection:

- Non-discriminatory treatment, based on national treatment and most-favored-nation treatment, for investors from either country;
- Freedom from performance requirements;
- Free transfer of investment funds;
- Expropriation only when consistent with international law;
- A minimum standard of treatment in customary international law; and
- The ability to hire key managerial and technical personnel without regard to nationality.

TABLE 1

Measure	Year	Ranking
Transparency International Corruption Perceptions Index	2013	22
Heritage Economic Freedom	2014	7 (five spots ahead of U.S.A.)
World Bank Ease of Doing Business	2013	34

2. Conversion and Transfer Policies

Chile’s regulations ensure that capital markets are well developed and open to both foreign portfolio investment and FDI. In May 2000, Chile eliminated the one-year withholding period requirement for foreign capital entering the country under Chapter XIV. This type of investment capital may now be repatriated immediately without penalty.

A second major initiative in 2000 was the discontinuation of the use of the "encaje," or lock-in, which required foreign investors to deposit 30 percent of foreign-sourced loans and portfolio investment with the Central Bank in a non-interest-bearing account for up two years. The Central Bank reserves the right to re-impose the "encaje" mechanism if needed in the future.

Over a decade ago the Chilean government delivered important reforms and measures aimed at promoting savings in investment securities, including by exempting capital gains taxes on highly traded stocks of publicly traded companies, lowering taxes for foreign investors on interest payments, and advancing the integration of Chilean capital markets with the international financing market.

A second set of reforms introduced in 2005-06 was aimed at promoting broader financing alternatives for high growth, emerging companies (small- to medium-sized enterprises, SMEs) and providing tax incentives for the development of a local risk capital fund management industry. In June 2007, the GOC passed Law 20.190, which introduced tax incentives to promote venture capital. The law improves the availability of financial resources for SMEs and provides tax benefits to public as well as private venture capital funds. Law 20.190 authorizes Chile’s Development Promotion Agency (CORFO, www.corfo.cl) to take an equity position of up to 40 percent in specialized venture capital funds. It also allows banks to invest up to the equivalent of one percent of their asset base in venture capital through investment fund administrators and subsidiaries.

A third capital markets reform was introduced in 2010, aimed at increasing security levels of financial transactions and reinforcing regulatory and supervision capabilities. This set of reforms enhanced competition in the credit market by increasing available credit instruments and improving consumer information. The reform also increased liquidity, deepened credit markets, improved flexibility for investment funds, created Exchange Traded Funds (ETFs), allowed access to secondary markets, and fostered investment in mutual and investment funds.

Investors, importers, and others are guaranteed access to foreign exchange in the official inter-bank currency market without restriction.

The Central Bank reserves the right to deny access to the inter-bank currency market for royalty payments in excess of five percent of sales. The same restriction applies to payments for the use of patents that exceed five percent of sales. In such cases, firms would have access to the informal market. The Chilean tax service reserves the right to prevent royalties of over five percent of sales from being counted as expenses for domestic tax purposes.

Under the Investment Chapter of the U.S.–Chile FTA, each government must allow transfers of covered investments to be made freely and without delay into and out of its territory. These include transfers of profits, royalties, sales proceeds, and other remittances related to the investment. However, for certain types of short-term capital flows, the chapter allows Chile to impose transfer restrictions for up to 12 months as long as those restrictions do not substantially impede transfers. If restrictions are found to impede transfers substantially, damages accrue from the date of the initiation of the measure.

As a general rule, Chile does not engage in currency manipulation.

3. Expropriation and Compensation

Chilean law grants the government authority to expropriate property, including property of foreign investors, only for public or national interests, on a non-discriminatory basis and in accordance with due process of law.

The law requires the payment of compensation without delay at fair market value, in addition to any applicable interest. The government has not nationalized a private firm since 1973.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Chile’s legal and regulatory framework provides for effective means for enforcing property and contractual rights. Laws governing issues of interest to foreign investors are found in several statutes, including the Commercial Code of 1868, the Civil Code, the Labor Code and the General Banking Act. Chile has specialized courts for dealing with tax and labor issues.

The judicial system in Chile is generally transparent and independent. The likelihood of government intervention in court cases is low. If a state-dependent firm is involved in the dispute, the GOC may become directly involved through the State Defense Council. In cases where courts determine a firm is bankrupt, a receiver is named to distribute the debtor's remaining assets to the creditors.

Judgments of foreign courts and binding international arbitration rulings are generally recognized and enforced by local courts.

Investment Disputes

Disputes involving U.S. investors have been typically settled in negotiations between the investor and the appropriate government entity. Disputes have been referred to the local judicial system, although the time required for resolution may make this an unattractive option for foreign investors. Because of high case loads, understaffing and antiquated case-management procedures, resolution of business disputes in the civil court system can take four to five years. Accordingly, litigants often choose to settle out of court. Mediation and binding arbitration exist in Chile as alternative dispute resolution mechanisms. A suit may also be brought in court under expedited procedures involving the abrogation of constitutional rights.

The FTA Investment Chapter provides a mechanism for investors to pursue a claim against a host government that is in breach of the FTA's investment obligations, an investment agreement, or an investment authorization. An exception is disputes related to investment authorizations under DL600, which are not subject to this mechanism. Only agreements signed within two years of the FTA's entry into force may make use of this mechanism. Under this section, the investor pursuing a claim may by right submit a claim under the International Center for Settlement of Investment Disputes (ICSID) Convention or under the United Nations Commission on International Trade Law (UNCITRAL) arbitration rules. Any other mutually agreed upon arbitral institution may also be utilized. Rules agreed upon by the parties will govern the proceedings except to the extent that they are inconsistent with the FTA. An investor must give notice of intent to arbitrate at least 90 days before submitting a claim, and must wait at least six months from the time of the event which gave rise to the claim before initiating a proceeding. All claims must be brought within three years of the date when the claimant acquired knowledge of the breach and/or injury.

The FTA chapter on investments encourages consultations or negotiations before recourse to dispute settlement mechanisms. If the parties fail to resolve the matter, a claim for arbitration can be submitted by the investor. Provisions in Section C of the FTA ensure that the proceedings are transparent by requiring that all documents submitted to or issued by the tribunal be available to the public, and by stipulating that proceedings be public. The tribunal must also accept amicus curiae submissions. The FTA chapter on investments establishes clear and specific terms for making proceedings more efficient and avoiding frivolous claims. Chilean law is generally to be applied to all contracts. However, arbitral tribunals decide disputes in accordance with FTA obligations and applicable international law.

International Arbitration

Chile is party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention).

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Chile has not notified the World Trade Organization of any measures inconsistent with its Trade Investment Measures (TRIMS) requirements, and does not maintain measures alleged to violate the country's TRIMS obligations.

Investment Incentives

Chile does not subsidize foreign investment. There are, however, some incentives linked to isolated geographical zones and to the information technology sector. These benefits relate to co-financing of feasibility studies as well as to incentives for the purchase of land in industrial zones, the hiring of local labor, and the facilitation of project financing. Other important incentives include accelerated depreciation accounting for tax purposes, special tax treatment for retained earnings, and legal guarantees for remitting profits and capital.

Chile has other special incentive programs aimed mostly at promoting investment and employment in remote or disadvantaged regions, the development of new businesses, support for micro-, small-, and medium-sized enterprises, and promotion of technological innovation.

Since 2001, the Chilean Economic Development Agency (CORFO) has implemented the "Chile Invests" plan with the goal of fostering FDI outside the Santiago Metropolitan Region in certain sectors. A key objective of the plan is to encourage investment in areas of non-traditional technology such as biotechnology, research and development of new materials, electronics and engineering processes, and new production techniques to increase the value added to natural resource exports. The plan also promotes investment in the energy sector mainly for non-conventional renewable energy projects. CORFO provides co-financing programs to pre-investment feasibility studies for projects using renewable non-conventional energy resources. See CORFO's website for more information about its investment incentive programs: http://www.english.corfo.cl/programs

The Arica Law of 2001 grants tax credits to companies in the provinces of Arica and Parinacota. Investment projects amounting to over 2,000 UTM (about USD 148,000) in Arica are eligible for a tax credit of 30 percent of the value of the fixed physical assets (40 percent for tourism projects). Investment projects totaling more than 1,000 UTM (about USD 74,000) in Parinacota are eligible for a tax credit of 40 percent of the value of the fixed physical assets. These incentives are available until December 31, 2030. [NOTE: The Unidad Tributaria Mensual (UTM) is an inflation-indexed measure of value, adjusted on a monthly basis. On April 22, 2014, 1 UTM was equivalent to about USD 74.

A third investment promotion plan for the province of Tierra del Fuego in Region XII (Magallanes) is available for mining, manufacturing, transport, fishing and tourism companies that produce goods or services made up of at least 25 percent of local labor and inputs.

Other investment incentives have been introduced through the "Chile Competes Plan." The Plan includes an exemption from the income tax normally paid by institutional investors, such as mutual funds and pension funds, on earnings from the transfer of corporate stock that is publicly traded, or bonds or other publicly offered securities representing debt issued by the Central Bank of Chile, the Chilean Government, or by companies incorporated in Chile.

In January 2011, the Ministry of Economy, through CORFO, established a USD 40 million program, known as "StartUp Chile," whereby selected entrepreneurs receive a USD 40,000 grant and a Chilean work visa to develop a "start up" business in Chile. Upon admittance into the program, an entrepreneur is given six months to develop a project and then promote it through a series of pitches and seminars at local universities, corporate meetings and other community outreach.

Performance Requirements

Neither Chile's Foreign Investment Committee nor the Central Bank applies performance requirements in its review of proposed investment projects.

The investment chapter in the U.S.–Chile FTA establishes rules prohibiting performance requirements that apply to all investments, whether by a third party or domestic investors. The FTA investment chapter also regulates the use of mandatory performance requirements as a condition for receiving incentives and spells out certain exceptions. These include government procurement, qualifications for export and foreign aid programs, and non-discriminatory health, safety, and environmental requirements.

6. Right to Private Ownership and Establishment

Except for the limitations in the fisheries and media sectors noted above, Chile does not, in general, restrict the right to private ownership or establishment. Section 24 of Article 19 of the Constitution establishes, however, the "absolute, exclusive, inalienable and permanent domain" of the Chilean state over all mineral, hydrocarbon, and fossil fuel deposits within Chilean territory. Under Chilean law, the government may grant concession rights to individuals and companies for exploration and development of these natural resources for a finite period. There are also national security-related measures regarding the purchase of real estate by foreigners near land borders with Chile's neighbors.

7. Protection of Property Rights

Real Property

Secured interests in property, both movable and real, are recognized and generally enforced in Chile. There is a recognized and generally reliable system for recording mortgages and other forms of liens. Chile ranked 55 out of 146 countries in the World Bank's 2013 Doing Business report for property registration.

Intellectual Property

Because of concerns about its commitment to the protection of intellectual property rights (IPR), Chile has been on the Special 301 Priority Watch List (PWL) since January 8, 2007. The Chilean government has undertaken a number of legislative reforms to strengthen its IPR regime and bring it in line with international commitments, including the U.S.-Chile Free Trade Agreement (FTA). However, there are still substantive deficiencies in Chile's IPR laws and enforcement of existing IPR protections. Of particular concern are inadequate patent and test data protection in the pharmaceutical sector; the lack of an effective system for addressing patent issues expeditiously in connection with applications to market pharmaceutical products; circumvention of technological protection measures; piracy of music and software, particularly over the internet; Chile's failure to protect encrypted program-carrying satellite signals, including its failure to address the sale of pirate satellite decoder boxes; and inadequate protection for plant varieties. The 2014 Special 301 Report on IPR is available on the USTR website at http://www.ustr.gov/about-us/press-office/reports-and-publications/2014.

Chile has been a member of the World Intellectual Property Organization (WIPO) since 1975 and joined the Treaties on Copyright and Performances and Phonograms in April 2001. Chile approved legislation to comply with TRIPS obligations related to industrial property in December 2004. The law provides, among other protections, for expedited court proceedings and the authority to seize illegal copies of patented products. In 2008, Chile ratified the Patent Cooperation Treaty (PCT), which came into force in June 2009.

The U.S. and Chile have committed to making a system available for the resolution of disputes regarding internet domain names. This follows international standards with respect to problems such as the cyber piracy of brands and trademarks for country domain names. Furthermore, both countries committed to creating a database containing information on individuals who have registered higher-level domain names. This database will protect the personal data of those who have registered.

It is generally easy for investors to register intellectual property – including copyrights, trademarks, patents and trade secrets.

For additional information about treaty obligations and points of contact at local IP offices, please see Chile's WIPO country profile at:
http://www.wipo.int/directory/en/details.jsp?country_code=CL

Inquiries regarding intellectual property issues in Chile can be addressed to:

- Alexander Bryan
- Economic Officer

- U.S. Embassy, Santiago
- (56)-(2)-2330-3397
- BryanAT@state.gov

Local lawyers list: http://chile.usembassy.gov/medical-legal.html

Useful information on IP issues in Chile can also be found from the American Chamber of Commerce in Chile, http://www.amchamchile.cl/node/110125.

8. Transparency of the Regulatory System

Chilean regulatory systems tend to be transparent, and government regulators generally have little discretion in carrying out their duties. While rulemaking processes do not generally include formal provisions for public hearing or comment. The World Bank's "Doing Business 2014" report ranks Chile 22nd of 189 economies (after ranking 30th in 2013) for ease of starting a business. The U.S.–Chile FTA establishes some additional obligations for transparency in regulatory processes.

9. Efficient Capital Markets and Portfolio Investment

Chile's capital markets are well-developed and open to foreign portfolio investors. Credit is allocated on market terms and is available to foreigners, although the Central Bank does reserve the right to restrict foreign investors' access to internal credit if a credit shortage exists. To date, this authority has not been exercised.

Publicly traded Chilean companies attract substantial international investment.

Under the U.S.-Chile FTA, U.S. insurance firms have full rights to establish subsidiaries or joint ventures for all insurance sectors, with limited exceptions. A program was undertaken to phase in insurance branching rights and to modify Chile's legislation to open cross-border supply of key insurance sectors such as marine, aviation, and transport insurance, and insurance brokerage of reinsurance.

U.S. banks and securities firms are allowed to establish branches and subsidiaries and may invest in local firms without restriction, except under very limited circumstances. U.S. financial institutions are also able to offer financial services to citizens participating in Chile's privatized voluntary saving plans, and they have gained increased market access to Chile's mandatory social security system. U.S.-based firms are allowed to offer services in Chile in areas such as financial information, data processing, and financial advisory services, with limited exceptions. Under the measures outlined in "Capital Market Reform III," Chilean mutual funds are permitted to use foreign-based portfolio managers.

In May 2011, the stock markets of Chile, Peru and Colombia merged to become the second largest trading market in Latin America after Brazil. This market alliance, known as the Integrated Latin American Market (MILA) hopes to better expose investors to assets linked to the region's natural resources. Chile's IPSA Index is a total return index and is composed of 40 highly traded stocks. The IPSA has been calculated since 1977 and is revised on a quarterly basis.

The main institutional investors and suppliers of capital to local companies are the pension fund administrators (AFP) as well as insurance companies, mutual funds and banks. More than half of the instruments issued in the fixed-income market are held by institutional investors.

Pension funds are the largest institutional investors followed by insurance companies. As of March 2014, Chile's six AFPs managed a total investment portfolio of USD 161.9 billion, representing about 65 percent of Chile's GDP. The pension funds administered by the AFPs belong to 9.6 million participants, of which 5 million are contributors. As of March 2014, the total resources under AFP administration were distributed in five different types of funds of varying degrees of risk. As of July 2012, accumulated savings in the voluntary contributions system (APV) of the AFP system totaled USD 4.3 billion, belonging to 735,170 contributors.

The GOC has been raising the percentage of pension funds that can be invested overseas. In 2008, a reform package of the pension system was approved by Congress increasing the threshold for pension fund administrators to invest abroad (from 30 to 60 percent of their funds). The reform package also set the foundation on which to build a “solidarity pillar” to increase coverage among lower-income contributors and self-employed workers and expand social security assistance coverage. Total spending in 2012 on “solidarity pension payments” reached USD 286.2 million.

As of September 2012, insurance companies managed more than USD 6 billion in assets. Insurance companies invest a major share of their portfolio in fixed-income securities.

The Chilean banking system is sound, competitive, and meets Basel standards. There are currently 23 banks operating in Chile, and 4 are foreign-owned representational branches. Only one bank is completely owned by Chilean economic interests (BCI). The rest have some level of incorporation with foreign institutions. Foreign banks can compete on the same terms as their domestic rivals. There are also seven local savings and loan corporations, and one state-owned bank, Banco Estado, which is the nation’s third largest. Private banks manage most corporate business.

The Chilean banking industry is subject to strict limits on lending to a single debtor or group of related companies. This is capped at five percent of the capital and reserves of a bank for collateral-free loans and at 25 percent for collateralized loans (fixed assets).

Summary of Chilean Banking System (September 2013):

Total Loans – USD 223 billion
Deposits – USD 185.8 billion
Total Assets – USD 302.4 billion

Source: Chile's Superintendence of Banks and Financial Institutions

General Information on the Financial Market

- Banks and Financial Institutions: 23 participants. Total Loans: USD 223. Billion
- Pension Funds: 6 administrators. Funds under management: USD 161.9 billion
- Insurance Companies: 56 (23 general insurers, 33 life insurers).

According to the World Economic Forum's Global Competitiveness Report for 2013-2014, Chile is the most competitive country of South America and the third most competitive of the Americas after the U.S. and Canada. Chile is ranked 34th in the world.

10. Competition from State-Owned Enterprises (SOEs)

Chile's SOEs

Chile has relatively few state-owned enterprises (SOEs), most having been privatized during the military government's economic reforms between 1974 and 1989. Notable SOE's are the national **copper** company, CODELCO; the national **petroleum** company, ENAP; the National **Postal System (**Correos de Chile); and the state-owned **bank**, Banco Estado.

In general, private enterprise is allowed to compete with public enterprise under the same terms and conditions (e.g., there are many private copper mines and private banks). However, there are specific areas where this does not hold and SOEs enjoy special advantages. For example, ENAP is the only **refining company** in Chile. SOEs spend a similar portion of their budget on research and development to the portion spent by private sector domestic and foreign companies in the same sector.

Most SOEs in Chile are structured so that the company management reports to a board of directors, which includes the relevant government minister (e.g., the Minister of **Mining** sits on ENAP's board of directors). Most board members are independent representatives from the private sector and academia, or from that industry's main labor union or trade association. Board members are usually designated by the President of Chile.

Chile passed a law in October 2009 which modifies CODELCO's corporate governing structure. The law removes the Ministers of Finance and Mining and a representative of the military from the board of directors. It also expands the board to nine members, three of whom are designated by the President of Chile, two of whom are nominated by CODELCO's labor unions and approved by the President of Chile, and four of whom are elected by the Consejo de Alta Dirección Pública (Chile's independent committee that makes high-level civil service appointments) and subsequently approved by the President of Chile.

SOEs are subject to the same taxes and the same value added tax rebate policies as their private sector competitors.

Sovereign Wealth Funds

Chile has two **sovereign wealth funds** constituted principally from state **copper** revenues. The Economic and Social Stabilization Fund (FEES) was established in 2007 and was valued at USD 14.9 billion in November 2012. The Reserve Pension Fund was established in 2006 and was valued at USD 15.4 billion at the end of 2013. The stated purpose of this fund is to assist the Government with payments to those eligible to receive pensions but who remain indigent (Chile uses a privatized pension system). A third sovereign wealth fund, called the Bicentennial Fund, encourages Chileans to study abroad through the use of government funded scholarships.

The sovereign wealth funds are administered by the Chilean Central Bank, at the direction of the Ministry of Finance. The Ministry of Finance receives advice on policy related to the funds from an external Finance Committee made up of independent advisors. The Ministry of Finance publishes monthly, quarterly, and yearly reports on the funds.

11. Corporate Social Responsibility (CSR)

The government encourages foreign and local enterprises to follow generally accepted CSR principles, including the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights.

There is general awareness of corporate social responsibility among both producers and consumers in Chile. As part of the OECD accession process, Chile passed a law in September 2009 setting out new rules to help bolster corporate social responsibility. Chile maintains and enforces domestic laws concerning labor and employment rights, consumer protections and environmental protections. Labor and environmental laws are not waived in order to attract or retain investments.

Independent NGOs in Chile promote and monitor CSR. Examples include NGO Acción RSE: http://www.accionrse.cl/, and the Catholic University of Valparaiso's Center for Corporate Social Responsibility.

12. Political Violence

The incidence of terrorist activity and civil disturbance is generally low in Chile, and the violence that has occurred has had little impact on the Chilean economy. Crime rates are moderate throughout the country, and the vast majority of crimes are nonviolent. During the last 10 years there have been relatively few incidents of politically motivated attacks on investment projects or installations. In 2013, there were occasional incidents of vandalism of storefronts and public transport during student protests over education reform, some of which included violent incidents. Incidents of anti-American sentiment and civil disorder are rare, and there have been no attacks known to be attributable to international terrorist organizations.

Since 2007 Chile has experienced a number of small-scale bombings targeting mostly banks, but also a police station, a political memorial and the U.K. Embassy, the offices of a major newspaper and magazine publisher, and a prominent Catholic cathedral. Anarchist groups have claimed credit for some of the bombings.

There have also been violent incidents on farms and forestry plantations in south-central Chile, resulting in three deaths in 2012 and further damage to property and injuries in 2013. Many of these incidents are related to the land claims and other grievances of indigenous people (the Mapuche Native American group) in regions VIII (Bio-Bio) and IX (Araucania).

13. Corruption

Corruption in Chile is limited. Since 2003, Chile has had laws in place that establish a more efficient and professional civil service through performance-based incentives and a reduction in political appointee positions in public service positions. In 2005, the GOC passed a law to regulate political party and candidate financing to further deter corrupt government practices.

Chile has signed and ratified the Organization of American States (OAS) Convention against Corruption, as well as the UN Anticorruption Convention. Chile is also a signatory to the OECD

Convention on Combating Bribery, fulfilling the necessary accession processes, including implementation of its Anti-Bribery Convention obligations. Chile is an active member of the Open Government Partnership (OGP).

In 2007, a new law came into force that provides protection for public employees who denounce irregularities or violations in accountability standards. At the same time, Chile ratified the United Nations Convention against Corruption. In 2009, Chile passed a transparency law obligating government offices to public information about expenditures, employee salaries, and other fiscal data. It also mandates that citizens be provided up-to-date information on how to access government services and request information. The law created an autonomous Transparency Council which is charged with implementing the requirements of the law. The administration of President Piñera (2010-2014) launched a campaign to educate citizens about their right to access public information and created Chile Atiende, an online and in-person platform to streamline access to common government services.

As noted previously, Chile ranked 22nd out of 177 countries in Transparency International's 2013 Corruption Perceptions Index (with 1 being the lowest perception of corruption).

U.S. firms have not identified corruption as an obstacle to FDI.

14. Bilateral Investment Agreements

In 1991, Chile became a signatory of the Washington Convention of 1965, which created the International Center for Settlement of Investment Disputes (ICSID). Since then, Chile has negotiated numerous Bilateral Investment Treaties (BITs) through which Chile provides additional protection to foreign investment flows. According to information provided by the Government of Chile to ICSID, as of the end of 2013, Chile had signed 53 BITs, of which 40 are in force. There are agreements in force with Argentina, Australia, Austria, Belgium, Bolivia, China, Costa Rica, Croatia, Cuba, Czech Republic, Denmark, Dominican Republic, Ecuador, El Salvador, Finland, France, Germany, Greece, Guatemala, Honduras, Italy, Malaysia, Nicaragua, Norway, Panama, Paraguay, Peru, Philippines, Poland, Portugal, Romania, Spain, Sweden, Switzerland, Ukraine, the United Kingdom, Uruguay, and Venezuela. BITs signed but not in force include those with Brazil, Colombia, Egypt, Hungary, Iceland, Indonesia, Lebanon, Netherlands, New Zealand, South Africa, Tunisia, Turkey and Vietnam.

Chile has double taxation treaties in force with: Australia, Belgium, Brazil, Canada, Colombia, Croatia, Denmark, Ecuador, France, Ireland, Malaysia, Mexico, New Zealand, Norway, Paraguay, Peru, Poland, Portugal, Russia, South Korea, Spain, Sweden, Switzerland Thailand and the United Kingdom.

Chile and the United States have signed the U.S.-Chile Treaty to Avoid Double Taxation, which addresses certain tax-related obligations for U.S. companies operating in Chile. In May 2012 President Obama submitted the treaty to the U.S. Senate for ratification. In March 2014, the Government of Chile submitted the treaty to the Chilean Congress for ratification; at the time of publication of this report, neither the U.S. nor the Chilean Congress had ratified the treaty. Other double taxation treaties signed by Chile but not in force include those with Austria and South Africa.

15. OPIC and Other Investment Insurance Programs

A Bilateral Investment Agreement between Chile and the United States, through the Overseas Private Investment Corporation (OPIC), took effect in 1984. Chile is a party to the convention of the World Bank's Multilateral Investment Guarantee Agency (MIGA).

16. Labor

Unemployment in Chile stood at 5.7 percent at the end of 2013. The labor participation rate was 60.13 percent as of March 2014. The size of the total workforce increased by 1.6 percent in 2013 as compared to the prior year.

Chile has and generally enforces laws and regulations related to the internationally recognized labor rights of: freedom of association and collective bargaining; the elimination of forced labor; child labor, including the minimum age for work; discrimination in respect to employment and occupation; and acceptable conditions of work related to minimum wage, occupational safety and health, and hours of work.

Chile has enjoyed generally calm labor relations over the last decade, but strikes do occur. Strikes and public protests have been concentrated in the mining, health, education, transportation, and civil service sectors. Arbitration and mediation mechanisms exist to resolve labor-related disputes. Strikes are prohibited in certain “essential services” sectors prescribed by law.

Union membership is voluntary. According to the OECD, 15.3 percent of Chile’s workforce belonged to a trade union in 2012. Multiple unions exist in many companies, and management can negotiate collective agreements with any of the unions or with ad hoc groups of workers. Unions can form confederations or nationwide labor centrals and can affiliate with international labor federations. Contracts are normally negotiated at the company level. Multi-company bargaining is permitted on a voluntary basis. Overtime, paid annual vacations, and holidays are all established by law. Women are entitled to state-funded maternity leave for a period of six weeks before and six months after childbirth. Layoffs are not permitted between conception and one year after the female employee has returned from maternity leave.

Top executive salaries are on a par with European countries, although well below those in the United States. Chile allows companies to deduct set training costs (up to one percent of annual payroll) from corporate tax payments. A company can also use 10 percent of the rebate to finance an analysis of its training needs, and 15 percent to run a training department.

The maximum number of labor hours allowed per week in Chile is 45.

Subject to certain exceptions, Chilean nationals must comprise no less than 85 percent of the workforce of companies employing more than 25 persons.

A 2007 subcontracting law defines outsourcing as two different activities: subcontracting and the supply of outside labor. Subcontracting is when a company permanently outsources a specific process to another firm which takes full responsibility for it, carrying it out with its own employees. However, the law does not permit companies to outsource its main economic activity. Retention of outside labor falls within the ambit of subcontracting under the law only where it is "temporary" in nature, defined as stints of up to 90 (or in some cases 180) days during an "emergency." Additionally, only firms that register as suppliers of temporary labor and set up guarantees against their obligations to their own workers are allowed to fulfill this function. The law also sets limits on the number of staff that can be used on short-term jobs.

17. Foreign Trade Zones / Free Ports

Chile has two tax-free zones: one in the northern port city of Iquique (Region I) and the other in the southern city of Punta Arenas (Region XII). Merchants and manufacturers in these zones are exempt from corporate tax, value added taxes (VAT), and customs duties. Businesses can re-export goods without paying taxes but must pay VAT (19 percent) and import duties when goods leave the zone to be used or sold in other regions of Chile. The same exemptions also apply to manufacturers in the Chacalluta and Las Americas Industrial Park in Arica (in the XV Arica and Parinacota Region). Mining, fishing and financial services are not eligible for free zone concessions. Management companies and firms established in the free zone are exempt from payment of tariffs, VAT, other charges on imports, first category income tax under the Income Tax Law, and payment of VAT on goods and services for all their operations in the free zone.

Foreign-owned firms have the same investment opportunities in these zones as Chilean firms.

18. Foreign Direct Investment Statistics

Today more than 3,000 companies from over 60 countries have operations in Chile. Over the last decade, FDI has represented an annual average of over 6 percent of Chile's GDP. The most recent United Nations Conference on Trade and Development (UNCTAD) Global Investment Trends Monitor report in January 2014 placed Chile 18th in the world and second in Latin America for 2013 in terms of FDI inflows.

Between 2009 and 2012, the mining sector attracted 50.1 percent of implemented FDI under DL600, followed by services (26.6 percent); electricity, gas and water (10.9 percent); manufacturing (7.9 percent); construction (2.4 percent); transportation and communications (1.7 percent); and agriculture and fishing (0.5 percent). Total implemented FDI through DL600 from 2009-2012 amounted to USD 81.5 billion.

According to its Central Bank, Chile recorded USD 7.36 billion in implemented FDI in 2013 through DL600, representing a 32 percent decrease from 2012. The top five recipient sectors of implemented FDI in 2013 through DL600 were: mining (USD 3.9 billion); insurance (USD 1.2 billion); food (USD 634 million); financial services (USD 627 million); and electricity, gas and water (USD 283 million).

TABLE 2: Key Macroeconomic data, U.S. FDI in Chile

	Chilean statistical source – Central Bank	USG or international statistical source	USG or international statistical source website
Economic Data	**Year / Amount**	**Year / Amount**	

Chile GDP	2012 / USD 225.1 billion	2012 / USD 269.9 billion	World Bank: http://data.worldbank.org/country/chile
FDI to Chile	2012 / USD 28.2 billion	2012 / USD 27.1 billion	UNCTAD: http://unctad.org/en/PublicationsLibrary/webdiaeia2014d1_en.pdf
FDI to Chile from U.S.	2012 / *USD 2.95 billion	2012 / **USD 39.8 billion	U.S. Bureau of Economic Analysis: http://search.bea.gov/search?utf8=%E2%9C%93&sc=0&query=chile+fdi&m=&affiliate=u.s.bureauofeconomicanalysis
FDI to U.S. from Chile	Data unavailable from Chilean sources	**2012 / USD 933 million	U.S. Bureau of Economic Analysis: http://search.bea.gov/search?utf8=%E2%9C%93&sc=0&query=chile+fdi&m=&affiliate=u.s.bureauofeconomicanalysis
Total inbound FDI as % of Chile's GDP	2012 / 12.5 percent	2012 / 11.2 percent	World Bank: http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS

Chilean Central Bank economic statistics are available online in Spanish only: http://www.bcentral.cl/estadisticas-economicas/

*Represents FDI coming through DL600 only; does not account for FDI under Chapter XIV of the Central Bank. Numbers are provisional.

**Represents total stock in Chile/U.S., not inflows in 2012. Inflow statistics unavailable as of April 2014.

TABLE 3: Sources and Destination of FDI for Chile in 2012

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	182,719	100%	Total Outward	73,267	100%

Spain	32,263	18%	Argentina	13,411	18%
United States	29,728	16%	Brazil	12,773	17%
Canada	16,782	9%	Peru	9,453	13%
Bermuda	16,482	9%	United Arab Emirates	6,123	8%
Virgin Islands, British	14,676	8%	Spain	5,493	7%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: IMF, Coordinated Direct Investment Survey; http://cdis.imf.org/

TABLE 4: Sources of Portfolio Investment for Chile in 2012

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
World	125,001	100%	World	93,750	100%	World	31,251	100%
United States	51,340	41%	Luxembourg	41,875	45%	United States	13,903	44%
Luxembourg	44,095	35%	United States	37,437	40%	Germany	6,100	20%
Ireland	6,653	5%	Ireland	6,579	7%	Luxembourg	2,220	7%
Germany	6,190	5%	United Kingdom	2,204	2%	Japan	2,075	7%
United Kingdom	2,847	2%	Virgin Islands, British	2,033	2%	Brazil	1,018	3%

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chiefs of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments]

Legal system:

civil law system influenced by several West European civil legal systems; judicial review of legislative acts by the Constitutional Tribunal

International organization participation:

APEC, BIS, BRICS, CAN (associate), CD, CELAC, FAO, G-15, G-77, IADB, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFAD, IFC, IFRCS, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), LAES, LAIA, Mercosur (associate), MIGA, MINUSTAH, NAM, OAS, OECD (Enhanced Engagement, OPANAL, OPCW, PCA, SICA (observer), UN, UNASUR, UNCTAD, UNESCO, UNFICYP, UNHCR, UNIDO, Union Latina, UNMOGIP, UNTSO, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

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Treaty and non-treaty withholding tax rates

Chile has exchange of information relationships through 29 DTCs, 1 TIEAs and 1 multilateral mechanism, Convention on Mutual Administrative Assistance in Tax Matters.

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5
Argentina	DTC	13 Nov 1976	19 Dec 1985	Yes	No
Australia	DTC	10 Mar 2010	8 Feb 2013	Yes	Yes
Austria	DTC	6 Dec 2012	not yet in force	Yes	Yes
Belgium	DTC	6 Dec 2007	5 May 2010	Yes	No
Brazil	DTC	3 Apr 2001	24 Jul 2003	Yes	Yes
Canada	DTC	21 Jan 1998	28 Oct 1999	Yes	No
Colombia	DTC	19 Apr 2007	22 Dec 2009	Unreviewed	No
Croatia	DTC	24 Jun 2003	21 Dec 2004	Unreviewed	No
Denmark	DTC	20 Sep 2002	21 Dec 2004	Yes	No
Ecuador	DTC	26 Aug 1999	24 Oct 2003	Unreviewed	No
France	DTC	7 Jun 2004	10 Jul 2006	Yes	No
Guernsey	TIEA	24 Sep 2012	not yet in force	Yes	Yes
Ireland	DTC	2 Jun 2005	28 Aug 2008	Yes	No
Korea, Republic of	DTC	18 Apr 2002	25 Jul 2003	Yes	No
Malaysia	DTC	3 Sep 2004	25 Aug 2008	No	No
Mexico	DTC	17 Apr 1998	12 Nov 1999	Yes	No
New Zealand	DTC	10 Dec 2003	21 Jun 2006	Yes	No
Norway	DTC	26 Oct 2001	22 Jul 2003	Yes	No
Paraguay	DTC	30 Aug 2005	26 Aug 2008	Unreviewed	No
Peru	DTC	8 Jun 2001	13 Nov 2003	Unreviewed	No
Poland	DTC	10 Mar 2000	1 Jan 2004	Yes	No
Portugal	DTC	7 Jul 2005	25 Aug 2008	Yes	No
Russian Federation	DTC	19 Nov 2004	28 Feb 2012	Yes	No
South Africa	DTC	11 Jul 2012	not yet in force	Yes	No
Spain	DTC	7 Jul 2003	23 Dec 2003	Yes	No
Sweden	DTC	4 Jun 2004	30 Dec 2005	Yes	No
Switzerland	DTC	2 Apr 2008	5 May 2010	No	No
Thailand	DTC	8 Sep 2006	5 May 2010	Unreviewed	No
United Kingdom	DTC	12 Jul 2003	21 Dec 2004	Yes	No
United States	DTC	4 Feb 2010	not yet in force	Yes	Yes

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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